



In this tutorial I will explain the correct use of Fibonacci retracements and projections.

This is a complete tutorial on these two tools that are not understood and taught correctly by many trading coaches.

Special tips on the use of these Fibonacci tools are taught in this tutorial. Moreover, exercises are included to help you grasp what you will be taught.

To Your Trading Success,

Louizos Alexander Louizos

HOW TO CALCULATE AND USE FIBONACCI RETRACEMENTS AND PROJECTIONS

Fibonacci retracements and projections are the most powerful tools of technical analysis along with trendline analysis.

Technical indicators have proved to lag and give out trading signals when the major part of the trade has passed. Never rely on technical indicators only. They are lagging. It is like trying to catch a Ferrari with a family car.

In this tutorial you will learn to use correctly Fibonacci trading in you trading style.

The major and most common fibonacci retracements are:

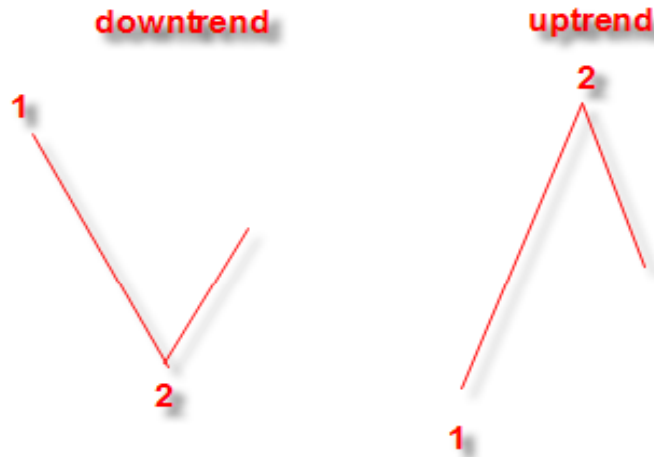
0.382 or 38.2%

0.618 or 61.8%

0.786 or 78.6%

You will often find traders to refer to 0.5 or 50% fibonacci retracement but in my opinion this is not a fibonacci retracement, so do not use it. My experience in trading has showed me that every time I used this 0.5 retracement to trade I regret it soon afterwards.

All trading consoles have a automated option to calculate fibonacci retracements. **You need to pick up two points. Choose the starting point of the trend first and then find the end point of a trend. In an uptrend the first point should be the lower point and in a downtrend the first point should be the higher. Look at the figure below:**



Look at some real market fibonacci retracements to better visualize the use of retracements in your trading:

GO TO NEXT PAGE

Look at the following chart. What could be the 1 and 2 points you would choose in order to calculate fibonacci retracements?



Study the chart for a while and think about it for a while. Then go to the next page to find your answer.

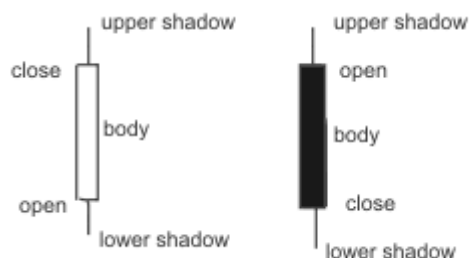
Look at the possible 1 and 2 points you should choose in order to calculate your retracements.



As you may see I use candlesticks charts in my trading. Get used to candlesticks charts. It gives you a lot of information. In the next page you will find a tutorial about candlestick charting.

CANDLESTICK CHARTS HOW TO

Candlestick is close related to bar chart but it also contains price direction information. The candlestick bar consists of the body and the shadows.



