



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.

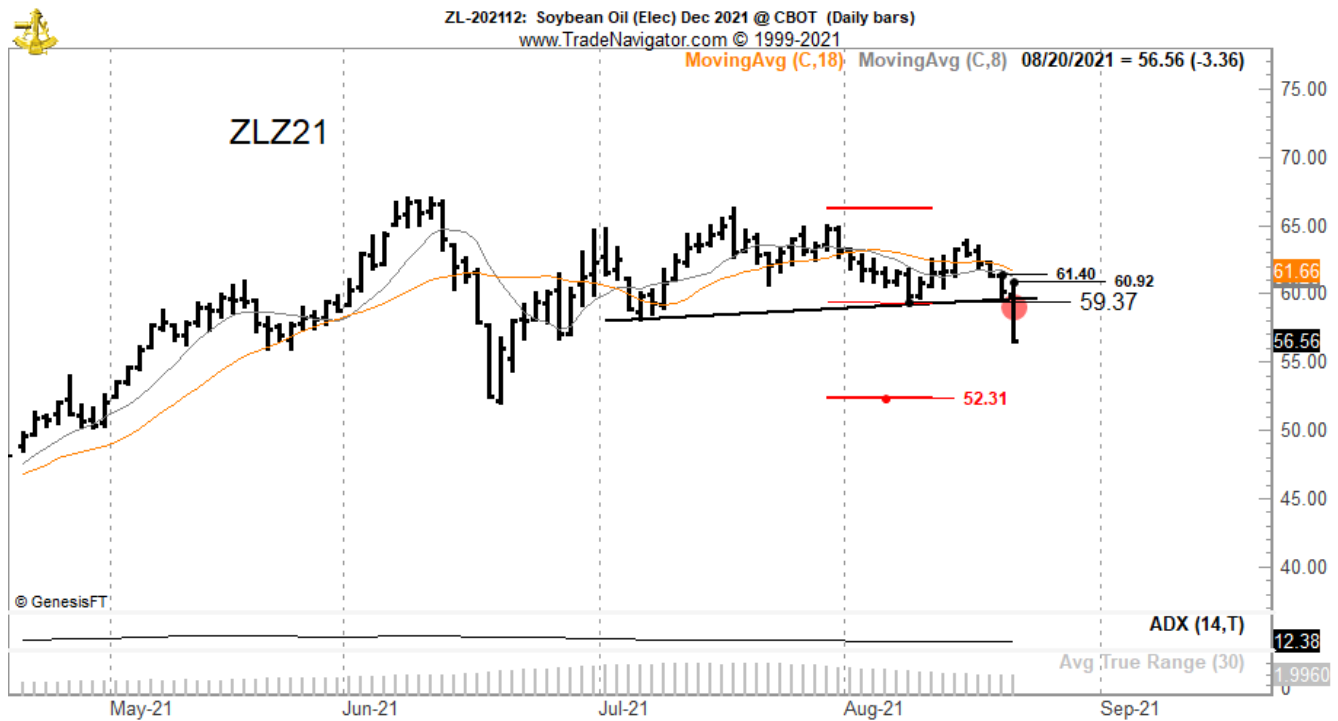
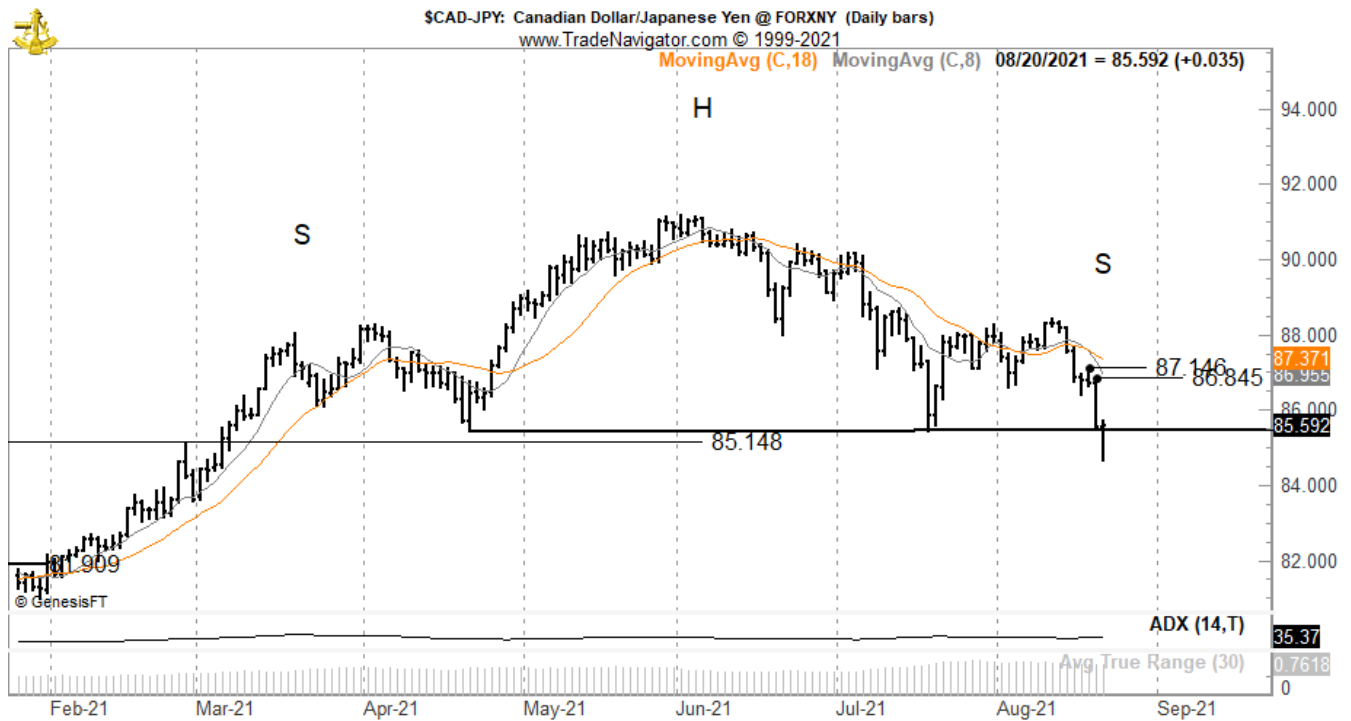
Two things I would say:

- 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.*

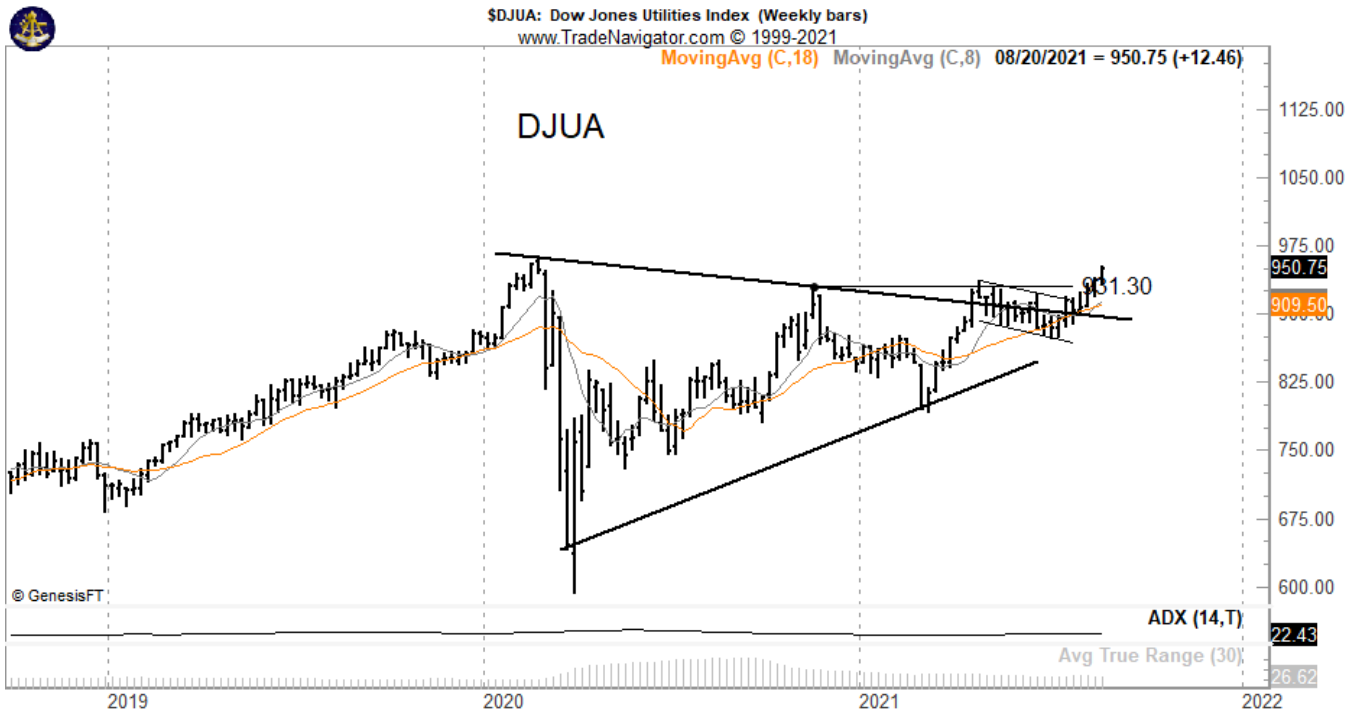
