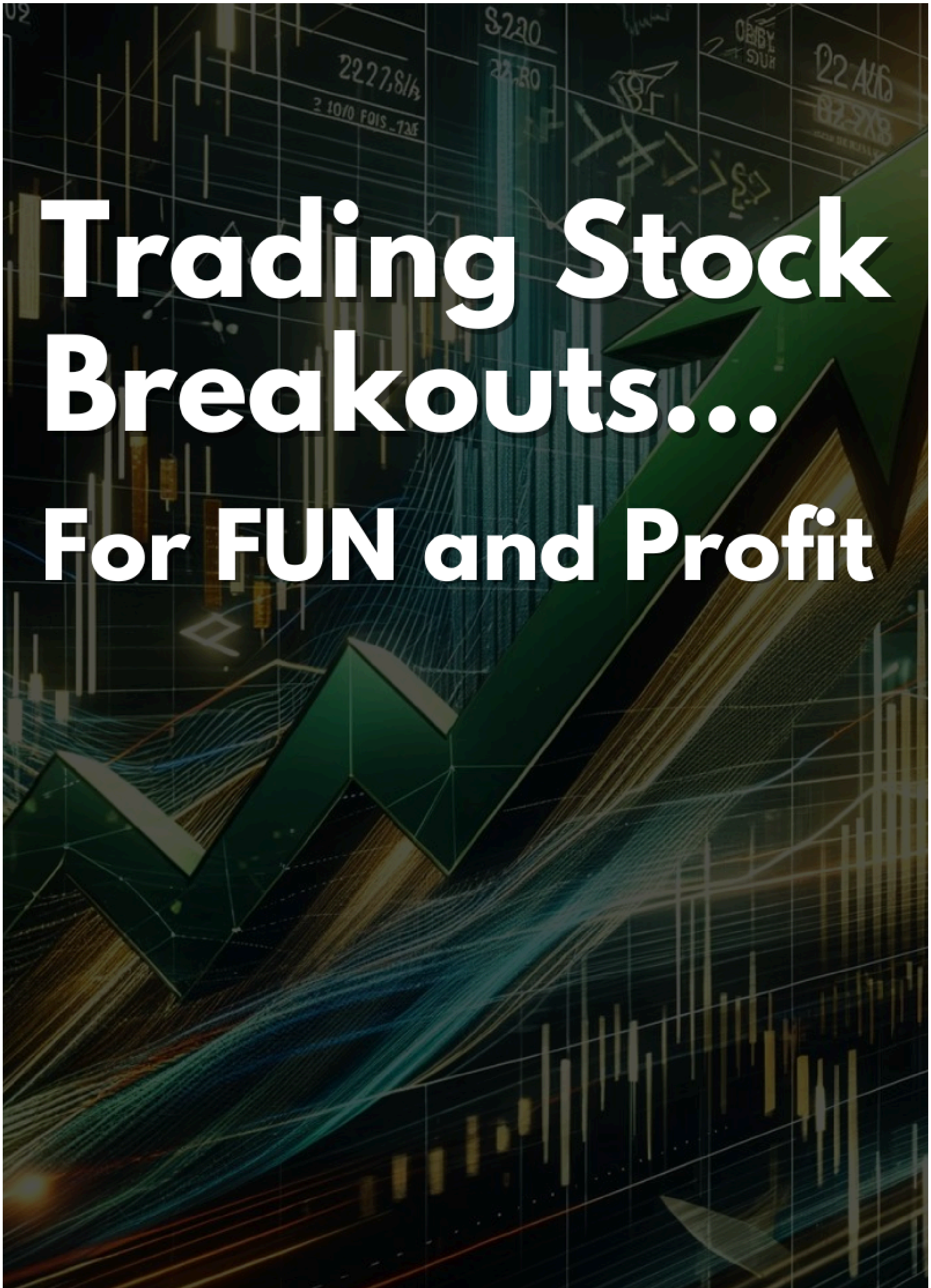
Trading Stock Breakouts...

For FUN and Profit



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Trading Stock Breakouts… For Fun and Profit!

A Continuation Breakout Trading Plan Tutorial

ZenectWealth.com

By David Goldstein

Welcome to the breakout trading plan tutorial!

In this free guide, you will learn a step-by-step method to help you develop a complete trading plan for trading breakouts.

What are breakouts?

Breakouts are significant price movements that occur when a stock breaks above or below a consolidation, a prior candle high or after a small pull back in price.

By identifying and trading breakouts, you can take advantage of potential high-reward opportunities.

