

From Charts to Portfolios: Understanding Breakouts & BOUT

Explaining breakout investing in plain language — and how CapForce IBD® Breakout Opportunities ETF (BOUT) turns the concept into an ETF.

Summary

- Breakouts are price moves through well-defined resistance¹, often with stronger volume, used to identify stocks that may be entering new leadership phases.
- The IBD Breakout Stocks Index codifies breakouts into a systematic process — screening for breakout characteristics instead of simply weighting by market cap.
- BOUT packages that index into an ETF, giving advisors a rules-based satellite sleeve that may complement large-cap core exposure rather than replace it.
- For index-heavy portfolios, a modest BOUT allocation can help diversify where growth exposure comes from — focusing on stocks clients often don't meaningfully own through standard large-cap benchmarks.

What is a breakout — and how can advisors understand the technical concept, then evaluate the CapForce IBD® Breakout Opportunities ETF (BOUT) in portfolio context? Many advisors are comfortable discussing diversification, valuation, and asset allocation, but fewer are asked to explain a technical trading concept like a “breakout” in client-ready language.

That matters because many client portfolios today are built around cap-weighted large-cap indexes², and those indexes can leave investors heavily exposed to current market leaders while offering less meaningful participation in stocks that may be emerging into new leadership. A breakout-oriented strategy is designed to address that gap by focusing on companies that appear to be moving beyond established resistance levels into a new period of price strength, rather than simply owning the largest incumbents by market capitalization.

For advisors, the value of understanding breakouts is not that every client needs a trading strategy. The value is that breakout investing represents a distinct way of identifying opportunity, one that can complement broad index exposure when a portfolio is already heavily tied to the same benchmark leaders. In BOUT, that concept is translated into an ETF structure that seeks to provide exposure to the IBD Breakout Stocks Index, giving RIAs a way to evaluate breakout-oriented equity exposure in portfolio terms rather than as a discretionary trading tactic.

Why breakouts deserve advisor attention

A practical challenge for many RIAs is that client portfolios often look diversified on the surface while remaining highly dependent on a relatively narrow set of large-cap growth stocks and adjacent sectors underneath. When clients own a broad large-cap core fund, a large-cap growth sleeve, a technology

allocation, and perhaps one or two mega-cap single stocks, the overlap can be much greater than they realize. That does not make broad indexes inappropriate. It does mean that “owning the market” may not provide the breadth of growth exposure many investors assume it does.

This is where breakout investing becomes relevant. Rather than weighting a portfolio toward the largest companies because they already dominate the benchmark, a breakout approach tries to identify stocks that are moving from consolidation into potential new leadership. In effect, it shifts the question from “How do we own more of what has already performed well?” to “How do we identify companies that may be beginning a new phase of price strength?” For advisors trying to broaden the sources of equity return without abandoning the core index, that can be a useful distinction.

Breakouts in technical terms

In technical analysis, a breakout generally refers to a move by a stock above a defined resistance level or below a defined support level, often accompanied by increased trading volume. For the purposes of advisor education and the context of BOUT, the more relevant case is the upside breakout: a stock pushing above a level where prior advances have stalled, suggesting that buying demand may now be strong enough to support a new trend.

