



Brainy's Articles on Technical Analysis

Support and Resistance

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Introduction

This article in Brainy's series on Technical Analysis (number TA-3300) provides information on support and resistance, and also explains how trend lines can be considered lines of support and resistance.

Overview

The concept of support and resistance is a very "fundamental" principle in technical analysis. It is used by many professional traders. Many traders assign a lot of importance to this, and many use this and little else to determine preferred entry or exit points on a price chart.

When reading the text below and over the page, refer to the following Monthly Candle chart of BHP from July 2006 until August 2008.

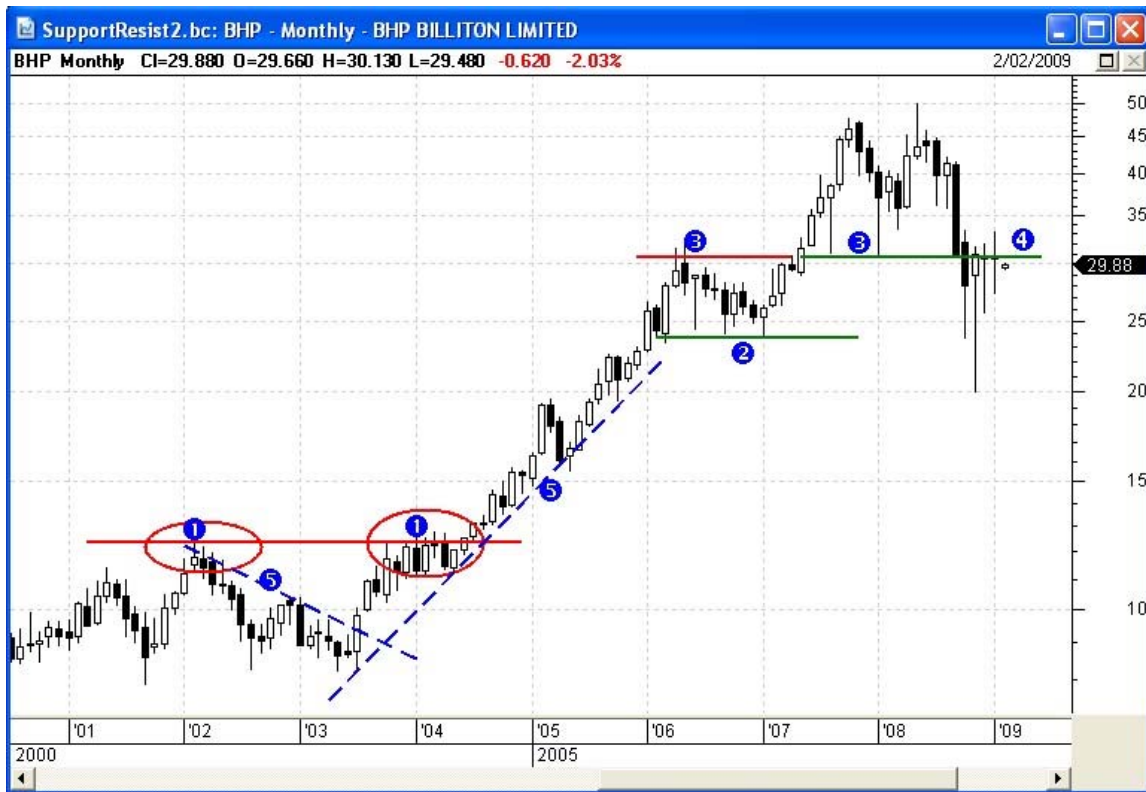


Figure 1: Support and Resistance on a monthly BHP candle chart

Support

In the figure above, the line (2) indicates a support line (or zone in this case), where the price has fallen to come close to it, or touch it, a number of times, and then bounced away.

Support is a price level on the chart, above which the price moves up and down, with the price tending to come down and "bounce" up from the support level. It behaves like a "floor" under the price. The price can fall down and bounce up off the floor a number of times before either falling through the floor, or commencing another rise. At some point the support line will probably fail, but if it is tested a number of times and the price bounces away, then it is considered a stronger support level.

Support is usually a horizontal line drawn across the chart, or it can be a "zone" or small price range.

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