A Basic Guide to
RBI Support and Resistance Trading

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The RBI Updates are used by day traders for the most part. These traders range from professionals with their own various strategies to new traders, most of whom have bounced around from one web site to another looking for anything that works.

No matter where you are in your development as a trader, you have found the best possible place for learning or developing a trading strategy that will work in all market conditions.

Accurate support and resistance (S/R) should be the foundation of any trading strategy, simply because it is the one and only thing that doesn't stop working from one year to the next.

All liquid markets have "S/R" zones built into them by the emotional component of the traders who get themselves into losing positions and want out near break-even as soon as possible. This never changes.

If you do not have a trading strategy that allows you to ***at least*** break even, then I would encourage you to study this manual and learn more about the strategy I use. **This method has allowed me to earn a living over the last 25 years**.

Obviously a trading class in "real time" is the ideal way to learn a particular trading strategy. Some types of knowledge can be better learned with the advantage of live visual and audio support that only a "real time" class can provide. But if you will ***read and use the rules I'm going to list for you now, your bottom line results should improve dramatically.***

Ok, first the hard-to-swallow stuff…

To succeed in this business you need to forget the search for a simple "system" or a group of rules that can be followed in a mechanical or mindless way. Believe me now, or spend a fortune on simple tricks… and then believe me later.

There are no quick simple ways to succeed in any business, least of all trading. It takes knowledge, persistence, discipline, and tons of experience.

You need the ***knowledge*** of an ***experienced*** professional who trades for a living to shorten your learning curve and to keep you from spending years sifting through the hundreds of trading strategies that make money only for the ones who's selling them.

You need ***persistence*** to stick with the learning process long enough to gain the critical mass of experience you're going to need to turn the corner and start making money on a consistent basis.

You need ***discipline*** to wait for high-probability entries. And you need even more discipline to exit bad trades as soon as the edge is gone (and before your hard stops are hit).

You need a great deal of ***experience*** to trade for a living. Over time you will develop a "feel" for the market action that only time and experience can give you.

I was a catcher for many years, and after a lot of years "behind home plate" I could usually tell when a runner was going to try to steal before it was possible to know. That may sound odd, but it's a feeling you get based on years of experience. I've felt it, as I'm sure some of you have had those experiences as well in aspects of your own lives and careers.

Experienced traders have knowledge that goes beyond their chart patterns, formulas and written explanations. I call it a sixth sense. It gives the professional traders an edge that can only be gained by experience.

A great trading plan, written out and followed intelligently and consistently, will help you gain the necessary trading experience more quickly than most other traders…but it's not going to make you a professional overnight. Nothing will.

If you accept these facts, ***I can help you***... probably more than anyone you'll meet in this business.

For now, I'm going to assume that you're a trader who's not completely satisfied with their current strategy, who is looking for improvement in some aspect of their trading.

The first thing you need to do is to become willing to forget any of the common trading rules you've learned. The strategies in most books and web sites tend to teach certain habits that I consider self-destructive (ie: letting your hard stops get you out of bad trades).

Here are the basic principles of my trading strategy. (For "live" and more in depth training, register for my next RBI Trading Camp…or if you just don't have the time to spend the week with me in Trading Camp, the next best thing is my course**,** "Read the Greed-LIVE!".)

I use my RBI Trader's Updates, RBI support and resistance, and the unique trading principles listed below, some of which will sound dead wrong to most traders, ***but that's why they work.***

Mike's Trading Principles:

1. ***Whenever you enter a trade, it must begin to go your way immediately*** (within or 3 minutes at the most), or else you get out immediately -- as close to break-even as possible, often with either a 1 - 2 tick gain, or a 1 - 2 tick loss.

Study this and practice it, learning to recognize when a trade loses its edge before it moves too much against you. I'd have to trade with you in real time to show you exactly how I do it. There's a sense of rhythm you'll need to develop. One of my proprietary chart setups is very helpful here, too.

