

# The Mechanics Behind Reversal Candles

If you actively trade stocks with significant price swings, knowing *why* reversal candles appear can sharpen your timing considerably. These formations aren't coincidental — they're frequently orchestrated by liquidity providers acting on behalf of institutional clients.

Here's the underlying dynamic: major funds need to build positions without driving prices up prematurely. That requires a surge of available shares — and everyday retail traders inadvertently supply them. Liquidity providers understand that most individual traders set their protective stops right beneath obvious support levels. So when price slices through that support, a flood of automatic sell orders gets triggered. Momentum traders jump in on the short side, accelerating the decline.

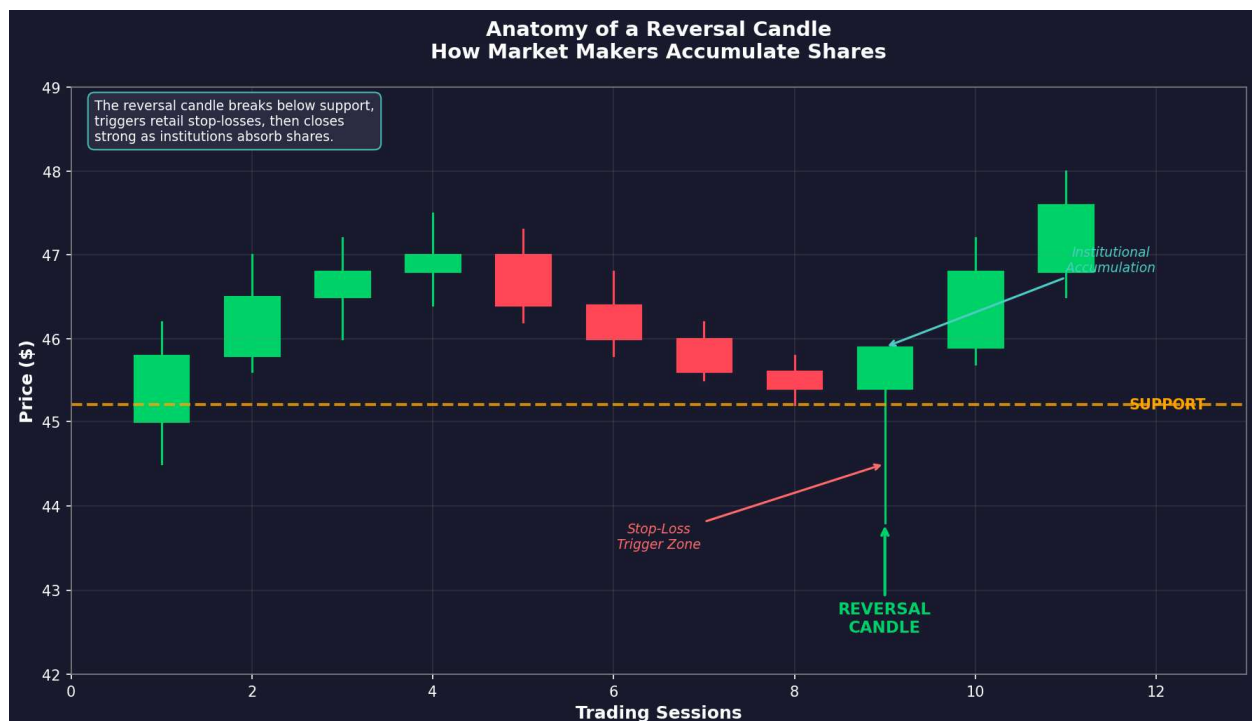
**This is precisely the opportunity institutions have been waiting for.**

Right at that moment, well-capitalized market facilitators move in aggressively, soaking up every share they can acquire. This massive wave of buying halts the decline and pushes the stock back up — often within the same session.

The result? A **reversal candle** — characterized by a deep intraday plunge that violates support, followed by a powerful recovery and a close well off the lows.