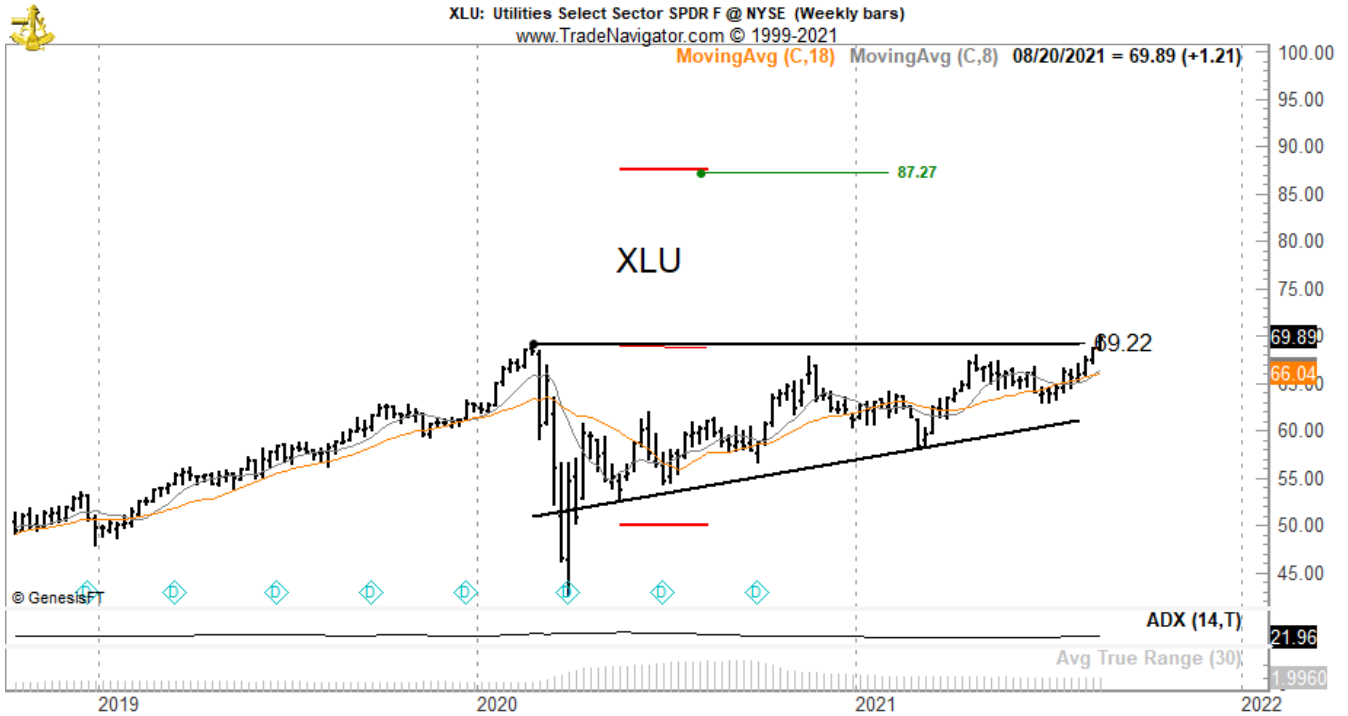
There were at least a couple of examples of this dilemma this past week. The first is CAD/JPY, the subject of the member's question. The decline early on Friday completed a textbook H&S top, only to reverse late in