Waiting for a Retest Will Make You a Better Forex Trader

If you have been a reader of this site for more than a day or two, you have undoubtedly seen me write, “wait for a retest” in the commentary. If you haven’t seen this yet, take a look at any of the recent setups and you are sure to find it there.

What may not be so apparent is the importance of waiting for a retest. What exactly does it represent and why is it so important?

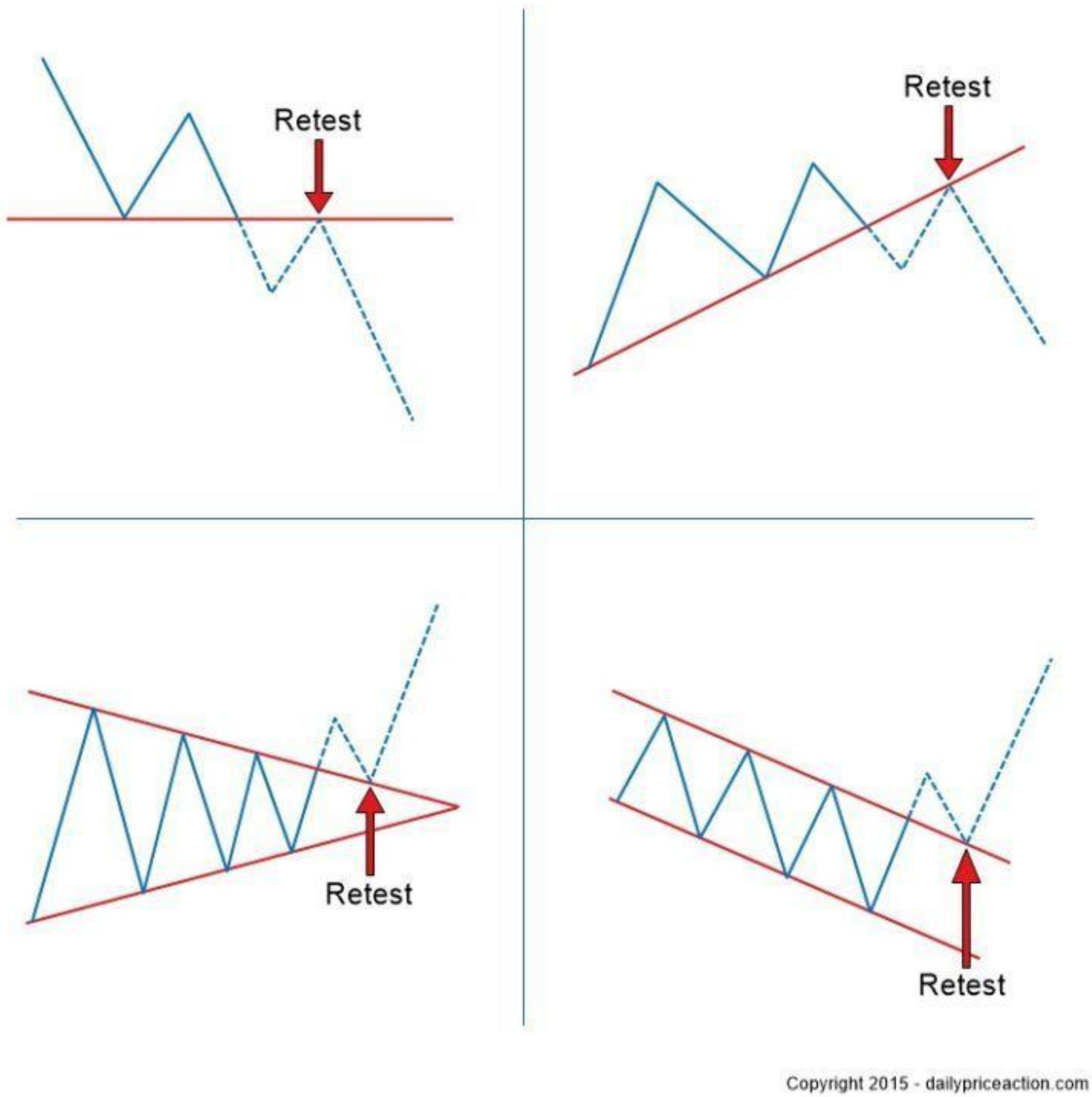
I have been receiving a lot of similar questions recently so I decided to dedicate a lesson to the topic of retests. By the time you finish reading this lesson you will understand the significance of retests and why they need to be a critical part of your trading if you wish to succeed.

