



MMTA Course One – Cycles and Chart Patterns in Financial Markets



Support and Resistance

Module Lesson Four



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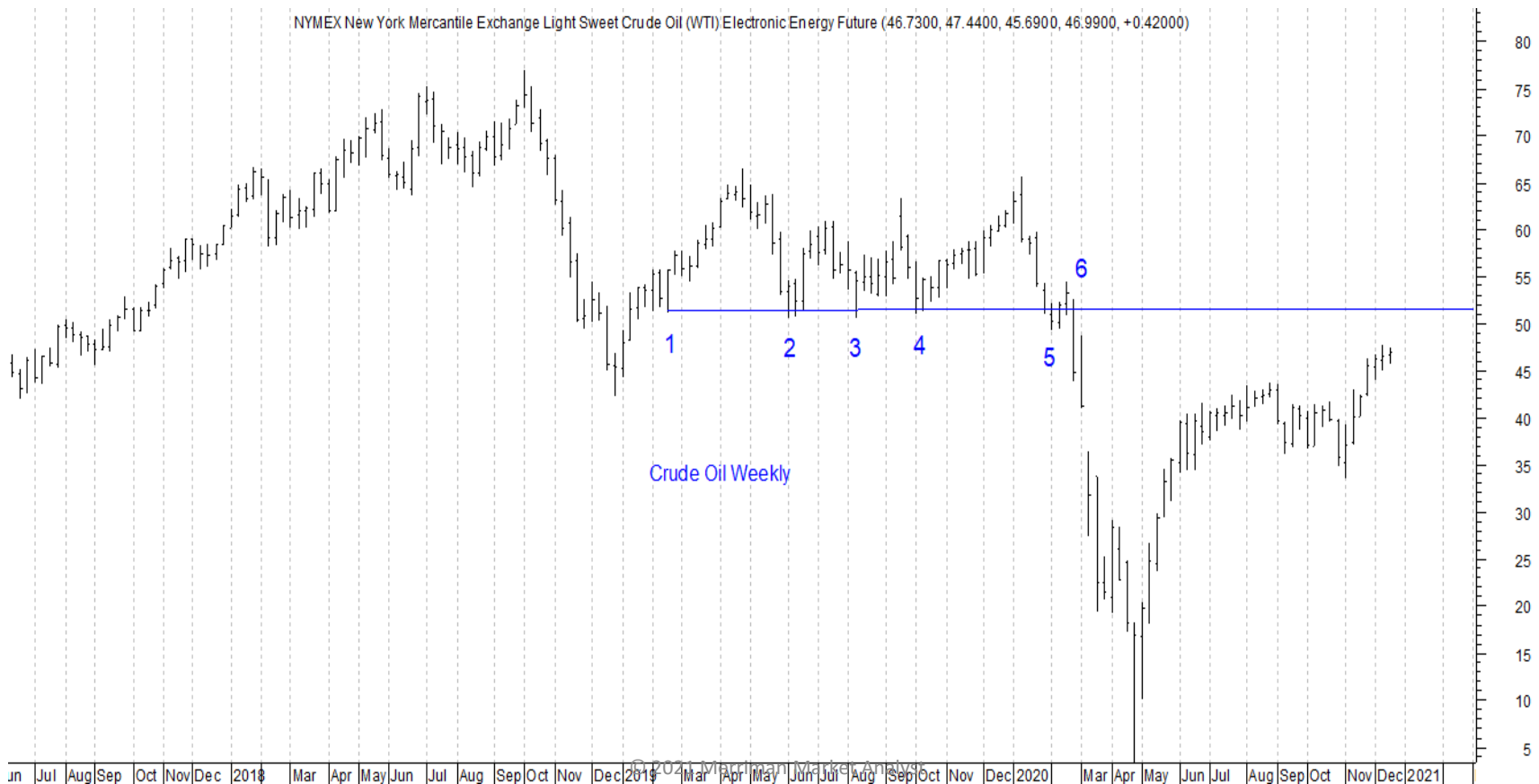
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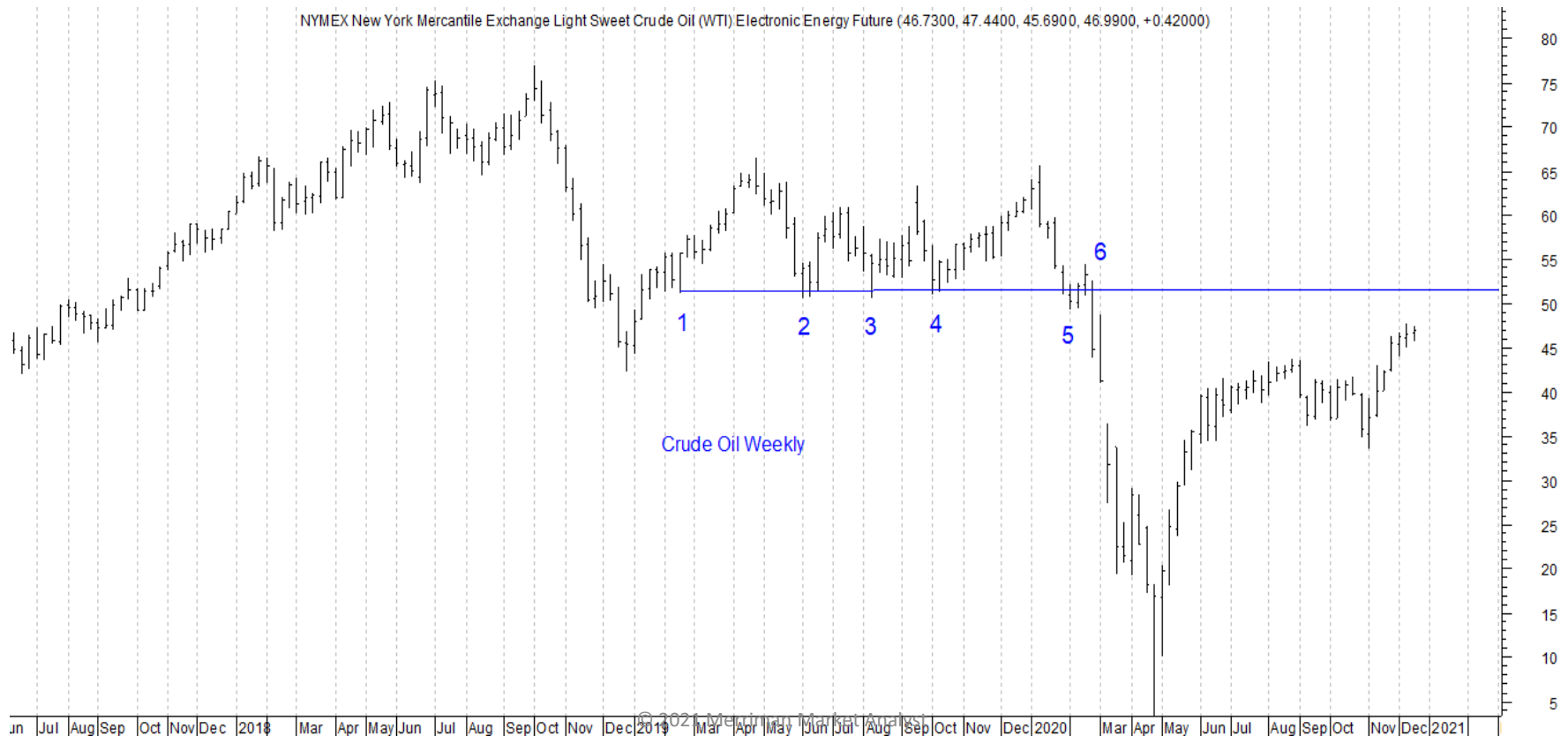
Support Zones

Support refers to a floor, or a low in price, that markets may fall to and then start to rally.



