

Speed Resistance Lines

I've noticed little discussion here of speed lines, but having done a little research myself in other places, I have found that they are amazingly accurate at calling levels of support/resistance and reversals. So here's a rather thorough explanation of how one could use speed lines to his or her advantage; although they are quite similar to Fibonacci #'s, they are in my opinion more accurate.

This Is Not A System

If you are looking for a system, please click the little X in the top right of your screen, because this is not a system; merely an effective tool to wear on your belt. I could see how someone using candlestick analysis and speed lines could make quite a living for their self.

Time Frames

Using multiple timeframes will help you tremendously. I highly recommend going to your daily chart, finding an extreme low and extreme high (These could span for many months). Then, you can zoom in and get the shorter-term look working around long term resistance. I will discuss how this can be used in detail later with examples.

How To Use Speed Lines?

It's pretty easy, really. You want to find a period of time where there are two extremes: one high and one low. Then it's just a matter of drawing the line between the 2 points. Your charting software should add the retracement lines for you. Alright, let's get started with some examples:

Suppose you are presented with this graph of GBP/USD Daily:



How can Speed Lines help us?

Well, we want extreme lows and highs. I'm sure we're all capable of seeing the extreme high and low of this graph. I have marked the low with a Red Arrow and High with a Green Arrow. So, just pick your Speed Line tool and drag it from the low to the high.

Your result will look like this:



Alright, this seems too easy maybe, but let's look at what happens next in this instance.



The First Green Arrow is the extreme high we just drew our speed line to. After this point, let's see what the price did around the speed lines.

First Red Arrow

Price hits the next speed line, and cannot close past it. This has proved the speed line true as support. It is possible to make entries based on these bounces, and I will discuss this more later.

Second Red Arrow

Price breaks through support. (Good sign for short)

Second Green Arrow

Old support has now become new resistance. Since it failed to close through this resistance line, and essentially bounced off; short is a good direction.

Third Red Arrow

Price confidently breaks through support. Good sign for short.

Fourth Red Arrow

Price tests support of last speed line, but alas, fails. This bounce would be a good opportunity to go long.

You may be thinking: “This looks pretty good...” but let me show you how one could perfect their entries a bit more. Let’s look at the same scenario but under a 3-hour chart (4 hour is good too).

This is immediately following our high:



First Green Arrow

Price Fails to break support and “bounces” off. Good long opportunity. I would cash out at a major sign of reversal.

Second Green Arrow

Same thing as first green arrow

First Red Arrow

Price breaks through support. Look for an opportunity to go short... i.e. extremely bearish bar.

I’d hate to beat a dead horse here, so I’m going to hope we all get the idea. You could use smaller time frames by finding the 3 hour extremes and going in smaller from there. In other words, there are a ton of combinations; experiment with them! I just thought we could all use a little more speed line talk around here☺

Best of luck,

Kevin