This is a tutorial about a Fibonacci Extension method that can be used to set very precise take profit levels and to determine Support and Resistance levels.
In this tutorial I use screen shots from VT trader. It is free to use with a demo account. The grey screenshots are from Tradestation.
The setup in popular charting tools like Tradestation or e-signal is very similar.
As an alternative you can download my MS Excel based Fibonacci Calculator
http://www.aergo.ch/download/webFIBOcalc-v2.zip and use a free chart at www.netdania.com

My preferred timeframe for this method is the 1h chart, but it is working on any timeframe.

Step by Step Tutorial

To use Fibonacci you must know the High, Low and the retracement depth of a swing.
Sequence in a Upswing: <u>Low -> High</u> -> Retracement
Sequence in a Downswing: <u>High -> Low</u> -> Retracement
The next screenshots shows what we are looking for.

Important: Highs and Lows ARE ALWAYS the peaks, for retracements you can choice if you take the peak or the candle body as the reference.

To draw the Fibonacci lines press the button left to the arrow. Then click on a Swing High, hold the left-mouse button, move the cursor to the low and release the mouse-button.
After that double click on a Fibo line to open the properties and enter the values from the next screenshot. Set it as default to have it in all charts.
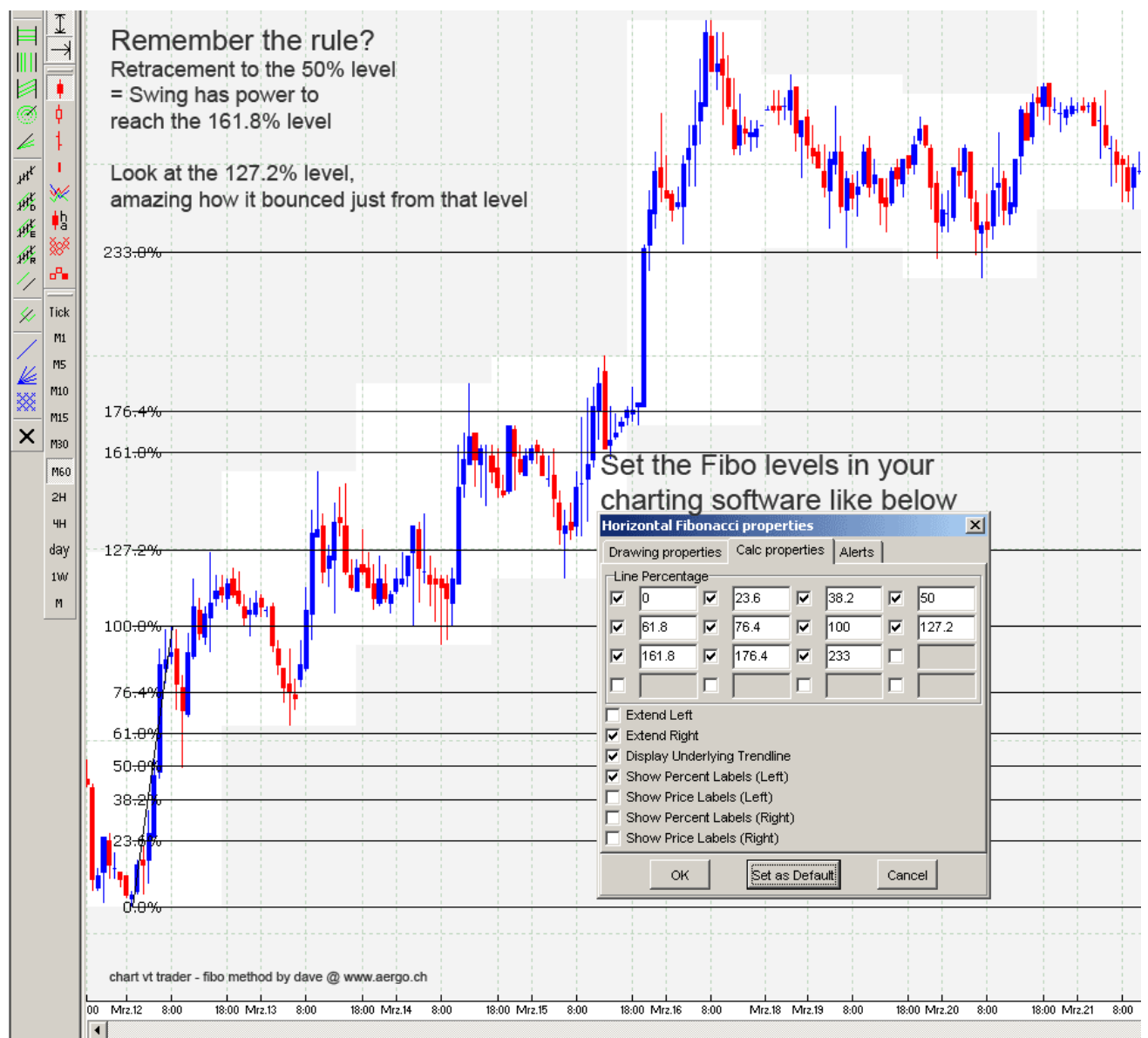
The rule & Levels
Based on the depth of the retracement I set my Take profit levels on the related Extension level.

