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March 5, 2026

Which Support/Resistance levels actually work?

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As with all investments, your capital is at risk

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VISUALSECTORS

KEY FACT

Our audit captured 200 distinct S/R pain statements (n=200).

From Lines to Evidence

A metrics-driven framework for Support/Resistance

(Define → Validate → Assess)

WEBINAR | 45 MINUTES

GOAL

Turn “key levels” into measurable decision inputs

Who this is for (and what it is NOT)

→ For retail investors & active traders who already use key levels for entries, exits, stops, or “context”.

→ Not signals, not predictions, not “the one true way to draw S/R”.

→ We focus on definitions, measurement, and comparability across methods.

KEY FACT

Survey evidence is mixed: 56/95 modern studies report positive results for technical strategies (20 negative, 19 mixed).

Source: Park & Irwin (2007)

Why measurement matters more now

→ Markets are tightening their "plumbing": faster post-trade cycles, more automation, more reporting discipline.

→ Retail is increasingly competing in a market where cost, execution quality, and timing matter as much as the chart.

→ If your level framework is subjective, you can't improve it—or compare it.

KEY FACT

U.S. markets moved to T+1 settlement on May 28, 2024 (T+2 → T+1).

PROBLEM

The S/R paradox

→ S/R is widely used—but “success” is rarely defined consistently.

→ Most traders can draw levels; fewer can quantify “worked” vs “didn’t” in real-time.

→ Without standard metrics, debate replaces learning.

