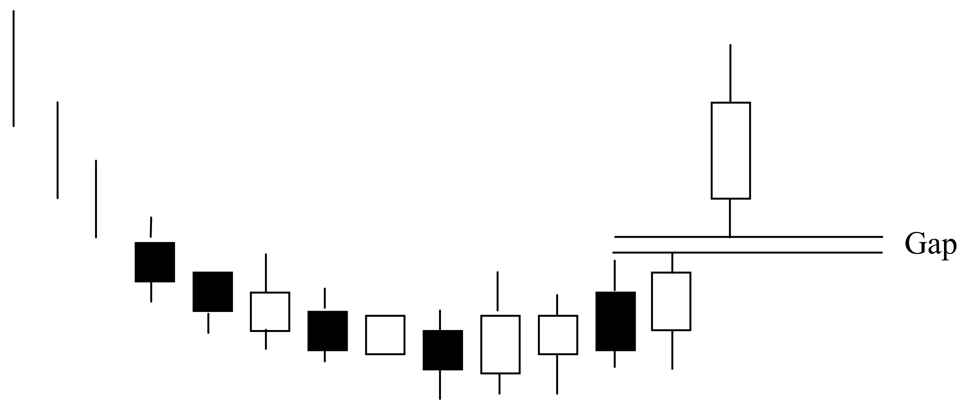


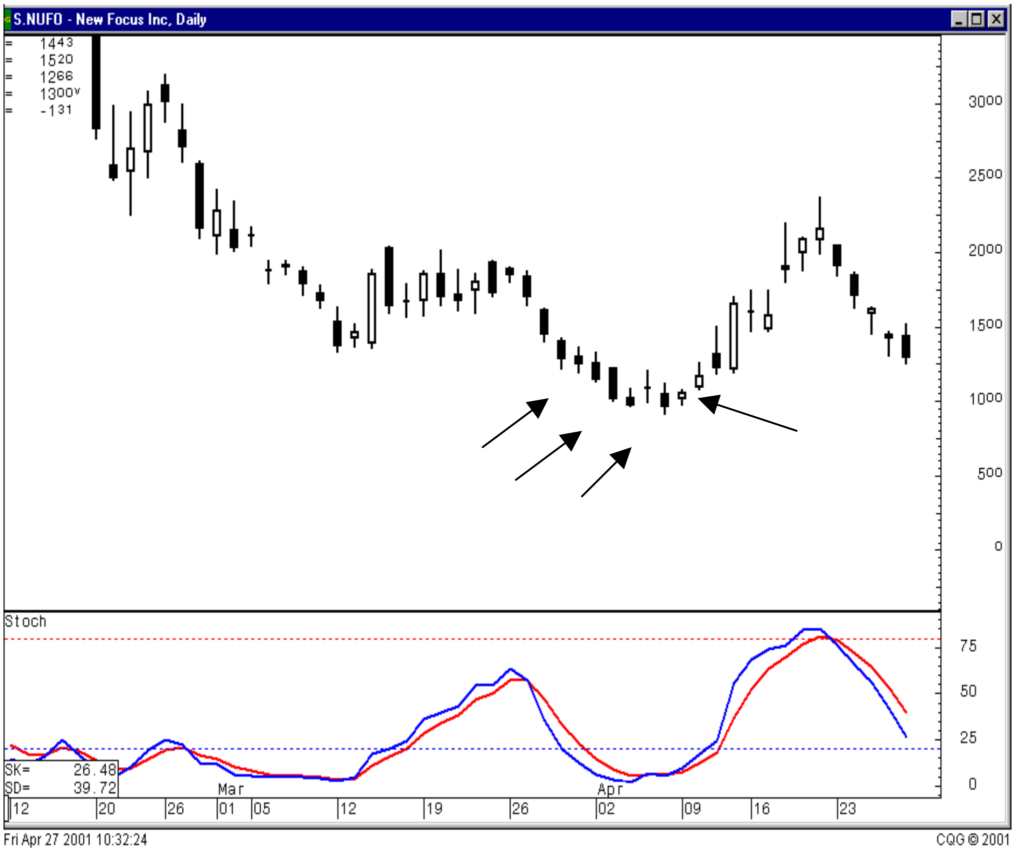
Figure 20 - Fry Pan Bottom.

As the change becomes more bullish, the bulls feel more confident that all the selling is gone. This leads to some exuberance into getting back into the position. Upon witnessing this gap up, the Candlestick investor should be willing to commit funds as fast as possible. It usually signifies the beginning of a new trend.

Note in the New Focus Inc. chart, Figure 21, how the bottom slowly curved back up as the selling diminished and the buyers began to build confidence. The small gap up on the ascending side of the Fry Pan alerts the investor that the buying is now getting more enthusiastic. This is the spot that a Candlestick investor wants to commit funds to grab some of the 100% gain over the next few weeks.

Having the foresight that the slow curving moves are not just dull market conditions creates an opportunity for the Candlestick investor to be ready for that telltale gap. Once the gap appears, putting money into that trade maximizes the returns by being in the trade as it is now moving.

Figure 21 - New Focus Inc.



As witnessed in both the Dumpling Top and the Fry Pan Bottom, the gap is the alert that the trend has started, and started with more force behind it than what had been witnessed prior to the gap. Having the foresight to recognize the forming of a Dumpling Top and a Fry Pan Bottom creates the opportunity to get into a position that is able to produce profits immediately. The appearance of the gap is the best spot to exploit the new strength in a move.

