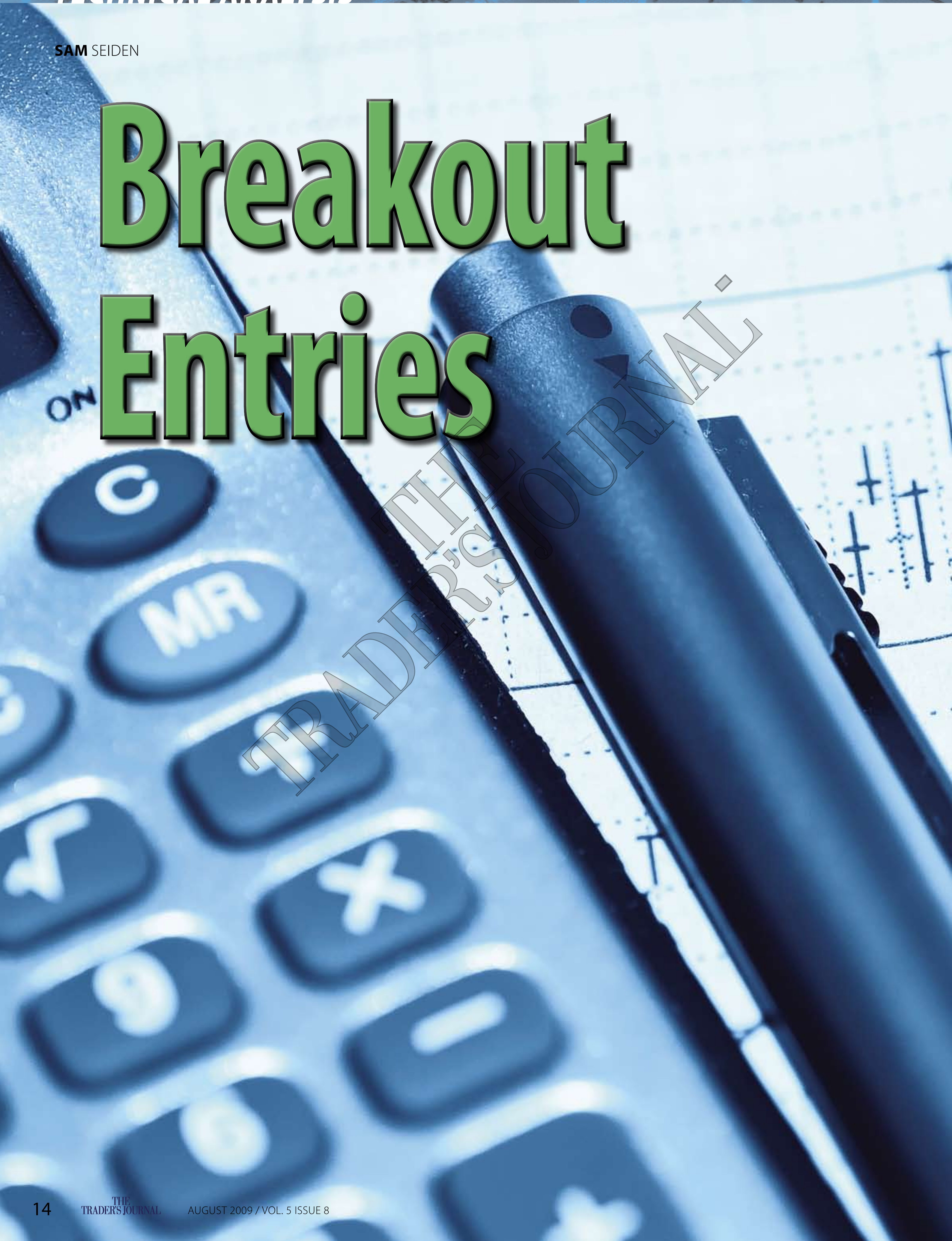
