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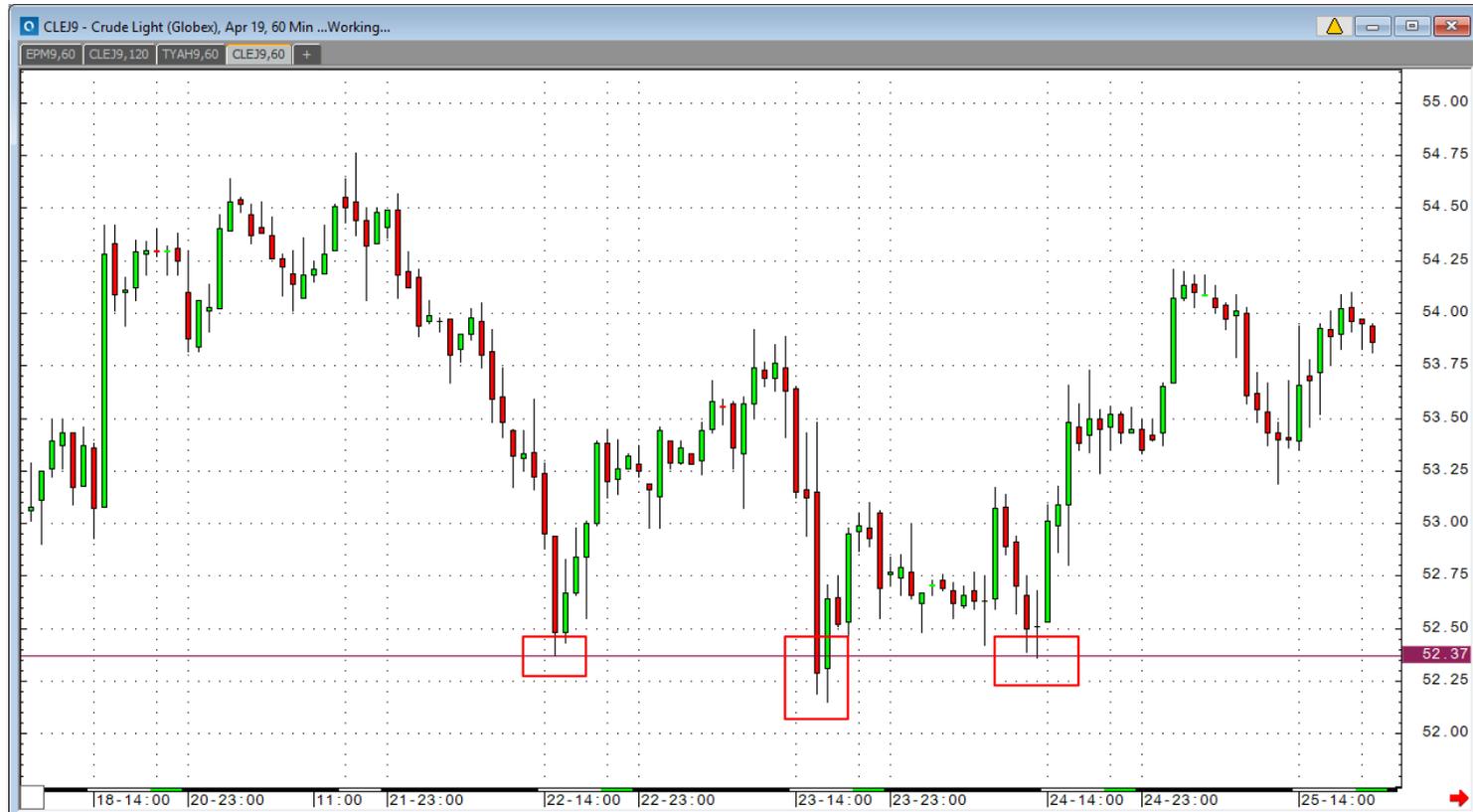
Support & Resistance Theory

Support & Resistance Levels

- Why do we use technical support and resistance levels?
- What are technical levels of support and resistance?
- How do we use these levels in our day-to-day trading?

