

Breakout Trading Basics Guide

Identifying, Validating & Trading Price Breakouts

Introduction

A breakout occurs when price moves decisively beyond a defined level of support or resistance. Breakouts can lead to significant trending moves—or fail immediately (fake breakouts).

This guide teaches you to distinguish real breakouts from traps.

Part 1: What Is a Breakout?

Definition

A breakout is price moving through and closing beyond a previously established boundary (support, resistance, trendline, or pattern).

Types of Breakouts

TYPE	DESCRIPTION
Horizontal breakout	Through flat S/R level
Pattern breakout	From triangle, flag, wedge, etc.
Trendline breakout	Through diagonal support/resistance
Range breakout	Beyond established trading range
Volatility breakout	Beyond Bollinger Bands, ATR bands

Part 2: The Anatomy of a Real Breakout

What Happens During a Real Breakout

1. COMPRESSION: Price consolidates near the level
2. TEST: Price probes the level (may reject once)
3. BREAK: Price moves through decisively
4. VOLUME: Volume expands significantly
5. FOLLOW-THROUGH: Additional bars close beyond
6. RETEST (often): Price returns to level, holds
7. CONTINUATION: Trend continues in break direction

Visual



Part 3: Fake Breakout Recognition

What Is a Fake Breakout?

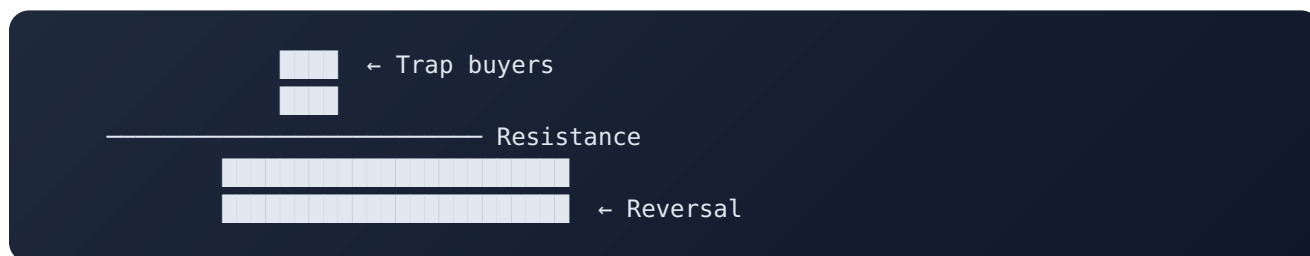
A move through a level that quickly reverses, trapping traders who entered on the "breakout."

Fake Breakout Characteristics

CHARACTERISTIC	FAKE BREAKOUT	REAL BREAKOUT
Speed through level	Often fast	Can be gradual
Volume	Spike then dies	Sustained
Follow-through	None (1-3 bars max)	Multiple bars beyond
Candle close	Returns inside level	Stays beyond
Time beyond level	Brief	Extended

Common Fake Breakout Patterns

The Trap:



The Sweep:

Price sweeps beyond level (triggers stops)
Then immediately reverses
= Liquidity grab, not real breakout

Part 4: Breakout Validation

Volume Confirmation

Real breakout: - Volume 1.5-2x+ average on break bar - Volume sustains on follow-through bars - Volume declines on any retest

Fake breakout: - Low volume on break - Volume spike but then silence - No sustained participation

Close Confirmation

Strong close: - Bar closes near the high (bullish break) - Bar closes near the low (bearish break) - Full body beyond the level

Weak close: - Long wick back into the level - Close back inside the level - Indecision candle (doji, spinning top)

Time Confirmation

Real breakout: - Multiple bars close beyond level - At least 2-3 bars for confirmation - Price spends time in the new area

Fake breakout: - Quick return (within 1-3 bars) - "V" reversal back inside - No acceptance in the new area

Part 5: Entry Strategies

Strategy 1: Breakout Entry

Entry: On close of breakout bar **Stop:** Below breakout bar low (for long) **Pro:** Captures the initial move **Con:** Higher false positive rate

Entry: As bar closes beyond level
Stop: Below breakout candle (+ buffer)
Target: 2:1 or measured move

Strategy 2: Retest Entry

Entry: On successful retest of broken level **Stop:** Below the retest low **Pro:** Better entry price, confirmed breakout **Con:** May miss breakouts that don't retest

Wait for:

1. Breakout occurs
2. Price returns to level
3. Level holds as new support/resistance
4. Enter on confirmation candle

Strategy 3: First Pullback Entry

Entry: On first pullback after breakout (not necessarily to the level) **Stop:** Below pullback low **Pro:** Confirms momentum, good entry **Con:** Pullback may not come

Wait for:

1. Breakout occurs with volume
2. 1-3 bar pullback (shallow)
3. Continuation signal (green bar, higher low)
4. Enter on confirmation

Part 6: Signal Pilot Integration

Pentarch + Breakouts

PENTARCH SIGNAL	BREAKOUT CONTEXT
IGN	Often fires on valid breakouts
TD	May fire on pullback after breakout (entry)
WRN	Breakout may be exhausting
CAP	Breakout likely to fail
BDN	Breakdown valid

Best confirmation: - Breakout occurs - IGN fires on break bar or shortly after - = High probability continuation

Janus Atlas + Breakouts

PATTERN	MEANING
Clean break (no sweep)	Likely valid breakout
Sweep before break	Shakeout then real break = strong
Sweep after break	May be trap, wait for reclaim

Best setup: - Sweep of stops opposite to break direction - THEN break in intended direction
- = Double confirmation

Plutus Flow + Breakouts

OBV PATTERN	BREAKOUT VALIDITY
OBV breaks out with price	Confirmed
OBV breaks out BEFORE price	Very strong (anticipation)
OBV lags or doesn't confirm	Weak, be cautious
OBV diverges	Likely fake breakout

