Retests

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Disclaimer

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I am not a financial advisor and hold no formal qualifications in this area.

Trade entirely at your own risk.

This is for entertainment purposes only.

General Remarks

- No one-size-fits-all
    - Best results will come from rigorous testing and contextual decisions
- Framework applicable to a wide range of systems
    - PA, Cloud, MA, Trendlines etc. → any system which can identify breaks of structure
- Missed trades are normal
    - Breakouts vary, retests vary etc. → can't catch them all
- Embrace the uncertainty
    - Confirmation quickly becomes 'copefirmation'
    - "How do I know if X is going to hold?" → You can't!
        - Framework for making higher probability bets
- "The market <u>needs</u> to retest X to confirm it as support/resistance!"
    - No.
    - The significant event is the break of structure
- You do <u>not</u> have to trade every single breakout/breakdown

Basic Premise: Breaks and Retests

- Losing support is typically bearish
  - The breakdown and/or the retest of the broken support may be a chance to sell
- Breaking resistance is typically bullish
  - The breakout and/or retest of the broken resistance may be a chance to buy
- This video addresses how, when, and whether to trade such occurrences

Dilemma Outline: Trade Guarantee Versus Risk:Reward

- Often a trade-off between R:R and certainty (or confirmation)
  - Less certainty often offers superior R:R
  - More certainty often offers inferior R:R
  - Basic example: trading at a level versus trading away from a level
- Retest dilemma
  - Wait for retest
    - Superior R:R
    - Trade not guaranteed
  - Trade the breakout
    - Trade guaranteed
    - Inferior R:R

Gauging a Breakout

- Video relies on the idea that the breakout/breakdown has taken place
    - Seeking to answer how/when/whether to trade it
- These principles become inapplicable if you're buying a failed breakout or selling a failed breakdown
    - In effect, you end up buying resistance/selling support
- Quick but imperfect remedy is aligning time frames
    - Daily structure requires daily close through it to be broken, H4 close for H4 structure, etc.
    - Watch time frames video
- Time frame traps
    - A low time frame 'breakout' at high time frame resistance can be just a wick
    - A low time frame 'breakdown' at high time frame support can be just a wick
- Try to be as certain as practically possible that a break in structure has actually taken place before using these principles!

Immediate Versus Rounded Retest

- Definitions:
  - *Immediate retest*: trading at or near structure when it breaks
    - Trading the break itself
    - "X just broke, what's my action here?"
  - *Rounded retest*: trading at or near structure after the break has played out
    - Trading a return to the break
    - "This was a big area that the market moved away from, what's my action now that we've returned to it?"
- Considerations
  - Rounded retests offer an easier decision-making process given you're not trading the break itself
  - Rounded retests tend to be clearer setups; the fact that a retest is rounded implies a meaningful break took place
  - Rounded retests typically give you more time to think, plan, and act
  - Similar balancing act
    - Trading the break more likely to guarantee a trade but higher chance of getting trapped (+ worse R:R)
    - Trading the retest less likely to guarantee a trade but lower chance of getting trapped (+ chance of no fill)
- Not a binary choice
  - Sometimes the break is very clear but the retest doesn't happen or is very unattractive
  - Other times the opposite is true
  - Contextual considerations (later) will make this decision easier, but no rules against trading both sides

Consideration I: False Dilemma

- Basic premise: splitting position equally between the break and the retest i.e. you don't have to choose one over the other
  - E.g. Close above resistance → 50% position on the close, 50% in the form of a limit order at the level
- Benefit is a guaranteed trade even without a pullback, with full sizing if the market offers one
- Downside is that the trade is guaranteed to be suboptimal one way or another
  - If it pulls back, your average entry is worse than if you had waited for a retest (less space to manage comfortably)
  - If it doesn't pull back, you've only got half size on the trade
- Disclosure: I don't trade like this
  - I prefer establishing positions with conviction i.e. either the break is so significant that I want exposure ASAP, or I don't mind missing the move and it's only attractive back at structure (with optimal R:R)

