The Total Beginners Guide To Trading Support And Resistance

If you've spent any length of time studying price action, you'll have come across the concept of support and resistance levels.

... and if you haven't, what the heck have you been doing?

One of the most important concepts in trading, support and resistance levels are horizontal lines that identify points where a currency has a high probability of reversing in price. They form on all currencies and timeframes and are an invaluable tool needed to trade price action successfully.

In this guide, I'm going to give you the full low down on how to trade support and resistance levels.

Nowadays, dozens of guides exist about the levels on the web, but many of these don't properly explain the key points of the levels, such as how to draw them correctly or the best ways to use them when trading – both of which I'll show you today.

Here's a quick overview of what you'll learn...

- What Are Support And Resistance Levels & How Do They Form In The Market?
- How To Find And Draw Support And Resistance Levels... The Right Way.
- 3 Key Facts To Always Remember When Drawing The Levels.
- 3 Effective Ways To Use S & R Levels In Your Trading.
- Answers To The Most Frequent Questions About S & R.

We've got lots to get into, so without further ado, let's get started.

Part 1: Breaking Down Support And Resistance Levels

As price action concepts go, support and resistance is one of the oldest in all of trading.

The levels have been used for (literally) centuries now, way before online trading was even a thing, and are still to this day one of the most popular trading techniques, mainly because of how useful they are.

So, what are support and resistance levels and how do they work?

Well, really, they're just horizontal lines that indicate a point where a currency has a high probability of reversing...

A support level is a point where price is likely to stop falling and start rising - these are always found BELOW the current price.

And a resistance level is a point where it's likely to stop rising and start falling – these are always located ABOVE the current price.

It's easy to look at the above and think "hmm, support and resistance levels are really simple"... and they totally are. But there's a lot of background to how and why the levels form you need to know before using them.

Like most things in forex, support and resistance levels form from banks buying and selling, but not in the way you think...

The banks don't directly cause the levels to form, rather, they use the orders that build up around the levels to get their trades placed, take profits off, or to close trades.

This probably sounds confusing, so let me explain...

To place trades, take profits or close trades, the banks (and us, though it doesn't really affect us) require orders.

In other words, they either need other traders doing the opposite to them (buying if they want to sell, selling if they want to buy) or they need price to be at a point where a large number of pending buy or sell orders have been placed - pending orders become normal orders when they execute, so they function the same as someone buying or selling.

Now because of how popular they are - like I said, they've been around for centuries - lots of pending orders build up on and around S & R levels, as traders use them to anticipate where the next reversal might begin.

This makes them prime locations for the banks to push price whenever they want to do something.

By pushing price to a level, the banks can use the abundance of orders to help take profits, close trades, or place trades. Whey they do that - take profits, place trades, or close trades - that what causes price to move in the opposite direction, which is why we see price reverse from S & R levels.

So that's how support and resistance levels work and why they cause reversals. Now let's look at how you go about finding and drawing the levels.

Part 2: How To Find And Draw Support And Resistance Levels

Ask any trader what they think the hardest part of using support and resistance levels is and almost all will say the same thing:

Identifying and drawing the levels.

Finding and drawing support and resistance levels is something a lot of traders have trouble with, which is funny because it should be really easy! All you must do is find a few reversals that originate from the same/similar point and then mark a line on top. How hard could it be?

Well, as it turns out, pretty damn hard.

The problem with finding and drawing support and resistance levels, mainly drawing them, is the reversals you draw the line on don't line up; some begin slightly above or below the others, depending on what price was doing at that time.

This means that to mark the levels correctly, you have to fit the line through the reversals that line up while also keeping it in close proximity to the other reversals. If you mark the line on the wrong reversals when others line up better, the level won't be correct, so price might reverse from a different spot, messing up your entry.

There's no easy way to find and draw the levels, but I do know a couple of tricks that should help you out and make it a little easier.

Let's take a look.

STEP 1: SWITCH TO A LINE CHART

So before you can draw support and resistance levels, you need to locate them on a chart. This is also kind of difficult, but there's a quick way to make it much, much easier...

Line charts.

Though not that great for trading, when it comes to finding support and resistance levels, line charts are a godsend. They clearly show the point where each reversal originated from, which makes finding and drawing the levels a lot easier than it would normally be.

To switch to a line chart, just head over to the chart tab on Tradingview or whatever platform you use and select "Line" from the drop-down menu.

