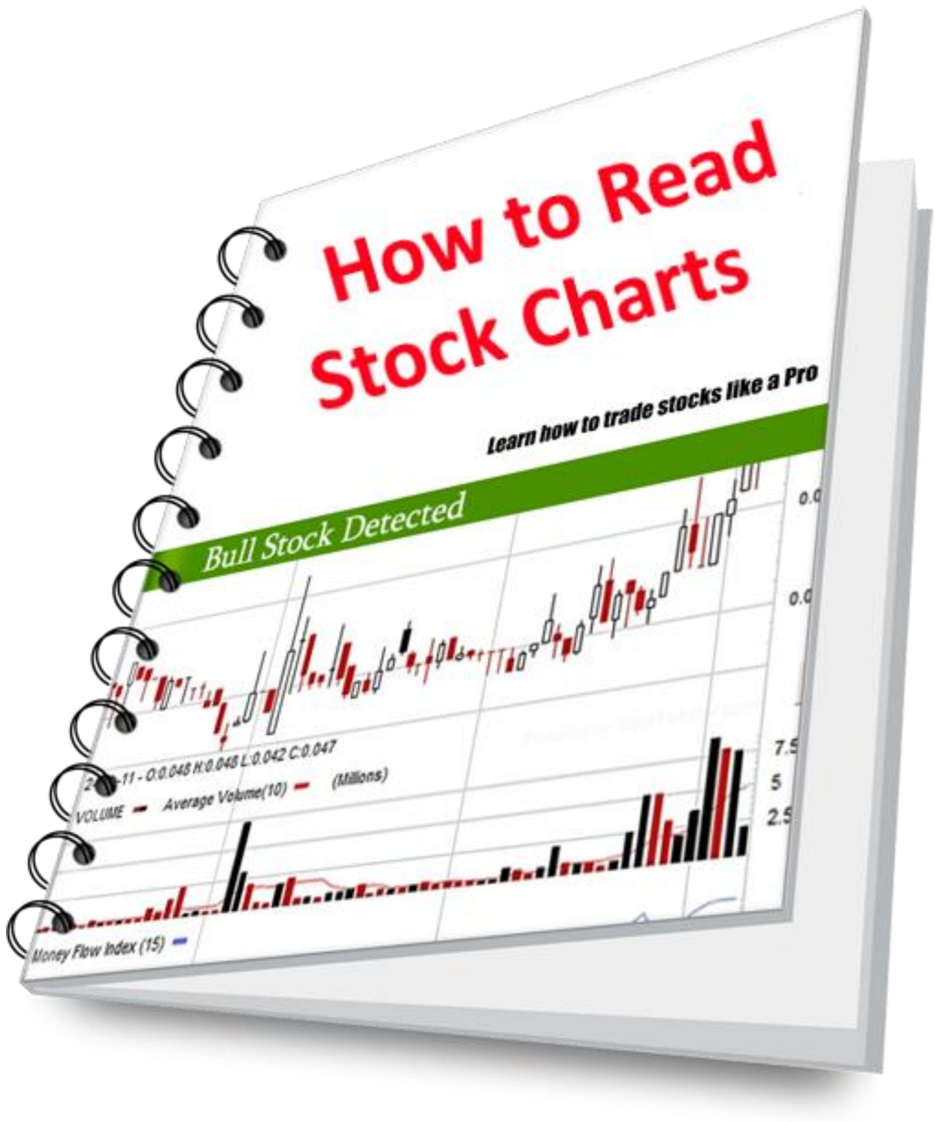

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How to Read Stock Charts

How to Read Stock Charts - learn how to use stock charts for short term stock trading. Reading stock charts and applying technical analysis are the keys to make money in trading stocks. One glance at a stock chart might seem daunting.