the day, closing above the neckline. Obviously, resting stop orders would not have been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

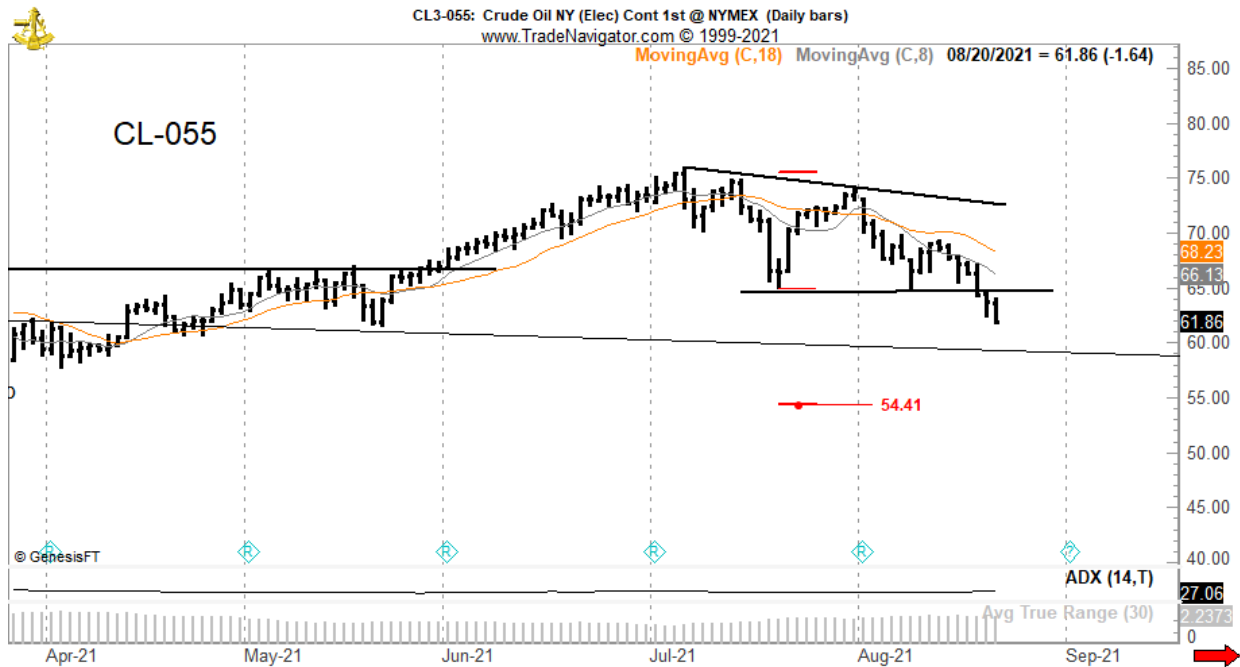
I did not have CAD/JPY on my radar screen, mainly because I am net short CAD