

# How to Trade

# Linda Raschke's

## Turtle Soup Strategy (Step-by-Step)



Linda Raschke's Turtle Soup strategy is a counter-trend trading approach that capitalizes on failed breakouts.

It takes inspiration from the famous Turtles trading experiment, where novices were trained on a trend-following system.

The Turtle Soup strategy, however, flips the script, aiming to profit when those anticipated trends falter.

## Understanding the Principles

The core principle behind the Turtle Soup strategy is the idea that failed breakouts can be profitable opportunities.

When prices break above or below recent highs/lows (breakouts), it often signifies a shift in momentum.

However, these breakouts aren't guaranteed to hold. The Turtle Soup strategy focuses on identifying these false breakouts and entering trades in the opposite direction.

Here's the logic:

- **False Breakout:** Price breaks above a recent high (bullish breakout) but fails to sustain the move, closing back below the breakout level.
- **Turtle Soup Entry:** This failed breakout suggests underlying weakness, presenting a potential shorting opportunity.

Similarly, the strategy looks for failed breakouts to the downside (bearish breakouts) to initiate long positions.

# Choosing Your Weapon: Indicators for the Turtle Soup Strategy

The Turtle Soup strategy relies on identifying recent highs and lows, making moving averages a natural fit. Here are two popular options:

- **20-period Moving Average (MA):** This short-term MA provides a dynamic reference point for recent price action.
- **50-period Moving Average (MA):** This mid-term MA offers a broader perspective on the trend.

### Additional Considerations:

- While the 20-period and 50-period MAs are common choices, you can experiment with different lengths to suit your trading style and preferred timeframe.
- Some traders incorporate other indicators like Bollinger Bands or Relative Strength Index (RSI) to gauge volatility and potential overbought/oversold conditions.

**Remember:** Indicators are tools, not holy grails. Use them to identify potential setups, but always confirm with price action before entering a trade.

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# Scouting for Signals: How to Identify Turtle Soup Entries

Now that you have your indicators set up, let's delve into identifying trade signals:

## Long Entry (Failed Bearish Breakout):

1. **Price Dips Below 20-period MA:** Observe the price action around the 20-period MA. A clear break below the MA suggests a potential downtrend.
2. **Price Closes Back Above 20-period MA:** This is crucial. If the price dips below the MA but quickly recovers and closes back above, it signifies a potential failed breakout.
3. **Confirmation from 50-period MA (Optional):** Ideally, the 50-period MA should also be sloping upwards, indicating a broader bullish bias.

## Short Entry (Failed Bullish Breakout):

1. **Price Rallies Above 20-period MA:** Watch for the price to clearly break above the 20-period MA, suggesting a potential uptrend.
2. **Price Closes Back Below 20-period MA:** If the price surges above the MA but fails to hold and closes back below, it might be a failed breakout.
3. **Confirmation from 50-period MA (Optional):** Ideally, the 50-period MA should be sloping downwards, indicating a broader bearish bias.

**Pro Tip:** Always prioritize price action over indicator signals. A convincing price reversal following a failed breakout is a stronger confirmation than just the indicator crossover.

## Entering and Exiting the Trade: Risk Management is Key

Once you've identified a potential Turtle Soup entry, it's time for critical risk management steps:

### Entry:

- **Don't Chase:** Wait for a clear confirmation candle close (above/below the 20-period MA) before entering the trade. Chasing prices can lead to getting caught in false signals.
- **Consider Market Orders vs. Limit Orders:** Market orders ensure entry at the current price but might lead to slippage during volatile periods. Limit orders offer more control over entry price but risk missing the opportunity if the price moves quickly.

### Stop-Loss:

- **Placement:** For long positions, place a stop-loss order below the recent low that triggered the failed breakout (short entries: above the recent high).
- **Risk Tolerance:** The stop-loss should reflect your risk tolerance and account size. Aim for a risk-reward ratio of at least 1:2 (potential profit is at least twice the potential loss).

### Take Profit

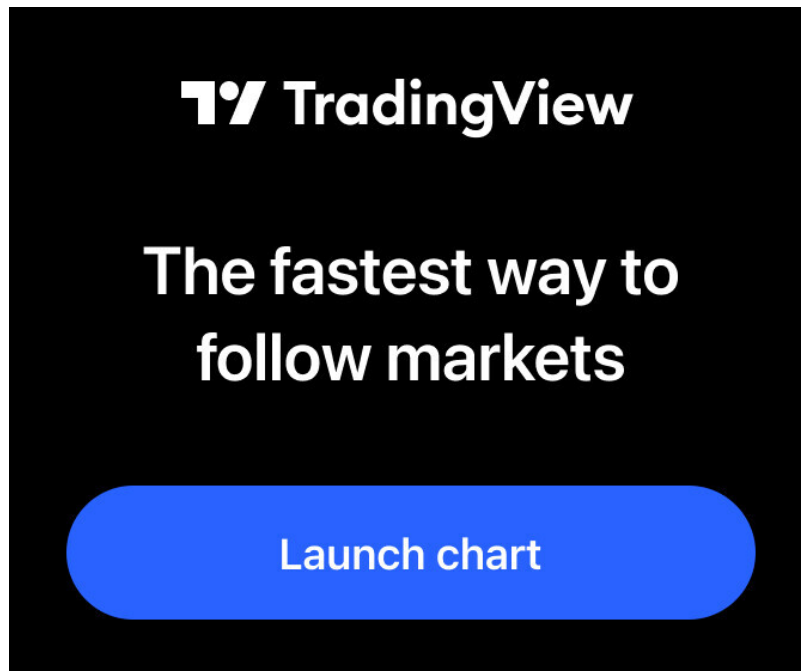
#### Profit Targets:

There isn't a one-size-fits-all approach. Some traders target the opposite moving average (long: 50-period MA; short: 20-period MA) as a profit target. Others use trailing stop-loss orders that automatically adjust as the trade moves in their favor.

#### Additional Considerations:

## How to Trade Linda Raschke's Turtle Soup Strategy (Step-by-Step)

- **Trade Management:** The Turtle Soup strategy is a counter-trend approach, and counter-trend trades can be choppy. Be prepared for some volatility after entry and stick to your stop-loss and take-profit levels.
- **Psychology:** Trading against the prevailing trend can be psychologically challenging. Discipline and patience are crucial to avoid exiting winning trades too early.
- **Backtesting:** Before deploying the Turtle Soup strategy with real capital, consider backtesting it on historical data. This helps you evaluate its effectiveness, identify potential weaknesses, and refine your entry and exit criteria.



## Limitations and Conclusion

The Turtle Soup strategy is a valuable tool for identifying potential trading opportunities. However, it's essential to acknowledge its limitations:

- **False Signals:** Not all failed breakouts lead to profitable trades. The market can be unpredictable, and sometimes, breakouts might hold, leading to losses.
- **Market Conditions:** The strategy might be less effective in highly volatile markets or during strong trends where breakouts are more likely to follow through.

## Conclusion

Linda Rashcke's Turtle Soup strategy offers a unique approach to profiting from the market's inefficiencies. By capitalizing on failed breakouts, traders can potentially capture short-term reversals. Remember, the strategy is just one piece of the puzzle. Combine it with sound risk management practices, discipline, and continuous learning to navigate the ever-changing market landscape.

**Disclaimer:** This article is for educational purposes only and should not be considered financial advice. Always conduct your own research and due diligence before making any trading decisions.