

Fibonacci Trading Guidelines & Terminology

Updated January 2015

As far as the **price analysis** that I run every day in the markets, there are three different types of Fibonacci price relationships I use in my analysis. They are price retracements, extensions and projections. First I run **price retracements** of prior swings for possible support or resistance using the ratios of 0.382, 0.50, 0.618, and 0.786. I will also run **price extensions** of prior high to low or low to high swings using the ratios of 1.272 and 1.618 for possible support or resistance. The third type of price relationship I look at is what I call a price projection which is calculated using three points on a chart. This is where I am actually comparing swings in the same direction. For projections I would measure a prior low to high swing and project from another low, or measure a high to low swing and project from another high. For the price projections I mostly use 100% and sometimes 1.618. (Many technical analysis packages actually call the tool using three points an extension tool rather than a projection tool. Bottom line it does not matter what you call it, but that you use the tool will allow you to choose three points to calculate this third type of price relationship.)

By running all possible price relationships on any particular chart, I work to identify one of the three trade setups that I look for every day. They are Fibonacci price clusters, Symmetry setups and two-step pattern setups. The first two are more common than the third.

Fibonacci Price Cluster: The coincidence of at least three Fibonacci price relationships that come together within a relatively tight range. These clusters identify a key support or resistance decision.

Symmetry setup: The definition of symmetry is similarity or equality of swings in the same direction. We find symmetry setups by running a 100% price projection or “measured move” of a prior swing and then projecting the results from a new high or low (depending on what direction you are coming from) The only symmetry setup I like to focus on is when swings are similar or equal within the context of the trend. For example, if we are in a clear uptrend, I will measure the prior corrective declines within an uptrend and project 100% of those from any new high to help you enter the market in the direction of the trend. A single symmetry projected IS considered a setup, though other price relationships may overlap these projections which only strengthens the setup.

Two step pattern setup: A two step pattern setup is also a Fibonacci price cluster as it will include the coincidence of at least three Fibonacci price relationships, but it will be within the context of a zig-zag pattern. For more information of this trade setup, please refer to the members webinar on this subject. I have also written a full chapter in my book on this pattern. (Fibonacci Trading – How to master the time and price advantage) McGraw Hill

The formula for success using Fibonacci Price Analysis is:

Trade Setup + Trigger = Trade entry

A trade entry is followed up with Trade Management, which includes defining your initial stop placement and deciding how you will trail a stop along with defining exit targets.

Trade Setup - Trigger = NO TRADE

TRADE SETUPS are identified every day on the end of day video update.

When one of these key price setup levels or zones are tested and it holds, the next step is to look for a TRIGGER entry. **A trigger is essentially a confirmation of a reversal against the trade zone. This tells you that it is worth placing a bet against it.** When this occurs, we enter a trade and define our maximum risk on a buy cluster just below the low end of it OR below the low made prior to the reversal trigger. For a sell cluster the maximum risk is just beyond the high end of the resistance cluster or above the high made after the sale is triggered. *We use triggers because they will filter out many of the price cluster zones that are not likely to hold. Keep in mind that many of these zones are violated every day. When one is tested and holds however, the rewards can be significant.*

Trading Plan Fibqueen January 2014 (updated)

Setup + trigger = trade entry (then manage)
Setup – trigger = NO trade entry

Look for a SETUP:

Fibonacci Price Cluster
Symmetry setup
Two-step pattern setup

Look for an entry trigger:

If you see a setup and the price zone hold (within 2-3 ticks (futures) or 20-80 cents in stocks for INTRADAY setups, or \$2.00 + or - the zone on DAILY setups), start looking for a trigger entry on a lower time frame chart. *****You want to use a trigger chart that will produce a signal relatively close to the setup zone or level since that will define your maximum risk.**

TRIGGER charts:

Day trading triggers vs Swing trading triggers:

For day trading against a daily chart setup, you can use a 3 or 5-minute chart or even a tick chart. Some tick charts used are 89 tick, 144 tick, 233 tick. For day trading against an intraday chart, just make sure you are looking at a lower time frame chart than the setup chart for an entry. For example a 15-minute chart, use a 3 minute or 5 minute chart, or for a setup on a 5 minute chart you can use a tick chart for a trigger.