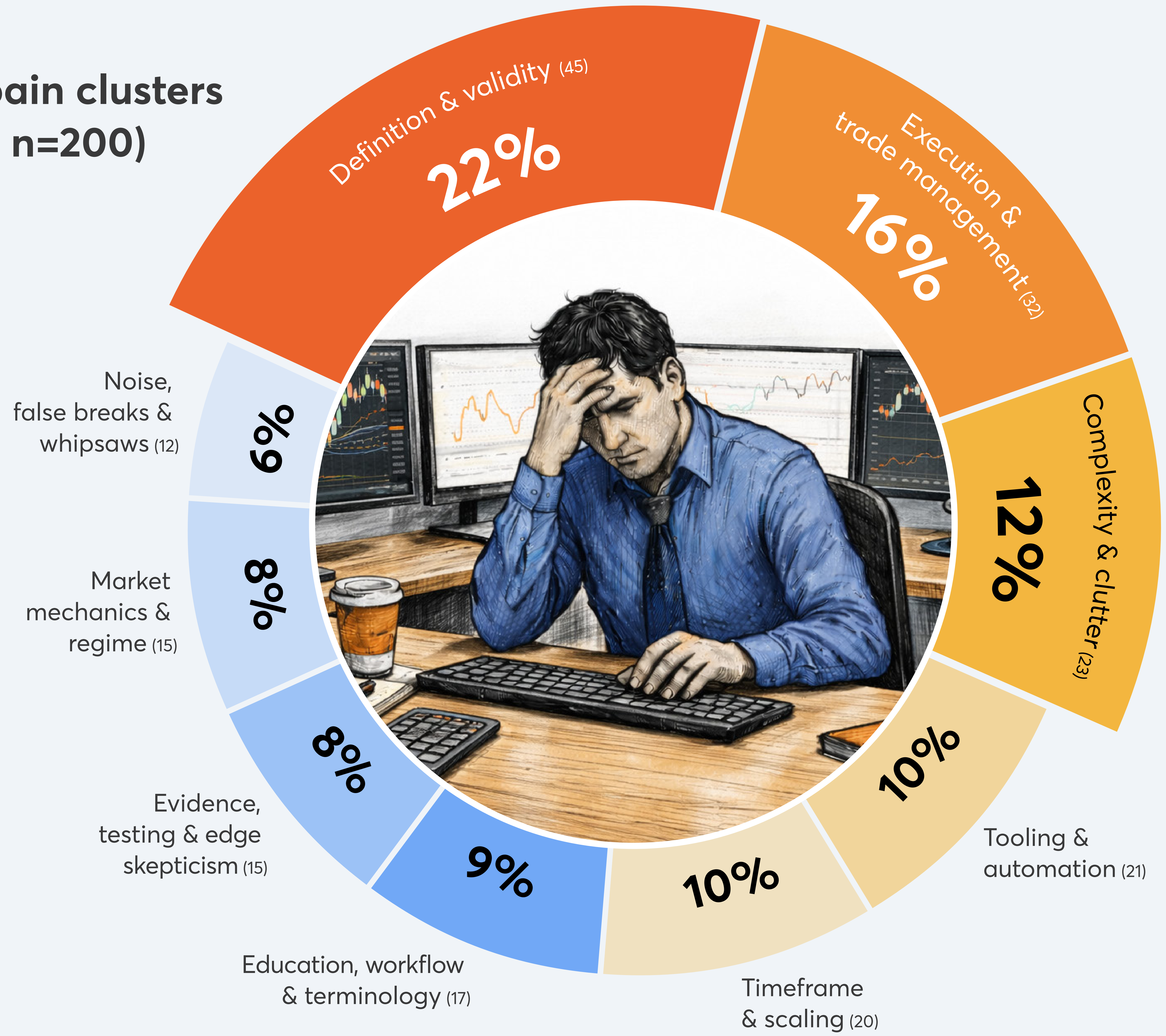
KEY FACT

Our framework maps 30 metrics across definition, performance, profitability, risk, and robustness.

PROBLEM

What retail traders struggle with (pain map)

Top pain clusters (from n=200)



KEY FACT

Definition & validity accounts for 22.5% of all S/R pains in our audit.

→ **Definition & validity** (line vs zone, “what counts?”)

→ **Execution & trade management** (entries, stops, targets)

→ **Complexity & clutter** (too many levels, mixed frameworks)

→ **Tooling trust** (automation, repainting, settings)

→ **Timeframe mismatch** (analysis TF vs execution TF)

Quick poll (chat): What makes a level “real”?

Pick one →

- Touch count / repeated reactions
- Rejection candle / “price action”
- Volume / VWAP / profile confluence
- Higher-timeframe level only
- Discretion (“it’s obvious”)
- Not sure / varies per asset

KEY FACT

One influential approach tested technical patterns on U.S. stocks from 1962–1996 using algorithmic recognition (to reduce subjectivity).

The hidden enemy: outcome knowledge (hindsight bias)

→ After the move happens,
levels look “clean” and “obvious”.

→ In real-time, uncertainty is higher
—and redraws become tempting.

→ If we don’t define success ex-ante,
we learn the wrong lessons.

KEY FACT

In classic experiments, participants were asked to recall predictions 2 weeks to 6 months later—recalled probabilities shifted toward the true outcome.

Source: Fischhoff & Beyth (1975); Roese & Vohs (2012)

The statistical trap: multiple testing & overfitting

→ More knobs (timeframes, zone widths, confirmations) = more ways to "find" a story.

→ Best backtest ≠ best future performance (selection bias).

→ You need robustness metrics when comparing level methods.

KEY FACT

Deflated Sharpe Ratio (DSR) was designed to correct for performance inflation from selection bias (multiple testing) and non-normal returns.

Source: Bailey & López de Prado (2014)

Evidence reality (a balanced stance)

→ Technical ideas can be tested, but results vary by market, era, and implementation costs.

→ The biggest driver of "does it work?" is often: definitions + controls + risk.

→ So our goal is not "believe in S/R" —it's "make S/R measurable".

KEY FACT

In that 95-study review, ~59% (56/95) of modern studies reported positive results—but not universally.

Source: Park & Irwin (2007)

Retail headwind: market structure is evolving

→ Options-driven flows can change intraday “weather” (speed, reversals, follow-through).

→ Obvious levels can behave differently as hedging intensity changes.

→ This increases the value of measuring level behavior by regime and session.

KEY FACT

Cboe reported SPX 0DTE options hitting a record 62.4% of total SPX options volume in August 2025.

The framework (in one picture)

Define

Describe the level (price • zone • TF • confirmation)

Validate

Check robustness (anti-overfit seatbelts)

Assess

Measure outcomes (behavior • risk • profitability)

Compare

Each stock is different. Pick the method carefully

KEY FACT

The metric system is organized into 5 families: descriptive, performance, profitability, risk, robustness.

Step 1 — Define the level (make it describable)

Level price
Exact price anchor

Define this before testing

Zone
Width & uncertainty band

Define this before testing

Timeframe
HTF/LTF mapping

Define this before testing

Confirmation
Rules for “active”

Define this before testing

KEY FACT

There are 4 “required descriptors” before performance is even discussable: price, zone, timeframe, confirmation.

Step 1b — Actionability & lifecycle

→ Actionability: is the level within a tradable distance (not too close, not irrelevant)?

→ Duration: how long should we keep the level "active" before it expires?

→ **This prevents clutter and reduces impulsive entries around meaningless lines.**

KEY FACT

In our pain audit, "Complexity & clutter" is 11.5% and "Whipsaws/false breaks" is 6.0%—often symptoms of trading non-actionable or expired levels.

Step 2 — Define success (before you test)

→ What counts as a win/loss?
(bounce? hold? follow-through?)

