



August 22, 2021

## Trading Commentary – What is the correct way to trade a breakout move?

This is a note I received this week from a Factor Member.

*I have a question for you regarding extended moves into a completed pattern, for which your advice would be really appreciated.*

*A beautiful setup in CADJPY for a H&S top short (see below daily chart). However, 6 days in a row it has gone down before breakout, and shorting on an ATR entry below the breakout seems like it has a very high risk of an immediate pullback to a loss. Even waiting for a close below the neckline still risks an immediate pullback, as it would be 7 decent days lower in a row, and the chance of a pullback seems very high.*

*What do you think is the right thing to do in a situation like this?*

- *Pause for a bit and wait for some minor consolidation to short?*
- *Wait for a break, but only enter after a pullback instead?*
- *Or continue as per usual, leave an ATR order or wait for a confirmed close below the neckline and just close one's eyes and sell?*

*I have always wondered this for trading patterns with extended moves before the breakout!*

My answer follows:

*There is no easy way to enter a market that is already over-extended at the time of the breakout. Such situations are usually "damned-if-you-do, damned-if-you-don't" affairs. Trade the breakout on one trade, and that will be the wrong tactic. Wait for a retest on the next trade only to discover (after the fact) that taking the breakout would have been the correct tactic.*

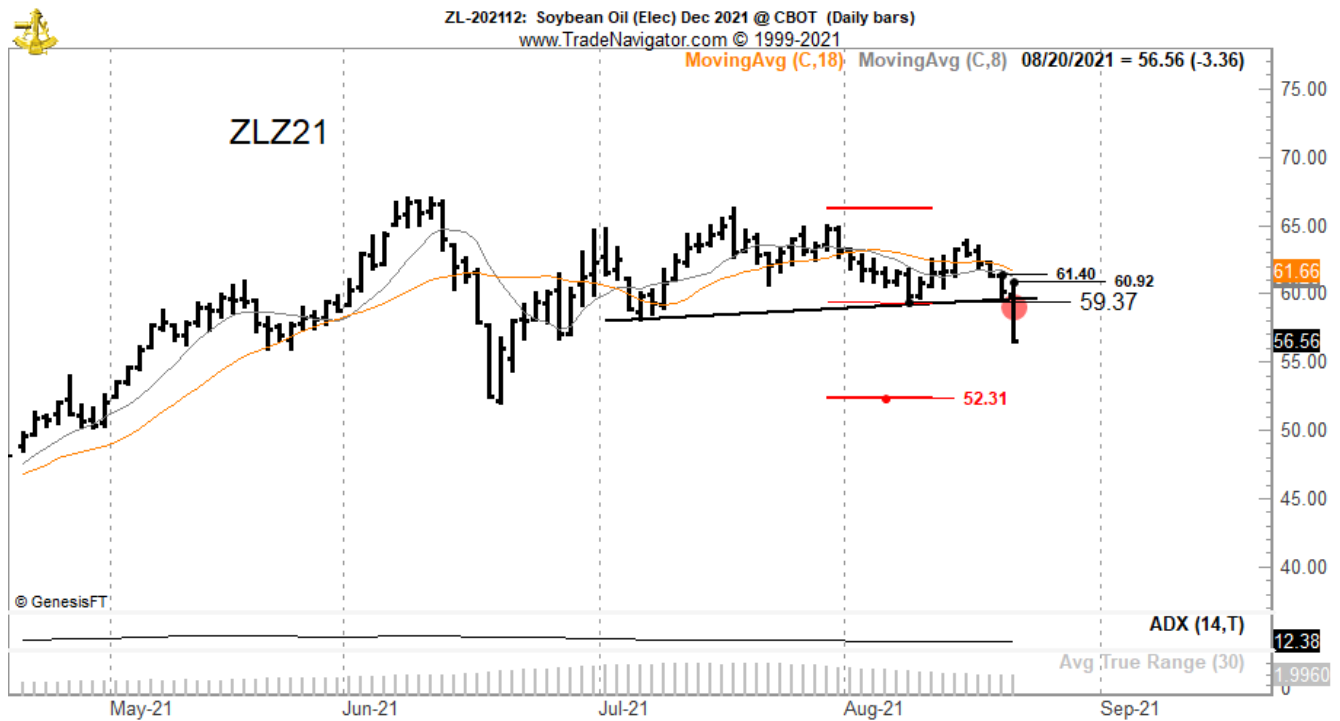
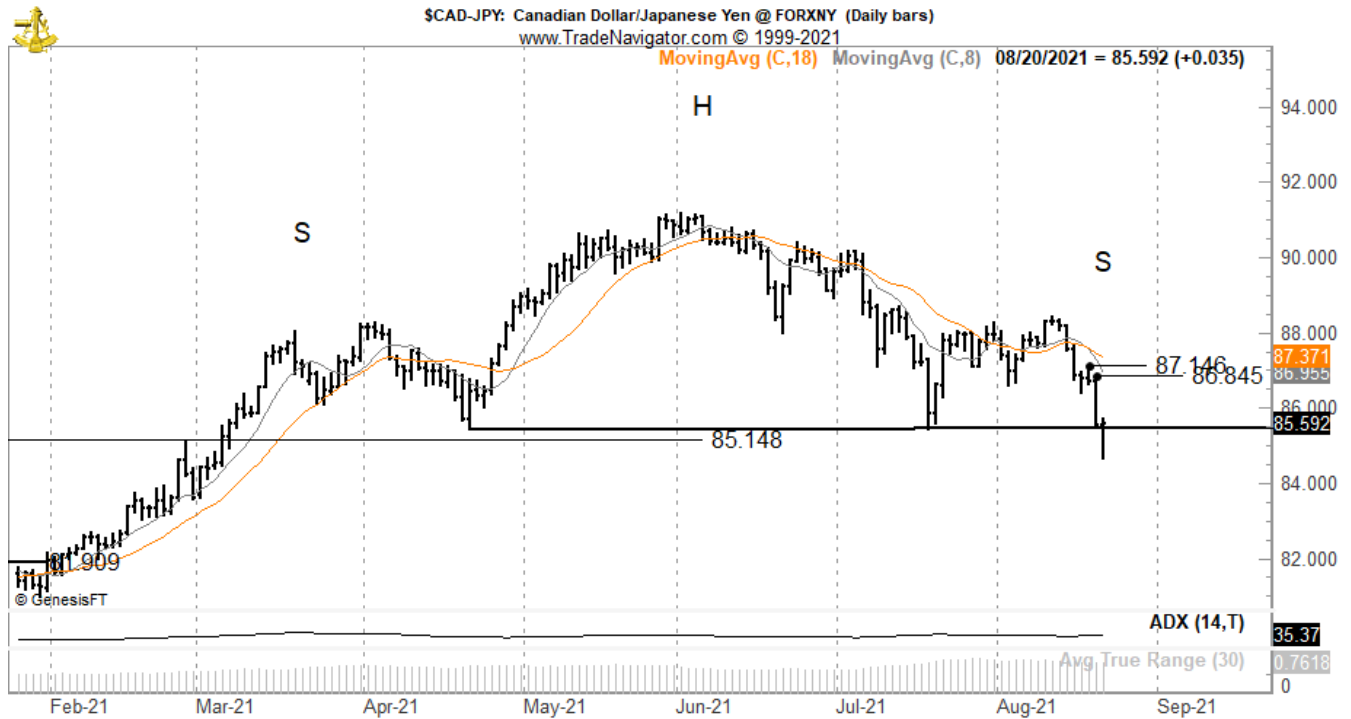
*Two things I would say:*

