

The Kill Candle Shorting Strategy Explained



The Kill Candle.

It just sounds menacing, doesn't it? And for good reason.

If you've ever been caught in one on the long side, you understand the pain.

What Is A Kill Candle?

Day trading legend Bao Nguyen, [@modern_rock](#) on Twitter as he is known, prefers to call it a death candle. His education service [MyInvestingClub](#) covers this candle in a few of his [popular shorting courses](#).

But regardless of what you call it, death candle or kill candle, the result is bloody for bulls.

This pattern has become so notorious that professional day

trader [@rocketcatchnbob](#), who airs his trading day live to thousands of viewers, made [“kill candle” t-shirts](#) for his followers.



[@rocketcatchnbob](#)'s kill candle t-shirts

As transparent as he is, [@rocketcatchnbob](#) admits giving up a \$100k profit day, settling for \$10k after getting caught in one of these red daggers – just to show how brutal these candles can be. His accompanying video is a great tutorial on what to watch out for.

Another video releasing after bell! Another green day, but I got too greedy going for the \$100k+ day. [\\$COCP](#) kill candle got me. RIP. <https://t.co/6zL95uDkzN>

– RCB #ChangingLives ([@RocketCatchnBob](#)) [May 4, 2021](#)

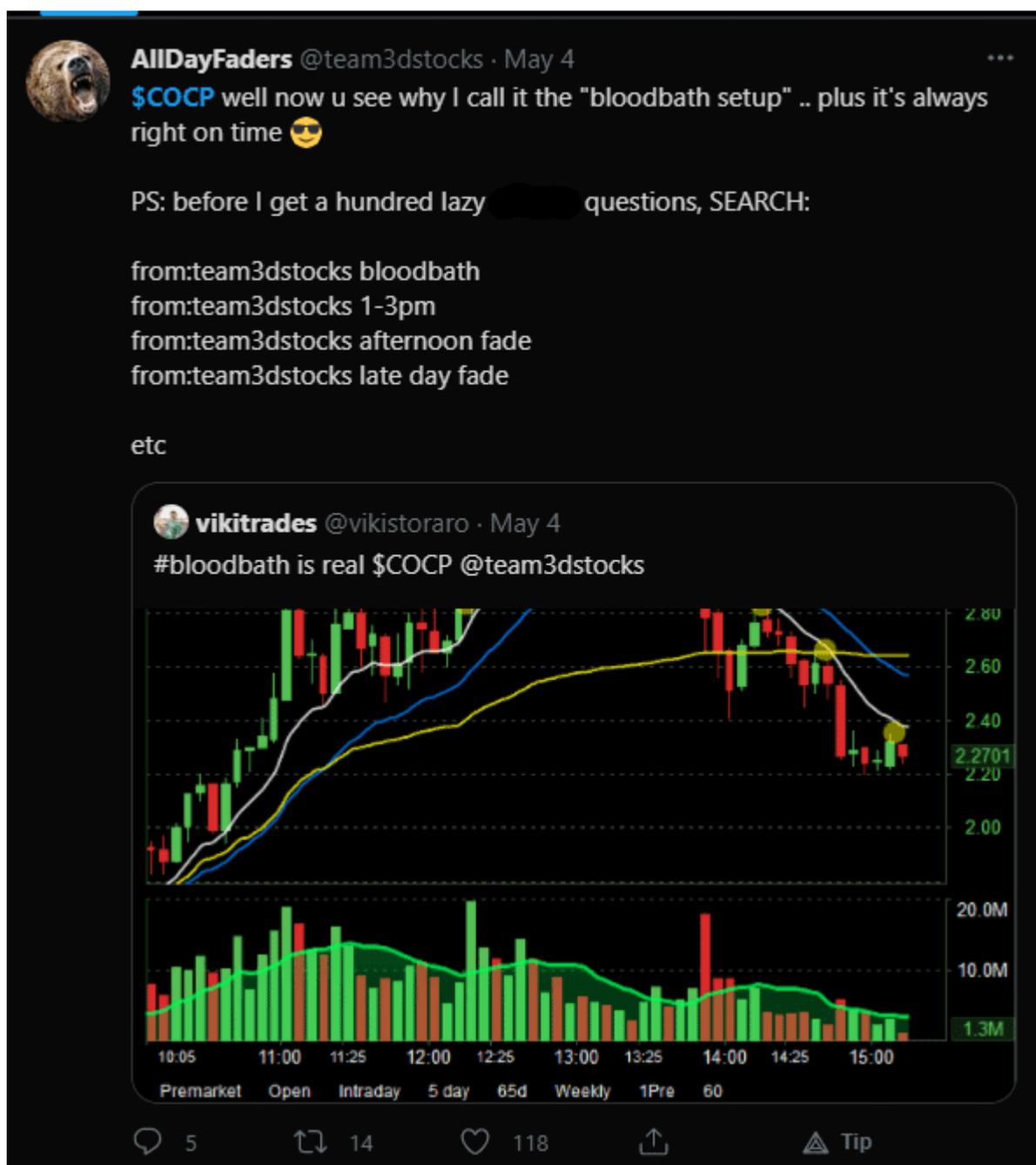
Dangerous little buggers...

