

AA-05

READING CHARTS & CANDLESTICKS

What a chart shows and how to read any candle, step by step.

Alpha Academy · Team Alpha Trading

Reading Charts & Candlesticks

Every trader you have ever seen on TV is staring at a chart. This chapter teaches you how to read one — slowly, from zero. By the end, you will be able to open any stock chart, understand what every shape and bar on it means, and read it step by step with confidence.

No math beyond basic arithmetic. No experience needed. Just prices, pictures, and patience.

> **NOTE**
> A chart shows you the past — what price already did. It cannot show you the future. Reading charts means reading a story that already happened, so you can make calmer, better-informed guesses about what might happen next. It is a skill, not a crystal ball.

Why Traders Use Charts

A **stock price** is simply the last price someone paid for one share. That price changes constantly — hundreds or thousands of times a day for a popular stock. Nobody can follow a raw stream of numbers like that. So we draw a **chart**: a picture of price over time, like a heart monitor for a stock — not the patient itself, but a clear picture of how it is doing.

Traders use charts for three simple reasons:

- **To see the trend.** Is this stock generally climbing, falling, or drifting sideways? A chart answers that in two seconds. A list of numbers never could.
- **To plan entries and exits.** A chart shows where price has turned around before. Those levels help you decide where a trade makes sense — and where to get out if it goes wrong.
- **To stay calm.** A scary red day looks less scary when you can see it is a small dip inside a long, healthy climb. The chart gives context instead of panic.

The Three Basic Chart Types

There are three common ways to draw price.

Line Chart

A **line chart** connects one price point to the next with a single line — usually the **closing price** (the last price of each period, explained below). It is the simplest view: great for the overall shape of a move, useless for detail. News websites mostly show line charts.

Bar Chart

A **bar chart** draws one small vertical bar for each period. Each bar has a top (the highest price of the period), a bottom (the lowest), a tick on the left (the **opening price** — the first price of the period), and a tick on the right (the closing price). Detailed, but harder to read quickly.

Candlestick Chart

A **candlestick chart** shows the exact same four prices as a bar chart — open, high, low, close — but draws them as a chunky colored shape that looks like a candle. The method comes from Japanese rice traders, centuries ago. Nearly all traders today use candlesticks because they are the easiest to read at a glance, so the rest of this chapter focuses on candles.

Chart type	Shows	Best for
Line	Closing prices connected	Seeing the big picture fast
Bar	Open, high, low, close as thin bars	Precise detail, old-school style
Candlestick	Open, high, low, close as colored shapes	What most traders use daily

Anatomy of One Candle

One candle covers one **period** of time — one minute, one hour, one day, whatever you choose. During that period, four prices matter:

- **Open** — the first price traded in the period.
- **High** — the highest price traded in the period.
- **Low** — the lowest price traded in the period.
- **Close** — the last price traded in the period.

Traders nickname these four numbers **OHLC**, for Open, High, Low, Close.

The candle itself has two parts:

- **The body** — the thick middle block. It stretches from the open to the close. A long body means price moved a lot during the period. A tiny body means it barely moved.
- **The wicks** — the thin lines sticking out of the top and bottom of the body. The top wick reaches up to the high. The bottom wick reaches down to the low. Wicks are also called **shadows**.

A wick tells a story: price went there, but could not stay there. A long top wick means buyers pushed price up, then sellers dragged it back down before the period ended.

A Worked Example With Real Numbers

Say you are watching the stock of a fictional company, ticker **XYZ**, on a **daily chart** — each candle is one full day. Today **XYZ** trades like this:

- It **opens** at $50.00 (first trade of the day).
- Buyers push it up to a **high** of $53.00 by midday.
- Sellers knock it down to a **low** of $49.00 in the afternoon.
- It recovers a bit and **closes** at $52.00 (last trade of the day).

That day's candle would show a body from $50 to $52 ($2), a top wick from $52 up to $53 ($1), and a bottom wick from $50 down to $49 ($1).

Read it as a story: buyers won the day (closed at $52, above the open), but the fight ranged $4 wide — from $49 to $53. That is the whole skill. Every candle is one short story like that, and a chart is hundreds of them in a row.

Green Candles and Red Candles

The color of a candle answers one question: did price close higher or lower than it opened?

