RSI Strategy

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This strategy is applicable for 🡪 Fundamental Stocks only.

RSI Strategy works on 3 indicators:

1. macd
2. rsi
3. money flow index

macd (Moving Average Convergence or Divergence)

12 – 26 – 9 (Default Setting)

macd indicator/graph consists of 4 components:

1. Green Line / macd line
2. Red Line / Signal line
3. Zero Line / Base Line
4. macd histogram

Types of cross over in macd:

1. Bullish / Positive Cross over:

When green line crosses red line from below to up and comes in upward direction then cross over is bullish cross over.

Bullish cross over is time to buy the stock.

When there is bullish cross over and both lines are above the zero line then it is 🡪 strong bullish cross over. It is high time to buy the stock.

1. Bearish / Negative Cross over:

When green line crosses red line from top to below direction and comes in downward direction then cross over is bearish cross over.

Bearish cross over is time to sell the stock.

When there is bearish cross over and both lines are below the zero line then it is 🡪 strong bearish cross over. It is high time to sell the stock.

RSI (Relative Strength Index)

It tells whether the stocks is in overbought or oversold zone.

1. If RSI < 30, then stock is in over sold zone.

If RSI < 20 🡪 Stock is in strongly oversold zone.

When RSI is in oversold zone, then good time to buy the stock.

1. RSI > 70 then Stock is in over bought index
2. RSI > 80 🡪 Stock is in strongly over bough zone.

When stock is in over bought index then either exit from the stock or trail the stop loss.

Money Flow Index

It is same as RSI. It tells whether the stock is in overbought/oversold zone.

How to RSI Strategy Works:

1. If RSI <30 and Money Flow Index < 30 and Bullish crossover / Storing bullish crossover by macd indicator.

If above 3 criteria met, then only buy the stock or buy call option of In the money.

1. If RSI > 70 and Money flow Index > 70 and bearish crossover / Strong bearish crossover by macd indicator :

If above 3 criteria met, then short the stock or buy put option of the In the money strike price.

Limitation

This strategy works only for fundamental stocks.