For a SWING trade entry that you will keep overnight, use a 30-minute chart or a 15-minute chart if you want to be a bit more aggressive. **Note that there might be more stop outs if you use the "aggressive" trigger for entry.**

NEW INFO:

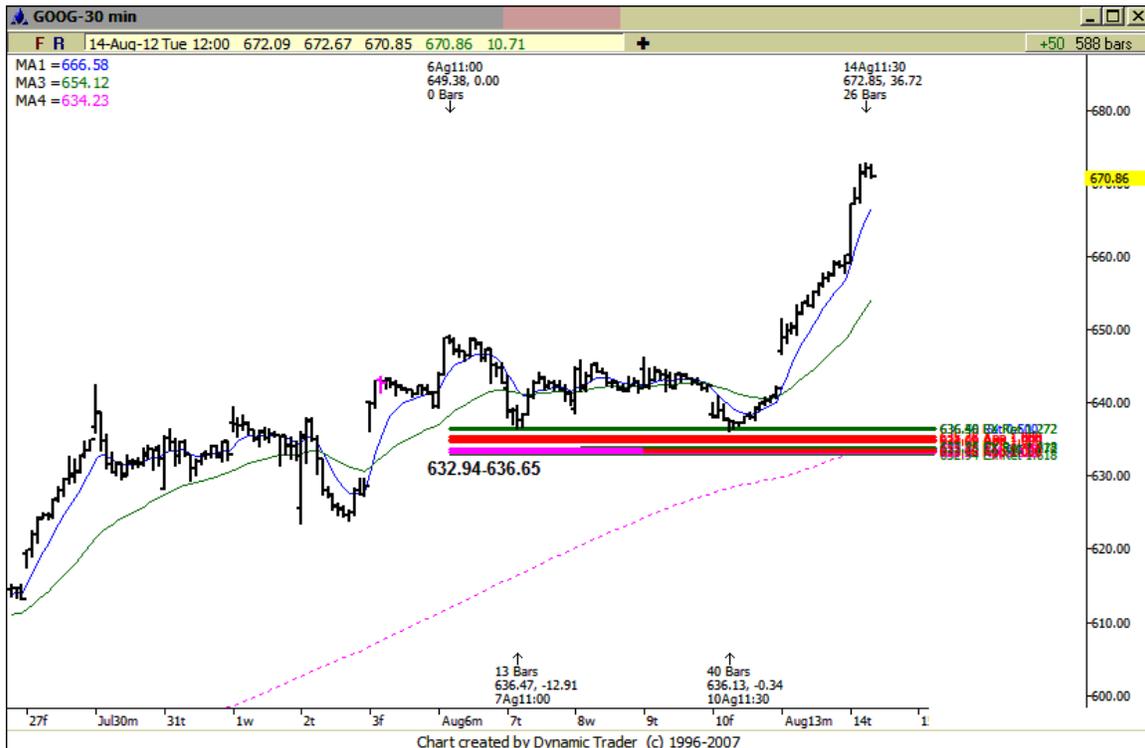
*******WHEN you can use a 5 minute chart for SWING TRADE ENTRIES or keep a day trade overnight:**

You can use a 5-minute chart for an entry for a SWING TRADE as long as the DAILY chart is in AGREEMENT as far as the moving averages are concerned. For example if you are looking for a short, then on the daily chart the 5 ema should be below the 13 ema. It would be MORE ideal if price was also below the 200 and 50.

SMA. For a buy side setup, you want the 5 ema above the 13 ema and it would be MORE ideal if price is also above the 50 and 200 SMA. Also if the daily chart is in your favor you can keep what starts as a day trade overnight. If the daily averages are NOT in your favor, don't do it since it is too risky.

Remember these are just GUIDELINES. You have to create your OWN trading plan according to YOUR risk parameters.

**GOOG example: This was a beautiful setup in GOOG
Since the daily chart was in agreement via the moving averages, you could have kept this trade overnight and also you could have used a 5 -minute chart for an entry trigger. (see the daily chart below)**



You can see in the daily chart below in GOOG, that the 5 ema was above the 13 ema and we were also above the 50 and 200 SMA's.



