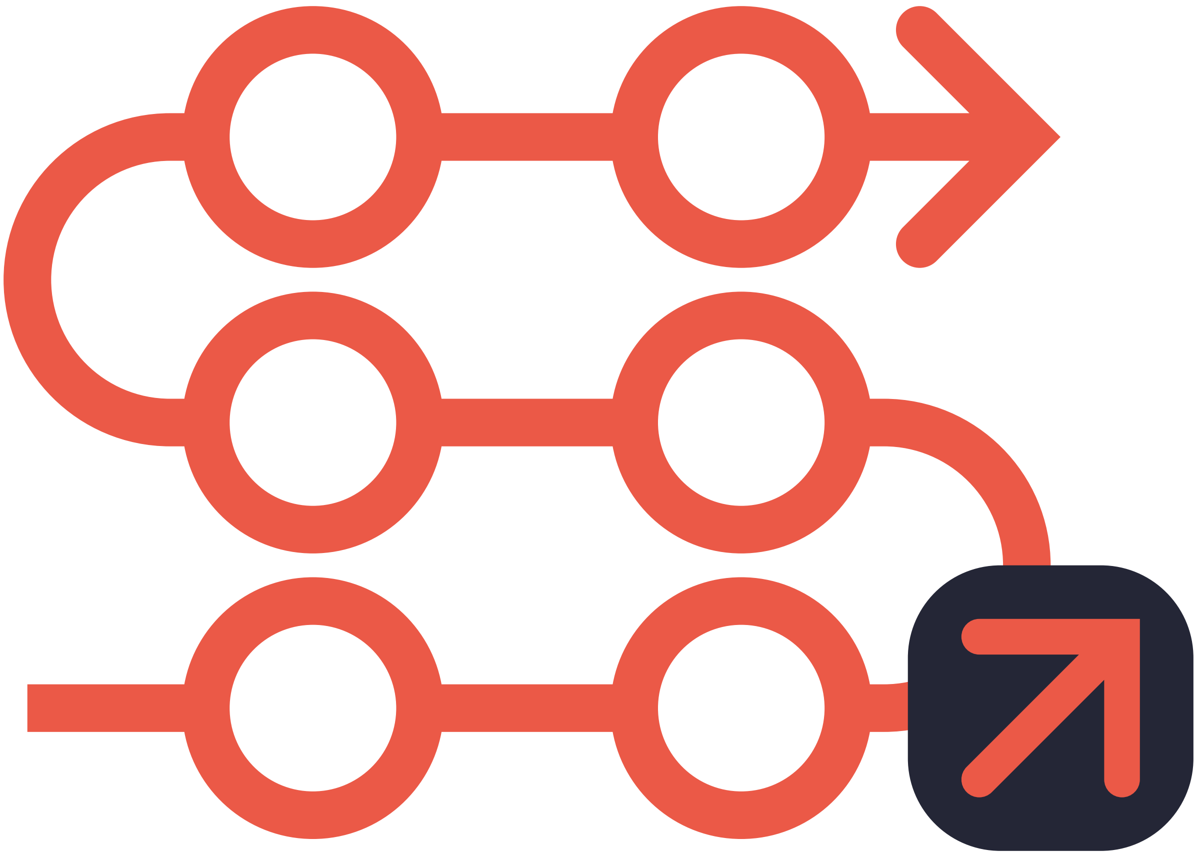
Futures Edge

STRATEGY



TREND TRADING IN AN UPTREND USING THE FIBONACCI SEQUENCE

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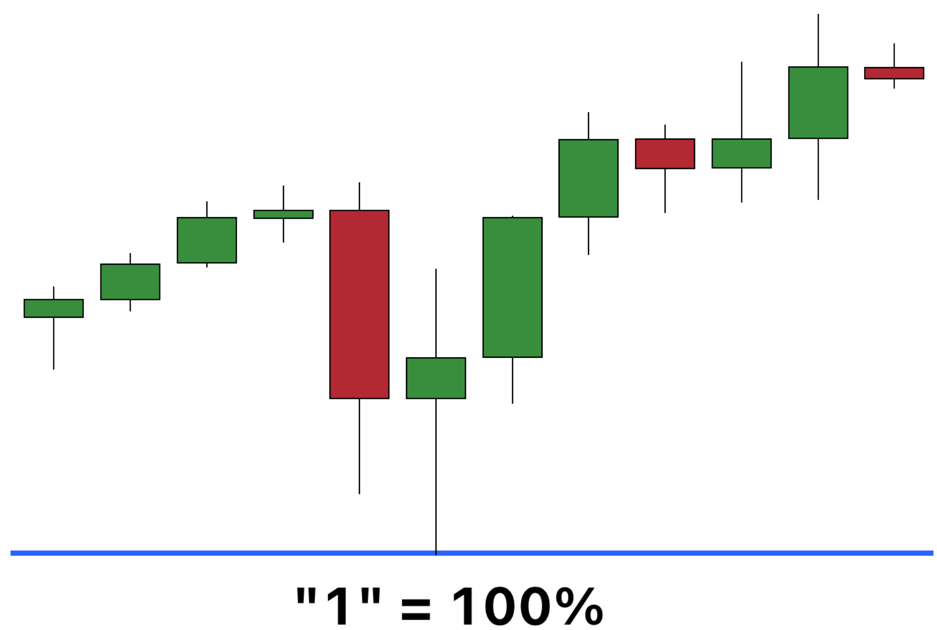
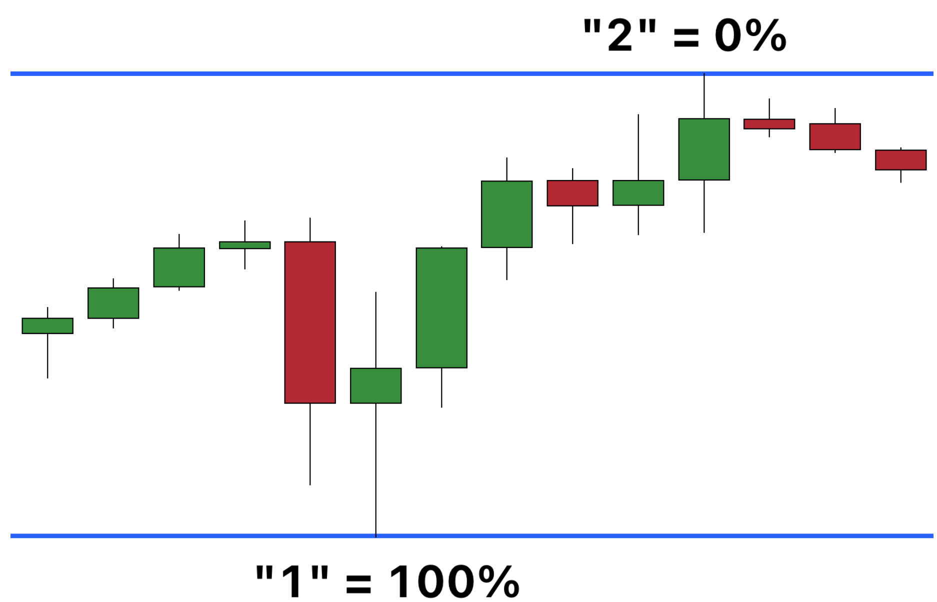
STEP 1

Find and mark the lowest point of a bullish trend. The lowest point must have two candlesticks to the left and two candlesticks to the right which are higher than the center wick low. This lowest point is called a “swing low”. This swing low is the “1” boundary which represents 100%.