Yet for every kill the candle makes, **there is always a short**

trader *making a killing* on the flip side. And depending on the setup and the skill of the trader, this candle pattern can actually be anticipated.

The Flip Side

As bulls were getting slaughtered on COCP at 2pm that day, someone else was profiting.



Fintwit personality [@team3dstocks](#) (ADF) is known in the day trading world for his [four main low float short setups](#). We'll

cover a few of them below.

More often than not, they're centered around the formation of one of these kill candles.

To that point, on this infamous day in May, COCP fit the bill for his 2-3pm "[Bloodbath setup](#)." As ADF likes to say, "it always arrives on time."



COCP Kill Candle

Who knew trading could be so scary? 21% of the stock's value gushing out in a single 1-minute candle.

Such is the world of low float, high volatility momentum trading.

But putting aside the gore, carnage and disappointment, there is a method to the madness here, as with most patterns in the market.

Our goal in this post is to highlight some key characteristics

of these candles and uncover three strategies that may help you uncover significant profits if you decide to trade them.

Or, at the very least, learn to anticipate and side step the carnage.

How To Spot One

A kill candle does what you would assume. It kills the upward momentum of a trend at the very least. The best ones reverse the trend in a single candle.

Criteria To Look For In Kill Candles

1. A large-bodied red candle
2. High Volume
3. Bearish engulfing characteristics
4. Distribution leading up to the candle print
5. (Usually) a failed breakout attempt

When we say a large-bodied red candle, we don't mean "just any 'ol red candle." We mean something significant – more than likely the most bearish candle on the chart, accompanied by the heaviest (or heavy) volume signature on the chart.

It should look something like these examples:

2-3pm Selloff + Kill Candle:

Here are two examples of the end of day strategy that @team3dstocks uses often. It is also known as a "late day fade".



COCP Kill Candle



LEXX 2-3pm bloodbath setup

10am VWAP Boulevard + Kill Candle

We cover this strategy in detail in [a different post](#) that is well worth your time. Another one from @team3dstocks, it has a very high success rate when all the criteria are met.



VWAP Boulevard kill candle example

Range Bound Multiple Kill Candles

Not all kill candles will work immediately, as was the case with BLRX. Keep in mind that algorithms, institutions, chat rooms, and deep-pocketed traders can “manipulate” stocks with such low floats.



BLRX Multiple Kill Candles

Sometimes you may see more than one kill candle. BLRX had multiple flushes, and they all occurred at the highs. As with any setup, if the trade recovers, respect your stops.

Kill Candles At The Opening Bell



Opening Bell Kill Candle

Kill Candles can present themselves at the open as well. [Opening Range Breakdowns](#) are a great strategy for the open and can often include a nice kill candle after buyers get stuffed.

As you can see, kill candles can show up just about anywhere. That being said, there are a few caveats when trading this strategy:

- Kill candles are more predictable and volatile with small caps
- Larger caps usually require some news or other impetus
- Without hotkeys, you may have a hard time trading them

The 2-3pm Bloodbath Setup

We'll take the time now to dig a bit deeper into the setups associated with the kill candle.

No doubt many momentum day traders have probably seen this pattern play out in the afternoon. It goes by a few different

names, like “late day faders,” “2-3pm selloff,” or the dramatic “2-3pm bloodbath” popularized by AllDayFaders.

For more info on this, we have a post entirely dedicated to [the strategy](#).

Float and Institutions

Regardless the name, there are a few criteria to consider. The most important being the [float size](#) and the shares traded. AllDayFaders notes why this is very important for the strategy:



According to ADF, institutions must close their positions before the end of the day, otherwise it is considered a “holding” and [has to be filed](#).

If this is the case, then it makes sense for a [proprietary trading firm](#), hedge fund, or insiders manipulating the float to support the bid up until the bloodbath. Once time is expired, **the bid collapses and the fund walks with whatever shares it had**, giving it enough time to liquidate down before the close.

