

Day Trading Breakouts at the End of the Day

When you think of day trading breakouts the first time frame that comes to mind is likely the morning. This is a natural first reaction as the morning presents the greatest odds of volatility with overnight news, morning earning reports, and early morning economic data. There is however the possibility to make money trading breakouts in the latter part of the day. In the morning, trading breakouts are pretty straight forward, high volume is accompanied by strong movements in price. The afternoon is a bit trickier. The volume is likely much lighter and the stock may appear to move up or down with very little rhyme or reason. You will often find that a light volume buy order can send a stock up effortlessly which can have you on the wrong side of the trade. The key thing is to find short-term levels that can give you the juice you need to capture a strong move.

Late Day Breakout Rules

1. High/Low from previous day has not been violated
2. High/Low for both the current day and previous day are exceeded after 2pm

Psychology Behind the Trade

Most active traders will place limit orders above and below the highs of the day. The longer these levels hold true the more orders are added to these levels on the short-term. So, on the opening of the second day as the market moves hard in the direction of the previous high/low only to be turned away prior to hitting the level, more orders are added to the previous day's high as this is seen as a significant level.

The afternoon trading from 11-2 now becomes a battle ground for supply and demand as traders try to test the waters on the primary direction of the trend. Once the market begins to break in the afternoon it now has a number of things going in its favor. (1) All of the cause (accumulation/distribution) built up from the lunch time trading, (2) limit orders above/below the current and previous days levels, and (3) the fact no trader wants to hold a stock breaking in one direction hard over night. All of these items converge late in the day to push the stock through key levels and then the stops are tripped. Now don't get too greedy as these short bursts are just that – short. You are capitalizing on short swings based on the tight coiling of price action over a two day period.

Now that we have covered both the rules and psychology behind the trade, let's dig into some real world examples.

Example #1 – DELL 2/8/13



On February 7, 2013 Dell made a high of 13.55 early in the day. Dell then went flat and on the morning of 2/8 made another run at the 13.55 high. You will notice from the chart this move was made on an increase in volume. At this point traders that believe the stock has run out of gas will place

their cover orders slightly above 13.55. Conversely, traders looking to get long will place buy limit orders above 13.55, because if the stock is able to climb above this level its further confirmation the bulls are in control. From the 13.55 high set on 2/8 Dell floats sideways for close to 6 hours. In the world of day trading, 6 hours is an eternity. Then late in the day you will see that the stock begins to make a move up on volume. There are three white soldiers taking the stock higher on volume as it slices through 13.55. So, at 3:30 if you are short, you do not want to hold onto this position going into the end of the day, so you cover. All of the shorts who had their stops right above 13.55 also cover. Lastly, the bulls will add to the buying pressure. While the percentage move in this example is not huge, relative to the price action of the previous two days, this level of volatility is appears to be random. However, from studying the chart and the tape you can clearly see why the break of 13.55 produced such a move.

Transcript of Late Day Trading Breakout Video

Hello everyone this is Al Hill, co-founder of Tradingsim.com. To simulate the lesson that we are going to cover in this video visit tradingsim.com or give us a call at 888.610.2734. Hey day traders, this is Al Hill from tradingsim.com. So, in the article we touched upon the late day breakout strategy. We gave you a pretty vanilla example, something that's realistic you can look at it and say to yourself, you know what, this is in fact possible. Well, in this example we are going to have a little bit of fun; trading doesn't have to always be so uptight. So, we are going to look at Dell again from early January. January 11th we had a high of 11.02, this was set first thing in the morning. On the 14th you could see we opened up at 10.89 and we went down for a little bit and then traded sideways pretty much during the middle of the day, which is really what you want to see right. Between 11 o'clock

and noon you want to kind of even out, bulls and bears are in a dead lock and supply and demand kind of you know could go either way. So, then you want to start to look at your highs and lows from the previous days. So your low from the previous day was 10.76 and your high was 11.02. You can see in here we got around 10.97, 10.96 and kind of just floated. Now again, as we said in the article you want your breakout to come in the latter part of the day. Reason being you are going to break the highs of your current day, so that will give you a little bit of juice when your current day highs are broken as well as your previous day's high. So now you have also any sort of shorts that have their stops up here as well as the longs, that you know, want to see the confirmation the move has gone in their direction they are going to have buy limit orders out there. So in this example, Dell, everything looks normal right, let's fast forward a little bit. Everything looks normal and then all of a sudden, I mean the action just explodes. Now you know, again the odds of you catching a move like this are one in a million but it's always cool to see these things play out. Again this is the late day breakout strategy. Now something like this which you will see shortly is always tied to some sort of news event, be it economic or specific to the stock itself. Now look at this right, let me shut up for a second, this thing I mean literally just explodes, now up 10%, so it is possible but again you have to be on the right side of the market and you have to be aware of these types of patterns. Now, it can be much easier to catch these types of moves if you have a scanner or some sort of proprietary system where you are out there looking through hundreds of charts or hundreds of symbols trying to find these diamonds in the rough. Alright, so again the late day breakout strategy at its best. Take Care and good luck trading.