

Fibonacci: The Secrets Revealed

By Robert Roy



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What Are Fibonacci

And Why Are

They So Important?



Lets Talk Harmonic Trader

What is Harmonic Trading? Harmonic Trading is a methodology that utilizes the recognition of specific price patterns and the alignment of exact **FIBONACCI** ratios to determine highly probable reversal points in the financial markets.



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Although these patterns are not 100% accurate, these situations have been historically proven. [If these set-ups are identified correctly...](#)



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It is possible to identify significant opportunities with a very limited risk.



What Are Fibonacci?

Fibonacci are a sequence of numbers defined by the linear recurrence equation

$$F_n = F_{n-1} + F_{n-2}$$

Proper Names:

Golden Mean or Divine Proportion



Fibonacci In History

The Start of Fibonacci

Myth: Leonardo De Pisa (Leonardo Fibonacci, self given) founded Fibonacci

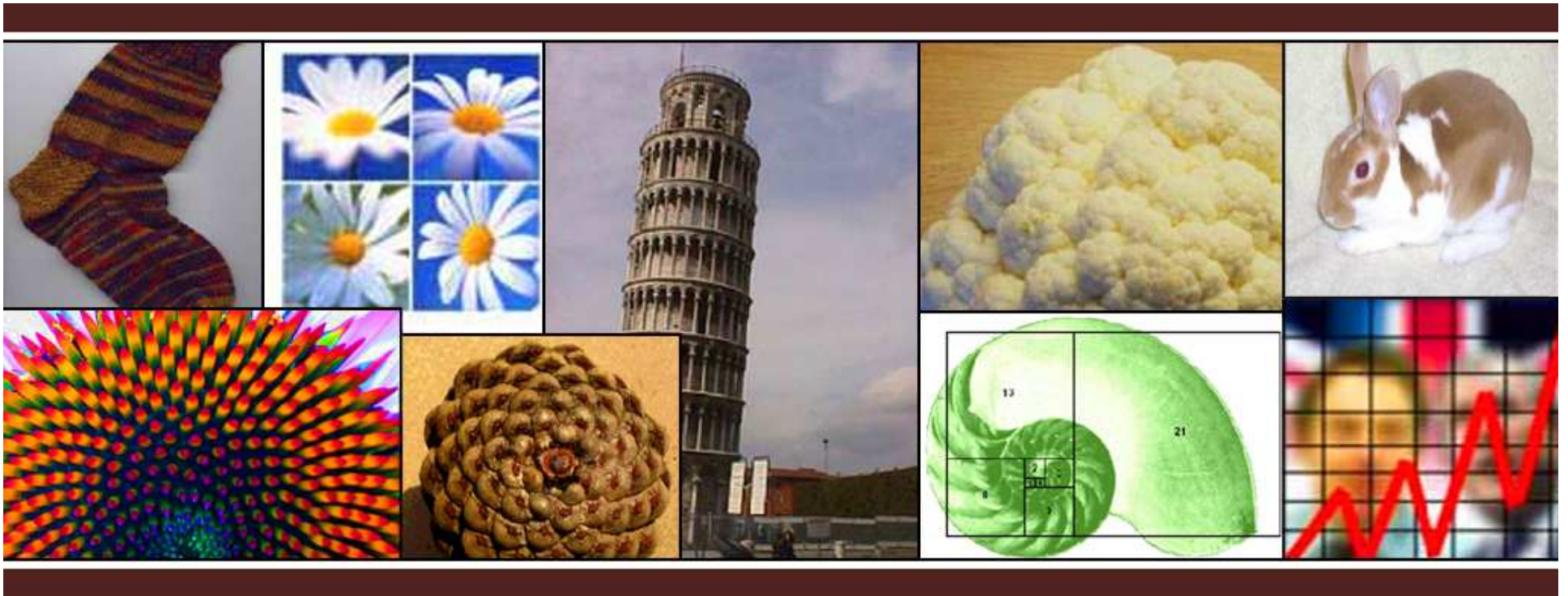
Fact: Pythagoras, Greek Philosopher worked with the Fibonacci Ratios centuries prior to Leonardo.

Fact: The Fibonacci numbers first appear, under the name maatraameru (mountain of cadence), in the work of the Sanskrit grammarian Pingala the Art of Prosody, 450 or 200 BC).



Fibonacci In Our Daily Lives

Where in life do we see Fibonacci?



Fibonacci

Settings



The Math Behind Fibonacci

Fibonacci Ratio Series

0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89,
144, 233, 377, 610, 987,...

Fibonacci Math

$$0 + 1 = 1$$

$$1 + 1 = 2$$

$$1 + 2 = 3$$

$$2 + 3 = 5$$

$$3 + 5 = 8$$

$$5 + 8 = 13$$

$$8 + 13 = 21$$

$$13 + 21 = 34$$

$$21 + 34 = 55$$

$$34 + 55 = 89$$

$$55 + 89 = 144$$

$$89 + 144 = 233$$



The Math Behind Fibonacci

Fibonacci Math

$$\begin{array}{ll} 0 + 1 = 1 & 8 + 13 = 21 \\ 1 + 1 = 2 & 13 + 21 = 34 \\ 1 + 2 = 3 & 21 + 34 = 55 \\ 2 + 3 = 5 & 34 + 55 = 89 \\ 3 + 5 = 8 & 55 + 89 = 144 \\ 5 + 8 = 13 & 89 + 144 = 233 \end{array}$$

$$34 / 55 = 0.618181818$$

$$89 / 144 = 0.618055555$$

$$233 / 377 = 0.6180371353$$



.618 = Golden Ratio



Changing Settings In Extreme Charts

After drawing the Fibonacci on your chart for the first time you will want to make sure that you change (and SAVE) your settings on the Fibonacci support & resistance drawing tool.

Step 1: Draw the Fibonacci using the rules on the previous page

Step 2: Right click on any of the Fibonacci lines on the chart and click edit

Step 3: This will open up a settings box. Follow the settings on the next page

Note: This is the method to set up Fibonacci using Extreme Charts. If you are using a different program, then consult with that company on how to set up the Fibonacci using those settings.



The Fibonacci Number Series

Fibonacci Support / Resistance Settings

-1	.382
-.618	.5
-.382	.618
-.272	.764
0	1
.236	

Check Off Boxes

- Extend Primary Lines – None
- Extend Ratio Lines – None
- Test these settings to see what you like
- Hit save as default when you are done



Fibonacci

Basics



Fibonacci Basics

Determine Where to Draw the Fibonacci Line From



Fibonacci Basics

Determine Where to Draw the Fibonacci Line From



Fibonacci Basics

Drawing Fibonacci Lines

- Determine where the most recent run in the stock price is.
- Wait for the swing high and swing low to form before drawing the Fibonacci lines (see the example on the next few pages to determine what a swing high and low are).
- In a bullish trend, draw the Fibonacci from the swing low to the swing high.
- In a bearish trend, draw the Fibonacci from the swing high to the swing low.
- You will be drawing the Fibonacci off of the wicks on the swing highs and lows