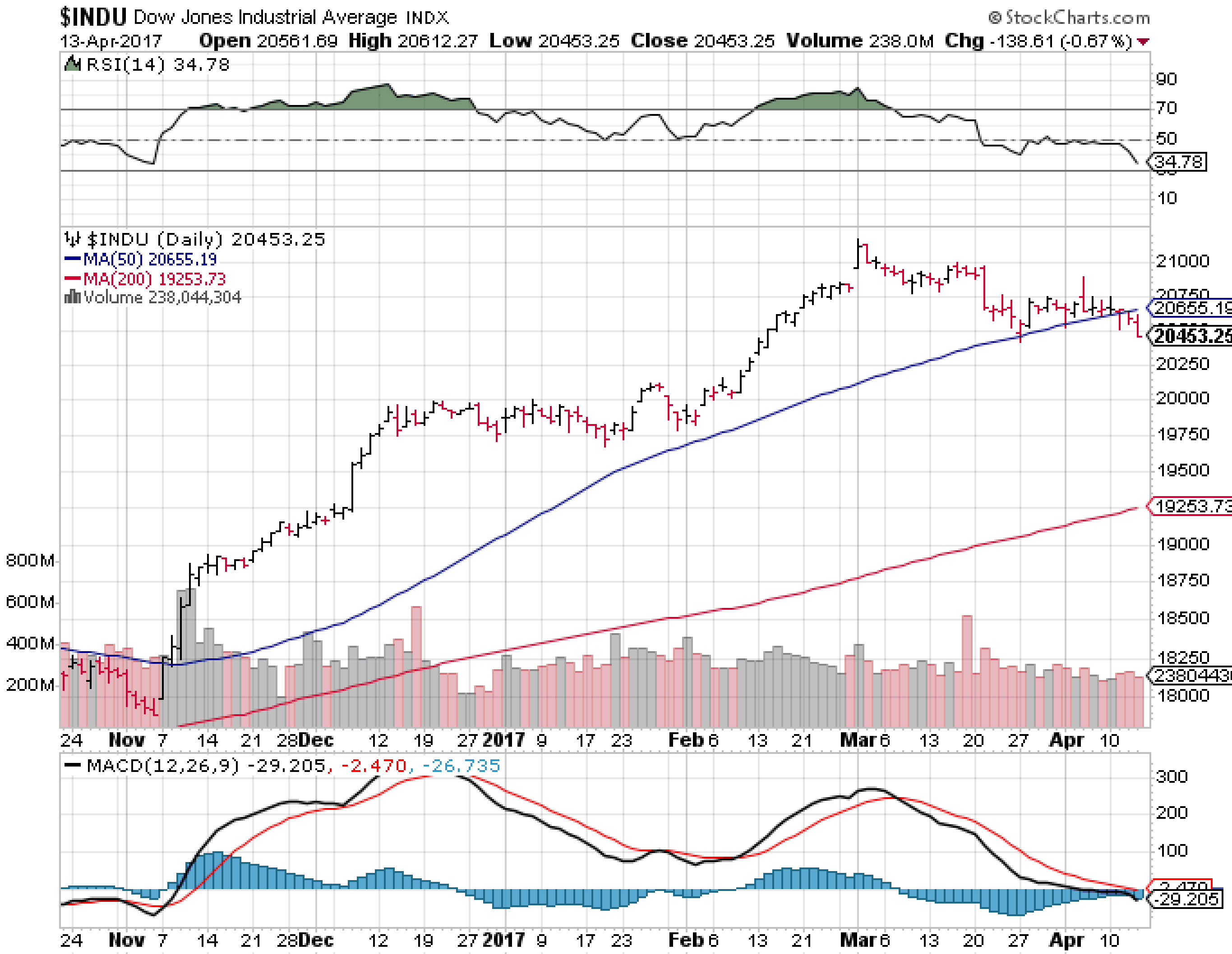
However, once you learn **how to read stock charts**, you will find it to be second nature. The nice thing about stock charts is you don't need a finance degree to analyze it. With enough practice, you will be able to understand it easily so that you can use it to making your trading decisions.

A price chart is a series of prices plotted over a specific time period. There are many different types of stock charts, such as bar, line, OHLC (open-high-low-close), **candlestick**, point-and-figure and more. They can all be viewed in different time frames, whether it's intraday, daily, weekly or monthly. Each type of stock chart displays various kinds of information and has its own advantages and disadvantages, but they all reveal valuable price and volume information.

A **stock chart** looks like a regular graph, where the price is plotted on the y-axis, or vertical axis, and the time is plotted on the x-axis, or horizontal axis.

