

Simple & Consistent Fibonacci Method

Prepared by: Simone Guy

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Overview

This is a mechanical trading method that is based on Support and Resistance. The tools that are used to identify entries, support & resistance, targets and exits are:

- Fibonacci
- Trend Lines
- Fractals

This method is NOT specific to a particular pair or timeframe and can be applied based on your trading personality, time and risk level.

Other important knowledge:

Candlestick Patterns- [Resource A](#), [Resource B](#)

On this thread, however, it is traded on 15M charts. Better results are achieved trading this method between 3:00am EST and 12:00pm EST.

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The Fundamentals of our Technicals

Trends

UPTRENDS – A market can be identified as being in an uptrend if higher LOWs and higher HIGHS are being created.

DOWNTRENDS – A market can be identified as being in a downtrend if higher LOWs and lower HIGHS are being created.

Uptrend Example



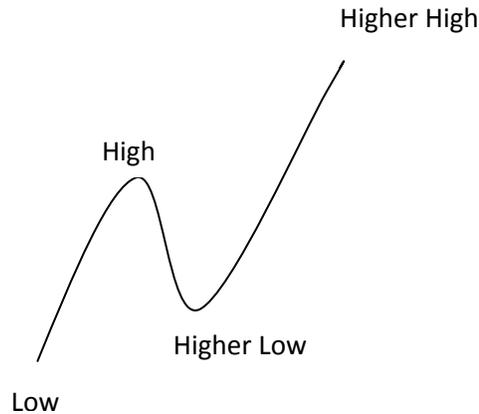
Downtrend Example



So if the market is in an UPTREND and then it starts creating lower highs and lows, even if temporary, we assume that we are shifting to a downtrend.

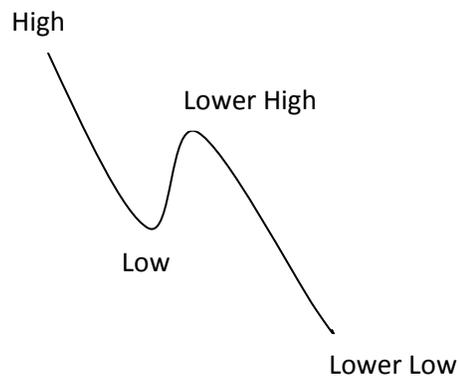
And if the market is in a DOWNTREND and then it starts creating higher highs and lows, even if temporary, we assume that we are shifting to an uptrend.

As the market trends it waves to achieve its destination like ebbing and flowing. So for example when waving or trending upwards, waves will look like this:



Low to High, High to Higher Low, Higher low to Higher High

When waving or trending downwards, waves will look like this:

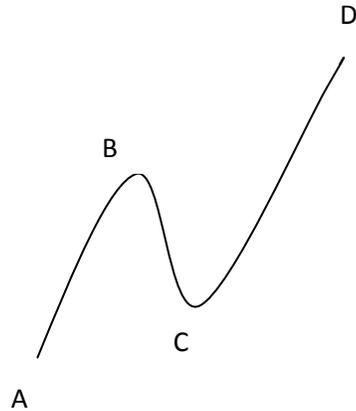


High to Low, Low to Lower High, Lower High to Lower Low

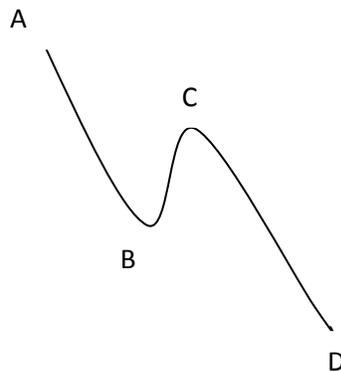
Retracements

The pullback from a high to a low or from a low to a high is called a retracement. Retracements are what the market uses to find the required momentum to achieve its target or destination.

So it will hit a low that holds, "A", wave to a high, "B". retrace to a higher low "C" and extend to its destination "D".



Similarly, it will hit a high that holds, "A", wave to a low, "B", retrace to a lower high "C" and extend to its destination "D".



Retracements or Cs are percentages of the AB move or swing. What the Fibonacci tool does is calculates the length of the AB wave, then measures the percentage (Fibonacci number) it retraced to, to determine a destination (D).

FOR ABCD FIBONACCI PATTERNS....

Fibs are drawn from A to B. So A is always 100% and B is always 0%. Examples below...





Fibonacci Retracement Levels

These are the levels that the market pulls back or retraces to, to facilitate a bounce.

The retracement levels are those between 0 and 100%. The most commonly used retracement levels are 38.2, 50, 61.8, 78.6 and 88.6. The 61.8% is a very key retracement level and is referred to as the Golden Fib number as the market tends to bounce from there on most retracements.

