HowToTrade

OPENING RANGE BREAKOUT (ORB) TRADING STRATEGY [PDF]

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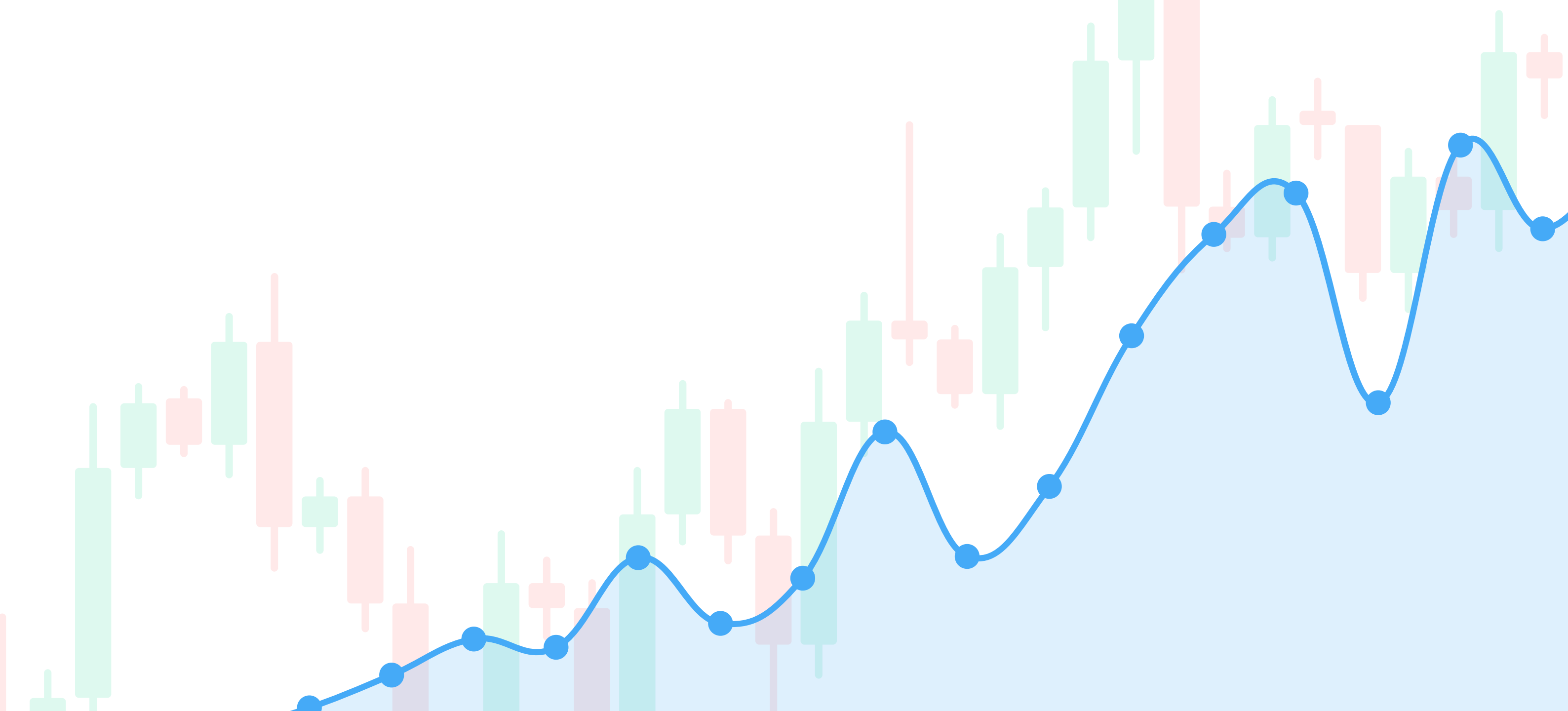

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What is the Opening Range Breakout (ORB) Trading Strategy?