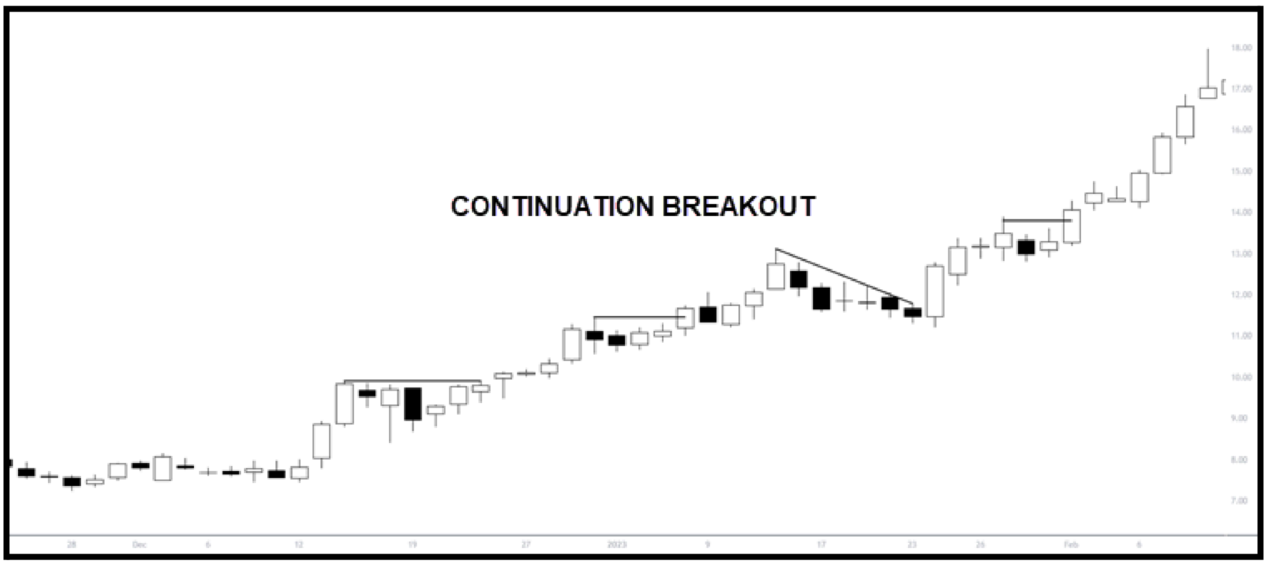
Breakouts we will trade

We will focus on a specific type of breakout setup (there are a few breakout types) that has certain criteria that must be met to be put on a watchlist.

Continuation Breakouts

Unlike consolidated breakouts that take weeks and months (even years) to form, continuation breakouts have a time limit of 10 days or less to form prior to breakout out.

This tells us that buyers are eagerly interested in the stock and we can expect (not guaranteed) a strong “pop” when price breaks.



Source: Netpicks.com

Continuation breakouts are held for 2 - 5 days (up to 10 days on higher priced stocks) and exit when price stalls or you’ve seen a 10-20% price jump.

These breakouts do not require high volume on the break to work. These breaks are following the natural rhythm of the market: impulse leg > corrective leg > impulse leg. These breaks are also not always recovering above high level resistance. Look at the third breakout in the above graphic.

Consolidated breakout are generally held for a longer period due to the length of the consolidation. These require higher volume on the break and the potential of a long run in price is there.

