

Technical analysis: Support and Resistance



TRADING TERMINAL.com
FROM BEAR BULL TRADERS

Presented by: Roko



Technical analysis

Detailed **Technical analysis** allows trader to identify significant price levels named **Support** and **Resistance**.

These two are basically stamps or clues by larger players (e.g. institutions and hedge funds) on where they have their interests and can affect price action significantly.

Support and/or Resistance can then be used by a retail trader to define **how much will be risked on this trade, where is the price entry and where is the profit target.**



Technical analysis

Support and **Resistance** price levels are foundation of technical analysis that day and swing traders use.

Support and **Resistance** are price levels where price action is expected to pause and then either *reverse* or *continue* in the direction that it has approached either **Resistance** or **Support** levels.

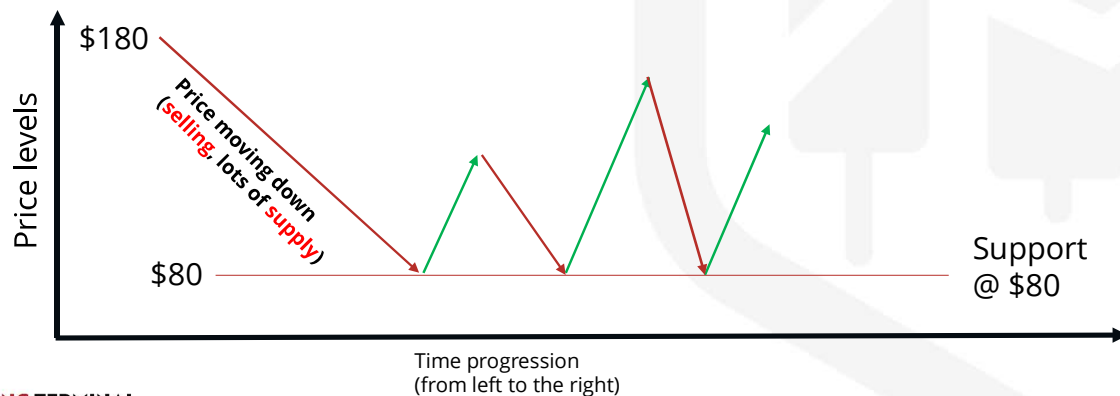


Technical analysis: **Support level**

When there is excess in **supply**, **sellers** are actively selling shares to **buyers**, the price is consequently dropping.

At certain price level, **a support** is achieved when price **stops dropping** and stalls at that price level or area.

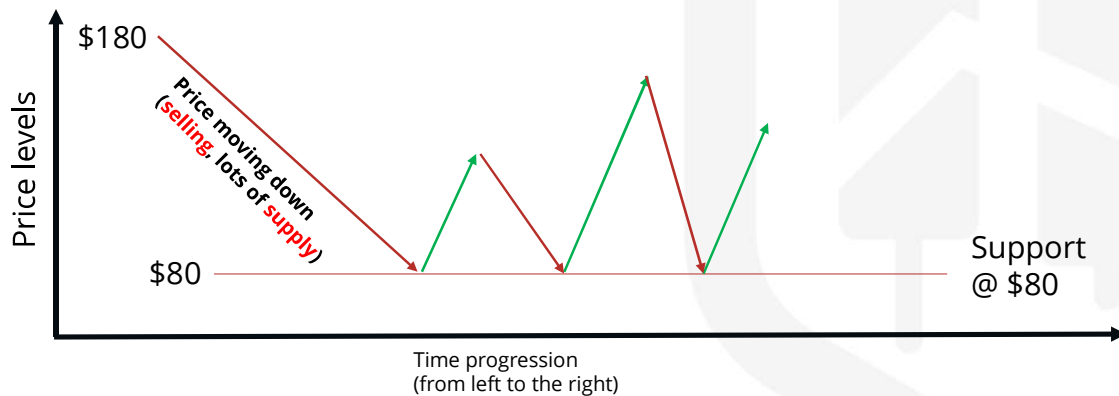
That means that there is no one in the world that will **sell** share for any price below the **support** price level.



Technical analysis: **Support level**

You can identify previous **support** by finding at least **two price touches** of previous price **low** levels.

Support is the price level where price will stop dropping due to concentration of **buyers (Demand)**.



Please note that in other words, Support is created by inability to keep selling.

