

ReadySetCrypto Elliott Wave Masterclass



Module One: Relative Strength Index

Module One

Relative Strength Index (RSI)

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Introduction to The Relative Strength Index (RSI)

RSI is my FAVORITE tool. It is my sidekick in Elliott Wave trading. It's incorporated in all my strategies and never leaves my chart. Sounds like an obsessive issue, but I assure you the relationship you will build with RSI while Elliott Wave trading is one that goes deeper and more advanced than how general traders use this indicator.

As such, in order to master Elliott Wave one must first master RSI.

The concepts shared in this module will be built upon as we progress through the other modules, as it is something you will have to learn to develop a relationship in cohesion with Elliott Wave. It is not just an indicator, but a tool.

This module will take you through the settings, and an assortment of signals it provides. Remember that as we progress through the modules its relationship with Elliott Wave will be developed.

Below are some highlights to remember concerning the application of RSI:

What is the Relative Strength Index?

RSI measures the strength of the market. The most basic function of it allows you to determine if an asset is overbought or oversold, however, there is so much more to it than that. Here are some takeaway notes from the module:

1. You can use trendlines and fibs on the RSI to project it's movements and resistance/support levels.
2. The "source" is known as the variable which it bases the strength of the market off of. This could be volume, an EMA or MA, the low, open, or high of the candle, $LH2(Low + High / 2)$ etc. For the purpose of this program, we will use the "candle close" to determine the strength of the market.

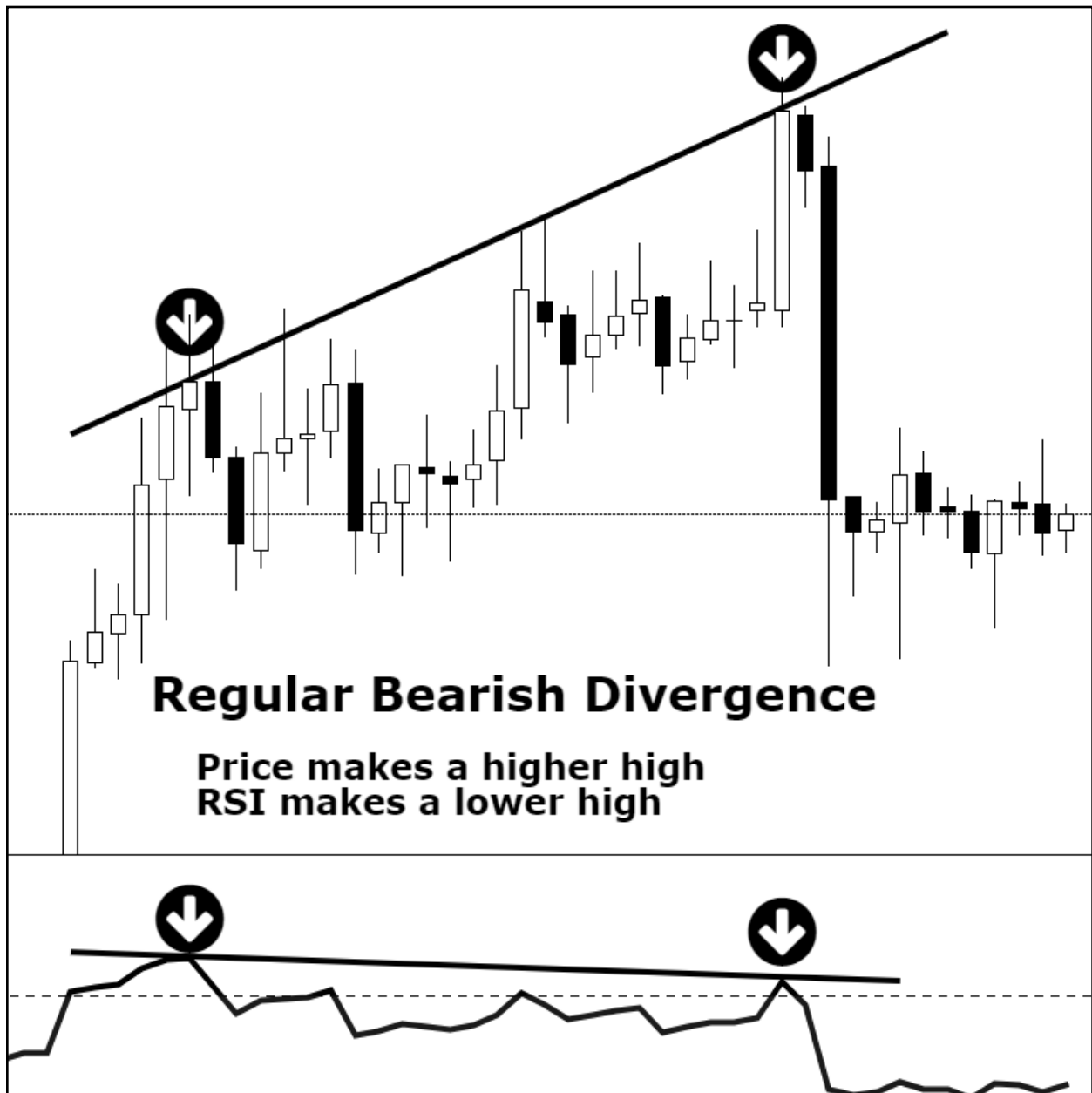
3. The Length is also known as the period. This number represents a set period of candle sticks. For example, A 14 day period (default setting) is the last 14 candles specific to your time frame you are on. Increasing this number gives you fewer overbought and oversold indicators. Increasing it could be favorable to a bull market so that divergences don't appear too early. You can lower this number to get the opposite effect.