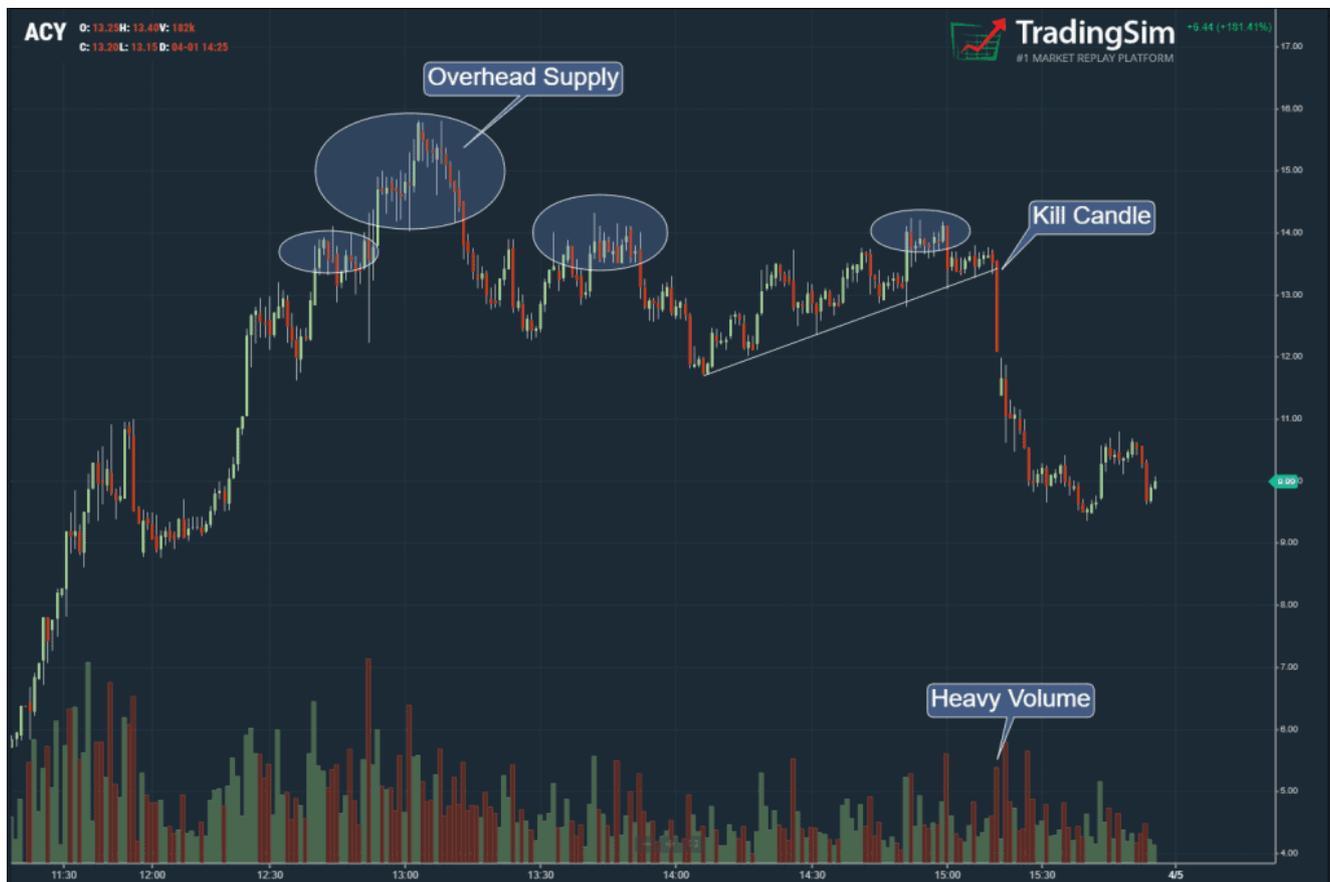
It is for this reason that lower float stocks fit the criteria for the pattern as opposed to higher float, larger cap stocks which are harder to manipulate.

Regardless of what institutions are behind the stock movement, the tape doesn't lie. We can see the footprints leading up to the dump.

What do we mean by that?

Plain and simple. Distribution.

Example



ACY Kill Candle example

In this example, we have a low float runner topping out around \$16 for the high of the day. With the image we have shown, you can see that major selling pressure came in at the highs (indicated by the circles).

