
VWAP

BREAKOUT

FAILURE

STRATEGY

What is VWAP Breakout Failure Strategy??

It is strategy to catch the breakout failure trades which VWAP throws up. In VWAP breakout trade a position is established if the price of the index or instrument is above/below both Previous Day VWAP and Current VWAP. In such scenario a buy/sell position is entered with appropriate SL and a Target. Many times such breakouts remain in place for a short period of time and then fizzle out due to certain reasons. This is breakout failure. Under such situations the Stop Loss for the trade is usually hit. This has happened many times to me too and it becomes frustrating if there is a series of loss.

After going through many examples myself and some material on the web, I came across a method in which the advantage of the Breakout Failure can be taken with just a small tweak. This tweak is to be applied only when the breakout of VWAP trade is failing and the trade is reversing direction. In the beginning it will be a bit difficult to catch the scenario but with sufficient study of charts and practice, one can easily catch the reversal which I call VWAP Breakout Failure Strategy.

The beauty of this strategy is that it will not appear at the open of the markets. We have ample time to execute the trades, if they present themselves. These trades will typically appear only after 10AM (and can appear any time of the trading day). The idea of the strategy is to take advantage of trapped traders, traders who are stuck with VWAP breakout trades and are feeling the heat as the VWAP breakout trade is getting converted into VWAP Breakout Failure Trade. So if as traders we already know that the trade is getting converted into a Breakout Failure trade, we can take advantage by not letting the SL to get hit and also be prepared for a reversal trade.

The following are certain conditions which have to be met before taking the trades using the strategy:

For short Trades:

- Stocks/index should first trade below/at/above the current VWAP
- If trades at or below current VWAP, price bounces and breaks above the VWAP, activating buyers.
- If the price loses the VWAP which means price again trades below Current VWAP, indicates that the buyers are weak or exhausted
- This can provide an opportunity to short with appropriate SL.

Along with above points, framework has to be built with the help of support/resistances which is easy to establish. In the above scenario when CVWAP is lost, one needs to check what are all the pointers because of which a breakout failure is taking place. Usually it is a Breakout Failure of decision points from previous day or start of the day. This will be explained in depth in the numerous examples which will be covered further.

For Long trades:

Inverse all the points mentioned above (Examples Follow).

Terms used:

VWAP: Volume weighted Average Price also ATP on NEST Terminals.

PVWAP/YDay VWAP: Previous Day VWAP

CVWAP: Current Day VWAP.

BOF: Break Out Failure.

PDH: Previous Day High

PDC: Previous Day Close

PDL: Previous Day Low

DO: Current Day's Open

DH: Current Day's High

DL: Current Day's Low

BO: Break Out

IB: Inside Bar

R1,R2,R3/S1,S2,S3: Standard Pivots configuration to be applied.

All charts from Zerodha Kite Web Based Software.

The above method can be applied on stocks, Index, commodities, currencies across Time frames. But the examples which follow are mostly 15 Mins and 10 Mins charts.

So grab a Pot of Coffee and go through the examples which follow.

I hope to provide Value through this write up and that readers can apply the Strategy and improve their trading further.



The above is a 10 min chart of BNF. Here price tries to stay above CVWAP but fails to remain above it and starts trading below CVWAP. As the CVWAP is lost on the third candle, the short is created. Also notice how the PDC was not taken out which resulted in the fall. The SL in this case is 60 points. The first target can be YDay VWAP.



In the above example of Crudeoil 15 mins, price traded around CVWAP and YDay VWAP for some time then broke out only to find resistance at R1. After few candles, price loses the CVWAP and then the YDay VWAP. Short was triggered as soon as CVWAP and YDay VWAP is lost. Price smoothly moves to S1. SL in this case is 25 points.



The above is Crudeoil 15 mins example. Price moves around YDay VWAP after which it moves till Day's Open. Notice how price tried to move above the Day's open but failed one time and then the second time. The second time BOF takes place, price loses the CVWAP and the short gets triggered. Price moves till S1 easily.



The above is HeromotoCorp 10 mins chart. Price opens trades above CVWAP and PDay VWAP. Notice how there is BOF of PDH at the second candle. Also BOF of R1 ensues at candle 3. One can short at the retest of R1. The idea is to fortify our SL as much as possible. In this case conservative traders can short below YDay VWAP also. Price almost moved to S3.



