Breakout Trading Strategies

Trading breakouts is not a new concept; traders have been using breakouts for centuries. Today many of the world's top traders trade breakouts for big profits. So what actually is a breakout?

A breakout is the point at which the market price **breaks away, or moves out of a trading range**. The trading range can be for any length of time but once prices exceeds the high or low of the range, a breakout has occurred.

The accepted market wisdom is **"buy low sell high"** and this has been taught to us in high school and is the accepted philosophy of many of the world's investment community, from economists to brokerage houses. The theory sounds one, but it is very difficult to make money trading this way. The logic of breakouts is contradictory to this accepted market wisdom and works on the premise: **That in order to make money you should "buy high and sell higher"** in a bull market, and **"sell low buy back lower" in a bear market.**

So why is the traditional investment wisdom of "buy low sell high" so difficult to make money in the real world of trading? **For this we need to take a closer look at *price action and the attitude of the majority of investors.***

Why Breakouts Increase Probability & Decrease Your Risk

Perhaps the most famous traders in the history of trading were the "Turtles". The turtles emerged from a meeting between Richard Dennis and Bill Eckhardt about whether great traders were born or made. Bill felt that he could teach people to become successful traders. Richard felt that successful trading was down to genetics. In order to settle the debate, it was decided to advertise for trading apprentices and then try and teach them to become successful traders. The students were called the "Turtles" when Dennis explained the concept by saying they were "going to grow traders like they do turtles in Singapore" They were the most successful trading experiment in history, earning an average compound rate of return of over 80%. It was proved that with a simple set of rules complete novices, with no experience, could become successful traders. **The rules used were simple and included the use of breakouts in the methodology taught.** While only one component of the overall plan, the breakout methodology was very important part of how the traders actually got into and held the big trends for maximum profit.

In the book "Market Wizards", there is a very good interview with Bill Eckhardt and his analysis on what made the Turtles so successful. **He illustrates the point further that traders, in their desire to "buy low sell high", create risk for themselves**. By doing what is conventional and comfortable for them actually means they end up missing the biggest trends, and creating a greater risk for themselves, by lowering their probability of entering at the right time and making an overall profit.

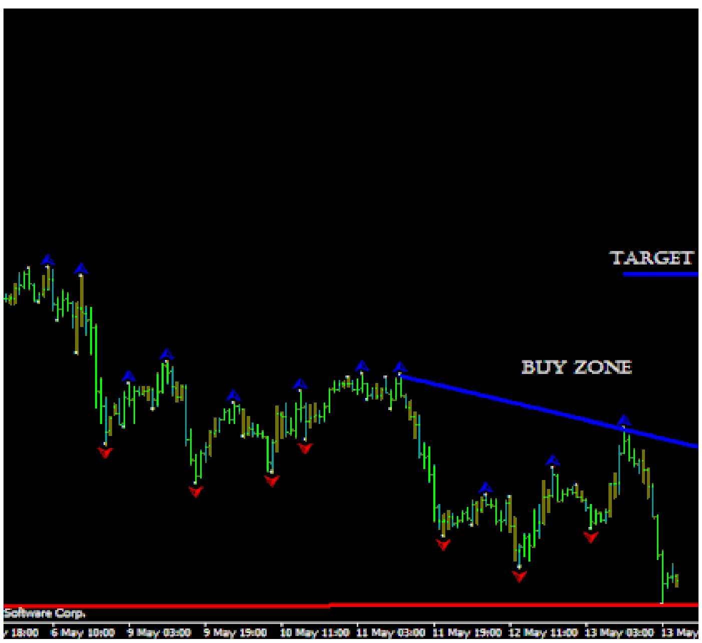
Breakouts Make Your Money Work Harder

Another important reason for using breakouts, rather than buying low or retracements, is that trading capital is utilized better. It is the aim of all traders to lock into and hold trends. The fact is, however, that markets spend most of their time in trading ranges going nowhere. Many markets don't trend for months or even years. A trader who takes a trade in the anticipation that it will move, may have to wait a long time to see the trade move his way, if it does at all. This can tie up capital for long periods that could be utilized more productively elsewhere. The big advantage of breakout trading is you are only entering a trend in motion. As we all know, a trend in motion is more likely to continue than reverse. This is a basic premise that technical analysis is based upon, and breakouts get you in, as the trend emerges, and has a high probability of continuing. You therefore know you are only entering markets that have a high probability of trending strongly and making you big profits.

- **Take from : https://www.forexstrategiesresources.com/breakout-forex-strategies/8-breakouts-system/**

8# Breakouts Trading System

Tom DeMark's trading Method



Submit by joy22

This system is based on Tom Demark's trading method.

Here is a screenshot of the system. We are only going to use 2 indicators.

The first indicator is the one called ''Trends''.

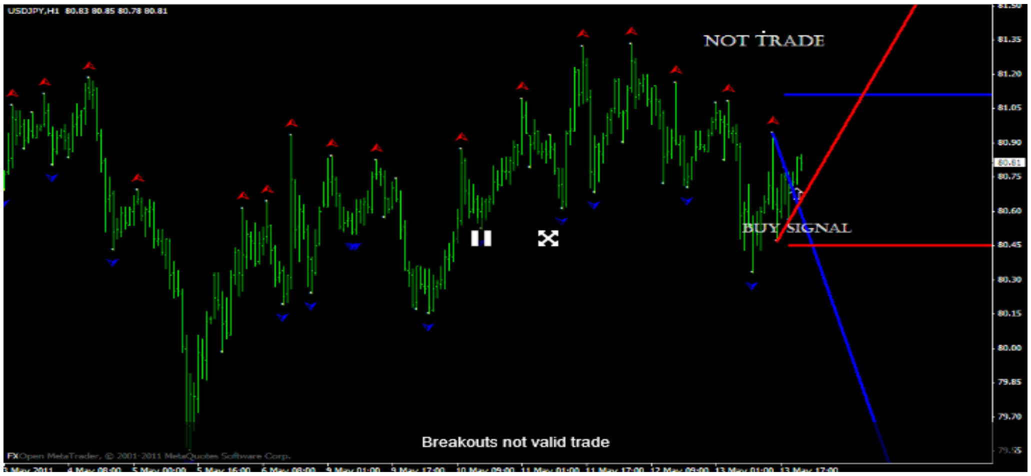
This indicator tell us, where and when to buy/sell. And where to place our stop loss and targets. Buy Zone is the area above the Blue trendline.

When price cross this line, time to buy the currency pair. If price cross the Red trendline, that's a SELL signal.

You will notice a white dots on the top or below the candles. Those dots tell us where to place our stop loss when we enter the market.

Targets will be shown as horizontal lines on the chart. Red line = Sell Target. And Blue line = Buy Target.

Example:



For confirmations, we are going to use a second indicator. The one called ''Arrows''.

We are only going to sell, when the last arrow before breakout was a red down - arrow.

