

Day Trading Setups – 6 Classic Formations

Day trading is all about getting in a rhythm. Over time you will begin to identify day trading setups that consistently work for your trading style.

Whether you have a high win ratio or [the average winning profit runs](#) much greater than your losers, you just need to come out ahead.

Your trading style is what makes your market experience unique from everyone else's. This is where your background, fears, and beliefs all converge in how you view the market. No matter how good the system or the day trading setups placed right before your eyes, if the system is counter to how you view the world, you will not make money.

One of the most popular trading systems of all-times is the [Turtle Trading](#) system. The Turtles, as they have been affectionately called, were able to make 100s of millions of dollars trading commodities. That's right folks, 100s of millions of dollars, but did you know that some of the trainees in the program were let go. Even though these folks received the same training as the other Turtles, some could not grasp the concept of allowing their profits to run. It's never about the system; it's about you the trader.

In this article, we will cover 6 classic day trading setups you can use to trade the markets. When I say classic, it means these setups would have worked in the 1980s and will continue to work well into the 2030s.

As you study each day trading setup, it's important to remember you must find the one that matches [your trading style](#) the most, in order to have success.

#1 Day Trading Breakout

No matter if the market is trending or aimlessly floating sideways, there will always be breakouts in the morning. A breakout is defined when a stock gaps up or down on high volume first thing on the open. These types of moves are almost always related to a news event.



Day Trading Breakout Rules

1. Stock gaps up or down on high volume.
2. Wait for a trading range to develop between 9:30 and 9:50.
3. Buy or sell short the breakout of the morning range high/low sometime between 9:50 am and 10:10 am.
4. Have a predetermined profit target for your position. Your profit target should be in alignment with the [volatility](#) of the stock.
5. You must have a stop loss order. My personal stop is a maximum of 2% and I look to exit trades if they are not profitable once the 11 am time strikes.

You may be thinking what's up with the time references? Day trading is fast, so you only have a set amount of time to capitalize on each trade. At 11 am the number of participants

in the market drops off dramatically and you will find it very difficult to trade breakouts. So, get in and out in a hurry; time is not on your side.

Trader Profile – Day Trading Breakout

1. Expects quick returns
2. Perceives volatility as their friend
3. Able to make trading decisions in a matter of seconds
4. Less concerned with riding the trend and more attracted to making quick profits before the trend reverses course

#2 Fade the Breakout

Your ability to accurately pre-screen a breakout will determine how often the stock will continue in the direction of the primary trend. I have been able to successfully introduce the concept of volatility into my [trading system](#) which has greatly increased my overall win rate.

If you are just buying and selling any and every breakout, then your success rate will likely land around 50%. So, the takeaway from this statistic is there are just as many failing breakouts as ones that will continue trending.

I'm a firm believer you should profit off of the failed breakout attempts as well.



Fade the Breakout rules

1. Stock gaps up or down on high volume.
2. Wait for a trading range to develop between 9:30 and 9:45.
3. If the stock gaps up, the first 15-minute range high cannot be breached. Conversely, if the stock gaps down, the first 15-minute range low cannot be breached.
4. Buy or sell the break of the trading range between 9:45 and 10:10 in the opposite direction of the gap.
5. The profit target is the closure of the gap.
6. Stop loss is below the high or low of the morning range, depending on the direction of the gap.

Trader Profile – Fade the Breakout

1. Expects quick returns
2. Perceives volatility as their friend
3. Able to make trading decisions in a matter of seconds
4. Enjoys the idea of [going counter to the trend](#)
5. Loves to punish other traders that jump in a trade too soon

#3 Trading Ranges

Believe it or not, there are trading ranges that can develop intraday. It's hard for people to think of day trading in terms of ranges because most people assume day trading is some wild man's game with flashing lights bouncing off the screen.

I personally could not make money trading ranges. It's not that ranges don't work; they just didn't work for me. The slowness of the moves and the fact I had to trade with larger sums of money to achieve the same profits made me uneasy. I would close trades well before they had time to develop. You may not have these issues, so review the trading range rules and see if you have found a match for your trading style.



Trading Ranges Rules

1. Stocks volume should be light compared to the morning's trading volume.
2. Identify a discernible high low range between 9:30 am and 11:00 am. This may not always correlate to the high low of the day; just make sure you have identified the primary range.
3. Range should be a minimum of 1% from high to low. This will give you enough profit to cover commissions and the

inherent risk that comes with any trade.

