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## Dark Cloud Cover

By CORY MITCHELL Updated November 19, 2021

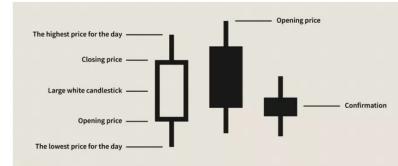
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### What Is the Dark Cloud Cover?

Dark Cloud Cover is a bearish reversal candlestick pattern where a down candle (typically black or red) opens above the close of the prior up candle (typically white or green), and then closes below the midpoint of the up candle.

The pattern is significant as it shows a shift in the momentum from the upside to the downside. The pattern is created by an up candle followed by a down candle. Traders look for the price to continue lower on the next (third) candle. This is called [confirmation](#).



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#### KEY TAKEAWAYS

- Dark Cloud Cover is a candlestick pattern that shows a shift in momentum to the downside following a price rise.
- The pattern is composed of a bearish candle that opens above but then closes below the midpoint of the prior bullish candle.
- Both candles should be relatively large, showing strong participation by traders and investors. When the pattern occurs with small candles it is typically less significant.
- Traders typically see if the candle following the bearish candle also shows declining prices. A further price decline following the bearish candle is called confirmation.

### Understanding Dark Cloud Cover

The Dark Cloud Cover pattern involves a large black candle forming a "dark cloud" over the preceding up candle. As with a [bearish engulfing](#) pattern, buyers push the price higher at the open, but sellers take over later in the session and push the price sharply lower. This shift from buying to selling indicates that a price reversal to the downside could be forthcoming.

Most traders consider the Dark Cloud Cover pattern useful only if it occurs following an [uptrend](#) or an overall rise in price. As prices rise, the pattern becomes more important for marking a potential move to the downside. If the price action is [choppy](#), the pattern is less significant since the price is likely to remain choppy after the pattern.

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The five criteria for the Dark Cloud Cover pattern are:

1. An existing bullish [uptrend](#).
2. An up ([bullish](#)) candle within that uptrend.
3. A [gap](#) up on the following day.
4. The gap turns into a down ([bearish](#)) candle.
5. The bearish candle closes below the midpoint of the previous bullish candle.

The Dark Cloud Cover pattern is further characterized by white and black candlesticks that have long [real bodies](#) and relatively short or non-existent [shadows](#). These attributes suggest that the move lower was both highly decisive and significant in terms of price movement. Traders might also look for a confirmation in the form of a bearish candle following the pattern. The price is expected to decline following the Dark Cloud Cover, so if it doesn't that indicates the pattern may [fail](#).

The close of the bearish candle may be used to exit [long](#) positions. Alternatively, traders may exit the following day if the price continues to decline (pattern confirmed). If entering [short](#) on the close of the bearish candle, or the next period, a [stop loss](#) can be placed above the high of the bearish candle.

There is no [profit target](#) for a Dark Cloud Cover pattern. Traders utilize other methods or candlestick patterns for determining when to exit a short trade based on Dark Cloud Cover.

Traders may use the Dark Cloud Cover pattern in conjunction with other forms of technical analysis. For example, traders might look for a [relative strength index \(RSI\)](#) greater than 70, which provides a confirmation that the security is overbought. A trader may also look for a [breakdown](#) from a key [support level](#) following a Dark Cloud Cover pattern as a signal that a [downtrend](#) may be forthcoming.



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**Example of Dark Cloud Cover**

The following chart shows an example of the Dark Cloud Cover pattern in the VelocityShares Daily 2X VIX Short Term ETN (VXX):



In this example, the Dark Cloud Cover occurs when the third bullish candle is followed by a bearish candle that opens higher and closes below the midpoint of the last bullish candle. The pattern successfully predicted a downturn in the following session where the price moved nearly seven percent lower. That session provided confirmation.

Traders who were long could consider exiting near the close of the bearish candle or on the following day (confirmation day) when the price continued dropping. Traders could also enter short positions at these junctures as well.

If entering short, the initial stop loss could be placed above the high of the bearish candle. Following the confirmation day, the stop loss could be dropped to just above the confirmation day high in this case. Traders would then establish a downside profit target, or continue to [trail their stop loss](#) down if the price continues to fall.

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