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# Advanced Fibonacci Trading Strategy

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# What is Fibonacci?

We will use the Fibonacci ratio in our trading, so you better learn and love it like you love the cooking at your mother's home.

Fibonacci is a big subject and there are many different studies on Fibonacci, with strange-sounding names but we will stick to two things, namely: retracement and extension.

Let's start by introducing you to the fib man himself... Leonardo Fibonacci.

No, Leonardo Fibonacci is not a famous chef. In fact, he is a famous Italian mathematician, also known as a super duper ultra uber geek.

He had an "Aha!" moment when he discovered a simple series of number ratios that depicted the natural proportions of things in the universe.

The ratios arise from the following series of numbers: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144...

The sequence of numbers is obtained by starting with 1 followed by 2 and then adding 1 + 2 to get 3, the third number. Then, adding 2 + 3 to get 5, the fourth number, and so on.

After the first few numbers in the sequence, if you measure the ratio of any sum to the next higher number, you get 0.618. For example, 34 divided by 55 equals 0.618.

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If you measure the ratio between alternate numbers, you get 0.382. For example, 34 divided by 89 equals 0.382, and it goes into the explanation as we will discuss.

This ratio is called the "Golden Mean." Okay, that's enough jibber-jabber. With all the numbers, you can make an elephant fall asleep.

The bottom line is, this is the ratio you MUST know:
Fibonacci Retracement Levels 0.236, 0.382, 0.500, 0.618, 0.764
Fibonacci Extension Levels 0, 0.382, 0.618, 1.000, 1.382, 1.618

You don't really need to know how to calculate all of this. Your charting software will do all the work for you, like some indicators in MT4. However, it's also good to be familiar with the basic theory behind the indicator so that you will have the knowledge to impress your girlfriend.

Traders use Fibonacci retracement levels as potential support and resistance areas. Since many traders pay attention to the same levels and place buy and sell orders to enter or exit trades, the support and resistance levels tend to be fulfilled.

Traders use Fibonacci extension levels to take profit levels. Again, since many traders are watching these levels, this tool is more often used.

Most charting software includes both Fibonacci retracement levels and extension tools. To apply Fibonacci levels to your chart, you must identify the Swing High and Swing Low points.

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Swing High is a candle with at least two higher highs on both its left and right sides.

Swing Low is a candle with at least two lower lows on both its left and right sides.

Do you have all that?

Don't worry, we will explain retracements, extensions, and most importantly, how to grab some pips using fib tools in the following section.

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## Fibonacci retracement

The first thing you need to know about Fibonacci tools is that they work best when the market is trending.

The idea is to buy long (or buy) on the retracement at the Fibonacci support level when the market is trending up, and to sell short (or sell) on the retracement at the Fibonacci resistance level when the market is trending down.

To find the retracement level, you should look for significant levels of Swing Highs and Swing Lows. Then, for a downtrend, click on the Swing High and drag the cursor to the latest Swing Low.

For uptrends, do the opposite. Click on the Swing Low and drag the cursor to the latest Swing High.

Got it? Now, let's look at some examples of how to apply Fibonacci retracement levels in the market.

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**Uptrend**
This is the daily chart for AUD/USD.


Here we are planning Fibonacci retracement levels by clicking on the Swing low at 0.6955 on April 20 and dragging the cursor to the Swing high at 0.8264 on June 3. Tada! This magical software can show the retracement levels!

As you can see from the chart, the retracement levels are 0.7955 (23.6%), 0.7764 (38.2%), 0.7609 (50.0%), 0.7454 (61.8%), and 0.7263 (76.4%).

Now, our expectation is that if AUD/USD retraces from its recent high point, it will find support at one of the Fibonacci levels because traders will place buy orders at these levels if the price rises again.

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Here we are planning Fibonacci retracement levels by clicking on the Swing high at 1.1903 on August 3 and dragging the cursor to the Swing low at 1.1663 on August 10. Voila! The magical software can show the retracement levels.

As you can see from the chart, the retracement levels are 1.1822 (23.6%), 1.1854 (38.2%), 1.1887 (50.0%), 1.1919 (61.8%), and 1.1952 (76.4%).

Now, our expectation is that if EUR/USD retraces from its recent low, it will find resistance at one of the Fibonacci levels because traders will place sell orders at these levels if the price goes up again.

