

Identifying potential Support /Resistance /SBR / RBS

[SBR: Support Becomes Resistance. RBS: Resistance Becomes Support]

NB: The discussion below assumes the use of the triple time frame DTS/M, ie the intermediate t/f, the higher trend time frame, and the lower trigger t/f.

The aim of identifying areas of potential support and resistance is to find the areas at which there are likely to be sufficient market participants/volume of orders to move the market so as to produce a gain should a set-up present itself on the trigger chart and upwards (confirmed by individual price action.) On an intraday basis the aim is to identify the areas where the big/institutional/smart money waits to act.

It is known that the market moves between areas of support and resistance, and there is no doubt that cluster areas offer the best chance of resulting in market swing points. This **Day Trading System/Methodology** is essentially a swing trading system that seeks to identify high probability intraday swing points be them reversals/against trend or re-entries to a trend.

In identifying areas at which there may exist potential for Support or Resistance sufficient for price to reverse it's immediate direction, there are three (3) main factors to look for:

- 1. Previous price swing Hi or Lo areas**
- 2. Fib Retrace areas.**

Useful too (and can be considered as **3.** in respect of the above) are the updates given by MNI detailing areas at which bids/offers may lie in the prevailing market and the potential strength of those orders (minor, medium, strong.) Very often these will co-exist with the analysis provided by **1.** and **2.** above.

The *Daily Pivots* (*Daily S3* through *Daily Pivot* to *Daily R3*) can be useful too as part of any confluence of potential Support or Resistance. These sites will confirm where the pivots are located, the first of which having a facility to alter the time at which they are calculated;

<http://www.mataf.net/en/forex/trading/pivot-points/standard/>
http://www.actionforex.com/forex_analysis_and_forecasts/pivot_points/

Of course the custom indicators will plot them on the charts if required.

Weekly and *Monthly Pivots*, as well as *Mid Pivots* (on any time frame) if used, should all be treated as secondary factors in any consideration of potential Support/Resistance.

The principle question in pre-identifying potential areas of Support/Resistance is whether there will be sufficient market participants/volume of orders to produce a price swing at that area. To this extent analysis should be limited to the factors that may indicate this that are historically proven to be used by the market in such quantities so as to achieve this result.

In identifying the above, areas at which as many technical factors exist as possible (the *clusters*) should be sought, thus suggesting that Support or Resistance is likely to impede the most immediate price action. In this way there is the greatest chance that price will react favourably should a set-up be identified at these areas. A set-up at such an area provides high probability technical confluence to warrant a market entry.


Dealing with points 1. and 2. in more detail;

1. Previous price swing Hi or Lo areas

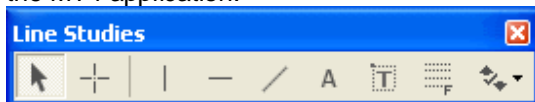
Identifying previous price swing Hi or Lo areas on the time frame above the intermediate chart time frame can assist in pinpointing areas that may offer Support or Resistance should they be re-tested. I.e.

a. A previous swing Hi area should be viewed as potential Resistance if being re-tested from the underside and as potential RBS if being re-tested from the upside, following a pullback in an uptrend.

b. A previous swing Lo area should be viewed as potential Support if being re-tested from the upside and as potential SBR if being re-tested from the underside, following a pullback in a downtrend.

On both a 1hr and 4hr chart mark with the **Horizontal Line Tool**  the previous significant previous swing highs and lows stretching back as far as is necessary, (generally 1 week for the 1hr and 1mth for the 4hr;)

This and other Line Drawing Tools can be found in the **Line Studies** Toolbar located at the top of the MT4 application:



In identifying previous price swing Hi and Lo's, I do so on the 1hr chart (as the proxy for the 30min *trend* time frame as it is commonly used as the trigger by position trend traders.) On an intraday basis and as a trend develops it may also be necessary to identify such previous price swing Hi/Lo's on the intermediate chart that may act as potential RBS/SBR for the purposes of acting upon a Re-entry set-up on the trigger chart.

