

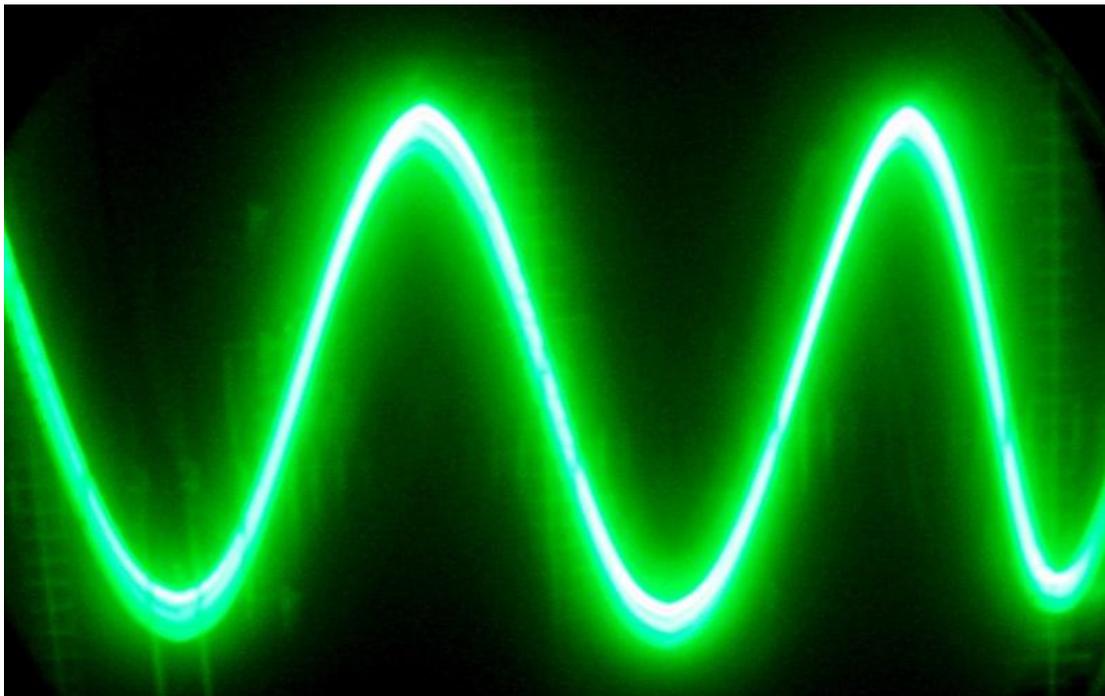
Traders' views - Forex

How to use the Relative Strength Index technical indicator

By Alexander Londoño, 12 Sep 2014

The Relative Strength Index is a technical indicator that points out oversold or overbought conditions. Let me explain how it works and how to use it.

The RSI is an oscillator, because it oscillates between the 0 and the 100 percent levels. It can never go above 100 or below 0.

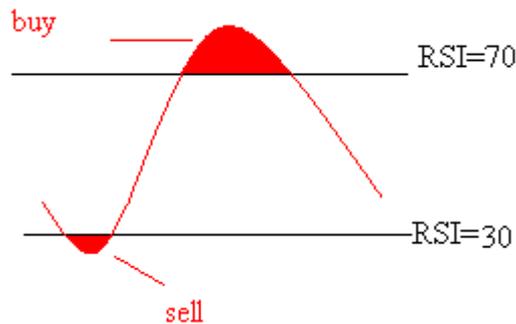


[Photo: Flickr/Brandon Daniel](#)

The most commonly configuration is the 14 period, over 14 days, but depending on each individual trader or system, the 9 period or the 21 period are also popular.

The RSI measures the relationship of the current price level to the price action of the last candles, depending on the period that is being used. Oversold levels are below the 30% line and overbought levels are above the 70%.

Entry signals can be taken when the RSI comes out of oversold or overbought levels. For instance, when the RSI goes above the 70% and then comes out below that line; that could be considered a sell signal by the indicator.



When the RSI drops below the 30% line and comes out above that level, then that could be taken as a buy signal by the indicator.

The RSI has a weak spot and that is when the price is trending too strongly and it is not looking back, then the RSI has nowhere else to go, because it cannot surpass the 100% or drop below the 0%.

Therefore when that happens, the RSI stops being reliable and it just stays in a consolidation mode at either extreme.

Like the [MACD](#) indicator, which determines the strength and direction of a trend, the RSI is generally provided for free on many online charting services.

Alexander Londoño is analyst contributor at [forex broker ActivTrades](#). Alexander has been a financial markets trader for more than 10 years, including scalping and position trading, from small individual accounts to large corporate accounts as head currency strategist for two international banks. He advocates simplicity, but at the same time discipline and professionalism.

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