1. *These situations **cannot be optimized** - doing each case differently and having each case be right is only a dream.*
2. *Consistency is what you want to aim for, knowing that you want to achieve a net edge over numerous trades.*

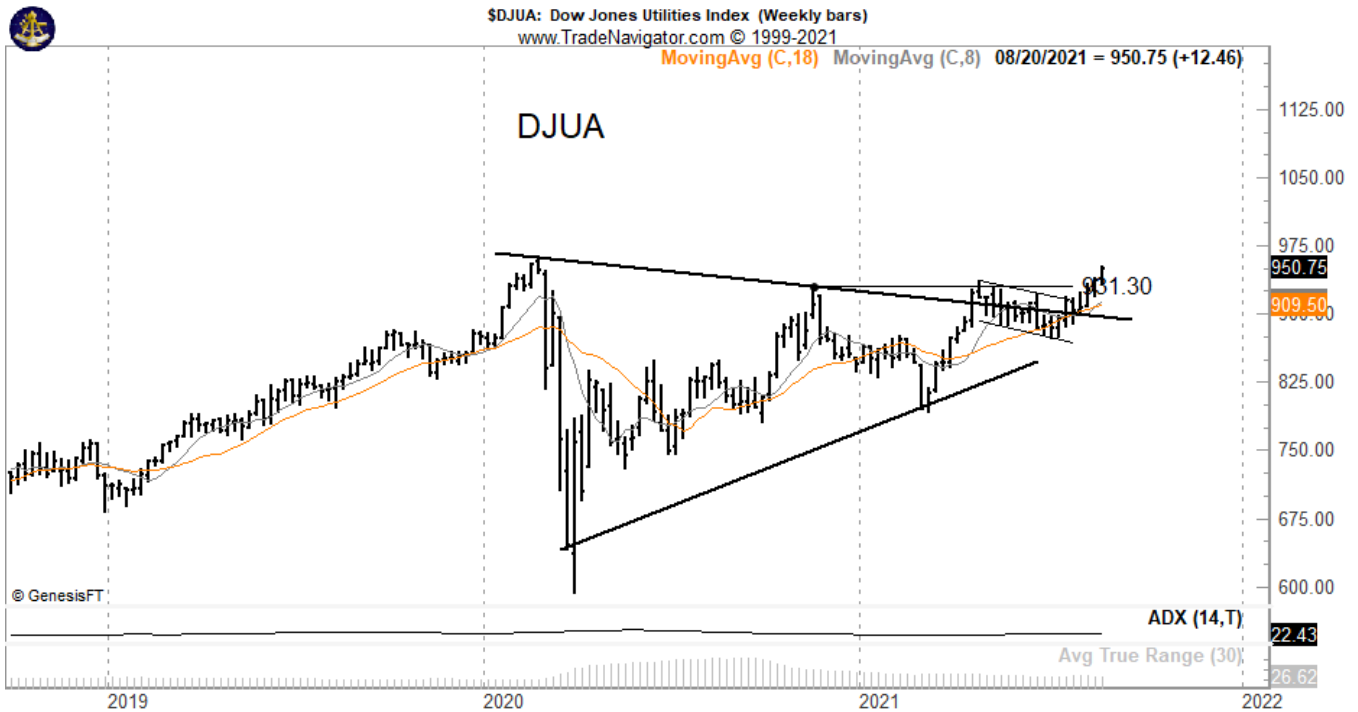
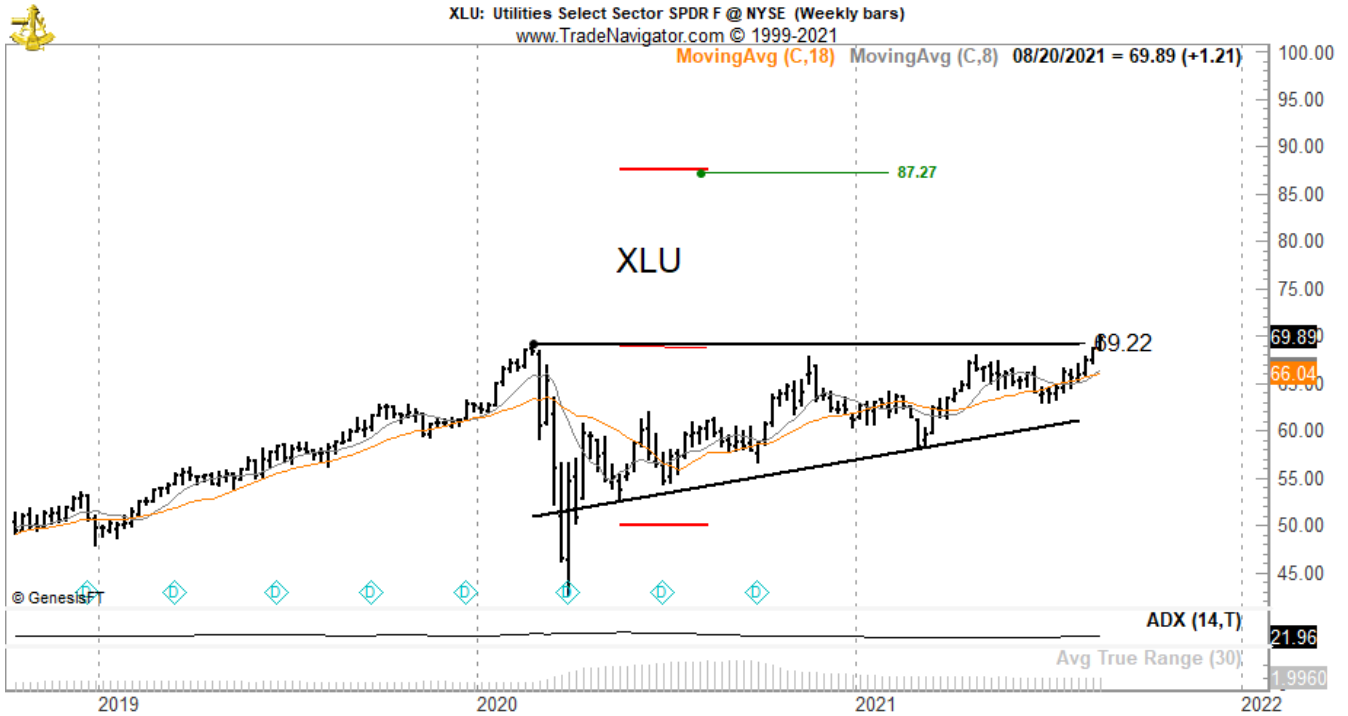
There were at least a couple of examples of this dilemma this past week. The first is CAD/JPY, the subject of the member's question. The decline early on Friday completed a textbook H&S top, only to reverse late in the day, closing above the neckline. Obviously, resting stop orders would not have been ideal for this market – at least based on Friday's close.

