Horizontal Support and Resistance Levels

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.

Shoutout

@Trader_Dante

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General Remarks

The overwhelming majority of systems or techniques that marketers will try to sell you are some variation of support/resistance ("S/R")

More an art than a science when it comes to drawing levels

Don't try to force levels where they're not clear - highest probability setups will come from clear setups that are worth waiting for
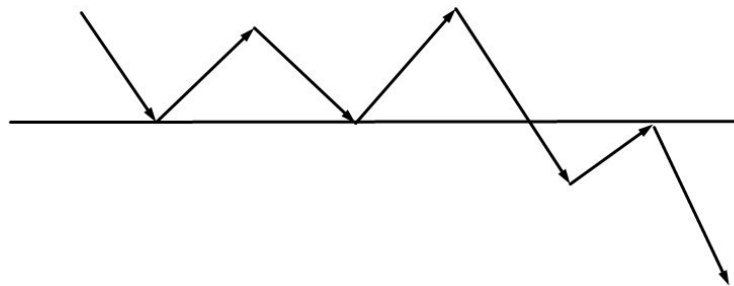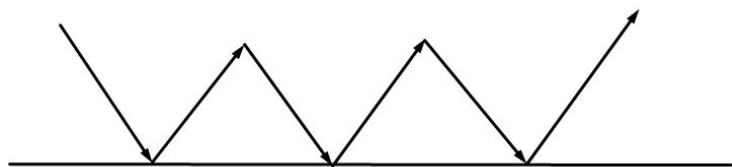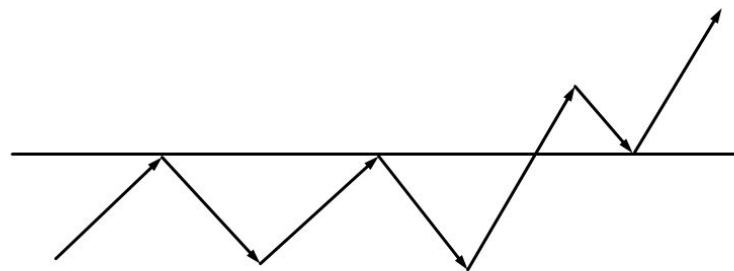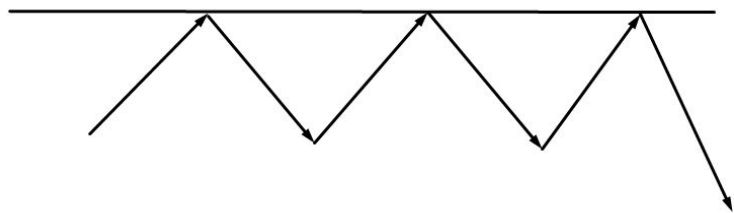
As straightforward as the key principles are, there's still a lot of common confusion - even experienced traders may learn something new

TradingView Setup

Types of Levels

Principle 1 - S/R Flips

Principle: S/R levels flip when broken by price

A support level that is <u>broken</u> turns to resistance

A resistance level that is <u>broken</u> turns to support

Broken: a clean candle close through the level

This basic principle is the backbone of most price action trading concepts

Principle 2 - Recurring Tests

Principle: the more a level is tested by price <u>from the same direction</u>, the <u>weaker</u> it becomes

A support level that is tested repeatedly as support becomes <u>weaker</u> with each test as buyers are absorbed each time

A resistance level that is tested repeatedly as resistance becomes <u>weaker</u> with each test as sellers are absorbed each time

While a level that is tested by price many times from the same direction is weaker with each test, <u>it becomes strong if/when it flips</u>

Principle 3 - First Test Best Test

Logical corollary of Principle 2: the highest probability level trade is the <u>first test of a broken level from the other side</u>

Meaning:

- First test of a broken resistance level (expected support)
- First test of a broken support level (expected resistance)

Given that the probability of a level holding decreases with each test, one's odds are enhanced (™) when price tests an S/R flip <u>for the first time</u>; before any buyers/sellers have been absorbed