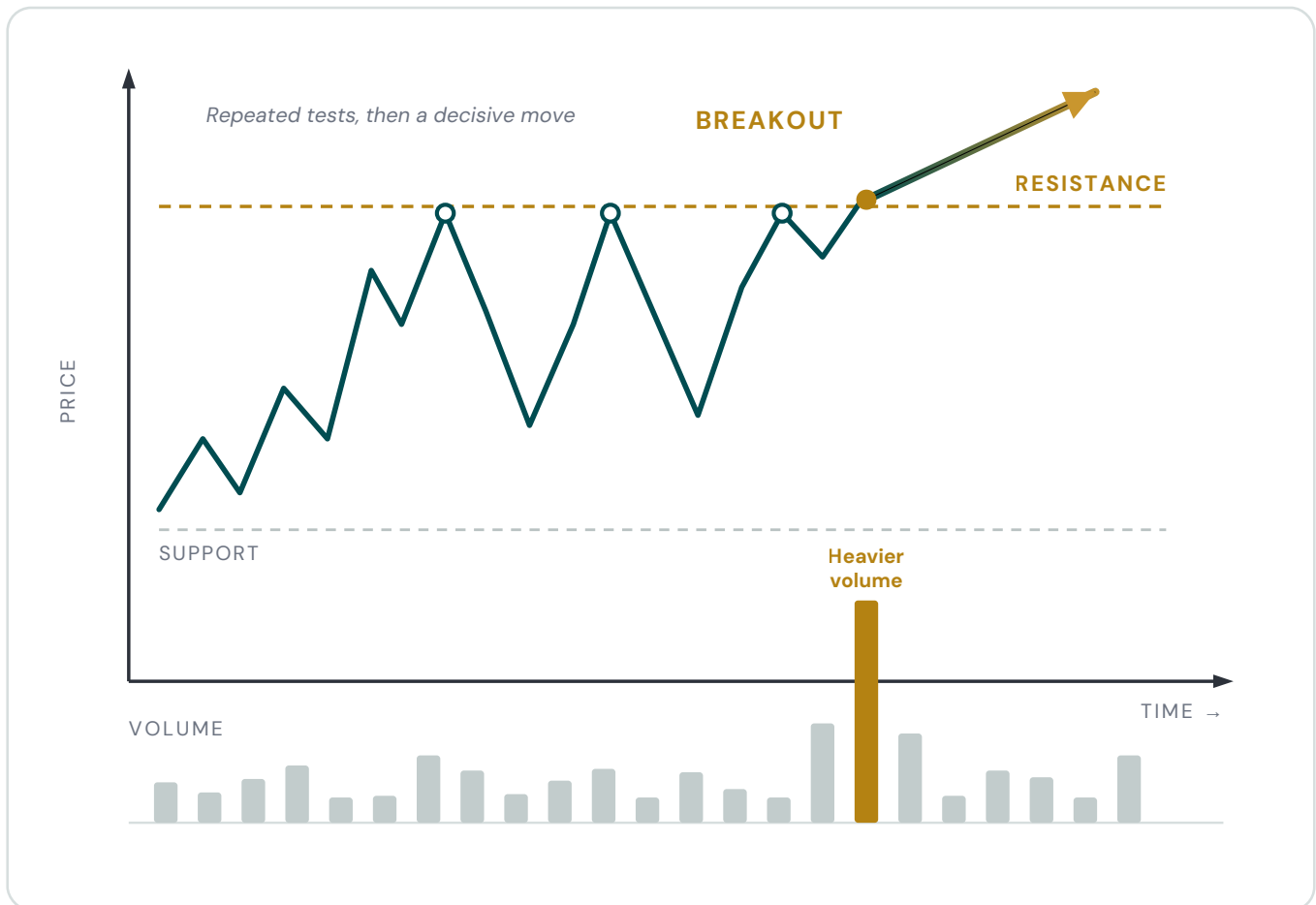


EXHIBIT 1 Anatomy of an upside breakout. A stock repeatedly tests a resistance ceiling, then clears it on heavier volume — a move technicians read as a possible new trend.

Support and resistance are the building blocks of that idea. Support refers to a price area where buying has historically been strong enough to limit declines, while resistance refers to a price area where selling pressure has historically capped advances. When a stock repeatedly approaches a resistance level but fails to move

through it, that level becomes important to traders and technicians. If the stock then decisively pushes above that ceiling, the move may be interpreted as a breakout because the prior barrier has been overcome.

Volume is often treated as a second layer of confirmation. A breakout on heavier volume may indicate that a broader set of buyers is participating in the move, which can increase confidence that the price action reflects genuine demand rather than short-term noise. That said, volume confirmation is not a guarantee. Breakouts can fail, reverse, or whipsaw, which is why breakout investing should be understood as a probability-based discipline rather than a certainty-based signal.

Several common chart behaviors sit under the broader “breakout” umbrella. Stocks may break out from sideways trading ranges, from longer bases or consolidations, or through prior highs that acted as resistance. Technicians often watch for these setups because they suggest a stock may be moving from a period of indecision into a period of stronger directional momentum. At the same time, failed breakouts are a real risk. A stock can move above resistance briefly, attract buyers, and then fall back below the breakout level if the move lacks staying power.

From trading tactic to repeatable process

One reason advisors can be skeptical of breakout language is that it can sound like short-term trading. In discretionary trading, a breakout may be something an individual trader spots visually on a chart and acts on in real time. That is very different from a rules-based index process, where the idea is codified into a repeatable screening and rebalancing framework. For RIAs, our view is that distinction matters because a systematic method is more consistent with due diligence, committee review, model governance, and client explanation than an ad hoc trading call.

