CHART CODE

DECODE THE MARKET CODE

Deepak Kevadia

Founder & Chief Mentor, Chart Code

BSE & NISM Certified

chartcode.in

Support & Resistance — Masterclass

Support and resistance are the two most important lines on any chart. Master them, and every other tool — patterns, indicators, candles — becomes far more powerful.

1. Introduction — Why Support & Resistance Is the Foundation

If you learn only one concept in technical analysis, it should be support and resistance. Nearly every other tool you will ever use — chart patterns, candlestick signals, moving averages, Fibonacci levels — ultimately works because it helps you identify or confirm a support or resistance zone.

At its core, support and resistance is simply a map of where large numbers of buyers and sellers have shown up before, and are therefore likely to show up again. Price does not move in a straight line — it moves from one zone of interest to the next, pausing, reversing, or breaking through at each one.

KEY	Support and resistance are not exact prices — they are zones. Markets are driven by human decisions and large institutional orders that rarely execute at one single tick. Always think in terms of a small price band, not one precise number.

In this masterclass, you will learn how to identify genuine support and resistance, how to judge the strength of a level, how levels flip roles after being broken, and three practical strategies for trading around them.

2. What Are Support and Resistance?

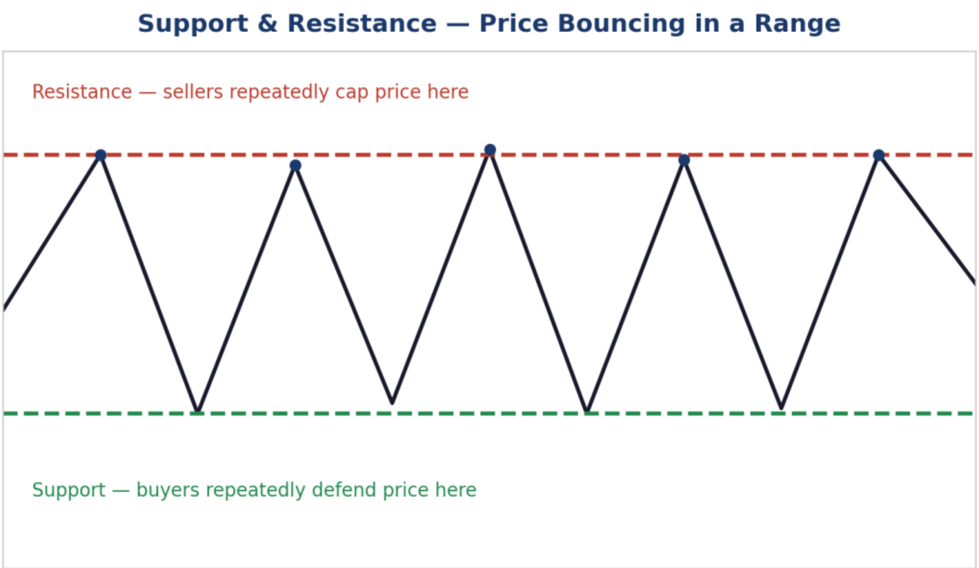

Fig 2.1 — Price repeatedly bouncing between a resistance zone above and a support zone below.

2.1 Support

Support is a price zone where falling prices tend to pause or reverse higher, because demand (buyers) becomes strong enough to absorb the available supply (sellers). Think of it as a floor beneath the price.

2.2 Resistance

Resistance is a price zone where rising prices tend to pause or reverse lower, because supply (sellers, including profit-booking from earlier buyers) becomes strong enough to overwhelm demand. Think of it as a ceiling above the price.

> **Real-Life Analogy**
> Picture the Boisar railway station platform at rush hour. As a train approaches, a crowd (sellers) is already waiting to get off at that exact spot — that's resistance. Meanwhile, down at the ticket counter, another crowd (buyers) is waiting because tickets are priced attractively there — that's support. Prices behave the same way: crowds of orders cluster at specific levels for specific reasons.

