Twitter Thread by ProdigalTrader

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Thread on Importance of Mean Reversion

U must have remember the charts of auto sector breakout on last monday,potentially poised to be the next leader in the rally.
But since then it just fell bad and deep
Breaking the breakout bar low

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The seemingly convincing breakout retest structure in abv daily chart takes a cocpletely different picture in u open the chart in weekly TF

shooting start at the resistance line of a triangle and at a major supply zone

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Major stocks such as heromoto, maruti, eichermot and babajauto are already trading below the breakout level it established on monday when sector broke out

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This poses a serious question on the risks associated with breakout.

Popularity behind the breakout is the fact that it doesnt need any skills to spot it, even a 90% blind man can spot it in any chart, because the price just sticks out from the rest by a very big margin

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But think about a completely diffferent method where the price makes a clean move and the risks assicated with it is cubstantially less.

Price available so cheap and at support

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Here the price was caught at reistance and when everyone is interested in breakout, u can smoothly exit in silence with filliing the limit orders in profit booking

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These charts of cnxauto were posted live. It was not postmortem analysis to justify a done move.

The moral of the story is mean revrsion which demands better skills and insights offer much bigger advantage compared to the popular version of brekaout trading

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