



WARRIOR TRADING

CHAPTER 6: ESTABLISHING SUPPORT AND RESISTANCE

Establishing Support & Resistance

Today You Will Learn

How To Properly Establish Support & Resistance

The Importance of Pivots

High Probability Trend Lines

How To Remove Subjectivity Commonly Associated With Trend Lines

Establishing Support & Resistance

What is Support & Resistance?

Support: A point in time where price action finds a support zone where demand is greater than supply and begins to revert back higher.

Resistance: A point in time where price action finds a resistance zone where supply is greater than demand and begins to revert back lower.

Important to note, support & resistance are zones, NOT a finite number.

Pivots

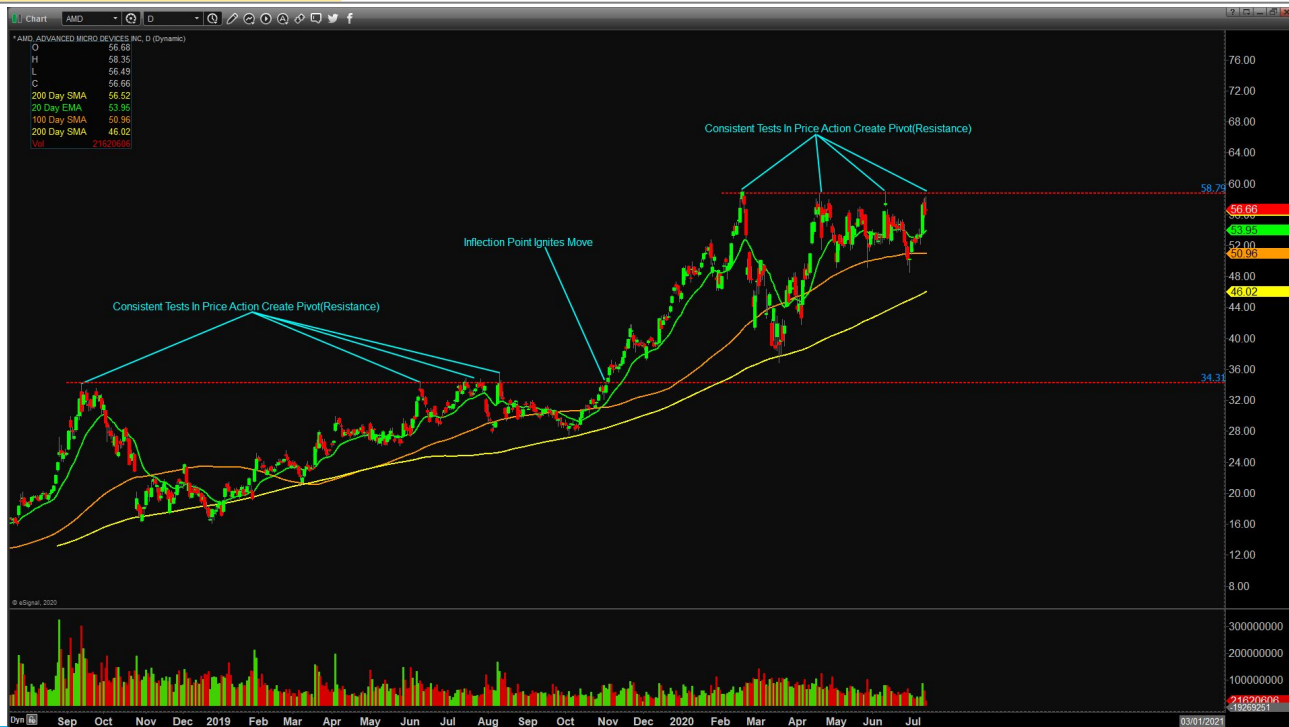
Arguably the most fundamental intricacy of market structure in that these support & resistance zones act as inflection points for major market moves

Pivots are created over both long & short periods of time where close consistency in price action is identifiable