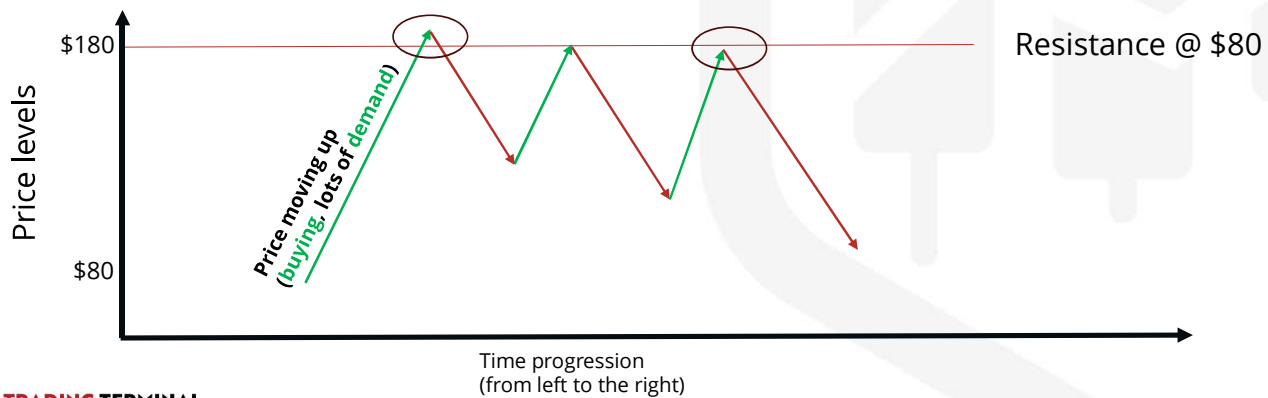


Technical analysis: **Resistance level**

When there is excess in **demand**, **buyers** are actively buying shares from **sellers**, and the price is consequently increasing.

At certain price level, **a resistance** is achieved when price **stops increasing** and stalls at that price level or area.

That means that there is no one in the world that will **buy** share for any price above the **resistance** price level.

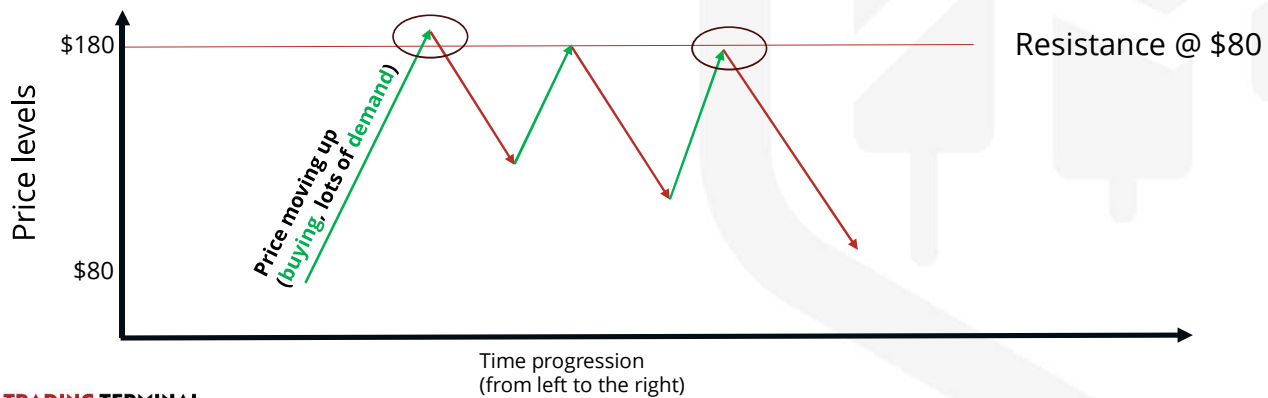


Technical analysis: **Resistance level**

You can identify previous **resistance** by finding **two price touches** of previous price **high** levels.

Resistance is the price level where an price will stop increasing due to concentration of **sellers (Supply)**.

Please note that in other words, Resistance is created by inability to keep buying.



Significance of Support and Resistance increases with time frame.

Support (S) and **Resistance (R)** levels are more significant on higher time frames.

Support and Resistance (S/R) strength scale:

Monthly S/R → Weekly S/R → Daily S/R → 1 hr → 30 min → 5 min → 5 min → 1 min



Chart example of **Resistance** and **Support**



Chart example of **Support** that did not break



Chart example of **Resistance** and **Breakout**



Chart example of **Support that did not break**



Chart example of Support that did not break



Resistance and **support** help us define to major events in price action: Trading ranges and trends



Technical analysis: **Trading ranges**

In a **Trading range** scenario, price moves from **support** to **resistance**, **back-and forth**.

Here, both **support** and **resistance** are holding their positions.



