

# Hit & Run CANDLESTICKS

TRADING FOR PROFIT

## Rounded Bottom Breakout

### Chart Pattern, Description & Scans

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## Table of Contents

- Rounded Bottom Breakout..... 2
  - Introduction ..... 3
  - Pattern Psychology ..... 4
  - The Scans ..... 4
    - Aggressive Scan ..... 5
      - Aggressive Scan Assumptions ..... 6
    - Conservative Scan ..... 7
      - Conservative Scan Assumptions ..... 7
- Installing the w2jc\_RBB-Finder-Composite Indicator in Tradestation..... 9
- Using the w2jc\_RBB-Finder-Composite Indicator in Tradestation..... 11
  - Using w2jc\_RBB-Finder-Composite with Charts ..... 11
    - Formatting for Charts..... 11
  - Using w2jc\_RBB-Finder-Composite with the Scanner ..... 15

# Introduction



The Rounded Bottom Breakout (or RBB for short) is a very strong bullish reversal pattern that was discovered by Rick Saddler. RBBs are formed by many candles, over the course of weeks or months. The number of candles in the pattern will vary and can include many different shapes and color candles. Since it takes place over a long time, there are many elements of this pattern. However, once enough examples are studied, it becomes easy to identify.

The key elements or characteristics of this pattern include:

- Price falls down through the 50sma and then falls away from it in a strong, prolonged decline
- The 20sma confirms the decline by also falling through and away from the 50sma
- The decline stalls and consolidates, sometimes retesting the bottom (even repeatedly) to form a base
- The 20sma confirms by forming a rounded bottom shaped somewhat like a “guppy belly”
- Price converges back toward the 50sma
- The 20sma confirms by converging back toward the 50sma as well
- Ideally we would see a Bullish candlestick reversal signal
- Price then breaks up through the 50sma
- There is at least 10% of space left between price and the 200sma
- The 20sma confirms the breakout by also crossing back above the 50sma.

Again, while it sounds complex when written out, your eye will learn to easily pick up these elements at a glance with practice.

## Pattern Psychology

Price begins to pull back and the decline gains more and more momentum. Traders are selling the stock hand over fist, until all of the weak hands are gone. This may end on a crescendo as the last of the longs decide they can't take the pain any more and bail out of their long positions in a panic.

At this point there is no large group of sellers left. So the decline stalls. However, after such a large decline, there are not a lot of buyers willing to step in just yet either. As a result price consolidates sideways, perhaps drifting higher on the lack of sellers and then re-testing the bottom on a lack of conviction by the new longs.

After trading in this bottoming pattern (creating a significant base), price slowly begins to gain momentum. This is because traders (new longs) are starting to gain confidence that the stock won't roll over and sell off strongly again and therefore they don't sell their position on the first small move down. This causes both price and the 20sma to begin rising, converging back toward the 50sma.

When price breaks back up through the 50sma, there is another whole group of traders that have been watching for that bullish indication. As they start piling back into the stock, the rally gains momentum and price quickly heads back toward the 200sma.

## The Scans

Two scans will be described here. Although similar, the two scans will likely be found useful by different groups of traders (depending on their individual risk/reward preferences). One interesting finding about scanning for RBBs is that although the 20sma is a key to confirming the pattern visually, it is actually the T-line (aka the 8ema, another of Rick Sandler's discoveries) that acts as a better scanning mechanism for finding the RBB pattern.

It should be noted that Rounded Bottom Breakouts are one of the harder patterns to scan for successfully. This is due to the potential variation in the length of decline, length of basing, depth of decline and momentum of breakout that a RBB can have. As a result, successful scans for this pattern will always find some errant results that will need to be manually weeded out. So bear that in mind. That said, the scans below do an excellent job of minimizing the number of bad results, while still finding many of the good ones.

The first of these is the "Aggressive RBB" scan. As the name implies, this scan is looking to find RBB setups with less confirmation in order to get in earlier (capture more of the potential upside of the rally move). The second is looking for the same pattern, but waits for more confirmation of the breakout (thus giving up a little of the upside potential in return for more certainty of breakout strength).



## Aggressive Scan Assumptions

Since moving averages move slowly, we assume that the distance between the 50sma and 20sma decreasing over 10 days means that it has been decreasing significantly more than 10 days.