If you've changed it correctly, the chart should look like this...

Euro / U.S. Dollar · 60 · OANDA 1.10014 −0.00014 (−0.01%)
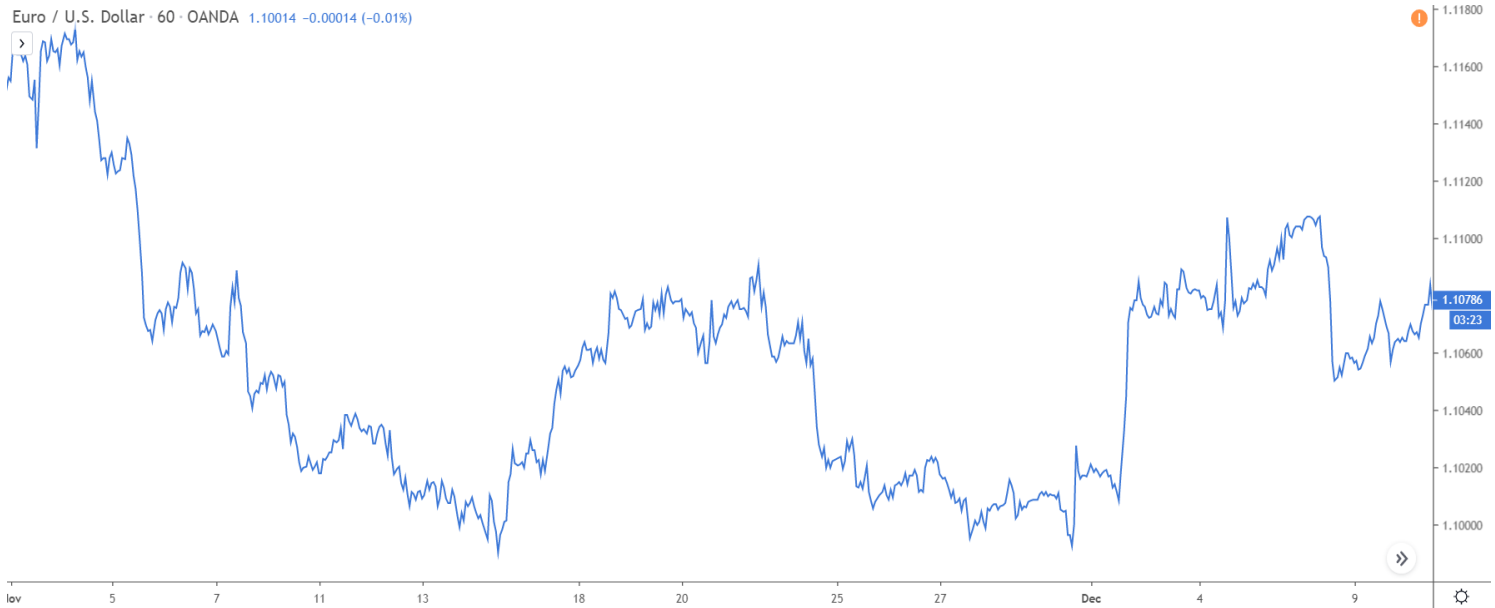
Simple.