Part 7: Measured Move Targets

Pattern-Based Targets

Horizontal breakout:

Target = Breakout point + Range height

Triangle breakout:

Target = Breakout point + Triangle height at base

Flag/Pennant breakout:

Target = Breakout point + Pole height

Fibonacci Extension Targets

Primary targets:

127.2% extension

161.8% extension

200% extension

Multiple Targets Strategy

Target 1 (1R): Take 25-50%

Target 2 (2R): Take 25%

Target 3 (measured move): Take remaining

Part 8: Stop Loss Placement

Below Structure

For bullish breakouts:

Stop options:

1. Below breakout bar low
2. Below the pattern (triangle low, etc.)
3. Below the most recent swing low
4. ATR-based (1-2 ATR below entry)

Volatility-Based

Stop = Entry - (N × ATR)

Conservative: N = 2

Normal: N = 1.5

Aggressive: N = 1

Position Size Adjustment

If stop is wider → Reduce position size

If stop is tighter → Can use larger size

Goal: Same dollar risk regardless of stop distance

Part 9: Breakout Quality Scorecard

Rate Each Factor (1-10)

FACTOR	SCORE	WEIGHT	WEIGHTED
Volume on break	___/10	2x	___/20
Close quality	___/10	2x	___/20
Prior consolidation	___/10	1x	___/10
HTF trend alignment	___/10	2x	___/20
Pattern clarity	___/10	1x	___/10
Pentarch confirmation	___/10	2x	___/20
Total			___/100

Score Interpretation

SCORE	QUALITY	ACTION
80-100	A-grade	Full position
60-79	B-grade	Standard position
40-59	C-grade	Reduced position or skip
<40	D-grade	Avoid

Part 10: Common Breakout Mistakes

Mistake 1: Chasing

Problem: Entering after extended move from breakout **Fix:** Wait for pullback or skip the trade

Mistake 2: No Volume Check

Problem: Trading breakouts without volume confirmation **Fix:** Always check volume (minimum 1.5x average)

Mistake 3: Against HTF Trend

Problem: Trading breakouts against higher timeframe trend **Fix:** Align with HTF direction

Mistake 4: Tight Stops

Problem: Stop hit by normal volatility **Fix:** Use ATR-based stops, give room

Mistake 5: All-In Entry

Problem: Full position on breakout bar **Fix:** Scale in: 50% on break, 50% on retest

Part 11: Breakout Checklist

Pre-Breakout (Setup Phase)

- ☐ Clear level identified (multiple touches)
- ☐ Price compressed near level
- ☐ Volume declining during compression
- ☐ HTF trend supports break direction
- ☐ Room for price to run after break

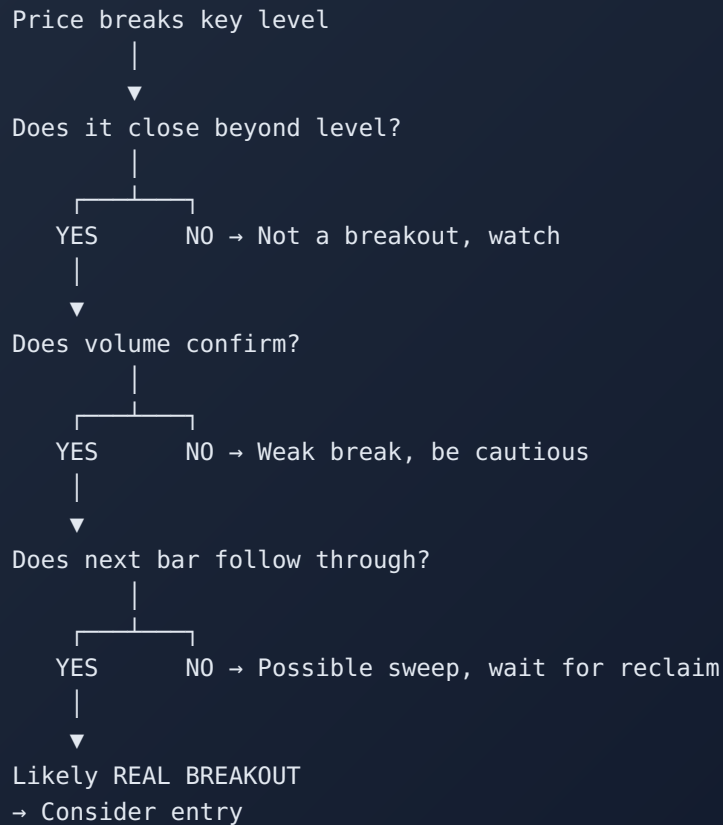
At Breakout (Validation Phase)

- ☐ Decisive move through level
- ☐ Volume 1.5x+ average
- ☐ Strong close (near high/low of bar)
- ☐ No immediate reversal
- ☐ Pentarch signal present (IGN ideal)

Post-Breakout (Entry Phase)

- ☐ Entry strategy defined (break/retest/pullback)
 - ☐ Stop placed with room
 - ☐ Position sized appropriately
 - ☐ Target defined (measured move or levels)
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Part 12: Breakout vs. Sweep Decision Tree



Part 13: Summary

Core Breakout Principles

1. **Volume is king** — No volume, no real break
2. **Close matters** — Where the bar closes, not the wick
3. **Confirmation takes time** — Wait for follow-through
4. **Retests are gifts** — Better entry, more confirmation
5. **Fake breakouts are opportunity** — Trade the reversal

The Breakout Trader's Mindset

"Is this a real break or a sweep for liquidity?"

"Volume will tell me if this is real."

"I'd rather miss a breakout than get trapped in a fake one."

"The best breakouts retest and continue."

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