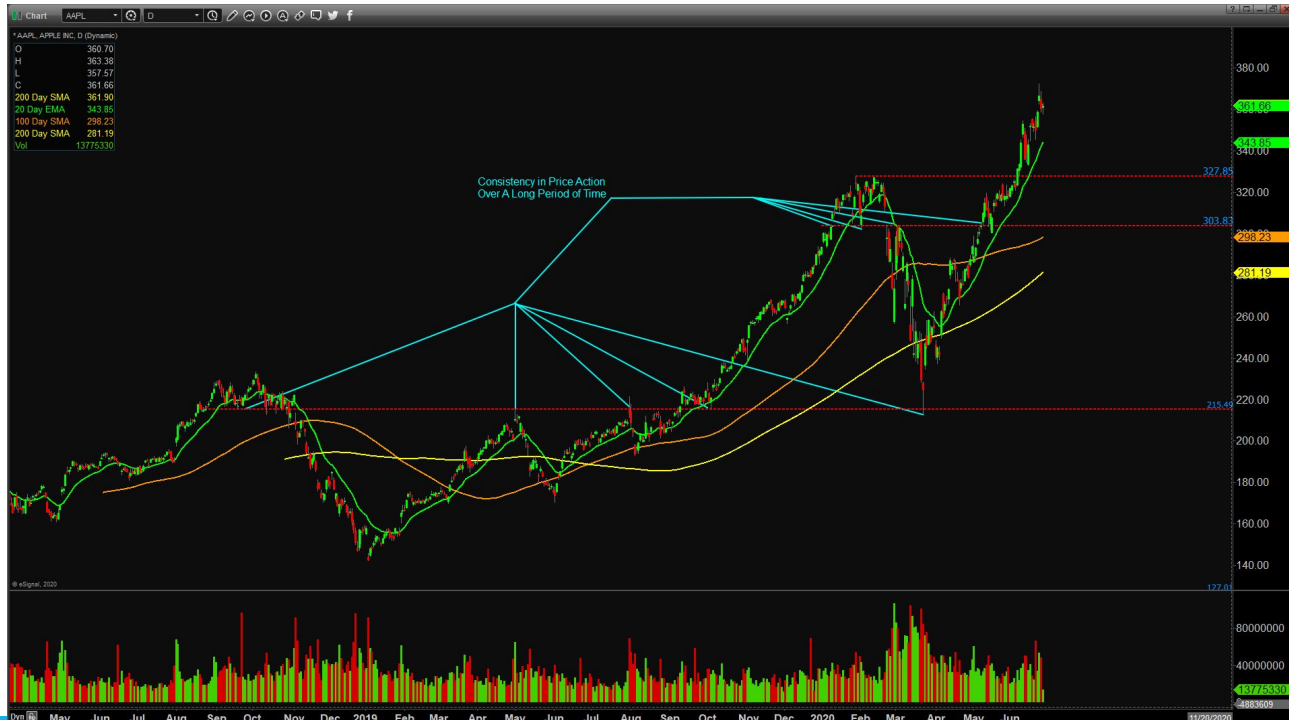
Reactions to these pivot points root from the emotions and outcomes experienced on the previous tests, often resulting in a significant inflection point

Proper technical analysis and a basic understanding of market structure is crucial in developing the skills to identify these substantial levels

Daily Pivot



Daily Pivot



Daily Pivot



Daily Pivot



Intraday Pivot



Intraday Pivot



Trend Lines

Another intricacy of market structure where prevailing trends are established by the connection between both extreme and significant swing high and swing low points

A striking similarity to pivots, just in an angled fashion where visually it allows us to identify a trend. The more identifiable the trend, the more valid the trend line's use for support & resistance

Major breakouts of established macro trends are phenomenal trading opportunities due to the validity a trendline gains with more price action interactions over time

Standard Trend Lines

Ascending Resistance: Connecting most extreme higher high anchor points; the MOST DIFFICULT to break & requires the MOST volume

Descending Resistance: Connecting the most extreme lower high anchor points

Ascending Support: Connecting the most extreme higher low anchor points

Descending Support: Connecting the most extreme lower low anchor points

Complex Trend Lines

A complex trend line begins along an established trend that transitions to a “cut” through in trend thus the same line acting as first support and then resistance, or starting as resistance then becoming support.

