



**SURGETRADER**  
ACCELERATED TRADER FUNDING



# Trading Support and Resistance Levels

# 01

## What are Support and Resistance in Trading?

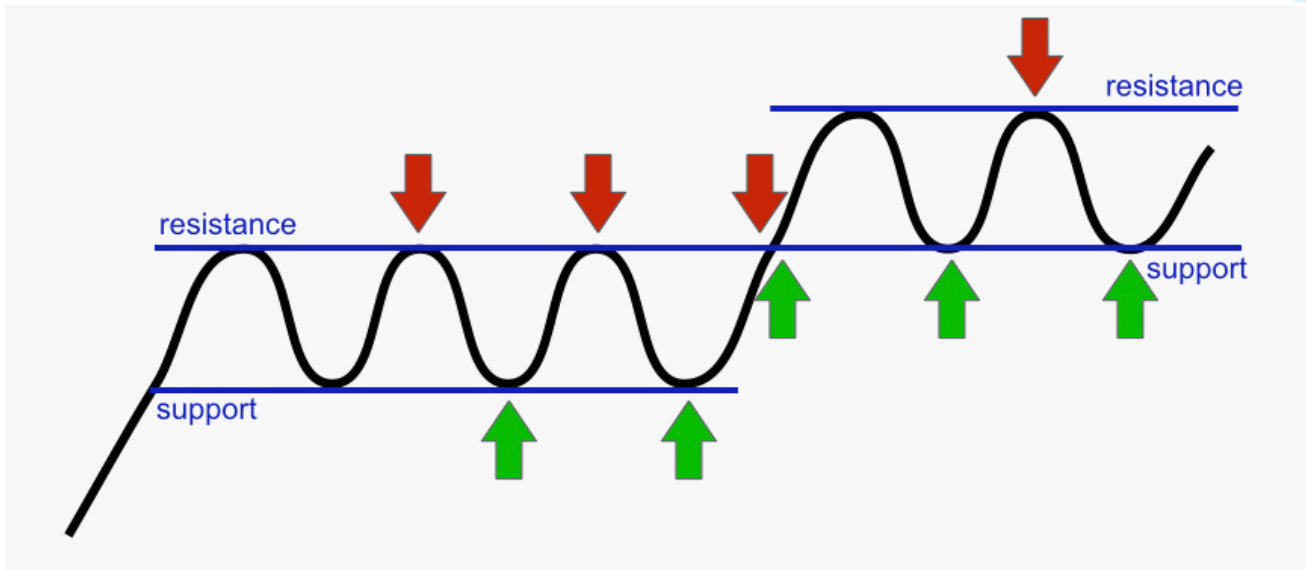


Support and resistance are one of the most common concepts in trading. As you look at the diagram below you can see a back-and-forth, zigzag pattern which is trending upward – a bull market.

When price action moves up and then pulls back, the highest point it touched before it pulled back is called resistance. When there is a surplus of sellers, resistance becomes apparent. As price action continues, the lowest point it reaches before it starts back up is called support. There is a surplus of buyers at a support level.



## Trading Support and Resistance Levels



So as a chart breathes, support and resistance are continually formed as price action goes up and down over time. The reverse is also true during a downtrend.

The simplest way to explain how support and resistance are normally traded is as follows:





### Trading the Bounce

1. Buy when the price falls towards support
2. Sell when the price rises towards resistance

### Trading the Break

1. Buy when the price breaks up through resistance
2. Sell when the price breaks down through support

### How to Plot Support and Resistance Levels

The first rule of support and resistance is that these levels are never exact numbers. If a support or resistance level is broken, it doesn't always mean that it's going to blow through. Sometimes it means that the market was simply testing that level and it will come back into range. You can see how this plays out on a candlestick chart, where the candlestick shadows are testing the support and resistance lines.



As you can see from the above chart, it may seem like the price was breaking the support level, but in retrospect, we can see that price action was merely testing those levels.



## How to Know if Support and Resistance are Truly Broken

This is not an exact science and so there is no exact answer. Take a look at the chart below.



As you can see, the price closed below the support level and then came back above it. If a trader thought that this was a real breakout and sold that pair, they would have been dead wrong – and they'd have lost some money.

In this case, support was not actually broken. It was tested, remained intact, and is now even stronger. Support level was breached but only temporarily.

To help traders discern between real and false breakouts, they should think of support and resistance more as areas or zones rather than specific numbers. For that reason, often support and resistance are interpreted on a line graph. The reason is that line charts show only the closing price while candlesticks visualize the extreme highs and lows, which can be misleading and are often split-second reactions of the market.

