HowToTrade

ICT BREAKER BLOCK [PDF]

Visit our website

HowToTrade

Table of Contents

ICT Breaker Block Trading

Order blocks in Inner Circle Trading are special market conditions that occur when large orders are being placed in the market by institutional traders. But what happens to an order block after it "fails"? Do they become useless? Well, they don't. In fact, they present us with zones that, if properly understood, can be stand-alone profitable market analysis tools, also known as ICT breaker blocks. And these breaker blocks often can be valuable tools in trading.

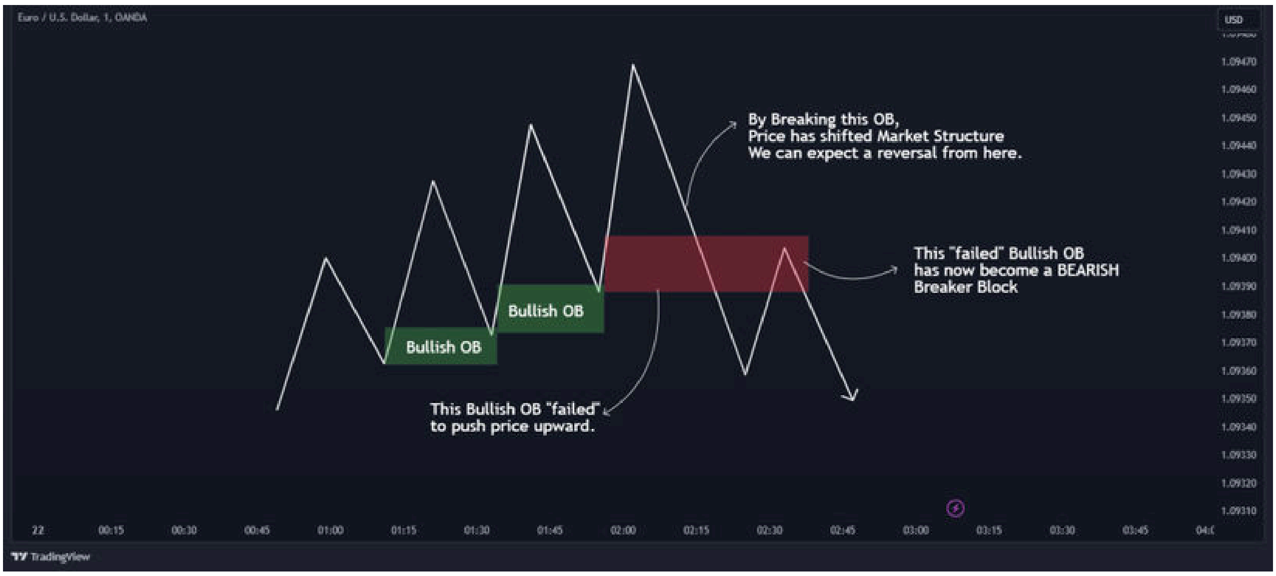
This ICT breaker block PDF guides you into what breaker blocks are, how to identify them, and how to trade them.

What is a Breaker Block in Forex?

A breaker block, as described by the Inner Circle Trader (ICT), is essentially a failed order block that results in a significant shift in market liquidity. This shift can change the market structure from bullish to bearish or vice versa. When an order block fails, it not only alters the immediate market outlook but also serves as a potent indicator for future market movements.

The principle underlying the breaker block concept revolves around the constant search for liquidity by market algorithms. Traders typically identify these order blocks and make predictions about market movements. A bullish breaker block is anticipated to drive prices up, while a bearish breaker block is expected to do the opposite. Consequently, traders set their stop losses accordingly, below the level in bullish scenarios and above in bearish ones.

However, market makers and smart money traders often exploit these situations, triggering stop losses and pushing the market in the opposite direction by creating a liquidity grab. This is where the concept of breaker blocks becomes particularly relevant.



In terms of market strategy, a breaker block, once identified as a failed order block, assumes a new role. It starts acting as a level of support or resistance. This transformation is critical: a bullish order block, when it fails, becomes a bearish breaker, and similarly, a failed bearish order block turns into a bullish breaker. This role reversal is central to understanding how breaker blocks can be used to predict and strategize in forex trading.

Opposite from order blocks, where traders use this price level where institutional traders buy or sell the assets in large quantities, a breaker block simply means this pressure of smart money has ended. Perhaps the perfect example of this is the famous trade made by one of the richest forex traders in the world, George Soros. In 1992, Soros made a profit of $1 billion by taking a position in the British Pound against the Bank of England. That's a classic case of a breaker block.

However, it's important to differentiate a breaker block in practical trading from the breaker block in a trading exchange context, where it's a price level set by the exchange that, upon being reached, triggers a circuit breaker mechanism. This mechanism temporarily halts trading to prevent significant market volatility or crashes.

How to Use Breaker Blocks in Trading?

Like many other trading concepts, using breaker blocks in trading can be somehow confusing. So, the big question is how do you use breaker blocks in trading.

Since breaker blocks are an integral part of the ICT strategy and smart money concepts, it is crucial to understand the steps you need to take to use a break block to your benefit.

With that in mind, here's a step-by-step guide on how to utilize breaker blocks in trading:

1. Identify a Market Structure Shift

The first step in using breaker blocks effectively is to identify when the market structure has shifted. This involves analyzing market structure shifts and price movements to understand whether the market has broken an order flow in the opposite direction. Recognizing the trend change sets the stage for identifying potential breaker blocks that align with the new market dynamics.

2. Identifying the Breaker Block

A breaker block is essentially a failed order block that signals a shift in market momentum. It is usually identified after a strong price movement, where the market fails to sustain its direction and creates a reversal pattern. This failed order block now assumes an opposite role after the trend has changed, similar to how support levels tend to become resistance levels after the price has breached these levels.]

For instance, bullish order blocks that fail become bearish breaker blocks, and bearish order blocks become bullish breaker blocks.

3. Expecting Price Return to the Breaker Block

Once a breaker block is identified, the next expectation is for the price to return to this level. This retest of the breaker block is a crucial phase. A return to the breaker block often signals a consolidation phase before the market decides its next move.

4. Waiting for Confirmation and Entering a Position

Before taking any position, it's essential to wait for confirmation within the breaker block. Confirmation can come in various forms, such as a specific candlestick pattern, a change of character at the breaker block level, or other technical indicators aligning with the expected move. Once confirmation is received, traders can confidently enter a position that aligns with the new market trend, whether it's going long or short.

How to Trade the Breaker Block Trading Strategy?

Trading the breaker block trading strategy is pretty straightforward. Here, we're going to put together the whole concept to analyze the USOil chart in the 15-minute timeframe. First, as you can see in the Crude Oil chart below, you must identify an area on a price chart where large order blocks appear.

Notice from the USOil chart above that there is a market structure shift already. Earlier on, the price was creating a series of higher highs and higher lows, but suddenly, the price broke below the higher low to form a lower low, indicating a potential trend change. So, what that means is simply that we are now looking to sell the asset.

As mentioned earlier in this article, after a market structure shift, we can expect the failed bullish order block to now begin to act as our bearish breaker blocks. So, we can now expect the price to return to our newly-formed breaker block.

As shown in the chart above, once the price enters into our breaker block, we don't just open a position straight away; we wait for a bearish candle to form before we enter into a sell position.

Finally, let's talk about risk management: depending on how well you are trained with this trading strategy, your win rate will vary. However, you can almost stay profitable by a minimum of 3 risk-reward profit targets. For stop-loss placements, you can shove your stop loss above the candlestick formation when you're in a sell trade and below the candlestick pattern in a buy position.