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**Downtrend**
Now, let's see how we will use the Fibonacci retracement tool during a downtrend. Below is the 4-hour chart of EUR / USD.


As you can see, we found a Swing High at 1.4195 on the 26th and a Swing Low at 1.3854 a few days later on February 2nd. The retracement levels are 1.3933 (23.6%), 1.3983 (38.2%), 1.4023 (50.0%), 1.4064 (61.8%), and 1.4114 (76.4%).

The hope is that if the price retraces from this low, it will face resistance at one of the Fibonacci levels as traders will be ready with sell orders there.

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Let's see what happens next.


Oh yeah... isn't that chart above so beautiful?

The market did try to rally, stalled below the 38.2% level, just before testing the 50.0% level. If you had some good orders at the 38.2% or 50.0% levels, you would be rich!

In the two examples above, we saw that prices found some support or resistance temporarily at Fibonacci retracement levels. As most people use Fibonacci tools, those levels become self-fulfilling.

One thing to note is that prices will not always bounce off these levels. They should be viewed as Interest Zones or as "KILL ZONES".

For now, there is something that should always be remembered about using Fibonacci tools, and that is that they are not always easy to use!

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In the next lesson, we will show you what can happen when Fibonacci levels fail.

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# When Fibonacci Levels Fail

We say that support and resistance eventually break through. Well, looking at how Fibonacci levels are used to find support and resistance levels, the same applies to Fibonacci!

Now, let's look at an example of when the Fibonacci retracement tool fails. Below is a 4-hour chart of GBP/USD.

Here, you see that the pair has been in a downtrend, so you decide to use your Fibonacci tool to help you find a good entry point. You use the Swing High at 1.5383, with the Swing Low at 1.4799.

You see that the pair has stalled at the 50.0% level for several candles.

You tell yourself, "Wow..., this 50.0% fib level! The price is held! It's time to sell short!"

You sell short in the market and start dreaming that you will ride a new BMW Z3 car with a soap opera star to the top.

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Now, if you really placed a sell order at that level, not only will your dreams go up in smoke, but your account will take a serious hit if you don't manage your risk properly!

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Look at what happened.


It turns out that the Swing Low was the bottom of the downtrend and the market started to rally above the Swing High point.
What lesson can we learn from this?

While Fibonacci levels provide a higher probability of success, like other technical tools, they are not always right. You don't know if the price will reverse at the 38.2% level before continuing the trend.

Sometimes it could reach the 50.0% or 61.8% levels before reversing. Oh.. sometimes the price will just ignore Mr. Fibonacci and pass through all levels like how LeBron James disrupts his way through the lane with full force.

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Remember, the market will not always continue an uptrend after finding temporary support/resistance, but instead continue to pass through the last Swing High or Swing Low.

Another common problem in using Fibonacci tools is determining the Swing Low and High to use.

People look at different charts, different timeframes, and have different biases. It is possible that you and I have different ideas about where the Swing High and Swing Low points should be.

The bottom line is that there is no right and absolute way to do it, especially when the trend on the chart is not so clear. Sometimes it becomes a guessing game.

That's why you need to sharpen your skills and combine Fibonacci tools with other tools in your forex toolkit to help provide a higher probability of success.

In the next lesson, we will show you how to use Fibonacci tools in combination with other forms of support and resistance levels and candlestick patterns.

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# Fibs with Support Resistance

As we mentioned in the previous section, using Fibonacci levels can be highly subjective. However, there are ways that can help you find opportunities that support you.

While Fibonacci tools are very useful, they don't have to be used alone.

It feels like comparing it to NBA superstar Kobe Bryant. Kobe is one of the greatest basketball players of all time, but even he couldn't win titles on his own. He needed some backups.

Similarly, Fibonacci tools should be used in combination with other tools. In this section, let's take what you have learned so far and try to combine them to help us see one sweet trade.

Are you ready?

One of the best ways to use Fibonacci tools is to look at potential support and resistance levels and see if they align with Fibonacci retracement levels.

If the fib level is a support and resistance level, and you combine them, then the likelihood of the price bouncing off that area is much higher.

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Let's take a look at an example of how you can combine support and resistance levels with Fibonacci levels. Below is a daily chart of USD/CHF.


As you can see, the chart has recently been in an uptrend. Look at all those green candles! You decide that you want to get on the USD/CHF train.