Retracement Level	Take Profit Extension
61.8%	176.4%
50 or 38.2%	161.8%
26.4%	127.2%

The 233% Extension is strong level as well, that's why I always include it into my charts.
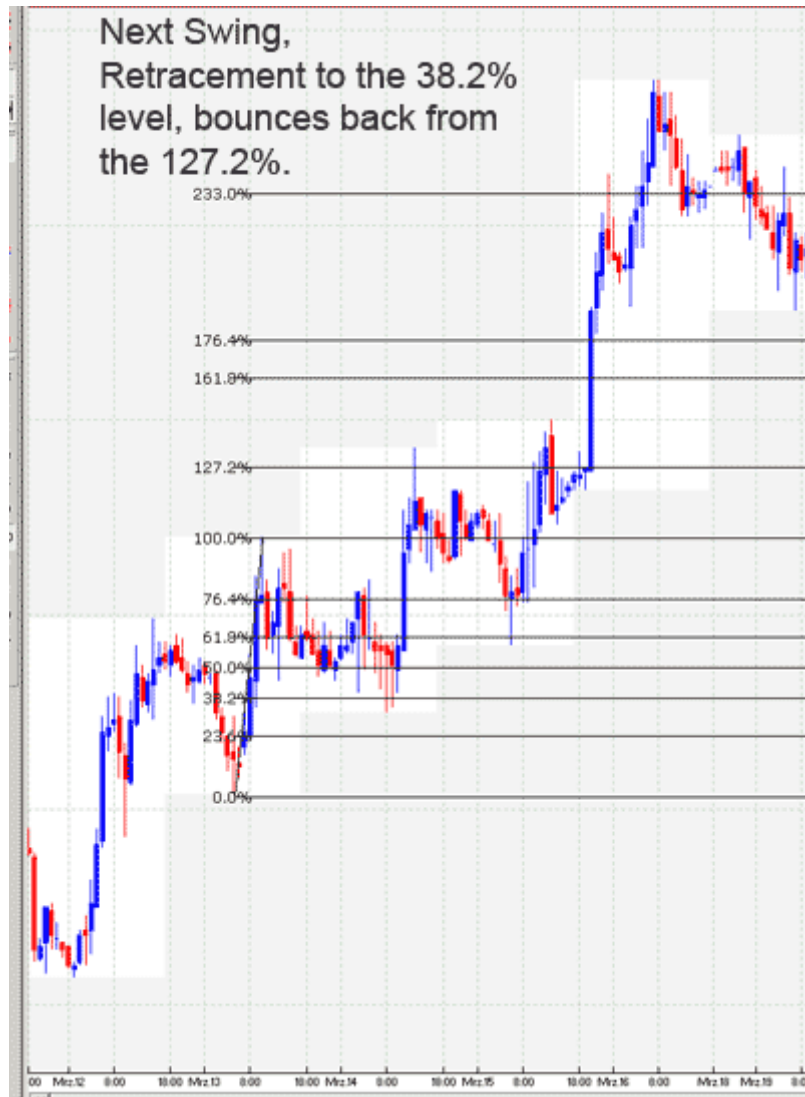
Example: If the price retraces to the 61.8% Level I set my main Take Profit level near the 176.4% Extension (a little bit below in an Upswing and a bit above in a Downswing).

In the above example the retracement low-peak was at the 50% level but the candle closed above the 61.8% level. In this case you can choice if you now place your take profit Levels at the 176.4% or the 161.8% level.

Lets take a look into the following swing.
Retracement to the 38.2% Swing = Master Extension level = 161.8% but it is always a good idea to take part profits on the 127.2% level.

For a Downswing you have to draw the Fibo <u>from Low to High.</u>

Fibo Downswing

Retracement to the 61.8% (peak a little bit above) = 176.4% extension as a take profit target.
The 100% and the 161.8% extension are acting as support and resistance level.

Another downswing example in Tradestation:

Clustering the Fibos

You properly noted that the Extensions are often acting as Support and Resistance levels for further price action.
A cluster appears when multiple extensions and/or retracement levels from other swings are near each other, these levels are heavy barriers.

I hope you liked this tutorial, further examples are included in the manual which comes with our Excel based Fibonacci Calculator downloadable here: http://www.aergo.ch/download/webFIBOcalc-v2.zip

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