Trading range here is between \$10-\$15



Technical analysis: Trading ranges

In a **Trading range** scenario, price moves from **support** to **resistance**, **back-and forth**.



The basic idea of Trading ranges is to **buy** shares at the price that provides the **support** and **sell** them at the price that provides **resistance**.

*It sounds easy, but it is not as we will learn later on!
For now, lets just learn to recognize a trading range like in an example above.*



Technical analysis: Trading ranges

In a **Trading range** scenario, price moves from **support** to **resistance**, **back-and forth**.



Basic facts to consider if you are thinking now of trading ranges:

Here, it is most important to realize how is actually price action behaving at the **Support** and **Resistance** levels.

Briefly, the price can not move past these levels, and we tend to say that price was **"rejected"**, usually at a *fast pace*. As we have seen in the above example, **Resistance** and **Support** are in reality **very "leaky"** when price penetrates *but comes back fast below the Resistance* or *above the Support level*. Also, Resistance and Support levels are somewhat more of a range than the exact prices.



Technical analysis: **Trends (breakouts)**



It is easier to make consistent profits with trends...



Technical analysis: Trends up (breakouts)

"Trend is your friend" because you can be somewhat late or even early in buying into the move - and still make a good profit.

Trend up to above \$33 was established.

Change in price behavior.
Resistance was taken out

Small *pullback* in price where **Resistance** now becomes **Support!**



It is easier to make consistent profits with trends.



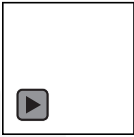
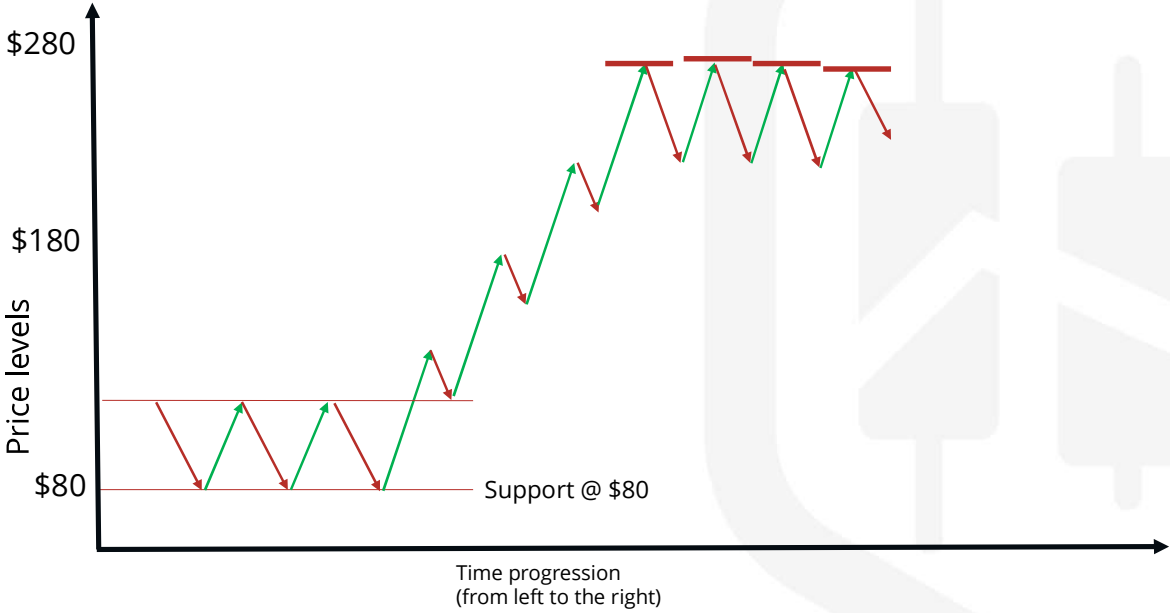
Technical analysis: Trends up (breakouts)



