PCF's for TC2000 and TCNet Users

3 MAJOR SIGNALS

The Hanging Man

The Inverted Hammer

The Piercing Pattern

The Dark Cloud

A Candlestick Forum publication – Years of Candlestick Analysis made available in concise formats. Information that when learned and understood will revolutionize and discipline your investment thinking.

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PCF's for Major Signals

PCF's For Individual Candlestick Signals

The PCF's of Candlestick signals are excellent search parameters for high profit trades. Knowing how a Candlestick signal is formed, using a formula, enhances the knowledge of the physical structure of the signal. Searches requiring the appearance of specific signals can be pinpointed using the program. The TC2000 search software provides instantaneous results.

Once the proper formula is entered into TC2000's search program, an investor will greatly reduce the time required to search for specific trades. As a matter of fact, the investor will usually have more high profit potential trades than they will need for any given period. This creates a whole new dynamic when ready to commit funds to the market. An investor can fine-tune as many confirming indicators against a number of trade potentials to zero in on the best possible trade. This is completely opposite to investment management of approximately a decade ago. Instead of investment situations having to been sought out with an extensive amount of elbow grease, the supply is such that the opportunities can be honed.

This book will be directed towards some of the most influential signals. The Hanging Man and the Inverted Hammer. The Piercing pattern, having the not as pronounced change in investor sentiment as the Bullish Engulfing patterns, both having clear and powerful change of trend characteristics. And finally the Dark Cloud Cover, a derivation of the Bearish Engulfing pattern.

Keep in mind, the utilization of individual searches is not the most effective or efficient method for finding the best trades on a daily basis. The book titled “Using TC2000 to Find the Best Candlestick Trades” has a better process for getting to the most profitable trades in a hurry. It is the opinion of the Candlestick Forum staff that the search process from this book is the most effective. However, when a specific pattern is required, for whatever reason, knowing how to design the search criteria acts as an immense advantage. And in keeping with the underlying philosophy of Candlestick analysis, to impose upon any investor to use an investment process is exactly the opposite of what is intended. As illustrated by decades upon decades of “common” investment truisms conveyed by the Wallstreet crowd has led to many years of unimpressive returns. But it has made the Wallstreet community billions of dollars.

You are going to find that each signal is extremely easy to formulate. You will also find that the formulas follow a “commonsense” approach. To refresh your memory, the full description of each signal will be re-presented in this book. Along with the description will be the formulas for searching for each signal.

Create Your Own Destiny

This book will consist of four separate signals. This is to allow investors to add more criteria to searches. The Candlestick Forum will suggest parameters to make the search productive. Fortunately we are in an age of computer technology that provides new information and software capabilities as we write this. This means that you, having the basics of a signal formula, have the opportunity to assemble combinations of criteria. Your testing of criteria, based upon logical assumptions, may have the potential to produce high percentage trade results.

The Japanese rice traders experienced results that made them wealthy beyond all common expectations. Their wealth, created from the statistical results of observing high probability reversal signals, became legendary. This was accomplished without the use of any sophisticated calculating equipment, just simple graphic charts. You have the advantage, once learning the basic formulas, for developing successful signals to further enhance those results. The capabilities of today’s computing systems and the continuous improvements being made on almost a daily basis gives anybody the opportunity to devise a combination of viable criteria that produces an extraordinary set of results.

Simply put, the formulas that you will be able to load onto your TCNet or TC2000 software programs will appear very simple. What you are able to do to the results after you have the basics could be a major revelation for producing unheard of returns. Try everything.

HANGING MAN

Paper Umbrella (Karakasa)

HANGING MAN

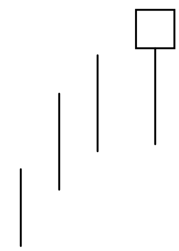


Figure 1

Description

The Hanging Man is also comprised of one candle. It is easily identified by the presence of a small body with a shadow at least two times greater than the body. It is found at the top of an up trend. The Japanese named this pattern because it looks like a head with the feet dangling down.

Criteria

1. The upper shadow should be at least two times the length of the body.

2. The real body is at the upper end of the trading range. The color of the body is not important although a black body should have slightly more bearish implications.

