HOW TO MAKE MONEY WITH

BREAKOUT TRADING

ANALYZE STOCK MARKET THROUGH CANDLESTICK CHARTS

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Technical analysis is a study of past performance, and past performance does not guarantee future performance. Investors and traders are advised to take the services of a competent expert before making any investment or trading decision.

This book is
Dedicated to the Two Gurus of My Life:
Stock Market and Sadghuru

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Preface

In my ten years of trading experience, I have used many indicators, learned many trading systems. But ‘**Breakout Trading'** is one of my favorite trading systems. I don’t give any fancy statements to explain why I liked this system.

Below are the three reasons behind my fondness for this system:

1. I have developed this system (with my way of collecting information).
2. It is simple to understand and easy to execute (all you need is 5 mins during live market)
3. It shows RESULTS!

Nowadays, I use this system rarely as I have transitted into intraday trading. Besides, I am an avid traveler and a blogger, and I often end up doing a lot of adventurous activities. Hence, I do not prefer to carry on trades post market hours.

However, I have been teaching this technique to numerous people who have benefitted from my advice.

This book is beneficial if you are a working professional or a business person and have the mindset to hold your trades between 2 days to 2 weeks. For everyone else, it’s just a piece of some information.

I have explained only the concepts which are required for ‘Breakout Trading’. Please refer to the last page if you need excellent book information for any other trading topic.

So, let’s begin!

Acknowledgments

Many helped in the preparation of this book. I would like to thank all my Trading Gurus who taught me everything about trading.

I would like to thank **Trading View** (https://in.tradingview.com/) as all the charts which are used in this book are taken from it.

Two large-hearted traders helped me immensely with the preparation of this book. They are **Sanket Gajjar** and **Harneet Singh**. More power to both of you guys, now and always!

Thanks to both **Nandini Panchakshari** and **Team Pothi** (https://pothi.com/) team who helped with editing and proofreading.

Shrinivas Joshi (https://www.shrinivasjoshi.co.in/) has prepared the attractive cover page. Special thanks to him.

I have a big list of friends who have supported me in all my book ventures. I will be forever grateful to all of them.

Indrazith Shantharaj
July 2020

Chapter-1

Breakout Trading Is the Most Underrated Trading Technique

How to differentiate a genuine breakout from a false breakout?

◆◆◆

This question was running in my mind for many years. Back then, I was working in a software firm, and I used to attend several workshops on trading during weekends just to ask this one question. I was pretty sure; if I can crack this question, it will help immensely in both positional trading and as well as intraday trading. However, I didn't get any satisfactory answers from most of the trainers.

One such weekend, I was attending a two-day workshop on trading from a famous technical trader in India. I thought, this time I will get the answer to my question. He was explaining most of the concepts related to trading. However, I was waiting for a chance for my inquiry. Even after one and a half days, I didn't get an opportunity to ask my question, and many participants surrounded him during lunch and coffee breaks.

Time was ticking, and I just had one last hour. From my experience, I knew trainers leave early on Sunday evening with an excuse of catching flights. He was still explaining some concept, assuming I might not get an opportunity to clarify my doubt over a Q&A Session (if there was any), I gathered some courage to interrupt his speech in the middle with my question.

I was hoping he will explain the answer using charts. To my surprise, he switched off the projector and came forward. Then he started telling how his big connections in Mumbai and Wall Street trade, how they take large quantities, how they consider auspicious days like a full moon day or Diwali and take into account the rise in sea level to add their quantity. Finally, he concluded most of the breakout days in any script closely associated with such good days or a good day related to the particular script!

I was frustrated by his answer. I was angry at myself for wasting two days of my life, and I had decided not to attend any workshop on trading going forward.

With this state of mind, I went to a remote place inside the Western Ghats in Karnataka (India). It had an old temple, and somehow I felt positive vibes in the area. The next day morning, I woke up early and went for a walk. After the hike, I went inside the temple and meditated for some time.

When I was coming back to the guest house, I saw a mother chicken roaming with its baby chicks. All the baby chicks were following the mother except one. Sometimes, it was leading the group, and sometimes it was going far away from the group, sometimes mother chicken used to follow that baby chick along with its other baby chicks.

Without my consciousness, I stopped my walk and started observing their activity. Within a minute, I got the answer to my question! It was unbelievable that I found the solution to my problem, which was haunting me for several years. Unfortunately, I didn’t carry my laptop with me. But I was impatient to wait there. Hence, I checked out from the guest house and drove back to my place. It was over 400 km drive, and I didn’t take a single break in between.

Once I reach my home, I immediately had started to check my findings on the charts. Fortunately, my idea was correct. Except for this first chapter, the remaining content of the book is a detailed expansion of one single idea!

What is a Breakout?

Investopedia.com website says, “*A breakout is a stock price moving outside a defined support or resistance level with increased volume. A breakout trader enters a long position after the stock price breaks above resistance or enters a short position after the stock breaks below support.*”

Image 1.1 – A breakout example (break of resistance trend line)

In image 1.1, the price broke the resistance trend line with high volumes. Similarly, if the price breaks the support trend line, few recognize it as a breakdown.

To keep it simple, we will focus only on the breakout.

What is a False Breakout?

A false breakout is also recognized as a 'failed break'. Investopedia.com's definition for a failed break is, "*A failed break occurs when a price moves through an identified level of support or resistance but does not have enough momentum to maintain its direction. Since the validity of the breakout is compromised, and the profit potential significantly decreases, many traders close their positions. A failed break is also commonly referred to as a false breakout.*"

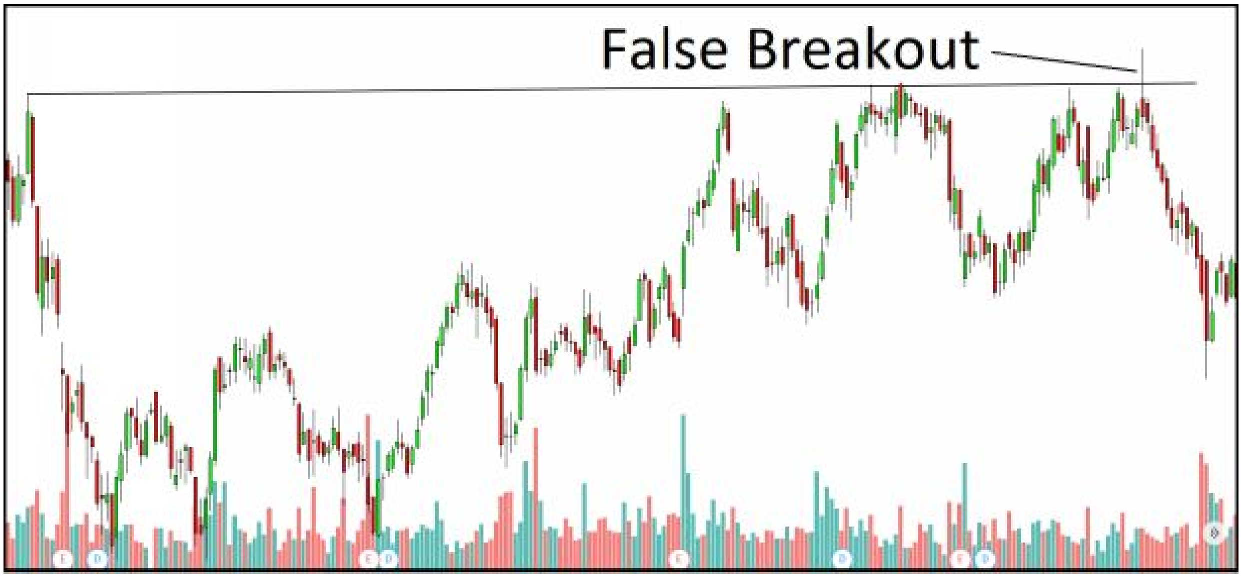


Image 1.2 – A False Breakout example

In image 1.2, the price showed the characteristics of a breakout. However, it failed in its attempt and broke on the opposite side.

Why is This Information Important?

In my opinion, every trader (be it intraday, swing, positional, or scalper) should know how to differentiate a genuine breakout and a false breakout.

Do you know why?

> *Because every 'Entry' and 'Exit' in any trade should come through a breakout or false breakout opportunity!*

(That doesn't mean other trading techniques will not work. My explanation holds good if a trader is looking for the best entry point and best exit point.)

Let me explain.