*****Moving averages on CB's charts*****

On the daily chart you will see a 200 and 50SMA and also a 5 and 13 EMA. These are used to help filter the best setups. Stocks that are below both the 50 and 200 SMA and the 5 EMA is below the 13 EMA are the BEST short candidates. Stocks that are above both the 50 and 200 SMA and the 5 ema is above the 13 EMA are the best long candidates. The odds are the highest when all of these are in agreement. When these averages are ALL supporting the trade setup, I call it a **ROYAL** setup. I ONLY use this definition when referring to the DAILY charts. At a minimum, I like to see the 5 and 13 EMA crossover on my side.

****You can still look at some setups where this is NOT the case, but they will not be as high probability and you probably won't want to do an outright option unless it is very inexpensive. You may want to stick to using spreads at that point.

On all intraday charts, you will see an 8 EMA and a 34 EMA (used for triggering entries)

Therefore: For the HIGHEST probability entries on SWING trades, you may want to consider waiting for the 5 ema to cross the 13 ema on a daily chart in the right direction. If you apply these averages to a daily chart and look at how it has worked in the past, you may want to consider adding it to your trade entry FILTERS.

For example check out the chart below in GS. The arrows point to one bullish crossover and one bearish crossover using the 5 and 13 EMA's. These simple filters can help keep you on the right side of the market.



As far as day trades are concerned, you don't need to be as concerned with the daily chart read if you are NOT taking a positions overnight!!!

Simple Triggers (to use on all charts other than the daily)

For a sell entry: Prior swing low is taken out AND there is a moving average crossover with the 8 bar ema crossing below the 34 ema.

(If you take out a prior swing low but the moving averages have not crossed to the downside, wait for the crossover. If you have the moving average crossover but have not taken out a prior swing low wait for it to take out a prior swing low.)

If you don't enter on the first firing of the trigger, you can buy the next pullback instead, anywhere from 50% - 786% back to the prior swing. One of our subscribers studied the results when taking a pullback after the original trigger which puts the odds in your favor. This is described below in "blue".

For a buy entry: Prior swing high is taken out AND there is a moving average crossover with the 8 bar ema crossing above the 34 ema.

(If you take out a prior swing high but the moving averages have not crossed to the upside, wait for the crossover. If you have the moving average crossover but have not taken out a prior swing high yet, wait for it to take out a prior swing high.)

If you don't enter on the first firing of the trigger, you can buy the next pullback instead, anywhere from 50% - 786% back to the prior swing.

NEW 2014*** For the **HIGHEST** probability entries, let the trade **TRIGGER** and wait for the pullback before considering an entry. **AFTER** you get the pullback, use a 3 or 5 min trigger to confirm that the pullback zone is good. If you don't get the secondary trigger, don't take the trade entry. One of our subscribers has tested this "pullback" trigger and finds that it is closer to 70% rather than 40% when you just take the initial trigger.

It is more ideal IF the crossover is by a decent margin rather than a "peek" above.

Alternate trigger: TTM squeeze firing off (*John Carter's trigger*) also some will use the TTM trend rotation signals

Initial STOP Placement:

When you are triggered into a trade, place the initial stop below the low or high made into the price decision zone OR maximum stop just below or above the setup zone.

Trade Management Guidelines:

Trade targets, exits and trailing stops

Trade Targets:

Trade targets for the trend setups are always 1.272, 1.618 and then 2.618 of the move into the trade setup zone on trend trades. We don't always get the targets, though we do see target 1 more often than not in a trending market.

Trade Exits:

You can exit the trades at the target areas, OR just use a trailing stop and let the market take you out. You can also vary your exits if you have multiple units.

***If you use a trailing stop for an exit, as you get closer to the 1.272 extension zone trail it relatively close to the market at that time since many moves tend to terminate at extensions if only temporarily.

