Support And Resistance Zones: Full Guide For Beginners

By PriceActionNinja.com

Introduction

When you study support and resistance, what are the first two rules you learn?
What are the two key rules you must always follow when using the levels?
Can you remember?

I don't know, but for me, it was…

1. Price MUST touch a level multiple times for that level to be confirmed.
2. The more times prices touches a level, the stronger that level becomes.

Heard these before? Seem familiar now?

These two rules form the bedrock of trading support and resistance.

They tell you how to find and draw the levels and whether a level has a high probability of causing a reversal. But riddle me this…

If these rules are true, why are S & R levels so inconsistent?
Why do strong levels with multiple touches break so often?
It can't be chance, I mean, it happens all the time!

I'll tell you why…
It's because these rules, along with many other 'mistruths' you hear about support and resistance, don't really make any sense.

Support and resistance levels…
DO NOT require multiple touches, and
DO NOT get stronger with each subsequent touch.

Want to know why? Well, read on…

Because in this book, I'm going to teach you exactly why so much of the current knowledge on S & R is flawed and doesn't actually make much sense. This information will help you turn support and resistance from inconsistent levels to high probability trade entry points.

Trust me - you don't want to miss this.

Let's get started…

Why The Normal Way Of Trading Support And Resistance Doesn't Work

The concept of support and resistance comes from a very simple (but very flawed) idea of how traders behave in the market. This idea explains how the levels form, why they require multiple touches, and most importantly, why they get stronger each time price reverses from them.

The idea is as follows:

When many traders buy or sell from a price, they're highly likely to buy or sell from the same price in the future, resulting in a reversal; the more times traders buy or sell from the same price, the higher the probability the market will reverse from that price when it returns.

This is why you get told levels get stronger with more touches.

Now to the average trader, this makes perfect sense; open a chart, and you'll see levels with lots of touches cause reversals all the time. However, there are two big problems concerning how the levels form and why they supposedly get stronger with multiple touches.

Let's take a look at the first.

Who Causes Price To Reverse From Support And Resistance Levels?

Have you ever wondered who causes price to reverse from support and resistance levels?
Scratch that; have you ever even thought about it?

Probably not, right? And there's a reason for that.

Most price action sites say price reverses from S & R levels because of retail traders, people like you, and me who trade forex non-professionally.

According to them, retail traders create the levels because they believe in the concept of support and resistance, making it a self-fulfilling concept. In other words, because so many people believe S & R exists, that actually creates the levels and causes people to buy or sell once price returns.

You've probably heard this at some point yourself?

It is true many retail traders buy or sell when price returns to an S & R level, but they don't cause price to reverse; why? Because they don't have enough volume (money)!

It takes millions for price to move even a few pips in forex, let alone cause a reversal.
Retail traders don't have anywhere near that amount! It's way too much!

Retail traders don't cause price to reverse from the levels; that we now know.
But this begs the question, who does cause price to reverse from the levels?
Well, there can only be one culprit…

Of course, it's the bank traders – *for obvious reasons.*

For price to reverse, it takes tens of millions. Who has that kind of capital? Well, it certainly isn't Bob, sat at home on his laptop. It's the banks! Only they have the money and resources to make price reverse from S & R levels.

And the reason they make price reverse is linked in with why the levels don't become stronger with multiple touches; let's take a look…

Why Levels Don't Get Stronger With Multiple Touches

Thinking retail traders cause price to reverse from S & R levels is a problem, but is it why you struggle to make money with S & R? No, it's something else. And that something is the other big rule in support and resistance:

That levels become stronger with each subsequent price touch.

For a long time, I followed this rule myself, religiously.

Before every trade, I'd note down how many touches a level had. Then compare that with the other levels, to see which had the best chance of causing price to reverse. I'd often go back years to look at the touches too, just to see which had the most!

The idea that levels get stronger with more touches stems from the fact the levels supposedly form from retail traders buying and selling.

Remember when I talked about this earlier?

The books, gurus, videos, etc say that because retail traders cause the levels to form, they also make them stronger each time price reverses from them.

Their logic behind this is simple:

Since most traders believe support and resistance levels get stronger with more touches, that actually causes the levels to get stronger. Because the more touches a level has, the more traders who now think the level has become stronger. It's like

Does that make sense?