San-Ku - Three Gaps Up

As mentioned in Japanese candlestick analysis, the number three plays a very relevant part of the investment doctrine. Many of the signals and formations consist of a group of three individual signals. It has become a deeply rooted number for the Japanese investment community whether applied to Candlestick analysis or not. This creates a highly profitable investment strategy when applied to Gaps or Windows.

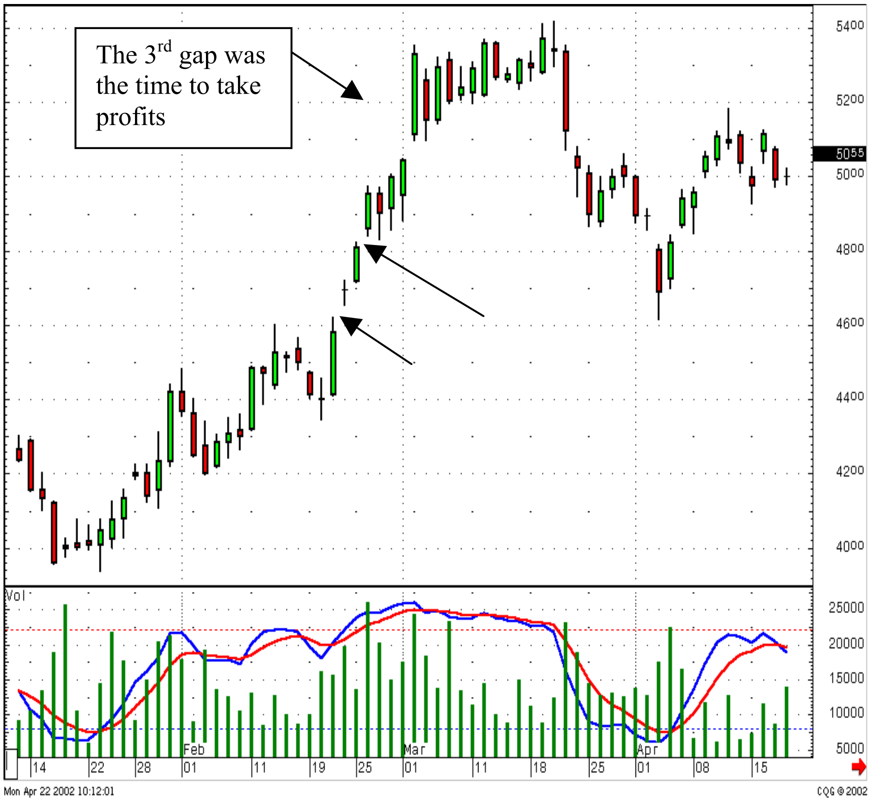
San-ku provides the best opportunities for buying and selling at the optimal points in time. After observing the bottoming signals, the first gap (ku) indicates that the buyers have entered the position with force. The second gap indicates further enthusiasm for getting into a stock position. This should have a mixture of short covering involved. The third gap is the result of the bears finally realizing that this is too forceful for them to keep holding short positions, they cover along with the later buyers. Upon seeing the third gap up, the Japanese recommend that the position be closed out, take the profits. This is due to the price having probably reached the overbought area well before it should. The presence of three gaps up probably has resulted in very good profits over a very short period. The same parameters will occur in the opposite direction, in a declining price move.

Note in Figure 22 - URI, United Rental Inc., how the first gap demonstrated that the reversal picked up a lot of strength, buyers gapped up the price and it closed at a high for many months. A few more days of buyers showed that the price was not going to back off. This led to another gap up, probably the shorts deciding that the trend is now firmly against them. After a couple of more days of no real weakness, the price gapped up again. Panic short covering? Also the Japanese rule suggests, sell after the third gap up. In this case, selling on the close of the third gap up day would have gotten you most of the gains possible from this trade. There was a day or two that you could have gotten a few percentage gains more, but why risk it? The Japanese have watched these moves for hundreds of years. Why try to squeak out a few more percentage points profit? 28% in the couple of weeks should be plush enough. Go on and find another trade that is starting at the bottom.

Figure 22 - United Rental Inc.

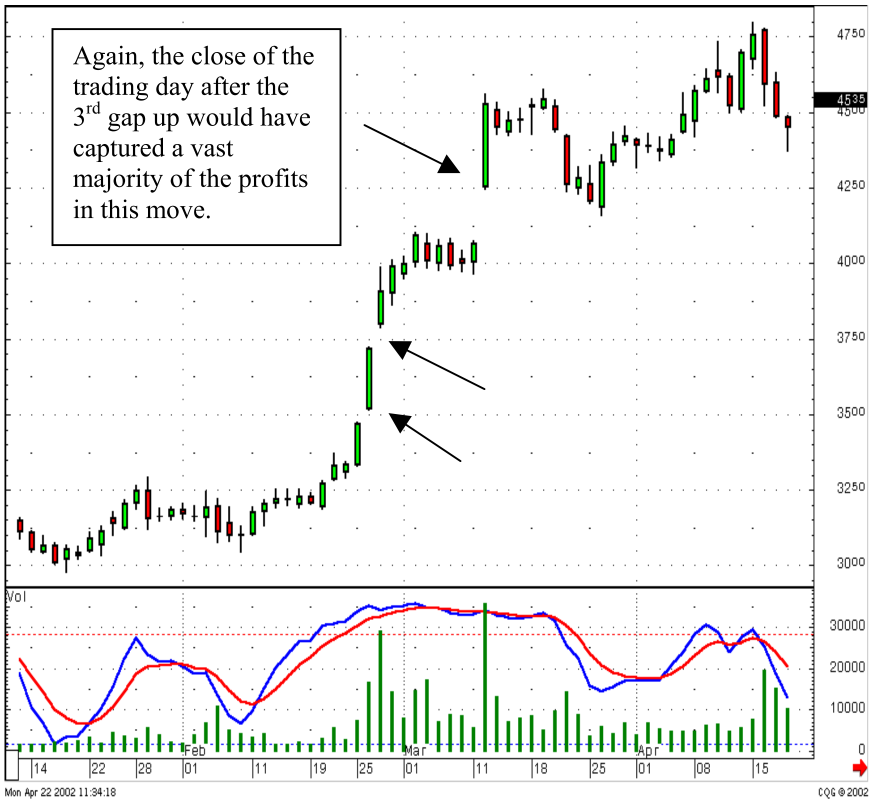
The same dynamics can be seen in the Ingersoll-Rand Ltd. Chart. In Figure 23, the first gap broke out prices above the recent high, the second gap still shows strong buying and the close of the third gap up day is as good a spot to take profits as any.