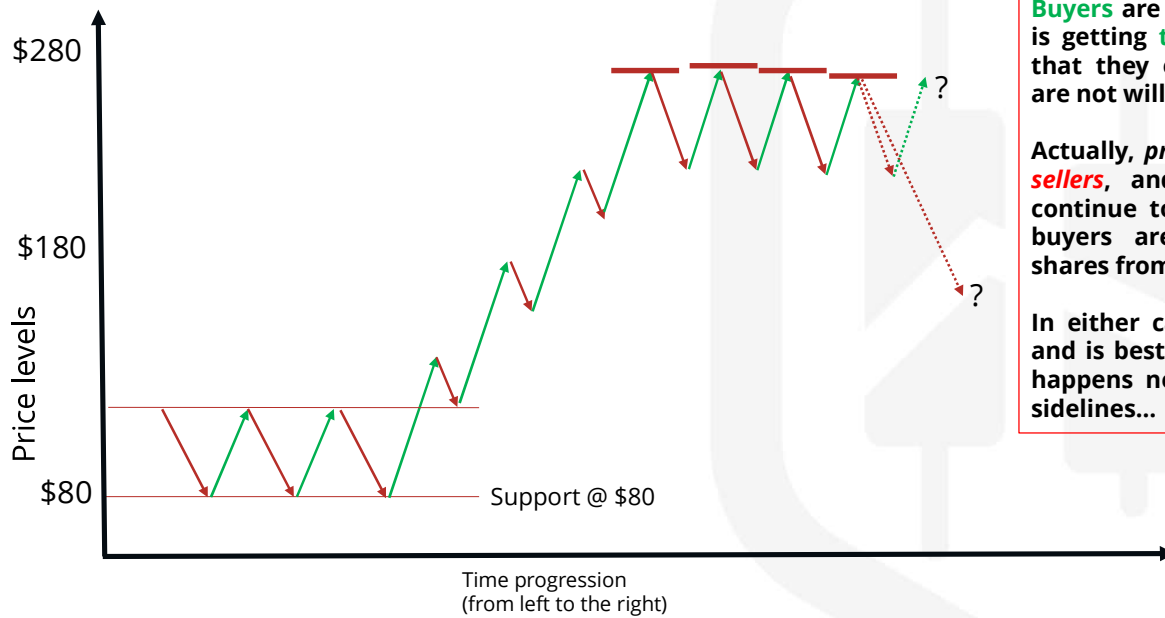
It is easier to make consistent profits with trends.



Technical analysis: **Trend endings upward 1**



Technical analysis: **Trend endings 1**



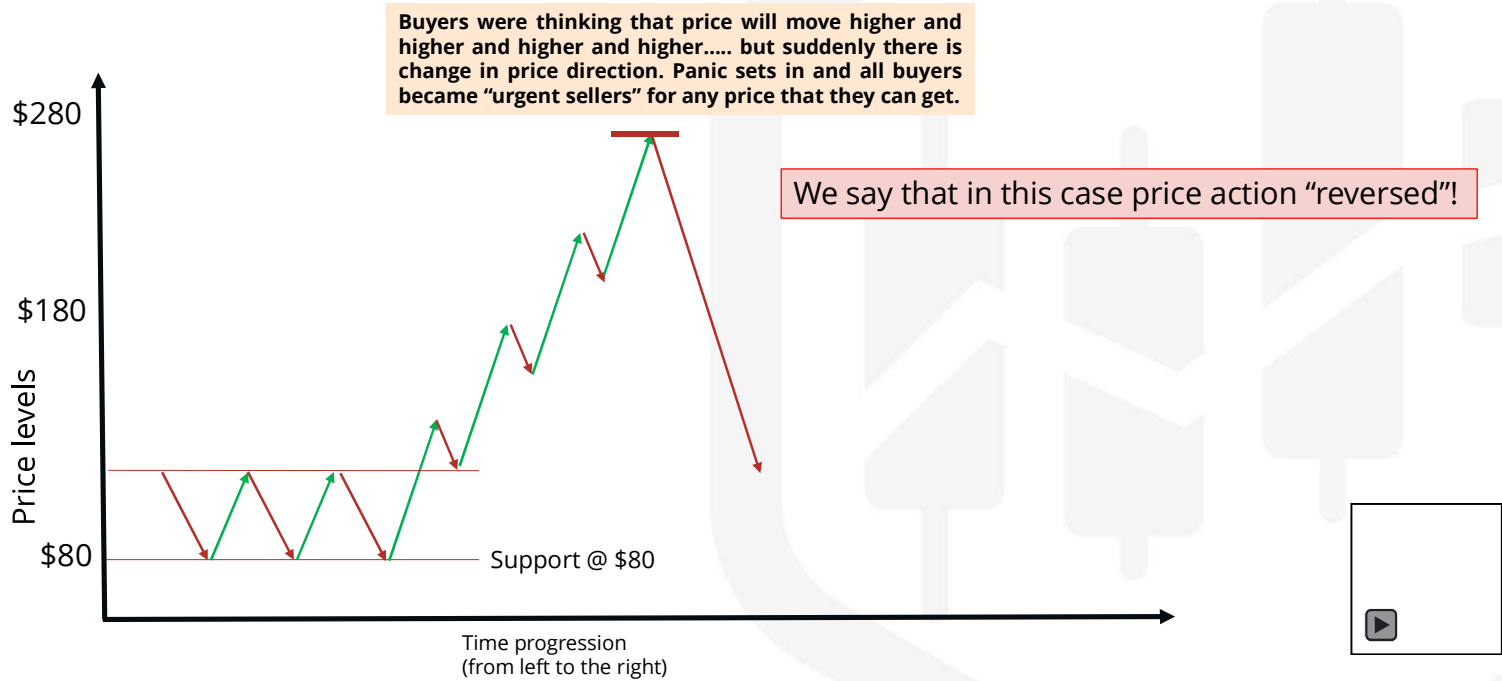
Buyers are starting to think that price is getting **too high for their taste**, or that they earned enough, and, thus, are not willing to buy higher.