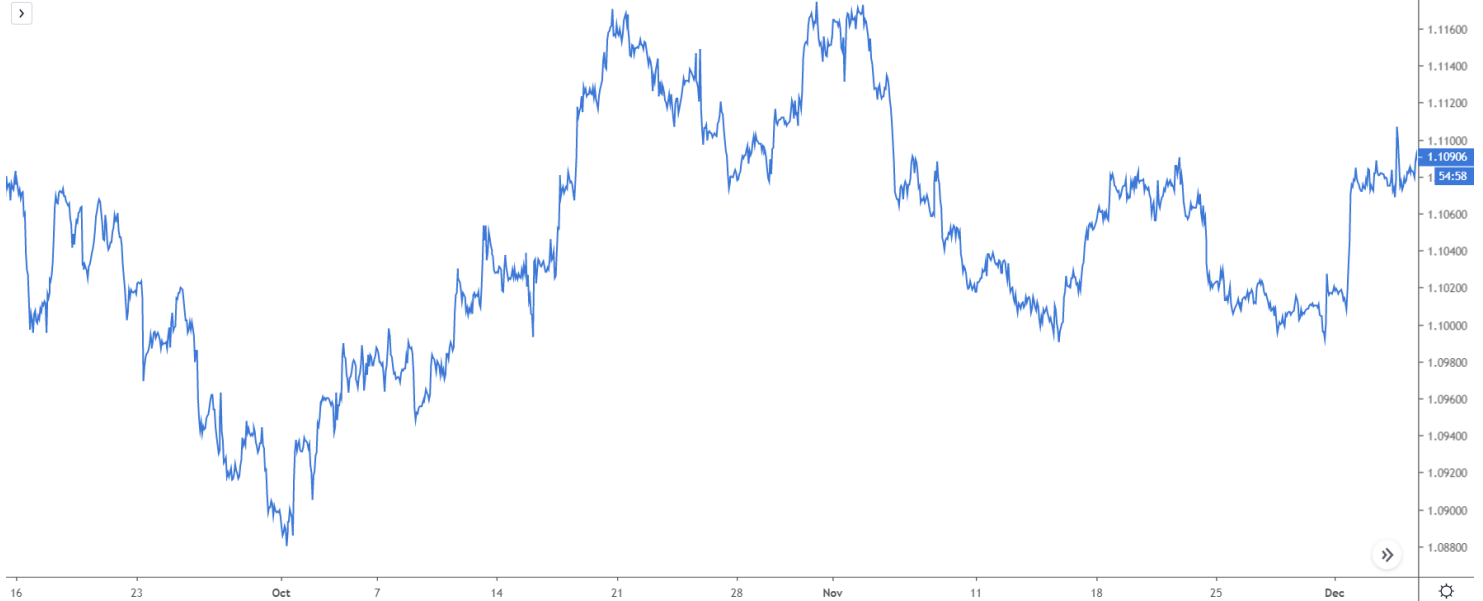## STEP 2: FIND REVERSALS THAT TAKE PLACE FROM A SIMILAR POINT

Okay, now for the hard part:

As I said earlier, support and resistance levels form from the banks buying and selling at the same/similar point to where they've bought or sold multiple times in the past. That's where a large number of orders build up, so they can use them to place trades, close trades, or take profits.

So, to find the levels and then draw them on the chart, you must look for multiple (at least two) reversals that originated from the same/similar point in the past.

Like I said, this isn't easy, so listen close.

Take a look at the image above... see any reversals that originated from a similar price?

It's kind of hard to make out because of how zoomed out the chart is, but there are 3 separate sets of reversals that took place on this chart; one set that created a support level and two other sets that formed resistance levels.

Let's look at it again, but with one set of reversals marked...
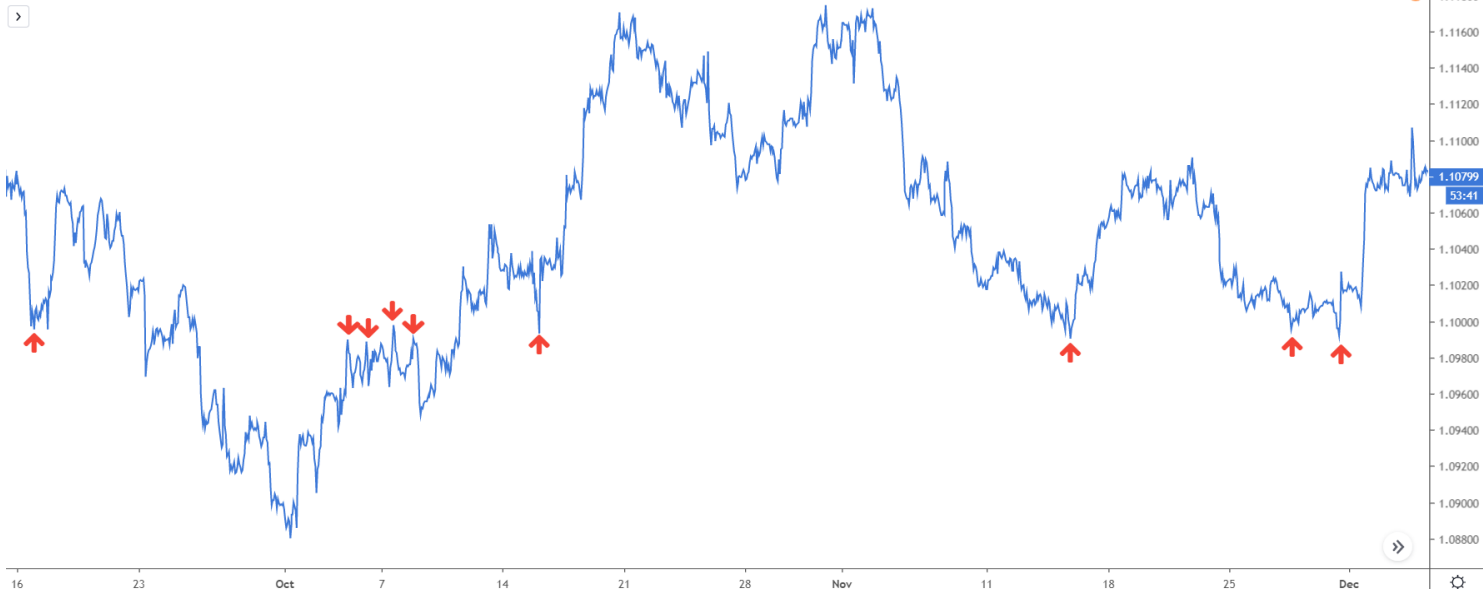
Okay, so here's what each reversal looks like.