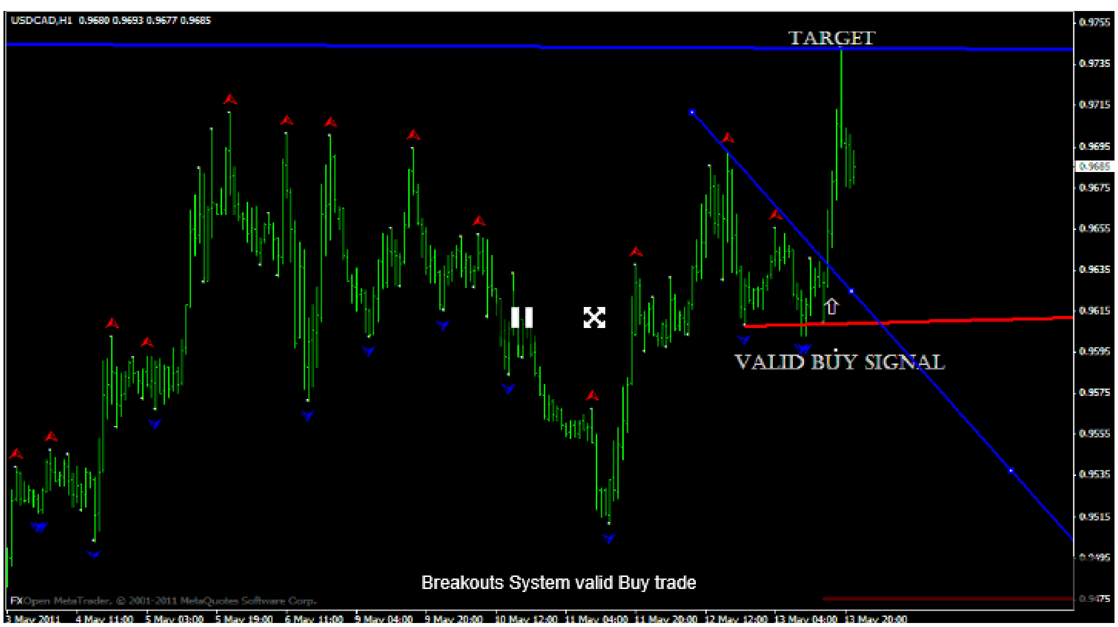
And we are only going to buy, when the last arrow before breakout was a blue pointing up - arrow.

Now let's put all that together ..

BUY SIGNAL :

1 – Price breaks the Blue Trend

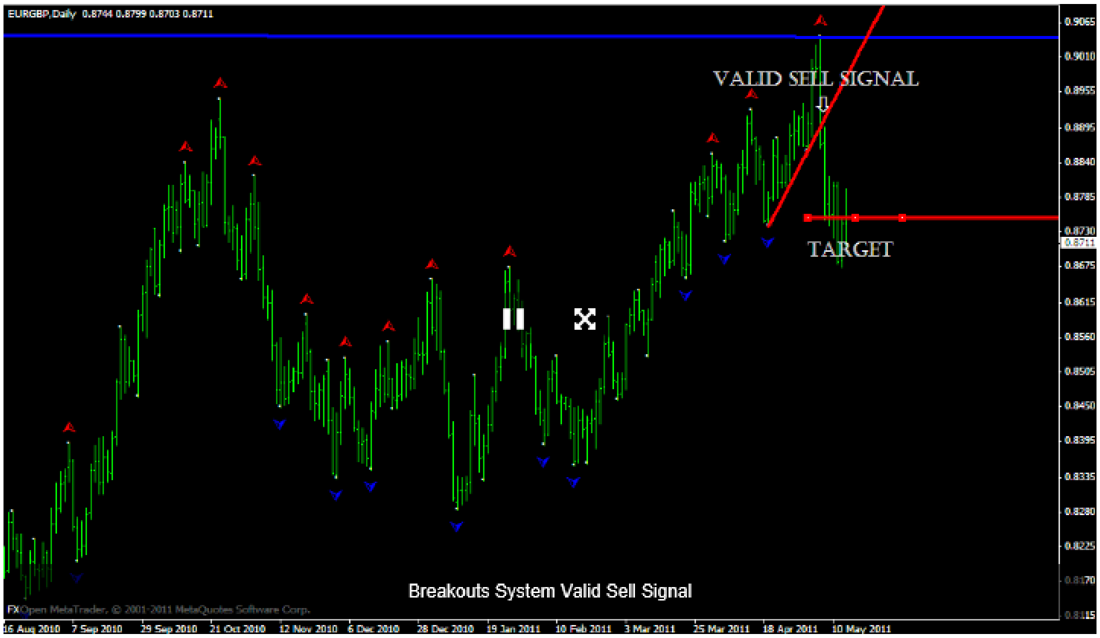
2 – Last arrow signal was from a blue arrow



SELL SIGNAL:

1 – Price breaks the Red Trend;

2 – Last arrow signal was from a red arrow;



Share your opinion, can help everyone to understand the forex strategy.

Take from : https://www.forexstrategiesresources.com/breakout-forex-strategies/8-breakouts-system/

And some breakout strategies like title below :

Breakout Forex strategies

[1#Channel Breakout with pullback]()

[2# Open Day]()

[3# Inside Day Breakout]()

[4# Intraday Breakout]()

[5# Channel Breakout and Moving Average]()

[6# London Breakout]()

[7# Optimus Channel]()

[8# Breakouts System]()

[9# Breakout With CCI]()

[10# Asian Breakout]()

[11#Daily Breakout]()

[12# Hans Breakout]()

[13# Breakout H1 Method]()

[14# Box Breakout System]()

[15# Box Breakout System 2]()

[16# Key Points]()

[17# Range Breakout]()

[18# Day Breakout]()

[19# Magic Breakout]()

[20# Two-bar Breakout System]()

[21# 100 pips daily]()

The Forex Breakout Strategy You Need to Master

There are dozens of breakout strategies available to traders, but the Forex breakout strategy you're about to learn is my personal favorite. This strategy has been responsible for some of my largest gains over the years.

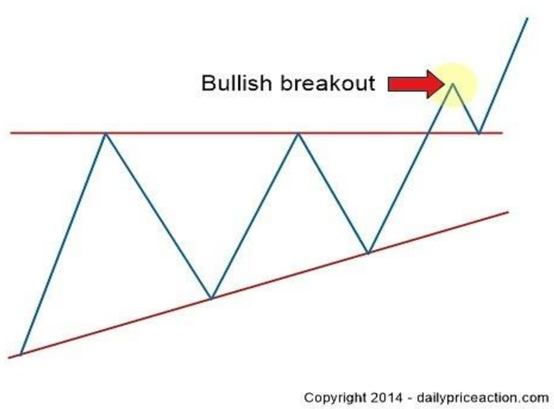
In this lesson, you will learn how to identify the setup, when to enter the market as well as how to identify possible targets. We will also take a look at several examples on both the 4-hour chart as well as the daily chart. **I have found these two time frames to work best when trading this breakout strategy.**

What is a Breakout?

Before we get into my favorite Forex breakout strategy, let's first define the term, "breakout".