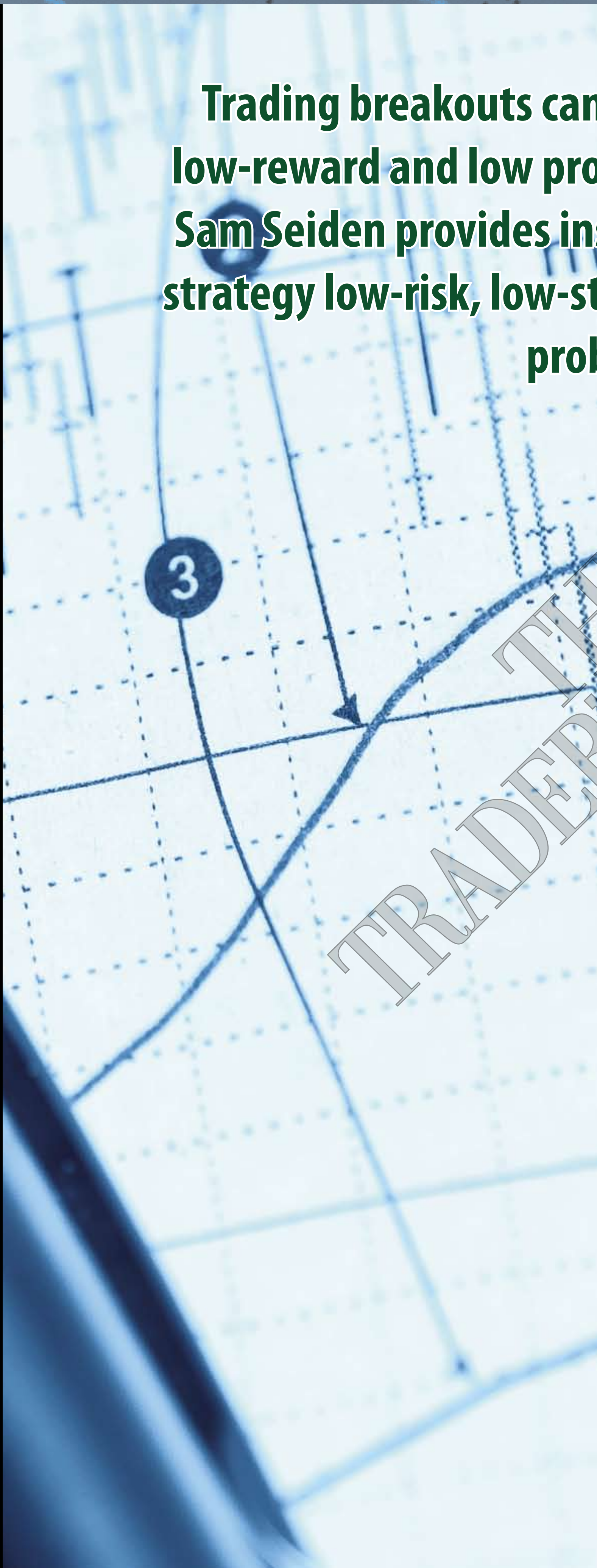
SAM SEIDEN

