
Price Action Trading Trend Line Breakout Strategy

(by Albert Kuo)



僅供內部教育訓練之用，請勿外流

Introduction

- 1. This is a rule-based and objective method with clear and not ambiguous entry and exit rules.**
- 2. This strategy is as easy as pie and the tool we use is only trend lines.**
- 3. We don't use any technical indicators(neither EMA, RSI, KD nor MACD) so we don't need to optimize parameters of the indicators and have no problem of overfitting a model.**
- 4. We can use Fibonacci Retracement to decide S/L and T/P levels.**
- 5. We can use trailing stop method to capture massive moves.**
- 6. It's pretty much of a trend-reversal strategy with pretty high odds. But sometimes, it can be a trend-following strategy(Special Case 4).**
- 7. This strategy can work well in daily chart but it can also do on other time frame.**

How to Draw Valid Trend Lines

Step 1: Identify obvious peaks and troughs

Step 2A: In a downtrend(it forms lower highs, but lower lows are not necessary), connect a minimum of 3 peaks (or highs) with a line from left to right and we have a downward trend line

Step 2B: In an uptrend(it forms higher lows, but high highs are not necessary), connect a minimum of 3 troughs (or lows) with a line from left to right and we have an upward trend line

Step 3: We can draw 2 parallel lines to mark trend line(as a trend zone)

***3 Common Mistakes in Drawing Trend Lines:**

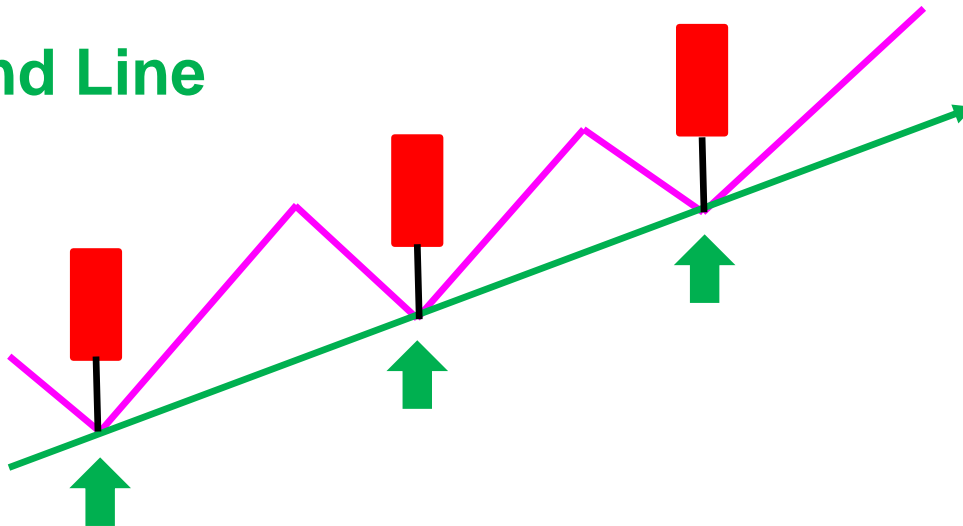
- 1. Drawing trend line through an obstruction**
- 2. Drawing through the body of a candlestick**
- 3. Not drawing a new trend line and keeping a breached trend line**

***It's acceptable that sometimes a trend line doesn't touch the wick but is very close to the end of a wick.**

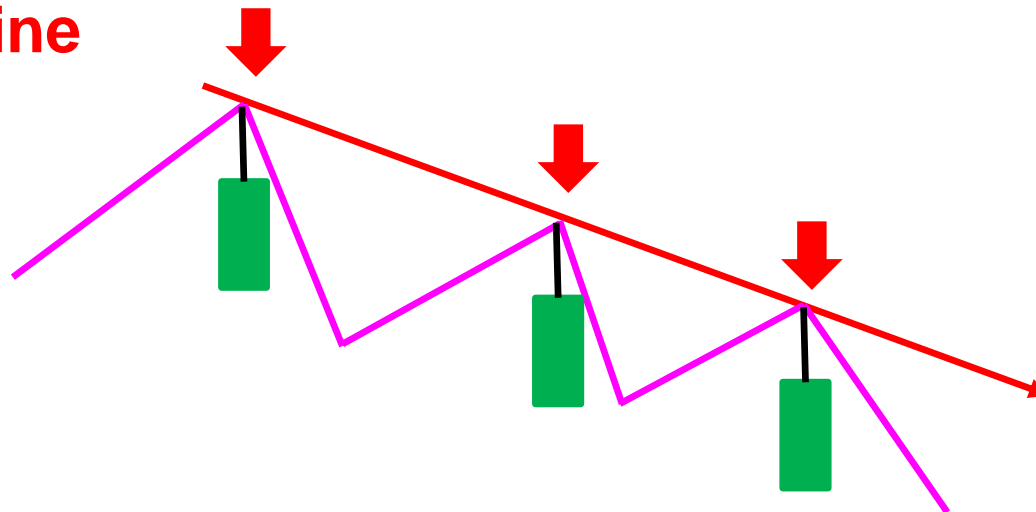
***It's acceptable that sometimes a trend line is through the body of a candlestick but only a tiny part of the body.**