The second example is a case for which those without resting breakout stop orders would now be watching from the sidelines – Soybean Oil. This market broke out hard with immediate follow through.

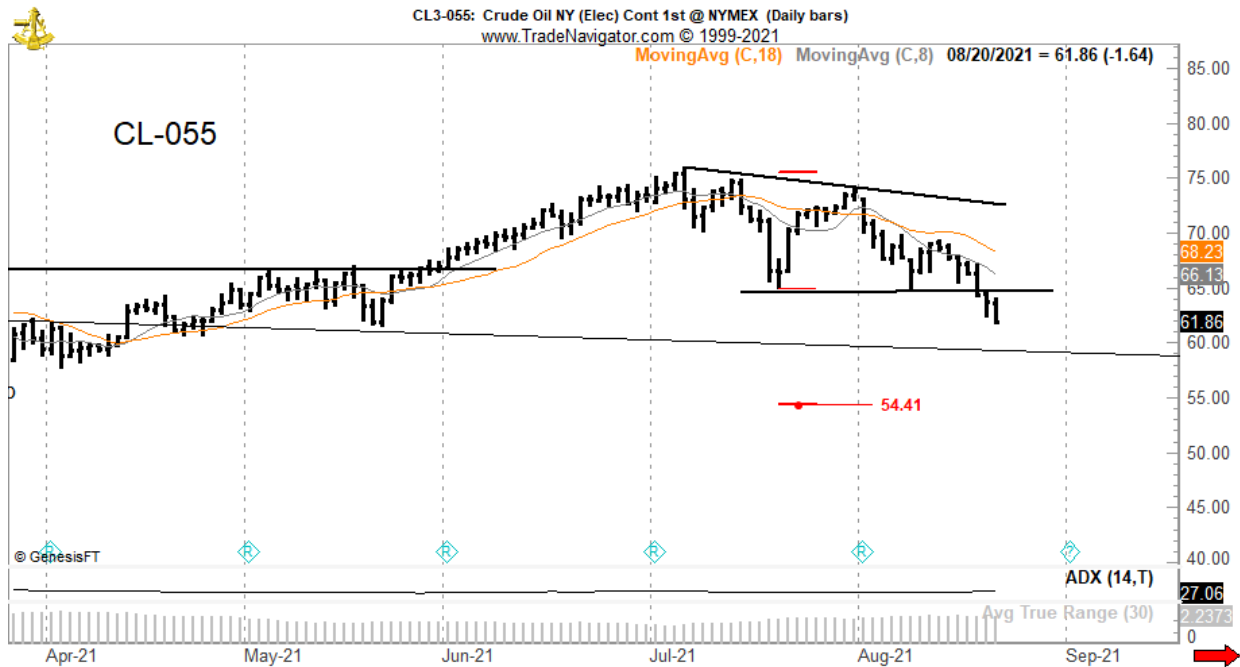
I did not have CAD/JPY on my radar screen, mainly because I am net short CAD against the USD. Yet, if I had been interested in the trade, I would have shorted it on Friday early and covered the trade as a weekend loss. I was short ZLZ21 from Thursday's close and added on Friday with an open breakout stop order.



**XLU.** I was impressed enough with this ETF to buy half my position on Friday's close. I have more to buy. The Dow Utility Index experienced a meaningful breakout this past week.