The roots of the ORB trading strategy can be traced back to the 1960s when [the legendary American trader and investor Arthur Merrill] pioneered its use. Merrill used this strategy for nearly two decades while trading [the Dow Jones Industrial Average index]. Although many years have passed since then, this strategy's fundamental principles have remained remarkably consistent.

The ORB trading strategy hinges on a simple concept: the opening range breakout. That means a trader is looking for a break out of a specific trading range following a predefined time frame after the opening time.

The ORB works on the same principle and guidelines of the breakout trading strategy. For instance, a trader can look for a range within the first 15 minutes after the bell rings. Then, a break-up or down of that range signals to enter a trade. However, what exactly constitutes the "opening range" can vary depending on your trading style and preferences.

Originally, when this strategy gained prominence in the 1990s, the opening range was defined as the price movement within the first hour of trading following the market opening. As time progressed and traders gained access to faster data feeds and shorter time frames, some narrowed their opening range definition to the first half-hour, 15 minutes, and sometimes even five minutes. This flexibility allows traders to adapt this day trading strategy to suit their specific trading goals and market conditions.

Now, why is the ORB strategy considered one of the most important strategies for making money in the stock market? The answer is simple: it helps traders identify lucrative trading opportunities during the opening hour of the market. During this period, trading volumes are substantial, and market volatility is at its peak. Traders gain a valuable edge by identifying pre-market highs and lows, which often act as price magnets after the market opens.

The key point of the ORB strategy lies in its reliance on range breakouts as entry points. Consequently, the ORB trading strategy is designed to leverage these breakout opportunities to maximize profits during the opening and closing times of the day.

Measuring the Size of Opening Range Breakouts

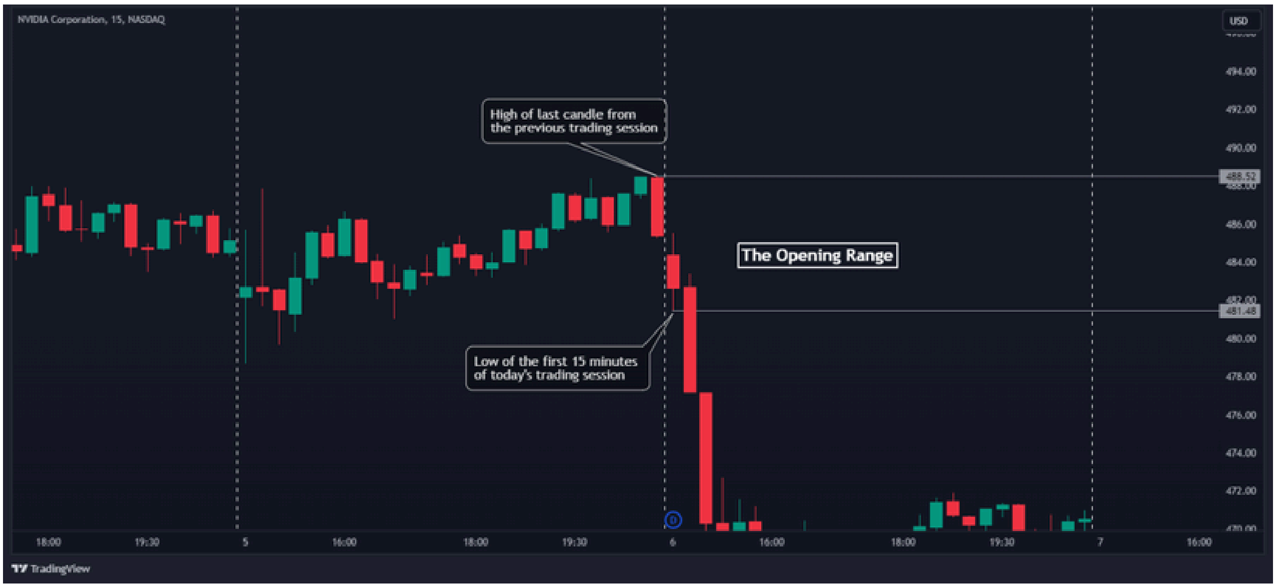
When mastering the OBR trading strategy, understanding how to measure the size of opening range breakouts is crucial, and here are the two methods for doing this:

Method 1

The first method is a two-candle approach that provides a clear snapshot of the opening range. Here's how it works:

First Candle: This candle is the last from the previous day's trading session. It represents the price action leading up to the market's close. To measure the size of the opening range, focus on this candle's high and low prices.

