



# RSI

# **Relative Strength Index**

**The RSI stands for Relative Strength Index, is a commonly used momentum indicator oscillator by many traders.**

The RSI compares the strength of up days (gain) to the strength of down days (loss) and with that calculation, we can determine if the momentum taking place is either bullish or bearish. It oscillates between 0 and 100 and the purpose is to measure the "speed" of a price movement.

If price goes up faster, RSI value will be higher and if price falls down faster, RSI value will be lower .



# **FRSI**

**The most common settings that  
traders usually use are**

**14-Period RSI - The average gain or  
loss will be based on the last 14**

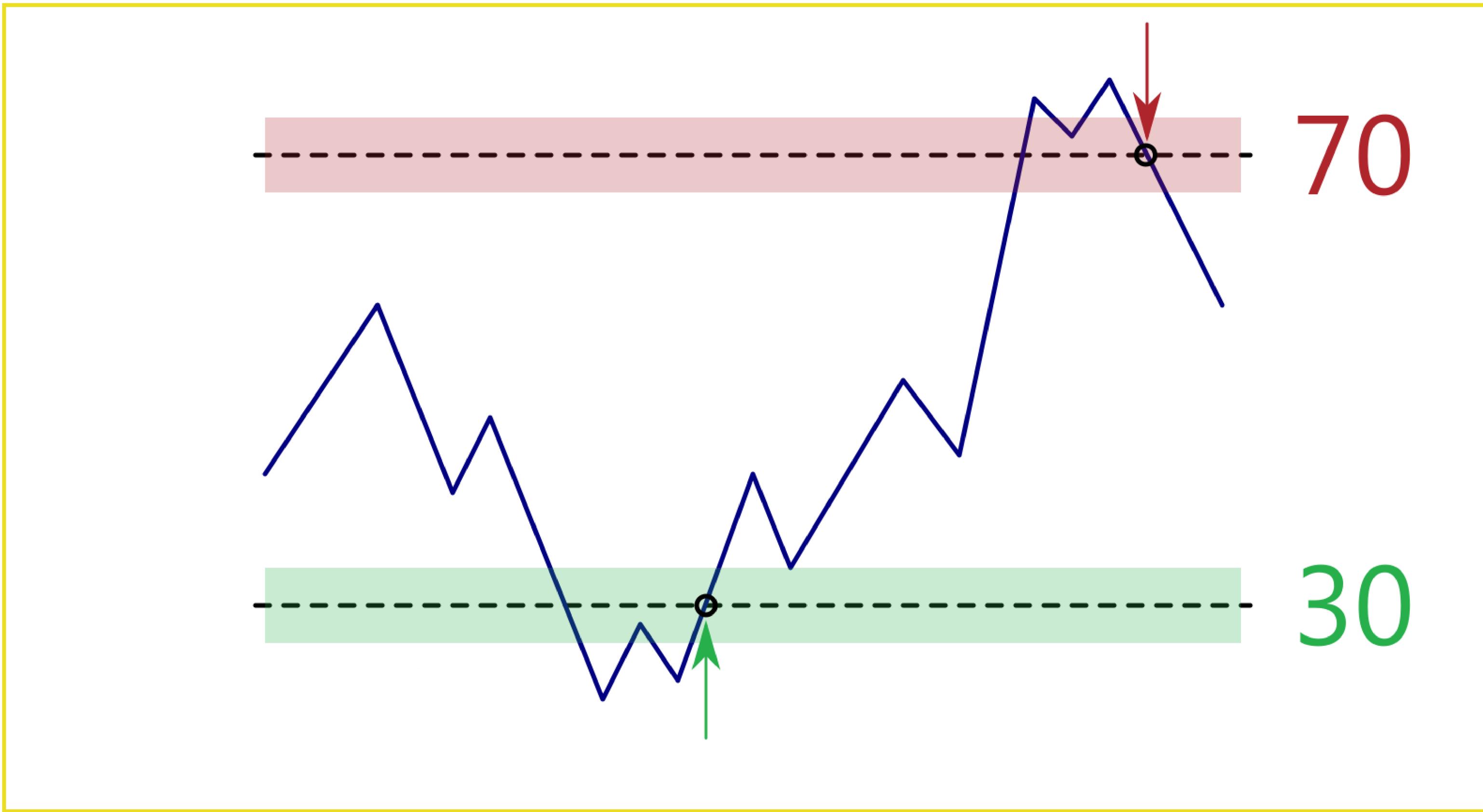
# Candles

70 and 30 - Where 70 is overbought

and 30 is oversold level

80 and 20 - Where 80 is overbought

and 20 is oversold level .



