

Fakeouts & Breakouts

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Being successful in the trading and investing sector is challenging because it involves many complex elements that require research from both technical and psychological angles.

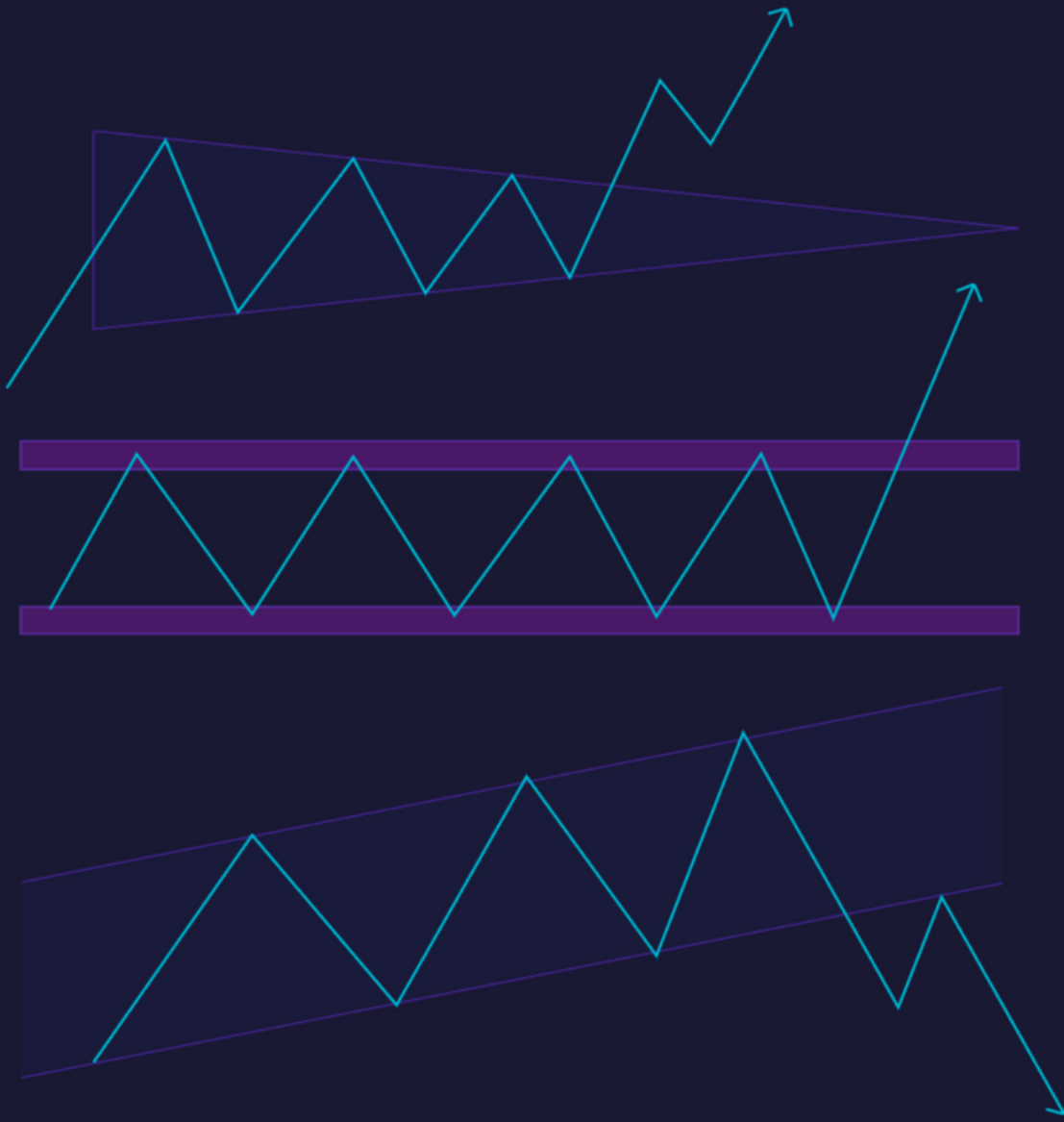
It may be difficult to predict price movement and to comprehend its reasoning at first.

However, as time goes on and you acquire knowledge, you begin to comprehend the science behind price action and start to make more sane choices.

In this material we will try to explain the differences between fakeout and breakout