Since the 3ema is a fast moving average (but not as fast as price itself), we assume that the 3ema being below the 50sma for 10 days ending 4 days ago means that price itself did not make a big breakout and then collapse again. Price may have recently tested the 50sma, but we assume there was no big breakout and collapse in the immediate past.

We assume that we will add a liquidity filter to the scan (or scan against a stock universe that was pre-screened to have enough liquidity).

### Scan Logic

The Close is below the 200sma.

The Close is more than 10% below the 200sma.

The 8ema has been below the 50sma for AT LEAST the 10 days ending yesterday.

The distance between the 20sma and 50sma has decreased in the last 10 days.

The 3ema (3T-line) was below the 50sma for the 10 days ending 4 days ago.

Yesterday's Close was below the 50sma.

Today's Close was above the 50sma.

### Scan Result Review Criteria

- We do not want to see a V-shaped bottom
- We are looking for a bottom that consolidated over a considerable period of time
- Ideally we are looking for a confirmed strong Bullish candlestick signal just prior to the breakout
- Ideally we are looking for the 20sma to be close to crossing back above the 50sma
- Ideally we are looking for strong move on the breakout (large candle, gap up, etc.)

# Conservative Scan



## Conservative Scan Assumptions

Since moving averages move slowly, we assume that the distance between the 50sma and 20sma decreasing over 10 days means that it has been decreasing significantly more than 10 days.

Since the 3ema is a fast moving average (but not as fast as price itself), we assume that the 3ema being below the 50sma for 10 days ending 4 days ago means that price itself did not make a big breakout and then collapse again. Price may have recently tested the 50sma, but we assume there was no big breakout and then collapse.

We assume that we will add a liquidity filter to the scan (or scan against a stock universe that was pre-screened to have enough liquidity).

### **Conservative Scan Logic**

The Close is below the 200sma.

The Close is more than 10% below the 200sma.

The 8ema (T-line) was below the 50sma AT LEAST 10 consecutive of the 15 days ending yesterday.

The distance between the 20sma and 50sma has decreased in the last 15 days.

The 3ema (3T-line) was below the 50sma for the 10 days ending 4 days ago.

The 3ema (3T-line) is above the 50sma today.

Yesterday's Close was above the 50sma.

Today's Close is above the 50sma.

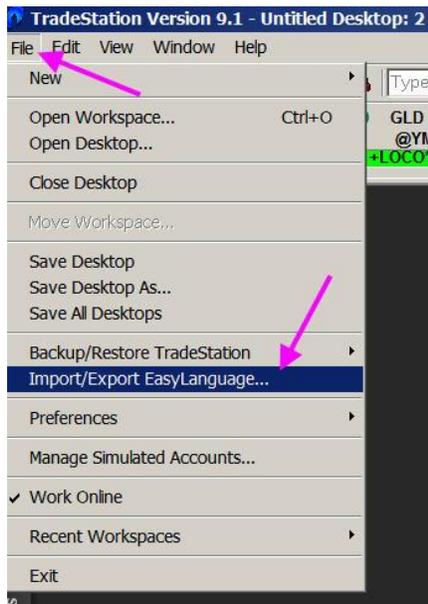
### **Conservative Scan Result Review Criteria**

- We do not want to see a V-shaped bottom
- We are looking for a bottom that consolidated over a considerable period of time
- Ideally we are looking for a confirmed strong Bullish candlestick signal just prior to the breakout
- Ideally we are looking for the 20sma to be close to crossing back above the 50sma
- Ideally we are looking for strong move on the breakout (large candle, gap up, etc.)