Breakout Entries





Trading breakouts can be high-risk, high-stress, low-reward and low probability if done incorrectly. Sam Seiden provides insight into how to make this strategy low-risk, low-stress, high-reward, and high probability.

I have been in the trading business for over 15 years as a trader, fund manager and trainer. I began my career on the floor of the Chicago Mercantile Exchange. While I feel like I have seen it all, the one thing that still surprises me is how most traders handle breakouts. Most traders seem to let emotion complicate what can really be a simple, rule based and very profitable strategy. Trading breakouts can be high-risk, high-stress, low-reward and low probability or this strategy can be low-risk, low-stress, high-reward, and high probability. The difference lies in how you enter into this type of position.

Before getting into the details of the strategy, it is important to understand two key components of markets.

1. **Why do prices move in any market?** Price in any market turns at price levels where demand and supply are out of balance. The consistently profitable trader is able to identify a demand and supply imbalance, which means knowing where the REAL buyers and sellers are in a market.
2. **Who is on the other side of your trade?** Trading is simply a transfer of accounts from those who do not know what they are doing into the accounts of those who do. The consistently profitable trader makes sure a novice trader is on the other side of their trades.

The Logic

Notice area "A" in Figure 1 below. Area "A" is the origin of a strong rally in price. Most breakout traders will look to buy as price breaks out to the upside from area "A." This type of breakout entry is typically the "sucker bet." Traders see price moving higher from

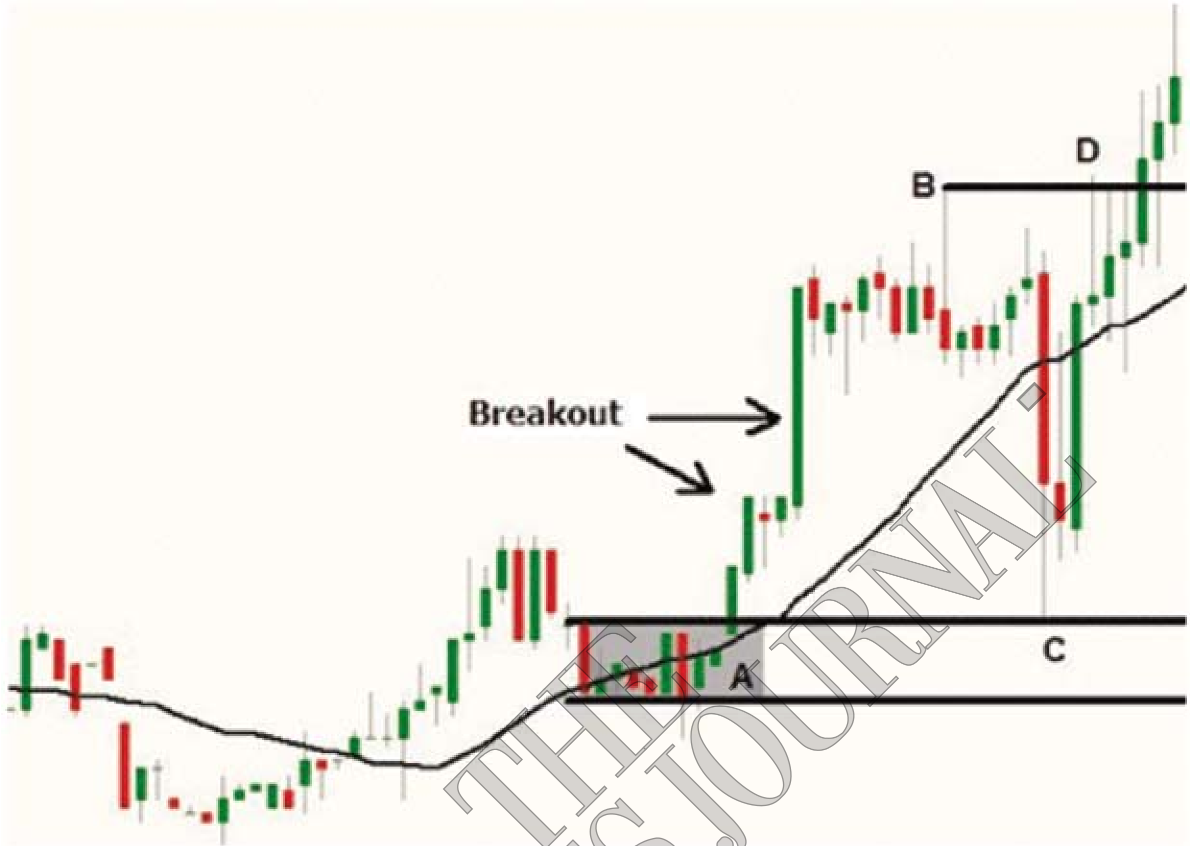


Figure 1

area "A" and give in to emotion and buy into that initial rally. The problem is that by the time they buy the breakout of area "A," price has moved so far that it becomes a high risk and low reward trade.