You can see these reversals all originated from a similar price BELOW the current price.

The fact these reversals all started from a similar price that was below the current price tells us a support level must exist here, as it reveals a lot of orders tend to build up around this price, which is why we've seen some many reversals begin from the same spot.

So, to find this support level, you need to mark a horizontal line **on the tip** of as many of the reversals as possible.
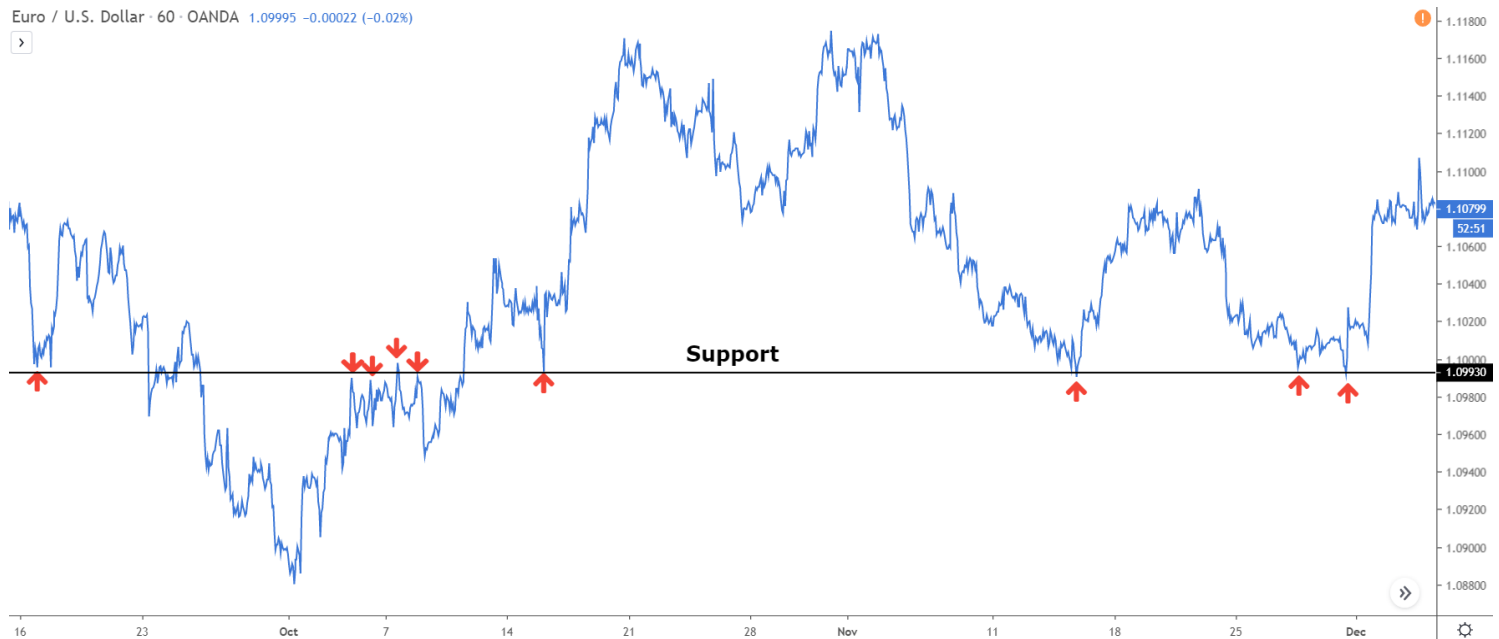
And this is what it looks like with the line marked.