Types of Stock Charts

Below are the most popular **stock charts**:
Bar Chart

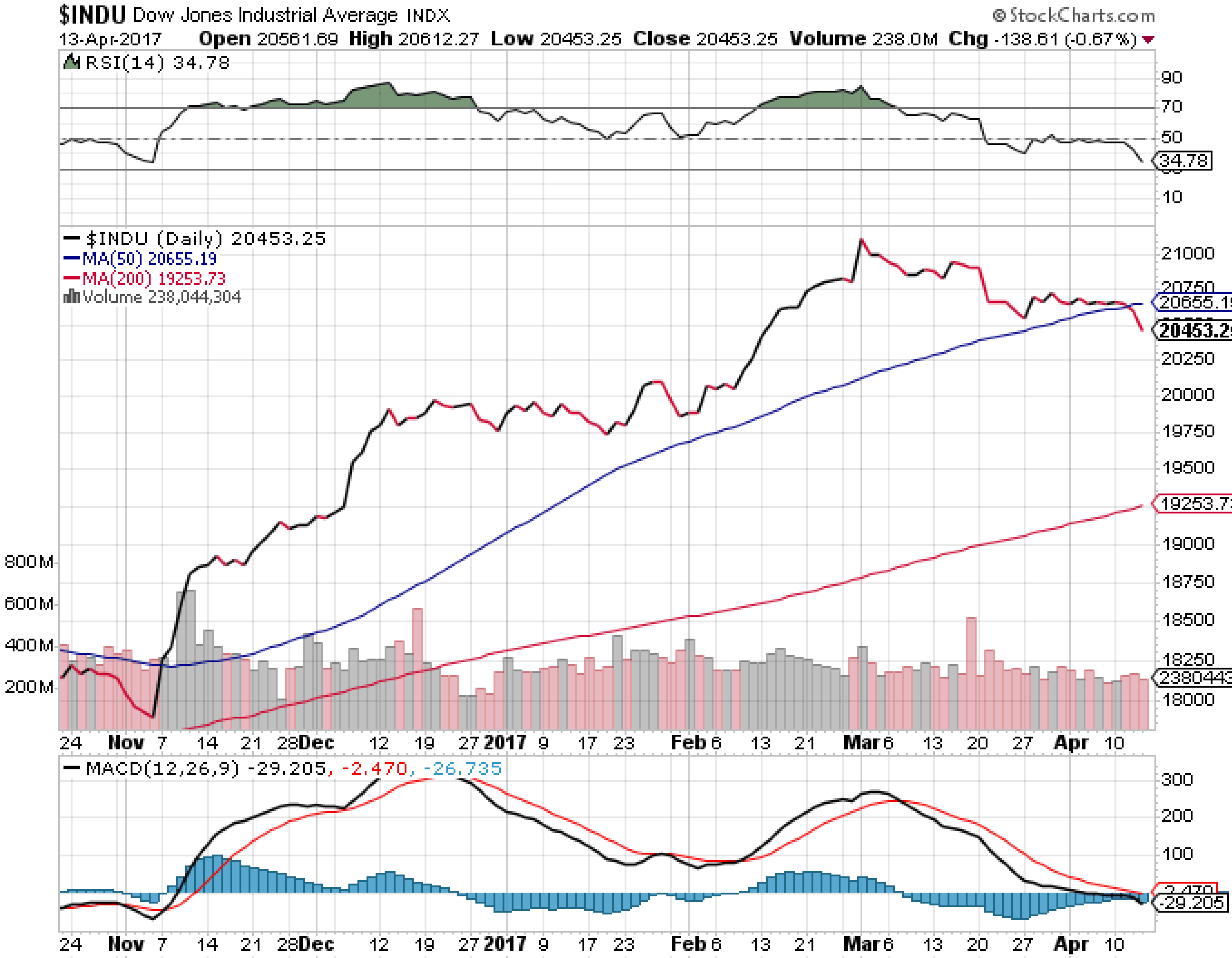


One of the most popular charting methods is the OHLC chart, where the high, low, close and open prices are needed to form each price bar.

The length of each vertical bar shows a stock's trading range for that time period. The top of the bar shows the highest price the stock was purchased for during that period, and the bottom of the bar shows the lowest price the stock was purchased for. A short horizontal line to the right side shows the closing price while a line to the left side shows the opening price.