How to Draw Valid Trend Lines

Uptrend Line

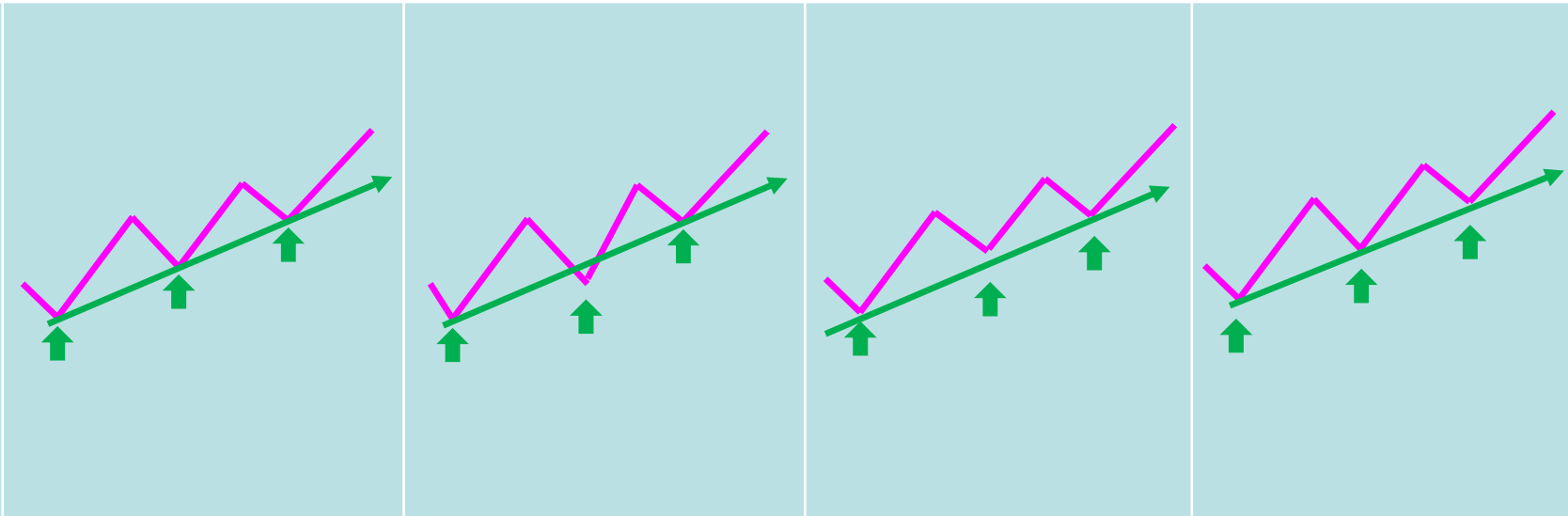


Downtrend Line

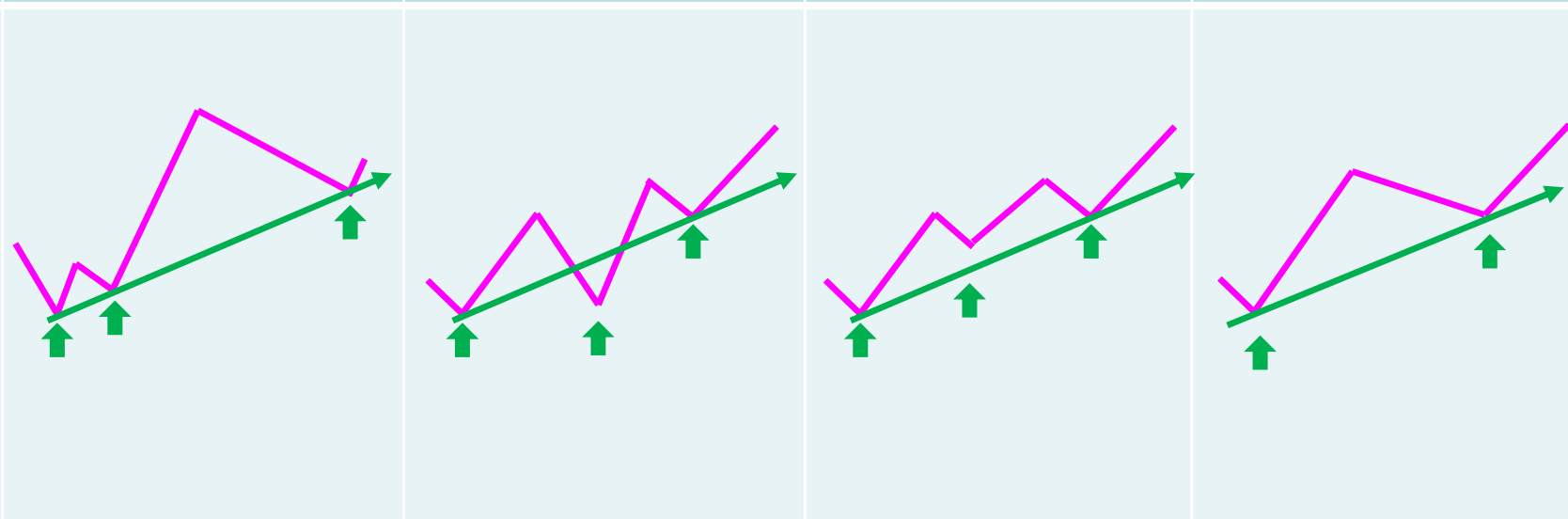


How to Draw Valid Trend Lines

Valid



Invalid



How to Draw Valid Trend Lines

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US Government Bonds 10 YR Yield, 1D, TVC O3.022% H3.028% L3.016% C3.026% +0.008% (+0.27%)

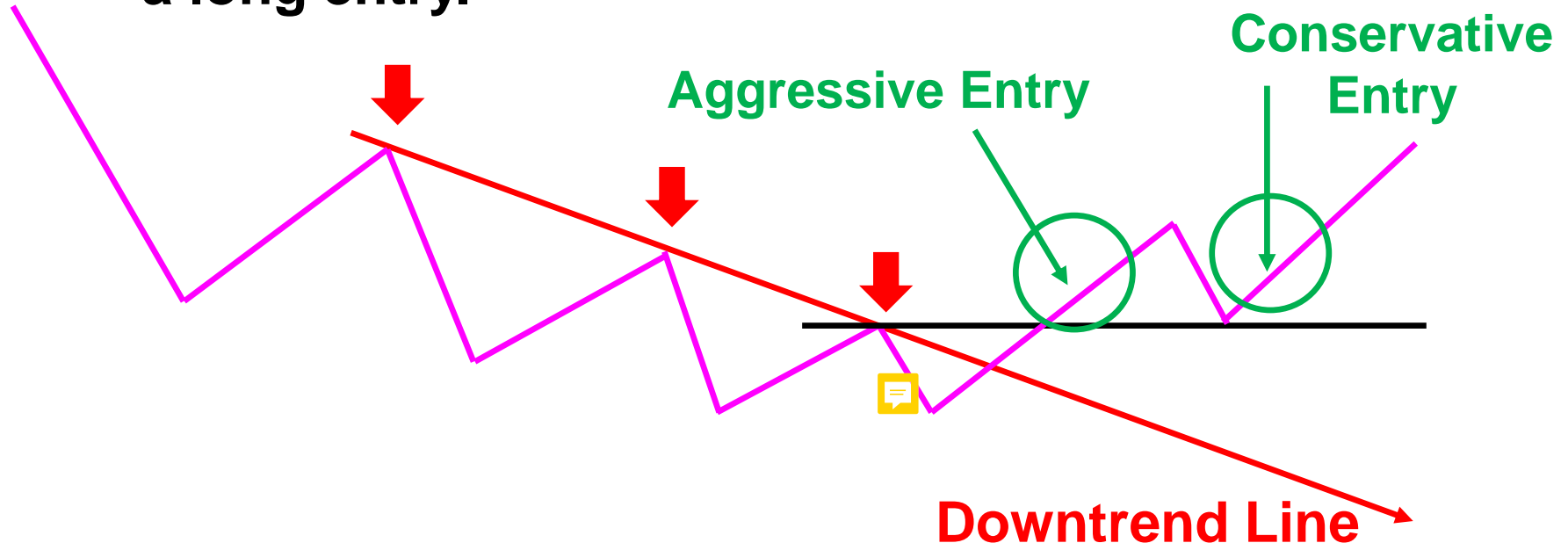


Entry Rules

Long Entry

Aggressive Entry: If the price closes above the last point touching the downtrend line, make a long entry.

Conservative Entry: If the price crosses above the last point touching the downtrend line and retests it, make a long entry.

