

Module 2 – Chapter 4 – Bullish Engulfing

The Bullish Engulfing pattern is a compelling bullish reversal signal, often indicating a potential bottom or support level in the market, especially when it materializes after a downtrend. As the name suggests, this pattern involves a bullish candle that "engulfs" the preceding bearish candle, symbolizing a forceful shift from selling to buying sentiment.

What The Pattern Looks Like

The Bullish Engulfing is a two-candlestick pattern defined by the following characteristics:

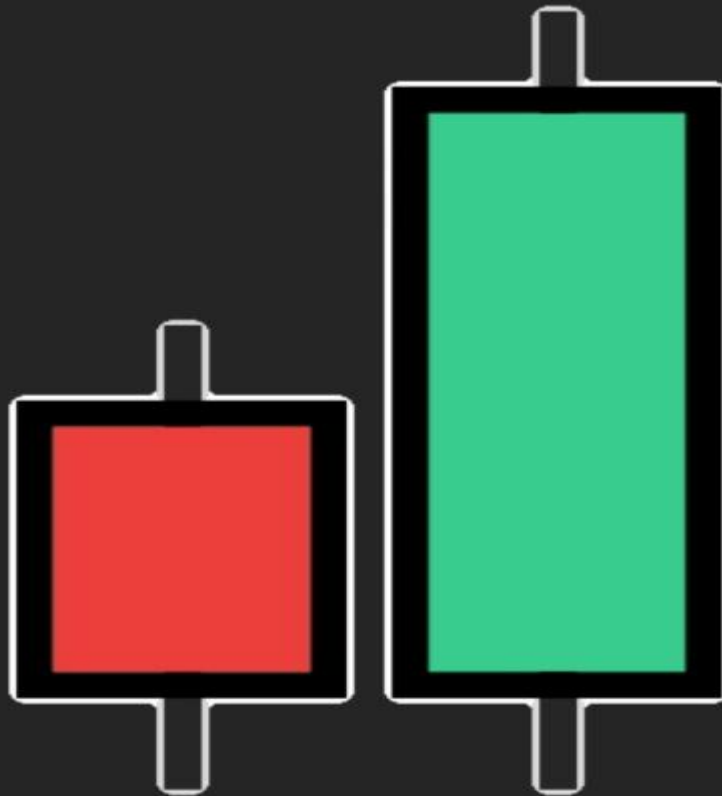
- 1) **First Candle:** A bearish (red/black) candle that is a continuation of the prevailing downtrend.
- 2) **Second Candle:** A larger bullish (green/white) candle that opens lower than the close of the previous bearish candle and closes higher than the open of the preceding bearish candle. In essence, the body of the bullish candle completely engulfs or covers the body of the prior bearish candle.
- 3) **Shadow Considerations:** While the body of the second candle must engulf the body of the first, the shadows (wicks) of the candles are not strictly considered. However, the pattern is deemed stronger if the second candle's shadows also engulf the first candle's shadows.
- 4) **Location:** For optimal significance, the Bullish Engulfing pattern should appear after a noticeable downtrend or bearish movement.

Pattern Psychology

Breaking down the psychological dynamics of the Bullish Engulfing pattern:

- 1) **Continuation of Bearish Sentiment:** The first candle represents a continuation of the ongoing bearish sentiment, with sellers still having the upper hand in the market.
- 2) **Shift in Momentum:** The second candle begins with a gap down, indicating an initial continuation of the bearish trend. However, as the session unfolds, buying pressure surges dramatically, causing the price to ascend and close above the opening of the previous day. This powerful bullish activity effectively "engulfs" the prior day's pessimism.
- 3) **Signal of Potential Reversal:** The Bullish Engulfing pattern conveys a significant shift in market sentiment. After days (or periods) of declining prices, the sudden strong bullish response indicates potential exhaustion among sellers and a burgeoning confidence among buyers. This can be interpreted as a sign that the tide is turning in favor of the bulls.
- 4) **Need for Confirmation:** While the Bullish Engulfing pattern is a strong bullish signal on its own, prudent traders often seek additional confirmation. This could be in the form of a subsequent

bullish candle, a rise in trading volume during the formation of the engulfing candle, or other corroborating technical indicators.



What The Pattern Looks Like

In summation, the Bullish Engulfing pattern paints a vivid picture of a market tug-of-war, where the bulls make a decisive comeback after a period of bearish dominance. This pattern is an essential tool for traders, serving as a potential harbinger of a bullish reversal. However, as with all candlestick patterns, it is crucial to analyze the Bullish Engulfing in the broader context of the market and with complementary technical tools to make informed trading decisions.