



# SHAWN'S **FAVORITE** SETUP



# INTRODUCTION

Trading is a craft, not a hobby. And with any craft, the road to mastering it comes with many obstacles. While some obstacles in the trading world are sometimes inevitable, you can overcome these pitfalls by treating the investing process as you would any other art form. That involves educating yourself and seeking out the experience of a mentor who can guide you on the right path. So you can be prepared to better meet and exceed the challenges that may arise. It's the key to your evolution from an armchair investor to an experienced trader. Shawn Lucas with Trader on the Street is dedicated to this venture. And new traders join every day to learn from him. The following will instruct you on why having a guru like Shawn in your corner will accelerate your path to trading prowess. Join Trader on the Street to learn more.

# WHY YOU NEED A GURU LIKE SHAWN LUCAS TO GUIDE YOU TOWARDS TRADING SUCCESS

All trading mentors make it their goal to guide you through the trading process. They can help you gain a better understanding of the market, and assist you with narrowing your focus to create a valid strategy.



A great mentor will also share with you their own strategies and how you can implement them. Therefore, you can learn to make better decisions on your own. As with anything related to the world of finance, there's a learning curve that comes with trading.

Too often, traders will find themselves jumping into the world of trading without learning the fundamentals. It's crucial to have the right mindset and to create your ideal strategy. Due to a lack of developing these skills and practicing the fundamentals, only ten percent of investors will make a profit; 90% lose and eventually give up.



# **A SUCCESSFUL TRADER HAS MASTERED THE LEARNING PROCESS**

A successful trader needs to go through the ups and downs to gain a better understanding of the market. They have experienced both wins and losses. And they understand the need for both the dedication and patience that is required to stay the course and succeed. They have also learned how to develop and implement strategies that align with their ideals and goals. That means they can alter them when the need arises. It's this type of knowledge that a mentor can pass down to those looking to invest. It makes the process more smooth and sets them up for a great future.

Not only can you learn from your mentor's experience, but they can also help you to stay motivated. Lack of motivation is one of the driving factors behind many investors throwing in the towel. And seeing the success of a mentor and being taught their process can help you to stay better motivated. Some trades don't always swing in your favor, and you need to know that coming in.

# **A GURU CAN SAVE YOU TIME AND MONEY**

Trading gurus can do more than provide you with the motivation and knowledge you need to be successful. Their precious resources can also save you time and money. From their experience, you can learn which types of stocks are worth taking the time to research and invest in and what trading platforms work best for trading those stocks. They can also save you a significant amount of time by allowing you access to their strategies and providing guidance on when to enter or exit trades.

The strategies you learn from a guru can also save you money with the way that they will improve your trading performance. This makes any costs pay for themselves after a few trades. You will also reduce your fees and commission costs by making more calculated and educated trades instead of wasting it on trades that are less than sound.

# **GURUS CAN PROVIDE YOU WITH WINNING STRATEGIES**

One of the most significant ways that seeking out a guru can help improve your trading is by gaining access to their tried and true strategies. These same strategies are the ones that have made them so successful and the key to having you follow in their footsteps. Having a diversification of trading strategies is one of the key ingredients for obtaining profitability in trading. Since one strategy is unlikely to cover the entire range of market conditions that can occur, it's best to have multiple strategies to fall back on to minimize losses and maximize profitability. With a guru like Shawn Lucas in your corner, you can be given the strategies to create a robust trading plan that makes you more than you lose, which is the ultimate goal of investing. Let's look at one of Shawn's favorite strategies he shares with investors under his tutelage to help them make investments that can help achieve their financial goals.



# SHAWN'S FAVORITE STRATEGY

One of Shawn's favorite and most tried-and-true strategies is known as the "First Replacement of a Breakout." There are many ways to trade the breakout pattern. However, this strategy has aided Shawn in not only making some of his best trades, but also providing him with his most significant gains over the years. To understand the strategy, you need to first identify the breakout pattern and determine what it means for the trade. The breakout is one of the more common patterns that you will see on a price chart. The pattern is easy to spot for most as there is a distinctive break in a defined support or resistance area as shown below.

