Relative Strength Line

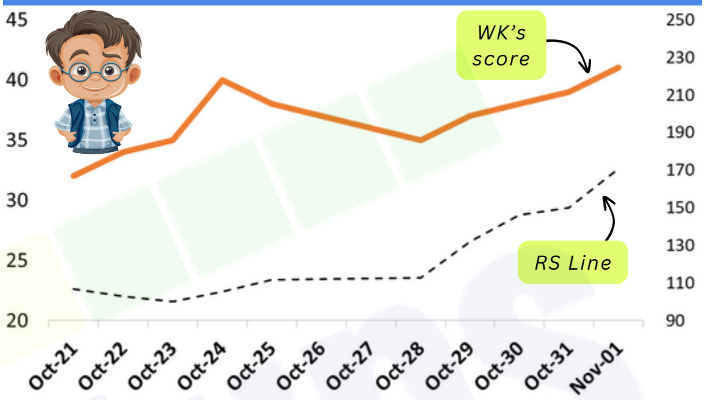
The Relative Strength line (RS Line) is a tool that helps us see how a stock is performing compared to the overall market or an index, like the Nifty500.

Let's say that in a class, Maths teacher takes exam everyday, and the average of all the kids is written on the board. Each student's performance can be compared to this average to see who is doing better or worse.

Date	Avg. class marks	WonderKid	WK RS Line
Oct 21	30	32	32/30*100 = 106.7
Oct 22	35	37	37/35*100 = 105.7
Oct 23	32	34	34/32*100 = 106.3
Oct 24	38	41	107.9
Oct 25	40	40	100
Oct 28	35	34	97.1
Oct 29	32	35	109.4
Oct 30	28	33	117.9
Oct 31	26	29	111.5
Nov 1	32	35	109.4

Now, let's say you have one student named WonderKid. If we track Wonderkid's scores against the class average after each test, we can create a line graph showing his relative performance.

WonderKid's marks with his RS Line vis-a-vis Avg. class score



When WonderKid's **RS line goes up** compared to the average, it means he is **doing better** than the class as a whole.

When WonderKid's **RS line goes down** compared to the class average, it means he is **not doing as well** as the class.

In trading, a stock is like WonderKid, and the class average is like the market index (say Nifty500). A stock's ***rising RS line*** suggests that it is "***outperforming its classmates***" (Nifty500), while a declining RS line suggests it's lagging.

Just as teachers might pay attention to students who are consistently improving, traders often look for stocks with an RS line that's consistently trending upward!

Understanding RS Line with a Stock

On the chart to the left, you can see the Nifty500 index in the top panel and the price chart of Oberoi Realty in the bottom panel, with its Relative Strength (RS) line compared to Nifty500 also displayed.

In the left section of the chart, when Nifty500 was moving up, Oberoi's stock price was going down, causing its RS line to decline. This shows that Oberoi was underperforming, even though the overall market was strong.

In the right section of the chart, as Nifty500 started to fall, Oberoi's stock price was either rising or staying steady, making its RS line rise. This indicates that Oberoi was outperforming the market during weaker market conditions.

Pro-Setups **Indicator plots RS line on charts.**
Rising RS line is plotted green.
Declining RS line is plotted red.

HOW TO USE RS LINE?

RS LINE... WHAT WE KNOW?

RS line visualizes the performance of a stock with respect to an index.

When RS line is sloping upward, the stock is outperforming the market. Think of it as a sign that the stock is "winning the race" against the market, especially during challenging market conditions, showing strength. Rising RS lines are often found in stocks that are leaders - these are stocks that could keep gaining because they're doing well compared to most others.

In essence, **you want to look for stocks with RS lines that are trending upward**. These are often strong stocks that have the potential to outperform in various market conditions, while stocks with falling RS lines may be riskier choices.

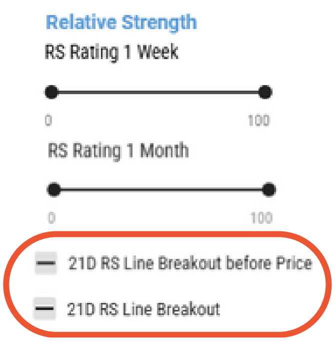
During adverse market conditions, the majority of stocks may decline along with the market. However, some stocks will decline less than the market or even maintain a stable price. These stocks show relative strength, as indicated by an upward-sloping or stable RS line.

Take the case of **Anant Raj Limited**. At a time when overall market fell from Dec'22 to Mar'23 period, this stock moved sideways, with rising RS line. When market ultimately bottomed, the stock broke its all-time high and moved up swiftly after that.

In his book - **Trade like a Stock Market Wizard** - Minervini quoted: *'After an extended bear market correction, look for stocks that hold their ground, or even better, work their way higher while the general market averages trend lower. A series of higher lows during lower lows in the general averages is a tip-off that a potential market leaders is in the making. The* ***relative strength line*** *of the stock should show steady improvement as the market declines.'*

How do we find out these kind of opportunities with rising RS line?

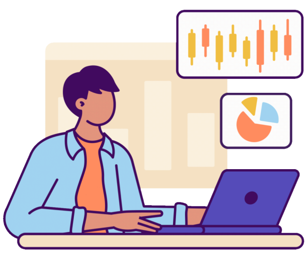
Pro-Setups Dashboard has two filters for this purpose:



21D RS Line Breakout before Price
Gives names of stocks where RS line is rising and it makes a new 21-day high, before the closing price makes 21-day high.

21D RS Line Breakout
Gives names of stocks where RS line is rising and it makes a new 21-day high along with the closing price.

Pro-Setups Indicator on TradingView shows lighter green dot when RS line makes new high with price, and a bold green dot when RS line makes new high before price.



The RS line and Relative Strength rating are especially powerful tools in challenging conditions. While most retail traders sit back and watch their holdings fall, this is precisely when we should be **hunting for the next strong opportunity** - those stocks that are building resilience and poised to lead when the market recovers. There's no better signal for these future leaders than an RS line that's reaching new highs during a downturn. This is the edge that helps traders spot tomorrow's winners today.