The next chart is of HUL 5 mins. Price initially trades below both CWAP and YDay VWAP then there is a surge in price and it starts trading above CVWAP. The upmove halts and the price loses CVWAP at the candle as shown. As price loses PDL also, one can short. Price moves 1% after the trigger where one can easily book some positions and trail the rest.



The above is Maruti chart for 15 min TF. Price moves above CVWAP and YDay VWAP in the second candle with good volumes. At the 3rd candle, the upmove halts. In the 4th candle price loses YDay VWAP. On the break of CVWAP, shorts can get activated. Price moved till S1 where profit booking can be done partially and rest can be trailed.



In the above chart price trades above both the VWAPs in the beginning but then price halts and sells off a bit to test Yday VWAP. There is again an upswing which makes the price to reach PDH. It is here where we can notice rejection candles. Once there is BOF of PDH, we need to wait for price to lose CVWAP which it does as shown. A short trade can be taken below the candle which loses the CVWAP. The trade move was profitable.



The above is Titan Cash chart. Price at the start moved above Yday VWAP and CVWAP. Also notice that price started trading above PDH also and sustained for good 30 minutes. This will attract more breakout traders and will entice them to buy during that period. As soon as the price reached R1 , we can notice the rejection there. Price lost PDC and PDH as shown. Also CVWAP was lost. This gives the short trade (if taken below the candle which loses CVWAP) good protection for the Stop Loss for the trade. As soon as the Pday VWAP was lost, fall in price intensified as all the buyers of the morning breakout trade were feeling the heat. The trade moved well and almost hit S3. While trading stocks keep Stop Loss as 1% and targets as 1.5%/ pivot points.



The above is Tatasteel cash 15 mins chart. In this case price tested PDL in the first 15 mins, moved above CVWAP and then moved above Pday VWAP also. It faced rejection at R1 as shown. The formation of IB (Inside Bar) at that point would have given a signal that the upmove is halting. As soon as it loses Pday VWAP, our assumption proved correct. In due course price lost CVWAP also and a short was triggered below that candle. Stop loss is 1% from our entry. In this case the trade result would have obtained at 3:15 square off time.



The above one is the same tatasteel example but in 5 mins. This chart of 5 mins gives a good and much more minute detail of what I had explained in the last example. While executing the trade I will rely more on 15 mins charts. But in between will monitor 5 mins chart also just to know how price is behaving on shorter time frame.



Now for some Buy examples:

The above is BNF 15 mins chart. Price started trading above YDay VWAP initially buy could not hold on for long. For the next 3 candles there was a minor sell off. Price did not move below PDC much. Demand candle started forming after that because of which price moved above PDC and CVWAP. Buy was triggered 3 candles later and it moved very well fuelled by short covering.



The above one is BNF 10 mins chart. A bit messy , I must admit. Price tried to stay above the YDay VWAP and the CVWAP but failed in doing so from the second candle. Notice the long wicks which the candles had which shows that there could be buying interest coming in for the index. It happened and CVWAP was gained again as shown. Also BOF PDC took place and buy was triggered above the high of that candle. It moved well and some points could be captured.



The above is Tatasteel 5 mins example. Again a bit messy to look at. But in markets one can hardly get smooth rides .In the above example price moved below both VWAPs in the beginning and also traded below PDL. This attracted selling. Price could not remain below PDL for long and there was some buying interest coming in. As marked in the chart, price was above PDL and CVWAP at that candle. But buy did not trigger as price did not trade above that candle. Again selling emerged and traded below CVWAP as can be seen. Again price could not remain below PDL and CVWAP and finally buy was triggered as shown in the chart. SL was 1% . Targets can be Pday VWAP and pivots. The trade moved well.



The above chart is 10 Mins BNF . This was a policy announcement day. So no trades till the policy is announced. Notice how many decision points were lined up as a cluster at a zone. Such formation can ensure that the chances of a SL hit is very minimal. There were two opportunities to short. First one was on the Loss of CVWAP on the formation of the big candle. I had traded 32K PE in this. After that there was again a candle losing CVWAP. Shorts were triggered below that candle. That was the 12th candle from the formation of the Big candle after policy announcement.



The above is the 10 Min NF chart. Here prices gapped down and also opened below PDL thus attracting selling. Prices could not sustain below PDL and reversed within 30 mins to fill the gap. Prices could move only till PDC. Notice how difficult it was for prices to cross PDC. Prices lost PDC, Pivot and Yday VWAP and finally lost CVWAP also thus triggering a short below that candle. Pricea moved till Day's low which could have been a logical target.



