

## **Module 2 – Chapter 7 – Dragonfly Doji**

The Dragonfly Doji is a distinct candlestick pattern that often signals a potential bullish reversal, especially when it appears after a downtrend. The pattern's name is inspired by its resemblance to a dragonfly, with its long lower shadow representing the insect's body and the absence of an upper shadow suggesting its wings.

### **What The Pattern Looks Like**

The Dragonfly Doji consists of a single candle with the following characteristics:

- 1) **Open, Close, and High Prices:** All these prices are virtually at the same level, resulting in a very small or nonexistent body. Typically, the open and close are equal or very close to each other.
- 2) **Lower Shadow:** The Dragonfly Doji has a long lower shadow (wick) that extends below the body. This shadow represents a range between the day's lowest traded price and the opening/closing price.

- 3) **Upper Shadow:** This pattern lacks an upper shadow or has a very minimal one. This means that the highest price of the session is near where the price opened and closed.

## Pattern Psychology

Understanding the psychological factors that lead to the formation of the Dragonfly Doji:

- 1) **Initial Bearish Sentiment:** The trading day starts with bears in control, pushing the price down. This is reflected in the long lower shadow as the price descends to its lowest point for the day.
- 2) **Bulls Fight Back:** As the day progresses, bulls step in, driving prices upwards. The upward movement is so significant that the closing price ends up being very close to or equal to the opening price.
- 3) **Sign of Potential Reversal:** The Dragonfly Doji's formation is an indication that even though bears initially had control, the bulls managed to counteract their dominance by the end of the session. This balance between buyers and sellers, especially after a downtrend, suggests a potential reversal or at least a weakening of the bearish momentum.
- 4) **Context Matters:** While the Dragonfly Doji is primarily seen as a bullish signal, its position within a broader trend

is crucial. For instance, when it appears after a sustained downtrend, it's more likely to be a strong bullish reversal sign. Conversely, if it appears during an uptrend, it may indicate that the trend is losing steam, but it's not as strong a bearish signal as its bullish counterpart after a downtrend.



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**What The Pattern Looks Like**

**Easy**

In conclusion, the Dragonfly Doji is a valuable candlestick pattern that helps traders identify potential shifts in market sentiment, particularly from bearish to bullish. Its clear visual representation showcases the battle between bulls and bears within a single trading session. However, as with all technical patterns, the Dragonfly Doji should be considered alongside other indicators and within the broader market context to derive maximum insight.



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