Whether you understand what I explained above or not, the point is it's not true.
And the reason why is down to what causes price to reverse from the levels in the first place.

Price reverses from support and resistance levels not because of retail traders, like most of the gurus and books say, but because of bank traders. And, believe me, it's not because some line price has touched on their charts – hell no!

The banks buying or selling is what makes price reverse from a support or resistance level, and it's for one of three reasons:

Placing trades,
Closing trades,
Or taking profits.

When price reverses from a level, it's down to one of those reasons. Which one is it? You can never know for sure, but if you watch my course, I'll show you how to gauge when and why price reverses using probability and a few facts about how forex works.

Now, obviously, the banks don't decide to buy and sell because price has touched some random line price a few times on a chart. That's not how they make decisions.

The only thing they care about is orders.

They need orders entering the market to buy or sell. If enough orders come in from other traders buying or selling, the banks may decide to do something with them; they could take profits, place trades, close trades, or whatever. But they need orders; that's the key.

If no orders are available or not enough are entering for what they plan to do, they can't take action, whatever that may be.

If you've read my order flow book, this should sound pretty familiar.

Retail traders don't buy and sell everywhere, at least not in large quantities. So, the banks can't buy or sell whenever/wherever they want. Instead, they must push price to points where lots of orders build and then use them to place trades, close trades, or take profits.

And what's one of the key places lots of orders build up?
Yep, you guessed it: support and resistance levels!

They generate huge interest, so tons of buy/sell orders build up on and around support and resistance levels. This makes them a prime location for the banks to push price whenever they want to buy or sell.

It happens like this:

The bank notice a large build-up orders around a level.
Since they don't have enough orders, they decide to push price to the level.
That way, they can use the order to carry out their own actions.

Using a variety of market makers and other sources, the banks push price to the level. They, then, depending on where the orders are, make price chop – I'm sure you've seen this before – to trigger the orders and get their trades placed/profits taken.

Once all their positions are placed, the banks let price reverse.
And this is why levels don't get stronger with more touches.

The banks - who cause price to reverse from the levels - only care about one thing: the number of orders available and what they can do with them.

How many touches a level has or where it's formed… it's not important!
It literally does not mean anything!

It doesn't matter if price has reversed from a level one time or ten times; the banks don't care!
If orders are building around the level, the banks might push price into it to cause a reversal.
That's their only concern: orders.

With that out of the way, let's look at how this can help you in your trading.

How To Use This In Your Trading

We've dispelled the myth that S & R levels get stronger with more touches and that price reverses because of retail traders buying or selling.

You can now go off and become super successful trading the levels, right?

… not quite.

See, even though knowing the levels don't become stronger with more touches is important, it leaves us in a bit of a hole; because…

How do we now find out if a level has a high probability of causing a reversal or not?
Before, we would look at the number of touches, but we now know that doesn't work.
We must find a different way to determine if a level has a high chance of causing a reversal.

Luckily, there are still a couple of ways to find good levels, both of which I'll explain here.

Let's look at the first…

1. Watch Levels With Recent Touches For Near Term Reversals

Support and resistance levels don't get stronger with more touches, as we now know. However, levels with recent touches (at least two) are strong levels with a high probability of causing price to reverse.
Levels with recent touches work well for two reasons:

1. It shows the banks are currently interested in the levels – hence the recent touches.
2. They reveal that lots of retail traders are placing trades at the level.

We know, if lots of retail traders are placing trades at a level, the banks will use the orders for their own devices – like placing trades or taking profits. We also know if price has reversed from a level recently, the banks must be using it – who else can cause major reversals?