Do you see how the line, even though it doesn't touch or sit exactly on the point where each reversal originated from, is still in close proximity to all the reversals and rests almost exactly on the ones that do line up?
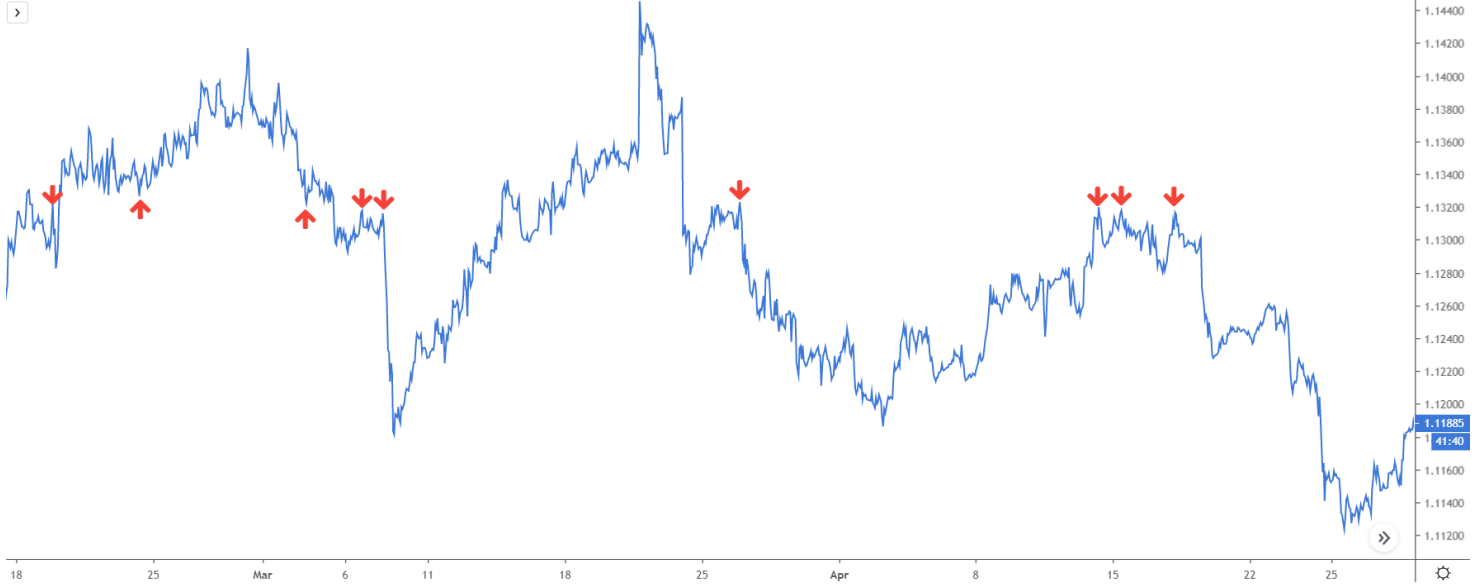
When you mark the levels, this is how you need to do it.

You must fit the line so it sits on the reversals that line up, but it also has to go through and be near the ones that don't line up, like you see the level in the image does. Once you've adjusted the line so it has the best fit with the reversals, that then becomes the support or resistance level.

Let's look at another example...

So, here's another set of reversals that formed on Eur/Usd.

Like the previous example, these reversals all originated from a similar price. However, they're all above the current market price, which means a resistance level is found here.

To locate the level, you must place a line that sits on the tip of as many of the reversals as possible.

Notice again that the level doesn't rest on the tip of each reversal, but it does sit on the ones that line up, and is still close to or goes through the others that don't line up.

Most of the time, the reversals will be split three ways; two or three will line up at the same spot, a couple won't touch the level, and the rest the level will penetrate slightly. But there are occasions when it will go through multiple reversals while only touching a couple, so keep that in mind.

And with that, let's look at the final step.

STEP 3: SWITCH BACK TO A CANDLESTICK CHART

Once you've marked some support and resistance levels using the line chart, the final step is to switch back to a candlestick chart to see how the levels look.

And here's what 5 support and resistance levels look line on a candlestick chart.

