Lesson 9: Order Blocks #2

Remember our good friend the order block? Well, it's time you learn about the breaker block. Why? So you then can identify when they form, why they're important, and MOST importantly, how to play them.

Recall an order block is a series of orders that forms before a displacement up or down. You know they are able to provide support and resistance for price, and help guide entries for trade setups. In order for a strong order block to form, we are always looking for a HTF level, liquidity, then a displacement that triggers a market structure shift. These are the OB's that we want focus on.

Breaker Blocks

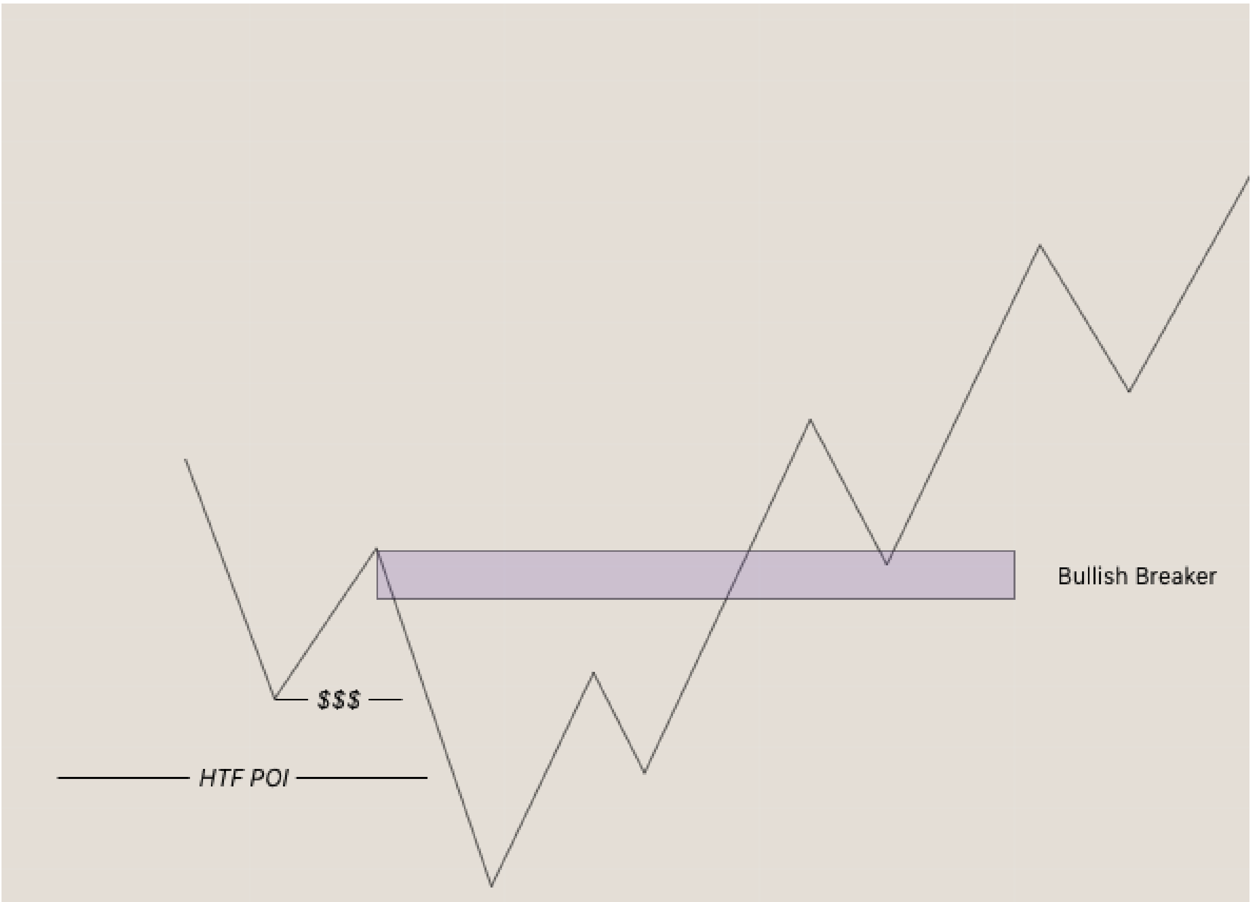
This is a specific type of order block that forms when you have a run on external or internal liquidity followed by a market structure shift in the opposite direction. These all form with the YouTube 2022 model setup. Here is the general template of what that looks like for a bullish and bearish scenario.

