Twitter Thread by Yash Mehta

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#RS is an indicator which helps in finding strong stock or index in the market.

This learning thread would be on
"■■■■ ■■ ■■■■■■■■ ■■■■■■■■"

Shared some strategy.

Like■ & Retweet■for wider reach and for more such learning thread in the future.

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Most of us would confuse it with Relative Strength Index (RSI) but Relative Strength is a different indicator.

We have already covered about "Uses of RSI" in below thread■
https://t.co/oTOrW7joNI

One can go through this if you haven't.

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> #RSI is a common indicator which most of us use in the stock market.
>
> This learning thread would be on
> "\U0001d650\U0001d668\U0001d65a\U0001d668 \U0001d664\U0001d65b \U0001d64d\U0001d64e\U0001d644"
>
> Like\U0001f44d & Retweet\U0001f504 for wider reach and for more such learning thread in the future.
>
> Also, an investment strategy is shared using RSI in the end.
>
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>
> — Yash Mehta (@YMehta_) October 22, 2021

Now coming to Relative Strength (RS).

It is basically a strategy used in momentum investing which shows strength or weakness between two asset classes (two stocks, index, commodity).

One can read about this in below link■
https://t.co/Jb1lH0l90H

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As of now, I am using this indicator on .@tradingview platform.

It's free and one can add it in their Tradingview account as well, using this link■
https://t.co/FxCjJFsNOG

There are multiple variants in this as well. Some traders use multiple time frame RS.

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RS basically compares returns of one stock/index with the returns of benchmark stock/index at a particular time horizon.

Let's say, I want to analyze TCS and Benchmark Index is Nifty.

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TCS gave 13% returns and Nifty gave returns of 10% in 1 month. Then RS would of TCS would be 13%-10% ~ 3% (approximated).

Actual value/forumula be ((1+13%)/(1+10%)-1) = 2.7%.

This means TCS had outperformed Nifty in one month by 2.7%.

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Let's see how this indicator looks and how it functions.

This is the general inputs for RS.
Two important inputs here are:

1. Comparative Symbol- This means which would be the benchmark index/stock one want's to compare their stock/index.

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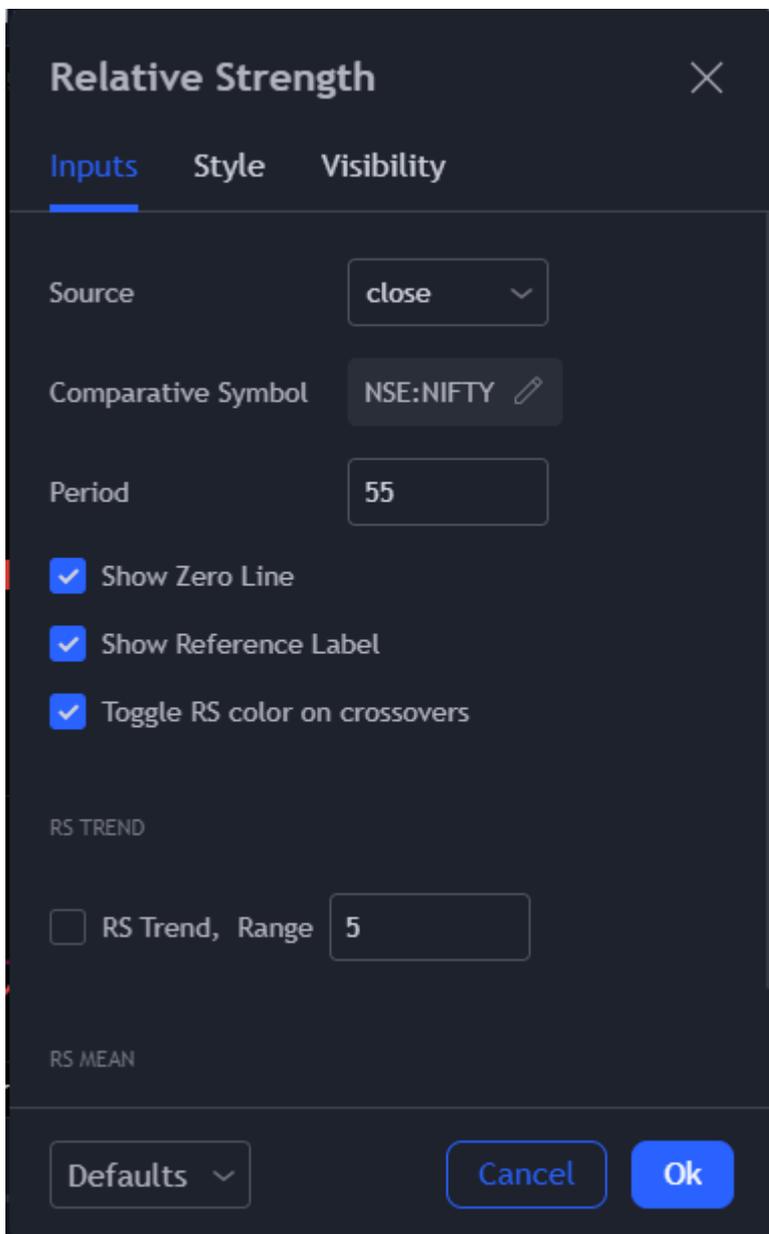
In Indian stock market, use Nifty as a benchmark as it includes all the major sectors.

2. Period: This is the time horizon over which one wants to compare the strength or weakness.

General period that is used is:
55- (3 months)
123- (6 months)
252 - (1 year)

Comparative Symbol and Period are highly customizable and use the values that suit your style.

This is a sample RS chart of Asian Paints v/s Nifty.