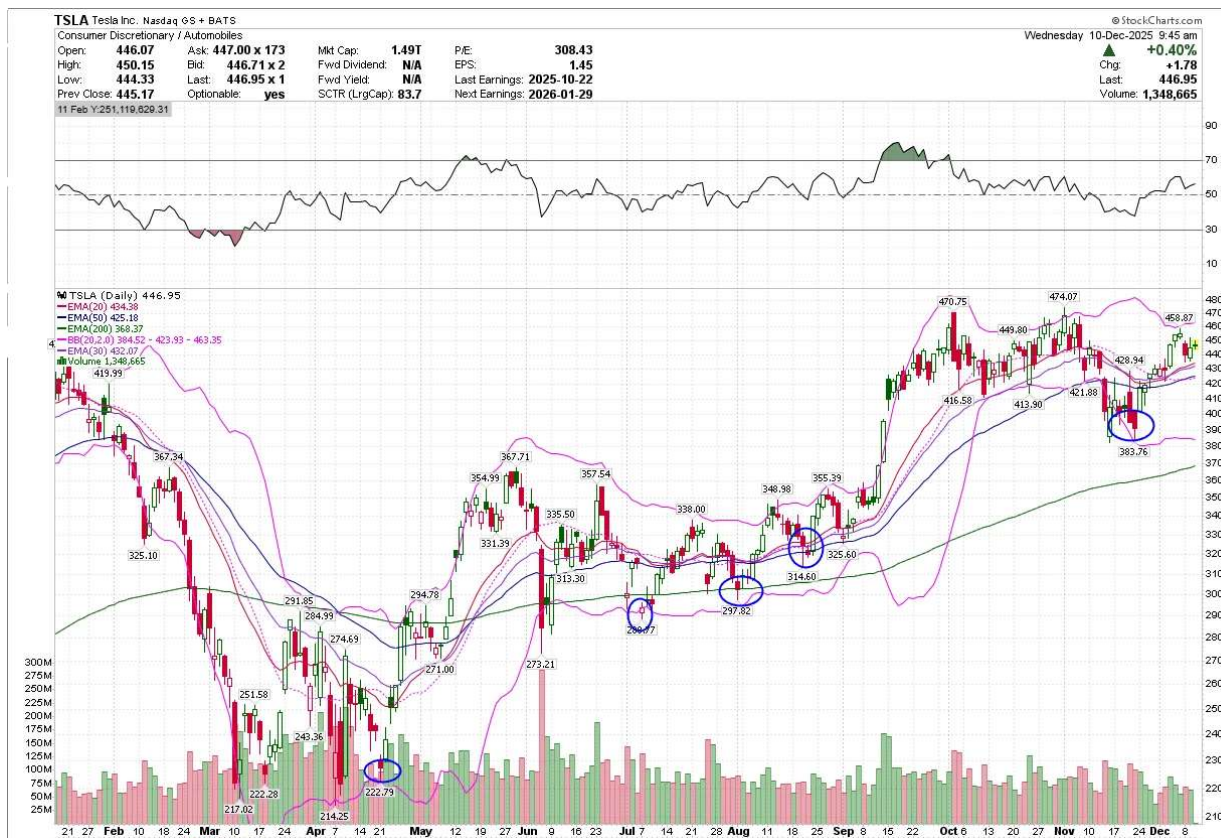
**Key Insight:** When you spot a stock slicing through support only to recover sharply and close strongly, there's a good chance institutional players just finished loading up. Recognizing this setup lets you align your trades with the smart money instead of getting shaken out by it.

## Anatomy of a Reversal Candle



The reversal candle (session 9) breaks below support, triggers retail stop-losses, then closes strong as institutions absorb shares.

## Real-World Example: Tesla (TSLA) Daily Chart



### Bullish Reversal Candles Identified on Tesla Daily Chart:

Look at reversing candles on this chart marked with blue circles (all during last eight months):

- **\$243.36** (Apr 2025). 51% rally to \$367
- **\$269.07** (Jun 2025). 33% rally to \$357
- **\$297.82** (Jul 2025). 17% rally to \$348
- **\$314.60** (Aug 2025). 49% rally to \$470
- **\$383.76** (Nov 2025). 19% rally to \$458 (Trade still open as of this writing)

A key element of successful trading is to plan and look for opportunities. If you observe a breakdown and wait for a reversal, you might increase your chances of catching that turnaround and scoring a big trading win.

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