

Support and resistance from basic to advanced

I will share the most comprehensive and exhaustive guide to S/R in this thread
Real examples from Nifty included for clear understanding. This is EVERYTHING
that you need.

There are 3 types of Support and resistance zones.

1. Support and resistance lines.
2. Demand/Supply Zones. (Probable Buy and Sell zone)
3. Trend-line support and resistance.

We will cover the first topic in this thread.

Advanced

4. Fake breakout/Breakdown
5. Stop loss hunting by institutional traders
6. When to enter/exit
7. How retail traders get stopped out in CORRECT entry
because of Stop loss hunting.
8. High probability entry/exit without getting stopped out.

What is a support line?

It is a line/zone where the buying pressure is more than the selling pressure,
acting as a base for a bounce in price.

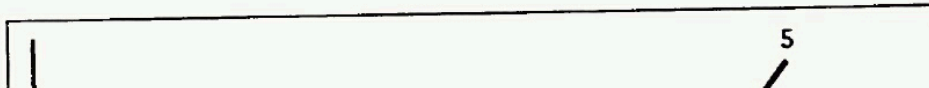
In short, the demand is greater than the supply at these levels hence an
upward move is expected.

SUPPORT AND RESISTANCE

In the previous discussion of trend, it was stated that prices move in a series of peaks and troughs, and that the direction of those peaks and troughs determined the trend of the market. Let's now give those peaks and troughs their appropriate names and, at the same time, introduce the concepts of *support* and *resistance*.

The troughs, or reaction lows, are called *support*. The term is self-explanatory and indicates that support is a level or area on the chart *under the market* where buying interest is sufficiently strong to overcome selling pressure. As a result, a decline is halted and prices turn back up again. Usually a support level is identified beforehand by a previous reaction low. In Figure 4.3a, points 2 and 4 represent support levels in an uptrend. (See Figures 4.3a and b.)

Resistance is the opposite of support and represents a price level or area *over the market* where selling pressure overcomes buying pressure and a price advance is turned back. Usually a resis-



How to draw a support line?

Zoom out on the time frame that you're trading and try to touch as many low points as logically possible.

The support should be easily visible upon observation and you shouldn't have to hunt or look hard for them.



Personal Observation-

It is okay if the support line touches the middle of the candle or doesn't touch the wick or only touches the wick. Remember, we're looking for zones rather than a perfect line. See 2 examples below. Both are valid support lines.

1.



2

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Nifty 50 Index, 1M, NSE



Resistance line is a line/zone where the selling pressure is higher than the buying pressure.

In short, the supply is greater than the demand which pulls the price lower.

How to draw resistance lines?

Just like support lines, zoom out on the time frame that you're trading and try to touch as many low points as logically possible. The resistance should be easily visible upon observation and you shouldn't have to hunt or look hard for them.

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NIFTY BANK, 1W, NSE



What is a breakout?

A Breakout is when the resistance line is tested several times, leading to an increased demand in that zone.

This increase of demand leads to a breakout.

Personal Opinion- The more times we test a resistance, the weaker it becomes.
See pic below.

