# The 4 Levels of Candlestick Trading

**by**

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**At this point I will celebrate once again the sheer power of candlestick trading.**

I would like to encourage all readers to remember that their choice of candlestick trading as a strategy is the best there is.

**For those who are experiencing losses, for newbies searching for a strategy, and just for everyone else as well, I would like to warm your hearts by again stating the great advantages of candlestick trading :**

1) It is the <u>simplest</u> system to learn. Know the important patterns and have an eye for spotting them and your done! No other system is this simple.

2) The candle pattern tells you <u>which way</u> to trade. No complex figuring out whether to go long or short. The pattern tells you this.

3) No need to figure out <u>trends</u> - just trade the pattern for profit to come.

4) No need for <u>extra time frames</u> (you do not need to use my special 5 min entry method if you do not want to) to determine trend direction.
The candle pattern is <u>standalone</u> in its time frame and that is exactly what you trade.

5) No time lag - all indicators suffer from lag.The candle pattern is <u>immediate</u>.

6) Because of (5) above, a trader's <u>confidence</u> is vastly improved with an immediate <u>improvement</u> in trading performance leading to more frequent profits and less losses.

7) Candlestick patterns, by their very shape, show the <u>psychology</u> of trading as well as the price action. Indicators are mathematical displays derived from the price data, and are, therefore, emotionless. Indicators show nothing of the psychology and emotions of trading.

8) Over a long period of time, the character of trading changes. That is why no system will always work. Eventually they all fail. But candlestick patterns are not a system and their shape and occurence always keeps in step with trading character - because they are actually part of the character. Candlestick patterns <u>always work.</u>

9) Candlesticks work under all conditions, whether <u>trending</u> or <u>ranging</u> (consolidation). An indicator strategy requires that you first discern whether you are trending or ranging. Different indicators are needed for each approach.
So with indicators you have twice the work to do. First you must discern the price action and only after that can you start trading.

10) Candlesticks get you into price action <u>long before indicators</u> - in many cases, so much so that you are closing your trade by the time the indicator trader is just opening his. Candlesticks are the fastest form of price prediction there is. The next fastest is the ergodic candlestick oscillator which in turn is much faster than any other indicator.

11) Candlestick trading is very reliable. Providing that the patterns are properly picked, and the poor ones weeded out, the probability of success is extremely high.
Only fundamental analysis could do better.

12) Providing you have enough charts, candlestick patterns are very frequent and give the trader lots of opportunities to trade. This gives the candlestick trader the choice of rejecting a trade whereas the indicator trader has to wait until his indicators line up to conform to his strategy.

**Candlesticks - Behold the Rolls Royce of Trading.** 😊😊😊😊

You will see many systems being advertized on this forum. Just lately, there is a whole plethora of them.

But they are all indicator systems, with no great difference in any of their operations. Only the names are changed in an attempt to attract new devotees.

They will all suffer the same fate - eventual failure because the character of price action changes and the system cannot adapt to meet the change.

So I am not interested in any of them.

I have found what I believe is the best of all strategies - Candlesticks.

To finish with, warm your heart by reading again the following hyperlink. It will probably have much more meaning for you now.

**Why exactly is it that the candlestick method is so powerful?**
**Why can we get trades going when indicators do not show to even enter?**

Well, here I am going to <u>try</u> to answer this question. I will use an example from physics as an aid.

\* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \* \*

You all know what a magnet is. It is made of iron or an iron alloy and attracts anything made of iron, nickel or cobalt.
Place a handful of nails on a table and the quickest way to pick them up is to grab them all with a magnet. Then you can lower them back into a container.

A small bar magnet will pick up any small iron object, be it nails, screws, a knife or anything else. Indeed magnetic screwdrivers are the property of electricans and you can buy magnetic screwdrivers at a hardware store.
They make life easier when a screw drops into some inaccessible place.

Now the magnet has what is called a "magnetic field" around it. Any small iron object within this field can be attracted. But not so outside this field. The magnetic field gets weaker further away from the magnet.

Even so, this magnetic field is invisible. You know it is around the magnet because of the influence the magnet has. That is, you can see the effect of the magnet. But the field itself you cannot see.

Now look at the diagram below >>>
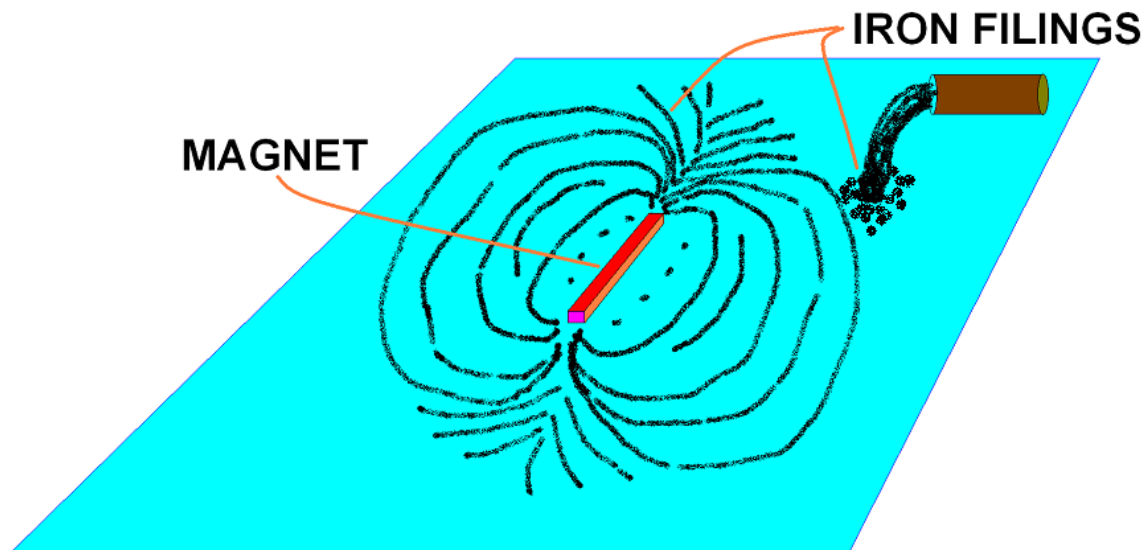
By tymen1 at 2008-04-08