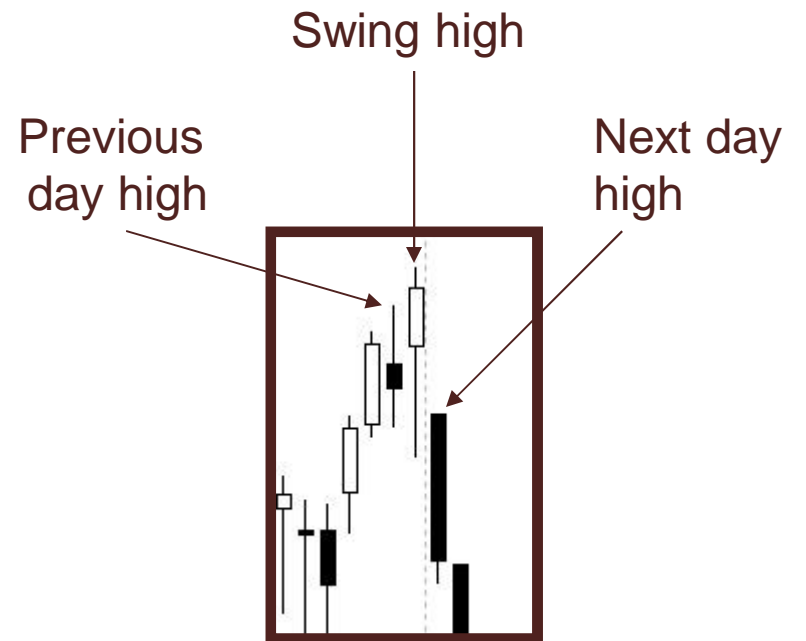
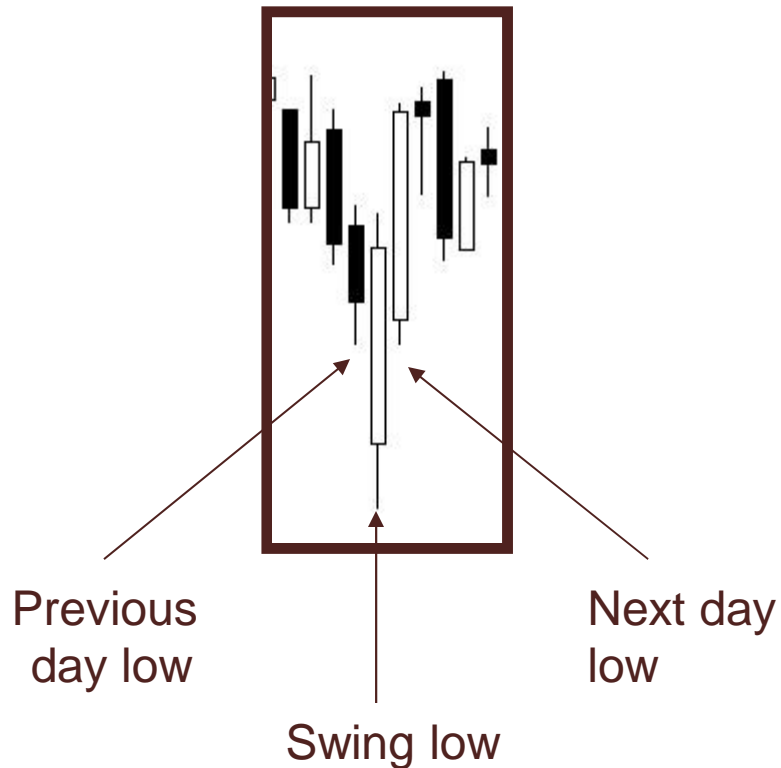
Fibonacci Basics

