

Support and Resistance is one of the universal concepts in trading.

You can apply it to day trading, swing trading, position trading, and etc.

Thus, if there's only one thing you can master in technical analysis, it would be learning how to trade with Support and Resistance.

However, there are many myths surrounding it which are not true.

For example:

The more times Support is tested, the stronger it becomes

Support and Resistance are lines on your chart

Support and Resistance are good levels to place your stop loss

And if you follow these theories above, it would cost you money in the long run.

But don't worry. After reading this chapter you will learn the truth about Support and Resistance — and never look at it the same way again.

Here's what you'll learn:

- The truth about Support & Resistance (it's not what you think)
- Why trading near Support & Resistance gives you favorable risk to reward
- How the market really moves

Are you ready?

Then let's get started.

Truth #1: The more times Support or Resistance is tested, the weaker it becomes

First, let's define Support and Resistance.

Support is an area on your chart with potential buying pressure.

And Resistance is an area on your chart with potential selling pressure.

An example:



Now:

You've probably read trading books that say... the more times Support or Resistance is tested, the stronger it becomes.

But the truth is...

The more times Support or Resistance is tested, the weaker it becomes.

Here's why...

The market reverses at Support because there is buying pressure to push the price higher.

The buying pressure could be from Institutions, banks, or smart money that trades in large orders.

But imagine this:

If the market keeps re-testing Support, these orders will eventually be filled.

And when all the orders are filled, who's left to buy?

Here's what I mean:



Pro Tip:

Higher lows into Resistance usually result in a breakout (ascending triangle).

Lower highs into Support usually results in a breakdown (descending triangle).

Let's move on...

Truth #2: Support and Resistance are areas on your chart (and not lines)

This is a mistake I'm guilty of. Treating Support and Resistance (SR) as lines on my chart.

Why?

Because you'll face these two problems:

- Price "undershoot" and you missed the trade
- Price "overshoot" and you assume SR is broken

Let me explain...

Price "undershoot" and you missed the trade

This occurs when the market comes close to your SR line, but not close enough.

Then, it reverses back into the opposite direction. And you miss the trade because you were waiting for the market to test your exact SR level.

An example:



Price "overshoot" and you assume SR is broken

This happens when the market breaks your SR level and you assume it's broken.

Thus, you trade the breakout... but only to realize it's a false breakout.



So, how do you solve these two problems?

Simple.

Treat Support and Resistance as areas on your chart, not lines.

Truth #3: Why Support and Resistance are areas on your chart

Because of these two group of traders...

1. Traders with the fear of missing out (FOMO)
2. Traders who want to get the best possible price (Cheapo)

Let me explain:

Traders with the fear of missing out would enter their trades the moment price touches Support.

And if there's enough buying pressure, the market would reverse at that location.

On the other hand...

There are traders who want to get the best possible price, so they place orders at the low of Support.

And if enough traders do it, the market will reverse near the lows of Support.

But here's the thing:

You've no idea which group of traders will be in control. Whether it's FOMO or Cheapo traders.

Thus, Support and Resistance are areas on your chart, not lines.

Make sense?

Support and Resistance can be dynamic

What you've learned earlier is horizontal SR (where the areas are fixed).

But it can also change over time, otherwise known as, Dynamic Support and Resistance.

Now:

There are two ways to identify Dynamic SR.

You can use:

1. Moving average
2. Trend line

Let me explain...

How to use moving average to identify dynamic Support and Resistance

I use the 20 & 50 MA to identify my Dynamic SR.

Here's an example:



However, it's not the only way. You can use 100 or 200 MA, and it works fine.

Ultimately, you must find something that suits you (and not blindly follow another trader).

Trendline

These are diagonal lines on your chart to identify dynamic SR.

Here's what I mean:



Pro Tip:

Treat Support and Resistance as areas on your chart (and not lines).

This applies to both horizontal and dynamic SR.

Truth #4: Support and Resistance are the worst places to put your stop loss

I need not be an Einstein to guess where you'll put your stops.

Below Support and above Resistance, right?

And why is this worst place to put your stops?

It gets hunted, easily.



So... how do you avoid it?

Well, you can't avoid it entirely.

But here are two things you can do...

- Set your stop loss a distance from SR
- Wait for candle to close beyond SR

Let me explain...

Set your stop loss a distance from Support and Resistance

You can do this by using the Average True Range (ATR) indicator.

Here's how to do it in:

1. Identify the low of Support
2. Find the ATR value
3. Take the low of support minus the ATR value

Don't worry if this doesn't make sense. I'll cover it in detail in "How to set your stop loss" chapter.

Wait for candle to close beyond Support and Resistance

Here's how it works...

You only exit your trade if price closes below the low of support or the high of resistance.

Here's what I mean:



And here's something interesting...

Do you know the “real move” usually occurs after traders get stopped out of their trades?

And you can take advantage of this scenario by using a trading strategy I'll share with you later.

But first...

Trading at Support or Resistance gives you favorable risk to reward

A big mistake traders make is this:

Entering trades when the market is in the middle of “nowhere”.

And this makes it difficult to place a proper stop loss.

Imagine:

If you are short in the middle of the range, where is a logical place to put your stop loss? Above the highs of Resistance?

That's not impossible but, it requires a large stop loss and offers poor risk to reward.