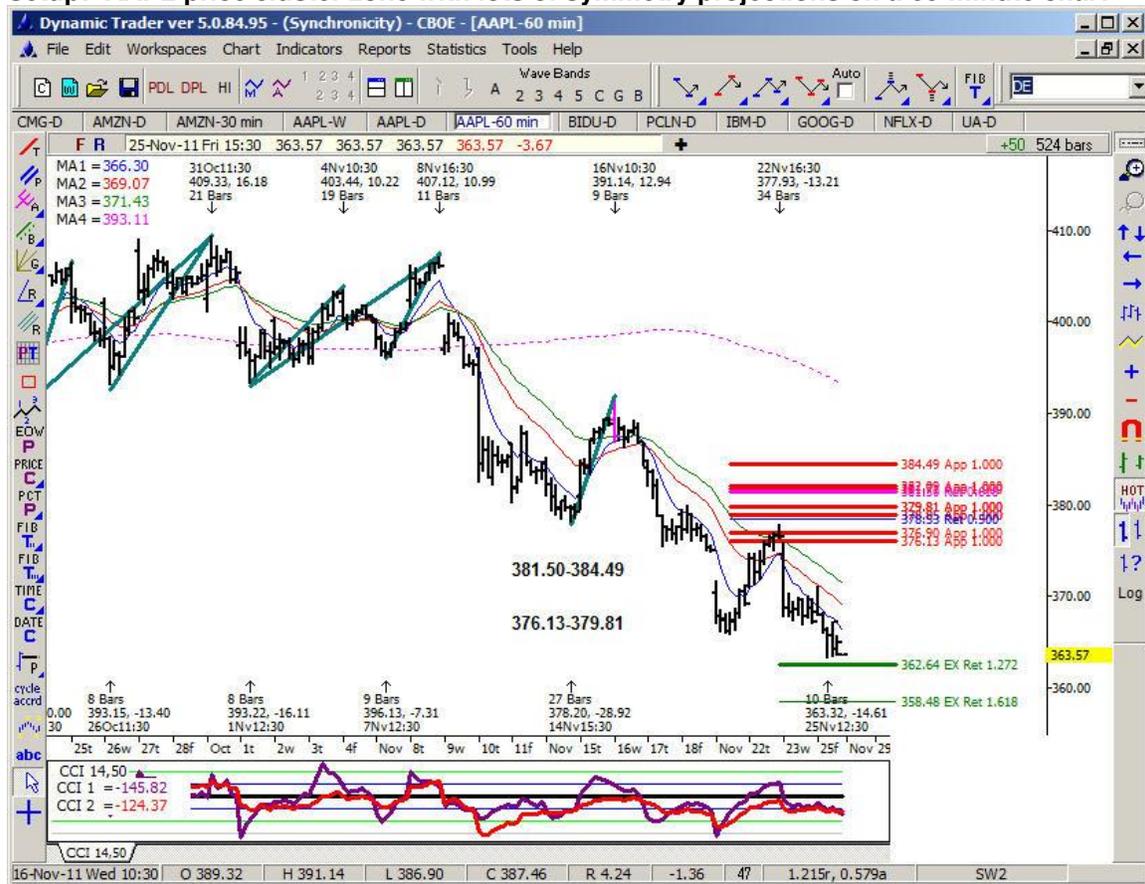
Trailing Stops: (suggestions)

Trail stop to above or below a moving average the trade has been respecting, OR use a moving average crossover on the lower time frame chart.

