

“How To Use TC2000 To Find The Best Candlestick Trades”

**The Inside Secrets of a Professional Investor – Developed Over
a 15-Year Time Period to Achieve At Least a 10% Return Per
Month in Common Stocks**

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.

TC2000 – The Perfect Search Program

In staying with one of the basic concepts of the Candlestick analysis method, the statement, “Observe the obvious” will be repeated many times over. If something is successful, it got that way because of the results it produced. The same can be said for the TC2000 software program. It has gotten to be one of the world’s leading computer software search programs due to its results. The Worden Brothers have put together an easy-to-use program that works extremely fast and without bogging down your computer’s operating system.

To state simply, TC2000 has established itself as a leading participant in the stock search area due to its results. Having the ability to customize stock searches has become very important in the last decade. Technical analysis, mainly statistical analysis, until recently has been the property of large investment firms. Huge computers were required to test patterns and proposed theorems. The improvements in computer strength and memory have made statistical testing available to the common man.

Computer programming has improved dramatically over the past decade. Not only is the strength in smaller computers been expanded by huge percentages greater than a few years ago, the software to make formulas understood by the computer has immensely improved. Testing new theorems is now as easy as typing in a few easy formulas. TC2000 has excelled in this area.

This information so far is probably just “preaching to the choir”. It is assumed that if you are reading these pages, you are already a subscriber to the TC2000 software service. Through the years of developing highly successful trading programs, whether for institutional or individual investors, it has been found that TC2000 fits the vast majority of requirements that can successfully utilize the Candlestick concept.

Today, investment strategies are not solely the property of large investment firms. The average investor has every capability to discover the best trading formulas as the largest institution. The following programs were developed for making the best use of Candlestick signals. They work very well. However, that does not restrict the possibility that on some cold winter night, as you are toying around with other investment concepts, you could inadvertently add a new parameter or combination of indicators that would suddenly produce phenomenal results.

As you read this, you may come across commentary that you have seen before, either in “Profitable Candlestick Trading” or in other of our published e-books. Please plow through it. A good amount of the basic concepts of Candlestick analysis is required as a prelude to the different topics that we explain in detail. It does not hurt to be refreshed on some of the basics of Candlesticks. Most of the knowledge conveyed from this methodology is common sense incorporated into graphic signals. The functional operative of this statement is “common sense.” If we always remembered the common sense things to do when it comes to our investment dollars, we wouldn’t need to be reading this. We would always buy at the bottom and sell at the top.

Unfortunately that does not happen. Our downfall is human emotion. That will never leave us. So, the next best thing to do is to develop an investment program that puts the probabilities so far in our favor, emotion does not come into play.

Candlesticks – Finding the Perfect Trade

Understanding the significance of the signals can be summarized in one statement. THE SIGNALS ARE CREATED BY THE CUMULATIVE KNOWLEDGE OF ALL THE INVESTORS PARTICIPATING IN THAT MARKET/STOCK DURING THAT TIME PERIOD. [If you don't remember anything else about Candlesticks, remember this statement.](#) Stated another way, the movement of a market and/or stock is directly influenced by the total knowledge of all investors of what is happening in that market index, industry, company politics, world affairs and/or the price of tulip bulbs. Everybody who acted in that market in that time-frame, did so based upon the information they had access to. That is the reason the Candlestick signals are extremely informative. They reveal information not always available to the common investor.

The Signal "IS" The Culmination of all Active Investor Knowledge During a Time Period.

Understanding the ramifications of the above statement produces invaluable insight. A stock having a strong buy signal appearing on a day that the market index, the one most closely associated to that stock, is crashing has significant ramifications. Investors were buying that stock despite the fact that the market index was declining or a stock crashing in a strong up day in the market. That indicates that other factors influenced investors to get into that stock that day. Again, that signal was created with the cumulative knowledge of all the buyers and sellers that day, of which part of that knowledge included knowing the direction of the index. TC2000 software simplifies the process for extracting the information we are looking for. It will pinpoint where the buying and selling is occurring, showing the contrasting as well as the confirming positions.

Computer Searches Help Confirm Market Direction

The first logical step for maximizing the probabilities in our favor is knowing which direction the markets are moving in general. It is so often heard from the “investment experts” that you cannot time the market. The U.S. investment public has been indoctrinated with this propaganda for decades. And for decades it was probably true for many investment professionals. However, that line of rationale is the excuse for the lazy or the uneducated money professional.

If you can't time the market, those people that believe that have to think Warren Buffet and George Soros as just plain lucky. They have outperformed the market for the

majority of their careers. Luck? No. They have been successful at timing the markets and specific sectors in the markets.

“The best way to make large profits in the market is to buy the best companies in an industry and hold it through the good and bad times.” This is often-heard advice from a vast majority of the professional advisors. Amazon.com was the leading company in its segment of the industry in March, 2000. Cisco Systems was one of the leaders in its industry in March, 2000. Priceline, Enron, AT&T, were all leaders in their industries. Would you want to have been a big buyer of these stocks two years ago? Has Warren Buffet just been lucky all these years?