However, suppose we put a bar magnet on a table and then put a glass plate over the magnet.
We then pour iron filings from a container onto the plate and rap the plate with our fingers.

The iron filings will take on a pattern something like in the diagram above.

Here we now have <u>visual evidence</u> of the existance of this magnetic field. We can now, if you like "see" the magnetic field that previously was so mysterious.

Now we know that in all trading, including forex trading emotions are at work.
These we all know as being fear, greed, anticipation, indecision ...........and any others you think should be included.

But you cannot see these emotions. You cannot collect a container of liquid fear. Nor can you get a kilogram of greed.
These emotions are at work in the trading business but they are at work invisibly behind the scenes.
Because they are invisible, you can only see their effect when they occur.
price races down - fear is present................price goes up - greed at work.

But you <u>can</u> see all these emotions!

Not with a glass plate and iron filings but with ...............yep...**a candlestick chart!**

Every time you see a candlestick pattern you see a "magnetic field". That is, you see a recognized and well proven pattern of emotions at work. The candlestick chart is then, an <u>emotions chart,</u> and you can see when the emotions are at work.
You can see which emotions are at work as well as discerning the intensity of those emotions.

Since emotions are a <u>main driver</u> of the market, you now have the clearest view of what is happening. Therefore, you can enter and exit the market based on these emotions and be done with your trade long before the indicator devotee gets his signals.

Assuming that we have an emotions chart, we also know that these emotions are very predictable. We know what will happen next.
We, therefore, need to know our emotion (candlestick) patterns <u>accurately</u> because a slight change in the pattern means a change in the emotions.

With indicators, <u>no such understanding is possible</u>.

The MACD, for example, is a mathematical manipulation of a series of closes. The MACD knows nothing of what happened between any two closes.
Was there a very high high? Did the price dip to a great low? Who knows? None of this information is revealed in an indicator. Yet it is this very information that gives away the emotions at work.

And it is the shape and pattern of the candle that reveals all this information, in the same way as iron filings on a glass plate reveal the activity of a magnetic field.
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Regards, Tymen Wortel, Perth, Western Australia.

Have you ever been to a casino? Played roulette?
If you have, you will notice some things :

The casino goes to some trouble to take your money.
The building has no windows so that you are not distracted.
Fresh oxygen is pumped into the building to keep you feeling fresh and awake for longer so you bet more.
Beautiful lights, soft music, drinks on tap………….all to keep you in a money spending mood.

On a roulette wheel you will find random players who win or lose by chance.
You will also find system players who play a system they have researched.

However, it doesn't require an extensive mathematical background to look at the 38 spaces on a roulette wheel (note the 35-1 payoff on a single number) and conclude that the game is unbeatable. With a number expectancy of 1/38 and payoff of 35/1 we calculate the expectancy of winning edge at –5.26.
Despite this, umpteen systems for "beating" the wheel are developed and sold to gullible people.

The casino people are smart – they know that systems players lose more money than random players, so they cater specially for these systems players.
Pencils are provided, complete with fully chequered pieces of paper for you to record the numbers that come up. As well as this, an electronic scoreboard displays the last 20 or so numbers, and in red or black. Some places even sell you whole lists of numbers so that you can get to work immediately with your "system"

However, there is a genuine way to beat the roulette wheel and win. This winning approach is known by the casinos, and if they suspect you are using it, they may evict you.
The winning method uses visual ballistics. That is, you watch the wheel with your eyes and "measure" the speed of the ball. You also "measure" the speed of the rotor and calculate the fall-off point well before time. You then place your bet accordingly and win. Measuring the speed of these things is surprisingly simple, but you must have a very good eye for it. Not everyone can do it.

When you learn the method, the physics is explained to you so that you understand what is going on and how the method works. With this understanding you set "crossover points" to determine the fall-off point of the ball.
It is all very scientific. A mathematical mind and a good eye are needed for success.
Further, you do not need to win every bet. All you need, is to win before 35 trials and you have a winning edge over the casino.

In my own exploits, I have actually correctly predicted the number on the very first bet.
Then the second bet I am correct again.

The adrenalin rush you get is amazing – you feel like an anointed prophet!!
It also gives the casino staff a good scare, and it is funny to watch their reactions!!

These qualities are not what the casino wants you to possess.
They develop methods to impede you - slow balls, slow rotors, shaking the table etc.
If you still continue to win, they just may show you the exit door!
So good visual ballistics betters hide their method by deliberately losing every so often.

Now lets relate this to forex.
Firstly forex is not gambling, but it can be if you do not know what you are doing.
Lets look at the broker's charting platform.
Beautiful charts – very attractive layout.
Everything you need at your mousetips.
Entry windows with every setting laid on.
Same with exits.
Trailing stop losses.
Every indicator you want.
Chart layouts to exactly the way you want.

