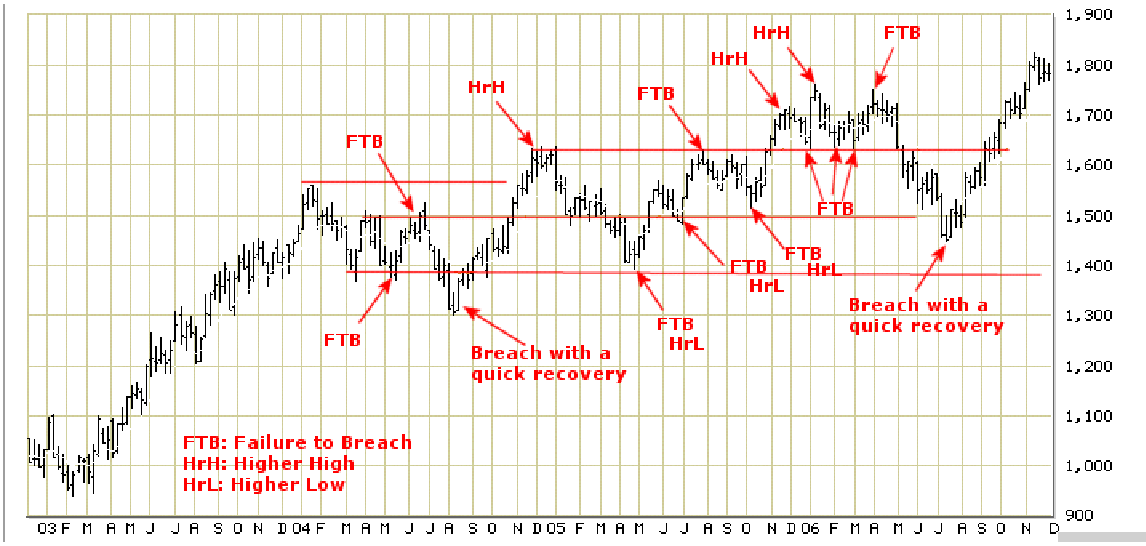
Support & Resistance and Trading Trend

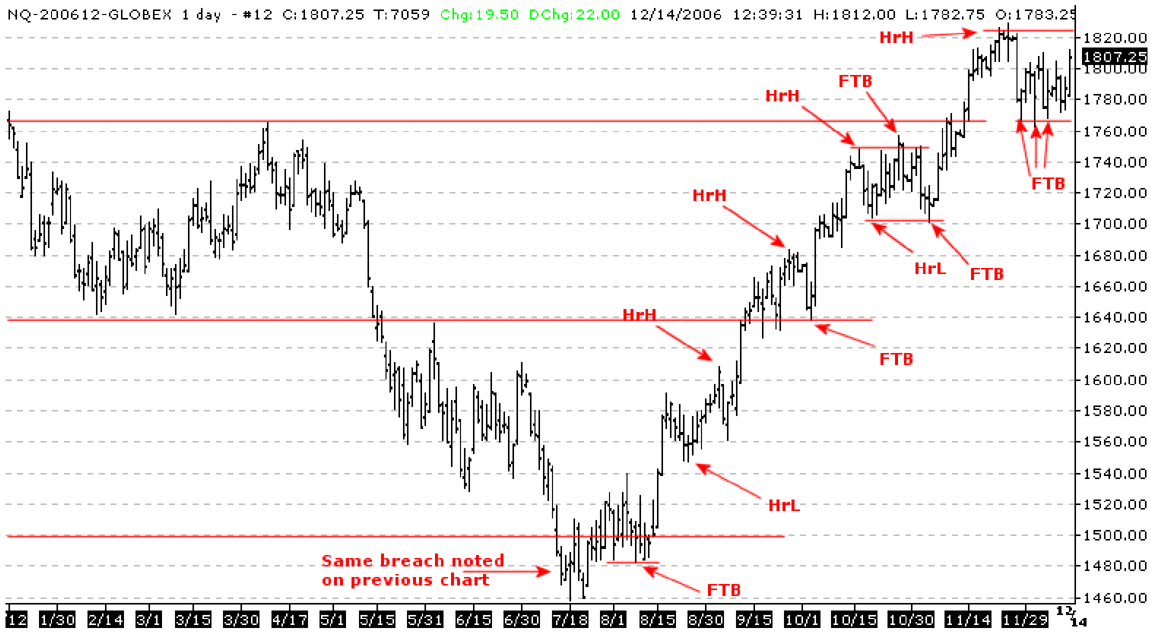
The following illustrates the potential support and resistance provided by **swing points** and **zones**. It also illustrates a means by which one can define "trend". If one doesn't understand trend, he's going to have trouble understanding **breakouts, retracements, and reversals**. If he doesn't understand support and resistance, he's going to have trouble understanding how and where and when to enter and exit, much less where to take profits, assuming he has any.