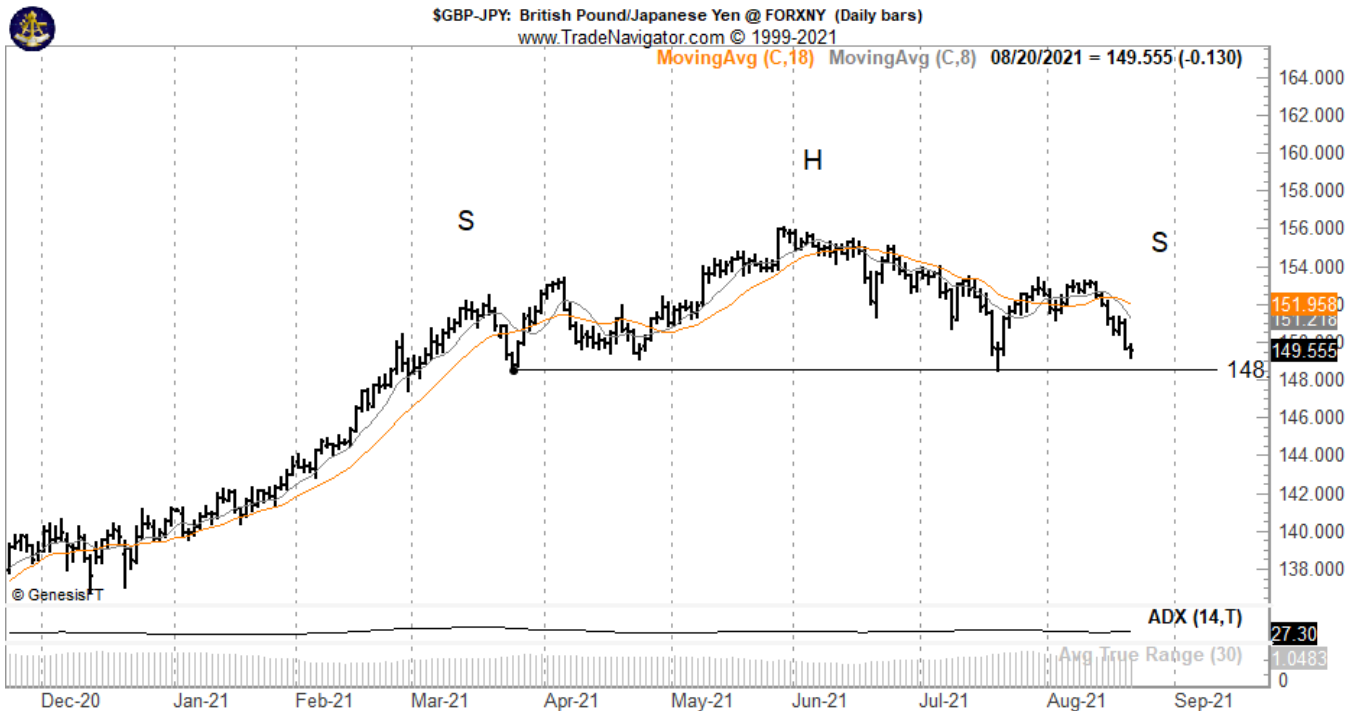
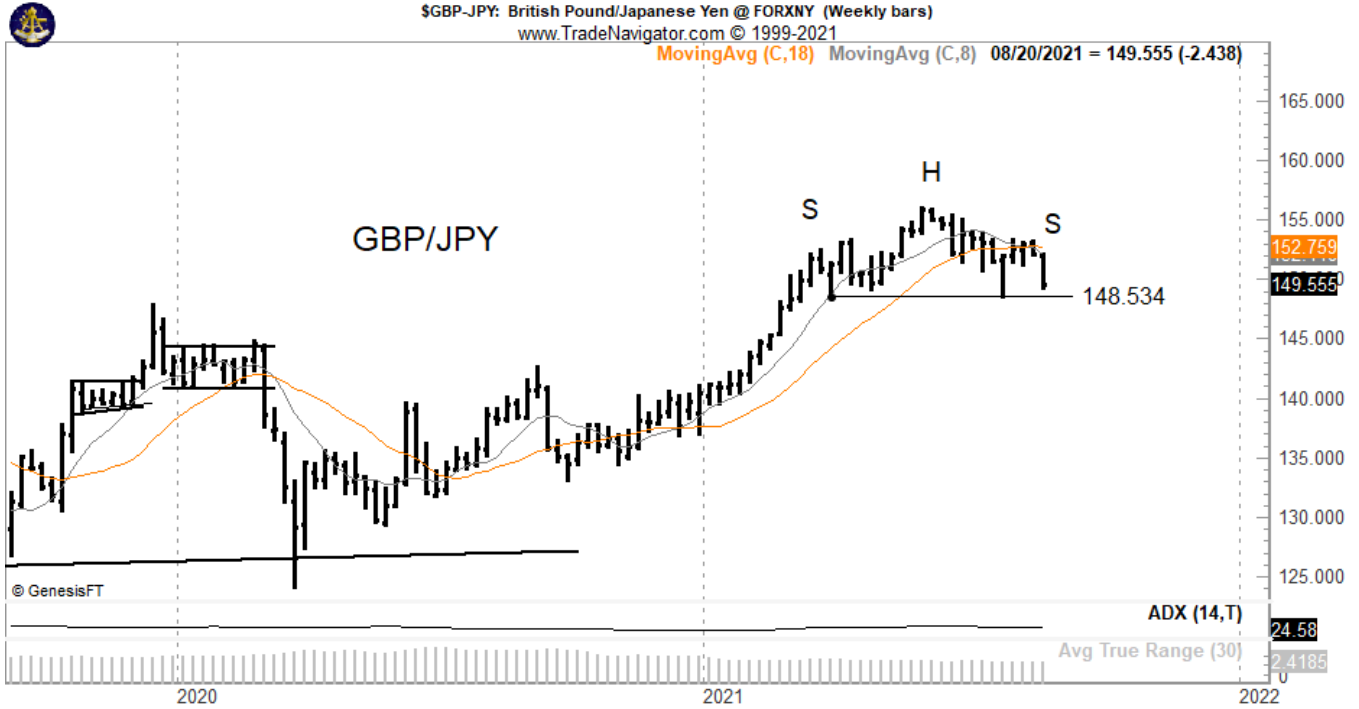
**Crude Oil.** A descending triangle top was completed on Wednesday. I missed the breakout (orders were not in place) and my order to short a small rally was unable.