Any subsequent tests are lower probability, but can still be taken if your trading rules permit it e.g. if there is confluence of some sort
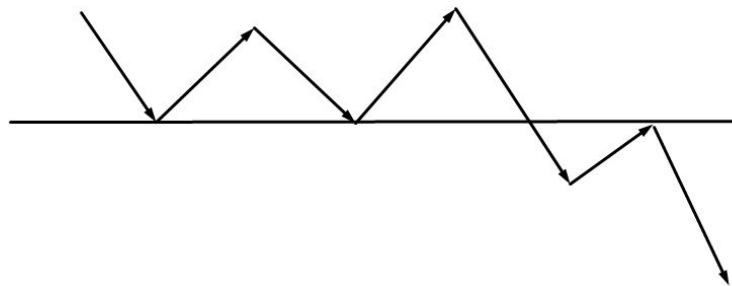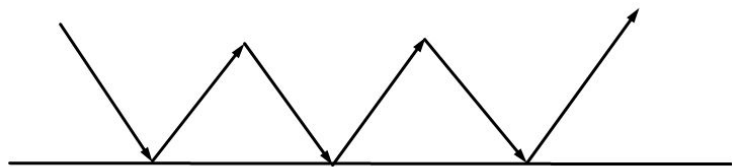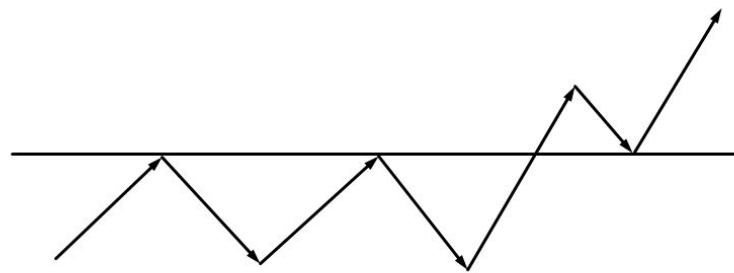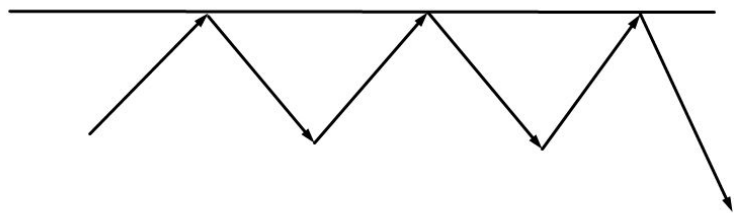
Strong Level Criteria

- High number of touches (once the level has been broken)
    - More touches from the same direction = weaker level as buyers/sellers absorbed
    - But once the level is broken and price is on the other side, it is fresh
- Violent touches (once the level has been broken)
    - Violence = how strongly price reacted upon testing the level
    - More violence i.e. bigger swings away = better
- Based on recent price action
    - Extremely important so you don't use levels that were good in the past but have now been washed
    - Read the chart from right to left
    - Interested in what recent market participants are doing
- Long duration (once the level has been broken)
    - Levels that <u>were</u> respected as S/R for longer tend to be stronger
    - E.g. level that was resistance for several weeks is likely to be a stronger support (when broken) than a level that was resistance for only a few hours

Drawing tip: refine your level by making sure it is hinged on the most recent lows before break downwards/most recent highs before break upwards

Trading the Inverse

Recap:

- The more a level is tested from the same direction, the weaker it becomes with each test
- S/R levels flip
- When an S/R level flips, the first test from the opposite direction is a high probability setup
    - I.e. first touch of price returning to a broken resistance level (expected support)
    - I.e. first touch of price returning to a broken support level (expected resistance)
- Thus when looking for high probability levels in markets, ask yourself:
    - Are there any broken support levels above current price? → for shorts
    - Are there any broken resistance levels below current price? → for longs
- Trading the inverse = buying broken resistance & selling broken support

Types of Retests

I trade two types of retests:

- Micro retests
    - Usually seen & traded on lower time frames (5M, 15M and 1H for me personally)
    - Occur virtually immediately after a level is broken
    - Sometimes the pullback doesn't come back and tag the level itself
    - Lower probability - no higher time frame proof that level has been broken
- Rounded retests
    - Visible on higher time frames as well
    - Occur where there has been time and space between the break and the retest of the level
    - Higher probability - higher time frame proof that the level has been broken

Down to your personal preference, risk appetite, and trading journal notes!

Time Frames

Generally, higher time frame levels are more reliable than lower time frame levels

However, the frequency of setups will be considerably reduced if you only trade clean D1 and above levels - they don't form as often

My personal preference: most of my levels trades are on the H1 and D1 time frames

Find a time frame that i) works for you ii) gives you a good balance between setup frequency and setup quality

Conclusion

Understanding S/R and S/R flips will makes most concepts much easier to learn and understand

Don't forget that testing a price structure from the same direction repeatedly makes it <u>weaker</u>, it only becomes strong when/if it is <u>broken</u>

Easy to add tools to confluence this method e.g. Fibs, indicators, other price action structures, et cetera

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Thanks for watching!

Consider leaving a $BTC tip if you enjoyed the lesson.

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