A rules-based breakout approach is not trying to predict the future with certainty. Instead, it applies a defined methodology to look for stocks that meet criteria associated with breakout potential, then refreshes the portfolio as market leadership changes. The appeal of that structure is discipline. It seeks to identify opportunity using repeatable logic rather than intuition, and it can be evaluated in the same way an advisor would evaluate other index-based sleeves: by understanding what the index is designed to capture, how it behaves, and where it fits in a model.

The IBD Breakout Stocks Index

“The index is intended to identify names that appear to be moving into new leadership rather than simply reflecting the largest existing constituents of a broad market benchmark.”

The IBD Breakout Stocks Index is built around this general concept. Public descriptions indicate that the index seeks to provide opportunistic exposure to stocks with the potential to “break out,” meaning stocks that may experience a period of sustained price growth beyond recent resistance levels. In other words, the index is intended to identify names that appear to be moving into new leadership rather than simply reflecting the largest existing constituents of a broad market benchmark.

For advisors, the exact value of this concept is not in memorizing every screen or proprietary filter. The more important point is to understand the index’s objective and behavior. Conceptually, a breakout-oriented index starts with an eligible stock universe, applies technical and related filters to identify breakout candidates, and then rebalances on a defined schedule as new names qualify and older names fall out. That rotation is

important because breakout investing is inherently linked to changing leadership. A stock that qualified as a breakout candidate earlier may no longer represent the same opportunity later, while a new group of candidates may emerge as conditions change.

This makes the index meaningfully different from a cap-weighted large-cap benchmark. A broad index generally gives more weight to companies that are already the largest and most heavily owned. A breakout index, by contrast, is trying to identify stocks based on breakout characteristics rather than size alone. For advisors, that difference is precisely why the strategy may look distinct from the core index sleeve in a client portfolio.

How BOUT puts the concept into ETF form

BOUT seeks to provide exposure to the investment results of the IBD Breakout Stocks Index. That gives advisors an ETF wrapper for a breakout-oriented strategy, rather than requiring them to implement the concept through individual stock selection or discretionary trading. In portfolio construction terms, BOUT turns a technical concept into something that can be evaluated as a model sleeve, documented in an IPS framework, and discussed in client-facing language.

It is important, however, to define BOUT by what it is and what it is not. It is not a replacement for diversified core equity exposure. It is not a guarantee that all breakout signals will succeed or that the strategy will outperform broad large-cap benchmarks over every period. And it is not best understood as a day-trading vehicle. Instead, BOUT is more appropriately framed as a rules-based satellite allocation that may complement a client's large-cap core when the advisor wants a different source of equity participation than the benchmark's largest incumbents.

This framing helps explain why BOUT may matter in advisor portfolios. Many index-heavy clients may already have substantial exposure to the largest benchmark names through their core holdings. What they may not have is meaningful exposure to companies that are less represented in those cap-weighted portfolios but that may be emerging into leadership according to a breakout-oriented process. That is where BOUT becomes relevant: not as "more of the same," but as a differentiated source of equity exposure designed to sit beside, rather than replace, the core.

Why breakout exposure can complement core index exposure

A broad large-cap index remains a sensible building block for many clients. It is familiar, liquid, and easy to explain. But for advisors, the issue is not whether the index should stay in the portfolio. The issue is whether the index alone gives the client enough breadth in the sources of growth exposure. If much of the client's equity outcome is already concentrated in the same handful of benchmark leaders, then adding another sleeve tied to those same names may not materially change the concentration story.

This is one reason BOUT may be evaluated as a satellite sleeve. It offers a different way of sourcing equity exposure — through a rules-based breakout framework rather than through market-cap weighting. In practical terms, that means BOUT may hold stocks that many index-only investors do not own in meaningful size, even if those investors believe they already "own the market." That does not mean BOUT removes market risk or concentration risk by itself. No single ETF can do that. It does mean it may help diversify the sources of equity return when used as part of a broader, well-constructed portfolio.

A practical advisor use case

Consider a client with a familiar ETF-centric growth allocation. The core is a broad U.S. large-cap index fund. Around that sits a large-cap growth ETF, perhaps a technology sleeve, and one or two mega-cap stocks accumulated over time. On the statement, the portfolio appears to have multiple vehicles and multiple

exposures. Under the hood, however, the growth engine may still be tied disproportionately to the same dominant names and sectors.

