Crypto Chart Analysis –
Practical Techniques To Read Charts And Profit

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Chapter 1 – Japanese Candlesticks For Crypto Trading

Japanese candlesticks and the patterns they produce are a very popular visualization of financial data among financial traders and technical analysts. Called candlesticks for their appearance, these instruments show how the price of an asset fluctuates between two extremes, and therefore potentially provide bullish or bearish market insights into the future behavior of a traded asset that can be used for financial gains.

A candlestick on crypto exchanges can represent price movement in various time frames, ranging from one minute to a month or longer.

History of Japanese Candlestick Patterns. While their use has already spread to all corners of the world, Japanese candlesticks actually originated from Munehisa Homma, a trader who lived four centuries ago. In the 1700s, Homma, a Japanese rice merchant, observed a correlation between the price of rice and three things: Supply, demand and traders' emotions.

After its successful introduction in the Japanese stock market, the method found its way to the U.S. market, where it first appeared in a book by Steve Nisson, a technical analyst, titled "Japanese Candlestick Charting to the Western World." Its arrival in the U.S. paved the way for the worldwide spread of this technique in dealing with financial instruments. Countless traders today regularly use candlesticks as their primary tool to determine when to enter or exit a trading position.

What information is represented by a Japanese candlestick pattern? A candlestick indicates the direction of the price of a particular commodity.

The important indicators include opening and closing prices. The patterns have a candle-like shape with a body and a tail/shadow/wick (the body) attached to it. A green or white candle body indicates a positive price, while a negative price movement turns the body either black or red. Modern trading platforms allow traders to choose their preferred colors to represent bullish or bearish movements.

Various Japanese Candlestick Patterns. Candlesticks realistically represent market conditions by taking shape in various patterns. They can be divided into simple, double and triple candlestick patterns.

Simple Candlestick Patterns. These form the basis for the other patterns. Understanding simple candlestick patterns helps derive market trends from double and triple patterns. Aside from Marubozu the other simple patterns represent a reversal of the current trend. There are eight basic candlestick patterns in this category.Doji - First, note that doji means "same as" in Japanese. Doji represents a formation when the opening and closing prices are the same or have very little difference.

In this case, the body is compressed (almost like a dash) and the tail is most pronounced. Unlike traditional markets, which often operate on a fixed schedule from Monday to Friday, candlesticks for cryptocurrencies can actually provide a more realistic representation of the movement of a traded asset, as crypto trading takes place exclusively online and the price movement can be represented on shorter time frames, e.g. 15m, 30m, 1h and 4h, without interruptions in trading activity, unlike traditional exchanges. When the price does not move, a doji resembles a dash and has no tail. Doji indicates a reversal or a neutral event.Gravestone Candlestick pattern - Its name comes from its resemblance to a tombstone.

Apart from having the shape of a tombstone, its name suggests a strong bearish force.

Dragonfly - Also called an inverted tombstone, it is represented by a body with only one tail on the bottom.

Hammer - The Japanese candlestick pattern hammer is formed when the body is attached to a long wick on the bottom rather than the top. In most cases, the top tail is almost negligible. The hammer indicates the end of a controlling force from either the bears or the bulls.

Note that a hammer that represents a surrender to the bears is called a "Hanging Man". Spinning Top - This candle forms when the market is experiencing little movement and is indicated by a short body and wicks of nearly identical length. A spinning top pattern often indicates a consolidating market. It also indicates that bears and bulls are fighting for control, but neither has the upper hand.

Standard Line - A typical candlestick pattern with a stronger body and weaker tails at both ends. However, standard lines do not contain important clues about the next market direction. Instead, they indicate that the wind blowing in a particular direction has persistent force. A standard line candlestick pattern can be either bullish or bearish.

Marubozu pattern - This candlestick pattern has a body with no extensions. A Marubozu indicates the progression of a bullish or bearish trading sentiment.

Inverted Hammer - An inverted hammer represents a trend reversal. It is the opposite of the Hammer and Hanging Man. The inverted hammer has a longer upper wick and a smaller body.

When it indicates the end of the road for the bulls, it is called a shooting star, while the inverted hammer indicates that the bears have had enough and it is time for the bulls to take over.

Double Japanese Candlestick Patterns. The candlesticks in this category are read in pairs to determine the current state of the market. The most commonly used patterns in this category are bearish/bullish engulfing and tweezers. Engulfing Japanese Candlestick Patterns indicate that one market trend is being overwhelmed or consumed by another in the opposite direction. Two adjacent candles indicate which movement, bullish or bearish, dominates the other. For example, in a bullish engulfing candlestick, a bearish candlestick is followed by a bullish candlestick with a larger body. These patterns indicate a reversal in market behavior.