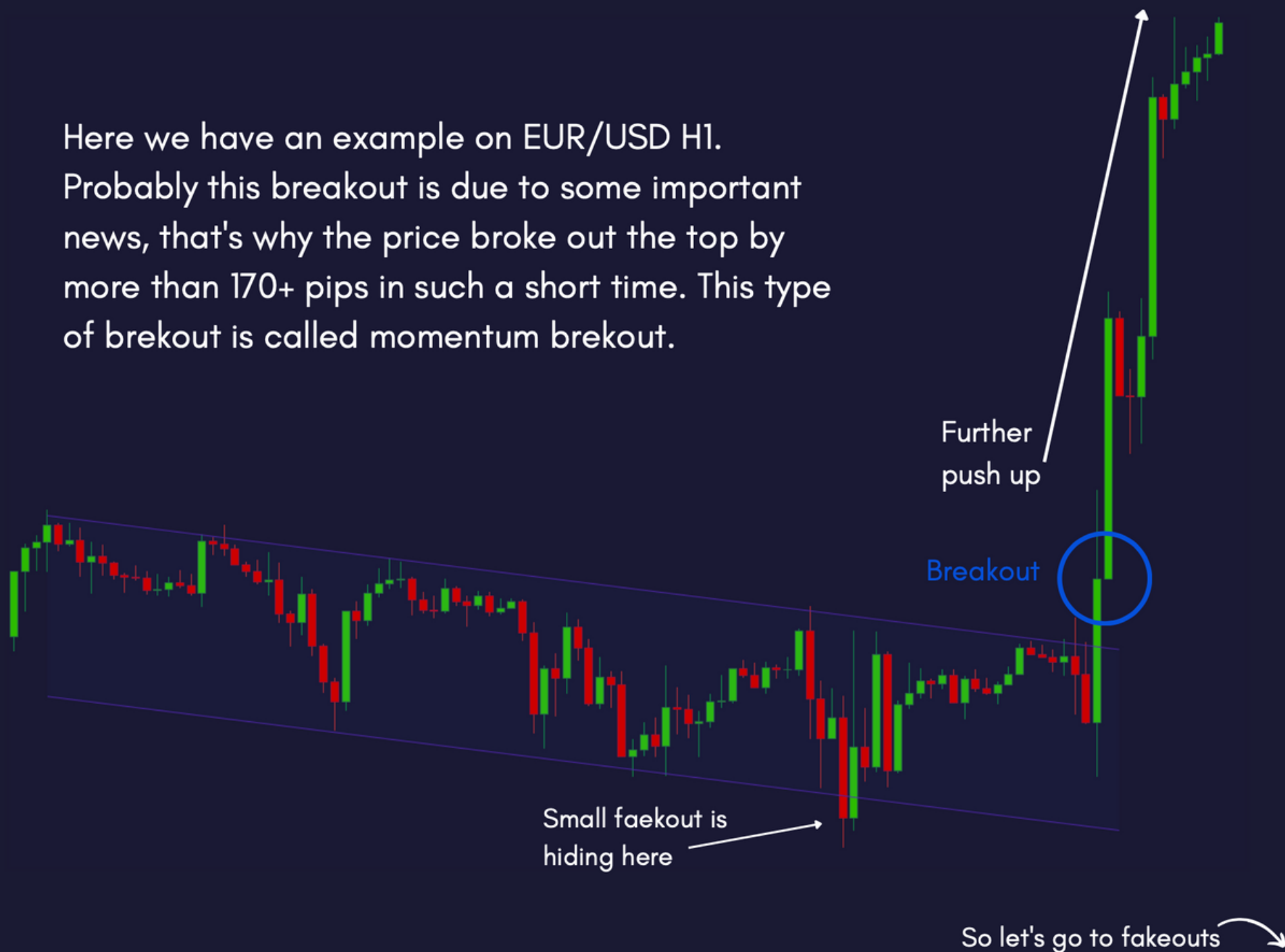
Let's begin 

I think that all of you know how breakout looks, but as a reminder, see below:



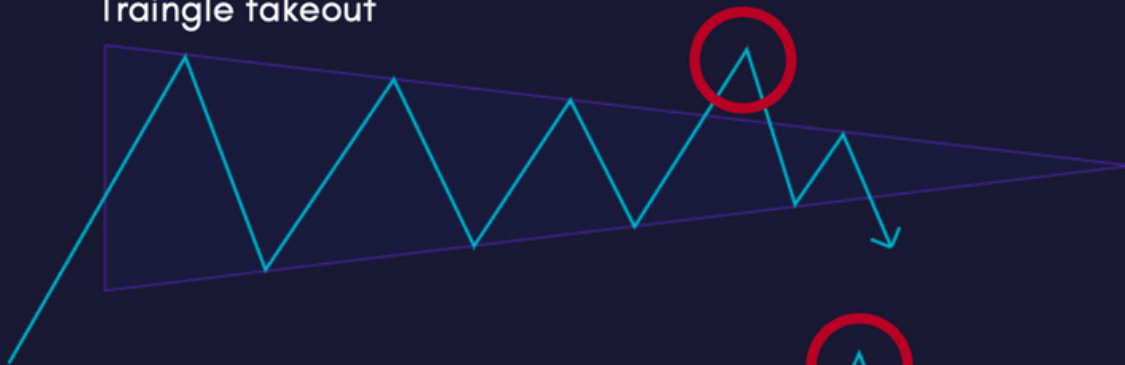
When the price properly breaks an important level and keeps making further moves, this is known as a breakout.

Here we have an example on EUR/USD H1.
Probably this breakout is due to some important
news, that's why the price broke out the top by
more than 170+ pips in such a short time. This type
of breakout is called momentum breakout.



Here are some textbook examples of what it is:

Triangle fakeout



Range fakeout



Channel fakeout



A fakeout is when the price tries to break above or below a crucial zone and it fails to continue.

It frequently relates to stop loss hunting and liquidity grabbing. In order to show this, look at how the price tries to continue heading upwards but fakes out of the range and returns to the edges of it.

Real time example:

Here we have an example of the EUR/USD M15. We can see how a range is formed in which the price moves, there is an attempt to break out to the bottom, and despite significant bearish momentum, the price returns back to consolidation



So how do you differentiate all this to know when it's happening? Well, unfortunately you can't, but you can increase your chances if you wait for the right confirmation.



You must keep in mind, though, that it is not a guarantee that a re-test will take place each time or be successful.

There are times when breakouts are so aggressive that the price does not retrace to re-test a zone that was broken.



In trading, nothing is always perfect.

Not all breakouts will lead to a re-test before impulsive continuations.

You can't predict if breakout won't become fakeout

Waiting for a correction and a retest of the zone with confirmation. is a good way to avoid fake breakouts and take advantage of trades and opportunities with a high risk-to-reward ratio.