Determining Swing Highs & Lows



Fibonacci Basics

Determining Swing Highs & Lows



Note: Swing highs and swing lows need to follow an up or downtrend



Golden

Ratio

Retreat

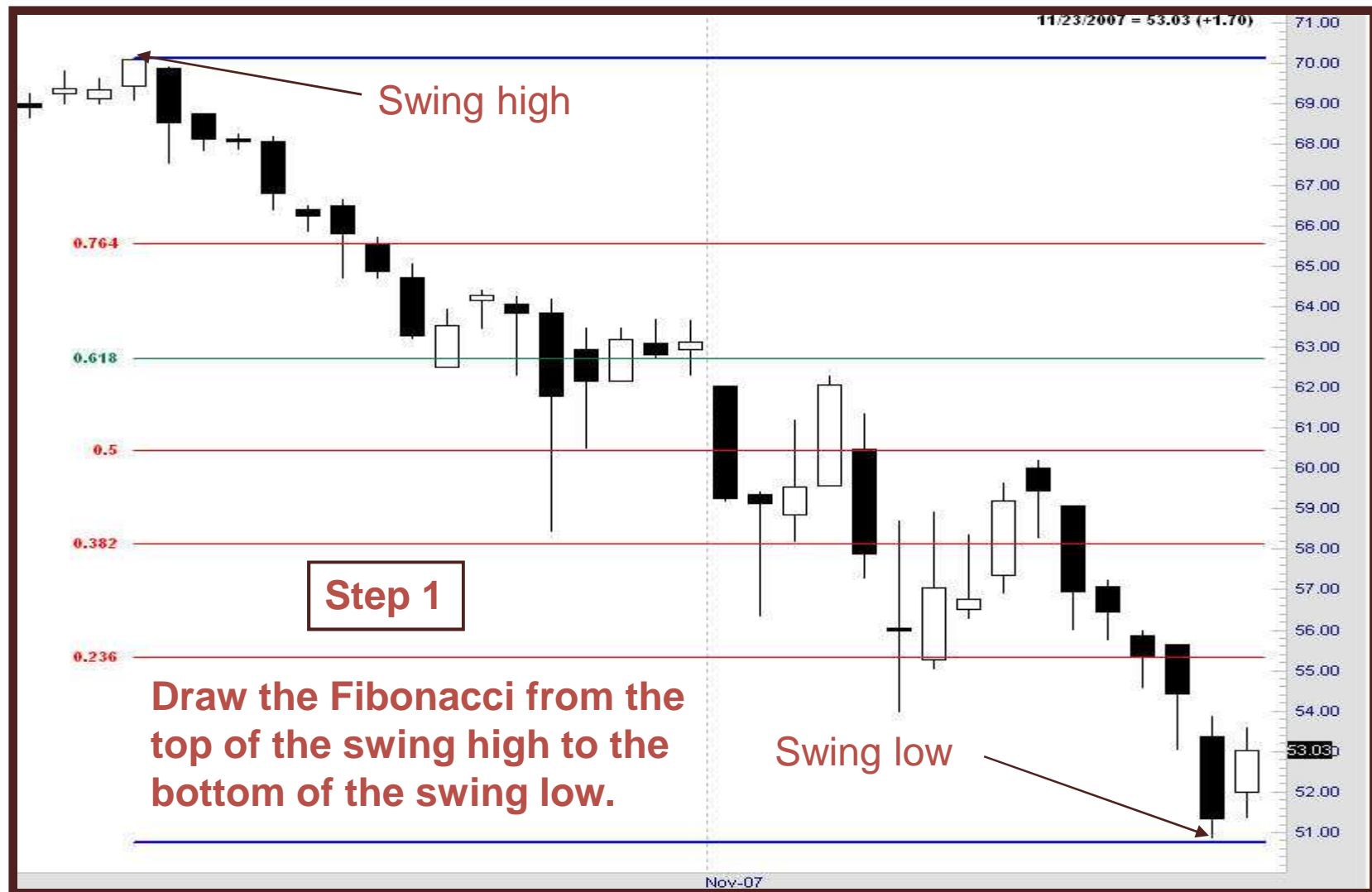


The Golden Ratio Retreat Trade

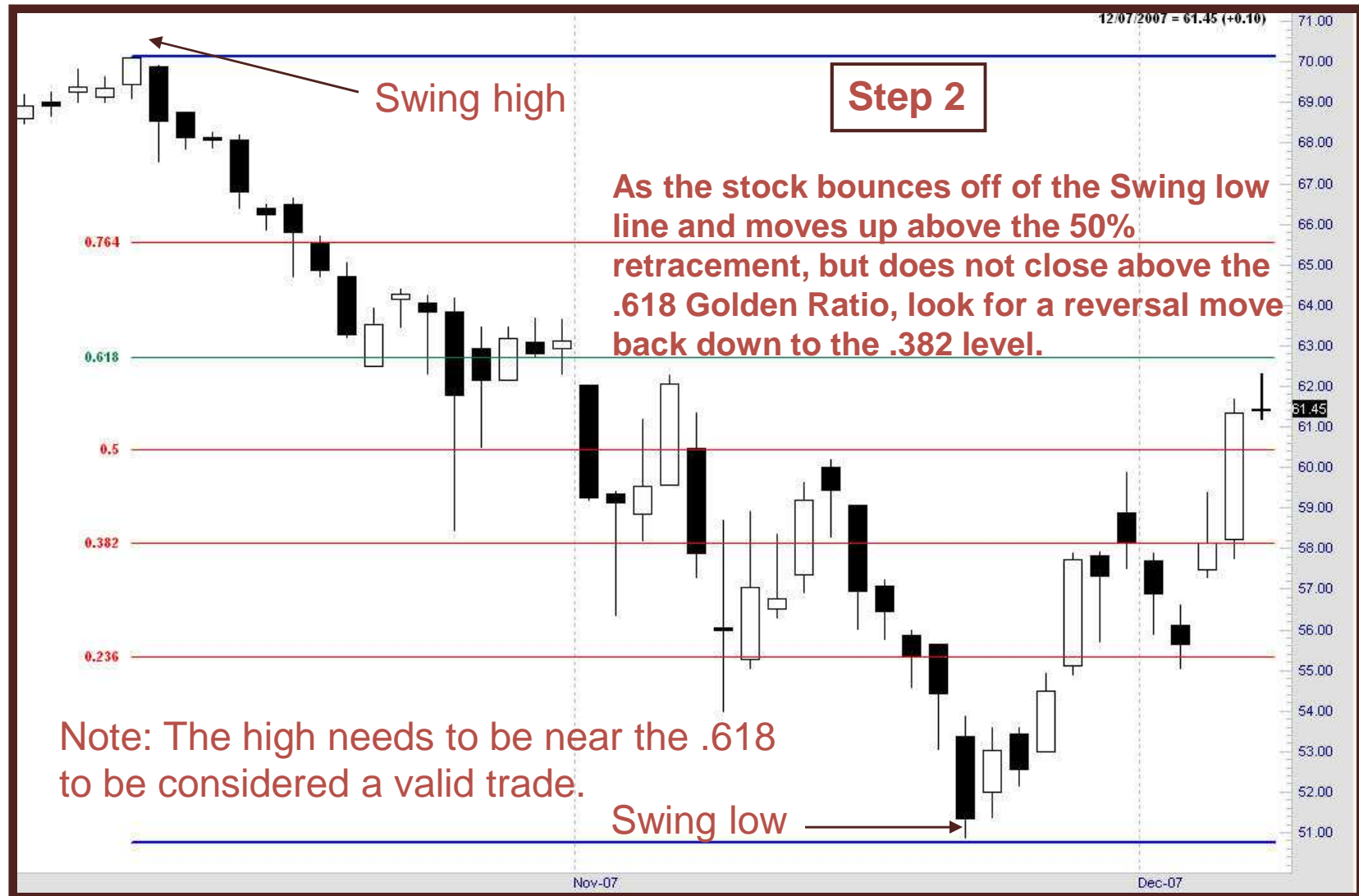
Setup Details

- Fibonacci Indicator Used – Fibonacci Support and Resistance
- Trade Type – Reversal
- Other Indicators Required – None but they could be helpful

The Golden Ratio Retreat Trade



The Golden Ratio Retreat Trade



The Golden Ratio Retreat Trade



The Golden Ratio Retreat Trade

Trade Setup

- Draw the Fibonacci using the criteria on the previous pages.
- Wait for the setup to present itself.

Note: The above example is a bearish trade setup, reverse the rules for bullish trades.



The Golden Ratio Retreat Trade

Entry

- If the stock bounces off of the Swing low line and moves up above the 50% retracement, but does not close above the .618 Golden Ratio, look for a bearish entry.
- It is OK for the wick of the candle to violate the .618 line (intraday) as long as the stock closes below it.
- Buy puts or use another bearish strategy to enter the trade.



The Golden Ratio Retreat Trade

Exit Criteria

- As the stock bounces off of the .618 Golden Ratio, look for a possible reversal move back down to the .382 level.
- The .382 level is the first level of hesitation that the stock will run into.
- If the stock breaks the .382 level, the .236 may be its next hesitation point.
- If that doesn't hold, expect a possible 100% retracement back to the 0 line.
- These levels are good potential places to consider scaling out of the trade.
- Only take the first test of the .618 line



The Golden Ratio Retreat Trade

Stops

- Your initial stop will be determined by the Golden Ratio Retreat Setup.
- Example No. 1 – If the stock never gets higher than the .618 then you can set your initial stop just above the .618 line.
- Example No. 2 – If the stock went higher than the .618 then you could set a stop above the high of the candle.
- If scaling out of the trade, consider moving the stops to the next Fib line as the targets are met.



