



RSI CHART TO PREDICT RIGHT ENTRY LEVEL ON STOCK & INDEX

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Abstract

The study I conducted to understand the strategies that are used for intraday trading. The purpose of this project is towards the “FINANCIAL FREEDOM” of an individual. For this study we collect secondary data. And the secondary data collected through books and trading platform. Analysis was undertaken with the stock and index graphs and indicators like RSI, VWAP, STOCHASTIC RSI and PIVOT POINTS. The finding of study established that with the help of above indicator you can filter the trader and execute the trade.

Key words: RSI, VWAP, STOCHASTIC, RSI, PIVOT POINTS & FINANCIAL FREEDOM

1. Introduction

Recently, the world of investment and trading is growing quite widespread in INDIA. The penetration goes along with many programs from NSE (NATIONAL Stock Exchange), BSE (BOMBAY STOCK EXCHANGE) and SEBI, financial planners, and Securities who helping the education of the public about the capital market in INDIA. Today, there are more and more people engage in foreign exchange (forex), stocks, commodities, indexes, mutual funds, balance sheets, or others, either as the main job or just at an additional earning. A successful rate of return can be multiplied if someone has the ability to make right decisions. Because of this requirement, not everyone can get their maximum benefit. One reason of this failure is the lack of information about “WHAT'S EXACTLY COOKING INSIDE”, they just follow their feelings which usually give losses as the result. If you could analyze it before transactions, then it might bring different results. There are two important analyzing tools, namely fundamental analysis for investors, and technical analysis for traders. To sum up, there are many financial instruments that exist in INDIA. With those instruments, anybody with the ability of advanced in technology, such as investors and stock

traders can transact through mobile devices . Therefore it is necessary to create a forecasting system that can project the rise and fall in prices for investors and stock traders to support the decision

. Moving Average (MA) and Relative Strength Index (RSI) are very popular indicators among traders or stock investors, with indicators of impairment . Moving Average shows the down and up of the price, which can be filtered by oscillator indicator through Relative Strength Index (RSI) that gives result of overbought or oversold . As a conclusion of this research, the purpose of the system development is to produce an application that can assist in analyzing trends in price movement and give recommendation which stock is tradable .So it is expected to help traders and investor to obtain information and recommendation related to these stocks as the main goals in this system. The main contribution in this research is to give indicator for the trader when is the right time to buy or to sell using the combination indicator variables from RSI and MA. Furthermore, the forecasting system can reduce the risk of the trader and maximize the given potential.

2.Objective of the study

The main objective behind this study is to determine the right time to buy and sell a particular stock and index to get a better timing of market.

3. Research methodology

We will be using Spider Software and Angel broking trading software

Technical tools that we will consider are as follow:-

RSI

The relative strength index (RSI) is a momentum indicator used in technical analysis that measures the magnitude of recent price changes to evaluate overbought or oversold conditions in the price of a stock or other asset. The RSI is displayed as an oscillator (a line graph that moves between two extremes) and can have a reading from 0 to 100. The indicator was originally developed by J. Welles Wilder Jr. and introduced in his seminal 1978 book, "New Concepts in Technical Trading Systems."

Traditional interpretation and usage of the RSI are that values of 70 or above indicate that a security is becoming overbought or overvalued and may be primed for a trend reversal or corrective pullback in price. An RSI reading of 30 or below indicates an oversold or undervalued condition.

It is primarily used to attempt and identify the overbought or oversold conditions in the trading of a stock. RSI calculations can be translated by doing daily calculations of a change in price. If the price increase the symbol "U" is used, and if the price is decrease then the symbol "D" is used to describe it. For example in a day, when the closing price is higher than the price yesterday, the symbol "U" will be used. Or vice versa on the day that the price drops, the letter "D" is used. (note: D is a positive value). Equation (1) represents the U

formula.

$U = \text{closing price today} - \text{closing price yesterday}$

Simple moving average is calculated

$SMA = \frac{\text{closing price}_1 + \text{closing price}_2 + \dots + \text{closing price}_n}{n}$

For RSI ema will be taken consideration

EMA =

$\{(Close\ price - previous\ EMA) * Multiplier + previous\ ema\}$

If today's closing price is equal to yesterday's closing price, the U and D values are zero. The average value of U is calculated based on the Exponential Moving Average (EMA) or the average movement exponent by using the N-day factor. This principle is also applied for calculating the average of the D value. The ratio of the mean value is Relative Strength

$RS = \frac{EMA\ OF\ U}{EMA\ OF\ D}$

Relative strength is calculated using ema of U & ema of D RSI =

$\frac{EMA\ OF\ U}{(EMA\ OF\ U + EMA\ OF\ D)}$

SIMPLE MOVING AVERAGE

Moving Average (MA) is one of the tools that most frequently used in technical analysis. Moving Average gives the average value of the price change to provide more easily captured information for the purpose of analysis and anticipate trends [10]. A rising trend can be said to have occurred when the price moved above the MA, and down when the price moved below the MA. Simple Moving Average (SMA) is calculated by taking the average value of the price within a certain time range [2]. The calculation of SMA can be taken from the average value of opening price, closing price, the highest price and also the lowest price, but most value from SMA is taken from the closing price. Suppose a SMA value for 5 days stock market is taken from 5 closing prices in the last 5 days divided by 5

Moving Average is widely used to analyze the trend of stock price movements, there are some periods such as 5 days, 10 days, 20 days, 50 days, 100 days and 200 days.