3. There should be no upper shadow or a very small upper shadow.

4. The following day needs to confirm the Hanging Man signal with a black candle or better yet, a gap down with a lower close.

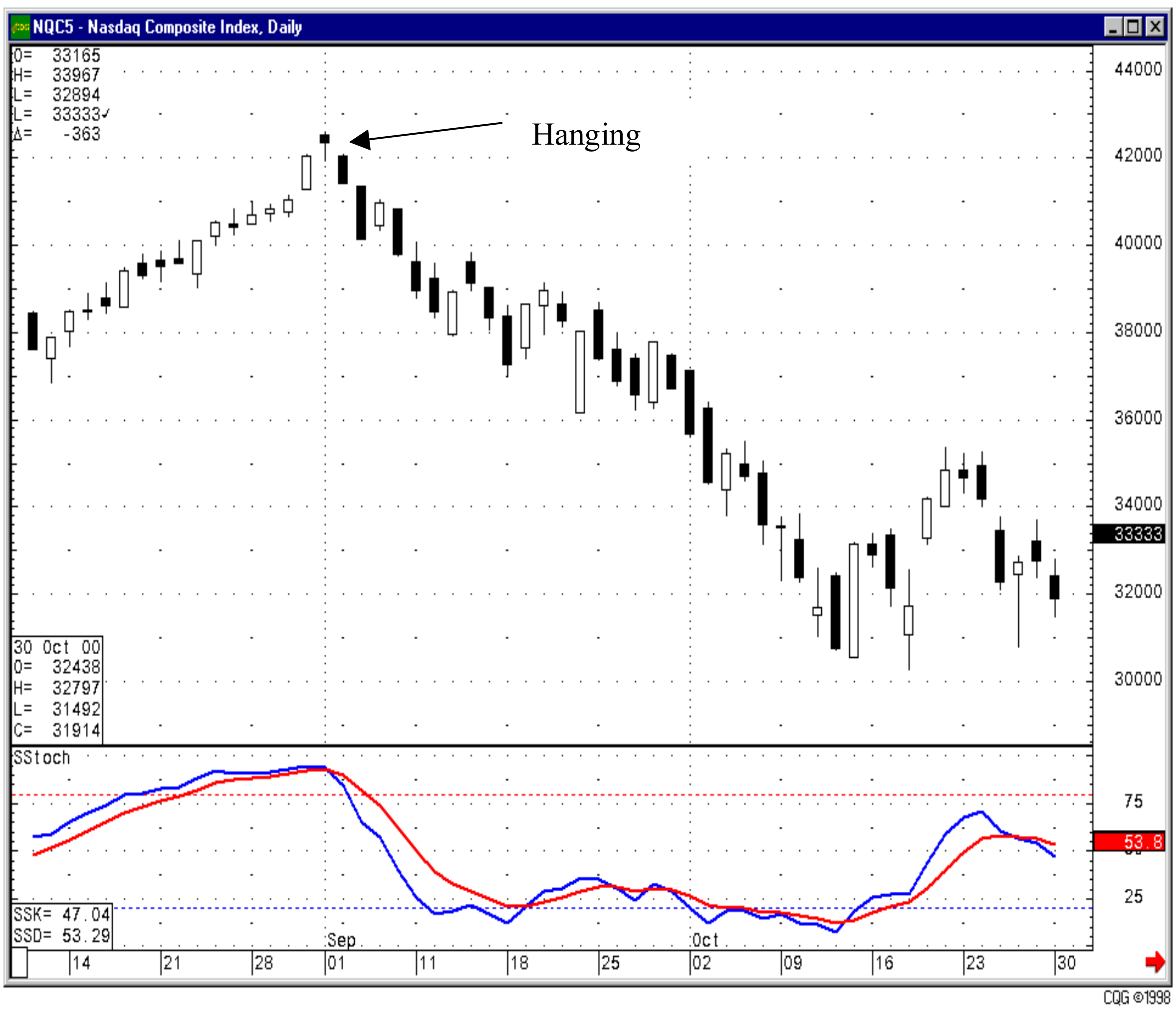
Signal Enhancements

1. The longer the lower shadow, the higher the potential of a reversal occurring.
2. A gap up from the previous days close sets up for a stronger reversal move provided the day after the Hanging Man signal trades lower.
3. Large volume on the signal day increases the chances that a blowoff day has occurred although it is not a necessity.