# **RSI 70:30 ZONE**

Here 70 or 80 level is considered bullish, while 30 or 20 level is an indication of bearishness. It helps to measure periods of overbought or oversold conditions.

**Using RSI, help traders to predict rising momentum, demand or supply, market trends such as trend reversals and trend continuations.**

**With a proper practices and  
with the help of price action,  
volume and RSI, a trader can  
make a great price prediction .**

# **How to use RSI**

**Below are the commonly used methods of using RSI indicator.**



# 1. Overbought and Oversold

Using RSI, we can easily find out the markets that are Over valued or Over sold. As already mentioned, markets above 70 or 80 RSI can be considered as overbought and we can expect a price reversal i.e Bearish from that level. Also, most of the time market makes a strong Bullish move above RSI-70

Similarly, markets below 30 or 20 RSI can be considered as oversold and we can expect a price reversal i.e Bullish from that level. Also, most the time market makes a strong Bearish move below RSI-30.

# **OVERBOUGHT AND OVERSOLD**

**Note: Please note that the above method is not a trading strategy and trade can not be taken based on level reach. Most of the time you will lose trade expecting a reversal at those level.**

**A Highly Trend market starts pumping/dumping( a highly sudden changes in the price with in a short time) after market moves above/below of those levels.**

**Always use this method  
to get a confirmation  
while using other  
indicator/ strategy .**

## **2. Determination Of Trend**

**Using RSI, we can determine the current status of the Market's trend. Below are few market trend behavior based on RSI level .**



# RSI Trend

In a Bull market RSI value tends to travel in between 40-80 level zones.

In a Bear Market RSI value tends to travel in between 60-20 level zones.

In Sideways market RSI Value stay in between 40-65 zones.

**In extreme or very strong Bull market RSI bound in 60-90 levels.**

**In extreme or very strong Bear market RSI bound in 40-10 levels.**

**Value above 95 and below 5 are very rare. As above or below this level RSI behave logarithmically means change in RS is very minute to notice .**

### **3. Pattern based RSI**

To know more about the Patterns, please go through the different Pattern structures and its usages available in this Note.

As we already know that to apply multiple pattern structure on candle stick charts and using breakout strategy to Trade. In the similar way, we can also apply patters on RSI too.

Isn't its interesting

**The M, W, Flag, Triangle, Wedges,  
Head and Shoulders and other  
patterns can be applied to the RSI,  
as shown in the examples ahead.**