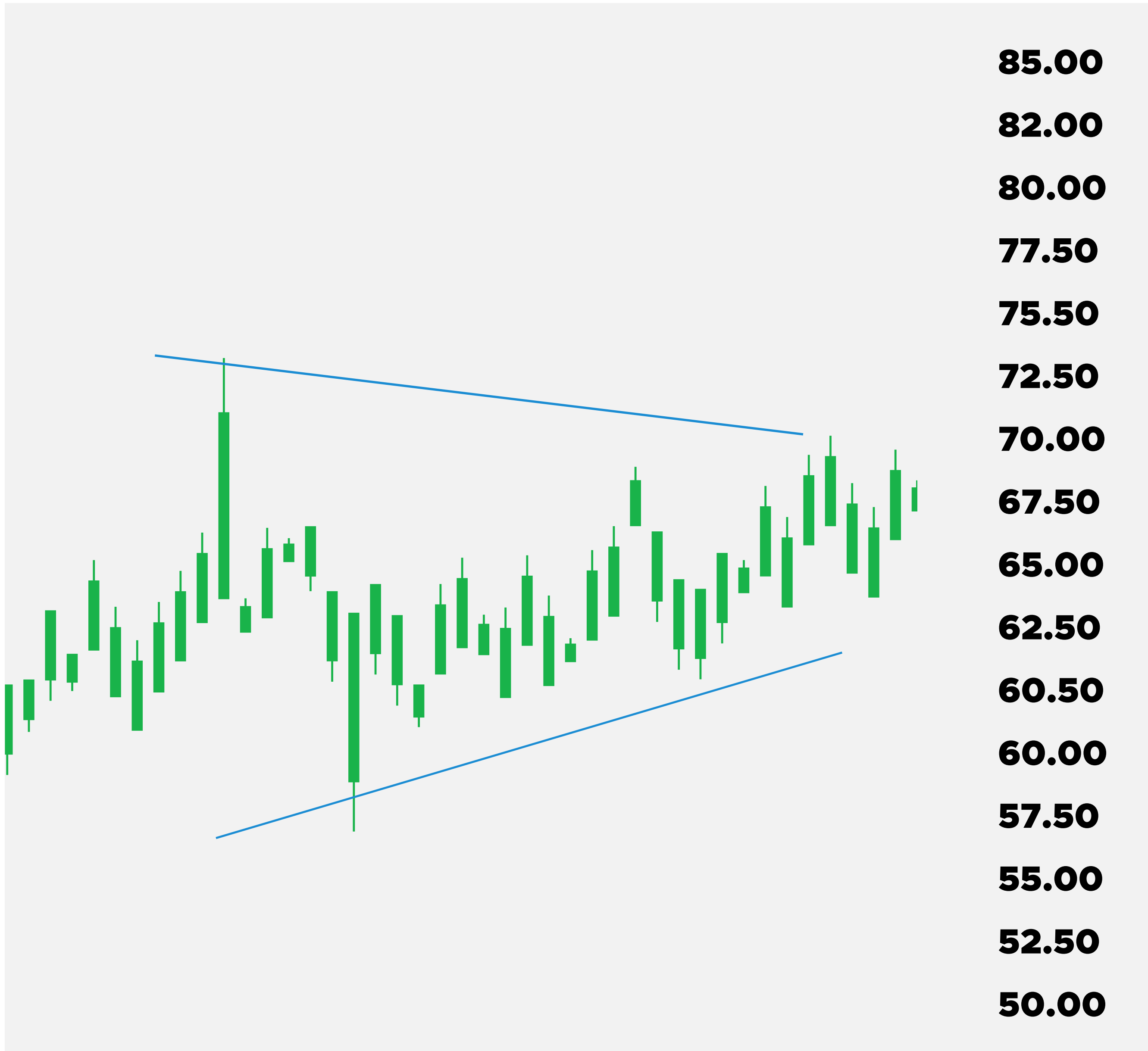
# BULLISH BREAKOUT FROM CONSOLIDATION



You will notice from the graph above that the resistance level is well-defined. There are multiple attempts to breach the resistance level, showing a consistent rise and fall until it ultimately breaks out. What is shown is an example of a bullish breakout of a resistance level.