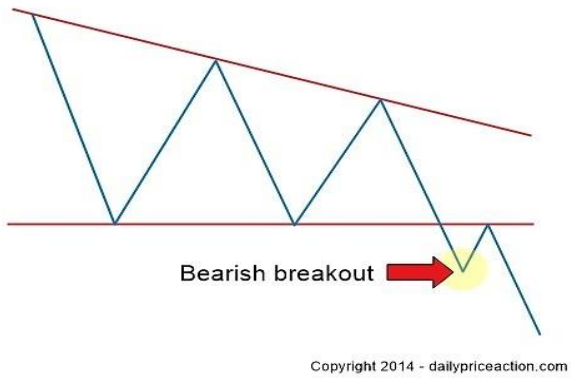
A breakout is any price movement outside a defined support or resistance area. **The breakout can occur at a horizontal level or a diagonal level, depending on the price action pattern.**

Let's take a look at two illustrations of one of the more common breakout patterns that occur in the Forex market. The first illustration shows a bullish breakout pattern.



Notice in the illustration above, we have a market that is trending up but has found resistance at a horizontal level. After two unsuccessful attempts, the market finally breaks through resistance. This signals a bullish breakout from a key resistance level.

The next illustration we're going to look at involves a bearish breakout.



Just as you would expect, the bearish breakout is similar to a bullish breakout, only this time the market breaks to the downside. After two unsuccessful attempts, the market finally breaks through support. This signals a bearish breakout from a key support level.

Top of Form

Bottom of Form

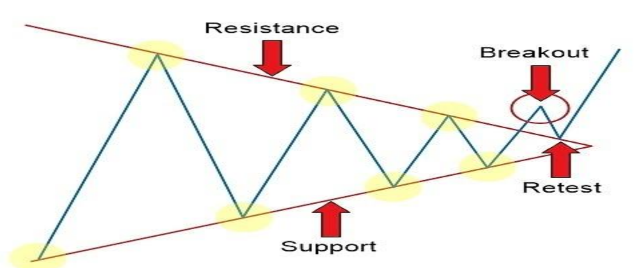
The reason these breakouts are such an important trading strategy is because they often represent the start of increased volatility. By waiting for a break of a key level, we can use this volatility in our favor by joining the new trend as it begins.

The Only Forex Breakout Strategy You Will Ever Need

This particular Forex breakout strategy is one I have used for years. It has become my favorite pattern to trade, partly because of its reliability and partly because of the more than favorable risk to reward ratios it often produces.

There are four parts to this Forex breakout pattern.

1. **Support**
2. **Resistance**
3. **Breakout**
4. **Retest**



The illustration above is very similar to the first two illustrations. The major difference here is that instead of having one trend line and one horizontal line, we have two trend lines. One trend line is acting as support while the other is acting as resistance. **This forms what's known as a "wedge".**

The breakout to this pattern occurs when the market eventually breaks to one side or the other. While a wedge is typically a continuation pattern, I tend to trade it based on whichever way the market breaks. In other words, I let the market show its hand before making any considerations about future price movement.

Now let's apply this same pattern to a USDJPY 4-hour chart.

Notice how in the chart above, the market had worked its way into a wedge pattern. As the market began to consolidate tighter, it eventually broke wedge support and subsequently retested this support level as new resistance.

This retest presented traders with a perfect opportunity to enter short.

Executing the Forex Breakout Strategy

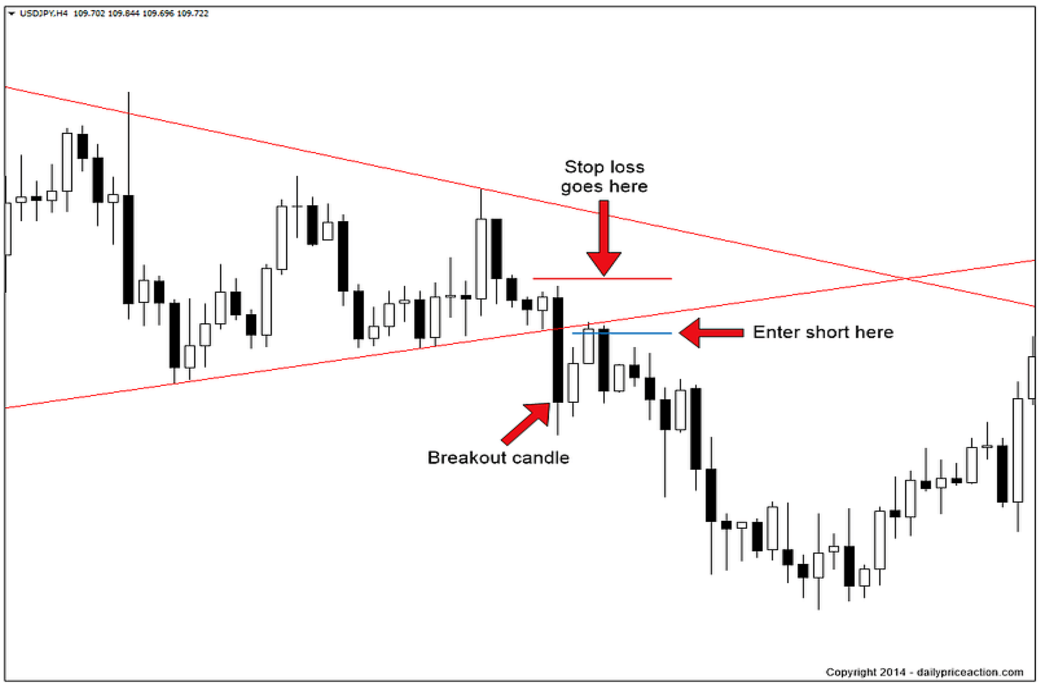
To get a good idea of the setup in action, let's take a look at each step including the entry strategy and where to place your stop loss.

Entry

Most times your entry will come on a retest of former support or resistance. However, it's important to note that depending on how strong or weak the market is, you may not get a retest. We will discuss this in greater detail later in the lesson. For now just know that it's best practice to enter on a retest of former support or resistance, depending on which way the market breaks.

Stop Loss

Your stop loss should be placed above or below the breakout candle, at a minimum. In the case of the USDJPY breakout pattern below, your stop loss should be placed above the candle that broke support.

