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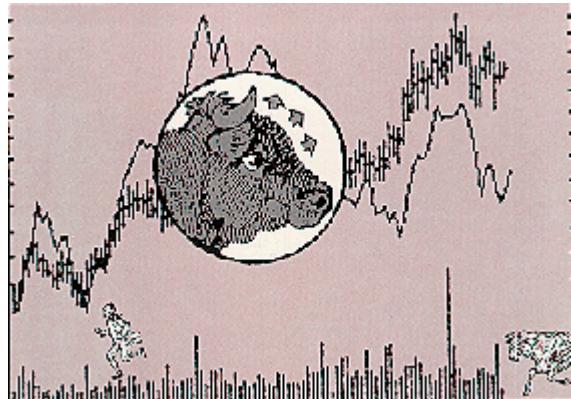
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# Opening range breakout

## Part 4

by *Toby Crabel*



Opening range breakout is a trade in which entry is taken at a predetermined amount above or below the opening range. I've set this predetermined amount (the "stretch") through observation. (See *Stocks & Commodities*, September 1988.) To trade the opening range breakout, a buy stop is placed above the high of the opening range an amount equal to the stretch and a sell stop is placed the same amount below the low of the opening range. The first stop that is traded is your position.

An inside day is one in which the daily range is completely within the previous day's range. More specifically, an inside day's high is less than the previous day's high and the inside day's low is greater than the previous day's low.

Figures 1 and 2 demonstrate the inside day and the next day's opening range breakout technique. My hypothesis is that inside days precede trend day activity and, consequently, successful opening range breakouts. Figure 3 tabulates the results of this hypothesis in the Treasury bond, S&P 500, soybean and cattle markets.

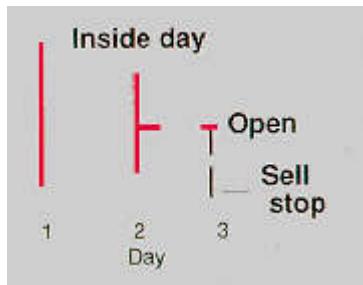
There were four tests per market with the only difference being the points of entry above or below the open. For example, bond market tests were conducted on an entry 16 ticks above the open (open plus 16 ticks), 8 ticks above the open, 8 ticks below the open (open minus 8 ticks) and 16 ticks below the open.

In the next column are the results of trades taken from the entry point with an exit on the close of the same day of entry. Stops were not used after and, if the market traded both above and below the opening range the given amount, both a buy and a sell could be registered. This test provides an objective means for determining if the inside day is actually preceding successful opening range breakouts and, therefore, is one indicator of future trend days.

I found it useful to compare the results of Figure 3 to the results of an opening range breakout taken on any day regardless of the previous day's price pattern (Figure 4). In all cases except the S&P 500's moves below the open and cattle's moves above the open, an inside day improved the percentage of profitable



**FIGURE 1:** An inside day with an opening range breakout up. After the inside day on day 2, the market opens on day 3 and rallies a predetermined amount above the open. A buy is made on a stop at the predetermined level with an exit on the close on day 3.



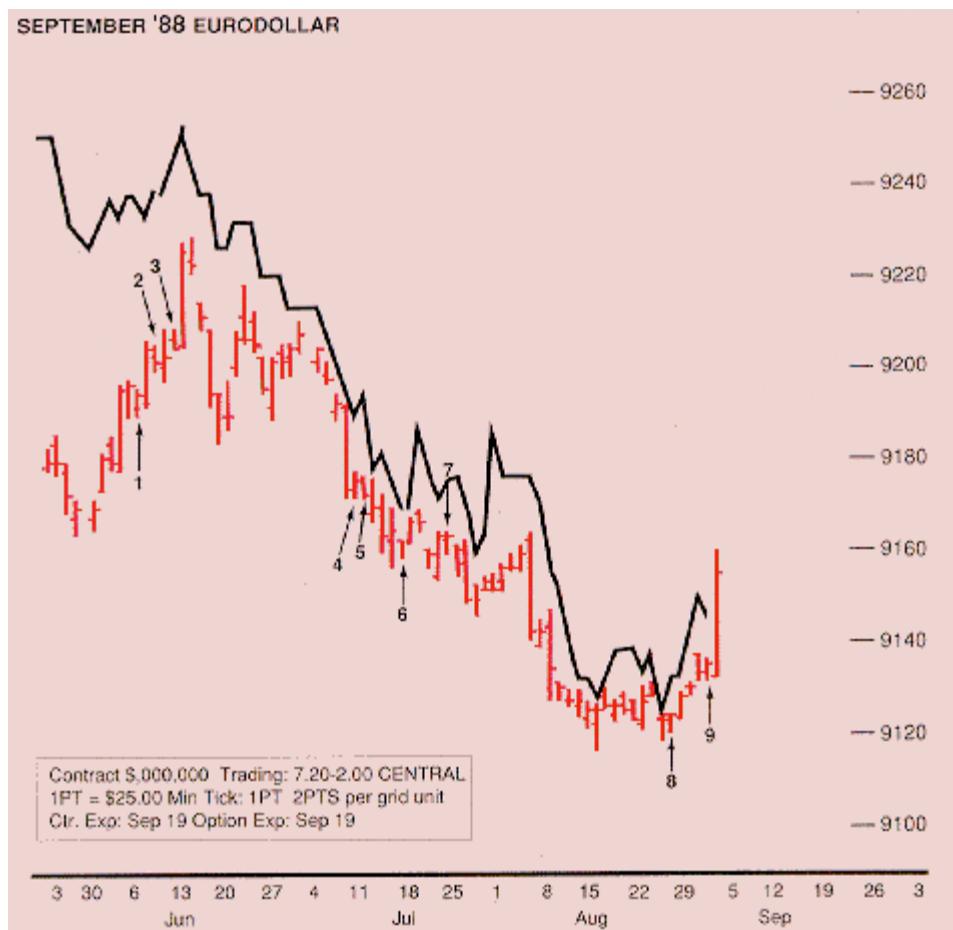
**FIGURE 2:** An inside day with an opening range breakout down. After the inside day on day 2 the market opens on day 3 and declines a predetermined amount below the open. A sale is made at the stop at the predetermined level with an exit on the close of day 3.