It's important to understand two herds that exist in the market:

1. **Smart Money** and
2. **Dumb Money**

‘**Smart Money**’ refers to institutional investors, big sharks who have money and information power who give direction and momentum to markets.

‘**Dumb Money**’ refers to nonprofessional traders, retail traders who often try to make quick money.

Do you agree that it’s always a good idea to follow the smart money?

If yes, check the below chart carefully.

Image 1.3 – Action plan of Smart Money (Daily Chart)

If you look at image 1.3, the smart money has prevented the fall three times with significant buying volumes.

Besides, the price has consolidated for over eight trading days before the breakout. It indicates two things:

1. Smart money is not willing to sell at this price level.
2. Dumb money got exhausted with its selling.

Image 1.4 – Action plan of Smart Money (Daily Chart) Result

If you look at image 1.4, it's evident that smart money had a clear action plan.

So, it's always better to take Entry when we get the confirmation from smart money (you can't make trades along with them unless you are one among them).

Besides, it's significant to plan Exit if you can judge smart money is exiting.

A trading system should accommodate such Entry and Exit points.

Because only 'Entry' and 'Exit' decide the fate of your trade irrespective of your reputation, experience, and qualification!

This Breakout Trading System consists of three critical components:

1. **Drawing Proper Trend Lines**
2. **Identification of Real Breakout**
3. **Trade Execution**

I will explain these concepts in detail separately in the subsequent chapters.

Chapter-2

Read This Before You Draw a Trend Line

Before you draw a trend line on any chart, ensure it's not an operator stock, and price action is smooth. In both cases, it's better to avoid them as there is a high probability of hitting your stop-loss.

Some of the examples are below.

Image 2.1 – Price Action is not smooth – Example-1

If you look at Image 2.1, it has a lot of selling wicks and buying wicks, which are not suitable for this type of trading. It can trigger your buy order or stop-loss order and can move in the opposite direction. It's better to avoid such scripts.

Image 2.2 – Price Action is not smooth – Example-2

Another example is shown in image 2.2. It has too many gap scenarios which are not suitable for this type of trading. It’s better to avoid such scripts.

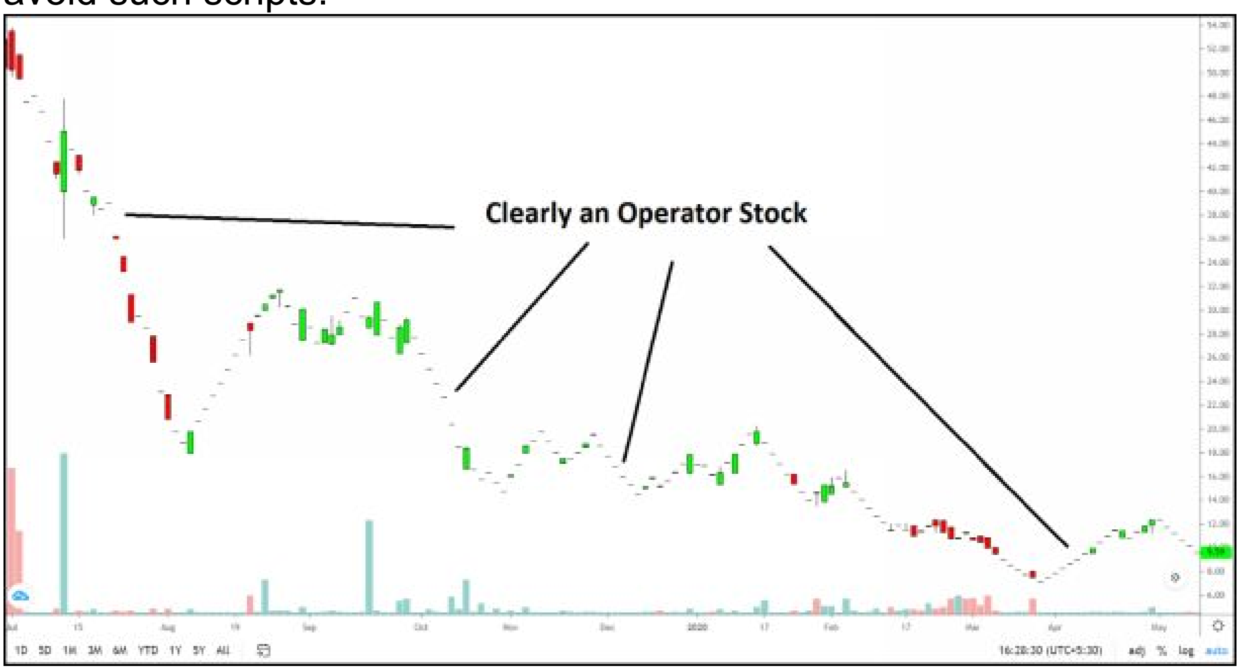


Image 2.3 – Price Action is not smooth – Example-3

If you look at Image 2.3, it has too many gaps and no activity on many trading days. It clearly shows that some operators are controlling this stock. It’s better to avoid such scripts.

I don’t want to fill this book with too many such useless charts. I hope this information is clear. If you get confused when you see a chart, you can always move on to other scripts as there is no rule to trade in that particular script itself.

What is Trend Line?

A **Trend Line** is a straight line drawn on a chart by connecting two or more price peaks, which reveals the trend of the script, support and resistance points, and allows to spot any excellent trade opportunities.

A trend line speaks more than words do!

Below are some useful references to draw a trend line:

1. Price Peaks
2. The Slope of the Trend Line
3. The price should respect the Trend Line

We need to consider 6 months to 1 year duration charts for this system as our maximum holding period is just two weeks. We do not need to know what happened beyond one year back as our holding period is less. Besides, our stop-loss management process will take care of any impact of the crucial price points, which occurred before one year back.

Price Peaks

You should connect a minimum of 2 peaks to consider it as a valid trend line.

Image 2.4 – A Support Trend Line Example

Above is the example of a trend line that connected 3 peaks.

It can also be called as a **Support Trend line.**

Image 2.5 - A Resistance Trend Line Example

Image 2.5 shows another example of a trend line that connected 4 peaks.

It can also be considered as a **Resistance Trend Line**.

A trend line can be considered **as a powerful trend line when it connects more number of peaks**.

Image 2.6 – A Powerful Trend Line Example

The Trend Line drawn in Image 2.6 is potent as it connects 8 peaks.

We should note that when a price shows a decisive break of the trend line, it will give a quick and big move on the opposite side.

The Slope of the Trend Line

Ideally, the trend line that shows less to the medium slope (less than 45 degrees) is the safer bet

Because this is the sign of a healthy trend.

As the slope of a trend line increases, the validity of the support or resistance level decreases.

A steep trend line results from a sharp advance (or decline) over a brief period.

The trend line created from such quick moves is unlikely to offer a strong support or resistance level.

Even if the trend line is connected with 3 or more valid points, attempting to take a trade is not a good idea.

Image 2.7 – A Steep Trend Line Example

Image 2.7 shows an example of a steep trend line.

It is not a healthy sign of a trend, and most probably, this script is the victim of operators.

The Price Should Respect Trend Line

Whenever you draw a trend line, ensure price respects the trend line with all its peaks.

Image 2.8 – A Trend Line Respected by Many Peaks

Image 2.8 shows a trend line that is respected by all the peaks of the price. Hence, this is a powerful trend line.

Image 2.9 – A Trend Line Which is Not Respected by all the Peaks

Image 2.9 shows a trend line that is not respected by all the peaks of the price. Hence, this is a not powerful trend line.

Always remember, drawing a trend line is subjective and art. Don't get into arguments or discussions with anyone over any trend line.

Remember the guidelines mentioned earlier whenever you try to draw a trend line.

In this book, I am willing to provide more emphasis **only on the resistance trend line** as this book is designed for retail traders who start with small capital. Due to their low capital, they can afford to take their breakout trades only in equities. Because taking trades in futures requires significant capital as per money management rules (which I am going to explain later). Hence, they will not be able to opt for short trades.

I will show some of the charts below, only to indicate how I prefer to draw the trend lines considering the rules mentioned above.

Image 2.10 – A Breakout Example-1

Image 2.11 – A Breakout Example-2

Image 2.12 – A Breakout Example-3

Image 2.13 – A Breakout Example-4

Image 2.14 – A Breakout Example-5

By this time, you should have got some clarity on what kind of scripts you are looking for and how to draw solid trend lines.