Actually, *prior buyers may now become **sell**ers*, and price can go down or continue to moving sideways as new buyers are coming in and buying shares from previous buyers!

In either case, **trend up** has stopped and is best to "bank in" and see what happens next from the safety of the sidelines...

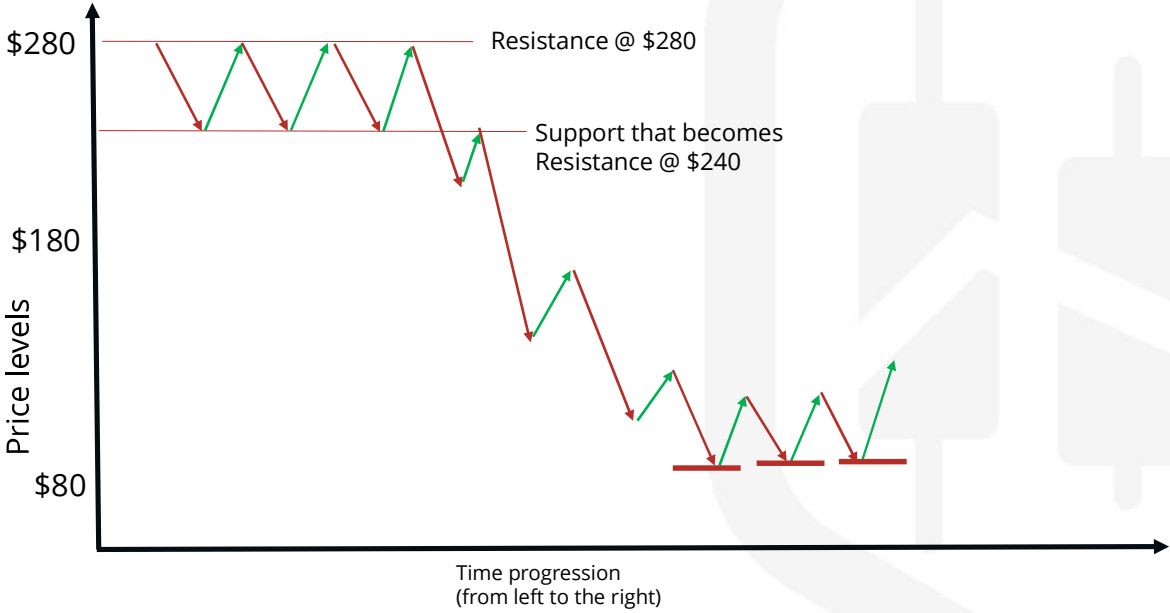


Technical analysis: **Trend endings 2**

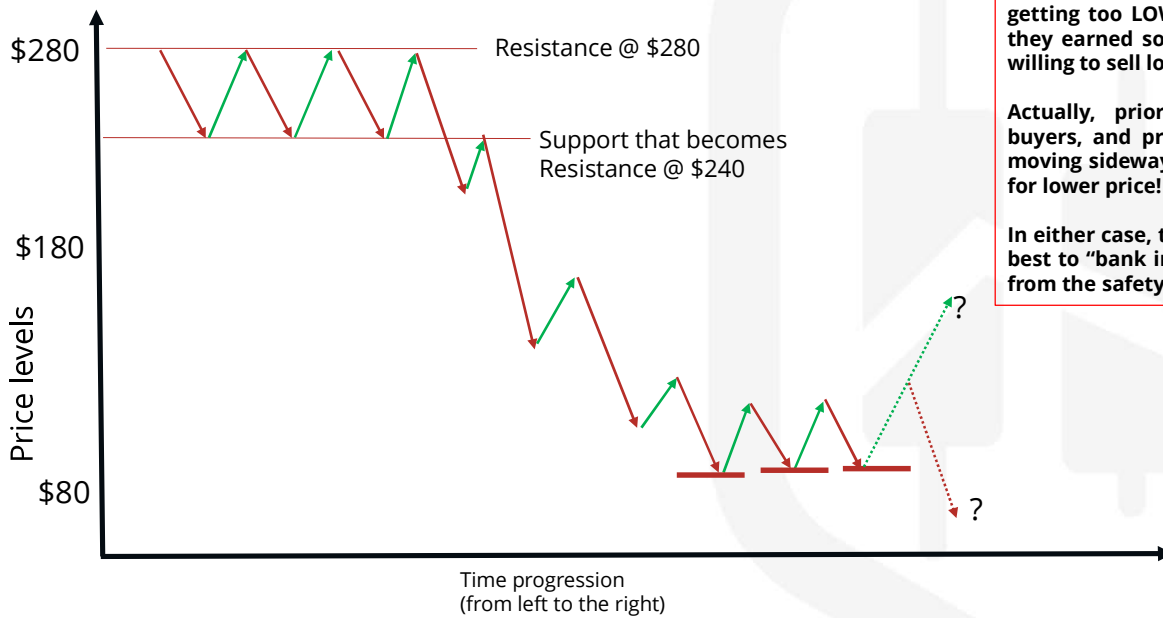