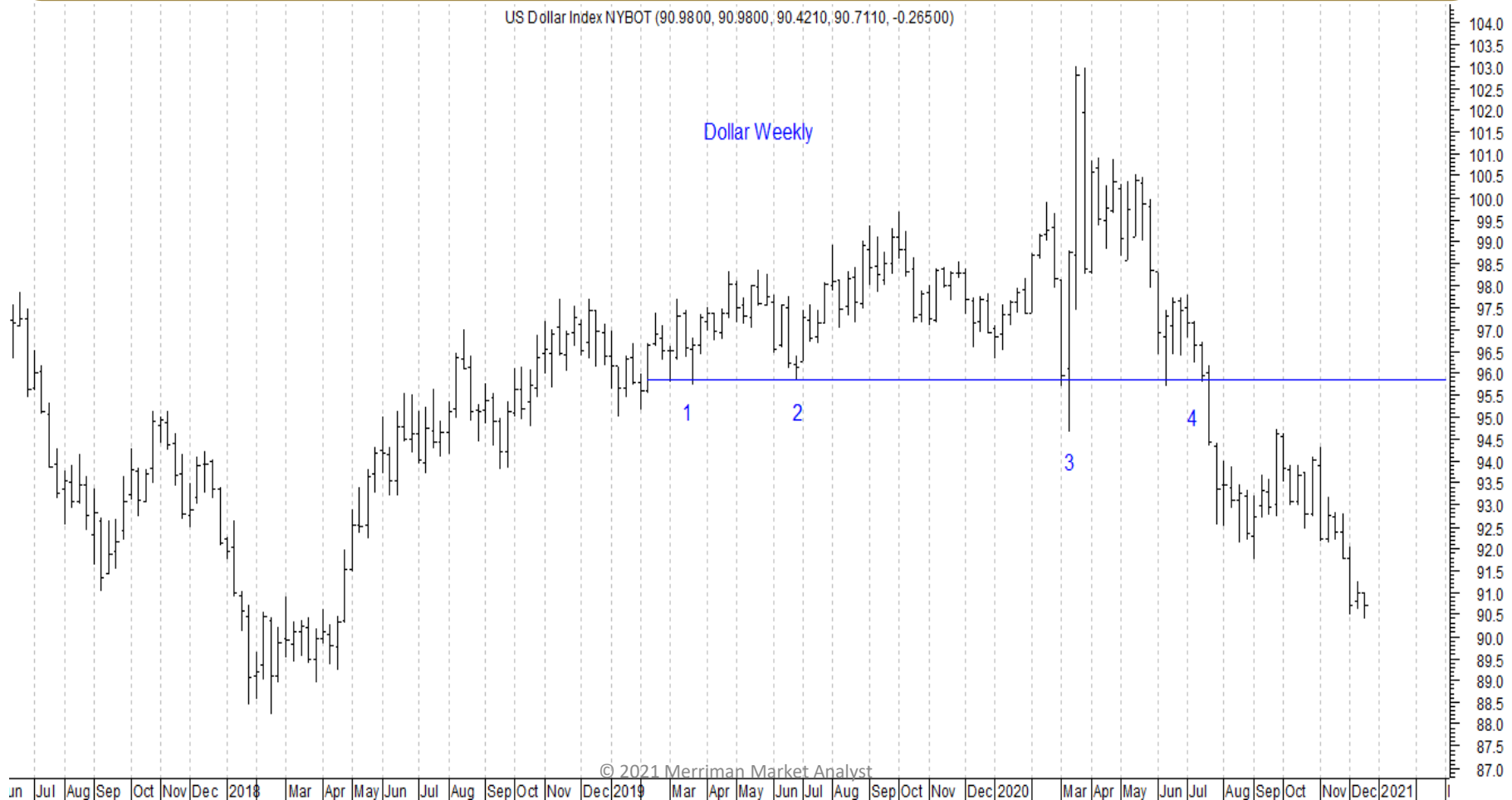
Support Zones

Support zones may be defined by a prior price low that the market made from which rallies began.



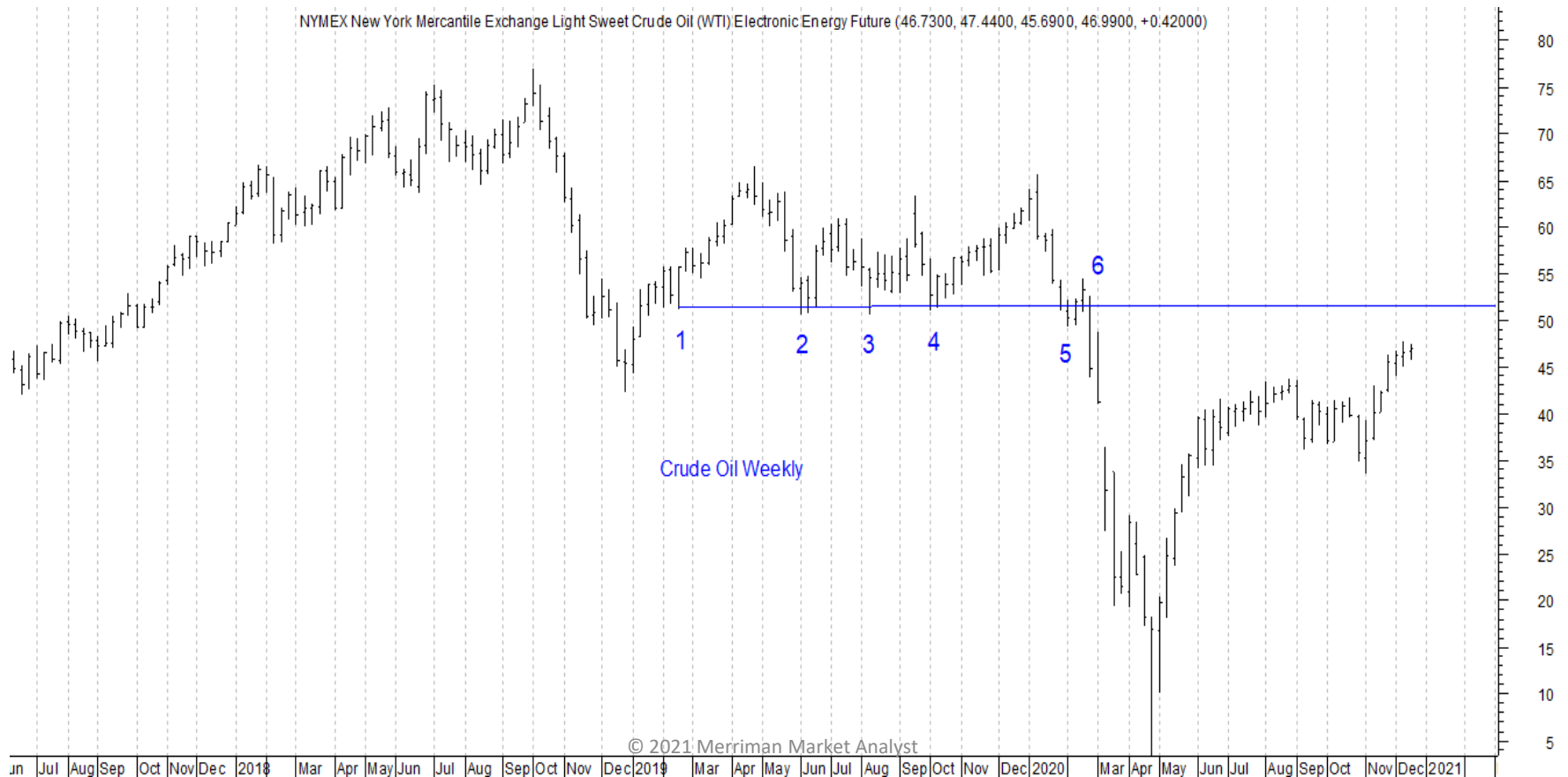
Downside Breakouts

Once the market falls below a double or triple bottom, it is known as a “downside breakout.” Usually a market will escalate its downside momentum.