Fibonacci Extension Levels

These are the levels that the market targets or extends to when it bounces.

The extension levels are those below 0%. The most commonly used extension levels are -38.2, -50, -61.8, -78.6, -88.6, -100, -127.2, -161.8, -200, -224, -314.

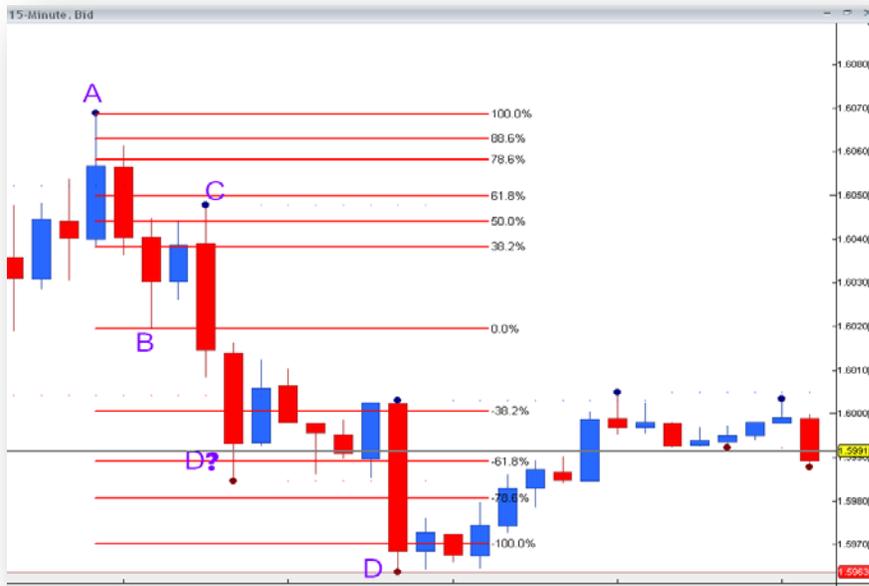
Associating Retracements with Extensions

Retracement Level	Extension Level
38.2	-38.2, -61.8 , -100, -161.8 , -200 , -224, -314
50	-50 , -61.8 , -100, -161.8 or a little beyond
61.8	-38.2 , -61.8 , -78.6, -88.6, -100, -127.2, -161.8
78.6	-38.2, -61.8 , -78.6 , -88.6, -100, -127.2 , -161.8
88.6	-61.8 , -78.6, -88.6, -100 , -127.2, -161.8
** The extensions in bold are the ones mainly targeted.	

Trading Fibonacci ABCD patterns

In a downtrend, we SELL Cs and Buy Ds. In an uptrend, we BUY Cs and SELL Ds. We use candlestick patterns to confirm Cs and Ds.

Example



If this is new to you, please spend some time practicing before attempting to go further.

As you can see from the above, entries and exits may not be ideal or highly accurate based on the fact that the market has many options for retracement, and each retracement level has multiple options for targets. This is why it is important to combine the above with something that will help to validate entry and exit points for better results.

Understanding Support & Resistance

Support

These are significant lows created by the BEARS (or Sellers), that the bears later target to create lower lows and that the BULLS (or Buyers) use to attract buying.

Resistance

These are significant highs created by the BULLS (or Buyers), that the bulls later target to break to create higher highs and that the BEARS (or Buyers) use to attract selling.

The basic principle in trading Support and Resistance, is that, once a support or resistance level is holding, we BUY SUPPORT and SELL RESISTANCE.

When a support level is broken, the market begins to close below that level, it becomes RESISTANCE and attracts SELLERS.

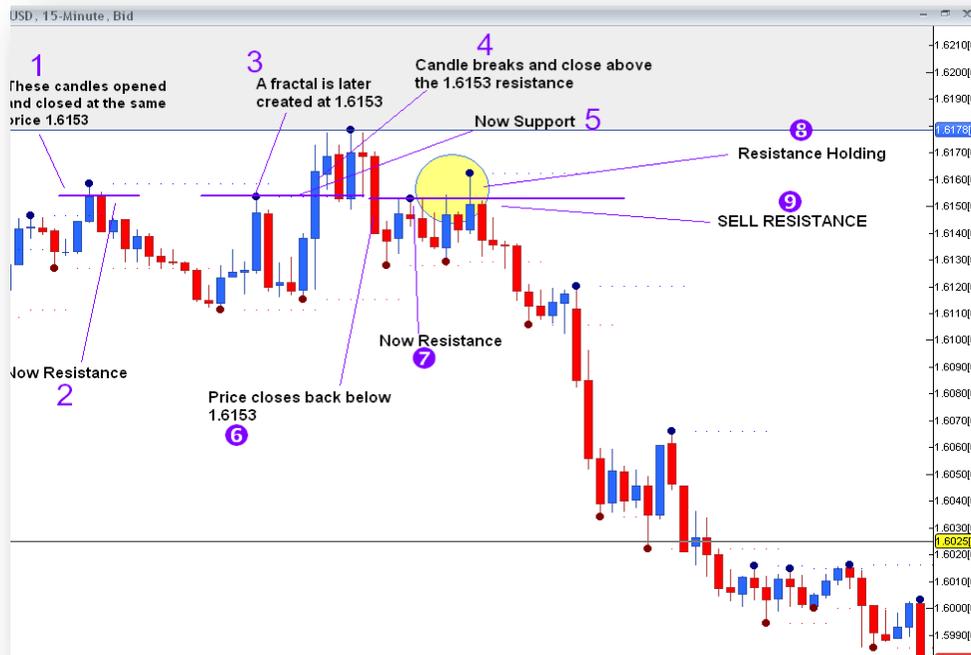
When a resistance level is broken, the market begins to close above that level, it becomes SUPPORT and attracts BUYERS.