But the question is, "When do you enter the market?" You use the Fibonacci tool, placing a swing low at 1.0132 on January 11th and a swing high at 1.0899 on February 19th.

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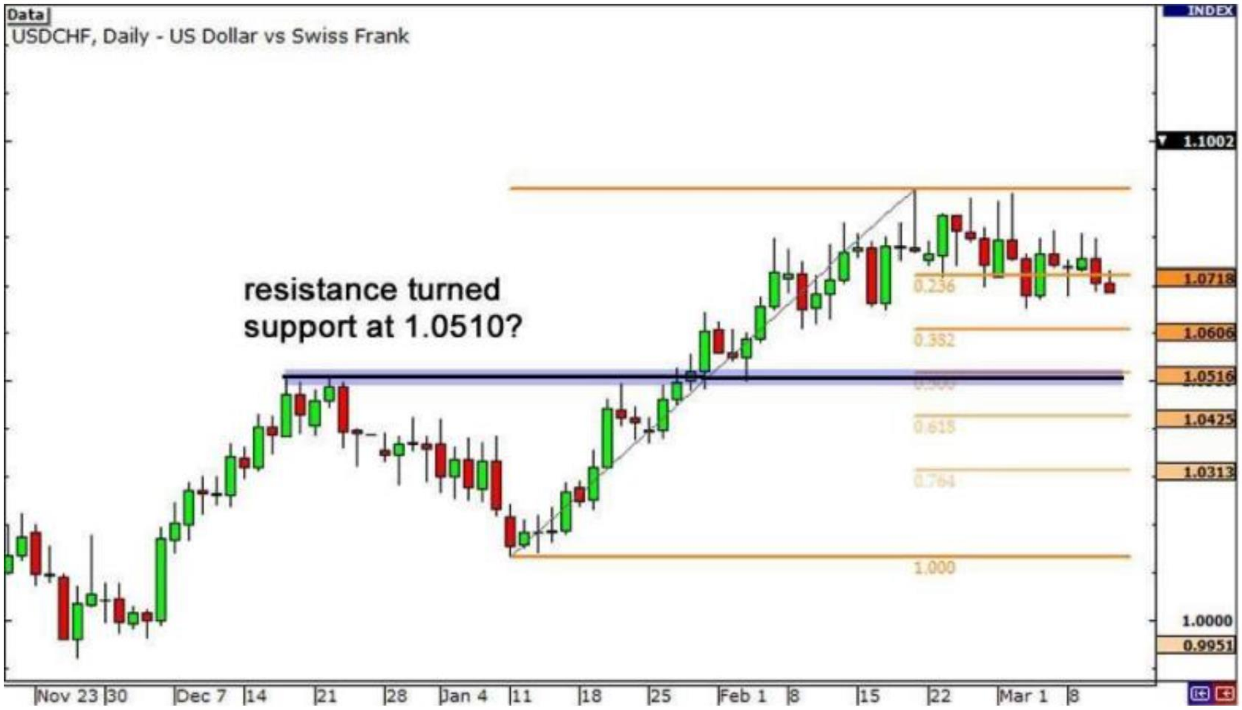
Now your chart looks pretty sweet with all those fib levels.




Now that we have a framework to increase our probability of finding a solid entry, we can answer the question

"Where should we enter the market?"

You look back a bit and you see that the price of 1.0510 is a good support level in the past and it happens to line up with the 50.0% Fibonacci retracement level.