Pattern Psychology

After a strong up-trend has been in effect, the atmosphere is bullish. The price opens higher but starts to move lower. The bears take control. But before the end of the day, the bulls step in and take the price back up to the higher end of the trading range, creating a small body for the day. This could indicate that the bulls still have control if analyzing a Western bar chart. However, the long lower shadow represents that sellers had started stepping in at these levels. Even though the bulls may have been able to keep the price positive by the end of the day, the evidence of the selling was apparent. A lower open or a black candle the next day reinforces the fact that selling is going on.

Figure 2



The Hanging Man is one of the two signals where logic does not seem to follow the development of the signal. Review the set up for the Hanging Man signal. The trend has been moving up for a sustained period of time. The price gaps up a little at the top. Everybody is still bullish. However, the price sells off during the day. But before the close, the buyers step back in and close the price slightly below or even above where it opened that day. First impression, some profit taking but the buyers stepped back in again before the close. This would appear to be bullish.

In fact, the Japanese point out that the sellers were around in this area. They may have had a scare put into them when the price got weak during the day. This signal alerts the candlestick investor that some weakness is now showing up in the trend. If it opens positive the next day, use last nights close as a stop. If it opens lower the next day, start liquidating immediately. The lower open reveals that the sellers are starting to take over.

A gap down after the Hanging Man signal shows that the selling has started with a good amount of vigor. Liquidate immediately (See our e-book "Candlestick Signals and Gaps, Big Profit Patterns") it is a good foreteller of a strong pullback starting. Before the open the next day, look for the positions that show an downward moves in the bid and ask. That is the position to sell aggressively. (See our Ebook " Profitable Candlestick Entry and Exit Strategies") The information about what to look for when establishing or closing a trade can increase your portfolio substantially by identifying the strong movers from the weak movers.

There will be nothing to stop your research, using TC2000 or TCNET, to expand upon criteria that can fine tune the search. The Candlestick Forum is currently backtesting the results of many criteria combinations to better identify which combinations of parameters produces the highest probabilities of being correct and producing the strongest profit moves.

Formula

As described in the previous PCF books, the formulas should include sorting out the stocks that you do not care to trade and that have enough volume as tio not get you caught in lack of liquidity.

Stocks trading at $5.00 or greater C > 5

Volume more than 200,000 shares per day V > 2000

And to make the search more pure, you want to see this signal occur when the price was considered overbought

Stochastics are greater than 80

The Hanging Man, by description is a formation that opens above the high of an uptrend. It proceeds to sell off to lower levels during the trading day. Before the end of the day, the price comes back up to the high end of the trading range, either above or below the open price that day. As seen in the Hammer, the lower shadow should be at least two times longer than the body. The formula for this configuration is as follows:

(((H-L)>4*(O-C))AND((C-L)/(.001+H-L)>=0.75)AND((O-L)/(.oo1+H-L)>=0.75))

INVERTED HAMMERS

INVERTED HAMMERS
(Tohba)

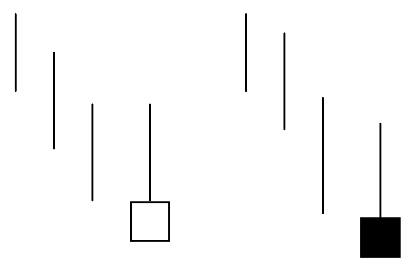


Figure 3

Description

The Inverted Hammer is comprised of one candle. It is easily identified by the presence of a small body with a shadow at least two times greater than the body. Found at the bottom of a downtrend, this shows evidence that the bulls started to step in, but that the selling was still going on. The color of the small body is not important but a white candle has slightly more bullish implications than the black body. A positive day is required the following day to confirm this signal.