Fractals (the little dots on the candles in the chart examples) are great with helping to identify support and resistance. The bigger the timeframe, the stronger the level of S & R.

We can identify support and resistance through:

1. Fractals
2. Candle high/low, candle closes and opens
3. Trendlines
4. Fibonacci

Example with Fractals and Candle high/low, closes and opens



Spend some time training your eyes to find these levels.

Trendline Overview

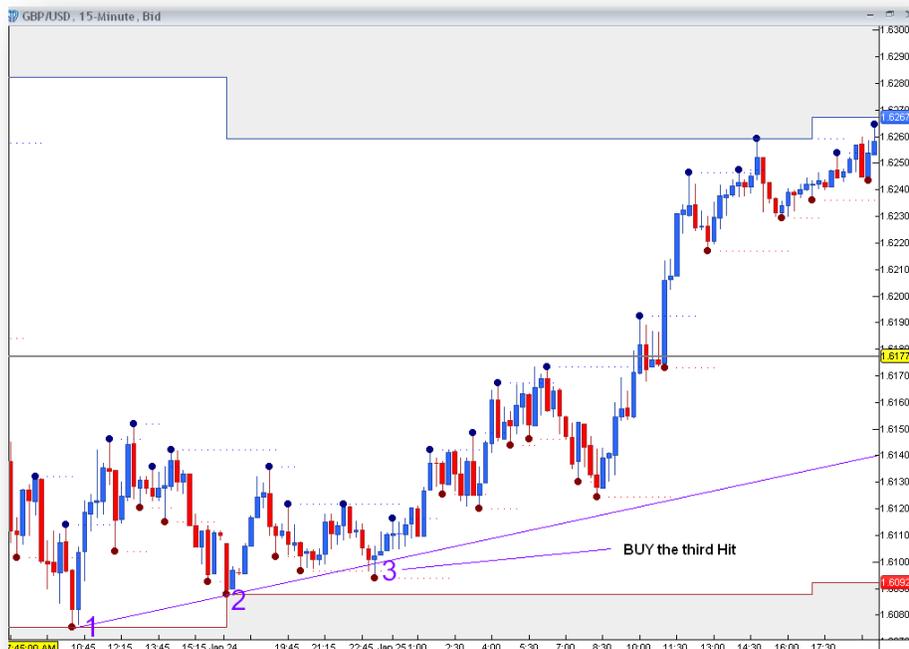
The trendlines will also act as support and resistance levels. It is very important to draw your trendlines and keep them for awhile on the chart. Usually when the market touches the trendline 3 times, the third hit causes the most buying or selling. This is the Trendline 1-2-3 setup. Always draw new trendlines as the angle of the trend changes.

Trendlines are drawn along the lows in an uptrend and along the highs in a downtrend. Connect the first two lows/highs and extend your trendline to identify where the market will likely return and bounce. If the angle of the trend changes you will need to draw new trendlines.

Trendline Example



Trendline Example – Buying Support



Trendline Example



Spend some time to practice drawing your trendlines and identifying 1-2-3 setups.

THE METHOD

50% Breach Level Entries

Each Time a Swing (high/low) is created, the 50% level, called the pivot level acts as support when there is a close above it, and as resistance when there is a close below it.

The only levels needed on this fib are the 100%, 50% and 0%.

Usage

If the market is trending upwards, and give signals (candle patterns) to sell, we fib the high to the nearest low and market the 50% level as the support level. If bullish candle patterns develop off this level the trend is like to continue UPWARDS. If however there is a break, below this level, it will become resistance and give opportunities to SELL.