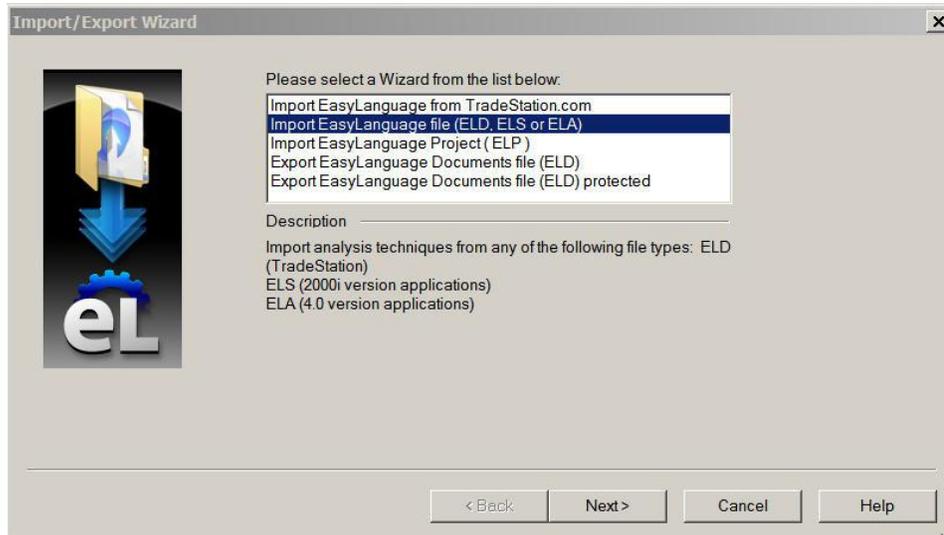
# Installing the w2jc\_RBB-Finder-Composite Indicator in Tradestation

You will receive your **w2jc\_RBB-Finder-Composite Indicator** as a .ELD file. This file contains all of the code and settings required for this indicator, in a 'binary' format that is not human-readable. In addition, your 'w2jc' indicator is coded so that it can be used on any computer, at any location, as long as you are logged into YOUR Tradestation account. The .ELD file must be imported into Tradestation using the following procedure.

1. Save the .ELD file on your computer hard drive at a location (folder) where you can find it.  
Suggested: C:\Program Files (x86)\TradeStation 9.1\Import \
2. Open and sign into your Tradestation account.
3. At the upper left corner of the Desktop window, click on the **File** tab; then click **Import/Export Easy Language**.



4. You should now see the "Import/Export Wizard" window. Left-click once on Import EasyLanguage file (ELD, ELS or ELA) to select that item; then click Next.



5. You should now see the "Import Wizard" window; click the **Browse...** button.  
In the window that appears, locate where you saved the .ELD file and double-click on the file name.  
The full path and filename should now appear in the white window. Click the **Next** button at the bottom.
6. A new window should appear containing a list of several items, all of which should have a checkmark in a box at the left of the item name. Click the **Next** button at the bottom.
7. A new window should appear, listing the Analysis Technique(s) contained in the .ELD ...  
be sure all items are checked. Click the **Finish** button at the bottom.
8. If any further windows appear, accept them as shown and continue until you see the window saying that you have successfully imported the Analysis Technique(s).
9. Your 'w2jc\_' indicator is now ready for use in your Tradestation platform.

# Using the w2jc\_RBB-Finder-Composite Indicator in Tradestation

The code for Tradestation (created by Jim Cooper, w2jc, based on Ed Carter's Telechart PCF code) has been written to combine both the Aggressive and Conservative options into one indicator. It can be used with charts and the scanner.

## Using w2jc\_RBB-Finder-Composite with Charts

In addition to scanning all stocks for the RBB conditions using the Scanner (see below), this indicator can be used on individual charts to show all previous instances where that chart showed a valid Rounded Bottom Breakout pattern (either aggressive or conservative).



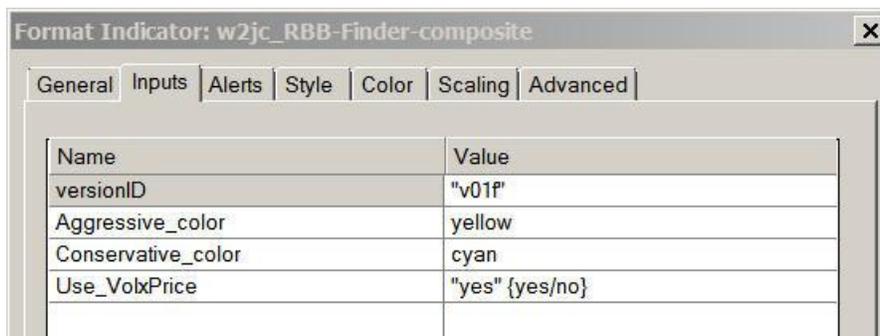
The indicator is installed in a sub-graph area and must be formatted using the Style and Scaling menu pages.