4. Open new positions between 11:00 am and 2:00 pm.
5. Buy the low of the range and sell the high of the range.
6. [Profit target](#) is again the high and low of the range.
7. Stop Loss is relative to the size of the range. A rule of thumb is you do not want to see the range exceeded by .20% of its value. So, if a range is 2%, you do not want to see the stock move out of the range by more than .4%.

Trader Profile – Ranges

1. Slow to react
2. Likes to perform thorough analysis over the course of a few minutes to a few hours
3. Views volatility as unwanted risk
4. Seeks to limit risk by placing tight stops
5. Gravitates towards a clear trading channel versus sloping lines and other geometric shapes
6. Is okay with placing multiple trades for the same stock

#4 Late Day Breakout

At the end of the day around 2 pm the volatility picks up again in the market. This is where traders return from lunch and are looking to enter or close positions in preparation for the next trading day. This is a great trading opportunity for active traders as the high low ranges set earlier in the day are breached.

Again, I only trade the mornings, largely because I will over trade if given the opportunity, but if you are a volatility trader after 2 pm is when you can get back into the game.



Late Day Breakout Rules

1. The stock exceeds the morning range with an increase in volume after 2 pm.
2. The stock is able to clear the range by .2%.
3. Profit target is the size of the move that preceded the trading range.
4. Stop loss is the middle of the range. This would imply the stock failed on the breakout attempt and is now falling back inside of the range from the morning.

Trader Profile – Late Day Breakout

1. Slow to react
2. Likes to perform thorough analysis over the course of a few minutes to a few hours
3. Likes volatility
4. Enjoys riding the trend into the close

#5 Trading the Flag

A flag is a classic technical analysis pattern that predates anyone reading this article. If you are unfamiliar with the pattern it's a sloping rectangular formation that occurs after a strong move. The primary characteristics of the formation

are an increase in volume with a sharp price move. The stock then begins to consolidate in a range pattern that goes counter to the trend and volume completely dries up.

While I do not trade flags, I do like the fact the formation is soundly based on [price and volume](#) principles.



Flag Rules

1. Stock needs to breakout with high volume
2. A sloping rectangular range will develop with a minimum of 4 candlesticks
3. [Open new positions on a breakout](#) above or below the range
4. The profit target is the same length as the move that preceded the flag formation
5. Stops should be placed below the low of the range if going long and above the high of the range if going short

Trader Profile – Flags

1. Less concerned with a particular time of day and more focused on trading the setup
2. Likes to [see a number of inside bars](#) and consolidation patterns before a continuation move

3. Enjoys riding the primary trend to profits, regardless if this takes a few minutes or a few hours
4. Only looking to trade a stock once, in order to reap the rewards of the next major move

6 Triangles

I trade the Wyckoff method which calls for parallel trend channels and stays away from the head and shoulders patterns, diamond formations, and other complicated chart formations.

However, I would be re-missed if I did not touch on the concept of ascending and descending triangles. Like the flag formation, an ascending or [descending triangle](#) will develop after a strong move in a stock. The part of the triangle formation I like the most is that the reactions are smaller and smaller each failed attempt at the breakout level.

Funny enough when a trade goes against me, the ascending or descending triangle is the one formation that you can literally feel pulling away at your life. If you are short, the stock fails at the high of the day, so you immediately feel relieved as the stock backs away. This flash of hope is replaced by fear as the stock quickly turns back up again and does not break the previous low of the day. This process goes on and on, for what feels like ages, and by the time the stock finally breaks out, you already knew you were toast two hours into the formation.



Triangle Rules

1. Stock needs to have a strong move with price and volume
2. Once a high or low is set, each reaction from that swing point should become more shallow
3. Buy or sell short the break of the daily range
4. Place your stop below the last swing reaction if long and above the last swing if short
5. Profit target is the length of the move that preceded the triangle formation

Trading Profile – Triangles

1. Less concerned with a particular time of day and more focused on trading the setup
2. Likes to see a number of inside bars and consolidation patterns on a chart
3. Enjoys riding the primary trend to profits, regardless if this takes a few minutes or a few hours
4. Only looking to trade a stock once, in order to reap the rewards of the next major move

Summary of Day Trading Setups

In this article, we covered 6 classic day trading setups. I

could have easily highlighted another dozen or so, but that would only expose one of the main problems confronting active traders.

There are just too many opportunities present in the market on any given day.

Your job is not to trade everything but only trade a limited few. Remember, it only takes mastery of one-day trading setup to make consistent profits in the market.

Do you have an idea of what type of day trading setup you should be trading? If not, or if you are looking to refine your current trading methodology, try out our trading simulator built by and for active traders. Learn to trade in a risk-free environment before placing your hard earned money in the market.

Good luck trading,

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