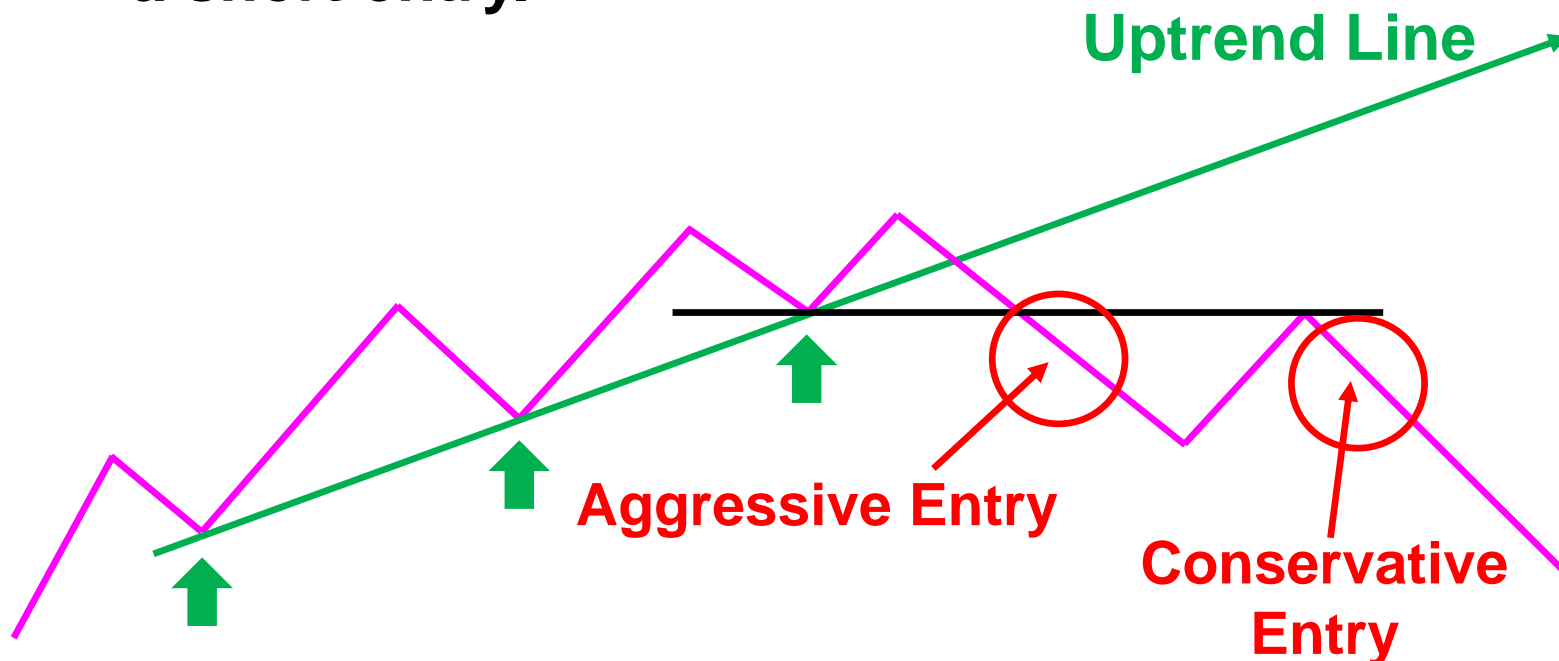


Entry Rules

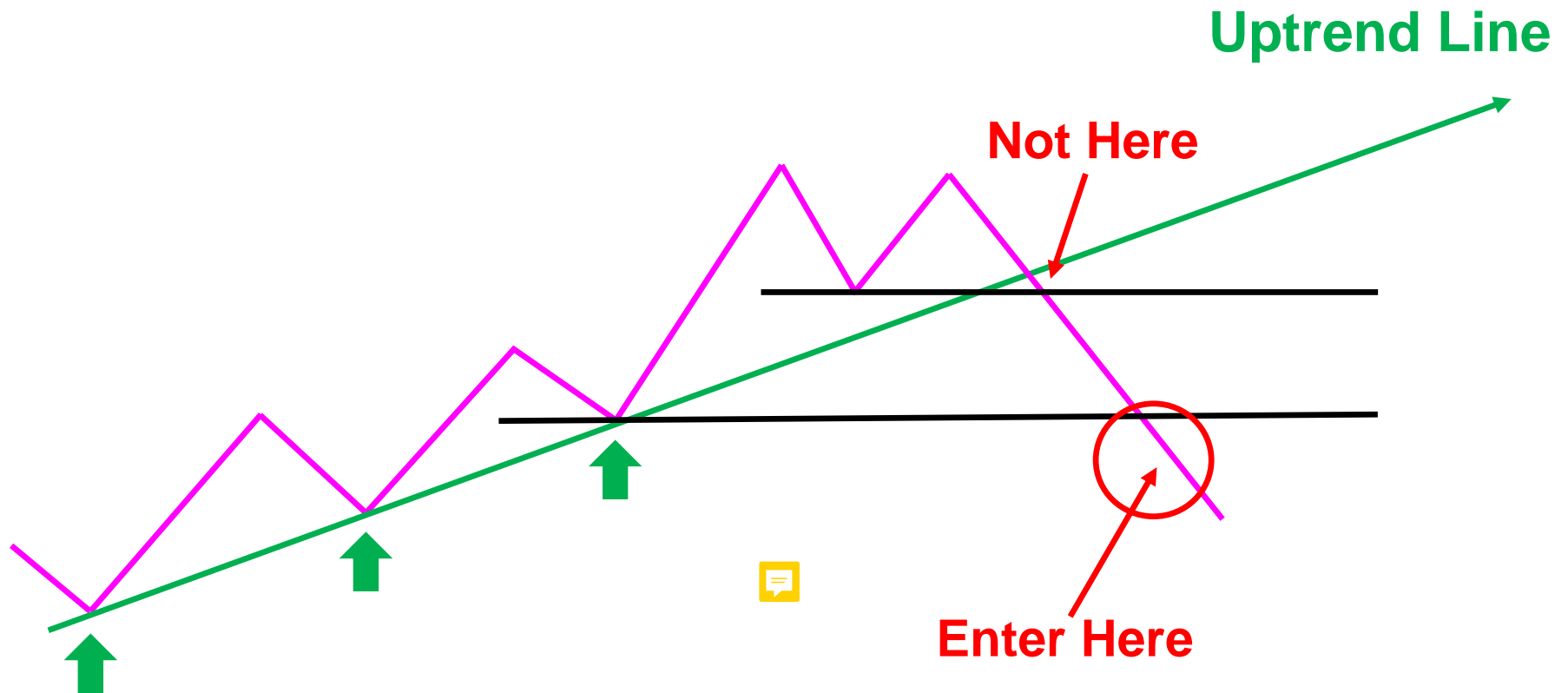
Short Entry

Aggressive Entry: If the price closes below the last point touching the uptrend line, make a short entry.

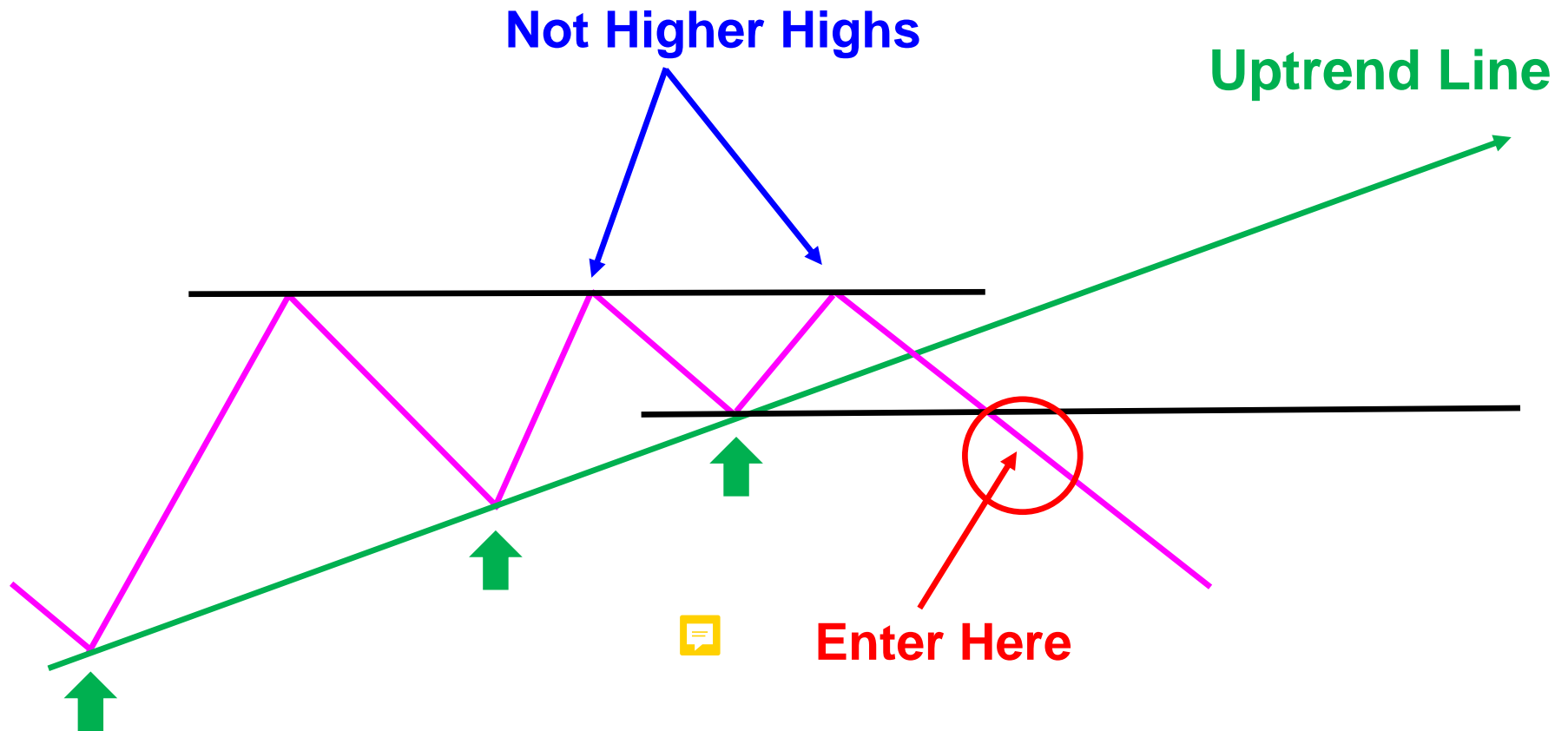
Conservative Entry: If the price crosses below the last point touching the uptrend line and retests it, make a short entry.