Utilized when a clear and identifiable trend is not present over a long term

A much more rare form of trend line, but when present, is generally very powerful

Parallel Trend Lines & Channels

Also known as a Channel

First, plot a standard trend line

Then, duplicate the trend line and fit it to the other side of the trend to establish a parallel channel thus creating trigger points for an accelerated move, either a break out or break down

Channels often tend to occur over a MACRO based time frame and produce some of the most powerful and sustained moves

Trend Line Anchor Points

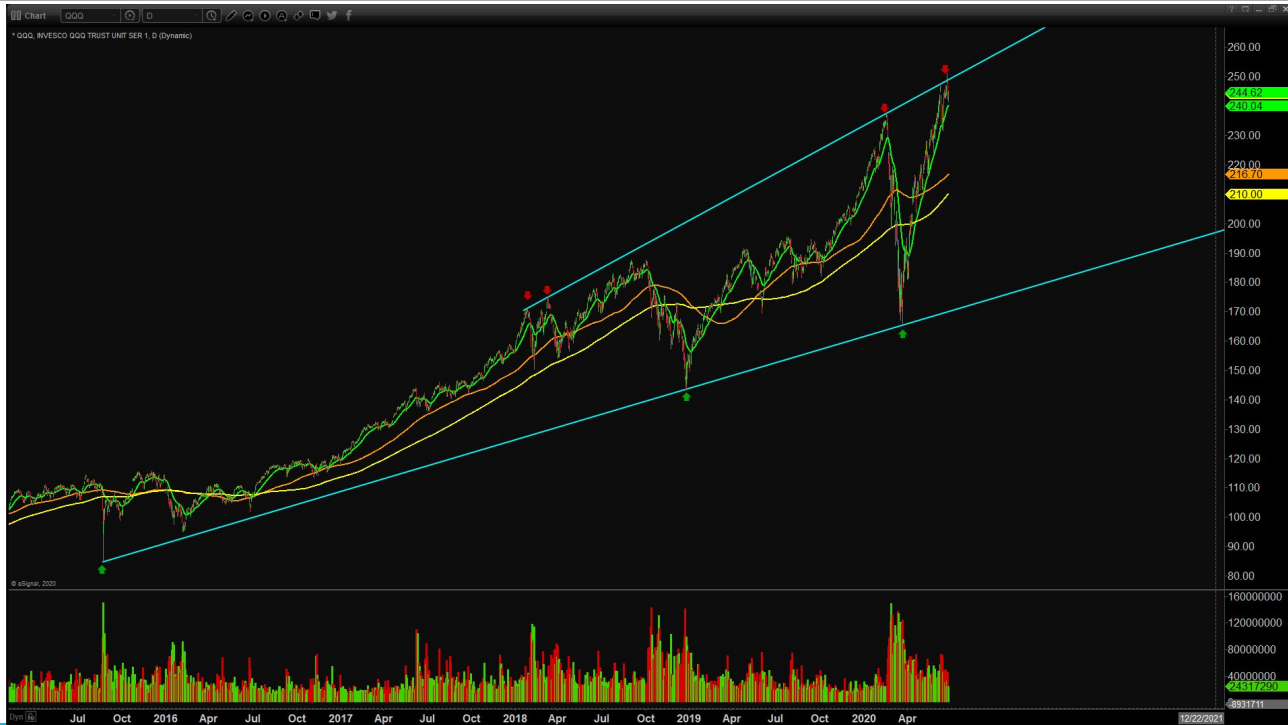
Anchor points refer to the extreme swings in the market which then create pivot points and are then used as anchor points for the most powerful trend lines

Utilizing the most extreme moves in the market will remove the subjectivity in trend lines

When selecting the points to originate and continue a trend line you must scrutinize the chart to locate these critical anchor points in order pivots to produce a valid line

Ideally a MINIMUM of 3 touches on a trend line, or 3 anchor points, is critical to produce a predictable move of any magnitude