The people that believe that you cannot time the market don't know HOW to time the market or they do not have the TOOLS to time the market. Maybe that is why the professionals who say the market cannot be timed always seem to be older. They did not have the tools when they were early in their investment careers to take advantage of the oscillations in the market. They may also be the generation that does not want to learn how to use a computer. It is understandable that the belief the market cannot be timed has and still does exist. To be able to project what might happen in the future has to have a lot of historical data to develop criteria for events to happen in the future. Until very recently, within the past ten years, historical market data was hard to come by. Today, it is readily available.

However, there was one well documented investment method that had been assembled over hundreds of years of observing data. Japanese Candlesticks. Candlestick analysis completely dispels the notion that the markets cannot be timed. It has been used effectively for hundreds of years for identifying trend reversals, thus timing markets.

All the indexes, the DOW, Nasdaq, and S&P can be analyzed by Candlestick analysis. Having that ability is a major factor for finding the perfect trades. Analyzing the status of the market indexes is the first step towards maximizing profits. This is a very simple task. The same parameters that would be applied to individual stocks can be applied to the indexes. Where is each index at this point in time? What is the status of the stochastics? Where is the M.A.C.D. in relation to the central line?

Having the ability to analyze the direction of the market indexes is the first method of determining which direction the indexes are heading. The TC2000 search software provides another simple and logical means for determining the general market direction.

The TC2000 software program can scan the entire universe of stocks (Dow, Nasdaq, S&P), approximately 10,000 possibilities, almost instantly. It can be programmed to scan for your personal parameters, signals that you can customize, as well as providing dozens of technical indicator searches that are built into the program. For the price of a good dinner for two each month, TC2000 can save you hours upon hours of time.

These searches provide two important functions. The first being the identification of the best possible Candlestick potential trades. Secondly, it produces valuable information on

where investment funds are being placed. Distinguishing where investment funds are flowing to and from furnishes the investor with extremely profitable opportunities. The parameters of a search can be developed to identify the best potential long positions and the best potential short positions. The results can project and/or confirm what has been identified by viewing the index charts. If a search, with equal parameters for both long and short positions, produces more potential situations for one direction versus the other, it can be logically deduced that the market is going to move in that direction. For example, you have developed pre-established parameters for the best potential Candlestick trades. The results of the search, after scanning the universe of stocks, or the universe that you have developed as tradable stocks, produce common sense information. If 400 stocks fall into the category of being overbought and have potential for creating "sell" signals and 100 stocks show to be oversold and have the capability to produce "buy" signals, it becomes obvious that four times as many stocks are ready to turn down. If this information is correlated to a chart that has been in an up trend for a period of time, it should make you wary that the market is about to reverse and head down.

400 Potential Sells

Versus

=

Better probabilities that the
markets are ready to start a
decline

100 Potential Buys

The market trend does not need to be timed perfectly. Just the general trend is what you are looking for. Knowing which direction the trend is moving increases the probabilities of successful trades dramatically.

Logic dictates that a portfolio of stock positions will not perform tremendously well if it is positioned opposite the major market trend. That does not rule out the possibilities of being long stocks that are going up during a down-trending market. The "probabilities" of that happening are much less than the obvious alternative. Use whatever cliché you prefer. "The trend is your friend", "Don't try to swim upstream", why place investment funds into positions that do not provide the highest probabilities of making money? If the charts tell you that the general market trend is down and the "sell" potentials greatly outnumber the "buy" potentials, put the majority of your investment funds into shorting stocks or staying in cash until the next up-trend is identified.

The Candlestick signal is the most important factor in technical analysis. It reveals that buyers were coming in during unfavorable surrounding conditions. The strength reveals that other factors had to be effecting the movement of the stock price. One such possibility can be the "investor consensus" pertaining to a specific industry.

Revisit the example above, where the index signal appeared to indicate a top, and the search produced 400 good “sell” signals and 100 “good” buy signals. Despite the fact that there were four times as many short potentials as there were long potentials, long potentials were still available. Depending upon each individual’s investment plan, specific results of the search will benefit investors with different investment goals. These 100 stock possibilities produce valuable information. For instance, it might reveal that a large percentage of these 100 stocks, showing excellent "buy" signals, are coming from one or two industries. This valuable information can be identified very quickly. These industries should be looked at closely. Something fundamental may have occurred to make a large number of stocks in a particular industry move up while the rest of the market was moving down.

Which Direction is Each Sector Moving?

TC2000 also has the ability to search individual industries. These searches can sort the industry indices from the most overbought to the most oversold. The same visual analysis can be applied to industry indices as they can to individual stocks. Has a candlestick signal been identified? What is the status of the stochastics?