3. How to Identify Strong Levels

Not every wiggle on a chart is a meaningful support or resistance level. Use these three tests to separate genuine levels from noise:

1. Number of touches: A level that price has respected two, three, or more times is far more significant than a level touched only once. Each touch adds more traders who now have that price level marked on their chart.
2. Volume at the level: A level formed on high volume (a busy trading day, a big reversal candle) carries more weight than one formed on a quiet, low-volume day.
3. Time spent at the level: A level where price consolidated for several sessions is generally stronger than a level that was only touched briefly by a single wick.

TIP	Older support and resistance levels do not disappear — they simply fade in importance over time as fresher levels take precedence. A strong level from two years ago can still matter, but a strong level from last week usually matters more.

4. Role Reversal — The Most Powerful Concept in This Chapter

One of the most reliable and widely used principles in trading is this: once a support or resistance level is broken with conviction, it tends to switch roles. Old resistance, once broken, tends to become the new support. Old support, once broken, tends to become the new resistance.

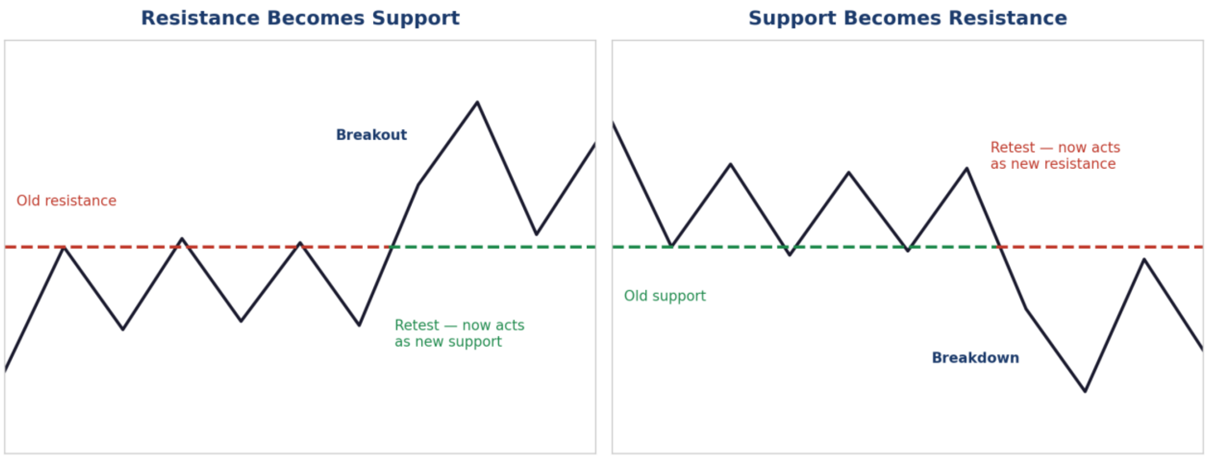

Fig 4.1 — Role reversal: broken resistance becomes support, and broken support becomes resistance.

The logic is simple. Anyone who was watching that resistance level and missed buying the breakout is now waiting to buy on a dip back to that same price — creating fresh demand exactly where the old ceiling used to be. The same principle works in reverse for broken support.

> **Concrete Example**
> Suppose Nifty has struggled to close above 24,800 for three months — a clear resistance zone. It finally breaks out and closes at 24,950 on strong volume. Over the following days, Nifty dips back to retest 24,800 — but instead of falling through, buyers step in exactly there, and Nifty bounces higher again. The old resistance has become the new support.

5. Types of Support & Resistance

Support and resistance is not limited to flat horizontal lines. It shows up in several different forms, and recognising all of them dramatically expands what you can see on a chart.