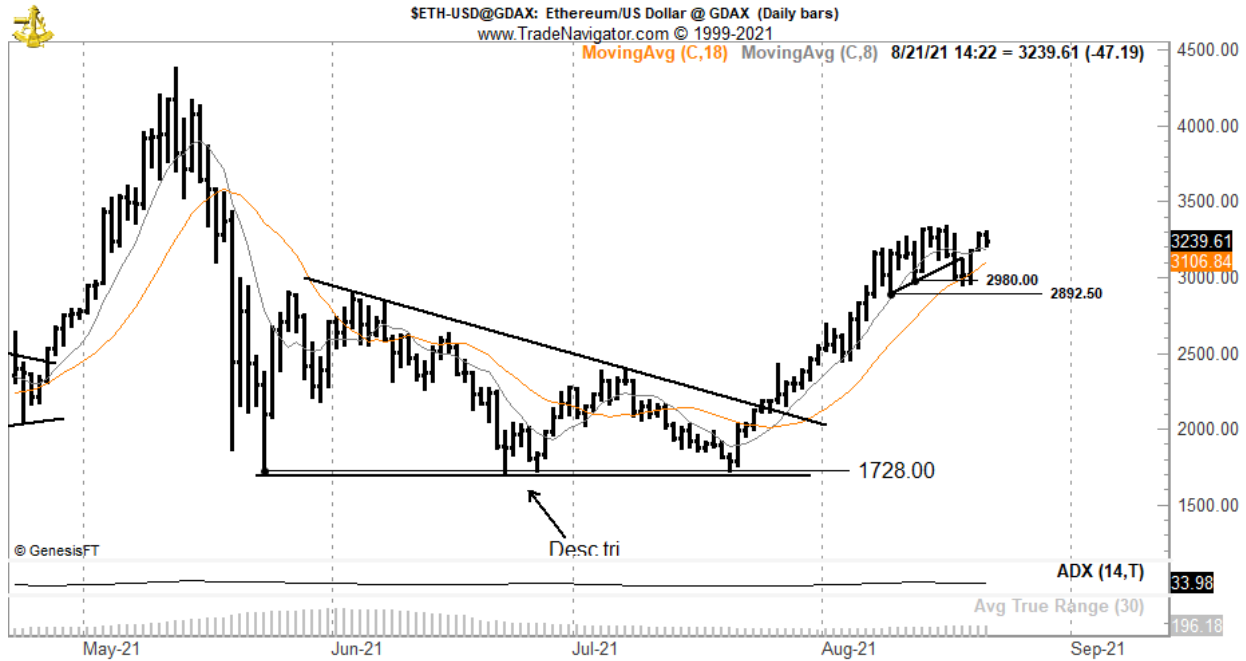
**Soybean Oil.** See Special Situation Report issued Tuesday. The ADX in Bean Oil dipped below 10 early in the week only to advance on Thursday. This flashed an ADX/MA sell signal, a condition I may elect to establish a position within a pattern when I believe said pattern is mature and poised to be completed. The decline on Friday completed a H&S top. I will divide my current position into three tranches, one to be covered early next week in order to put some cushion in the trade. I have no desire to catch bottoms and tops and have no problem taking some money off the table on a trade like this.