Criteria

1. The upper shadow should be at least two times the length of the body.

2. The real body is at the lower end of the trading range. The color of the body is not important although a white body should have slightly more bullish implications

3. There should be no lower shadow or a very small lower shadow.

4. The following day needs to confirm the Inverted Hammer signal with a strong bullish day.

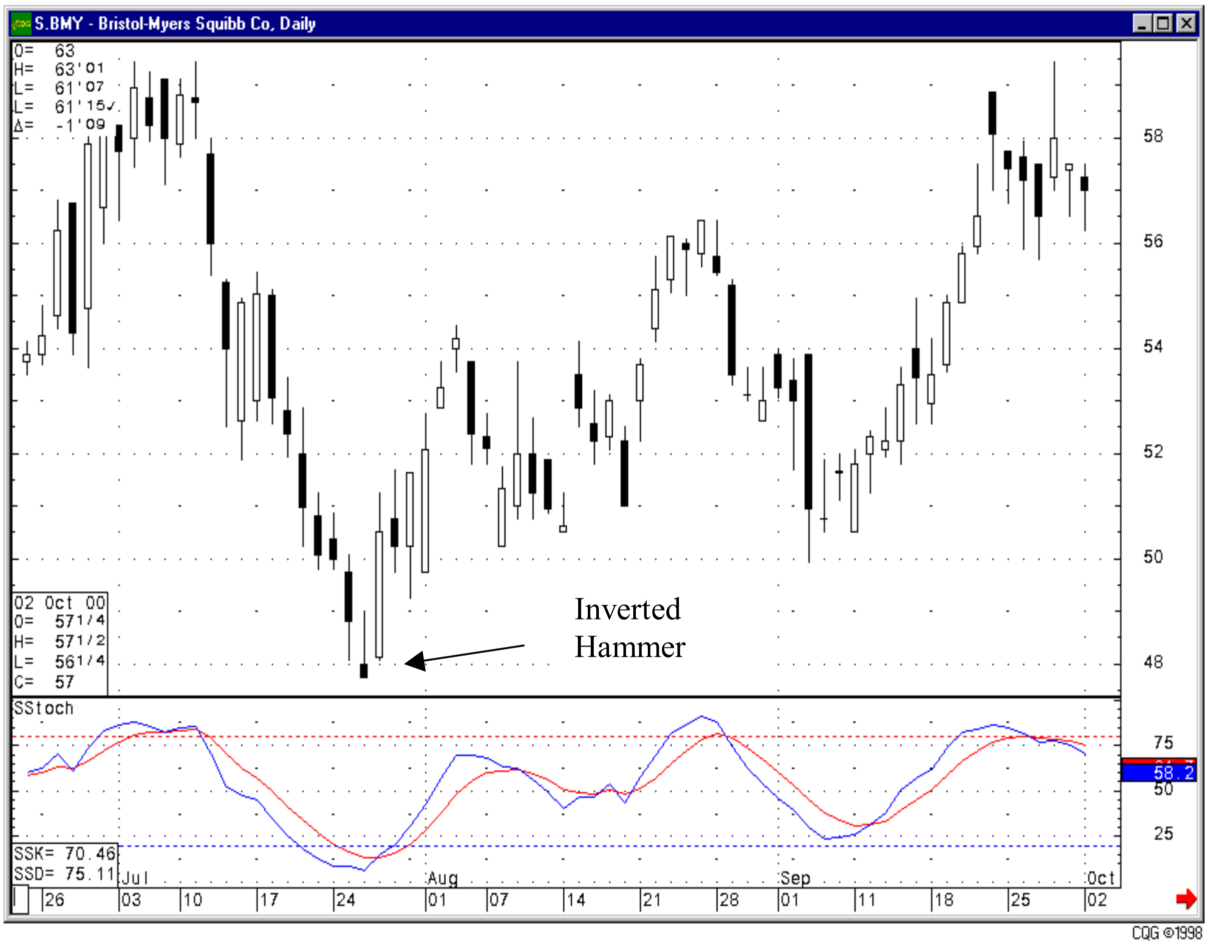
Signal Enhancements

1. The longer the upper shadow, the higher the potential of a reversal occurring.
2. A gap down from the previous day's close sets up for a stronger reversal move provided:
3. The day after the hammer signal opens lower.
4. Large volume on the Reverse Hammer day increases the chances that a blowoff day has occurred.

Pattern Psychology

After a downtrend has been in effect, the atmosphere is very bearish. The price opens and starts to trade higher. The bulls have stepped in. But they can't maintain the strength. The existing sellers knock the price back down to the lower end of the trading range. The bears are still in control. This is an unusual signal. It has the aspects of being a bearish signal. But the next day, the bulls step in and take the price move back up without major resistance from the bears. They had shot their wad during the previous days selling. If the price maintains strength after the Inverted Hammer day, that confirms the signal.