## Formatting for Charts

### Format Inputs

The best display for in-chart use of this indicator is to show a large dot for the bar where the pattern qualified as an RBB pattern. The display shows both the Aggressive (value = 1) and Conservative (value = 2) conditions.

The color of each dot can be set in the main Format Input menu --



Standard Tradestation color names can be used (without quote marks) or the color can be specified using the RGB format (example, for orange use RGB(254,173,11) with no quote marks).

The **versionID** setting has no affect; it is there just for user reference.

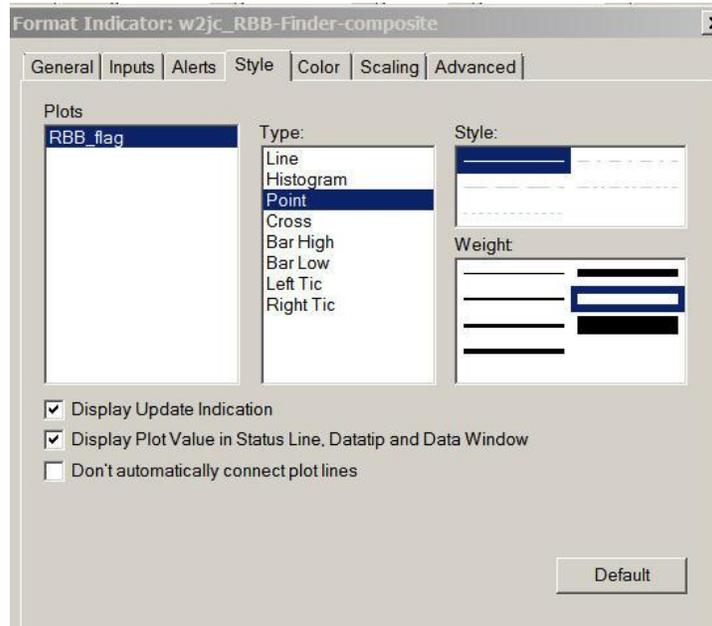
**Note:** if an upgraded version of the indicator is installed in Tradestation but the indicator on an existing chart is not removed and re-installed, the versionID will not change to the new version ID - it must be changed manually.

The **Use\_VolxPrice** setting of "yes" (quote marks ARE required) allows the user to filter out stocks that have low liquidity. Use a setting of "no" to disable this filtering.

This filter requires that the 63-day average volume times the closing price must be more than 1 million AND the minimum volume of the last ten bars times the closing price must also be more than 1 million.

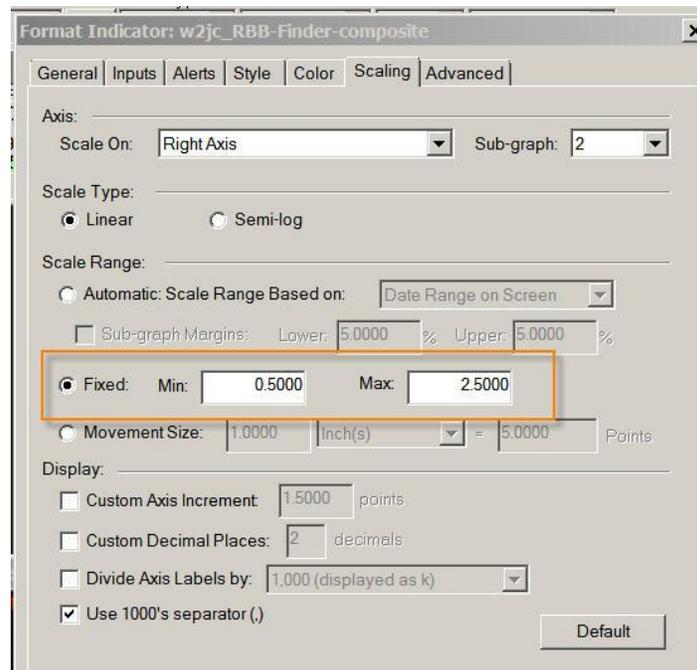
### Format Style

In order to make the display of this indicator appear as large dots, the Style must be set as shown below:



### Format Scaling

In order to assure that the two rows of dots are nicely centered vertically, the Scaling should be set as shown:



## Format Alerts

When either type of RBB is detected on the current bar of the chart, an optional text and/or audible alert is given which specifies the type of RBB detected. (The "alert once per bar" option must be enabled in the Format / Alerts tab).