→ Over what holding period?

→ Bounce and breakout are different “games”
→ label them separately.

→ **Without fixed labels, backtests drift into storytelling.**

ILLUSTRATIVE

A 55% win rate can still lose:
if avg win = 1R
and avg loss = 1.5R
→ expectancy = −0.125R / trade.

Step 3 — Performance metrics (how the level behaves)

Win rate

with clear, pre-defined outcomes.

xBounce

expected reaction size (%, ATR).

xBreakOut / xBreakOutMove

invalidation point + follow-through move.

xReversal and xTouchCount:

when bounces become trends; how many retests before failure.

KEY FACT

Lift makes comparison explicit: Lift > 1.0 means the level outperforms a matched placebo baseline (e.g., round numbers).

FRAMEWORK

Profitability layer (turn behavior into outcomes)

→ **Convert level behavior into 2 testable trade scenarios:**

Basic:
buy at support → exit within holding period; stop at xBreakOut.

Breakout:
buy after breakout → exit within holding period; stop at resistance.

→ **Track xProfits:** profit factor, median return, avg win/avg loss.

KEY FACT

Profit Factor is intuitive:
PF = 1.30 means $1.30 gained for every $1.00 lost (gross).

Risk layer (don't let win rate lie to you)

- → Reward/Risk: xBounce ÷ xBreakOut.
- → MFE/MAE: typical run-up vs drawdown inside trades.
- → Drawdowns, time to recovery, and CDaR (tail drawdown risk).
- → Tail-risk framing helps separate "good levels" from "fragile levels".

KEY FACT

5% VaR is often described as "the worst ~1-in-20 outcomes" by definition; CVaR summarizes the average beyond that tail.

Robustness layer (anti-overfit seatbelts)

→ PSR/DSR: quantify how likely performance reflects skill vs luck.

→ PBO via CSCV: estimate the probability your selected backtest is overfit.

→ **When you compare many level definitions, robustness is non-negotiable.**

KEY FACT

PBO is a probability (0–1) estimated via combinatorially symmetric cross-validation (CSCV).

Scoring (comparison without ideology)

→ S/R Level Score: cumulative comparison across metrics.

→ S/R Strength: combined safety/confidence indicator.

→ **Choose levels based on use-case (scalp/swing/context), not aesthetics.**

KEY FACT

The Level Score is explicitly designed to compare different level-identification approaches and surface the "best level" per stock.

EXAMPLE

Example: level “report card” (what you would measure)

Behavior

- Win rate (labeled)
- xBounce / xBreakOutMove
- xTouchCount, xReversal

Risk

- Reward/Risk
- MAE/MFE
- VaR/CVaR proxy
- Drawdown & recovery

Robustness

- PSR / DSR
- PBO (CSCV)
- Regime segmentation

KEY FACT

CDaR-style risk summarizes drawdowns as the mean of the worst (1–α) drawdowns beyond a chosen threshold α.

Implementation workflow (retail-friendly)

01 **Generate candidate levels**
Any method (pivots, zones, VP, VWAP, etc.)

02 **Define them**
Price • zone • TF • confirmation

03 **Filter**
Actionability • duration

04 **Assess**
Report card: behavior • risk • profits • robustness

05 **Review**
Update rules—not the line

KEY FACT

A fixed 5-step process reduces discretionary degrees of freedom—shrinking the overfitting surface area.

Minimum viable measurement (start small)

If you only track 6 items, start with:

- → Win definition + holding period
- → xBounce and xBreakOut
- → MAE/MFE
- → Slippage/gap note
- → Simple score (weighted sum)

KEY FACT

Tracking 6 metrics out of 30 keeps the backbone while cutting complexity by ~80%.

CLOSE

3 takeaways

01 S/R isn't "wrong"—it's often unmeasured.

02 A level without definitions is a story.

03 Metrics turn levels into decision inputs (distributions, not predictions).

KEY FACT

Your top 3 pain clusters sum to 50% of all pains (22.5% + 16.0% + 11.5%).

Q&A

Discussion prompts

If you only standardize three things, standardize these:

→ **What do you call a win?**
Define outcomes + holding period.

→ **When does a level expire?**
Duration/lifecycle rules.

→ **What is invalidation?**
Stop distance + breakout definition.

KEY FACT

Most S/R debates become testable once these 3 definitions are fixed: win label, expiry, invalidation.

We want to automate these for you

Please share your opinion

Which metrics resonate?

Your specific fails can help us build

Which levels should we engineer?

Technical, Volume, DEX, GEX. Anything else?

How do you want this to look?

Charts, tables, etc

Fill in a simple form and get $50 for a zoom call