

The Shocking Indicator

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Bullish Engulfing Pattern is one of the strongest patterns that generates a buying signal in candlestick charting and is one of my favorites. The following figure shows how the Bullish Engulfing Pattern looks like.



Bullish Engulfing Pattern

The following conditions must be met for a pattern to be a bullish engulfing.

1. The stock is in a **downtrend** (short term or long term)
2. The first candle is a red candle (down day) and the second candle must be white (up day)
3. The body of the second candle must completely **engulfs** the first candle.

The following conditions strengthen the **buy signal**

1. The **trading volume** is higher than usual on the engulfing day
2. The engulfing candle engulfs multiple previous down days.
3. The **stock gap up or trading higher** the next day after the bullish engulfing pattern is formed.

Stochastic Crossover

Created by George C. Lane in the late 1950s, the Stochastic Oscillator is a momentum indicator that shows the strength of a trend for a certain period of time. Stochastic is a number between 0 and 100 where the reading below 20 is considered oversold and the reading above 80 is considered overbought. To create stochastic:

1. $\%K = (C_{\text{today}} - L_n) / (H_n - L_n) * 100$, where

C_{today} = today's close.

L_n = the lowest price for the selected number of days.

H_n = the highest price for the selected number of days.

n = the number of days for Stochastic, selected by the user.

2. Calculate %D.

$$\%D = (3\text{-day sum of } (C_{\text{today}} - L_n) / (3\text{-day sum of } (H_n - L_n)) * 100$$

There are two different stochastic - fast and slow. Fast Stochastic consists of two lines - %K and %D. However, fast stochastic is very sensitive to market turns and therefore many people prefer to use slow stochastic. To calculate slow stochastic, the %D of fast stochastic becomes the %K of slow stochastic and by repeating step 2 to obtain %D of Slow Stochastic.

When the stochastic crossover for a stock pattern, a bullish pattern is produced. If the indicator is crossing below the oversold area (below 20), it is an even stronger signal.

The Shocking Indicator

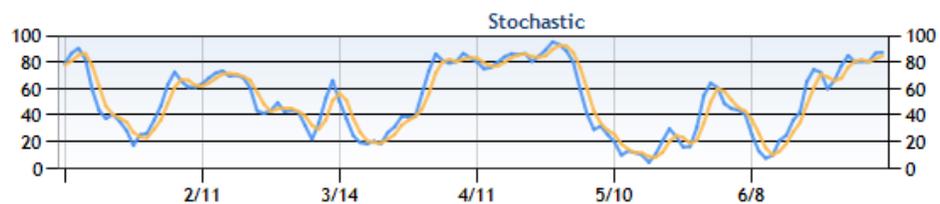
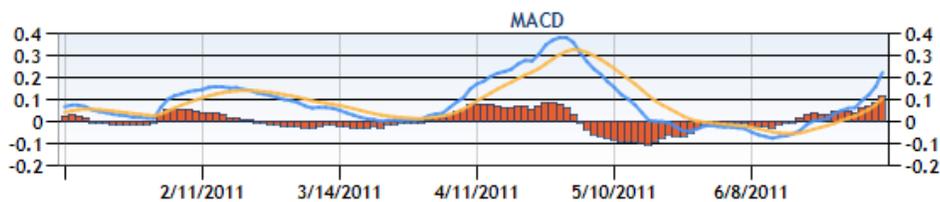
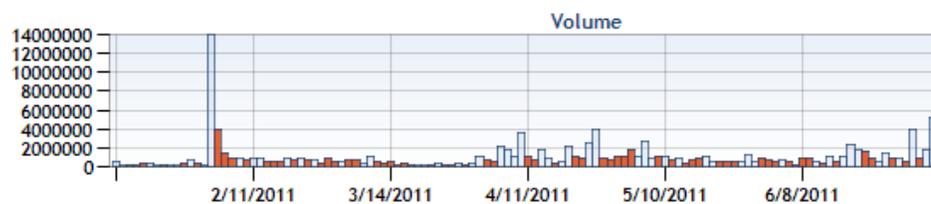
The shocking indicator is to use a combination of the Bullish Engulfing Pattern and the stochastic Crossover Pattern. Whenever a stock formed a Bullish Engulfing Pattern, we add them to our watchlist. If the stock then formed a stochastic crossover in the near future confirming the bullish trend, then it is time to buy the stock. Let's see how the Shocking Indicator performs in the following sceneries.

The stock \$HNSN ([HNSN](#) Analysis) formed a Bullish Engulfing pattern on 6/10/2011 with closing price of \$2.6. The Bullish Engulfing Pattern is best use with a combination of other indicators such as increase in volume or the Stochastic Oscillator or the Macd Oscillator. If you didn't trade the stock on the next trading day which is 6/13/2011, you can still buy it on 6/15/2011 at the price of \$2.69 when the stock gives a bullish confirmation signal with a Stochastic Crossover pattern on 6/14/2011.

Dojisspace.com - (Free Stock Scan and Chart)

HNSN - 7/6/2011

Open: 3.66 High: 4.36 Low: 3.65 Close: 4.11 Volume: 5181137



[Click here to get the latest list of Bullish Engulfing stocks.](#)

The stock ABAT ([ABAT Analysis](#)) formed a Bullish Engulfing & Stochastic Crossover pattern on 6/30 with closing price of \$1.16. In less than 1 month, the stock is up 30%. Isn't it nice?



The stock MDW([MDW Analysis](#)) formed a bullish engulfing pattern on 6/16 and then formed a stochastic crossover on 6/21 which confirms the bullish trend.

The closing price of MDW ([MDW Analysis](#)) was \$1.83 at 6/16 and \$1.87 at 6/21. The stock price is now trading at \$2.69 as of 7/15 in less than a month. If you bought the stock when it formed the bullish engulfing pattern, then you are sitting on a 47% gain. If you bought the stock when the stock formed a confirmation signal on 6/21, then you are sitting with a 44% gain.



AEA formed a stochastic crossover from the oversold area on 6/16, and the stock went up over 57.9% since then. Stochastic crossover does it again. There was a second chance to buy the stock on 6/21 where the MACD also crossover which gives a confirmation buying signal for this stock. Here's the chart.



NBIX gained close to 18% in 3 days after it formed a Bullish Engulfing Pattern and Stochastic Crossover signal on 5/25. The stock closed at \$7.05 on 5/25 and open lower at \$7 on 5/26. If you invest \$10,000 in this stock on 5/26, you would have gained \$1,800 in just 3 days as the stock closed at \$8.25 today.

Bullish Patterns 5/25

1. Bullish Engulfing Pattern
2. Stochastic Crossover
3. Stochastic cross above 20 which is the oversold area.



The stock ZN formed a few bullish signals on 5/25 and went up over 27% in less than 2 weeks. ZN was close at \$5.12 on 5/25 and shot up to over \$7.87 yesterday which is a gain over 53%. However, the stock closed lower and then trading in the range of \$5.99 – \$7 today with the closing price at \$6.51. This is a 27% gain from the closing price of \$5.12 on 5/25.

Bullish Signals formed on 5/25

1. Bullish Engulfing Pattern
2. Stochastic Crossover



How to find these profitable setups?

Bullish Engulfing + Stochastic crossover is a strong signal in technical analysis. If you would like to find these stocks, you can easily do it with [Dojinspace Advanced Stock Screener](#).

1. Select Bullish Engulfing under “Candlestick”
2. Select Daily Stochastic Crossover & Value Between 0 and 25 under “Technical Oscillators”.

You will get a list of stocks that match this pattern.