There is also a phenomenon called "long squeeze" that can cause this that we will learn later about.

Technical analysis: **Trend endings down 1**



Technical analysis: Trend endings down 1



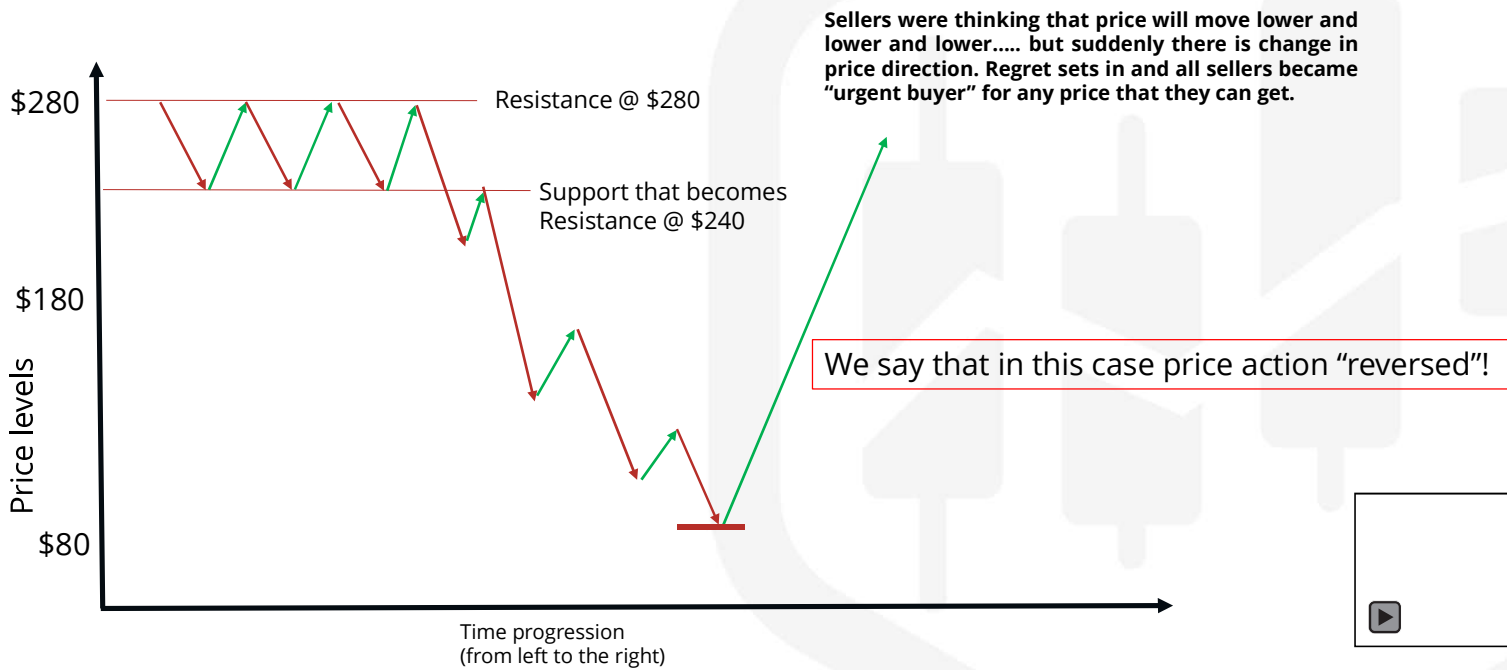
Sellers are starting to think that price is getting too LOW for their estimates, or that they earned sold enough, and, thus, are not willing to sell lower.

