Stick With A System When Using Bar Or Candlestick Charts

Both methods have merit but consistency is key to success, Phil Storer says

DALLAS (October 21, 2010)…Stock and commodities veteran Phil Storer prefers bar charts among the different methods that exist for plotting price movements in markets, but says other systems like candlesticks are useful too. The approach an investor chooses depends on his trading style, long-term objectives and even geography. Once a charting system is selected, however, the best strategy is to adhere to it and learn how to read all of that method's signals.

In his book, **Chalk Talks for Traders –Easy Xs and Os from a Proven Market Pro**, released in April, Storer says "in the Western investment culture, we mostly use bar charts." Bar charts were employed to display economic statistics starting around 1800 in Europe, and were gradually adopted by traders for market data. Storer explains that bar charts consist of a collection of vertical bars aligned in chronological order, with each one representing a period--perhaps a minute or a day.

A knob on the left side of the bar represents the opening price, he notes. The bar itself is the span from the lowest to the highest price of the period. A knob on the bar's right side is the closing price. Storer says "in Western trading cultures, the opening price, the range and the close have been the most important parts of the trading period."

In the Far East, however, most traders prefer candlestick charts, which were inspired by a form of technical analysis used by Japanese rice traders in the 17th century. Candles display data differently than bar charts. Much of the credit for candlesticks has been given to a successful rice dealer named Homma from the Japanese town of Sakata centuries ago. To Homma and his colleagues, price action was more important than weather or other reasons for price levels. Japanese traders recognized that the price of rice did not necessarily reflect its underlying value, but could be inflated by hoarding and other factors.

A system of candlestick charting was popularized after 1850, and gradually spread. Homma's original ideas were refined over the next century and a half.

Storer says "with candlesticks, the open, high, low and close are important, but the critical thing is the area on the bar between the opening price and the close. That area is usually referred to as the body." He notes that if the closing price is above the open on a candlestick, then the body is typically hollow or green in color on the chart. If the closing price is below the open, however, the body is usually solid or red in color. The portion of the bar that extends beyond the opening and closing prices is called the "shadow."

The lines on the Asian-style charts resemble candles, and their dynamics are interpreted mainly by looking at black and white marks on the sticks. Candlestick charts supply information about market turns that are often more visible than on bar charts, making candles useful for spotting price reversals. Candlestick charts help with market timing and getting in and out of a trade. By the 1980s, Western market technicians and traders recognized the value of candlestick charts and began adopting them.

But bar charts have their advantages, and Storer and most western traders still use them. Candlestick data points can take up a lot of room and make a chart look cluttered. Individual bars on a bar chart are relatively thin in comparison, allowing many per chart before congestion becomes a problem. Bar charts are effective for displaying large amounts of data, but do not offer as much detail as candles.

As for time periods, Storer says "my preference is to use 30-minute charts for my short-term trading, daily charts for intermediate trading and weekly charts for the longer term. He has other favorites, too. "In all of my years as a trader, I have not found any indicator that so accurately represents the direction of the momentum in markets as the 8-bar, simple moving average." A moving average is an indicator showing the average price of a stock or commodity market over a set period.

"For me the 8-bar, simple moving average is strong enough to hold a steady course throughout the meat of a trend," Storer says. "And it signals a change in trend early enough to protect gains and join the new direction." Another indicator that is popular among traders using bar charts, he says, is the 20-bar simple average.

While different charting techniques exist, each has its own benefits and drawbacks, Storer says. Signals that are obvious on candlestick charts may not appear on bar charts. Consistency and thorough analysis of price moves with already-chosen, charting methods and other tools, however, are what makes a trader or market technician successful in the long run, he says. Storer is Director of Trading for the commodity division of Dillon Gage Inc., a full-service brokerage firm based in Dallas, Texas.

Chalk Talks for Traders – Easy Xs and Os from a Proven Market Pro *is* available now *at* http://www.chalktalksfortraders.com.

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For a review copy of ***Chalk Talks for Traders – Easy Xs and Os from a Proven Market Pro***, or to arrange an interview with Storer, please contact: Jo Trizila, TrizCom, at (972) 247-1369 or (214) 232-0078. To order *Chalk Talks for Traders – Easy Xs and Os from a Proven Market Pro* go to: http://www.chalktalksfortraders.com

Contact:
Jo Trizila
TrizCom Inc.
jo@TrizCom.com
Office: 972-247-1369
Mobile: 214-232-0078