The Golden Ratio Retreat Trade



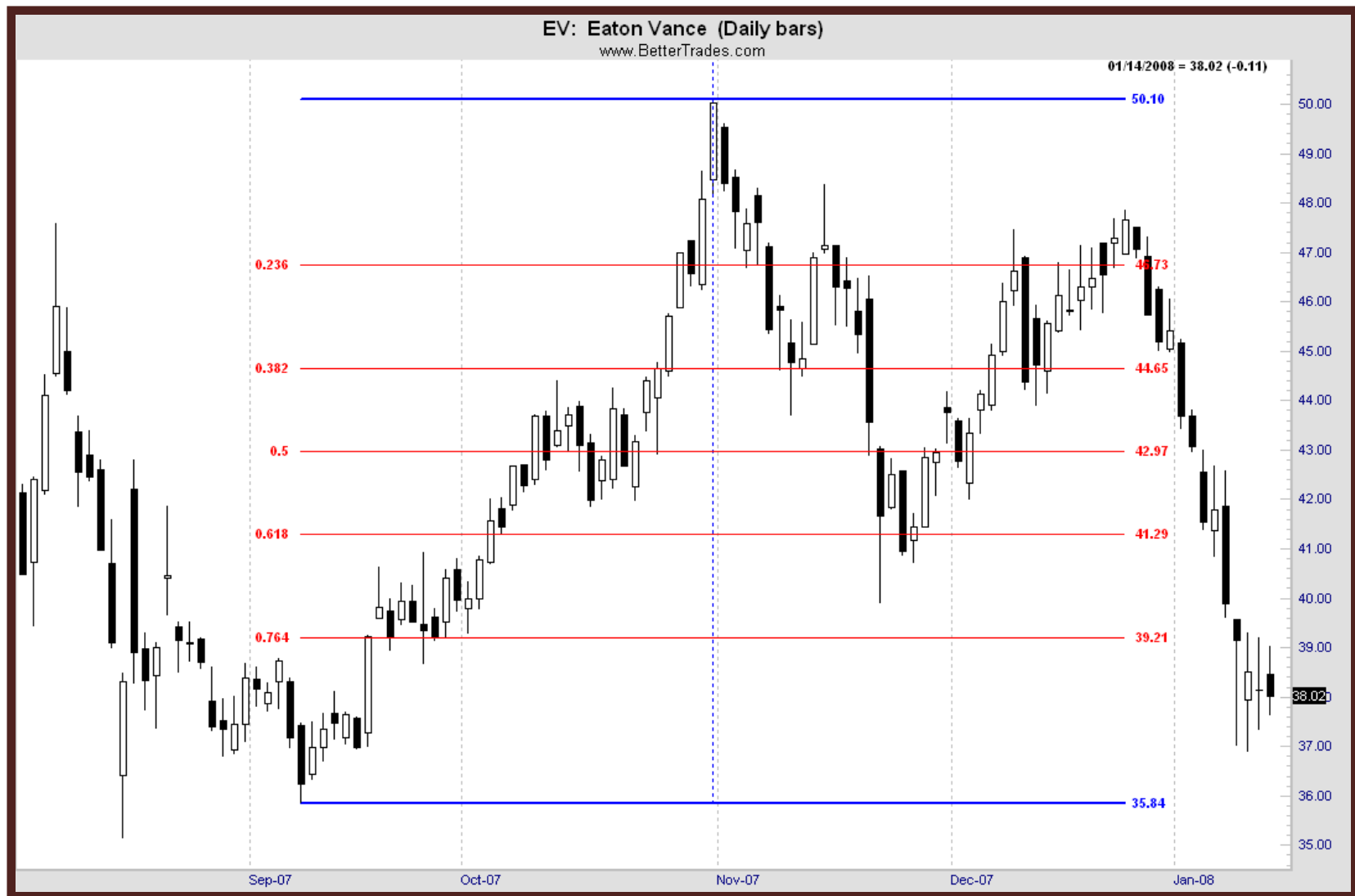
The Golden Ratio Retreat Trade



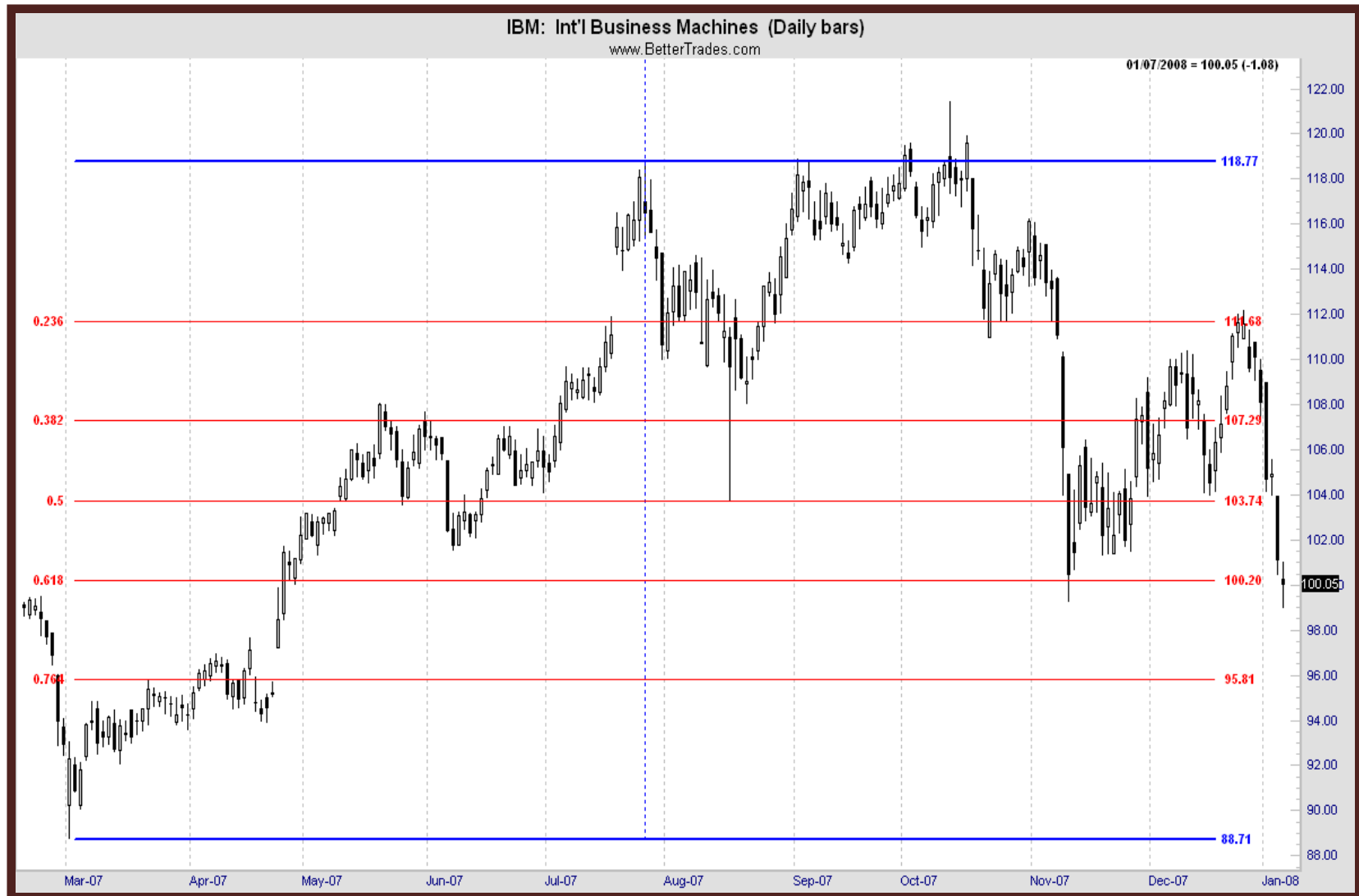
The Golden Ratio Retreat Trade



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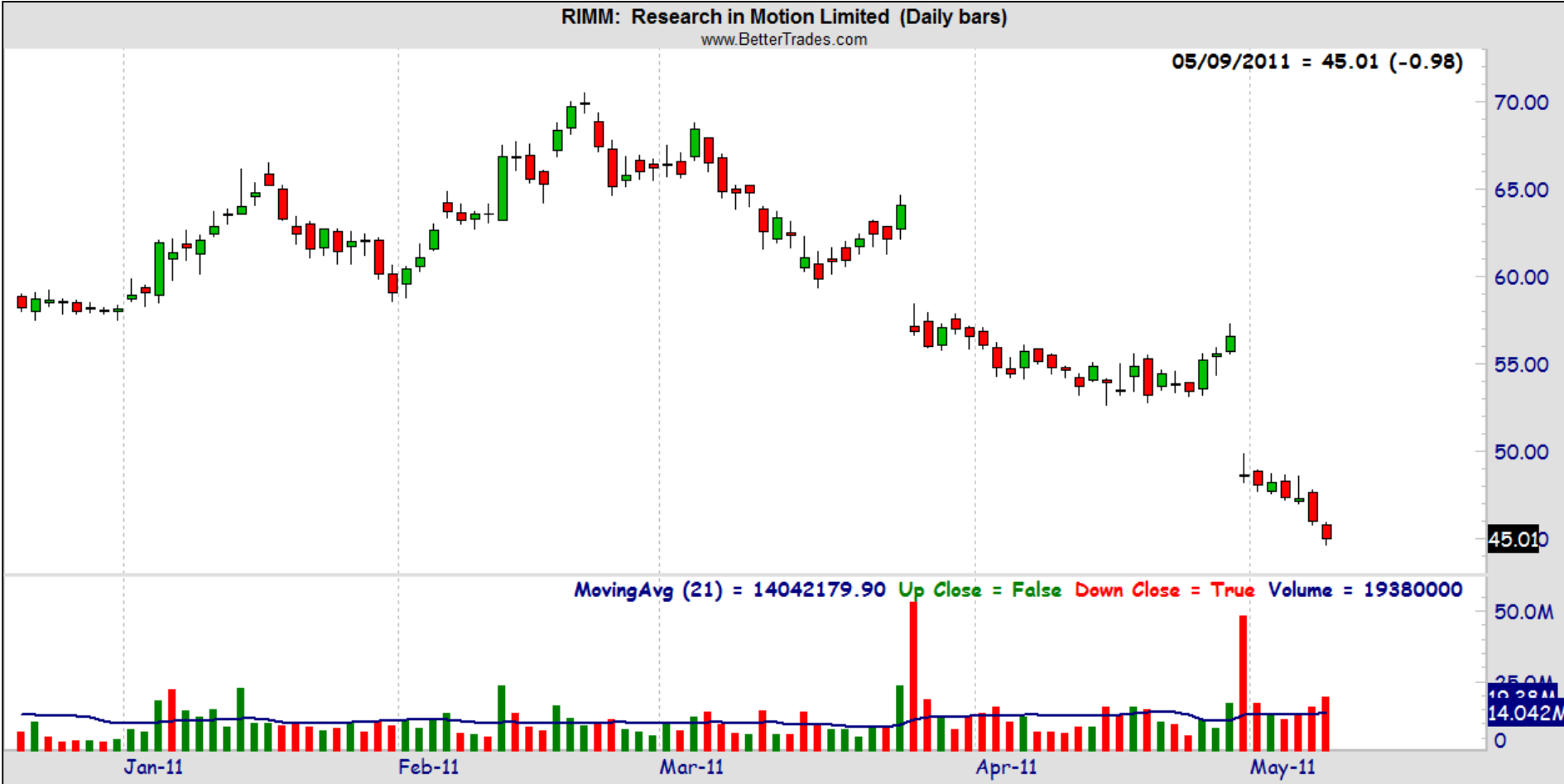


The Golden Ratio Retreat Trade



**Fibonacci
& Other
Indicators**

Fibonacci & Other Indicators



Fibonacci & Other Indicators



Fibonacci & Other Indicators

Fibs Tab #1

Top Pane

- Candlestick Chart Only

Bottom Pane

- Volume
- 21 Bar Simple Moving Average

Fibs Tab #2

Top Pane

- Candlestick Chart
- 8, 21 & 34 Bar Exponential Moving Averages

Middle Pane

- 8 ADX
- Horizontal Line (20)

Bottom Pane

- 6 & 14 Bar CCI (I am testing 8 & 13 Bar CCI)
- 14 Bar CCI Histogram
- 0, +100, -100, +250 & -250 Horizontal Lines

The panes refer to Extreme Charts. Your setup will look different if you use another charting program.



Fibonacci & Other Indicators

Fibonacci Tab #1

I do not have any indicators on the chart on Tab #1. This will give you the ability to draw the Fibonacci on the chart without the indicators getting in the way.

Volume is in the lower tab; look for it to be at least 500,000 shares traded a day. There is a 21 period simple moving average overlaid on the volume.

Fibonacci Tab #2

On the top of the chart, there are 3 exponential moving averages (8,21 & 34).

The 21 EMA is the anchor of the three.

CCI – (Commodity Channel Index) This is the trigger or decision maker indicator. Other indicators could be used such as MACD or RSI.