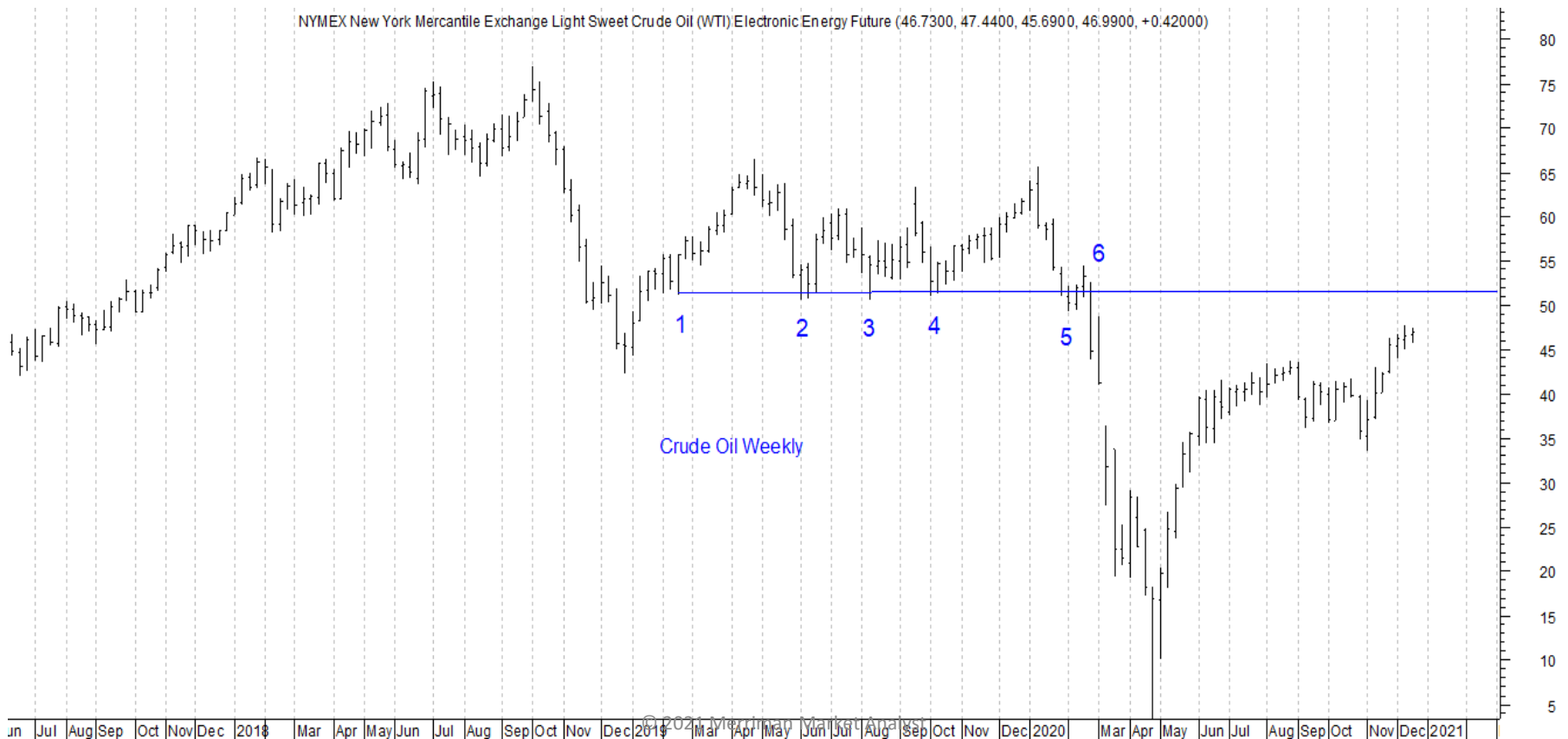
Downside Fake Outs

When a market temporarily trades below support, and then comes back above it and starts a new rally, it is known as a downside “fake out.”



Downside Fake Outs

In this chart, the Crude Oil made a downside “fake out” at 5, but finally made a downside “breakout” the second time that 1-5 support was broken in early-2020.



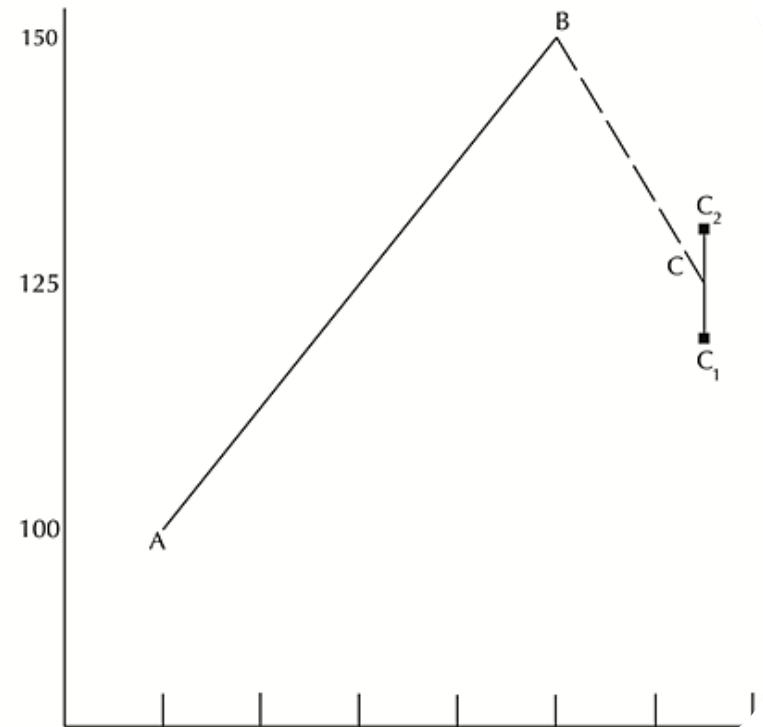
“50% Corrective Rule” – Bull Market Support

In a Bullish Cycle:

Prices will rally from its trough to crest, often followed by a decline of about 50% of the move up.

The decline is known as a **corrective decline**.