But before we get into the details it’s important that you understand what a retest is as well as the various ways it can occur.

What is a Retest?

Retests in the Forex market come in all shapes and sizes. They can come after a market breaks a key horizontal level of support or resistance or a breakout from a wedge pattern.

Regardless of how or where the retest occurs, the characteristics are the same. The image below illustrates a few of the various ways retests can occur.



As you can see from the image above, retests can occur on a variety of [price action patterns](). In fact, I can't think of a single pattern that doesn't prompt a retest more often than not.

But seeing an image of one or even watching one as it forms on your chart doesn't tell the whole story. You have to know *why* it happens in order to fully understand the importance.

Market Dynamics of a Retest

Start thinking of retests as a market's way of "resetting" itself. These resets are needed as the balance between buyers and sellers is in constant flux. This ever-changing balance is what creates swing highs and swing lows.

It goes without saying that whenever you buy or sell you are looking for a move in the intended direction. But in order for the market to do that, it needs a fresh set of buyers or sellers. Otherwise, you will find yourself buying at the top and selling at the bottom.

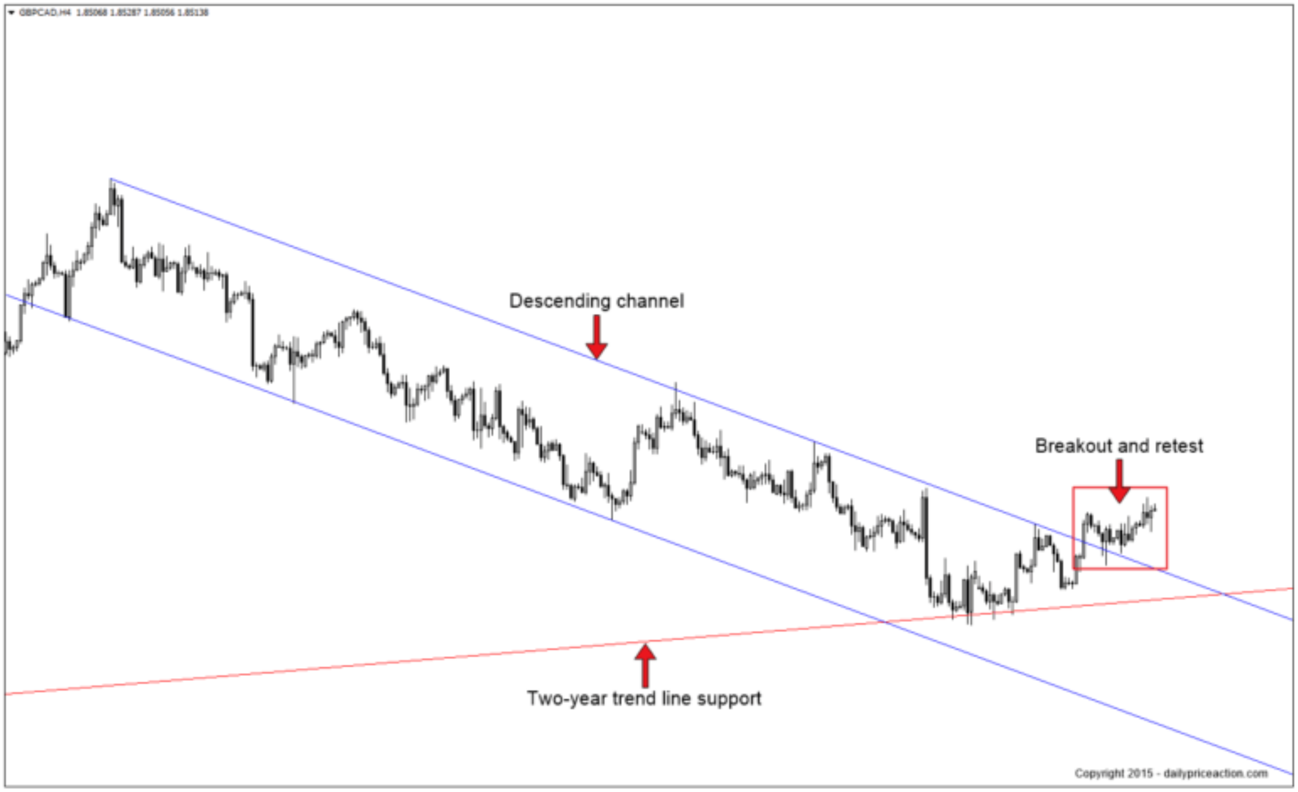
Flushing out the weak hands

The term, "weak hands" refers to any group of traders (usually retail) who are not comfortable holding a position through increased volatility for the opportunity to make larger gains. These are usually the traders who are too risk-averse and therefore get stopped out prematurely before a larger move ever gets going.