Figure 4



The other Candlestick pattern that does not follow obvious logic id the Inverted Hammer signal. The Inverted Hammer is found at the bottom of a long downtrend. It usually appears as a slight gap down open. Then the buying starts in, moving the price up into the previous day's candle. However, before the end of the day, the price retreats back down to where the body is a small body at the lower end of the daily trading range.

The small criteria applies to this formation as in the Hammer and the HangMan formations, the upper shadow should be at least two times greater than the body. It does not matter whether the body is black or white. But a white body is more bullish than the black body in this case.

The logic would seem that the downtrend should continue. The bulls tried to finally step in and move prices higher but by the end of the day, the sellers took back over. Again, this is a case where the bears had been feeling confident but the fact that the prices were higher that day may now have them questioning? If prices open higher the next day, that would indicate that the bulls were taking control. Upon seeing a second day of buying, the sellers should step back, letting the price move higher.

The searches, if being the same as the previous searches, would have the stock prices greater than $5.00 per share and the volume greater than 200,000 shares a day for liquidity sake. This is an instance where you want to see prices in the oversold area. The formula for an Inverted Hammer is as follows:

((H-L)>3*(O-C))AND(H-C)/(.001+H-L)>0.6)AND((H-O)/(.001+H-L)>.0.6))

PIERCING PATTERN

(Kirikomi)

PIERCING PATTERN

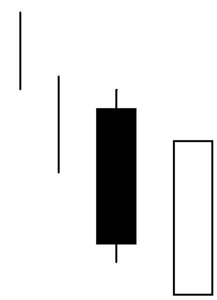


Figure 5

Description

The Piercing Pattern is composed of a two candle formation in a down-trending market. The first candle is black, a continuation of the existing trend. The second candle is formed by opening below the low of the previous day. It closes more than midway up the black candle, near or at the high for the day

