

# 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

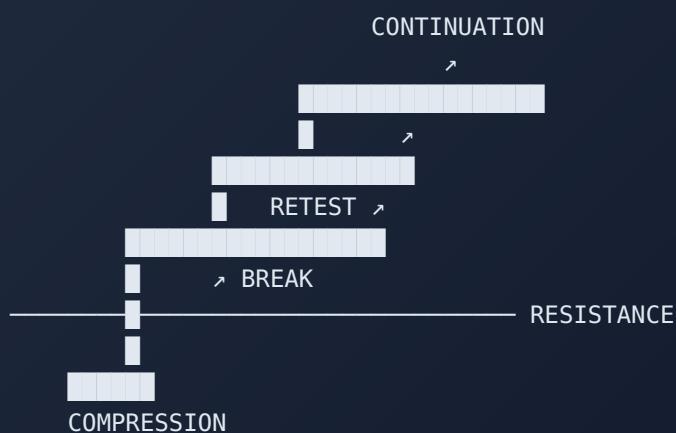
TYPE	DESCRIPTION
<b>Horizontal breakout</b>	Through flat S/R level
<b>Pattern breakout</b>	From triangle, flag, wedge, etc.
<b>Trendline breakout</b>	Through diagonal support/resistance
<b>Range breakout</b>	Beyond established trading range
<b>Volatility breakout</b>	Beyond Bollinger Bands, ATR bands

## 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

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## Part 5: Entry Strategies

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### 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
<b>Total</b>			__/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

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### 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

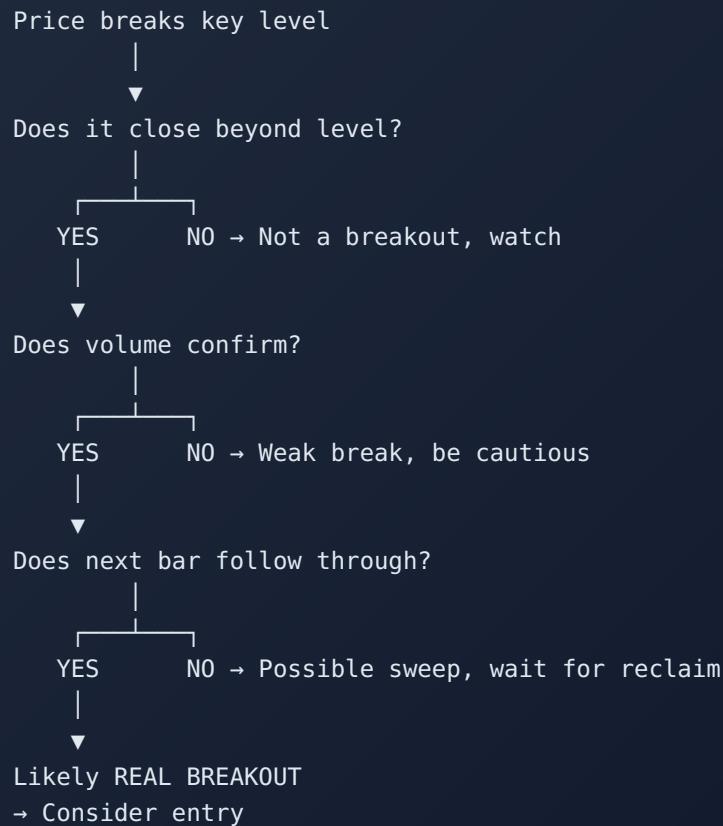
### At Breakout (Validation Phase)

- [ ] 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)

## 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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