Of course, there are also those who trade the lower time frames and therefore aren't looking for the larger opportunity. These traders are completely happy to take their profits early and often.

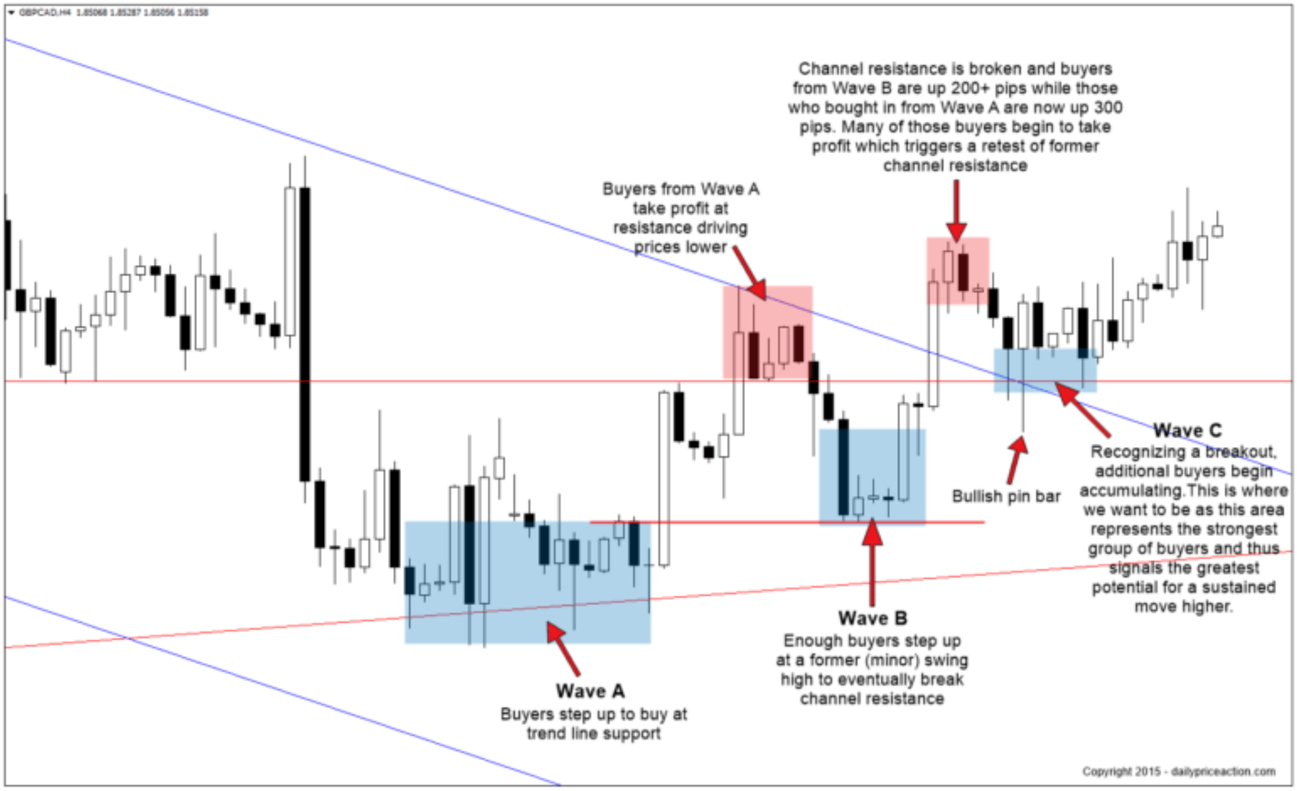
Either way, both scenarios create swing highs and lows. However, there is an underlying dynamic that isn't immediately apparent.