Source: Netpicks.com

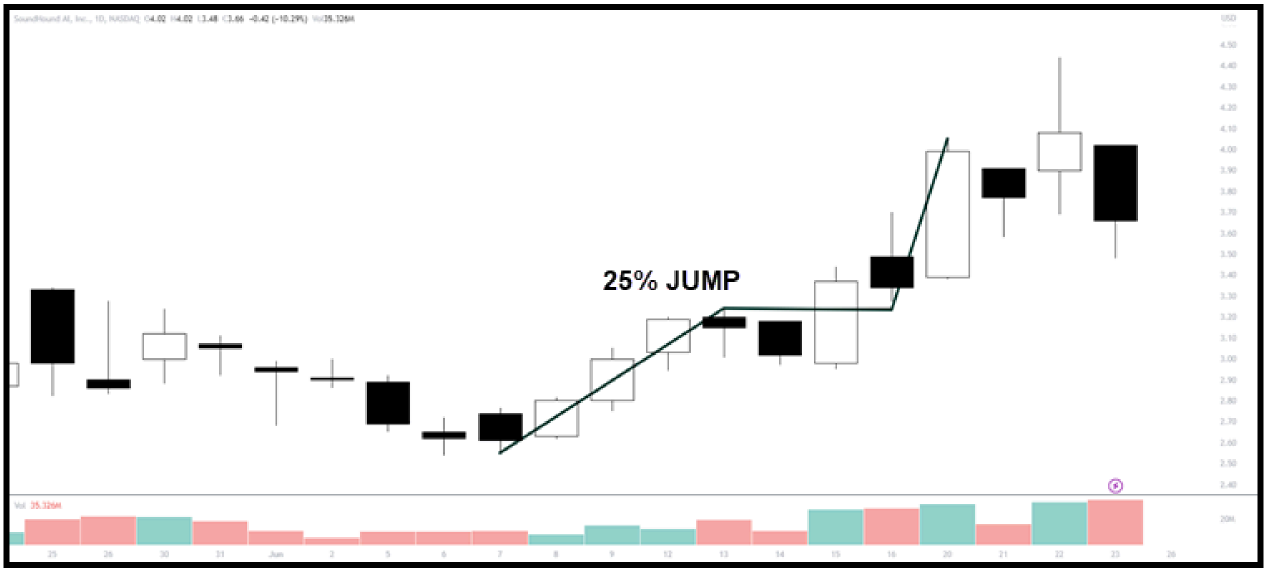
Trades taken through consolidated breakouts can be held through retracements and trading ranges. These require patience and the ability to sit through disappearing paper profits during corrective phases.

We want to take our 3-5 day trades and then exit with gains of 10%, 20% and sometimes a lot more.

How To Find These Setups

In order to locate these setups, you need to follow some very important steps:

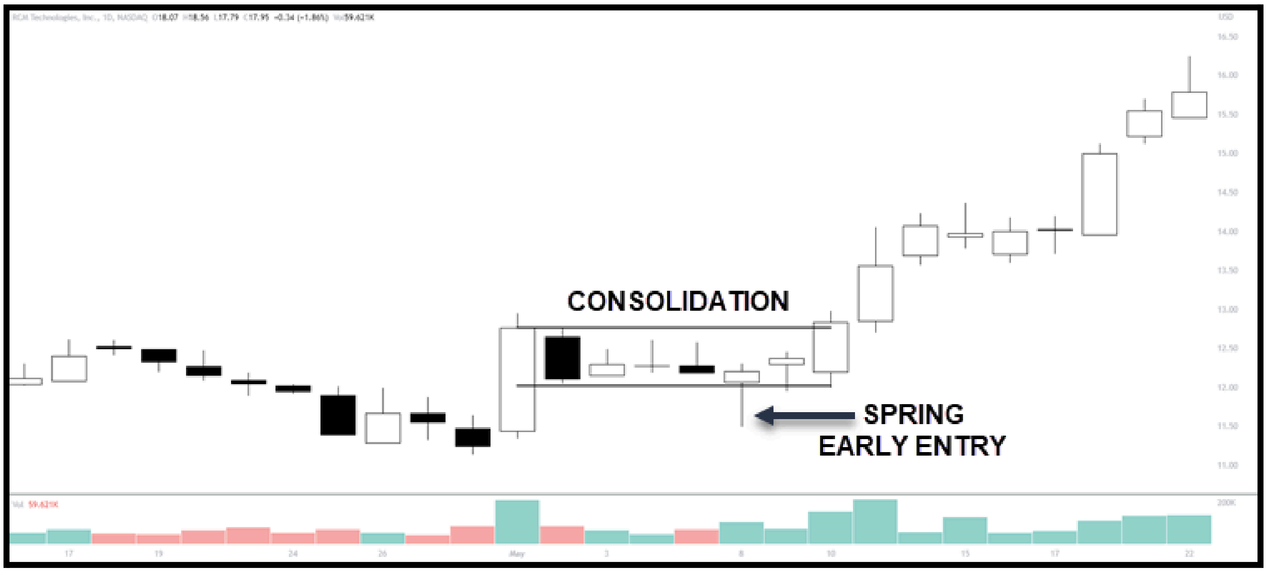
Explosive First Leg: The impulse move must be at least 15 - 20% which shows plenty of interested buyers. Prefer that this impulse move is within the last two trading weeks.



Source: Netpicks.com

This chart shows a 25% jump in price from the bottom which qualifies us to look further into the chart to see if it fits our next step.

Consolidation Period: We need a few days of consolidation with low volatility. We don't want to see strong thrusts to the downside which may indicate less interested buyers.