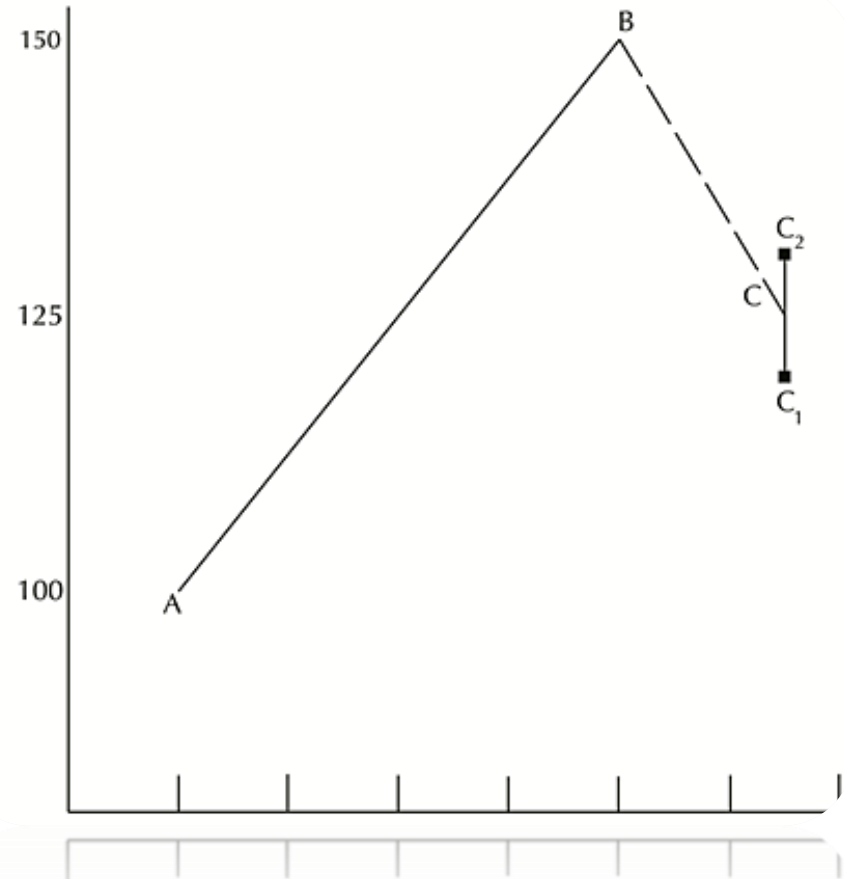
It marks the midpoint of a price target range for the trough of this cycle.



Fibonacci Corrections

In most cases, a corrective decline will be in a range of **38.2-61.8%** correction of the rally in price that preceded it.

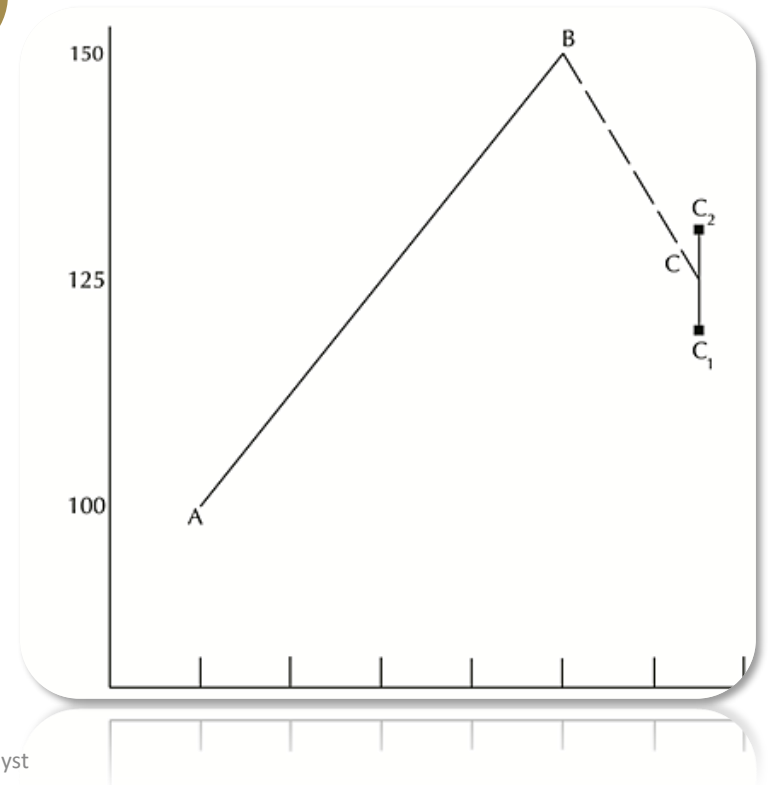
This is also known as the **support zone** for a market that is in a bullish cycle.



Formula for a 50% Corrective Decline in a Bullish Cycle

$$(A + B) / 2 = 50\% \text{ retracement}$$

In this example:



Formula to Determine the Fibonacci Range of the Decline

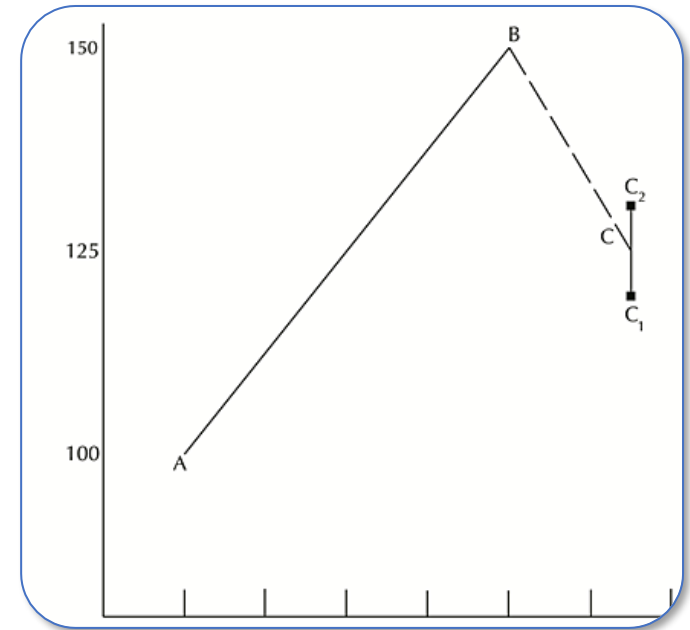
$$(B-A) \times .118$$

In this example, would be:

$$(150-100) \times .118 \quad \text{or} \\ 50 \times .118 = 5.90$$

Add and subtract:

5.90 to the 50% mark of 125.