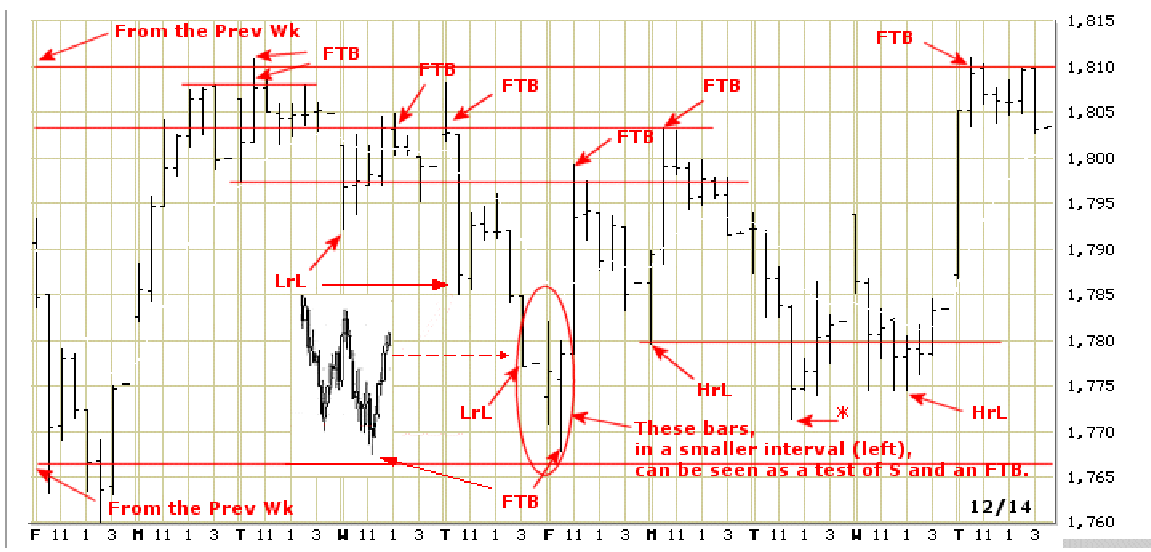
Traders must understand the characteristics of a trend day, even if interested only in intraday scalping. A trader anticipating a trend day should change strategies, from trading off support/resistance . . . to using a breakout methodology and being flexible enough to buy strength or sell weakness. A trader caught off guard will often experience his largest losses on a trend day as he tries to sell strength or buy weakness prematurely. Because there are few intraday retracements, small losses can easily get out of hand. The worst catastrophes come from trying to average losing trades on trend days.

Raschke

To determine the effects of supply and demand, look for breaches of either support or resistance within whatever interval you're trading, particularly a breach with a quick and strong recovery (which belies the breach and suggests strong buying interest [demand] or selling interest [supply], whichever the case may be). If one is trading trend over the longer-term, he has little to do but sit on his hands until price breaks out or breaks down. If he chooses to trade the shorter-term, he can buy failures to break through support and short failures to break through resistance during those **"balancing"** or **"equilibrium"** phases.