And what for?
Well, the broker wants your money – a spread of course, and the rest too if he can get it.
That is, he wins and you lose.

So the broker, like the casino, offers you everything you need to graciously allow you to make a loss.
Not that these features are evil by any means.
But using a bad choice of features does help you lose.
The features you need to win are not necessarily obvious.

Now the 4 levels I am going to show are more like the visual ballistic method for the roulette wheel.
You will use tools not normally used and the broker will get your spread but you will win the trade. All the broker can do is match your longs against some other trader's shorts and vice versa.

Like the casino, you can expect some persecution.
The broker just might put you on manual execution.
Or introduce slippage of larger than usual amounts – and it is not even news time!
Good brokers should put up with you.
Not so good ones may give you a hard time – constant re-quotes, much slippage, freeze screens, prevent exits except when losing.
If you overcome all these obstacles, you may even be asked to take your money and leave.
Making a regular "loss" every so often of only a few pips may slow the persecution down

somewhat.

The persecution may not necessarily come openly.
It may be built into the trading platform computer language.
Then it becomes more difficult to detect.
For example you may be winning by a few pips. The "close at market" window refuses to operate regardless of how many times you click your mouse.
The price action continues and moves to a loss position and suddenly the same window opens easily.

Like the roulette visual ballistic prediction system, the candlestick approach shown here is a winning system and has the edge over the broker.
So be prepared to expect these persecutions!!
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Regards, Tymen Wortel, Perth, Western Australia.

There are 4 levels in this offer of candlestick trading strategies.
There is one for everybody.
The levels start with the multiple-amount strategy and graduate to the very powerful
Starc band strategy.
As such, they increase in difficulty of use, but with that comes a big increase in the
number of pips obtainable per trade.
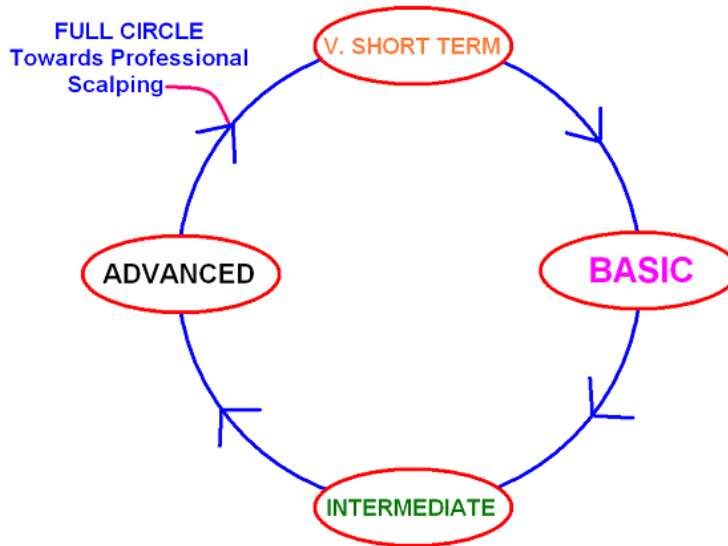


By tymen1 at 2008-08-28

## Level 1 - Very Short Term trading.

This level is not professional scalping as such.
Scalping (taking only a few pips) needs large lots and big leverage to be profitable.
Therefore, a scalper needs a large bank account so that any loss sustained in a trade still
amounts to only about 2% of total bank.

The level described here is only to get a new trader's feet wet with candlestick trading.
It allows the trader to see the advantages of candlesticks and the sheer immediacy of the
price action.

There is no money management offered with this level, and, after some 20 or so trades,
there may be a profit or a small loss.
This is unimportant.

The aim of this level is to introduce the ability to select a quality candlestick pattern and then to have a go at trading it.

A severe restriction is placed on what currency pairs one can trade.
Low leverage and few lots are preferable.

## Level 2 – Basic Level

This is the simplest level on offer to seriously make money.
This level only requires a main chart and, of course, a knowledge of the candlestick patterns.
Because of its simplicity, this level is restricted to about 30-40% efficiency of the Advanced level in producing pips.

This level introduces the multiple-amount approach.
This strategy is used to overcome the problem of loss trades being greater in number than winner trades.
Target profits are set.

Money management is offered.

Only the 4 major currency pairs should be traded.
Leverage and lots are the trader's own choice according to means.

## Level 3 – Intermediate Level

At this level, the simplicity of the multiple-amount trade is supercharged with a touch of the Starc bands.
5 minute Starc bands charts, together with the the concept of retraces,
are introduced, but these bands still play a minor roll in the trade.

Again, target profits are set.
Money management is strong.

Currency pairs – any.
Leverage/lots - traders own choice.

## Level 4 – Advanced Level

This level is the most difficult, but produces largest number of pips.
The 5 minute Starc band chart fully replaces the multiple-amount trading approach.
Because the Starc band approach is superior, large amounts of pips can be made.

Several entries and exits based on the Starc bands become the hallmark of this level and this gives rise to the large pips numbers.
Target profits are replaced by Starc band exits.

In addition to all this, a 5 minute Keltner chart is introduced.
This chart allows entries that are superior to entries based on the open of an entry candle.
This also serves to increase the number of pips made at this level.

Money management is total with emphasis on correct risk/reward and win/loss ratios.

Currency pairs – any.
Leverage/lots - traders own choice.
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Regards, Tymen Wortel, Perth, Western Australia.

The purpose of these definitions and statements here is so that I do not have to repeat them in all the levels later. The operations here are explained in detail. Later I will simply use their names when referring to them so as to keep things simple.