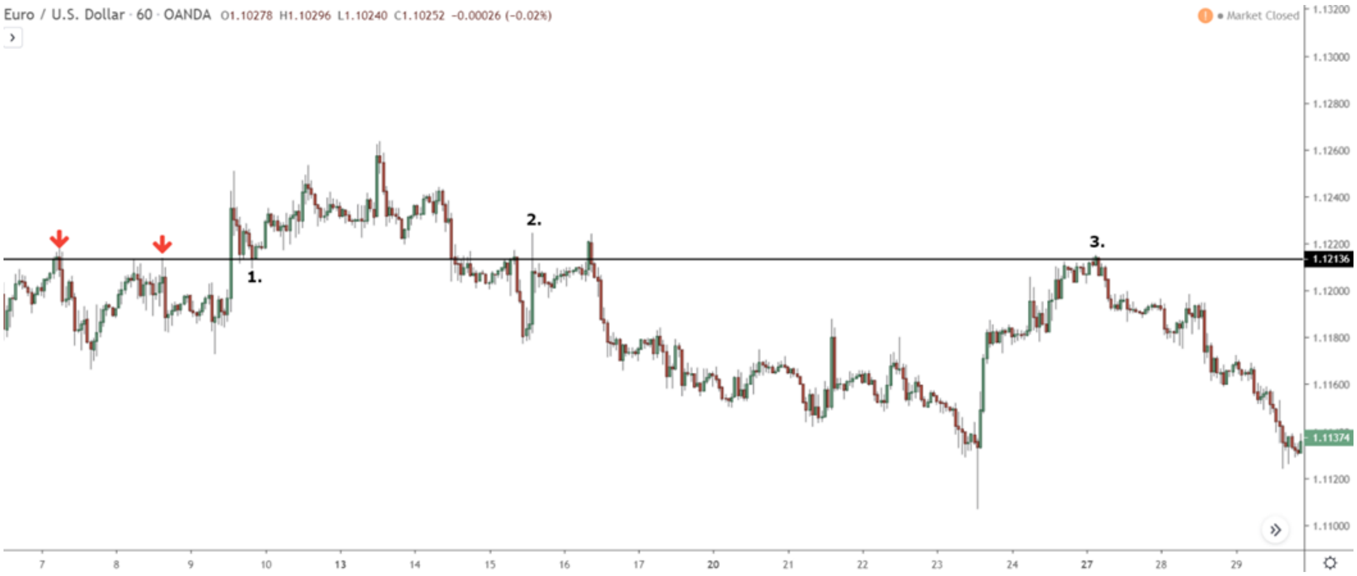
Together, this tells us levels with recent touches have a high probability of causing price to reverse.
And if you look at a chart, you'll see this is usually true.

Take this level, for example…

Price has touched this resistance level 3 times over the last couple of days.

Each touch has resulted in a reversal, telling us the banks used the level for some trade purpose – how else would it reverse?

Watch what happens over the next few days…



Shortly after the 3rd touch, price breaks the level – turning it to support – and reverses (point 1.). A couple of days later, it breaks the level again, turning it back to resistance before reversing for a 2nd time (point 2.).

After a small decline, price returns to the level on the 27th. It becomes resistance again, and we see a large reversal get underway.

Do you see how active this level was?
It had 8 touches in under 25 days!
That's crazy activity!!

After the first two touches (it always takes 2-touches for a recent level to be valid, remember), price reverses multiple times within a short space of time – under 30 days!

This is why you MUST watch levels with multiple recent touches!

The fact the banks have recently used the level (hence the recent touches) shows lots of orders must be building up – why else would they use the level repeatedly? That means price will probably reverse from the level again soon - exactly what we saw in the example.

Before we move on, two important points to remember…

1. It takes two recent touches for a level to be valid.

For price to have a high probability of reversing from a level, it must have at least two recent touches. The touches can come from the level acting as support or resistance, but they must be recent, not from a long time ago.

2. Use the following times to know if the touches are recent.

In addition to a level having recent touches, the first two recent touches must come within a certain time of each other. Otherwise, the level has a low chance of causing price to reverse.

Officially, there aren't any times for defining if the two touches are recent. However, here's a quick timetable of what I use in my trading…

5 min – 1 day.
15 min – 3 days.
30 min/1 hour – 8 days.
4 hour – 11 days
Daily – 1 month

2. Unbroken Levels Have A High Probability Of Causing Reversals

Looking for recent touches is a great way to find high probability levels. But another really good way is to look for levels that have multiple unbroken touches.

Remember earlier; how I said S & R levels from the banks?

Well, the banks never have enough orders to carry out their actions in one go in forex. For example, the banks can never enter a massive buy trade in one go because not enough sell orders are free – not enough traders are selling, basically.