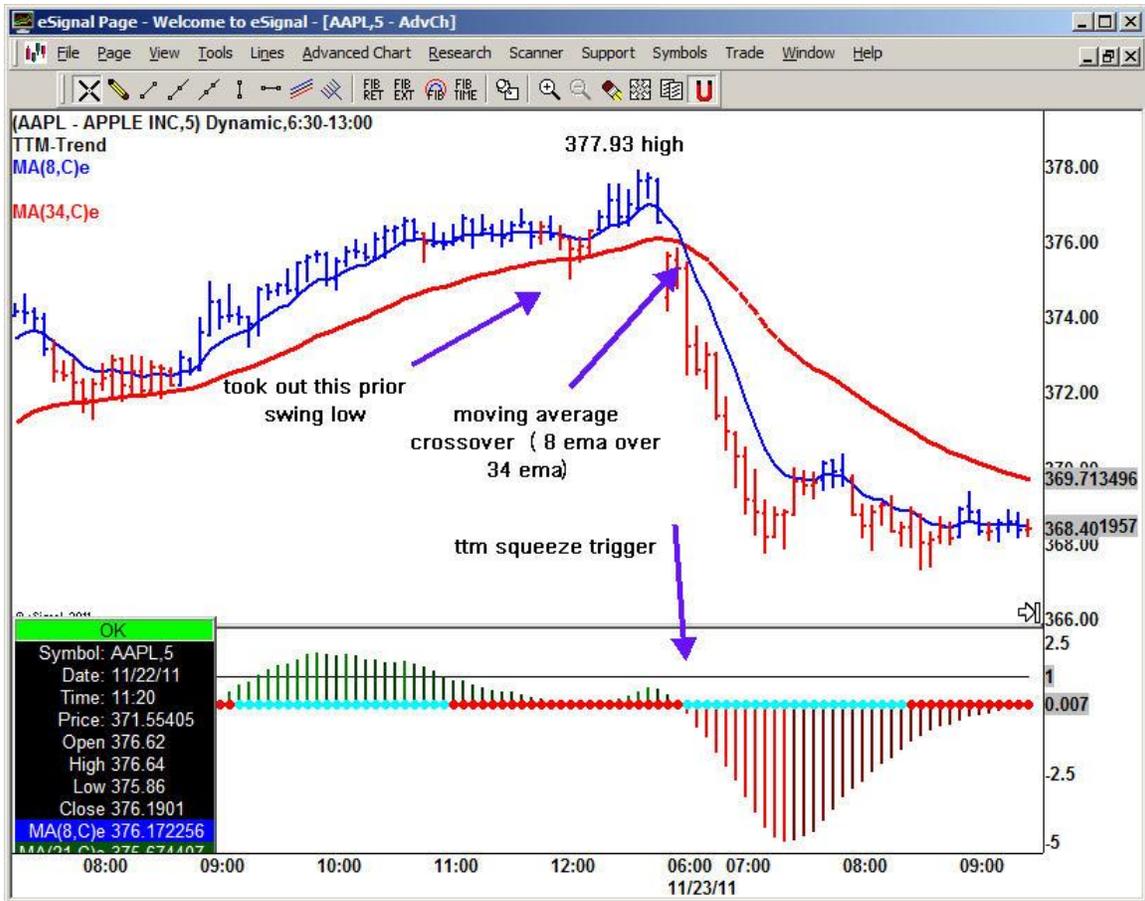
Trail stops using symmetry on a lower time frame chart***** one of the best methods

Trail stops above or below a prior swing low.

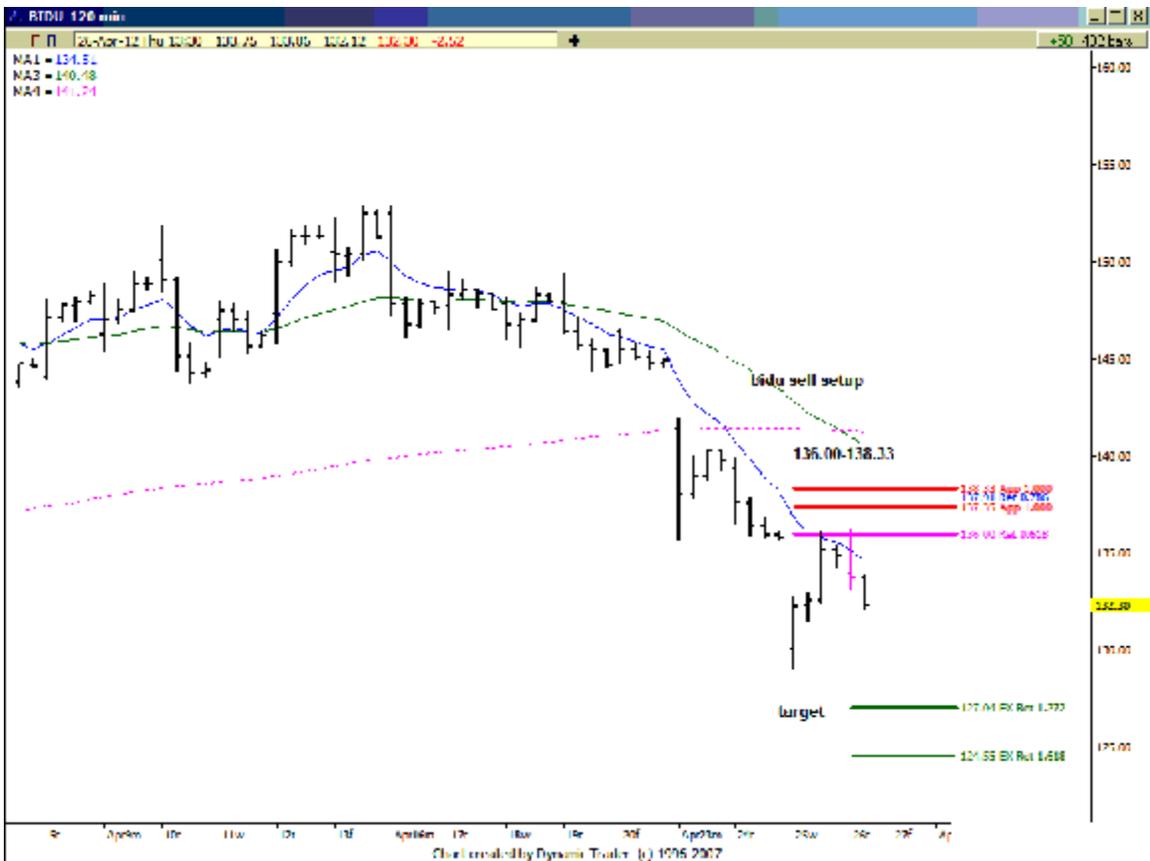
Setup: AAPL price cluster zone with lots of symmetry projections on a 60-minute chart



