First Hour Breakout Entry Strategy

By Robert Miner

An entry strategy occasionally recommended in the Dynamic Trader Weekly Report is to enter on the break away from the trading range of the first hour of trading. This entry technique is usually used at two market conditions: (1) When a trend reversal has been identified but a position was not taken on the daily reversal signal. (2) After a trend reversal has been made and the new trend is established. The First-Hour-Breakout-Entry-Strategy is a type of minor trend-confirmation entry strategy.

There is often a considerable amount of trading activity and volatility during the first 30-60 minutes of the trading day. The direction of the break away from the first hour's trading range is usually in the direction of the main trend. The success of the first-hour-breakout entry strategy is contingent on identifying the main trend direction.

Use The First-Hour-Breakout Strategy At The Appropriate Time

Let's take a look at a recent recommendation made to weekly subscribers in the Feb. 18 mid-week update report. The following comments are from the Feb. 18 Update Report sent out Wed. evening:

> "Today's outside-reversal-day has probably completed an ABC correction with a high just a few ticks above the 122.06-122.21 high probability target zone to complete a corrective high from the Jan. 28 low. The odds are bonds will continue to decline to test or exceed the Jan. low sometime in March.
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> Short and Intermediate Term Traders: Sell bonds on a stop one tick below the range of the first hour's trading. Place the initial protective buy-stop at 122.27."

Bonds appeared to have completed an ABC correction right at the projected price target zone for a corrective high (122.06-122.21) with a wide-range reversal day. All of the factors seemed to be in place for the bear trend to continue. Ideally, traders would have entered on the *outside-day entry strategy* (described in a prior tutorial and the *Dynamic Trading* book) or on the close of the reversal-day. It is impossible to project in a report in advance if a daily reversal signal or outside day will be made. *What is important is to recognize the reversal set-up when it is made and then develop a plan to enter the market with minimum capital exposure*. The first-hour-range entry strategy is ideal for this.

The key to the first-hour-entry strategy is to identify the high probability trend direction. This is the same key to all trend-continuation entry strategies. In this case, it was suspected that a correction was complete at the Feb. 18 high and the main bearish trend would resume. If a short position was elected with the first-hour entry strategy, the initial recommended stop-loss was one tick above the pivot-reversal high on Feb. 18.

On the following day, Thursday, Feb. 19, bonds broke below the low of the range of the first hour and a short trade was triggered at 121.26. The initial stop was placed at 122.27, one tick above the Feb. 18 high and a full point plus one tick or $1031.50 from the entry price. The market itself has dictated where the stop-loss must be placed. While a $1031.50 initial capital exposure is greater than typical for the initial trade position, the risk of the stop-loss being hit is very low. Remember that risk is the probability of an event occurring. If bonds continue to decline as anticipated, the protective stop-loss will quickly be brought closer to the market.

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Let's review the market position and trade strategy:

1. The price and pattern position at the Feb. 18 outside-reversal-day was anticipated to be the end of a corrective rally.
2. The outlook was for the bear trend to continue to below the Jan. low without continuing higher and exceeding the high of Feb. 18.
3. Since a trade was not entered on the daily reversal signal on Feb. 18, the first-hour-breakout entry strategy was used to sell the market the following day. By using this strategy, the bond market would have to make at least a minor trend-continuation sell signal (breakout down of the first hour's range) before a short trade would be entered.
4. The initial stop-loss was placed one tick above the high of the pivot reversal. The key strategy for stop-loss placement is the protective stop-loss is always placed at the market position that would invalidate the trade outlook. In this case, it would take a rally to above the Feb. 18 high to invalidate the outlook for a continued bear trend. The stop-loss placement is always logical and objective.

   Another stop-loss strategy for short-term trades is to place the initial protective stop-loss one tick above the high made during the entry day up to the time of entry. In this case, the stop-loss would be placed at 122.06, one tick above the high of entry day as of the time of entry. This stop loss strategy is usually very close to the market and should only be used for a very short-term trade position (1-3 days).

Do You Need Real-Time Data For This Strategy?

You don't have to have real-time data to use the first-hour-breakout entry strategy. You do have to be able to make one call to your broker after the first hour of trading to get the range for the day in order determine the price for the buy or sell stop-order to enter the trade. A full-service or partial-service broker may take your entry instructions before trading begins for the day and place the order at the appropriate time and price. Just make sure the instructions are clear to the broker.

This has been just one example of the first-hour-breakout entry strategy. The elements are the same whenever it is used. If you include this simple entry strategy in your trading plan, you will have a well-defined strategy to enter a market with a high probability of success and minimum capital exposure almost immediately after a trend reversal is identified. It is also an excellent strategy to use on minor corrections after a trend is established.

One of the most important keys to consistently successful trading is to develop objective trading strategies for the widest range of market positions. While judgement is an important factor to form an opinion of the market position, once the opinion is formed, the trading strategy should be objective and automatic.

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