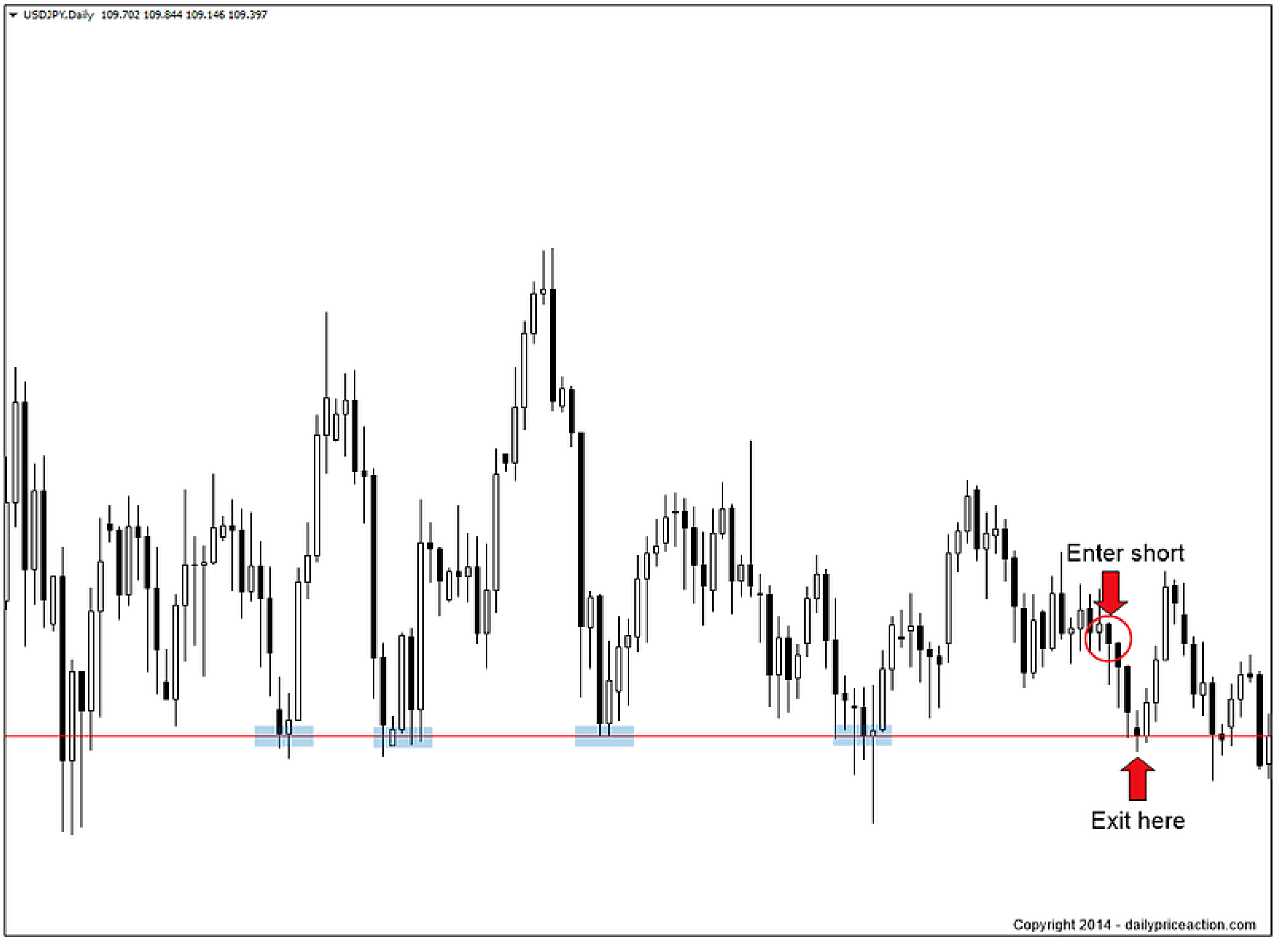


In the chart above, the market broke wedge support on the breakout candle and subsequently retested former support as new resistance. This retest presented an opportunity to get short with a stop loss above the breakout candle.

Setting a Target

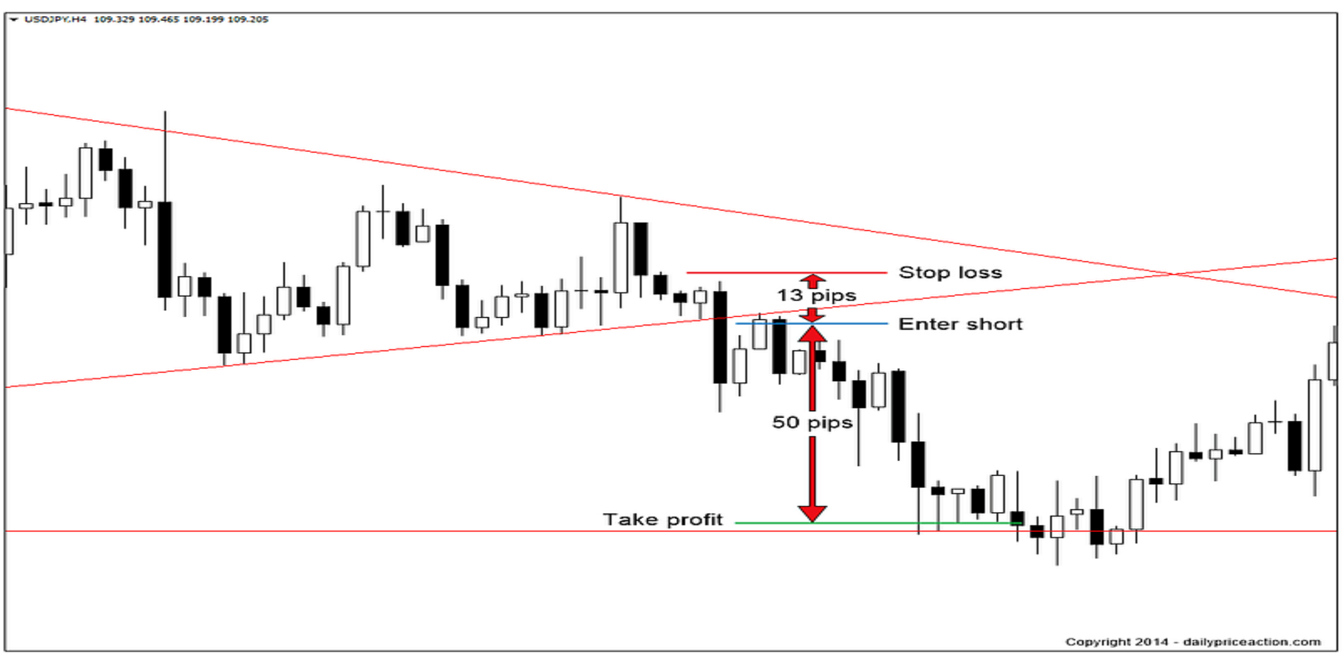
Now that we know where to enter and where to place our stop loss, let's discuss how to set a target. As you may well know, I'm a huge fan of using simple price action levels. So you can probably guess how we'll go about setting a profit target.

Here is a much broader look at the USDJPY chart. This time, we're looking at the daily time frame to see if we can identify a logical target for our breakout trade.



The first thing you'll notice is the strong support area that has been in place for several months. This makes for an ideal area to target for our trade setup.

So what kind of risk to reward ratio did we get out of this trade setup? Let's take a look.



In the USDJPY 4 hour chart above, we can see that the stop loss was 13 pips from the entry while the take profit was 50 pips from the entry. This gives us a 3.8R (50 / 13). In other words, if you had risked just 2% on this trade, you would have made 7.6% (3.8 x 2%).

While that's an impressive gain on its own, what's even more impressive is the fact that you would have made 7.6% in just 32 hours.