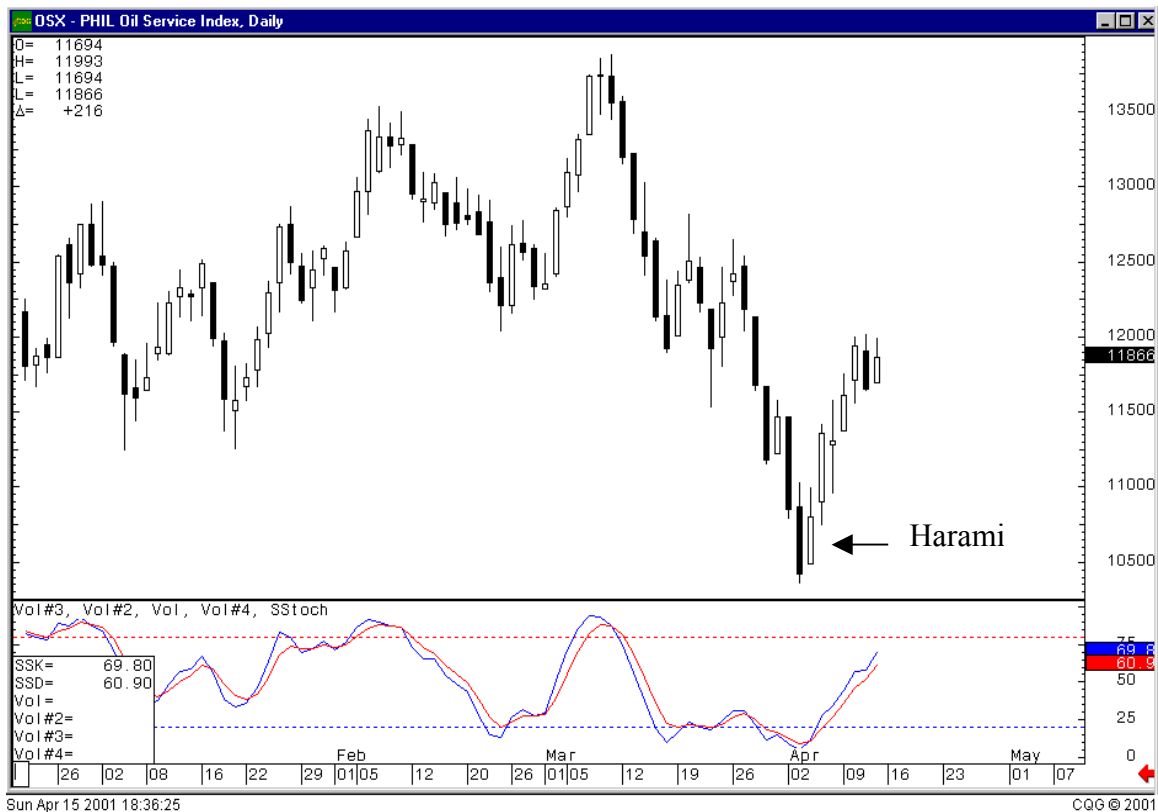


Figure 1.

Note in Figure 1, the OSX, Philadelphia Oil Service Index, a confirmed Harami reveals the start of a rally. If this occurred when the rest of the market was declining, the open of the first day after the Harami signal would make it obviously apparent to the Candlestick analyst that strength was coming into this sector. It may take another day or two for the conventional Western chart analyst to pick up that there had been a reversal in this particular industry.

There is a certain amount of safety in participating in the sector moves. It adds another element of confirmation that money will flow to specific stocks in that sector. Many times a "buy" signal appears in a stock that is in a declining sector. Unless that "buy" signal is the result of a unique situation going on with that particular company, it is usually just a bounce up during a downtrend. Witnessing a strong "buy" signal in a stock in a sector that is showing a number of stocks in that sector getting attention provides a much greater probability that the "buy" signal in that particular stock will have more follow through. The short-term Candlestick trader will be alerted to where the funds are flowing. Even in a down market, "long" trading opportunities can be identified. The short-term trader has something to trade in a down market. The long-term investor may have discovered the beginning of a major up-trend for an industry. If the weekly and the monthly charts of a sector correspond with the daily chart, the long-term investor has identified where to place funds for a long-term hold. The option trader may have found a good option-buying situation. A steadily declining market should have greatly reduced option premiums. Identifying an industry or group of stocks, prior to the majority of the investment community, at the very beginning of an up-move, produces highly profitable opportunities. In a nutshell, when the best probabilities are on the short side of trading, longs can still be found. Of course, the opposite is true. There will be good short opportunities during roaring bull markets.

Back to putting all the probabilities in our favor. Our analysis is that the index, most associated to the stocks that we trade, has an observable trend. Use the following scenario as an example. The markets have all had clear reversal signals. It is time to go long. The TC2000 search produces 500 excellent "buying" opportunities, and only 60 good "sell" opportunities.

The next TC2000 search can be for specific industries. Which industries have had the greatest percentage decline during the previous downtrend? Which industries appear to have the strongest "buy" signals developing? Which industries have the lowest stochastics that are now starting to turn up? These are all parameters that can be applied to a TC2000 search. The results are produced instantly. These results now direct the investor to the highest profit potential groups. For example, the TC2000 search narrows the best potential trades to three industry groups. These industries had the most pronounced declines during the downtrend. They are now showing the strongest buy signals. Within these industries, the field of "great" potentials is narrowed down to 50 positions. From that number, the investor can evaluate which are the four or five best potential trades.

Which Stocks in That Sector Have the Best Upside Potential and the Least Amount of Risk?

The objective of any investment program? Producing the maximum return while minimizing risk. How does Candlestick analysis accomplish this? Back to the basics - common sense! How is the potential field of 50 great prospects narrowed down to three or four?

Let us review. To get to this point, the Candlestick charts visually illustrated the direction of the market. Then an excellent "buy" signal presented itself on the index chart. The TC2000 search program verified the beginning of a new direction with over 500 excellent "long" possibilities, compared to 60 "sell" potentials. A further TC2000 search identified the best potential industry groups. The combination of these groups provided 50 excellent prospects.