STEP 2

After the “1” boundary has been determined, find and mark the next high point. The high point must have two candlesticks to the left and two candlesticks to the right which are lower than the center wick high. This highest point is called a “Swing High”. This swing high is the “2” boundary which represents 0%.



STEP 3

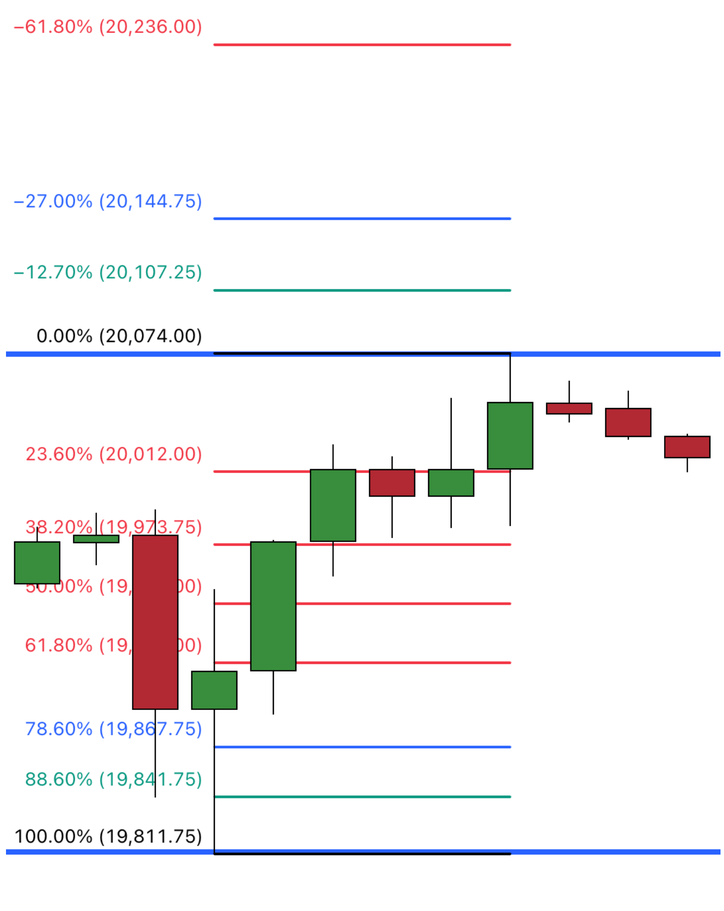
Spread the Fibonacci sequence from the lowest point of the “1” boundary to the highest point of the “2” boundary.