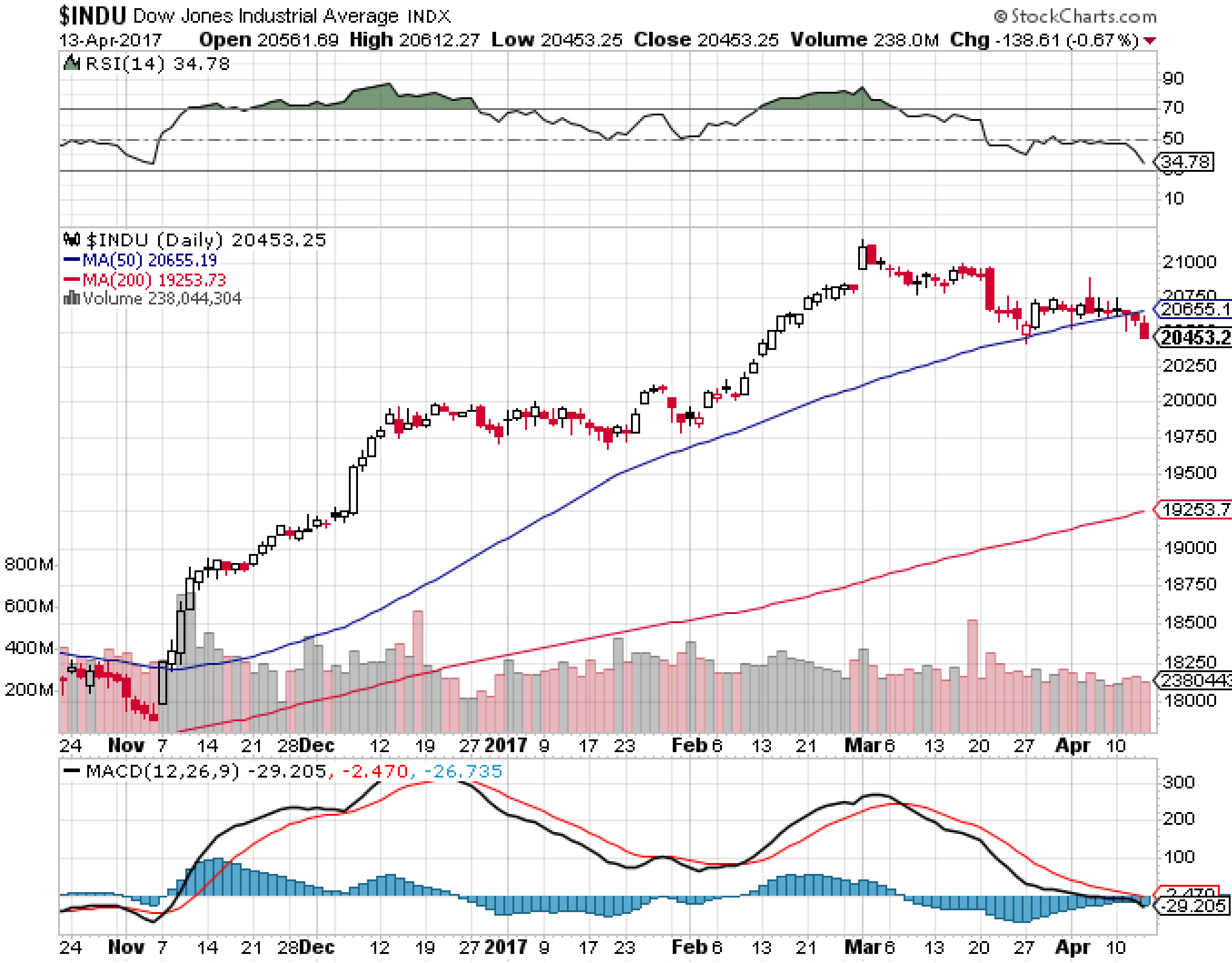
It is also important to know the stock chart's time frame and the time that each price bar represents. On a daily stock chart, each price bar represents the high, low, open, and close prices of the security during that day. On a monthly chart, each price bar represents the prices the security traded during that month.

Line Chart



Line charts only show only the close of the day and do not show the open, high, and the low data points. Some traders think that the closing price is the most important. Line charts show less clutter, however they do not provide as much detail as the other charts.

