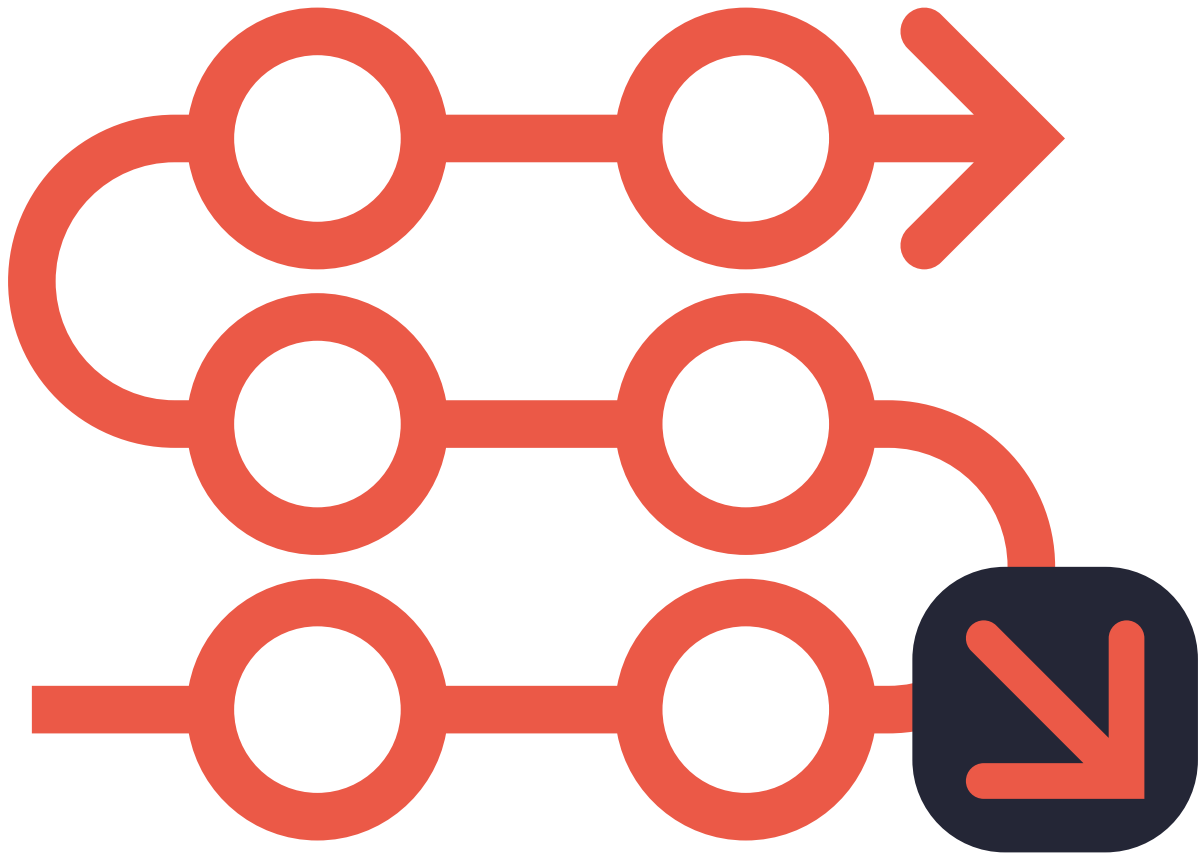# FUTURES EDGE
STRATEGY

TREND TRADING IN A DOWNTREND USING THE FIBONACCI SEQUENCE

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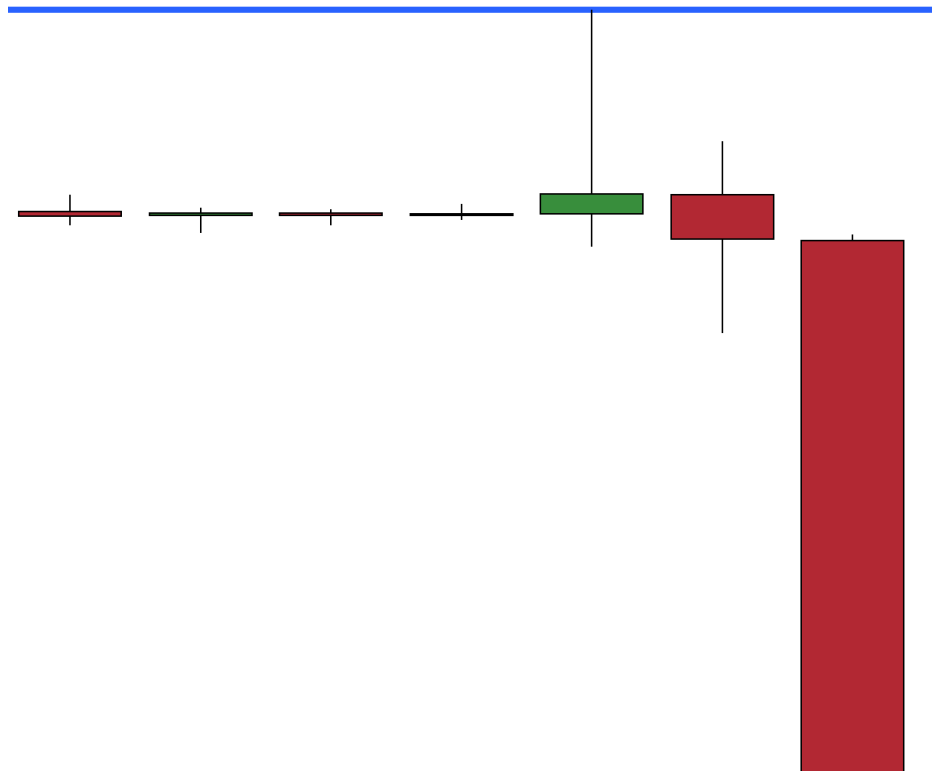
STEP 1