Instead, they must split the trade-up and place small positions at similar prices.
That way, they require fewer orders and so can still enter their massive trades.

They…
Place a buy trade using the orders coming in.
Price reverses and begins rising, moving in their expected direction.
They then take a little profit off, causing price to reverse and begin falling again.

Because price is falling, more traders start selling. The banks now have enough orders to place another buy trade. And where will they enter? Around the same price as the initial buy trade.

That way, they replicate having a single buy trade placed.
The two trades act as a single trade because of their similar prices.

Now, on a chart, this process appears as…

Multiple swing lows or highs forming at similar prices.

The highs (or lows in our case) are the bank's buying or selling. They form at similar prices because that's where the banks entered their trades.

Many of you will know this already, especially if you've been through my course. What you probably didn't know, however, is the swing high or lows that form from the banks entering positions (or taking profits on occasion) usually create powerful support or resistance levels.

Here's an example:

The support level above is drawn on two swing lows that formed at similar prices.

While we can't say for sure, these lows were created by the banks either placing buy trades or taking profits, as that's what causes all swing lows and highs to form in the market – let's assume it was placing trades just to make the example easier.

Now, we know the banks can never place their trades in one go – not enough orders. That means price is likely to soon return to this level and reverse.

And what do you know…

Price returns and reverses, causing a new swing low to form.
This gives a great chance to jump into a long trade!

Price reversed because the banks placed another buy trade. We didn’t know this at the time, but it was confirmed when price continued to rise and break the swing highs later that week. See how powerful these levels are now?

Unbroken levels are easy enough to understand and trade, but there are a couple of things to remember before you start using them.

1. Don’t continue watching the level after price has fully reversed.

When price fully reverses from an unbroken level, as it did after the 3rd touch in the example, don’t continue to monitor the level for reversals.

Once price has reversed, that means the banks entered all their trades placed/profits taken, so price probably won’t reverse when it returns.

2. After 4-touches, a level becomes invalid.

As with recent levels, it takes 2-touches to validate unbroken levels, but don’t watch for price to reverse after the 4th touch. The banks can usually enter their positions in 3 – 4 sets, so seeing more than 4 touches suggests something else is going on – probably a consolidation.

3. Turn levels into zones instead of lines.

You’ll notice the 3rd touch in the example didn’t hit the support level; it missed it by a few pips.

Price missing S & R levels and failing to provide an entry is a big problem for both unbroken levels and recent levels I showed earlier. However, it can easily be fixed by trading levels as zones instead of lines.

Speaking of zones…

Never Miss Another Trade With Support And Resistance Zones

Gets old, doesn't it?

You place a resistance level and wait anxiously for price to return, so you can (hopefully) get an entry into a large reversal. However, just as price nears the level, it reverses and moves away, leaving you no signal to get into the reversal.

Bummer.

If you trade support and resistance, the situation above probably sounds awfully familiar – it does for me, that's for sure.

And yet, it's one you can easily fix…
Maybe not all the time – price will still miss levels, even with what I'm about to show you.
But way less than before – enough so it's not a problem.
Want to know how?

By turning the levels into support and resistance zones.

Let's take a look…

Why Price Misses Support And Resistance Levels

If you're like me, you probably thought the reason price often reverses right before hitting a support or resistance level is down to luck… *a wrong roll of the dice, if you will.*

I mean, it makes sense, right?
What else would price fail to tap the level before reversing?

Other TA concepts often come into play, sure, but that doesn't explain every instance.
Price misses the levels far too often for that to be true; therefore: it must be down to bad luck and the market then, right?

Well, not exactly…

In reality: price misses the levels for a different reason… it's got nothing to with luck, and it's not because the levels are marked incorrectly.

The REAL reason price often reverses before hitting an S or R level is because the levels exist as lines.

Bet you didn't see that coming, huh?

Forex is a wild market with many different variables at play. The market contains all types of traders/investors, each with their own objectives and motivations.

Traders aim to make money quickly; investors expect long-term profits.
Companies buy and sell for business reasons; governments use the markets to hedge.