Candlestick Charts



Candlestick charts show the open, high, low, and close prices. Many traders like this type of chart because its contrasting colors provide fast visual interpretations. The open and close prices are represented by horizontal lines and they form a box, called the body. White candles form when the close price is higher than the open price and black candles form when the open price is higher than the close price. The lines extending from the body are called shadows and represent the high and low. Here are the 10 most popular candlestick patterns.

Stock Chart Analysis

When you look at a stock chart, there are several questions that you should ask yourself. First, identify whether the stock is an uptrend or downtrend. If a stock is heading upwards toward the right corner of the chart, then the stock is in an uptrend. Likewise, if the stock is heading downwards, then the stock is in a downtrend.

Next, identify if there is a level of **support** or **resistance**. A support level is when the stock cannot drop past a certain price level and a resistance level is when the stock cannot break through a certain price level. The below chart shows Apple's stock trading in a trading channel, which is the space between an asset's support and resistance levels. The price stays within these levels until a breakout occurs.

The vertical lines at the bottom of stock charts show the stock's **volume**, or the number of shares traded during the specific time frame of the chart. A trading signal with high volume enhances that signal. For example, the stock finally broke out through that resistance level on February 1 on high volume.

This high volume means that the buying interest is strong and that an uptrend is likely to occur. As you can see, the price is trended upwards toward the right corner of the chart for the next two months.

Some traders might make multiple trades when a stock is in a trading channel, buying when the price gets to the bottom of the channel and selling when the prices gets close to the top of the channel. This **trading strategy** is known as range-bound trading. By finding major support and resistance levels, traders can make profits on the price spread. They repeat this process of buying at support and selling at resistance until the stock breaks out from the channel.

Why do we study stock charts?

Technical analysts, or technicians, study stock charts to analyze price information and forecast future price movements. Knowing **how to read a stock chart** is a great advantage because they provide an easy-to-read illustration of a security's price movement over a specific time frame and can help you make better trading decisions. It is also essential for those interested in swing trading.

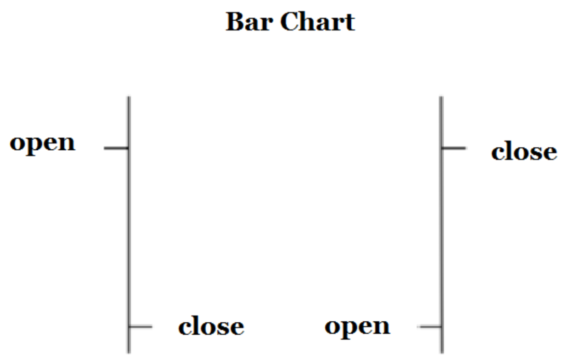
Top 10 Candlestick Patterns

Below is a list of the **top 10 candlestick patterns** for day traders and swing traders. Using candlestick patterns is an effective trading strategy for technical analyst and short term stock traders. A **candlestick chart** reveals many insights using well-known Japanese candlestick pattern formations and can be a leading indicator of market activity. Although many people are aware of Candlestick analysis, few actually understand how or why it actually works. Understanding the **best candlestick patterns** can improve trader's investment profitability and is useful for those who swing trade.

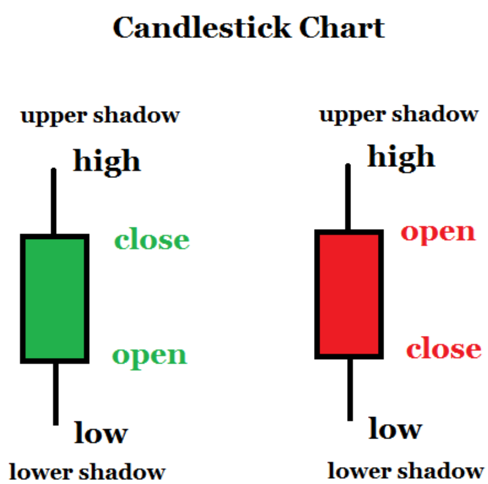
How to Read Candlestick Charts

What is the difference between candlestick charts and bar charts?

Once you start using **candlestick charts**, you will realize that bar charts do not provide the same clarity. A vertical line, as shown in the below picture, represents the daily price movement on a bar chart. The bottom of the line is the low of the day while the top of the line is the high of the day. A notch to the right side shows the closing price while a notch to the left side shows the opening price.