The audible alert can be very convenient to the trader who is not constantly watching a particular chart. When an alert condition appears in ANY chart that is open in ANY workspace or desktop, the audible alert will read the alert message via the computer's speaker. Therefore, you could be doing other work on the computer or even be in another room and you would hear the alert.

A feature of all the 'w2jc' series of Tradestation indicators is that the alert messages are very detailed and explicit.

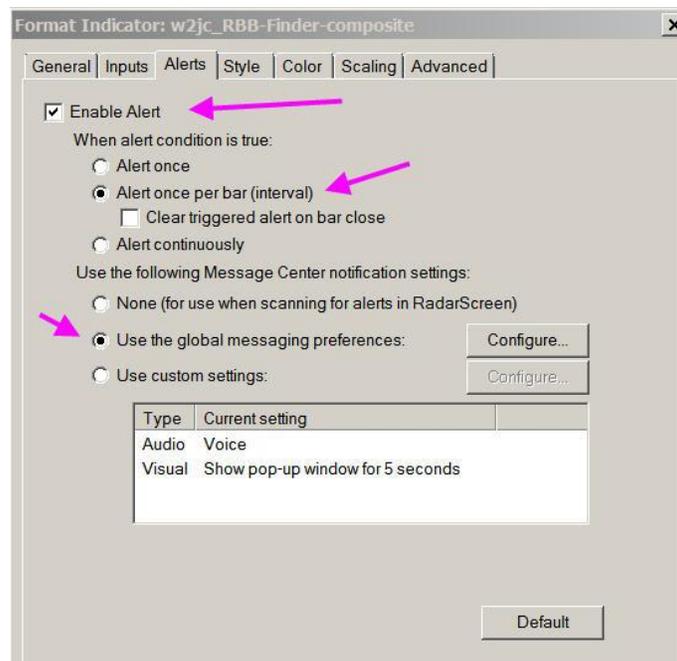
Alert messages for the w2jc\_RBB-Finder-Composite indicator are formatted as follows --

The company name (spoken in full) followed by the word "ticker" followed by the ticker symbol ( spoken letter by letter ) followed by the word "on" followed by a verbal description of the chart on which the alert has triggered (such as "60 minute" or "daily" or "300 tick") followed by the word "chart" --  
and then a specific detailed description of the alert condition (see below)  
followed by the ticker symbol again ( spelled out letter by letter ) as a follow-up reminder of which ticker the alert is for.

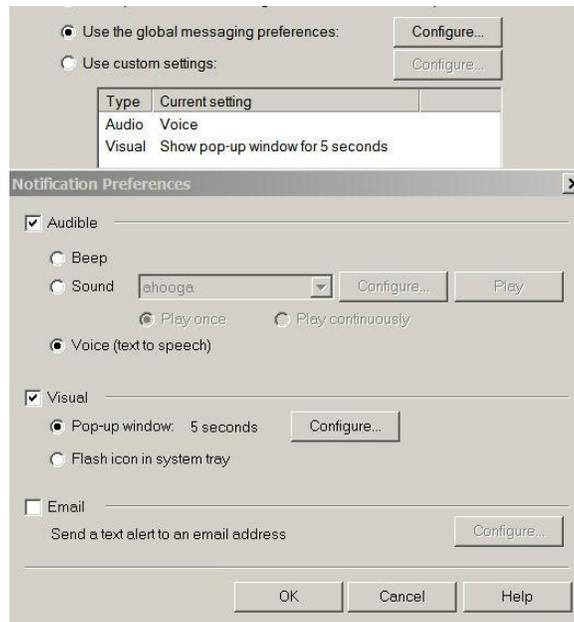
For this indicator, there are only two detailed alert descriptions --

1. " Aggressive Rounded Bottom Breakout detected on ... "
2. "Conservative Rounded Bottom Breakout detected on ... "

To assure that the audible alert message occurs, and occurs only once per bar, set up the Format Alerts as shown:

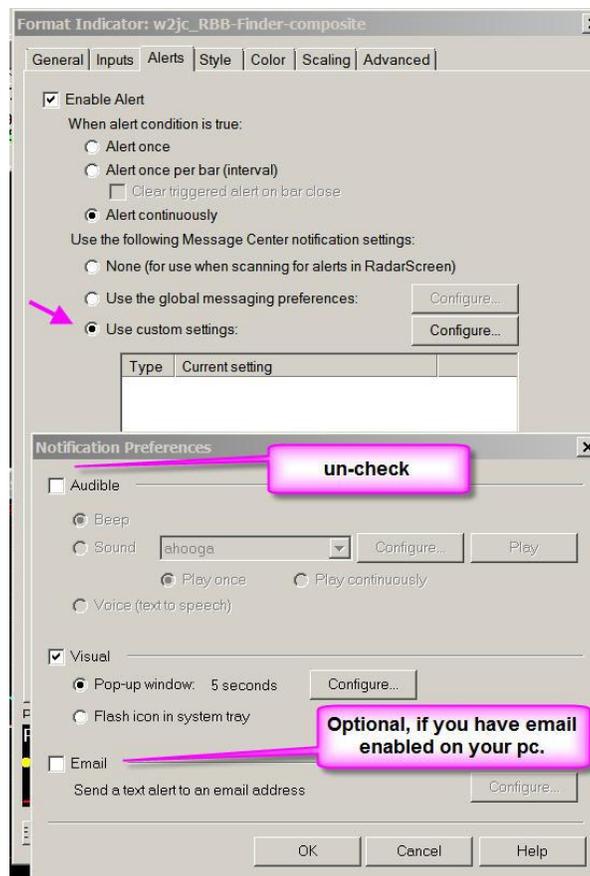


Suggested Configuration for the "global messaging preferences" (if you have not already set up your own) are as shown below:



If you do not want Alerts, simply go to the Format Alerts menu and un-check the top box "Enable Alert" ... this will stop all alert messages for this indicator on this chart (both text and audible).

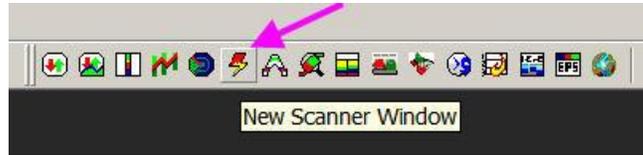
If you only want to disable the Audible Alerts, the leave the check in the "Enable Alert" box and click the "Use Custom Settings" button; then use Configure... to remove the Audio alerts.



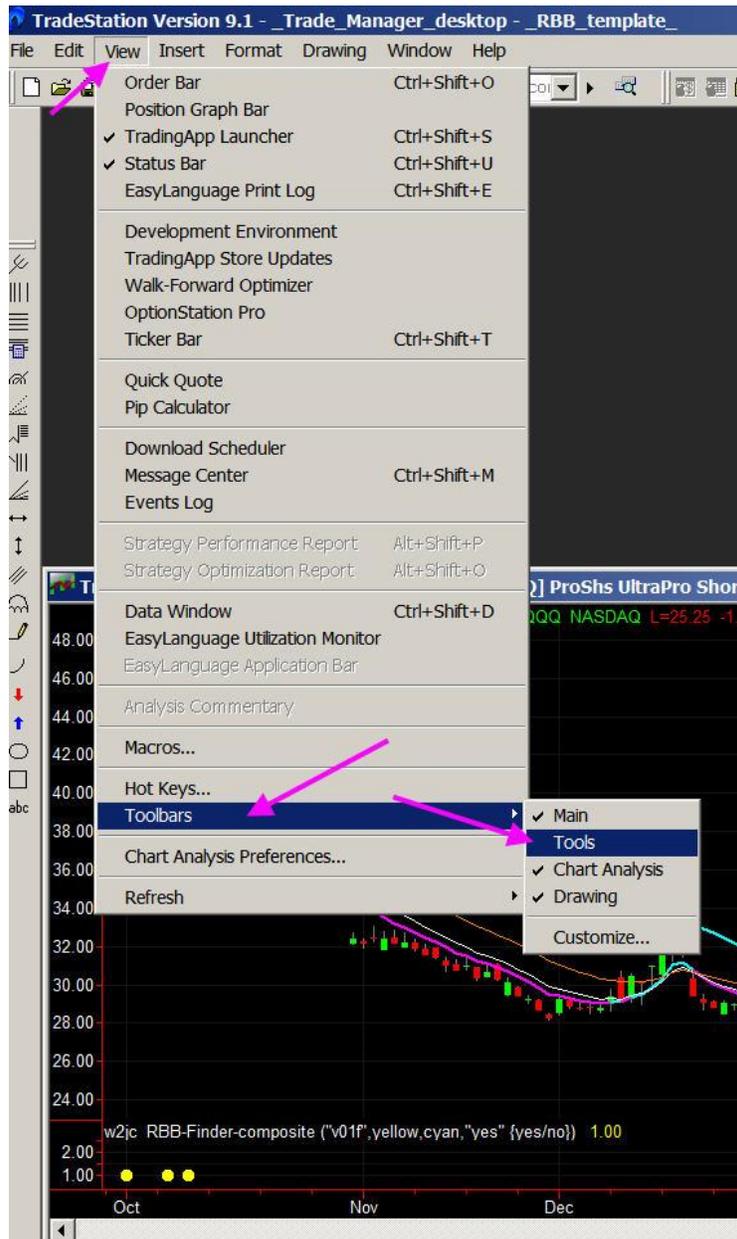
## Using w2jc\_RBB-Finder-Composite with the Scanner

