



Trading CYCLE

Support and Resistance - LESSON 2

www.10lessons.net

Support and Resistance is, in my style of trading one of the most important factors. There are hundreds of different types of support or resistance in technical trading and if you took into account every signal on your charts would be so complicated and messy that you'd more than likely suffer 'analysis paralysis', whereby your analysis just gets confusing.

Keep it simple. Choose a style and stick to it. In my trading I look at different types of support and resistance with varying levels of importance and I'd use them for different purposes. That being said I use each type of support and resistance in the same way every single time, applying mechanical rules to my trading so my probability edge can be played out over time.

The opposite of that would be using a hunch or a feeling to make trading decisions which is asking for trouble. As your emotions and moods fluctuate your hunches and feeling therefore change, which means you have no way of measuring your edge and expectancy. With no measured expectancy you have no way of knowing your trading strategy or system makes money over the long term. Then as soon as you reach your first draw-down as a trader you'll more than likely lose belief in your system and abandon it for another 'holy grail'.

Monthly, Weekly and Daily Pivot Points

My trading is long-term, meaning the lowest timeframe I look at is the daily chart. I also use the monthly chart to look at previous and current trend history as well as major pivot points that could act as support or resistance. These would be the strongest levels that I would take into consideration. If a stock was trading just below its all time high, I would expect the price to find some sort of resistance at this level so I would wait until price is above this level before buying.

By doing this all I am doing is stacking probability in my favour and at the simplest level trading is a big intricate game of probabilities. I also look at these pivot points on the weekly and daily charts. With the smaller daily pivot points being of less importance, keeping in mind more recent pivot points may be subject to a recency bias in the eyes of other trader.



Round Numbers

The financial markets are made up of human participants and automated algorithms that are programmed by humans. Which means a basic understanding of human psychology will help in understanding support and resistance and why to a certain extent the same patterns are seen in the markets time and time again. Round numbers are used because they are easier to remember. A trader who sets profit targets, unless they are using specific pivot points are more likely to set a profit target at \$100 rather than \$101.56 because that is human nature. So entering a position just before \$100 isn't wise because there will likely be some profit taking at this level. Instead I may look to enter above \$100 and look to exit at a small loss if price drops back below the \$100 zone.

Support and Resistance

In US stocks the major round numbers would be \$10, \$20, \$30 etc. Half figures would be more significant than round numbers – \$50, \$150 etc. And Figures would be the most significant – \$100, \$200 etc. Round numbers become less significant above \$100, so \$110 wouldn't be of much concern in comparison to \$60. In Forex your round numbers would be 1.2, 1.3 or 120, 130 etc. Half figures would be 1.5, 2.5 or 150, 250 etc and figures would be 1.000,2.000 or 100, 200 etc.



Dynamic Support and Resistance

Although considered a lagging indicator, moving averages not only confirm [biases and trends](#) but can also be used as very effective dynamic support and resistance levels. My most used moving averages include the 200, 50 and 20 period moving averages across the weekly and daily charts. Each has their own uses and offer different strengths of support and resistance. I wouldn't advise having too many other indicators on your charts as this will distract you from price action itself. However I would keep a couple of moving averages on there so you can easily identify support and resistance levels. Refer to Lesson 1 - Trends

The 200MA would offer the strongest levels of support & resistance even to this day, as per Lesson 1. This is because before the internet and modern software traders drew the 200 day moving average onto charts by hand.

I've mentioned the most important levels of support and resistance in my trading. However I may use more advanced levels that I may use to build my confluence of events. These may include trend lines, Fibonacci retracements and Regression Trend Channels. More on these in the VIDEO Tutorial.



How to Use Support and Resistance

Support and resistance can have a use in most aspects of technical trading. They can help to make decisions on entering, managing and exiting a trade. As already mentioned, if going long I'd look for instruments with the least resistance ahead. This gives more probability that price will continue in my direction undeterred by impeding resistance levels. If entering long on a pullback, I'd look for a strong level of support that price has retraced to. Probability says that price will continue and make a new higher high. Support levels when entering a market from a breakout interest me as well. Ideally with a strong level of support between my entry and stop-loss.

I may use support and resistance to manage and exit trades. When price breaks these levels in the opposite direction, I'll look to manage my stop loss. So if price has been making higher highs and higher lows. But the next pullback breaches the previous higher low. Then I may decide I don't want to be in that market anymore. This is because price may be entering a period of consolidation and my capital may have better use elsewhere.

Trading Software

I'm often asked by newer traders if I use Meta Trader to do my analyse. Or how to apply moving averages to trading apps on phones. I would advise against using free software offered by brokers, such as MT4. These platforms don't have the capabilities for trend trading. Professional software is required to put you at an advantage with your technical analysis and gives you the ability to identify support and resistance properly.

In summary, support and resistance is vitally important in all types of technical trading right alongside price action itself. Other indicators should come secondary to confirm your decisions and really find the best of the best opportunities.

Support and resistance can be in different forms. They can be static historic pivot points, round numbers or dynamic moving averages. I consider these zonal areas where price may be react. Over time these levels will become easier to identify. You'll find which are more significant and which you want to use consistently in your trading. Which support and resistance levels are important to you?

In addition to support and resistance areas, Fibonacci retracements and Pivots can play an important role in calculating where prices are going next:

GO HERE TO SEE LESSON 2 VIDEO

Each week for VIP lounge members, I shall put together a weekly strategy for the coming days or weeks:

1. Where are the trends
2. Where are the support/resistance areas
3. What positions I have open, and why - where are the exits
4. Where are the stops and why
5. Is there any correlation to look out for - what is the US Dollar index doing?
6. Are markets overbought/sold - which ones to avoid
7. Live trading webinarcoming soon

Contact me here with any questions

[Click Here to email me.](#)

Disclaimer

Before using this site, blog, ebook, video, newsletter, please make sure that you note the following important information: Do your Own Research Our content is intended to be used and must be used for informational and educational purposes only. It is very important to do your own analysis before making any investment based on your own personal circumstances. You should take independent financial advice from a professional in connection with, or independently research and verify, any information that you find on our Website/books/blogs/videos/emails and wish to rely upon, whether for the purpose of making an investment decision or otherwise. No Investment Advice We are not an investment advisor, we have no access to non-public information about publicly traded companies, and this is not a place for the giving or receiving of financial advice, advice concerning investment decisions or tax or legal advice. We are not regulated by the Financial Conduct Authority. We are an educational forum for analysing, learning & discussing general and generic information related to stocks, investments and strategies. No content on the site/books/blogs/videos constitutes - or should be understood as constituting - a recommendation to enter in any securities transactions or to engage in any of the investment strategies presented in our site content. We do not provide personalised recommendations or views as to whether a stock or investment approach is suited to the financial needs of a specific individual.