Now that it has been broken, it could turn into support and become a good place to buy.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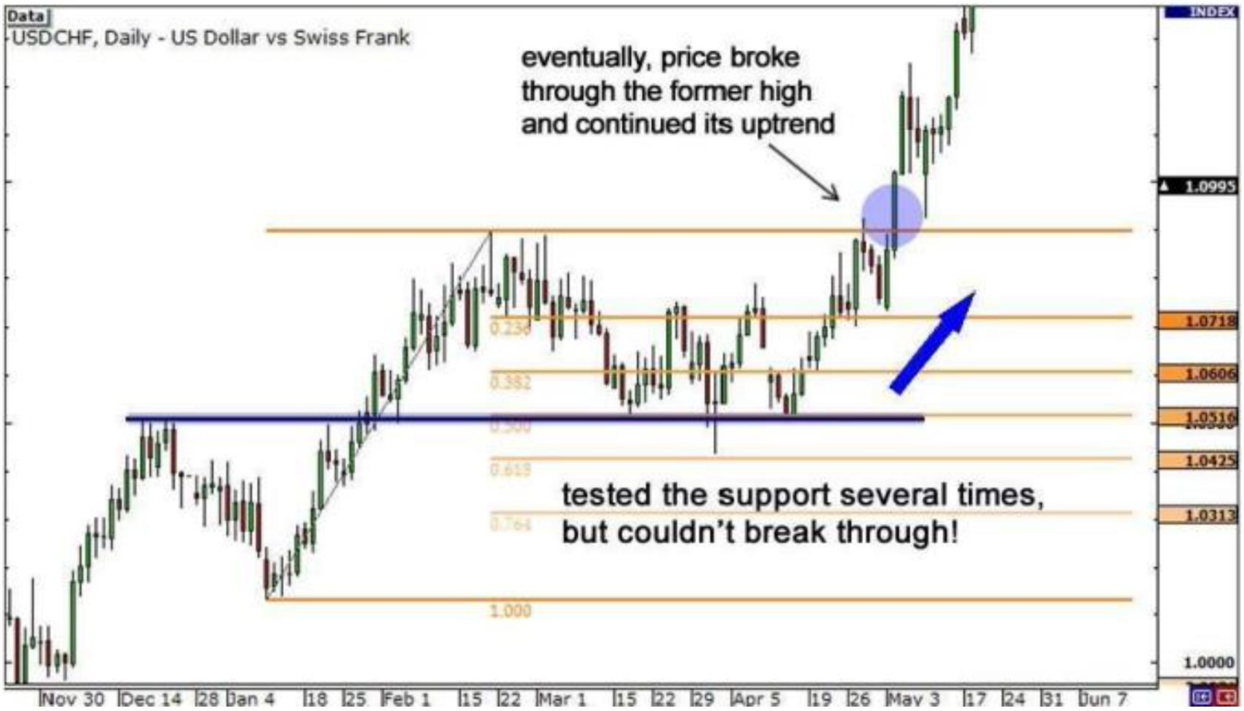


If you place a buy order around the Fib 50.0% level, you will definitely be very happy!

There will be some quite tense moments, especially during the second test of the support level on April 1st. The price attempted to break through the support level but failed to close below it.

Eventually, the pair broke its last swing high and resumed its uptrend.

You can set up the same thing for a downtrend as well. The key is to look for price levels that appear to have significant zones in the past. If you think about it, there is a higher chance that the price will bounce off these levels.

Why?

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First, support and resistance are good areas to buy or sell because other traders will also be watching these levels like hawks.

Second, because we know that many traders also use Fibonacci tools, they may be looking to jump in with the fib level itself.
With traders looking at the same support and resistance levels, there is a good chance that there are tons of orders at one price zone.

Although there is no guarantee that the price will bounce from that level, at least you can be more confident in your transaction.

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## Combining Fibonacci with Trend Lines

Another tool that works well with Fibonacci is trend lines. After all, Fibonacci levels work well when the market is trending, so this makes a lot of sense!

Remember that every time a pair is in an uptrend, traders use Fibonacci retracement levels to enter the market.

So why not look for levels where the Fib level touches the trend?