Summary

- We look at only daily charts with 6 months to 1 year duration to draw a trend line.
- We don't consider charts that don't have smooth price action.

- When a trend line connects more peaks, it will become a dominant trend line, and the break of such a trend line gives big moves.
- The slope of the trend line should be less than 45 degrees.
- The price should respect the trend line at all peak points.
- Drawing the trend line is an art, and it’s subjective. So, there is no need to debate with anyone.

Chapter-3

How to Decide a Genuine Breakout in 60 Seconds

A traditional Breakout Trading technique is to enter the long trade whenever the price breaks the resistance trend line along with volumes or when the current candle closes above the trend line.

This idea looks great in theory, but practically it's difficult to get good results. We will have a look at some of the charts.

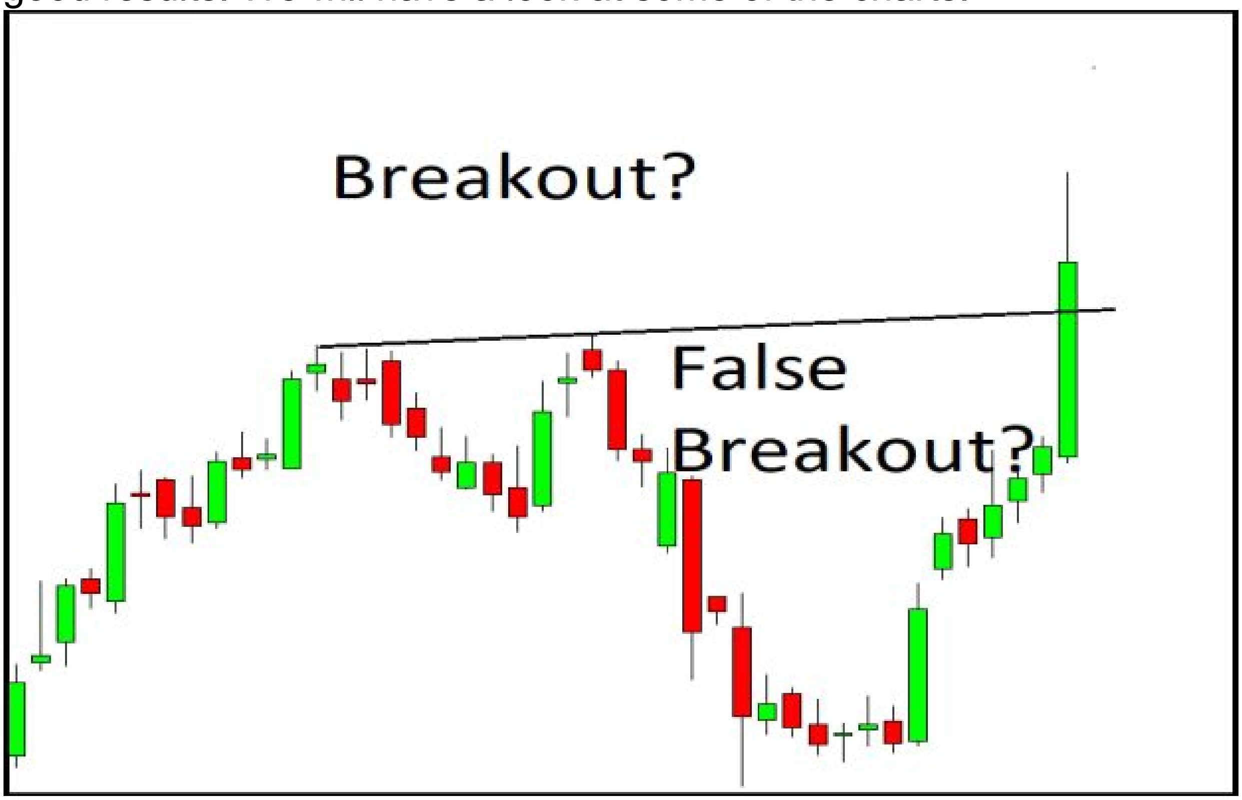


Image 3.1 – Breakout or False Breakout – Example-1

If you look at Image 3.1, the price has closed above the resistance trend line.

Do you think it's a genuine breakout?

Don't forget we are ignoring the big selling wick on the breakout candle (Big upper shadow). What this indicates is selling is strong (probably from Smart Money) at the current price level.

Until the price negates this selling, it cannot go up, and it requires some time to neutralize this selling. Hence, the probability of a false breakout is very high.

You can see the result in image 3.2.

Image 3.2 – Breakout or False Breakout – Example-1-Result

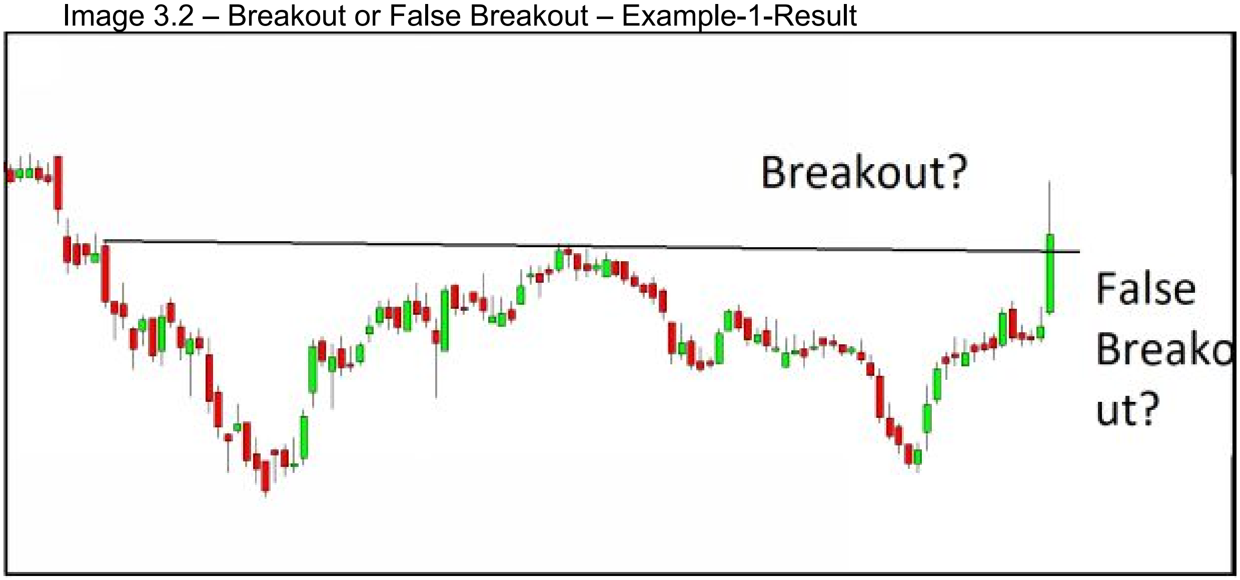


Image 3.3 – Breakout or False Breakout – Example-2

Once again, in Image 3.3, the price has closed above the trend line. But there is an opposite response from the sellers which resulted in a big wick. It indicates that the probability of a false breakout is very high, and we can see the result in Image 3.4.

Image 3.4 – Breakout or False Breakout – Example-2-Result

Image 3.5 – Breakout or False Breakout – Example-3

Once more an example is shown in Image 3.5 where the price has closed above the trend line. But there is an opposite response from the sellers, which resulted in a big wick. It indicates the probability of a false breakout is very high, and we can see the result in Image 3.6.

Image 3.6 – Breakout or False Breakout – Example-3-Result

Then What Separates the Real Breakout?

Please take out a pen and piece of paper. What you're about to learn next is significant and needs to be immortalized.

The four things mentioned below are essential to separate a real breakout from fake ones:

1. A Big Breakout Candle
2. Quick Time
3. Absence of Opposite Party Response
4. Good Volume

(Don't make any conclusion as of now. Read this chapter and the next chapter completely which covers the execution aspects with an open mind and then take a call.)

A Big Breakout Candle

As the name suggests, the breakout should happen with a big candle. Because the involvement of smart money at crucial price levels (in our case, near/at resistance trend line) will always result in a big move.