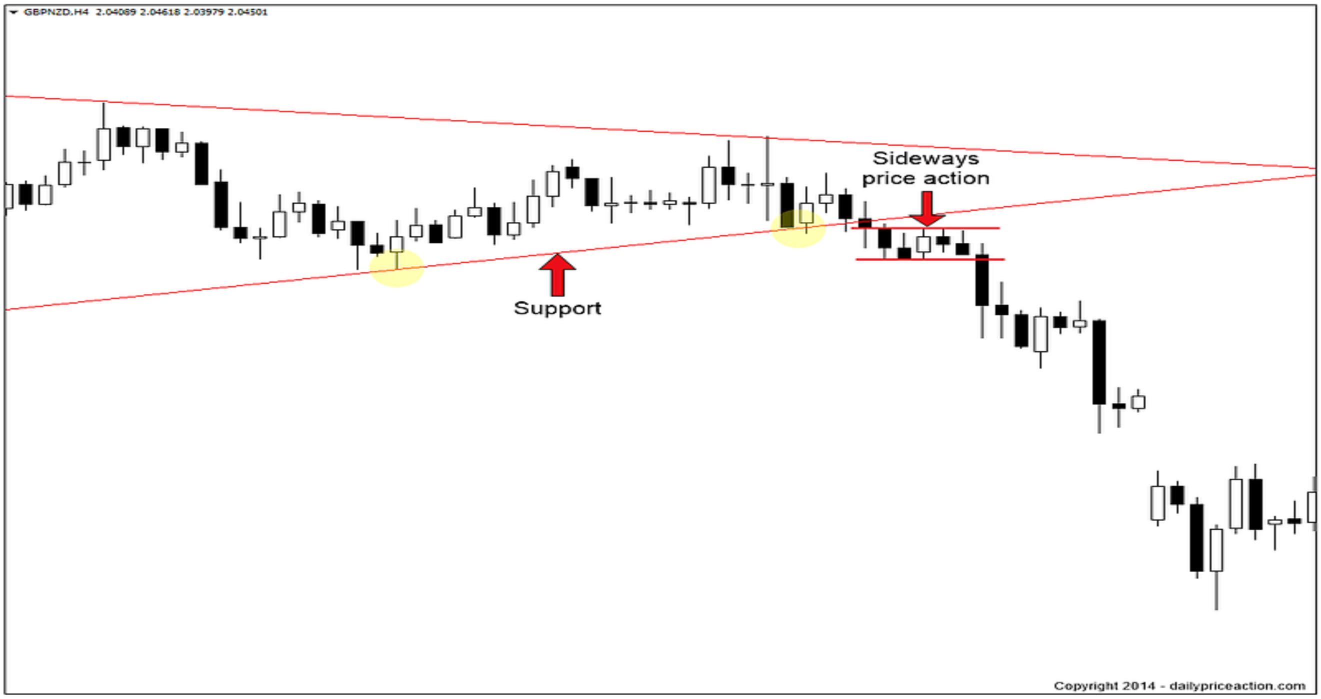
Further Analysis

Let's turn our attention to another example of the Forex breakout strategy. This wedge pattern occurred on the GBPNZD 4-hour chart. One major difference here is that there was no retest of former support once the market broke to the downside.

Notice in the GBPNZD chart above, the market failed to retest former support before dropping 430 pips. But just because the market doesn't retest former support doesn't mean we have to miss the trade.

The retest that we look for as part of this Forex breakout strategy typically comes within the next few candles. So if the market begins to move sideways for more than three or four periods, there's a good chance that the market won't give a full retest.

Let's take a closer look at the GBPNZD trade setup.



In the GBPNZD 4 hour chart above, notice how the market begins to move sideways for several periods. This is a good indication that the market lacks the strength to retest former wedge support. When you see this happen, it's generally a good time to use a market order to join the forthcoming trend.

Here is the GBPNZD breakout trade from start to finish.

For this setup, our stop loss was 45 pips from the entry. Remember that you want your stop loss above or below the breakout candle. Because this is a short setup, our stop loss was placed *above* the breakout candle.

Our take profit, on the other hand, was 175 pips from the entry. The target was identified by the recent low which was made several weeks prior. Note that the market gapped down the following week and ran for another 150 pips before reversing.

Although this looks great in hindsight, the logical target at the time was 175 pips away, which still produced a very healthy 3.9R trade. So if you had risked 2% on this trade, you would be left with a profit of 7.8%. This particular setup took just 36 hours from start to finish – not bad to be able to make a 7.8% profit in 36 hours while only risking 2%.

Forex Breakout Strategy: The Real Potential

As I bring this lesson to a close, I want to leave you with one last setup. This particular breakout occurred on the USDJPY daily chart and represents what's possible with the Forex breakout strategy you learned today.

The first thing you'll notice is the length of time the market consolidated within this wedge pattern before breaking higher. The setup above formed on the daily chart, so from start to finish this consolidation period lasted for 180 days.

This brings me to an important observation about the Forex breakout strategy – the longer the market consolidates, the more volatile the breakout will be. This isn't always the case, but 9 times out of 10 the market respects this idea of matching the length of consolidation to the level of volatility.

For those who were able to get in this trade at the breakout point and ride the trade until the consolidation period (take profit level) there was a massive gain to be had. A stop loss below the breakout candle meant a 50 pip stop with a potential gain of 600 pips. That works out to a very healthy 12R trade. At just 2% risked you would have made a staggering 24% profit.

Although rare, these 10R+ trades do happen from time to time. And with the knowledge you've gained in this lesson, you will be able to identify and profit from these patterns with ease.

Summary

I hope this lesson has opened your eyes to what's possible with a simple Forex breakout strategy. Just remember that like any other trading strategy, this breakout strategy is not without flaw. Therefore always be sure to maintain a proper risk to reward ratio and use a favorable stop loss strategy on every trade.

We covered a lot of content in this lesson. Here are some of the highlights to keep in mind as you begin to implement this trading strategy into your game plan.

- **A breakout is any price movement outside a defined support or resistance area**
- **The Forex breakout strategy has 4 parts: support, resistance, breakout and retest**
- **The retest of former support or resistance provides a trader with an opportunity to enter the market**
- **If a market begins to move sideways for more than three or four periods following a breakout, there's a good chance that the market won't produce a retest of former support or resistance**
- **Your stop loss should always be placed above or below the breakout candle (at a minimum), depending on which way the market breaks**
- **It's best practice to use price action levels to identify potential targets for this breakout strategy – a good place to start is the recent swing high or low**
- **As a general rule, the longer a market consolidates the more volatile the resulting breakout will be**

Take from : http://dailypriceaction.com/free-forex-trading-lessons/forex-breakout-strategy

*** http://dailypriceaction.com/pin-bar-trading-course

4 Step Guide to Trading Breakouts in Forex

By : Jeremy Wagner, CEWA-M, Head Forex Trading Instructor

Article Summary: A simple Forex strategy used by traders is a price breakout strategy. Here are 4 easy to follow steps to trade a price breakout and manage that risk.

You have probably heard the phrase “buy low and sell high”. This phrase permeates many different markets from real estate to automobiles. However, there are times, when you actually want to buy higher while selling lower. A breakout strategy does just that and it tends to work best during volatile market conditions or in strong trends. Today, we’ll discuss a 4 step strategy to trading breakouts in Forex.

Here are the 4 steps to identifying your Forex breakout trade.