**Divine
Proportion
Wiggle**



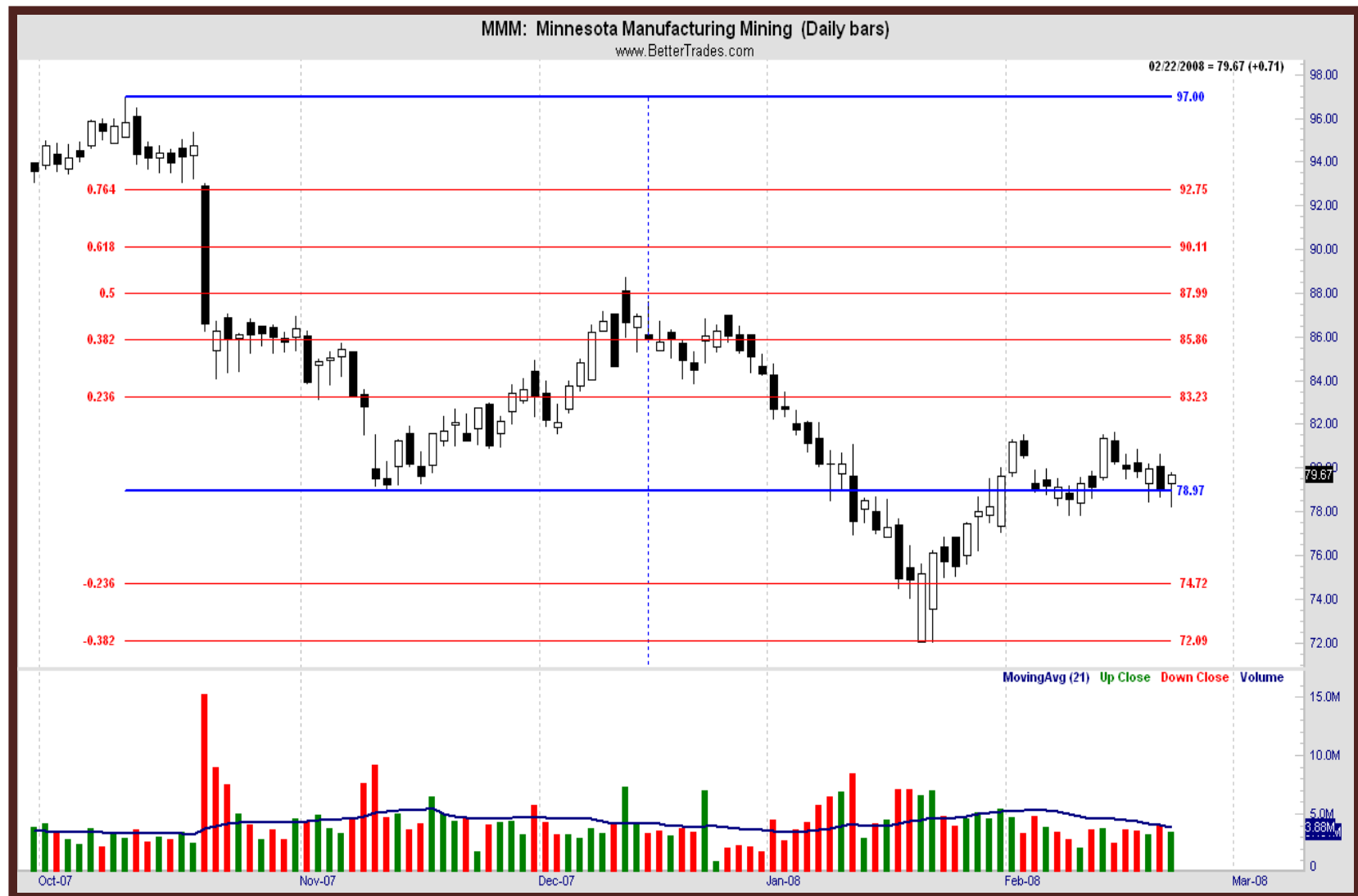
The Divine Proportion Wiggle

Setup Details

- Fibonacci Indicator Used – Fibonacci Support and Resistance
- Trade Type – Continuation
- Other Indicators Required – None, but they could be helpful



The Divine Proportion Wiggle (DPW)



The Divine Proportion Wiggle

Trade Setup

- Draw the Fibonacci using the criteria on the previous pages.
- Wait for the setup to present itself.

Note: The above example is a bearish trade setup, reverse the rules for bullish trades.



The Divine Proportion Wiggle

Entry

- Wait for the stock to break the “0” line (Blue line). There are two possible entries at this point.
- Example No. 1 – As the stock breaks the “0” line place a bearish trade.
- Example No. 2 – As the stock breaks the “0” line allow the stock to move back up to the “0” line (to retest it) and then enter a bearish trade.



The Divine Proportion Wiggle

Exit Criteria

- Look for the $-.272$ level as the first area to exit.
- The $-.382$ level may act as an area of hesitation but it is not normally used as an exit point.
- The next area to consider exiting the trade is the $-.618$



The Divine Proportion Wiggle

Stops

- Your initial stop will be determined by the Divine Proportion Wiggle Setup.
- Example No. 1 – If the stock breaks the “0” line and never gets higher than it set the exit above the “0” line
- Example No. 2 – If the stock went higher than the “0” line then you could set a stop above the high of the candle.
- If scaling out of the trade consider moving the stops to the next fib line as the targets are met.



The Divine Proportion Wiggle (DPW)



The Divine Proportion Wiggle (DPW)



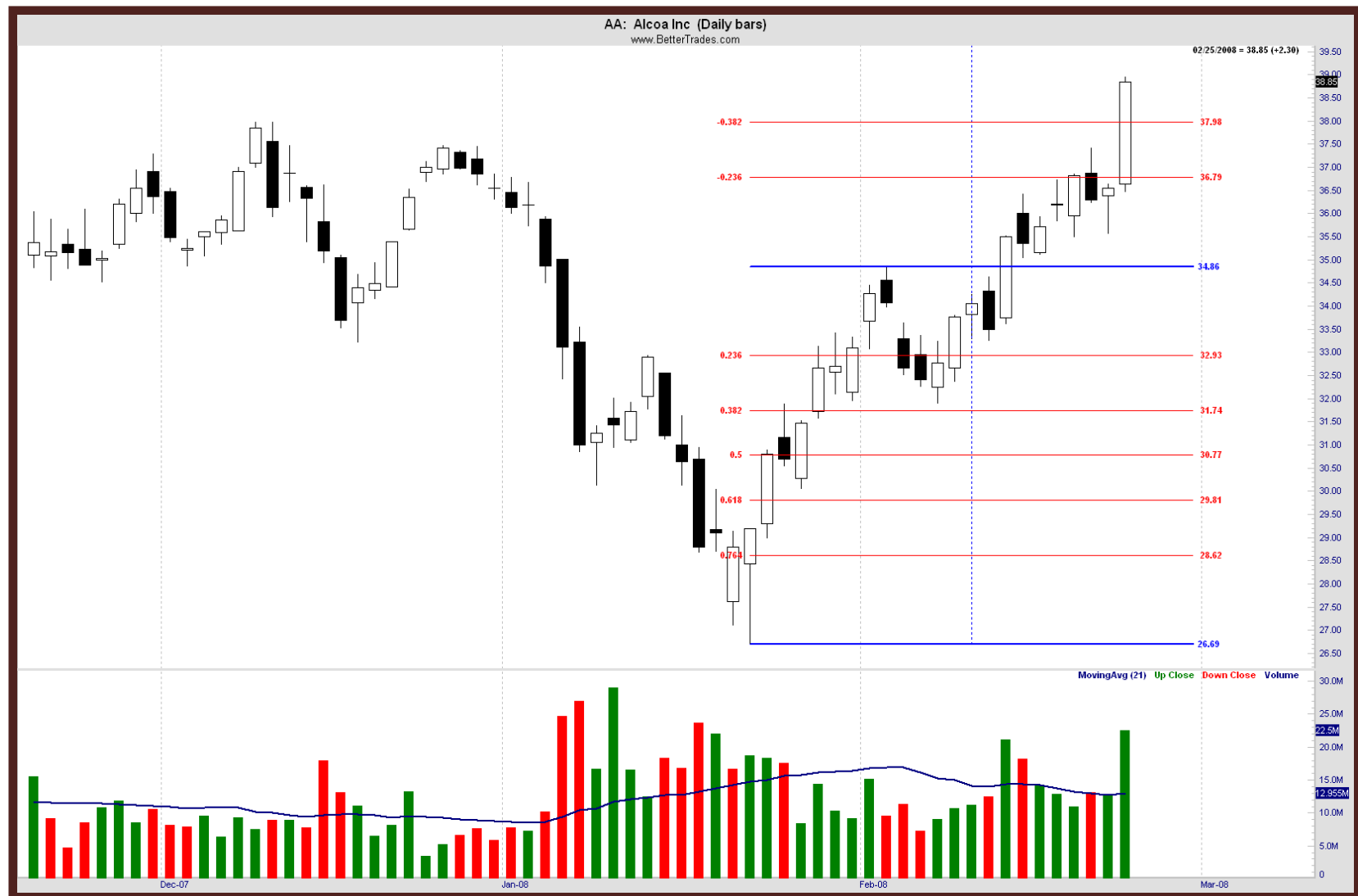
The Divine Proportion Wiggle (DPW)