Schematics of candlesticks

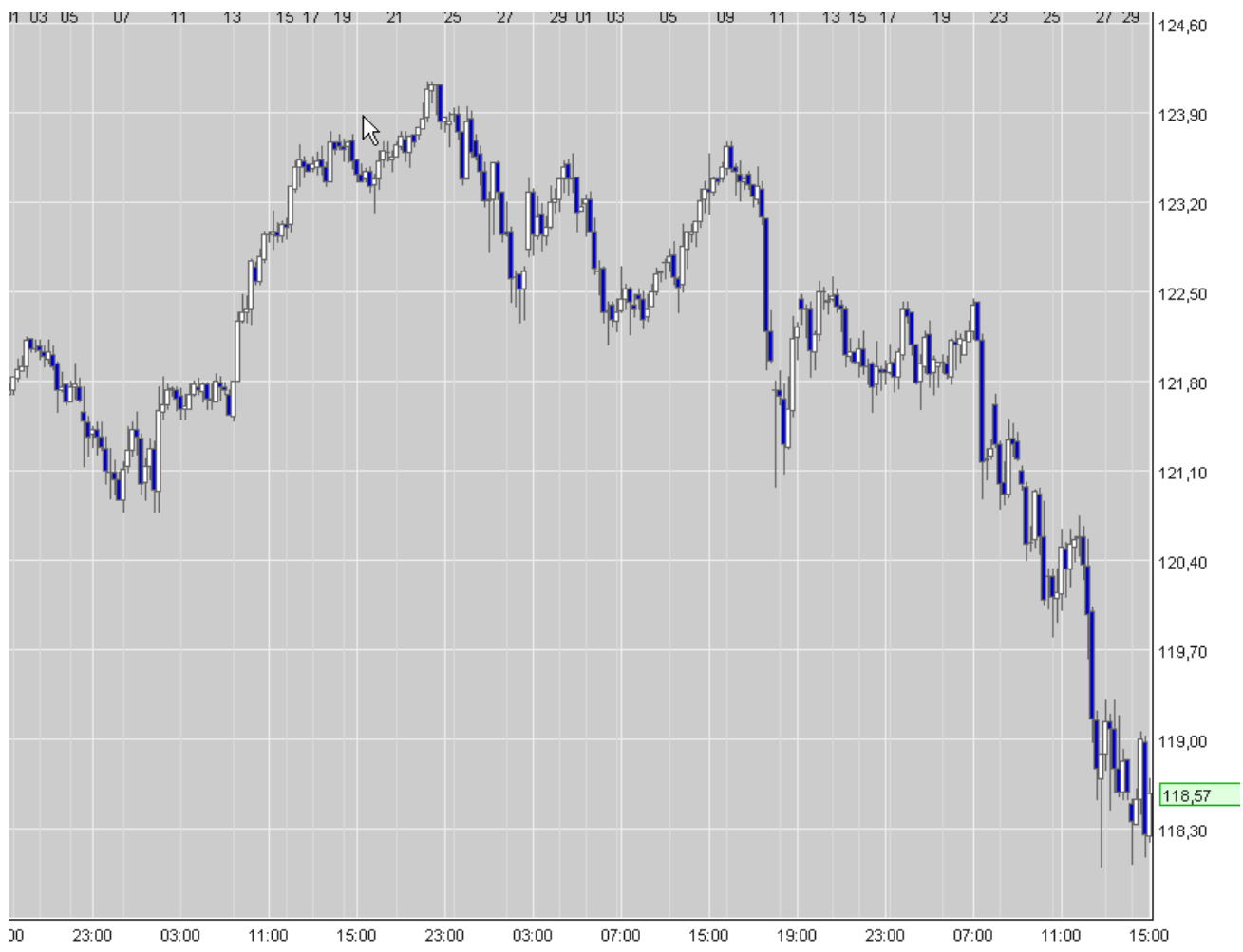
Opening and closing price makes up the body of the candlestick. When the opening price is lower from the closing price the body is left blank or white. When the opening price is higher from the closing price the body is filled with color (this color depends on the trading platform).

Upper shadows shows the high of the price and lower shadow shows the low of the price for the time span the trader selected in his chart.