# BEARISH BREAKOUT FROM CONSOLIDATION



The opposite of this bullish breakout is referred to as a bearish breakout and is defined by a breakthrough beneath a well-defined support level. The market shows a consistent up and down pattern as it did with the bullish breakout. But it eventually breaks below the support level instead of finishing upwards.

# **WHY BREAKOUTS ARE SUCH AN IMPORTANT PATTERN**

These breakout patterns are usually indicative of the start of increased directional momentum and volatility, which makes recognizing these patterns critical to investment strategy. All an investor needs to do is to wait for a break in either the defined support or resistance level. Once the break occurs, you can make the momentum work in your favor by joining the new trend at the beginning stages of its development.

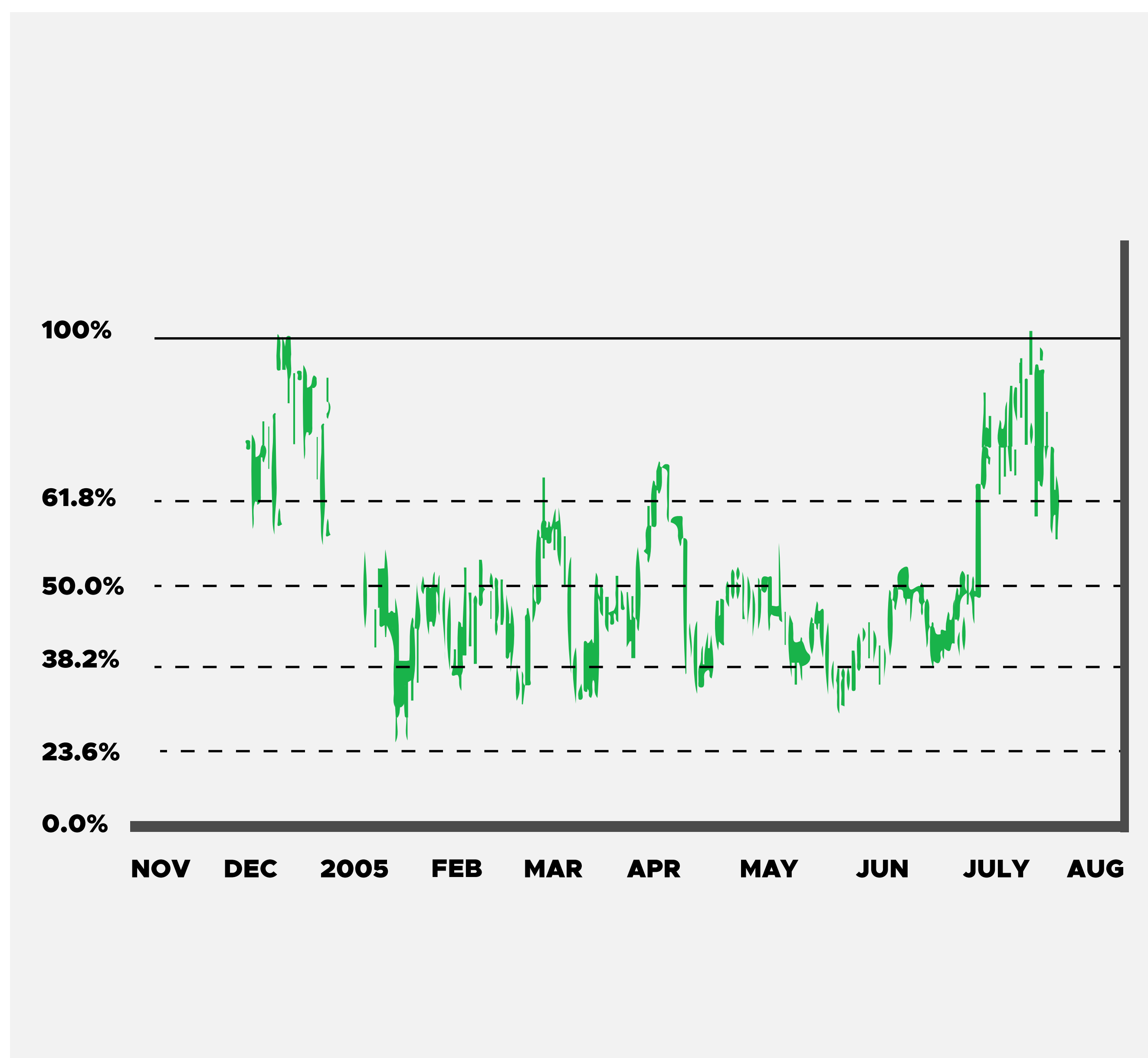
A word of caution. It can be more difficult than it first appears to catch the exact moment when the market breaks either its support or resistance level. You can end up taking a loss if you try to catch the trade as soon as the market makes its initial break. Trade execution is as imperative as identifying the pattern in the first place. According to Shawn, you can make the best execution by exercising some patience and waiting for the market to form its first retracement before leaping into the trade. It's just one of the many trading approaches you can learn by becoming a member of Trader on the Street.