Find and mark the highest point of a bearish trend. The highest point must have two candlesticks to the left and two candlesticks to the right which are lower than the center wick high. This high point is called a "swing high". This swing high is the "1" boundary which represents 100%.
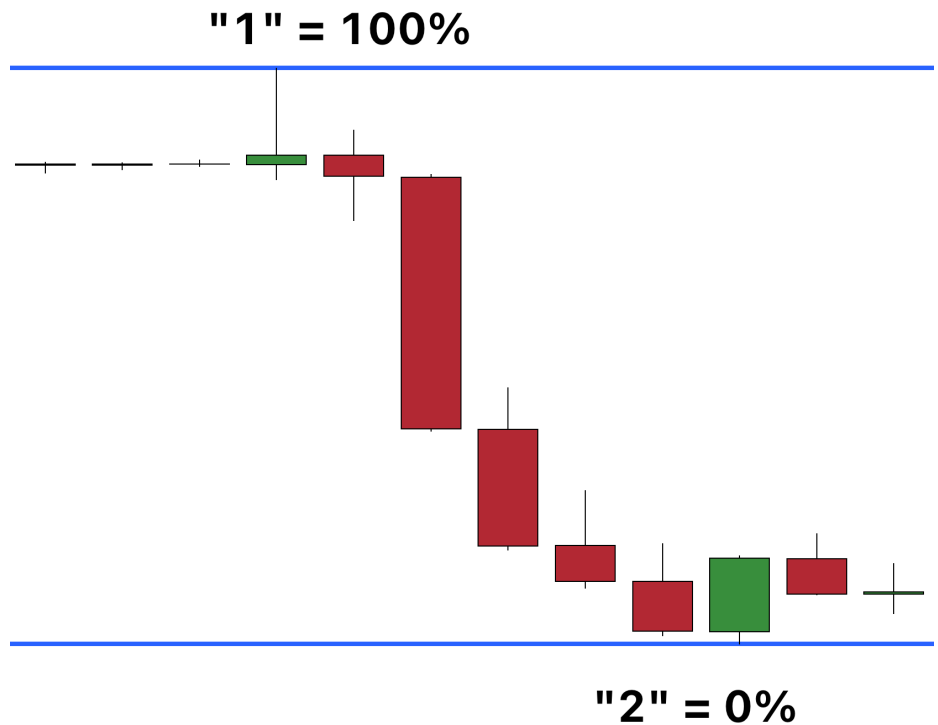
"1" = 100%

STEP 2

After the "1" boundary has been determined, find and mark the next low point. The low point must have two candlesticks to the left and two candlesticks to the right which are higher than the center wick low. This low point is called a "Swing low". This swing low is the "2" boundary which represents 0%.
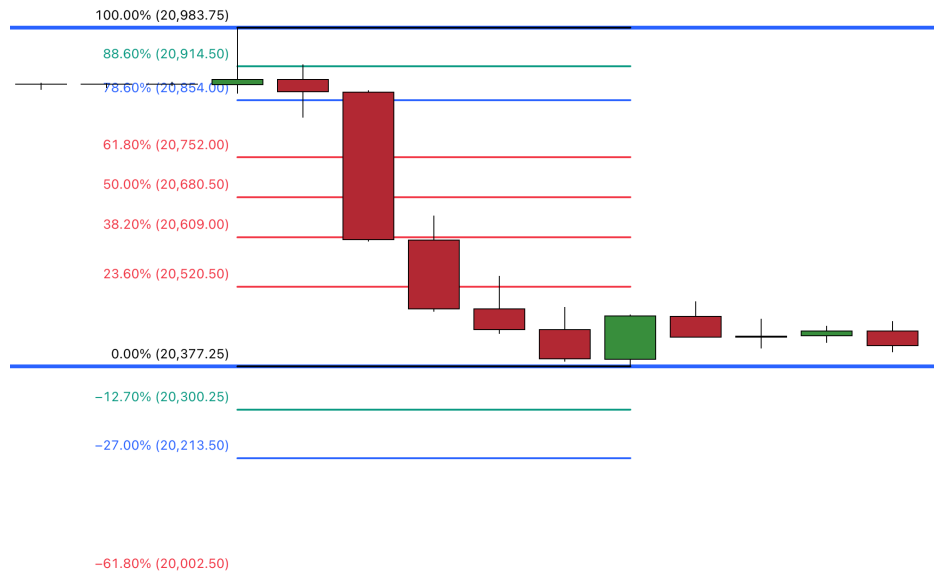
"1" = 100%