Together, these variables create a lot of randomness in that, while it's possible to predict what the price may do, pinpointing EXACTLY when and where that'll happen to the pip is extremely difficult, if not impossible.

What's this got to do with the levels being lines, then?

Well, because support and resistance levels exist as lines, that randomness plays a much larger part in how often they cause reversals.

To signal a reversal, the market must hit a price covered by a tiny line – depending on thickness. That's a pretty big ask with all these variables coming together and creating randomness.

Sometimes price will hit the line and reverse.
That's just the nature of probabilities.

But often it won't, which is why price comes within a whisker of hitting the levels before reversing so frequently.

Think about it like this…

If you wanted to catch a load of fish, what would use?
A line or a big net?

You'd use a big net because the probability of catching lots of fish is higher due to its size. The net being bigger REMOVES much of the randomness of the water and fish movements, which increases the probability lots of fish will get caught and give you a catch.

With support and resistance levels, we're attempting the opposite.
We're trying to catch lots of fish (reversals) using a rod (line).
Do you really think that's going to work well?

While we might catch a fish or two on occasion, most of the time, we won't get anything; the randomness of fish and ocean movements make it extremely unlikely for a fish to bite the line and give us a catch.

Does that make sense?

That probably wasn't the best example, but you get the point. In any case, now let me explain how we turn the levels from a fishing rod to a big net… or something like that.

A Better Way Of Trading Support And Resistance

That's the big problem with support and resistance then… they're lines! The lines are too small, that's why price keeps missing them. We're trying to catch loads of fish with tiny little rods. It just doesn't work that well!

It's not luck; we aren't drawing the levels incorrectly – not always, at least.
Price is missing the levels because of how small they are.
It's as simple as that.

The question now is…

How do we change the levels to increase the probability price will touch them and not cause us to miss out on profitable trading opportunities?

If you've read the title, you already know the answer…

The way to make to price missing support and resistance levels is to stop drawing the levels as lines and instead draw them as zones. That's right. Just like supply and demand, we're going to draw the levels as zones to give them a wider surface area for price to reverse in.

Here's the typical missed trade scenario that happens using S & R as lines – look familiar?

Price reaches the level and, a few pips before touching reverses without providing an entry signal.

Annoying, to say the least.

Let's look at this again, but this time, let's mark the level as a zone.

The pin spikes inside!
See the difference now?

By marking the level as a zone, rather than miss the level, price reverses inside. It doesn't move fully into the zone – part of the pin still sticks out below – but touching and being partly inside gives us a valid short signal.

This is how useful S & R zones are and why they work so much better than using lines.

When we marked the level with a line, we missed the trade… the pin never hit the level; no signal appeared. Marking it with a zone, however, gave us a valid short signal; because the pin formed after price spiked the zone.

Support and resistance zones are obviously quite powerful, but how do we draw them on the chart?

Well, let me show you…

How To Draw And Identify Support And Resistance Zones On A Chart

You don't need pro-level skills to draw support and resistance zones, but you must know how to find and draw the levels normally, so you know where to mark the zone.

I've seen a few gurus teach people how to draw the zones, and let me tell you… these guys talk total CRAP! They don't have a clue. They basically say: find a level, plonk a zone on top, and that's your zone.

No logic or reasoning behind why that zone is valid.
Simply whack a zone on a level, and that's your lot!
If you draw the zones this way, you won't have much success.

The correct way to draw the S & R zones is to find a level, mark a zone on top, and then tweak the zone so that each edge is the same number of points away from the level.

Let me run you through an example…

First, find the support or resistance level you want to 'zoneify…

We'll use this one – it's got some nice clean touches.
Now don't just plonk a zone over a level in any old fashion. That what the gurus do.

Place the zone so each edge is the same number of points away from the level. If the edges are uneven, price might miss the zone when it returns, so you'll still suffer lots of missed trades.

But how many points away does each edge need to be?
That all depends on which timeframe the zone has formed.

