

Support and resistance. Trading method. Part 2

From the previous article we know that market can be flat or trending. From the examples, we have got some idea how any of those markets looks like, but all those examples been shown as trend or consolidation already happened and big possibility that market is going to do something else. Question is : how to get into the trending market from the beginning or start trading in the range? In this article I am going to show how to draw support and resistance lines and trend lines and those lines will help us to determinate market conditions.

First of all we discuss theory about support and resistance little bit. To discuss it in depth it is not possible in a small article, so we are going to touch just main points.

Support and resistance do not appear by some mathematical formulas, those lines appear then attitude of trader towards the market changes. The bigger shift in outlook to the market by the majority of the traders, the more important those lines become. Market always has a point, where market starts changing it's direction. If market was going down and suddenly price start to climb up, point where market turned around will be known as a support. And opposite: point where market, after going up, suddenly starts falling down, that turn around point will be known as a resistance. So we can say that at those points traders have changed theirs opinion about the current situation and decided to go other way. Please note, we are not going to discuss reasons for those changes. Important thing is to understand one thing – whatever fundamental reasons are, or may be is no reason at all, traders already started selling or buying. And those lines will let us know about those changes.

Another important part of theory is time frame. This we will discuss in the next article, but here I would like to mention just most important thing – the bigger time frame the more important those lines are. Price on the five minute chart could break the resistance and start running up the hill, when suddenly with the speed of light are turning around and and starts falling down. That gives the false impression about reliability of the support and resistance lines, but if you take a look at the bigger time frame, you most likely to find much stronger resistance on the 1 hour chart. My point is – resistance and support lines remains just for one time frame only and trading must be done just on one time frame. Switching between time frames will give confusion. It does not exist trading method without loss and any attempt to find something perfect will lead to disappointment. Instead I would suggest to stick to one trading method and to one trading frame. Trading frame is important as everything else, but we discuss it in the next article.

Now we are going to talk about practical side of drawing those lines. Most of the traders won't

like it, but before I am going to explain everything, including practical applications, I must write everything step by step.

I do draw lines in all the points, where white candle have been followed by the black candle and opposite – where black candle has been followed by the white candle. I do not pay too much attention to the sizes of the candle. I know that most of you will disagree with me, but I stay on my point firmly – we do not know what is going to follow next. So to ignore point where positiveness changes the negativeness and otherwise, could lead to complete ignorance of the present situation. Let's take a look at the chart.



On the chart numbers represent the lines, but those numbers I did not attached to the lines, but put near the important places. So by following my description of the chart be careful. Another important point is: I draw lines on the shorter wick of the two candles, and considering line is broken when closing price of the hour is above or below the line. Any wick of the candle above or below the lines I usually ignoring and considering that line still valid.

At point 1 market did some movement up, but at point 2 dropped down again. But that drop did not go below line 1 and until price remains between two lines we have flat market. Lets say it is for short time, but still market is not trending and we must wait for next movement. Later on price went below line 1 and here is the beginning of the trend. We can draw a trend line (see next chart). But this trend line has been broken after short period of time and as we see price did not go below support line 4, but at the same time couldn't go above line 3 as well. So trend line broken, but price stuck between previous support line 1, which currently resistance line 3, and new support line 4. So we have another consolidation period, but at this time with the possibility to adjust trend line. Why? Because, resistance line 3 remains in the same place. If that line had been broken, definitely trend

line can not be adjusted, but until resistance line is in its place we easily can do that.

Next, after few hours, price went below support 4, came back to the trend line, but hour closed below resistance line 5 (previous support line 4) and later fell through support line 6 and found another support at line 8. Here price turned around and for some time was climbing up, until reached resistance line 7 (previous support line 6) and again moved south. So during such short period we had two flat markets and one trend, which will remain until trend line won't be broken. Most likely we will see another few flat markets until that happens and for now we can consider this market as a trending market.



By adjusting support and resistance lines we can clearly see the conditions of the market. This example I have chosen specially, because this chart has not got very clear support and resistance line. I just wanted to show, that by accepting even small changes as a valid, we can read the market very easily, even in the conditions like this, where the market still had no idea about its own direction. About practical applications we will discuss much later, for now I will suggest to practice drawing support, resistance and trend lines. Draw a lot of them, do not be shy and analyse where the market is flat and where the market started its trend.

I never ignore small positive candle after the big one negative. Maybe I'm not always taking actions or right actions, but considering one thing – we do not know what is going to happen next hour – every small thing has a possibility to become big one. The market certainly is not going to wait for you. Carelessness in the market or ignorance about small things, could lead to the negative trade. And one by one, you won't even notice, how your trading account is screaming for help. Plus every negative trade causes sad emotions, which has a chance to turn into the panic. So, take care about every turning point, take good care about your trades and step by step you will get to the point, where everybody will talk about you as about very good trader. Wish you luck and till the next time.