Take a look at the line chart below and see support and resistance as zone areas where price forms peaks or valleys in a common area.



### A few interesting facts about support and resistance:

When the price action passes through a resistance zone, that zone could potentially become a new support zone — and vice versa.

When the price tests a support or resistance zone with frequency and does not break it, that support or resistance zone becomes stronger. Usually, when a support or resistance level breaks, the strength of the follow-through move depends on how strongly the broken support or resistance zone had been holding prior.



# 02

## What are Trend Lines in Trading?

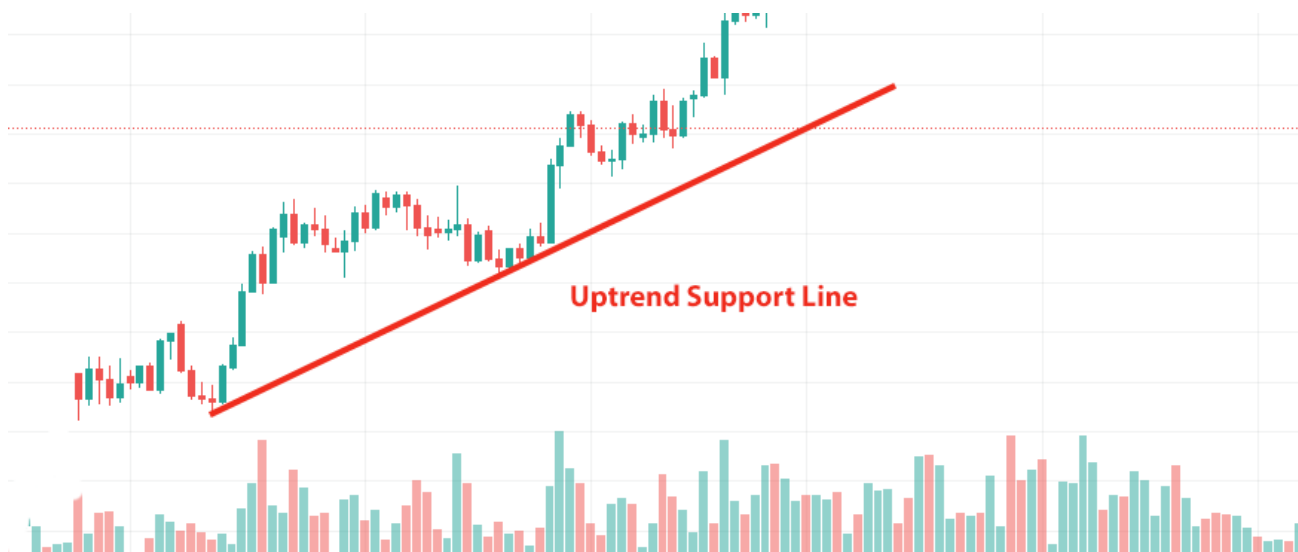


Trend lines are probably the most familiar and most used basic charting technique for technical analysis in trading.

They are fundamental to technical analysis and about as accurate as any other charting technique if done correctly. Many traders draw them inaccurately or try to make them fit into what they want them to be, instead of letting the market speak for itself.

### Trend Lines Example

Uptrend lines are drawn along the bottom (valley) of support areas. This is called an ascending trend line:





## Trading Support and Resistance Levels

Downtrend lines are drawn along the top (peak) of resistance areas. This is called a descending trend line:





### How to Draw Trend Lines

Drawing trend lines is easy. Just connect major tops or bottoms on your chart with a line. That's really all there is to it.

Check out another illustration of both types of trend lines:



### Types of Trends

Essentially, three types of trends will show up on your charts:

1. Uptrend (higher lows)
2. Downtrend (lower highs)
3. Sideways trend (ranging)

### Important Notes on Drawing Trend Lines

1. Two tops or bottoms are needed to draw a trend line.
2. Three tops or bottoms confirm a trend line.
3. Steeper trend lines indicate a less reliable trend and an easier one to break.
4. Trend lines become stronger the more they are tested.
5. Never force trend lines to fit the market. Let the market speak for itself.