Taking the previous example further, there was also a Buy trade which got triggered as shown. After Breakout failure of PDL and S1 as shown, price started trading above both the points and quickly gained CVWAP. Buy was triggered above the candle as marked. We have 3 layers of support as marked (BOF PDL, BOF S1, BOF day Low) which can make sure that our SL is safe. This trade moved well and tested S1 easily.



The above is 10 Mins chart of NF. As can be seen price opened above PDC and PDH and at the same time rotated around the Day's open. Notice how VWAP was lost with a big candle and subsequently PDC and PDH were also lost. Prices came back to test CVWAP and got rejected. This gave another chance to short where prices lost CVWAP, PDH and PDC again. After this BOF price moved well to test PDay VWAP.



The above is 10 mins NF chart. Price opened and started trading below PDC, YDay VWAP and CVWAP. Even after this action, price did not sell off and started to inch higher as can be seen. CVWAP was gained as can be seen in the chart. Buy was triggered above the candle which gained the CVWAP. After the buy we had protection for our trade as there were cluster of SL. This trade moved till R2.



The above is the BNF 10 mins chart. Like in the previous NF example, here too price opened above PDay VWAP but started trading below Pday VWAP, PDC and Pivot point too. This should have triggered selling in the instrument, but after 3 candles, there was buying interest seen in the instrument and price started closing above the resistance of PDay VWAP, PDC and Pivot. Also as shown price gained CVWAP and started trading above it. For conservative traders buy can also be triggered above the Big green candle which can be seen. Price moved till R2. SL in this case was 60 points, i.e 1200/- per Lot.



The above is the BNF 15 mins chart. In this example, price stayed above YDay VWAP but could not sustain and started selling off below YDay VWAP. Even though price was below YDay VWAP, PDC and CVWAP, still there was no major selling, just for 3-4 candles. Buying interest emerged as price started trading above CVWAP. Buy was triggered only when price started trading above the candle which gained CVWAP again. The trade moved till R2 and beyond. SL was 60 points.



The above is an interesting example of 10 Mins BNF. Interesting because of the kind of Price action which took place. I have many times noticed that if PDH/PDC is the high point of the day for that specific day and if that zone is not taken out the next day, there can be selling emerging. Same happened in the above example. Just look at the zone which BNF could not take out on the current day. Faced resistance at PDH, break out failure of PDC, price loses VWAP on the third candle itself. Slowly panic sets in for late buyers of Yday and also emotional buyers of the current day when price loses current day Pivot. Price smoothly moved till YDay VWAP and after price lost it, the fall intensified and continued till EOD. Do pay special attention to such a formation.



The above is the chart of 10 Mins BNF. It Gapped down and selling continued for a few candles as can be seen. Even after gap down below PDC, PDL and YDay VWAP, there was not much selling. Also it can be observed that there was an attempt to break the current day Low but it failed and price bounced and regained PDL and CVWAP in a single candle thereby forming BOF PDL. Price already had formed BOF of Day's low at the lower end. So clearly the selling and Gap down pressure was arrested. Buy was triggered as soon as the CVWAP was gained back. Buy was triggered above that candle. Price moved well till R2. SL was 60 points.



The above one is 10 Mins BNF chart. In the above example, price started trading below YDay VWAP in the beginning, but could not sustain much longer. Buying interest was seen and price started trading above CVWAP and YDay VWAP also. As the prices started above YDay VWAP ,it attracted buying but even that could not sustain. Notice the rejection in price as a selling tail was formed. Selling picked up as price lost YDay VWAP and PDC. As soon as price lost CVWAP, selling intensified. It moved till S1 easily. SL in this trade was 60 points.



The above is 10 min BNF chart. Price gapped up. After gap up there was no run away movement. Price did not attempt to take out the day's high made initially. It did try but failed there by printing a selling tail. In due course price lost the CVWAP and pivot point. As soon as CVWAP was lost fall got extended and it tested YDay VWAP which would have been the logical target for the trade. SL for the trade was 60 points.

I hope the PDF provided you with ample examples to drill the Strategy home. I also hope that the same will applied to your trading with good results.

And now you can trade both VWAP Breakout and VWAP Breakout Failure with equal confidence.

As always I am available to answer any queries which you may have.

I thank you for your time.

All the very best for your Trading.

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