

Brandon Wendell's

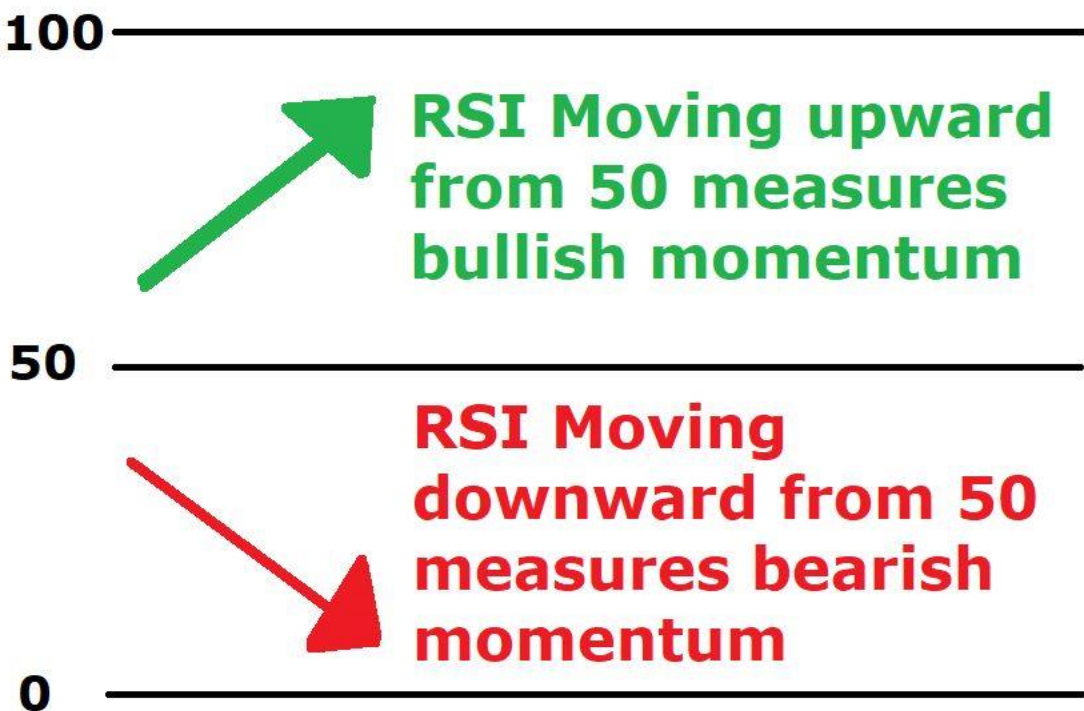


RSI Application ©

This strategy can be applied to any timeframe. There are no guarantees implied with this strategy and losses can and may occur. This strategy is presented for educational purposes only. Wealth Builders HQ, its affiliates and Brandon Wendell cannot be held liable for any losses that you may have while employing this strategy in any markets.

RSI Basics

The RSI measures momentum. The further it travels away from 50, the stronger the momentum is.



Settings for the RSI

Period (Length) – Kept at the default 14

Overbought – Dropped to 60 from 70

Oversold – Raised to 40 from 30

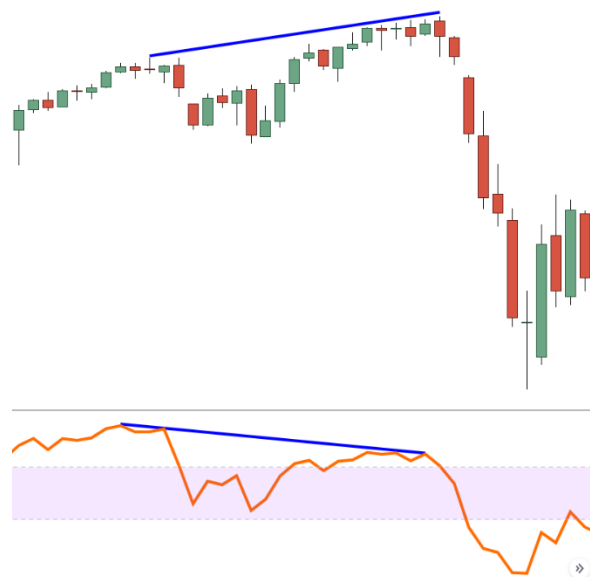
Application on the Trend Time Frame (Intermediate time frame for Trend Identification)