- **Green candle** — close is **above** the open. Buyers won the period. In our example, XYZ opened at $50 and closed at $52, so that candle is green.
- **Red candle** — close is **below** the open. Sellers won the period. If XYZ had opened at $52 and closed at $50, that candle would be red, even if the prices it visited were identical.

> **TIP**
> Some platforms use white and black, or blue and orange, instead of green and red. The rule never changes: color only compares the close to the open of the same candle. You can change the colors in your chart settings if green and red are hard to tell apart.

One confusion to kill early: a red candle does **not** always mean the stock is down compared to yesterday. It only means price fell from that candle's open to its close. A stock can open much higher than yesterday's close, drift down a little, print a red candle, and still be up nicely on the day.

Timeframes: How Much Time Is One Candle?

The **timeframe** is how much time each candle covers. You choose it. The same stock looks completely different on different timeframes — the way the same road looks different from an airplane and from the driver's seat.

Timeframe	One candle =	Typically used by
1-minute	1 minute	Day traders scalping fast moves
5-minute / 15-minute	5 or 15 minutes	Day traders planning intraday trades
1-hour	1 hour	Day traders and short-term swing traders
Daily	1 full trading day	Swing traders and most investors
Weekly	1 full week	Investors and position traders
Monthly	1 full month	Long-term investors checking the big picture

A **day trader** buys and sells within the same day and lives on the small timeframes. A **swing trader** holds for days to weeks and mostly uses the daily chart. A **long-term investor** sticks to weekly and monthly charts.

> **RULE**
> Match the timeframe to your plan. If you bought a stock to hold for six months, a scary 5-minute candle should mean almost nothing to you. Staring at too-small timeframes shakes beginners out of good trades.

Smart traders check two timeframes: the bigger one for overall direction (the "weather"), the smaller one for timing. As a beginner, start with just the daily chart until reading it feels boring. Boring means you are getting it.

Volume: The Bars Under the Chart

Under almost every chart you will see a row of vertical bars along the bottom. That is **volume** — the number of shares that changed hands during each period. A daily candle with volume of 2,000,000 means two million shares were bought and sold that day. Volume bars are usually colored to match their candle.

Volume answers the question: **how much conviction was behind that move?**

- Price jumps 5% on huge volume — many people were involved. The move has weight behind it.
- Price jumps 5% on tiny volume — very few people participated. The move is fragile and may not last.

Think of volume like applause. A standing ovation means the crowd really meant it. Three people politely clapping does not.

> **TIP**
> Compare today's volume to the stock's **average volume** (usually shown on the chart or quote page). Double the average means something real happened — earnings news, a big announcement, or institutions moving in or out.

Trend vs. Sideways: The Two Basic Shapes

At the simplest level, price does only three things: goes up, goes down, or goes sideways.

- **Uptrend** — a pattern of higher peaks and higher valleys, like a staircase going up. Each push up goes higher than the last, and each pullback stops higher than the last.
- **Downtrend** — the staircase flipped: lower peaks and lower valleys. Each rally is weaker, and each dip goes deeper.
- **Sideways (a range)** — price bounces between a rough ceiling and a rough floor, like a ping-pong ball in a box.

Chapter 8 goes deeper into trends and patterns. For now, train your eye on one honest question: **staircase up, staircase down, or ping-pong box?** If you cannot tell, zoom out — a chart that looks like chaos on a 5-minute timeframe often shows a clean trend on the daily. And "I can't tell" is a perfectly good reading. Forcing a trend onto a messy chart is how beginners talk themselves into bad trades.

Four Candle Signals Worth Knowing

Certain candle shapes appear so often that traders gave them names. Each one is a **hint** about who is winning the fight between buyers and sellers.

Doji

A **doji** forms when the open and close are nearly the same price, so the body is almost invisible — the candle looks like a plus sign. It means a tie: buyers and sellers fought all period and ended where they started. After a long run up or down, a doji can hint that the run is tiring out.

Hammer

A **hammer** has a small body near the top and a long bottom wick — at least twice as long as the body. It appears after a fall. The story: sellers pushed price way down, but buyers stormed back and closed it near the top. It looks like a hammer nailing down a bottom, hence the name.