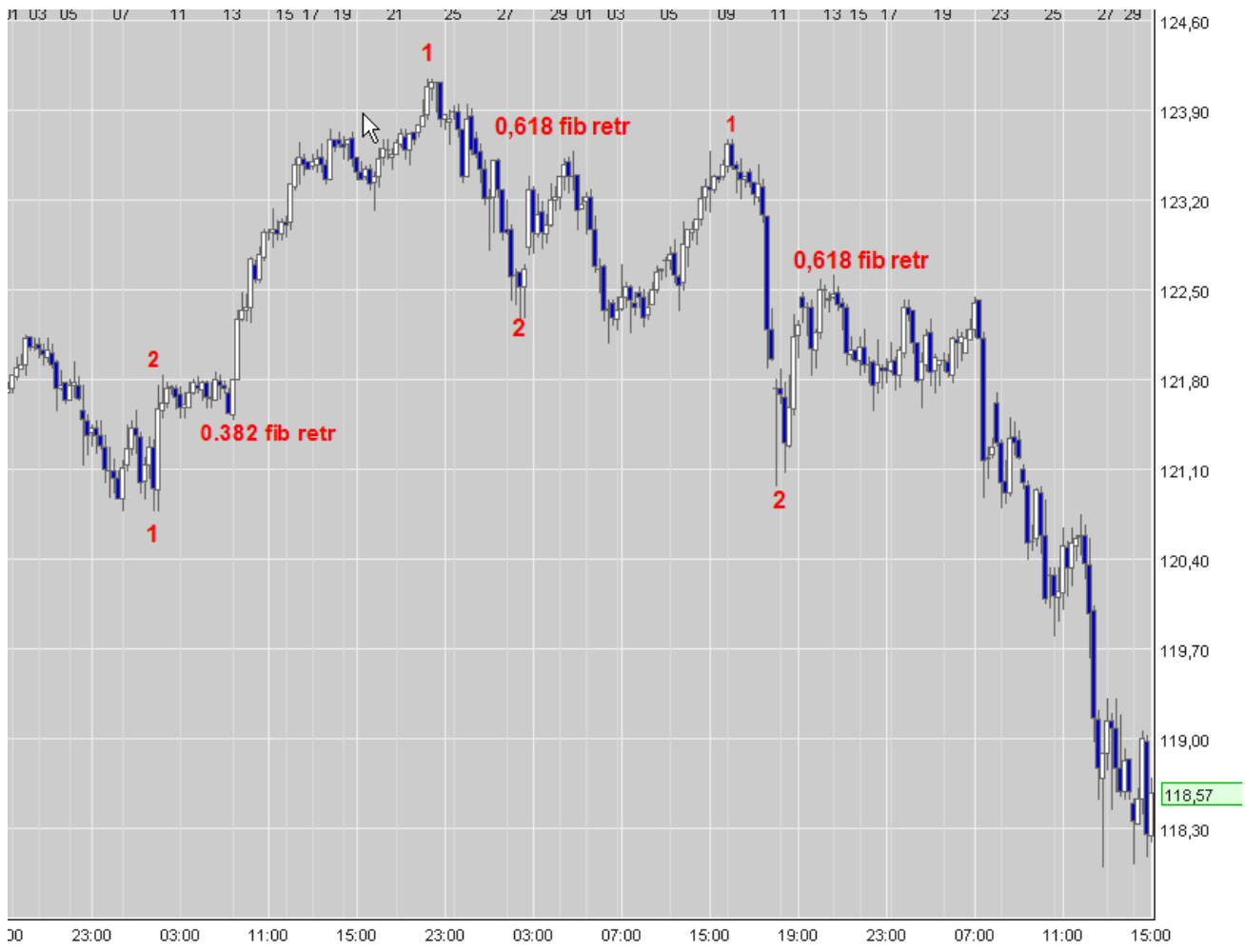
GO TO THE NEXT PAGE FOR ONE MORE EXERCISE ON FIBONACCI

RETRACEMENTS

WHICH 1 AND 2 POINTS WOULD YOU CHOOSE TO CALCULATE
FIBONACCI RETRACEMENTS IN THE FOLLOWING CHART?



*GO TO THE NEXT PAGE TO FIND OUT THE FIBONACCI
RETRACEMENTS IN THIS CHART*



Watch carefully how market reacts and changes direction in fibonacci retracements. Is this enough for you to trade? No, of course. You need a more refined strategy in order to correctly assess charts and jump in the market at the right moment.

There are some tips when you try to calculate fibonacci retracements you wont find in public domain and can only be gained through experience.