Trend Reversal Example—GBP/USD – Feb 8, 2010

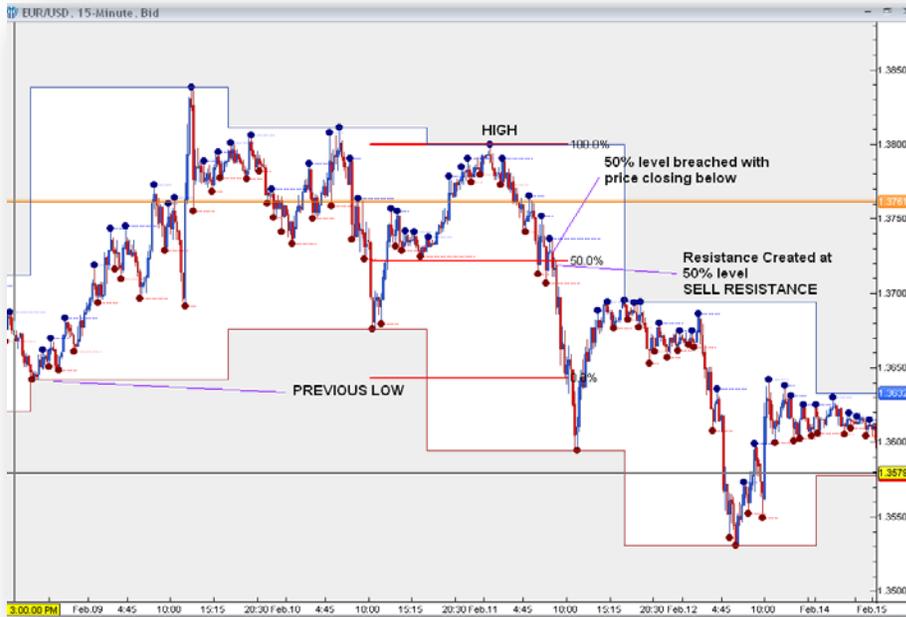


Once our resistance holds, we search for the next 50% breach level. This is done by adjusting to 0% to the low just below the current.

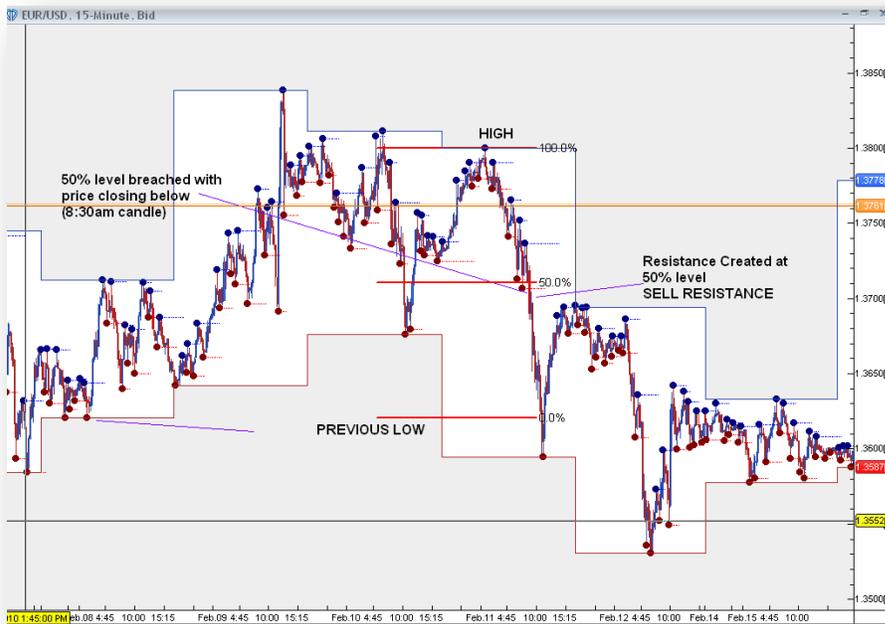
EUR/USD Example continued - Second breach gives us our second entry