Image 3.7 – A Big Breakout Candle Example-1

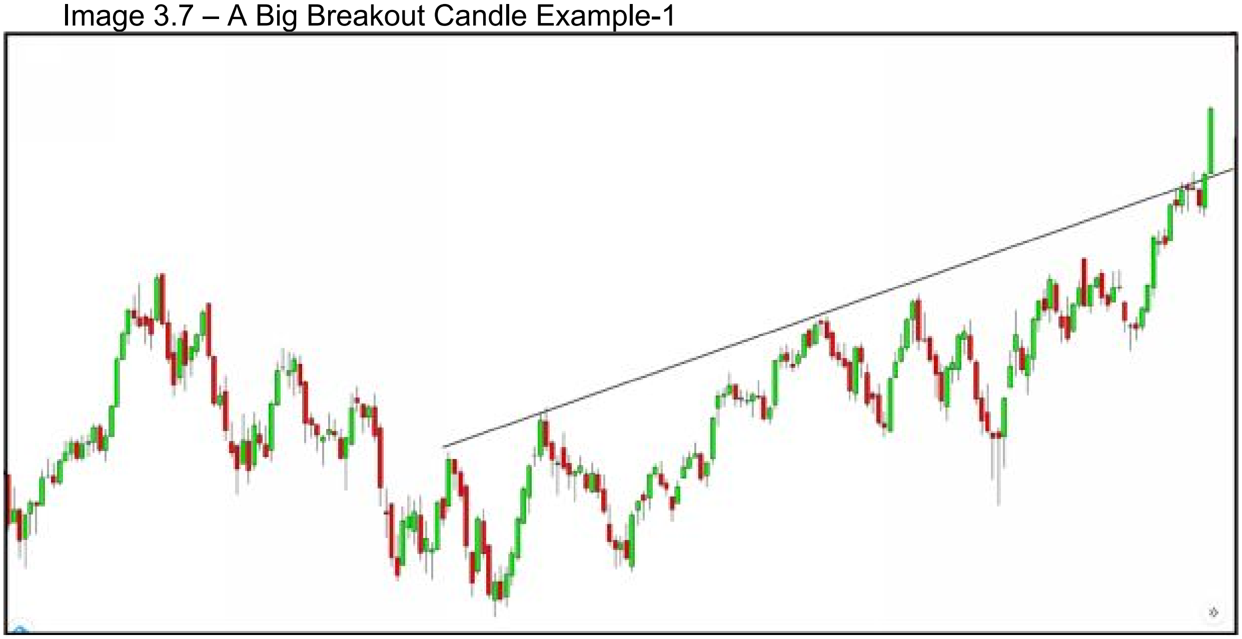


Image 3.8 – A Big Breakout Candle Example-2

If you look at the Images 3.7 and 3.8, breakout happened with a big candle as compared to the average candle size in that particular script.

Quick Time

I have included this parameter to filter out the fake ones. Often traders consider a few scripts in which the price has moved outside of the resistance trend line with small candles. It often happens when they draw an invalid trend line or less powerful trend line.

In this system, we always refer to the daily chart. Hence, the breakout should happen in one single day. We don’t consider the scripts which will display a small range of candles after breaking the resistance trend line. That doesn’t mean such scripts will not make a big move. But they are outside the scope of this system. Remember, no one will be able to catch all the big moves!

You should have a system with a clear definition, and using such a system, you should be able to take trades with less emotions.

Below are some images which don’t fit under these criteria.

Image 3.9 – A Failure of Quick Time Concept Example-1

Image 3.10 – A Failure of Quick Time Concept Example-2

Images 3.9 and 3.10 show such examples in which the price has displayed small candles after breaking above the resistance trend line. We should avoid such scripts.

Absence of Opposite Party Response

This exceptional quality stands out from the traditional Breakout Trading concept. As we look for the breakout of the resistance trend line, if it is a genuine breakout, sellers should be absent or smart money is keen to absorb any selling!

It means we don't like to see a big selling wick on the breakout candle because it indicates the presence of some serious selling.

Image 3.11 – Absence of Selling Wick – Example-1

Image 3.12 – Absence of Selling Wick – Example-2

Image 3.11 shows the complete absence of selling wick, which clearly indicates the intention of smart money.

Image 3.12 shows the presence of slight selling wick. It is acceptable as selling wick size is almost negligible as compared to the size of the candle.

One can use common sense to decide this. If you need a specific reference, then you can consider that the selling wick should be less than 20% of the entire body of the candle.

For example, if the day low is 100, day high is 110, then day's close should have been above 108 (Day range is 10 points and 20% of day range is 2 points).

Image 3.13 – Presence of Selling Wick – Example-1 (not suitable for a breakout)

Image 3.13 displays a considerable amount of selling wick on the breakout candle. Hence, it’s not a pick under our Breakout Trading.

Image 3.14 – Presence of Selling Wick – Example-2 (not suitable for a breakout)

Image 3.14 also displays a considerable amount of selling wick on the breakout candle. Hence, it’s not a pick under our Breakout Trading.

Good Volume

It is easy to understand and essential to get the confirmation that smart money is involved in the breakout scenario.

Image 3.15 – Good Volume – Example-1

Image 3.16 – Good Volume – Example-2

If you look at the Images 3.15 and 3.16, the breakout candle has received a good volume spike, which indicates the involvement of smart money.

Please note, it's always a good idea to pick the scripts, which show some days of consolidation before the breakout. It gives an opportunity for sellers and indicates shorts build-up. The breakout on the upside indicates sellers have failed, and they are running for cover now. These kinds of scripts have higher chances of success.

Summary

- It is essential to filter the real breakouts to get success.
- The first quality of a real breakout is that a breakout should have happened with a big candle.
- The second quality is, a breakout should come in quick time. On the daily chart, it should display breakout criteria in one day.
- The third quality is the absence of opposite party response, which is nothing but the absence of selling wick on the breakout candle in our system.
- The fourth quality is that the breakout candle should receive a reasonable volume.

Chapter-4

Execution Matters a Lot in Trading

If you intend to win a game, then you should know all the rules of the game in advance. Then only you can plan and show your talent in the live game.

In the Traders' perspective, this is called a trade plan. Plenty of successful traders give the utmost significance to the TRADE PLAN.

As a trader before entering any trade, you should know the bare minimum below five aspects.

1. Based on your system, where is your entry point?
2. In case your analysis goes wrong or trade setup fails, where is your stop-loss?
3. Where is your anticipated exit based on your system to book the profits?
4. What is the amount you are risking in this particular trade?
5. How much amount do you risk on this trade out of your entire portfolio?

Each time before you make a trade, answering the above questions can help you to plan your trade.

The above-mentioned trade plan applies to all types of trading.

Let's discuss how to define this plan for our Breakout Trading system.

Entry- Stop Loss- Target

Image 4.1 – Entry-Stop Loss-Target Criteria in Breakout Trading System during Down Trend

As shown in Image 4.1, Entry should come just a few ticks above the high of the breakout candle.

Stop-loss will be a few ticks below the low of the breakout candle.

This script is showing a breakout from a downtrend. So, one can aim at the beginning of the trend line or topmost swing as the target.

Only opt to take the trade if it shows a minimum of 1:2 Risk-Reward. Otherwise, you need to ignore the setup and look for better trade setups.

Note: Entry should come only above the high of the breakout candle. Never buy below the high of the breakout candle. Also, avoid the trade if it opens above 2% from the previous day high as it increases the stop-loss points and also it might attract profit booking. Don’t buy even if it opens above 2% and comes back to the previous day high because it’s against to breakout concept.

Image 4.2 – Entry-Stop loss-Target Criteria in Breakout Trading System during Sideways Trend

As shown in image 4.2, Entry should come just a few ticks above the high of the breakout candle.

Stop-loss will be a few ticks below the low of the breakout candle.

This script shows a breakout from a sideways trend. So, one can aim for the same width of the sideways trend as the target.

Only opt to take the trade if it shows a minimum of 1:2 Risk-Reward. Otherwise, you need to ignore the setup and look for better trade setups.

Image 4.3 – Entry-Stop Loss-Target Criteria in Breakout Trading System During All-Time-High

Image 4.3 shows a breakout of all-time highs in a script. In this case, it's tough to come up with a fixed target as we don't have any reference points on the upside.

One can plan to book profits at 1:2 Risk-Reward, or trail stop-loss below every swing low (you never know how far it will go!).

Besides, one can also plan partial exit at 1:2 Risk-Reward, and manage the remaining position with trail SL concept.

The Untold Story About Trail SL

It is the most crucial aspect of this trading system. This concept is also missing in most of the trading systems. Read this section a few times, until it gets into your subconscious mind.