"2" = 0%

STEP 3

Spread the Fibonacci sequence from the high point of the "1" boundary to the low point of the "2" boundary.

Important Note: The Fibonacci sequence must start from the "1" boundary and then connect to the "2" boundary.
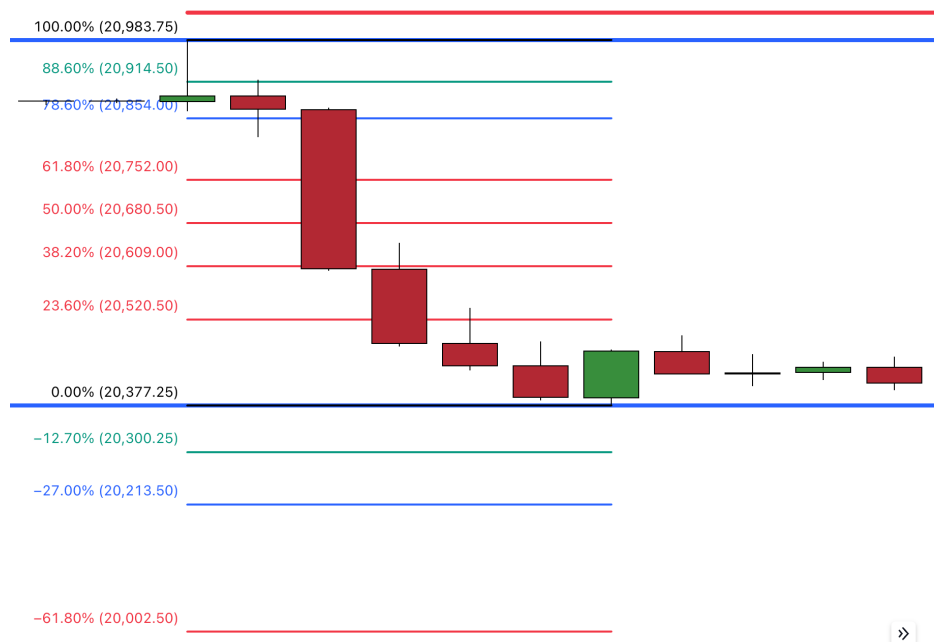
STEP 4

Place the protective stop loss order above the "1" boundary. Any bullish movement we see should be considered a short term move and a potential selling opportunity. If the market pushes above the 1 boundary, then the bearish structure is considered broken and we will need to apply the Fibonacci Sequence in an uptrend.

Helpful Hint: remember this phrase, as long as the market does not take out the one...we should expect to have some fun!

STOP LOSS

ABOVE THE "1" BOUNDARY

100.00% (20,983.75)

88.60% (20,914.50)

78.60% (20,854.00)

61.80% (20,752.00)

50.00% (20,680.50)

38.20% (20,609.00)

23.60% (20,520.50)

0.00% (20,377.25)

−12.70% (20,300.25)

−27.00% (20,213.50)

−61.80% (20,002.50)

STEP 5

Now that the Fibonacci "1" & "2" boundaries have been established, locate and find the highest price point which is known as the retracement level or the pull back after the 2 boundary. The pull back is known as the "3" level and is the highest price point between the "1" and "2" boundary after the "2" has been established.

Important Note: The market price can push below the "2" boundary and rise back above the "2" boundary for a deeper "3" level. Finding the "3" pull back level will be the most challenging part when using the Fibonacci sequence. The "3" does not need to be a proper high price.

STEP 6

In this example, the highest price after the "1" and "2" boundary is placed at the 61.8% pull back level, which we have colored red. Based upon the mathematics of the Fibonacci sequence, it is expected that the market price will fall to the 1.618% level, which is also colored red. Place the limit order at the 1.618% Fibonacci level.

