

Engulfing Candle strategy

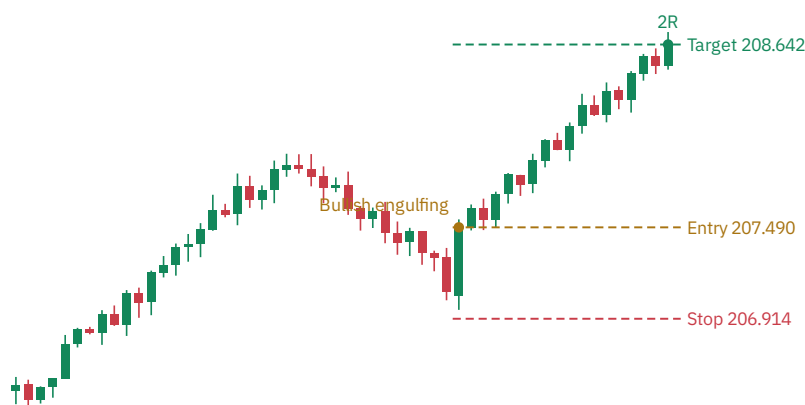
Bullish and bearish engulfing, where the pattern matters, rules, a GBPJPY example and a free Pine Script. By M. A. Horaira, updated 10 October 2026.

THE RULES

- **The pattern:** a bearish candle followed by a bullish candle whose body covers the whole of its body (bullish engulfing), or the reverse
- **Strength:** the engulfing body is at least half the 14-period ATR
- **Location:** the pattern makes the lowest low of the last 10 candles (highest high for a bearish engulfing)
- **Trend:** longs only above the 200 EMA, shorts only below it
- **Entry, stop and target:** enter at the close; stop a quarter of the ATR below the pattern's low (above its high for shorts); target twice the risk (2R)

WORKED EXAMPLE

GBPJPY: bullish engulfing at a 10-candle low closes at 207.490. Stop 206.914 (57.6 pips), target 208.642 (2R). \$10,000 at 1% = $\$100 \div (57.6 \times \$6.34) = 0.27$ lots.



Illustrative chart drawn to show the rules, not a real day's prices.

LOT SIZE

Lots = money at risk ÷ (stop in pips × pip value per lot).
On GBPJPY 1 pip (0.01) on 1 lot is ¥1,000, about \$6.34 with USDJPY near 157.7.

BEFORE EVERY TRADE

- ☐ Body engulfs the previous body?
- ☐ Body at least $0.5 \times \text{ATR}$?
- ☐ Lowest low of the last 10 candles?
- ☐ On the right side of the 200 EMA?
- ☐ Stop below the pattern plus a buffer?

BACKTEST IT BEFORE YOU TRADE IT

1. Open the chart on TradingView.
2. Pine Editor → paste the free script → Add to chart.
3. Settings → Properties: add your commission and slippage.
4. Look for 100+ trades, a profit factor above 1 after costs, and a drawdown you can live with.
5. Check the same settings on other dates, then demo trade for a few weeks.
6. Free script: pipledgerfx.com/downloads/engulfing-candle-strategy.pine

For education only, not investment advice. Trading forex and gold on margin carries a high risk of loss, and no strategy wins every time. No backtest results are claimed here: test the rules yourself with your own costs. In India, residents may trade currency pairs only through SEBI-registered brokers on recognised exchanges (NSE, BSE, MSE) and gold on MCX; offshore forex and CFD platforms aren't allowed under FEMA. Full guide:

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