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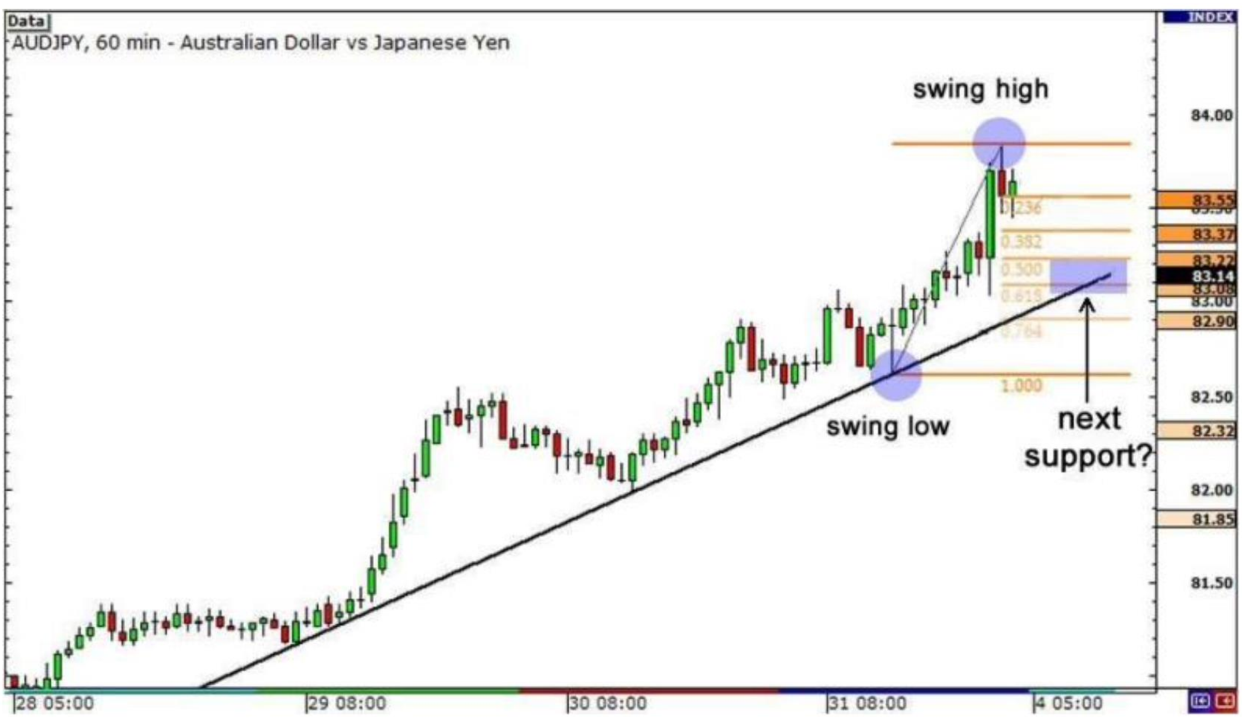
Here is the AUD/JPY H1 chart. As you can see, the price has been respecting the short-term trend line for several days.

You think, "Hmm, that uptrend looks very nice as I want. Buy AUD/JPY, even if it's just for a short-term trade. I will buy if it touches the trend line again."

Before you do that, why not try using Fibonacci?

Let's see if we can get a more precise entry price.




That's right!

The only way to know if the Fibonacci levels at 61.8% and 50.0% have the potential to act as support is to wait and see if the price bounces off those levels.

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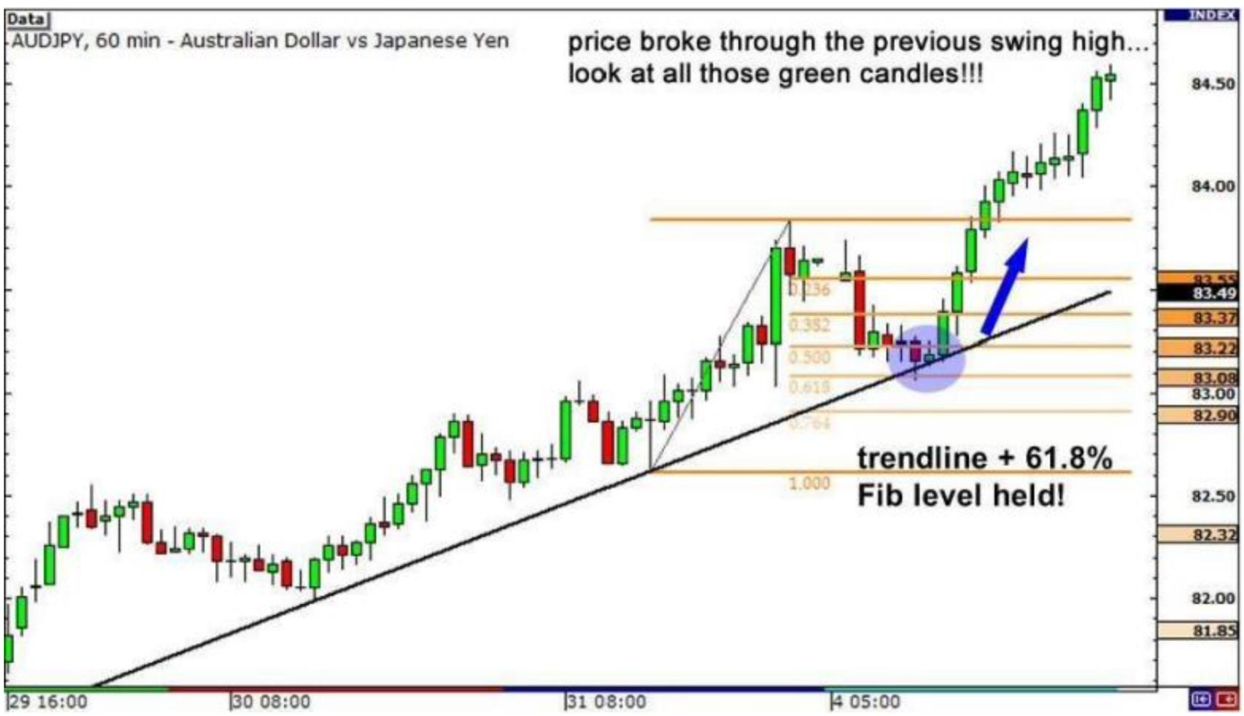
If the price does bounce off those levels and continues to follow the uptrend, then it would confirm that the levels are indeed acting as support.