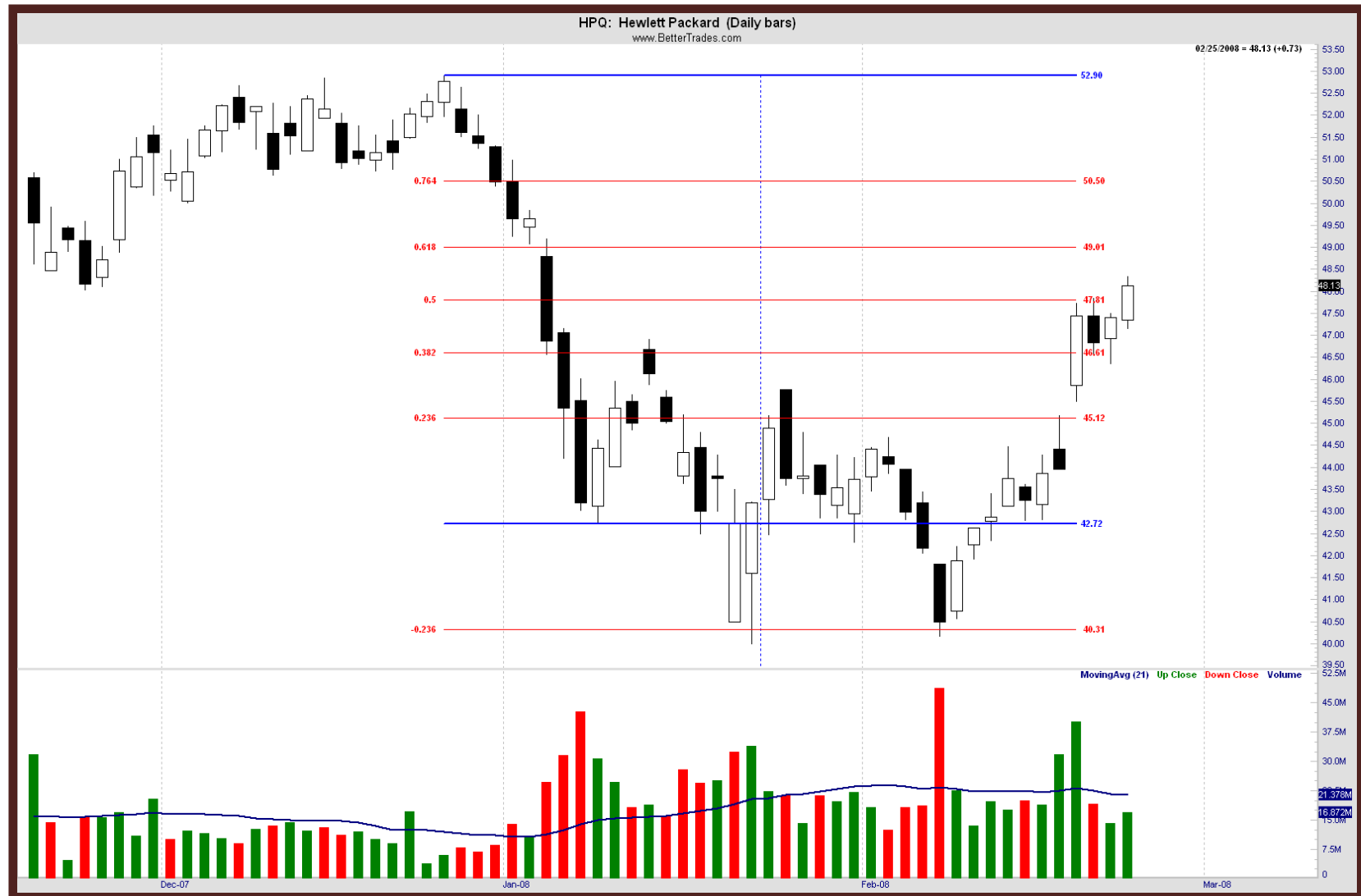
The Divine Proportion Wiggle (DPW)



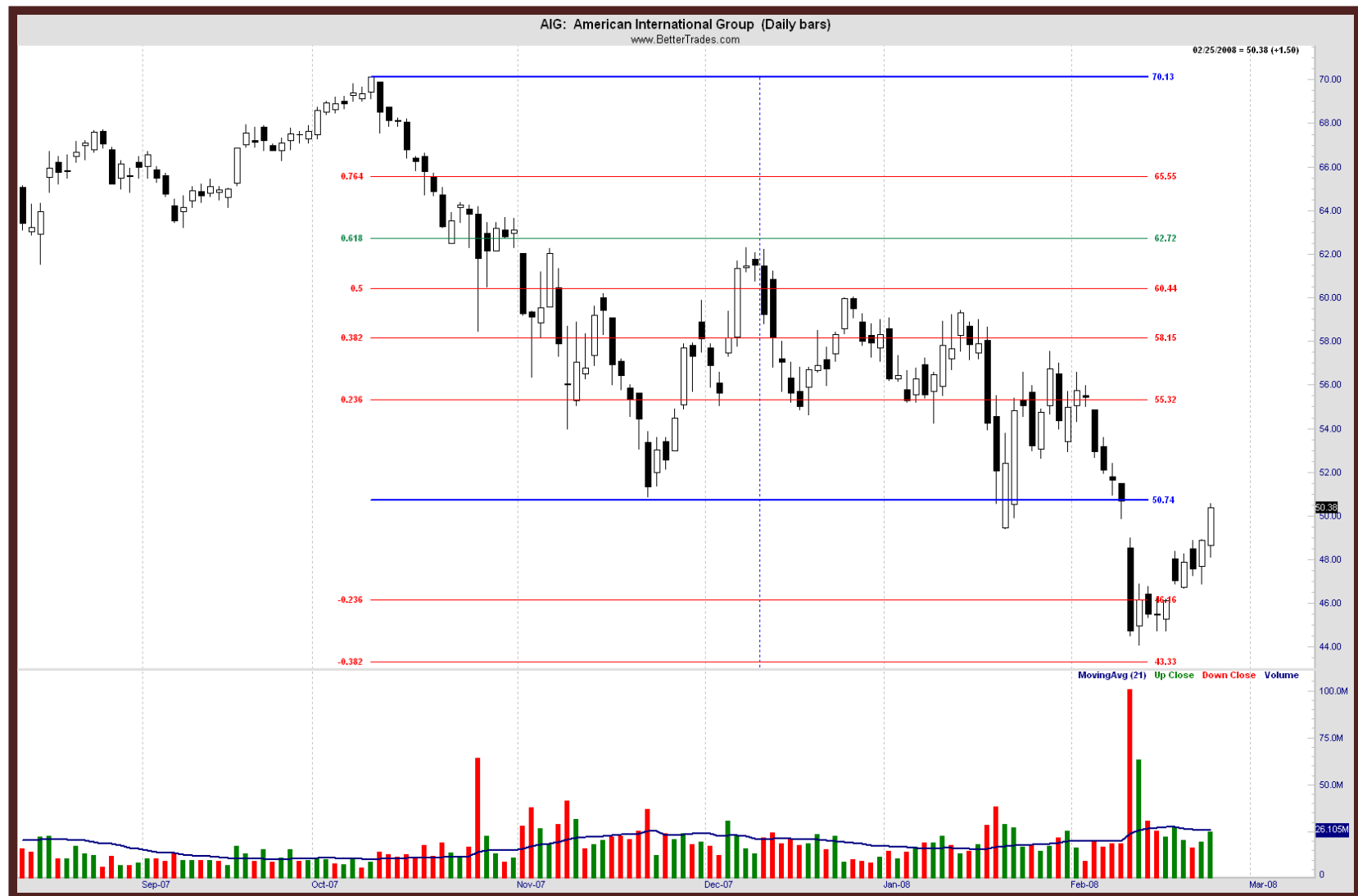
The Divine Proportion Wiggle (DPW)



The Divine Proportion Wiggle (DPW)



The Divine Proportion Wiggle (DPW)



