Bullish Abandoned Baby

By CORY MITCHELL Updated May 06, 2021

What Is a Bullish Abandoned Baby?

The bullish abandoned baby is a type of candlestick pattern that is used by traders to signal a reversal of a downtrend. It forms in a downtrend and is composed of three price bars. The first is a large down candle, followed by a doji candle that gaps below the first candle. The next candle opens higher than the doji and moves aggressively to the upside.

The expectation is that the price will continue to move higher as the pattern shows that selling has been at least temporarily exhausted. The bullish abandoned baby can be contrasted with a bearish abandoned baby pattern, which marks the possible end of an uptrend.

KEY TAKEAWAYS

- The bullish abandoned baby is a three-bar pattern following a downtrend.
- It consists of a strong down candle, a gapped down doji, and then a strong bullish candle that gaps up.
- This pattern signals the potential end of a downtrend and the start of a price move higher.
- Some traders allow for slight variation. There may be more than one doji, or gaps may not be present after the first or second candle. But the overall psychology of the pattern should still be present.

Understanding the Bullish Abandoned Baby

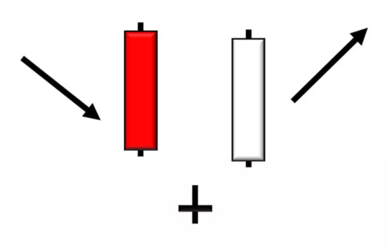
Traders watch for bullish abandoned baby patterns to signal the potential end of a downtrend. The pattern is fairly rare as the price movements need to meet specific criteria in order to create the pattern.

1. The first bar is a large down candlestick located within a defined downtrend.
2. The second bar is a doji candle (open is approximately equal to the close) that gaps below the close of the first bar.
3. The third bar is a large white candle that opens above the second bar.

The psychology or idea behind the pattern is that the price has been dropping aggressively and just had a big sell-off again (first down candle). The price then forms a doji, which shows selling is leveling off as the open and close prices of the doji are nearly the same.

Dojis are commonly associated with indecision. In this case, the doji means that sellers may be losing momentum and buyers are starting to step in. The doji, or dojis, are followed by a strong advancing candle that typically gaps higher from the doji. This shows that buyers have regained control and that the selling has at least temporarily been exhausted.

Traders may manually search for the bullish abandoned baby, or trade it when they see it, but they can also scan for the pattern using trading software.



Bullish Abandoned Baby Pattern.

Special Considerations

Some traders will allow for slight variations. For example, the doji may not gap below the close of the first candle, instead opening near the prior close and staying there.

Sometimes there are two or three dojis before the price makes its upward move. This would be acceptable to some traders since the pattern is still showing a drop, a leveling off, and then a sharp rise.

Trading the Bullish Abandoned Baby

While there are multiple ways to trade the bullish abandoned baby pattern, here are some general ideas on how to do it.

- **Entry:** Some traders enter on a break above the third bar in the pattern using a stop-limit order. The expectation is that the price will continue to move higher, so if it does, by moving above the high of the third bar, this could be used as a buying opportunity.
- **Stop-Loss Order:** To avoid getting stopped out prematurely, traders could place a stop-loss order below the lower shadow of the bullish abandoned baby bar (doji). Traders who would like to risk less could place a stop-loss order just below the low of the third bar in the pattern. Increased volatility often accompanies trend reversals. Keep this in mind when selecting a stop-loss location.
- **Profit Target:** The pattern does not have a profit target. Some other exit method will need to be used to realize any profit that may occur.

A profit target at a Fibonacci retracement level could be used. For example, traders might set a profit target at a 50% retracement of the downtrend that preceded the bullish abandoned baby pattern.

Other options may include setting a target at a fixed risk/reward ratio. For instance, if risking $500, set a profit target at a $1,000 or $1,500 gain. A trader could also use technical indicators, or exit when the price drops below a chosen moving average.

Example of a Bullish Abandoned Baby

The bullish abandoned baby is fairly rare since its pattern has strict requirements. Some traders allow the restrictions to be relaxed slightly, which means more patterns will be found, and the results can still be quite good.

A few variations of the pattern formed in Macy's Inc. After the price declined, on a number of occasions it formed a bullish abandoned baby bottom. These patterns were followed by strong moves to the upside.

Image by Sabrina Jiang © Investopedia 2021

Pattern one is a slight variation of the traditional pattern, as the doji doesn't gap below the prior close, and there are two dojis. Yet the sentiment of the pattern still shows a bullish shift. The pattern has a strong drop, indecision and leveling off, and then a strong surge higher after the dojis.

Pattern two is more traditional, except there are once again two dojis. This is acceptable, and the price shot higher following the pattern.

Pattern three is also a slight variation, as the doji didn't gap below the prior candle's close. The price moved higher following the doji, though, and an uptrend commenced.

Similar Patterns

Both the bullish and bearish abandoned baby patterns are similar to the evening star and morning star formations. The difference that makes the abandoned baby patterns so rare is the occurrence of the doji candle with a gap on either side. The evening star and morning star formations do not require the middle candle to be a doji, or to have gaps on either side.

The name "doji", like many of the names of candlestick patterns, comes from a traditional usage among rice traders in Japan. Steve Nison is credited with first publishing this name in the popular press in 1991, though the name has been around in Japanese trading for centuries. This pattern is also similar to the bar-chart pattern known as an island reversal but with only a single candle.

Compete Risk Free with $100,000 in Virtual Cash

Put your trading skills to the test with our FREE Stock Simulator. Compete with thousands of Investopedia traders and trade your way to the top! Submit trades in a virtual environment before you start risking your own money. Practice trading strategies so that when you're ready to enter the real market, you've had the practice you need. Try our Stock Simulator today >>

Related Terms

What Is a Bearish Abandoned Baby?
A bearish abandoned baby is a type of candlestick pattern identified by traders to signal a reversal in the current uptrend. more

Unique Three River Definition and Example
The unique three river is a candlestick pattern composed of three specific candles, and it may lead to a bullish reversal or a bearish continuation. more

What Is a Doji Candle Pattern?
A doji is a name for a session in which the candlestick for a security has an open and close that are virtually equal and are often components in patterns. more

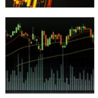
What Does a Thrusting Line Say About a Stock's Price?
Stock traders watch a so-called thrusting line as part of a pattern that indicates increasing demand for a particular stock. more

White Candlestick Definition
A white candlestick depicts a period where the security's price has closed at a higher level than where it had opened. more

Three Stars in the South
The three stars in the south is a three-candle bullish reversal pattern, following a decline, that appears on candlestick charts. more

Related Articles

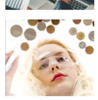

TECHNICAL ANALYSIS BASIC EDUCATION
Using Bullish Candlestick Patterns To Buy Stocks


TECHNICAL ANALYSIS BASIC EDUCATION
The 5 Most Powerful Candlestick Patterns


TECHNICAL ANALYSIS BASIC EDUCATION
Understanding a Candlestick Chart


TRADING SKILLS & ESSENTIALS
10 Day Trading Strategies for Beginners


ADVANCED TECHNICAL ANALYSIS CONCEPTS
Advanced Candlestick Patterns


TECHNICAL ANALYSIS BASIC EDUCATION
Tweezers Provide Precision for Trend Traders