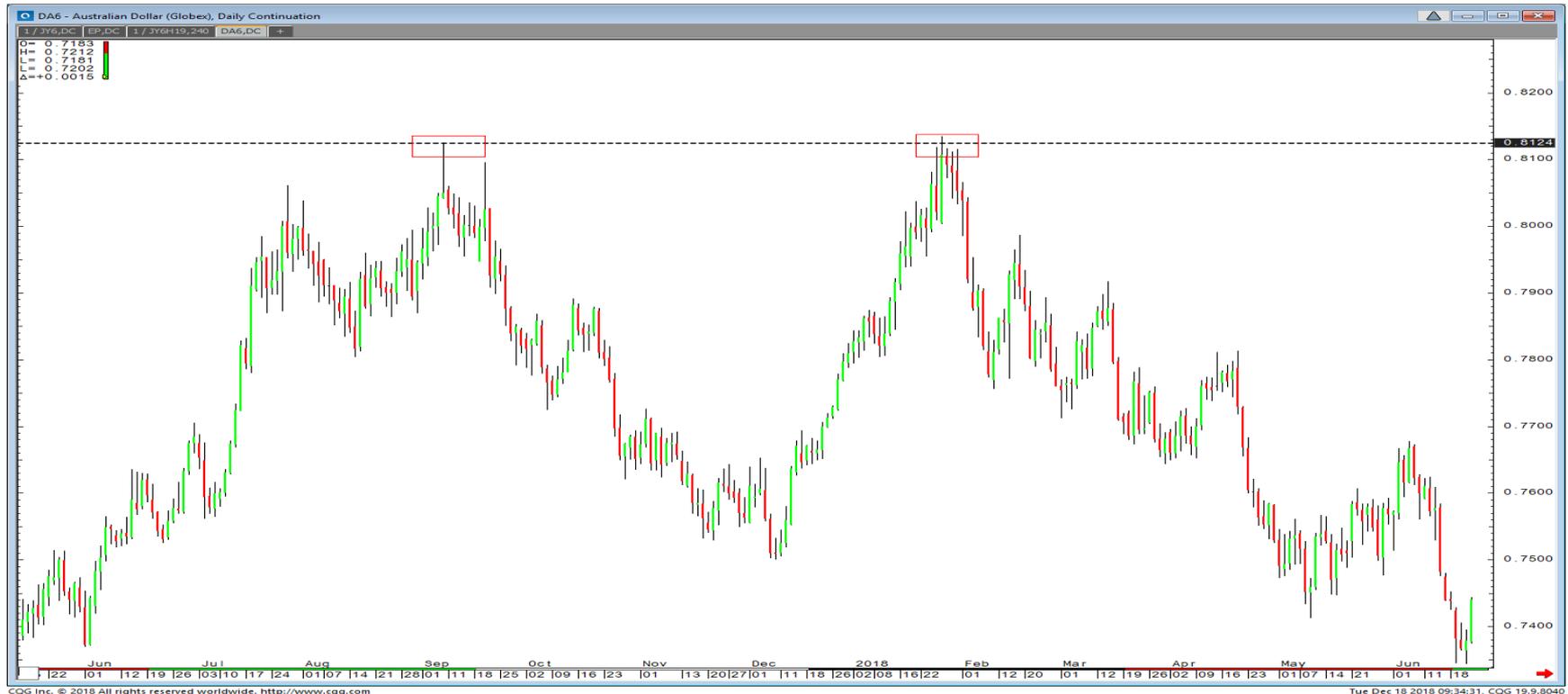
Technical Support

Support Levels – “Price levels at which demand from buyers in the market becomes high enough to prevent the price from falling any further”. So a technical floor which market price finds it difficult to move below



Introduction to Resistance Levels

Resistance Levels – Price levels at which demand from sellers in the market becomes high enough to prevent the price from rising any higher. So a technical ceiling which market price finds it difficult to move above