2. ***Every trade starts out as a scalp until proven otherwise.***

A scalp is a trade that is allowed to lose only 1 or 2 ticks at the most. ***In a scalp trade, you grab any gain as soon as the momentum going your direction falters, and/or as soon as the edge for that trade looks like it's gone.***

In an acceptable trade, this quick gain is usually between 2 ticks and 1.50 SP futures points. But when the momentum hits at the right time, it may easily reach a gain of 4 points or more. The point is you don't know the potential gain before you're in a trade, and you don't want to pretend that you know. When you think the setup "has to" go your way, it becomes impossible to follow rule number one which is get out when it doesn't go your way immediately.

The market's behavior during the trade tells you how and when to exit, with either a gain, a break-even or a small loss… don't hesitate or second guess yourself.

I don't compare the size of my hard stops to the size of my profit targets because the target is not set before the trade, and the hard stop is not going to come into play unless disaster strikes…which it seldom does if you've disciplined yourself to follow rule number one (ie: Get out of a trade that doesn't go your way immediately).

All the stuff you've read that compares the hard stop size to the profit target size is probably going to keep you trading like 90% of the traders out there... which isn't sufficient enough to make a living.

The 90% of traders have a simple logic about this… "If your target is 2 points and your stop is 2 points, then you only need to win about 55-60% of the time to make a profit."

But there's a sneaky assumption behind this. It assumes that you will find an entry strategy that hits a fixed target a lot more often than it hits your fixed stops. And this strategy has to perform this way for the rest of your trading career. ***But, the odds are against it,*** especially if your fixed target is greater than or equal to your fixed stops size.

I trade a hand full of entry setups that are very high probability setups, and as good as anyone is ever going to find. But I don't expect them to make me a good living with mechanical stops and fixed targets.

You can **sell** a system or strategy with fixed stops and targets, and I bet you could probably make a living for years **selling** the system to new traders who are looking for a quick easy trading method. But in my 25 + years of trading, I've **never** seen anyone make a good living from actually **trading** this kind of system.

To get your gain: loss percentage into the 80's (where it should be) and to keep it there, you have to ***focus on timing your exits as well as your entries… Especially your exits from bad trades***.

Have you heard that from anyone else?

You've probably heard that successful traders have a gain: loss ratio of 20 to 35%. ***This is only half true***. The true part is that it can be done. The "half" part is telling traders with less than a few million dollars that they can trade this way successfully. To trade this style, you've got to have deep pockets (and a truckload of antacids) to ride out 10 to 15 stop-out losses ***in a row***… not just once, but many, many times over the years.

3. ***Always place a fixed hard stop in the market the moment you enter a position.***

I currently use a 2.25 SP point fixed stop, which I periodically adjust to match the volatility. But, ***the hard stop is for disaster protection only.*** (Exit on the "soft stop" principles of rules number 1 and 2.)

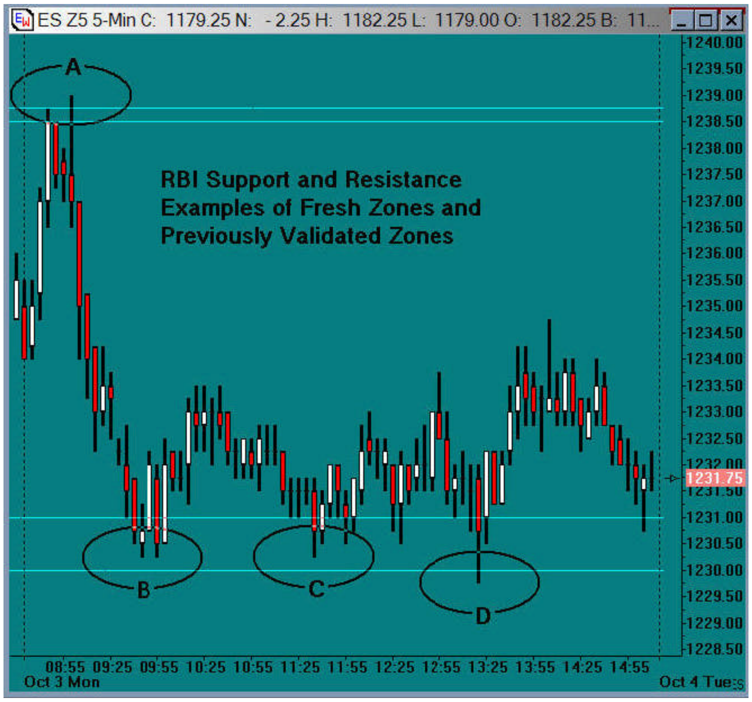
4. ***Focus on your exits more than you do on your entries.*** Exits protect you from loss, and lock in earnings. ***Exits are more important than entries***, though you'll need a specific type of well-timed entries to follow rules 1 and 2. (I teach the details of these entries in my e-book, "Read the Greed-Take the Money", in my course "Read the Greed-LIVE!" and in my week long RBI Trading Camp)