Figure 23 - Ingersoll-Rand Ltd.



One more illustration shows the factors at work in a San-ku formation. Note in the Maytag Corp. stock price in Figure 24, the initial gap up should have prepared the Candlestick investor for the possibility of the exhaustion gap. However, this stock price opened and steadily moved higher, not affecting any stops. As it closed near its high for the day, a white Maruboza, a bullish continuation pattern, should have now alerted the Candlestick investor that the buyers were still around in force. The second gap up now makes the investor aware that a San-ku may be in the making. As evidenced in the last two examples, selling after the third gap up, although more lengthy a period than the previous examples, would have captured a great majority of the potential of this move.

Figure 24 - Maytag Corp.



Having the knowledge of what should occur after gaps provides that extra advantage. Most investors are leery of gaps because they don't understand all the ramifications gaps introduce. This allows the Candlestick investor to exploit market moves because the majority of the investment community does not understand how to use them. The San-ku formation can get investors in when many investors would be afraid to chase a gap up or gap down. It also gets the Candlestick investor out at the appropriate time where other investors would hold too long and not get the best return on investment.

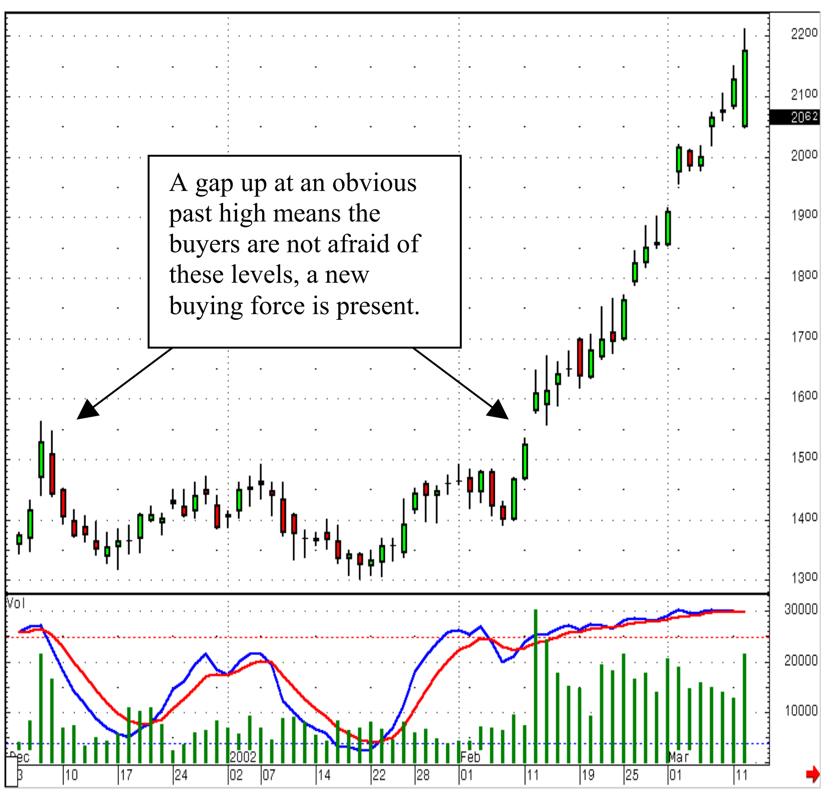
Breakouts

As revealing as the gaps are for alerting when a major run-up is about to occur, it is even more beneficial to know when the gap is about ready to occur. There are particular patterns that forewarn when a gap is likely to occur. And when they do, it means that a whole new trading area is going to be reached. Having this forewarning permits the investor to be ready to get into the trade at the optimal time and have the funds available to take advantage of the profitable move that it initiates.

Note how the gap up at a level that had not been breached for a couple of months now indicates the buyers not being apprehensive about buying above the past highs. This easily reveals that the price is going to new levels.

Notice the breakout in Figure 25 - DCN, Dana Corp. DCN starts its major run once it broke out of a trading range over the past two months. The gap is the alert. The gap up at this important level is a profitable transaction. In this example, volume had a great increase once the new trading levels were reached. Stochastics stayed up near the overbought range but they do indicate that they are pointing up when this new move starts. The protective stops, placed on a gap up day near the highs, would not have been affected with the price continuing higher.

