

Bloomberg Definitions

SUPPORT - The price level which, historically, a **stock has had difficulty falling below**. It is thought of as the level at which a lot of buyers tend to enter the stock.

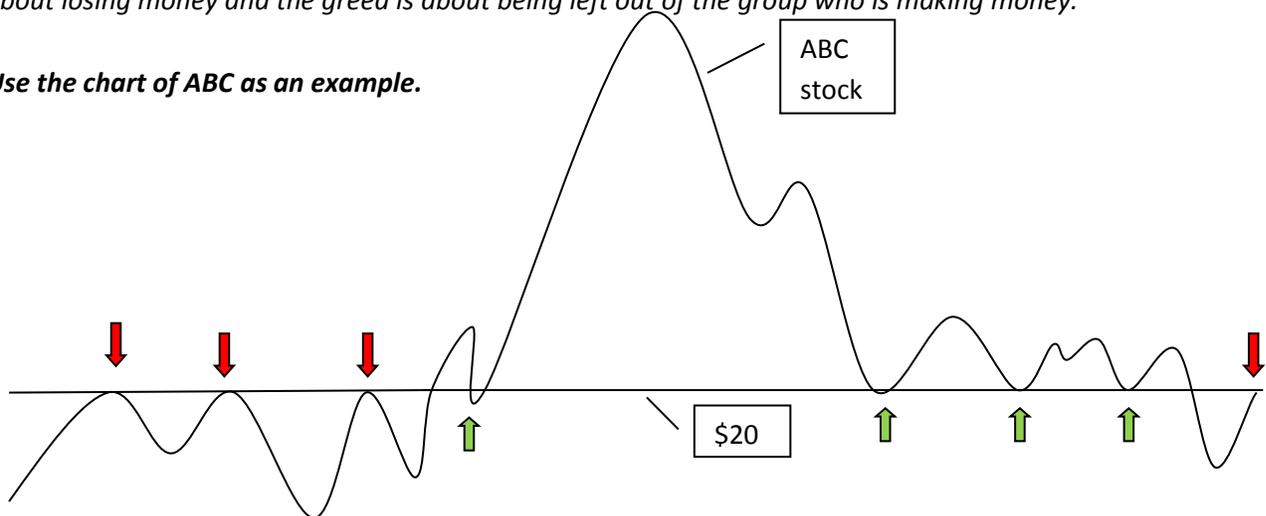
RESISTANCE - The price level where a security is expected to receive sell orders, it is the **upper boundary** of the trading range.

BREAKOUT or BREAKDOWN - A **price movement through an identified level of support (breakdown) or resistance (breakout)**, which is usually followed by heavy volume and increased volatility. Traders will buy the underlying asset when the price breaks above a level of resistance and sell when it breaks below support.

TPA explanation

Support and Resistance are the building blocks of all technical analysis. It is about BREAKING EVEN. Traders are human beings and human beings are ruled by fear and greed. In this instance, the fear is about losing money and the greed is about being left out of the group who is making money.

Use the chart of ABC as an example.



Example: At the beginning many investors who own ABC and have a cost of \$20 are sellers every time ABC gets close to \$20 (resistance). They just want to get out even. Now, ABC finally trades above \$20 (breakout). At first the sellers just back off, but soon they are back again – still wanting to just breakeven. The difference is that now some other investors have noticed that ABC has finally moved higher. These investors begin to worry that they have missed the opportunity to buy at \$20 so they put in their orders to buy at \$20, hoping for a sell off. The selloff occurs, but now all the buyers are at \$20 to support the stock. The rally occurs as sellers realize that ABC is not going below \$20. They former sellers now turn into buyers; remorseful that they were so dumb to ever sell at \$20. ABC rallies until it finally gets overdone and returns to \$20 months or years later. Those who sold at \$20 have been waiting for their chance to get in. They buy each time the stock gets back to \$20 (support), until ABC breaks the \$20 level (breakdown) and they kick themselves for buying and begin to wait once again for \$20 to sell so they can breakeven (resistance). The cycle begins again. Thinking in terms of breaking even simplifies the psychology behind support and resistance.