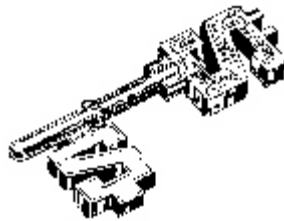


Resistance

A key to Success



Welcome to the next installment of the Commodity Doctor mini trading courses: Support and Resistance are foundational elements to diagnosing and understanding the works of any commodity market. When you understand their relationship to the markets and the dynamics they all play, you will see why some Commodity Traders are so successful. It is like a Physician studying the overall picture of a patient and deciding on a method of treatment. For us it may be whether to place a trade or a method of entering the market and where and when to leave with a profit. Consider all of the data as the market their vital signs.

Support

Index

Road Signs:	3
Gann Percentages:	3
Chart Example:	4
The Numbers:	5
Trading Rule:	6
Contact US:	6

Do Support and Resistance really work?

The Markets True Vital Signs:

Support and resistance are important indicators affecting chart patterns. Read on to see why. Should you consider support and resistance as indicators and meaningful markers in your planning of the trades? Unless you have a crystal ball and can tell definitely where the markets are going at any given time you don't need to use support and resistance. But if you do not have a crystal ball, then you might consider them as one of the most important markers or indicators affecting your trades and want to learn all you can on how to measure, calculate, and use them. When applying support and resistance, you can actually begin to predict general areas of market travel and many times very specific areas the market will go to or through. They will tell you how high a market may climb or fall and what levels or turning points to look for. Once you learn how to calculate them and with some paper trading practice you can predict what the markets may or may do. It is like reading the future in your charts before it happens. But what is support and resistance?

We have talked about it in other articles and I gave examples of them in my basic chart reading articles. **One definition of support is that:** Support will occur when an increase in demand for a commodity builds strength under a price. Like a floor. The opposite of **support is resistance:** An example of this is when the selling pressure of a commodity becomes so strong that the buyers are overmatched and continuation of the market prices upward move is halted.

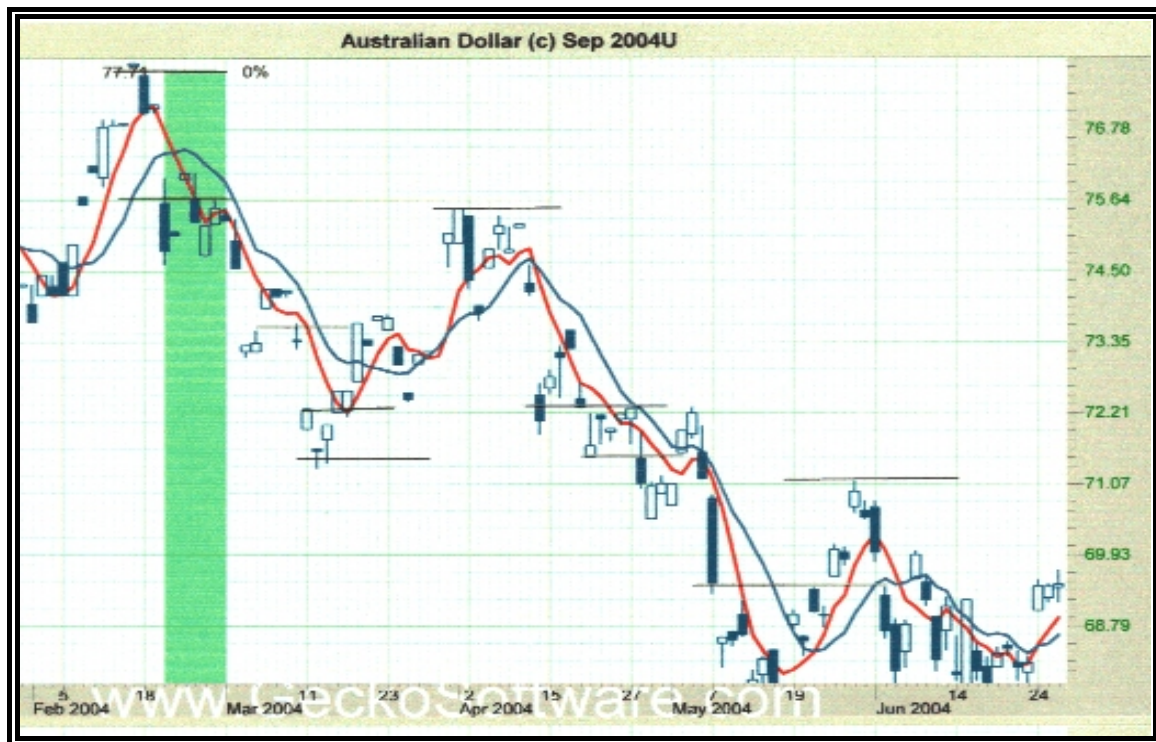
Gann and his magic numbers?

W. D. Gann a very famous trader of some years ago described many types of numbers that he calculated on a daily basis. He worked mainly with percentages based on the dollar and the number of months and weeks of the year. For this exercise we will use only the percentages based on the dollar. Some of his more popular numbers were: 6.25% 12.50% 18.75% 25% 33% 37.5% 50% 62.5% 75% 87.5% and 100% with variations and combinations of these numbers. He also wrote about the rule of 8, 9, 10 and even numbers. 20, 30, 40% etc. These last few were his whole number or round number formulas.