What parameters are used to pick the best of these excellent prospects? It can be assumed that each industry index is comprised of a number of these stocks. If the evaluation of the index resulted in recognizing that a "buy" signal had appeared, and the stochastics were in the oversold area and turning up, it can be assumed that the stocks representing that index will have somewhat the same appearance. However, there will be differences in each stock chart. Some did not decline as fast in the down-trending market. Others got extremely oversold. Some may have started to climb a few days ago or a few weeks ago. These stocks now have less upside potential because a portion of their upside has already been expended.

Note in the following charts, the Nasdaq, Figure 2, and SBL, Symbol Technology Inc., Figure 3, that the Nasdaq Index was in the process of bottoming out. Almost at the same exact time, SBL forms a chart that emulates the Nasdaq. Seeing these charts occurring at the same time provides better probabilities that you have caught the move of SBL at the very beginning.



Figure 2.

The evidence produced in the Nasdaq chart should give the Candlestick investor confidence to start purchasing stocks that move in conjunction with the Nasdaq. Because the Nasdaq is in the oversold range, it is more logical to be looking for oversold stocks in the searches. A TC2000 search, looking for stocks that have stochastics below 20 and have had a big percentage change to the upside would have located SBL, Figure 3.

If the same chart patterns are occurring in the sector indexes pertaining to SBL's industry, the Candlestick investor has many of the probabilities lining up in their favor, exactly what should be in place to make for a high probability, high profit trade. The better the parameters align, the better the probability that the trade is being executed at the optimal point. This is important to the day-trader and the option trader who both have time as a factor.

On any given day, a TC2000 search, looking for stocks with stochastics in the oversold area may produce 200 candidates. Putting the biggest percentage mover filter on that list will put the best candidates at the top of the list. Good situations may diminish after the sixth chart. But there should be very viable trades in that small group. At least one or more will have a visible candlestick signal.



Figure 3.

The best picks are derived from finding the stocks that have the best parameters aligned that day. Which stocks have produced a strong "buy" signal today? Or yesterday? Or will be confirmed by the correct opening the next day? Our evaluation is to determine the strongest signal, confirmed by the stochastics being in the optimal status. That does not diminish the potential of the 45 positions that were cultivated out. They are still excellent situations. The evaluation process is to maximize profit potential. Each parameter that fits our evaluation process increases the odds in our favor.

Process One: Putting the Probabilities in your Favor

1. Analyze the direction of the markets in general. Use Candlestick analysis to visually confirm the direction. Follow up with TC2000 searches, overwhelming "buy" signals versus "sell" signals or vice versa should imply which direction the market indexes are heading next.
2. Do a TC2000 scan of the sectors. Which sectors appear to be bottoming and reversing direction? Which sectors are having the greatest up moves?
3. Search stock signals in those sectors that show the best trend reversal signals for individual stocks.

The above process, once acclimated to Candlestick analysis, should take approximately 3 minutes everyday, once the TC2000 search parameters are all put into place.

It is just as easy to reverse this process into a confirming method of finding the best picks. Because the search process is almost instantaneous when using TC2000, finding the best trades involves very simple steps. Analyzing which way the market indexes are heading remains the same. Visual interpretation of the direction of the markets in general should become a very easy process. The established search parameters, once put into place, will spit out the buy and sell signals. Again, the number of buy or sell results should confirm the analysis results of the market direction.

Once the results are found, whether searching all the tradable stocks or specialized lists, it is easy to see which stocks performed the best during a specific time frame. The best search parameter on the TC2000 scan is “Percentage Move Today.” This search parameter illustrates which individual stocks had the best or worst price move that day.

It takes less than a couple of minutes to go through this procedure. After a TC2000 search has been done on all tradable stocks, (formulas for all tradable stocks will be discussed in the following section) filtered with the biggest percentage price change for the day, creates the whole tradable stock list in order of price movement. Assuming that the market indexes finished positive for the day, it can be assumed that gainers will be more numerous than losers. Set the search list on “Descend.” This will put the biggest gainer at the top of the list.