IMPORTANT

Bullish breaker blocks are green and bearish order blocks are black. WHY? Breaker blocks are order blocks that failed to do their job. For example, in a bullish breaker block scenario, it was originally a bearish order block. In a bearish order block scenario, it was originally a bullish order block.

WHY does this happen? The reason why these order blocks fail, is DUE to the run on liquidity into KEY areas, followed by a displacement back through them. This is what turns an order block into a breaker block. (Think: this block just broke a lot of traders hearts because they failed to note KEY liquidity).

Bullish Breaker Block



→ Price takes out external liquidity into a key area where you would expect ‘support’.

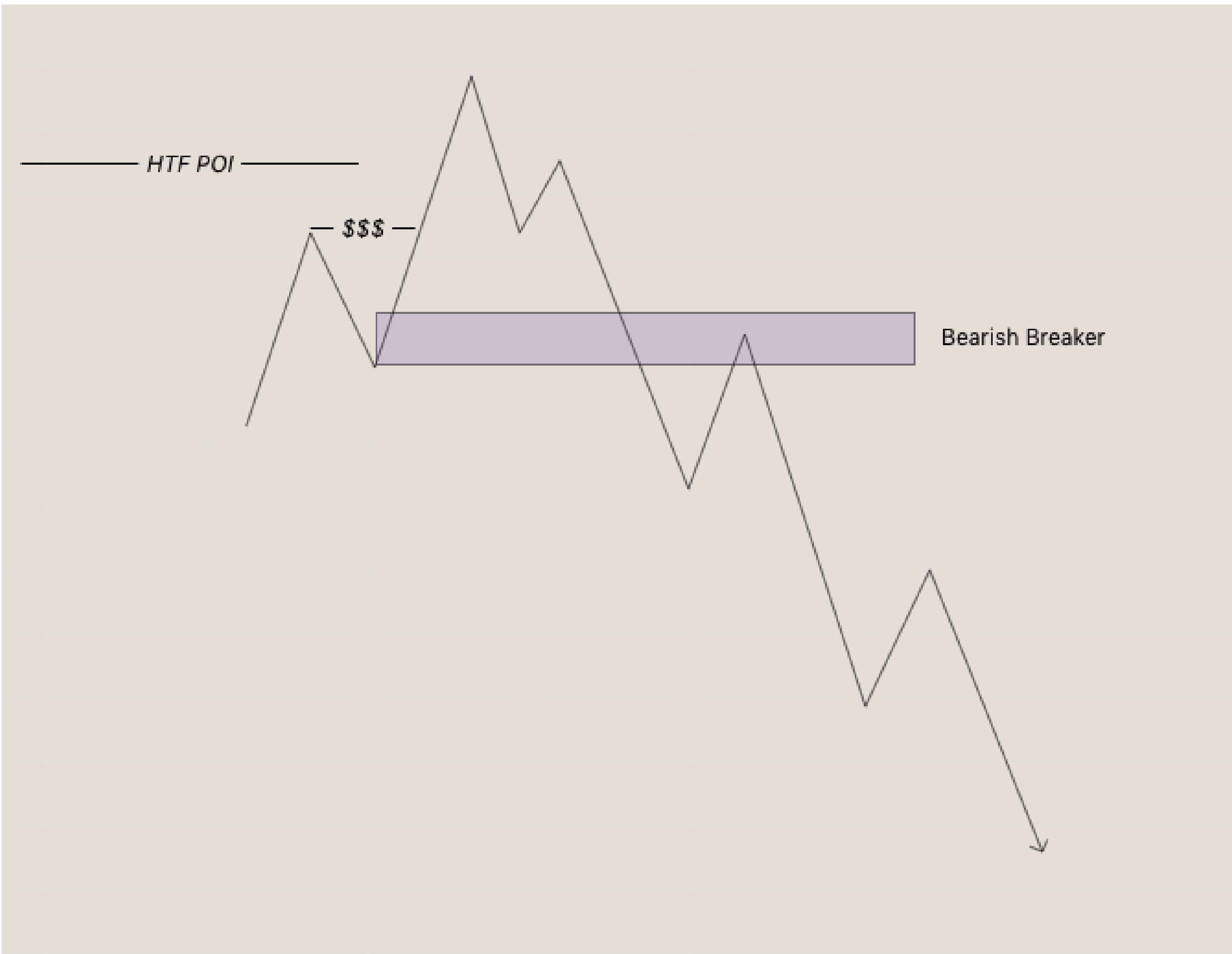
→ You then want to see price trade back above the high that led to the raid on liquidity at the low.

→ This point becomes our bullish breaker block (originally a bearish order block).

What is happening here?

