

# The Trading Concept of Support and Resistance.

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"In order to succeed keep it simple."

One of the most basic and primary rules of Technical Analysis is the rule of support and resistance. This rule is grounded in the psychology of the market. Here is the basic rationale: If the market rallies from a low of 200 to 210 and then trades back to 200, traders who missed buying at 200 will buy at that price since they regret missing the first low at 200. If the market rallies again to 210 followed by a decline back to 200, traders who missed the last two lows will provide buying support at 200 for a run back to 210. If the market rallies again to 210 and then falls to 200, there will be a "crowd" of traders buying again at 200. Hence you have witnessed one way that support is developed.

But what if on the test, the pull back, to 200 prices continue to decline below 200 to 190, the "crowd" of traders who bought at 200 will regret it and would be happy if they could "just break even" back at 200. Hence, the support zone of 200 has now become resistance, as these traders will be sellers to break even.

This is one of the first and most primary rules of trading! Once support is broken, it becomes resistance. In this simple example, we have a crowd of traders that will be selling just to get out at breakeven, if the market gets back to 200. The same holds true for double or triple tops. Once resistance at these highs is broken it becomes your new support level. So while the majority only looks at the tops as resistance and bottom as support, the learned trader looks at previous lows that are broken as resistance and previous tops that are broken as support.

Day Breaker has the ability to project daily where the intra-day support and resistance levels should naturally occur. It uses the previous day's range and makes projections based on the Fibonacci sequence of numbers the levels. The strategy trades off the support and resistance rules as outline above plus the added advantage of %C, the market condition indicator.

This is what the system is using for its strategies on a daily basis. What makes the system's approach unique is that it does not project just one price for support and one price for resistance. Rather, it projects a "price zone" for support and a price range for resistance.

I call these price zones Day Trader's support and resistance zones. Once the price of the market is in the resistance zone, the system will determine which strategy to use. It may determine to play for a breakout above the high end of resistance. In this case, where resistance is broken, that price area becomes support and the market is expected to have followed through on the breakout for a certain period of time.

Alternately, with the market in the resistance zone, the system may decide prices will be rebuffed and turn lower. In this case the system will give sell stop orders at or just below the low end of Day Trader's resistance. In this case the market has "failed" to breakout above resistance and for that reason is expected to go lower for a certain period of time.

In general then, the system's goal is to capitalize on the market's success or failure at breaking above resistance. The same is true regarding the system's strategy when the market is in support. It wants to take advantage of the market's success or failure at breaking down below support.

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