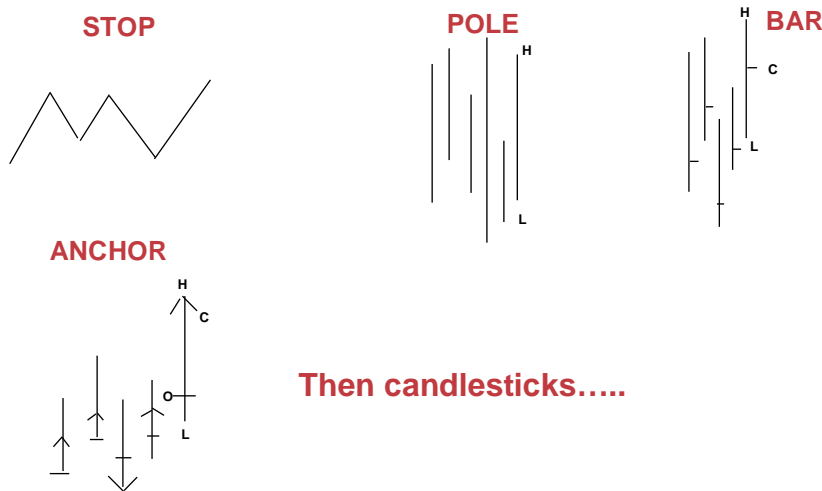


*Japanese Candlesticks is just a trendy relatively new technique that has little added value to Western methods. Discuss.*

Japanese candlesticks are not modern and trendy although they grabbed Western attention since 1991 after Steve Nison's book on Japanese candlestick charting.

Looking at the history of Japan one realises it dates back in its current form since the 1750's after the book "Sakata Rules" by Munehisa Homma (Homma) on trading patterns in rice exchanges in Japan.

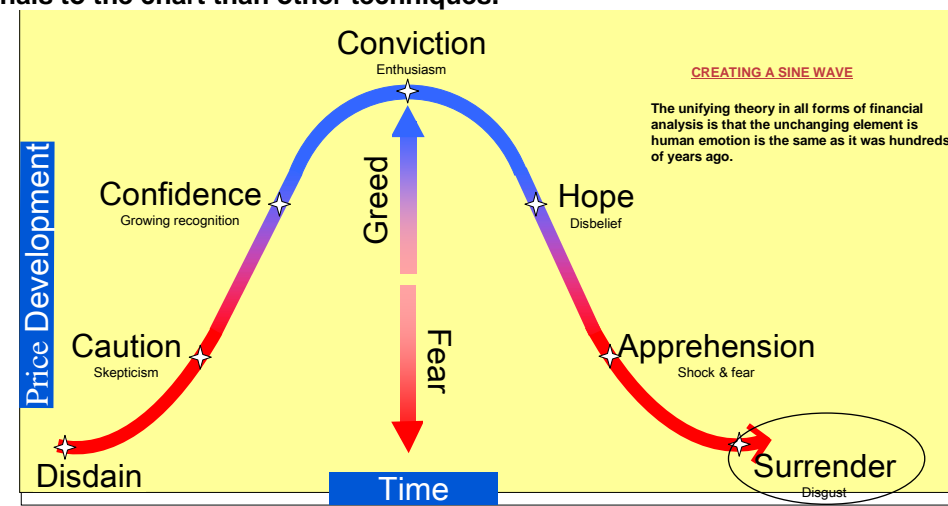
## CHART HISTORY



Originally pole charts with H's L's were used after line charts which just had closing prices then anchor charts in Japan were adopted and changed into candles form 1868 just before Japan opened its stock market in 1870.

It may be trendy but it is certainly not new.

It does add value to TA in the sense it uses the relationship between O-C rather than Westerners focusing on H's and L's. Thus Yin/Yan lines are produced which gives different signals to the chart than other techniques.

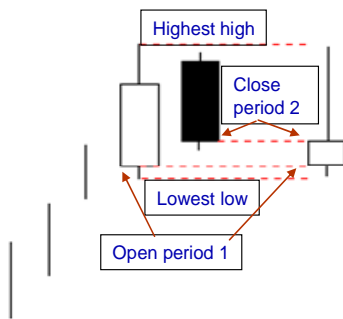


Whatever culture you come from the investor psychological is the same. Homan was talking about H+S patterns and 3 mountain tops (triple tops) in 1755 way before “The abc of stock market speculation” in the west in 1933 (TA book).