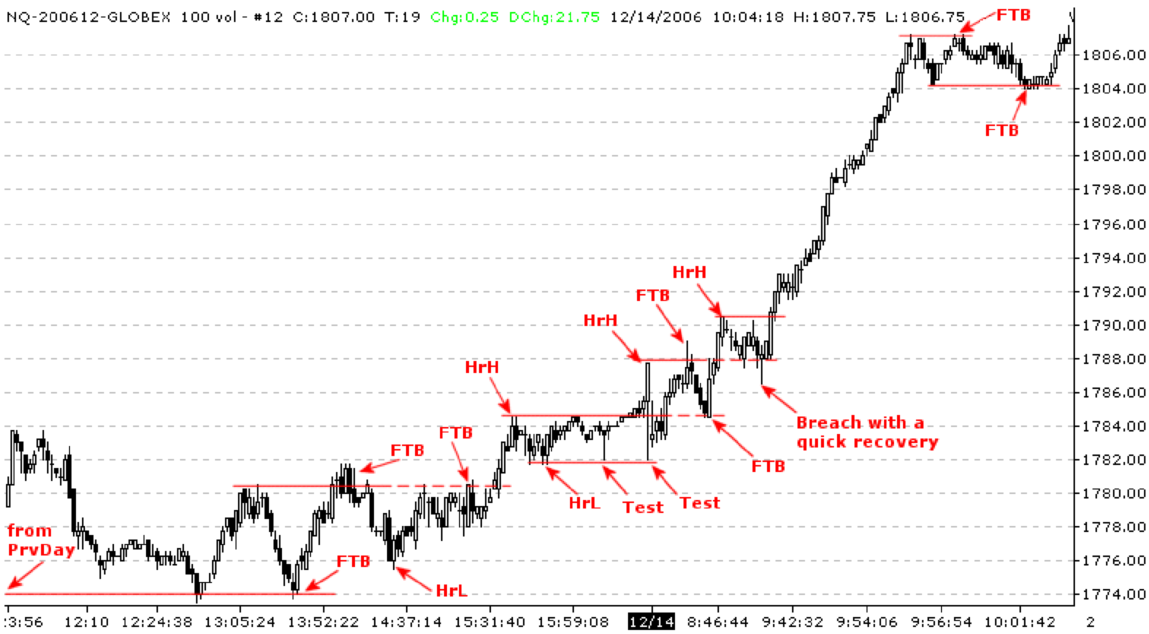


To understand that price rises because demand -- or buying interest -- is greater than "supply" -- or selling interest -- is a no-brainer. The trick is to recognize these changes in balance or equilibrium **in real time**. Hindsight charts are fine for illustrating principles. In fact, they're nearly essential. However, one must then take the next step and translate those principles into a trading strategy that enables him to make decisions based on those principles in real time, e.g., "failure to breach". For example, one must at least locate **in advance** those areas or zones in which the aforementioned balance is most likely to change, then wait patiently until those changes actually occur, then act on what he observes.



Note that as the interval gets smaller, the opportunities increase, but so does the necessity for strict rules. For example, one of the arrows has an asterisk, there to show that while the swing point is lower than the immediately preceding swing point low, it is higher than the more significant low made the previous Friday. Therefore, "higher low" has no intrinsic meaning. The trader must instead place all of this **in context** and define very clearly just what it is that he is looking for.

In this case, if the trader were not already in, he most likely would not enter long at this point but wait for confirmation of an uptrend and enter at the next higher low (this occurs the next day, Wednesday). Or he may go ahead and take the risk, entering on Tuesday. While doing so entails more risk, it also may mean a tighter stop, depending on how the trader manages stops. There is thus no "best" way to manage the trade. After all, the trader may have entered long at the previous Friday low (12/8) and never have closed his long trade.



Looking back at the first chart, it would seem that there are few if any opportunities during November/early December since price has “stalled”. But the above and the preceding charts demonstrate that it all depends on your point of view. Even the very last day, represented above, offers excellent opportunities for relatively easy profits.

> *The **first step** for a trader is to determine the current trend of the market.*
>
> *The **second step** is to determine one's place in the current trend.*
>
> *The **third step** is to determine the proper timing of one's entry into whatever it is he's trading.*
>
> *-- Richard Wyckoff*