Figure 25 - Dana Corp.



The Prepaid Legal chart, Figure 26, is a chart that one could anticipate a gap occurring. The best entry level was the confirmed Inverted Hammer pattern with volume dramatically increasing over the next few days. As the price came back up towards the trading area of $22.00, it was feasible that if the price broke that level, it could head much higher. The appearance of the gap should have been an immediate indication that buying was coming into the stock. The long bullish candle would have revealed that the old trading levels were now being disregarded, new buying dynamics were in the stock price.

Figure 26 - Prepaid Legal PPD

Figure 27 - Cooper Tire Company

Despite the very small gap in the price rise of Cooper Tire’s stock move, it still indicated strong buying even after a strong up day. The fact that the buying after the gap up took prices to new highs would have alerted the Candlestick investor that a new level should be reached.

All of the above examples had chart set-ups that would leave room for anticipating that a gap up could occur. All illustrate that when a gap up is noticed, new buying strength is involved, moving prices up to much higher prices.

The J-Hook Pattern

The J-Hook Pattern is another example of being alerted when a gap up could occur. The J-Hook Pattern occurs after a trend has had a fairly strong run up. It backs off for a period, most likely profit taking. The stochastics do not get back down to oversold, they start leveling out and curl back up near the 50 area. As the price stabilizes and starts back up, the previous high becomes the logical target. This is the prime time to look for a gap up. The buyers, who saw the price have a strong move, then see it pull back, are now seeing it stabilize and try to move higher again. Once they become convinced that the sellers have been exhausted, the buyers will come back into the stock with confidence. This new confidence, the appearance of a gap, could be strong enough to breach the recent high and take prices up to new levels.

Figure 28 - D.R. Horton Inc.

D.R. Horton Inc. is an example of gaps playing an important part in recognizing when the next run-up will occur. Once the initial run up had run its course, the consolidation period or the hook area didn’t allow the stochastics to get down to the oversold area before turning back up.

The J-Hook Pattern is also a function of what the markets are doing in general. It is not unusual for the price of a stock to rise with the markets, pull back with the markets, then resume its uptrend when the market starts heading up again. But these stocks usually act with greater volatility than the market in general.

Identifying the J-Hook Pattern requires a minor amount of previous visualization. After seeing a major run-up in a stock price, then witnessing "sell" signals, makes for a good profit taking period. However, if an uptrend has been reasonably strong, without many zigs and zags, it is definitely profitable to keep monitoring that stock after the pullback has started. Depending on market conditions, considering that the stock is selling off but that the markets in general are still holding their own, it is worthwhile to check the progress of that stock for the next week or so.

After the "sell" signal and seeing that the stochastics have turned back down, the potential for a J-Hook Pattern to form is always there. About the third or fourth day, investigate to see if the stochastics are showing signs of leveling out. This may be occurring when the stochastics are in the 50 area. If so, watch for Candlestick buy signals forming. The signals will usually be smaller in size compared to a full-fledged bottoming signal. For instance, a series of small Hammers may form for a few days at the same price area. This starts to flatten the trajectory of the stochastics. After this stabilization period, a small Bullish Engulfing pattern may appear. Buying in at this time produces two possible profit potentials. First, it is likely that the price is now going up to test the recent highs. This may be a 4%, 8%, or 10% move in itself. The second potential profit is breaking through the recent high and having a strong run up. A gap up at or near the previous highs indicates that the buyers are not concerned about the recent high acting as a resistance level.

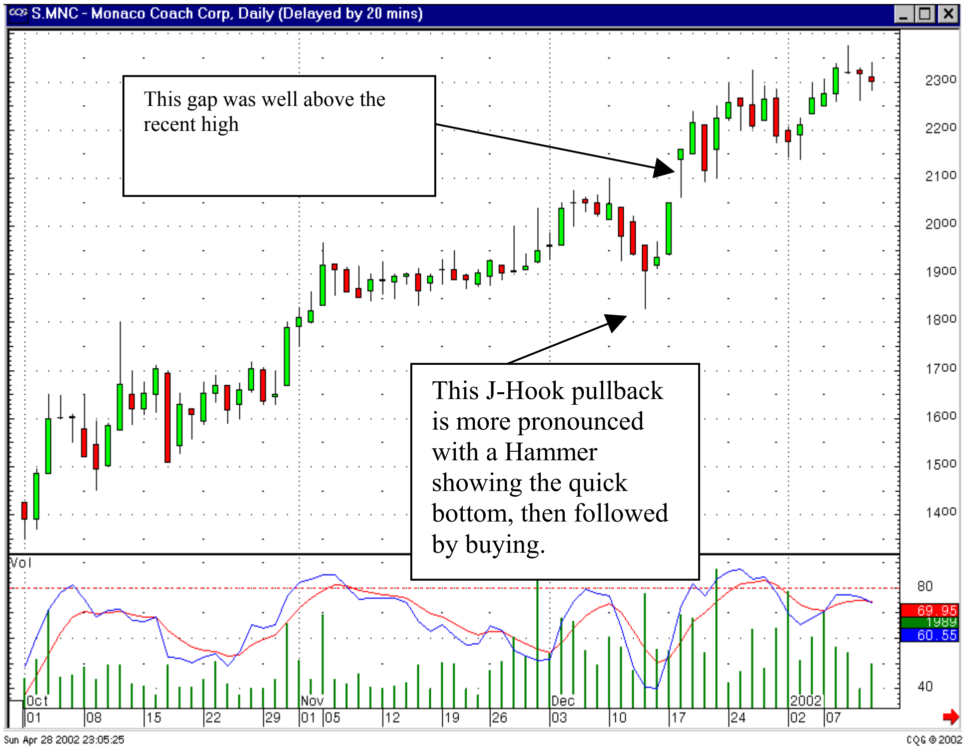
Review the Tiffany & Co. chart, Figure 28a. After an extended uptrend, the stock ran into selling (profit taking) at the $30.00 area. It pulled back to about $27.50 when buying seemed to start supporting the price. It became evident that the selling had waned. As the pullback flattens out, it appears as if the buyers are starting to step backing at around $28.00. Buying at these levels gives the investor the potential to make $2.00, or about 7% profit over a three or four day period. As can be seen in this example, once the price got back to the highs, the stochastics had some juice left in them. At this point, watching the market direction in general should have been built into the decision of whether to liquidate or hold. If the market movement was stable to upward, then holding at the resistance level of the previous high would be warranted.