# 03

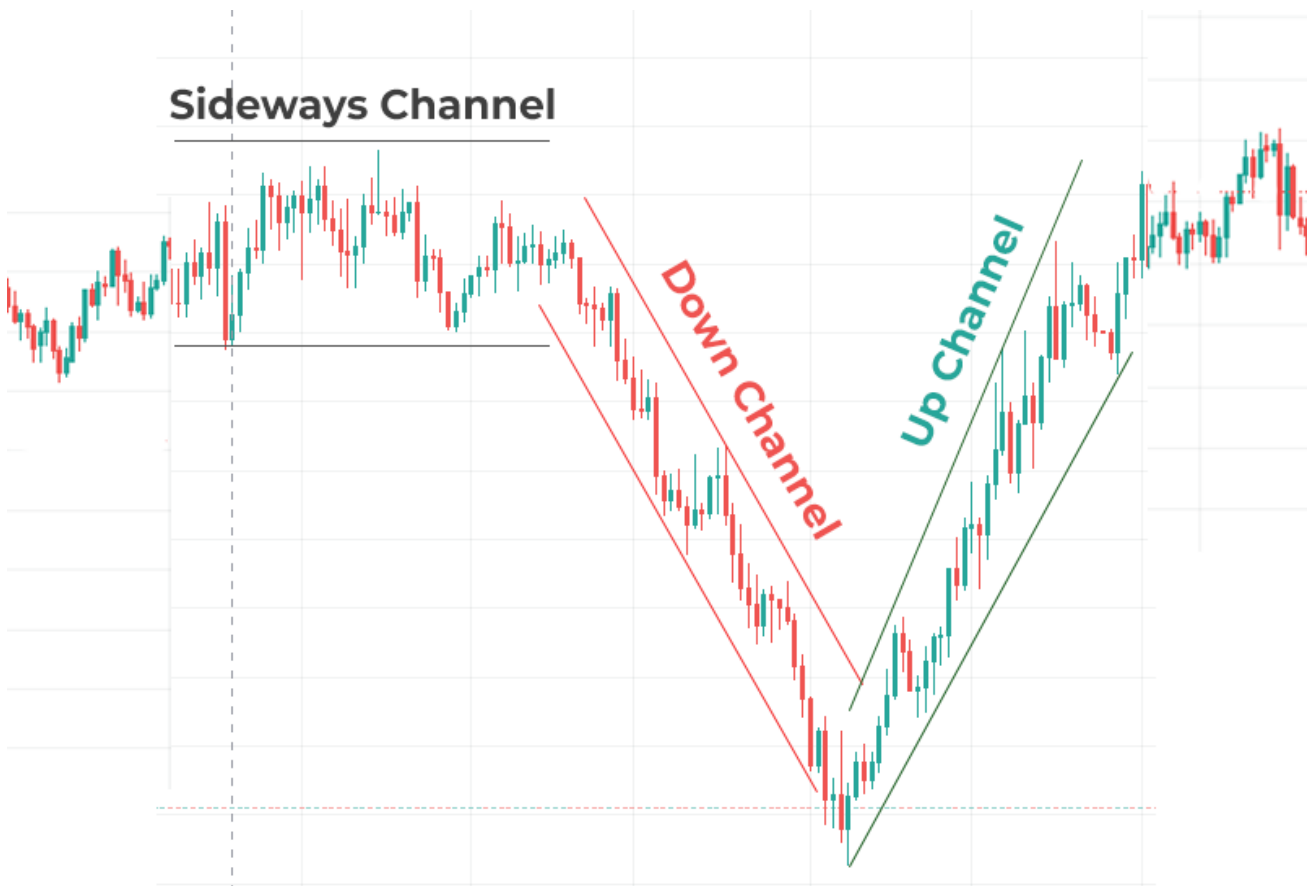
## Trend Channels in Forex



We can create trend channels in **forex** by drawing two lines at a similar angle and parallel as a downtrend or uptrend.

Trend channels are another **technical analysis** tool that can find good buy and sell opportunities. Resistance is marked by the upper trend line and the lower trend line as support. As a result, the bottoms and the tops of channels can serve as areas of resistance or support.

Bearish trend channels have a downward slope, while bullish trend channels have an upward slope. To generate an up channel, draw a line parallel and at a similar angle as the upward line and move it to its latest point. This must be done simultaneously with the creation of the trend.



To make a descending channel, draw a line parallel and at a similar angle as the descending line and then move it to a position that touches the current valley. You should do this simultaneously when building the trend.