Blending is one value added technique for example of candles.

## Making the picture clearer – The candle chart blended

If you are uncertain as to the direction of the market and don't see any patterns you recognise a good technique is “blending”. This consists of combining the previous two or three candles to see whether there are any obvious clues.



Take the example on the left, which we can see is actually an “inside day” and a “dark cloud cover” – given that we know these patterns, the outcome should look bearish or we're doing something wrong.

**We take the first candle's open, and the last candle's close, and the highest high, and the lowest low of the candles to form our new candle.**

The “new” candle resembles a “shooting star” – **a bearish pattern.**

## Pros' & Cons of candles

### PITFALLS

- Cn take along time to understand the many patterns
- You need accurate H/L/O/C
- 80% patterns are trend change signals
- Difficult to get accurate candles in FX
- Very few measuring techniques
- 250 candle patterns that's alot

**Not ideal for X market analysis of fly structures. Better use line charts. Line charts are more suited for multiple instrumental/multi-comparative type charts.**

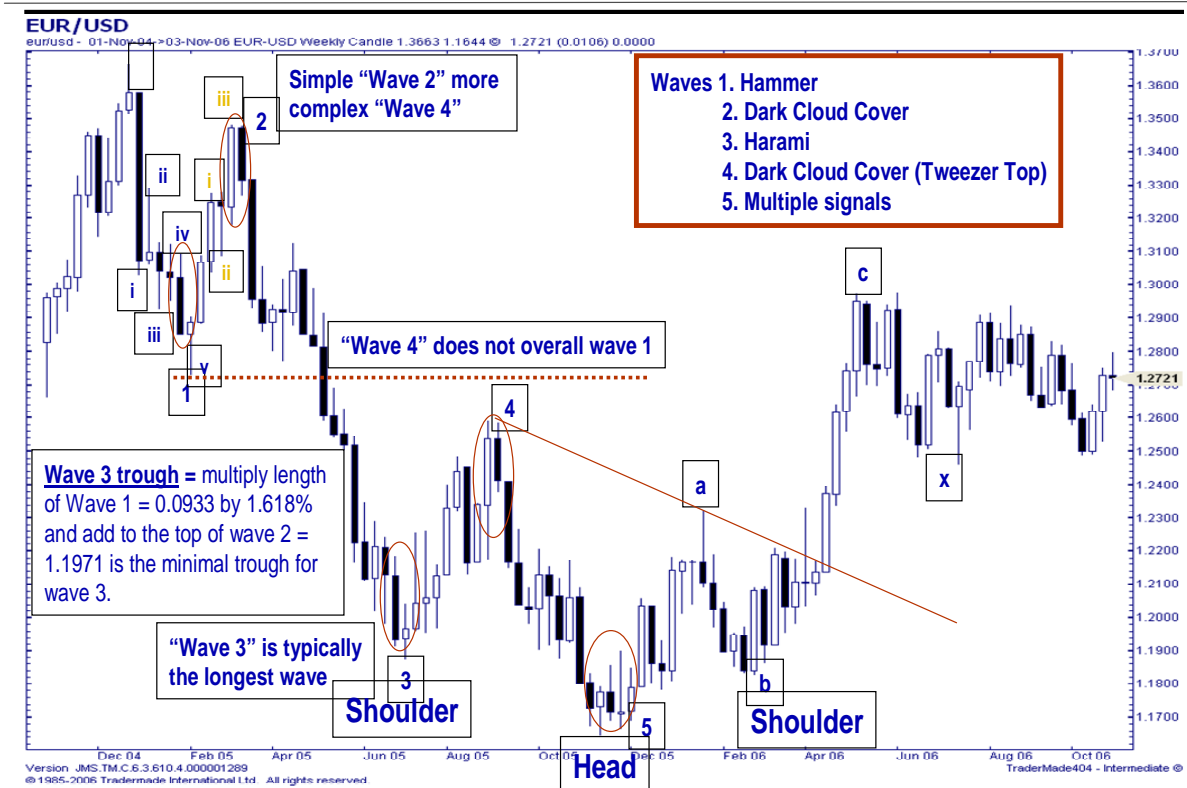
### WHEN USEFUL

- Size, Frequency, Colour gives great quick Idea of market sentiment. (SFC)
- Can give great pivot points. (Marabozu)
- Uses gap analysis really well.
- Uses 3,9,13 in analysis
- Can blend candles to clear uncertainty
- Ideal as a confirmation tool.