Consideration II: Precedent

- Basic premise: does the instrument you're trading (in its current trend) offer regular retests?
  - Yes → Great, wait for the retest
  - No → Don't expect it
- It's mostly as straightforward as it seems
- Exception: sometimes this behaviour shifts as a trend becomes more/less aggressive
  - E.g. retests taking place at the early stage of a trend but then it goes parabolic and retests become rare / vice versa
  - Suggestion: look at more recent price action for context

Consideration III: Risk:Reward

- Basic premise 1: waiting for a retest/pullback may be necessary where entering on the break presents inactionable R:R
  - Closer to structure = usually better R:R
  - Further from structure = usually worse R:R
    - Sometimes the break is so big that a follow up entry doesn't make sense
- Reframing:
  - What move am I trying to capture?
  - How much of that space has already played out as a result of the break?
    - If the break has already taken your idea (mostly) to target, the R:R to chase it without a retest often isn't there
- Basic premise 2: the precision of your entry is inversely correlated with the size of the move you're trying to capture
  - If you're trading an intraday range, there's less to capture so your entry must be more precise
    - Frequently occurs, selectivity with entry warranted
  - If you're trading a high time frame swing, there's more to capture so your entry can be less precise
    - Occurs less frequently, can afford to be less selective with entry
- Basic premise 2.1: the precision of your entry is inversely correlated with the significance of the idea/level/structure you're trading
  - Not all setups are made equal
  - "If X breaks, the entire market is going to shit 20%" → does it really matter whether your entry is 1% or 3% away from X?
  - Opportunity cost from missing a rare setup just because the entry wasn't perfect can suck e.g. BTC/USD 6k reclaim, 20k breakout, etc.

Consideration IV: Hidden Retests

- Basic premise: Fast-moving, high time frame breaks sometimes offer retests on lower time frames, which aren't always visible on high time frames
  - Example: daily time frame looks like the market just mooned after breaking a level, but lower time frames show a retest at the break before continuation
- In order to capitalise on this, consider leaving limit orders at the broken structure and/or monitoring it on lower time frames
- These retests are often short-lived and happen very quickly; exactly what you want to see when there's real imbalance in the market with one side rolling over
- Generally speaking, the more time price spends stuck at/near an 'important' level after breaking it, the more likely the break is to fail
  - Big level → big participation → one side gets rinsed
    - If your interpretation is correct, the market should move quickly as the losers cut their trades, get liquidated etc.

Consideration V: Context

- As a reminder, the basic framework we've followed thus far:
  - Losing support is typically bearish; the breakdown and/or the retest of the broken support may be a chance to sell
  - Breaking resistance is typically bullish; the breakout and/or retest of the broken resistance may be a chance to buy
  - This isn't always applicable!
- Rangebound environment
  - In a range, resistance is for selling and support is for buying
  - Price will often poke at/through the extremes before reverting to the mean
  - In these cases, the probability of a failed breakdown at support/failed breakout at resistance is much higher
- Strong underlying trend and/or high time frame structure
  - In a bull trend/at support, failed breakdown setups are likely
  - In a bear trend/at resistance, failed breakout setups are likely
  - Even if there's follow through, hunting a buy at reclaimed support/sell back below resistance is more attractive than chasing the counter-trend move
- Rounded retest context
  - A lot can happen between a break and the subsequent retest
    - In terms of time but also structure
  - E.g. H1 support breaks, reaches D1 support, and comes back to H1 support turned resistance
    - Breakdown target reached + fading daily bounce with lower time frame structure → lower probability trade
  - Just like not all levels are equal, contexts vary as well
    - Where is price coming from?
    - Do I want to stand in front of it?
    - This one comes with experience!

Conclusion

- There's no single answer or formula
    - Breakouts vary, retests vary, contexts vary etc.
- As with all my content, goal is to arm you with tools to make well-reasoned decisions within a replicable and intelligent framework
- Don't be complacent where a good entry matters
- Don't be greedy where a pristine entry isn't required
- As a discretionary trader, context is not only your friend; it's likely your edge
- [Generic wisdom about no replacement for screen time, DYOR, etc.]

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