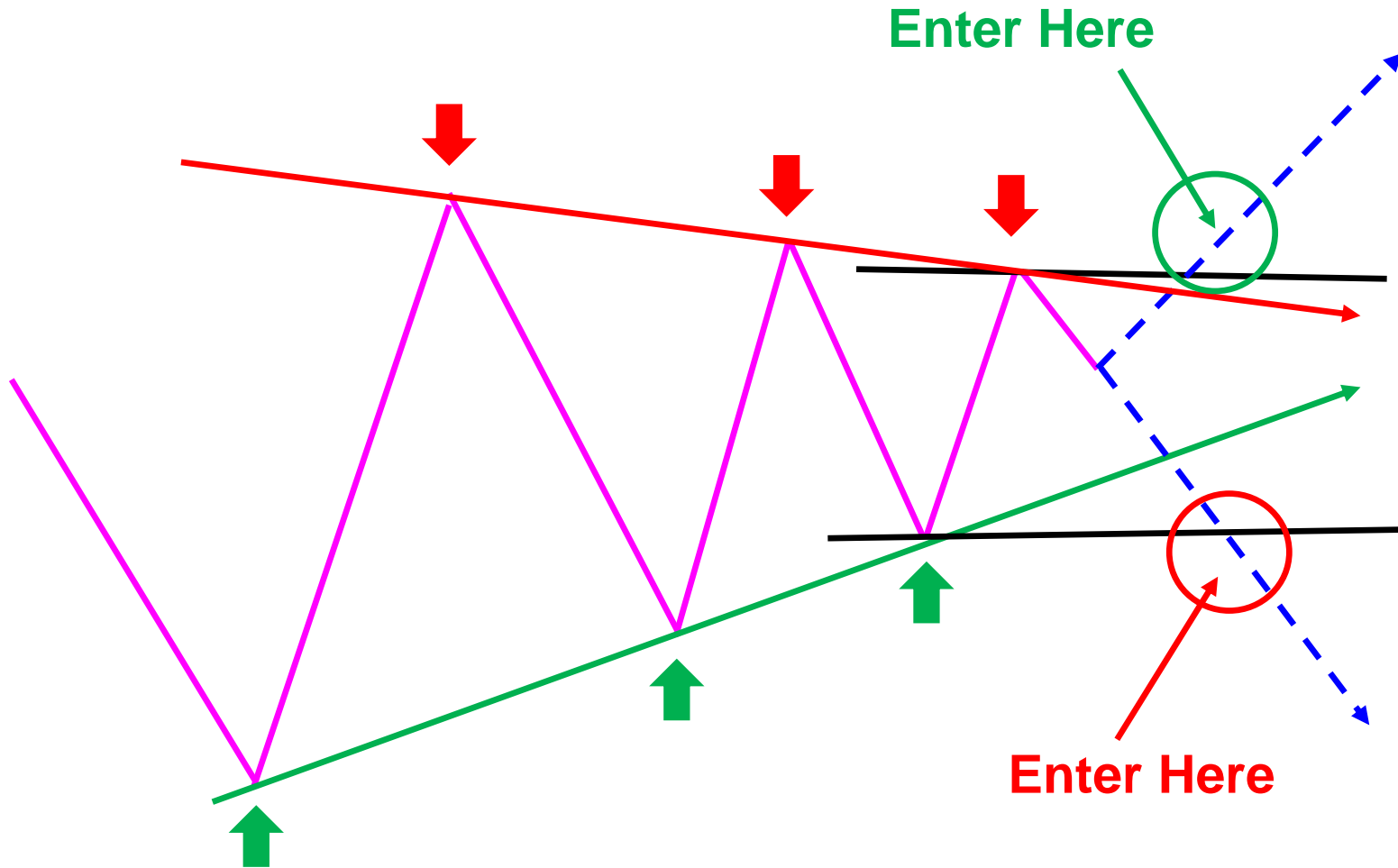
Special Case 1



Special Case 2



Special Case 3



Special Case 4

Retracement(Pull Back)