You can actually mark the levels using a candlestick chart. That's the way I was taught to mark them, and it works really well. The problem is it's much more difficult, as the candlestick chart shows the wicks of candles, which makes finding the point where each reversal originates from a lot harder.

You should pick it up with time, but it's best to stick to the line chart for now.

So that's how you find and mark support and resistance levels... maybe not as hard as you thought?

It'll take a while to learn how to find the right levels and mark them properly – it took me a LONG time, believe me. But with enough time and practice, it'll eventually become second nature, and the right levels will just jump out at you whenever you look at a chart.

3 THINGS TO REMEMBER WHEN FINDING AND DRAWING SUPPORT AND RESISTANCE LEVELS

Here are a couple of important points you need to remember when finding and drawing support and resistance levels...

1. It Takes A Minimum Of 3 Reversals For A S & R Level To Be Valid.

A support or resistance level is only valid if three recent reversals - or touches, as some people call them - have originated from the same/similar price. If three reversals haven't originated from a similar price recently, the level isn't valid for trading, so shouldn't be drawn on the chart.

Here are the times 3 reversals must come within for a level to be valid on each respective time-frame.

5 min – 1 day.

15 min – 3 days.

30 min/1 hour – 8 days.

4 hour – 11 days.

Daily – 1 month.

Once you find three reversals within these times - so 3 that are less than a day old on the 5 min, for example - you go back and find 5 more that began from the same/similar point in the past. You then put the line on the chart and adjust it relative to all 8 reversals to find the support or resistance level.

Note: You only have to find 5 total reversals on the 4 hour and daily charts, as reversals don't take place as often on those timeframes.

2. The Strength Of A Level Is NOT Determined By How Many Times Price Has Reversed From It.

One of the big myths about support and resistance is the idea the levels get stronger the more times price reverses from them. This myth has been perpetuated in books, videos, and by price action guru's for decades now, but it's completely untrue, and in fact, doesn't even make any sense.

I haven't got time to explain why today - <u>read my S & R secrets post</u> for a detailed breakdown - but just understand it's not true, so don't assume a level is strong if you see price has reversed from it lots of times.

3. Only Mark The Levels Closest To The Current Price Action

It's really important that when you mark support and resistance levels, you only mark the levels closest to the current price action. If you mark levels all over the place, it makes the chart really confusing, and you won't know which levels to watch and which are more important than others.

Just mark the 2 or 3 levels closest to the current price and any new ones that form.

Part 3: Using Support And Resistance Levels In Your Trading

So, we've looked at what support and resistance levels are, how and why they form, and I've explained how to find and mark them on the chart.

That pretty much covers what you need to know to use the levels.

However, before we come to the end and you start using the levels yourself, I want to show you a few of the simple (but very effective) ways you can use support and resistance levels in your trading, starting with...

How to use them as points to take profits off trades.

USING S & R TO TAKE PROFITS

Knowing when and where to take profits, either partial or fully, is one of the most difficult things to get right in trading. All it takes is one little misjudgement, one small error in thinking for you to lose out on a huge chunk of profit, or even have your profit wiped out if you end up taking them too late.

There's no way - at least that I know of - to consistently take profits at the right time... it just doesn't exist.

However, there are times when you should always consider taking some profits. And one of those times is when price reaches a support or resistance level.

S & R levels show where price has a high probability of reversing, so by taking profits when price gets near a level, you can avoid the reversal that could potentially be about to take place.

Consider the following example...

Let's say you got into this up-move at the black arrow, around 1.0994.

Price has been rising for some time now, so currently, you're at quite a large profit. You don't want to lose this profit, obviously, but how do know whether now is a good time to take some profit off or not?

Well, one way is to see if price is close to hitting a resistance level.

If price is close to hitting resistance, you know there's a good chance it could soon reverse.

By taking a bit of profit off by moving your stop up slightly - preferably to a recently broken resistance turned support level - you can remove much of the risk and give yourself some protection in case price falls.

And in this case, it was a great idea, as just after price hit the level, it reversed and started falling.

You can do the same for support levels too. If you see price approaching a support level and you're in a short trade, you know it's a good idea to take some profits off, as the chances of it reversing and rising are very high.

Pretty cool, huh?

CREATING A SUPPORT AND RESISTANCE STRATEGY

In 2020, creating a support and resistance strategy is a bit pointless. So many strategies exist nowadays that almost all are outdated or just generally don't work that well. That doesn't mean they're useless though...

