Candles when the open and close are auctions

> **AUCTION PRINT**
>
> The single price an opening or closing auction matches at. On an index daily candle it is the open and the close, so those two values are struck differently from every price between them - matched in one event rather than being the first and last of a continuous stream.

A daily candle has four numbers. On an index, two of them are made in a way that is worth knowing about, and it changes what they tell you.

The open is not the first trade

It is the auction price: one level, chosen to match the largest volume, struck before continuous trading begins. Nobody traded at a slightly different price a second earlier - there was no continuous market yet.

So an open standing well away from the previous close is not a fast move that you missed. It is a single event, and there is no path between the two prices to read.

The close is the most solid number on the chart

The closing auction typically transacts more volume than any other moment of the day. The close is where the largest amount of real money agreed on a price.

That is worth weighting accordingly. A close through a level carries more information than an intraday touch of the same level, because far more participants were involved in setting it.

What the wicks are telling you

Between the two auctions the candle is ordinary: continuous trading, highs and lows made by whoever was willing to deal.

So a long upper wick means the same thing here as anywhere - price traded up there and did not stay. What differs is the ends. A candle whose body is small but whose open sits far from yesterday's close is describing an auction, not a battle.

A practical reading

Open far from yesterday's close: an auction repriced overnight information. Lesson 4.Close near the day's extreme: the most-participated price of the day was at that extreme.Open and close close together with long wicks: continuous trading went somewhere and came back, and both auctions agreed.

None of that is a signal. It is reading the candle for what its four numbers actually are, which is a prerequisite for anything module 5 does with them.

Check your understanding

1. What is the open of an index daily candle?

a. The first continuous trade of the session
b. The opening auction price, matched in a single event
c. The previous session's close, carried forward

Answer: b. It is one price struck to match the largest volume, before continuous trading starts. There is no path between it and the previous close, because nothing traded in between.

2. Why does a close through a level carry more information than an intraday touch of it?

a. Closes are recorded more accurately
b. The closing auction usually transacts more volume than any other moment of the day
c. Intraday prices are filtered by the index provider

Answer: b. Far more real money participated in setting that price. It is the most-participated number on the chart, which is a reason to weight it.