Uptrend Line

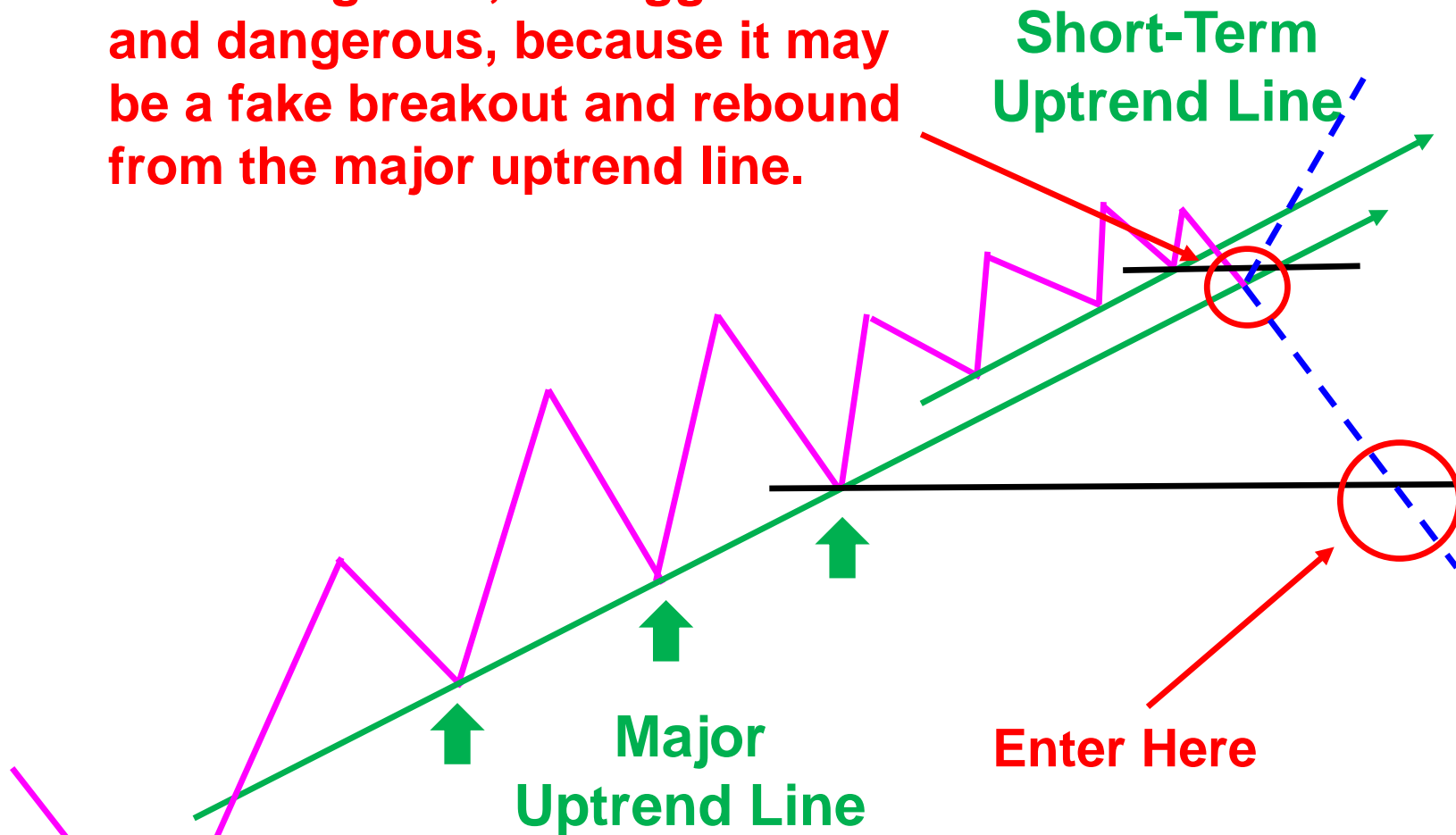
Downtrend

Enter
(Higher Odds)

It's a following-trend
strategy in this case

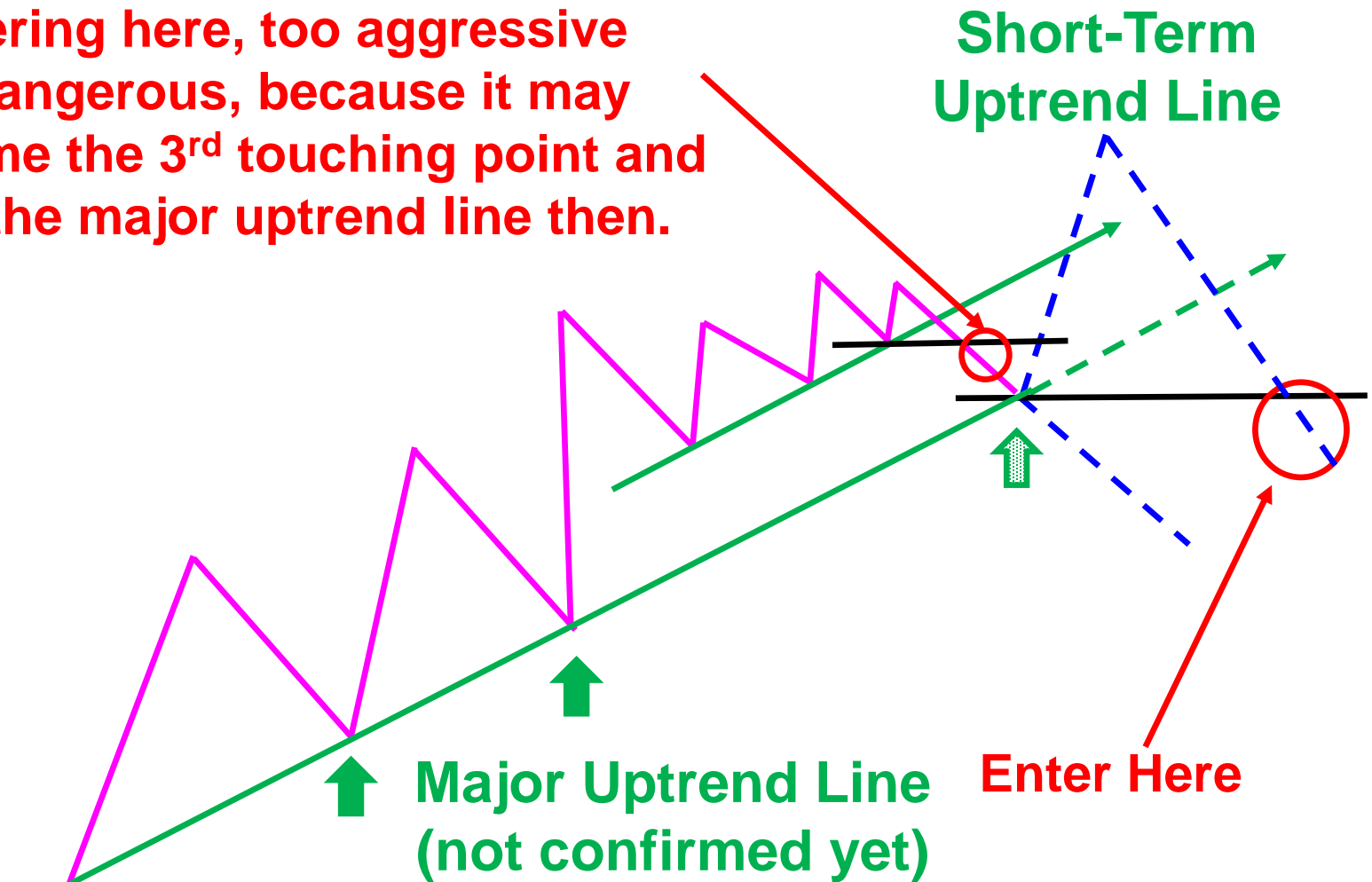
Special Case 5

If entering here, too aggressive and dangerous, because it may be a fake breakout and rebound from the major uptrend line.



