

«Why inclined support and resistance lines work better on indicators»

Some authors say fairly that during the high volatility trend lines don't work (i.e. inclined support and resistance lines) on charts. To be more precise they are corrupted by a price not having time to be formed. That is why in most cases it's difficult to structure data graphically with inclined support and resistance lines and most likely any forecast will be incorrect.

In my work I rest on inclined trend lines on indicators as more secure prognostic method. Besides I notice that they could be used for the majority of known kinds of incoming price data processing, i.e. for those that we usually open in new window. Also I exclude from considering moving average lines and various envelopes, channels and enveloping lines on their base. In addition, this is my expert judgment, I didn't estimate the accuracy of my reasoning statistically and mathematically.

So, why inclined lines work better on indicators? Most likely, it is matter of changes of values of indicators. More often they present the change of indicators in the form of the oscillating process from 0 to 100 (for example, stochastics, RSI) or from 0 to some value with gradual decay (ADX, ATR) or from the negative field to the field of positive values and back with zero line (MACD, CCI) or they oscillate having the value 100 (Momentum). In a word, it is an oscillating reaction on the price movement in physics terms. Not without reason the majority of them are called oscillators.

Once reached the boundary values of mentioned indicators by definition their reaction become slower, die down and doesn't react on episodic price movements which usually destroy the visual line on the main graphic. However, if the signals of incoming data vector change are stable, the indicator reacts objectively distinct pointing on the turn even if we want the feast to be continued. We have positions according to the trend, don't we?

Also if abrupt repeating movement of numerical value of the instrument to the same direction takes place, any indicator intermits and stretch horizontally crossing the trend lines and this fact signalizes coming situation change. The price could continue its directional movement as if nothing had happened but we receive at least a good signal to reducing of positions size. For well-timed position closure it is important to me to define exactly the price turns with directional price movement and also on the other hand, it is important not to react on possible price noise

for staying longer in a profitable deal. For this purpose we draw the inclined support and resistance lines on indicators because it offers an opportunity: firstly, not to react on occasional abrupt price movements staying in position and secondly, to exit from a deal gradually fixing the profit and reducing a risk when volatile market movements take place that is very dangerous because of its unpredictability.

19.01.11 *bvt*