		# Trades	% Profitable	Avg. Win	Avg. Loss	Win/ Loss	Gross Profits
<b>BONDS</b>	Open plus 16 ticks	51	76	392	140	2.8:1	13,625
	Open plus 8 ticks	90	74	418	373	1.12:1	19,435
	Open minus 8 tick	91	62	421	392	1.07:1	9,870
	Open minus 16 ticks	50	66	377	362	1.04:1	6,304
<b>S&amp;P</b>	Open plus 160 points	57	61	896	693	1.29:1	16,124
	Open plus 80 points	103	57	860	612	1.40:1	23,800
	Open minus 80 points	89	48	739	571	1.29:1	5,520
	Open minus 160 points	58	45	691	762	0.90:1	-6,429
<b>BEANS</b>	Open plus 10 cents	67	70	426	268	1.58:1	14,687
	Open plus 5 cents	152	67	354	298	1.18:1	21,243
	Open minus 5 cents	130	69	376	342	1.09:1	20,169
	Open minus 10 cents	55	76	417	281	1.48:1	13,875
<b>CATTLE</b>	Open plus 50 points	101	55	130	135	0.96:1	1,196
	Open plus 25 points	208	55	137	156	0.87:1	1,191
	Open minus 25 points	194	60	173	155	1.11:1	8,372
	Open minus 50 points	103	73	144	162	0.88:1	6,334

**FIGURE 3:**

<b>Opening range breakout, % profitable trades</b>			
		<b>On any day</b>	<b>After inside day</b>
<b>BONDS</b>	Open plus 16 ticks	60%	76%
	Open plus 8 ticks	55	74
	Open minus 8 ticks	56	62
	Open minus 16 ticks	56	66
<b>S&amp;P</b>	Open plus 160 points	68	61
	Open plus 80 points	55	57
	Open minus 80 points	49	48
	Open minus 160 points	49	45
<b>BEANS</b>	Open plus 10 cents	60	70
	Open plus 5 cents	56	67
	Open minus 5 cents	58	69
	Open minus 10 cents	63	76
<b>CATTLE</b>	Open plus 50 points	65	55
	Open plus 25 points	58	55
	Open minus 25 points	58	60
	Open minus 50 points	63	73

**FIGURE 4:**



**FIGURE 5:** Source: *Commodity Trend Service*.

trades in the direction of the breakout improved, sometimes dramatically. Out of the 16 possible entry points, only four showed lower percentages after an inside day. This means that 75% of the tests showed improvement. I think this is conclusive.

Figure 5 displays nine inside days. Notice the action following the inside day and close proximity of the open of that day to one of the extremes, particularly numbers 1, 3, 8 and 9. On those days the open is within one tick of the extreme with sizable range expansion.

The bond and soybean markets show the best results on the trades after an inside day. I should add that with the addition of a night session in the bond market some changes have occurred, primarily a general lack of trend and a loss of volatility.

An analysis of price action is necessary when utilizing the opening range breakout in any situation. Ideally, on the day a trade is taken with this technique there should be no momentum increases against the trade. The market should be able to maintain the direction of the original move off the open without moving in the opposite direction at an accelerated rate. In the best cases, the previous half-hour low is not violated in an up move and vice versa in a down move. Also, new highs should occur at least every hour or new lows should occur every hour in a down move.

My conclusion is that the tests do suggest that inside days are valid precursors of trending action and can be integrated into a trader's philosophy.

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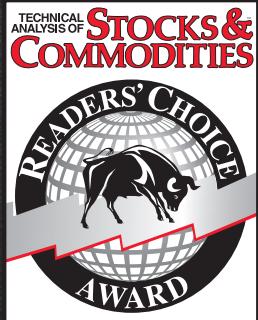
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