Green RS means stock has outperform and Red RS indicates underperformance.

Pink line is 0 line which is highly important.
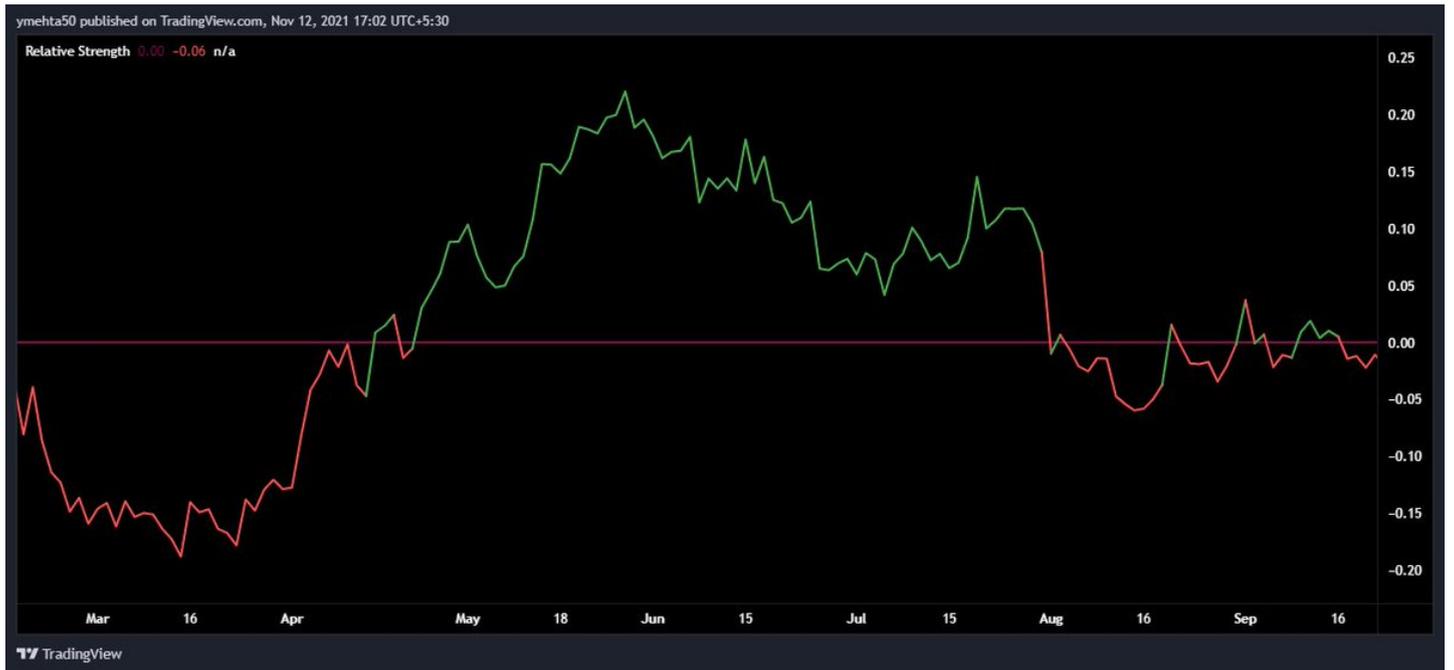
General definition of RS says:,

If RS line is above 0, then it shows stock will outperform and if RS is below 0, then it shows stock will underform.

Let's look at the same example:

When RS line closed below 0 line, Asian Paint stock went down from 2600 to 2200 (-15% down).

Similarly, for bullish setup.

When RS closes above 0 line, price of Asian Paints moved up from 2550 to 3000 (18% up).

Simple Rule of RS is:
1. Buy if RS > 0
2. Sell/Exit if RS < 0

This looks easy, but this is not that easy.

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Above setup that was shared was only when RS worked well.
There can be a lot of whipsaws in real life and using RS as a standalone will give you a lot of entry and exit in a stock. This will lead to minor loss plus additional trading cost.

What can be done now?

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One of the setup that I am using and practicing based on Relative Strength was gifted by @vivbajaj sir.

One can watch the video as he had explained everything about simple Relative Strength setup in detail■
https://t.co/kNpK9M4frd

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Setup is simple. Use following indicators:
1. Relative Strength (RS) - Period = 55, Benchmark = Nifty
2. Supertrend - Default Setting
3. Relative Strength Index (RSI) - Default Setting

Price Action is used as it is the supreme indicator in trading.

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Buying Setup (Daily Time Frame):

1. RS above 0
2. Price above Supertrend
3. RSI > 50

Once all these conditions satisfy, then wait for price action confirmation.
Price should give a breakout on closing basis above previous swing high with good volumes.

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Exit Setup:
Use 2 hour time frame chart.

If any two of the buying condition gets violated on closing basis, then exit immediately.

Why exit is done based on 2 hour chart?

Reason is fear in market spreads faster, so if lower time frame is bearish then exit.

Re-enter again if on 2 hours time frame setup becomes bullish and daily setup is also bullish.

Daily and 2 hours combination is for short-term trading.
One can use Weekly and Daily combination for positional trading.

Let's see some case/examples now:
Infosys (daily chart)

After satisfying all the conditions, entry got triggered at 960 and price rallied from 960 to 1120.

Up by 16% in the short term.

Second example is Pidilite Industry.

After fulfilling all the conditions, entry got triggered at 1930 and price rallied from 1930 to 2220.

Up by 12% in the short term.

One example of Positional Trading Setup:
Laurus Lab (Weekly Chart)

All the conditions got satisfied and price moved from 100 to 530. Stock up by 430%.

There would be many examples for this, so I would suggest to check this setup on other stocks and index chart as well.