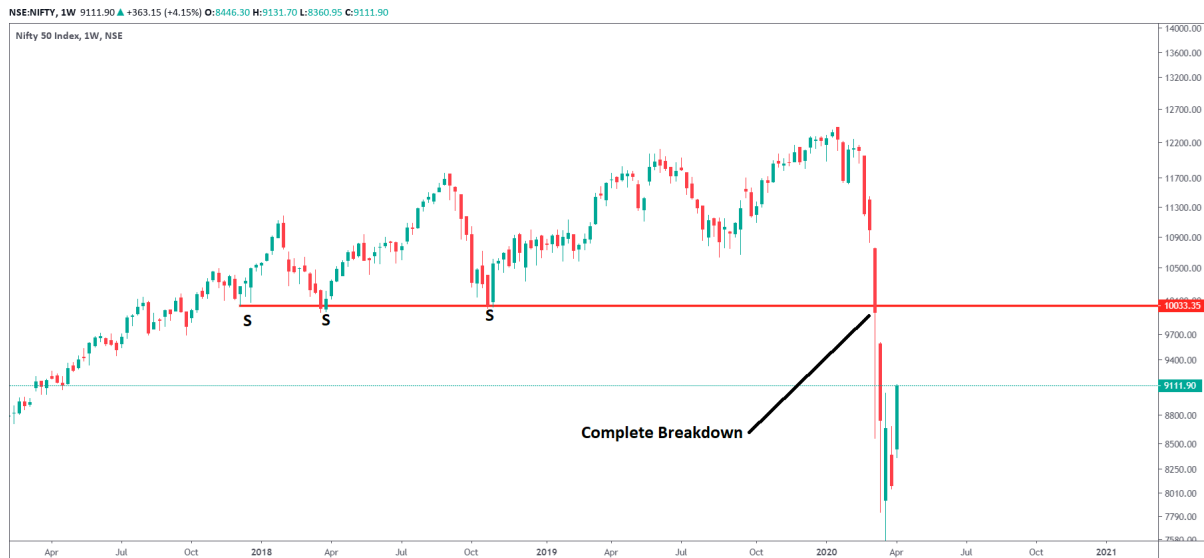


What is a Breakdown?

- It is when the support zone is tested too many times, leading to an increase of supply in that zone, which leads to lowering of price i.e.. Breakdown.

Opinion.

The more times we test a support, the weaker it becomes.

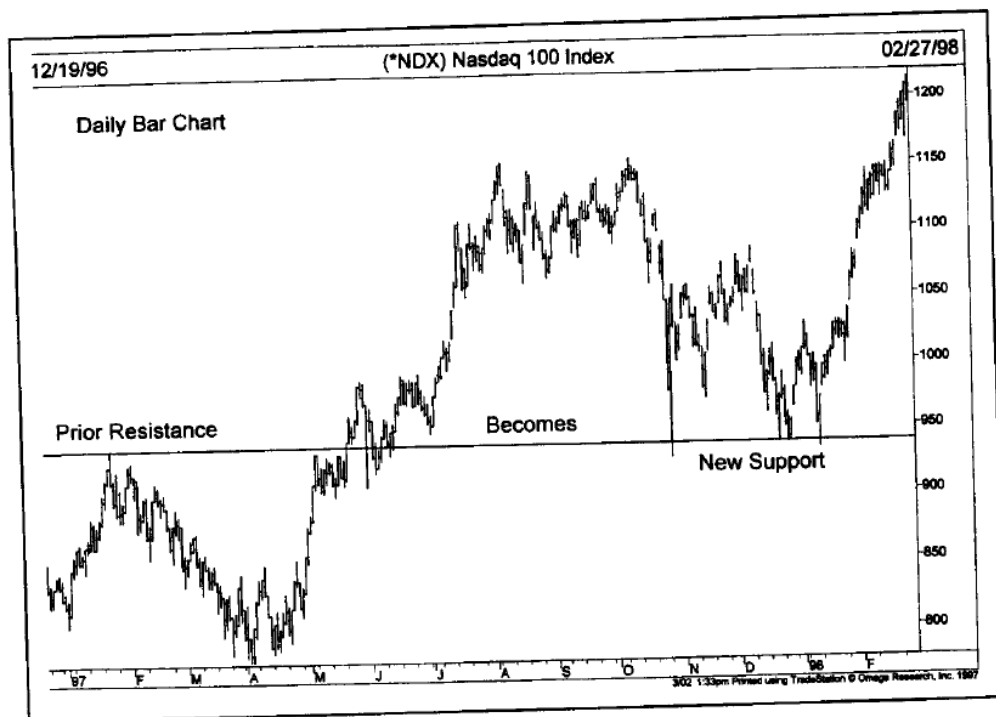


So what happens when a support/resistance breaks?

They start acting in opposite nature. A support line becomes a resistance and a resistance becomes a support. Remember this. This is really important for trend identification.

Basic Concepts of Trend

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Resistance lines, when crossed, become new support, and the cycle repeats until the trend breaks.

See below Pic

Study this chart carefully to see how Resistance level 1, when broken at 2, after formation of a new resistance at 3, becomes a new support at 4.