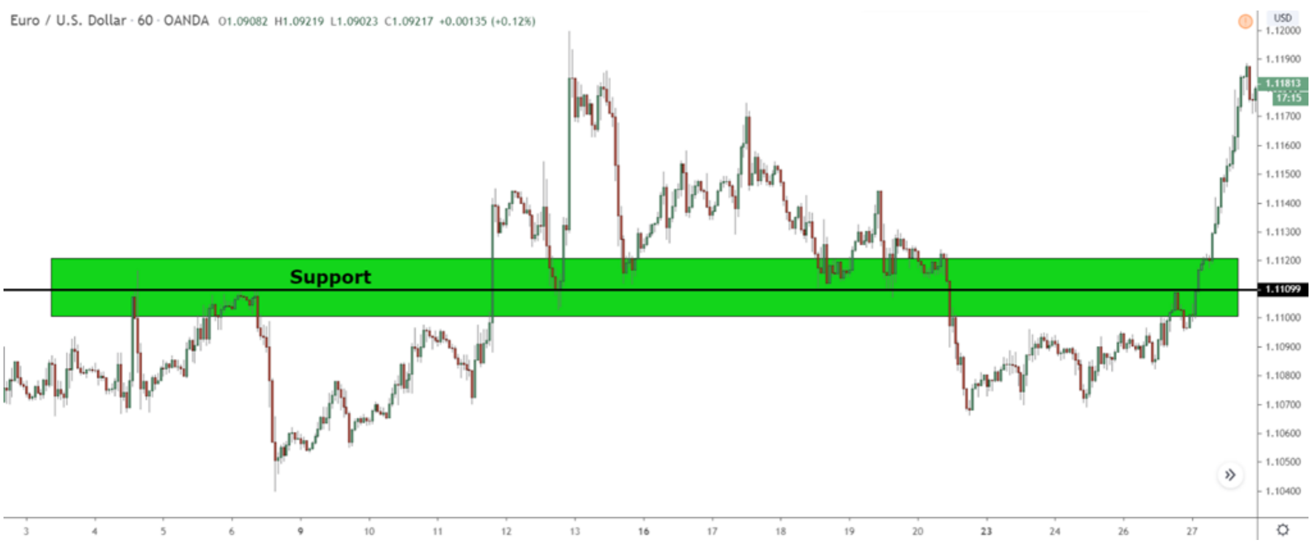
Price doesn't move as much on lower timeframes, so the zone doesn't need to be that big. On the higher timeframes, the opposite is true; price covers a much bigger distance, so the zone must be larger.

Here's a quick guide on how many points from the level you must mark each zone edge.

1, 5, or 15 min – 50 points.
30 min, 1 hour – 100 points.
4 hour – 150 points.
Daily – 250 points.

In our example, the zone formed on the 1-hour time frame and at 1.11099. So, we need to mark a zone from 1.10999 (100 points below) to 1.11199, which is 100 points above.

And with the zone marked, this is how it looks…



See how each edge is 100 points below and above the level… *or thereabouts?*

It's not super important to get the edges bang on when marking the zone – don't zoom right in to make sure it's exactly 10 pips above and below the level.

If it's within a few points, the zone should work as intended.

Two Ways To Trade Support And Resistance Zones

When it comes to trading the zones, you have two options…

Either watch for pin bars and engulfing candles to form once price enters or touches the zone – same as trading normal support and resistance levels. Or place a limit order at the edge of the zone so when price returns, it triggers the order and puts you in a trade.

For my money, waiting for pins and engulfs works better, but the limit order also works well.
– I'll try to get something out about this out sometime soon.

For the stop loss, that always goes the opposite side of the zone, depending on what signal you took – for a bullish pin, it goes BELOW the zone; ABOVE for a bearish pin. And once price reverses, move the stop to the low/high of the pattern. That'll reduce the risk in case price reverses.

Remember: Support And Resistance Zones Are NOT The Same As Supply And Demand Zones

It's easy to get confused between supply and demand zones and support and resistance zones, so before we move on, let's get one thing straight…

Support and resistance zones are NOT the same as supply and demand zones.

Yes, they both exist as zones where price could reverse. And yes, we draw them in a (slightly) similar way. But S & R zones have NO resemblance to supply and demand zones.

They don't form in the same way,
We don't draw them from the same points,
And they don't cause price to reverse for the same reason.

If you're ever in doubt, remember…

Supply and demand zones only form AT THE SOURCE of rises and declines.

