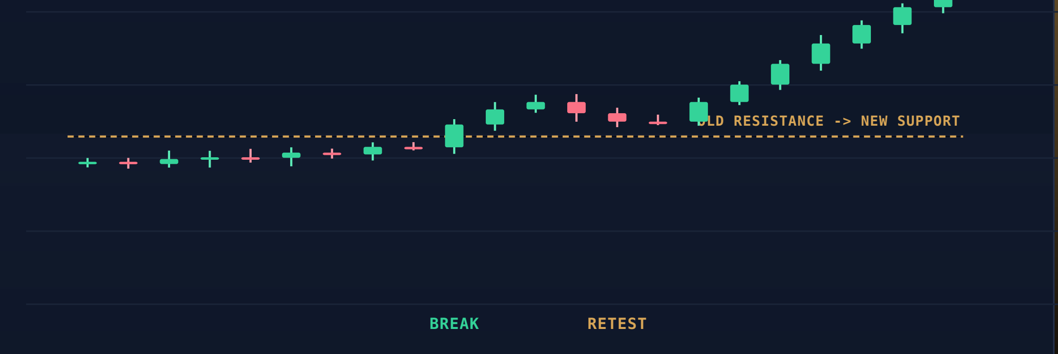
◆STRATEGY GUIDE 01 / 20 · FLAGSHIP GUIDE

Break & Retest

The moment a level flips sides is the whole trade. Here's how to tell a real retest from a fakeout — and how to trade the difference.

FIG. 1 — OLD RESISTANCE BECOMES NEW SUPPORT



PATTERN TYPE	DIRECTIONAL BIAS	TYPICAL READ TIME	WORKS BEST ON
Continuation / confirmation	Follows the break	12 min	Any level with real history

01 What It Is

A break-and-retest trade has two distinct parts. First, price closes decisively through a level that had been acting as support or resistance — the **break**. Then, instead of continuing immediately, price pulls back to that same level from the other side, tests it, and — if the setup is valid — holds. That second visit is the **retest**, and it's usually where the trade is actually taken, not on the initial break itself.

This structure shows up inside almost every other pattern in this library. A double top's neckline break, a cup's rim break, a triangle's breakout, a trendline break — all of them can be followed by a retest, and many experienced traders consider the retest the higher-quality, lower-risk entry compared to chasing the initial move. That's exactly why this is the flagship guide: understanding break-and-retest sharpens every other pattern you trade.

02 Why It Works

Three separate things tend to happen around a level that just flipped sides, and together they explain why the retest holds more often than pure chance would suggest.

SECOND-CHANCE BUYERS

Traders who missed the original breakout are watching for exactly this kind of pullback as a second entry point, so fresh buying (or selling) interest often reappears right at the old level.

TRAPPED STOPS

Anyone who bet against the breakout is now underwater with a resting stop near that same level. Triggering those stops adds fuel in the breakout's direction when price returns.

The third factor is structural: the level itself is now genuinely different. What used to be a ceiling that supply defended is now a floor that the same participants — having just bought there — have an incentive to defend. None of this guarantees the retest holds; it just explains why a hold is common enough that traders build entire approaches around waiting for it.

03 Anatomy Of A Valid Retest

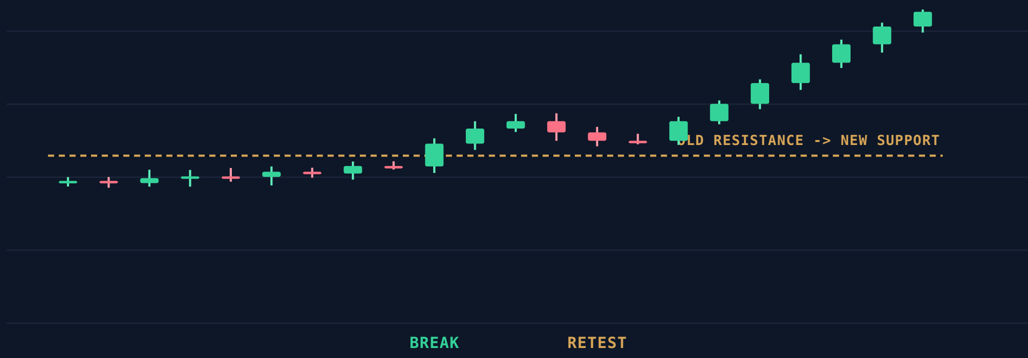
Not every pullback to a broken level is a retest worth trading. Look for these four things together, not in isolation:

- **A clean initial break.** A decisive close beyond the level, ideally with a volume pickup — a break that barely closes past the level on light volume is a weaker foundation for everything that follows.
- **A pullback that doesn't erase the breakout.** Price should ease back toward the level, not blow straight through it and keep going — that's usually a sign the whole move was a fakeout.
- **Slowing down and rejecting at the level.** Watch for the pullback to lose momentum right at the old level — smaller candles, a rejection wick — rather than barreling through it.
- **Lower volume on the retest than on the original break.** A quiet pullback suggests limited fresh selling (or buying) interest testing the level, a good sign for the level holding.

