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TRADING GROUP UBC

Market Concepts

Relative Strength Index (RSI)

Summary

The Relative Strength Index (RSI) is a powerful tool used by many industry professionals as an indication to identify an "overvalued" or "undervalued" stock or asset based on its current price. Wilder Jr. developed the indicator in 1978, published in his then-new "New Concepts in Technical Analysis" book.

Interpretation

RSI is typically ranked on a line graph between 0-100. Although open to interpretation, under 30 is generally viewed as underbought and oversold while over 70 is viewed as an indication of the underlying asset being overbought and oversold. Investors can then interpret whether or not a security is "primed" for reversal or pullback based on its RSI reading. Typically, these interpretations are made for short term investments, while long term investments focus more on fundamental indicators rather than technical ones.

Source: Trading View

Criticism

The Relative Strength Index should not be used in absolute for a definite yes or no answer in terms of deciding to invest in security or not. Rather, the tool should be used as an indication by investors to aid in their investment decision process. Focusing solely on one technical indicator and ignoring other key fundamental analysis tools would be foolish as it only looks at one side of a much larger picture.

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