

# Revealed! Ancient Japanese trading system

By LISA HALLIDAY

A chartist undertakes an arduous quest to uncover the deep, dark secrets of Japanese traders.

**B**eware of the hanging man, the dark cloud cover, the raindrop and the shooting star. Seek out, oh wise investor, the doji star that leads to the piercing pattern; observe the dumpling top and the fry-pan bottom — keeping eyes particularly peeled for long-legged dojis. When in doubt consult the writings of master Munehisa Homma — alias Sakata, a samurai of the old school, god of the market.

Welcome, Occidental chart mavens, to the inner world of candlestick charting — a form of technical analysis conjured up in eighteenth-century Japan and, until recently, a deep, dark secret to gaijin. Now, thanks to Steve Nison, President, Candlecharts.com, the mysteries of dark cloud covers and harami patterns have been revealed to Western eyes.

Nison's quest for candlestick wisdom has been arduous. He first stumbled across it when he noticed a Japanese broker peering at odd-looking charts. Some of the Japanese he interrogated appeared nervous and feigned ignorance; a library search revealed only sketchy information in English. He persevered, initiating a lengthy fax correspondence with Japanese adepts via the Nippon Technical Analysts Association, then finding a translator (who also knew technical analysis) able to render nine classic Japanese texts into English.

Why go to all that bother? "The exotic terminology piqued my interest," Nison says. Moreover, he soon became convinced that candlestick charts provide a lot more clues to the market future than do plain-vanilla Western bar charts.



## Hanging-man blues

Conventional technical analysis searches out patterns that recur in simple bars that trace the fluctuations of securities, from pork-belly futures to equities. The Japanese would color that bar graph black (if the market falls) or white (if it rises), then extend thin lines (called shadows) above or below (or both) to indicate highs and lows — thus creating the appearance of a candle with a wick.

## Nison says the technique allows patterns to "pop off" the chart.

Nison says the technique allows patterns to "pop off" the chart. Indeed, certain shapes suggest certain market emotions; the hanging man, for instance, with its small head and dangling shadow, is (no surprise) a bearish sign.

Candlesticks tend to generate more complex patterns than bars do. The terminology reflects the method's origins in eighteenth-century Tokugawa Japan — the era of Homma, a rice-futures trader (the Japanese claim to have invented futures) who is considered the father of technical analysis. Many patterns have a definitely military cast: piercing, thrusting and engulfing; belt holds and counterattacking lines. Others have mystical names: three crows, three Buddha tops (in Japan three is a lucky number).

Although Japanese tend to use candlestick charting prominently, until recently little about the technique reached the outside world. Even Americans employed at Japanese firms had difficulty getting an explanation. George Hersh, a vice president of equity research at Daiwa Securities America, now regularly includes candlestick charts in his reports, but before Nison got on the trail, all Hersh knew about them was gleaned from a pamphlet in English he once read.

## Nison has become a one-man candlestick proselytizer ...

Nison has become a one-man candlestick proselytizer, teaching courses at the New York Institute of Finance, chattering away about morning (bullish) and evening (bearish) stars on the Financial News Network, giving seminars. He was recently in London and Zurich, spreading the word to Europe. And he's written a book on the subject: *Japanese Candlestick Charting Techniques* (New York Institute of Finance/Simon & Schuster, \$65).

There's one nagging problem. The author of a recent article for a Japanese commodity reporting service claimed that Americans could never master patterns such as the morning star. His argument: The art of the candlestick is, like Kabuki, calligraphy and the construction of tiny electronic gizmos, peculiarly Japanese. Thus, the writer concluded, the sanctum sanctorum, illuminated by candlesticks, will forever elude the Western mind. Nison's response? "Read my book."

*from Institutional Investor*