**Definition :** Amount.
An amount depicts any number of lots together with any leverage.
For example 2 standard lots can be an amount.
Or 5 minilots can be an amount.
The amount is at the choice of the trader.

**Definition :** PCI stop loss.
Power, computer, internet.
This stop loss will be used and its intention is to prevent a margin call if there is a failure in the power supply, a computer failure or internet dropout.
The PCI stop loss is set using the standard order window and is generally set moments before entering a trade.

**Definition :** Floating profit/loss.
This window should be visible at all times on your charting screen.
It will be used extensively to open and especially close trades rather than set a new stop loss order which takes too long to do in a fast moving market.

**Definition :** Direct Deal Ticket. (DDT).
Hereafter referred to as DDT.
The name will vary with the broker you use but this is the fastest way of entering or exiting the trade.
It is a direct market order and places or closes an order immediately.
It will be the only means we use to enter or exit the price action.

**Definition :** Break Even.
This is the clever act of preventing trades from becoming losers.
The Break-Even involves moving the stop loss or trade closure to the trade entry point.
The worst that can happen now, is a price retrace to this point, giving a profit/loss of zero.
The Break-Even act can be done in two ways :

1) The preferred way which is to watch the floating profit/loss window.
If this hits zero, we immediately close the trade using the Direct Deal ticket. (DDT).
No walking away from the computer.
2) Moving the stop loss to Break Even, that is, move the stop loss to the trade entry point.
Walking away from the computer is possible.

**Definition :** Multiple Amount trade.
This strategy is used at the Basic level and is replaced by the Starc bands at the Advanced level.
It opens the trade with two amounts instead of just one.

If we just trade 1 amount then the number of losing trades is likely to exceed the number of winners. In that case we are just wasting time and making a loss.

The 2 amounts strategy works as follows :

1) Firstly, we get one small profit from the 1st amount.
2) The stop loss or trade closure is now moved to the trade entry point. (Break Even).
The 2nd amount has a much larger profit target, but at worst, it would retrace to the trade entry point, giving a profit/loss of zero for this amount.
3) Therefore, at worst, we have the 1st amount profit only, but this is superior to a loss.

Using this approach gives us more winning trades, hence a winning edge, just like the visual ballistic player in roulette.

**Definition :** Starc Band Retrace Point.
This refers to the Starc bands and the diagram concerning them below.
The Starc bands are used to determine extreme ("retrace" or "pullback" are other words used) entry and exit points.
These points vary according to whether the Starc is going up, level or down.
It is all shown in a simple way in the diagram >>>

STARC BANDS UP          STARC BANDS LEVEL          STARC BANDS DOWN
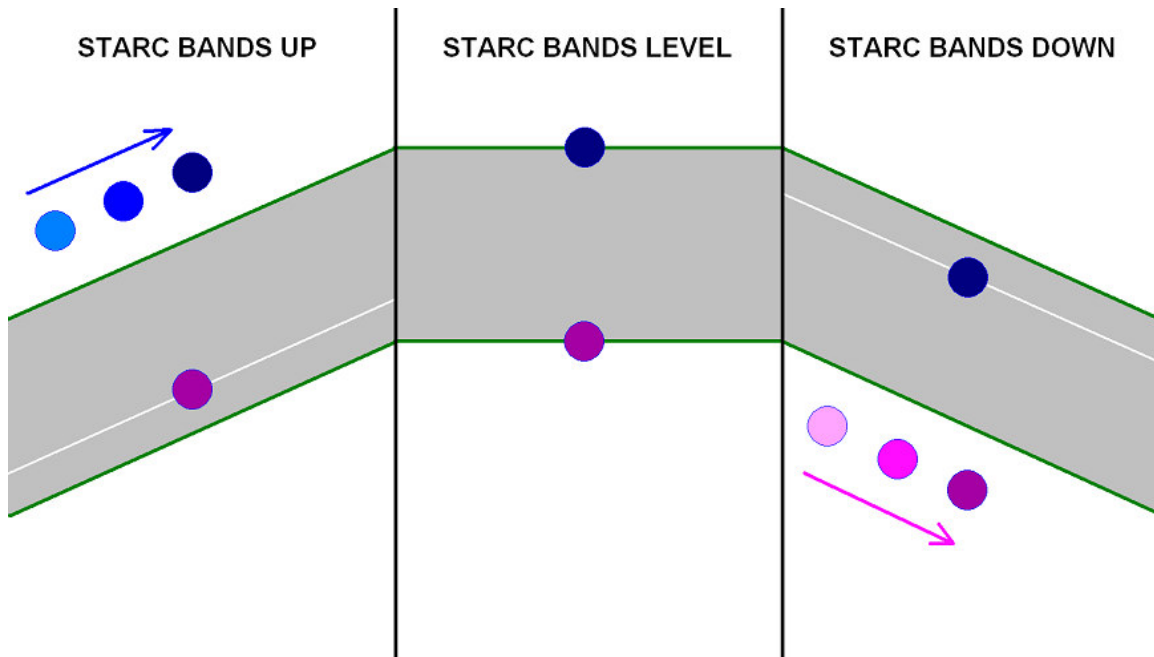
By tymen1 at 2008-08-28

**Please note that the examples below may seem extremely confusing at first, but when you are trading it is really very simple and obvious!!**
**However, you may want to print the Starc bands chart for reference.**

a) For example, a long entry + starc going level means we consider the lilac lower dot on the "level" diagram and enter there.
b) For example, a long entry + starc going up means we consider the lilac lower dot on the "up" diagram and enter there.
c) For example, a short entry + starc going up means we consider the 3 dark blue upper dots on the "up" diagram and enter on the 3rd.

d) For example, a long exit + starc going level means we consider the dark blue dot on the "level" diagram and exit there.
e) For example, a short exit + starc going down means we consider the 3 lilac lower dots on the "down" diagram and exit on the 3rd dot.
f) For example, a short exit + starc going up means we consider the lilac dot on the "up" diagram and exit there.

