



Pivots

In this article we will discuss about a widespread, well-known key element of technical analysis. Why do you think technical analysis especially some elements work so well for financial markets? Why do you think Fibonacci levels are usually strictly followed? Because thousands and billions of traders and computer programs for trading use these elements. This way everybody acts the same at the same time...

This is why we decided to present in the category of technical analysis, the most used and well-known methods of predicting financial evolution. These methods are easy to understand and are very efficient.

We will discuss about pivots. We will find out what pivots are and how they are calculated. We will use them in our charts and we will see how they act. We will discover how useful they are and, at the end, we will draw the conclusions. We will use pivots daily in our analyzing and trading system.

1. What are the pivots?

Pivot points are a technique used by professional traders and market makers to determine entry and exit points for the trading day based on the previous day's trading activity. It's best to use this technique after determining the direction of the trend. Simply put, a pivot point and its support/resistance levels are areas at which the direction of price movement can possibly change. Pivots can be extremely useful in Forex since many currency pairs usually fluctuate between these levels.

Pivots can be used as well in indices' market, DOW and S&P being trade by the same people, so the same methods are used.

2. How are the pivots calculated?

The pivot point and associated support and resistance levels are calculated by using the last trading session's open, high, low, and close.

The calculation for a pivot point is shown below:

$$\text{Pivot point (PP)} = (\text{High} + \text{Low} + \text{Close}) / 3$$

Support and resistance levels are then calculated off the pivot point like so:

First level support and resistance:

$$\text{First support (S1)} = (2 * \text{PP}) - \text{High}$$

$$\text{First resistance (R1)} = (2 * \text{PP}) - \text{Low}$$



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Second level of support and resistance:

$$\text{Second support (S2)} = PP - (\text{High} - \text{Low})$$

$$\text{Second resistance (R2)} = PP + (\text{High} - \text{Low})$$

$$S3 = S2 - (\text{High} - \text{Low})$$

$$R3 = R2 + (\text{High} - \text{Low})$$

Don't worry you don't have to perform these calculations yourself.

We will automatically insert these values in our analysis.

Also keep in mind that some charting software also provides additional pivot point features such as a third support and resistance level and intermediate levels or mid-point levels (levels in between the main pivot point and support and resistance level).

We presented the classical method of calculating pivot points. There are also some newer alternatives such as: Woodie, Camarilla, DeMark. For a deeper view into these methods you can find them on the internet. We don't recommend spending time with this because only a few traders actually use them. So it hardly counts in market's evolution

3. Chart examples for Dow and e-mini S&P 500.

Let us study a few days in market evolution and see how these indices acted:

- a. We will first discuss about the day before Dow Jones reached the highest point in its entire evolution. Based on last trading session's data, we calculated the pivot points. During the first part of the day Dow tried twice to grow above 14.150 and each time bounced back. The price is going down towards the day's pivot. After the accumulation zone, the price descends roughly to the first support (S1). After another accumulation zone, the price goes down until it meets the second support. The Low of the day was 14.000 points. The price will grow to S1 and the day closes in that area.

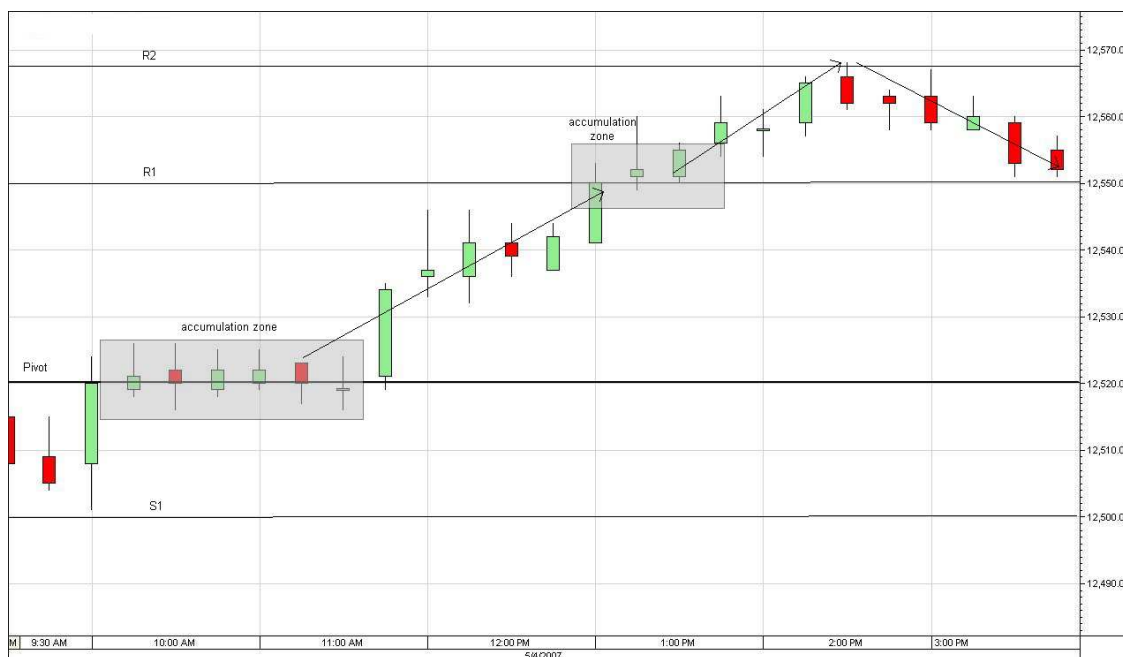
We can see how precise the market evolution was regarding the two estimated values



- b. This is the analysis for the day of June 19th 2007. The price bounced back from the pivot and descended to S1. After an accumulation zone it goes up to the pivot and even reaches R1. Here, the price bounced back three times and descends subsequently towards S1. The trading session closed at a value near the pivot. We can observe now that the three zones of support, resistance and accumulation overlap the mathematical points we calculated.



- c. In the next example there is the date April 5th 2007. DOW descends to S1, bounces back, goes up to the pivot and then passes a long accumulation zone and ascends to R1. After another short accumulation zone the price goes up to R2 where it bounces back. The day closes at R1.



d. Conclusions

1. As the charts show, these mathematically calculated points are extremely useful, the market's evolution overlapping them. Most of the traders use this method.
2. Trading methods based only on pivots analysis can be found and can work very well. These methods can be harmoniously correlated with other methods of financial analysis resulting in a complete and complex trading system approaching financial reality.
3. We often use these pivot points amongst other various methods of analysis that we will describe later.