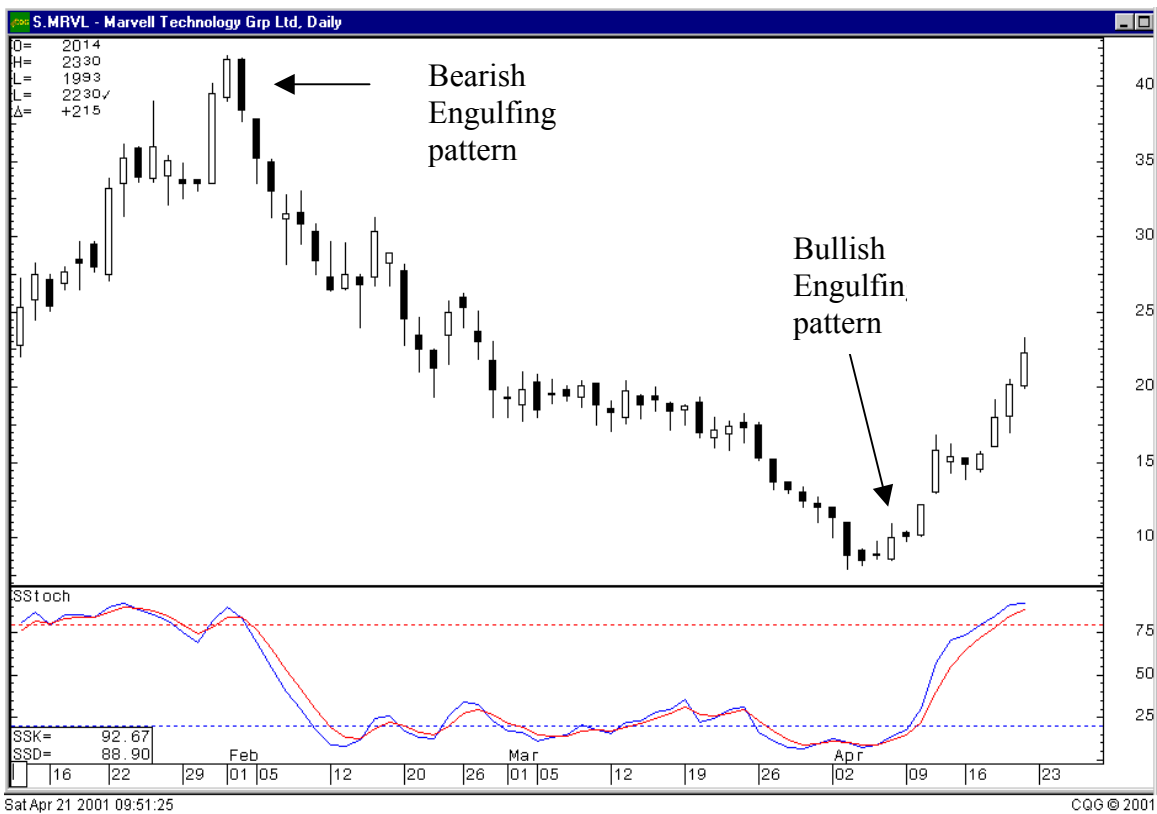
The procedure from that point is very simple. Each press of the space bar moves you to the next chart. You will be able to view each chart in a matter of a few seconds. The first charts will usually have huge moves, which means you can’t do anything with them. But in the first fifty or so charts, a number of chart patterns will have popped out at you as potential Candlestick situations. Do not attempt to analyze each one on the initial search, hit the “f” button. That will flag that stock. Keep pressing the space bar until the price movements do not show significant potential signals anymore. This should occur after you have gone through 60, 70, 80 charts. The number of charts is also a function of how strong the trading day was. There will be many more potential buy situations after the Nasdaq moved up 52 points than there would be if it only moved up 10 points. This procedure, once your eye has become accustomed to seeing potential Candlestick signals, should take from one to five minutes, depending on how long you want to do a quick study of each chart.

After you have flagged the potential stock trades, create a new Watch List. Name it Watch List 5. Move all the flagged stocks to this list. For this example, fifteen positions were put on Watch List 5. This search, as well as the quick run through of the biggest percent gainers, will have provided some instant information. Specific sectors will have stood out by having an inordinate number of stocks showing up in the biggest percentage gainers. Seeing a lot of Oil stocks or Steel stocks or whatever sector stocks in those 60 – 80 charts that day gives you the knowledge that money was coming into those sectors. Now you can go to the index list and see what each one of those sectors look like chart wise. More than likely, they have created a Candlestick “Buy” signal.

From Watch List 5 you can now filter out which signals appear to be the strongest. Again, with the press of the space bar, you can analyze each chart, one right after the other. Seeing a chart formation that looks very attractive, hit the “f” and flag it. At the end of a two minute evaluation period, you may now have 12 positions to move to Watch List 4. Keep doing this process, which takes only minutes until you get to Watch List 1. At that point you may have three positions. These three positions appear to have all the confirming indicators in line. Plus they probably have the added security of being in sectors that money is flowing into.

Use Marvel Technology, Figure 4 as an example. If on February 1, when the Bearish Engulfing pattern appeared, the short term direction of the Nasdaq was overbought and appearing to turn down, at the same time the technology index appeared to be turning down, the Bearish Engulfing pattern has added credence for selling or shorting this stock. Conversely, if the Nasdaq was near a bottom with stochastics turning up and the rest of the sector was showing signs of buyers, the “Buy” signal on April 8, the Bullish Engulfing pattern has more credibility.

Figure 4.



Without the confirmation from the general market direction and the sector moving the same way, a bounce is seen in Figure 5, Fidelity National Financial Corp. Having the right signal, as seen in the Morning Star signal, is not always enough to create a sustained reversal. This could easily be the case of a simple profit taking bounce if the market in general and the financial sector are still showing declines. Having the ability to pull the evaluations off of TC2000 increases profit probabilities immensely.