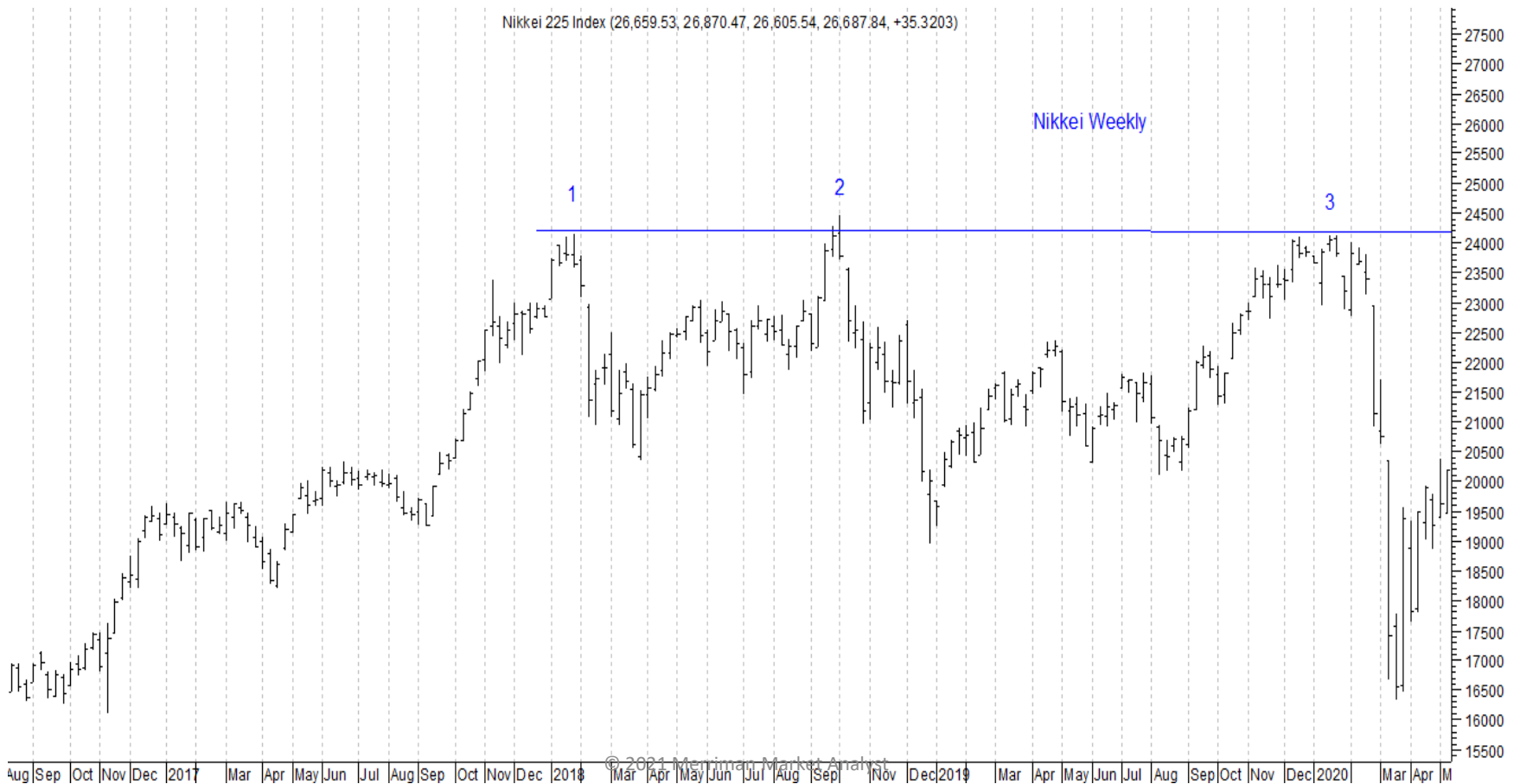
$$125 + 5.90$$

$$125 - 5.90$$

Thus, price target for the support zone = **119.10-130.90**

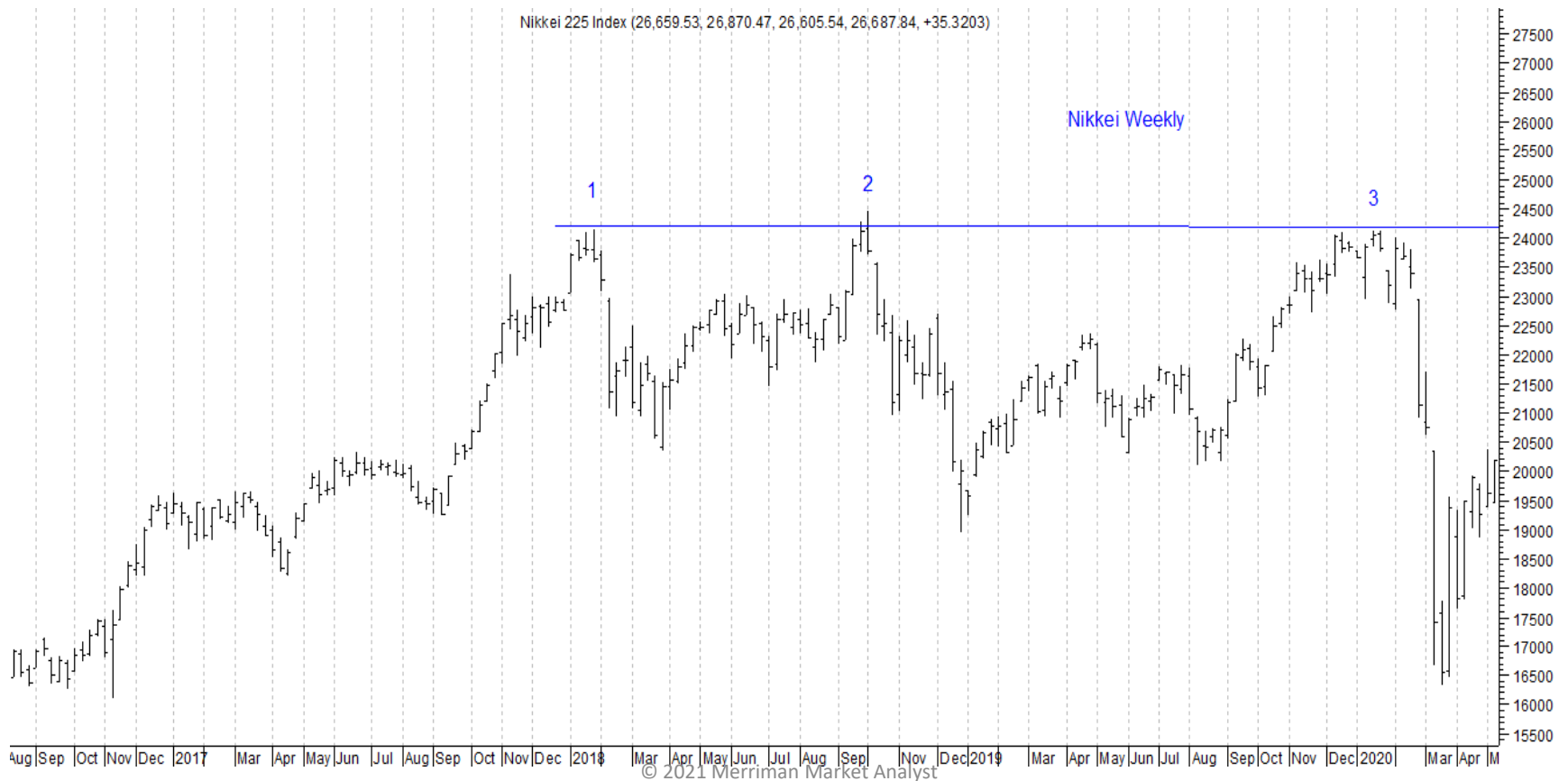
Resistance Zones

Resistance refers to a ceiling, or a high in price, that markets may rise to and then start to decline.