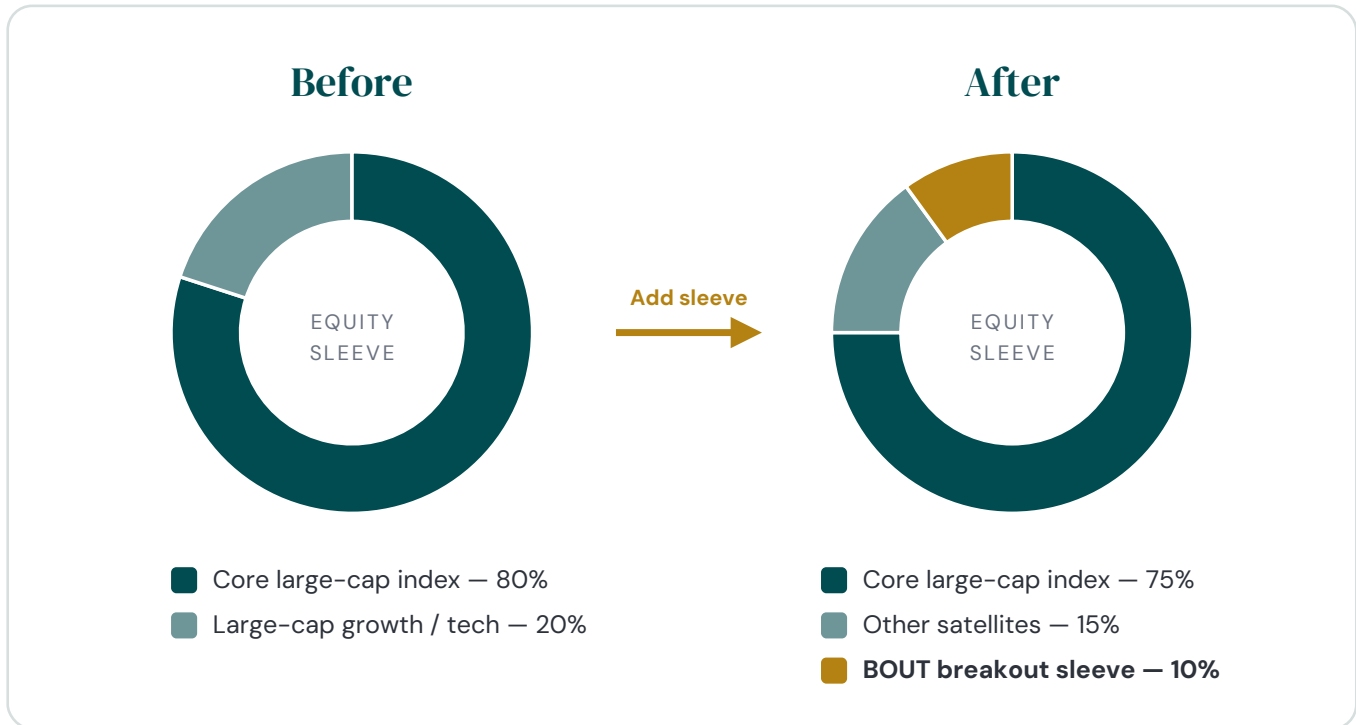


EXHIBIT 2 BOUT as a satellite sleeve, not a core replacement. Keeping the core intact and adding a modest BOUT allocation broadens where growth exposure comes from. Allocations shown are illustrative.

An RIA does not need to dismantle that structure to improve it. A practical approach may be to keep the core intact and evaluate a modest BOUT allocation as a satellite sleeve. In client-ready language, the advisor can explain that the purpose of the sleeve is to broaden where growth exposure comes from and reduce reliance on the same companies already driving the index. The implementation does not need to be dramatic. In many advisor settings, a single-digit or low-teens allocation is easier to defend than a large reallocation because it addresses concentration without implying that the advisor is abandoning the core philosophy.

This is also where BOUT's narrative clarity can matter. A client does not need to become a technician to understand the portfolio role. The explanation can remain simple: the core still owns the largest established companies, while BOUT is a smaller, rules-based sleeve intended to add exposure to companies emerging into leadership outside the names already dominating the client's large-cap benchmark exposure. That story tends to be more intuitive than a purely product-centric explanation because it ties the allocation to a clear portfolio job.

Explaining breakouts and BOUT to clients

For most clients, the breakout concept should be explained in plain language rather than chart jargon. One useful formulation is that a breakout occurs when a stock moves above a level where it had repeatedly stalled, often with stronger trading activity behind the move. That allows the advisor to describe the concept without requiring the client to learn technical analysis in detail.

