

## Using Pivot Levels

*Utilizing pivot areas along with your analysis can strengthen support and resistance*

Not too many books will discuss the use of pivot levels, mostly the topic being covered as being calculated mathematically through the use of daily highs and lows. However, there is an alternative way of looking at pivot levels which, albeit subjective, can provide excellent trading opportunities.

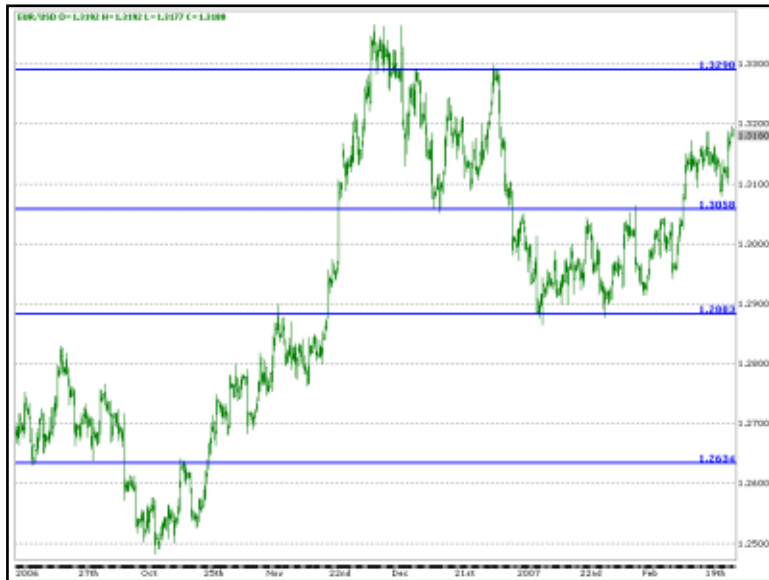
Many years ago the concept of using prior support and resistance levels as pivotal areas became clearer to me after a discussion with a trader who had scant interest in technical analysis. I had just gone through the usual daily analysis and provided my report to the traders. For a moment I chatted within one trader who declared that he agreed with one of my resistance levels.

Now being dedicated to technical analysis I was rather intrigued how a trader who didn't pay any real attention to technicals could agree with a resistance level so I asked him how he arrived at that level also. His reply opened up an explanation to me on why these techniques often provide good trading opportunities.

His response was that when he was trading the same currency several weeks before he kept using this level as support and made profits on several occasions until price finally dipped below that support. He concluded that it would provide the same effect on the way up again.

Effectively, what he was describing was traders' memories, these being determined by the emotions of having made or lost money. Thus pivot levels represent represent emotions, the fundamental basis of technical analysis.

So how will these look?



It is quiet clear that in this 4-hour chart of the Euro against the US Dollar that price has been moving in each direction in steps, stalling in the general area of the previous major support or resistance.

For example, the Euro rallied from the bottom left of the chart to bounce from the same level as the prior two troughs. Very simply this represents the basic theory that support remains as support until broken and once broken will provide resistance (and vice versa.)

Following the breach of the two prior lows price rallied and sees a correction. We cannot determine

from this chart whether this was at a previous support level. However, the rally continues quite sharply and then corrects lower.

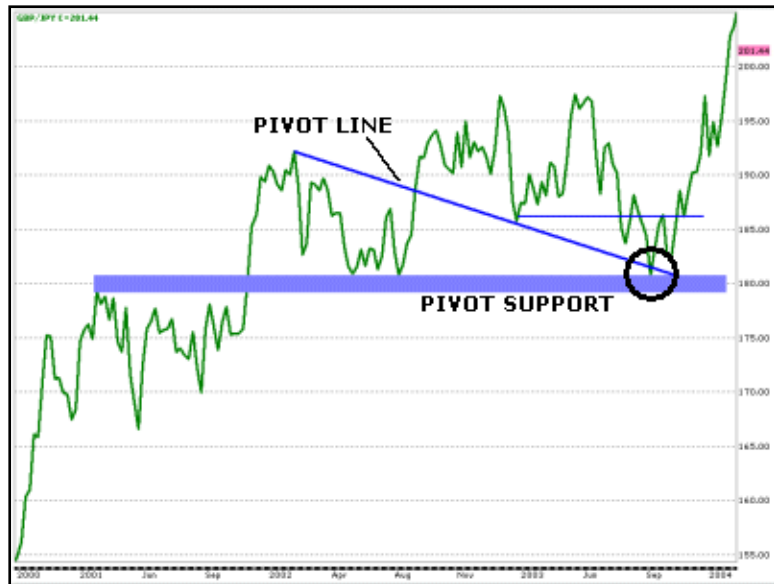
It then retraces back to a previous resistance level following which it reverses lower once again, breaking the previous corrective low and stalls in the area of the first price peak in the rally. In the subsequent rally it initially bounces from the first trough on the way down.

It will be useful to have these levels match with overbought/oversold levels in momentum studies and hopefully, in shorter time-frame charts, to displays bullish or bearish divergences at these pivot levels. If this occurs it provides a stronger signal for a bounce.

At times it is possible to use pivot levels and pivot lines. The latter occur when price oscillates around a line that is not horizontal but more like a trend line only there is no trend:

This is the daily chart of the British Pound against the Japanese Yen. Note how the price point ringed in black occurred when testing both a pivot support area and a pivot line support. These can be particularly effective in cross markets when used with charts constructed by a line on close.

Thus, do take note of these pivot levels as when compared with Fibonacci retracements or projections they can provide you with excellent trading opportunities.



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