*Important Note: Red goes to red; blue goes to blue; green goes to green.*

LIMIT ORDER

STEP 7

Once the market price hits the Fibonacci extension, it is now time to close the short trade.

TAKE PROFIT

STEP 8

After the trade has been closed, it is time to find the "4" level. The "4" level is the first proper low with two candlesticks to the left and two candlesticks to the right which are higher than the center wick low that forms once the Fibonacci extension is hit. The image from Step 7 shows the Fibonacci extension being hit; however we cannot move the Fibonacci sequence until a proper low forms. In the example below, a new low has been established and created a new "4" level. The Fibonacci sequence is now considered complete.


"4"
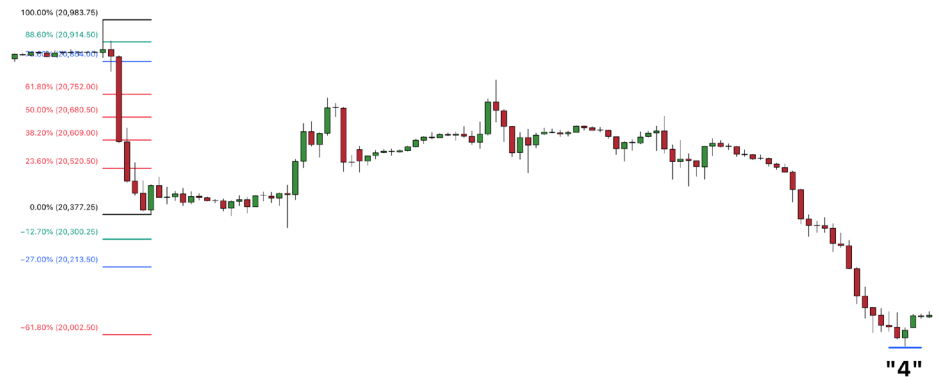
STEP 9

Now that the Fibonacci sequence is complete, it is time to locate the next Fibonacci sequence. To do this, we must follow a specific sequence: The previous "3" level becomes the new "1" boundary and the previous "4" level becomes the new "2" boundary. Below is an image of the previous Fibonacci "3" level becoming the new "1" boundary and the previous Fibonacci "4" level becoming the new "2" boundary.

THE "3" BECOMES
THE NEW "1"

THE "4" BECOMES
THE NEW "2"

STEP 10

With the new "1" and "2" boundaries established, spread the Fibonacci sequence from the high point of the "1" boundary to the low point of the "2" boundary.
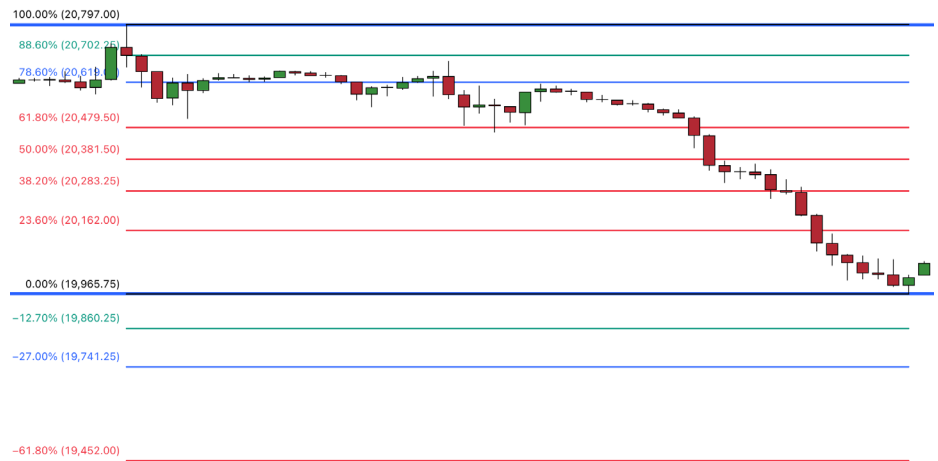
STEP 11

Congratulations! You have successfully moved the Fibonacci sequence. The job is to now look for a new "3" level to form, enter into the market with a short position, exit the position at the future Fibonacci limit, and place the stop loss above the "1". This sequence will continue until the market price has crossed the "1" boundary. If the "1" boundary is taken out, then the bearish trend has come to an end, and it may be a good idea to begin looking for Fibonacci sequences following the rules in a bull market.

STOP LOSS

100.00% (20,797.00)
88.80% (20,702.25)
78.60% (20,619.00)
61.80% (20,479.50)
50.00% (20,381.50)
38.20% (20,283.25)
23.60% (20,162.00)
0.00% (19,965.75)
-12.70% (19,860.25)
-27.00% (19,741.25)
-61.80% (19,452.00)

TAKE PROFIT