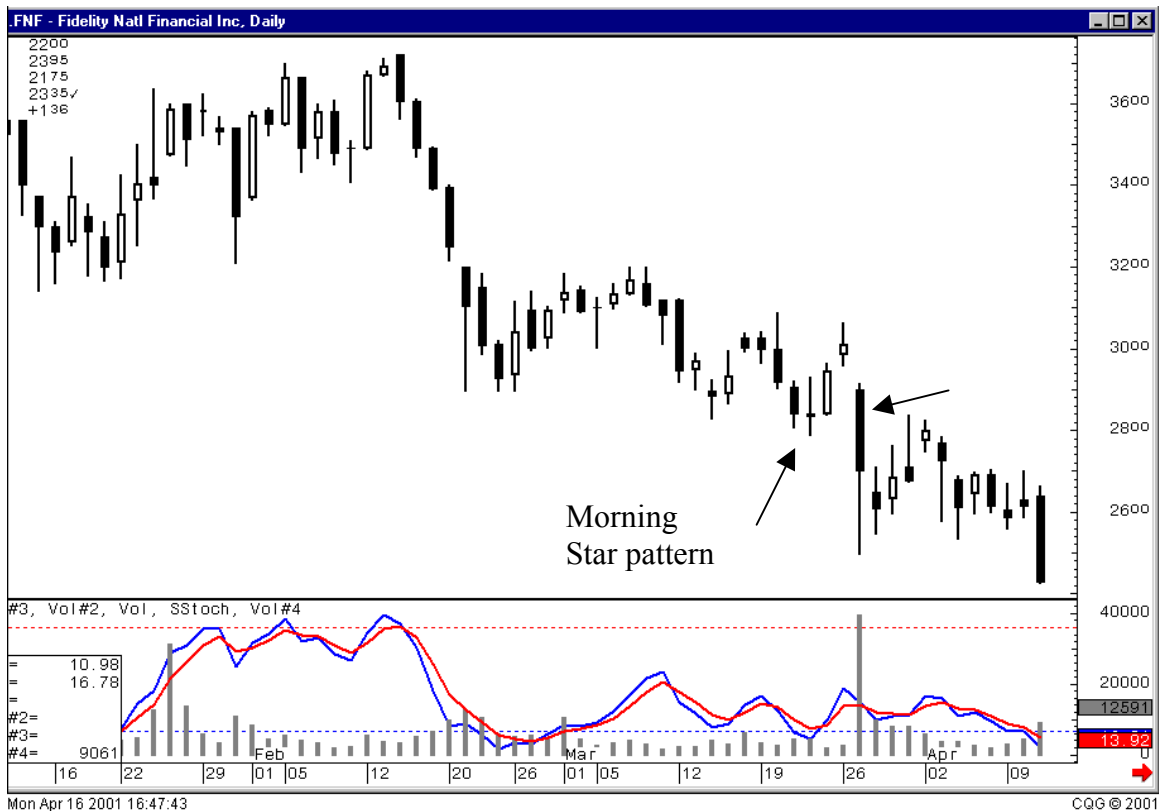


Figure 5.

Once your Watch Lists are filled up, make sure that you save them. Even though you have picked the best three, the Watch List 1 stocks, the lower Watch Lists, as you were filtering for the best picks still have very excellent situations. It may turn out that your three best picks do not open the next day in the manner that would demonstrate that the buyers were still around. If they open lower, go back to Watch List 2, which will contain your best three plus a few more. Maybe one of the other stocks on that list is opening in the manner that would indicate that the buying was still present.

Keep going back through the chart lists until you identify a successful opening. Remember, these lists were developed from the best potentials out of thousands of possibilities. If the markets are opening so drastically in the wrong direction, don't be afraid to just hold off until the markets are moving in the right direction. If it is not that day, you can start with Watch List 5 to see which of those positions still represent excellent trades the next day. (To refresh your memory about what to look for on the open, to make sure the trade is continuing in the manner that the signal indicated, the "How Does the Stock Open the Next Day" section from "Profitable Candlestick Trading" has been included further in this book)

Process Two: Confirming What the TC2000 Scans are Telling You

- 1 Analyze the direction of the markets in general. Use Candlestick analysis to visually confirm the direction. Follow up with TC2000 searches. Overwhelming buy signals versus sell signals or vice versa should imply which direction the market indexes are heading next. The same as Process One.
- 2 The TC2000 market scans will indicate what stocks are the best and which sectors are heavily represented.
- 3 Check the charts of the sectors to verify that they are reacting in the same manner as the stocks that were seen as big movers during that day.

Finding Your Best Trades

You have had to read a lot of commentary to finally get to the meat of this book. As discussed earlier, knowing the direction of the market indexes and the sectors dramatically increases the probabilities of producing profitable trades. Described above is a simple method for generally finding excellent trades. But that technique can be fine tuned even further to find the trades that are what you are looking for.

Not everybody can or wants to trade IBM, a \$100 plus stock. Not everybody wants to trade Priceline, a \$5.00 stock. An individual may be more comfortable trading \$40.00 stocks or below. A trading fund may be more comfortable with stocks trading at \$25.00 on up.

The size of the investment fund has a direction correlation to the amount of daily volume that is required. A hedge fund cannot move into and out of 20,000 share positions in stocks that only trade 200,000 shares a day.

