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Hammer and Hanging Man

(*kanazuchi/tonkachi and kubitsuri*)

Confirmation is definitely required.

Figure 3-1

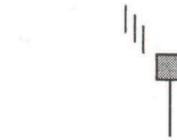


Figure 3-2



Commentary

The Hammer and Hanging Man are each made of single candlestick lines (Figures 3-1 and 3-2). They have long lower shadows and small real bodies that are at or very near the top of their daily trading range. These were first introduced as paper umbrellas in Chapter 2. They are also special versions of the Tonbo/Takuri lines.

The Hammer occurs in a downtrend and is so named because it is hammering out a bottom. The Japanese word for Hammer (*tonkachi*) also means the ground or the soil.

A Hanging Man occurs at the top of a trend or during an uptrend. The name Hanging Man (*kubitsuri*) comes from the fact that this candle line looks somewhat like a man hanging.

Another candle line similar to the Hammer is the Takuri (pronounced taguri) line. This Japanese word equates with climbing a rope or hauling up. The motion is not smooth and could be related to pulling up an anchor with your hands: as you change hands, the upward movement is interrupted momentarily. A Takuri line has a lower shadow at least three times the length of the body, whereas the lower shadow of a Hammer is a minimum of only twice the length of the body.

Rules of Recognition

1. The small real body is at the upper end of the trading range.
2. The color of the body is not important.
3. The long lower shadow should be much longer than the length of the real body, usually two to three times.
4. There should be no upper shadow, or if there is, it should be very small.

Scenarios and Psychology Behind the Pattern

Hammer

The market has been in a downtrend, so there is an air of bearishness. The market opens and then sells off sharply. However, the sell-off is abated and the market returns to, or near, its high for the day. The failure of the market to continue the selling reduces the bearish sentiment, and most traders will be uneasy with any bearish positions they might have. If the close is above the open, causing a white body, the situation is even better for the bulls. Confirmation would be a higher open with yet a still higher close on the next trading day.

Hanging Man

For the Hanging Man, the market is considered bullish because of the uptrend. In order for the Hanging Man to appear, the price action for the day must trade much lower than where it opened, then rally to close near the high. This is what causes the long lower shadow which shows how the market just might begin a sell-off. If the market opens lower the next day, there would be many participants with long positions that would want to look for an opportunity to sell. Steve Nison claims that a confirmation that the Hanging Man is bearish might be that the body is black and the next day opens lower.

Pattern Flexibility

Features that will enhance the signal of a Hammer or Hanging Man pattern are an extra long lower shadow, no upper shadow, very small real body (almost Doji), the preceding sharp trend and a body color that reflects the opposite sentiment (previous trend). This trait, when used on the Hammer, will change its name to a Takuri line. Takuri lines are, generally, more bullish than Hammers.

The body color of the Hanging Man and the Hammer can add to the significance of the pattern's predictive ability. A Hanging Man with a black body is more bearish than one with a white body. Likewise, a Hammer with a white body would be more bullish than one with a black body.

As with most single candlestick patterns like the Hammer and the Hanging Man, it is important to wait for confirmation. This confirmation may merely be the action on the open of the next day. Many times, though, it is best to wait for a confirming close on the following day. That is, if a Hammer is shown, the following day should close even higher before bullish positions are taken.

The lower shadow should be, at a minimum, twice as long as the body, but not more than three times. The upper shadow should be no more than 5 to 10 percent of the high-low range. The low of the body should be below the trend for a Hammer and above the trend for a Hanging Man.

Pattern Breakdown

The Hammer and Hanging Man patterns, being single candle lines, cannot be reduced further. See Paper Umbrella in Chapter 2.

Related Patterns

The Hammer and Hanging Man are special cases of the Dragonfly Doji discussed in the previous chapter. In most instances, the Dragonfly Doji would be more bearish than the Hanging Man.

Examples

Figure 3-3A



Figure 3-3B



Engulfing

(*tsutsumi*)

Confirmation is suggested.

Figure 3-4

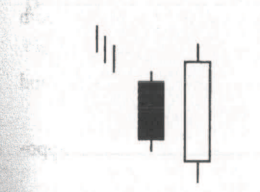


Figure 3-5