In a candlestick chart, the horizontal lines represent the open and close. They form a box, called the real body. If the close is higher than the open, the body is green. If the close is lower than the open, the body is red. The lines extending from the body represent the extremes of the daily price movement. These are called upper and lower shadows.



The contrasting colors of the bodies give us rapid visual interpretations. For example, when there is a series of declining red candles followed by an appearance of a green candle, we would notice that immediately. That may not be something we notice right away when looking at conventional bar charts.

These colors are for illustration only. Some charts will use white instead of green and black instead of red.

Also, keep in mind that a green body does not mean that price was up from previous day and a red body does not mean that the price was down from the previous day. The body color only indicates where the close was compared to the open. Candlesticks give us clues to price action and the market's mood. For example, bullish candles form when a stock opens, moves lower, tests support, and then bounces back to close at a high.

Candlesticks may be created for any time period â€" monthly, weekly, hourly, and even a minute. However, they should not be judged in isolation. Traders should see if there is a follow-up action to confirm the buy or sell signal.

Top Candlestick Patterns

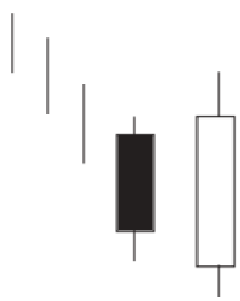
There are more than 100 candlesticks and candlestick patterns. This may seem daunting, but rest assured, we will focus on the candlestick patterns that are most popular and useful. Each candle formation has a unique name. Some have English names and some have Japanese names. Let's learn about the most **common candlestick patterns**. Below are **top 10 candlestick patterns**:

Doji

A doji candle is one of the most powerful **reversal candlestick patterns**. It is a single-candle pattern that occurs when the stock opens and closes right at or near the opening price, forming a horizontal line. The lengths of the shadows can vary. The longer the shadows are, the more significant the Doji becomes. A doji represents uncertainty, indecision, and equilibrium between supply and demand. Neither the bulls nor bears are winning. Traders should not make decisions based solely on the doji. They should wait for the next candlestick to make an appropriate trade.

Bullish Engulfing

Bullish engulfing is one of the **best candlestick patterns** and occurs when the price of a stock moves past the high and low of the previous day range. This pattern consists of two opposite colored candles and is easy to identify. The first candle is a narrow range that closes down for the day followed by a wide range candle that "engulfs" the body of the first candle and closes near the top of the range.

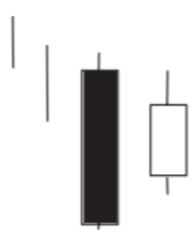


Bearish Engulfing

This is the opposite of bullish engulfing candlestick pattern. A bearish engulfing candlestick pattern composes of two candles, where the first one is a narrow bullish candle followed by a large bearish candle that "engulfs" the body of the first candle.

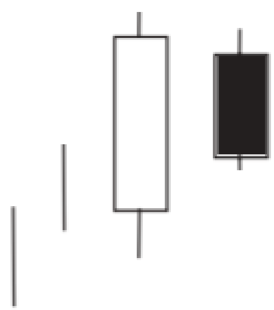
Bullish Harami

The Haramai pattern comprises of a two-candle formation in a downtrend. In a Bullish Harami pattern, the body of the first candle is long and is the same color as the current trend. This is followed by a narrow range candle that closes up for the day. The open and close occur inside the open and close of the first candle. This pattern signals that the momentum preceding it has stopped and the trend is over.



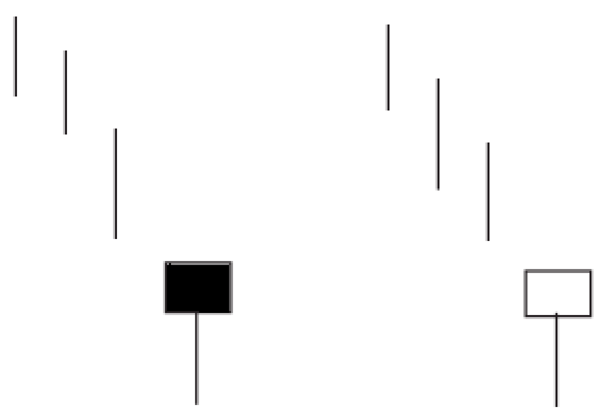
Bearish Harami

The Bearish Harami pattern is the exact opposite of the Bullish Harami pattern. It occurs when two candles form in an uptrend, where the first candle is long and is the same color as the current trend. The second candle is narrow and closes down for the day. The candle opens and closes inside the open and close of the previous candle. This pattern indicates that the trend is over.