As the day wore on, the big players continued to prop the bid (demand) in order to make the stock look like a squeeze was imminent. Retail traders bought into the dip or covered their shorts. But time runs out, and 3:00pm and 3:11pm marked the last of the uptrend.

The big buyers walked away and the stock retraced half its value in a short amount of time.

We also like to call this “walking the plank.” A lot of the violent drops occur at the pivot line of an ascending lower channel marker. Others might call these bear flags.

For a nice video explanation on this setup, check out professional trader [Nate Michaud's YouTube clip](#).

The Opening Bell Setup

Kill candles that appear at the open can be great shorting opportunities. The best occur as bulls are pushing the stock higher only to be met with a wall of selling pressure.

In a recent trade on ticker CRSR, we see a perfect example of how bulls were trapped into buying a breakout at the open, only to watch the price immediately reverse.



Opening Bell CRSR kill candle.

As a trader, you can anticipate the breakdown if you are nimble with a trading platform geared for fast order-entry.

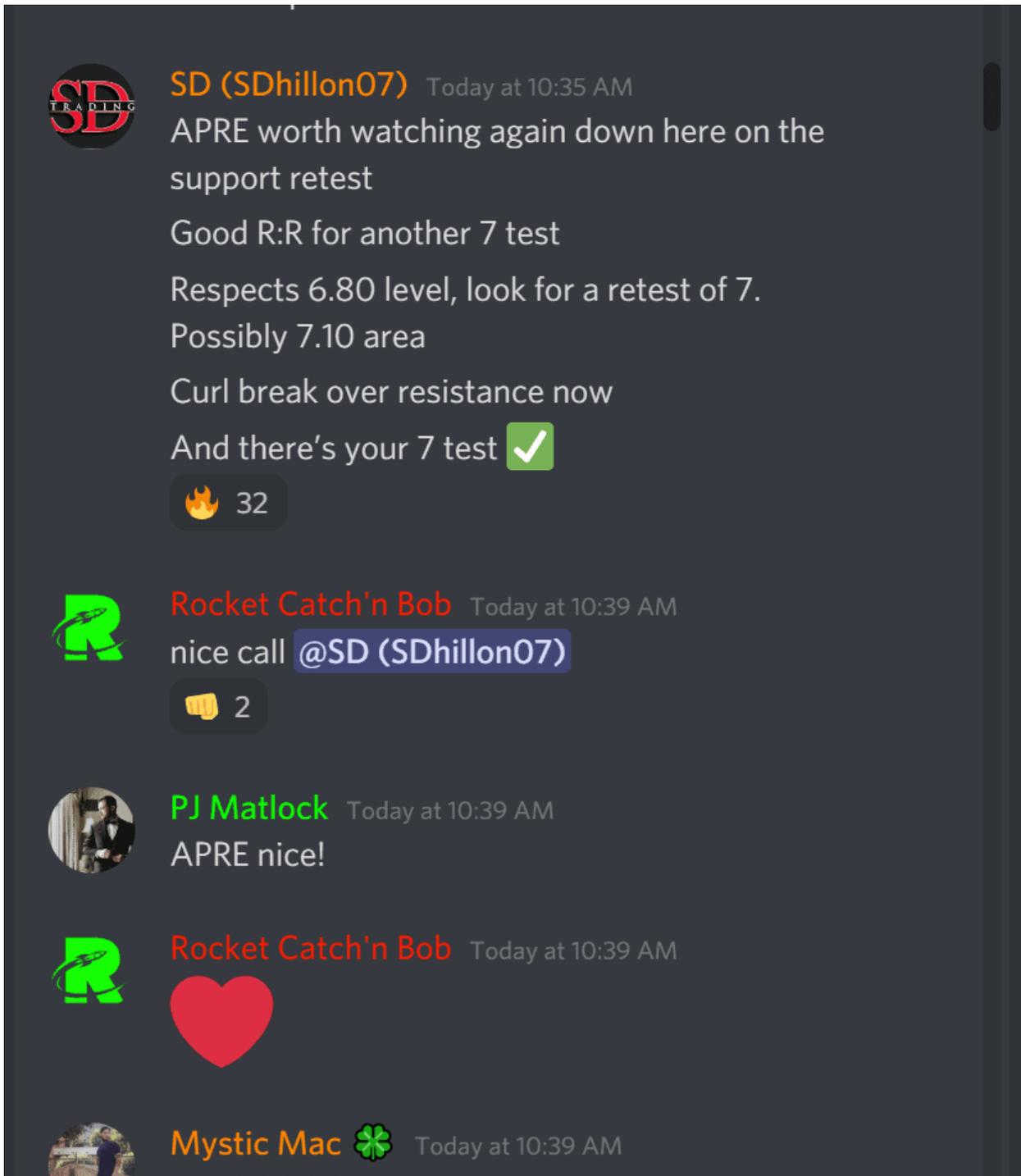
The wick above the breakout line on the chart is our indication that price is stalling and distribution is flooding into the heavy buying pressure.