To illustrate how to set up the optimal trading parameters for your trading interests, we will use the parameters used by the Candlestick Forum's trading program that is designed to produce 10% monthly returns. For utilizing the capability of margin, in which most brokerage firms will not lend against stock below \$5.00, we use \$5.00 as the minimum price.

$$C > 5$$

Stocks trading above \$150 are not worth the visual search time; usually the volume and accessibility are restricted because of volume. This makes our upside formula

$$C < 150$$

The next step is to make sure the daily volume can accommodate getting into and out of the position without having to move the price around inordinately. Stocks trading more than 200,000 shares a day is usually comfortable. Again, these are general parameters for our trading interests. It knocks the tradable stocks that we want to look at from 10,000 down to 2,600.

Using Candlestick signals and TC2000 searches for stocks trading in the \$1.00 to \$5.00 can produce some huge profits, like trading options without expirations. Or the option trader may find that a \$50.00 plus stock price makes for the best option trading programs. Small investors may find better opportunities in stocks that trade as little as 40,000 shares a day.

The real benefit is that Candlestick signals and TC2000 searches can be made in a matter of minutes for highly successful trading parameters, those meeting your special requirements. These searches can be done in minutes versus days, weeks, or months.

These searches are the first step in cultivating the universe of stocks down to a level that makes finding the best trades a fast process. Fortunately this process can be more concise. Despite the fact that a number of excellent trades can be found in a matter of minutes, it is done using broad parameters. Making the search more specific will find additional charts with more specific results. Adding one or two additional parameters dramatically reduces the fields of choices but the fields will be more exact in what we are looking for.

Oversold Stocks

Using the same general parameters of what stocks we are looking for will be the starting point. To reduce that field further requires one additional parameter. Add the TC2000 stochastics parameter. TC2000 makes the use of stochastics very easy. Once the stochastics function has been added to the search make up, it can be scaled to the level that you want. In this case, the scroll key can make the search include only stocks that have stochastics below 20. This is a simple manual step. Do not confuse this with the preset parameter “stochastics coming up through 20”. Stochastics, if used on their own is a relatively good method for trading. However, it does not always pinpoint the bottom or top. A trend in the oversold area may stay in the oversold area for a while. It is the Candlestick “buy” signal that instigates the move from the oversold area.

Adding the stochastics to the search filters can now reduce the field of potentials down to a much smaller number. For example, the 2600 tradable stocks could now be reduced to 200. Once that group is established, the same setup can be used as in the general search. Apply the “percentage move for today” to this group. This search now produces all the stocks that fit into the parameters. Stocks between \$5.00 and \$150.00. Stocks that are in the oversold area. And that have had a strong buying presence today. That strong buying presence will likely produce an identifiable Candlestick signal. It could be a Harami, Bullish Engulfing pattern, a Kicker Signal, or a gap up from the oversold area. Any of these signals would warrant looking closely at the position. If volume and M.A.C.D.

corresponded, this becomes a very high probability trade. The same searches can be done for the overbought conditions and searching for stocks to short. All the same market analysis and sector analysis can be applied to those searches.

Quite often the markets will get in flat phases. These phases may last for a week, sometimes two weeks. One day the trend will appear to be bullish, the next day they sell it back off. Up two days, down two days. As imagined, it is more difficult to make money during these periods. If you feel that the market conditions are in this phase, don't be afraid to put on 4 long positions and 4 short positions. Some sectors may be overbought while others are oversold. Keep in mind, it is the signal that is the most prominent factor of a price move. Even when the markets are not trending, buying and selling can be seen utilizing the Candlesticks. The TC2000 search may be showing 300 good buy situations and 280 sell situations. A clear indication that the market is not in an area where the majority of the signals are lopsided one way or the other.

Let the signals tell you where the money is flowing and being removed. Trades may last only a day or two, but 2%, 4%, 6% moves can be exploited. Wouldn't you like to pull 10% returns out of the markets when everybody else is sitting flat?

The searches can be further fine tuned by adding each signal formula to the search. ("Major Candlestick Formulas for TC2000 Searches" will be our next E-Book.) This will allow TC2000 subscribers to find the exact signals that they are looking for. These proven formulas provide a constant supply of profitable trades despite the direction of the markets.

Once the search parameters are all in place, the search process should take less than ten minutes a day. An additional ten minutes may be required to cultivate the best trade potentials. Some days you will have many places to put trading funds, some days you may only get one or two. The average day should have approximately ten good trade potentials. Watching the futures will alert you on how the markets should open the next morning. TC2000, whether on their live charts or on their TCNet service, will show where a stock price is before trading starts in the morning. Knowing how a stock price is going to open has strong implications as to how the stock price will act over the next couple of trading days. Watch your profits improve dramatically by understanding when investor sentiment is by witnessing the next days open.

How Does the Stock Open the Next Day?

What constitutes a strong reversal signal? The Candlestick definition states that there is a change in investor sentiment. That is as complicated as it needs to get. The signal itself represents the presence of investors doing the opposite of what the existing trend was doing. The two exceptions in the Candlestick signals would be the Inverted Hammer and the Hanging Man. Where the price opens the day after the signal appears, has an important role in how strong the new trend will move. Also, it can determine whether the

new trend will develop at all. You can exploit this knowledge to add consistent profits to your portfolio.