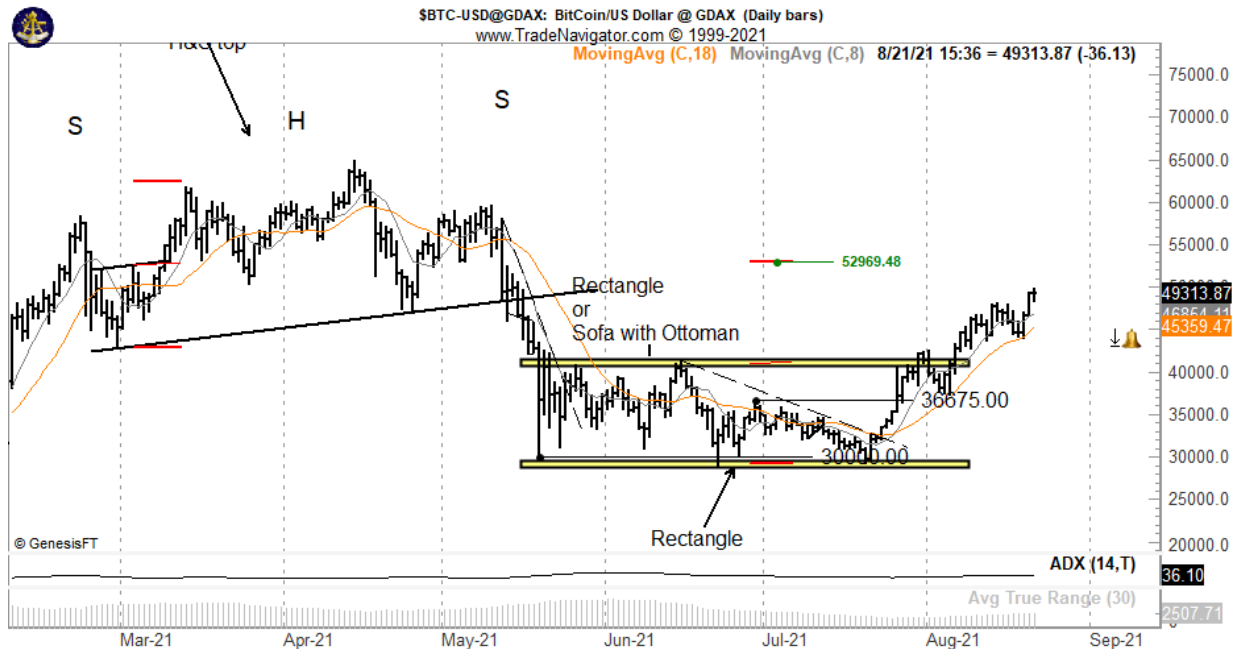
GBP/JPY. The possible H&S top in this cross is appealing.