against the USD. Yet, if I had been interested in the trade, I would have shorted it on Friday early and covered the trade as a weekend loss. I was short ZLZ21 from Thursday's close and added on Friday with an open breakout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



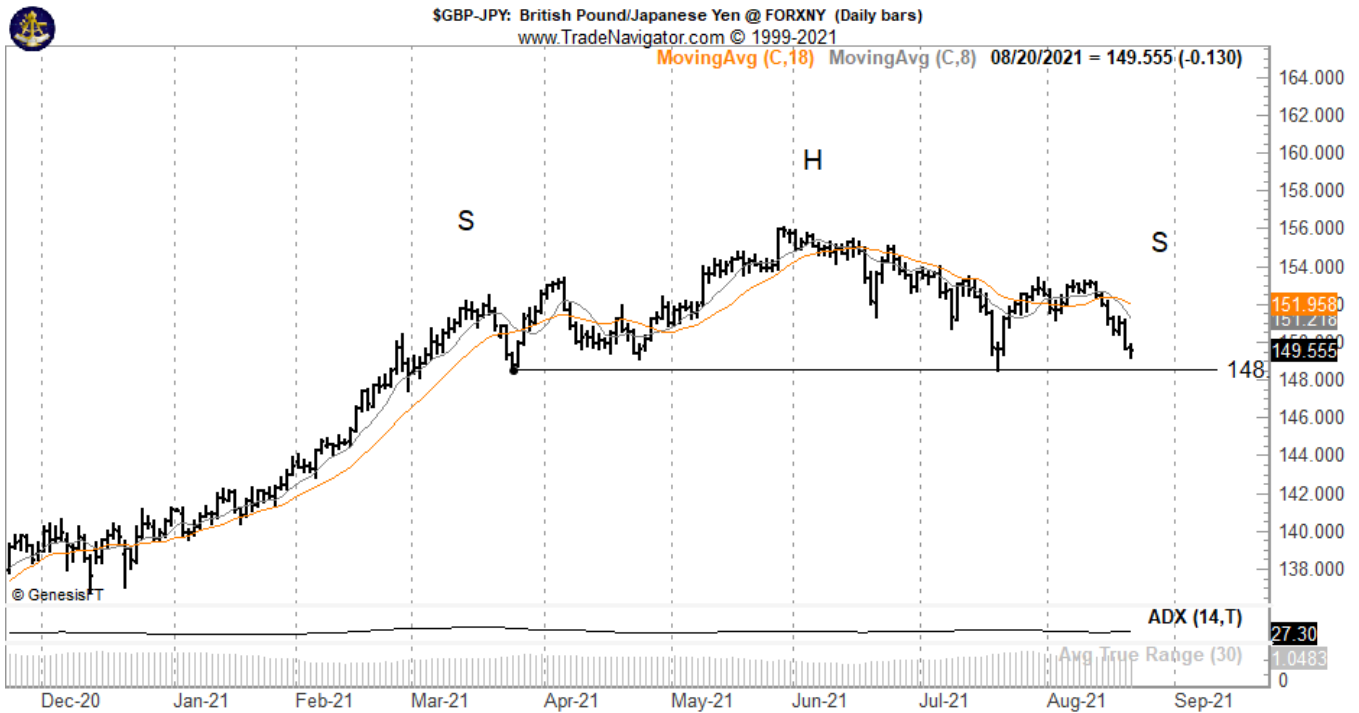
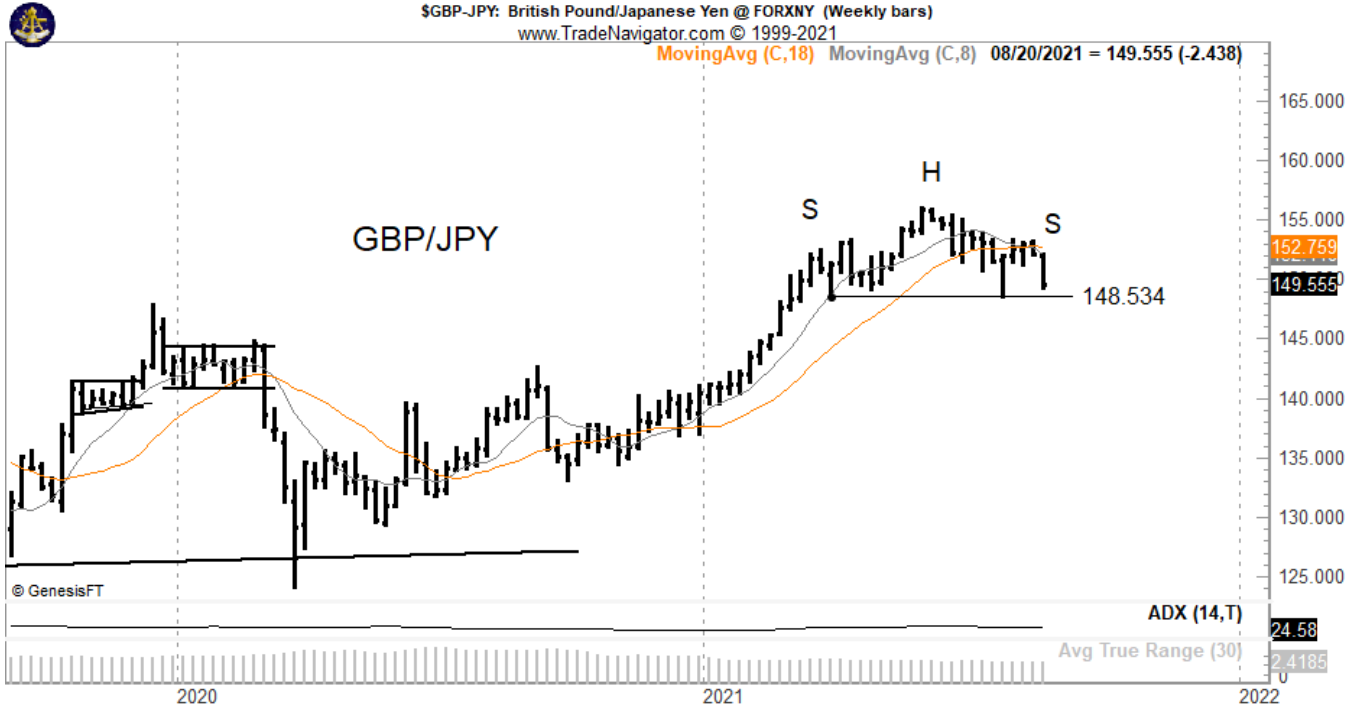
Crude Oil. A descending triangle top was completed on Wednesday. I missed the breakout (orders were not in place) and my order to short a small rally was unable.



