

What does 'support' and 'resistance' for a stock mean?

These terms are used to signify the price barriers the stock has experienced in the past. Here's more information about them.

Support and resistance, in simple terms, are nothing but barriers for a stock price at the lower and upper level respectively. They are considered to be of paramount importance in the world of technical analysis. While the two terms may sound alien to beginners, understanding them is quite easy. Let us learn the meaning and usefulness of these two concepts.

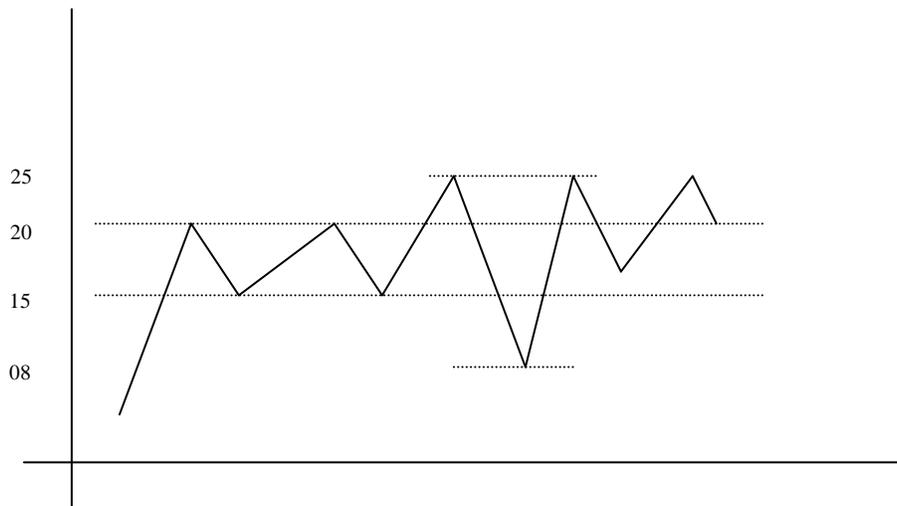
Support

Support is a level where the falling price of a stock usually finds support. This means that the price is likely to bounce back (based on historic price trends) rather than go down further. However, technical analysts believe that if the price falls well below the support level, it is likely to keep falling, until it finds another support level.

Resistance

Resistance is the opposite of support. It is a level where the rising price of a stock finds resistance. This means that the price is likely to fall rather than continue going up once it reaches this level. Once the stock price climbs above this level, it is likely to continue its upward movement, until it finds another resistance level.

Let us have a look at an example to understand the concept better.



If a trader holds shares of ABC company and is planning to sell his holdings, looking at the above chart, he can analyze that the stock has found resistance at Rs 20 and Rs 25 in the past. So, he would not wait for the stock to go higher than these resistance levels, and sell his holdings before it starts moving down again.

Similarly, there are support levels at Rs 15 and then at Rs 8. So, if the trader intends to buy this stock again, he would not wait for the stock price to go lower than these support levels, or it might just bounce back.