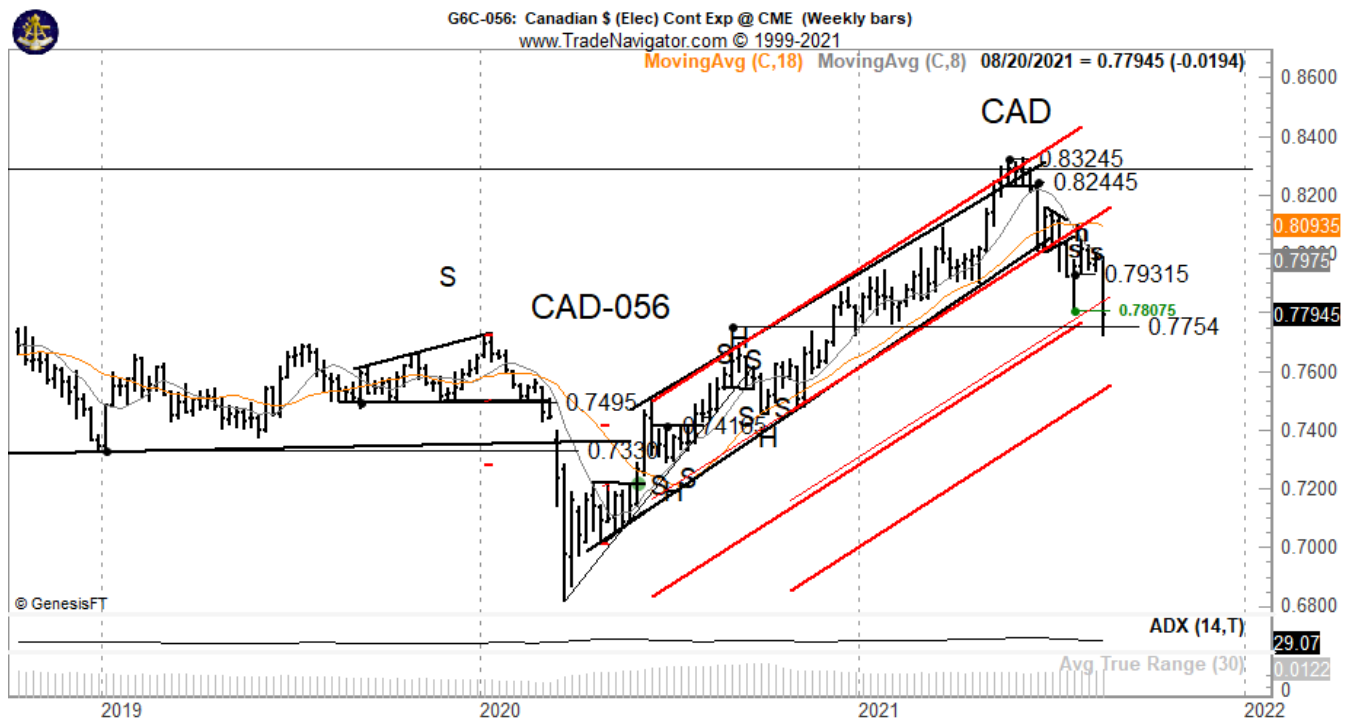
**Cryptos.** I exited my long in ETH this past week based on the 3-day trailing stop rule. I would have been better off using the Aug 8 pivot low for a stop point rather than the Aug 17 low. Coulda...woulda...shoulda! Sometimes tactics work, sometimes not. I've been stopped out of many markets prematurely over the years. FOMO re-entry has never been a particularly profitable practice for me.



The advance in Bitcoin continues to chew into overhead resistance. I am NOT looking for a straight moon-shot in this market, but nothing would surprise me. The advance has reached 70% of the distance to the target of 52,900.



**Canadian Dollars.** The decline on Tuesday completed a small (but concise) continuation H&S pattern, offering a pyramiding opportunity. The target of this small pattern was quickly met at the Jul low. Also, a look at the weekly chart suggests support at the 2019/mid-2020 highs. Nevertheless, I am comfortable remaining short a tranche and would sell a rally back to the 18 DMA.



Other Markets

ARKK. This stock is forming a continuation inverted H&S pattern.

Mpls Wheat. I was stopped out of my position on Tuesday and Friday.

COST. I was stopped out on Wednesday.

Corn. I was stopped out on Tuesday.


AVGO. Still on my shopping list.

plb


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Tracking sheet for the week of Aug 15 as of Friday, Aug 20

			Weekly position/symbol tracking - Prop ONLY	
W/O Aug 15				
Starting trade	Starting positions	Starting radar list	Symbols / orders added during week	Actions, End of week position
BTC	L 50%			Hold
CADU21	S 25%	Canadian \$		B 25% F .7761, flat, see below
Corn	L 50%	Corn		S Tu 5.63, flat
COST	L 50%	Costco		S W 446.19, flat
ETH	L 66%			S Th 2978.87, flat
MWEU21	L 50%	Mpls Wheat		S 50% Tu 9.235 flat
MWEZ21	L 50%			S 50% F 8.9825, flat
		ARKK		Unable
		Silver		Unable
		XLU		B 50% F 69.83, long 50%
		ZNU21		Cxld
			G6CU21 Canadian \$	S 100% M 7927, B 50% Th 7811, short 50%
			AVGO	Unable
			ZLZ21 Bean Oil	S 50% Th 60.14, S 50% F 58.87, short 100%
			CLZ21 (Crude Oil)	Unable

**Tracking sheet for the week of Aug 22**

 <p>THE FACTOR REPORT</p>			Weekly position/symbol tracking - Prop ONLY	
W/O Aug 22				
Starting trade	Starting positions	Starting radar list	Symbols / orders added during week	Actions, End of week position
BTC	L 50%			
CADU21	S 50%	Canadian \$		
XLU	L 50%			
ZLZ21	S 100%	Bean Oil		
		ARKK		
		AVGO		
		CLZ21		
		XLU		
		GBP/JPY		

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