4. RSI prints Divergences which resemble reversals of the market, however the strength of the reversal is dependent on the time frame it was printed on. For example, if the market is very bullish it is better reflected on higher time frames, as lower time frame RSI's get over bought drastically and show multiple divergence signals to sell/buy. This is why intertwining between the same time frames and observing the RSI relationship with each is a powerful way to make more profitable trades.

5. Tip - Bullish Divergences are always measured by comparing BOTTOM of price and BOTTOM of RSI. Bearish Divergences are always measured by comparing the TOP of price and the TOP of RSI. You CANNOT compare TOP of price and BOTTOM of RSI.

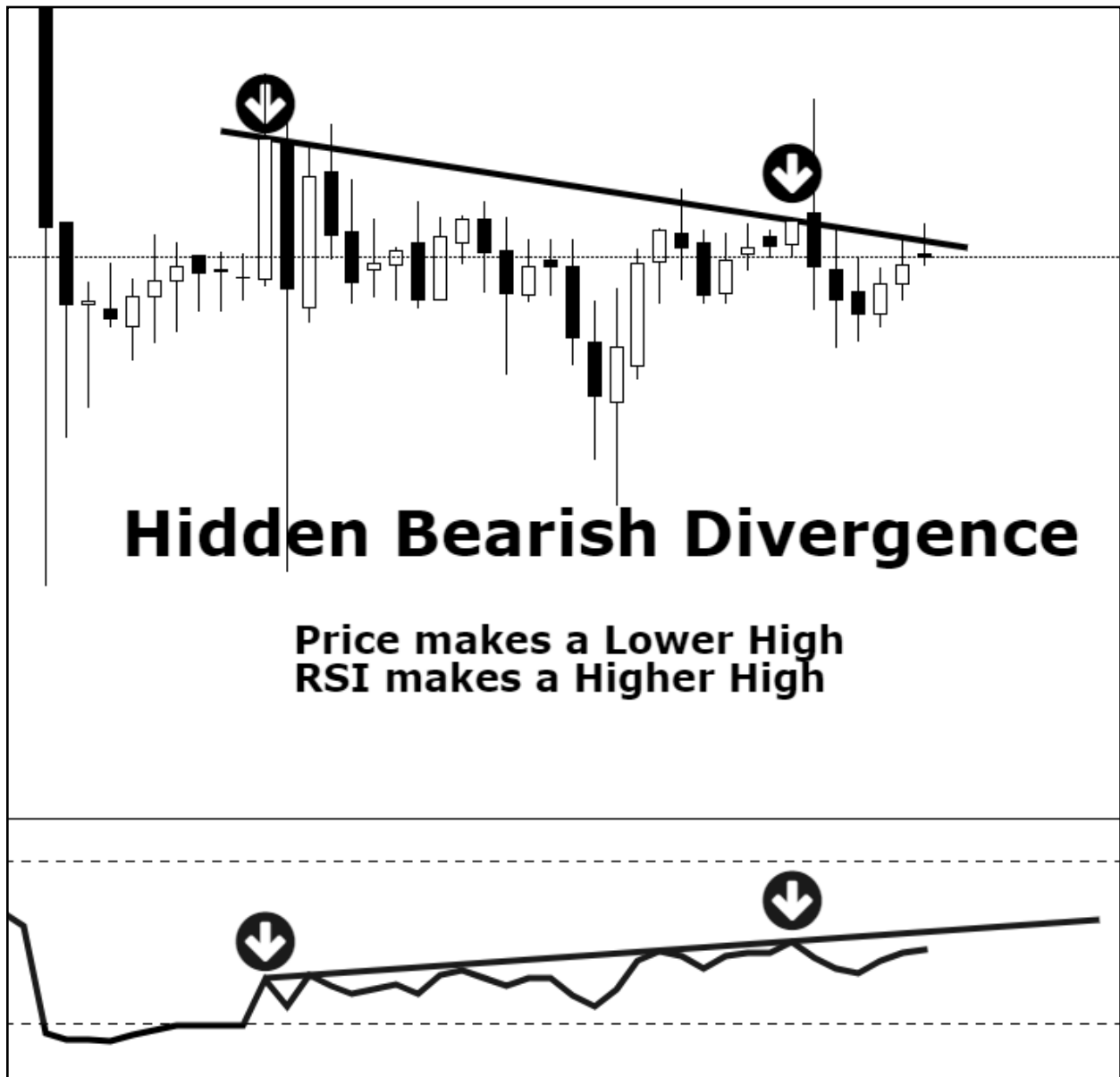
Regular Bearish Divergence

Figure 1



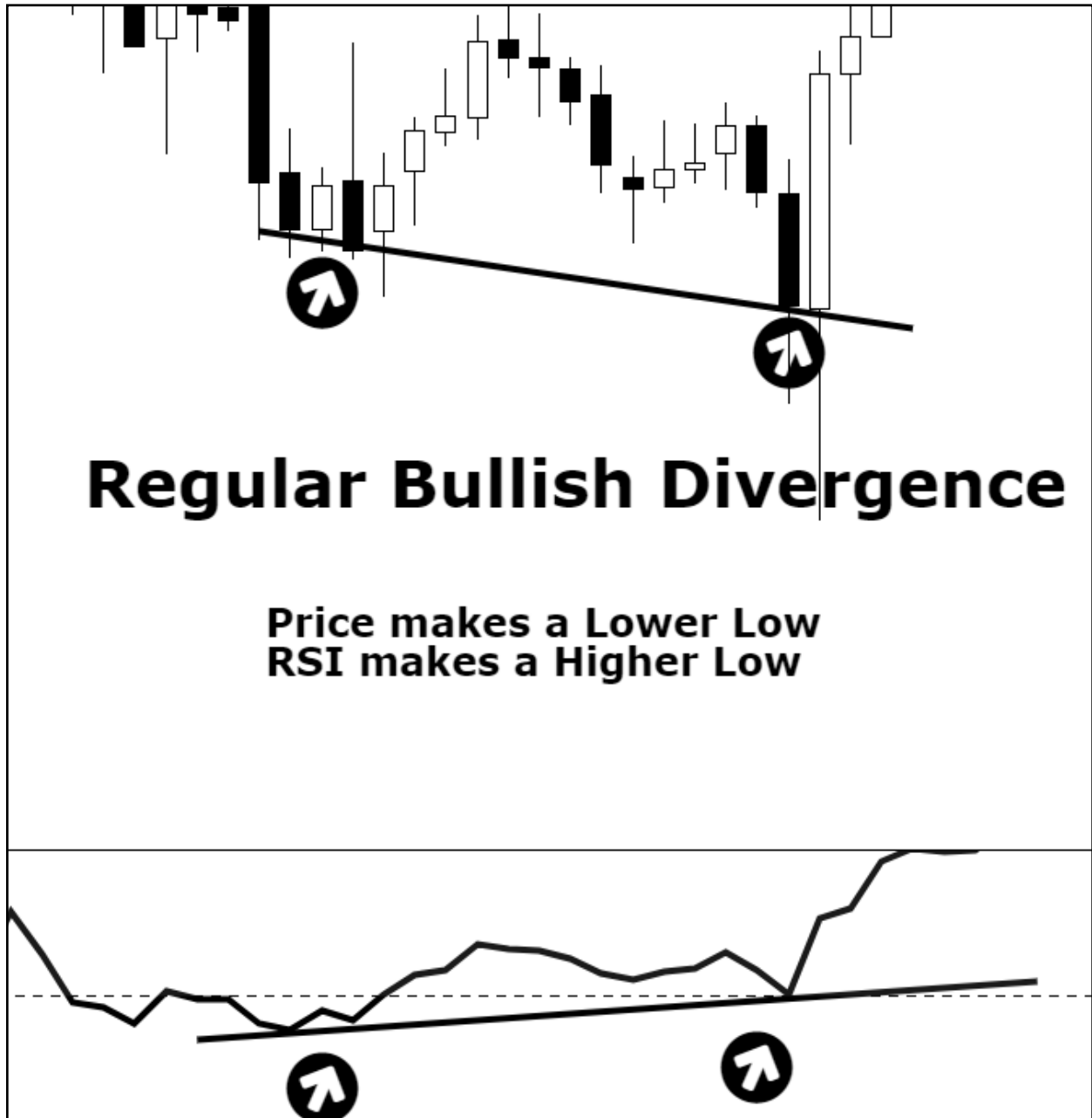
Hidden Bearish Divergence

Figure 2



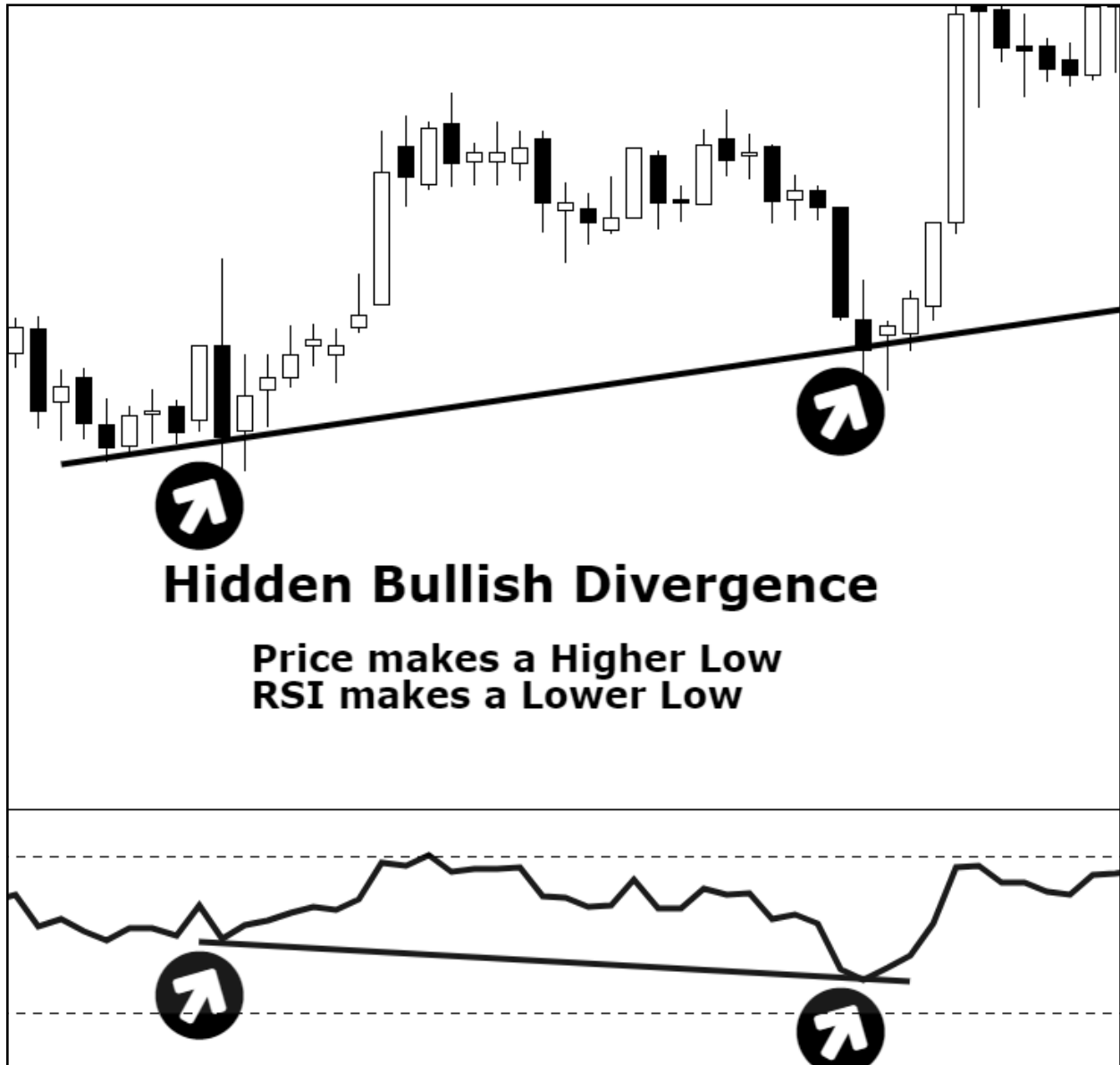
Regular Bullish Divergence

Figure 3



Hidden Bullish Divergence

Figure 4



Summary - Introduction to RSI

The key is being able to memorize the fundamentals of what was taught in this module as we move forward. Here is what you should have memorized before proceeding:

- 1. Overbought and Oversold zones**
- 2. Four types of Divergences: Regular Bearish, Hidden Bearish, Regular Bullish, Hidden Bullish.**
- 3. How time frames impact the strength of your signal**
- 4. How the settings (period and source) impact your signal**

As we advance forward, focus on how RSI moves with price. Does it move at the same speed? When does it typically move slower or faster? Does the trend impact how fast the RSI moves and what direction it will move slower or faster?

These questions will be answered as we progress forward and your relationship and understanding of RSI will grow. The modules get more and more advanced as you progress forward and really start to intertwine towards the end during the application videos so it's important to follow the next 8 modules closely.

Make sure to get your quizzes and homework done. Check off the list below as you complete them!

Homework and Next Steps

Please complete the following tasks before moving to the next module:

- ☐ Watch the associated video for this module.
- ☐ Read the attached PDF
- ☐ Take the module quiz and ensure that you know the reasoning behind the correct answers.
- ☐ Practice finding at least 2 examples of each type of divergence