Second Candle: The second candle is the first one created when the market opens for the current trading day. This candle captures the initial flurry of activity as traders react to new information, news, and market sentiment. To determine the opening range's size, you'll need to consider the high and low of this candle as well.
The distance between these two candles' high and low prices is the opening range. It helps you gauge the potential for a breakout and inform your trading decisions.

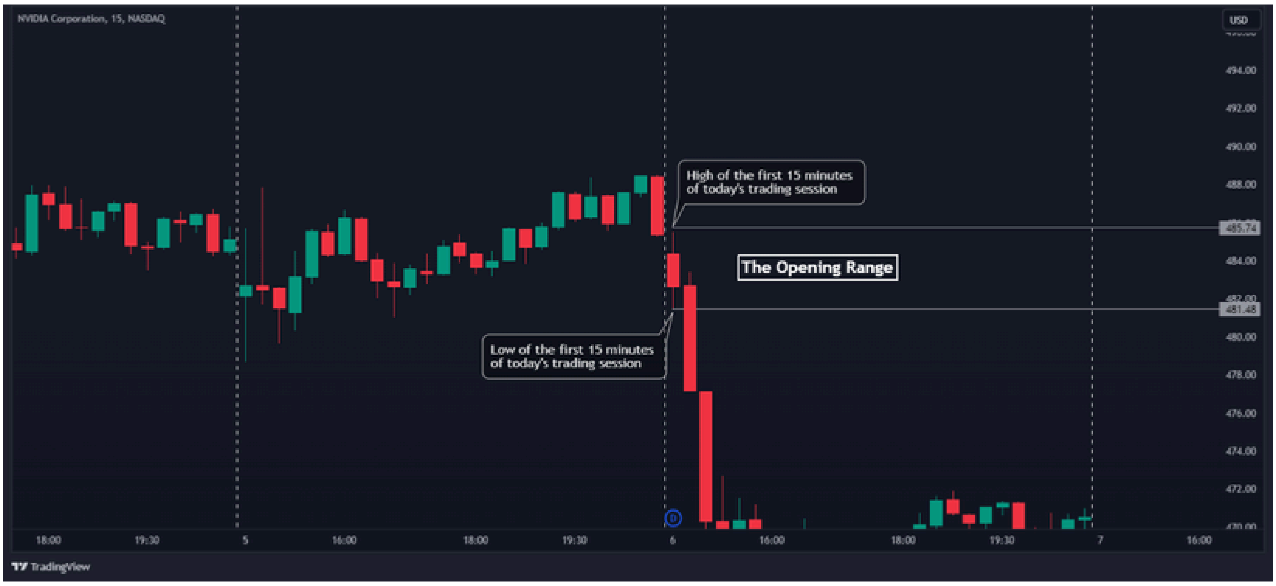


Method 2

Alternatively, you can measure the size of the opening range by focusing on the high and low prices during the early moments of the market's opening.
Here's a breakdown of this method:

High and Low of the Day: During this initial period, you aim to identify the highest and lowest prices reached in your chosen timeframe. These levels are crucial reference points for the rest of the trading day.

By focusing on the high and low prices during this early trading window, you gain insights into the market's initial sentiment and potential trends for the day. It's a dynamic way to measure the opening range as it adapts to the evolving market conditions and trading dynamics. Then, when the price breaks these levels, a signal is made.