Image 4.4 – A Breakout Trade Example-1

If you look at image 4.4, we have a clear breakout trade.

- Breakout Candle is big ✔ ✔
- Quick time ✔ ✔
- Absence of Selling wick ✔ ✔
- Good Volume ✔ ✔

It satisfies all our checklists. Hence, we will place a buy order tomorrow above the high of the breakout candle. If triggered, the stop-loss will be below the low of the breakout candle.

Image 4.5 – Trail SL in case of a Small Candle after Breakout Example-1

The next day, it triggered our buy order (as price traded above the high of the breakout candle).

However, it failed to give a big move on the upside.

Remember, our criteria for a breakout is the price should give a big move in quick time with the absence of selling.

{*Breakout rule applies for the next 2-3 trading sessions after the breakout (as smart money will act either through selling or more buying or doing nothing).*

*If they '**Buy**' – the price will **go up.***

*If they '**Don't react'** – the price will **go up,** or it will **stay there** (but selling will not come).*

*If they **'Sell'** – the price will show **selling/fall.}***

But in the above case**, we can see an evident selling on the next day after the breakout.**

Hence, it doesn't make any sense to retain the original stop-loss. It is better to trail below the low of the current day candle, as shown in Image 4.5**.**

Image 4.6 – Result in case of a Small Candle after Breakout Example-1

This action of trail SL **resulted in a breakeven trade (maybe a few points loss). But it saved 90% of the initial risk amount**.

Note: Sometimes, price will hit your trail SL and then reach your target. One should not change the trail SL concept just because of this. The idea of this system is to reduce the initial risk as much as possible if the price shows any danger and to ride the profits with clear breakout scripts.

Image 4.7 – A Breakout Trade Example-2

If you look at Image 4.7, we have a clear all-time-high breakout trade.

- Breakout Candle is big ✔ ✔
- Quick time ✔ ✔
- Absence of Selling wick ✔ ✔
- Good Volume ✔ ✔

It satisfies all our checklists. Hence, we will place a buy order tomorrow above the high of the breakout candle. If triggered, the stop-loss will be below the low of the breakout candle.

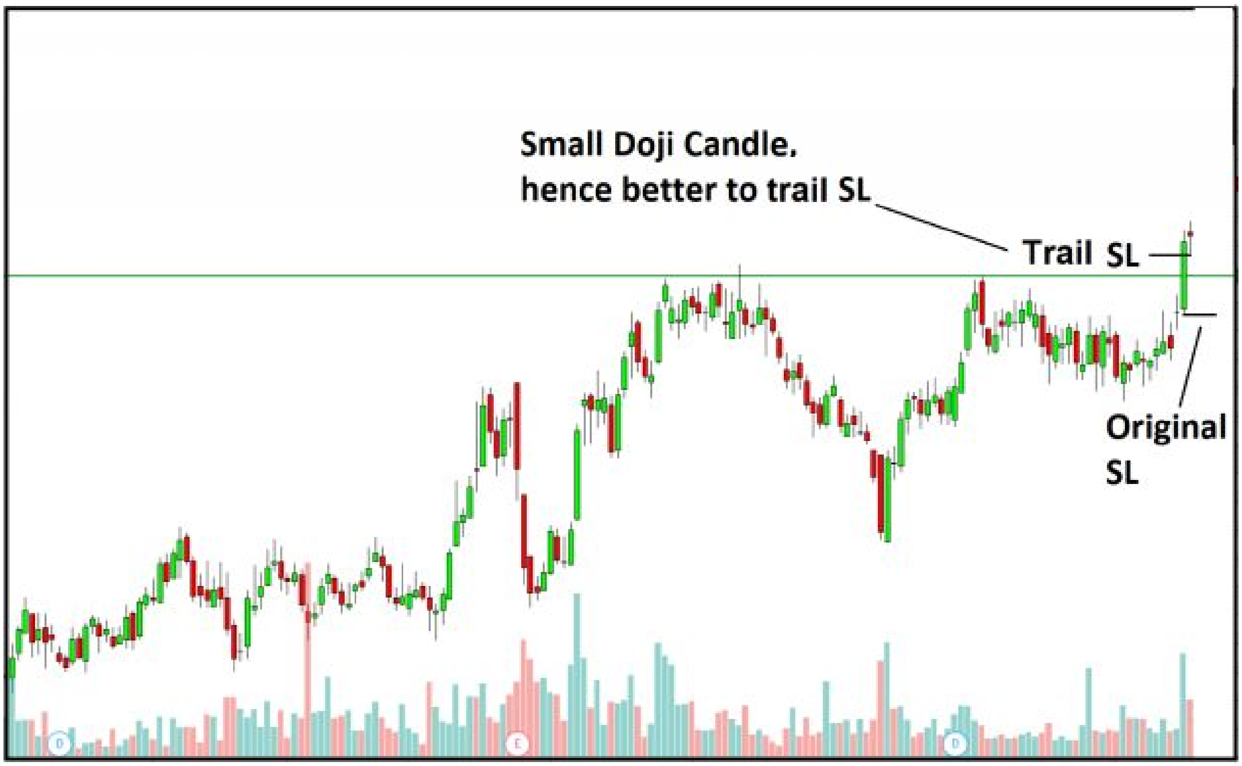


Image 4.8 – Trail SL in case of a Small Candle after Breakout Example-2

The next day, it triggered our buy order (as price traded above the high of the breakout candle).

However, it failed to give a big move on the upside and resulted in a Doji candle.

Remember, our criteria for a breakout is that the price should give a big move in quick time with the absence of selling.

Hence, it doesn't make any sense to retain the original stop-loss. It is better to trail below the low of the current day candle, as shown in Image 4.8**.**

Image 4.9 – Result in case of a Small Candle after Breakout Example-2

However, this time price didn't hit the trail SL and went upside.

In the worst scenario, the smart money will show their reaction within 2-3 days after the breakout. In this way we reduce the initial risk!

Now we will look at one more example.

Image 4.10 – A Breakout Trade Example-2

If you look at Image 4.10, we have a clear all-time-high breakout trade.

- Breakout Candle is big ✔ ✔
- Quick time ✔ ✔
- Absence of Selling wick ✔ ✔
- Good Volume ✔ ✔

It satisfies all our checklists. Hence, we will place a buy order tomorrow above the high of the breakout candle. If triggered, the stop-loss will be below the low of the breakout candle.

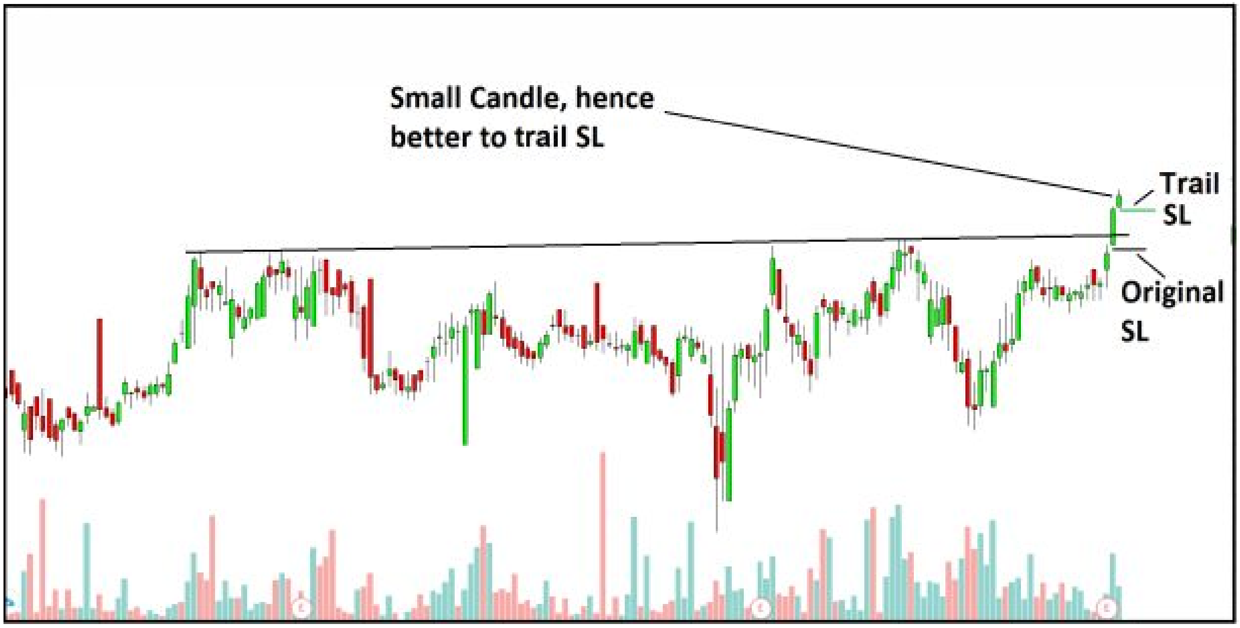


Image 4.11 – Trail SL in case of a Small Candle after Breakout Example-3

The next day, it triggered our buy order (as price traded above the high of the breakout candle).

