

RELATIVE STRENGTH INDICATOR



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What Does the RSI Tell You?

The relative strength index (RSI) is a **momentum indicator**. RSI measures the speed and magnitude of a security's recent price changes to **evaluate overvalued or undervalued** conditions in the price of that security.

The RSI can do more than point to overbought and oversold securities. It can also indicate securities that may be primed for a trend reversal or corrective pullback in price. It can signal when to buy and sell.

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Key Takeaways

- An RSI reading of **70 or above** indicates an **overbought** situation.
- A reading of **30 or below** indicates an **oversold** condition.
- The RSI line crossing below the overbought line or above oversold line is often seen by traders as a signal to buy or sell.
- Traders can use RSI to predict the price behaviour of a security.
- It's a technical indicator that can be used with others to support trading strategies.

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Overbought or Oversold

Generally, when the RSI indicator **crosses 30** on the RSI chart, it is a **bullish** sign and when it **crosses 70**, it is a **bearish** sign.

An RSI reading of **30 or below** indicates an oversold or **undervalued** condition.



Overbought refers to a security that trades at a price level above its true (or intrinsic) value. That means that it's priced above where it should be, therefore it can be sell signal for the security.

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Limitations of the RSI

Most technical indicators, its signals are most reliable when they conform to the long-term trend.

True reversal signals are rare and can be difficult to separate from false alarms.

Since the indicator displays momentum, it can stay overbought or oversold for a long time when an asset has significant momentum in either direction.

Therefore, the RSI is most useful in an oscillating market where the asset price is alternating between bullish and bearish movements.



Should I Buy When RSI Is Low?

Some traders consider it a **buy signal** if a security's RSI reading **moves below 30**. This is based on the idea that the security has been oversold and is therefore poised for a rebound.

However, if the security is caught in a significant downtrend, then it might continue trading at an oversold level for quite some time.

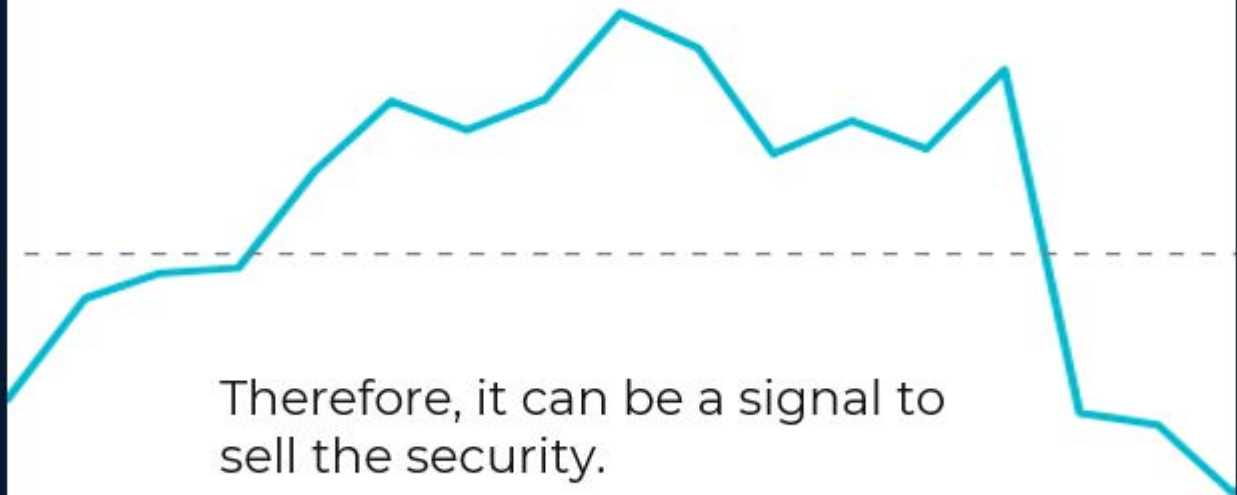
Traders in that situation might delay buying until they see other technical indicators confirm their buy signal.

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What Happens When RSI Is High?

As the relative strength index is mainly used to determine whether a security is overbought or oversold, a high RSI reading can mean that a security is overbought and the price may drop.



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