Trend Line Anchor Points

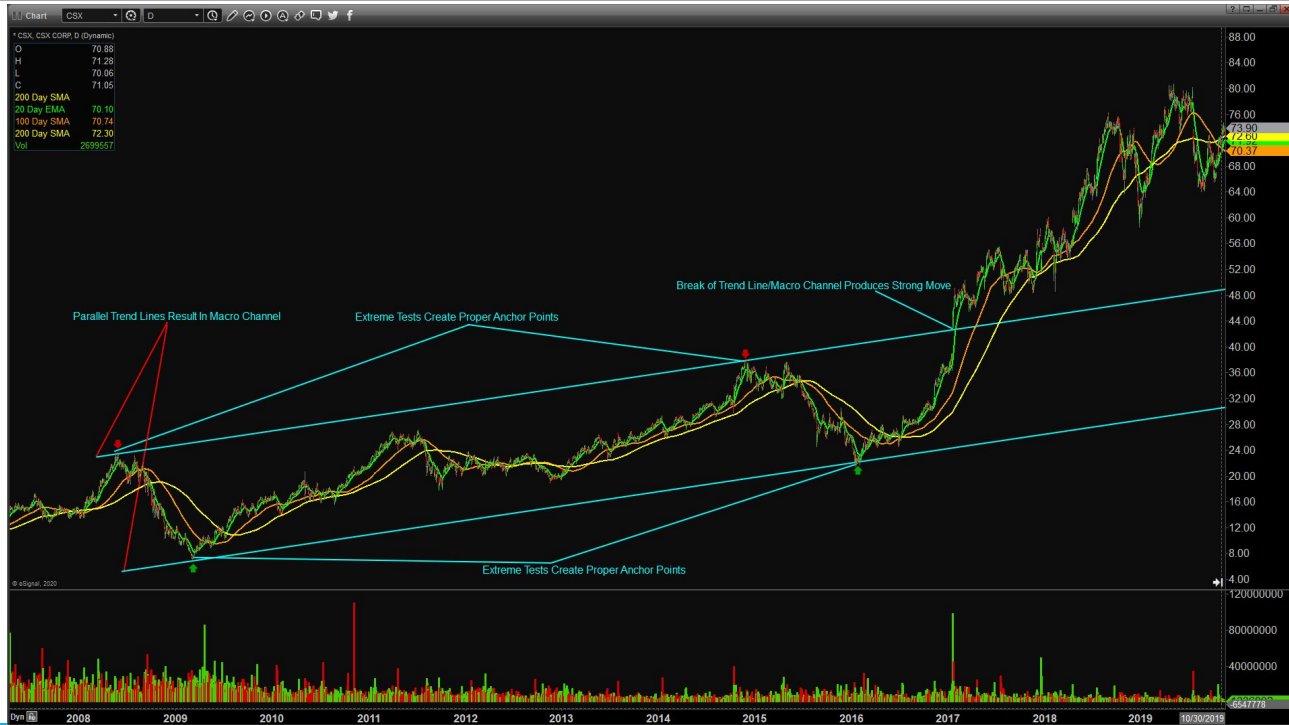


Trend Lines & Exhaustion Signals

Trend lines require major swings in the market to be effective

Quick, violent spikes beyond the short-term trend line is often a buying or selling climax which is best analyzed on faster trading time frames so it is a natural exhaustion point for the countertrend move, thus providing a significantly less random situation providing a trading opportunity

