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Bullish Engulfing Pattern

By JAMES CHEN Updated April 30, 2021

Reviewed by CHARLES POTTER

What Is a Bullish Engulfing Pattern?

A bullish engulfing pattern is a [white candlestick](#) that closes higher than the previous day's opening after opening lower than the previous day's close. It can be identified when a small [black candlestick](#), showing a bearish trend, is followed the next day by a large white candlestick, showing a bullish trend, the body of which completely overlaps or engulfs the body of the previous day's candlestick.

A bullish engulfing pattern may be contrasted with a [bearish engulfing pattern](#).

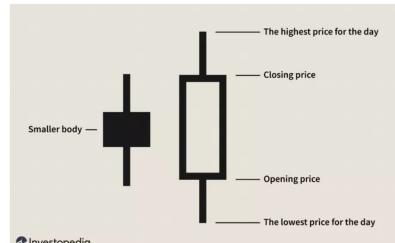
KEY TAKEAWAYS

- A bullish engulfing pattern is a candlestick pattern that forms when a small black candlestick is followed the next day by a large white candlestick, the body of which completely overlaps or engulfs the body of the previous day's candlestick.
- Bullish engulfing patterns are more likely to signal reversals when they are preceded by four or more black candlesticks.
- Investors should look not only to the two candlesticks which form the bullish engulfing pattern but also to the preceding candlesticks.

Understanding a Bullish Engulfing Pattern

The bullish engulfing pattern is a two-candle reversal pattern. The second candle completely 'engulfs' the [real body](#) of the first one, without regard to the length of the tail shadows.

This pattern appears in a [downtrend](#) and is a combination of one dark candle followed by a larger hollow candle. On the second day of the pattern, the price opens lower than the previous low, yet buying pressure pushes the price up to a higher level than the previous high, culminating in an obvious win for the buyers.



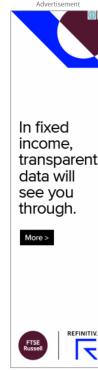
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Important: It is advisable to enter a [long position](#) when the price moves higher than the high of the second engulfing candle—in other words when the downtrend reversal is confirmed.

What Does a Bullish Engulfing Pattern Tell You?

A bullish engulfing pattern is not to be interpreted as simply a white candlestick, representing upward price movement, following a black candlestick, representing downward price movement. For a bullish engulfing pattern to form, the stock must open at a lower price on Day 2 than it closed at on Day 1. If the price did not gap down, the body of the white candlestick would not have a chance to engulf the body of the previous day's black candlestick.



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Because the stock both opens lower than it closed on Day 1 and closes higher than it opened on Day 1, the white candlestick in a bullish engulfing pattern represents a day in which [bulls](#) controlled the price of the stock in the morning only to have [bears](#) decisively take over by the end of the day.

The white candlestick of a bullish engulfing pattern typically has a small upper [wick](#), if any. That means the stock closed at or near its highest price, suggesting that the day ended while the price was still surging upward.

This lack of an upper wick makes it more likely that the next day will produce another white candlestick that will close higher than the bullish engulfing pattern closed, though it's also possible that the next day will produce a black candlestick after gapping up at the opening. Because bullish engulfing patterns tend to signify [trend reversals](#), analysts pay particular attention to them.

Bullish Engulfing Pattern vs. Bearish Engulfing Pattern

These two patterns are opposites of one another. A bearish engulfing pattern occurs after a price moves higher and indicates lower prices to come. Here, the first candle, in two-candle pattern, is an up candle. The second candle is a larger down candle, with a real body that fully engulfs the smaller up candle.

Example of a Bullish Engulfing Pattern

As a historical example, let's consider Philip Morris ([PM](#)) stock. The company's shares were a great long in 2011 and remained in an [uptrend](#). In 2012, though, the stock was retreating.

On January 13, 2012, a bullish engulfing pattern occurred; the price jumped from an open of \$76.22 to close out the day at \$77.32.^[1] This bullish day dwarfed the prior day's [intraday](#) range where the stock finished down marginally. The move showed that the bulls were still alive and another wave in the uptrend could occur.

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Bullish Engulfing Candle Reversals

Investors should look not only at the two candlesticks which form the bullish engulfing pattern but also to the preceding candlesticks. This larger context will give a clearer picture of whether the bullish engulfing pattern marks a true trend reversal.

Bullish engulfing patterns are more likely to signal [reversals](#) when they are preceded by four or more black candlesticks. The more preceding black candlesticks the bullish engulfing candle engulfs, the greater the chance a trend reversal is forming, confirmed by a second white candlestick closing higher than the bullish engulfing candle.

Acting on a Bullish Engulfing Pattern

Ultimately, traders want to know whether a bullish engulfing pattern represents a [change of sentiment](#), which means it may be a good time to buy. If [volume](#) increases along with price, aggressive traders may choose to buy near the end of the day of the bullish engulfing candle, anticipating continuing upward movement the following day. More conservative traders may wait until the following day, trading potential gains for greater certainty that a trend reversal has begun.

Limitations of Using Engulfing Patterns

A bullish engulfing pattern can be a powerful signal, especially when combined with the current trend; however, they are not bullet-proof. Engulfing patterns are most useful following a clean downward price move as the pattern clearly shows the shift in momentum to the [upside](#). If the price action is choppy, even if the price is rising overall, the significance of the engulfing pattern is diminished since it is a fairly common signal.

The engulfing or second candle may also be huge. This can leave a trader with a very large [stop loss](#) if they opt to trade the pattern. The potential reward from the trade may not justify the risk.

Establishing the potential reward can also be difficult with engulfing patterns, as candlesticks don't provide a [price target](#). Instead, traders will need to use other methods, such as indicators or [trend analysis](#), for selecting a price target or determining when to get out of a profitable trade.

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