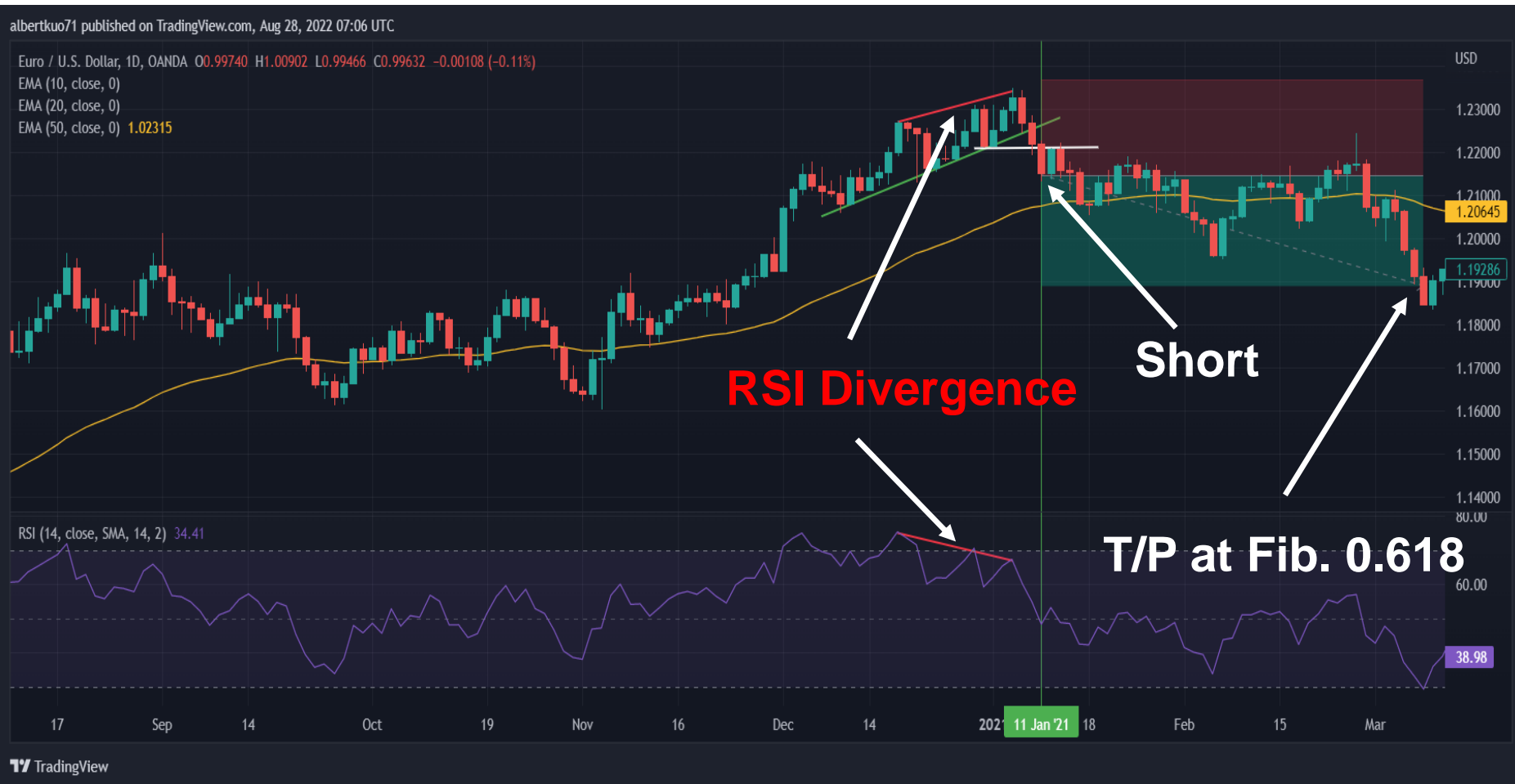
Special Case 6

If entering here, too aggressive and dangerous, because it may become the 3rd touching point and form the major uptrend line then.



Some Tips

***In the uptrend/downtrend, if an uptrend/downtrend-line break occurs with RSI divergence, it would increase the odds(counter-trend)**



Some Tips

***If the major trend is an uptrend/downtrend and a pullback has a downtrend/uptrend-line break with rejection of EMA(50), support/resistance or Fib. level, it would increase the odds(trend-following)**



Example



Example

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US Government Bonds 10 YR Yield, 1D, TVC O3.022% H3.031% L3.005% C3.011% -0.007% (-0.23%)



Example

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US Government Bonds 10 YR Yield, 1D, % C 3.022% H3.031% L3.005% C3.013% -0.005% (-0.17%)



How to Set S/L Level

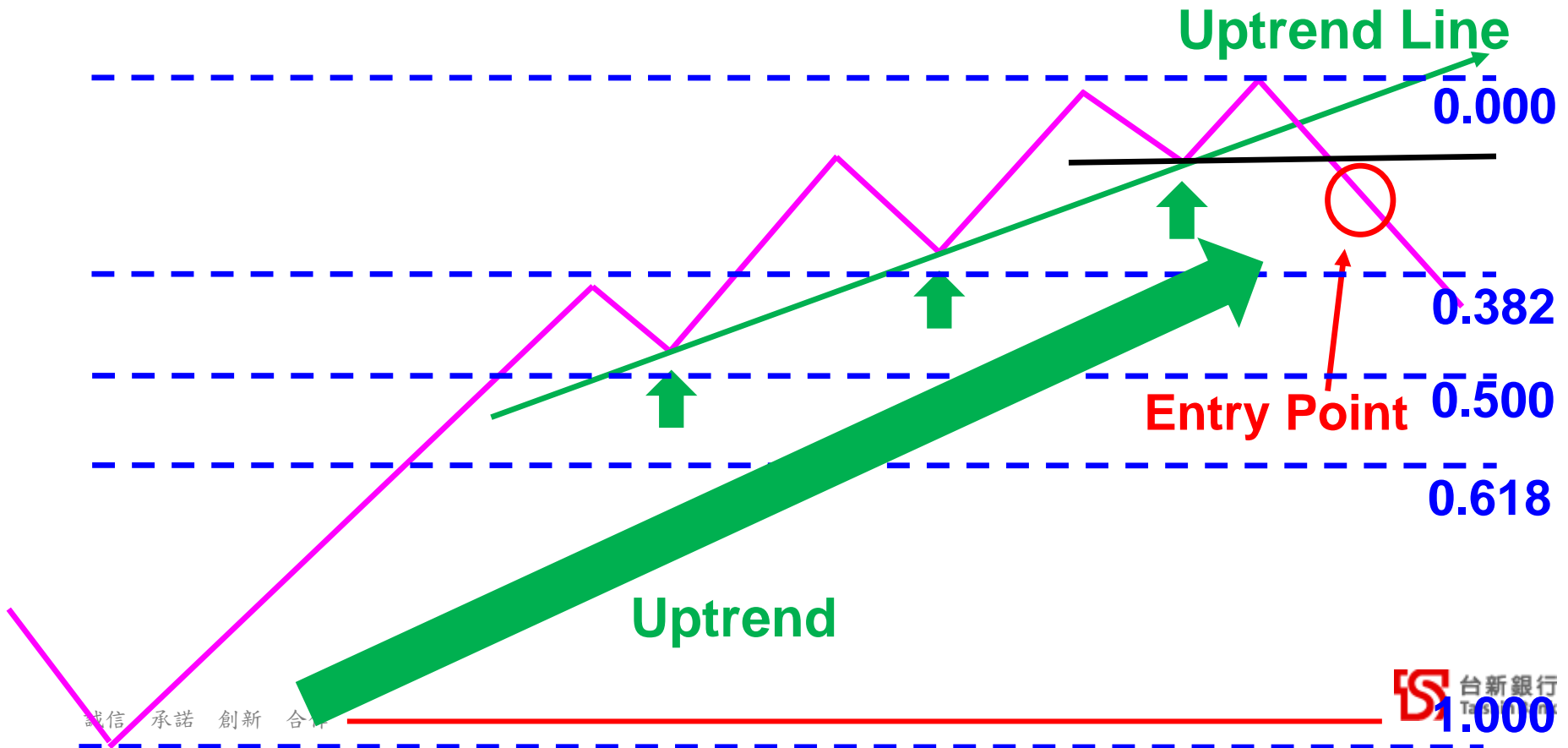
1. A little below/above recent swing low/high for a long/short entry
 2. If recent low/high is very far away from entry point, set Stop-Loss level at Fib. 0.382, 0.500 or 0.618
- It's even better if (1) and (2) are very close.