Now, what if you are patient and instead of “chasing” the markets, you let the markets come to you, how will that change?

Well, since you are trading from an area of value, you have a tighter stop loss — and this improves your risk to reward.

Remember... patience pays in trading. Stop chasing the markets and let the price come to you.

Pro Tip:

Mark out your Support and Resistance areas in advance.

Then use price alerts to notify you when the market has reached your desired level.

This prevents you from entering trades out of boredom and to enter trades from an area of value (which offers better risk to reward).

When Support is broken, it tends to act as Resistance (and vice versa)

This is quite an interesting phenomenon.

When the market breaks below Support, it tends to pullback towards this same area which has now become Resistance.

Or, when the market breaks above Resistance, it tends to pullback towards this same area which has now become Support.

You're probably wondering: "Why is this so?"

Here's why:

There will be traders who go long at Support in anticipation of higher prices.

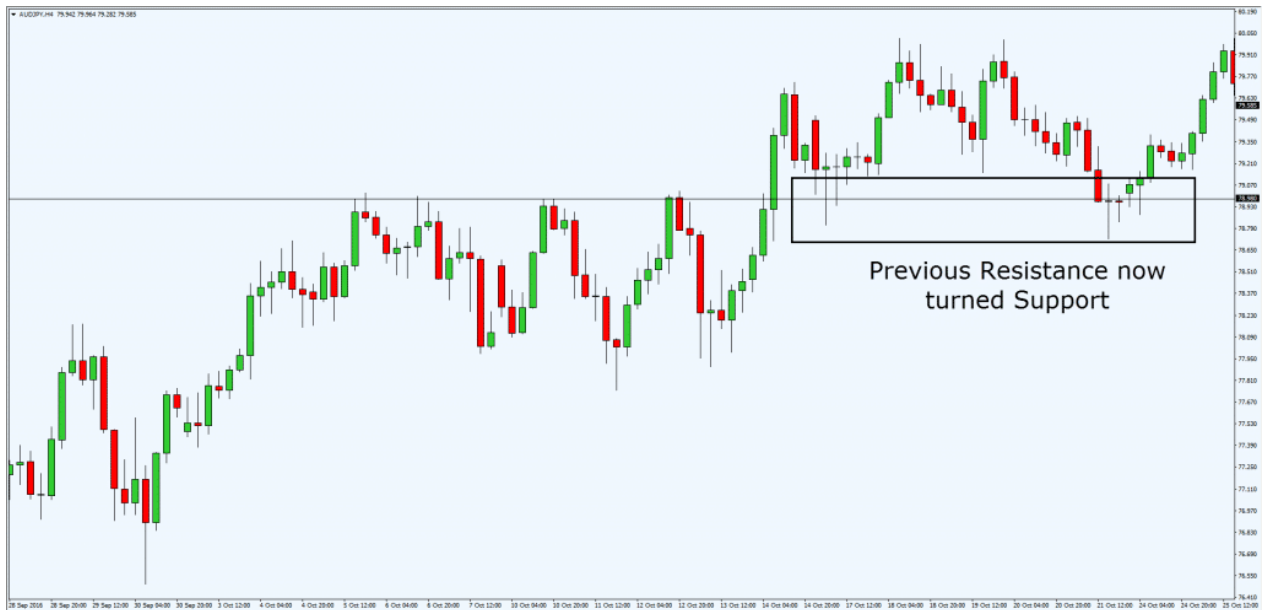
But when Support breaks, some of these traders will not cut their losses (thinking that the market will eventually go back in their favor).

Now, when the market retraces back towards their entry level, it gives them a chance to exit their trade at breakeven.

This incentivizes them to put in a sell order which creates selling pressure. And vice versa for those traders who go short at Resistance.

Also, this is common knowledge among traders who expect previous Support to turn Resistance, and previous Resistance to turn Support — and this becomes a self-fulfilling prophecy in itself.

Here's what I mean:



The market moves from Support to Resistance and Resistance to Support

This may not make any sense to you right now, but let me explain...

The purpose of a market is to facilitate the transactions between buyers and sellers (at the best possible price).

And because of this, the market is a liquidity seeking “mechanism” that “hunts” for orders so more transactions can occur between buyers and sellers.

Now ask yourself... “Where on the chart will there likely be plenty of orders?”

It doesn't take an Einstein to realize that plenty of orders will reside below Support, from traders who are long (and have their stops placed below Support), and traders who are bearish (looking to short the break of Support).

Likewise, there are plenty of orders above Resistance, from traders who are short (and have their stops placed above Resistance), and traders who are bullish (looking to long the break of Resistance).

In other words, Support and Resistance are liquidity areas in the markets — and it's no wonder why you often see the price spiking through these levels.

So, what happens after the market "consumes" liquidity in one area?

Well, it starts moving towards the next area of liquidity, thus you'll often see the markets "bouncing" off Support and Resistance.

An example:



Summary

- The more times Support and Resistance is tested, the weaker it becomes
- Support and Resistance are areas on your chart (and not lines)
- Support and Resistance can be dynamic
- Support and Resistance are the worst places to put your stop loss
- Trading at Support and Resistance gives you favorable risk to reward
- When Support is broken, it tends to act as Resistance (and vice versa)
- The market moves from Support to Resistance and Resistance to Support