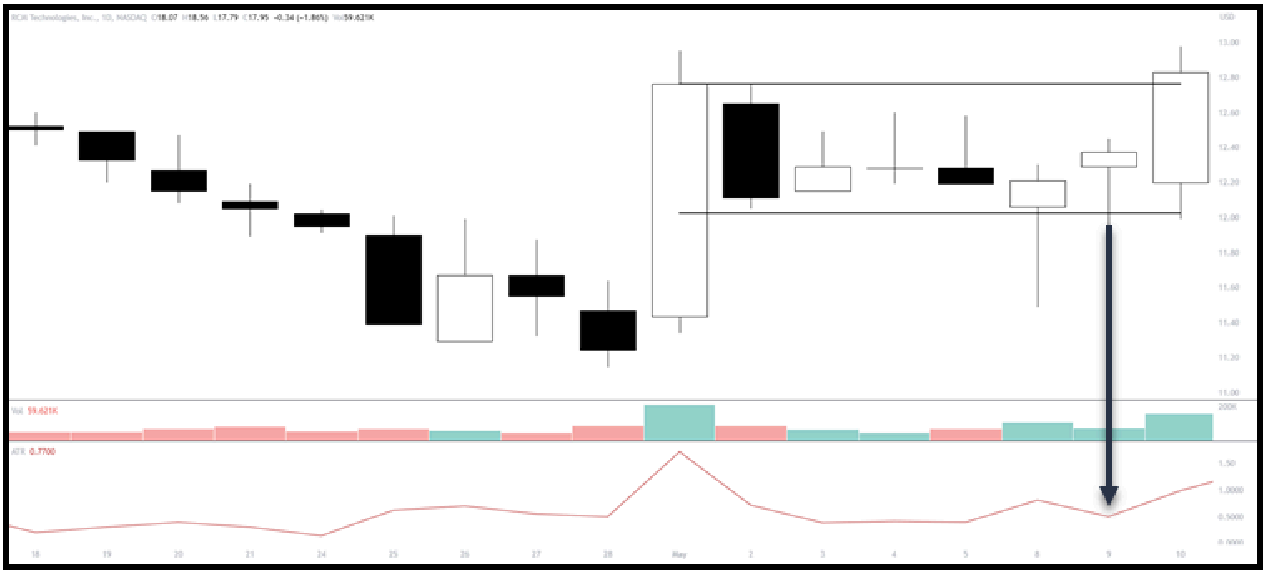
Source: Netpicks.com

After a 16% thrust in price, a clean and orderly consolidation takes place.

Also note the low volume inside the consolidation. The “spring” candlestick is an early entry for advanced traders. There is no breakdown in price or any significant price action to be concerned with.

For traders that are conservative and skipped the spring entry, we want to see a narrow range day prior to the breakout which is what we see here.

CHEAT: Use a 1 period ATR and look for a spike down the day before the breakout.



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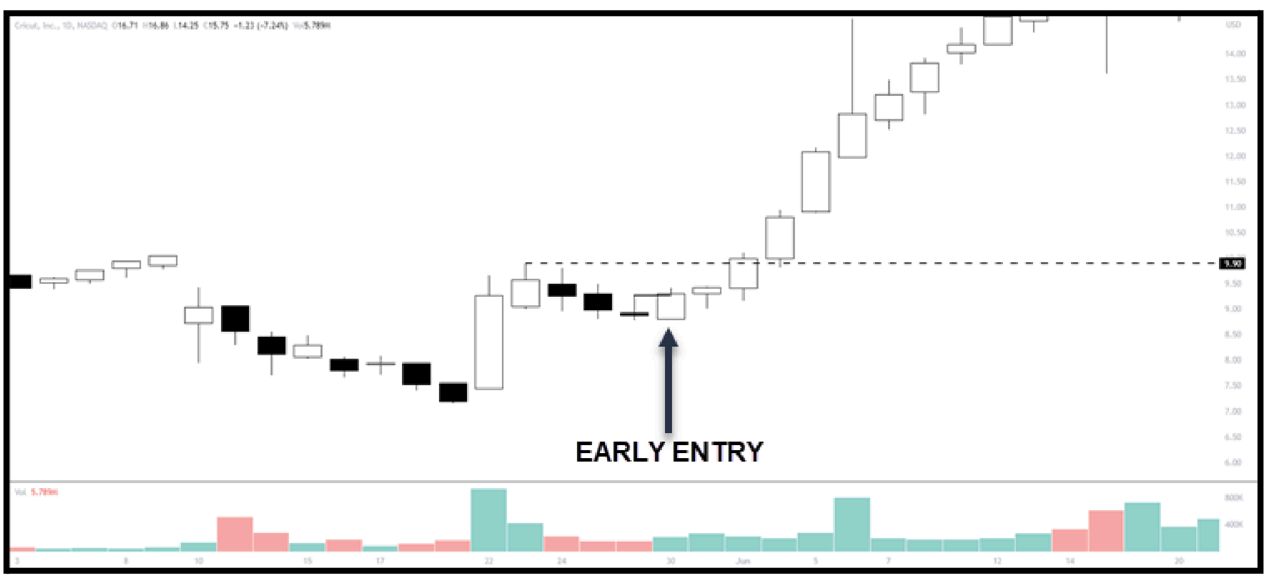
Breakout Day

The day arrives and price breaches resistance level. We want this to occur early in the day and we can use pending orders at the breakout level without waiting for confirmation. This will depend on the quality of the consolidation.