04 Two Variations

BULLISH — RESISTANCE BECOMES SUPPORT

LONG BIAS



Price breaks above resistance, pulls back down to test that same level — now acting as support — holds, and resumes higher.

BEARISH — SUPPORT BECOMES RESISTANCE

SHORT BIAS

Price breaks below support, rallies back up to test that same level — now acting as resistance — fails to reclaim it, and resumes lower.

05 How To Trade It

ELEMENT	CONSERVATIVE APPROACH	AGGRESSIVE APPROACH
Entry	Wait for a confirming candle at the retest — a rejection wick or reversal candle	Enter as soon as price reaches the level, with a tight stop just beyond it
Trade-off	Fewer trades stopped out, slightly worse average entry price	Better average entry, more trades stopped out on noise
Stop	Beyond the far side of the retest's range — not right at the level, where normal noise triggers it	
Failure signal	A retest that fully retraces the original breakout is usually a sign the setup has failed — treat it as an exit, not something to hold through	

Targets. A simple approach measures the size of the move that led into the original breakout and projects a similar distance from the retest. A more conservative approach takes partial profit at the next visible support/resistance level and lets the remainder run with a trailing stop.

Position sizing. Because the stop is defined by the structure of the retest itself, size the position from that stop distance — risk a fixed, small percentage of account equity, so a stop-out costs exactly that percentage regardless of the instrument's price or volatility.

06 Spotting A False Retest

The failure mode of this setup is the fakeout: price breaks a level, pulls back as expected, but instead of holding, pushes straight through the old level and keeps going the other way — stopping out everyone who entered on the retest. Watch for these warning signs, especially in combination:

- The original break happened on unusually light volume, suggesting little real conviction behind it.
- The retest comes back fast and sharp with little slowdown at the level — a genuine retest tends to ease in, not slam back at full speed.
- The retest fully overlaps or exceeds the original breakout candle's range, effectively erasing the move.
- Broader context disagrees — for example, a bullish breakout retest happening while the overall market or sector is falling sharply.

> None of these alone rules a trade out, but seeing two or more together is a reasonable signal to skip the setup, or size it meaningfully smaller than usual.

07 Worked Example (Fictional)

The numbers below are entirely made up, for illustration only — not a real security or historical trade.

Fictional stock "NRDX" spends six weeks unable to close above $48, testing that level three times. On the fourth attempt it closes at $49.20 on volume roughly twice its 20-day average — a clean break.

Over the next four sessions it drifts back down to $48.10 on volume noticeably lighter than the breakout day, forming a small hammer candle right at the old level before closing at $48.60. A conservative entry triggers on the hammer's confirmation the next day at $48.90, with a stop at $47.40 (just beyond the retest's low) — about $1.50 of risk per share.

Using the width of the six-week range ($6) as a target, the projected objective is roughly $54.20, for a reward-to-risk near 3.5:1 before costs.

08 Risk Management

- Decide the maximum percentage of account equity to risk per trade before looking at any specific setup, and hold that line consistently across every retest you take.
- Think in R-multiples — how many multiples of your initial risk a trade returned — rather than raw dollar amounts, which makes it far easier to compare setups of different sizes.
- Keep a simple trade journal: what the setup was, why the retest looked valid, what actually happened. Patterns in your own mistakes usually surface faster in a journal than in memory.

09 Common Mistakes

- Chasing the initial break instead of waiting for the retest, then having no plan if the retest happens anyway and takes out the entry.
- Treating the level as an exact price rather than a zone — small wicks through it do not necessarily invalidate the setup.
- Entering the moment price touches the level, without waiting for any sign of rejection.
- Placing the stop exactly at the level itself, where normal noise easily triggers it.
- Ignoring volume on both the original break and the retest — one of the clearest tells for a fakeout.
- Holding through a retest that has clearly failed, hoping it recovers, instead of respecting the stop.

Break & Retest — Cheat Sheet

BREAK

Decisive close beyond the level, ideally with a volume pickup

RETEST

Pullback eases in and slows at the level — doesn't slam through it

CONFIRM

Lower volume on the retest than on the original break

ENTRY

Conservative: reversal candle. Aggressive: touch + tight stop

STOP

Beyond the far side of the retest range, not right at the level

TARGET

Original move's size projected from the retest, or next level

FAKEOUT SIGNS

Light-volume break, fast retest, full candle overlap

SIZING

From your stop distance — not a fixed share count