How to Set T/P Level

1. Counter-Trend

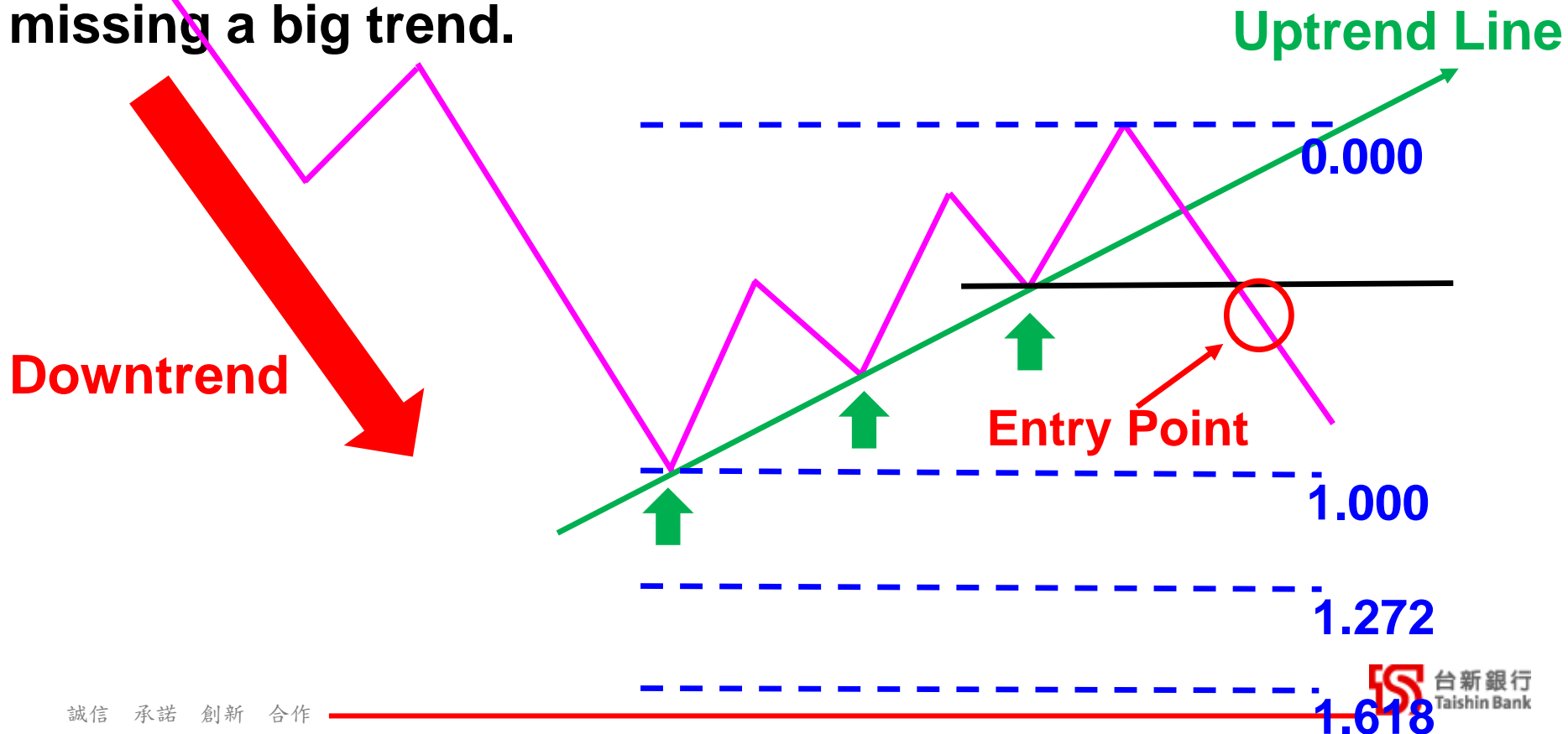
Because it's totally a counter-trend trade, we have no idea if the trend is really changing. So we can set T/P level at Fib. 0.382, 0.5 and 0.618, and take profit separately.



How to Set T/P Level

2. Trend-Following

Because it's a trend-following trade, we can set T/P level more aggressively. The 1st T/P level is Fib. 1.272 and the 2nd is Fib. 1.618, and we can also use trailing stop to avoid missing a big trend.



