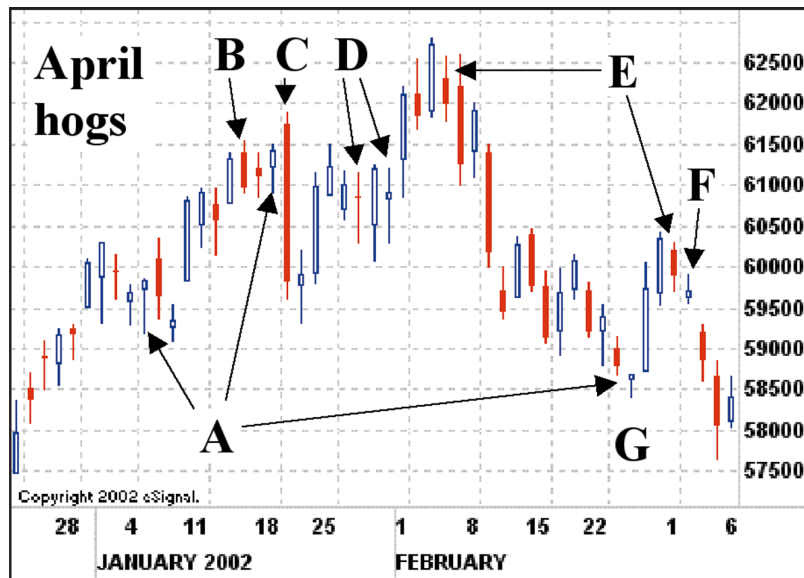


TRADER'S GUIDE TO TECHNICAL INDICATORS

Lighting the way for bears



The previous article in this series presented some bullish candlestick patterns. This time we'll look at the bearish patterns. You may recall that bullish candles usually show up on the charts after a downtrend. It doesn't take a genius to guess that the bearish patterns then are usually found after uptrends at market tops.

Remember, the "real body" of a candlestick is formed by the difference between prices at the open and close. If the price at the close is higher than the open, the body is usually shown as open or clear. If the price at the close is lower than the open, the body is usually shown as filled or solid. "Tails" or "shadows" show the rest of the candle's high-low price range that is outside of the body.

By itself, a candle's color and shape provide quick visual evidence about whether bulls or bears are in control, but much depends on these candles' location. You will note several examples in this article where candles look exactly like those in the article on bullish patterns but have bearish connotations because of differences in location and what happens with prices on the preceding and succeeding candles.

Hanging man (A) - This description fits the candle: a small real body at or near the upper end of the range and a long lower shadow like a man's legs hanging out below. It appears after a rally, ideally on a gap up at a top, and suggests that strength is fading and traders are testing lower prices. The arrow (A) points to possible hanging man examples in January that occur during a rally, but higher

prices after the candle negate the formation in this case, indicating the importance of price action of the next few candles. The candle in late February (G) looks the same but is actually a bullish hammer because it comes after a downtrend, emphasizing the importance of location in candlestick analysis.

Dark cloud cover (B) - The body of the first candle of the pair is long and clear. The second candle opens above the first candle's high but then prices collapse in a solid body that extends well into the first candle's body. It portends dark days ahead.

Bearish engulfing pattern (C) - After an uptrend, the solid real body of a candle totally engulfs the real body of a preceding clear candle - that is, prices open above the previous body and then fall and close below the previous clear real body. Again, this is an ominous sign and one of the most visible bearish candlestick patterns.

Doji (D) - The doji have the same function as in the previous article, reflecting an indecisive market where the bulls and bears are in balance. When the doji appears after an uptrend, however, it's bearish, again reinforcing the importance of location and surrounding candles.

Harami (E) - The April hog chart exhibits three consecutive haramis at the top. A candle with a small real body stays within the boundaries of the previous candle's longer real body, similar to an inside day on a bar chart. Depending on location and what happens on the next candle, a harami can be either bullish or bearish.

Shooting star or evening star (F) - This is not the best example because, ideally, it should leave a gap up after a tall, clear candle in an uptrend, have a long upper shadow and be followed by a decisively lower solid candle in a three-candle formation. The longer the shadows on these candles, the more bearish, indicating traders are fleeing from higher prices, dragging their tails behind them.