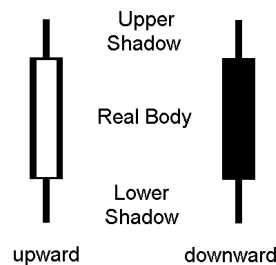


Technicals – Special Feature

Stefan Mandl

*Candlesticks:
the oldest known
chart analysis*

An exotic, but often very attractive variant of market analysis techniques are the Japanese candlestick charts. These were developed in Japan in the 16th century for the purpose of analysing rice prices and are probably the oldest technical analysis methods known.



A candlestick consists of a real body and a shadow at the top and bottom. The real body is computed on the difference between the closing and opening prices. If the difference is positive, the real body is not filled in and remains empty; if it is negative it is filled in. If the high is equal to the opening or close, there is no upper shadow; if the low is equal to the opening or close, there is no lower shadow. These basic construction principles apply to all candlesticks that may be used to illustrate all time horizons.

One of the advantages of the candlesticks is the fact that by glancing at a chart one is able to gain an overview of the most important data of a price time-series. The interpretation though is much more complicated than for regular charts. Basically, candlesticks can be examined according to the rules that also apply to technical analysis, i.e., they also display trend channels, resistance and support levels.


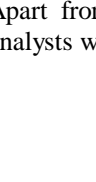






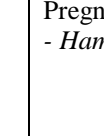

Apart from this, there are a few generally recognised patterns according to which the individual candlesticks and their continuations may be interpreted. Candlesticks provide experienced users with numerous indications that make it easy to analyse formations.

Dow Jones Industrial Average with candlestick formations



Markttechnik Spezial

There are many patterns, but we would like to mention only the most popular ones here:

Bullish Pattern	Neutral Pattern	Bearish Pattern
Hammer - <i>Takuri</i> - 	Pregnant - <i>Hamari</i> - 	Dark Cloud Cover - <i>Kabuse</i> - 
Bullish Engulfing - <i>Tsutsumi</i> - 	Doji Lines 	Bearish Engulfing - <i>Tsutsumi</i> - 
Inverted Hammer - <i>Takuri</i> - 		Hanging Man - <i>Kubitsuri</i> - 
Piercing Line - <i>Kirikomi</i> - 		Shooting Star - <i>Hoshi</i> - 

Working with candlestick formations is up to a certain extent very subjective, as is the case for all technical analysis methods. The numerous formations characterised by gaps, length of the shadows, if real bodies are filled in or empty, etc.

Apart from this, the application of candlestick charts is a popular tool used by technical analysts who are often thankful for any additional hints they can obtain.