The gap up to a new trading range was evidence that the sellers were not going to stand in the way. Unless something severe is taking place when the gap up occurs, such as a severe drop in the market or a surprise announcement about the company or the industry, anticipate seeing the buyers continue to move the price higher.

Figure 28a - Tiffany & Co.

The J-Hook does not have to be a complete retracement to the recent highs to have a gap effect the break out. Note in the Monaco Coach Corp. chart, Figure 28b, how the gap up occurred prior to actually getting to the previous high.

Figure 28b - Monaco Coach Corp.



Hopefully the Candlestick investor would have been in the position after the Hammer signal. The gap up to new highs simply indicates that the high was not going to act as a lid on the price, giving buyers new impetus to take prices even higher.

Figure 28c - Jones Apparel Group

Jones Apparel Group, Figure 28c, provides an obvious visual depiction of the prices gapping up at the previous high. The alert investor would have been in near the $26.75 level, upon seeing the Inverted Hammers slowing down the pullback.

Participating in the J-Hook Pattern usually requires being familiar with the price movement of a stock. It is difficult to write a search program that would encompass all the parameters describing a J-Hook Pattern. The easiest method for locating this pattern is to watch for an extended uptrend that is now in a pullback. The aggressive trader will want to get in as the pullback levels out. The more conservative investor will want to get in upon seeing a gap up as the trend is heading back up, especially if the previous high is within a reasonable range.

Being educated in Candlestick signals produces the extra advantage that other trading methods do not provide. This additional knowledge rewards you by illuminating profitable trade set-ups. You gain the benefits of always having profit potential that other investors cannot see. You can be racking up profits when the majority of investors are just getting what the market will give them. Even in difficult markets, you will be able to generate profits.

Island Reversals

An easy-to-see, obvious reversal is the Island Reversal. It provides a dramatic reversal in that the enthusiasm that sent a price in a particular direction is countered with the same enthusiasm going the other way. In the example of Orbital Sciences Corp. ORB, Figure 29, the up-trend can be easily seen. At the top, after the buying enthusiasm created a long bullish candle, the price gaps up away from the previous trading. This really demonstrates that the enthusiasm had reached an apex.

But upon inspecting the formation that it made, a long-legged Doji, the Candlestick investor should have been alerted to the indecision that was illustrated during this gap up. The following day did not show any evidence that the buyers were still present. This would have been further warning that the blow off top was in place. Finally the gap back down illustrates the great enthusiasm to get back out of the stock. This is an Island Reversal, usually very accurate and powerful.

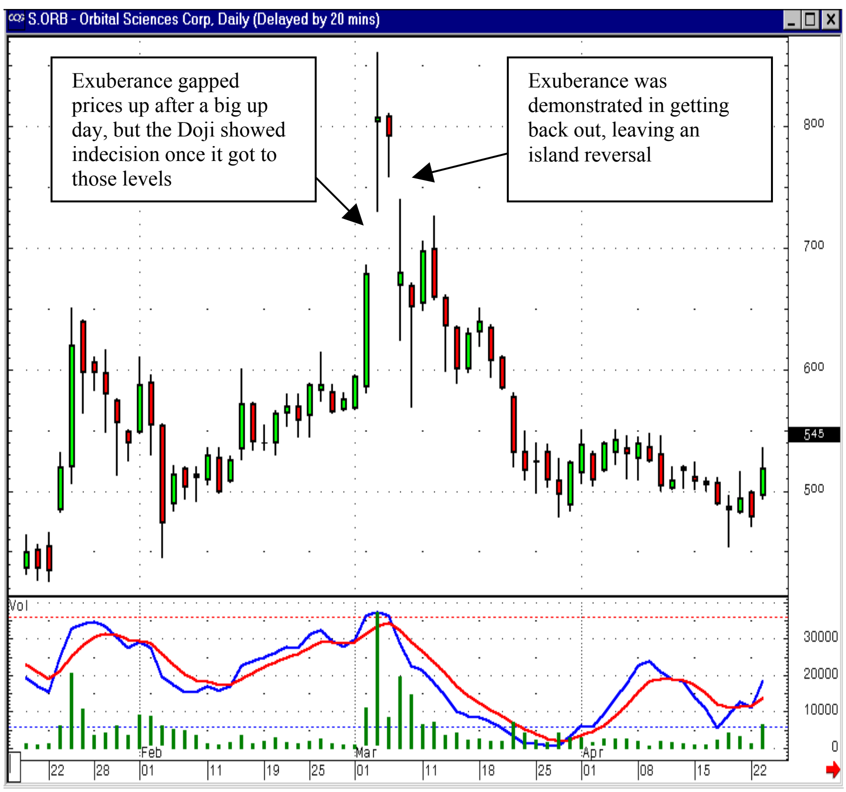


Figure 29 - Orbital Sciences Corp.

