The RSI

The RSI (Relative Strength Index) is one of the most popular and widely used counter-trend indicators;

- This indicator was developed by J.W. Wilder in 1978 in his book "New Concepts in Technical Trading."

- As a bounded indicator, it is formed based on the averages of rises and falls in securities, according to the formula:

$$RSI = 100 - [100 / (1 + RS)]$$

where RS represents the average of closing increases divided by the average of closing decreases over the chosen period.

The significance of the formula

$$RSI = 100 - [100 / (1 + RS)]$$

- When the RS ratio is very high: 100 / (1 + RS) tends towards 0, and the RSI tends towards 100, indicating an overbought market;

- When the RS ratio is very low: 100 / (1 + RS) tends towards 100, and the RSI tends towards 0, indicating an oversold market;

- Finally, when RS tends towards 1, that is, when the average of rises equals the average of falls, then the RSI tends towards 50%. This situation corresponds to a balance between sellers and buyers.

Use of the RSI in Practice

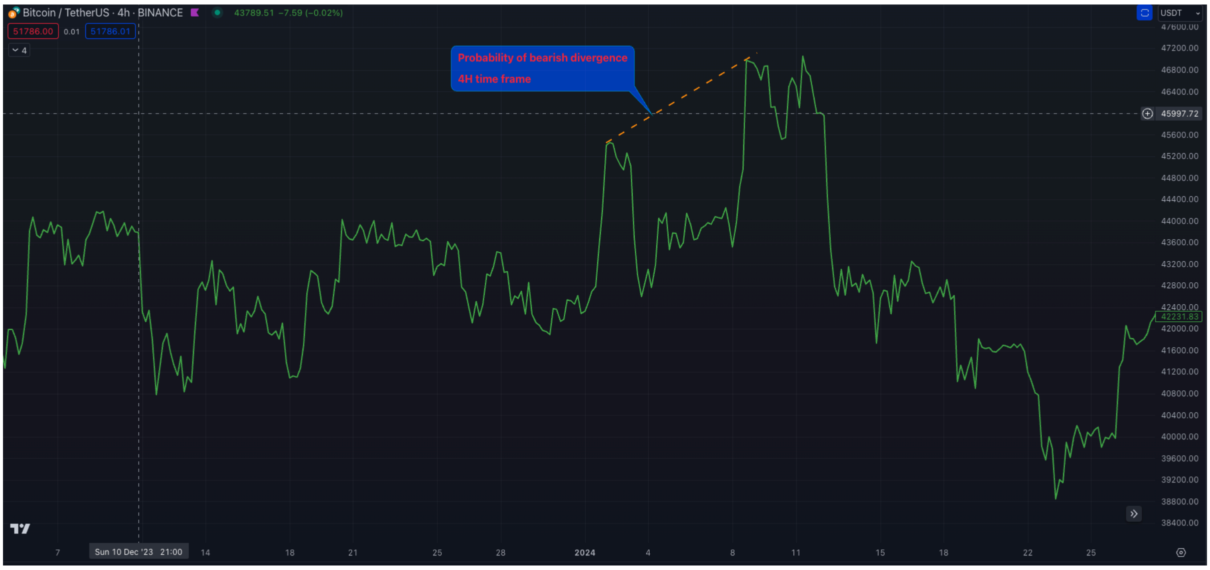
The RSI allows:

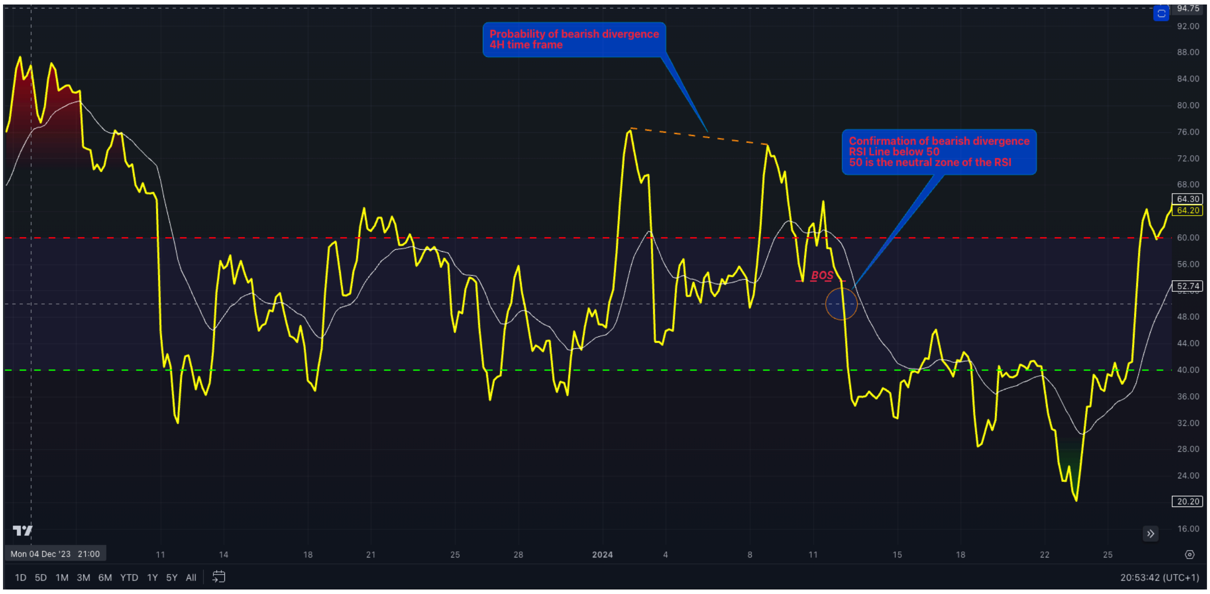
- To detect a trend reversal at the very beginning, thanks to bearish and bullish divergences (see following examples);

- But also to enter a bullish or bearish trend at the right moment thanks to the identification of supports/resistances.

Bullish Divergence

Bearish Divergence





The RSI

- In a bullish trend, the RSI generally evolves above the neutral zone around 40/50%

- In a bearish trend, the RSI generally fluctuates between the neutral zone around 60/50% and the oversold zone of 25/30%.

- In any case, the 50% neutral zone constitutes a balance between buyers and sellers.

RS = 1 ⇒ average of rises = average of falls

RSI as Support

[RSI as Resistance]


Bitcoin / TetherUS · 1D · BINANCE
23149.95 −660.05 (−2.77%)
51710.02
0.01
51710.03
BTCU
USDT
42630.77
20954.92
Mar
Apr
May
Jun
Jul
Tue 09 Aug '22
Sep
Oct
Nov
Dec
2023


60% zone acting as resistance in bearish trend
82.00
55.43
45.38
41.51
Tue 01 Feb '22
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2023
1D 5D 1M 3M 6M YTD 1Y 5Y All
21:32:36 (UTC+1)