Criteria

1. The body of the first candle is black, the body of the second candle is white.

2. The downtrend has been evident for a good period. A long black candle occurs at the end of the trend.

3. The second day opens lower than the trading of the prior day.

4. The white candle closes more than half-way up the black candle.

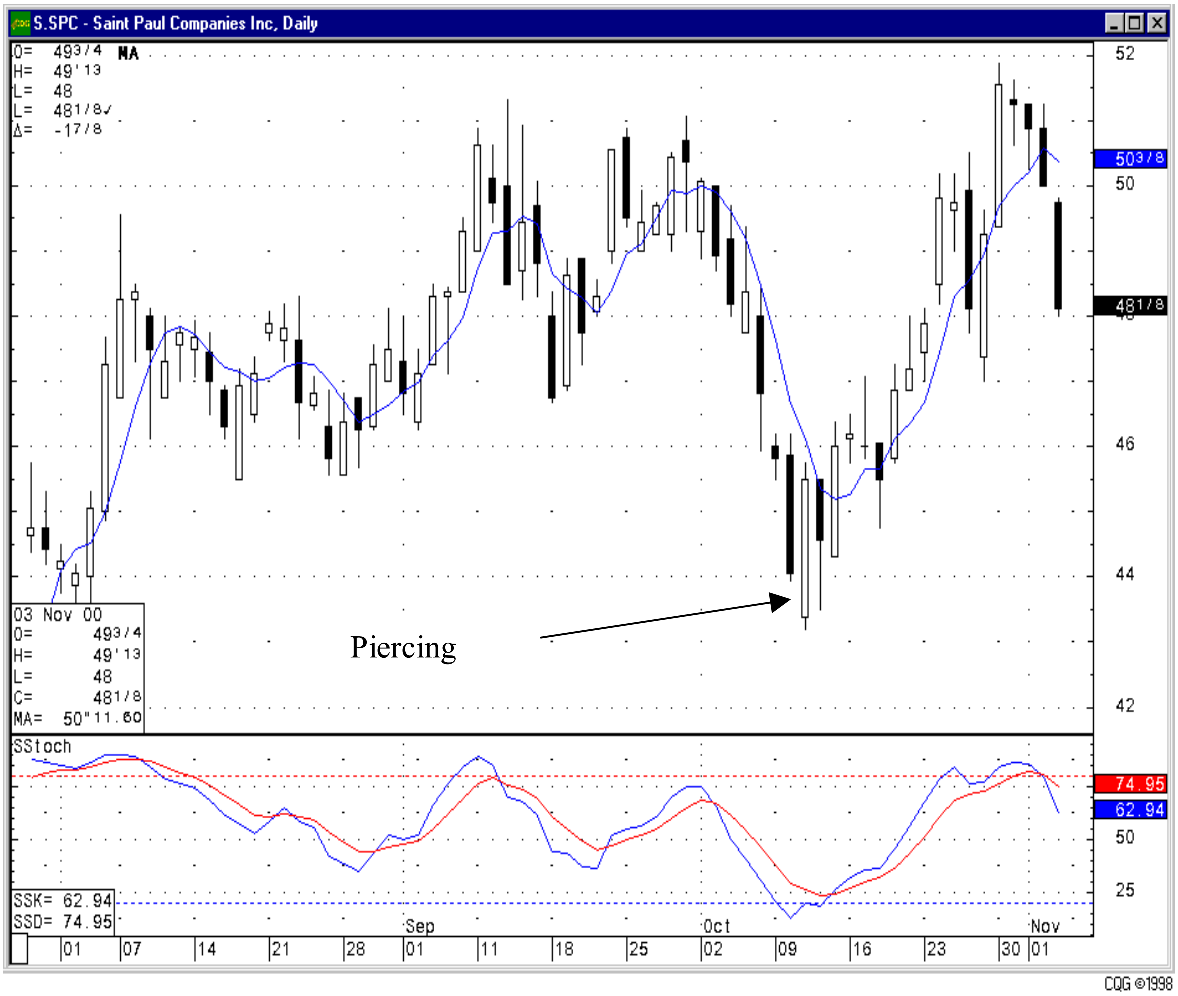
Signal Enhancements

1. The longer the black candle and the white candle, the more forceful the reversal.
2. A greater the gap down from the previous days close, the more pronounced the reversal.
   The higher the white candle closes into the black candle, the stronger the reversal.
4. Large volume during these two trading days is a significant confirmation.

Pattern Psychology

After a strong down-trend has been in effect, the atmosphere is bearish. Fear becomes more predominant. The prices gap down. The bears may even push the prices down further. But before the end of the day, the bulls step in and dramatically turn prices around. They finish near the high of the day. The move has almost negated the price decline of the previous day. This now has the bears concerned. More buying the next day will confirm the move.

Figure 6



The formula for the Piercing pattern is similar to that of the Bullish Engulfing pattern. The piercing pattern does not have the degree of strength as the Bullish Engulfing pattern because the close does not come above the previous day's close. However, the strength of the Piercing pattern can be derived from the magnitude of the gap down on the open. The further the below the open of the range of the previous day, the more strength the new up trend will have as it closes in the upper half of the previous days candle body.

The formula for the Piercing Pattern is:
((C1<O1)AND(((O1+C1)/2)<C)AND(O<C)AND(O<C1)AND(C<O1)AND((C-O)/(.001+(H-L))>0.6))

DARK CLOUD COVER

(Kabuse)

DARK CLOUD COVER

Figure 7

Description

The Dark Cloud Cover is the bearish counterpart to the Piercing pattern. The first day of the pattern is a long white candle at the top end of a trend. The second day's open is higher that the high of the previous day. It closes at least one-half way down the previous day candle, the further down the white candle, the more convincing the reversal. Remember that a close at or below the previous day's open turns this pattern into a Bearish Engulfing pattern. Kabuse means to get covered or to hang over.