To explain this dynamic further, let's take a look at an example. The GBPCAD 4 hour chart below shows the pattern in focus.



As you can see, the chart above shows a descending channel that intersected with a long-term support level. This support area eventually led to a break of channel resistance which is highlighted above.

Now let's take a closer look at the breakout and retest to identify the activity between buyers and sellers.



Don't worry, the chart above isn't nearly as confusing as it may seem at first glance. The first thing to note is that those who bought in from Wave A and Wave B who are still holding want to book at least some profit at the second swing high after the breakout.

This selling drives the market lower which eventually produces a retest. Those who bought as soon as the market confirmed the breakout are already at a loss. This is why it's so important to always wait to flush out the weak hands.

However, the most important point to take away from the chart above is that **Wave C is where we want to buy**. This area represents the strongest group of buyers and therefore signals the greatest potential for a sustained move higher.

In essence, this chart illustrates the basic ebb and flow of a market which is influenced by the balance between buyers and sellers. That's really what waiting for a retest is all about. We want to wait for the market to flush out the weak hands before we put any capital at risk.

Confirming Price Action

It isn't enough to simply see the market touch a broken level as new support or resistance. And if you think about it, that doesn't actually qualify as a retest.

If we separate the second half of the term you'll see why. We are looking for a re"test", not a re"touch". So when the market revisits a level after breaking it, we want to see it *test* that level as new support or resistance. The confirming price action is how we evaluate that test.

What is confirming price action, you ask?

Put simply, it's either a bullish or bearish pin bar at the new level of support or resistance. The EURGBP daily chart below is a great example of how we can use a price action signal to help confirm a breakout.

Notice how EURGBP formed a bearish pin bar several days after breaking wedge support. Those who entered on the first "retouch" after the break would have been stopped out. Yet those who remained patient and waited for confirming price action would have ended up with a 4R trade if using a 50% entry.

We actually traded this setup inside the Daily Price Action member's area for a healthy 4R profit (8% if risking 2%). Not a bad return for just five days of trading.

At this point, you may be wondering what happens if the market doesn't retest the broken level. My rule for that situation is simple – I pass on the opportunity and look for something more favorable.

There aren't many guarantees I can make to a Forex trader. I can't guarantee profits on any particular setup just as I can't guarantee your success as a trader. But one thing I can guarantee is that **there will always be more setups tomorrow, so never be in a hurry to risk your trading capital today**.