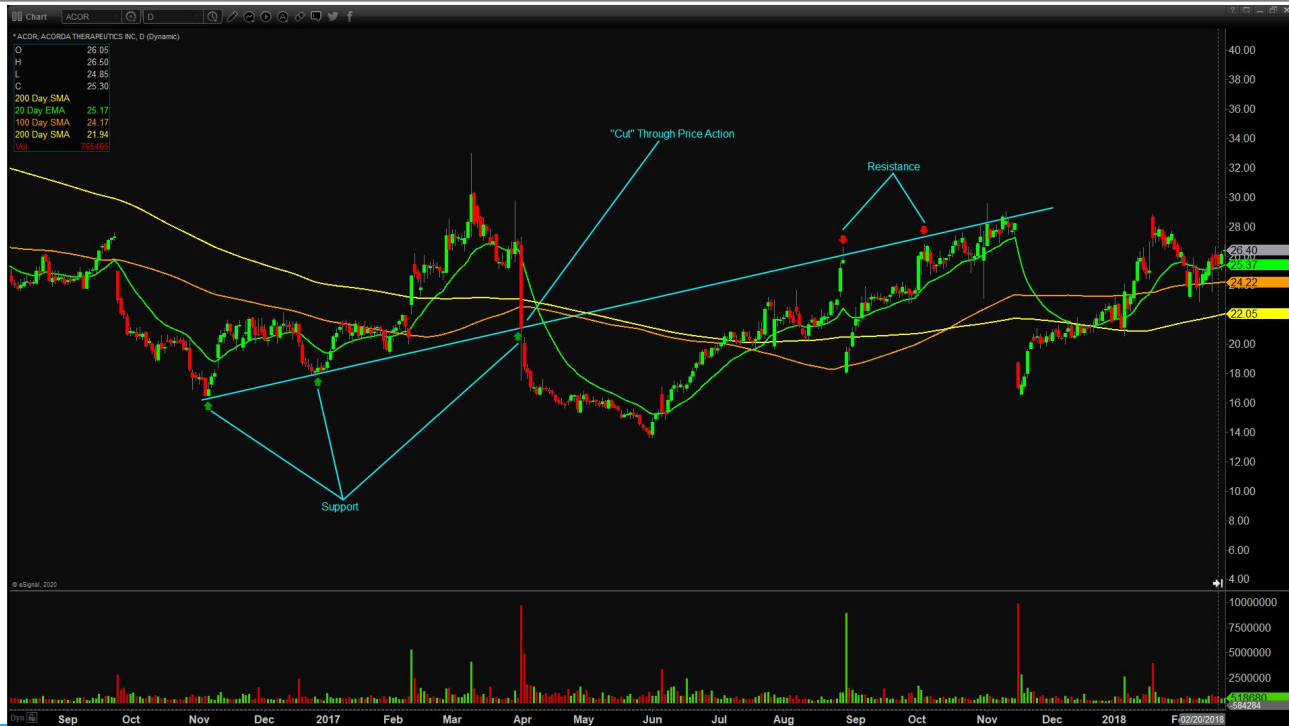
Parallel Trend Lines & Channels



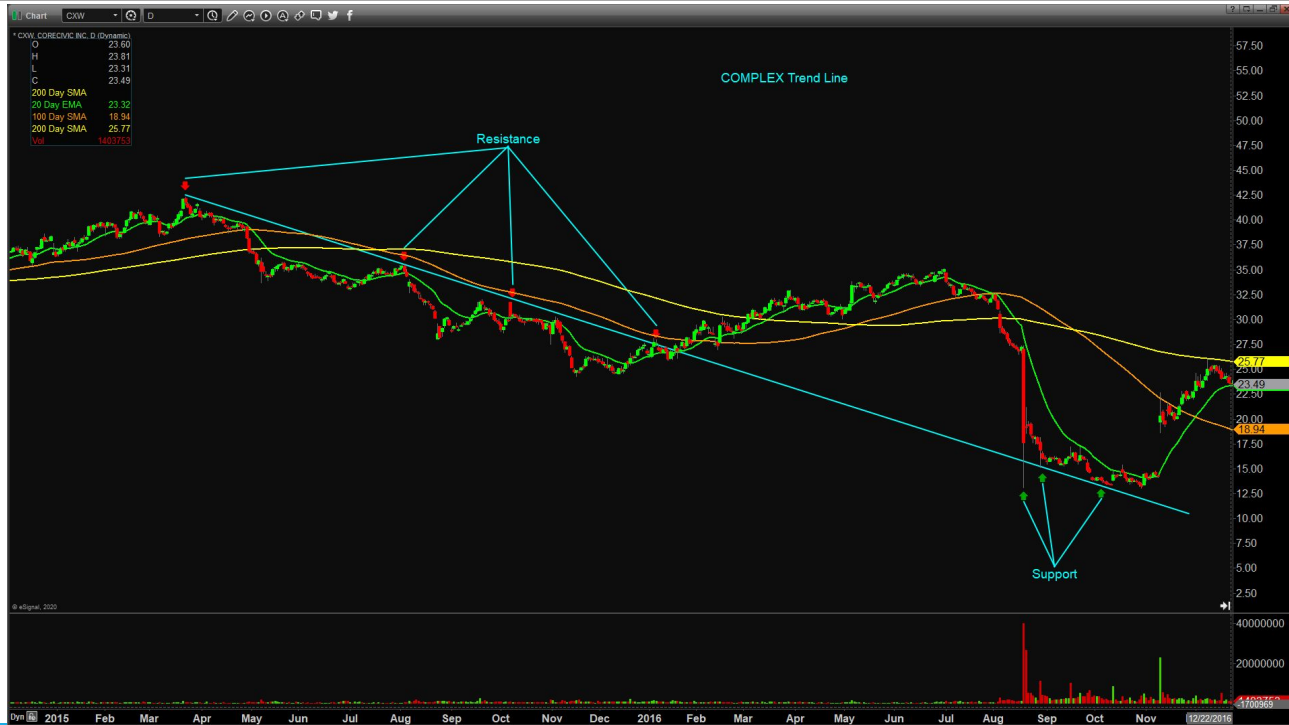
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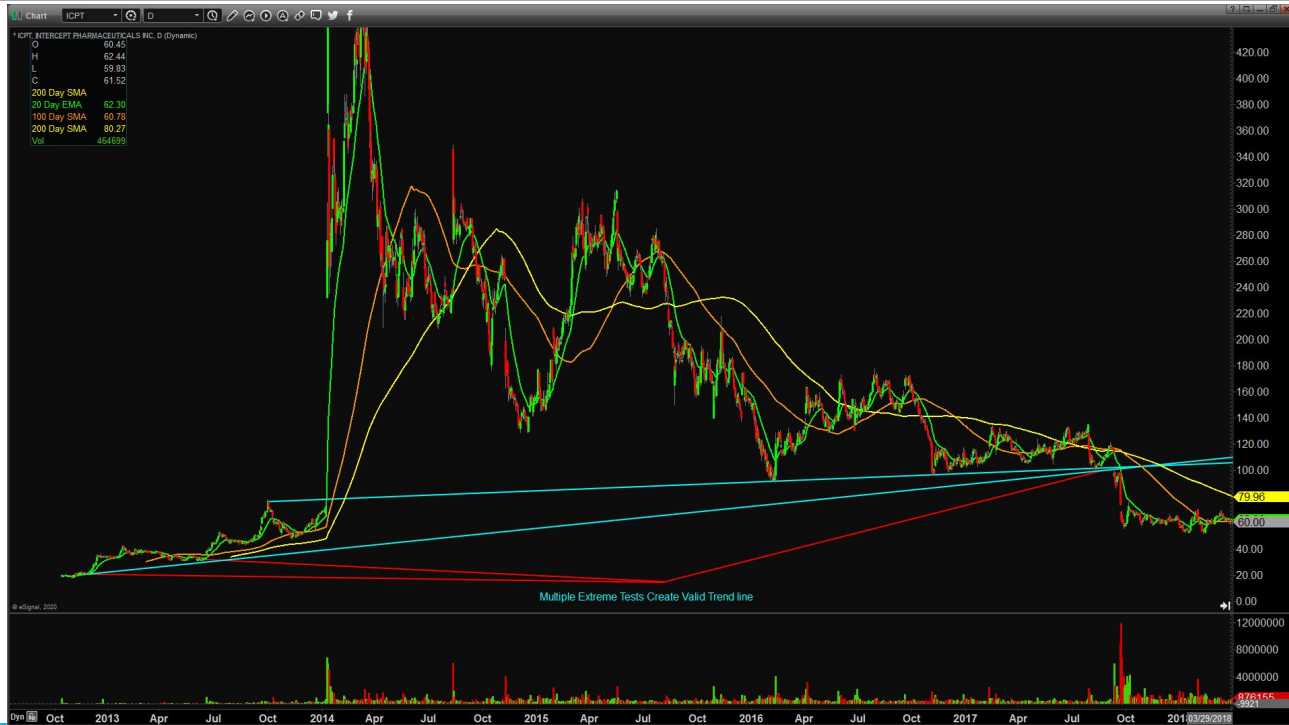
Complex Trend Line



Complex Trend Line



Standard Trend Line



Standard Trend Line



Standard Trend Line



Gaps

Gaps are driven by significant events which cause a sharp reaction either up or down in price between two consecutive days leaving behind an often large void where there is a lack of price action

Gaps provide a “pocket” where there is a lack of support or resistance which can provide for a clean and controlled move

Either side of the gap will act as support or resistance, depending on from which side the market has entered the gap. These situations are better known as “gap entry” and “gap fill”

Gaps



Gaps



Gaps



Gaps

