

Bollinger Bands

EXPLORE - UNDERSTAND - EXECUTE

14th May'26

Disclaimer

This is for educational and informational purposes only and does not constitute financial advice. Refer - <https://stocko.in/stocko-disclaimer/>



Market Experience : 26 Years

- Technical Market Strategist : Share khan
- Asia Pacific Equity Research : Citi Global Markets
- Technical Market Strategist : Centrum Broking
- Product Head : Ignite – Sharekhan Education
- Sr VP : Motilal Oswal : Head School Of Trading & Investing
- Head Education : Fin Learn Academy
- Media Appearance : CNBC & NDTV Profit

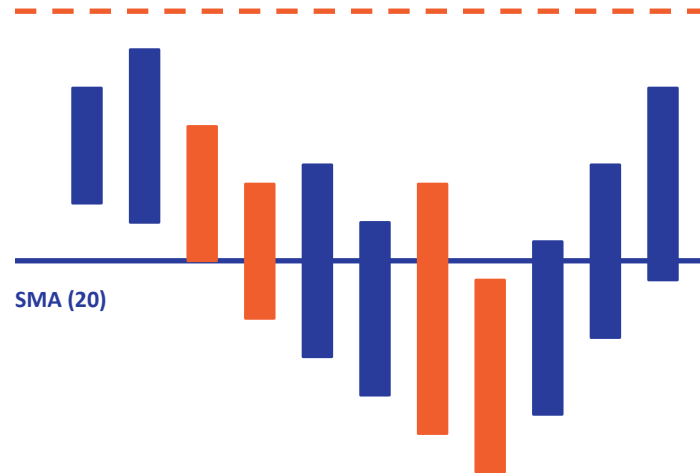
Overview of Today's Webinar

- **Define Trend**
- **Define Corrective / Impulse**
- **Mean Reversion**
- **W & M**
- **Overbought / Oversold**

Bollinger Bands

Volatility, mean reversion, and the art of reading market range.

Upper Band



Lower Band

What Are Bollinger Bands?

Bollinger Bands are a volatility-based technical indicator developed by John Bollinger in the 1980s. They wrap a moving average with two adaptive bands that widen and contract as the market's volatility changes.

Why traders use them

- Gauge whether price is statistically high or low
- Spot expanding or contracting volatility regimes
- Frame mean-reversion and breakout setups

THE BIG IDEA

“Price tends to stay within the bands roughly 95% of the time.”

— John Bollinger, on the indicator's statistical anchor (± 2 standard deviations).

The Three Components

1

Upper Band

$SMA + 2\sigma$

Resistance proxy. When price tags the upper band, it's stretched above its 20-period average by two standard deviations.

2

Middle Band

20-period SMA

The anchor. A simple moving average that defines the prevailing trend and acts as a dynamic mean.

3

Lower Band

$SMA - 2\sigma$

Support proxy. When price tags the lower band, it's stretched below its 20-period average by two standard deviations.

How the Bands Are Calculated

THE FORMULA

Middle = $\text{SMA}(\text{close}, 20)$

Upper = $\text{SMA}(\text{close}, 20) + 2\sigma$

Lower = $\text{SMA}(\text{close}, 20) - 2\sigma$

where σ = standard deviation of the same 20 closes

Standard Settings

Period

20

Bars used in the moving average

Deviations

2

Multiplier applied to σ

Source

Close

Price series, usually closing price

Reading the Bands



Tag of the Upper Band

Price is statistically extended. Watch for reversal in a range — or trend continuation when the band rides.