Bullish Trends

1. Trend Characteristics – Price makes higher lows and higher highs
 - a. Even in a strong Bullish Trend, price will make small corrections/retracements where price moves down.
 - i. During these corrections, RSI will not go below 40
 - ii. RSI below 50 equals bearish momentum.
 - b. The rallies during the bullish trend should take the RSI above 60
2. Signaling Trend Weakness
 - a. In a Bullish Trend, if the price rallies (highs) and fails to make RSI break above 60
 - b. Negative Divergence – Price makes higher highs but the RSI makes the same or lower highs
 - c. This is just a warning signal and not a confirmed reversal of the trend
3. Trend Reversal Confirmation
 - a. After the warning signal, another new high in price is made but the RSI fails to break above 60, or
 - b. The RSI drops below 40
 - c. The confirmation *AFTER* the warning signal validates the reversal of trend

Negative Divergence



Trend Weakness Signal

1. Price makes a high but RSI < 60, or
2. Negative Divergence

Trend Reversal Confirmation

1. Price makes another high and RSI < 60, or
2. RSI breaks below 40



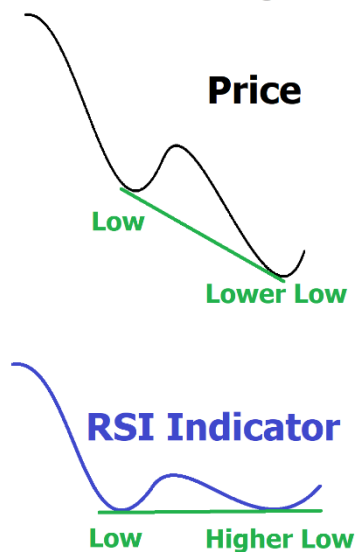
Application on the Trend Time Frame (Intermediate time frame for Trend Identification)



Bearish Trends

1. Trend Characteristics – Price makes lower highs and lower lows
 - a. Even in a strong Bearish Trend, price will make small corrections/retracements where price moves up.
 - i. During these corrections, RSI will not go above 60
 - ii. RSI above 60 equals bullish momentum.
 - b. The drops during the bearish trend should take the RSI below 40
2. Signaling Trend Weakness
 - a. In a Bearish Trend, if the price drops (lows) and fails to make RSI break below 40
 - b. Positive Divergence – Price makes lower lows, but the RSI makes the same or higher lows
 - c. This is just a warning signal and not a confirmed reversal of the trend
3. Trend Reversal Confirmation
 - a. After the warning signal, another new low in price is made but the RSI fails to break below 40, or
 - b. The RSI rallies above 60
 - c. The confirmation *AFTER* the warning signal validates the reversal of trend

Positive Divergence



Trend Weakness Signal

1. Price makes a low but RSI > 40, or
2. Positive Divergence

Trend Reversal Confirmation

1. Price makes another low and RSI > 40, or
2. RSI breaks above 60



Application on the Zone Time Frame (Lower time frame for Zone Identification)



The RSI can be used as a filter for trading opportunities and can confirm zones.

We buy when prices are in our Buy Zone. However, if the bearish pressure is too strong, the zone may not be able to hold. If $RSI < 40$ when price is at the Buy Zone, do not buy. The momentum is too bearish, price is likely to break the zone or will not make a strong move up.

We sell when prices are in our Sell Zone. However, if the bullish pressure is too strong, the zone will not likely hold. If $RSI > 60$ when price is at the Sell Zone, do not sell. The momentum is too bullish and price is likely to break the zone or fail to make new lows.

**At the Sell Zone, if $RSI > 60$
Leave the Zone Alone
Do not Sell!**

**When price is in your zone and the
RSI is between 40 and 60,
you are all clear to trade!**

**At the Buy Zone, if $RSI < 40$
Do not buy, the Zone is a Lie!**

Exceptions to the above guidelines:

1. Buying with $RSI < 40$ is ok if there is a Positive Divergence on the indicator
 - a. Do not expect new highs to be made without a correction first
 - b. Or wait for the correction to buy
2. Selling with $RSI > 60$ is ok if there is a Negative Divergence
 - a. Do not expect new lows to be made without a correction first
 - b. Or wait for the correction to sell

Application on the **Zone Time Frame** (Lower time frame for **Zone Identification**)



Length of impulses depend on location of the RSI at origination of the move.

Rallies that start with the RSI below 40 will not make new highs without a correction

Drops that start with the RSI above 60 will not make new lows without a correction