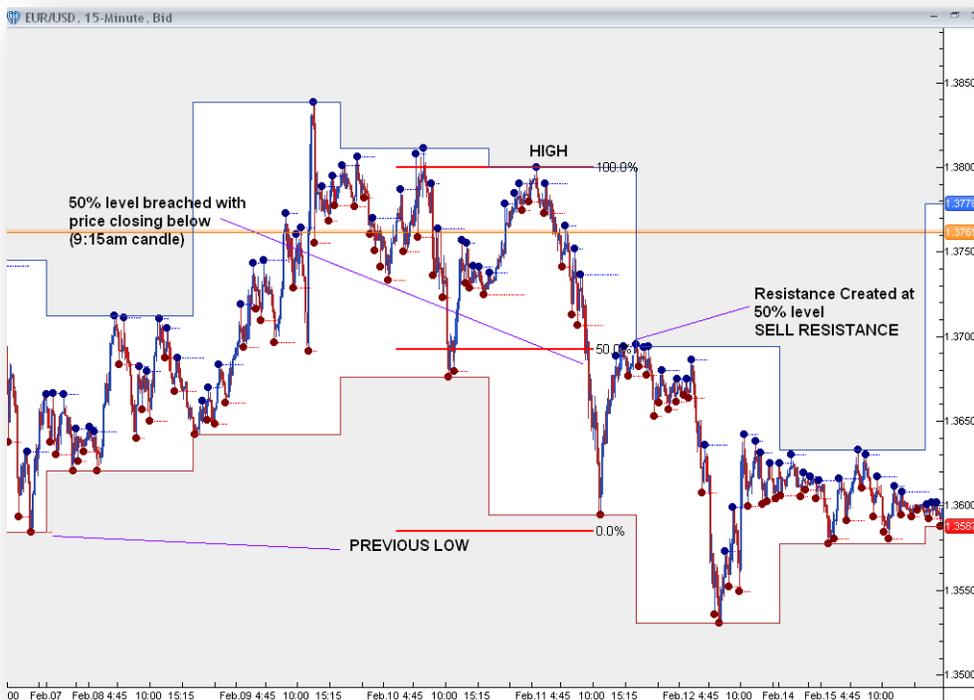
EUR/USD Example continued - Third breach gives us our third entry



EUR/USD Example continued - Fourth breach gives us our fourth entry



EUR/USD Example continued - Fifth breach gives us our fifth entry



WOW!!! Look at that! We are able to take 5 beautiful entries on this EUR/USD trade on Feb 11, 2010. All on the 50% level. Did the trade leave us? NO! We would not have been able to catch all these entries

with ABCD fibs. If all these entries were traded and held, the trade yielded 970+pips in 24 hours on a 15M chart.

Go over these examples and burn them into your mind.

Now that we have the basics of the 50% breach. We will examine time. This method is most profitable when traded between 3:00am EST and 12:00pm EST. So we start our trading day at or within that time.

By now you must be asking, "Where do I take profits?" This is where the Bobokus Fibs come in

Bobokus Fib levels

Previously we looked at the most basic way of using Fibonacci to derive retracement and extension levels. The Bobokus Fibs differ in that:

1. It uses a different set of levels
2. Fibs are drawn from high to low at ALL times whether we are in an up or downtrend
3. It is more precise for identifying targets and entries
4. It is more precise for identifying the major support and resistance of a period (hour, 4hrs, day, week etc.)

Understanding the Bobokus Fib Levels



The Resistance & Support Levels

The 80.9% is the resistance of the swing that you fib. The principle still remains that we should SELL RESISTANCE. Retracements to this level attracts SELLING usually to the -55% OR -127.2%.

The 19.1% is the support of the swing that you fib. The principle still remains that we should BUY SUPPORT. Retracements to this level attracts BUYING usually to the 80.9% OR 127.2%

Conversely, when we are trading above the 80.9% it becomes support and, remember, we BUY SUPPORT.

If we are trading below the 19.1%, it becomes resistance and, we SELL RESISTANCE.

Long & Short Levels

The 38.2% is the SHORT level of the swing. Meaning, below this level is the area to go SHORT or SELL.

The 68.1% is the LONG level of the swing. Meaning, above this level is the area to go LONG or BUY.

Because of the above fact of the long and short levels, whenever the market is falling towards the 38.2% it acts as SUPPORT, and whenever it is climbing towards the 61.8% it acts as resistance.

Reverse Trades

Whenever targets (bull or bear) are achieved, opportunities are presented for entering a reverse trade (reversing your position). You will see that 90% of the times, there is a reversal or pullback after targets are hit.

Trend Continuation

Bearish Trend Continuation trades usually occur at the 80.9% and 61.8%. Bullish Trend Continuation trades usually occur at the 19.1% and 38.2%.

Usage of the Bobokus Fibs

We will use the Bobokus Fibs for:

1. Weekly Targets, Support & Resistance
2. Daily Targets, Support & Resistance
3. Intraday Targets, Support & Resistance

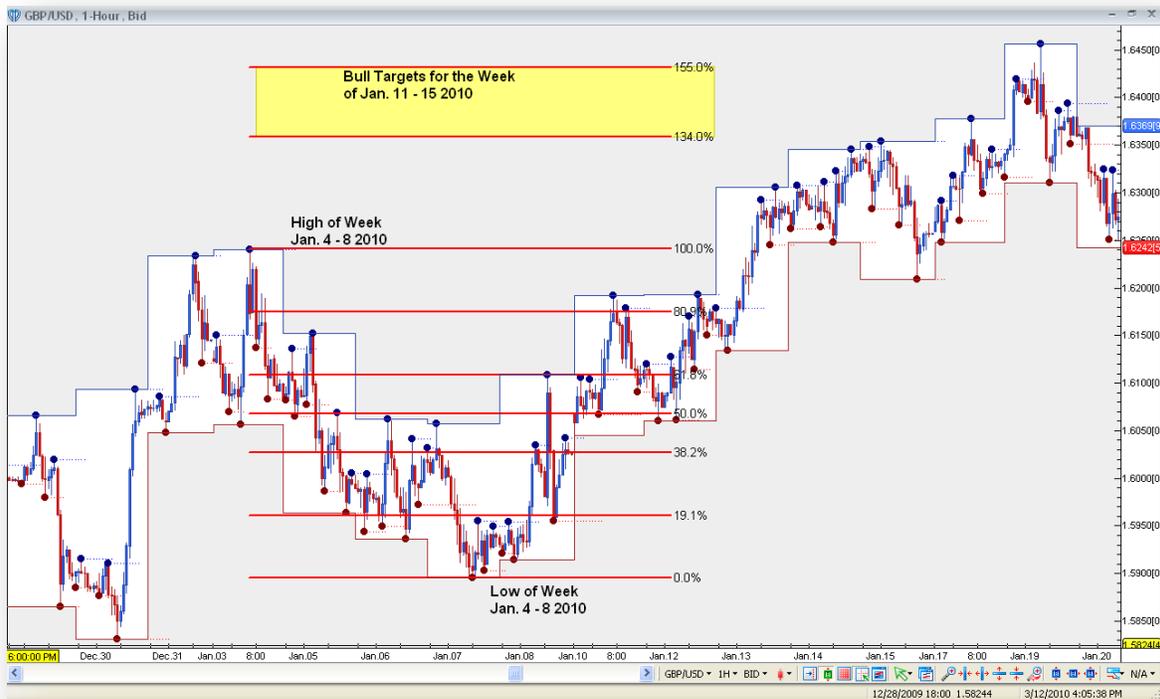
Finding Weekly Targets, Support & Resistance

At the close of a given week, that is Friday evening, Fib from the high of that week to the low of that week. This will project the targeted bull and bear levels for the next week, as well as show the areas of support and resistance that should be watched. Whenever targets are not achieved in a given week, they are usually achieved early the following week (Sun-Tues), followed by a massive reversal.

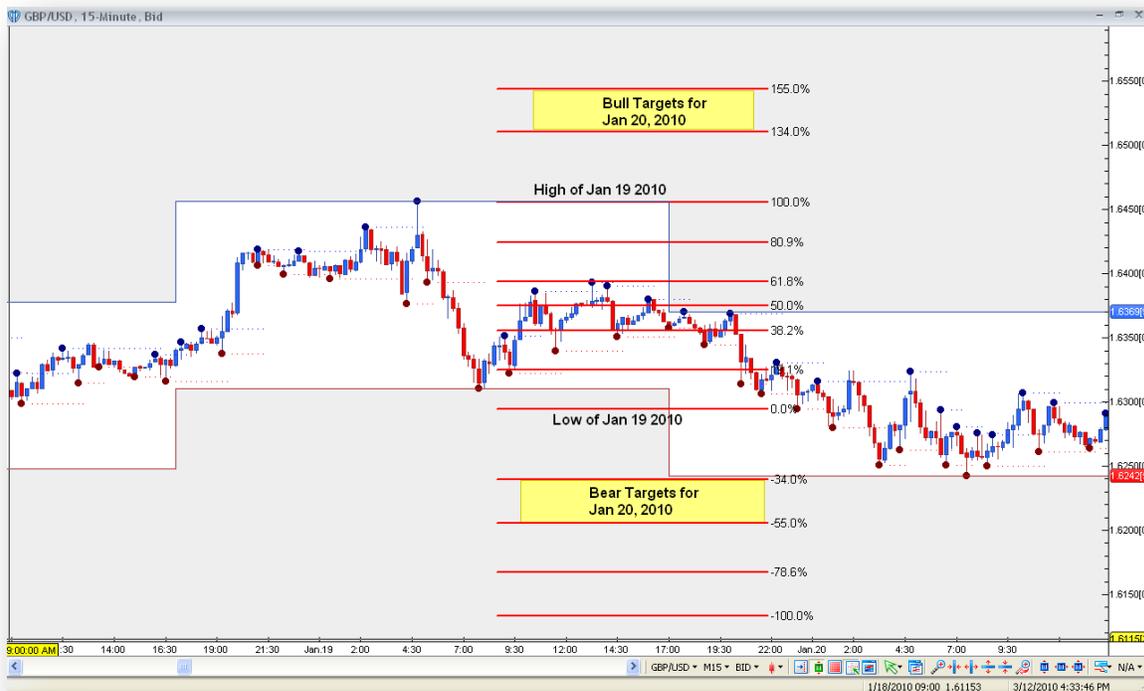
Finding Daily Targets, Support & Resistance

At the close of a given day,(12:00amEST to 11:59pmEST), Fib from the high of that day to the low of that day. This will project the targeted bull and bear levels for the next day, as well as show the areas of support and resistance that should be watched.

