

RSI (Relative Strength Index) – Complete Study Notes

1. What is RSI Indicator?

RSI (Relative Strength Index) is a **momentum oscillator** used in technical analysis to measure the **speed and strength of price movements**.

- Developed by J. Welles Wilder
 - Value Range: **0 to 100**
 - Used to identify:
 - Overbought conditions
 - Oversold conditions
 - Trend reversals
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2. RSI Formula (Important for Exams)

Component Formula

RS Average Gain ÷ Average Loss

RSI $100 - (100 / (1 + RS))$

 Default Period: **14 Days**

3. RSI Interpretation (Most Important Concept)

RSI Level Market Condition Signal



0 – 30 Oversold Buy Signal

30 – 70 Neutral No Trade

70 – 100 Overbought Sell Signal

4. How RSI Predicts Stock Price

RSI helps predict price by identifying **potential reversal zones**:

-  When RSI < 30 → Price may **increase**
-  When RSI > 70 → Price may **decrease**

- 👉 RSI does NOT predict exact price
- 👉 It predicts **probability of direction**

🧠 5. Key RSI Concepts (Must Know)

✓ Overbought Zone

- RSI above 70
- Indicates strong buying → possible correction

✓ Oversold Zone

- RSI below 30
- Indicates heavy selling → possible bounce

✓ Centerline (50)

- Above 50 → Bullish trend
- Below 50 → Bearish trend

🔍 6. RSI Divergence (Advanced Concept)

Type	Condition	Signal
Bullish Divergence	Price ↓ but RSI ↑	Buy
Bearish Divergence	Price ↑ but RSI ↓	Sell

- 👉 Strongest reversal signal used by professionals

⚙️ 7. Best RSI Settings

Trading Style	RSI Period
Intraday	9–11
Swing Trading	14
Long-Term	20–25

💡 8. RSI Trading Strategy (Step-by-Step)

Step 1: Open chart on TradingView

Step 2: Add RSI indicator

Step 3: Identify levels

👉 Strategy:

- Buy when RSI crosses **above 30**
 - Sell when RSI crosses **below 70**
 - Confirm with trend
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📌 9. RSI + Confirmation Strategy

RSI works best when combined with:

- Moving Average
- Support & Resistance
- Volume Analysis

👉 Avoid using RSI alone

⚠️ 10. Limitations of RSI

- Gives **false signals in sideways market**
 - Not effective in strong trends
 - Lagging indicator
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📊 11. Practical Example

Stock: Reliance Industries

- RSI = 28 → Oversold → Buy
- RSI = 72 → Overbought → Sell

👉 Result: Short-term profit opportunity

📖 12. Quick Revision Notes (Exam Booster)

- RSI full form → Relative Strength Index
- Range → 0–100
- Default → 14 period
- Overbought → Above 70
- Oversold → Below 30
- Developed by → J. Welles Wilder

- Type → Momentum Indicator
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13. One-Line Summary

👉 RSI is a **momentum indicator** used to identify **overbought and oversold conditions** and predict potential trend reversals in stock prices.

14. Smart Tips for Traders

- Use RSI with trend analysis
 - Avoid trading in sideways market
 - Follow risk management
 - Don't overtrade
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15. Short Q&A Revision

Q. What is RSI?

A momentum indicator measuring price strength.

Q. Best RSI level to buy?

Below 30

Q. Best RSI level to sell?

Above 70

Q. Default RSI period?

14

Q. Is RSI accurate?

Yes, but needs confirmation

16. Pro Tip (Very Important)

- 👉 Professional traders don't use RSI for prediction alone
 - 👉 They use it for **confirmation + timing entries**
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17. Final Conclusion

RSI is one of the **most beginner-friendly and powerful indicators** in stock trading. If used properly with discipline and confirmation, it can significantly improve your trading accuracy and reduce losses.

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