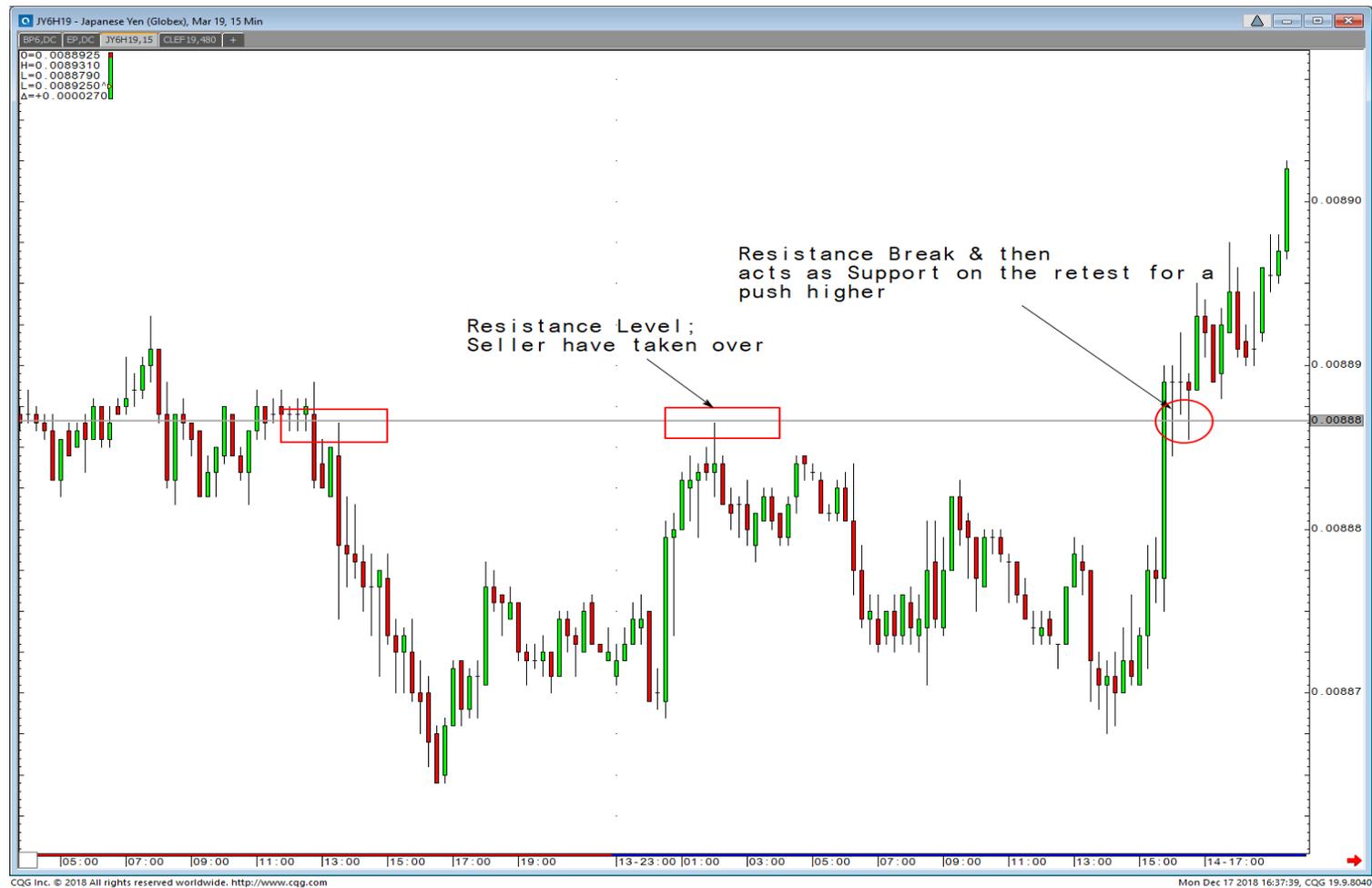
Identifying Support & Resistance Levels

- Support or Resistance levels can be taken from a single price. These are historical price events where the direction of price has gone through a sharp notable reversal in direction. These reversals tend to form the high or low of certain time periods such as the previous Day/Week/Month Low/High
- Extreme highs and lows should be noted, as well as peaks and troughs of waves within a market trend
- It is important also to note that when a resistance level breaks, it then becomes technical support for an extension higher and visa versa, when a support level breaks it becomes technical resistance

How to trade using support & resistance levels

- The theory states that there is a probability price will bottom out at a technical support level. So, **support levels are preferred prices to buy at**
- The theory states that there is a probability price will top out at a technical resistance level. So, **resistance levels are preferred prices to sell at**
- However, traders are not just using technicals to make trading decisions, so it is important to understand that the theory of support and resistance is by no means perfect
- Sometimes these levels break so be aware of:
 - The time of the day - be careful around typical volume spikes or economic data releases
 - Be aware of macro fundamental news events

When Resistance turns into Support



Errors in Analysis

Level is too weak. Has it already been broken through? The first test/retest of a support level will most often be the strongest. If a previous support level has been broken and chopped through, will the market pay it as much attention?

Fundamentals ignored or missed. Fundamentals will trump most technical levels – is there data approaching? Is there a key speaker scheduled to speak shortly? Has there been a rumour that has just come out?

Counter trending against the direction of masses – intraday traders generally look to go with the direction of the market as they ride on the larger volume moves. Think what the majority of the market wants to see happen.

Multiple tests. On a shorter time frame, if a support level has been tested multiple times it can be indicative that the level will break. The more time you stamp on ice, the more likely you are to break it

Time frame. Ensure that you focus on relevant levels to current price. An historic low may be a strong level but if it is too far away from where we are currently trading you should not pay too much attention to it. The closer the level to current price – the more relevant it is.

Conclusions

- Support and Resistance levels are prices in the market that have denoted a reversal point in the past and therefore may do so again in the future.
- These are prices where the balance of power between the buyers and the sellers reverses.
- A Support Line is a potential price at which a downtrend may reverse and the market may bounce and begin moving higher.
- A Resistance Line is a potential price at which an uptrend may reverse and the market may change direction and begin moving lower.
- The general rule is that if a support level breaks and price move below that level, then that same price now becomes technical resistance and visa versa
- These technical price levels can be found on all time frames – Generally, the longer the time frame being used the more significant the influence the technical level will have on market movement.