Instead, I sit back and let the breakout happen because that breakout tells me that there is a demand and supply imbalance at area "A," this is exactly where the buyers are. Next, I wait for price to return to area "A." When it does at "C," I am a very interested buyer as I am confident that I am buying from a novice seller. I know this because the seller at "C" is making the two mistakes that every consistently losing (novice) trader makes. First, they are selling after a period of selling and they are selling at a price level where demand exceeds supply.

The Setup

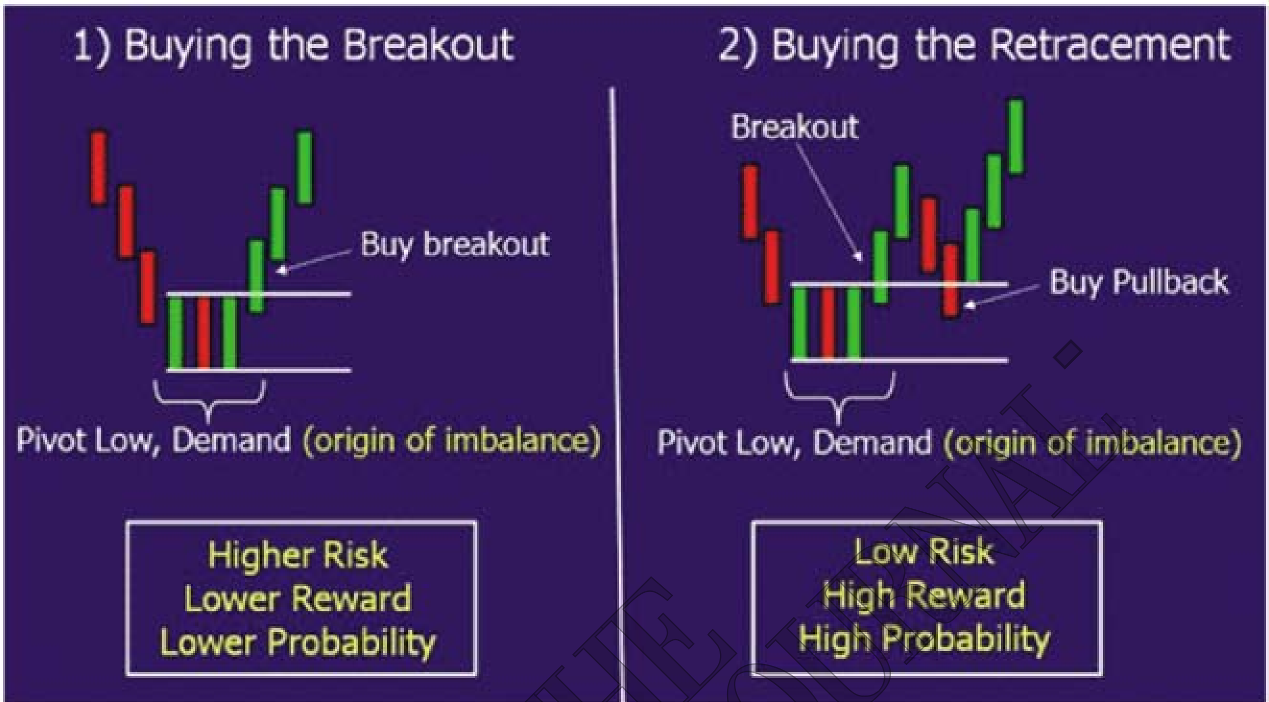
For longs, identify a market in an uptrend by using a 20-period moving average. Next, identify the origin of a strong move and draw two lines around the price action to create a demand zone (area "A"). Make sure the demand level has the pattern "Drop-Base-Rally" as that is key. In other words, area "A" should be preceded by a decline in price, which makes it higher probability. Then, make sure there is a significant profit margin (profit target). This would be the distance from area "A" to "B," the highest high of the initial breakout before price returns to "A" at "C."

The Action

Buy at "C" when price touches the top black line and place your protective sell stop just below the lower black line. Adjust your position size to prevent risking more than you are willing to lose. Place your profit target based on the high of the initial breakout "B," which in this case would have you selling for a profit at "D."