Which Time Frame is Best for the ORB Strategy?

When it comes to the Opening Range Breakout (ORB) trading strategy, selecting the right time frame is similar to choosing the right lens for a camera – it significantly influences how you perceive the market.

Like many [other trading strategies](), the ORB trading strategy offers flexibility regarding time frames, catering to traders with varying preferences and trading styles. After thorough research and analysis, it's evident that the 5-minute, 15-minute, and 30-minute time frames stand out as the most effective choices for implementing the ORB strategy. This is because you are trying to trade the first 15 minutes to 1 hour of the day. So, using a 4-hour is not a good idea, right?

Bear in mind, however, that one noteworthy approach to optimizing the ORB trading strategy is [multiple time frame analysis](). This technique involves simultaneously examining the same asset or market in different time frames. By doing so, you have a broader view of the trend and can trade breakouts in that direction with confidence. If you are not familiar with multiple time frame analysis, we suggest you visit our free course on setting up multiple charts on MetaTrader 4.

What is the ORB Strategy in Forex Trading?

The ORB strategy in forex trading involves taking positions when currency pair prices break above or below the previous day's high or low. However, unlike other markets (particularly the stock markets) that have daily opening and closing times, the ORB trading strategy in forex focuses on the opening range price observed during the first trading hour of the day. This makes it a bit tricky to utilize the ORB strategy in the FX markets since the ability to capture the opening and closing times is quite limited.

Which Market is the Best for ORB Trading?

The ORB strategy can be effectively applied to various markets, but it particularly shines in stocks and commodities (futures). This is because the market's opening tends to be more significant in the stock markets compared to other markets.

Traders seeking versatility and better trading conditions can also use Contracts for Difference (CFDs) to trade stocks and futures. Since these are derivative products that follow the underlying asset, these markets offer the liquidity and volatility necessary for successful ORB trading.

How to Use the ORB Technical Indicator?

While drawing the open range manually is straightforward, some indicators do the job for you efficiently. For instance, to use this indicator on TradingView, just hit the "indicator" menu, search for "ORB," select the one you like, and configure it to align with your preferred settings.

The same works for MT4/5, although the ORB is not a built-in indicator on this platform. This means you'll have to visit a third-party vendor site and then download and install the indicator on your MT4/5 platform.

What is the ORB Trading Calculator?

The ORB trading calculator is a tool traders use to determine key parameters for executing the Opening Range Breakout strategy. Based on historical price data, it helps calculate the opening range, stop-loss levels, and potential profit targets. This calculator streamlines the decision-making process, making it easier for traders to set up their ORB trades and manage risk effectively.

Check out our daily market analysis page for insights about leading FX pairs, global indices, and commodities.

The ORB Trading Strategy – How to Trade Opening Range Breakouts

Now that you have learned all the individual parts of this strategy, let's combine all the concepts to analyze Apple's stock using the ORB trading strategy:

Step 1: Use the 200 and 50 EMA to Determine the Trend

The 200 EMA and the 50 EMA are some of the most important indicators stock traders use. It is often used to precisely analyze the dominant trend and detect dynamic support and resistance in the market.

Generally, the stock is in an uptrend when the 50 EMA crosses the 200 EMA upward (also known as the golden cross). Conversely, when the 50 EMA crosses the 200 EMA to the downside (also known as the death cross), it signifies a downtrend.

Another way to know the trend is to observe the price position of the two EMAs. If the price is under the two EMAs, it is a bearish trend. However, if the price is above the EMAs, it is an uptrend. Let's consider an actual chart:

The AAPL chart above shows the EMA crossover, indicating a bullish trend. We can now anticipate a breakout to the upside after forming our opening range.

Step 2: Plot the Opening Range

There's no hard rule when choosing how to plot your opening range. Some traders have claimed success with the ORB trading strategy while using the high and low of the first 5-minute range to plot their opening range, although others also use the first 15 or 30 min.