(checked = no errors)

## Definition : The Keltner Channels.
A 5 minute with Bollinger bands, Keltner bands (period 4, factor 1) and standard/inverse Di Napoli MACD's is used to get better entries at the begin of the trade.

The slopes of the mid Bollinger and MACD are read as vectors.
They are then added to give a resultant.
The direction of this resultant points to one of the Keltner bands (or in between).
The selected Keltner band (or in between), thus gives the best entry.

Depending on whether the trade is long or short, a standard or inverse MACD is used.
The MACD's are colour coded to prevent confusion.
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Regards, Tymen Wortel, Perth, Western Australia.

**Default Parameters** – When clicking on the Direct Deal ticket or DDT, the number of lots must be first set. This can be a nuisance and slow things down.
There is an operation under "parameters" which will allow you to preset the lots. Set this to your chosen number of lots in 2 amounts.
This will then save a lot of time.

**Moving PCI stop loss to quickly to break even** – the quickest way of doing this in Dealbook is to mouse drag the line down to the trade entry point, then right/click on the "new price" icon that appears on the line.
A window appears, click OK and it is done.
Other broker platforms will have their own fast methods of shifting the line.

**Take Profit** – Under certain circumstances in the Basic/Intermediate levels, you will be able to set a "take profit" line, (limit order), for the 2nd amount after the 1st amount pips are collected.
This limit order can be set at leisure – no rush.
You will then be able to walk away from your computer.
Walking away in not possible in the Advanced level where large numbers of pips are collected.

**Use of Eyes** – you will be doing a lot of careful looking to control your trade. Your eyes will become the most important tool you will use to win your pips.
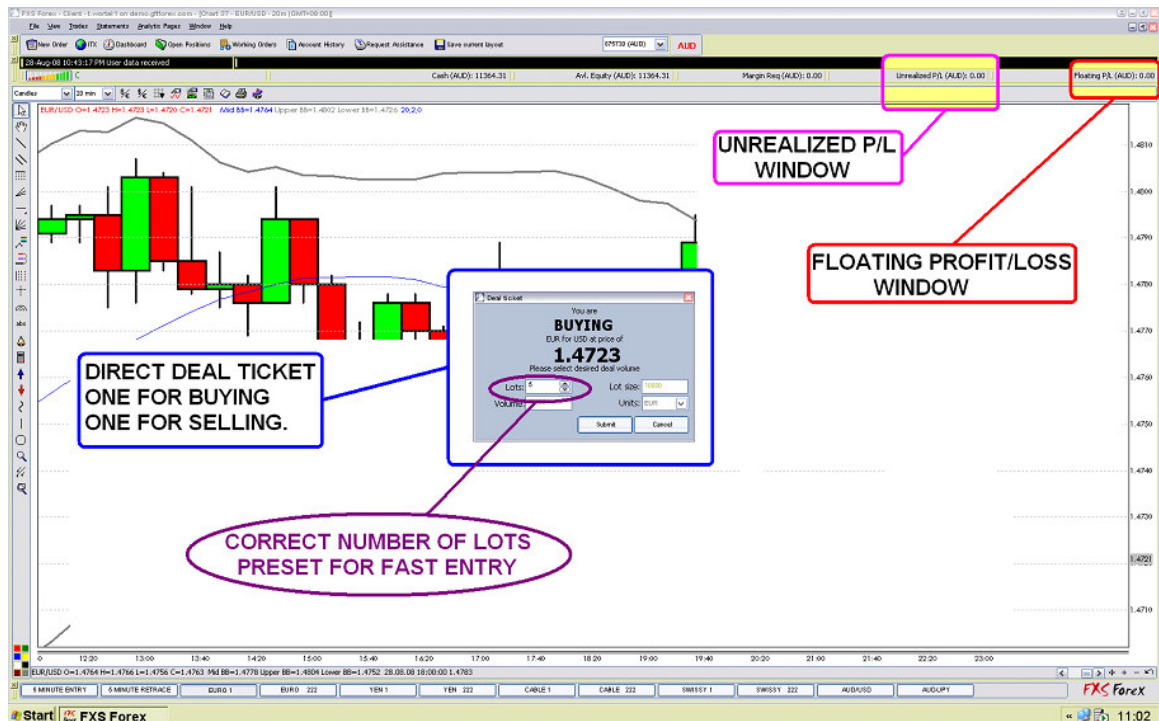