However, if the price breaks through those levels and continues to fall, then it would suggest that those levels may not be significant areas of support. It's important to wait for confirmation before making any trading decisions.




Look, the Fib level of 61.8%, the price bounced there before rising again. If you had placed an order at that level, you would have had a perfect entry!

A few hours after touching the trend line, the price soared like Astroboy, breaking through the swing high.

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# Combining Fibs with Candlesticks

If you notice, you now know that you can combine Fibonacci tools with support and resistance and trend lines to create a super cool but simple trading strategy.

But we're not done yet!

In this lesson, we will teach you how to combine Fibonacci tools with your knowledge of Japanese candlestick patterns that you learned in class 2.

In combining Fibonacci tools with candlestick patterns, we will look for complete candles that can tell us when buying or selling pressure is exhausted, and can provide clues as to when prices will continue to follow the trend.

We'll call it "Fibonacci candlesticks," or "fib sticks" for short. Pretty interesting, huh?

Let's look at an example to make this clearer.

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Below is a 1-hour chart of EUR / USD.


This pair seems to have been trending downwards last week. Will there be an opportunity to enter this trend? You know what that means. It's time to take out the Fibonacci tool and get to work!

As you can see from the chart, we have set the Swing High at 1.3364 on March 5, with the Swing Low at 1.2523 on March 7.

Since it's Friday, you decide to stay calm and stop trading, and decide when you want to enter after you see the chart after the weekend.

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Whoa! When you opened the chart, you saw that EUR/USD had lifted slightly from Friday's closing price.

At the Fib 50.0% level, the buyers finally lifted the price higher. You decided to wait and see if the Fib 61.8% level would hold.

After that, the last candle was quite bullish!

Who knows, the price might continue to rise!

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Well, will you look at that?

A long-legged doji has formed and retraced back to the 61.8% Fib level. If you recall from class 2, you'll know that this is a "reversal" signal. Is it time to sell?

You can never know for sure (that's why risk management is so important), but the likelihood of a reversal looks very possible!

Well, will you look at that?

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You can never know for sure (that's why risk management is so important), but the likelihood of a reversal looks very possible!

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Right after the Doji was formed, the price paused briefly before heading straight down.

Look at all those red candles! It seems that buyers were indeed quite exhausted, allowing sellers to jump into the market and take control.

Eventually, the price fell back to the Swing Low around 500 pips! Another nice thing about fib sticks is that you are not limited to fib levels.

You can use your knowledge of candlestick formations. You can wait for a fib stick to form just below or above the fib level to provide further confirmation on whether you should place an order.

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# Fibonacci Extensions

The next use of Fibonacci will be to determine targets. It should always be remembered when we trade – "If in doubt, know when to get out!" Let's start with an example in an uptrend condition.

In an uptrend, the idea is to take profit with a BUY on the Fibonacci extension price. You determine the Fibonacci extension level by using three mouse clicks.

First, click on a significant Swing Low, then drag your cursor and click on the most recent Swing High. Finally, drag your cursor back and click on one of the retracement levels.

This will display each of the Price Extension levels that show good ratios and corresponding price levels. Pretty neat, huh?

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Let's go back to the example with our USD/CHF chart that we showed you in the previous lesson.