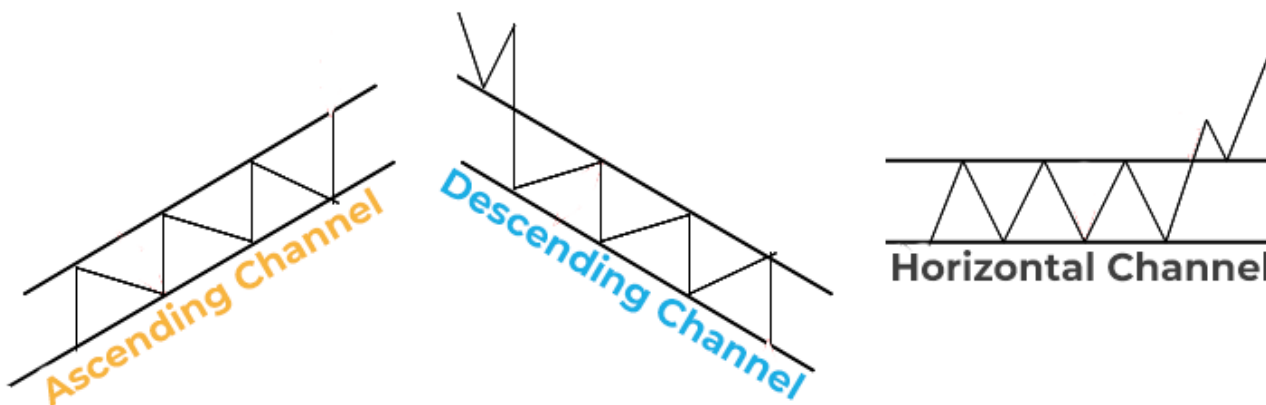
This could be used as a buying zone if the price reaches the LOWER trend line. It can be used as a selling zone if the price hits the UPPER trend line.



### The 3 Types of Trend Channels

Channels are of three types:

1. Descending channels
2. Ascending channels
3. Horizontal channels



Some traders prefer using “rising” for an ascending channel and “falling” for a descending channel.

### A few key points about drawing trend channels:

**Trend lines** must be parallel (or very nearly parallel) to each other to build a trend. In general, the lower part of the trend channel is the buying zone, and the top of the trend channel is the selling zone. You should never force the channels’ prices when drawing trend lines.

Intentionally skewing your trendlines to make a channel fit can result in bad trades. However, trend channels do not have to be perfectly parallel.

Furthermore, not all price movements must fit in the channel.

Many traders make the mistake of only looking for price patterns that perfectly fit into a nice, neat trend channel. Waiting for perfectly aligned trend channel **support and resistance** lines is futile, as price action that fits in two perfectly parallel trend lines is quite rare.



# 04

## How to Trade Support and Resistance

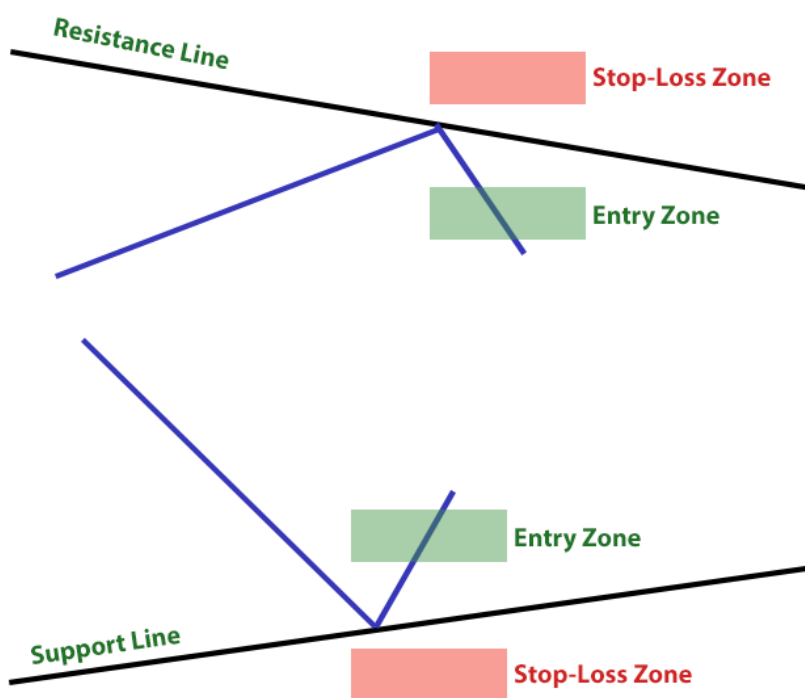


Support and resistance lines are some of the most important price points for traders to look at when they are trying to figure out the market and how to trade it. Those lines provide areas that need to be keyed in as they have the potential to be the exact points when the currencies should be bought or sold. There are two main things to look at when talking about resistance lines and how to trade them, and those are the break and the bounce.