5. ***Base your trading strategy on support and resistance (*** S/R ***).*** I give my fixed S/R zones in my RBI Trader's Updates each night.

The strongest support and resistance zones for the next day are identified in ***the last 2 paragraphs*** of my nightly RBI Updates. These 2 paragraphs are my overall trading plan for the following day.

Aside from that consideration… fresh RBI S/R zones (that haven't been touched earlier in the day), or ones that have been validated earlier in the day by turning the market away, are the strongest. An RBI support or resistance zone is **not** invalidated by a one or two tick move beyond it.

The examples in the chart below show of the strength of fresh and validated RBI S/R zones. (please scroll down to see chart)



In the 5 minute SP futures chart above, two of the RBI fixed S/R zones are shown by the light blue horizontal lines. First the market is turned away from the top of the fresh resistance zone (left side of circle A), allowing a possible short scalp of about one point. This validates that zone and makes it stronger.

In the center of the circle at A, the market pops one tick above the resistance zone, but this does not invalidate it. The market is rejected quickly from that zone and drops to one of the RBI support zones, giving a trader the opportunity to short up to 8 SP futures points. At point B in the same chart the market is turned up twice from the fresh support zone, offering one or two long trades of about 1 to 2 points.

The last paragraph of the RBI Update, written the night before, said:

"…a move to the 1231.00-1230.00 (SP) and 1605-1603 (Nasdaq) areas would be next. If the market is going to continue to be strong, then those areas should hold."

At C, the previously validated support zone turns the market up again for another possible gain of a point or two. At point D, the market breaks one tick below the validated support zone (not canceling the zone) and turns up for a long trade of about 4 points.

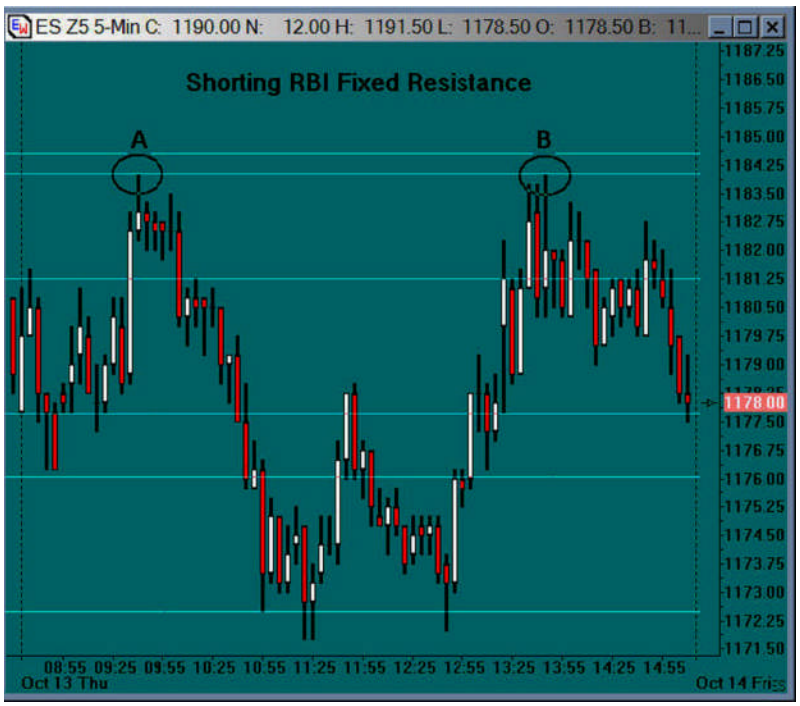
It is essential to learn to time these types of entries with the emotional extremes. (I have a proprietary way of doing this that I illustrate in my e-book, "Read the Greed-Take the Money", during "live" trades in my course "Read the Greed-LIVE!", and in my week long RBI Trading Camp.