Price takes out a swing low into a pool of liquidity, triggering stop losses of longs, while shorts are induced to trade the breakout. It then reverses to set up the opportunity to go long off the breaker block. This reversal creates a market structure shift up, and a retracement back into the bullish breaker block. This is where smart money will have their orders to go long. Shorts who are stuck will look to mitigate their losses (get out of their shorts for minimal losses). This is why the breaker block becomes important for entry points as it acts as a mini launch pad for price to move away from a key area. WHY? There are orders to go long and orders to cover shorts (both are buying!).

Bearish Breaker Block



→ Price takes out external liquidity into a key area where you would expect 'resistance'.

→ You then want to see price trade back below the low that led to the raid on liquidity at the high.

→ This point becomes our bearish breaker block (originally a bullish order block).

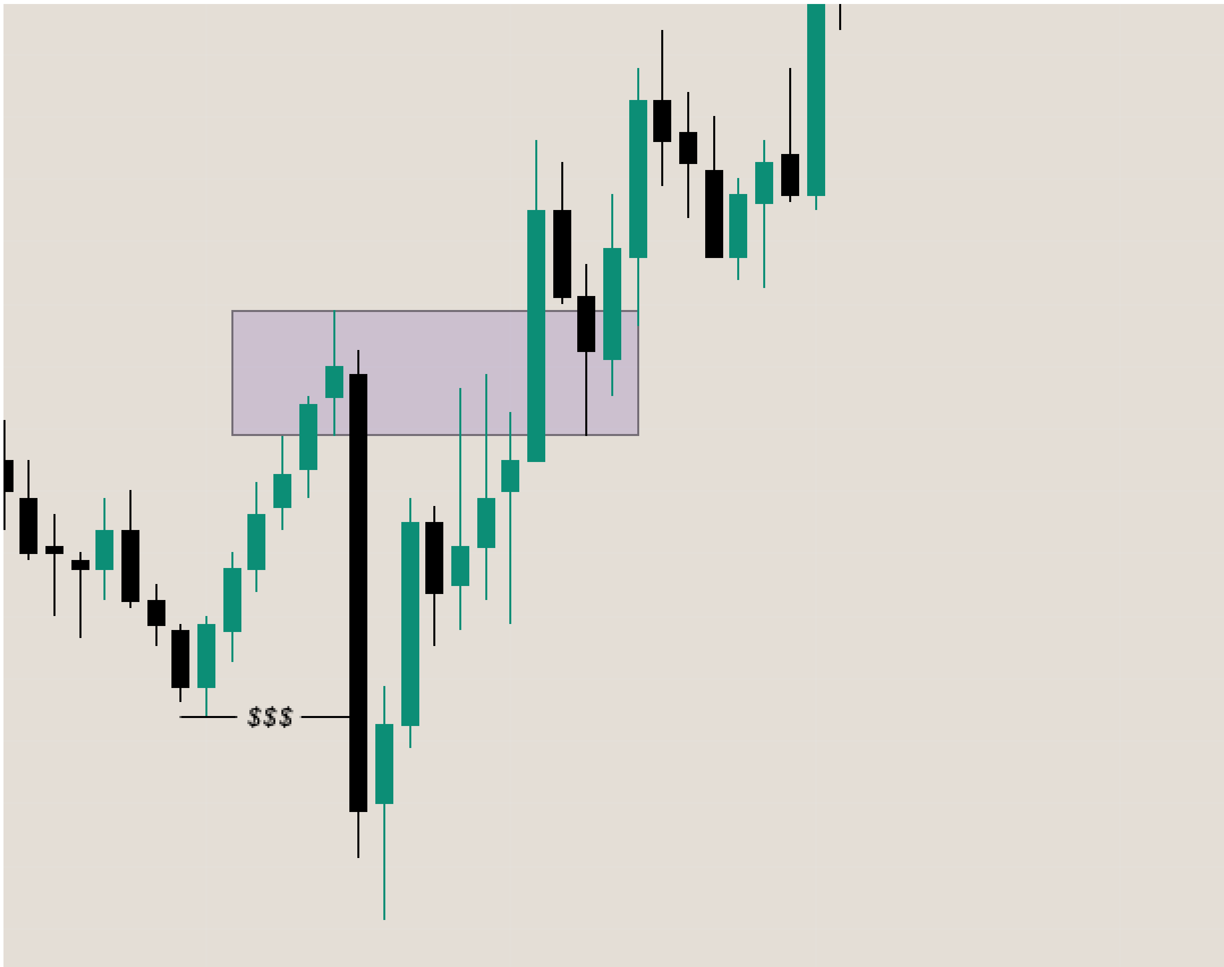
<u>What is happening here?</u>

Price takes out a swing high into a pool of liquidity, triggering stop losses of shorts, while longs are induced to trade the breakout. It then reverses to set up the opportunity to go short off the breaker block. This reversal creates a market structure shift down, and a retracement back into the bearish breaker block. This is where smart money will have their orders to go short. Longs who are stuck will look to mitigate their losses (get out of their longs for minimal losses). This is why the breaker block becomes important for entry points as it acts as a mini launch pad for price to move away from a key area. WHY? There are orders to go short and orders to exit longs (both are selling!).

