

Support and Resistance Levels A Brief Analysis

Support and resistance levels are key indicators when analyzing the demand for a security. Support can be used to predict where an increase in the demand for a security will take place. This process of analysis involves careful observation of certain price levels and the history of buyers' and sellers' reactions to each level.

If you look at a graph or a chart, you can see that there are always particular price levels where the selling pressure eases. It is actually quite common to see such a shift as the levels of price go up. Note that whenever such an event occurs, the level will generally preserve itself when price approaches it again. This type of market fluctuation is called "support". Why do we call it that? Well, we do so because the share or index price is considered to be "supported" at this given level.

Alternatively, there are times when the upward move of a share or index price begins to slow, and eventually stop. This is called "resistance". What does this mean for the market? Most people agree that when price approaches these levels, a reversal in trend may occur, although it is by no means guaranteed.

Typically only one of two things can happen when the market reaches a point of previously established support or resistance: it will either bounce off it, confirming the support or resistance; or break through it.

If a "breakout" does occur, it is quite common for the previous resistance to become the new level of support, and vice versa.

Gaining an understanding of this concept is crucial if you are going to make trading decisions. The market is complicated, so a solid analysis of these levels will certainly give you an advantage.