A continuous in rise in support and resistance levels confirms a bull market.

This cycle continuous till the breakdown. Take some time to understand this graph.

Resistance Levels Become Future Support Levels

It is important to note at this point, however, that an area formation built by resistance will, if later penetrated, manifest itself as a support level. And, in the same manner, a support level will, when broken through, show up as a resistance point in future price movement. Each may repeat in its original role but more often they exchange roles. In other words, an area formation, whether originally one of resistance or support, may repeat later on in the same or the opposite position, tending to check whatever movement happens to approach its level from either above or below.

Use of Support Line.

A general use of the support line is to go long when the prices bounces off the support line.



The use of resistance line is to go short when the price pulls back from resistance.



One of the more profitable ways to use support and resistance is to use them at the Breakdown/Breakout zone.

A Breakout leads to a strong upwards rally in price because of a huge demand at the resistance zone.

Long at the Break-out.

See pic below for Break-out .



The exact opposite is true for breakdown, which leads to a big pullback in price. Short at the break-down.



For how long is the support and resistance line valid?

The higher time frame it exists on, the stronger it is.

If the support/resistance was formed at the top or the bottom price, it will have a substantially long life.

produces it, the longer the potency of any level in future market action.

Then, in the next major trend we may, of course, have new levels develop – as well as the old ones that repeat – and these new levels may become significant in turn in another later trend. For example, note on the daily chart of General Electric in Fig. IX.3 the resistance that showed up at $44\frac{1}{2}$ the week ending August 1. This $44\frac{1}{2}$ level became support for the reactions August 21 and September 25. The general $44\frac{1}{2}$ level may show up again as support or resistance months later, perhaps taking the place of the old $46\frac{1}{2}$ level as an important level in future trading. So far as we can see on this chart, however, it is to be regarded only

The support and resistance levels established by the tops or bottoms of intermediate movements in a major trend may still be effective after a lapse of years.

as one of our minor levels which may soon lose its value.

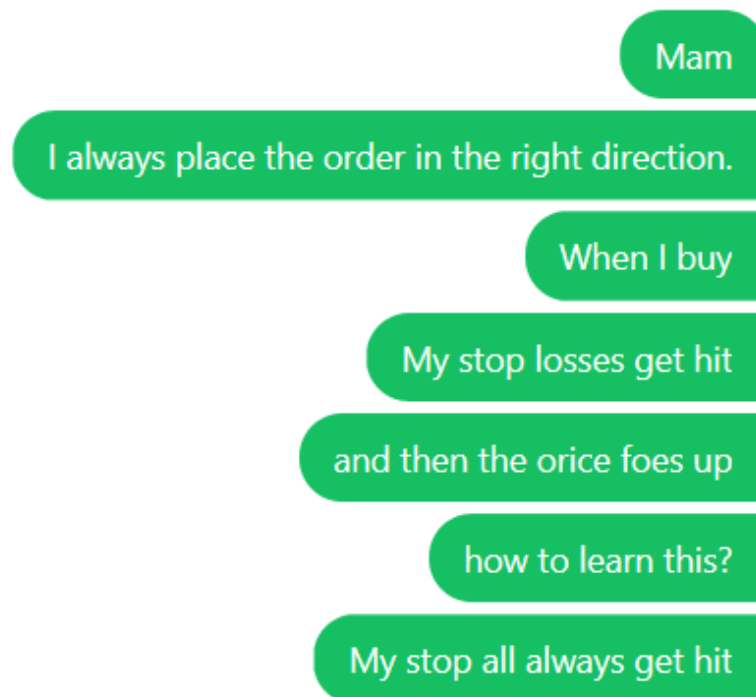
ADVANCED uses of Support and resistance.

From here we will start with the advanced uses of Support and resistance.

These are advanced practice used by seasoned traders to determine high probability entries for profits.

However, they are easy to understand with a little focus.

Lets see how institutional traders stop out retail traders. A very common problem that retail traders face is being stopped out. As soon as they enter a long, the price goes down for a minute, hitting their stop loss and then continues to go up.



Although their entry is correct, due to small movements, retail traders get stopped out. This is a huge frustration, discouraging most traders. This is called stop loss hunting. We will study how stop hunting works and how to defend against it.