Consider the strong "buy" signal in Figure 6. The assumption is that the bulls are now taking over control. What should be expected the next day? More indication that the bulls are still around. The sellers should be backing away. The next day should demonstrate the presence of continued buying strength. The price, at least, should not show any great amount of weakness. The fact that the signal occurred in the first place provides proof that there were a lot of buyers. Strength should be demonstrated in the next day's opening. Opening near or above the closing price of the prior day assures the bulls that buying is still present. A gap up is the best bullish indicator. It portrays that the buying is getting very aggressive. Don't be afraid to chase a slight gap up after a bullish signal. This simply represents that the buyers are present with force.

Figure 6.



If the price had a big day on its signal producing day, a Doji or a small-range trading day near the upper end of the previous day's range is not a terrible sign. There will be a reasonable amount of profit taking or non-convinced bears still putting in trades. A consolidation day is expected. As in Figure 6, Spectrasite Holdings Inc., note how the second day showed a little indecision. But it did not show signs of weakness. The gap up

the following day would be good evidence that the bulls were still around and in force. To increase the probabilities of being in a good trade, observe the obvious. A Candlestick signal indicates that a change of investor sentiment has occurred. If so, the next day should not negate that fact. Simple logic! If the buyers are now taking control, then that should still be evident the next day. Figure 7, Powerwave Technologies Inc., illustrates the apparent lack of buyer participation the very next day. A Morning Star pattern fizzles the next day. A good rule of thumb is that if a position was put on at the opening, if the price comes back down to the fifty percent level of the previous days white body, liquidate the trade. The reasoning behind this is if the bulls were actively involved, the price would not be backing off that far.

Figure 7.



Prices opening at the lower end of the signal day's white candle body do not represent buyers showing strength. It illustrates that the sellers were right back in, controlling the price movement.



Figure 8

In Figure 8, the next day forms a Harami. What is the significance of a Harami? It tells you that the current direction has probably been stopped. Where the Harami closed versus the trading range of the previous day is important. Visually, an investor can easily interpret the investor psychology that underlies what occurred. A Harami, closing at the lower end of the previous day's candle body, signifies a severe lack of bullish ambition. Be prepared for more weakness.

The higher the Harami closes on the previous day's candle body, the less enthusiastic the sellers appear. A Harami closing at the top end of the previous trading range will usually indicate one to three days of flat or slightly lower trading before the up-move resumes.

A weak open, after a strong "buy" signal does not eliminate that stock from being a potentially good trade. It does alert the investor that the up-move is not happening now. This gives the investor the opportunity to put investment funds elsewhere to maximize profits. The presence of the "buy" signal should make the candlestick investor aware that buying did start in this stock. Keep a close watch on it. Note in Figure 9, Dell Corp., the first signal fizzles but the second signal provides the impetus for a strong rally. If the stochastics are already in the oversold condition, a second "buy" signal may be developing within the next few days.



Figure 9.

The establishment of the trade itself can greatly enhance the probability of a successful trade. It boils down to a simple question. Is the opening of the stock consistent with the scenario of the buy signal? In other words, is a “buy” signal being followed up by more buying? A gap up demonstrates profound buying demand. An open at or close to the previous day’s close indicates that the buyers are still around and are sopping up any selling or profit taking from the day before.

Use this simple procedure to cultivate the best trade situations. There will be times when the research process provides more trade possibilities than what is needed. That provides the opportunity to take advantage of the positions opening in the manner demonstrating continued buying pressure.

TC2000 has easy to use formulas for developing personal scans. The Candlestick Forum will be creating an E-book on formulas for each of the Major signals. This will provide the specific signals no matter where they show up in the stochastics range. This will make finding patterns such as the J Hook much easier to find. It also allows the investor to

search for the most powerful signals first. The Kicker Signals will want to be located before the other signals. From there, the Bullish or Bearish Engulfing patterns will need to be looked at. Then the Hammer, Morning and Evening Star patterns, the Hanging Man, Inverted Hammer, and Harami patterns should be analyzed. Watch for the Candlestick Forum e-book “Major Candlestick Formulas Using TC2000.”

If all these steps are followed, the Candlestick investor has dramatically improved the probabilities that the majority of the positions placed in their portfolio will be profitable. Not only does this provide good profits, it creates a comfortable peace of mind. Gone are the doubts about whether you got into a stock too late or too early. If a trade does not work out, emotion is not involved. The Candlestick investor should have the presence of mind to realize that a trade that did not work is just a cost of business, part of the probabilities. The attachment to that trade becomes nothing more than saying, “That was a bad one, now get out and find another trade that shows good probabilities.”

Once this mental process has been established, bad trades will have minimal losses and good trades will produce gains until the next reversal signal appears.

TC Net – The Ultimate Learning Program

During the writing of “Profitable Candlestick Trading” the best search software had already been identified as TC2000. Since the publication of the book, TC2000 has dramatically improved its capacity to provide information to their subscribers. The Candlestick Forum is establishing a relationship to further that process, acting as an education distributor for their new TC Net service. People applying for the service will have access to chat rooms directed to our Candlestick Investors. Comments submitted during the day by Mr. Bigalow, will be instantly accessed by our members. Everybody will have live feed, and will be able to exploit pre-market trading levels. An immense amount of services will be available for mastering the Candlestick methodology in this TC Net/Candlestick Forum association. Please check out the details on the site.

Good Investing,

The Candlestick Forum Staff

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