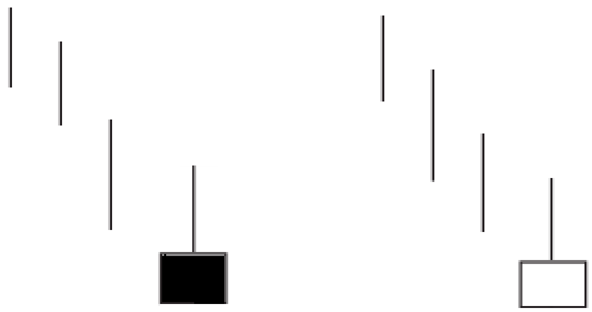
Hammer

The Hammer pattern consists of one candle that has a small body and a lower shadow at least two times greater than the body. It tends to appear in the shape of a hammer, hence the name "hammer." It is found at the bottom of a downtrend and signals that the bulls started to step in. The color of the body is insignificant; however a green candle has slightly more bullish implications than a red candle. A positive day is required the next day in order to confirm this signal.



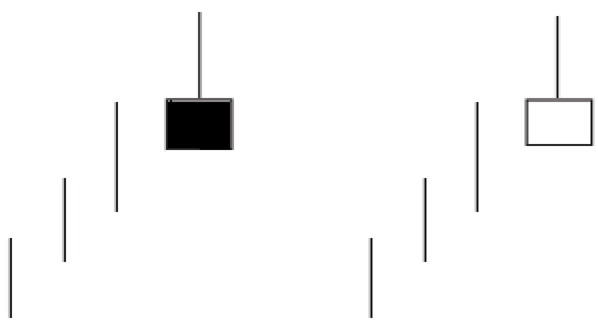
Inverted Hammer

The Inverted Hammer candlestick pattern is the reverse of the Hammer candlestick pattern. It also has a small body, where the open, close, and low are near the low of the candlestick and the upper shadow is at least two times greater than the body. This pattern is found at the bottom of a downtrend.



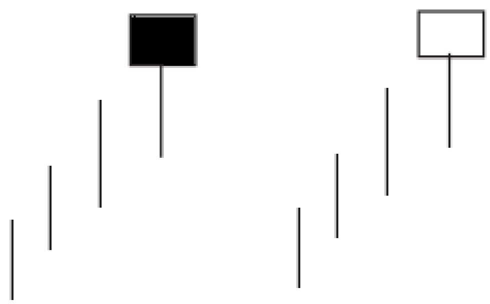
Shooting Star

The Shooting Star has the same shape as Inverted Hammer, consisting of one candle with a small body and an upper shadow at least two times greater than the body. The difference is that the shooting star is found at the top of an uptrend. This pattern looks like a shooting star falling from the sky with the tail trailing it, hence the name "shooting star."



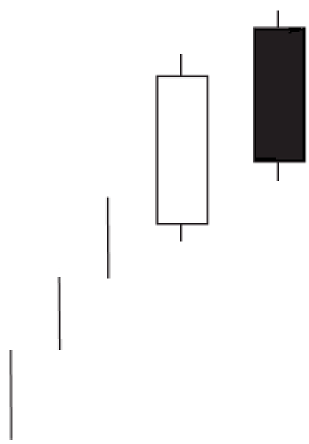
Hanging Man

The Hanging Man has the same shape as Hammer, consisting of one candle with a small body and a lower shadow at least two times greater than the body. The difference is that the hanging man is found at the top of an uptrend. This pattern looks like a head with the feet dangling down, hence the name "hanging man."



Dark Cloud Cover

The Dark Cloud Cover pattern consists of a two-candle formation in an uptrend. The first candle is green, a continuation of the existing trend, and is followed by a red candle. The red candle's open is higher than the high of the previous day. It closes more than half way down the first candle.



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