In our example, we will use the high and low of the first 30 minutes of the trading session to plot our opening range.

Step 3: Entry and Confirmation

After the first two steps, entering a position is straightforward: you have to wait for the opening range to break, and this is where having a context of the market trend pays off. In our case, we know the market is in an uptrend, and we are only waiting for a breakout of the high of the opening range.

While waiting for the break in the same direction, note that we don't simply place a buy limit on the high of the range. Instead, we wait for a full-body candle break before entering a position to avoid fakeouts. That is to avoid a false breakout.

Moreover, before executing our trade, we use the volume indicator to confirm our entry. We execute our trade if there's a spike in the stock volume. As in the example above, we can enter a position once each criterion lines up.

Step 4: Stop Loss and Target Profit

Depending on your risk tolerance, there are two ways to set your stop loss while trading the ORB strategy. You can place the stop loss below the candle that broke the range or at the low of the opening range. The first method is riskier but gives the best risk-reward ratio, while the second method is more conservative.

Likewise, setting our target profit is as simple as targeting two or three risk-reward ratios.

Is the ORB Trading Strategy Profitable?

At this point, it's only natural to wonder if the ORB trading strategy is profitable. When evaluating the profitability of any trading strategy, the winning rate percentage is a critical metric. This percentage represents the frequency at which your trades result in profits.

In the case of the ORB trading strategy, historical data and analysis indicate that it is profitable. At least, according to people who used it. ORB enthusiasts often report winning rates ranging from 42% to 65% and sometimes even higher. This means that a significant portion of ORB trades hit the target profit, making it an attractive option for traders seeking consistent returns.

But that's subjective to the opinions and experiences of others. To fully appreciate the profitability of the ORB strategy, it's essential to understand that winning percentages alone don't paint the whole picture. Risk management also plays a pivotal role in enhancing profitability.

Successful ORB traders typically employ risk management techniques like setting stop-loss orders and defining risk-reward ratios. These trading strategies help mitigate losses when trades go against expectations while allowing profits to accumulate when they align with the ORB strategy's principles.

It's important to note that profitability isn't static; it fluctuates with market conditions. The ORB strategy's adaptability is one of its strengths. It can be tailored to suit various assets, time frames, and market conditions.

Yet, if you plan to utilize the ORB strategy, you must backtest your strategy before applying it in real markets. Not only that, we suggest using a trading journal template to record all your trades and analyze them to get the best results.

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How to Start Trading Using the ORB Strategy

Before diving into the market, equipping yourself with knowledge is crucial. Also, you must remember that the ORB strategy works best in markets that have daily opening and closing times. Therefore, we can say that it is an ideal strategy for trading stocks or commodities. You also need to identify suitable stocks or futures to implement the ORB strategy effectively. For instance, utilize a stock/futures screener to narrow down your options and look for assets that exhibit the price volatility and liquidity necessary for successful ORB trading.

Frequently Asked Questions About the 20 EMA Strategy

Here are some frequently asked questions on the 20 EMA strategy:

Is 20 EMA a good indicator to find trade signals?

The 20 EMA is indeed considered a good indicator for finding trade signals, especially due to its emphasis on recent price data. This makes the 20 EMA more responsive to new information than a simple moving average, which can be advantageous in a fast-moving market.

How is the 20 EMA used for intraday trading?

Absolutely. For intraday trading, the 20 EMA can be particularly useful. It helps identify good entry points in the market by waiting for a price pullback that tests the resistance level provided by the 20 EMA line. Traders often look for a valid confirmation of the price level to enter the market.

What EMA do most professional traders use?

Well, there isn't a one-size-fits-all answer, as it largely depends on their trading style, the market they are trading in, and their specific trading strategies. However, commonly used EMAs include the 20-period EMA, as well as other periods like the 50-period and 200-period EMAs. The choice of EMA often aligns with the trader's time frame for analysis and their approach to capturing market trends and reversals.