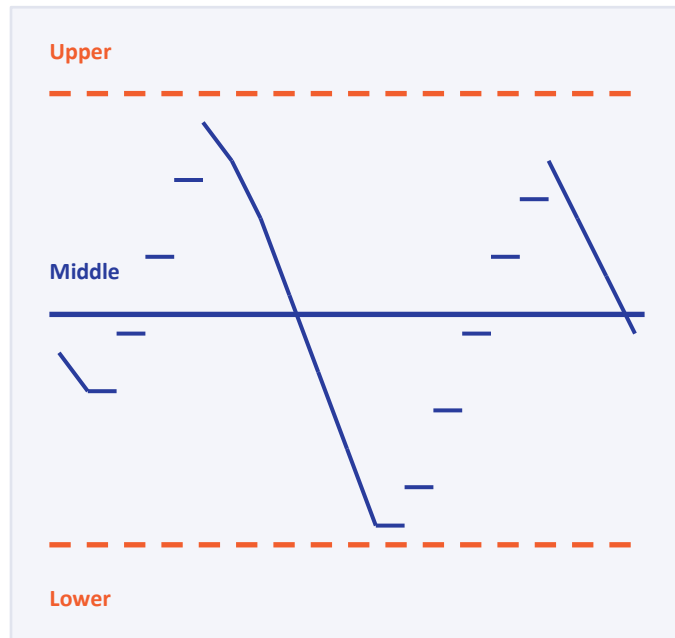
Tag of the Lower Band

Price is statistically depressed. Often a candidate for mean-reversion bounces or oversold conditions.



Middle Band Crossings

The 20-SMA acts as a dynamic pivot. Crossings often mark short-term trend shifts.



When the bands contract sharply, volatility has dried up. Markets cycle between calm and storm — a squeeze warns that a strong directional move is statistically more likely, even though it doesn't tell you which way.

What to look for

- Band width at a multi-month low
- Tight, overlapping candles inside narrow bands
- Confirmation via volume and direction on breakout

The Breakout: When the Bands Expand

01

Expansion

Bands widen rapidly as range expands. Volatility regime has shifted from compression to trend.

02

Riding the Band

In strong trends, price walks along the outer band. Tags are continuation cues, not reversals.

03

Failure & Snap-Back

False breakouts return inside the bands quickly. A close back inside often precedes a move to the opposite band.

Three Common Strategies

Mean Reversion

RANGE MARKETS

Fade tags of the outer bands back toward the SMA. Works best when bands are stable and the trend is sideways.

Strategy 01

Bollinger Squeeze

VOLATILITY PLAY

Wait for a multi-bar squeeze, then enter on the breakout candle with stop on the opposite band.

Strategy 02

W-Bottoms & M-Tops

REVERSAL PATTERNS

A second low that holds above the lower band — with momentum divergence — flags a possible reversal. Inverse for tops.

Strategy 03

Limitations & Best Practices

WATCH OUT

- Bands lag — they react to past price, not future moves
- Tags are not buy/sell signals on their own
- Strong trends can ride a band for long stretches
- Default 20/2 settings may not fit every asset or timeframe

BEST PRACTICES

- Combine with momentum (RSI, MACD) for confirmation
- Trade with the higher-timeframe trend, not against it
- Tune period and σ to the asset's volatility profile
- Always define stop-loss before entry — bands are a guide, not a wall

Q&A

Disclaimer

Investments in the securities market are subject to market risks, read all the related documents carefully before investing. Brokerage will not exceed the SEBI prescribed limit.

Any video/image/text content is for educational and informational purposes only and does not constitute financial advice. Please do your own research or consult a qualified financial advisor before making any investment or trading decisions. Trading in stock markets involves risk of loss.

South Asian Stocks Ltd. : NSE Member Code 09073, BSE
Member Code 6329, MCX Member Code : 55215 , NCDEX
Member Code : 1233 NSDL : IN-DP-474-2020 . SEBI Registration
No. INZ000164738
Compliance Officer: NSE, BSE, MCX, NCDEX, NSDL : Mr RK
Jain , 011-40409999 support@stocko.in
Registered Office:- 3rd Floor, Building No.5, Local Shopping
Complex, Rishabh Vihar, Near Karkarduma Metro Station. East
Delhi – 110092