Please read the below explanation with great focus. Re-read if needed.

Let us understand how institutional traders stop hunt BOTH long and short positions at the SAME time. I have used the exact same chart to showcase how both long and shorts are hunted at the same time.

Short hunting at resistance

The red line denotes the resistance line.

At Point A, few retail traders will short it thinking that the price will go down at the resistance.

But the price has a small breakout out. Triggering the stop loss of the people who went short.



This is a fake out as the price then reverses at the resistance. Even though the price goes down, the stop loss gets hit. Here the trader loses money even after being right. This is short hunting.

With same chart, we will study long hunting at the resistance.

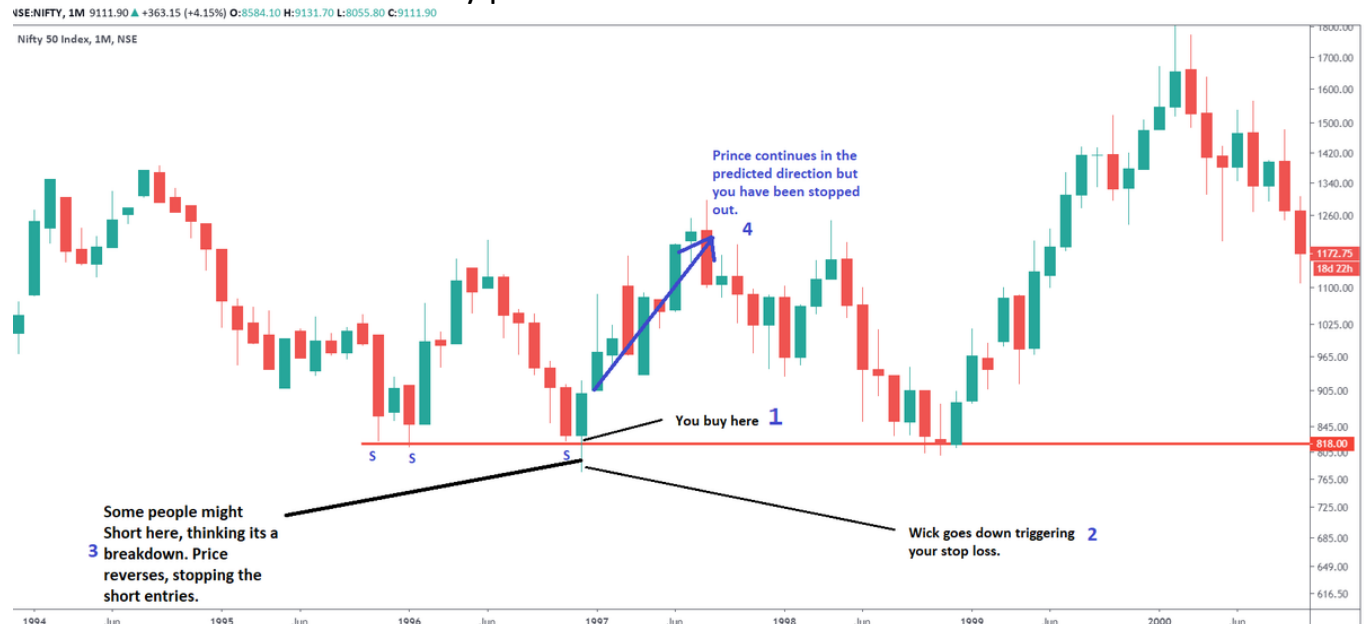
We can already see the wick has closed the resistance line, most retail traders will long here, calling it a breakout.

The price is then reversed. Stopping out all the longs. This is a long hunting at the resistance.



Stop loss hunting for longs and shorts at the support can be seen here.

Price comes at support. Some traders think it will go back up at support but the which crosses the support, making a fake breakout and stopping our the longs. The shorts are ALSO hunted by price reversal.



If you had problem in understating the above concepts, please don't worry. The above concept is advanced but not difficult. Read it again a few times and watch the chart along with it. It will be clear in some readings.

Now that we have understood that taking long/short entries at the support and resistance can get you stopped out, let us look at the probable solution.