When the market reaches an RBI S/R area and stalls at emotional exhaustion, this is an excellent place to enter against the direction of the market because there will usually be a tradable pullback from the zone (tradable **if** you follow my exiting rules).

Below is a chart to better illustrate my point.

The 5 minute ES chart below shows RBI fixed S/R zones as horizontal light blue lines. (These RBI S/R zones were sent to the subscribers of our RBI Trader's Updates the night before.)

The chart shows several examples of the tradable accuracy of the RBI fixed S/R zones. We'll focus on just one of them…



At the center of the circle below letter A in the chart above there is a quick turn down from fixed RBI resistance. When there is an emotional extreme (registered on a proprietary chart not shown here) at approximately the same time, it is possible to short near Point A with a very tight soft stop (as described in rule 1 above) and a hard stop just above the resistance zone. This is a trade that requires the ability to exit quickly the instant the edge is gone, (if it doesn't go your way immediately).

Later in the day at B the market again reaches the same RBI fixed resistance zone. This is a very high probability setup and easy to short because:

1. It comes at a double top, a strong chart pattern setup. (I don't use oscillators on these double tops.)

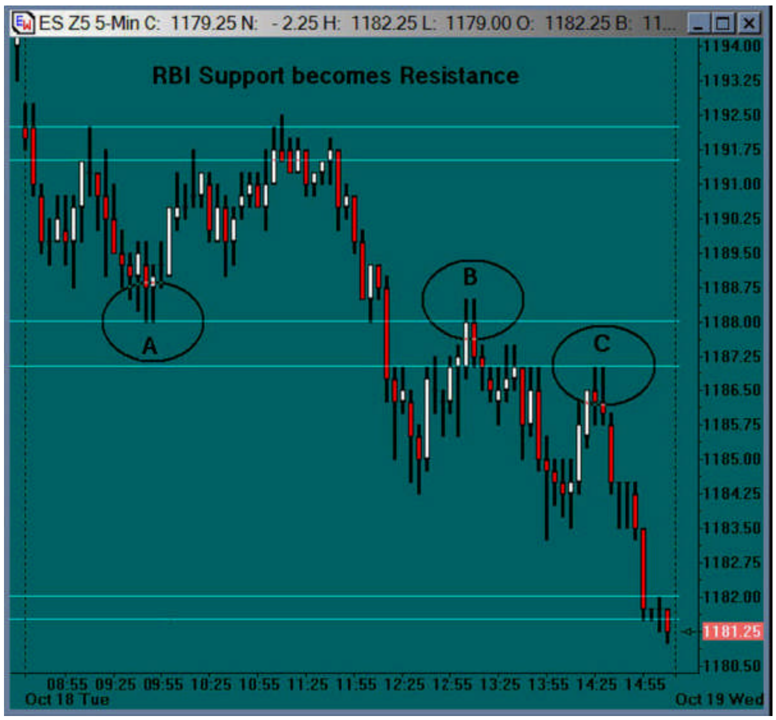
2. The fixed RBI resistance zone has been validated at point A. There are break-out traders with good staying power (i.e. deep pockets) who have been trapped all day in

long positions near this level and they desperately want out at break-even. When they exit long positions, the supply increases and the market tends to fall.