Fibonacci

Thrust



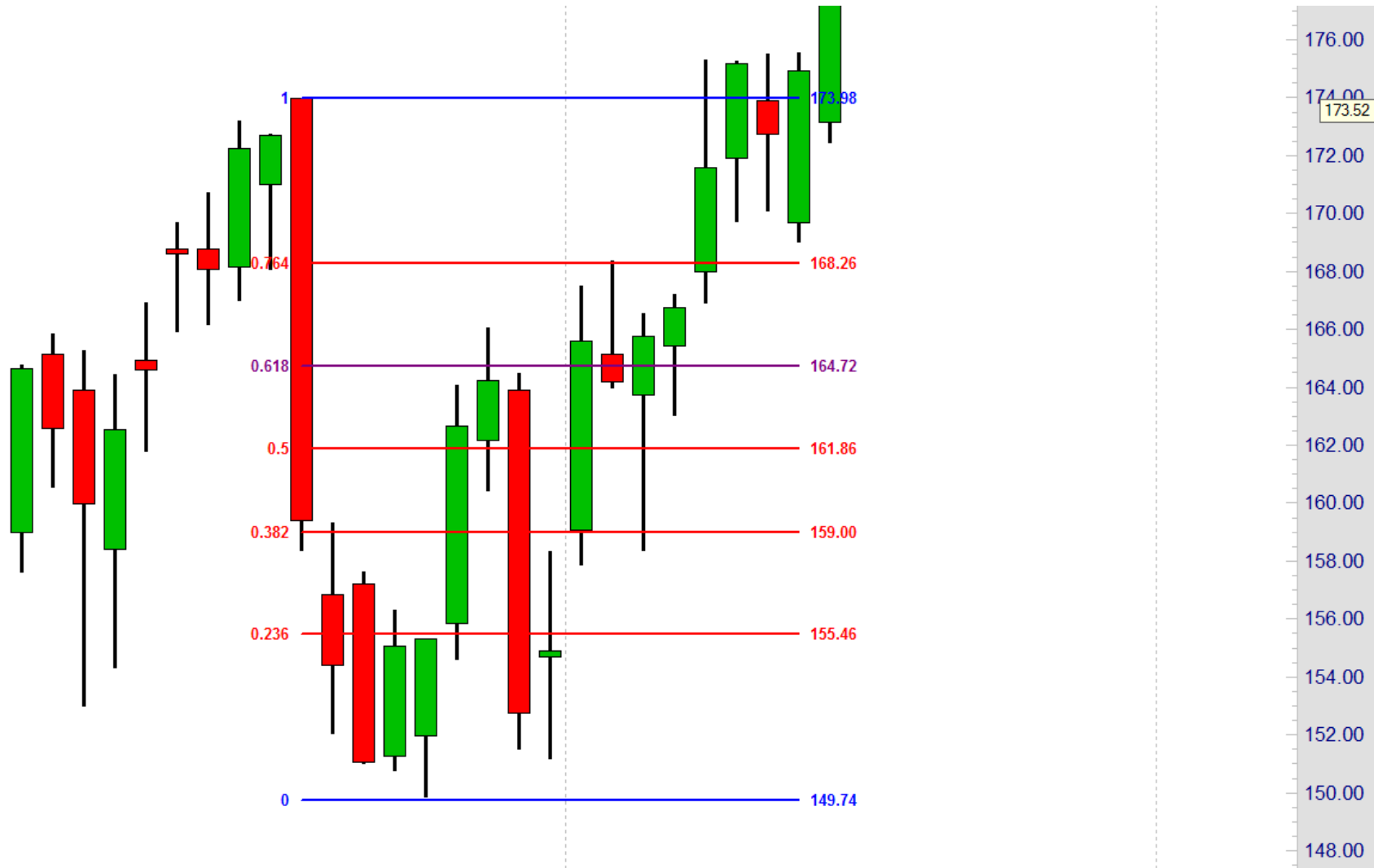
The Fibonacci Thrust Trade

Setup Details

- Fibonacci Indicator Used – Fibonacci Support and Resistance
- Trade Type – Reversal
- Other Indicators Required – None but they could be helpful



The Fibonacci Thrust Trade



The Fibonacci Thrust Trade

Trade Setup

- Draw the Fibonacci using the criteria on the previous pages.
- Wait for the setup to present itself.

Note: The above example is a bearish trade setup, reverse the rules for bullish trades.

The Fibonacci Thrust Trade Variations

Thrust Types

- Clean Thrust – A quick thrust move in a particular direction. Ideally the candles would all be the same color (bullish or bearish).
- Sloppy Thrust – The move is not as defined with mixed candles (bullish and bearish)
- A clean thrust is a stronger setup than a sloppy (or dirty) one.



The Fibonacci Thrust Trade

Entry

- If the stock bounces off of the Swing low line and moves up above the 50% retracement, but does not close above the .618 Golden Ratio, look for a bearish entry.
- It is OK for the wick of the candle to violate the .618 line (intraday) as long as the stock closes below it.
- Buy puts or use another bearish strategy to enter the trade.

The Fibonacci Thrust Trade

Exit Criteria

- As the stock bounces off of the .618 Golden Ratio, look for a possible reversal move back down to the .382 level.
- The .382 level is the first level of hesitation that the stock will run into.
- If the stock breaks the .382 level, the .236 may be its next hesitation point.
- If that doesn't hold, expect a possible 100% retracement back to the 0 line.
- These levels are potential places to consider scaling out of the trade.
- Only take the first test of the .618 line

The Fibonacci Thrust Trade

Stops

- Your initial stop will be determined by the Fibonacci Thrust Trade Setup.
- Example No. 1 – If the stock never gets higher than the .618 then you can set your initial stop just above the .618 line.
- Example No. 2 – If the stock went higher than the .618 then you could set a stop above the high of the candle.
- If scaling out of the trade consider moving the stops to the next fib line as the targets are met.

