Candlestick Patterns in a Bear Market

As we entered into 2008 with the worst start to a trading year in history, traders still remained conflicted as to whether or not we were entering into a bear market. Last week, the numbers of our economic situation became clear, as we experienced a second month of lowered GDP growth – meaning we are one month away from being in an "official" economic recession.

With that said, a bear market may certainly be on the horizon – and many charts on traders' screens in America are showing bearish patterns. Utilizing candlestick charts can provide you with a dynamic alternative to bar charts. There are several common bearish candlestick patterns that have either emerged – or are on the verge of emerging – in our current market:

• Evening star – The evening star is easy to identify in a bearish market. Upon opening, the candle pattern occurs below the previous session's small real body, which may be either green or red. In addition, in comparison to two trading sessions prior, the evening star will close deeply into the real body. The evening star symbolizes the loss of investor confidence, and with another session in the red, the pattern is confirmed.

• Engulfing pattern – The engulfing pattern turns into an uptrend during a bear market. The red, real body becomes elongated, engulfing the green, smaller real body.

• Harami – Spotting a harami in a bear market is easy. The small red real body will be completely encompassed by the previous trading session's real body. With this signal, you must watch the pattern closely. In a bear market, the harami indicates that the current uptrend is coming to an end – especially if there is low volume.

• Harami Cross – During a bear market, the harami cross involves a harami pattern – however, the doji will replace the small real body in the next trading day. The doji that appears will be contained within the previous session's real body. Similar to the standard harami, the trend is initially visible, but the volume will flat line during the trading session – closing at the same price as opening.

Candlestick patterns contribute an additional dimension to the standard bar charts, and interestingly, reading candlestick charts has prevailed through hundreds of years – starting with the Japanese rice speculators. When you are entering into a bear market, candlestick charts can detect the potential reversals, bottoms, and ceilings – giving you a technical edge in a turbulent market.

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About the Author

About the Author: Leroy Rushing is an active, professional day trader; trading coach; and eBook author. He is the Founder and CEO of Trading EveryDay, a distinguished provider of educational trading products and services that are available worldwide.