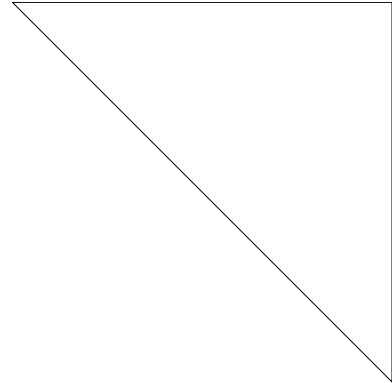


Retests





# Outline

- General Remarks
- Basic Premise: Breaks and Retests
- Dilemma Outline: Trade Guarantee Versus Risk:Reward
- Gauging a Breakout
- Immediate Versus Rounded Retest
- Considerations
  - False Dilemma
  - Precedent
  - Risk:Reward
  - Hidden Retests
  - Context
- Conclusion



# General Remarks

- The contents of this chapter is no one-size-fits-all
  - Best results will come from rigorous testing and contextual decisions
- Framework applicable to a wide range of systems
  - PA, Cloud, MA, Trendlines etc. → any system which can identify breaks of structure
- Missed trades are normal
  - Breakouts vary, retests vary etc. → can't catch them all
- Embrace the uncertainty
  - “How do I know if X is going to hold?” → You can't!
    - Framework for making higher probability bets
- “The market needs to retest X to confirm it as support/resistance!”
  - No.
  - The significant event is the break of structure
- You do not have to trade every single breakout/breakdown



# Basic Premise: Breaks and Retests

- Losing support is typically bearish
  - The breakdown and/or the retest of the broken support may be a chance to sell
- Breaking resistance is typically bullish
  - The breakout and/or retest of the broken resistance may be a chance to buy
- This chapter addresses how, when, and whether to trade such occurrences





# Dilemma Outline: Trade Guarantee Versus Risk:Reward

- Often a trade-off between R:R and certainty (or confirmation)
  - Less certainty often offers superior R:R
  - More certainty often offers inferior R:R
  - Basic example: trading at a level versus trading away from a level
- Retest dilemma
  - Wait for retest
    - Superior R:R
    - Trade not guaranteed
  - Trade the breakout
    - Trade guaranteed
    - Inferior R:R



# Gauging a Breakout

- the idea is that the breakout/breakdown has taken place
  - Seeking to answer how/when/whether to trade it
- These principles become inapplicable if you're buying a failed breakout or selling a failed breakdown
  - In effect, you end up buying resistance/selling support
- Quick but imperfect remedy is aligning time frames
  - Daily structure requires daily close through it to be broken, H4 close for H4 structure, etc.
  - Read time frames chapter
- Time frame traps
  - A low time frame 'breakout' at high time frame resistance can be just a wick
  - A low time frame 'breakdown' at high time frame support can be just a wick
- Try to be as certain as practically possible that a break in structure has actually taken place before using these principles!

wvf590fmsiohg42a published on TradingView.com, March 14, 2021 17:24:33 GMT  
COINBASE:BTCUSD, ID 59798.99 ¥ -1379.51 (-2.25%) O:48766.01 H:49210.00 L:47077.00 C:48909.84

Bitcoin / U.S. Dollar, 1D, COINBASE





wwf5906fmlsihg842a published on TradingView.com, March 14, 2021 17:24:49 GMT  
COINBASE:BTCUSD, 60 59780.39 ▼ -1398.11 [-2.29%] O:48965.48 H:49133.17 L:48846.69 C:48909.84

Bitcoin / U.S. Dollar, 1h, COINBASE



wwf590fmlnhg42a published on TradingView.com, March 14, 2021 17:25:43 GMT  
COINBASE:BTCUSD, 1D 59908.54 ▼ -1209.96 [-2.08%] O:61181.38 H:61680.00 L:59291.23 C:59908.54

Bitcoin / U.S. Dollar, 1D, COINBASE



wwf5906fni0hg42a published on TradingView.com, March 14, 2021 17:26:03 GMT  
COINBASE:BTCUSD, 15 59919.98 ▼ -1258.52 [-2.00%] O:59823.44 H:59928.60 L:59620.91 C:59919.98

Bitcoin / U.S. Dollar, 15, COINBASE





# Immediate Versus Rounded Retest

- Definitions:
  - *Immediate retest*: trading at or near structure when it breaks
    - Trading the break itself
    - “X just broke, what’s my action here?”
  - *Rounded retest*: trading at or near structure after the break has played out
    - Trading a return to the break
    - “This was a big area that the market moved away from, what’s my action now that we’ve returned to it?”
- Considerations
  - Rounded retests offer an easier decision-making process given you’re not trading the break itself
  - Rounded retests tend to be clearer setups; the fact that a retest is rounded implies a meaningful break took place
  - Rounded retests typically give you more time to think, plan, and act
  - Similar balancing act
    - Trading the break more likely to guarantee a trade but higher chance of getting trapped (+ worse R:R)
    - Trading the retest less likely to guarantee a trade but lower chance of getting trapped (+ chance of no fill)
- Not a binary choice
  - Sometimes the break is very clear but the retest doesn’t happen or is very unattractive
  - Other times the opposite is true
  - Contextual considerations (later) will make this decision easier, but no rules against trading both sides

wwf590fmlnhgb42a published on TradingView.com, March 14, 2021 17:27:11 GMT  
COINBASE:ETHUSD, 1W 1864.23 ▼ -57.38 (-2.99%) O:1727.95 H:1944.00 L:1664.08 C:1864.23