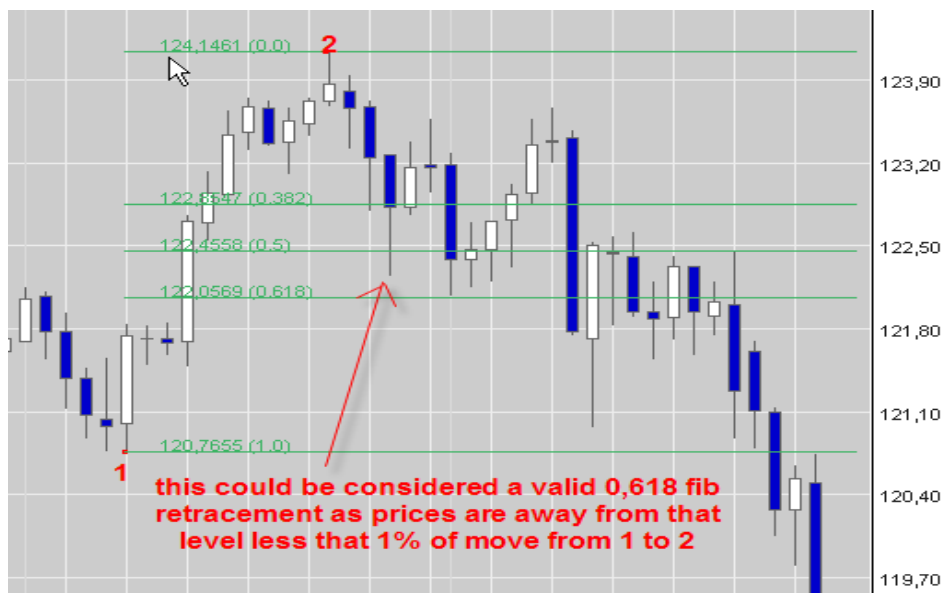
TRADING TIPS: Fibonacci retracements work mostly when there are steep price movements and traders have almost no trendline support or resistance to follow . They also seem to be valid when they are calculated for a big time frame. The bigger the time frame the more valid the fibonacci level is.

But this is not the only tip. Sometimes when you project your retracement levels on the chart you will find that either prices fail to meet these levels by a few pips either they overshoot them.

Pay attention now: A fibonacci level is valid if prices fail to meet this level by 10 percent of the movement of points you selected to calculate these levels. That is if your move from 1 to 2 point is 100 pips a fib level is valid as long as prices failed to reach it as long as 10 pips.

Moreover: what if prices overshoot fib level? Is it valid? Yes it is, as long as the candlestick body is outside this fib level and only it's shadow overshoots the fibonacci level. A bit confusing? See the charts below.





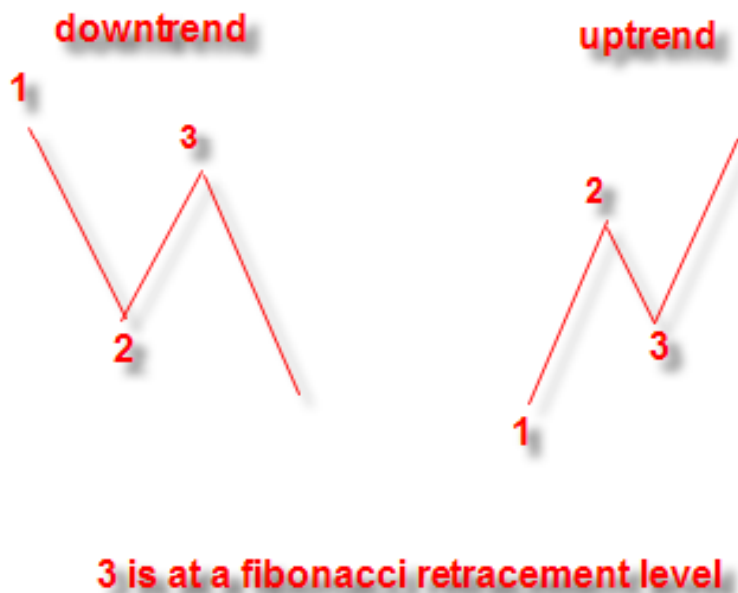
HOW TO CALCULATE FIBONACCI PROJECTIONS

There are two major Fibonacci projections:

1.27 or 127%

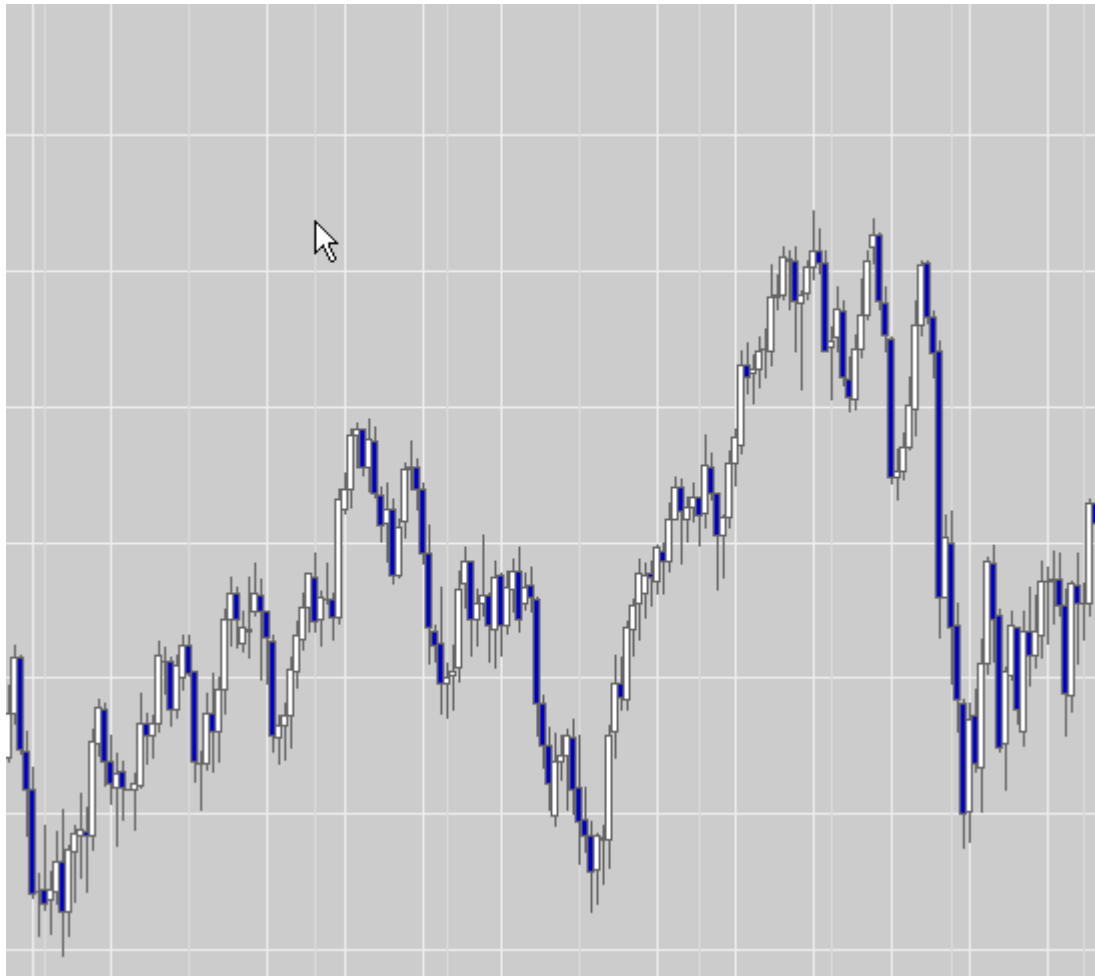
1.618 or 161.8%

In order to calculate fibonacci projections (often called fibonacci extensions) you need three points. The two first are pointed like the figures above for the fibonacci retracements and the third is the point of the fibonacci retracement where prices have bounced. See the figure below:

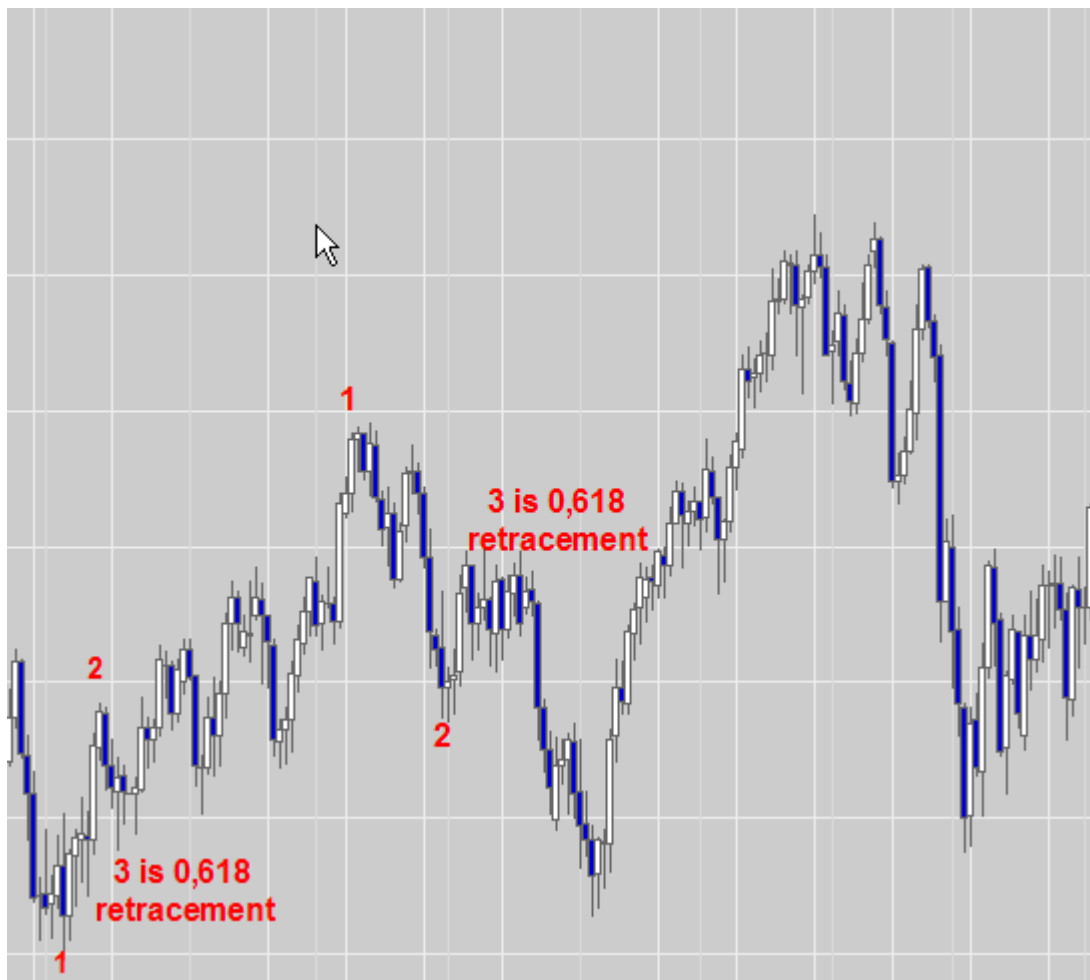


In next pages you will find some exercises from real market charts in order to refine your method of calculating fibonacci projections.

SEE THE CHART. WHAT WOULD BE YOUR 1-2-3 POINTS IN ORDER TO CALCULATE FIBONACCI PROJECTIONS?



**LOOK AT THE NEXT PAGE TO FIND OUT WHAT WOULD BE
YOUR 1-2-3 POINTS.**



If your trading platform does not have fibonacci tools then you only have to use a simple calculator in order to use them. Fibonacci retracements will be simple percentage values of the distance in pips from 1 to 2. For example if point 1 is at EUR/USD 1,300 and point 2 is at 1,400 (uptrend) then the distance in pips from 1 to 2 is 100 pips. So 38,2% fib retracement will be $100 \times 0,382 = 38,2$ pips, 61,8% will be $100 \times 0,618 = 61,8$ pips and so on. Add these results to 1,300 and you have your retracements e.g EUR/USD 1,338 for 38,2% retracement, EUR/USD 1,361 for 61,8% retracement and so on.

In a downtrend you just have to remove your percentage calculations in

pips from point 1 in order to have the fibonacci retracements.

If you find difficulties in calculating fibonacci retracements and projections there is a freeware programme that calculates these numbers for you. You just have to choose if you are in an uptrend or a downtrend and provide the hi and low prices. Fibonacci retracements and projections are automatically calculated. It is an easy to use programme that could prove very handy if you are unfamiliar with fibonacci calculations, or your trade platform does not provide fibonacci tools.

Special thanks to TraderSoftware for creating and distributing this fibonacci calculator for free.

You may download [Fibonacci Calculator Setup File](http://www.easytradingforex.com/ebooks/fibonacci-calculator-setup.exe) from here:

<http://www.easytradingforex.com/ebooks/fibonacci-calculator-setup.exe>

To your Trading Success,

Louizos Alexander Louizos