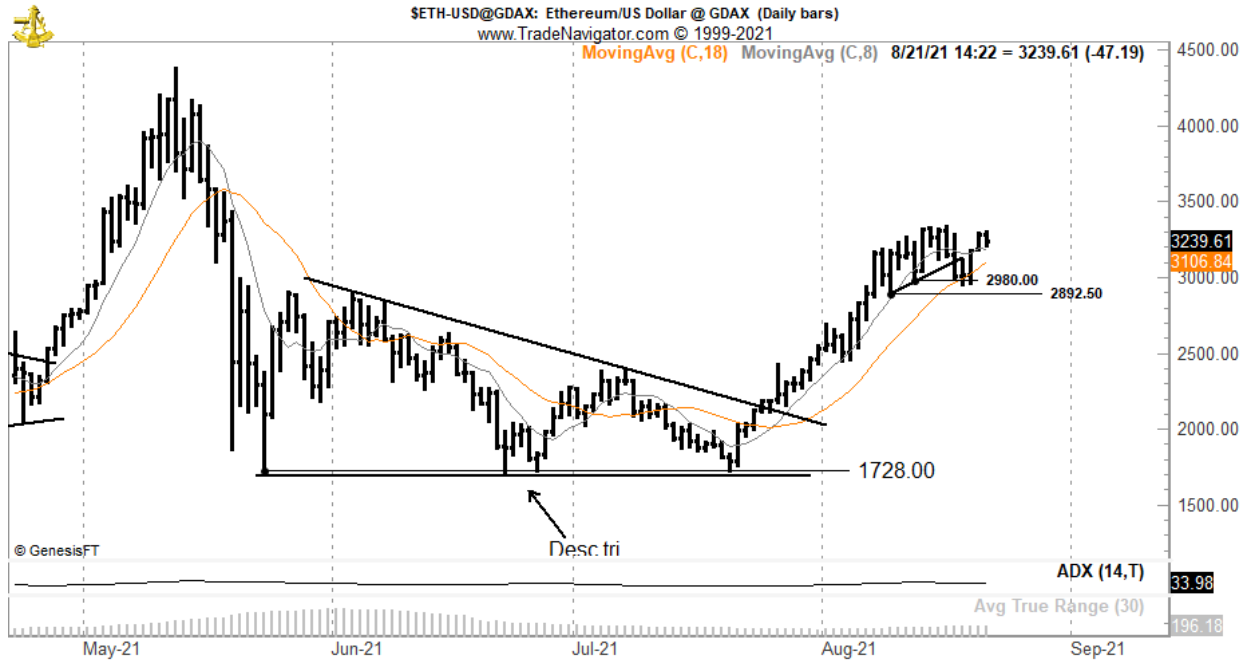
Soybean Oil. See Special Situation Report issued Tuesday. The ADX in Bean Oil dipped below 10 early in the week only to advance on Thursday. This flashed an ADX/MA sell signal, a condition I may elect to establish a position within a pattern when I believe said pattern is mature and poised to be completed. 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.



