

Lecture 18

Relative Strength Index (RSI)

This is a momentum oscillator that tracks the speed and change of price movements.

$$RSI = 100 - 100 / (1 + RS)$$

RS = average return of positive periods / average return of negative periods

The RSI gives an indication of recent price action performance and can range from 0 to 100. The default periods computed on is 14 days. The lower the RSI the more oversold the stock is and the higher the RSI the more overbought the stock is. Usually an RSI under 30 is considered oversold and over 70 is overbought.