Source: Netpicks.com

On this chart, price made a 37% jump in price and put in an orderly consolidation. The early entry is noted as the prior candle was a narrow range day with less than 2% price movement. An entry above the high of that candle ($9.30) fits the strategy.

> **Advanced traders may look for early entries. The key is a small range day less than 2% +/- movement.**

Stop Loss

The stop loss on these trades is simple - low of the day.   You may implement a maximum 2-4% risk from entry if entering early in the morning and on the above example: $9.30 * 4% = .37. Also slightly more than half of the days range is appropriate.

Follow Through

We want to see the day of entry close on the high. If not, you must decide whether to hold or close. We want to see follow through on the day to "confirm" the breakout is legitimate.

Scale Stop

If closing strong, traders may reduce the risk on the trade and move the stop up to just below the 50% level of the entry day.

Profit Targets

Any large move that is greater than the recent past is one technique. Close after 3 - 5 days depending on the price action and your risk tolerance.

In A Nutshell…

1. Continuation breakouts are significant price movements that occur when a stock breaks above or below a consolidation or from a small pullback in price.

2. Continuation breakouts have a time limit of 10 days or less to form prior to breaking out, indicating strong buyer interest and the potential for a strong price movement.

3. These breakouts are typically held for 2-5 days (up to 10 days for higher-priced stocks) and are exited when price stalls or after seeing a 10-20% price jump.

4. Explosive first leg: The impulse move must be at least 15-20% within the last two trading weeks to indicate plenty of interested buyers.

5. Consolidation period: There should be a few days of consolidation with low volatility and no strong thrusts to the downside, indicating less interested buyers.

6. Breakout day: The breakout should occur early in the day, and pending orders at the breakout level can be used without waiting for confirmation.

7. Stop-loss: The stop-loss should be placed at the low of the breakout day or a maximum of 4% risk or slightly more than half of the day's candle. I generally use the 2-3% (higher price stock >$10) 8-10% (lower price stocks <$10) and half days range depending on entry.

8. Follow-through: It is ideal to see the day of entry close on the high, indicating confirmation of the breakout. If not, traders must decide whether to hold or close the position.

9. Scale stop: If the breakout day closes strong, traders may choose to move the stop-loss up to just below the 50% level of the entry day, reducing the risk on the trade.

10. Profit targets: Look for any large moves that are greater than the recent past as potential exit points. Close the position after 3-5 days, depending on the price action and risk tolerance.

11. It is important to enter these breakouts quickly and not wait for the close of the day, as waiting can diminish the odds of positive movement.

12. Note that these strategies should be used for educational purposes only and should not be considered as financial advice. Always conduct your own research and consult with a professional financial advisor before making any investment decisions.

It is essential to understand these strategies before implementing them in real trading scenarios.

Wrapping Up

Breakout trading can be a powerful strategy for capturing potential high-reward opportunities in the market. By focusing on continuation breakouts, traders can take advantage of significant price movements that occur when a stock breaks above or below a consolidation or from a small pullback in price.

The key to successfully trading continuation breakouts lies in following a structured trading plan.

This plan involves:

- Identifying an explosive first leg
- Identify a consolidation period with low volatility
- Look for a low volatility day with less than 2% up or down
- Enter the trade with a stop-loss set at the current low of the day.
- Look for follow-through in the form of the day closing on the high

Traders can then consider scaling their stop to reduce risk, and identify profit targets by looking for large moves compared to recent price action. It is important to closely monitor the trade and adjust stop-loss levels accordingly.

This strategy requires practice, patience, and diligence. As with any trading strategy, there are risks involved that you must be comfortable with.

By following the steps outlined in this tutorial and developing a well-defined trading plan, traders can improve their chances of successfully trading continuation breakouts and potentially achieving profitable results.

Good Trading,

David Goldstein

Note: The strategy mentioned in this tutorial is for educational purposes only and should not be considered as financial advice. Always do your own research and consult with a professional financial advisor before making any investment decisions.

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