An Island Reversal doesn't have to be a quick move. Note in the Circuit City chart, Figure 30, how the gap down was countered with a gap up over six weeks afterwards. This formation indicates to the long-term investor that a new long-term trend has started. The gaps on both sides of the bottom trading area make the Island Reversal an easy-to-see situation.

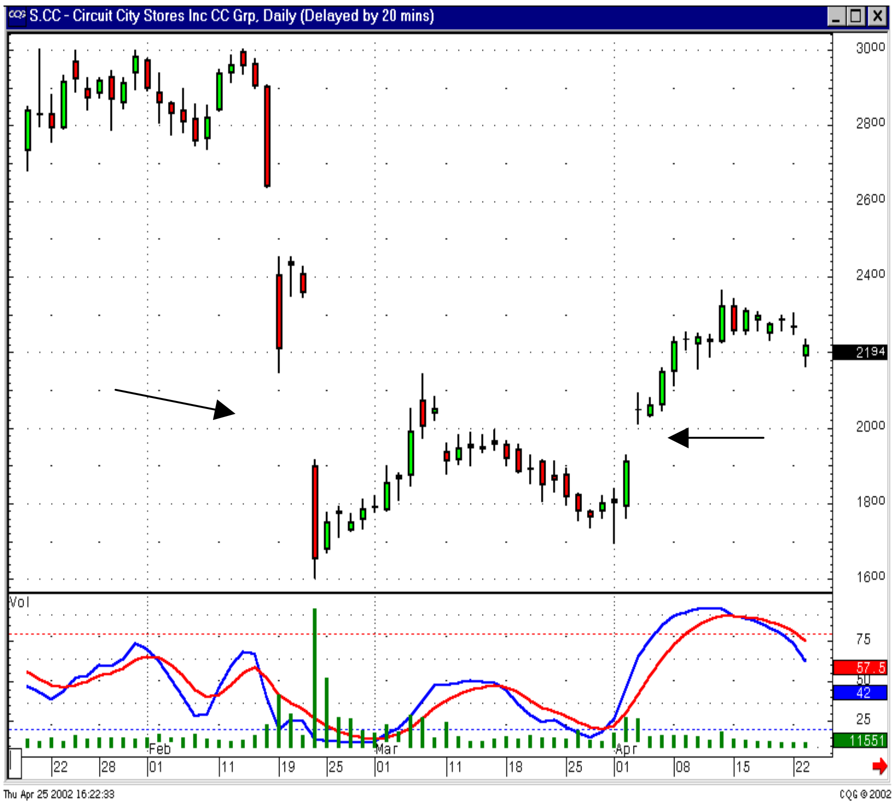


Figure 30 – Circuit City

As long as the gaps remain unfilled, the trend should remain up.

Bad News Gaps

The ultimate poop trade! You just recently bought a position because of a very good bullish signal. All confirmation is positive, it moves up nicely the first day. THEN, the dreaded news! The company issues an earnings warning, the SEC announces a surprise audit, a contract gets cancelled. Whatever the news, the price drops 20%, 30% or greater. The question is, "What to do now?" Do you sell the stock, take a loss and move on? Do you trade it at the new levels? Do you hold and/or buy more at these levels? What is the best course of action?

Traders and long-term investors will have completely different outlooks. The trader bought the stock a few days back, due to specific parameters for making that trade. He should consider liquidating the trade immediately and move his money to better probabilities. The reason for putting on the trade, for a short-term trade, has completely disappeared after the massive down move. The longer-term investor has a few more analytical options. They may want to hold the position because the candlestick formations indicate that the price will move back up or liquidate because the Candlestick signal shows further decline. Reading the signals becomes an important element in knowing what to do in a "bad news" situation.

A "bad news" gap down has a multitude of possibilities after the move. The prior trend gives you valuable information on how to react to the move. Of course, the news is going to be a surprise or there wouldn't be the gap down. Analyzing the trend prior to the move gives you a good idea of how much of a surprise the announcement or news bulletin is.

For example, IBM, Figure 30, recently reported lower earning expectations. The price gapped down. However, you have to analyze whether this news was a complete surprise or whether the gradual decline in the stock price was anticipating the coming news. As can be seen in the IBM chart, the price had been declining

Figure 30 - IBM

for three months before the actual news was announced. The smart money was selling from the very top, months ahead of time. It was the diehards who held on until the bad news was reported. As the chart shows, the final gap down produced a long legged Doji, indicating massive indecision. From that point the buyers and the sellers held the price relatively stable for the next few weeks. This now becomes one of the few times that a technical analysis has to revert back to fundamental input. Unless you believe that the markets in general are ready for a severe downtrend, consider what the chart is telling you. The price of IBM stock was reduced from $125.00 per share down to $87.00 per share. The last down move produced a Doji. The price has not moved from that level for two weeks.