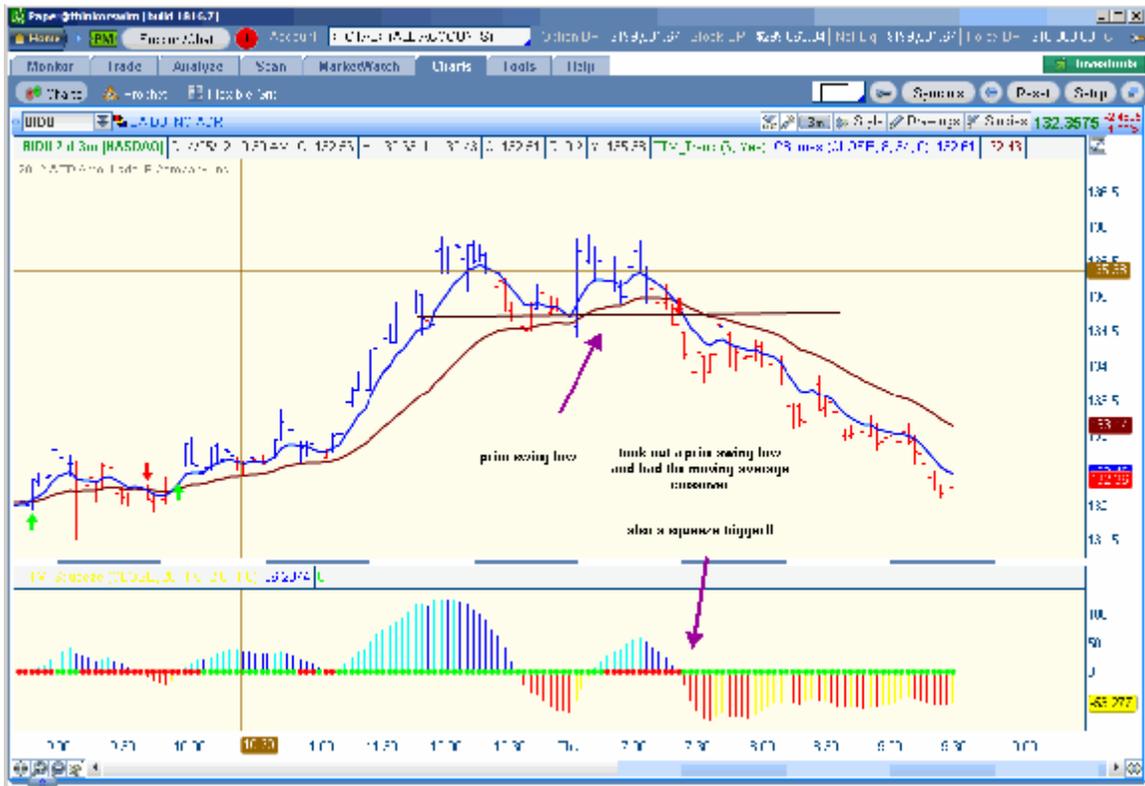
The setup on AAPL was on a 60-minute chart. I used a 5-minute trigger chart. On the trigger chart you can see that you had already taken out a prior swing low when the moving averages crossed over and the momentum indicator was heading downwards. There was ALSO a squeeze trigger. (Some may use a squeeze trigger by itself.)