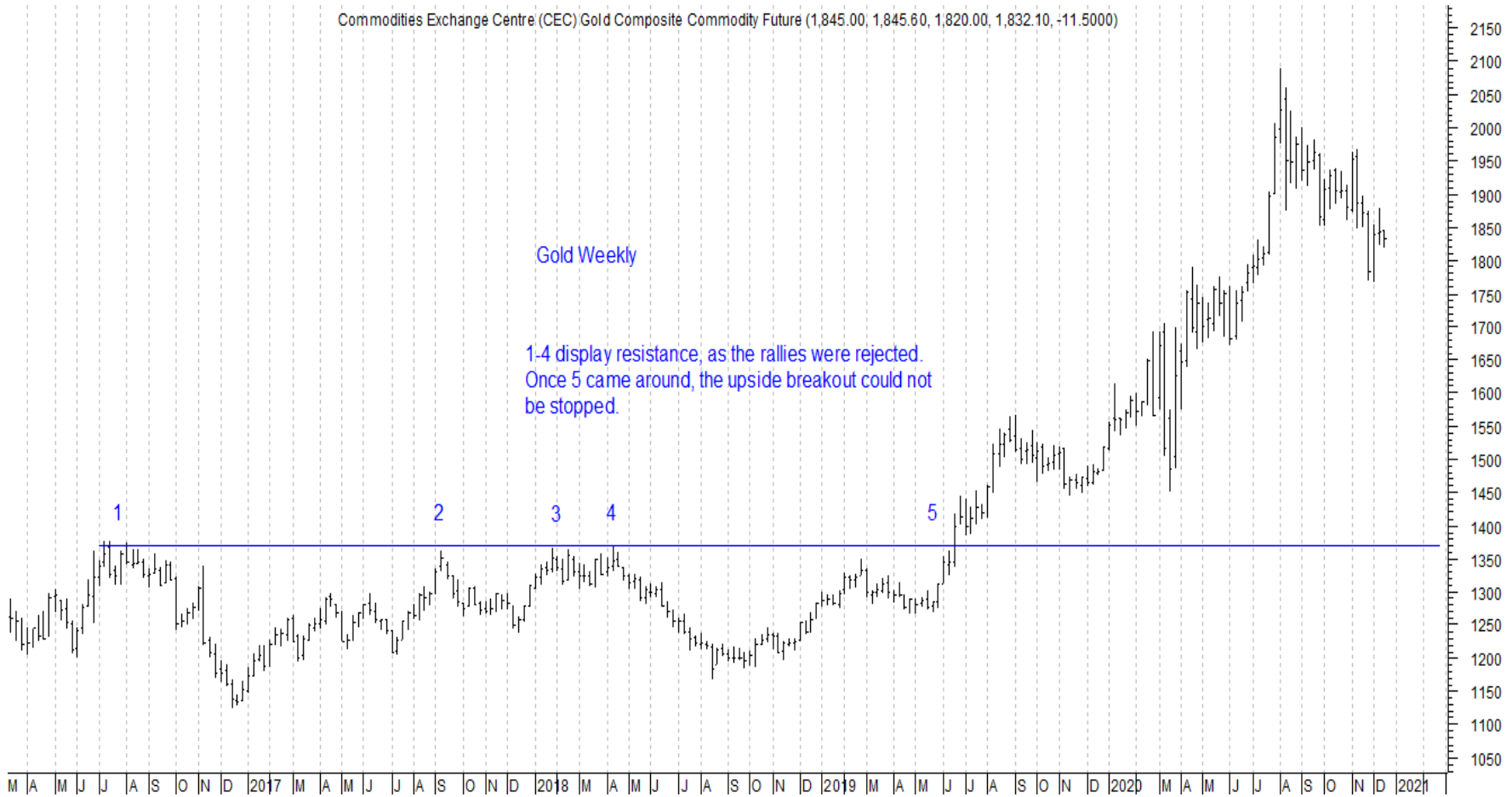


Resistance Zones

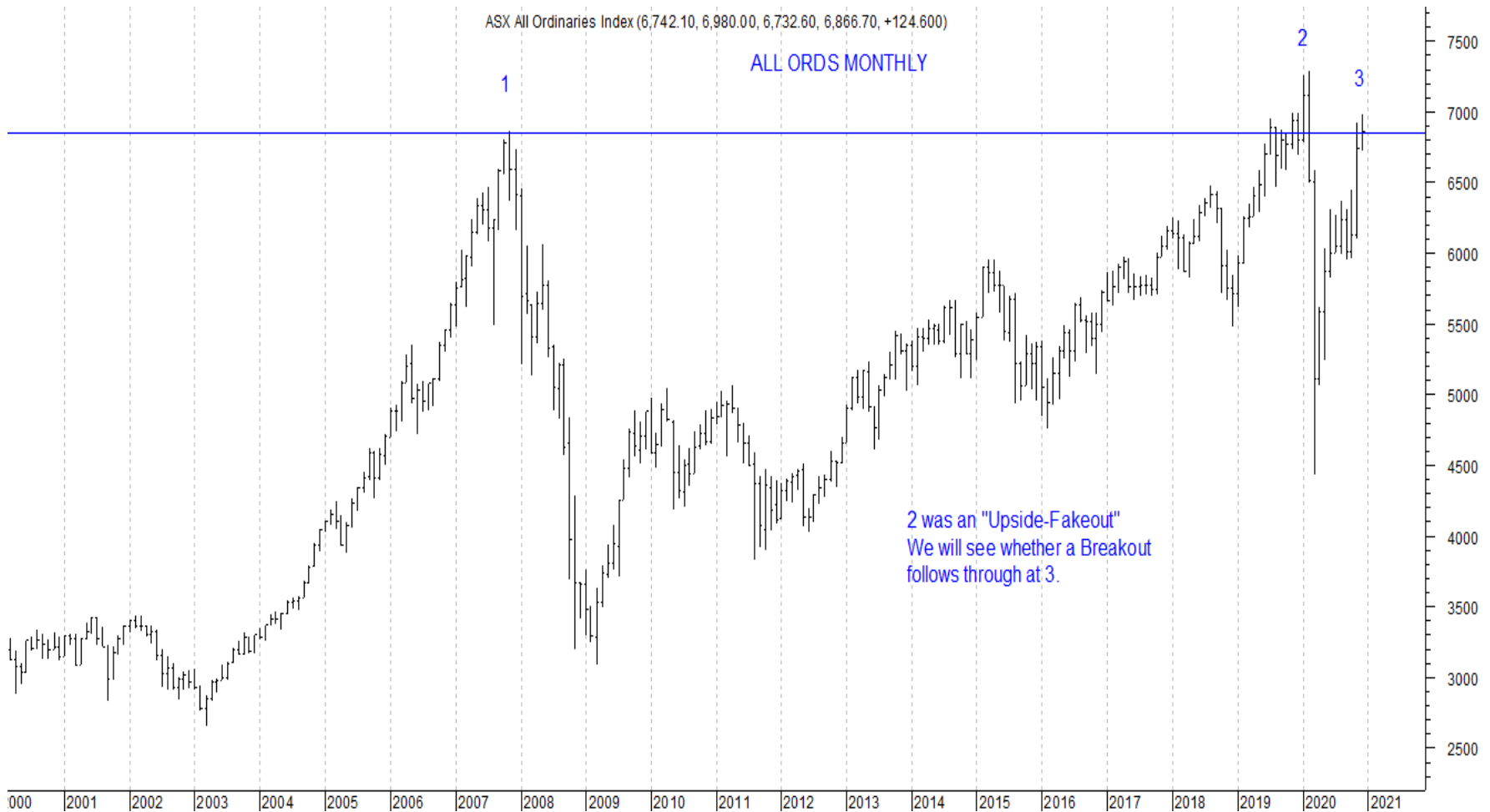
Resistance zones may be identified by a prior price high (crest) that the market made from which sell offs began.