Actually, prior sellers may now become buyers, and price can go up or continue to moving sideways as no seller is willing to sell for lower price!

In either case, trend down has stopped and is best to "bank in" and see what happens next from the safety of the sidelines.

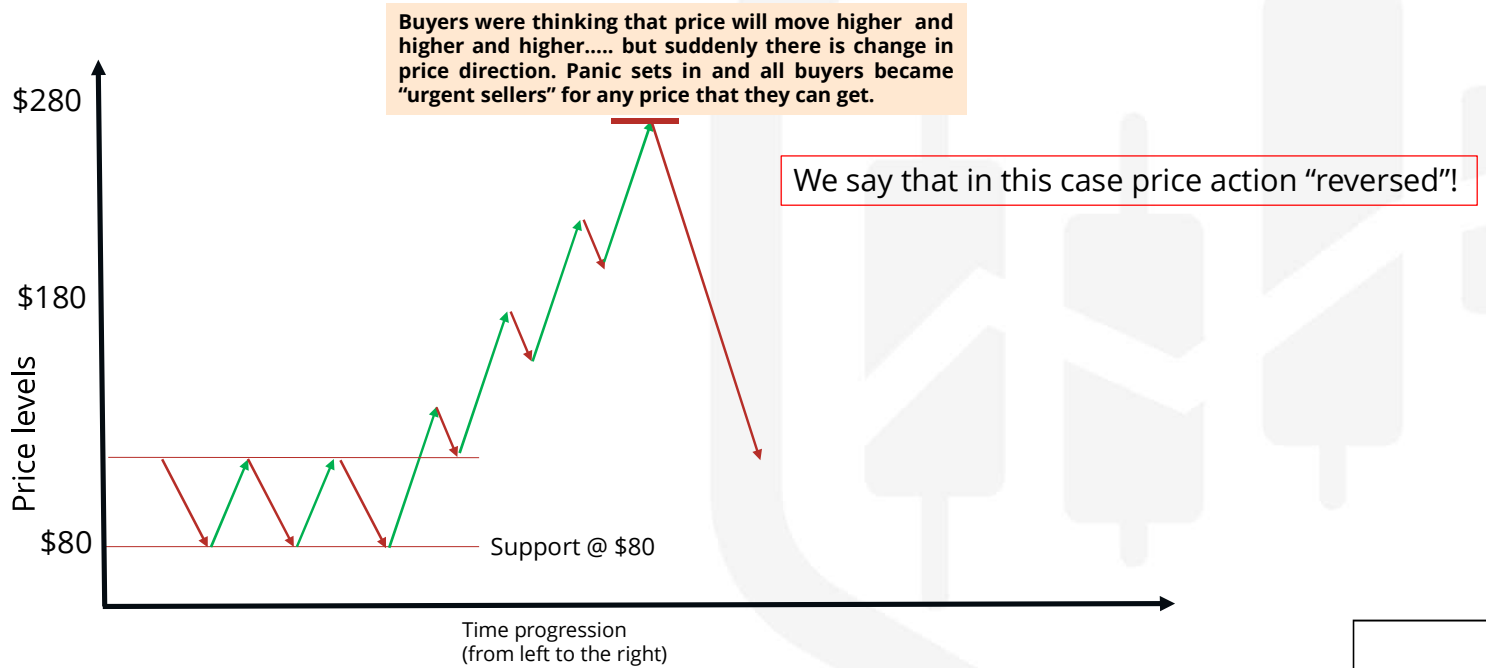


Technical analysis: **Trend endings down 1**



There is also a phenomenon called "short squeeze" that can cause this that we will learn later about.

Technical analysis: **Trend endings 2**



Summary

- There are three basic ways that the price will behave (“market actions”) and we should start the practice of finding these on charts using wither [www. Tradingterminal.com](http://www.Tradingterminal.com), finance.yahoo.com or any other place or platform you may have.