**An example of the use of candles as value added with Elliott Wave here is a great way of confirming a signal.**

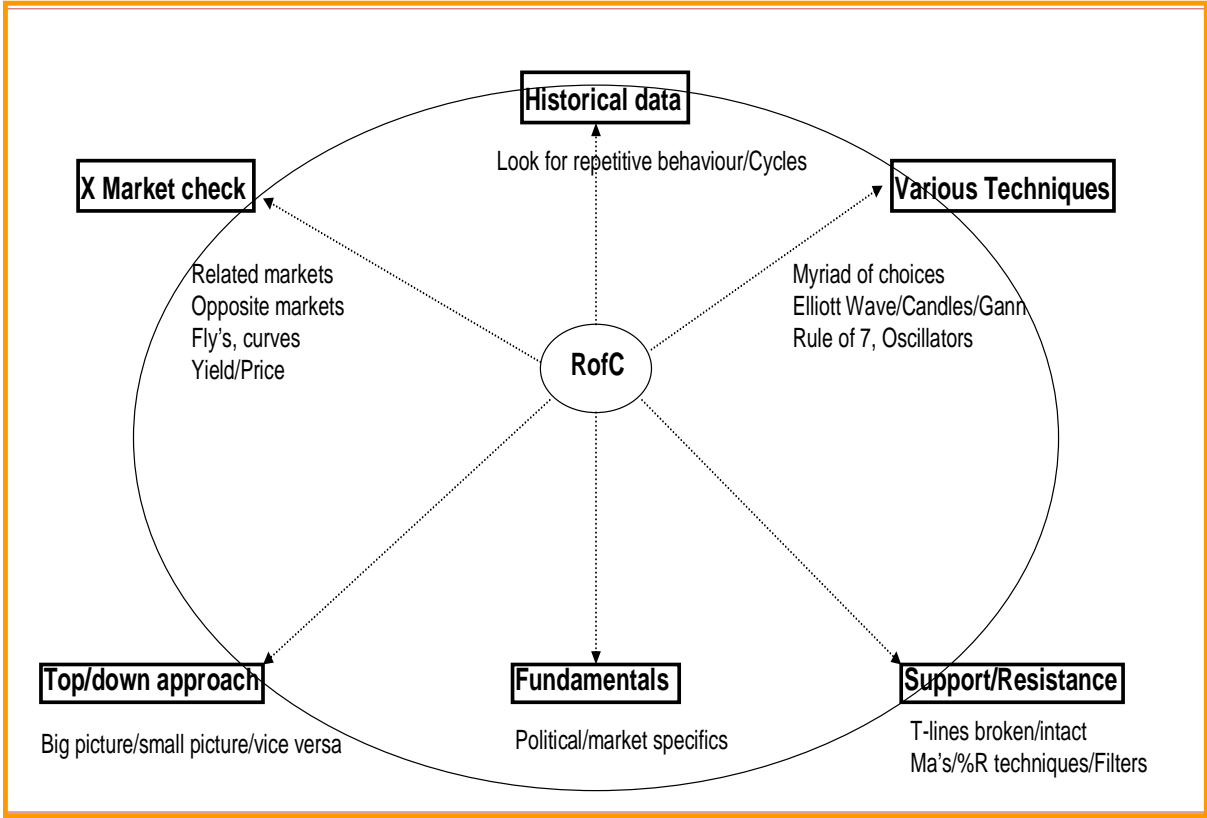
# Elliott Wave – Simple Rules and application of candles

This is an example from Oct 2006 that worked very well and good for illustrative puposes.



Thus value added when used in role of confirmation as a tool to confirm an area of importance support/resistance. Arguably it's key weakness is that it has few measuring targets in its candlesticks alone.

**RULE OF CONFIRMATION – THOUGHT PROCESS/CHECKLIST**



**ENVIRONMENT**