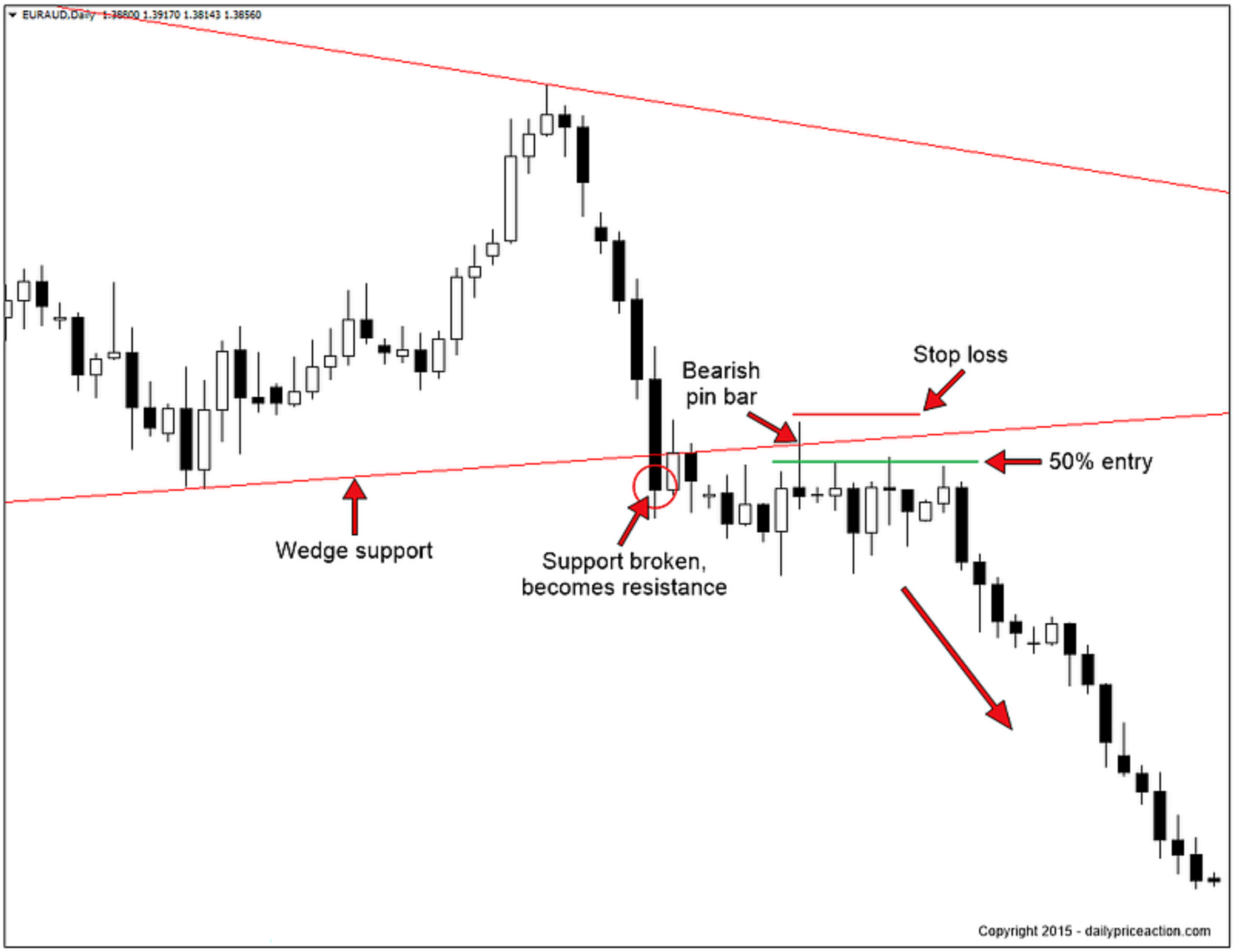
Using confirming price action on a retest also provides you with a great place to "hide" your stop loss. As you may well know, you always want to place your stop loss at a level where the setup is invalidated if hit.

Waiting for confirming price action gives you the perfect opportunity to do just that. When a bullish or bearish pin bar forms on a retest, you can use the tail of the pin bar as your invalidation level. In other words, if the market moves past the tail the setup is no longer valid.

Let's take a look at an example of a breakout and retest that occurred on the EURAUD daily time frame. The chart below shows the pattern in focus.

As you can see from the chart above, we have a wedge pattern that formed on the daily chart over the course of several months. There were three touches on both support and resistance which gives us a tradable pattern.

Also, notice the bearish pin bar that formed after retesting former wedge support as new resistance. Let's move in and take a closer look to see where we could have placed our stop loss for this setup.



The chart above shows the complete picture. Notice how the bearish pin bar gave us a place to hide our stop loss. Without the tail of this pin bar, it would have been difficult to determine an appropriate level at which to place our stop.

Also, note how the 50% entry gave us a much more [favorable risk to reward ratio](#) rather than waiting for the price to break beyond the nose of the pin bar. All in all, this made for a textbook price action setup.

Waiting Teaches Patience

From a non-technical perspective, the practice of waiting for a retest teaches you patience as a Forex trader. It does this by forcing you to wait for a favorable entry rather than simply entering at the first available opportunity.

If you get yourself in the habit of always waiting for the retest, it will soon become second nature. As it becomes second nature you will begin to find that you are less anxious about what the market *might* do and more focused on what the market *is* doing.

Patience is arguably the most important quality you can have as a Forex trader and one that will surely have a positive impact on your trading. And teaching yourself to always wait for a retest is a great way to develop that quality.

Final Words

Whether you are trading a key horizontal level, wedge pattern or channel, it's important to always wait for a retest of the broken level. This involves waiting for the retest as well as confirming price action before putting any capital at risk.

By waiting for a retest you are essentially waiting for any weak hands to exit the market before putting on a position. This provides you with a stronger foundation from which to buy or sell which leads to a greater probability of a successful outcome.

Above all else, waiting for the market to produce a favorable setup will teach you patience. This alone will have a huge impact on your trading and will put you one step closer to becoming consistently profitable.

Your Turn

Do you currently wait for a retest when trading breakouts?

Leave your comment, question or general feedback below.