1. Add the Donchian Channel indicator (DNC) to your chart

2. Identify the direction of trend

3. Enter on a break of the DNC using entry orders

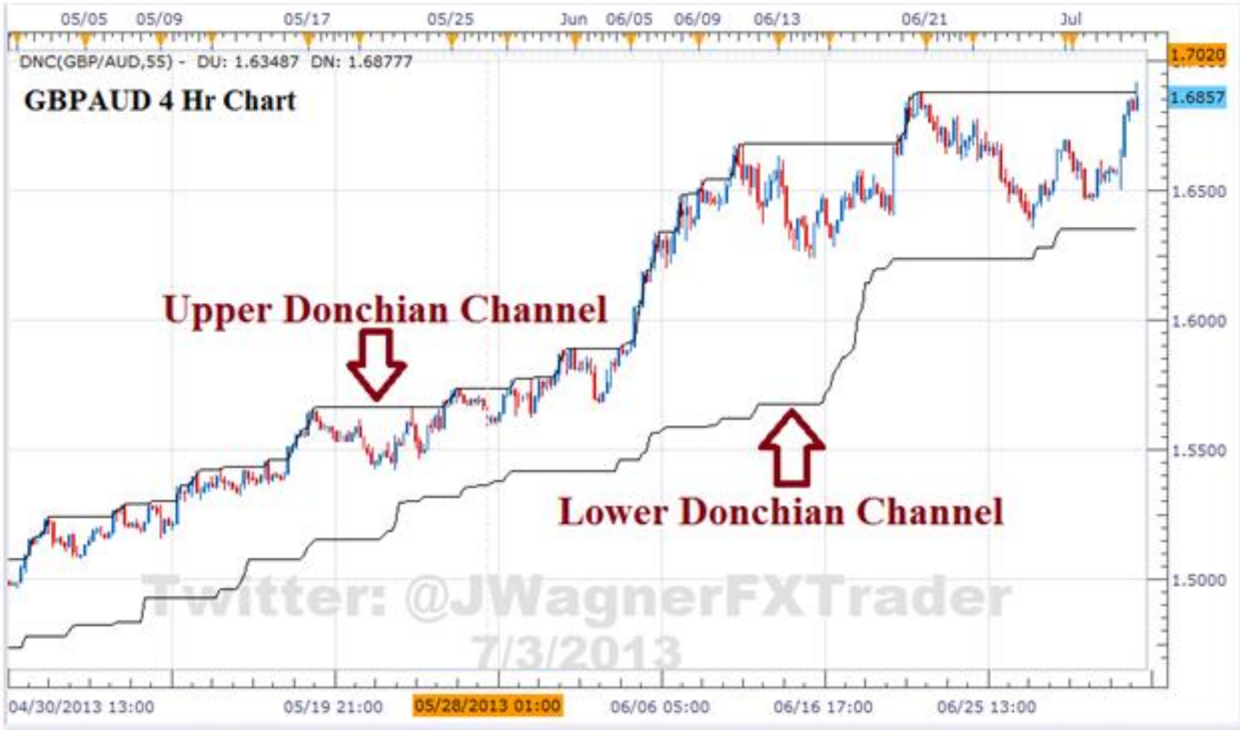
4. Exit on a break of the opposing DNC using a stop loss

Let’s unpack each step of the strategy further.

The Donchian Channel Indicator

Add the Donchian Channels indicator to your intraday chart (between 1hr and 4hr charts) with an input setting of 55.

Learn Forex: The Donchian Channel Indicator



4 Step Guide to Trading Breakouts in Forex

If you wish to utilize longer time frame charts such as a daily chart, then follow these steps in how to trade Forex in your spare time. Trading from a daily chart will offer less trading signals and you will be in the trades longer versus an intraday chart which offers more signals with some of those signals being less reliable.

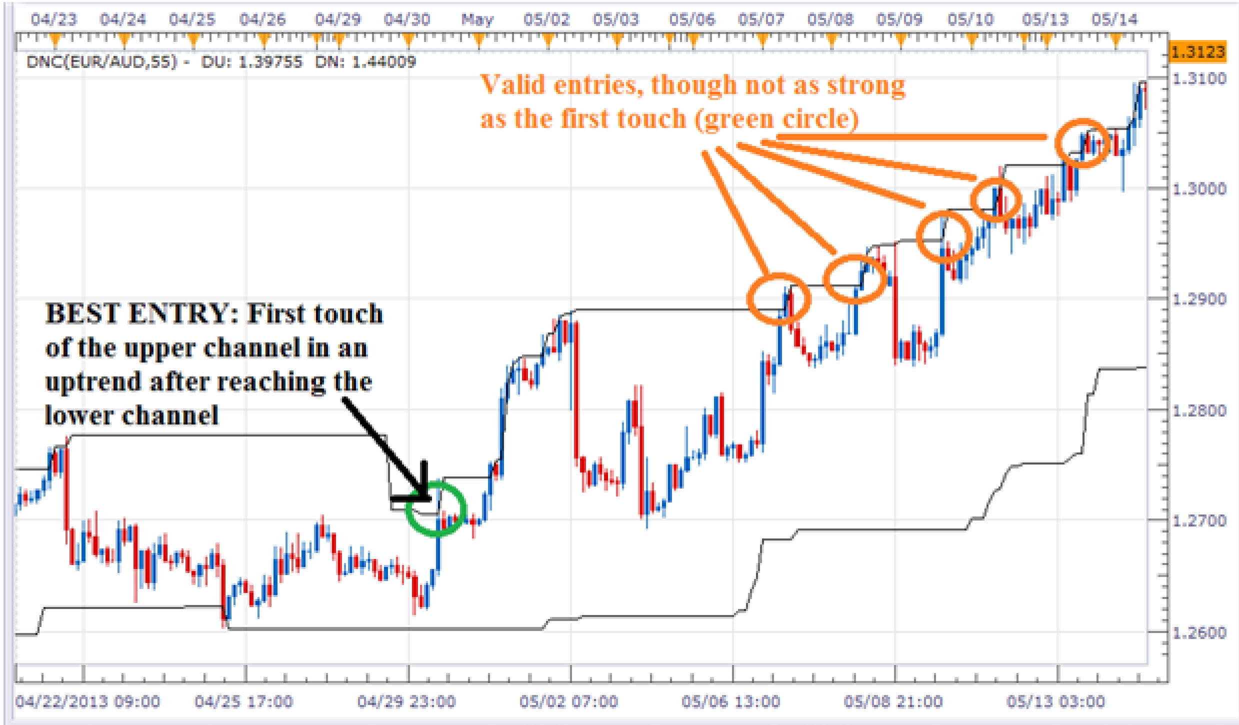
Identify Your Trend

As with any strategy, at DailyFX Education we recommend that you filter your trades solely in the direction of the trend. There are many benefits to following trends. Two benefits of trend trading include being bailed out of having an imperfect strategy and there are more pips available in the direction of the trend. Therefore, trading with the Donchian Channels is no different and we want to incorporate a way to filter our trends and bias our signals.

Add Your Entry Order

Once we have determined a trend bias, identify the entry price by incorporating the trend and Donchian Channels together.