You can still create a lot of setups using S & R levels.

While these aren't strategies, so to speak, they do provide you with additional opportunities to make money, and it's always a good idea to have a couple to look for alongside your core trading strategy to balance out your bottom line and achieve more consistent results.

A simple setup I often look for at S & R is pin bars.

This setup, which many of you probably know as a popular price action strategy, has been around for years now. It involves watching for a pin bar candlestick to form when price hits a support or resistance level.

Here's a quick overview of how it works...

First off, mark some support and resistance levels on the chart.

Remember, only mark the levels closest to the current price. Don't mark a bunch of levels all over the chart, as things will get confusing, and you'll have a hard time understanding what's going on.

Just mark a couple of levels above and below the current price, and then watch them.

Now you need to wait for a pin bar to form at one of the levels.

Pin bars come in two different types; bullish and bearish. The type you need to see form depends on whether you're watching a support level or a resistance level.

If it's a support level, a bullish pin bar must form.

If it's a resistance level, a bearish pin must appear.

Once price returns to a level, and you see a pin bar form, the final step is to enter a trade and place a stop loss either above or below the wick; below for bull pins, above for bear pins.

If everything works out...

Price should reverse and begin moving away from the level, just as it does here.

Simple.

FINDING CONFLUENCE WITH S & R

You can also use support and resistance to find confluence, which is how I mainly use them.

Confluence is what you get when two or more points of interest line up at the same spot, like a support level inside a demand zone, or a resistance level that falls in-line with a fib retracement.

The idea is that because both points indicate a reversal, seeing two (or more) come together at the same spot increases the probability price will reverse, which gives you extra confirmation in placing a trade.

To find confluence, locate the point where you think a reversal might take place...

...and then see if a support or resistance level is found at the same point; inside the demand zone in our case.

The fact a level has formed within this zone, which itself is a point where price has a high probability reversing, increases the likelihood price will reverse, which it did.

Part 4: Summary And FAQ

Support and resistance levels might be old hat in today's world of supply and demand zones and more recent technical concepts, but they're still well worth learning, and can help you immensely in a multitude of ways if used correctly.

Be sure to check out my other posts, for more on support and resistance levels.

Frequently Asked Questions

Before we close this off, here are a few of the most frequent questions I receive about using support and resistance levels as well as my answers to them.

Q. How far back should I go when marking the levels?

A. Only as far back as the times I listed earlier.

Old support and resistance levels, where the initial 3 reversals are beyond the time I said, have a much lower probability of causing price to reverse. The lack of recent reversals shows the banks haven't used the levels in a while, so orders probably aren't building up around them, making them useless to the banks.

Q. How Does Support Become Resistance And Vice Versa?

A. Support and resistance levels change when price breaks through them.

The minute price breaks a level, it becomes a level of the opposite type. So when price breaks a support level, for example, it becomes a resistance level. And then when price breaks through again, whether it be a day week or year later, that turns it back into a support level.

Q. Do higher timeframe levels work better than lower time levels?

A. Yes, they do.

The higher up in timeframe you go, the bigger the profit expectation of the bank traders using that timeframe, and the more money it takes to make price reverse.

For example, it takes a lot more money to make price reverse from a 4-hour support level than a 5-minute support level. The traders on the 4-hour need price to move a much bigger distance than the traders on the 5 minute, so they must put more money into making price reverse, which gives the level a better chance of causing a reversal.

Note: It's always a good idea to have the levels two timeframes higher marked on the timeframe you trade-off, so you know where the key turning points could be.

Q. How do I determine the strength of support or resistance level?

A. There are two ways: either look for higher timeframe levels, like I explained above, or look for levels that end in big round numbers i.e levels that end in 00, 000, 0000.

Lots of orders bunch up around big round number levels, way more so than normal S & R levels, so price has a much higher probability of reversing from them - if you look at a chart, you'll see most market-changing reversals actually begin once price touches or is close to round numbers ending in 0000.

Q. What Are Support And Resistance Zones?

A. Support and resistance zones are basically another way to draw the levels. It's an advanced technique that's become popular recently. It works better than drawing the levels as lines because it incorporates a wider area due to the zone, which makes it easier to get into reversals.

I have got a post that fully explains how to use support and resistance zones here, but you'll need to become a VIP member for access.