

## Candle Codes [1]

The Candle Code indicator is used to assign a numerical value to each candle based on five candlestick characteristics, including Body Color, Body Size, Upper Shadow, Lower Shadow, and Gap. Positive candle code values represent bullish candles while negative candle code values represent bearish candles. The more positive the code, the more bullish the candle. The more negative the code, the more bearish the candle. Each of the five candle characteristics can be weighted according to the user's preferences. A higher weight will make that characteristic have a greater influence on the codes value. A weight of zero will cause that characteristic to have no influence on the code.

The raw candle code values are very noisy when charted, and may be both single and double-smoothed. An oscillator may also be draw which represents the difference between the single and double-smoothed values. Signals are produced when the single smoothed line crosses over the double-smoothed line, or when the double smoothed line changed direction of slope in extreme positive or negative territory.

**CandleCode = BodyColor + BodySize + UpperShadow - LowerShadow + Gap**

where...

if( $ABS(CL - OP) \geq AvgBodySize * 2$ ) **BodySize = BodySizeWeight** else **BodySize = BodySizeWeight \*  $ABS(CL - OP) / (AvgBodySize * 2)$**

if( $HI - MAX(CL, OP) \geq AvgShadow * 2$ ) **UpperShadow = UpperShadowWeight** else **UpperShadow = UpperShadowWeight \*  $(HI - MAX(CL, OP)) / (AvgShadow * 2)$**  if( $MIN(CL, OP) - LO \geq AvgShadow * 2$ ) **LowerShadow = LowerShadowWeight** else **LowerShadow = LowerShadowWeight \*  $(MIN(CL, OP) - LO) / (AvgShadow * 2)$**

**Gap = GapWeight \*  $(OP - CL.1) / AvgGap$**

if( $CL > OP$ ) **BodyColor = BodyColorWeight** else if( $CL < OP$ ) **BodyColor = -1 \* BodyColorWeight** else ( $CL = OP$ ) **BodyColor = 0**

**AvgBodySize = Average Body Size over entire data series AvgShadow = Average Shadow over entire data series AvgGap= Average Gape over entire data series**

**SingleSmooth = MA(CandleCode, SingleType, SinglePeriod) DoubleSmooth = MA(SingleSmooth, DoubleType, DoublePeriod) Oscillator = SingleSmooth - DoubleSmooth**

## Presentation



Above is a 3-Minute Candlestick Chart of Cisco Systems (CSCO) . The 2nd pane shows the raw candle code data. The 3rd pane shows a single and double smoothing of the data. The 4th pane shows an oscillator representing the difference between the single and double-smoothed lines.

## Preferences:

A preferences dialog box for the charting software. It includes checkboxes for "Raw Codes", "Single Smoothed Line", "Double Smoothed Line", and "Oscillator". There are color and line style selectors for each. A "Weighting" section has input fields for "Body Color", "Body Size", "Up Shadow", "Lo Shadow", and "Gap". "Single Smoothing" and "Double Smoothing" sections have dropdowns for "Type" and "Period".

- **Raw Codes** -If this checkbox is check, the raw candle code line will be drawn.

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- **Single Smoothed Line** -If this checkbox is check, the single-smoothed candle code line will be drawn.
- **Double Smoothed Line** -If this checkbox is check, the double-smoothed candle code line will be drawn.
- **Oscillator** -If this checkbox is check, the oscillator representing the difference between the single and double-smoothed lines will be drawn.
- **Weighting** -Here, the weights are assigned to 5 different characteristics of the candlestick. The weights can be any number greater than or equal to zero.
- **Single-Smoothing** -Defines the type and period of the moving average used to smooth the raw candle code data.
- **Double-Smoothing** -Defines the type and period of the moving average used to smooth the single-smoothed candle code data.

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