3. The second peak of the double top is a stall at RBI resistance.

A stall is a place where the market reaches the same level on several bars, reversing each time. A stall usually takes 5-10 minutes. I also look at the 2 minute chart to identify stalls.

The horizontal blue lines on the chart below are RBI fixed support and resistance zones for 10-18-05. This chart shows that old RBI support, once broken, often turns into new resistance, and vise versa.



On Monday evening, October 17th, I told subscribers to my [RBI Trader's Updates]():

"The initial support is at the 1192.50-1191.50 area on the SP futures and the 1553-1552 area on the Nasdaq futures. If those can not hold, then another trip towards the 1188.00-1187.00 and 1547-1546 areas is in the works."

At 12:30 pm Eastern on Tuesday, October 18th (with the SP futures at 1191) I sent an Intraday Update that said:

"The 1188-1187 area is turning into "must hold" support. If that area can not hold this afternoon, then a sharp retracement is in the cards."

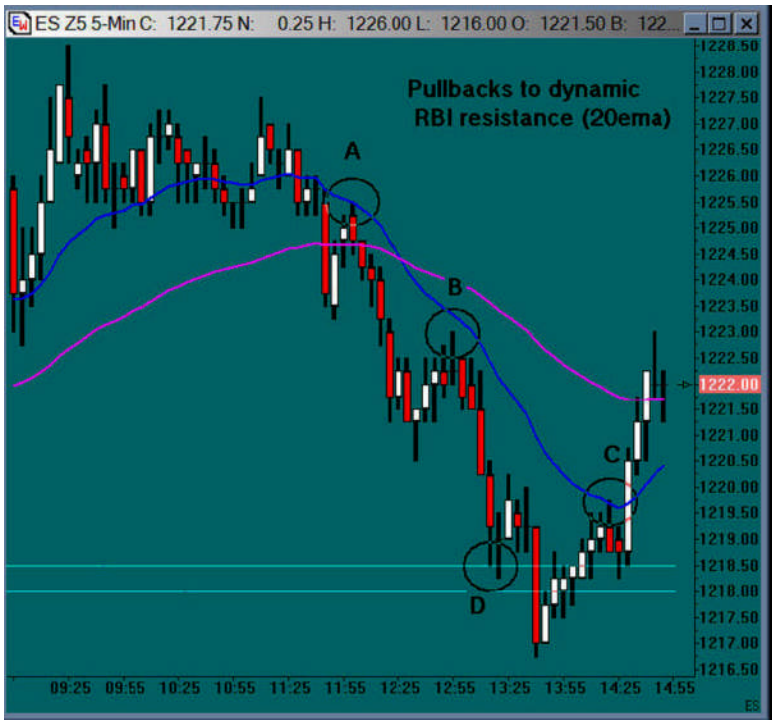
This support zone had been validated at point A on the 5 min SP futures chart above. The market broke down through that zone to 1184.25, and then bounced up to point B. At point B**, the zone that had been support now acted as resistance**, as the market fell from stall at 1188.50. After another drop, the market pulled back up to the bottom of the same zone and was again rejected at 1187.00 (point C). A short there, covering at the close [1181] offered about a 6 point profit.

6. The RBI dynamic support and resistance levels are key moving averages that only become s/r levels when their slopes are steep (during trends).

These include the 20 ema (blue line below) and the 60 ema (lavender line below) on the 5 minute SP futures chart. I also use key dynamic support and resistance moving averages on 2 and 13 minute charts.

During a trend where the market begins to respect these moving averages, trade them as you would any fixed RBI S/R level… looking for emotional exhaustion on a pullback to the key moving averages… Then enter in the direction of the trend.

Here's a chart example:



At the center of the circle beneath letter "A," the market tips its hand by bouncing down off the 20 ema (on the 5 min SP futures chart above). At point B, there is reason to anticipate another pullback to the 20 ema. I would short this area when the bullish traders reach emotional exhaustion.

Then, if the market goes my way (down) within the first minute or two, I trail my stop and exit the position in thirds, closing the entire position at RBI fixed support (point D).