The Fib 50.0% level was held strong as support and, after three tests, the currency pair finally continued its uptrend.

In the table above, you can even see the price rise past the previous Swing High. Let's use Fibonacci extensions to see where a good place would be to take profit.

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Here's a summary of what happened after the Swing Low retracement:

• Price rallied up to the 61.8% level, which coincided with the previous Swing High.

• It then fell back to the 38.2% level, where it found support.

• The price then found resistance at the 100% level.

• A few days later, the price rallied again before finding resistance at the 161.8% level.

As you can see from this example, the 61.8%, 100%, and 161.8% levels are good places to take profits.

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Now, let's look at an example using Fibonacci extension levels in a downtrend.
Let's revisit the 1-hour EUR/USD chart that we showed in the Fib Stick lesson.


Here, we see a doji formed right below the 61.8% Fib level. The price then reversed back to the swing low.

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Let's place the fib extension tool to see where a good place is to take profit.


Here's what happens after the price reverses from the Fibonacci retracement level:

• Price finds support at the 38.2% level

• The 50.0% level acts as initial support

• The 61.8% level also becomes a support area, before the price falls to test the previous Swing Low

• If you look ahead, you will find that the 100% extension level also acts as support

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We can take profits at the 38.2%, 50.0%, or 61.8% levels. All levels act as support, possibly because other traders are also watching these levels for profit-taking.

This example illustrates how prices find at least some temporary support or resistance at Fibonacci extension levels - not always, but often enough to properly adjust your positions for taking profits and managing your risk.

You should use your discretion in using the Fibonacci extension tool. You should assess how much longer the trend will continue.

Then, we will teach you methods to help you determine the strength of a trend.

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# Determining Stop Loss with Fibonacci

Just as important as knowing where to enter the market or take profit, knowing where to place a stop loss is also crucial.

You cannot simply enter the market based on Fib levels without knowing where to exit. Your account will be blown, and you will forever blame Fibonacci if you trade without a stop loss, cursing its name in Italian.

In this lesson, you will learn some techniques for placing stop loss. The first method is to place a stop loss at the next Fibonacci level.

If you plan to enter the market at the Fib level of 38.2%, then you will place a stop loss beyond the level of 50.0%.

If you feel that the level of 50.0% will be breached, then you should place a stop loss at the level of 61.8% and so on. Simple, right?

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Let's take another look at the EUR 4-hour chart.


If you have an order at 50.0%, you can place your stop loss at the Fib level of 61.8%. The reason is that you believe the level of 50.0% will act as a resistance point.

Therefore, if the price moves above this point, it means you are wrong. The price may spike, stop you out, and eventually go in the direction of your order. If this happens, we usually go to a corner and start banging our heads against the wall.

We just want to warn you that this may happen, sometimes multiple times in a row, so make sure you limit your losses quickly and let your orders follow the trend. It may be better if you use a type of short-term stop loss method.

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Now, if you want to be a little bit safer, another way to set your stop loss is at the recent Swing High or Swing Low.

This type of stop loss placement will give your trade more room to breathe and provide a better opportunity for the market to move in support of your trade.


If the market price surpasses the recent Swing High or Swing Low, it indicates that a trend reversal has occurred.

This means that your trade or setup is invalidated and that you are already too late to jump in. Setting a larger stop loss may be best used for long-term and swing trading, and you can also combine this with the "scaling in" method, which you will learn later in this course.

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Of course, with a larger stop loss, you should also remember to adjust your position size accordingly. If you tend to trade with the same lot size, you may experience significant losses.

**So, which is better?**

The truth is, just as in combining Fibonacci retracement tools with support and resistance, trend lines, and candles to find better entries, it would be better to use your knowledge of these tools to analyse the current environment to help you choose a good stop loss point.

As much as possible, you should not rely solely on fib levels as support and resistance points as the basis for stop loss placement.

Remember, stop loss placement is not an exact science, but if you can tilt the odds in your favour by combining multiple tools, it can help provide you with a better exit point, more breathing room for your trades, and potentially better profits with lower risk.

