

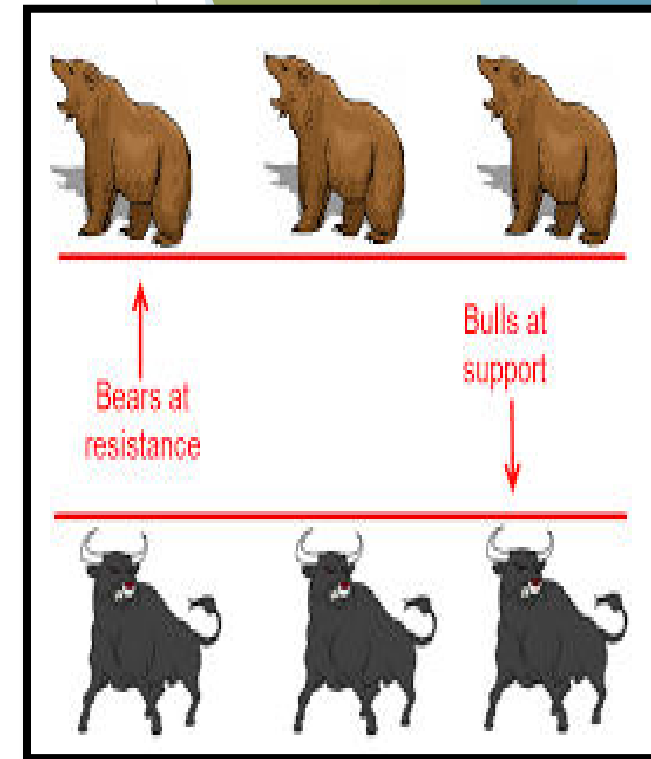
Support & Resistance

Unit 1-Topic 5

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Introduction

- ▶ Support and resistance represent key junctures where the forces of supply and demand meet.
- ▶ These lines appear as thresholds to price patterns. They are the respective lines which stops the prices from decreasing or increasing.
- ▶ A support line refers to that level beyond which a stock's price will not fall. It denotes that price level at which there is a sufficient amount of demand to stop and possibly, for a time, turn a downtrend higher.
- ▶ Similarly a resistance line refers to that line beyond which a stock's price will not increase. It indicates that price level at which a sufficient supply of stock is available to stop and possibly, for a time, head off an uptrend in prices.
- ▶ Trend lines are often referred to as support and resistance lines on an angle.



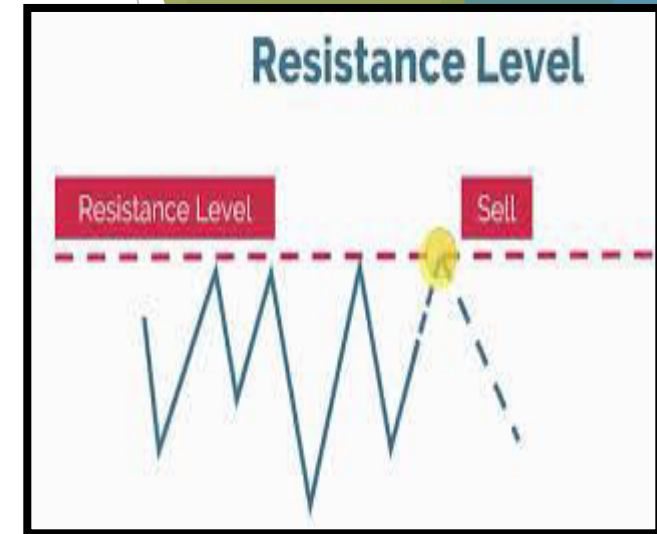
1.Support

- ▶ A support is a horizontal floor where interest in buying a commodity is strong enough to overcome the pressure to sell.
- ▶ Support level is the price level at which sufficient demand exists to, at least temporarily, halt a downward movement in prices.
- ▶ Logically as the price declines towards support and gets cheaper, buyers become more inclined to buy and sellers become less inclined to sell. By the time the price reaches the support level, it is believed that demand will overcome supply and prevent the price from falling below support.
- ▶ Support does not always hold true and a fall below support level indicates more willingness to sell and a lack of willingness to buy. A break in the levels of support indicates that the expectations of sellers are reducing and they are ready to sell at even lower prices. Once support is broken, another support level will have to be established at a lower level.