However, it moved only a little bit on the upside and resulted in a small candle.

Remember, our criteria for a breakout is that the price should give a big move in quick time with the absence of selling.

Hence, it doesn't make any sense to retain the original stop-loss. It is better to trail below the low of the current day candle, as shown in the Image 4.11**.**

Image 4.12 – Result in case of a Small Candle after Breakout Example-3

This time also price didn't hit the trail SL and went upside immediately.

Note: I can give many examples of this concept. However, I feel these three scenarios are enough to convey what I am trying to say!

After showing a breakout, rarely does price witness significant selling. In most cases, it will rally on the upside immediately or go to sideways mode and then rally on the upside or will slow down, and then it will fall.

I am trying to minimize our losses by 75-90% if it fails to give a big move on the upside.

How to Take Your Exit To the Next Level

I repeat once again. Only 'Entry' and 'Exit' decide the fate of your trade irrespective of your reputation, experience, and qualification!

I have noticed that many traders learn quickly about 'Entry’. But when it comes to 'Exit,' they struggle a lot. Because every time 'Exit' will tell you whether you made profit or loss.

In both cases, it triggers many emotions. So, one should have a proper plan towards 'Exit’.

I suggest below two steps to manage your 'Exit':

Step-1: As per the plan (Images 4.1, 4.2, and 4.3 for a downtrend, sideways, and all-time-high, respectively), exit 100% of the position at the target level.

Follow the below steps for a few months until you can manage your existing trades. This method involves many activities:

- Search breakout scripts every day.
- Shortlist only 2-3 scripts for the next day. Don't try to keep more than 3 scripts on any trading day.
- The next day, when the market opens, place an SL-M buy order above the high of the breakout candle for all the scripts.

- If it opens with a small gap (less than 2%), then you can buy at market order.
- If you bought, keep a stop-loss order below the low of the breakout candle.
- Again, after market hours search for breakout scripts.
- The next day, once the market opens, keep stop-loss for your existing positions.
- Then you can place an SL-M buy order for any new scripts.
- If you get a small candle or a selling candle after the breakout, trail your SL from the low of the breakout candle to the low of the next day candle (Images 4.4 to 4.12)
- When the price reaches your target, either exit manually, or you can place Limit Sell order to close the position at the target level.
- Maintain a trading journal. Write all your trades here. Analyze the failed trades.
- Repeat the entire process.

Step-2: Only after you are familiar with the process mentioned above can you plan to implement this step. It contains all the procedures which are mentioned in Step-1.

The only new thing is, instead of exiting 100% position at target, exit only 75% of the position at target. Carry the remaining 25% with a trail stop-loss below the low of the target day candle or below any swing low.

Many times, these breakout scripts run like crazy, and 25% of the position, in one such trade has the potential to absorb the loss of your 25 trades!

Image 4.13 – Partial Exit (Example-1)

The above image explains everything about the power of partial exit. You will have made an excellent profit if you keep using the trail SL concept below the low of every swing.

Image 4.14 – Partial Exit (Example-2)

The Image 4.14 explains the same story of partial exit. It would have given 8-10 times the returns of your original risk for your 25% position.

Image 4.15 – Partial Exit (Example-3)

The Image 4.15 explains another story of partial exit. It would have given 10-12 times the returns of your original risk for your 25% position.

I hope that after seeing these examples you have understood the power of partial exit.

How I Stopped Losing Money in Trading

I am going to reveal shocking news to all of you now.

Whatever you have learned till now is part of only 10% of successful trading!

Are you shocked to hear this?

Well, that's a solid fact!

Because anybody can come with a trading system that has fair efficiency and good risk-reward; in fact, you get so many trading systems if you google it.

However, risk management or money management is the primary key to successful trading.

It raises two critical questions:

1. How much to deploy/risk per trade?
2. How much % of the capital to deploy in trades at any point of time?

<u>How much to deploy/risk per trade?</u>

I suggest a simple technique for this. For one trade, use only 10% of your capital irrespective of the risk.

For example, if you have Rs.1,00,000 as your capital and if you finalize a script ABC, assume your entry price is Rs. 100.

Then 10% of your capital is Rs.10,000. So, you can buy 10,000/100 = 100 Shares.

Using this approach, your entire capital percentage risk per trade varies between 0.5% - 2% (based on how deep your stop-loss is), which is fine.

Some people suggest to risk only 1-2% of your capital per trade, and they don't put an upper cap on the capital. It brings some confusion, and you will not be able to opt for more trades.

Let me explain with one example.

Assume your capital is Rs.1,00,000.

You are planning to risk 2% of your capital per trade, which is Rs. 2000/trade

You had shortlisted a script XYZ – Entry at 1000 and SL at 990.

Then the total number of shared to buy = Rs. 2000/10 = 200 shares.

The capital required to buy 200 shares = 200 X Rs. 1000 = Rs. 2,00,000

But you don't have Rs. 2,00,000 capital in your account, do you?

So, the simple way is to deploy only 10% of your capital on one trade!

<u>How much percentage of the total capital should be deployed in trades at any point in time?</u>

It is a million-dollar question!

I feel no one can answer this question with 100% accuracy or like a formula.

It is effortless to answer, “Deploy 100% of the capital in Uptrend, only 50% in a sideways trend, and sit with cash in a downtrend.”

However, implementing this is a real practical problem.

I have a simple suggestion for new traders.

Never deploy more than 50% of your capital on trades until you experience all market trends (like uptrend, sideways, downtrend, and random).

In other words, you are not supposed to carry more than 5 trades on any given market conditions (except for the remaining 25% of the position on winning trades as you have already made a profit with these trades for 75% position).

Once you cross this stage, automatically, you get the knowledge to increase or decrease your allocated capital based on the market conditions.

Why Even Smart People Fall for Market Conditions

When I was working in the software industry, I had a teammate. His name is Suraj (name changed for privacy reasons), and he was excellent in whatever he did. He was smart and would come up with brilliant ideas, and in fact, he was the one who introduced me to the stock market a decade back.

He was quite an achiever, be it a career or with personal ventures beyond the office. When he jumped into trading, he had a robust system with proper risk management. However, he still failed in trading!

I have spent a couple of years wondering why he failed in trading, admitting the fact that his failure generated fear in my mind those days. Perhaps when an intelligent person like Suraj fails in trading, I thought I could never win this game!

However, after several years of analysis, I realized the rationale behind his failure, which I will be presenting as awareness in this session.

