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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Saturday, October 26, 2013

Breakout Blues

From the comments I received recently, I am afraid people are treating the method as a breakout trading method. Most of the traders are getting caught on the wrong foot trying to trade breakouts. This could be due to the higher percentage of breakout trades in my analysis due to the higher market volatility.

Breakout trades are least priority trades in my scheme. I assume the market is in a range all the time and the preferred trades are fading the range extremes. Range is a series of "Failure to break" and "Breakout Failures" of range extremes. These [three trade setups](#) are my bread and butter methods.

People find breakouts attractive because it is very easy to identify and it is extremely rewarding if they get it right. Predicting a successful breakout is one of the hardest tasks a trader can do. In an established range there could be multiple failures before one succeeds. Most of the breakouts do fail and it is better to wait for the breakout to fail or give a breakout pullback rather than making a direct entry.

I do attempt direct breaks. These trades are called [PressurePlays](#). We must be well aware of the context in which the BO is taking place and ensure a higher probability of success. Be aware that trying to predict a BO is extremely risky and better to stay out if we are not confident. Then it is better to go for a Breakout Pullback.

What if the Market runs without a pullback? Then let it go. Markets are for ever.

Further traders believe [trends](#) start when price break out of a range. I do not subscribe to this view. I think a trend always start from a range extreme and run further breaking the other extreme of the range. I prefer to enter at the beginning as against the middle

Posted by [SMART Trader](#) at 12:30 PM



7 comments:



[Arvind](#) October 26, 2013 at 2:35 PM

Sir , This week i lost 70 points (including brokerages) .
After doing some postmortem i found out that most of the trades i took this week was just an imitation of your direct BO trades , which all resulted in disaster.
Thank you very much for this post sir , it came at the right time and your word "what if the market....." will act as a guide next time.

Thanks a lot.

Reply



[SMART Trader](#)  October 26, 2013 at 4:28 PM

Arvind

Every method has its own negatives.
Be careful not to attempt BPB on an overextended move

ST

Reply

[SAM](#) October 26, 2013 at 6:04 PM

Thanks ST for this post, I rather believe .. most of the BREAKOUTS FAIL and they are probably trapping these breakout traders and also for hitting stoplosses.

Regards

SAM

Reply



Sunil Saranjame October 26, 2013 at 6:41 PM

I'm glad to say that ST's methods (esp BOF's) have helped a lot in improving my performance. Now a days I avoid breakouts or even on BPB's I'm careful but when I see a BOF, I go all in.

On the side lines, readers may find it useful to read about Wyckoff's Spring and Upthrust.

Thanks ST, nice post as always,

Reply



SMART Trader  October 26, 2013 at 7:13 PM

SS

You are right. Nothing can beat the great grandpa's patterns even after a century. Big money enters market quietly at [Liquidity Pools](#). causing Breakout failures. The stops you place and your breakout orders are food for the Sharks. Better to wait for a green signal from the [Scouting Party](#)

ST

Reply



SMART Trader  October 26, 2013 at 7:28 PM

SAM

Trading is a cruel mercenary game (whether you like it or not). Profit opportunities arise when there is blood spill on the trading floor. It is nothing but en cashing the other guys fear and panic.

ST

Reply

SAM October 26, 2013 at 8:47 PM

ST,

Well Said .. "CRUEL MERCENARY GAME"..

These words are enough to explain...

Thanks for Reply.

Regards

SAM

Reply

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