Trading Ranges

Markets serve to establish value. When trading with a certain range, there is a general consensus about the value of a stock or commodity. Anything that breaks out of that range represents the potential for a need to re-price that particular asset.

This is how new trends are started. A trend exists when prices keep rising or falling over a certain period of time. If a break from the normal range returns to its regular status, it means that the market does not condone the re-pricing. If it doesn't return, then a new trend has begun and the new price is considered as valid by the market.

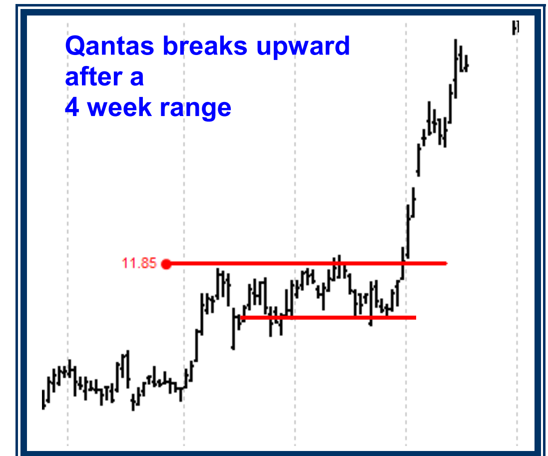
Keeping track of the movements and volume of such market fluctuations are very important for the trader, as our intention is to profit from changes in price. *Importantly, markets spend most of their time in trading ranges*.

A trading range can be defined as a horizontal channel where a security moves from the high and low of the channel over an extensive period of time. The upper level of the range is classified as the *resistance*. The lower level can be considered as *support*. It is possible to trade profitably within a range, but better opportunities often present themselves when a market breaks out of its range.

Typically, a breakout from a range will continue in the direction of the breakout. Of course, some breakouts are more aggressive than others. As a general principle, most traders accept that the longer the duration of the range, the greater the probability that the breakout will be stronger and more sustained.

Where a trading rang is brief (in time), the breakout should be considered less reliable – unless the breakout occurs in the direction of an established strong trend.

A wise trader considers placing "stops" either above or below the lines of support or resistance.



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