Learn Forex: Entries with the Donchian Channel Indicator



4 Step Guide to Trading Breakouts in Forex

For example, in an uptrend, we want to buy 1 pip above the upper Donchian Channel. The best signal occurs on the first occasion where the upper Donchian Channel is reached. Subsequent breaks of the upper channel are ok, but the trend is a bit more mature and therefore, more likely to reverse.

In a downtrend, we want to sell 1 pip below the lower Donchian Channel. Again, the best signal occurs on the first occasion where the lower Donchian Cchannel is reached.

Add Your Exit Order

Once you have determined where to get in, it is important to know where to exit the trade. This strategy utilizes a manual trailing stop which is how many professionals manage their stops. For the purposes of this strategy, the trailing stop is located at the same price as the opposing Donchian channel.

Learn Forex: Exits with the Donchian Channel Indicator

4 Step Guide to Trading Breakouts in Forex

For example, if the trend is up, then we will use the lower Donchian channel as the stop loss. If you remain in the trade long enough, then over time, the lower Donchian channel and your stop loss will begin to move in your favor. The longer you are in the trade, the more favorable the trailing stop moves in your direction.

Conclusion

Many traders often ask if they can trade breakouts without having to use the Donchian channels indicator. The answer is yes, of course. The basic elements of a Forex breakout strategy remain the same. Look for a level of support and resistance, and play a price break of those levels.

As with any strategy, your entry and exit rules are just a couple pieces to the trading plan puzzle. Make sure your risk is commensurate to the size of account you are trading. In our DailyFX EDU courses, we talk about risking less than 5% of your account on all open trades. You can determine what is appropriate for your account size by following this simple guide to determine your Forex trade size.

Happy Trading!

---Written by Jeremy Wagner, Head Trading Instructor, DailyFX Education

Take from :
https://www.dailyfx.com/forex/education/trading_tips/post_of_the_day/2013/07/04/4_Step_Guide_to_Trading_Breakouts_in_Forex.html

Trade Forex Through Inside Day Breakout Strategy

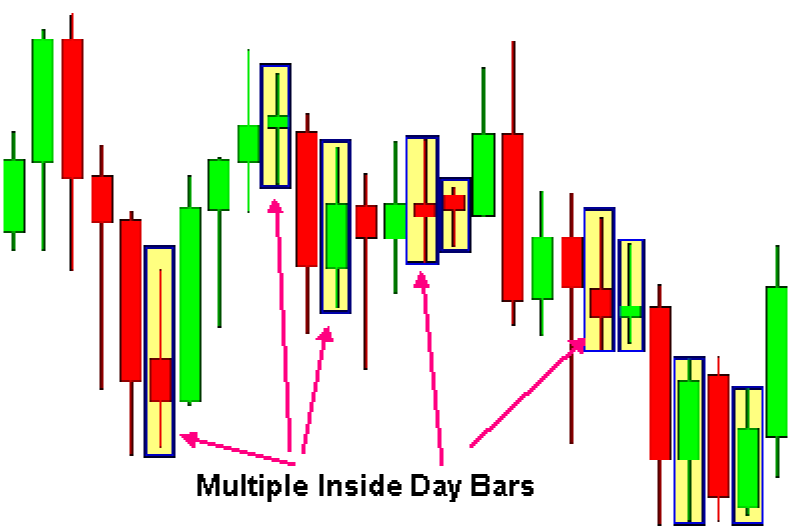
Inside day is a widely followed trading strategy for securities with range-bound price movements. It suits forex trading in particular due to the nature of price swings observed in forex markets. This article explains inside day breakout trading, what forms this pattern, entry/exit points and what to consider when trying this strategy.

Meaning of Inside Day

The inside day is a candlestick pattern made up of intraday price ranges relating to Open, High, Low and Close (OHLC) prices. When today's OHLC price band lies completely "inside" the limits of previous day's OHLC price band, that's an inside day pattern, also known as inside day bar. Note also that the previous day's bar can be known as "mother bar" and today's bar is referred to as "inside bar". Simply put, today's highest price should be lower than yesterday's highest price, and today's lowest price should be higher than yesterday's lowest price. (To learn more, see: *The Basic Language Of Candlestick Charting*).

It should look like this:

High liquidity due to large-scale trading (generally by big institutional traders), is mandatory for inside day pattern formation. Effectively, inside day indicates a state of indecision in the overall market i.e. no movement in either direction beyond yesterday's range. There can be multiple inside day patterns day after day, indicating a continuous reduction in volatility and thus the increasing possibility of a breakout.

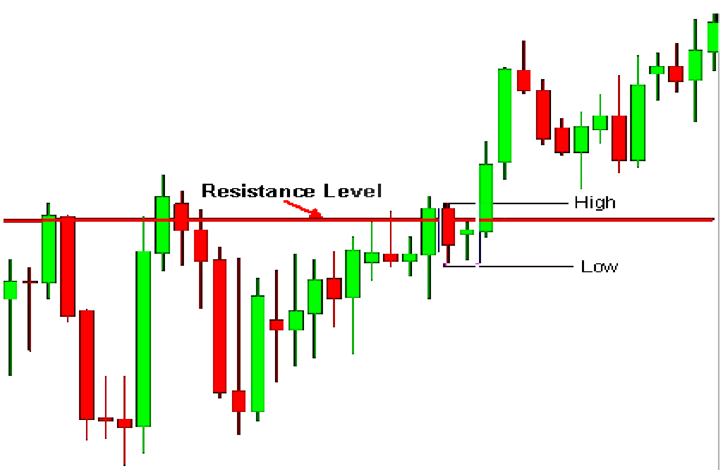


Why and how do inside day patterns get formed?

Understanding the reasons behind the formation of such patterns can help traders spot subsequent symptoms. Here are the key reasons why inside day patterns form:

1) Trend Reversals – The probability of inside day pattern formation is high when an asset trades around support and resistance levels. Around resistance levels, sellers start taking short positions and buyers start profit booking for their long positions. The opposite happens for support levels, when buyers start building long positions and sellers cover their short positions. In both cases, trading occurs in a tighter price range as a trend reversal proceeds from one day to the next, creating inside day patterns. (For more see: *Trading With Support And Resistance*)

2) Breakouts – Before an asset price breaks any long perceived support or resistance level, a period of consolidation is observed. During this time, the price remains in tight range, touching support/resistance levels a few times, and then breaks out steeply in one direction. In this period just prior to breakout, buyers and sellers build their positions, leading to inside day patterns.(To learn more, read: *The Anatomy Of Trading Breakouts*).



3) Consolidation during up and down trends – During strong up or down trends, several inside day patterns develop sporadically. This happens as traders either book profits or add to profitable positions. Losers attempt to cut losses or

average out and new entrants advance, expecting continued momentum. The net result is a lot of range-bound trading activity, leading to the formation of an inside day pattern.

4) Low liquidity periods – Even the most volatile and liquid stocks enter a stagnant phase of low market activity caused by market sentiment, the macroeconomic situation, less activity by institutional traders or a holiday season. Such periods also give way to inside day pattern formation.