If there is a Breaker Block with a FVG, this becomes a giant launch pad especially if the draw on liquidity is in the same direction.

Examples

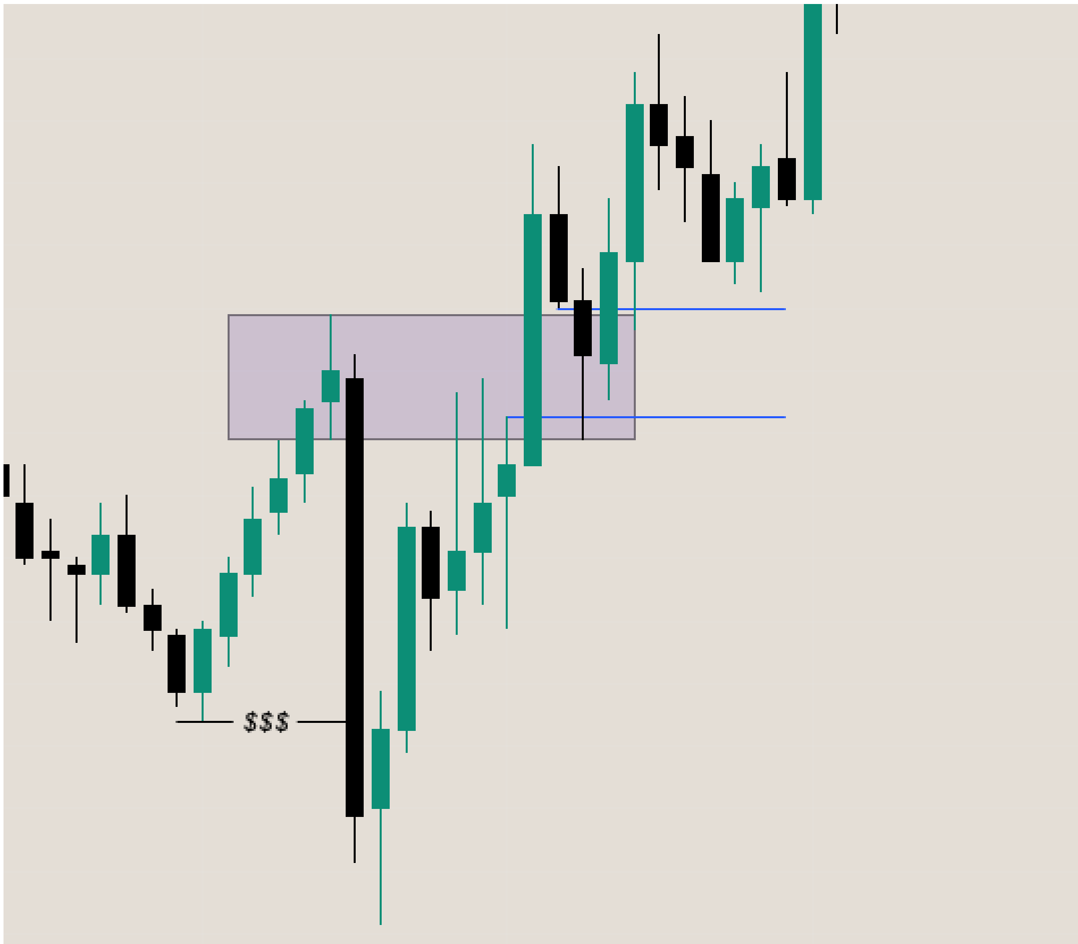
Bullish Breaker Block



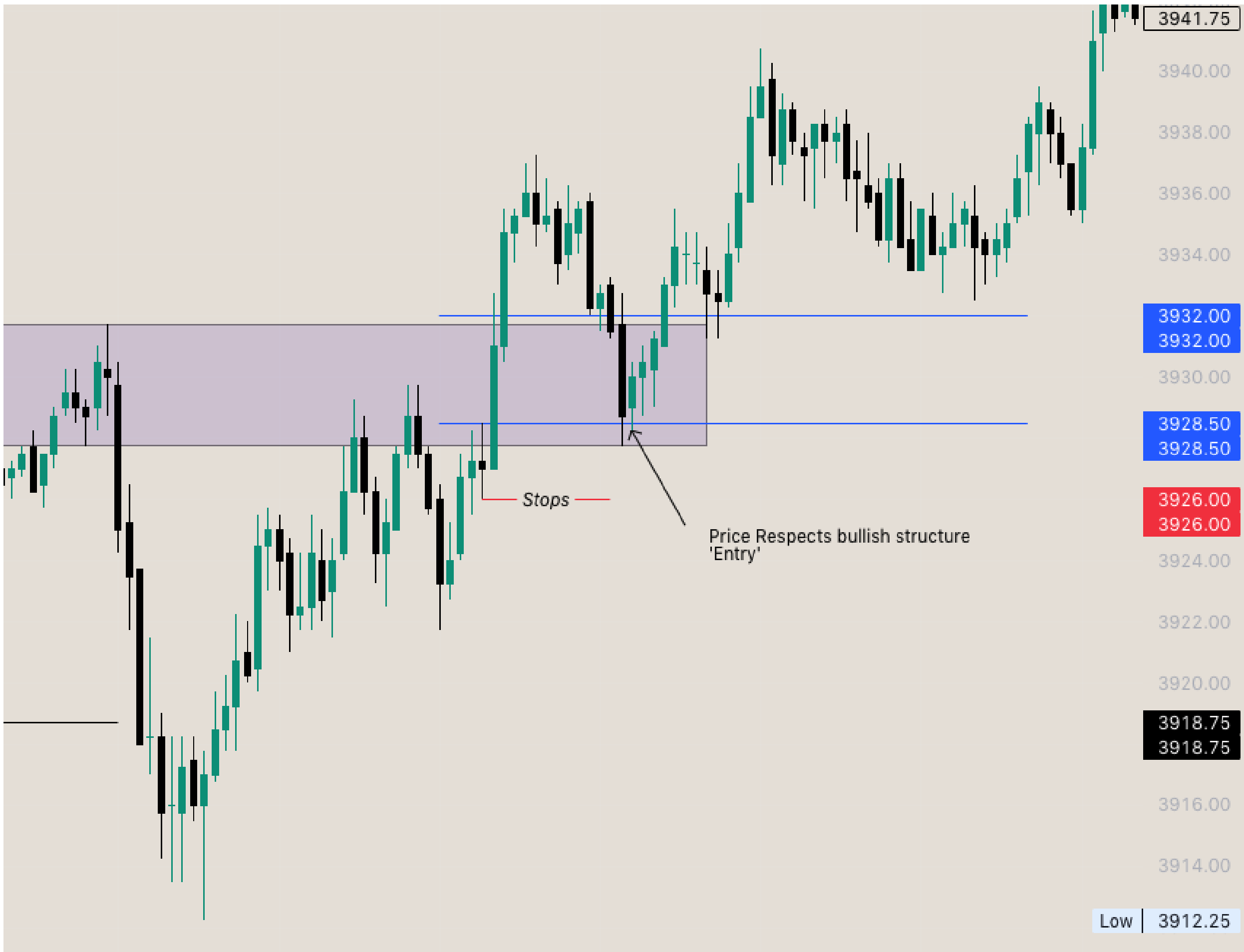
Breaker Block formation on m5 chart. A strong breaker block forms when it runs liquidity and THEN displaces back above the high.

In this example, you see price make a new high, then immediately drops lower taking liquidity. It eventually comes back and trades above the old high. This results in a market structure shift UP, with a FVG and breaker block (giant launch pad!). This is your YouTube 2022 model! The focus here is on the breaker block / FVG to help guide your entry points. This move essentially removes eager longs, and traps shorts at the lows. Your job is to wait for this setup and avoid the random swings of price until structure gives you an entry.