In the screenshot example below it can be seen that the previous swing Hi 's at point X provided both Resistance when re-tested from the underside, as well as Support (RBS) at point Y, when tested from the upside.



The area shown as **A** in the small chart, is the effective potential Support zone (RBS) at the previous swing Hi shown as point **X** in the main chart. I.e. The potential Resistance or RBS zone of any previous swing Hi area like point **X** consists of the point between the highest candle shadow/spike to the highest price close of the candles that form that overall previous swing Hi area. These are marked by the dotted white lines. Conversely in the case of a previous swing Lo area the potential Support or SBR zone would be the area between the lowest candle shadow/spike to the lowest price close of the candles that form the overall previous swing Lo area.

As mentioned above, these zones hold true as potential resistance should a previous swing Hi area be tested again from the underside, (i.e. double /triple tops.) This can be seen at the swing Hi area at point **X** above as there were 4 tests on this potential Resistance from the underside, before it broke to the upside. Similarly previous swing Lo areas can be viewed as potential Support if tested again from the topside (i.e. double/triple bottoms)

2. Fib Retrace areas.

Fibs should be drawn on all the major swings of the current prevailing moves that exist in the market, including the intraday move. These Fib retraces can act as Support/Resistance. Where these *Fib retraces* co-exist with the other factors that indicate potential Support or Resistance (**1** & **3** above,) so much the better.



Using the **Fib Retracement tool**, found in the above mentioned **Line Studies** Toolbar, mark the most significant swings on a separate 1hr chart upwards. For the intraday swings use the 15min chart. The tool will calculate and mark both the Fibonacci retracements (23.6, 38.2, 50, 61.8 and 76.4) as well as the extensions. (123.6, 161.8 etc..) It is only the retracements that you need concern yourself with.

3. MNI Bids/Offers updates

These updates come via certain broker news feeds (Saxo, Acn, Fxsol etc.) or by subscription to the info-provider/vendor direct. A typical example is shown below. Once or sometimes twice a day, MNI also provide a summary list of prevailing bids/offers believed to be present in the market, as well as a 'Tech' update in which they highlight technical factors that may act as Support/Resistance. These 'Tech' updates make mention of commonly used moving averages on the Daily chart etc. These like the other 'secondary' factors detailed above can be useful too as part of any confluence of potential Support or Resistance.



3/11/2008 10:25:35 AM

CABLE

Sinks back to earlier lows between as rate....

CABLE: Sinks back to earlier lows between \$2.0050/45 as rate gets pulled lower by euro-dollar. A break below this area to allow for a deeper move toward \$2.0030/20 ahead of stronger interest placed ahead of \$2.0000. Offers \$2.0100 stronger between \$2.0140/50.

Example of Confluence of all potential SBR / Resistance factors

The chart screenshot below shows an example of the confluence of all 3 potential Resistance/SBR factors in play (circled in red.) Notice that price had reached a previous swing lo level (previous support circled in green) and the resultant potential SBR zone at that previous swing lo is shown in between the horizontal dotted white lines In that zone was a 38.2% fib retrace of a longer term fall from a swing hi to the swing lo seen on the chart @ 6779 and MNI had touted 'medium offers' in the 7175/85 region.

Notice also that there was a 4th factor not so far mentioned,- that of the 1hr descending Resistance trend line (joining the swing hi's marked with yellow circles) and that this was it's first test. Resistance or Support trend lines can sometimes be useful in identifying potential Support/Resistance areas on the 1hr chart or higher, particularly in adding to confluence.

At this potential SBR/Res a reversal set-up was identified on the 1min trigger and on the 5min intermediate chart and a hidden/reverse divergence trend re-entry set-up was identified on the 30min higher trend time t/f, giving a high probability trading opportunity. Price duly sold down 320pips from the 7177hi.