There is so much selling, in fact, that it overwhelms any bullish demand trying to move the stock upward. The result? A kill candle.

To learn more, MyInvestingClub does a great job explaining this type of setup with their free “Death Line” [YouTube webinar](#).

The Chat Pump Exit

In the small world of momentum day trading, there are a lot of influencers on small cap stocks. Just as CNBC, or well-respected analysts might influence the movement of larger cap names, the small cap world has its chat rooms, social media, and other influencers.



Example of a day trading chat room

Regardless of where the influence comes from, **our goal as traders is to simply be aware of the price action on the chart.**

To that point, if a chat room with thousands of retail traders is calling out buying opportunities, you can expect that with a small amount of shares available in low float stocks, you'll see plenty of movement on the chart.

Sometimes, this can provide underlying demand for successful long plays. Other times, bears are lying in wait for the exhaustion, using the opportunity as a “liquidity event” to initiate large short positions.

And at the end of the day, it is all about who won: supply or demand.

And hopefully, there is enough meat on the bone for everyone to get a win.

Example

VCNX is an example of a stock that was being heavily pumped to its members, starting in the premarket and continuing into the regular session.



VCNX Kill Candle at VWAP Boulevard

Admittedly, the bulls had a fantastic run! However, the momentum was eventually exhausted at a prior day's resistance

line we call [vwap boulevard](#), credit to AllDayFaders.

Within seconds of the chat room moderator announcing that he was selling his remaining shares, the bottom fell out of the stock.

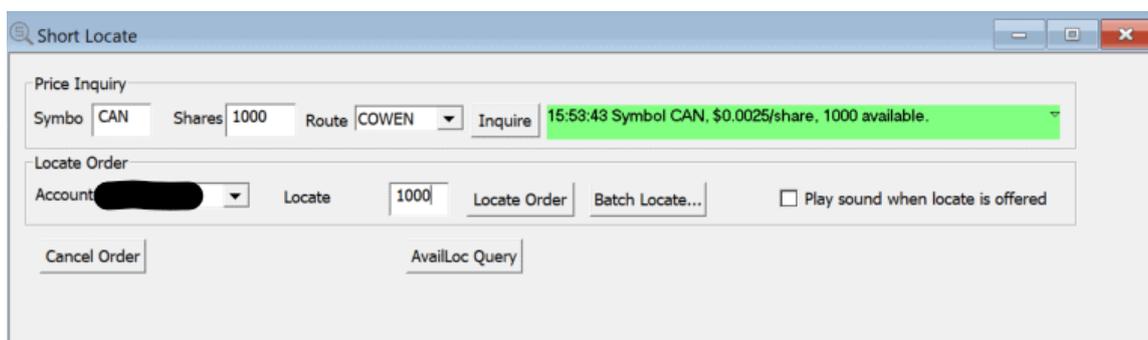
VCNX lost 16% of its value in 1 candle. It never recovered that day.

Other Considerations

When trading kill candles, it is important to note that volatility is at an extreme. This may not suit your trading personality or risk profile.

The candles move swiftly, as you can see, and the ability to get filled may be an issue depending on the broker and platform you trade with. Even with specialized trading tools, you may not get filled properly in such a fast-moving environment.

Along the same lines, not all of these securities will be available to short. For that reason, many professional traders use specialized brokers and trading platforms in order to locate shares at a fee.



DAS Short Locate Window

Lastly, it is important to note that these are just a few examples. As you study this pattern over time, you'll find that the more criteria you can find to support your trade plan, the better.

Criteria like daily [resistance levels](#), supply and demand in [the Level II](#), [psychological support and resistance](#), etc., can all help you with your execution.

How to Practice the Kill Candle

As with any strategy, **it is worth practicing until you can't get it wrong.**

Daytrading is risky enough as a seasoned professional. Make sure you know what you're doing and [have a plan](#) for all of your trades.

Once you've created a large enough subset of simulated trades to know your success rate, then you might consider putting real money to work in the market.

Until then, stick to a [risk-free environment](#) for learning these strategies and protect your hard-earned money. Save the gambling for Vegas.