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 below the “1” boundary. Any bearish movement we see should be considered a short term move and a potential buying opportunity, unless the market falls below the 1 boundary.

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



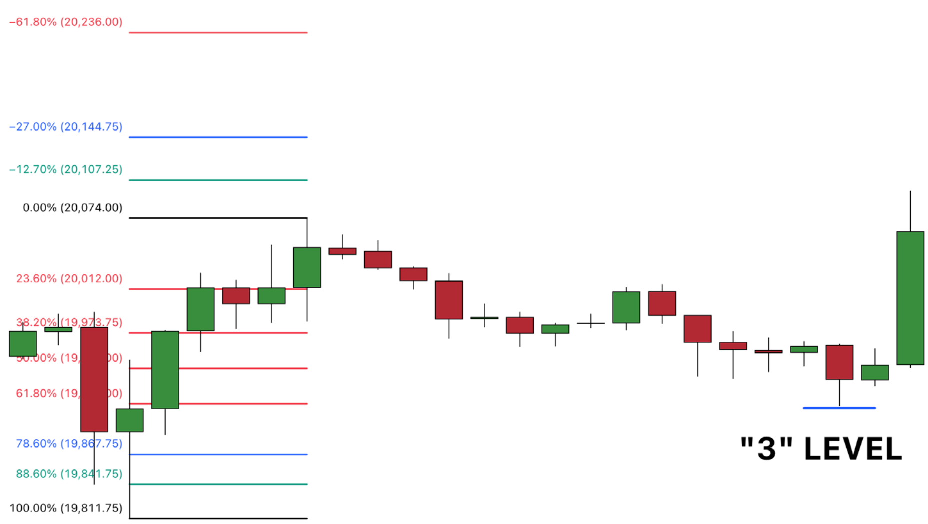
STOP LOSS

BELOW THE "1" BOUNDARY

STEP 5

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

Important Note: The market price can push above the “2” boundary and fall back below 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 low price.



STEP 6

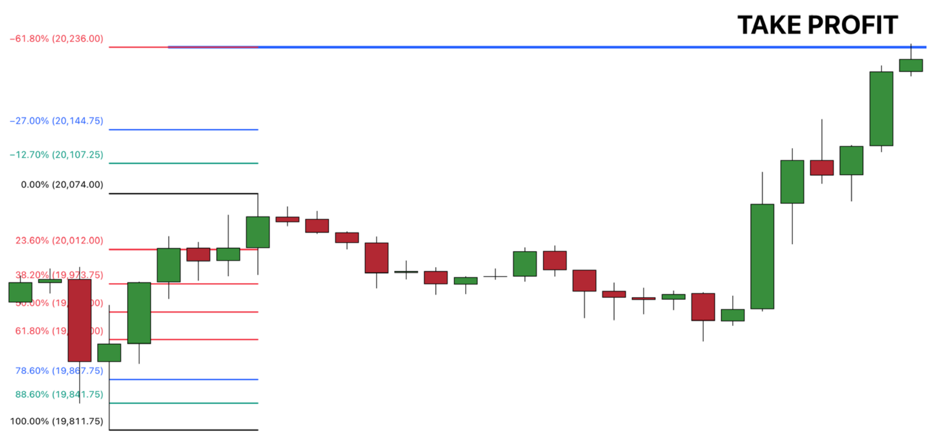
In this example, the lowest price after the "1" and "2" boundary is placed at the 61.8% pull back level, which we have colored red. Based upon the mathematics of the Fibonacci sequence, it is expected that the market price will increase to the 1.618% level, which is also colored red. Place the limit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

