Identifying Handle Shakeouts Following a Failed Base Breakout

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Sometimes a stock will fail a base breakout, shakeout investors and then move higher once everyone has given up and exited the stock.

This is how markets work and a **handle shakeout** is just one of the many ways the market can frustrate investors over time.

What's a base breakout?

In base breakouts, buy orders are placed as a stock is breaking out of a price consolidation/base to a new high or is close to new highs. After a breakout, price may continue higher and never retrace back to the base. This can lead to large gains in a market leading stock. Breakouts work, but like anything in the market they can also fail and set up a handle shakeout.

What's a handle shakeout?

In a handle shakeout, price undercuts the low of a handle in a base after breaking out and failing to move higher.

This gets most disciplined investors out of a stock because price drops below a certain percentage or technical level (handle low) that suggests a broken stock (shakeout).

Price then shows a sign of accumulation after the undercut (weekly chart). This sign of accumulation is an **early indication that a stock is getting support** and it may lead to an upside reversal.

The low of a handle is sometimes used as a stop (price level to exit a stock) during a breakout if it's within the 5-8% stop loss level that's typically used for most new positions. Because of this, it's a good technical level to monitor during a base breakout failure to see how price responds after undercutting it in a potential shakeout move.

How to Identify a Handle Shakeout (5 Steps)

This historical review helps you learn from price history, but it isn't meant to tell you what to do in the market. All investors should have their own plan and rules to manage risk appropriately.

Like a base breakout, handle shakeouts may fail so it's a good idea to set a stop loss order before acting on a set up.

Without question, **living to fight another day is more important than making money if the original plan doesn't work out**.

Handle shakeouts can work in any stock, but it's smart to stick with liquid stocks that have a solid fundamental story behind good technical attributes.

Steps that set up in a Handle Shakeout:

Step 1: Price breaks out of a base.

Step 2: Price fails to hold its breakout.

Step 3: Price undercuts the low of a handle in a base (price shouldn't undercut the low of the base).

Step 4: Price shows a sign of accumulation (weekly chart) after undercutting the base's handle.

Step 5: Price trades above the accumulation week's high *before* making a new low.

Note: News related items (earnings release, investment conferences, etc.) and market corrections can negatively impact a stock's price performance. Be sure to check for these *before* considering a long position in a stock.

In **Step 4**, the **low of the accumulation week** may be more than a typical stop loss order for a stock. If this occurs, position size can be reduced to reflect this difference or the opportunity can be avoided entirely because it doesn't fit the risk tolerance of the individual. Not all handle shakeouts will be suitable for investors.

Lastly, it's okay if the handle low is more than 5-8% below the breakout level. An undercut of a handle may get the attention of others who own stock at lower price levels.

During base breakouts, a stop out after a failed move higher may set up another opportunity with a handle shakeout. Unfortunately, most investors will avoid a second entry in a stock because they believe that it won't work. Often times, it works out only after the first move fails.

Markets can be tricky and because of this fact, traditional set ups in stocks may fail. Handle shakeouts help you understand a potential outcome of a failed base breakout after most investors are stopped out of a stock.

Please >>CLICK HERE<< for the historical stock chart examples that demonstrate a handle shakeout.