Mastering RSI

By @Cryptocred

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I am not a financial advisor and hold no formal qualifications in this area.

Trade entirely at your own risk.

This is for entertainment purposes only.

Outline

General Remarks

Scope of this video

RSI in crypto & the impetus for making this lesson

Adding other oscillators

Limitations of this tool

What Is RSI?

Relative Strength Index

Momentum oscillator which measures the speed and change of price movements

RSI becomes more valuable and accurate when/if there's more price action data

The shorter the period the more sensitive the oscillator becomes and the wider its amplitude

Overbought & Oversold - Using 70 and 30 Values for Signals

Complete basics of reading the indicator:

- An instrument is overbought when RSI is above 70
- An instrument is oversold when RSI is below 30

Murphy's suggestion: the 80 level usually becomes overbought in bull markets, and the 20 level the oversold level in bear markets

Overbought & Oversold - Using 70 and 30 Values for Signals II

Applying those principles:

For long positions:

- Opening long positions when RSI crosses from below 30 to above 30
- This can also be used to indicate that short positions should be closed

For short positions:

- Opening short positions when RSI crosses from above 70 to below 70
- This can also be used to indicate that long positions should be closed

Midpoint Value Crosses

The midpoint value - 50 - is the middle point between the default overbought and oversold values

Most traders use the extreme values to generate RSI signals

I use midpoint value crosses in three main ways:

- Indicate whether there's a bullish or bearish bias in the trend
- Indicate whether a trend reversal will happen
- Indicate periods of consolidation

Midpoint Value Crosses II

Applying those principles:

For long positions:

- Opening long positions when RSI crosses and is able to stay above the midpoint value
- This can also be used to indicate that short positions should be closed

For short positions:

- Opening short positions when RSI crosses and is able to stay below the midpoint value
- This can also be used to indicate that long positions should be closed

Note: this is less reliable than signals generated by extreme values because RSI can and will chop above and below 50. Midpoint value crosses should be used to find confluence in setups, not as the lead signal generator. I like using this on higher time frames like 4H and 1D.

Trendlines

Trendlines can be drawn on the RSI lines just like you would on a standard line chart

I use RSI trendlines in three main ways:

- Simply, identify the trend of the instrument
- 'Confirm' a breakout/breakdown of a pattern
- Indicate trend reversals when RSI breaks resistance/support lines

Divergences

Basic premise:

A divergence is when the oscillator shows something different than what price is showing i.e. the oscillator does not follow price

Divergences can give traders 'hints' about the strength or weakness of the current trend and thus allow traders to position themselves better for trend reversals, warn them of a weakening or strengthening trend, et cetera

Divergence is the "single most indicative characteristic of the Relative Strength Index" - Wilder i.e. the guy who invented the damn thing

Divergences II

Two categories:

- Normal/standard divergence
- Hidden divergence

Bullish

- Price: lower low
- Indicator: higher low
- Price: higher low
- Indicator: lower low

Bearish

- Price: higher high
- Indicator: lower high
- Price: lower high
- Indicator: higher high

Divergences III

I use RSI divergences in three main ways:

- In a downtrend, to identify where bearish momentum is fading and pre-empting a trend reversal
- In an uptrend, to identify where bullish momentum is fading and pre-empting a trend reversal
- Generally, to avoid buying the top or selling the bottom

Failure Swings

Basic premise:

A failure swing is when at the extreme values, RSI fails to make a higher high/lower low and reverses in the opposite direction

There are two types of failure swings:

- Top failure swing
- Bottom failure swing

Peak in RSI (over 70)

- Fails to exceed previous peak in an uptrend
- Breaks a previous bottom

Bottom in RSI (under 30)

- Fails to set a new low
- Breaks a previous top

Failure Swings II

I use RSI failure swings in three main ways:

- Avoid buying the top
- Avoid selling the bottom
- Indicate a trend reversal

As you can see, there's a lot of overlap between divergences and failure swings

Edit:

Orthodox interpretations of failure swings suggest that the second high/low must fall out of the extreme range to qualify as a failure swing i.e. RSI fails to reach the overbought/oversold level a second time when it tries to make a new high/low.

I have had success using this technique even when *both* highs/lows are inside the extreme value, but this orthodox application is still something you should be aware of.

Conclusion

Time frames

Putting it all together

Confluence with other indicators & tools in your TA arsenal

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Thank you!