The proper breakout entry works in any market and any timeframe. A complete explanation to the key components to making this work is beyond the scope of this article, but briefly is this – When taking any buy or sell entries in markets, make sure you know exactly where price is with regard to the larger timeframe supply/demand curve. Whether you trade stocks, futures, Forex, or options, understand that behind all the candles on your screen in all of these markets are

The Breakout – Two types of entries, very different odds



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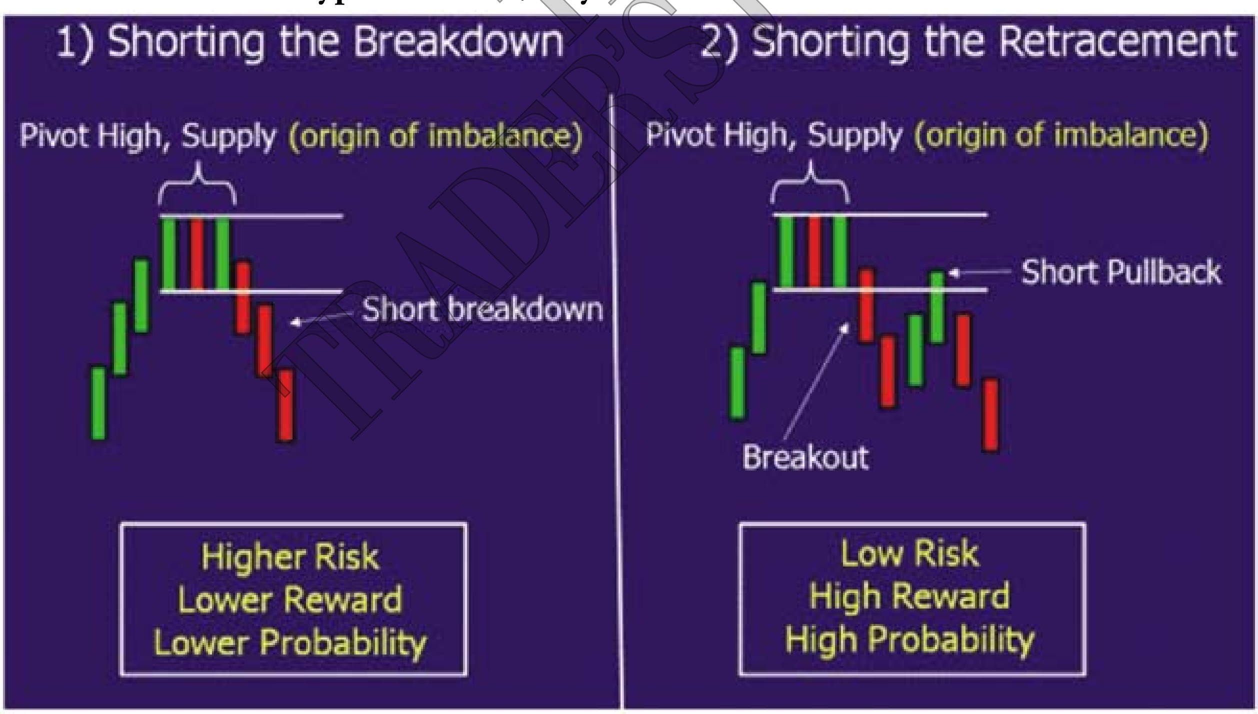

people and their emotions. Most will fall for the emotional trading traps set by fear and greed. The others get paid from this novice group.

Sam Seiden brings over 15 years experience of equities, Forex, options, and futures trading that began when he was on the floor of the Chicago Mercantile Exchange. He has traded equities, futures, interest rate markets, Forex and options for his personal interests for years and has educated hundreds of traders and investors through seminars and daily advisory services both domestically and internationally. Sam has been involved in the markets since 1991 both on and off the floor of the Chicago Mercantile Exchange. He has served as the Director of Technical Research for two trading firms and regularly contributes articles to industry publications. Sam is known for his trading, technical research, and educational guidance.