By tymen1 at 2008-08-28

## **Diagrams and Clarity –**

For the sake of clarity, schematic diagrams are used.
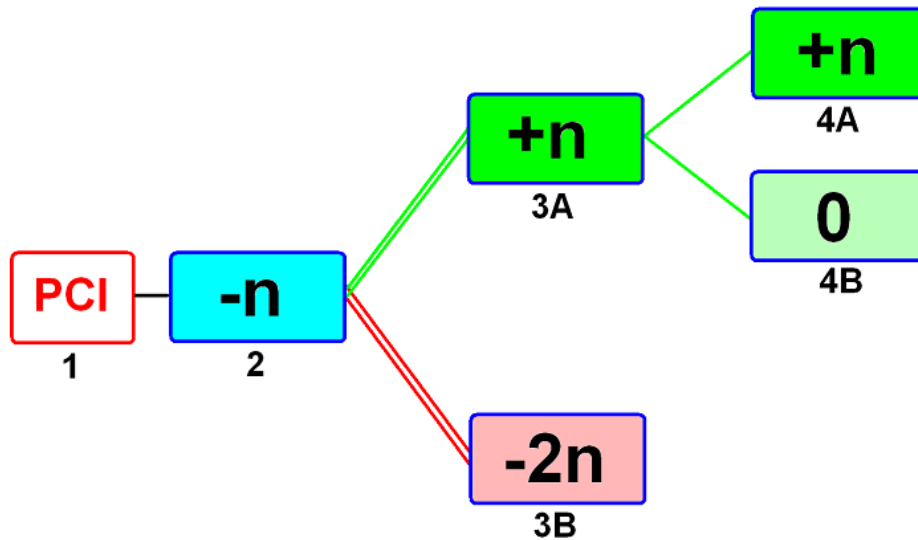The steps in the trade are shown by numbers.
The "W" sign indicates a point where a Break Even watch is needed.
Double lines indicate 2 amounts traded and single lines mean one amount.
Pink lines show a trade in negative while blue lines show the trade in positive.
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Regards, Tymen Wortel, Perth, Western Australia.

By tymen1 at 2008-08-30

**Knowledge Assumed :**
Having read much of the Candlestick thread and being able to find quality patterns on the Bollinger bands.

**Charts required :**
Only the main chart with timeframe ranging from 20 minutes to 1 hour.

**Restriction :**
Trade only currency pairs with a maximum spread of 3 pips.

**Method :**
1) Set a PCI stop loss 3 pips higher/lower than the extreme wick of the pattern.
No rush here – as long as it is done before you enter the trade.

2) Enter 2 amounts on the open of the entry candle by clicking the Direct Deal ticket.
(DDT).
(DDT preset to 2 amounts).
Watch the floating profit/loss window

It will be negative since the broker has charged a spread.
Now let….. - n = the floating profit/loss at this point.


3A) Watch the floating profit/loss window.
Close one amount with DDT when the floating profit/loss = + n
(DDT preset to only 1 amount).

3B) Watch the floating profit/loss window.
If after entry (2), it becomes -2n then close the trade for a loss.
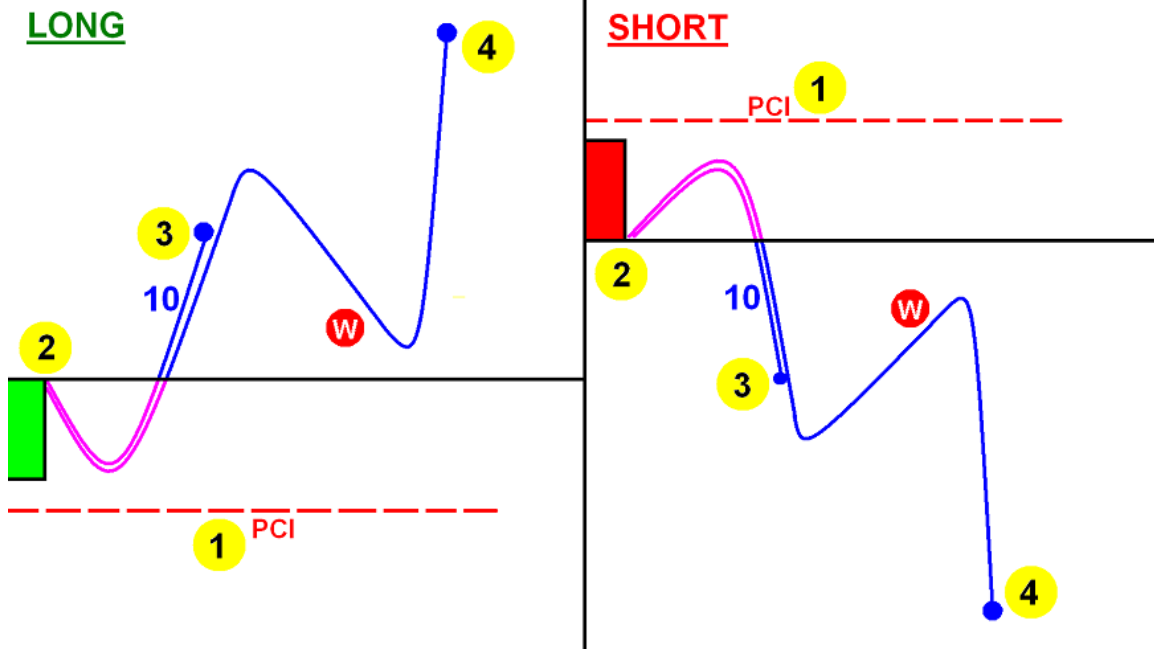(DDT preset to 2 amounts).


4A) Watch the floating profit/loss window.
If after 3A, It rises to +n again, close the remaining amount.

4B) Watch the floating profit/loss window.
If after 3A, it fall to zero, close the remaining amount immediately.

END.
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Regards, Tymen Wortel, Perth, Western Australia.

**LONG**                    **SHORT**

By tymen1 at 2008-08-30

**Knowledge Assumed** :
Having read much of the Candlestick thread and being able to find quality patterns on the Bollinger bands.

