

Relative Strength Index (RSI)

Bloomberg Definition:

The Relative Strength Index (RSI), developed by J. Welles Wilder, **measures the velocity of a security's price movement to identify overbought and oversold conditions.** Use RSI to recognize potential turning points to help make entry/exit decisions. RSI values are calculated from either closing prices or yields.

TPA Explanation

*RSI is used to find out if a stock, index, commodity, etc... is extended. (TPA will use "stock" for this explanation although RSI can be used for anything). Extremes are achieved when a stock has moved quickly up or down. **It is the speed combined with amount of the move that creates the RSI value.** RSI values of TPA would add a wrinkle to this variable. There are stocks for which RSI is a valid signal and stock for which RSI is not a valid signal. Some stocks can stay overbought on an RSI basis for a very long time. **Investors should look at the history of each stock to determine if RSI can be used as a high probability signal and what values of RSI have been good signals.***