



Brainy's Articles on Share Trading**

Breakouts analysed

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page 1 of 6
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Introduction

One of the best opportunities to capture a reasonable share price increase and eventually take some very good profits, is by spotting a new trend early, and in riding the trend. Sometimes a new trend will start with a price breakout above a line of resistance which might be apparent in a chart pattern like an ascending triangle, or below a long-term horizontal resistance line. A price breakout can be the starting point for a major price trend — the earlier we spot it and join it, the better.

This Article in Brainy's series on Share Trading and Investing (number ST-6130) introduces the notion of price breakouts, and shows a few realistic examples of past breakouts. By studying past breakouts and their characteristics we can be better prepared to spot future breakouts as they occur, and to understand their characteristics.

On a price breakout it is possible for the share price to literally run away. So it is important with breakouts to avoid paying too much for a stock. In this regard, readers should also see Brainy's Article TA-5300, "Avoid paying too much".

Breakout — definition

To best illustrate the principle of a breakout, refer to the accompanying sample price charts and brief descriptions here.

In the weekly chart of Aragon Resources (AAG) in Figure 1 at right, we can see it was stuck below resistance at 14 cents for a 7-week period in February and March 2010. The big white candle in late March shows the price breaking out significantly above 14 cents, and a subsequent rise of about 70% over the following weeks.

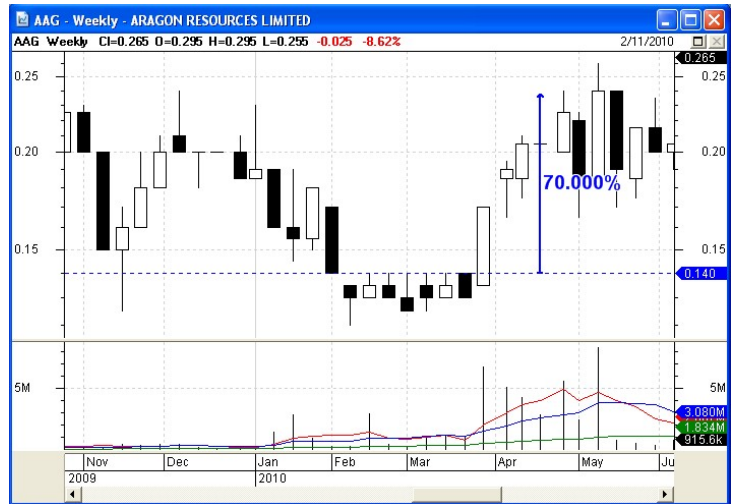


Figure 1: AAG Price breakout above resistance.



Figure 2: AMU Price breakout on monthly chart.

The monthly chart of Amadeus Energy (AMU) in Figure 2 (at left) shows the stock stuck below resistance in the 13 to 15 cents range for about 3 years, before breaking out above this level, and advancing 460% on this chart, but actually 800% by 2006.

These two examples show that the share price was stuck below a horizontal resistance level for a period of time — 7 weeks in one example and 3 years in the other. This resistance could also be a sloping resistance line such as a down trend line, or the upper resistance line in a chart pattern like a triangle, or a wedge, flag or pennant pattern.

On the following pages we look at additional examples of price breakouts and their characteristics.

It should be said that a breakout can occur on a price chart of any time frame — daily, weekly, monthly, quarterly — and also on intraday charts.

One word of caution is that some breakouts fail! So it is important to be able to spot these failures early, and

** - The two words *trading* and *investing* are often used somewhat interchangeably.

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