We will be considering 200 Days Moving Average.

VWAP

The VWAP is a trading indicator, which averages the closing prices during the given time period. At the same time, it puts emphasize on the periods with higher volume. In this manner, the Volume Weighted Average Price is a lagging indicator, because it is based on previous data.

4.Literature Review

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KEY TAKEAWAYS

- The relative strength index (RSI) is a popular momentum oscillator developed in 1978.
- The RSI provides technical traders signals about bullish and bearish price momentum, and it is often plotted beneath the graph of an asset's price.
- An asset is usually considered overbought when the RSI is above 70% and oversold when it is below 30%.

What Does RSI Tell You?

The primary trend of the stock or asset is an important tool in making sure the indicator's readings are properly understood. For example, well-known market technician Constance Brown, CMT, has promoted the idea that an oversold reading on the RSI in an uptrend is likely much higher than 30%, and an overbought reading on the RSI during a downtrend is much lower than the 70% level.

As you can see in the following chart, during a downtrend, the RSI would peak near the 50% level rather than 70%, which could be used by investors to more reliably signal bearish conditions. Many investors will apply a horizontal [trendline](#) that is between 30% and 70% levels when a strong trend is in place to better identify extremes. Modifying overbought or oversold levels when the price of a stock or asset is in a long- term, [horizontal channel](#) is usually unnecessary.

5.TRADE SETUP

DUE TO THE LIQUIDITY AND MOVEMENTUM WE INITIATED TRADE SETUP IN BANKNIFTY FUTURES USING RSI ,VWAP, STOCHASTIC RSI AND PIVOT POINTS (FIBONACCI).





← **BANKNIFTY** 28 Jan 2021 BUY SELL
 32163.95 +85.20(+0.27%)



Sr no	INDEX/ STOCK	ENTERY LEVEL	EXIT LEVEL	TYPE OF POSITION	PERCENTAGE GAIN\LOSS	PROFIT AND LOSS IN 1 LOT	POINTS OF MOVE
1	BANK NIFTY	31264	31750	BUY	1.5	12150	486
2	BANK NIFTY	30310	29200	SELL	3.6	27750	1110
3	BANK NIFTY	30480	30340	SELL	0.45	3500	140
4	BANK NIFTY	30500	30850	BUY	1.14	8750	350
5	BANK NIFTY	29480	29280	SELL	0.6	5000	200
6	BANK NIFTY	29850	29980	BUY	0.43	3250	130
7	BANK NIFTY	29400	28900	SELL	2.9	12500	500
8	BANK NIFTY	29600	30150	BUY	2.9	13750	550
9	BANK NIFTY	29430	28700	SELL	2.9	18250	730
10	BANK NIFTY	29390	29800	BUY	2.93	10250	410
11	BANK NIFTY	29230	28700	BUY	2.92	13250	530
12	BANK NIFTY	28180	28800	BUY	2.8	15500	620
13	BANK NIFTY	24370	24750	BUY	2.43	9500	380
14	BANK NIFTY	24300	24800	BUY	2.4	12500	500
15	BANK NIFTY	24450	24950	SELL	2.44	12500	500
		24150	24734	BUY	2.41	14600	584
16	BANK NIFTY	23750	23350	SELL	2.37	10000	400

17	BANK NIFTY	24250	24436	BUY	2.45	4650	186
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CONCLUSION:

RSI has very coherent relationship with market trend .During intraday trades it plays a significant value for a trader .Combination of RSI with VWAP,Stochastic RSI and Pivot points helps in filtering of trade or in decession making process of a trader.

Using RSI for stocks help in getting a view when to do bottom fishing in market .We consider any stock around 20 RSI as over sold with can give a good bounce hence around that particular area any fundamentally strong stock can be a good bet

RSI breakout can be applied to options for much clear picture combining with vwap

One should also plot proper support and resistance zone of stock and index to get cleaner picture.

Considering the global situation and volatility one should initiate the trade with a proper stop loss.Stop loss is the most important prospect when taking trades in option or index future ,and considering one's risk appetite .

One can keep stoploss in option and future for a ratio of 2:1 . 2 points profit and 1 point as collateral for that.

One should keep a track of VIX index higher the VIX higher is volatility.During higher volatility one should avoid long stay for any position ,”just ride the wave and exit” .

REFERENCES

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