Advanced Tradestation users can use this indicator in the TS scanner.

To create a new scan, you must first have the Scanner window open. The only convenient way to do this is to use the "New Scanner Window" icon in the "Tools" toolbar (it looks like a lightning strike).



If you do not have the "Tools" toolbar visible on your desktop, you can show it using the following selections:



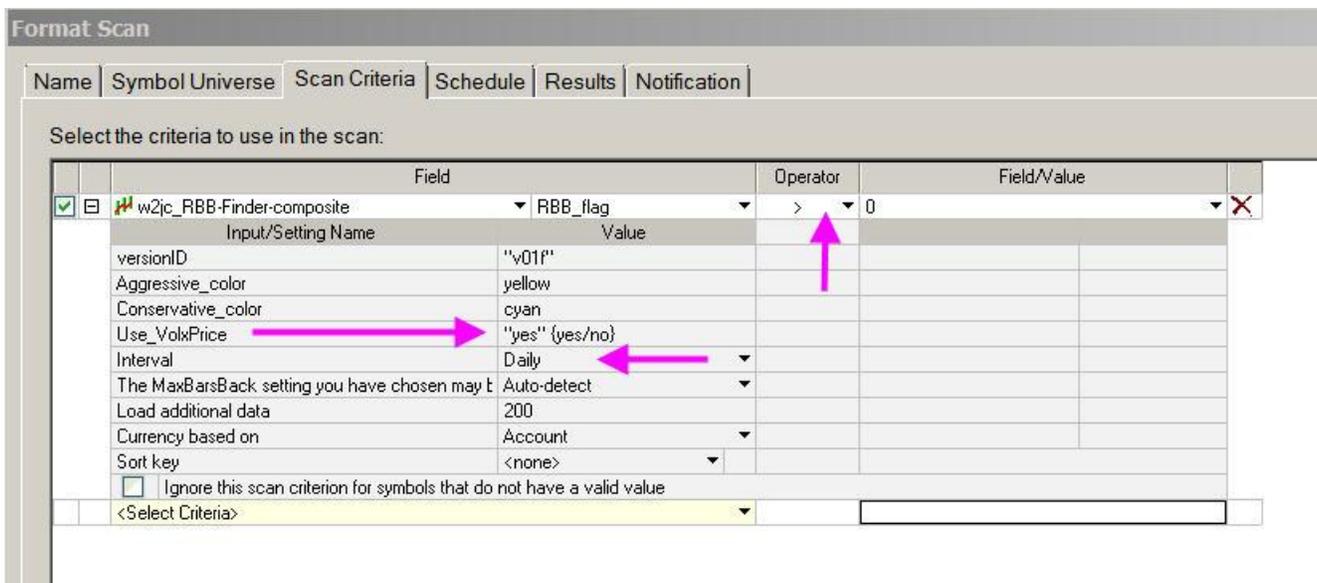
After you have opened the Scanner window in your Tradestation Desktop, you will see any Scans that have previously been set up. Now you will need to INSERT a new scan. Do this by clicking on the Insert button at the lower left of the Scanner window. When you do this, a new "Insert Scan - Name" window will open; name your scan in the top window, and type in any Notes or Comments desired in the large middle area. Leave the bottom area as <none> for now.