**Charts required :**
Only the main chart with timeframe ranging from 20 minutes to 1 hour.

**Restriction :**
Only the 4 major currency pairs should be traded.

**Method :**
1) Set a PCI stop loss 3 pips higher/lower than the extreme wick of the pattern.
No rush here – as long as it is done before you enter the trade.

2) Enter 2 amounts on the open of the entry candle by clicking the Direct Deal ticket.
(DDT).

(DDT preset to 2 amounts.)

3) Close one amount with DDT when price action hits 10/12 pips away from your entry. (DDT preset to only 1 amount.)

WATCH) Watch the Floating Profit/Loss in case of break even for the 2nd amount. (Explanation is in Common Procedures above – methods 1 or 2).
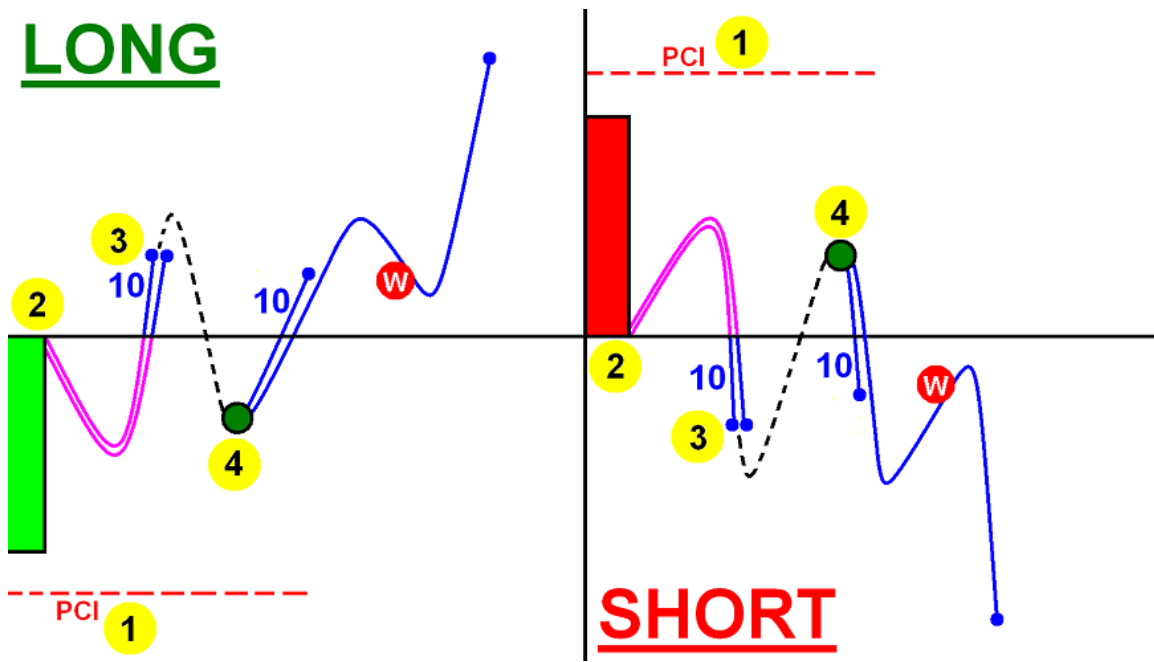
4) Close the 2nd amount when it has reached a much larger amount or your target profit is reached.

END.
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Regards, Tymen Wortel, Perth, Western Australia.

By tymen1 at 2008-08-30

**Knowledge Assumed :**
Having read much of the Candlestick thread and being able to find quality patterns on the Bollinger bands.
Familiarity with the Starc bands.

**Charts required :**
1) The main chart with timeframe ranging from 20 minutes to 1 hour.
2) A 5 minute chart with the Starc bands on it.
3) The Starc retrace chart may be needed for reference.

**Method :**
1) Same as Basic Level.
2) Same as Basic Level.

3) Close both amounts with DDT when price action hits 10/12 pips away from your entry.
(DDT still preset to 2 amounts).