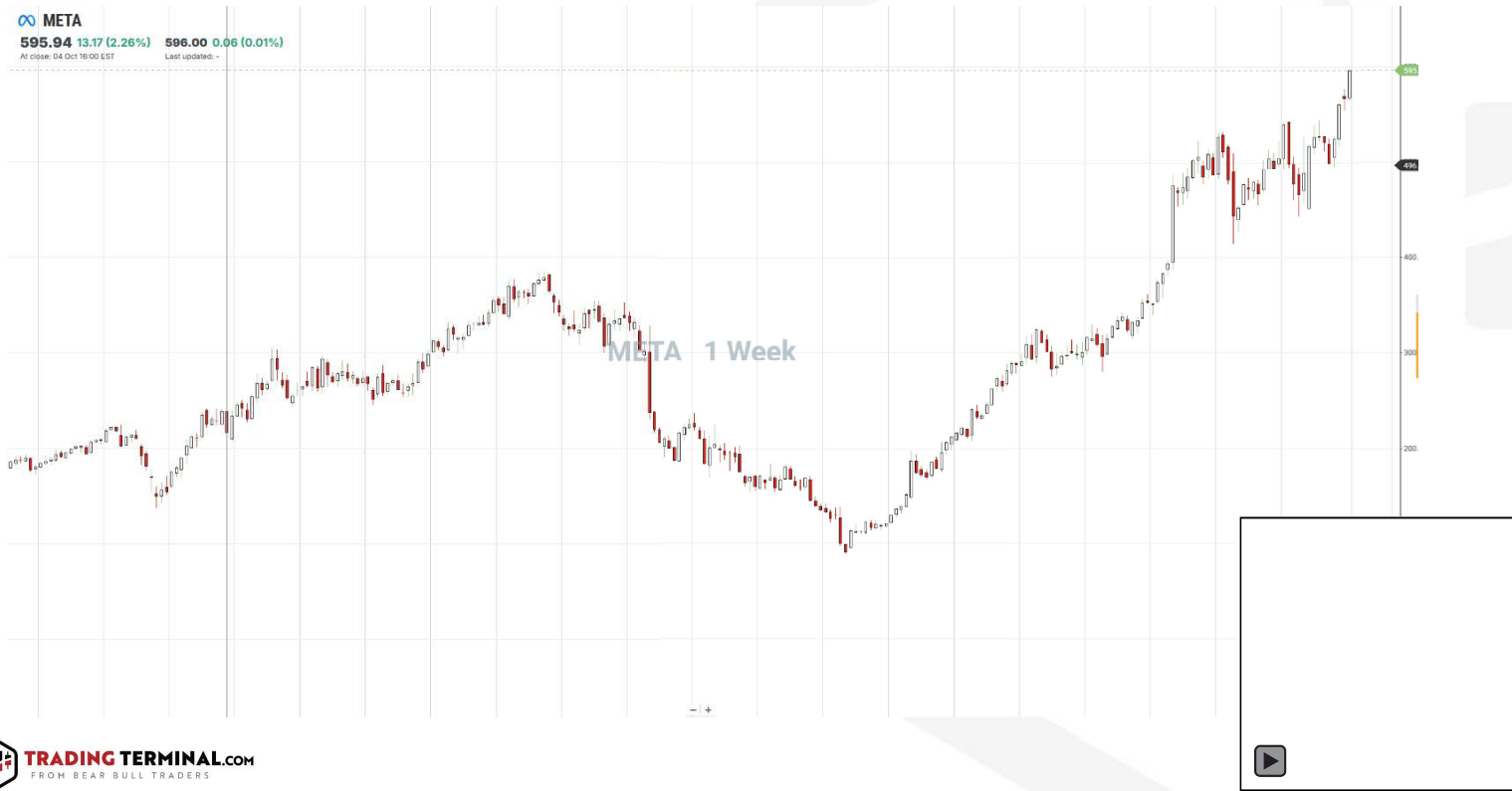
These are:

- 1) **Trading ranges** where **Support** and **Resistance** are being respected by **price action**.
- 2) **Trading breakouts** where **Support** and **Resistance** are invalidated, and often *previous **Support** becomes **Resistance** or previous **Resistance** becomes **Support**.*
- 3) **Trading trends** that **continue to trend**.
- 4) **Trading trend endings: *Sideway action***.
- 5) **Trading trend endings: *Reversals***.

In general, most of the patterns and strategies used by traders are based on the fundamental principles that we learned in this lecture and will now go on and practice on charts.



Practice: Identify Trading ranges, Trends, Trending ends (sideways or reversals) – be specific



Practice: Identify Trading ranges, Trends, Trending ends (sideways or reversals) – be specific



Practice: Identify Trading ranges, Trends, Trending ends (sideways or reversals) – be specific



Practice: Identify Trading ranges, Trends, Trending ends (sideways or reversals) – be specific



Practice: Identify Trading ranges, Trends, Trending ends (sideways or reversals) – be specific



Practice: Identify Trading ranges, Trends, Trending ends (sideways or reversals) – be specific