Support and resistance zones only form at support and resistance levels. Sometimes by chance, they fall in line with the source of rises and declines, like S & D zones, but they're always drawn from the level first.

Make sure you don't get mixed up between them. Otherwise, you might find yourself getting into some strange trades.

2 Support And Resistance Secrets That'll Change Your Trading

Did you know…

Higher timeframe Support and resistance levels are way stronger than lower timeframe levels.

And get this…

Using support and resistance levels (or zones) as confluence can dramatically increase the probability of your trade idea being successful.

Think I'm joking?

Then read on…

Because before we end, I'm going to share with you 4-mind-blowing secrets that will change how you trade support and resistance levels forever.

Ready?

Let get started…

#1 High Time Frame Levels Are Stronger Than Low Time-Frames Levels

Now that I've put to bed the myth of "more touches = stronger level", it's going to be a lot tougher to find strong or weak levels, isn't it?

Well, not exactly…
You see, there's another way to find strong levels…
Higher time-frames!

Support and resistance levels form because the banks buy or sell at similar prices to where they bought or sold in the recent past.

So far, so price action 101.

But here's the thing:

A bank trader who buys or sells creating a level on a higher time frame has a longer-term outlook on the market, meaning they're far more likely to buy or sell when the price returns to the level than someone on a lower time frame.

See where I'm going with this?

That gives high time-frame levels a better chance of generating a reversal when used on a lower time frame.

A really easy way to find strong support and resistance levels, then, is to go one or two or time frames above your trade time frame. Use those levels to watch for reversals rather than the lower time frame levels.

“But which time frames should I use?”

Here’s a quick guide:

If you trade on the 1, 5, or 10-minute time frames (and anything in between that), use levels on the 15 min and 30 min time frames.

If you trade on the 15, min, 30 min, or 1-hour time frames, use levels marked on the 4 hour or daily time frames.

If you trade on the 4 hour or daily time frames, use levels drawn on the weekly time frame.

#2 Support And Resistance Levels Work Great For Confluence

Okay, so this one isn’t really a secret, but it is important to know.

One of the keys to finding high probability trade setups is to look for confluence.

“Confluence, what the heck is that?”

When two or more technical tools or techniques line up at the same point or give the same information about what the price will do, that’s called confluence.

For example…

If a MACD showed divergence when the RSI was overbought, that would be a sign of confluence; both tools give the same outlook; that price is likely to reverse.

You can use any technical tools or techniques to find confluence.
However, support and resistance levels are some of the best…
For one reason…

Versatility.

Most tools or techniques you can use to find confluence only work in specific combinations or certain situations. For example, Fibonacci retracements provide fantastic confluence, but only when price is retracing.

Support and resistance levels, however, work with everything.

You can use them to find confluence with trendlines, Fibonacci retracements, chart patterns, technical indicators…

You can even use them to find confluence with supply and demand zones!
See for yourself…

This rugged versatility is what makes support and resistance levels such a good technique for finding confluence. And I recommend that if you're trying to find confluence with a tool or technique, support and resistance levels should always be your first port of call.

Closing Words

Support and resistance levels may be old and not as consistent as other technical points (Supply and demand, *cough, cough*), but that don't mean they're not useful… *oh no.*

If you take the time to understand how the levels form and eliminate their downsides (by turning them into zones instead of lines), they become a match for any technical concepts and viable in a whole range of different ways.

You can…

Use the levels (or zones) as confluence.
Use the zones as reversal points when no others exist.
And, of course, use them to watch for normal reversals.

That's the advantage of really understanding how S & R levels work and turning them into zones: you enhance all these different ways of using the levels.

Sure, supply and demand zones perform better…
But that doesn't mean you can use S & R zones to look for confluence.

And supply and demand zones have their limitations – limitations that S & R zones don't. They only perform well in specific conditions, usually when price is consolidating or grinding higher. Support and resistance zones work any time, any place.

Just plonk the level on the chart, and mark a zone on top.
Wait for price to enter, see if a PA action pattern appears.
If it does, enter a trade and see what happens.
That's all there is to it!

Overall, support and resistance levels are still well worth using. Take what I've explained here today and incorporate it when using the levels yourself.

You'll be amazed at how useful the levels become with just a few tiny tweaks.