Tweezers also indicate a reversal, but with a difference. They are represented by two candles with the same body and wick length. Tweezers can be either at the top (the tails are at the bottom) or at the bottom (the shadows are at the top). Note that tweezer bottoms signal a change of guard from bullish to bearish and vice versa.

Triple Japanese Candlestick Patterns. Here, three adjacent candles are read as one element to derive the message from the chart. Two important patterns are the morning/evening star and the three soldiers. Although both indicate a reversal, they differ in how they are displayed. For example, the evening star starts with a bullish candle, followed by a small bearish/bullish star, followed by a bearish candle longer than the first bullish sign.

Three soldiers, on the other hand, form a staircase-like pattern with three levels. In an uptrend, it starts with a small candlestick, followed by a much larger candlestick, and then an even larger candlestick.

Why are Japanese candlesticks so important? Japanese candlestick patterns have always provided traders with a reliable visual representation to show the behavior of a particular asset. In addition, they have helped traders anticipate their next moves and position themselves in the profit line so they know when to sell, buy or hold. Today, understanding patterns helps traders read complex charts presented by trading platforms like cryptocurrency exchanges. While Japanese candlestick patterns can be a very useful tool for analyzing a cryptocurrency or stock's history or mapping its potential future, it's important to understand that there are other factors you need to consider when using these patterns, such as fundamental analysis (e.g., the team, funding, and community), overall market sentiment and trends, important news, and the time frame you are using. Do not just rely on one tool, choose the best one and make an informed decision before you trade.

Chapter 2 – Crypto Bullish And Bearish Patterns

Although the crypto market seems to be moving upwards, crypto traders always want to know what could happen to their investments and how to stop bearish and bullish patterns in the charts. In this article, we will introduce you to the top 5 bearish patterns that you should always look out for when you see them on your charts.

At the same time, we will tell you how to improve your trading strategies with the help of AltSignals, one of the best crypto trading signals providers on the market.

Evening Star Trading Pattern. Although this is not a trading pattern in the strict sense, it is an excellent indicator to see if it is a good time to enter or exit a position in the market. This pattern forms in a candlestick chart, where a large green candle should be seen, followed by a small red candle that does not touch the actual body of the first candle. The third candle will then be a green candle that has a large body, similar to the first candle. Based on this pattern, you can see very well if it is a good time to sell or exit a position.

This is what AltSignals experts and analysts do when they provide technical analysis to users. They know where these patterns occur to provide good insight into the crypto market.

Hanging Man Crypto Trading Pattern. This candlestick pattern is also very important for traders currently in the crypto market. In fact, this pattern could also apply to bullish moments when a bear market reaches a turning point. This pattern is represented by three candles. The first is positive with a green medium to large body, followed by a red candle that has a small body with a long shadow.

This pattern occurs at the top of a trend and as mentioned earlier, would indicate a change in trend from an uptrend to a downtrend.

Hammer Candlestick. This pattern is similar to the one mentioned earlier. In this case, there are three candles as in a traditional chart. One candle is between two others that have a very long shadow and a small body in the lower part. In general, it is important to understand why this happened by considering the volume that took place in this formation. The higher the volume, the higher the probability that the market has a turning point.

Head and shoulders. This is one of the most well-known trading patterns in the cryptocurrency market. This pattern shows that the market is moving from a bull market to a bear market. One of its main characteristics is that there are three upward impulses with two valleys in the middle. It is called head and shoulders or H&S because there is a major bull move between two minor bull "armpits". This large uptrend shows the "head" of the pattern. When the pattern is complete, you can exit the market and be assured that the trend will continue downward in most cases. As buyers pull back and sellers increase their pressure, this could prove to be a very profitable pattern.

Double / Triple Tops. If you see that the market is moving up and there is a moment when the charts show that it is difficult to break through a resistance level, then you should be cautious. Three or two tops could be taken as a bearish sign, as the bullish traders are unable to break the sellers' barrier at that particular price point. It is best to always have a plan in place when the market arrives at such a point. It is worth noting that this does not 100% mean that the market will turn bearish, but it is always important to take this into consideration.

Conclusion

In this article, we wanted to show you what are some of the most bearish patterns on the cryptocurrency market and how they can affect the way you trade virtual currencies. Even though not all of them mean that the market will turn 100% bearish, it is always important to take them into account when planning our strategies. These patterns could be a good indicator of when you should exit or get out of the market.

Chapter 3 - What is a shooting star candlestick pattern?

A shooting star pattern is found at the top of an uptrend when the trend loses momentum. The Shooting Star is actually an upside-down hammer candle that is very similar to the inverted hammer pattern. The wick extends upward instead of downward, while the opening, low, and closing prices in the lower part of the candle are all near the same level.