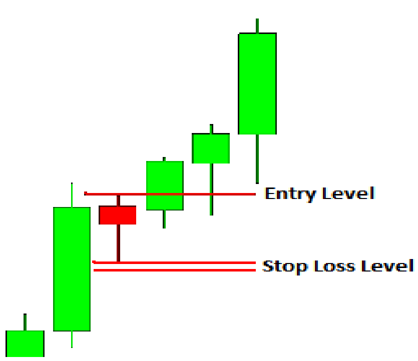
How to trade inside day pattern

Inside day patterns often arise, but traders should note that not all inside day patterns are profitable. Heed the important points below:

- The frequency of trading inside bar patterns varies according to the trader's preference. It can be used an hourly, daily or weekly basis. For an average trader, daily is recommended because of the free and easy availability of charts and data, less need for monitoring and no overtrading.
- Choose instruments that have high liquidity and high volume trading (like major currency pairs). The ones known to be regularly used by large institutional traders to build substantial positions are the best fit. (For related reading, see: *Forex Currencies: The Four Major Pairs*).
- Though going against the trend is tempting for many traders, it is better to follow trends for the inside day breakout trading strategy. Empirical evidence indicates higher success rates for going with the trend in anticipation of breakouts.
- It's advisable to make an entry for breakouts when momentum is high – i.e. a clear steep and strong move is visible, which can be determined by looking at lower frequency periods. For example, while following a daily inside day pattern, one can look for strong moves at 2, 3 or 4 hour intraday periods.
- To anticipate reversals, it is recommended to take a position opposite to the current trend.
- Inside day trading should be avoided during low liquidity periods. The corresponding patterns do form, but they are caused by low trading activity and not the desirable inherent factors of high accumulation and distribution.

Stop-losses

Inside day strategy offers one of the simplest stop-loss mechanisms. It should one or a few, points below or above the inside bar level for a long or short position respectively. Forex traders use up to 5 pips below or above the bar levels for their stop-losses. (To learn more, see: *How To Place A Stop Loss Order*).



Profit Taking

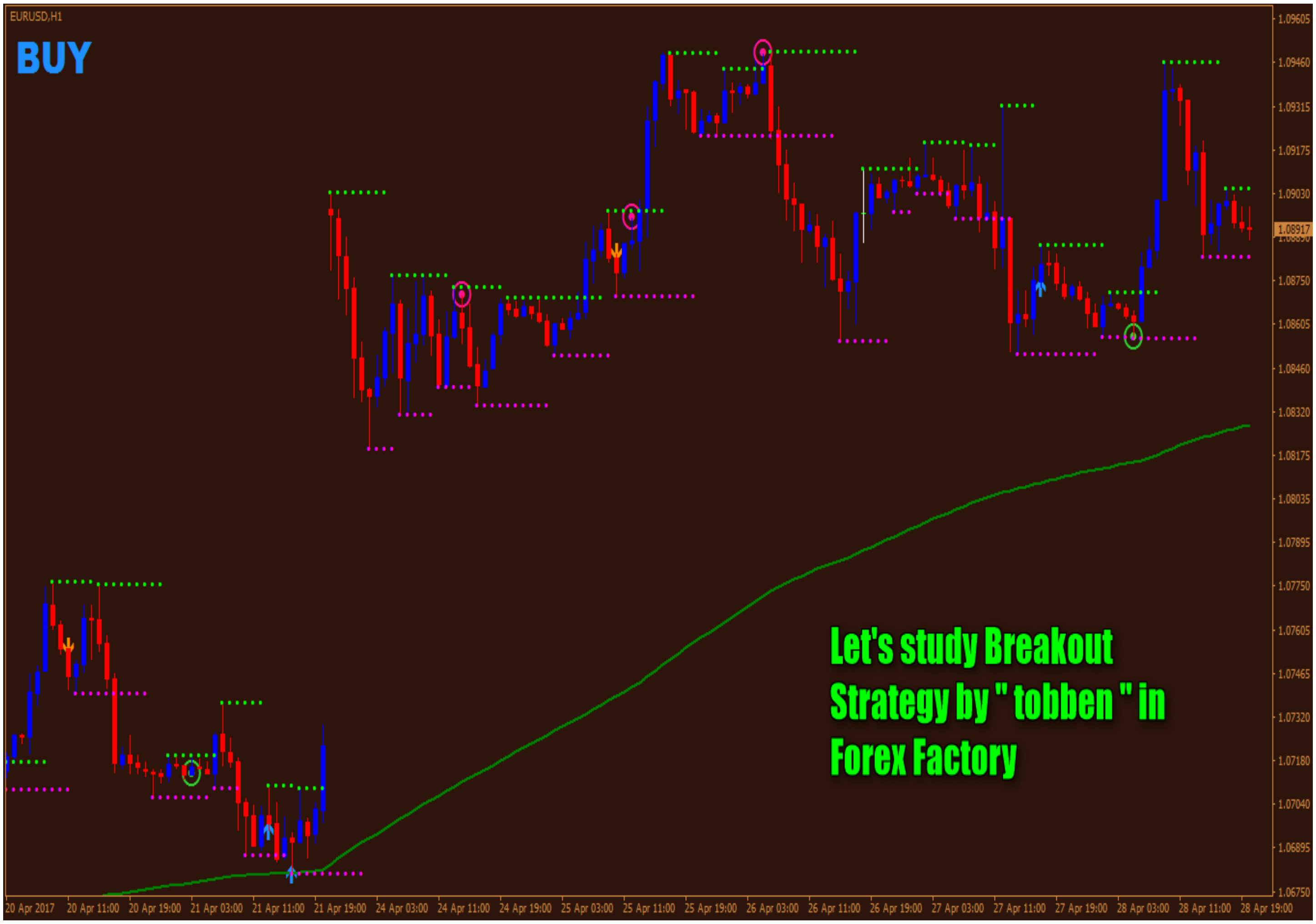
The point of effectively trading inside day is to enter long or short positions at lower levels in anticipation of a breakout (either from trend reversal or continued momentum). Compared to the previous day, the entry price is always better by the inherent nature of inside day bar. A tighter price range with each passing day ensures further favorable entry prices. Forex traders build models and strategies based on this concept. (On a related note, see: *How to Build a Forex Trading Model*).

As with any trading strategy, it is important to keep a target for taking profits. Inside day breakouts offer limited risk and high reward for breakout patterns. The risk-reward ratio for inside day trading pattern (1:3 and above) is higher compared to other trade strategies (1:2), indicating high profit potential.

Multiple inside bars can help traders build cumulative positions i.e. accumulating more positions each day based on a trader's criteria. Once the expected breakout occurs, the profit potential is significantly higher. The stop-loss level can be retained at that of the first day and while high reward can be accomplished with multiple inside bars. In fact, if followed in a disciplined manner, there is potential to cover multiple losing trades with one single profitable trade thanks to the better risk-reward ratio (1:3 and above).

The Bottom Line

The simplicity of inside day breakout patterns, combined with the high profit potential and lower underlying risk, makes it a very popular trading strategy. Forex is the most suitable trading asset because of its range-bound price patterns with frequent breakouts. Highly liquid stocks are also strong candidates for this strategy. Before trying this method out, traders should research carefully and backtest the pattern before finally choosing an asset to trade.


EURUSD,H1
BUY
Let's study Breakout
Strategy by " tobben " in
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