The next step is connecting that concept to BOUT. A concise explanation might sound like this: the portfolio's core index funds remain the base of the equity allocation, but BOUT is a smaller, rules-based sleeve designed to seek exposure to stocks that may be emerging into new leadership and that are often less represented in broad large-cap indexes. Put differently, the strategy is not trying to replace broad market exposure. It is trying to complement it by expanding the set of companies driving the portfolio's growth exposure.

That framing is useful because it avoids two common mistakes. The first is overselling the strategy as a complete solution to concentration. The second is describing it so technically that the client only hears “more complexity.” We believe that advisors who explain BOUT in terms of concentration, differentiated growth exposure, and disciplined implementation are usually in a better position to help clients understand why a breakout-oriented sleeve may belong beside the core.

What advisors should evaluate before using BOUT

Before adding any satellite strategy, advisors still need to do the basic work of looking under the hood of the client’s existing holdings. The first question is whether the client’s growth exposure is already overly dependent on the largest benchmark constituents. The second is whether the client needs a complementary source of growth exposure beyond what cap-weighted large-cap indexes already provide. The third is whether the role of BOUT can be explained clearly in one to two minutes using plain language tied to the client’s portfolio purpose, not just the ETF’s mechanics.

Advisor Due-Diligence Checklist

- How dependent is this portfolio on the top benchmark names?
- Do clients have meaningful exposure to emerging leadership?
- Can I explain BOUT’s role in 1–2 minutes, in plain language?

EXHIBIT 3 A starting checklist for due diligence. Three questions that make the suitability conversation concrete before any allocation is made.

Operational and behavioral considerations also matter. Breakout-oriented strategies may involve higher turnover than broad market indexes, may behave differently from the benchmark, and may experience periods of underperformance or sharp reversals when trends fail. Advisors therefore need to consider fit within the client’s IPS, risk tolerance, tax profile, liquidity needs, and overall model structure. As with any satellite sleeve, the decision is not only about whether the idea is compelling. It is also about whether it is governable and explainable in the context of the advisor’s overall process.

Risks and limitations

Breakout investing has real limitations. False breakouts and whipsaws are part of the landscape, and technical strength can reverse quickly when market conditions change. Strong volume and clean chart patterns may improve confidence, but they do not eliminate the risk of loss. That is why breakout strategies should be understood as disciplined approaches to identifying potential opportunity, not as formulas for certainty.

Conclusion

For advisors, the breakout concept is most useful when translated from technical language into portfolio language. At its core, breakout investing is a disciplined attempt to identify stocks moving into potential new

leadership by looking for price moves through resistance, often with volume confirmation. The IBD Breakout Stocks Index applies that logic in a rules-based framework, and BOUT packages it into an ETF that advisors can evaluate as a satellite sleeve rather than a discretionary trading tactic.

That does not make BOUT a replacement for the core index. It makes it a potentially useful complement in portfolios where broad large-cap exposure already dominates the equity story. For RIAs seeking a different source of growth exposure — one that may reach companies clients do not already own in meaningful size through cap-weighted indexes — BOUT offers a way to have that conversation in practical portfolio terms. The key is not to treat breakouts as magic. The key is to understand the concept, assess the fit, and decide whether a rules-based breakout sleeve adds genuine diversification and explanatory value to the client's equity allocation.

¹ Stock price resistance is a specific price ceiling where a stock's upward momentum tends to stall because selling pressure exceeds buying demand.

² Capitalization-weighted (cap-weighted) large-cap indexes are stock market benchmarks where member companies are weighted according to their total market value, meaning larger companies disproportionately drive the index's performance.

Important Information

IMPORTANT RISK INFORMATION

Investing involves risks. Principal loss is possible. The Fund's return may not match the return of the Index. Along with general market risks, an ETF that concentrates its investments in the securities of a particular industry, market, sector, or geographic area may be more volatile than a fund that invests in a broader range of industries. Additionally, the Fund may invest in securities that have additional risks. Foreign companies can be more volatile, less liquid, and subject to the risk of currency fluctuations. This risk is greater for emerging markets. Small- and mid-cap companies can have limited liquidity and greater volatility than large-cap companies. Also, ETFs face numerous market trading risks, including the potential lack of an active market for Fund shares, losses from trading in secondary markets, periods of high volatility and disruption in the creation/redemption process of the Fund.

ABOUT THE INDEX

The IBD® Breakout Stocks Index is the fund's underlying index and is a proprietary index calculated by Investor's Business Daily® that seeks to identify stock breakout opportunities, or stocks poised to experience a period of sustained price growth beyond the security's recent "resistance level," with consideration for various market conditions.

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