**Please note that all the rules for  
breakouts of these patterns are the  
same.**

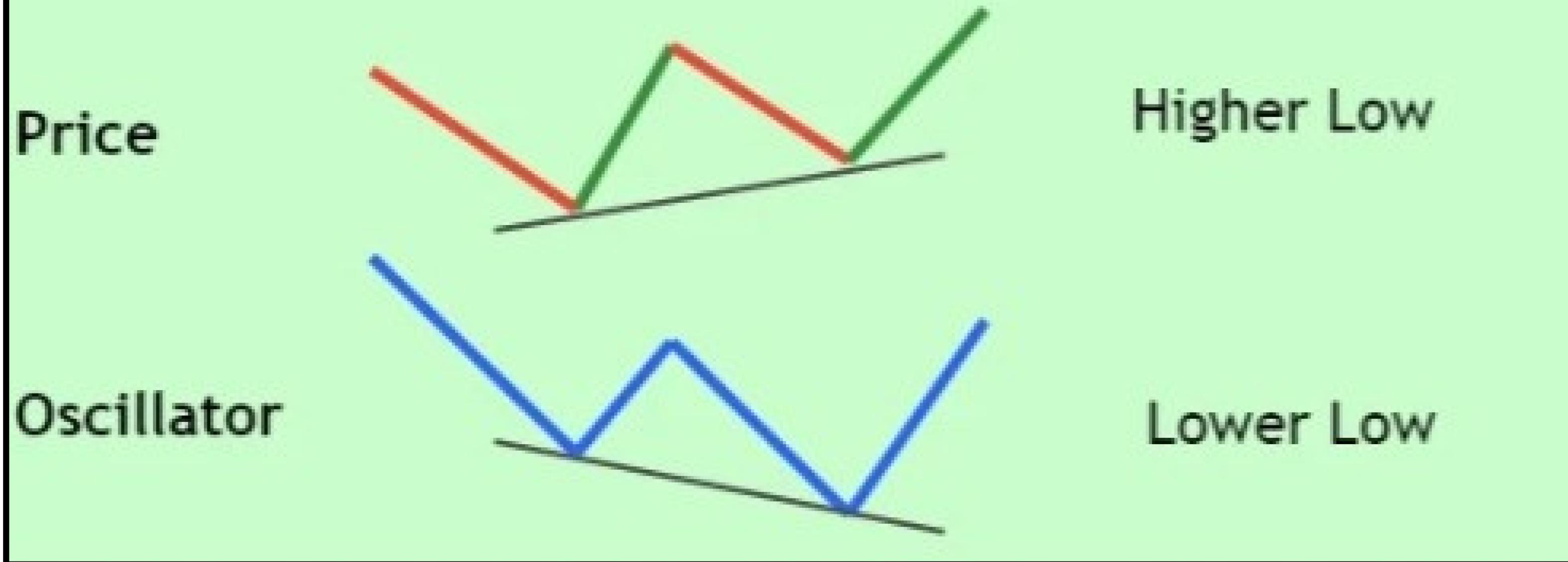


# **RSI WITH PATTERN**

## **4. RSI Divergence strategy**

Non technically, Divergence can be defined as whenever there is a misunderstanding between price and indicator, they used to get divert from each other and moved in opposite direction to each other.

# Hidden Bullish Divergence



# Hidden Bearish Divergence



# DYNAMIC SUPPORT AND RESISTANCE EXAMPLE

There are 3 types of  
divergence

# **1. Simple Divergence**

**Whenever price makes a lower low and RSI makes higher low then it is said to be Simple Bullish Divergence. Simple Bullish Divergence occur in**

bear market, commonly  
known as  
**short covering.**

A simple bullish divergence is  
more reliable when RSI value lies  
between 40 to 10.



## Simple Divergence



# DIVERGENCE EXAMPLE

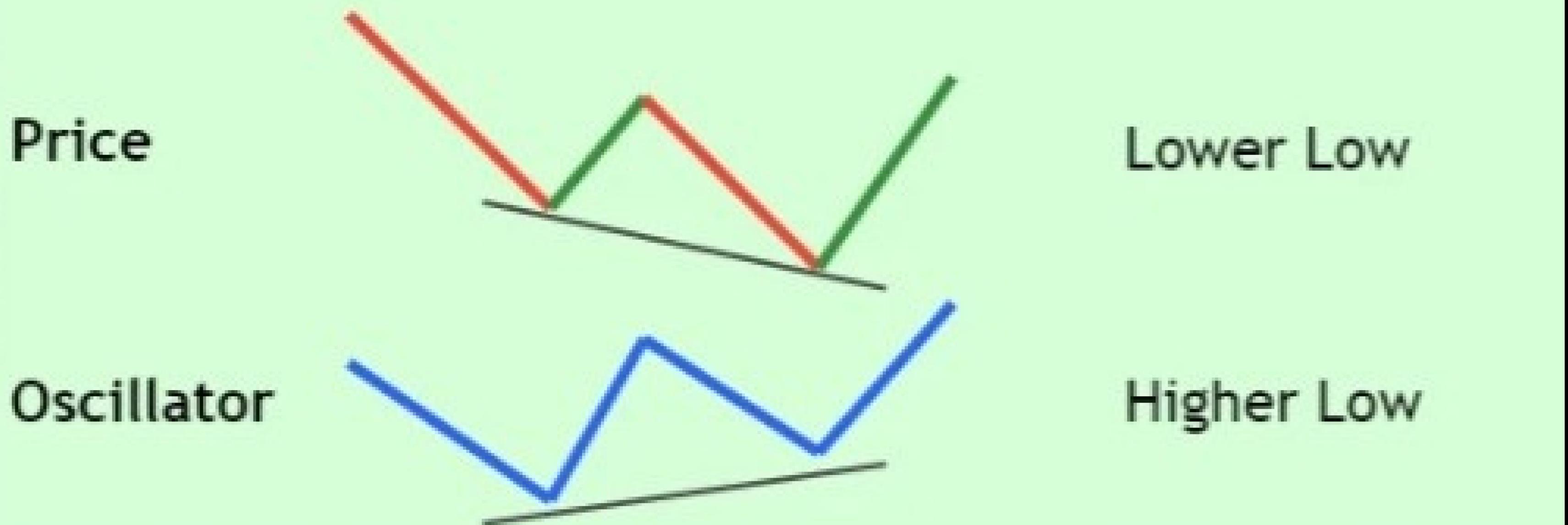
Whenever price makes a higher high and RSI makes lower high then it is said to be Simple Bearish Divergence.

