

# Swing Trading Four-Day Breakouts

When trading breakouts, one challenge is to find charts that will continue to move in your favor. Here's one pattern that could help you identify those strong moves.

by Ken Calhoun

**Y**our biggest challenge in swing trading breakouts will be to find charts that continue up strongly after you enter your trade. A favorite strategy used by experienced traders is to look at the ratio of green to red candles in recent days' trading for clues of the underlying technical trading strength.

This month, I'll demonstrate how to use a simplified breakout pattern where you enter after four daily green candle days in a row have been observed. This can be an effective strategy because when buyers are consistently in charge of price action for four or more days in a row, price will often continue upward.

## SWING TRADING FOUR-DAY BREAKOUT STRATEGY

This strategy is easy enough to understand: You visually scan for charts that are in a clearly defined uptrend in which you see a sequence of four or more green candle days in a row. This tells you buying pressure is especially strong and is likely to continue.

As a former corporate statistician and quality engineer, one thing I learned early on was to look for exceptional "outlier" data signals. Similarly, when it comes to swing trading, you should always be on the lookout for extremely strong breakout patterns that work out most of the time, using price action for momentum trade entries.

## STEP-BY-STEP ACTION PLAN

Here's how you can start using this price-action breakout strategy with your swing trades:

**Step 1:** Visually scan for stocks in the \$20–\$70/share price range that are in uptrends and have a recent sequence of four or more green candles in a row on a 90-day daily candlestick chart. You can see this type of pattern illustrated in the chart of Weight Watchers International Inc. (WTW) in Figure 1.

**Step 2:** Set a buy stop order at \$0.50 above the high of the highest of the four candles seen in the series.

**Step 3:** Use an initial \$2 stop (and trailing stop) for all swing trades.

**Step 4: (for experienced traders):** Add to winning trades after each new four green-day series is seen. This is to build your position over time (also known as position sizing).

## INSIGHTS: WHY THIS TECHNIQUE WORKS

Whenever you evaluate a chart for technical strength, it helps to have clearly defined reasons for your entry and exit.

What is the price that proves the trade right, versus uncertain or wrong? This technique is effective because it buys into continuous strong momentum. I have found in testing with numerous trades that lower values, such as just two or three green candles in a row, is much less consistent and does not work out nearly as often. When using four or more candles to identify trend strength, you are buying into sustainable buying pressure that is more likely to continue.

From a practical standpoint, the challenge is that you do need to visually scan through 90-day candlestick charts to manually locate these types of patterns. The good news is that once you practice visual scanning for strong breakouts using this technique as well as strategies covered in my earlier articles, you will find yourself starting to be more focused and demanding when it comes to finding exceptionally strong charts worth trading.

## TRADE MANAGEMENT TIPS

As with all trading, it is a smart idea to "trade wide, not deep," meaning you



**FIGURE 1: SWING TRADING FOUR-DAY BREAKOUTS.** On this 90-day daily chart of Weight Watchers International Inc. (WTW), you would enter a trade just after each sequence of four green candle days in a row.

**TRADING ON MOMENTUM**

should look to trade a minimum of three to five positions simultaneously on smaller share size to test breakout strength before trading larger share size. Adding to winning trades while taking very small stops on those that don't work out is a key to professional trading success.

*Ken Calhoun is a producer of trading courses, a live trading room, and video-based training systems for active traders. He is the founder of TradeMastery.com, an educational resource site for active traders, and is a UCLA alumnus.*

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