4) Now switch to the 5 minute Starc chart.
When price action hits the relevant Starc retrace point, enter 2 amounts again.
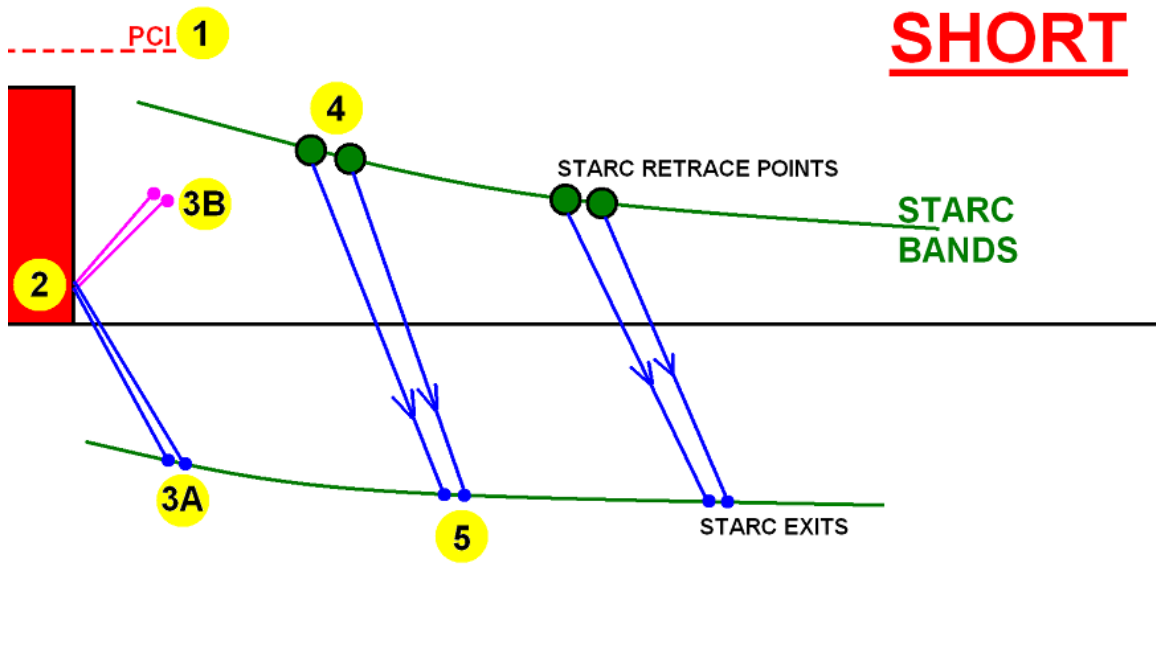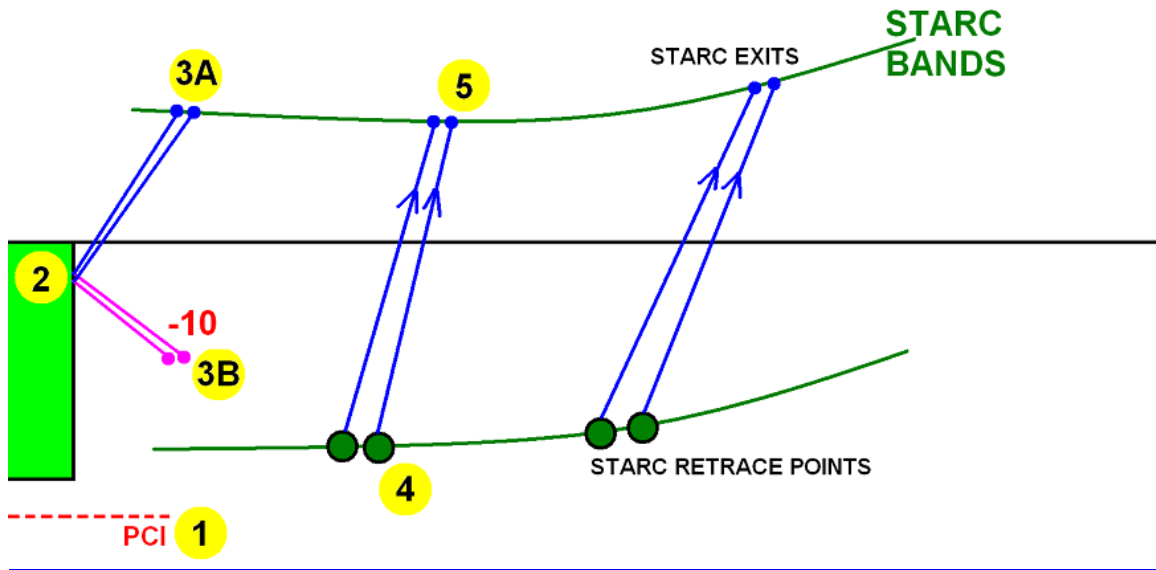
(DDT still preset to 2 amounts).

**Now proceed as per Basic level to the end of the trade.**

END.
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Regards, Tymen Wortel, Perth, Western Australia.

# LONG



# SHORT

By tymen1 at 2008-08-30

## Knowledge Assumed :

Having read much of the Candlestick thread and being able to find quality patterns on the

Bollinger bands.
Familiarity with the Starc bands.
Familiarity with the Keltner channels.
Ability to draw vectors and sum them to a resultant.

**Charts required :**
1) The main chart with timeframe ranging from 20 minutes to 1 hour.
2) A 5 minute chart with the Starc bands on it.
3) The Starc retrace chart may be needed for reference.
4) A 5 minute Keltner chart with Bollinger bands, Keltner channels, standard and inverse
Di Napoli MACD's. The Bollinger has standard settengs, Keltner has period 4, factor 1.

**DDT :**
The DDT is preset to 2 amounts througout this level.

**Method :**

1) Set a PCI stop loss 3 pips higher/lower than the extreme wick of the pattern.
No rush here – as long as it is done before you enter the trade.

2) Open the 5 minute Keltner chart and use the Keltner entry method to obtain the best
entry.
Enter 2 amounts clicking the Direct Deal ticket. (DDT).

3A) <u>Pips first.</u>
Switch to watching the 5 minute Starc chart.
Close both amounts with DDT when price action hits the relevant Starc exit point.

OR

3B) <u>Retrace first.</u>
Switch to watching the 5 minute Starc chart.
If the price action goes negative, then close both amounts at -10 pips.
Total loss is -20 pips.

4) Re-enter 2 amounts when the price action hits the relevant Starc retrace point.

5) Exit the 2 amounts when the price action hits the relevant Starc exit point.

**Repeat steps 4 and 5 until the price action on the main chart starts to reverse or the
candles are too far away from the pattern.**

END.

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Regards, Tymen Wortel, Perth, Western Australia.

This completes the work of the 4 Candlestick Levels. 😎😎😎

My beautiful, long haired, ginger cat, Sweetie, is sleeping on my lap while I type this post.

He is telling me something.

He tells me that I am now going to take a rest from this forum for one week!! 😊

Keep posting and I will see you in one week to read all the comments!!
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Regards, Tymen Wortel, Perth, Western Australia.