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

LIMIT ORDER

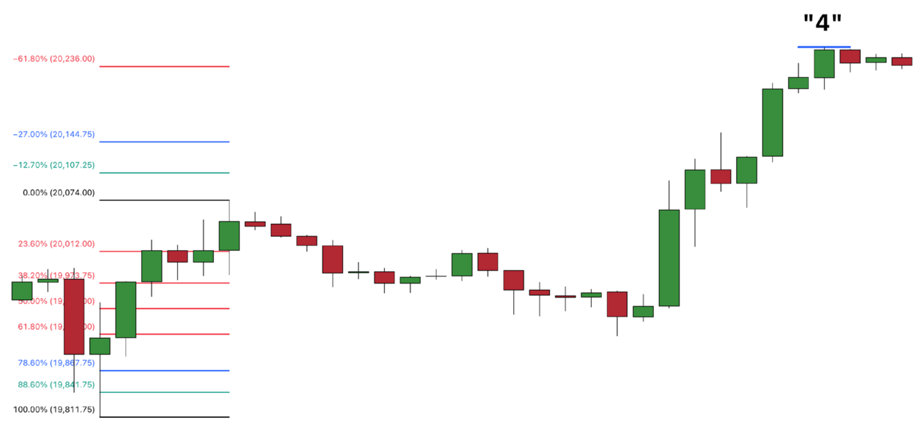
STEP 7

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



STEP 8

After the trade has been closed, it is time to find the "4" level. The "4" level is the first proper swing high with two candlesticks to the left and two candlesticks to the right which are lower than the center wick high 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 swing high forms. In the example below, a new swing high has been established and created a new "4" level. The Fibonacci sequence is now considered complete.

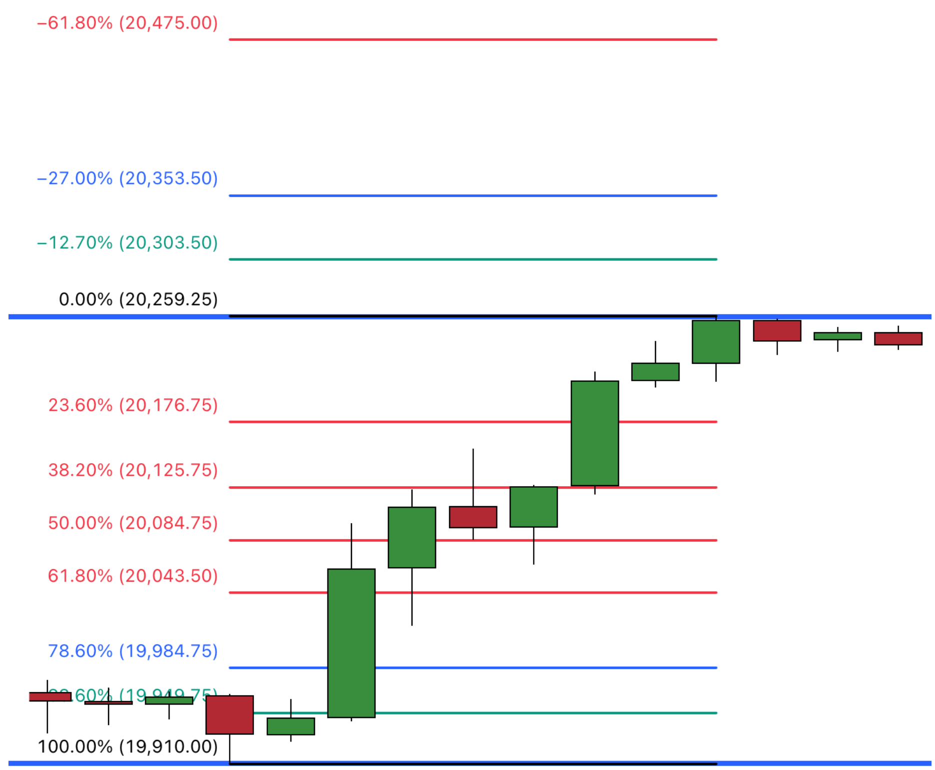


STEP 9

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.

STEP 10

With the new “1” and “2” boundaries established, spread the Fibonacci sequence from the lowest point of the “1” boundary to the highest 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 long position, exit the position at the future Fibonacci limit, and place the stop loss below the “1”. This sequence will continue until the market price has crossed the “1” boundary. If the “1” boundary is taken out, then the bullish trend has come to an end, and it may be a good idea to begin looking for Fibonacci sequences following the rules in a bear market.