Upside Breakouts



Upside Fake Outs



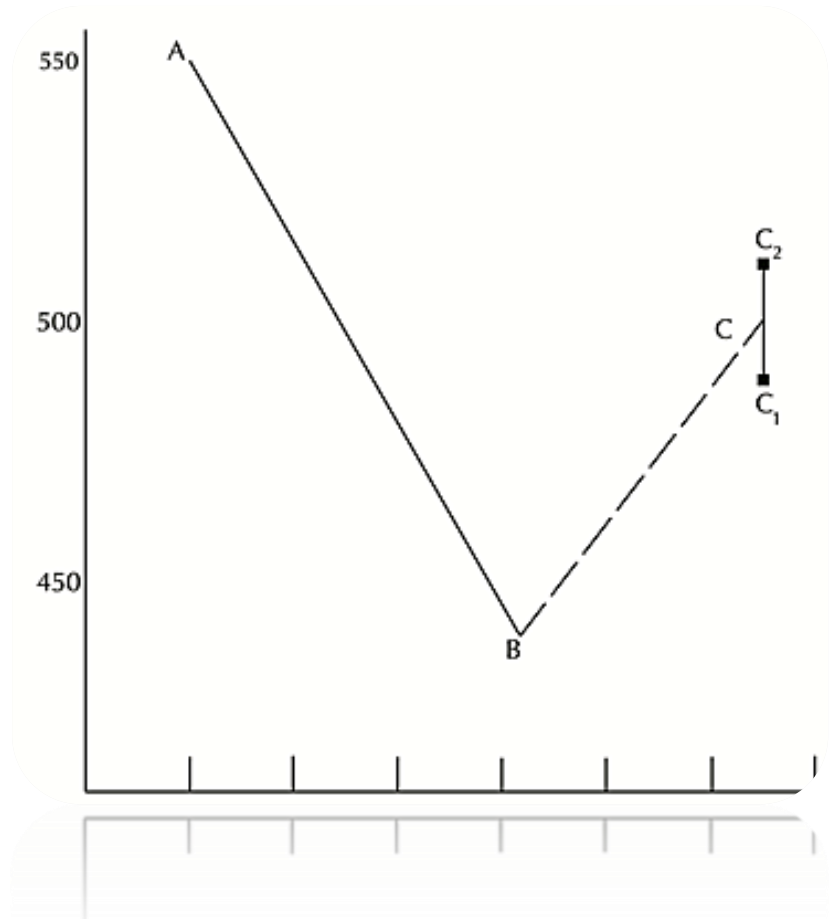
Upside Fake Outs



“The 50% Correction Rule” for Resistance in Bear Markets

In a bullish cycle, prices will decline from its crest to trough. In many cases it will gain back about 50% of the decline from the crest to the trough.

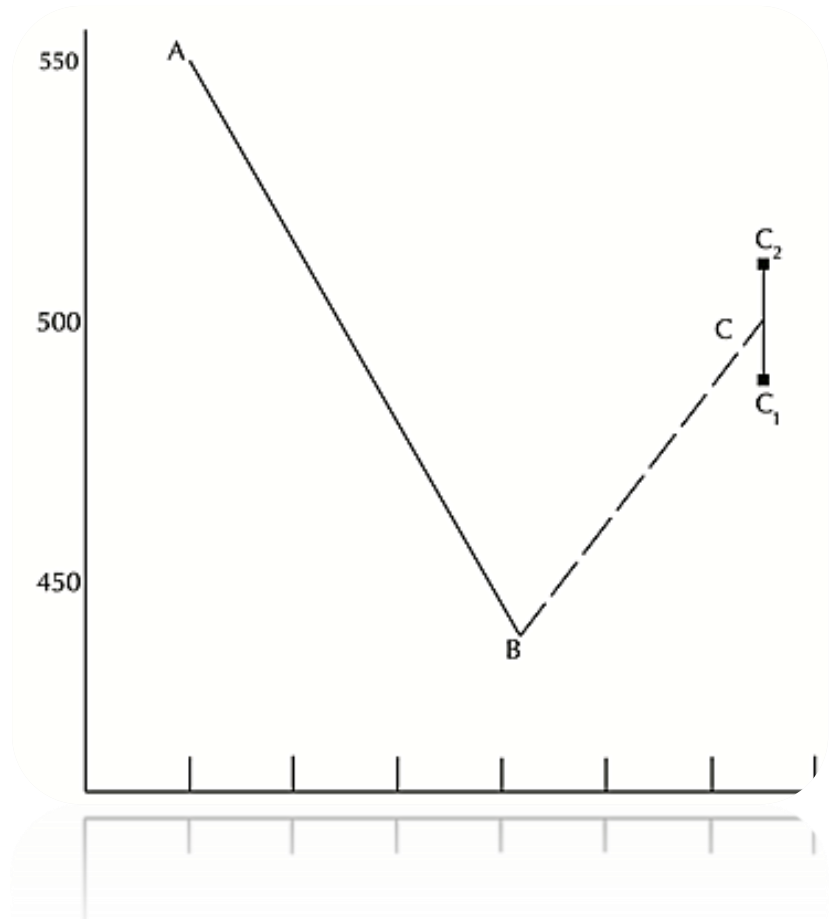
That gain is known as a “corrective rally,” and it marks the midpoint of a price target range for the crest of the next cycle of the same type.



Fibonacci Corrections

In most cases, the corrective rally will be in a range of a 38.2-61.8% retracement of the decline in price that preceded it.

This is also known as the **resistance zone** for a market that is in a bearish cycle.

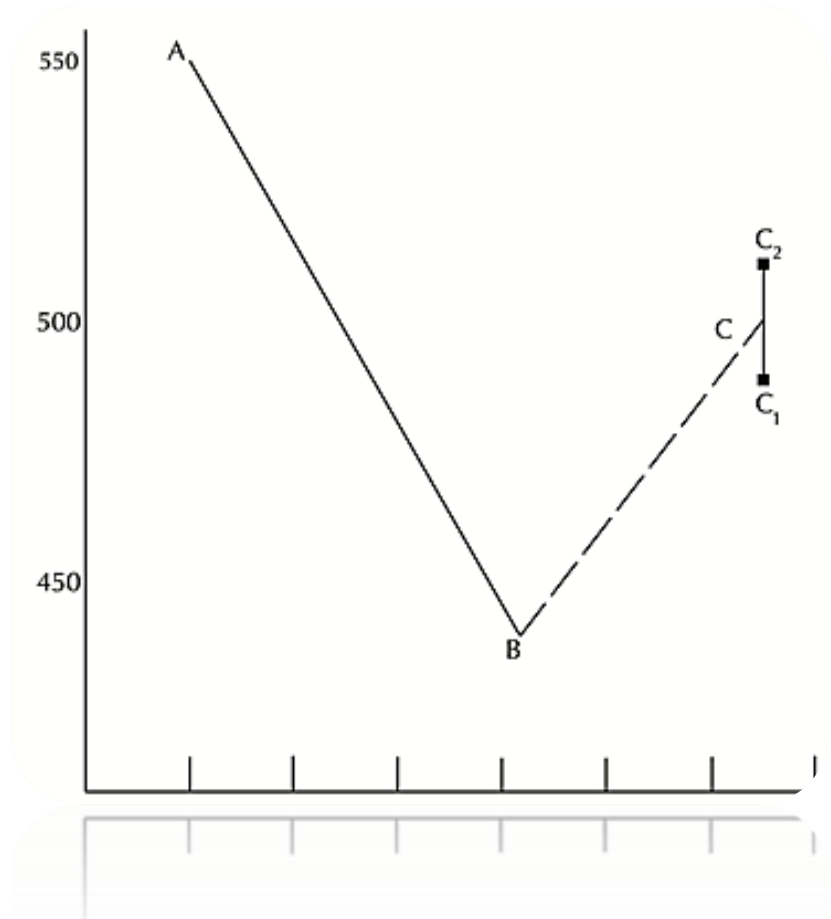


Formula for a 50% Corrective Rally in a Bearish Cycle

$$(A + B)/2 = 50\% \text{ retracement}$$

In this example:

$$(550 + 450)/2 = 500$$



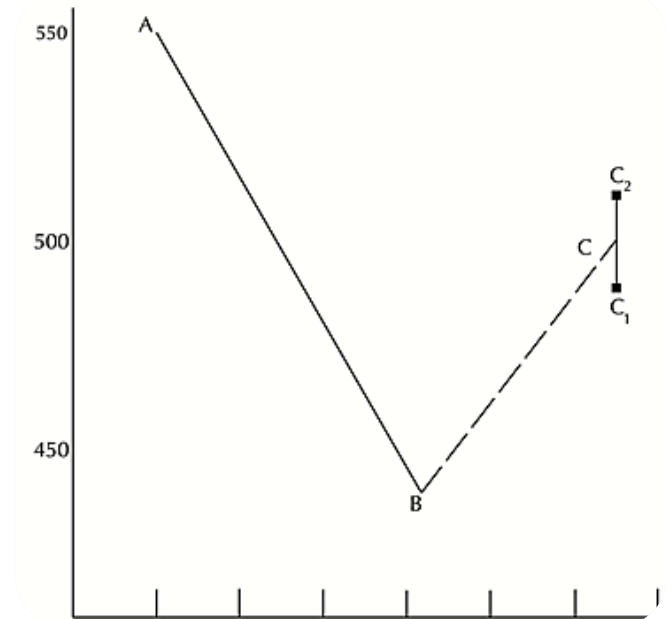
Formula to Determine the Fibonacci Range of the Rally

$$(A-B) \times .118$$

In this example, would be:

$$(550-450) \times .118 \quad \text{or} \\ 100 \times .118 = 11.80$$

Add and subtract:
11.80 to the 50% mark



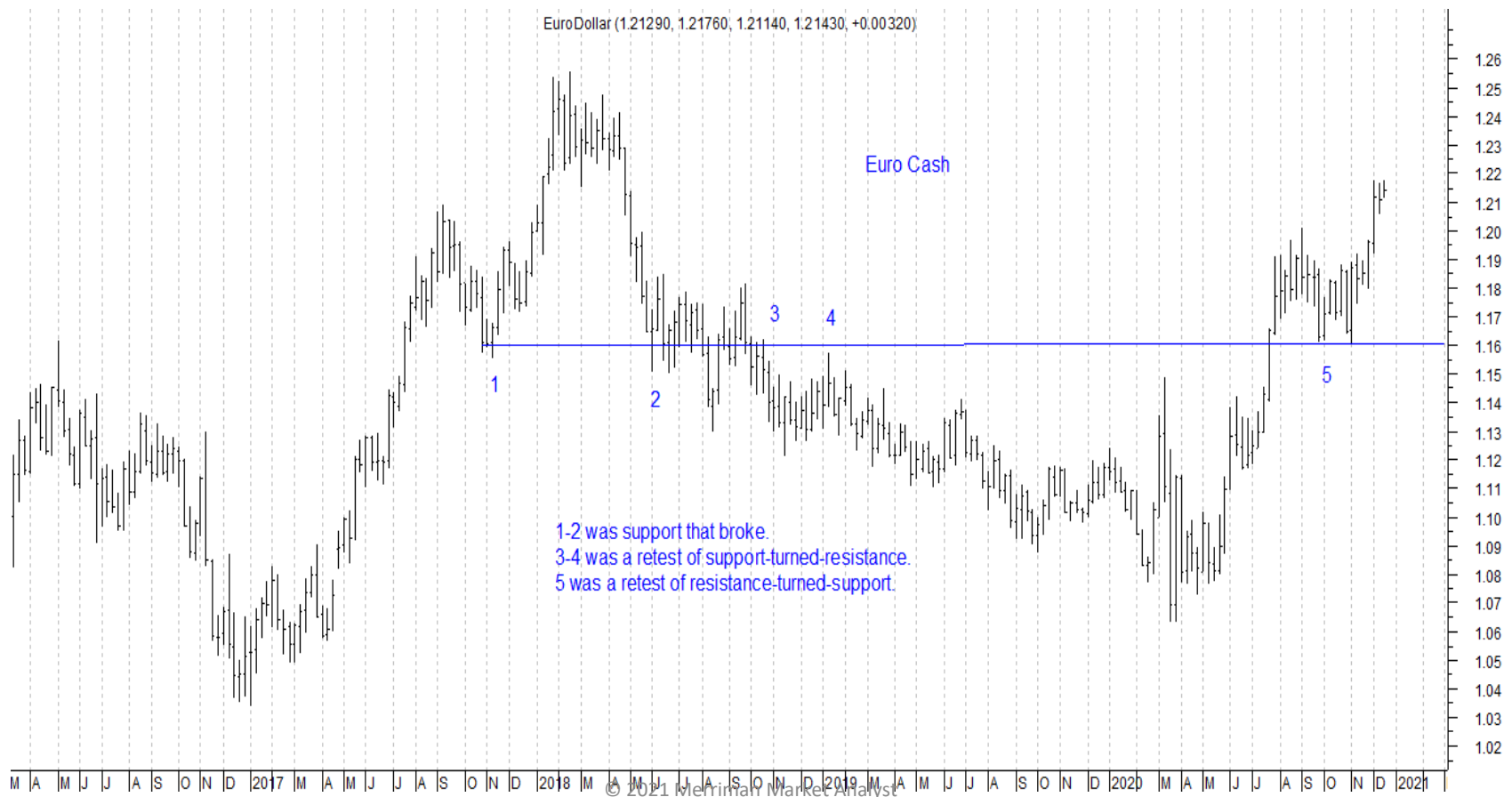
$$500 + 11.80$$

$$500 - 11.80$$

Thus, price target for the resistance zone = 488.20-511.80

Two Rules to Always Keep in Mind

1. Once support breaks, it becomes resistance.
2. Once resistance breaks, it becomes support.



QUIZ #4

SUPPORT and RESISTANCE

QUIZ #4

1. What does support refer to in financial markets?
2. What constitutes a chart pattern known as a double bottom?
3. What is the term used to describe a case when prices break below a double bottom or well-defined support area? What geocosmic signatures are often present nearby to this phenomenon?
4. What is the “The 50% Correction Rule” for Support in Bull Markets?

QUIZ #4

5. What are “corrective declines” and when do they occur? In which type of markets do they occur?
6. What is the normal % of a corrective decline from the rally? What is this percentage range known as?
7. If crude oil moves from a major cycle trough at 75.00/barrel to a crest of 93.00/barrel, then what would a normal corrective decline be to its major cycle trough, assuming this is a bull market cycle? If you were buying this corrective decline, where would your stop-loss start?

QUIZ #4

8. What does resistance refer to in financial markets?
9. What constitutes a chart pattern known as a double top?
10. What is an upside breakout?
11. What is the “The 50% Correction Rule” for rallies in Bear Markets?
12. What are “corrective rallies” and when do they occur? In which type of markets do they occur?

QUIZ #4

13. What is the normal % of a corrective rally following a decline to a cycle trough?
What is this percentage range known as?

14. If the price of Silver completes a primary cycle crest at 35.00/ounce in a bear market, and then declines to a major cycle trough at 29.50/ounce, what is the price target range of a corrective rally to the crest of the next major cycle?

End of Module Lesson

Break