

Support and resistance are memory, not physics

SUPPORT AND RESISTANCE

Support and resistance are price areas where transactions previously clustered and where traders therefore expect orders to sit again. A level holds when resting orders at that price absorb the flow arriving into it. Nothing about the number itself resists anything - the level works to the extent that enough participants remember it and act there, which is also why the most-watched levels are the most reliable and the most crowded.

Draw a horizontal line where price turned twice. Price comes back a third time and turns again. It is the most persuasive thing a beginner sees on a chart, and the explanation usually offered for it is wrong.

How the level is drawn

Support is an area beneath price where declines have previously stopped. Resistance is an area above where advances have. Both are areas rather than lines - a level at 1.2840 means roughly there, not to the pip.

Conventionally you mark them from swing highs and lows, and a level touched more times is treated as more significant. Learn the convention, because it is what another trader means when they reference a level.

What actually stops price

Orders. Only ever orders.

Price falls into an area. Sitting in the book at those prices are resting bids: traders who wanted in cheaper, traders who sold higher and are covering, and stop orders from anyone short. Arriving sell flow gets absorbed by that resting interest and the decline stops.

The level did not do that. The orders did. And the orders are there because participants remember what happened at that price and placed them accordingly.

Why this distinction is the whole module

If a level worked because of a property of the number, it would work regardless of who was watching. It does not. It works in proportion to how many participants are watching it and acting on it.

Which explains things the physics story cannot. Round numbers hold more often than nearby non-round ones, because humans place orders at round numbers. Levels visible on a daily chart matter more than ones visible only on a five-minute chart, because more participants see the daily. Levels stop working when the crowd watching them moves on.

Nothing here is mystical, and none of it requires the market to have a memory. The participants have the memory. The chart is where you read it.

The uncomfortable half

A level everyone can see is a level where everyone's stops are. Module 4's lesson on stop placement made this point from the risk side; here it is from the analysis side.

Clustered stops are liquidity. Price reaching into them and reversing is not the market hunting you personally - it is flow finding the orders that were resting there. The most obvious level on the chart is obvious to everyone, and that is a reason to expect activity around it, not a reason to expect it to hold.

What to do with it

Treat a level as a place where something is more likely to happen, not as a prediction of which thing. Then attach the level that says you were wrong, because that is the standard from lesson one.

Check your understanding

1. Why do round numbers act as levels more often than nearby non-round prices?

- a. Round numbers have mathematical properties that affect price
- b. Humans place orders at round numbers, so resting interest concentrates there
- c. Brokers set their spreads around round numbers

Answer: b. The number does nothing. Participants place orders at memorable prices, and the concentration of orders is what absorbs flow. It is the clearest demonstration that levels are a fact about people, not about arithmetic.

2. A level is visible on the daily chart. Why would traders commonly treat it as more significant than one visible only on the five-minute?

- a. Daily data is more accurate
- b. More participants see it, so more orders are placed around it
- c. Longer timeframes are less affected by the spread

Answer: b. Significance follows attention. A level matters in proportion to how many participants are watching and acting on it, which is why the most-watched levels are both the most reliable and the most crowded.