Now let's look at the fundamental input. IBM, a major U.S. company, well respected, known to have excellent management. And like any other quality company, it has made marketing or production mistakes from time to time through the years. The announcement made that knocked the price down, whether it was a earnings warning, shutting down a product line or whatever, the factors that were announced as the result of the problem did not surprise company management. They knew that there were problems well before the news announcement. Being intelligent business people, the management of IBM was aware of the problems and had been working on the solutions months before they had to announce. When the announcement was made, probably many strides had been already taken to correct whatever problems caused the price to drop. For the long term investor, it would not be unusual to see the price of IBM move back up to at least the level where it last gapped down, approximately $100. This still provides a 15% return.

You can chart your own course through common sense analysis. Watching for a Candlestick “buy” signal gives you the edge. IBM is not going out of business. Who was buying at these levels when everybody was selling? The smart money! Are the professional analysts of Wall Street recommending to buy at these levels? Probably not! But watch the price move from $85.00 back up to $95.00, then you will see the brave million dollar analysts say it is time to buy. Practical hands-on analysis, being able to see the “buy” signals for yourself, will keep you ahead of the crowd.

BKS, Barnes and Noble, Figure 31, has a completely different scenario. Notice it was in an uptrend, just about ready to break out to new highs when it had bad news reported. With the trend being up prior to the announcement, it appears that the announcement came as a complete surprise. This should imply that if you are in the position, get out immediately. There will be no telling what the reaction will be. In this case, the sellers continued to sell on the big down day after the announcement.

Being out of the position now gives you a better perspective as to what the news will do to the longer-term trend. It took only the next day to see a Doji to be prepared to get back into the stock. For the longer-term investor, this becomes a good place to start building another position. The buyers start becoming evident on the next day after the Doji. A purchase at this level creates a relatively safe trade. A stop at the lows is a logical point for getting out. The rationale being that if those levels did not support, the sellers were still in control.

Figure 31, BKS Barnes & Noble

On major gap down days, major being a 20% down move or more, there is always the initial 30 minutes of churning. The traders who were short start buying to cover, while the sellers are unloading. After that period, the buyers or the sellers will start to overwhelm the other side. This is where an immense amount of information will be revealed. If the price starts acting weaker, the news still had sellers participating. If the price starts up, that would indicate that the news scared out the weak holders and did so at the level where the buyers felt it was oversold, and they stepped in immediately to buy the bargain. This should reveal to the Candlestick investor that the white candle forming represents a buying level. Hold on to the position for awhile. It is not unusual after a major gap down to see the price move back up to the area from where it gapped down. This would occur over a six to twelve week period. Still not a bad return, 20% to 30%, over that time frame.

Kicker Signals

The Kicker Signal is one of the most powerful Candlestick signals. This is due to the signal having a gap built into it. In some cases the gap is very obvious. In other cases the gap is not always recognized by investors.

As described in Mr. Bigalow's book "Profitable Candlestick Trading", the Kicker Signal dramatically illustrates investor sentiment has changed. This is usually the result of a major news announcement occurring overnight. The result of this signal is highly predictable. The trend is now going to go in the opposite direction. And with enough force to make it always a worthwhile trade.

The description of a Kicker Signal is that the first day of the signal opens and then proceeds to trade in a specific direction for the rest of the day. The second day opens at the same level as the open of the previous day. It then proceeds to trade in the opposite direction of the previous day. On charts other that Candlesticks, it is difficult to see that there was a definite change of investor sentiment. The two different-colored bodies of the Candles make it clear the opposite camp has taken over between the bulls and the bears. The gap when the candles open at the same level is not always recognized in this chart pattern. The fact that the open on the second day is back at the open of the previous day means it has already moved from where the price closed that day back up to the open.

The bullish signal is very clear in the Cigna Corporation chart, Figure 29. Not only is the direction completely reversed, it gapped up with enough strength so that there should be no doubt that the trend is not going to go higher.

This will also elicit the "chasing a stock" response from most investors. If you know what this type of move represents, you should have no fear of buying at those higher prices.

Figure 29 - Cigna Corporation

The visual interpretation of the chart is clear. The trend was definitely down. The news announcement was apparently completely unexpected and very favorable for the company. Will prices go straight up after a Kicker Signal? Not necessarily, but it is advisable to sit through whatever waffling may occur after the signal. The signal itself depicts a strong change in investor sentiment. Sometimes that change of trend may have to sop up the opposite stock before the trend gets to proceed.

Figure 30 - Gemstar TV Guide Intl. Inc.

