

Confluence

Stacking Indicators for Confluence — Lesson Explainer

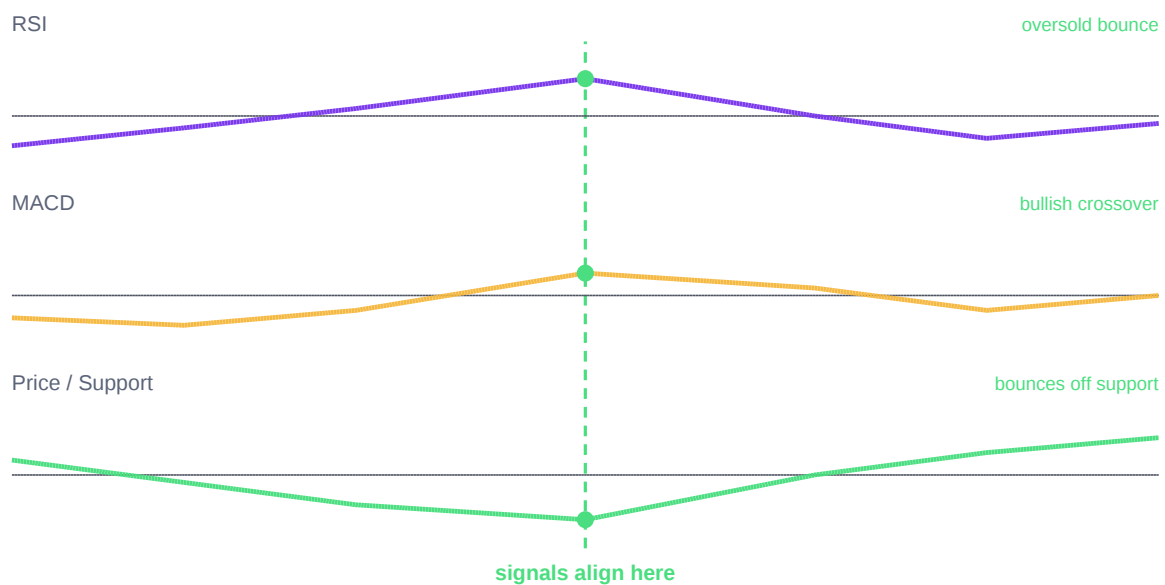
The Concept

Every indicator in this track has a blind spot. RSI can stay overbought for weeks in a strong trend. MACD confirms a shift only after it's begun. Bollinger Bands say nothing about direction. None is wrong to use, but none is enough alone.

Confluence means waiting until two or three independent signals line up before treating a setup as worth acting on. If RSI is oversold, MACD just crossed bullish, and price sits at known support - that's three different tools agreeing at once.

The goal isn't demanding every indicator agree - that almost never happens. It's recognizing that more independent confirmation lowers the odds you're reacting to noise, not a real signal.

Three Independent Signals Lining Up



5 Things to Know About Confluence

1. Independence matters more than quantity - different categories agreeing beats similar tools agreeing.
2. Demanding perfect agreement means missing most opportunities - two solid confirmations is often enough.
3. Confluence reduces false signals, it doesn't eliminate them - it shifts the odds, not a guarantee.
4. Contradicting signals are information too - disagreement is itself useful to notice.
5. More isn't always better - piling on many indicators tends to just add lag and noise.

4 Things to Check for Confluence

- Mix categories, not just tools - combine momentum, volatility, and price-level indicators.
- Check the same point in time - signals need to line up at roughly the same moment.
- Confirm with volume - volume backing a setup adds a fourth, independent layer of confidence.
- Respect the bigger trend - confluence signals working with the trend are historically more reliable.

Worth knowing:

confluence is a way to filter out noise, not a guarantee. Even a strong multi-signal setup can fail
 - always pair it with sensible position sizing and a risk management plan.

Quiz — Answer the questions, then check the key on the next page

1. What does "confluence" mean in technical analysis?

- A. Using only one indicator at a time
- B. A type of candlestick pattern
- C. Multiple independent signals lining up and pointing the same way at once
- D. A company's earnings report

2. Why is independence between signals more important than the raw number of signals?

- A. It isn't - more signals of any kind is always better
- B. Independence has no effect on signal quality
- C. Only price-based signals count as real signals
- D. Several similar momentum tools agreeing is weaker than different categories agreeing

3. Why shouldn't you demand every possible indicator agree before acting?

- A. Indicators are never useful, so it doesn't matter
- B. Perfect agreement across every tool is rare, so you'd act on almost nothing
- C. It's against exchange rules to check more than one indicator
- D. All indicators always agree anyway, so checking is pointless

4. Does confluence guarantee a signal will play out correctly?

- A. No - it lowers the odds of reacting to noise, but it's not a guarantee
- B. Yes, three aligned signals always play out correctly
- C. Yes, but only on Fridays
- D. Confluence has nothing to do with signal reliability

5. RSI says oversold but trend and volume both suggest price is still falling - what does that mean?

- A. Always trust RSI over every other tool
- B. Ignore the disagreement entirely and act on RSI alone
- C. The disagreement itself is useful - this is a weaker, less confirmed setup
- D. RSI is broken and should never be used again

Answer Key

1. What does "confluence" mean in technical analysis?

Correct answer: C. Multiple independent signals lining up and pointing the same way at once

Confluence is waiting until two or three independent tools agree before treating a setup as worth acting on.

2. Why is independence between signals more important than the raw number of signals?

Correct answer: D. Several similar momentum tools agreeing is weaker than different categories agreeing

Similar tools tend to move together anyway, so their agreement adds less real confirmation than genuinely different types agreeing.

3. Why shouldn't you demand every possible indicator agree before acting?

Correct answer: B. Perfect agreement across every tool is rare, so you'd act on almost nothing

Two or three solid, independent confirmations is a more practical standard than total agreement.

4. Does confluence guarantee a signal will play out correctly?

Correct answer: A. No - it lowers the odds of reacting to noise, but it's not a guarantee

Confluence shifts the odds in your favor by filtering out noise - it never eliminates the possibility of being wrong.

5. RSI says oversold but trend and volume both suggest price is still falling - what does that mean?

Correct answer: C. The disagreement itself is useful - this is a weaker, less confirmed setup

Contradicting signals are information too - when tools disagree, treat the setup with more caution.