**Simple Bearish Divergence**  
occur in bull market,  
commonly known as  
retracement or correction.

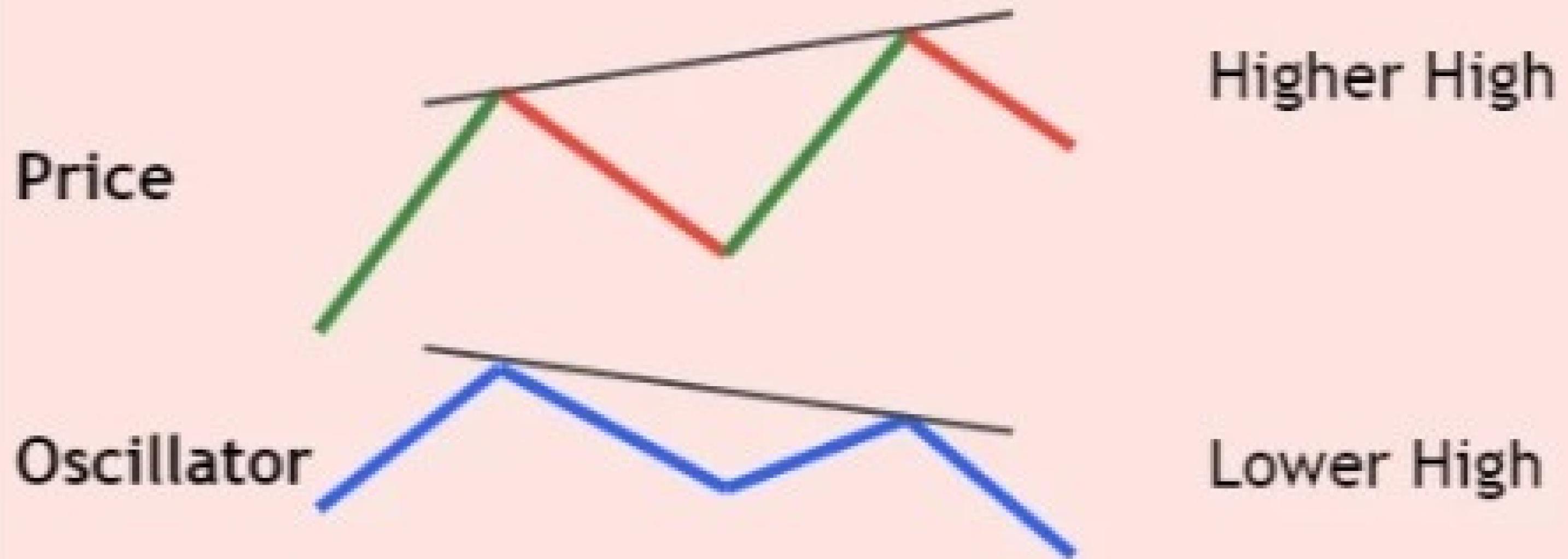
**A simple bearish  
divergence is more  
reliable when RSI value  
lies between 80 to 65.**

**Please Note that if Lesser the  
number of candles between 2  
peaks more powerful will be  
reversal in terms of price n time  
both.**

# Bullish Divergence



# Bearish Divergence



# **HIDDEN DIVERGENCE**

If you notice, both Simple and Hidden divergence are same, but only changes are in Price and RSI making Higher high and Lower high.

**Hidden divergence  
mostly occur between 40  
to 65 level as RSI value .**

**Whenever RSI makes a Higher high & price makes a Lower high then it is said to be Bearish Hidden Divergence. A bearish hidden divergence is strongest when it occur near 65 level with M or double top pattern.**



# **RSI HIDDEN DIVERGENCE**

**Whenever RSI makes a Lower  
low & price makes a Higher  
low then it is said to be  
Bullish Hidden Divergence.**

**A bullish hidden divergence is  
strongest when it occur near  
40 level with W or double  
bottom pattern.**

**Usually highest volume is  
witness in reversal candle as  
compared to last 5-8 candles  
near its resistance at 65 or  
support at 40 in RSI.**

### **3. Multiple or Long Divergence**

If you notice, both Simple and Hidden divergence are same, but only changes are in Price and RSI making Higher high and Lower high.