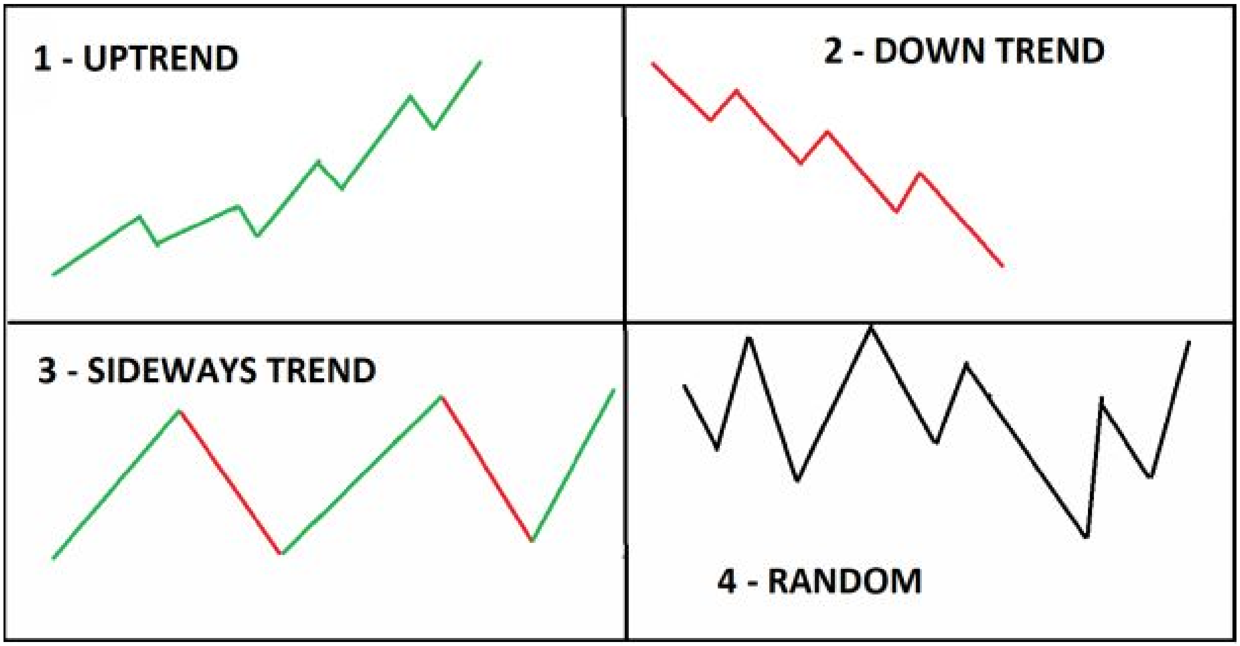


Image 4.16 – 4-Stages of the Market

As shown in Image 4.16, the market has four trends.

Every trading system layout has different results in these four stages.

A trader has to go through all these market conditions with a particular trading system. An excellent trading system can reward better outcomes within 2-3 market stages, as mentioned above.

So, even if a trader uses such an excellent trading system, he should know how to handle the system when the market stage is not in the system's favor. He should learn how to avoid trades (or how to reduce the risk) in such market stages. Otherwise, his learning curve will not become complete.

For example, if you have a trending system, it works well with Uptrend and Down Trend. It doesn't give more trades and results in a sideways trend and random market conditions.

Suraj had made a similar mistake. He picked up one trading system first with a lot of studies and backtesting. It worked fine for some time. It was not generating more trades when the market conditions changed.

Instead of sticking to the same trading system, Suraj identified another trading system. It worked for some time, and later the same story continued. Finally, he gave up!

Now, tell me, do you want to make the same mistake?

I hope not!

Then I am stating in advance that to taste success with the Breakout System, you need to stick to the process with the above-mentioned four stages of the market.

How much time do you need to face all the four stages of the market?

My answer is I don't know!

Because the market is not in my control, sometimes, it has shown all these different conditions within one year, and sometimes, it took 3-4 years.

So, approximately we can aim for 2 years to get some success with this Breakout Trading system.

But, I can give the below features of the breakout system (keeping only 'Long' trades).

In Uptrend, you get many scripts every day, and you will get good results.

In Sideways trend, you get a decent number of trades, and you will also get good results.

In Down Trend, you don't get more number of trades. Besides, more number of trades get out of the trade at breakeven (recall my trail SL plan in case of a small or selling candle after breakout).

In Random market conditions, the result is not guaranteed. On some days, you don't get any trades. Sometimes, the price hits your target on the same day. In some cases, you take stop-loss.

We should be RIGID about our RULES and FLEXIBLE about our EXPECTATIONS from the market.

BUT the problem is we are RIGID about our EXPECTATIONS but FLEXIBLE about our RULES.

Please keep this in mind.

Summary

- Having a trade plan is essential to track all your trades and to get success in trading

- In this system, Entry should come above the high of the breakout candle.
- In this system, Stop-loss will be below the low of the breakout candle.
- In a downtrend, one can target the beginning point of the trend line as the target, in sideways the same width of the trend as target and in an uptrend with trail stop-loss.
- You should trail your SL when there is a small candle or selling candle immediately after the breakout day.
- After some practice, you can plan to exit only 75% position at target and carry the remaining 25% with the target candle low as the stop-loss
- Allocate only 10% of your capital per trade.
- If you are a beginner, don't deploy more than 50% of your capital at any point of time.
- To taste success, one should follow this system across all the four stages of the market.

Chapter-5

Top 10 Questions and Answers on Breakout Trading

Whenever I explain this system to any group, I get many questions, and most of them are repetitive. I have listed the top 10 questions and my answers as it will help you if you have the same questions.

Q1) Can We Take Short Trade With This Breakout Concept?

The straightforward answer is 'No'.

This trading system is designed especially for Indian retail traders who have small capital.

As you know, in Indian Market conditions, we can't carry our short trades in 'Equity' for the next few days.

To take a positional short trade, we should look at 'Futures' or 'Options'. Taking a positional short trade in futures or options with a small trade capital is a terrible idea.

So, if you are a retail trader with small capital, don't look for short trade using this breakout concept.

Q2) Can We Take Trades in F&O Using This Breakout Concept?

Again taking a trade in future or options is a different ball game from risk management and the Volatility perspective.

I suggest avoiding options as you need to master other factors such as Expiry time, volatility factors.

With futures, it depends on your capital. If the allocation is within 10% of your capital per trade, it should be ok.

However, you will have to face two challenges:

1. In a gap down scenario, the percentage risk per trade might vary drastically. In other words, you might lose more

money in case of a big gap down open.

2. You may not be able to partial exit at the target (as you might buy only one lot).

Again, if you are a retail trader with small capital, don't look to trade in F&O using this breakout concept.

Q3) Can We Buy Before Breakout Candle High?

An analysis is one aspect, and confirmation from the market is another aspect.

We should always look for confirmation from the market to initiate our trade.

With this system, smart money intention will be confirmed only when the price breaks the breakout candle high.

Hence, it's not a good idea to initiate the trade before price breaks breakout candle high.

Q4) Can We Deploy More Capital For This Concept?

Assume you have a friend who doesn't know how to drive a Maruti Swift car.

Now you bought a brand new Audi Q3 car.

Your friend insists that he will drive the car.

Do you give the keys to him?

I am sure; you don't even show the car keys to him!

Similarly, even if you have significant capital, start applying this concept for small capital. Once you cross all the 4 stages of the market with this system and when you are confident, then only you can deploy more money.

Q5) Can We Take More Than 5 Trades Using This Breakout Concept?

If you are a beginner, don't deploy more than 50% of your capital at any point of time. In other words, you can carry only 5 trades at any point in time.

Once you overcome all 4 stages of the market with this system, you will automatically learn to deploy more capital based on market conditions.

Q6) Can I Deploy More Than 10% of Capital Per Trade?

Staying in the game is always more crucial than losing everything and exiting the game. Hence, it is not a good idea to deploy more than 10% of your capital on any trade.

Q7) How To Trail SL For This Breakout Concept?

It is a good question from the execution perspective. One can follow the below steps:

1. Once your buy order above breakout candle triggers, immediately keep an SL below the low of the breakout candle.
2. The next day immediately after the breakout candle, if you get a small candle, trail SL below the low of that day.
3. Suppose you get another candle big candle on the upside, then also you can trail your SL below the low of that candle. In both these cases (2 and 3), it will be a breakeven trade (most of the cases), and you don't have to worry about losses. (As shown in Image 5.1)
4. After 2-3 days, if you see a significant selling like a bearish Engulfing or a big selling pin bar, then you can trail SL below the low of that candle. (As shown in Image 5.2)
5. In all the other cases, you can trail SL below the next swing low (please note, rarely do you get the next swing low as the idea of this trading concept is to catch a big, quick move).
6. Once the price reaches near your target, you can exit using market order or using a limit order.

If you want to know more about different order types, please refer to this article -- https://www.profiletraders.in/Pages/Article1?aa=Order-Types-in-Trading

Image 5.1 – Trail SL in case of a Big Candle

Image 5.2 – Trail SL in case of a selling candle

Q8) Is There Any Mechanism to Scan the Scripts For This System?

Unfortunately No!

Drawing a trend line is the core of this system, and unfortunately, we can't prepare an algo for trend lines.

If you are an algo expert and if you think it's possible to prepare an algo for this, then drop an email Indrazith.s@gmail.com and we can discuss. ☺

Q9) Where to Check the Scripts Every Day?

Many websites provide free EOD data every day. Below is a list:

https://in.tradingview.com/
https://chartink.com/
https://in.investing.com/
https://www.icharts.in/

I prefer to use https://in.tradingview.com/ as this site is user-friendly. If you notice all the images which are used in this book have been taken from Tradingview.