Here is the m5 FVG labeled with the blue lines:

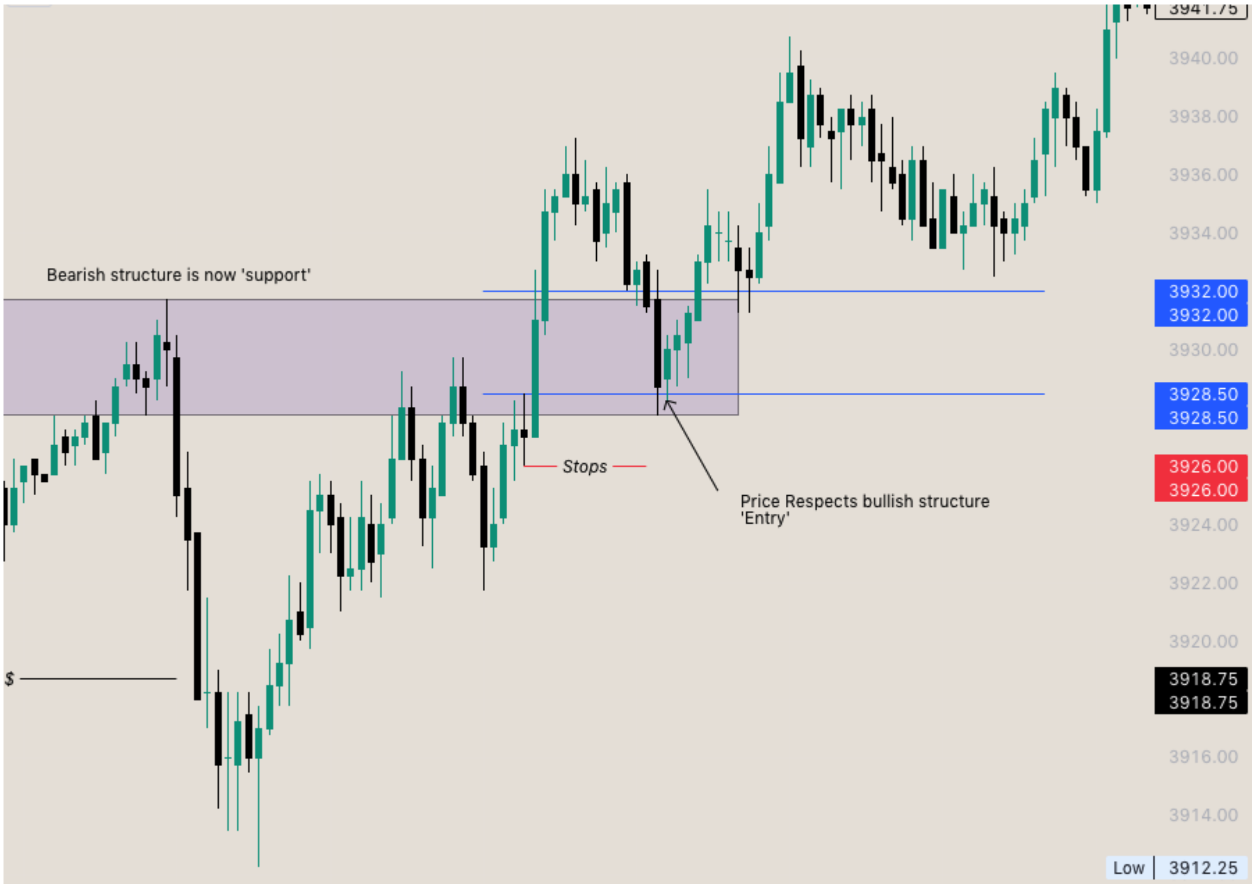


Here is the same chart zoomed into the m1 timeframe:



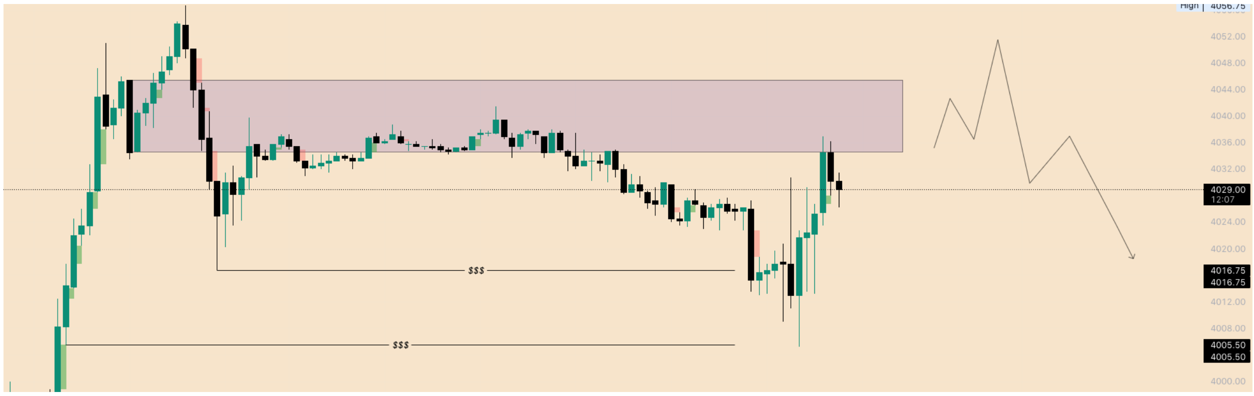
Looking at this chart, you can clearly see the displacement UP. From there, price retraces back into the m5 FVG and breaker block. On the m1, you also have a breaker block and order block to guide your entry. Your stops should go under this order block. Price has already rebalanced the range below, so there is no need for it to move back down if the draw on liquidity is UP.