# FOUR STEPS TO THE FIRST RETRACEMENT OF THE BREAKOUT TRADE

There are four steps to the first retracement of the breakout trade that you need to watch for to decide the ideal time to execute your trade. The four steps include:

1. Support / Resistance
2. Breakout (Where the Momentum is Built)
3. Retracement (The Test of the Momentum)
4. Reversal (The Momentum is Real)



From the chart above, you will identify where each of the steps occurs. In the first step, the market finds the resistance level. It then breaks the resistance level in Step 2, and retraces the breakout again in step 3. Finally, the market will then reverse back to the original direction of the initial break in step 4.

So, why does Shawn love this setup? The market is showing its hand early through its directional movement when it breaks the resistance or support and then tests the new-found momentum with a retracement. You will then identify if the breakout is a solid one. When the breakout is strong, then the retracement will break down and form into a reversal pattern. It's at this point that you will have the ideal opportunity to jump into the trade. When a breakout is not sound, a reversal pattern will not form. This will signal to you that the breakout is fake, and a trade should not be made. Ultimately, it keeps you from incurring big losses.



## **AN EXAMPLE OF HOW TO USE THE INFORMATION IN A BREAKOUT PATTERN**

The above example was used in a trading strategy for Sharon, one of Shawn's clients. In the example, the market started with a breakdown through the major support level. After experiencing several minutes in a bearish price action and account drawdown, the initial momentum of the breakout began to fizzle out. It then formed into a reversal pattern, signaling a retracement. Shawn used this retracement to close out the previous long position. The momentum of the retraction then started to slow and eventually formed a consolidation pattern. Knowing that a consolidation pattern will often signal the reversal trigger, Shawn decided the time was right to build the big Texas short position. After just a few minutes of consolidation, the reversal pattern triggered allowing Sharon to walk away with profits. In fact, she walked away with enough profits that she was able to cover the drawdown from earlier in the session and net a tidy sum in the process. In the end, it was a picture-perfect setup.

Learning from trading masters such as Shawn Lucas can provide you with strategies, like the one above, that can give you the solid foundation you need to enjoy trading success. By having the proper foundation, skills, and knowledge, you will be on your way to becoming part of the ten percent of investors who find enough success to stick with it until they achieve their financial goals. Hungry for more tips, tricks, and strategies? Join Shawn Lucas's next trading session, and see if you can spot his favorite breakout strategy during the video. Visit [traderonthestreet.com](http://traderonthestreet.com) today to watch the full session plus access a huge library of trading content right at your fingertips.

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