Ethereum / U.S. Dollar, 1W, COINBASE



wf590fnsiohg42a published on TradingView.com, March 14, 2021 17:27:21 GMT  
COINBASE-ETHUSD, 1D 1864.18 W -57.43 (-2.99%) O:1921.70 H:1931.97 L:1836.61 C:1864.18



Bitcoin / U.S. Dollar - 1W - COINBASE OS0976.22 H61788.45 L49328.62 C60028.97 -9050.36 (-17.75%)  
59947.81 92.32 60040.13

tpx





## Consideration II: Precedent

- Basic premise: does the instrument you're trading (in its current trend) offer regular retests?
  - Yes → Great, wait for the retest
  - No → Don't expect it
- It's mostly as straightforward as it seems
- Exception: sometimes this behaviour shifts as a trend becomes more/less aggressive
  - E.g. retests taking place at the early stage of a trend but then it goes parabolic and retests become rare / vice versa
  - Suggestion: look at more recent price action for context



wwf590fmniohg42a published on TradingView.com, March 14, 2021 17:59:49 GMT  
FTX:UNI/PERP, 1D 31.163 ▼ -1.401 (-4.3%) O:32.565 H:33.851 L:31.059 C:31.163

Uniswap Protocol Token Perpetual Futures, 1D, FTX



wwf590fmiohg42a published on TradingView.com, March 14, 2021 18:01:44 GMT  
BINANCE:AAVEUSD, 1D 382.003 ▼ -31.756 (-7.67%) O:413.048 H:418.427 L:376.866 C:382.003

AAVE / TetherUS, 1D, BINANCE





## Consideration I: False Dilemma

- Basic premise: splitting position equally between the break and the retest i.e. you don't have to choose one over the other
  - E.g. Close above resistance → 50% position on the close, 50% in the form of a limit order at the level
- Benefit is a guaranteed trade even without a pullback, with full sizing if the market offers one
- Downside is that the trade is guaranteed to be suboptimal one way or another
  - If it pulls back, your average entry is worse than if you had waited for a retest (less space to manage comfortably)
  - If it doesn't pull back, you've only got half size on the trade



# Consideration III: Risk:Reward

- Basic premise 1: waiting for a retest/pullback may be necessary where entering on the break presents inactionable R:R
  - Closer to structure = usually better R:R
  - Further from structure = usually worse R:R
    - Sometimes the break is so big that a follow up entry doesn't make sense
- Reframing:
  - What move am I trying to capture?
  - How much of that space has already played out as a result of the break?
    - If the break has already taken your idea (mostly) to target, the R:R to chase it without a retest often isn't there
- Basic premise 2: the precision of your entry is inversely correlated with the size of the move you're trying to capture
  - If you're trading an intraday range, there's less to capture so your entry must be more precise
    - Frequently occurs, selectivity with entry warranted
  - If you're trading a high time frame swing, there's more to capture so your entry can be less precise
    - Occurs less frequently, can afford to be less selective with entry
- Basic premise 2.1: the precision of your entry is inversely correlated with the significance of the idea/level/structure you're trading
  - Not all setups are made equal
  - "If X breaks, the entire market is going to lose 20%" → does it really matter whether your entry is 1% or 3% away from X?
  - Opportunity cost from missing a rare setup just because the entry wasn't perfect can be high e.g. BTC/USD 6k reclaim, 20k breakout, etc.





## Consideration IV: Hidden Retests

- Basic premise: Fast-moving, high time frame breaks sometimes offer retests on lower time frames, which aren't always visible on high time frames
  - Example: daily time frame looks like the market just mooned after breaking a level, but lower time frames show a retest at the break before continuation
- In order to capitalise on this, consider leaving limit orders at the broken structure and/or monitoring it on lower time frames
- These retests are often short-lived and happen very quickly; exactly what you want to see when there's real imbalance in the market with one side rolling over
- Generally speaking, the more time price spends stuck at/near an 'important' level after breaking it, the more likely the break is to fail
  - Big level → big participation → one side gets rinsed
    - If your interpretation is correct, the market should move quickly as the losers cut their trades, get liquidated etc.



# Consideration V: Context

- As a reminder, the basic framework we've followed thus far:
  - Losing support is typically bearish; the breakdown and/or the retest of the broken support may be a chance to sell
  - Breaking resistance is typically bullish; the breakout and/or retest of the broken resistance may be a chance to buy
  - This isn't always applicable!
- Rangebound environment
  - In a range, resistance is for selling and support is for buying
  - Price will often poke at/through the extremes before reverting to the mean
  - In these cases, the probability of a failed breakdown at support/failed breakout at resistance is much higher
- Strong underlying trend and/or high time frame structure
  - In a bull trend/at support, failed breakdown setups are likely
  - In a bear trend/at resistance, failed breakout setups are likely
  - Even if there's follow through, hunting a buy at reclaimed support/sell back below resistance is more attractive than chasing the counter-trend move
- Rounded retest context
  - A lot can happen between a break and the subsequent retest
    - In terms of time but also structure
  - E.g. H1 support breaks, reaches D1 support, and comes back to H1 support turned resistance
    - Breakdown target reached + fading daily bounce with lower time frame structure → lower probability trade
  - Just like not all levels are equal, contexts vary as well
    - Where is price coming from?
    - Do I want to stand in front of it?
    - This one comes with experience!



# Conclusion

- There's no single answer or formula
  - Breakouts vary, retests vary, contexts vary etc.
- As with all my content, goal is to arm you with tools to make well-reasoned decisions within a replicable and intelligent framework
- Don't be complacent where a good entry matters
- Don't be greedy where a pristine entry isn't required
- As a discretionary trader, context is not only your friend; it's likely your edge
- [Generic wisdom about no replacement for screen time, DYOR, etc.]