

RSI Indicator

Relative Strength Index, J. Welles Wilder, 1978

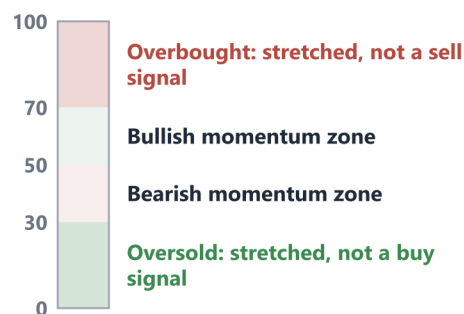
FORMULA AND SETTINGS

$$RSI = 100 - 100 \div (1 + RS)$$

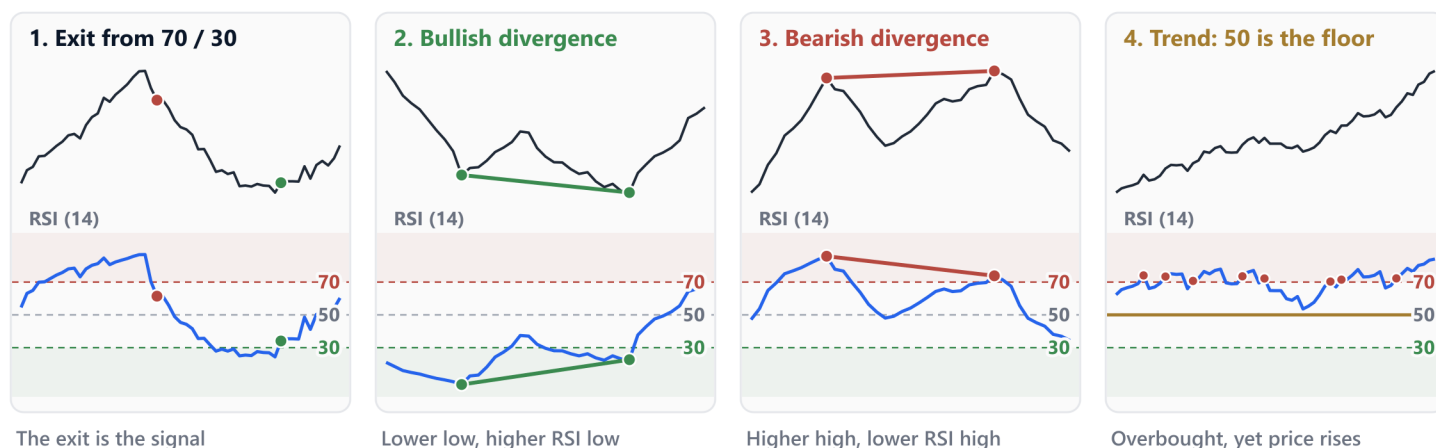
RS	Average gain ÷ average loss over the last 14 periods
Smoothing	New average = (previous average x 13 + today) ÷ 14
Defaults	14 periods, levels 70 and 30, midline 50
Range	Always between 0 and 100, on any timeframe

Worked example: avg gain 12 pips, avg loss 8 pips, RS 1.5, RSI 60

READING THE SCALE



THE FOUR SIGNALS THAT MATTER



SIGNALS AND HOW TO ACT

Signal	What it means	How to act
RSI crosses above 70	Strong buying, move is stretched	Tighten stops on longs. Do not short yet.
RSI drops back below 70	The rally is losing momentum	Sell only on a bearish candle or level break.
RSI crosses below 30	Strong selling, move is stretched	Do not buy yet. Oversold can stay oversold.
RSI rises back above 30	Selling pressure is fading	Look for a long at support, stop under the low.
Bullish divergence	The downtrend is losing force	Wait for price to confirm, stop below the low.
Bearish divergence	The uptrend is losing force	Take profit, or short on a confirmed break.
Dips hold 40 to 50	The uptrend is intact	Favour longs. Buy the dips, not the highs.

RULES OF THUMB

- 1 Read the trend first. RSI confirms a trade idea, it does not create one.
- 2 Uptrends tend to hold RSI between 40 and 80, downtrends between 20 and 60.
- 3 Divergence is the stronger signal once price confirms.
- 4 In strong trends, 80 and 20 filter out more false signals than 70 and 30.
- 5 Size trades from the stop loss, not the RSI reading.

THE 3 MOST COMMON MISTAKES

- 1 Shorting because RSI hit 70 in a strong uptrend. Overbought can stay overbought for weeks.
- 2 Trading divergence before price turns. Divergence can repeat two or three times before a reversal.
- 3 Tweaking the period until it fits past charts. The default 14 is fine for almost everyone.