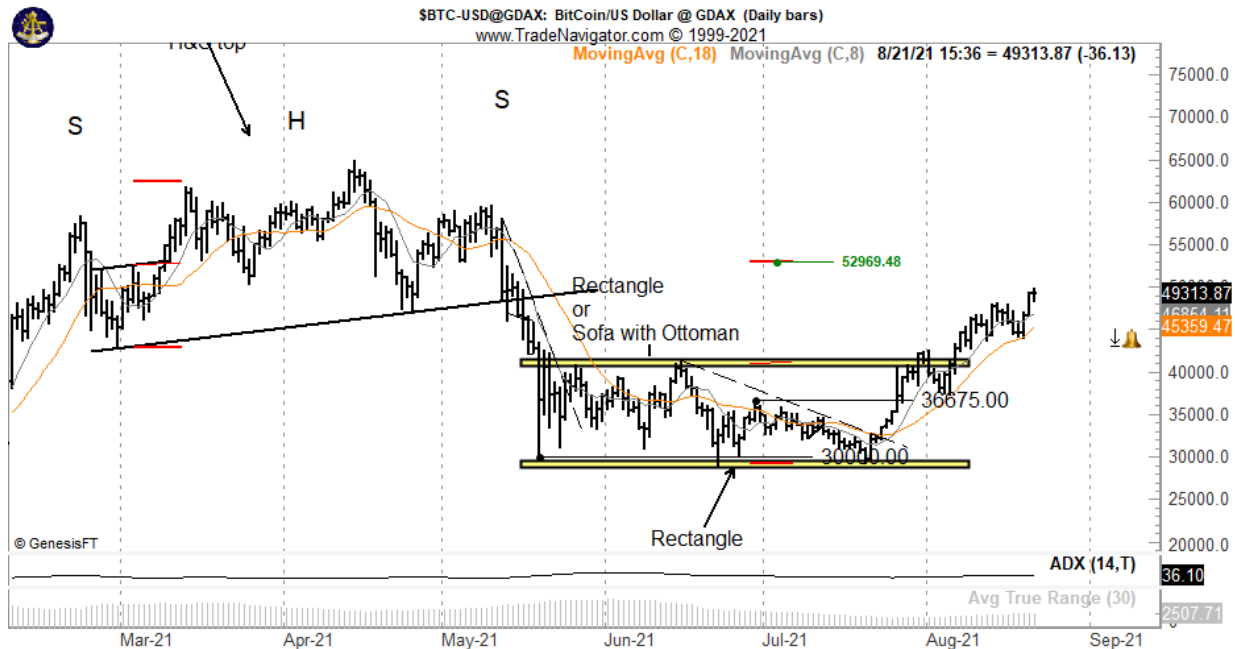
GBP/JPY. The possible H&S top in this cross is appealing.



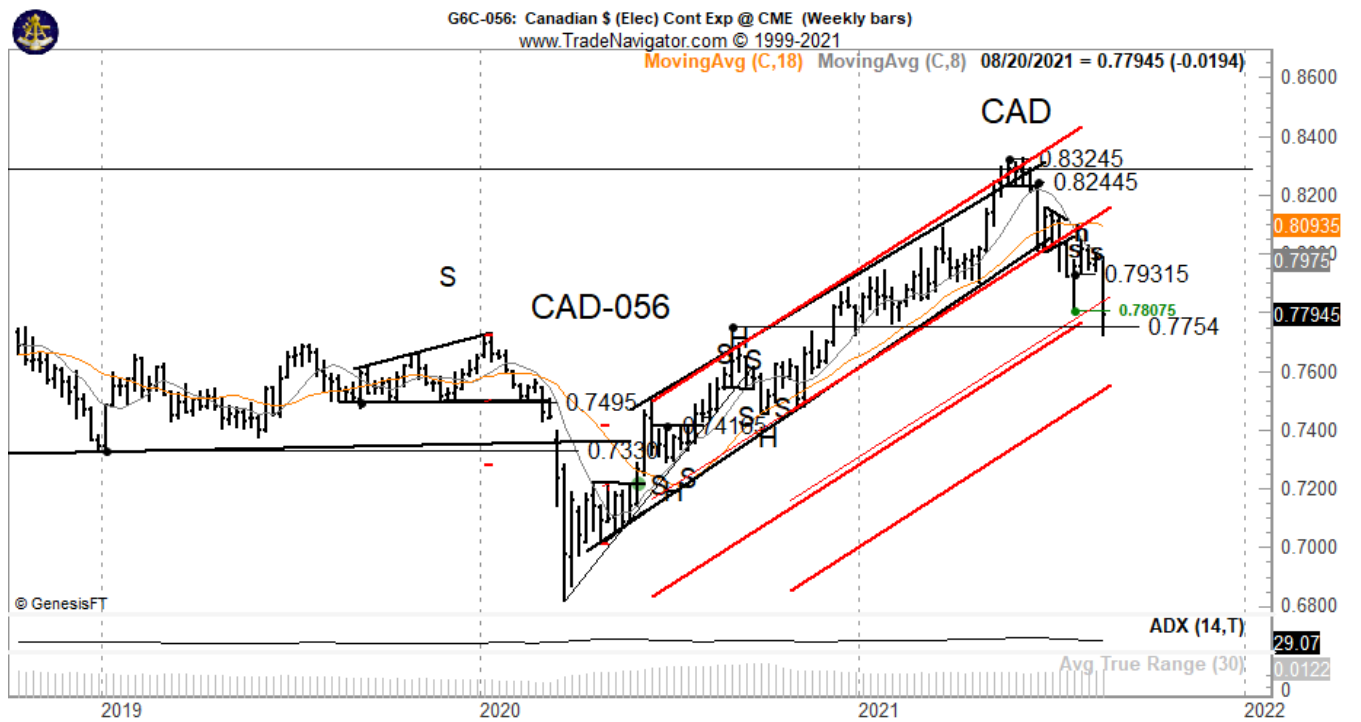
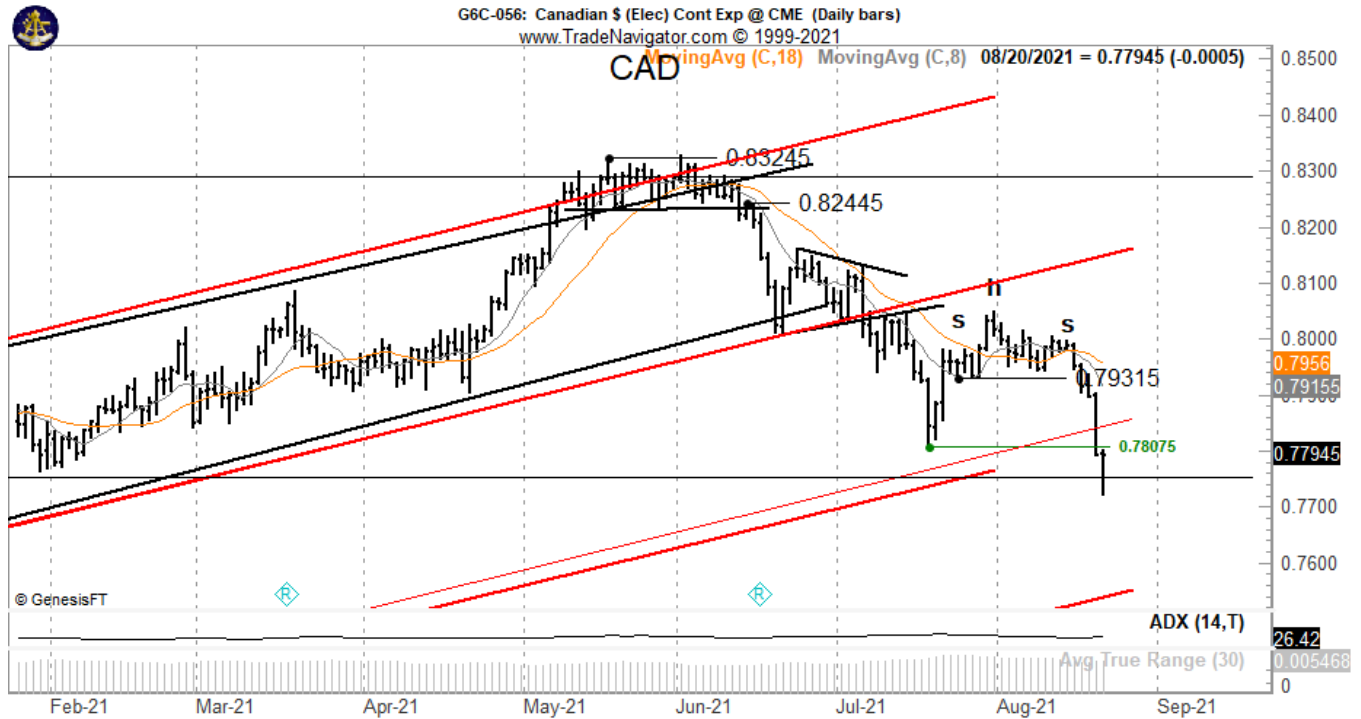
Cryptos. I exited my long in ETH this past week based on the 3-day trailing stop rule. I would have been better off using the Aug 8 pivot low for a stop point rather than the Aug 17 low. Coulda...woulda...shoulda! Sometimes tactics work, sometimes not. I've been stopped out of many markets prematurely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



The advance in Bitcoin continues to chew into overbear 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

			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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