Support and Resistance

Knowing how to identify supports and resistances in charts is a very important skill that traders have to acquire. Supports and resistances can guide us in our trading strategy, allowing us to find out the entry points and exit points.

A support level is a price level which prices of the asset will seem to "bounce off" to go up. Under normal circumstances, when the price of the asset is falling, it will continue falling until it finds the support level and prices will rise. In the case where the price falls below the current support level, it will continue to drop and find the next support level.

A resistance level is a price level which prices of the asset will seem to "bounce off" to go down. Under normal circumstances, when the price of the asset is rising, it will continue to rise until it finds the resistance level and prices will drop. In the case where the price rises above the current resistance level, it will continue to rise and find the next resistance level.

As implied in the last 2 paragraphs, there can be many support and resistance levels in the chart. In the case when price drop below the support level, this support level will become the resistance level. It is the same for the opposite. When price rises above the resistance level, that level will become its support level.

Identification of support and resistance levels can be done via a few ways and I will briefly explain how to go about using them.

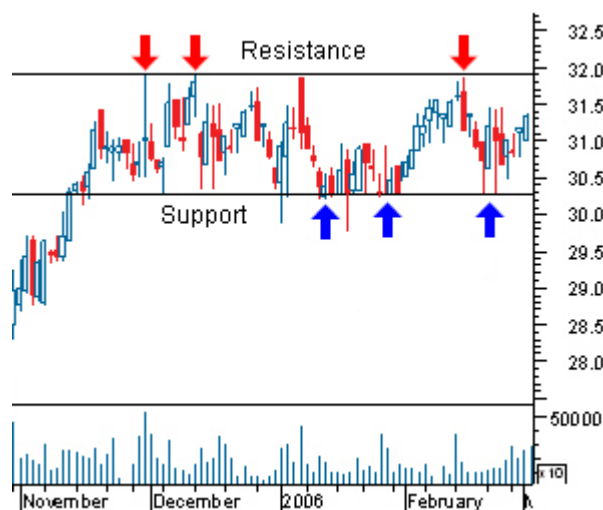1. Drawing of lines cutting across as many points as possible
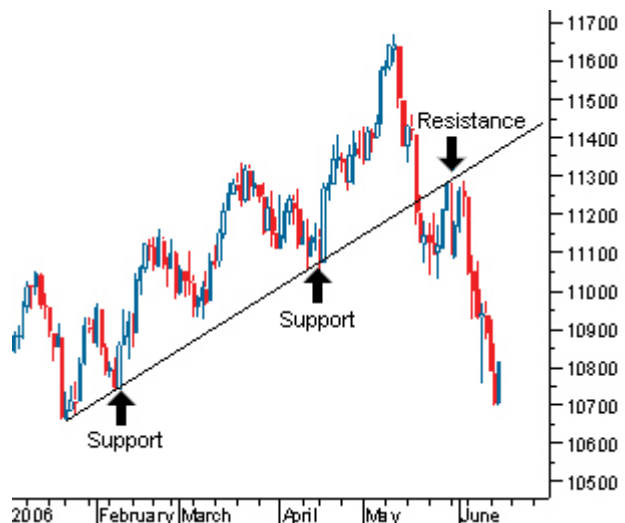

Figure 1

Figure 2

As you can see in Figure 1, there are two lines that are draw across the chart at $31.90 (resistance) and $30.30 (support). Both the support and the resistance cut across the chart many times nicely at the top and bottom such that it forms a channel. The price of the stock will then trade within this range until it

breaks the support or the resistance. Generally, the more times the prices test the boundaries, the stronger these boundaries are.

In Figure 2, you can see that instead of vertical lines, it is now a diagonal line. This line lines up nicely at the lows of each retracement points and when the price drops below this diagonal line, this diagonal line turns into a resistance line. We use this as the way to do support and resistance when we see the price of the asset going upwards or downwards as shown in Figure 2.

2. Using Moving Averages

Another way to find out support or resistance easily is by using the moving averages.

In Figure 3, we can see on the left side of the chart, the price is supported along the red moving average line while on the right side, the red moving average line becomes the resistance.

We will not be talking about how Moving Averages work, but you can click here to learn about Moving Averages.

Figure 3

3. Fibonacci Support and Resistance

Figure 4

In Figure 4, we use Fibonacci Retracement on the chart, we can also see that those key Fibonacci numbers forms the support and resistance levels for the price. Notice how the prices seem to "bounce off" every time the prices approach those levels. Once again, we will not be talking about Fibonacci Retracement in this article but you can click here to learn more.

There are a few methods which we can find out about the support and resistance levels of a chart. It is vital for us to know how to identify them as they can guide us in telling us when to buy and when to sell. We can enter at the support level and we can sell off at the resistance level and we can gain profits.