2. Resistance

- ▶ A resistance is a horizontal ceiling where the pressure to sell is greater than the pressure to buy.
- ▶ Resistance level is a price at which sufficient supply exists to; at least temporarily, halt an upward movement.
- ▶ Logically as the price advances towards resistance, sellers become more inclined to sell and buyers become less inclined to buy. By the time the price reaches the resistance level, it is believed that supply will overcome demand and prevent the price from rising above resistance.
- ▶ Resistance does not always hold true and a break in the resistance level shows more willingness to buy or lack of incentive to sell. Resistance breaks and new highs indicate that buyer's expectations have increased and are ready to buy at even higher prices. Once resistance is broken, another resistance level will have to be established at a higher level.



Why do support and resistance lines occur?

- ▶ A stock's price is determined by supply and demand. Bulls buy when the stock's price is too low and bears sell when the price reaches its maximum. Bulls increase the prices by increasing the demand and bears decrease it by increasing the supply. The market reaches a balance when bulls and bears agree on a price.
- ▶ When prices are increasing upward, there exists a point at which the bears become more aggressive and the bulls begin to pull back - the market balances along the resistance line.
- ▶ As prices start to decline toward the support line, buyers become more inclined to buy and sellers start holding on to their stocks. The support line marks the point where demand takes precedence over supply and prices will not decrease below that support line.
- ▶ Prices often break through support and resistance lines. A break through a resistance line shows that the buyers have won out over the sellers. The price of the stock is bid higher than the previous levels by the Bulls. Once the resistance line is broken, another will be created at a higher level. The reverse holds true for a support line.

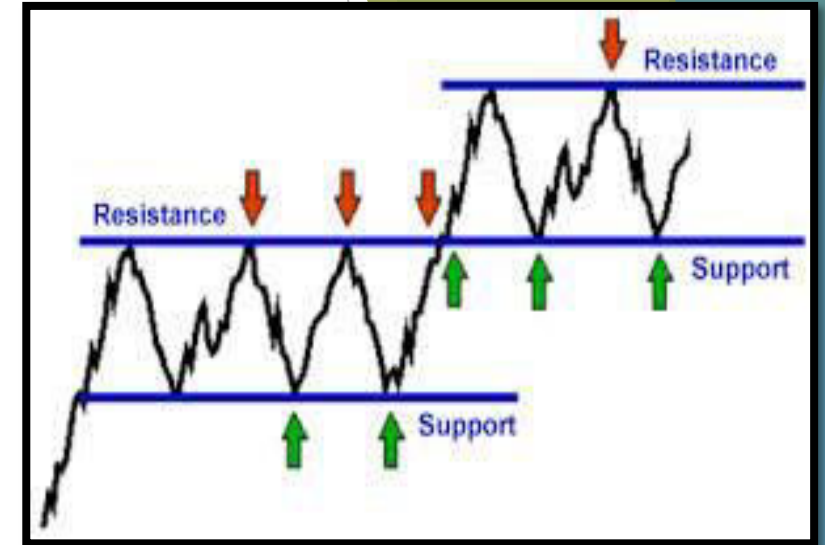
Support and resistance zones

- ▶ Support and resistance is often thought of as a price level
- ▶ The problem is thinking about support and resistance as a precise price level and this is where most traders commit error.
- ▶ In reality, support and resistance levels are not exact prices, but rather price zones. So, if the resistance level is Rs. 200, then it is actually the zone around that 200 level that is the resistance. The stock may hit only Rs.198 or it may hit Rs.202 and still hold the Rs 200 as price resistance. One solution is to use price zones for support and resistance instead of price levels.



Change of support to resistance and vice versa

- ▶ Another principle of technical analysis stipulates that support can turn into resistance and visa versa.
- ▶ Once the price penetrates below the support level, the earlier or the broken support level can turn into resistance.
- ▶ Resistance levels can transform into support levels and vice versa.



The background features abstract geometric shapes, primarily triangles, in various shades of blue and green. These shapes are layered and overlap, creating a dynamic, modern aesthetic. The colors range from light, airy blues to deeper, more saturated greens and blues.

THANK YOU