Support & Resistance
Trading Strategy

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Introduction

Support and Resistance is one of the most fundamentals concepts of trading.

This eBook explains the fundamentals of support and resistance and provides a simple trading strategy based on support and resistance.

This trading strategy is extremely simple to follow and is highly profitable if used with patience!
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Support and Resistance foundation

Chart patterns that work

Trading Strategy #1 : SRT Combo
Support and Resistance

Trading is all about support and resistance levels and trader must learn this before going ahead. Let's get through some fundamentals of support and resistance. This will be part of all our trading strategies later.

What is support and resistance?

By definition support and resistance are price levels, where price has reacted in the past and may react again in future. The support and resistance levels represent a concentration of buying and selling activity. Support and resistance kind of provides a bounding box for technical analysis.

Without the existence of support and resistance, we have nothing but an unpredictable and random movement of price from one point to another.
Support and resistance define the relative distance between the two levels: the lowest price at which sellers are willing to sell and the highest price at which buyers are willing to buy.

What is Support Level?
A support level is one where price moving down halts and reverses back. Price approaching this level tends to bounce back from this level. In below chart you can see the support levels at the bottom of the chart. These levels provide the lower boundary to the price movement.
What is resistance Level ?
A resistance level is the one where price moving up stops and reverses back. Price fails to go beyond this level on more than one occasions. You can see the resistance level on the top of the above chart. This level kind of provides a ceiling to the price action.

How to find support and resistance ? (True support and resistance)

Finding the correct or true support and resistance is an art and successful traders master this art. There are very few levels on the chart where profitable trades can be taken, and true support and resistance levels give us those levels.

True support and resistance levels are those which are more relevant than others and are important for trading. Here are some fundamental rules to identify price levels which can act as true support and resistance levels. Let’s take a look at them one by one.
1. The price level should be most obvious on the chart: A true support and resistance level will always be very obvious on the chart. You will hardly need any effort to identify it. This also means a large number of traders will be looking at this level same as you. If large group of people react at same level, then you will always have good price action at that level.

2. It should ideally be a swing high or swing low: A swing high or swing low is always a good support and resistance level. Price approaching these levels again in future will certainly react in some way which can give us trading opportunity.

3. Price movement should generally slow down as it approaches this level, price should then face long wick rejections and then move away quickly. A quick move away is crucial and it indicates the importance of that level as large number of traders participated there.

4. It should have acted as both support and resistance level. If a price level has acted as both support and resistance in the past, then it makes it interesting for us.
5. **The price should have multiple rejections at this level.** A support or resistance level reacted by traders on more than one occasion in the past, increases its significance immensely. More the rejections the better.

6. **The price level should not be too far away in terms of time.** A support or resistance level reacted by traders in recent past is more important than the one in the distant past. If one has to make a choice a more recent support or resistance level should be given higher importance.

7. **A support and resistance level facing reaction on two different timeframe charts** becomes even more important as traders with different trading styles, techniques will be looking at it and price may react to it again in future.

8. **It should be a narrow zone:** Traders always have a question if support and resistance level should be a single line on chart or it should be a zone. Our answer is; it will always be a zone. However, narrower the zone better it is. One should not mark really big zones as support and resistance levels as you will not know where exactly to trade.
You can find the right support and resistance levels on chart using above rules. Once you identify these levels, you need to plot them on chart. Let's see how to do that.
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**Support and Resistance indicator**
Following are some of the indicators that are used for identifying support and resistance levels.

1. Moving averages
2. Trend lines
3. Fibonacci levels
4. Pivot points
5. RSI key levels
Apart from Support and resistance, chart patterns are the second most important tools to be used in trading. Let’s look at some of the chart patterns that still work in trading.

**DOUBLE TOP = BEARISH REVERSAL PATTERN**

- Rejection 1
- Rejection 2
- Price breaks neckline and begins downtrend
- Uptrend
DOUBLE BOTTOM = BULLISH REVERSAL PATTERN

FALLING WEDGE = BULLISH REVERSAL PATTERN
RISING WEDGE = BEARISH REVERSAL PATTERN

ASCENDING TRIANGLE = BEARISH REVERSAL PATTERN
DESCENDING TRIANGLE = BULLISH REVERSAL PATTERN

HEAD & SHOULDERS = BEARISH REVERSAL PATTERN
Now that we have learned the basics, let's get right to the trading strategy.
Trading Strategy

SRT Combo

This is a strategy where we use combination of true support and resistance levels that we learned in previous section and trendline to take a trade entry. We will use three timeframes for our analysis. Monthly, weekly and daily.

Stage 1 : Monthly timeframe analysis


True Support and resistance level.
1. Multiple rejections
2. Acted as both support and resistance.
3. Long wick candles.
If you see this CAD/JPY chart, we clearly see a true support and resistance level. It meets many of our criteria
1. It is a level which has worked as both support and resistance
2. It has multiple rejections
3. Price moves away quickly after reacting
4. Multiple long wick candles during rejection

This level becomes the first pillar of our strategy. This is a level on chart that is interesting to us and a good price action in this region can give us an opportunity to trade.

At the end of 2015, we see this long-term true support level broken.
Price moves down a bit.
Comes back again, the support now becomes resistance.
A doji is formed indicating indecision in the market.
From here on if the price moves down, we can take a trade on short side.
However, the current information available is still not sufficient for us to take any trade.
We need to go a little deeper to the next time frame.
Let’s go to weekly timeframe now.
Stage 2: Weekly timeframe analysis

The weekly analysis confirms our hypothesis of stage 1. We can clearly see the true support and resistance level. Price breaks through the support and comes back again. Support becomes resistance. Price fails to break through this newly formed resistance. This approves our negative sentiment about the pair. Weekly analysis confirms that if we take a trade it will be on the short side.

Weekly chart does not guide us where we can take a trade entry. That’s where the next stage comes into picture.
Stage 3 : Daily timeframe analysis

The daily chart clearly shows us an ascending triangle pattern. We learned in our previous section that it is a bearish reversal pattern. This further confirms our bearish bias on this trade. The break of the short-term trend line gives us the trade entry point.

We can take a short trade at this point. The risk to reward ratio should be 1:2 or 1:3. In this case because we got an entry close to resistance level, 1:3 is more likely option.

We will cover this aspect separately in detail sometime in future material.
Trade Summary

1. Monthly chart shows us long term TRUE support – resistance level and gives us a bearish bias.
2. Weekly chart makes the TRUE support – resistance level clearer and confirms our bearish bias as well.
3. The long-term trend is confirmed as bearish.
4. Daily chart gives an ascending triangle pattern ( a bearish reversal pattern).
5. Short term on daily chart is bullish.
6. Short term trendline gets broken, this confirms our trade entry.
7. Trader can choose 1:2 or 1:3 risk to reward ratio ( how to arrive at this is not the scope of this eBook, we ill cover it in future material).

This strategy works in case of all stocks, futures and forex. You can use a combination of TRUE support and resistance, multiple timeframe confluence, trendline break to enter a profitable trade. Since this is a conservative strategy the win to loss ration is very good.
Thank you for downloading this eBook

We hope it helped you in your trading endeavor!

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