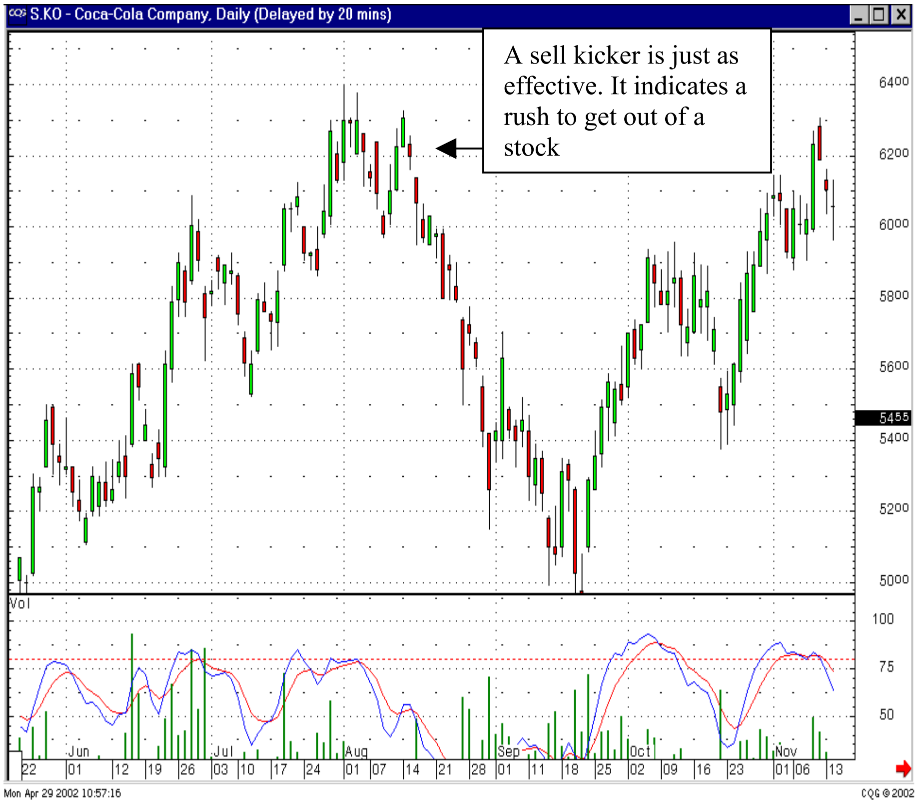
The observant investor can easily locate the Kicker Signal. TC2000 has very easy search programs that can be formulated and implemented. (See how to subscribe to TCNet on our website, www.candlestickforum.com) The trader would be well-advised to search for Kicker Signal formations every day.

As seen in the Gemstar TV Guide Intl. Inc. chart, Figure 31, the Kicker Signal, although small, did change the trend direction. As professed by the Japanese about the Doji, always pay attention when you see it. The same should be said for the Kicker Signal, always take notice of this formation.

Note in Figure 32 – ISIL, Intersil Corporation, had a close semblance to a Kicker Signal. Despite the open not being at the exact identical open, the fact that the price gapped back up to almost the same opening price was warranted by the strong buying through the remainder of the day.

Figure 32 - Intersil Corporation

Figure 33 - Coca-Cola Corporation



The Kicker Signal is as effective to show inordinate selling as it does buying. Note in Figure 33, Coca-Cola, the signal is formed by the gap down from the previous close to open at that candle's open and go the other way. Again, this would not be as clearly defined on a Western Bar chart. The opposite colors and the opposite direction are better seen on the Candlestick chart.

Kicker Signals do not occur very often. But when they do, they will add great value to your portfolio. Having the faith that a gap in the opposite direction is not something to be afraid of but something to be exploited will multiply your earnings many fold. The fact that a price has already moved 5%, 10%, 15% in the other direction should not be a reason to refuse to get into a position. The move should be the impetus for getting into the position. The trend changed and moved dramatically in the other direction for a reason. Buy the stock. Get rid of the investment psychology that you want to buy the position if it pulls back to let you in. That is the exact opposite of why you want to get into a position. Buy the position because you saw that the buyers are in with full force. You want to be in that run.

Summary

Gaps have always played an important part in technical analysis. The movement away from the previous trading range signifies an extraordinary shift in investor sentiment. This shift can be more in the same direction as well as a complete reversal of the existing trend. Most important is that a gap has many ramifications. As illustrated in the book, gaps identify the force that can start a strong rally, or it can signify that final gasp of enthusiasm. The Japanese observed these movements over hundreds of years and accurately identified the results when combined with the signals.

With today's computer capabilities, it is easy to do searches that specifically track gapping situations. Investing in these situations alone can make for a high-profit trading program. Putting the probabilities heavily in our favor, using Candlestick signals to identify a direction and a gap demonstrating inordinate force, will provide a source of profitable trades that no investment advisor is capable of doing. Most investors search years for an advisor, broker, newsletter, or guru that will lead them to consistently profitable trades. The well-versed Candlestick investor has a constant treasure trove for generating big profits. These are not hidden secrets. Yet, the combination of these investment tools have not been utilized by most investors. Having the backup of centuries of actual participation in this profitable combination takes the guesswork out of investment decisions.

The Candlestick Forum, www.candlestickforum.com, distinguishes itself from other Candlestick sites by enlightening investors to the actual implementation of profitable Candlestick trading strategies. Our soon to be published "Formulas for Major Signals Using TC2000" will describe how to develop your own search programs using the effective TC2000 search software. When able to do your own searches, the formulation of gap searches will put you in charts that have a strong move capability.

Isn't that the foremost purpose for your investment plan, finding the best possible places to put your funds? Remember, these signals, formations, and philosophy are not the results of some quick, thrown-together back-tested investment program. The investment concepts portrayed in this book are the results of hundreds of years of visual observations confirmed with actual profitable experience. Once you have observed the results of a gap up discovered by your search, you will lose past thought processes such as "it is not wise to chase a stock". A gap up is the indication that a new trend may be starting when it occurs at the bottom. It also warns the investor when the exhaustion buying is occurring, showing the end of the trend.

You can exploit profits that the common investor will shy away from. You will find profitable trades that most investors do not fully understand. Your wealth will be multiplied by common sense placement of funds, the same opportunities that the rest of the investment community has been advised to avoid. You have this knowledge. Use it. If you are a member of the Candlestick Forum, utilize the expertise of the staff. If you have questions about a particular trade or formation, e-mail us. Why experiment when you can learn directly from decades of experience?

www.candlestickforum.com

Good Investing!

Stephen W. Bigalow