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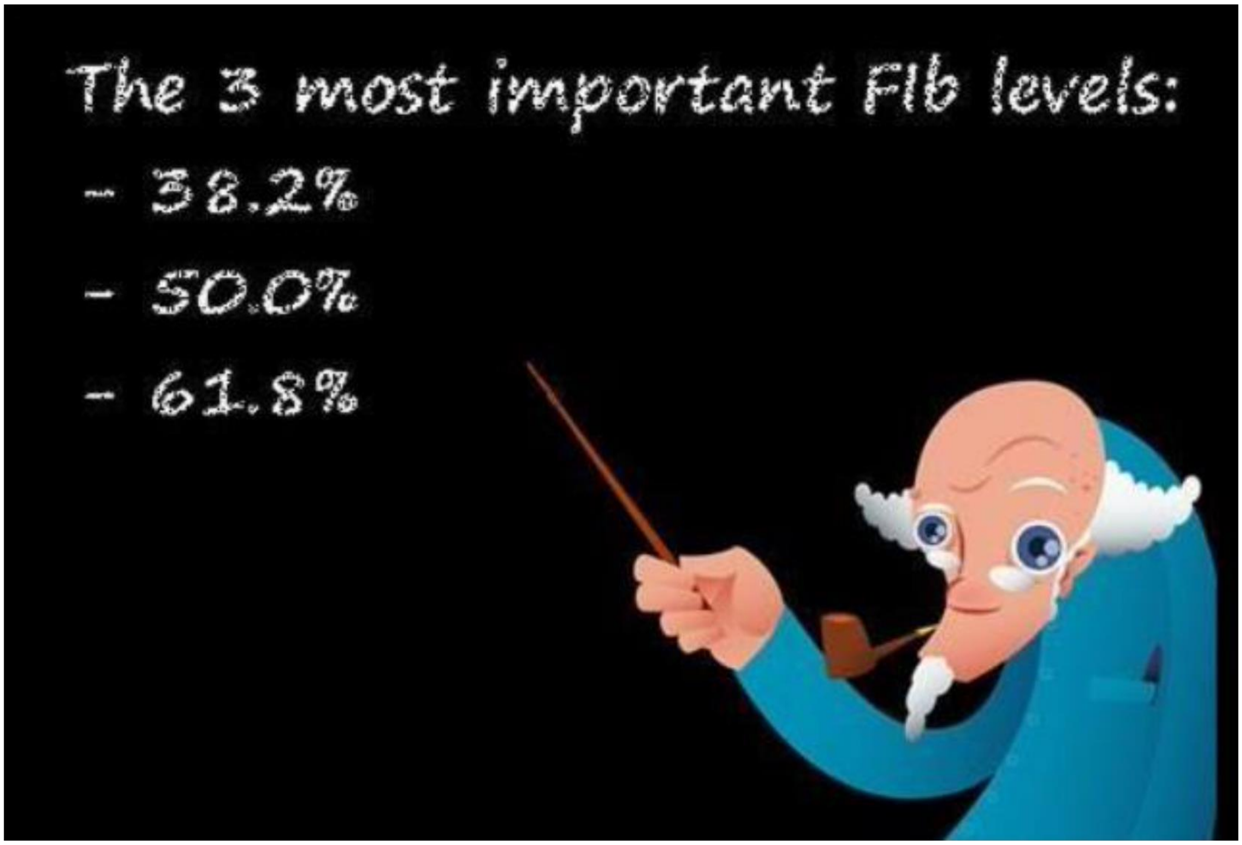
# Fibonacci Summary




Fibonacci levels to pay attention to are 23.6%, 38.2%, 50.0%, 61.8%, and 76.4%. The most important ones are usually 38.2%, 50.0%, and 61.8%.

These are usually included in the default settings of Fibonacci retracement software.

Traders use Fibonacci retracement levels as potential support and resistance levels.

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As many traders watch the same levels for buying and selling, Fibonacci levels can become a self-fulfilling prophecy.

Fibonacci extension levels are 38.2%, 50.0%, 61.8%, 100%, 138.2%, and 161.8%.

Traders use Fibonacci extension levels as potential support and resistance levels to set profit targets.

Once again, because so many traders pay attention to these levels and place their orders, this tool tends to become a self-fulfilling prophecy.

To apply Fibonacci levels to your chart, you must identify the Swing High and Swing Low points.

Swing High is a candle with at least two lower peaks on both the left and right sides.

Swing Low is a candle with at least one higher point on both the left and right sides.

The probability of success can be increased when using the Fib tool with other forms of support and resistance, trend lines, and candle patterns for order and stop loss.

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