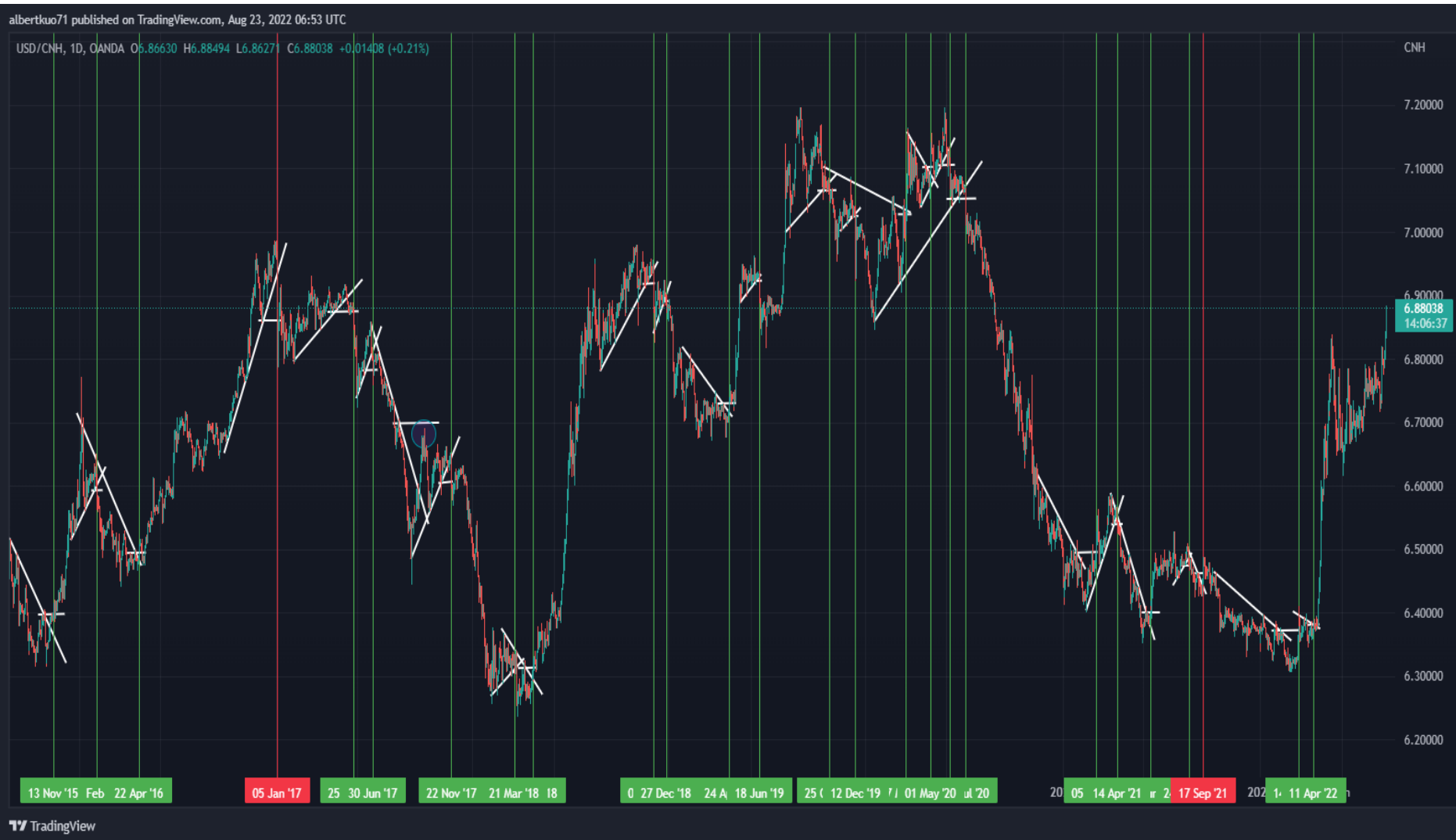
Back Test

**US 10Y Daily Chart: 2013 Sep ~ 2022 Aug, Total Entry Times 46, Winner 33
Breakeven 5, Loser 8, Winning% 71.74%**



Back Test

**USDCNH Daily Chart: 2011 Nov ~ 2022 Aug, Total Entry Times 26, Winner 24
Loser 2, Winning% 92.86%**



Back Test

**EURUSD Daily Chart: 2013 Aug ~ 2022 Aug, Total Entry Times 65, Winner 40
Breakeven 9, Loser 16, Winning% 61.54%**

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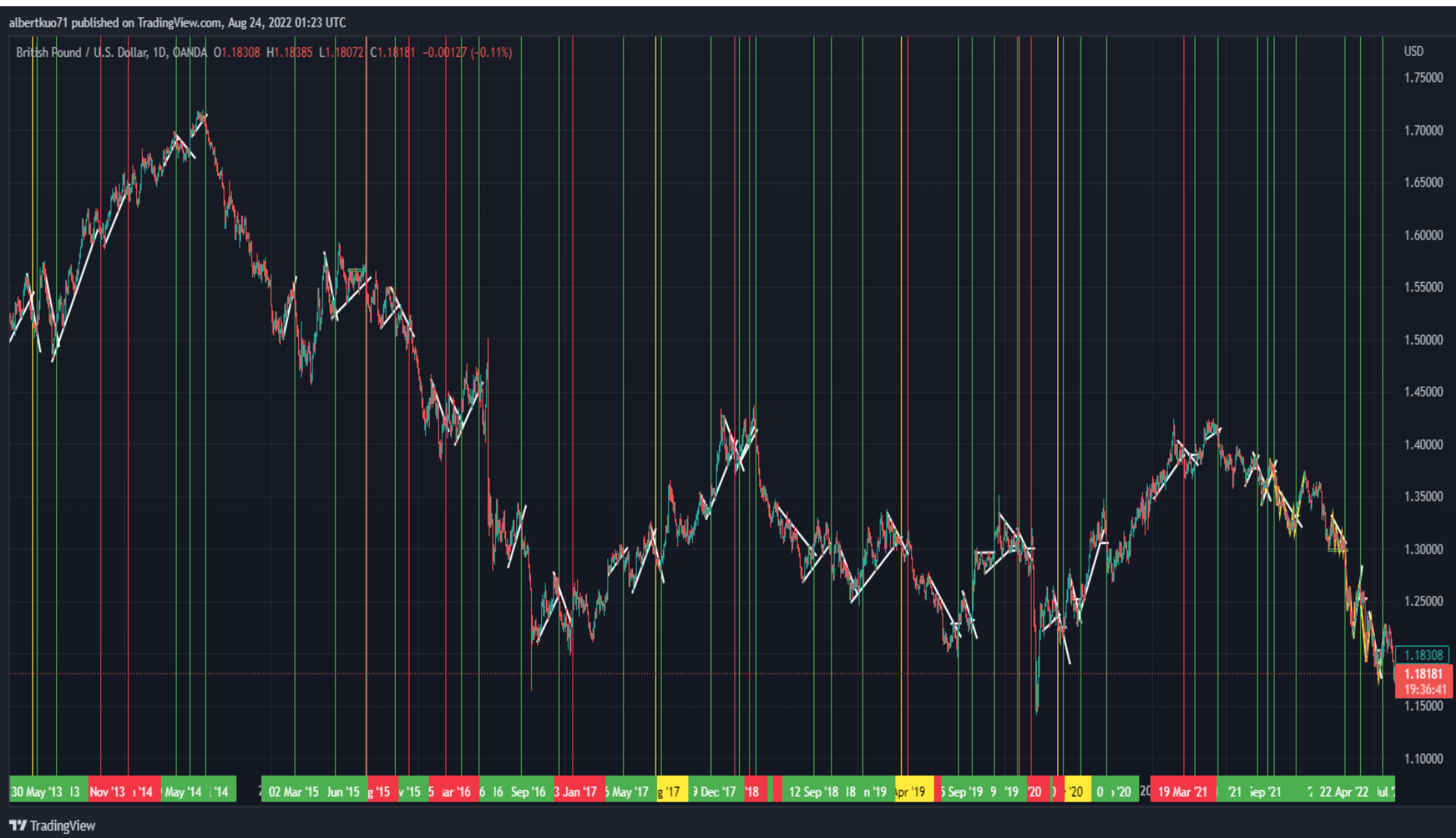
Back Test

**USDJPY Daily Chart: 2009 Jan ~ 2022 Aug, Total Entry Times 52, Winner 35
Breakeven 3, Loser 14, Winning% 67.31%**



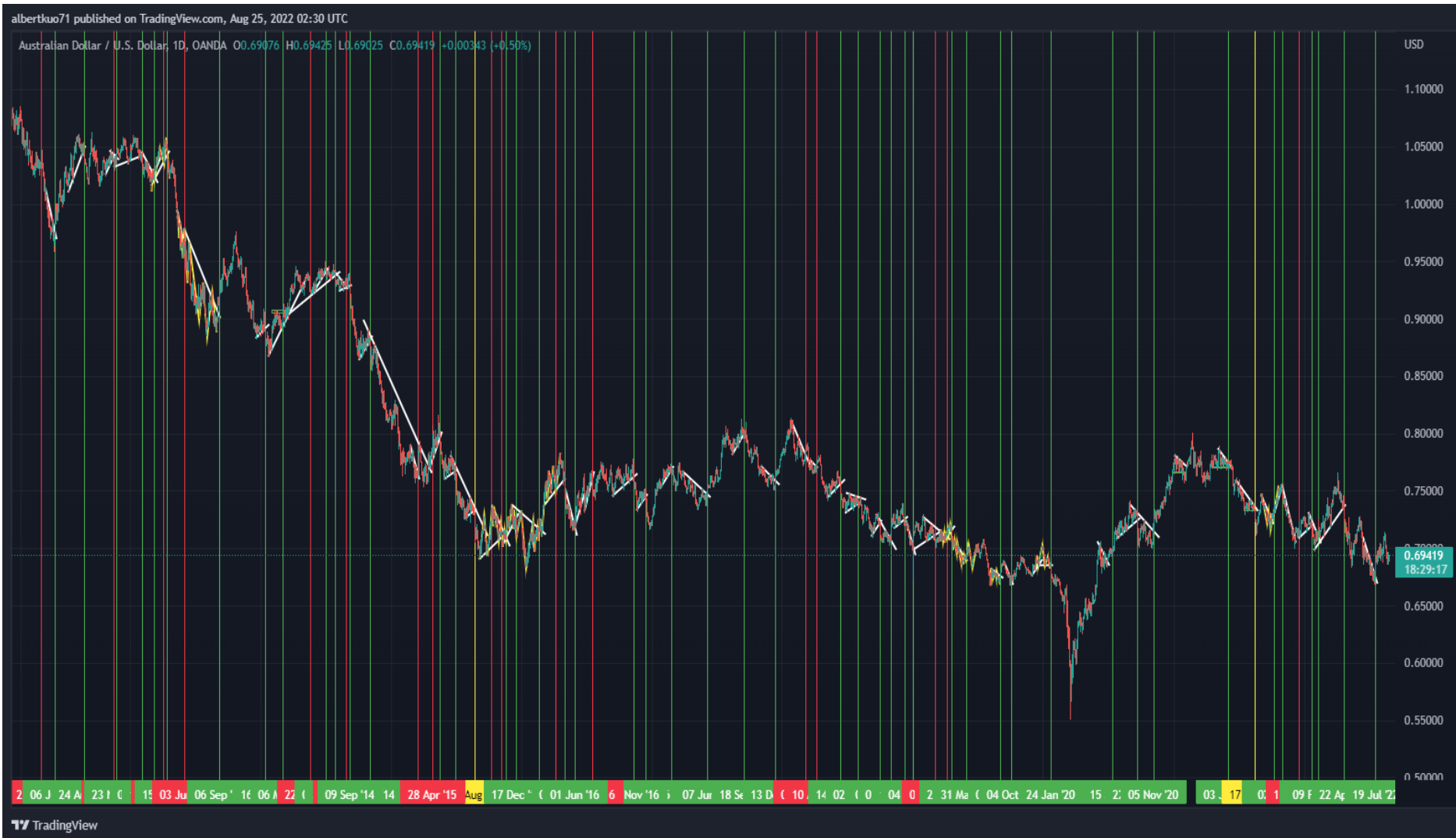
Back Test

**GBPUSD Daily Chart: 2013 May ~ 2022 Aug, Total Entry Times 53, Winner 37
Breakeven 4, Loser 12, Winning% 69.81%**



Back Test

**AUDUSD Daily Chart: 2012 Apr ~ 2022 Aug, Total Entry Times 66, Winner 47
Breakeven 2, Loser 17, Winning% 71.21%**



Back Test

**NZDUSD Daily Chart: 2011 Mar ~ 2022 Aug, Total Entry Times 59, Winner 38
Breakeven 5, Loser 16, Winning% 64.41%**

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