The difference is that the Shooting Star occurs at the top of an uptrend. It is a bearish chart pattern as it helps to end the uptrend. The Inverted Hammer, on the other hand, is a bullish chart pattern found at the bottom of a downtrend, signaling that the price is likely to trend upward. Both the green and red versions are considered shooting stars, with the bearish (red) candle being stronger because its close is right at the bottom of the candle. Similar to a hammer, the shadow or wick should be twice as long as the candle body itself.

Generally, the longer the wick, the stronger the reversal, as a long wick signals the bulls' inability to reach a high close. Some traders prefer to wait and see if the next candle is a bearish candle, which would confirm the reversal. In either case, the appearance of the Shooting Star at the top of an uptrend is only a signal of an impending reversal and should not be taken as a direct trading signal.

What a Shooting Star Shows Us. As mentioned earlier, a Shooting Star is a bearish reversal pattern that signals a possible change in price direction. The uptrend is nearing its end as momentum is weakening and sellers feel more confident that they can force a price reversal. For this reason, a Shooting Star Candlestick pattern is a very effective formation.

Because of its shape, the pattern gets a lot of attention because the wick always stands out from the rest of the price action. This is especially the case when the wick of a Shooting Star is also the new short-term high. So even though the buyers have managed to make a new high, they have failed to force a close near the high of the day. Their inability now provides sellers with an opportunity to reverse the price action and wipe out the previous gains.

The Shooting Star's greatest strength, then, is its ability to generate a reversal signal. Of course, it may not always be right, but it is considered effective and reliable. However, keep in mind that this is still a signal generated by one of hundreds of technical indicators. For this reason, it is important to always check the signal that a Shooting Star generates against other indicators or other candlestick patterns.

For example, near a Shooting Star pattern there may be other formations that signal reversal or indecision. You can try to identify the shooting star pattern along with other technical indicators on the Metatrader 5 trading platform.

How to trade the shooting star pattern? Trading the shooting star formation is similar to trading a hammer. The main focus is of course on the candle itself, especially its wick, which extends upwards. In the following example, we see a crypto pair chart moving in an uptrend. In the middle of the chart, the price corrects down, then quickly climbs back up. What follows is the new high within a long bullish candle. If you look only at this candle, the situation looks very positive for the bulls, as an uptrend is in action and the new high has just been reached. However, the situation changes quickly. The price rises again during the session, fails to reach a new high, and reverses to close at the low of the session.

As a result, a shooting star candle is formed. The next candle is a long bearish candle, confirming that a reversal is taking place. Eventually, the price falls by 250 pips. Whenever you decide to trade the reversal initiated by a Shooting Star, the stop loss should always be placed above the high of the candle. This is arguably the biggest strength of this pattern and, like a hammer, gives you a clear level to play against.

Any sustained move with a high close above the candle high will invalidate the pattern. The take profit order depends on your trading style and risk management. We advise you to consult other indicators such as Fibonacci, trend lines or moving averages and decide whether to exit a positive trade or not.

We have an crypto pair that is trading sideways for the most part. In the middle part of the chart, the price movement starts to gradually increase. At one point, a new high is made above horizontal resistance. However, buyers lose control over the price action, which initiates the pullback.

Failure at important resistance/support levels is not a normal failure, it is usually much more important. For this reason, after a failure at resistance, the price action turns back down and returns to support. The upper red line indicates our stop loss, which is about 20 pips above the session high. Any move to these levels, where our stop loss is, means that the pair is in a breakout area and there is no reversal. Our profit taking order (the lower horizontal black line) is a simple trend line that indicates where the pair bottomed out on the last attempt to go down.

So we are waiting for a pullback to the old support. In this situation, we risk 20 pips to earn almost 90 pips.

A simple calculation shows that we are talking about a risk ratio of 1:4.5, so this is an extremely profitable trade. Such profitable opportunities as these are rare in the markets, but they show how effective a Shooting Star Candlestick pattern can be.

Before risking your own capital, consider opening a demo trading account. This way, you can practice with virtual capital and equip yourself with a set of trading patterns and formations that you can apply to live trading.

Summary

A Shooting Star is a bearish pattern from a single candle that creates a signal of an impending reversal. Similar to a Hammer pattern, the Shooting Star has a long shadow that shoots upward while the opening, low, and closing prices are near the bottom of the candle. It is considered one of the most useful candlestick patterns due to its effectiveness and reliability. The long wick extending upwards signals that buyers are unable to follow up on the previous move upwards, which gives sellers an opportunity to initiate a change in price direction.