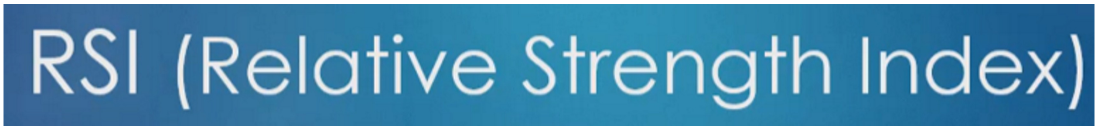
Technical Analysis - 5 - RSI & Stochastic

06 June 2025 08:09

Oscillators:



RSI is a price following oscillator, whose value oscillates between 0 and 100 and is calculated based on relative strength. It is a measure of momentum & relative strength of stock. An N-period relative strength is the ratio of gains in the price in the last N days, divided by the losses in the last N days.

Important levels are: **70, 60, 50, 40, 30**

--> 40-RSI - Indicate oversold and overbought rate

RSI for trending and ranging markets is different.

- If RSI is above **70**, it indicates the **stock is overbought**
- If RSI is below **30**, it indicates the **stock is oversold**
- If RSI is above **50**, it indicates the stock is in a **bullish trend.**
- If RSI is below **50**, it indicates the stock is in a **bearish trend.**

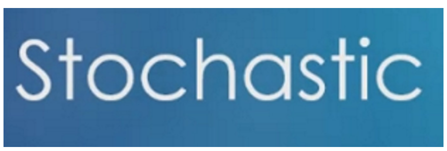
Break Out in RSI:

- If RSI breaks out above the 30 level, it indicates a buying signal.
- If RSI breaks below the 70 level, it indicates the exit signal

When to us -->

When RSI crosses above the level of 50, it is a bullish signal, and vice versa. When RSI crosses above 70 in an uptrend, it can stay there for an extended period, and when RSI crosses below 30, negative momentum gets stronger. Higher values of RSI indicate an overbought market, whereas lower values indicate an oversold market. 30 and 70 are usually set as thresholds for a buy and sell signal, respectively. Buy/Sell signals are also generated by observing divergence between the security and the indicator (A divergence is said to exist if the price and the indicator move in opposite directions). Underlying security usually reverses the direction and follows the direction of the indicator.

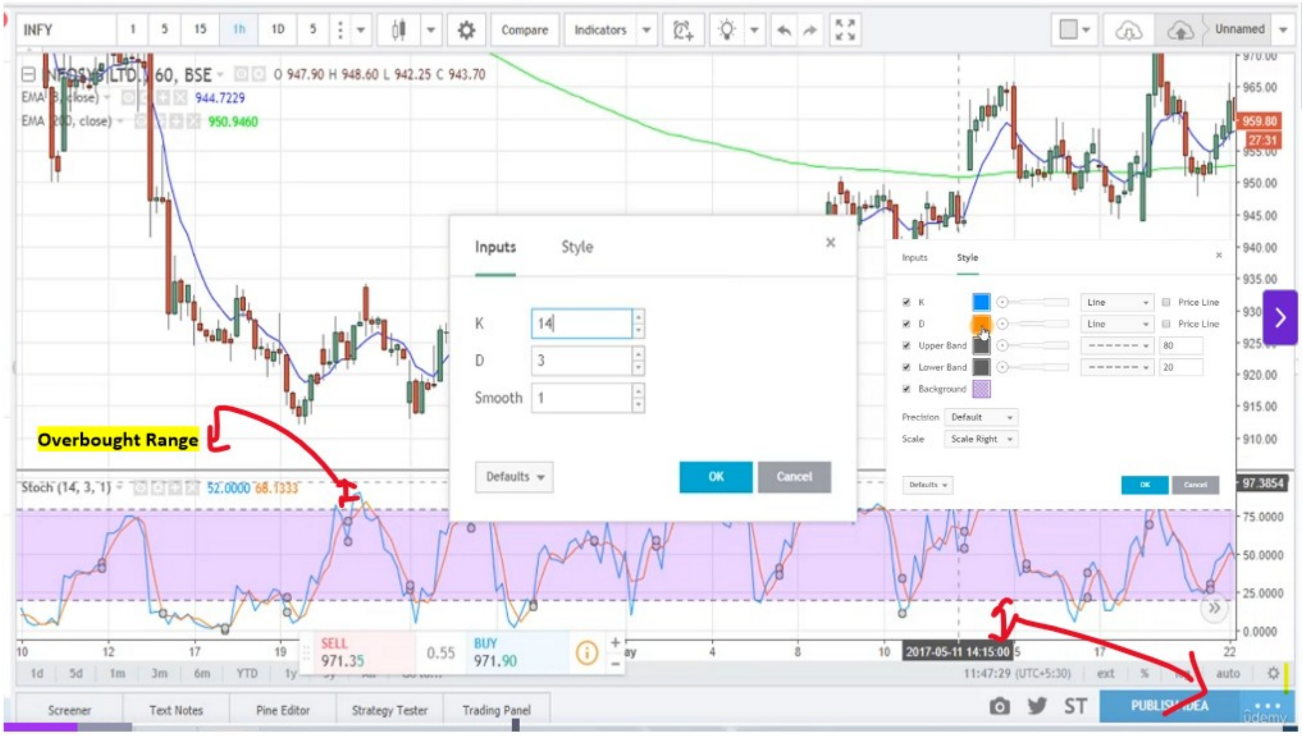
Every time we get resistance near 70 multiple times, we can sell, and when we get resistance near 30, we can buy.



The stochastic oscillator is a momentum indicator developed by George Lane that can show you when investors' sentiment changes from being bullish to bearish and from being bearish to bullish. It measures price momentum to identify overbought/oversold conditions, which gives entry or exit decisions. When stoicism forms a narrow top, it indicates weakness for bulls, and when it forms a narrow bottom, it indicates weakness for bears. The stochastic indicator is plotted as two lines, %K and %D. The range of the stochastic oscillator is between 0 and 100. The lower reversal zone is the area of the indicator that is below 20. When %K is above 80, it shows the prices may be overbought and may reverse the trend shortly. When %K is below 20, it shows the prices may be oversold and may reverse the trend shortly. When the %K line crosses above the %D line, a buy signal is generated, and when the %K line crosses below the %D line, a sell signal is generated.

When to us -->

Stochastic can be used with several interpretations: among them are divergences, crossovers, and overbought/oversold. Signals of stochastic are to be used in conjunction with trend following indicator. In a strong trending market stochastic can fail completely. When the %K line rises above the %D line it is considered bullish, and when the %K line falls below the %D line, it is considered bearish. A buy signal is generated when either line dips below and then rises above 20, or a bearish signal is generated when either line rises above and then dips below 80. You can eliminate some false signals by using only the signals that correspond to the direction of the intermediate- to long-term trends.



- **When the K line (Blue) crosses above the D line (Orange) and both cross the 20 level, also if both lines are under the 20 level, this is an indication of a buy signal. --> Buy Signal**

- **When the K line (Blue) crosses below the D line (Orange) and crosses down the 80 line - Sell Signal**

Narrow Bottom & Wide Top --> Indicate the bull is in control.
Narrow Top & Wide Bottom --> Indicate the bear is in control.

- **If K & D line is below 50 level it is in bearish mode and above 50 bullish mode**

Wide Bottom