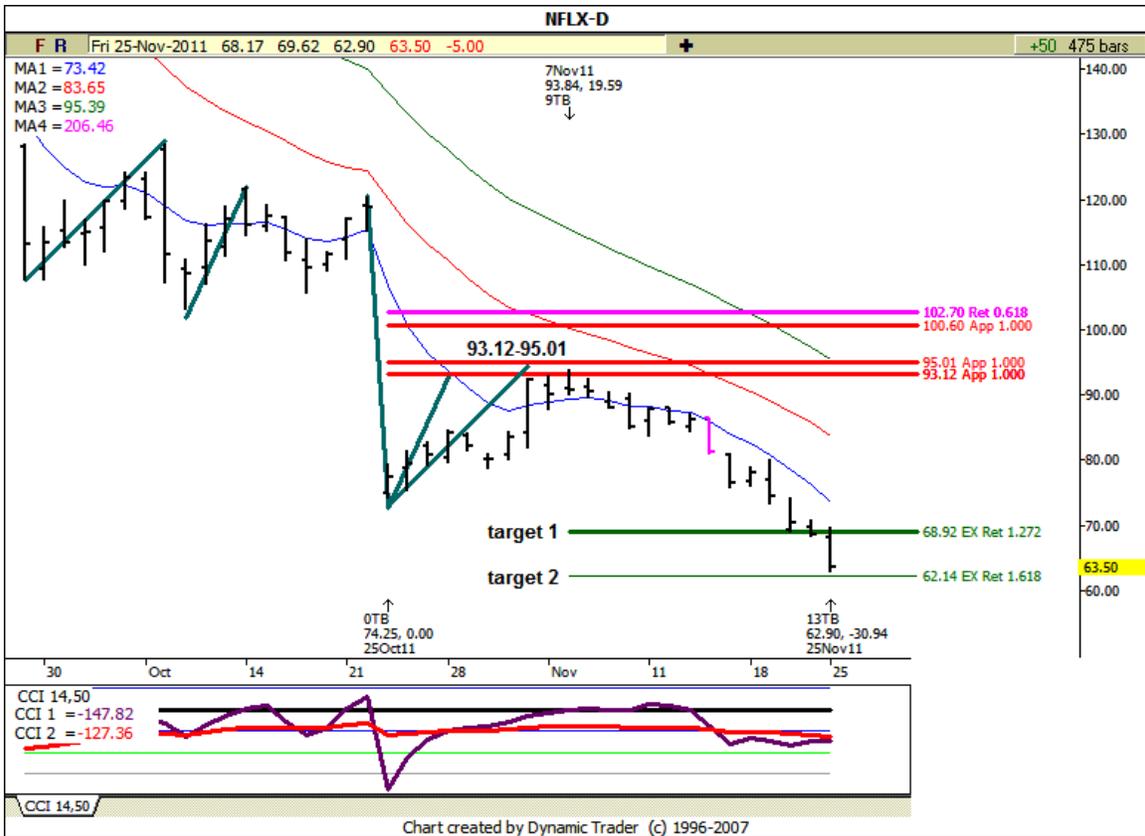
BIDU 4/26/2012 120 min sell setup



I used a 3-minute chart for a sell trigger on this one for a day trade. Since the 30 minute chart is also in a sell mode, I could keep it overnight if I wanted to.



Setup: NFLX symmetry sell setup of a daily chart



The setup on NFLX was on a daily chart. The sell trigger I used was on the 30-minute chart once we had the moving average crossover and we already had taken out a prior swing low. There was ALSO a ttm squeeze sell trigger.

