

Module 3 – Chapter 5 – Bearish Engulfing

The Bearish Engulfing pattern is a potent bearish reversal signal, typically signifying a potential top or resistance level in the market when it emerges after an uptrend. As its name suggests, the pattern involves a bearish candle "engulfing" the preceding bullish candle, symbolizing a dominant shift from buying to selling sentiment.

What The Pattern Looks Like

The Bearish Engulfing is a two-candlestick pattern characterized by the following attributes:

- 1) **First Candle:** A bullish (green) candle that represents a continuation of the existing uptrend.
- 2) **Second Candle:** A more substantial bearish (red) candle that opens higher than the close of the previous bullish candle and closes lower than the opening of the prior bullish candle. Essentially, the body of the bearish candle completely engulfs or overshadows the body of the preceding bullish 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 taken into account. Nevertheless, the pattern is considered more potent if the second candle's shadows also engulf the shadows of the first candle.

- 4) **Location:** For maximum relevance, the Bearish Engulfing pattern should materialize after a pronounced uptrend or bullish movement.

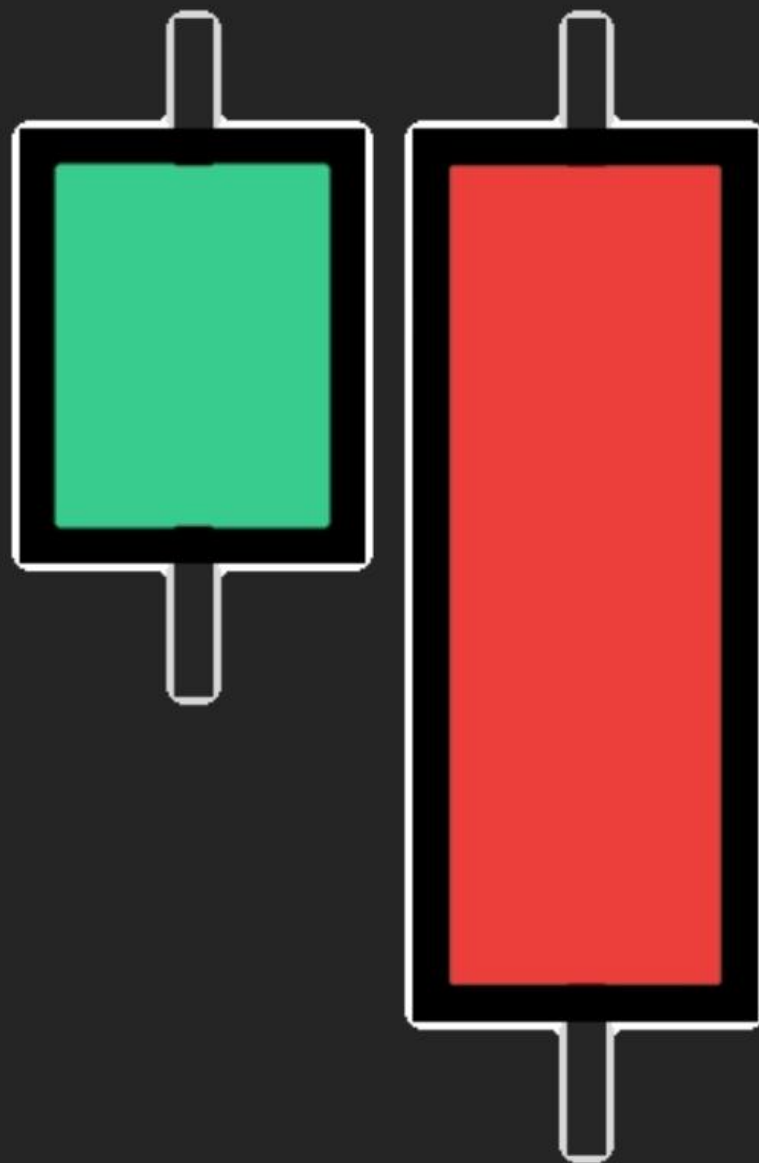
Pattern Psychology

Dissecting the psychological undertones of the Bearish Engulfing pattern:

- 1) **Prolongation of Bullish Momentum:** The initial candle indicates a continuation of the prevailing bullish sentiment, with buyers maintaining control in the market.
- 2) **Momentum Pivot:** The second candle starts with a gap up, signaling an initial extension of the bullish trend. Yet, as the session progresses, selling pressure intensifies dramatically, causing prices to drop and close beneath the opening of the previous day. This robust bearish action effectively "engulfs" the optimism of the prior day.

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- 3) **Indication of Potential Reversal:** The Bearish Engulfing pattern conveys a marked shift in market dynamics. After a period of ascending prices, the sudden forceful bearish response hints at potential exhaustion among buyers and a burgeoning assertiveness among sellers. This can be seen as a signal that momentum is pivoting towards the bears.
- 4) **Emphasis on Confirmation:** Although the Bearish Engulfing pattern is a robust bearish sign in isolation, cautious traders frequently seek supplementary confirmation. This could manifest as a subsequent bearish candle, an increase in trading volume during the formation of the engulfing candle, or other supportive technical indicators.

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What The Pattern Looks Like

In summary, the Bearish Engulfing pattern offers a clear depiction of a market turning point, where bears regain the upper hand after a phase of bullish dominance. This pattern is invaluable for traders, serving as a potential forewarning of a bearish reversal. Nevertheless, as is the case with all candlestick patterns, it's essential to evaluate the Bearish Engulfing within the broader market landscape and in tandem with other technical instruments to craft well-informed trading strategies.



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