This is how resistance turns into support and vice-versa. From this point, price should make its way up and move towards taking out buy-side liquidity targets and the eventual draw on liquidity.



Bearish Breaker Block

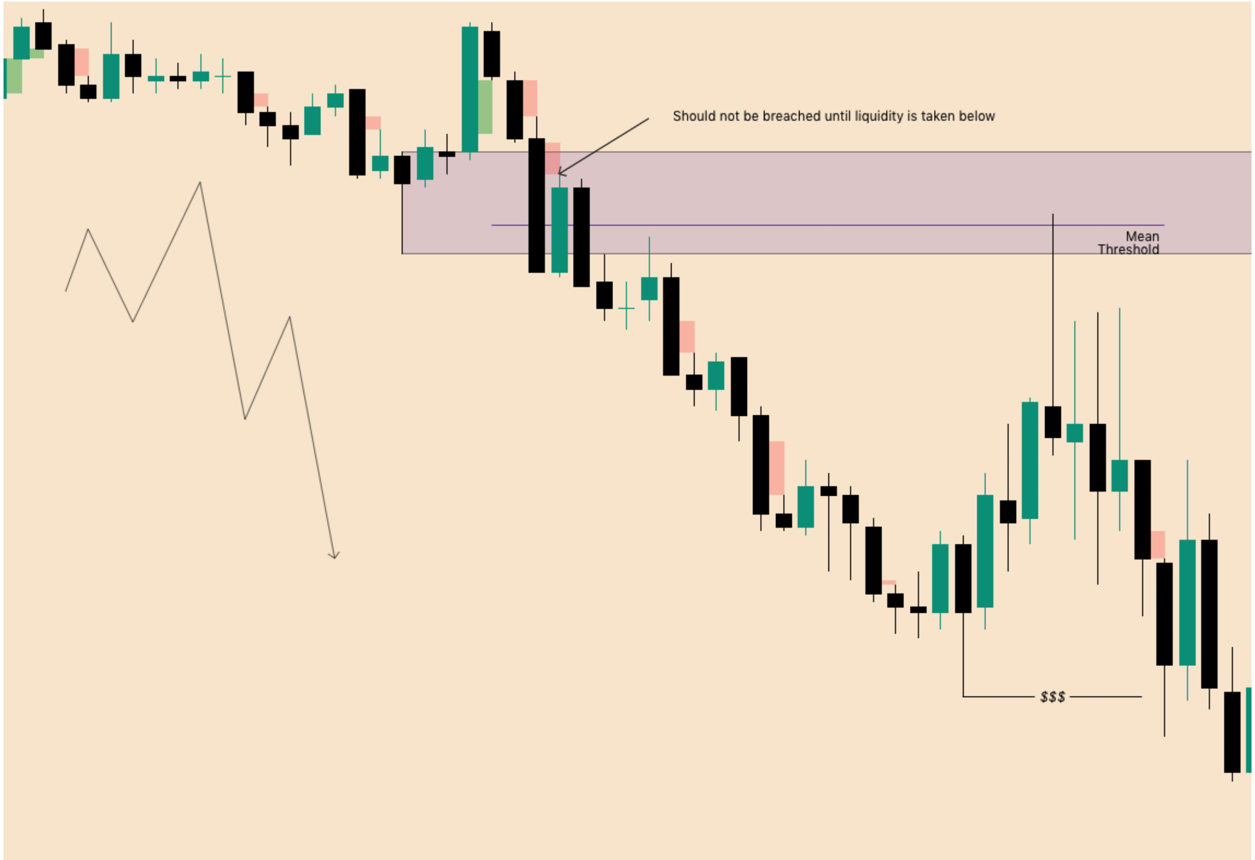
Using the m15 chart, here is the price action from one day into the next for $ES. A bearish breaker block forms into the close from the previous day. This is setup with the YouTube 2022 model! Price respects this breaker block during the overnight session and is driven down to take out sell-side liquidity into the open. In this case, that liquidity ends up being the longs that bought the dip into the prior day's close and anyone that chased the move up.



