Engulfing Patterns

### Bearish Engulfing Pattern

**Criteria:**
- Black real body wraps around preceding white real body
- Market in up trend

**Implication:** ‘Bulls have been constrained”

### Bullish Engulfing Pattern

**Criteria:**
- White real body wraps around preceding black real body
- Market in down trend

**Implication:** Market bottoming out
One of most powerful aspects of the bullish engulfing pattern is their use as support.
Bullish engulfing pattern

Note how many black candles the white candle wrapped around.
Bullish engulfing pattern as support

While the low of the bullish engulfing pattern is support, for those who are more eager to buy you can use the center of the tall white real body as an entry point. Keep in the mind the risk–reward of the trade.
Bearish engulfing pattern as resistance

If the first candle is a doji instead of a white real body it is still viewed as a bearish engulfing pattern.
Bearish Engulfing Pattern compared to Western outside reversal
On this day Dow was down 150
Is this a Bullish Engulfing Pattern?
Consider the relative size of the real bodies. Here they are equal size, so reversal is less likely. Final confirmation of it’s failure comes with the close under its support area.
Last Engulfing Pattern

Bullish Engulfing Pattern

Last Engulfing Pattern
Note: This is the same chart as slide 51
Last Engulfing Pattern
Dark Cloud Cover

Criteria:
• Opens above prior high (or close)
• Closes as long black real body
• Close well into prior long white candle
• Market moving north

Implication: “Advance is exhausting itself”
Nison Trading Principle

Not all candle signals should be used to buy or sell. Always consider the risk/reward aspect of the trade.
Dark Cloud Cover and Risk/Reward

Pattern Completed Here
The Blended Candle Line

Blended candle real body = open of the first session, close of the last session. Blended candle shadows = highest high and lowest close of all sessions.
The Blended Candle Line

\[ \begin{align*}
+ & = \\
+ & =
\end{align*} \]
The Checkmate Principle:

- A series of tall white candles followed by black candles (or small real bodies) near the same resistance level reveals that the bulls’ drive is being “checkmated”

- A series of long black candles followed by white candles (or small real bodies) near the same support level reveals that the bears’ drive is being “checkmated”
Bearish Checkmate

This shows lack of bullish follow through shows that each time this gets in the 60-64 range.

😊 = strong session
❌ = failure to sustain rally