Weekly Fib Example



Daily Fib Example



Targets

The projected bull and bear targets on a swing should be interpreted as follows:

Should the market go BULLISH, these will be its targets for the specified period.

Should the market go BEARISH, these will be its targets for the specified period.

Price Rejection

This occurs when the 100% or 0% level is broken and the market fails to reach the bull or bear targets. The result is a massive reversal in the opposite direction towards the Resistance (if the market was selling before) or Support (if the market was buying before) and then to the targets on the opposite side of the fibs.

Persons who trade bigger timeframes can fib the high and low of the previous month to get an outlook on the next month.

Finding Intraday Targets, Support & Resistance

This section will require your fullest attention as it is a little different from the previous. Intraday fibs, means that as the day progresses, you will be adjusting your fibs to the new high or low of the day, in order to find new targets, support and resistance.

STEPS

So at 3:00amEST:

1. We search for the high and low created between 12:00amEST and 3:00amEST.
2. We fib from the high to the low to establish targets, support and resistance.
3. We draw our 50% breach fib from: low to nearest high OR high to nearest low.
4. We wait for a breach to occur on the 50% breach fib, or for a continuation of trend at that level.
5. We enter on breaches or bounces on the breach level.
6. We take profit at the target level, or if holding, adjust our 50% breach fib to the nearest high or low and await another entry. (Please note that entries may be derived from the long and short levels as well)
7. Adjust the Bobokus fib to the new high or low created, to view new targets.
8. Repeat steps 3-6

Taking Profits

The preferred take profit level, on daily and weekly fibs, are the first targets (-34% & 134%), as most of the times it is the target that is fully achieved.

Step-by-Step Example

So at 3:00amEST:

1. We search for the high and low created between 12:00amEST and 3:00amEST.

Feb 10, 2010 – GBP/USD

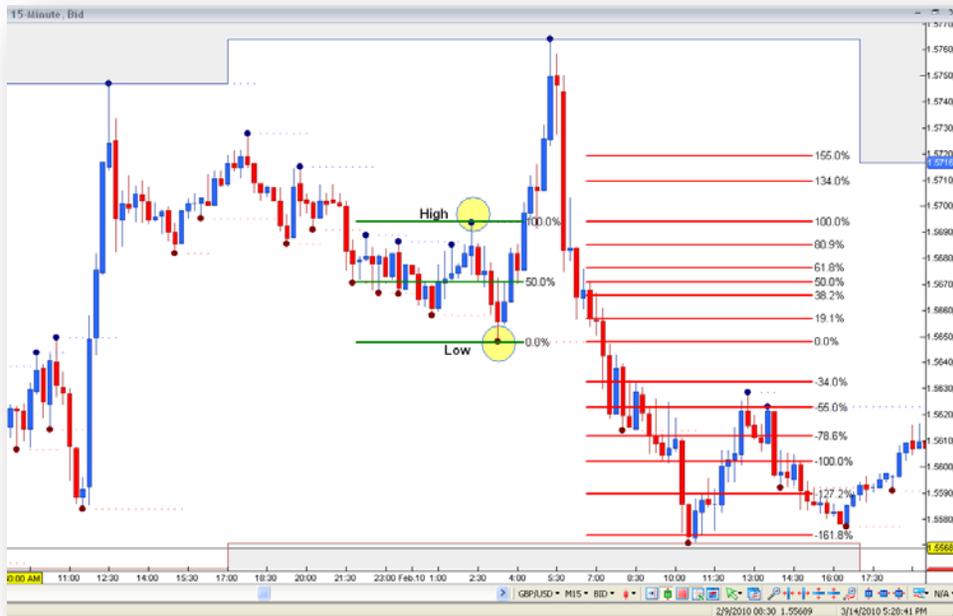


2. We fib from the high to the low to establish targets, support and resistance.

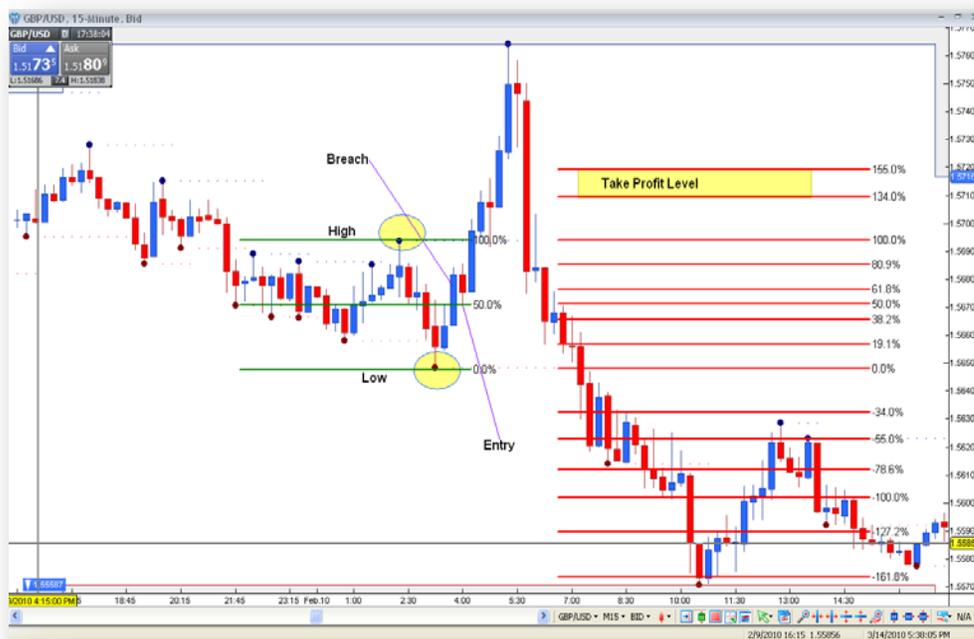


3. We draw our 50% breach fib from low to nearest high or high to nearest low.

In this case, the nearest high (to the low of the day) just happens to be the same as the high of the day.



4. We wait for a breach to occur on the 50% breach fib, or for a continuation of trend at that level.
5. We enter on breaches or bounces on the breach level. In this case there is a reversal so we enter on the pullback.



6. We take profit at the target level, or if holding, adjust our 50% breach fib to the nearest high or low and await an entry. (Please note that entries may be derived from the long and short levels as well)
7. Adjust the Bobokus fib to the new high or low created, to view new targets.

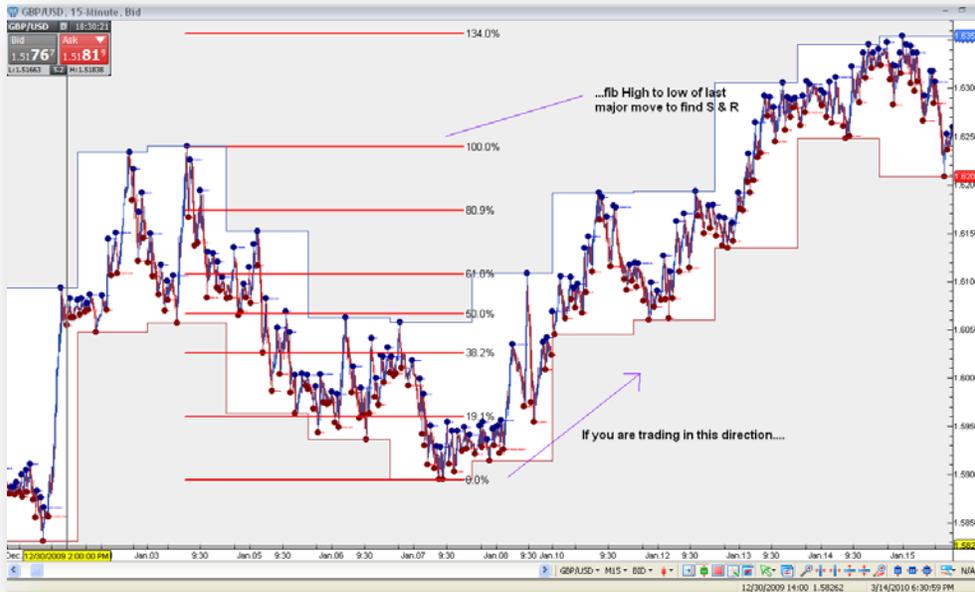


Repeat steps 3-7.

Point to note

When holding long positions, you will need to fib the high to low of the last major move before the reversal you are trading to find support (19.1%) or resistance (80.9%), as it is common for the market to return to these levels upon reversal.

Example



In Summary

This method is very consistent across a number of pairs. Demo trade it for awhile before beginning to trade live. Establish reasonable money management rules and stick to them. I personally believe that risking 1-2% per trade is conservative and gives you reasonable room to correct mistakes and recover from losing trades.

Finally, improvise but keep it simple.

Blessings!