Q10) Can I Try Intraday Trading Along With This Concept?

It's always difficult to ride two boats at a time!

My suggestion is to try one concept.

Even if you show good progress with this system, you might lose your focus and balance of mind if you make losses in intraday trading.

Finally, the choice is yours!

Chapter-6

Bonus Chapter- Any Extra Can Never Be Enough

Action Items

If you are interested to learn this concept well, I can help you further.

The market is always dynamic, and hence we need to see a minimum of 100 charts to understand any concept. You can do these two assignments to take your learning to the next level.

1. Draw trend line as mentioned in the Chapter 2 on 100 charts. Copy all these 100 charts in to a Word document and send an email to me on Indrazith.s@gmail.com. I will write my comments on all the charts and reply ASAP.
2. Once you learn to draw trend lines properly, then along with trend lines, try to identify genuine breakouts, as mentioned in Chapter 3. You can decide to locate from the past data or the live market. Once done, copy all these 100 charts into a Word document and send an email to me. I will mention my comments for all the charts and reply ASAP.

Being a responsible author, I am going one extra mile here. I hope you understand the value and utilize it.

10 Great Books to Learn Other Aspects of Trading

Market Profile

Mind Over Markets

Mind Markets and Money

For Beginners

Trade and Grow Rich

How to Avoid Loss and Earn Consistently in the Stock Market

Psychology and Discipline

Trading in the Zone

Trade like a Casino

Evergreen Books - Reminiscences of a Stock Operator
- How I Made $2,000,000 in the Stock Market

Intraday Trading - Mind Markets and Money
- How to Make Money in Intraday Trading

30 Great Traders on Twitter

Please note I have prepared the below list based on my limited knowledge and exposure. There might be many great traders who are not on Twitter, or maybe I have missed them in the list provided below.

(This is not in any specific order.)

Mark Minervini
Steve Burns
Vijay Kedia
Porinju Veliyath
Mitesh Patel
Ashwani Gujral
Rudramurthy BV
Sanket Gajjar

[Harneet Singh]
[Jay Chandran]
[Arun Mukherjee]
[Soumya Malani]
[Muthukrishnan]
[Nitin Bhatia]
[P R Sunder]
[Rajarshita]
[Manu Bhatia]
[Madan Kumar]
[Sunder]
[Prem Doshi]
[Lone Stock Trader]
[Rayner Teo]
[Abhishek Kar]
[Rachit Jain]
[Vivek Mashrani]
[Gautam Baid]
[Rohan Shah]
[Rachana A Vaidya]
[Abhishek Ninaniya]
[Trend my Friend]

Top-10 Lessons I Learnt From Trading

1. Trading is just a probability game and not a prediction game.
2. It's impossible to catch all the excellent trade opportunities every time.
3. If you see the profit screenshots of other traders, it will trouble your emotional balance. So follow your trade plan.
4. Avoid trading when you see a significant drawdown or when you get a few successive failed trades.
5. When you think you know everything in the market, the next day you lose big money.
6. If you lose money on any trade, then you have made a mistake. There is a lesson to learn (no matter what).

7. Your aim should be to make money in the market every day, and not on other tasks like to get appreciation from others, to get more followers, etc.
8. There is no need to argue with anyone for any reason. You are right if you are making money in the market.
9. Profit in trading is inversely proportional to your ego.

10. Learn how to ride your profits. It is the most challenging task in trading.

Final Words

I genuinely hope that you have gained some useful knowledge on Breakout Trading. This concept helped immensely in my trading career, and I hope it will also play a decisive role in your life. I hope to spread the positive impact on the lives of others through this book.

Now that you have read my book, I ask that you please do one of two things (or both) if you have some time.

1. If you have enjoyed this book, PLEASE leave a kind review on Amazon. As an independent author, word of mouth is my only advertising. Amazon Link - https://amz.run/3SPi

2. No book is perfect. If there are any errors, omissions, or anything you would like to see added, please email me at Indrazith.s@gmail.com. I promise a quick, personal response.

I would LOVE to hear your success stories, comments, and suggestions!

Signing off.

Indrazith Shantharaj

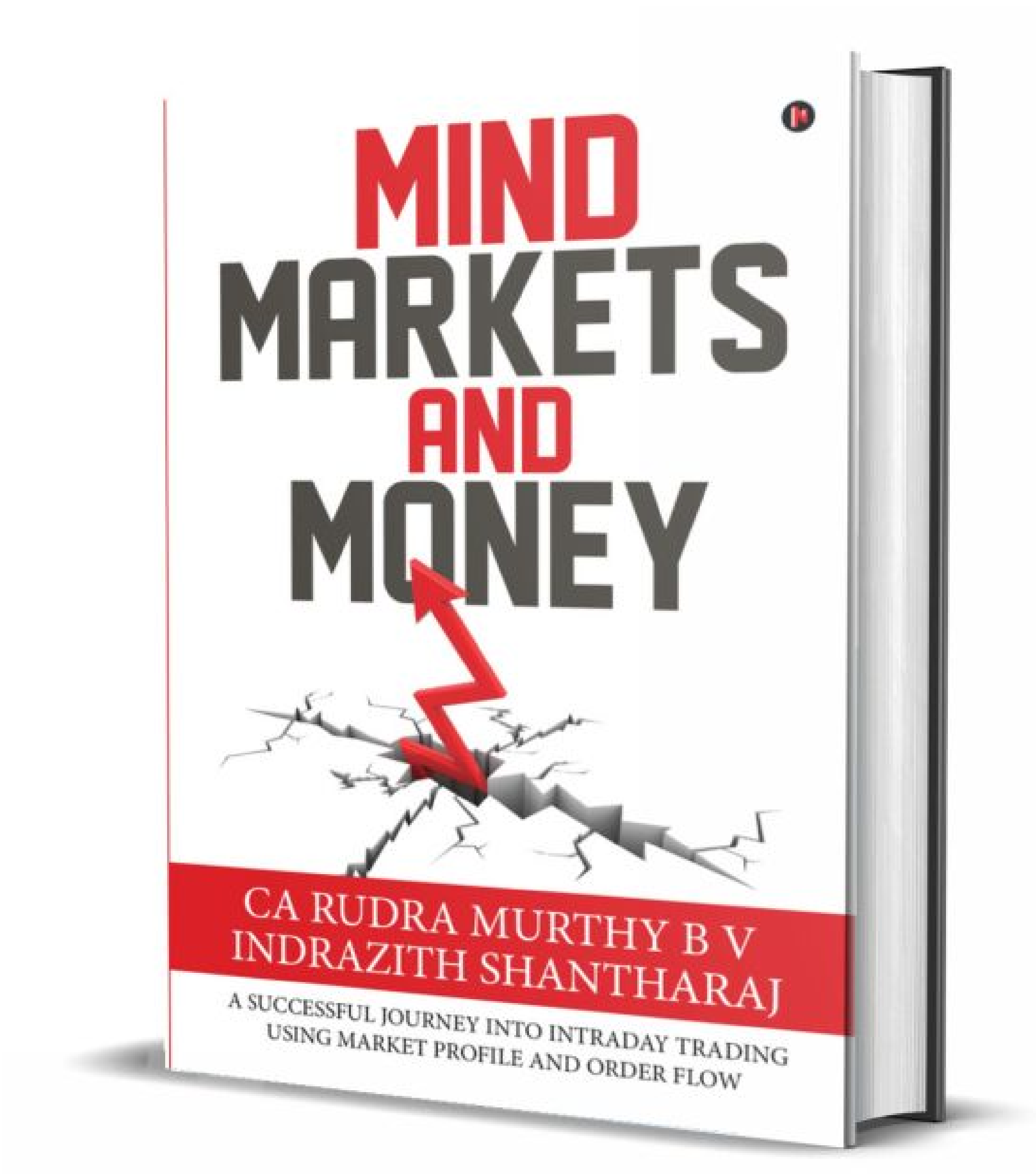
Twitter - @indraziths

If you want to read more articles, then visit https://www.profiletraders.in/Pages/ArticlePage

More Books from the Author #1

Mind Markets and Money is helpful to learn intraday trading, Market Profile and Order Flow.

(Kindle MRP Rs. 98) Buy Here - https://amzn.to/2HaCTA6



More Books from the Author #2

Trade and Grow Rich is helpful for beginners to intermediate level traders.

(Kindle MRP Rs. 60) - Buy Here - https://amzn.to/2tCuyg5