Criteria

1. The body of the first candle is white, the body of the second candle is black.

2. The up-trend has been evident for a good period. A long white candle occurs at the top of the trend.

3 The second day opens higher than the trading of the prior day.

4. The black candle closes more than half-way down the white candle.

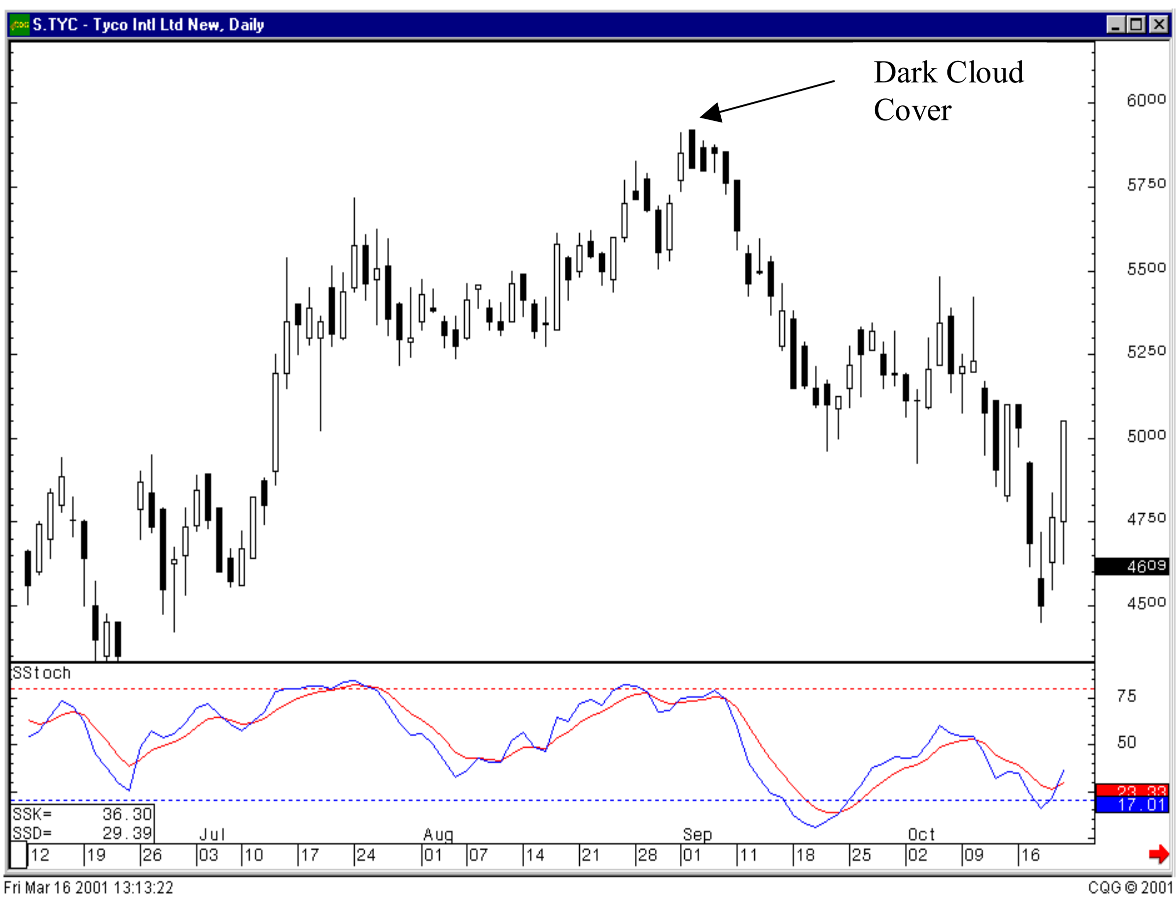
Signal Enhancements

1. The longer the white candle and the black candle, the more forceful the reversal.
2. A higher the gap up from the previous days close, the more pronounced the reversal.
3. The lower the black candle closes into the white candle, the stronger the reversal.
4. Large volume during these two trading days is a significant confirmation

Pattern Psychology

After a strong up-trend has been in effect, the atmosphere is bullish. Exuberance sets in. They gap the price up. The bears start to show up and push the price back down. It finally closes at or near the lows for the day. The close has negated most of the previous days gains. The bulls are now concerned. They obviously see that the uptrend may have stopped. This signal makes for a good short, with a stop being the high of the black candle day. Notice that if the Dark Cloud Cover were to close lower, below the open of the previous day, it becomes a Bearish Engulfing pattern. The Bearish Engulfing pattern has slightly stronger bearish implications.