### The Bounce

One way to get involved in the market effectively is to look for a bounce off of a support or resistance level and trade into that. It is far better than the mistake that many new traders make which is to try to trade precisely on the resistance lines. You don't want to do that because many other trades are likely also trading on those specific points as well. Instead, you want to wait until there is more confirmation that your trade is moving the way you expect it to. Thus, you wait for the bounce off of the support or resistance lines.

The bounce is a move either higher or lower off of the support or resistance line (depending on the overall trend of the currency pair) that you can take advantage of. You want to see the currency bounce off of those lines to confirm to you that the line really is set there and to try to make some money as the currency reverses itself from the moves that it had previously been making.



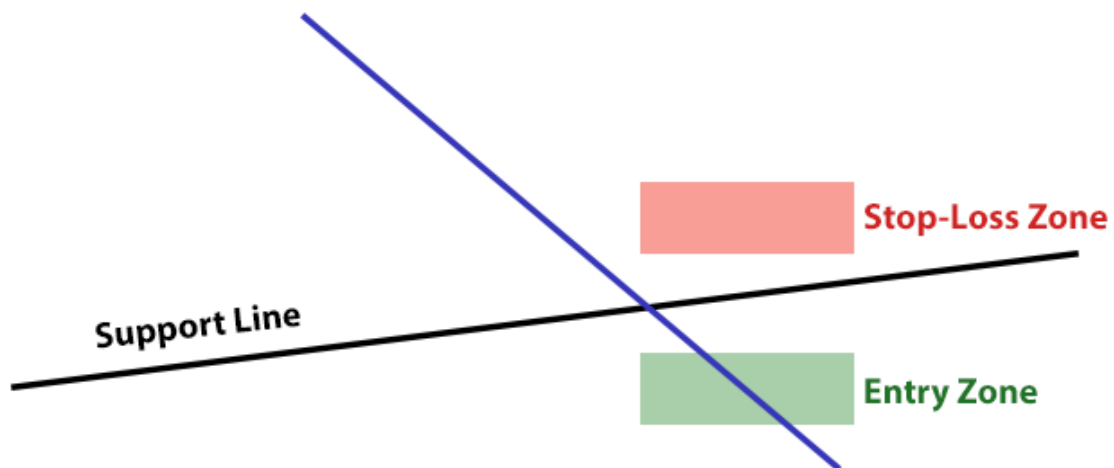


## Trading Support and Resistance Levels

### The Break

The polar opposite of the bounce is the break. This is when the currency pair breaks through the resistance lines that you drew and continues moving in the same direction. This could signal that the currency is finally ready to make a move that goes beyond the resistance lines that were previously drawn for it. That could be a big deal in the sense that it might mean that you need to rethink your entire strategy for how you will trade the pair moving forward. Are there more opportunities for the pair to continue to move in the direction that it is already headed? If you think that this breakthrough in the resistance is a legitimate thing, then it might be time to get on board now.

The break is another great reason to avoid putting a trade on right at the resistance point. Imagine if you put a sell order right on the resistance point expecting that the currency would hit off of the resistance line and immediately decline. If you did that, you might be very upset when it actually broke through resistance and continued even higher in a reversal of fortunes for you. Yet, this is exactly what can happen if you do not play your cards right. You should avoid the temptation to place your orders directly on the support and resistance points as it is unlikely that the pair will land specifically on those points each time.



Remember to double-check your work with the support and resistance lines by also looking at other indicators to see if there is solid confirmation of your assumptions about the market. You might be exactly right in your predictions about how the market is likely to move, but you need to ensure that this is the case by looking at other indicators to see if they are all pointed in the same direction as well. If they are, then it might be time to strike right now, and you should take the time to do so.

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The program is built on three pillars:


1. Simple, straightforward trading rules
2. No time restrictions
3. Fast, responsive service

SurgeTrader offers a simple funding model, where traders take an Audition with simple rules and no time restrictions. SurgeTrader exists to accelerate trader funding and help profitable traders with their biggest challenge: undercapitalization. We are not built to profit off of failed challenges like other firms. Our approach is long-term.

If you want to partner with a firm that has simple trading rules, incredible trader support and has your best interests at heart, SurgeTrader is the partner for you.

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