The safe solution is to look for the following

1. Breakout
2. RE-TEST of the breakout
3. Follow through

The process of Confirmation and Retest can be used for both

1. Confirming the Breakout
2. Confirming the breakdown
3. Confirming the support
4. Confirming the resistance

This chart explains the Re-test and confirmation of support

In this chart, The support is established. Then the price comes back to be retested and the support is held. This confirms the support line. Leading to a upwards rally.

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in the same manner, a breakout from a resistance can be confirmed as shown in this chart.

The resistance is broken. The price comes back to confirms the breakout and is confirmed. On confirmation, a high probability long entry is made.

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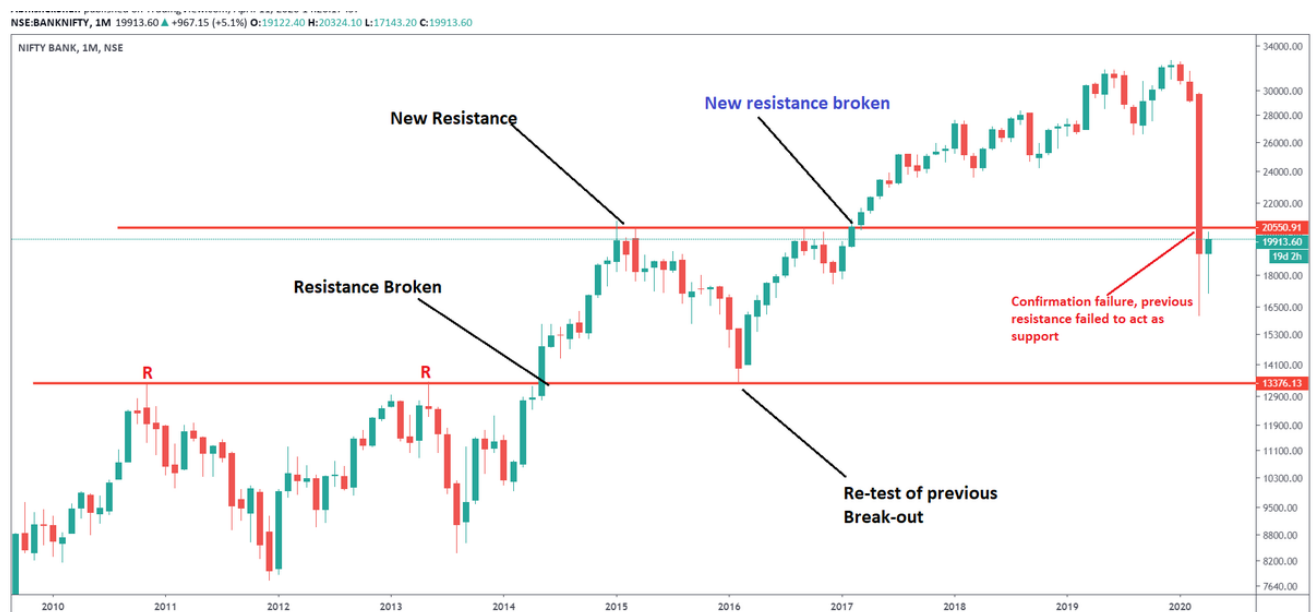
The confirmed entries for Resistance confirmation and Break-down can be understood on the same lines.

Opinion- Always wait for a re-test and confirmation in all kinds of entry i.e. Support, resistance, breakdown, breakout. This gives a high probability entry

I will share the magic of Support-Resistance-Retest by using Bank Nifty Chart

We had a resistance at 13376 marked by R.
It had a breakout in first quarter of 2014. This breakout was retested in early 2016 and defended

The new resistance at 20550 was then broken in early 2017



As expected, we are now seeing a retest of this new resistance breakout.

How do we know that we're in a probable bear market and in a turmoil?
Because the previous breakout levels are not currently being respected. Hence we know something unusual has happened in the market.

This is why you don't need to watch the news. Charts tell you all the usual/unusual news by its price action.

All credit goes to a friend Simran ...this thread is written by her , I just organised it in a better way.