Here is the same chart on the m15 timeframe. Using the bearish breaker block as your point of interest, we can look for entries inside this range to short price towards our targets. The blue lines represent a m5 FVG. This provides you with a defined entry with stops and targets so you have your R for the trade. The OB before this FVG should not be breached until price trades lower and takes out the first target. You could also play the lower m5 fvg but your R would be reduced for the trade.

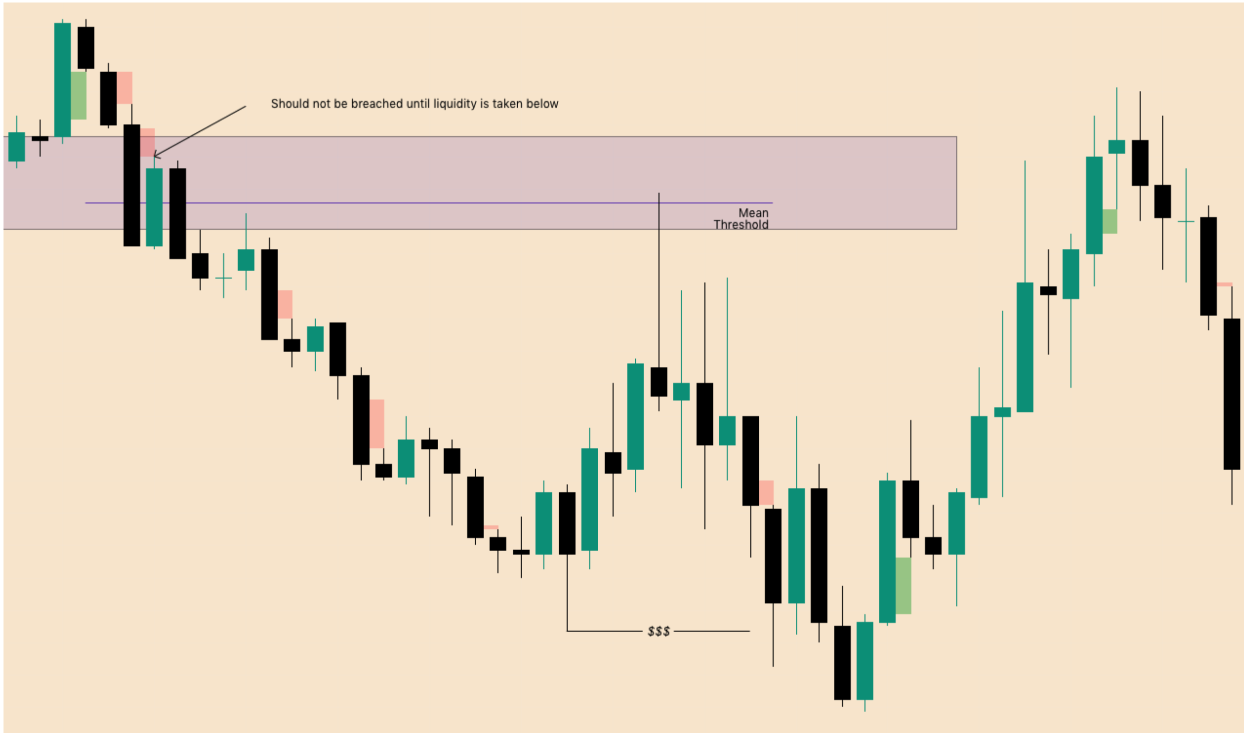
Notice how this candle should have originally acted as support but is now providing resistance.

Here is another example of a bearish breaker block:



In this example, price forms the YouTube 2022 model and slowly drops before accelerating up towards the bearish breaker block. The entry here is taken using the bearish order block's (green candle with the arrow) mean threshold (the mean threshold is 50% of any order block) sitting inside the breaker block (purple box). Stops go above the order block being addressed as price should not trade higher than this point until price takes out sell-side liquidity.

Here is how price delivered:



→ price hits out breaker block area and trades lower taking out sell-side liquidity

→ Once price takes sell-side, it then proceeds to go take out the order block I mentioned earlier.

→ Notice how the candles don't close above the breaker block area. They wick above, but the bodies never close above. This indicates that price will seek more sell-side liquidity before attempting another move up.

Review

Look for the YouTube 2022 Model setup

→ Identify KEY liquidity that is being taken

→ Watch for displacement and the market structure shift away from liquidity

→ Identify the breaker block (the order block that failed) at the swing high or swing low.

→ Label any FVG's or OB's for the displacement

→ Label the PD Array (premium vs discount)

→ Define the entry and stop loss (R for the trade)