Fibonacci Numbers?

Another popular set of numbers are the Fibonacci percentages, these are also universal numbers that when used and applied to chart movements they can be very revealing. Commodity markets and for that matter Stocks move back and forth through these numbers with uncanny accuracy and frequency. Here are a small but a popular segment of Fibonacci percentage numbers: .236, .382, .50, .618: In the examples that I have chosen to illustrate for you is a recent trending market converting to a non trending market or what I describe as a ranging market. The market I have chosen is the Australian dollar.

Market Example Australian Dollar:



On Sept 2 2003 the Australian dollar makes a low of 61.31 **“Not Shown”** and begins an upward climb. “To the far left of the chart.” On February 18, 2004 the market makes a high of 77.65 and proceeds to decline over the course of the next few months to a bottom or low of 67.45 on May 17th 2004. These two extremes which I did not show on the chart because of my printing parameters and positioning of the sample chart. You can refer to a May 2004 Australian \$ chart to verify this move. The first climb took five months to make its ascent. And a 90-day time frame to make it back down to the bottom. Time is a market indicator you should be come aware of.

For this study we take the low of September 61.31 the position to the far left of the chart from a high of 77.65 February 18th 2004 for a total Range of 16.34 points. This is the range of the high and low. This number will then be multiplied by the different percentages of the Gann numbers I gave earlier which produces the resulting percentages to be considered as either support or resistance. These numbers will be subtracted from the high as the market moves to a lower position, and added to the low of a market heading up, and for the sake of the example only we will round the numbers up or down to the nearest 10th such as 75.17 will be 75.20 etc.

Now look at the chart example and locate the support numbers as we move down. Locate these percentages on your chart. These support / resistance numbers can be used as target objectives or strategies, or buy and sell points or protective stop loss placements etc. It will take your personal touch to refine and define the points. You will see that the market passes through, stops at or pivots on these percentages. And virtually any market can be calculated and projected in this manner. The foreign currencies as well as many other markets and stocks lend themselves to the 10% rule which W. D. Gann often wrote about.

The Numbers:

- 0) Top level = 77.65
- 1) 12.5% level = 75.70
- 2) 25% level = 73.60
- 3) 33% level = 72.30
- 4) 37.5 level = 71.50
- 5) 50% level = 69.00
- 6) 62.5 level = 67.00 Base support
- 7) 66% level = not reached
- 8) 75% level = not reached
- 9) 87.5 level = not reached
- 10) 100 level = not reached

Now considering what you have learned here in this very short exercise, is there a reason you should not take a few minutes to plot your support and resistance for the market you are planning to trade. This same high / Low subtraction or addition is used with virtually all chart calculations. These calculations may make all the difference between a winning and losing trade.

In our trading manual: **Commodity Trading Workbook** the necessary forms for your calculations and paper trading are part of the package plus many others.

Back to our study. In this example you see when the market moves back up it comes in contact with previous resistance calculated from the markets earlier movements and either stops or is turned in the opposite direction. You use the same calculation methods over and over, from range to range. The difference is whether you apply your percentage point to the low of the market or subtract them from the high of the market. These same percentage numbers will be good over and over or until the market makes a new high or low. Each individual swing will also have its own set of percentage calculations for use and consideration. You can also recalculate these changing percentages within smaller ranges or cycles.

If the market stays in a ranging pattern, you can draw upper and lower trend line limits which looks like channels and swing trade the market. These markets can become very profitable when you learn to pre plan your moves and you can learn to preplan by paper trading. You can add trend lines, candlestick patterns, and other technical analysis tools then you have built a complete trading system that is all yours and it did not take a \$2000.00 piece of soft ware, or a \$2,400.00 workshop to learn. You can do most of these calculations with your straight edge, a hand-held calculator and a pencil, or a colored pen. I use RED for short positions and Green or Blue for long positions. Not all markets will lend themselves to perfect trend lines. But they do follow support and resistance.

Try this same chart exercise with the Fibonacci numbers. This market example gapped a number of times, so drawing trend lines would be difficult. By using another tool the 5 day 10 and 20 day moving average would have given you a reasonable signal for buy and sell points if you chose to trade this market.

There is no indicator that will tell you when the market is going to change direction especially with a market that is gapping. A good knowledge of the candle stick patterns will help in some respects. Gaps are covered in our trading manual: **The commodity Trading Workbook**: Some indicators will give you a good feel of when the market will change and you simply need to work with them for a while. Look over our free article about the DMI system and put several of these indicators together and see what happens. But do not mix so many together that you become disorganized or confused about their function, if that happens you forget to look closely at key aspects of a market and then you make the wrong decision.

Specific Rule:

Price always moves slower at the lower levels of a market and faster as the market gets higher.

- 1. Does support and resistance really work?**
- 2. Is it worth your time to calculate these levels?**
- 3. With practice do you believe you can tell where the market is going?**
- 4. Would you like to learn more?**
- 5. Our Commodity Trading Workbook comes with a six-month guarantee!**

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Contact us: jmasoncompany@yahoo.com

Please send questions to the e-mail address listed above

Or during business hours of 8:30 am to 4:30 p.m. at (903) 372-6549