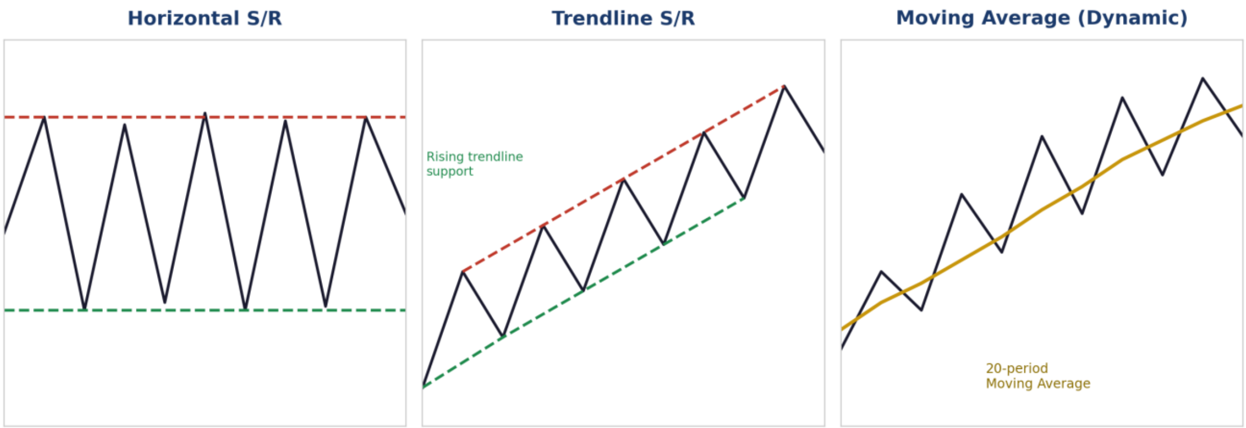

Fig 5.1 — Three common forms of support and resistance: horizontal, trendline, and moving-average based.

5.1 Horizontal Support & Resistance

The most basic and most reliable form — a flat price zone where price has reversed multiple times in the past, drawn as a horizontal line across prior swing highs or swing lows.

5.2 Trendline Support & Resistance

A diagonal line connecting a series of rising lows (an uptrend's support line) or falling highs (a downtrend's resistance line). As long as price keeps respecting this sloped line, the trend is considered intact.

5.3 Psychological / Round-Number Levels

Large round numbers — Nifty 25,000, a stock at ₹100 or ₹1,000 — attract a disproportionate number of buy and sell orders simply because human beings gravitate toward round figures when placing orders. These levels often act as support or resistance even without any prior price history there.

5.4 Moving Average as Dynamic Support & Resistance

Unlike horizontal or trendline levels, a moving average (commonly the 20, 50, or 200-period) is a dynamic level that moves with price. In a strong trend, price will frequently pull back to touch the moving average and then continue in the trend's direction, making the moving average act as a constantly shifting support or resistance line.

KEY	The 50-day and 200-day moving averages carry special significance in Indian and global markets because so many institutional traders track them. A stock repeatedly bouncing off its 200-day moving average is not a coincidence — it is large pools of capital reacting to the same widely watched level.

6. Trading Strategies Around Support & Resistance

6.1 The Bounce Trade

The simplest approach: buy near support (expecting a bounce higher) or sell/short near resistance (expecting a bounce lower). This works best inside a clearly defined, range-bound market.

4. Entry: Near the support or resistance zone, ideally with a confirming candlestick signal (such as a Hammer at support or a Shooting Star at resistance).
5. Stop-loss: Just beyond the support or resistance zone — if price truly breaks through, the bounce thesis is wrong.
6. Target: The opposite end of the range (resistance, if you bought at support; support, if you sold at resistance).

6.2 The Breakout Trade

Instead of expecting a bounce, this strategy expects the level to fail decisively — buying when resistance breaks upward, or selling when support breaks downward, anticipating a strong continuation move.

7. Entry: On a candle closing beyond the level, ideally on a clear pickup in volume.
8. Stop-loss: Back inside the old range, below the broken resistance (or above the broken support).
9. Target: Use the measured-move technique — project the height of the prior range from the breakout point.

6.3 The Retest Entry — Often the Highest-Probability Approach

Rather than chasing the breakout candle itself, many experienced traders wait for price to pull back and retest the broken level (using the role-reversal principle from Section 4) before entering. This often produces a tighter stop-loss and a higher-probability entry than buying the initial breakout.