Click the Next button at the bottom and you should now see the "Insert Scan - Symbol Universe" window. In the top area, click the tiny down-arrow at the right end of the yellow area and see a selection drop-down menu with various symbol lists -- for now, just select "All Stocks" and again click the Next button at the bottom.

Now you should see the "Insert Scan - Scan Criteria" with a large white area. Click the tiny down-arrow at the right end of the yellow area and at the bottom of the list select "Indicator." A second window should open, showing all the Indicators that are installed in your Tradestation platform. Scroll down and select (left-click once on) the **w2jc\_RBB-Finder-composite** entry. Then click the OK button at the top right.

The indicator should now be listed on the top row of the Scan Criteria window.

Click the tiny [+] at the left end of the indicator name line; this should expand to the formatting menu as shown below:



Rounded Bottom Breakout conditions can now be found by scanning for **RBB\_flag > 0** which will find both Aggressive (1) and Conservative (2) matches. If only one type of RBB is desired, the scan can be set for RBB\_flag = 1 for Aggressive only, or RBB\_flag = 2 for Conservative only. The results list will show the type number.

Additional scanner Format settings that you might want to change are the --

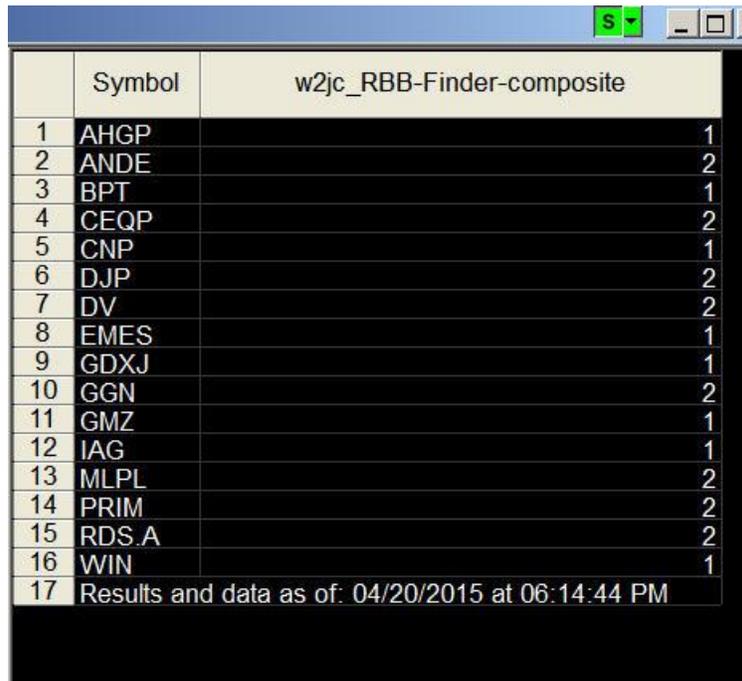
- Interval can be set for Daily or any other time range desired.
- Use\_VolxPrice change to "no" if you do not want to filter by Volume.

The other Format settings should not be changed.

When the formatting is completed, click the Finish button at the bottom of the window. Your new Scan should appear in the list at the left. Any time you want to run the RBB Finder scan, just click the Run button at the bottom right. You should then see three horizontal bars in the right side, showing the status of the scanning process.

Be patient! The scanning of All Stocks can take several minutes.  
Also, it is normal for the last stage to remain on 99% for a 'long' time.

When completed, the scan results will be displayed in the right section of the Scanner window. There should be two columns shown ... one for the Ticker symbol, the other for the number code of what type of RBB was found.



	Symbol	w2jc_RBB-Finder-composite
1	AHGP	1
2	ANDE	2
3	BPT	1
4	CEQP	2
5	CNP	1
6	DJP	2
7	DV	2
8	EMES	1
9	GDXJ	1
10	GGN	2
11	GMZ	1
12	IAG	1
13	MLPL	2
14	PRIM	2
15	RDS.A	2
16	WIN	1
17	Results and data as of: 04/20/2015 at 06:14:44 PM	

If you want to sort the result list by Type of RBB, just double left-click on the right-side column header.