Then I wait to short the next pullback to the 20 ema in the center of the circle below letter C. I would get short there, take a small quick gain if my timing was just right, or get out as close to break even as possible, most likely with a 2-tick gain.

8***. Don't chase the market on entries. Enter a trade on a pullback, not on a breakout***. If you miss a big move, that's OK. I have only one setup where I break this rule. I call it the cigar pattern. (I discuss this pattern in detail in my e-book, "Read the Greed-Take the Money", in my "live" CD-ROM course "Read the Greed-LIVE!" , and I also teach it at my week long RBI Trading Camp.)

9. ***Always wait for high-probability entries.*** Don't focus on the big moves that show up later on the chart. The size of the move is almost impossible to predict until it happens. But the edge you get by following a set of high-probability setups is dependable.

Sometimes a high probability setup gives you a big move, sometimes a small gain or a smaller loss. ***Don't focus on hitting home runs (big point gains). Your goal is consistency.***

I aim for a lot of gains of all sizes, plenty of break-even trades and a relatively small number of small losses. I rarely allow the market to hit my disaster stops (currently 2.25 SP points).

I strive for a gain/loss ratio of 75 - 85 % with my average loss smaller than my average gain…and lots of break-even trades.

10. ***Use RBI support and resistance to protect your hard stops and your soft stops whenever possible.***

Soft stops are the flexible exits near break-even, used on failing trades. They are not fixed (or mechanical) like the hard stops I place automatically the instant I enter every trade.

11. ***Use a specific set of defined entry setups.*** Use them strictly, consistently and without fear. Never use anything else.

Once your entry setups are defined, don't fiddle with them to make them better. Instead, focus and work on making your exits better.

I have a group of chart-pattern entries that I use in conjunction with RBI fixed support and resistance, emotional extremes (registered on a proprietary chart setup), and the RBI dynamic support and resistance. My entry setups are unique in the fact that ***they allow you to follow the most important rules in trading:***

1***. When you enter a trade, it must go your way immediately or you get out.***

2. ***Every trade starts out as a scalp until proven otherwise.***

I teach all of my entry setups during my week-long RBI Trading Camp**,** and I also show chart examples of all my setups in my trading e-book, "Read the Greed-Take the Money", and "live" entries in my CD-ROM course, "Read the Greed-LIVE!".

12***. If you are not an experienced trader, you should consider simulation trading until you are able to break even (after commissions) on a consistent basis.*** The vast majority (about 90% +) of people who attempt to trade for a living lose most of the money in their accounts and give up. This is about the same percentage of failure you hear about in any business, but in the trading business you have a huge advantage…

You can practice trading in real time without losing any money!

I don't know of any other business with this enormous advantage. The only issue I have with simulation trading is that it doesn't help with the mental side of trading real money. It can be great practice however for many new traders.

Once you are able to do well in simulated trading, your odds greatly improve for success when trading with real money.

If you trade simulation without strict discipline though, it can be the worst possible thing for your trading career. Because if you practice mistakes… impulsive entries and exits that you wouldn't want to do with real money… you will develop bad habits so ingrained that you'll never be able to get rid of them. The worst habit is making impulsive entries.

Only perfect practice makes perfect.

If you let your discipline slide and you trade simulation without following your written trading plan very strictly, that's a recipe for disaster.

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I believe these guidelines will get you headed in the right direction.

"Defense" is not only the best offense in this business,
it is the only offense that works.

This means that your entries can be just about perfect, but you will lose money in the long run if your ***exits*** aren't just as good, or better than your entries.

I hope to "meet" you at my next RBI Trading Camp!

Get my e-book, "Read the Greed-Take the Money", it illustrates detailed chart examples of my entry setups, complete with my proprietary chart setup for timing your entries and exits with emotional extremes. My CD-ROM course, "Read the Greed-LIVE!" is my e-book ***coming to life*** with "live" examples of how a 25 year trading veteran manages trades.

Good Trading,
Mike Reed