Brainy's Articles on
Technical Analysis
Candlesticks explained

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Introduction

Perhaps one of the first things that might confuse the people who are new to Technical Analysis is the concept and use of candlesticks and/or bars on price charts.

The most common chart type for many people is the simple *Line Chart* (as shown in Figure 1 at right). This sample chart is for the company known as Ansell Limited (stock code is ANN) over a 5 day period from 12 August 2008. It simply shows us the single Close price for each of the 5 days, and these price points on the chart are joined together by individual straight line segments.
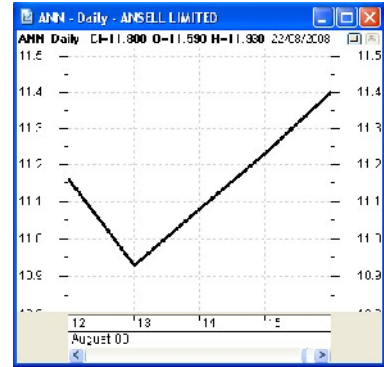
Another chart type is the OHLC chart — Open High Low Close — as shown in Figure 2. This chart shows exactly the same stock and time period as the Line chart, except that it shows more information.
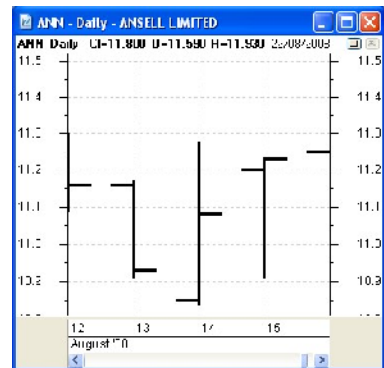
And yet a third chart type is the candlestick chart, as in Figure 3. This chart is functionally identical to the OHLC chart, but with a different appearance. This sample chart also has Volume included in the bottom portion of the chart window.
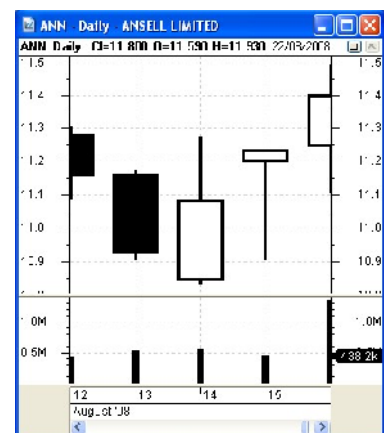
In this article in Brainy's series on Technical Analysis (number TA-3700) we look specifically at the candlestick chart type. But we also briefly look at the key differences between the chart types, and reasons for using one type and not another.

Over the page we also take a look at the history of candlesticks, and study the individual elements of the candlesticks themselves, and how we can interpret them — the candle body, the upper and lower tails (or wicks), and their significance.

Some references on this topic are included in the footnotes, and readers should also refer to other Articles in this series for more information, in particular:

- **TA-3710,** *"Candlestick interpretation"*,
- **TA-3750,** *"Candlestick patterns"*, and
- **TA-3780,** *"Composite candles and candle addition"*, a somewhat advanced topic.

Figure 1: Line chart over 5 days.

Figure 2: OHLC chart.

Figure 3: Candlestick chart.

Chart types overview

Firstly, understand that for each day's share trades the following share price details are captured:

- Open price;
- High price — the highest price for the day;
- Low price — the lowest price for the day;
- Close price — at the end of the day (ie. the last price);
- Volume — the number of shares traded on the day;
- Trades — the number of buy/sell transactions that were executed (for some stocks there are no trades on some days, and for others there are thousands).

This is important to understand because any one stock might have thousands of "sales" (or trades) each day. So the Daily price chart summarises the price action for the entire day. Similarly, on a Weekly chart, each bar or candle on the chart summarises the price action for the entire week.

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