BEARISH BREAKOUT TRADING

TRADER ON THE STREET

HOW TO TRADE BEARISH BREAKOUTS

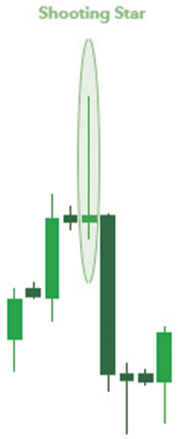
When trading volume hits a floor, savvy traders know to set up their trades in a manner that all profit targets will be hit if it breaks to the downside. Trading these bearish breakouts comes with understanding certain patterns the market forms. And you need to look for these and their confirmations to trade them well. So, you won't end up on the wrong side of things. Here are just some of the patterns to look for when trying to spot bearish reversals.

COMMON BEARISH PATTERNS

If you're looking for bearish breakouts, you're likely going to encounter a lot of momentum. Whenever prices break to the downside, there's an increase in speed, or trade volume. So, you need to be prepared to capture profits as it goes down. Here are two common patterns of bearish reversals.

SHOOTING STAR

A shooting star is a single candle. It occurs when price is pushed higher but breaks down in volume, resulting in a big downward wick. When the closing price is near or right at the slim body of the candle, that's confirmation of the reversal.



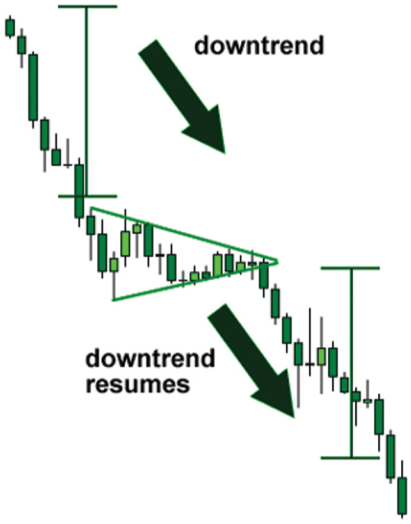
THREE INSIDE DOWN

This pattern is formed by three candles, hence the name. It starts with a large engulfing candle that signified the end of bullish momentum. It's then followed by a smaller bearish candle. And then the third candle serves as the confirmation. It should close below the first two candles to be a true bearish reversal.

BEARISH PENNANTS

With bearish breakouts, you can also have patterns that form what are called "pennants." You can usually spot these in a downtrend, where price has started to settle into consolidation. Once this happens, trade volume increases, so they're likely to make the downtrend stronger.

After enough sellers come in, price continues to drop. The size of the downtrend previous to the consolidation period usually serves as an indicator of how long price will fall. Your trade orders should be around the pennant, with take profits below and stop losses above.



More often than not, the same concepts apply to bullish breakouts. So, you can look for similar patterns, just the inverse of them. These movements can be very powerful. Be prepared to take them on and remember to get out in the event of a "fake-out."