**Hidden divergence  
mostly occur between  
40 to 65 level as RSI  
value**

**divergence are same, but  
only changes are in Price  
and RSI making Higher high  
and Lower high.**

**Hidden divergence  
mostly occur between  
40 to 65 level as RSI  
value**

**Whenever price makes a series of lower low n RSI makes a series of higher low it known to be Multiple Simple Bullish Divergence Whenever RSI makes a series of lower low n Price makes a series of higher low it is known to be Multiple Hidden Bullish Divergence.**

**Multiple Bullish Divergence are more reliable when RSI value lies between 40-10 along with triple bottom, falling wedge, H&S formation formed either in RSI or in price.**



# **LONG DIVERGENCE**

**Whenever price makes a series  
of higher high n RSI makes a  
series of lower high it is known  
to be Multiple Simple Bearish  
Divergence.**

Whenever RSI makes a series  
of Higher high n Price makes a  
series of lower high it is known  
to be Multiple Hidden Bearish  
Divergence.

**Multiple Bearish Divergence  
are more reliable when RSI  
value lies between 65-80 along  
with triple top, rising wedge,  
H&S formation formed either in  
RSI or in price.**

**Multiple hidden divergence are more reliable when RSI value lies between 40-65 along with spring, triangle, flag or combination of three is formed either in Price or RSI. Multiple Divergence are the strongest & most reliable trend reversal signal Valid for all time-frame.**

# **Time frame**

**Applies to all time-frame**

**Pros and Cons of using  
Moving Averages**

# Pros

Market around RSI-60 level becomes more active. In this level, more Traders are attracted to that market. Used to determine the trend, reversal

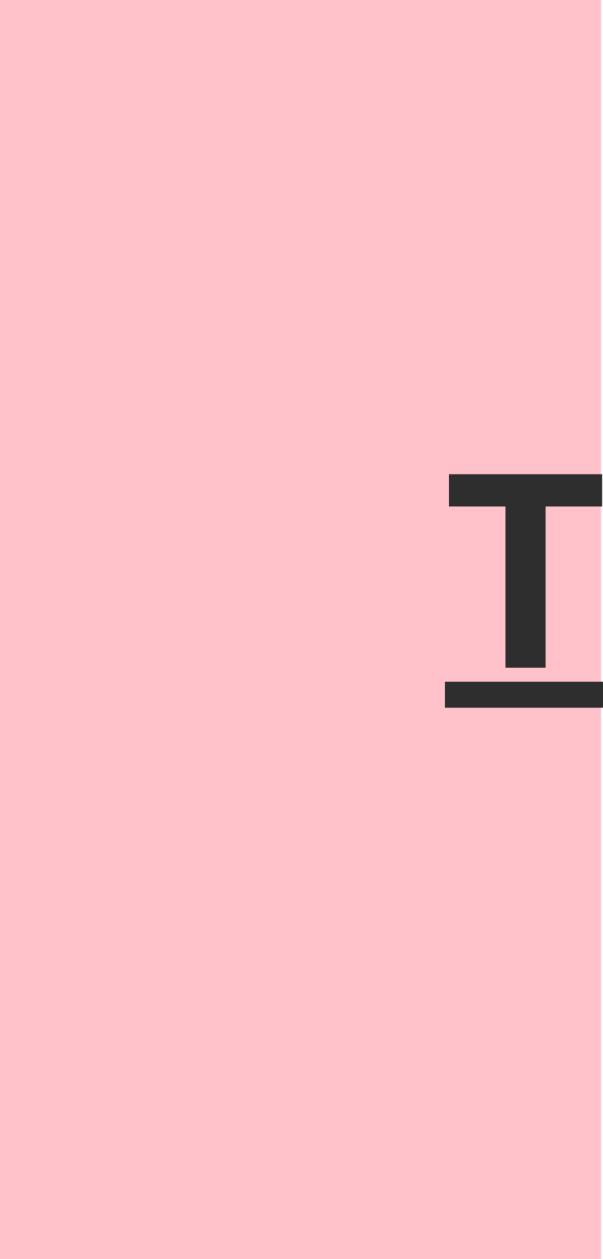
and momentum indicator Most  
of the traders use RSI, so we can  
take advantage of that Helps  
traders to detect potential  
entry and exit points more  
accurately

# **Cons**

**Its a lag indicator. Opportunities  
can be missed out**

**May give falls signals .**

**Can not use RSI as a standalone  
indicator .**



**Thank You**