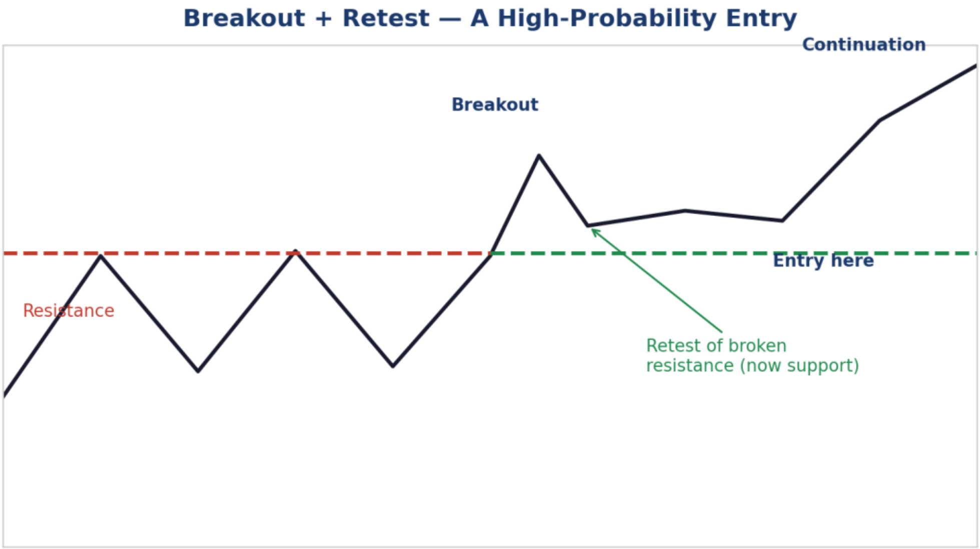

Fig 6.1 — Waiting for the retest of a broken resistance level, rather than chasing the initial breakout.

> **Real-Life Analogy**
> Chasing a breakout candle is like jumping onto a moving train just as the doors are closing — possible, but risky. Waiting for the retest is like waiting calmly on the platform for the train to loop back and stop right in front of you before you board.

7. Common Mistakes Traders Make with Support & Resistance

- Drawing lines too precisely: Treating support or resistance as one exact price instead of a zone, then being confused when price reverses a little above or below the 'line.'
- Ignoring the bigger timeframe: Focusing only on a 5-minute chart and missing a major weekly support or resistance zone that dominates the stock's behaviour.
- Trading every touch: Assuming a level will hold every single time, without adjusting when a level is tested repeatedly and clearly weakening.
- Ignoring volume on the break: Treating a low-volume break of support or resistance the same as a high-volume, high-conviction break.
- Forgetting role reversal: Continuing to treat a broken resistance level as resistance, instead of recognising it has now flipped to support (and vice versa).

CAUTION	The more times a support or resistance level is tested without breaking, the more traders assume it will hold again — but in reality, each additional test slightly weakens the level, because it uses up some of the buying or selling interest stacked at that price. A level tested five times is not automatically 'five times stronger' than a level tested once.

8. Quick Reference — Support & Resistance Toolkit

Concept	What It Is	How to Use It
Horizontal S/R	Flat zone from repeated prior highs/lows	Bounce or breakout trades at a fixed price zone
Trendline S/R	Diagonal line across rising lows or falling highs	Gauge whether an existing trend is still intact
Round Numbers	Large psychological price levels	Anticipate added order flow near big round figures
Moving Average	Dynamic, moving support/resistance line	Buy/sell pullbacks to the average within a trend
Role Reversal	Broken level flips from support to resistance or vice versa	Plan retest entries after a confirmed breakout

9. Chapter Summary

Here is everything you learned in this masterclass in one concise recap:

- Support is a floor where buyers tend to step in; resistance is a ceiling where sellers tend to step in — both are zones, not exact prices.
- A level's strength depends on the number of touches, the volume behind it, and the time price spent there.
- Role reversal is the single most powerful concept here: broken resistance tends to become new support, and broken support tends to become new resistance.
- Support and resistance appears in several forms: horizontal levels, trendlines, psychological round numbers, and dynamic moving averages.
- Three core strategies exist: the bounce trade (inside a range), the breakout trade (on a decisive break), and the retest entry (waiting for a pullback after the break).
- Repeated tests of a level slowly weaken it — do not assume a level is safe just because it has held several times before.

Chart Code — Decode the market code
chartcode.in