Shooting Star

A **shooting star** is the hammer flipped upside down: small body near the bottom, long top wick. It appears after a rise. Buyers pushed price way up, but sellers dragged it back down by the close.

Engulfing Candle

An **engulfing candle** is a candle whose body completely covers (engulfs) the body of the candle before it. A **bullish engulfing** candle — a green candle swallowing the red one before it — means buyers took over completely. A **bearish engulfing** candle is the reverse: sellers took over. **Bullish** means acting in a way that profits if price rises; **bearish** means the opposite.

> **NOTE**
> These are hints, not guarantees. A hammer does not promise a reversal — it suggests one might be starting, especially if the next candle confirms it by closing higher. Anyone who tells you a candle pattern "always works" is selling you something.

How to Read Any Chart in 5 Steps

When you open a chart, do not just stare at it. Walk this checklist, in order, every time:

1. **Name what you are looking at.** Ticker, timeframe, and how much history is on screen. A 5-day view and a 5-year view of the same stock tell opposite stories.
2. **Check the big shape.** Staircase up, staircase down, or ping-pong box? Say it out loud. If you cannot tell, zoom out.
3. **Find the recent turning points.** Where did price last stop and reverse at the top? At the bottom? Those rough levels matter — Chapter 8 calls them support and resistance.
4. **Read the last few candles.** Big bodies or small? Long wicks? Any of the four signals above? What story did the last three to five candles tell together?
5. **Check volume.** Did the recent moves happen on heavy volume (conviction) or light volume (fragile)? Then stop and think before acting.

Common Beginner Mistakes

- **Reading one candle like it is the whole story.** One candle is one period. Read it in the context of the trend around it.
- **Using a timeframe that does not match the plan.** Checking a 1-minute chart every thirty seconds on a stock you bought for the year is self-torture, not analysis.
- **Ignoring volume.** A move on tiny volume and a move on massive volume are not the same event.
- **Treating candle signals as guarantees.** Hammers fail. Dojis fail. They shift the odds slightly; they never remove risk.
- **Zooming in until the chart agrees with you.** If you have to hunt through six timeframes to find one that supports your idea, the chart is telling you something.

Chapter Summary

- A chart is a picture of price over time — the heart monitor of a stock.
- Line charts connect closing prices; bar and candlestick charts both show open, high, low, and close.
- One candle has a body (open to close) and wicks (out to the high and low). Green means the close beat the open; red means it didn't.
- Timeframe is how much time one candle covers. Match it to your plan: minutes for day traders, days for swing traders, weeks and months for investors.
- Volume counts shares traded and shows how much conviction a move has.
- Price does three basic things: trends up (higher peaks and valleys), trends down (lower peaks and valleys), or moves sideways in a range.
- Doji, hammer, shooting star, and engulfing candles hint at the buyer-seller balance — hints, never guarantees.
- Read every chart the same way: name it, find the shape, find the turning points, read the last candles, check volume.

Check Yourself

1. A candle opens at $30, reaches a high of $33, a low of $29, and closes at $31. What are the body and the two wicks, and is the candle green or red?
2. What is the only thing a red candle actually tells you?
3. You bought a stock planning to hold it for a year. Which timeframes matter most to you, and which one should you mostly ignore?
4. Two stocks both rise 4% today. Stock A's volume is triple its average; Stock B's volume is half its average. Which move has more conviction behind it, and why?
5. A hammer candle appears. What story does its shape tell, and why should you not buy on it blindly?

Answers: 1) The body runs from $30 to $31 ($1). The top wick runs from $31 to $33 ($2); the bottom wick from $30 down to $29 ($1). It is green — the close ($31) is above the open ($30). 2) Only that price closed below where it opened for that candle's period — nothing about yesterday or the day overall. 3) The daily, weekly, and monthly charts match a one-year plan; 1-minute and 5-minute charts are noise for you. 4) Stock A. Heavy volume means many participants drove the move; Stock B's move had thin participation and is more fragile. 5) Sellers pushed price far down, but buyers fought back and closed it near the top — a hint a fall may be tiring. It is only a hint; hammers fail regularly, so traders wait for confirmation and always manage risk.

> **RULE**
> Read the chart in the same five steps, in the same order, every time. A routine you trust beats a feeling you don't — especially when money is on the line.