Figure 8



The dark Cloud Cover is the bearish Engulfing pattern as the Piercing line is to the Bullish Engulfing pattern. The Dark Cloud Cover is at the top of an extended uptrend. The price gaps up above any of the previous day's trading range. It closes more than one half way down the usually long white candle of the day before. This creates an ominous dark cloud over the future of the uptrend, thus the name. Again, the higher the gap up and pulling back into the previous white body, the more convincing will be the force of the downtrend

The formula for the dark cloud cover runs opposite that of the Piercing pattern.

((C1>O1)AND(((C1+O1)/2)>CAND(O>C)AND(O>C1)AND(C>O1)AND((O-C)/(.001+(H-L))> 0.6))

Conclusion

As we wrote in our previous PCF book on the Doji, Kicker, and Engulfing patterns, knowing what the formulas are for each signal is an added aspect for remembering what they look like. Combining the physical make up of the signals with the investment sentiment behind the formation of the signals provides a vivid image of what went into the make up of each signal. The TC2000 software provides the opportunity to discover new and unfound search combinations that have not been attempted before. Use the program. You have the same potential for testing theories as the most sophisticated professionals on Wallstreet. Find something new. You have an excellent start. The formulas put before you are the result of hundreds of years of statistical analysis.
You can find excellent trades as well as anybody can. Take the next step. Use your logic to cultivate a series of search programs that produce high probability trades. You have a multitude of research parameters at your finger-tips. You could find the next close to perfect trades. Put the probabilities on your side.

The added benefit of being in a group of investors, all concentrating on the elements involved with Candlestick analysis, is the synergy created by more people looking at the usage of the same information. The Candlestick Forum can boast of over fifteen years of expertise in the Candlestick method. This expertise can educate many investors that never had the correct exposure to the signals.

The formulas in this book is the basics required to do signal searches through the total universe of stocks. They will find the trades that create a high probability of correct trades. This phenomenon created by hundreds of years of observance by successful rice traders. They contributed all the input they had available to develop a high probability set of parameters to cultivate successful trades, sifting out the less desirable trade set ups. This all being done without the aide of computers.

It has been and is consistently being brought to our attention that the information that the Candletick Forum distributes could be bringing in much higher prices than what we are charging. We realize that. But the big money is not anticipated coming from information charges. The information that is going out inexpensively and/or free to members has a much greater potential return.

For the past decade, Mr. Bigalow has studied Candlesticks. He has been totally convinced that what has existed though the centuries has great statistical value for producing above average returns from the markets. Yet his view of Candlesticks is that it is a framework of investment concept that still has the majority of its tremendous potential ahead of it. His analogy is that Candlesticks today is equivalent to Henry Ford setting a motor on a buggy frame. The concept is better than anything out there on the market.

Now comes the era that can rapidly turn that motorized buggy into a speedster with all the accessories. Mr. Bigalow's own research and investment strategy developments has made Candlestick trading a very successful and consistent trading program. His purpose for developing a consortium for teaching and assembling knowledge about the candlestick method is impressive. His improvements and creative endeavors are going to be limited by his scope of knowledge.

Being a member of the Candlestick Forum not only receives the benefit of learning the correct usage of the candlestick method, it also acts as a source of information that each member can draw upon to allow them to add their knowledge of specific investment elements that might increase the percent probabilities of producing correct trades even further. As in the motorized buggy analogy, the buggy is running. If everybody drove one home and started making improvements on it, with all the new technology that is being made available everyday on our computer systems, it a few years, each person may have a slightly better motorized buggy.

However, if everybody came to the shop each day and worked on the buggy, (The Candlestick Forum) the cumulative knowledge of everybody working on improvements will have the advantage of many pockets of knowledge synergistically working on the same improvements. This is the essence of the Candlestick Forum.

Japanese candlesticks are still in their infancy in the U.S. investment area. The People that have been joining the Candlestick Forum area people that are not happy with the returns or investment philosophies that are making Wallstreet wealthy and investors moderate returns at best.

The information made available to investors is not being kept secret. Use it and apply your investment concepts to it. If you find something that appears to improve returns, let the Candlestick Forum know. Your information may be viable or it may not. But having that information disseminated to the rest of the members may stimulate somebody else's mental proficiency and the combination of idea's could improve the probabilities of producing a correct trade by a percentage or two. For every trade statistic that is improved by the least percentage improvement reduces the possibilities of being in a bad trade.

Use these formulas to do your searches. You will find very profitable trades.