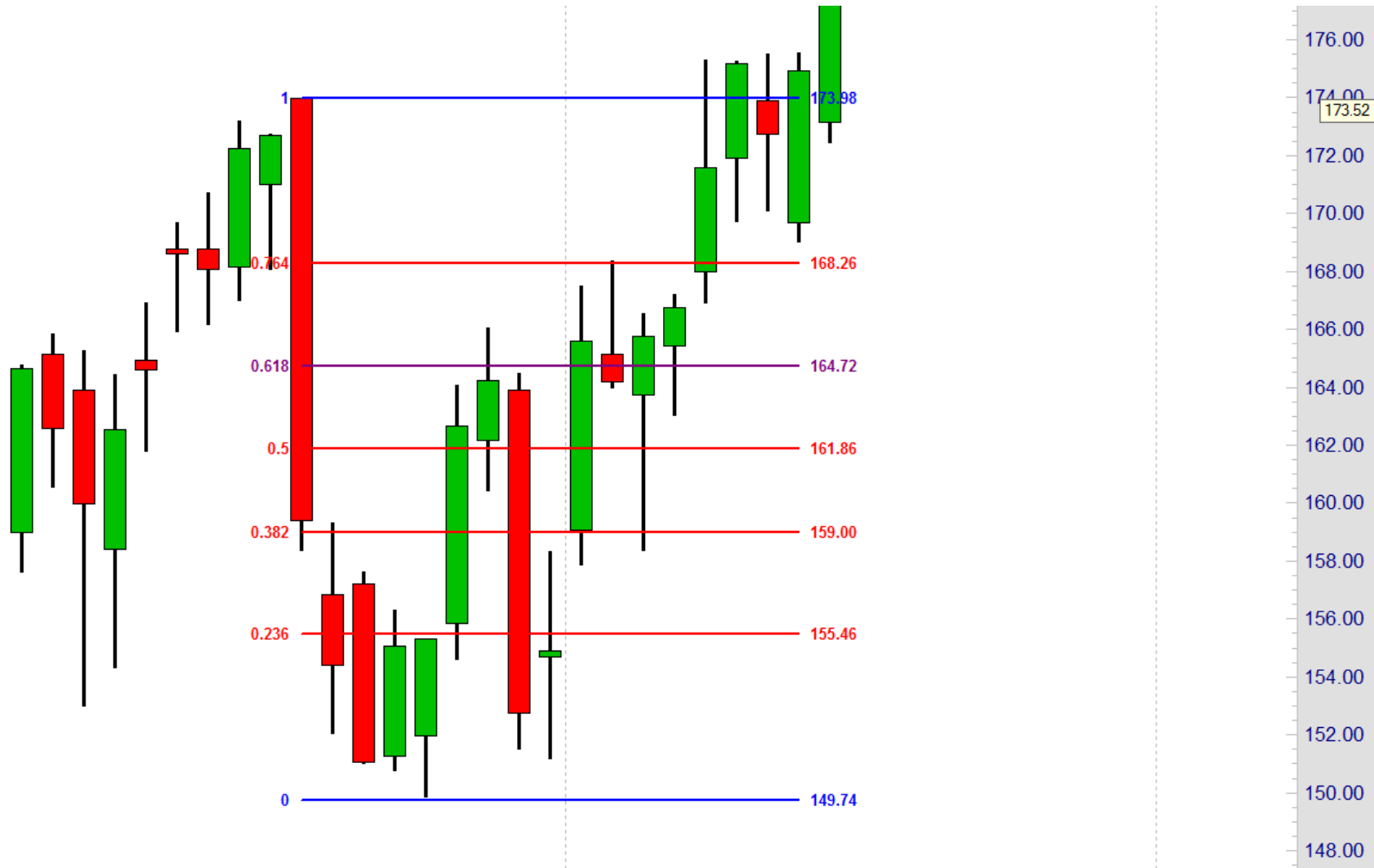
The Fibonacci Thrust Trade

Notes

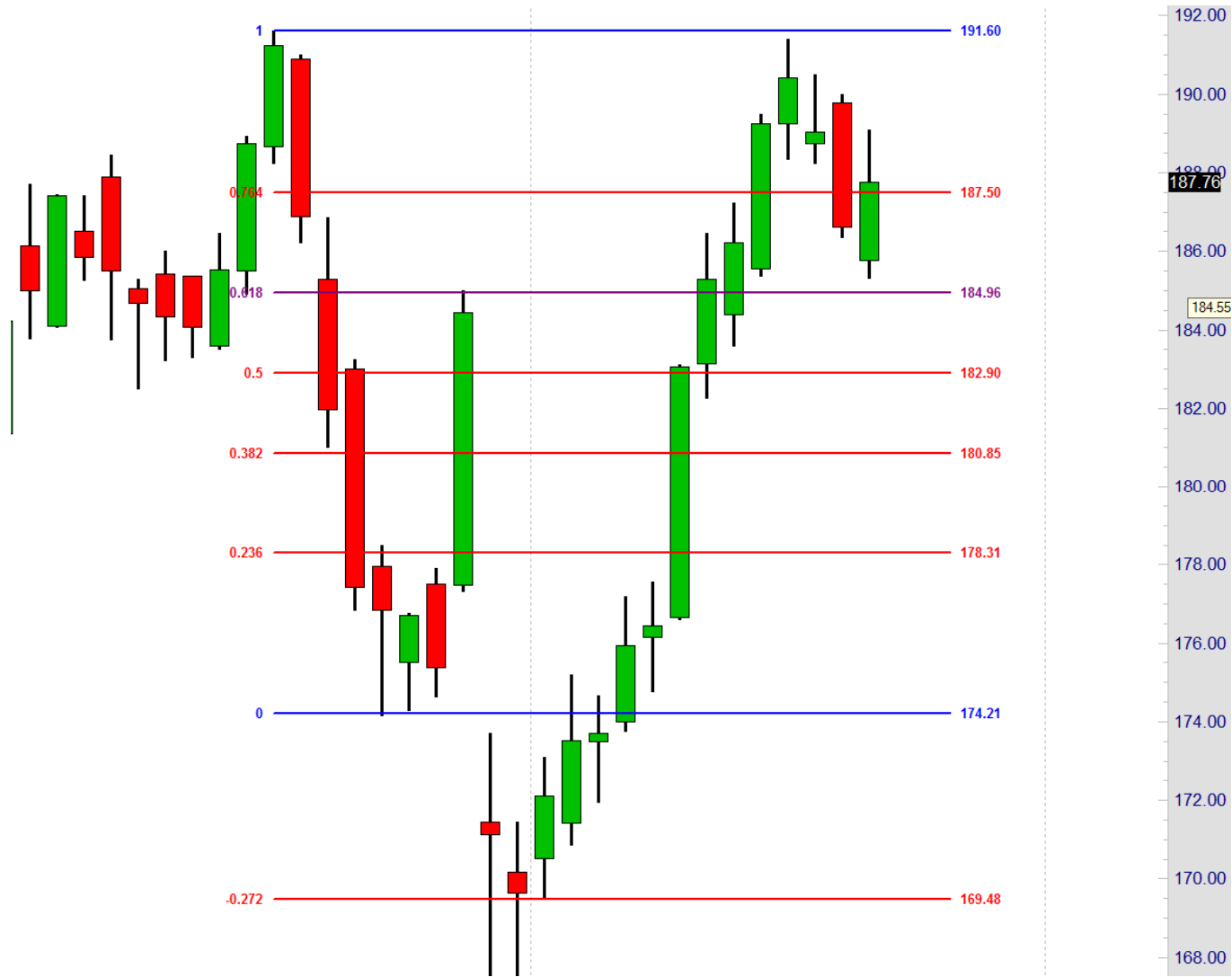
- As the initial move is being made the volume is increasing.
- Once the stock price reverses the volume is decreasing.
- Avoid charts that have a lot of intraday or end of day gaps.
- Clean thrusts are stronger than sloppy ones.
- Only take trades in the direction of the overall market.
- The ideal pattern is the shape of a lower case “h”.
- The ADX MUST be above 20 (25 is better)
- Only take the first test of the .618
- EOD charts - only use daily (no weekly or monthly)
- Intraday charts – only use 1 minute charts.



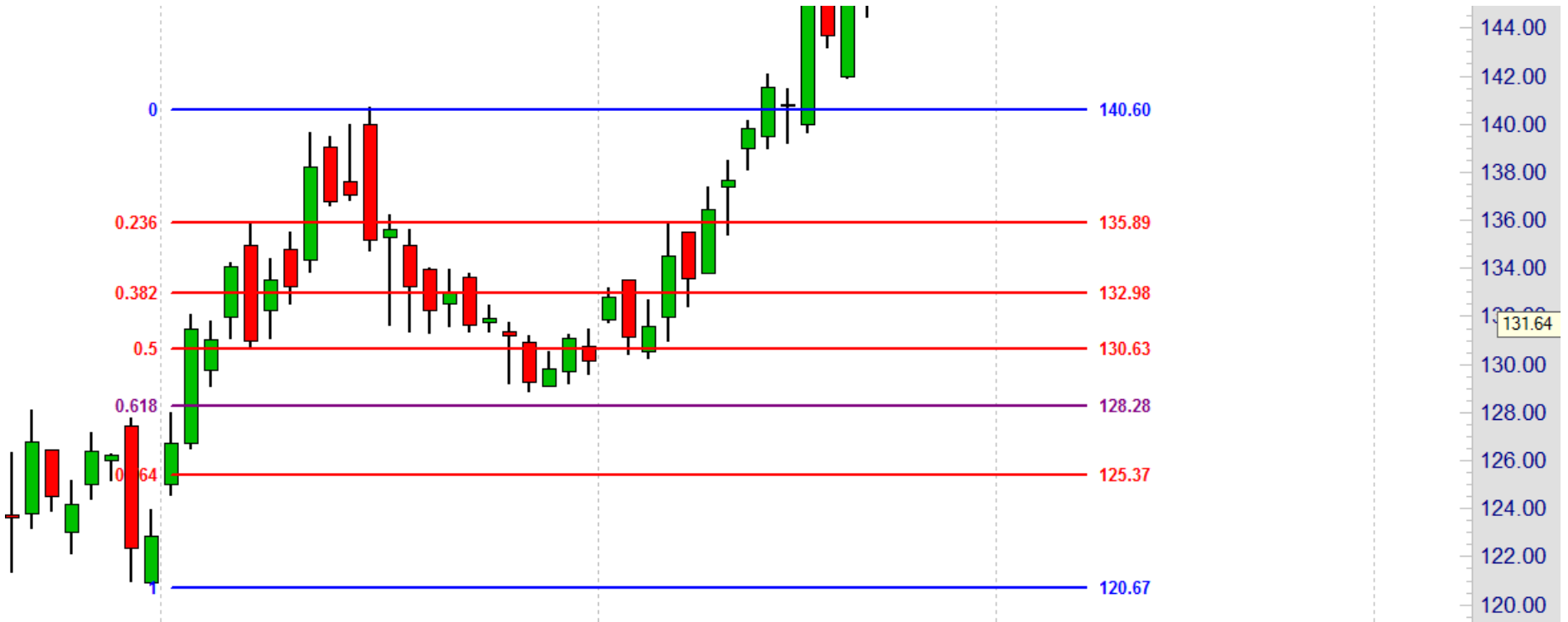
The Fibonacci Thrust Trade



The Fibonacci Thrust Trade



The Fibonacci Thrust Trade



Fibonacci Extensions



Fibonacci Extensions

Settings

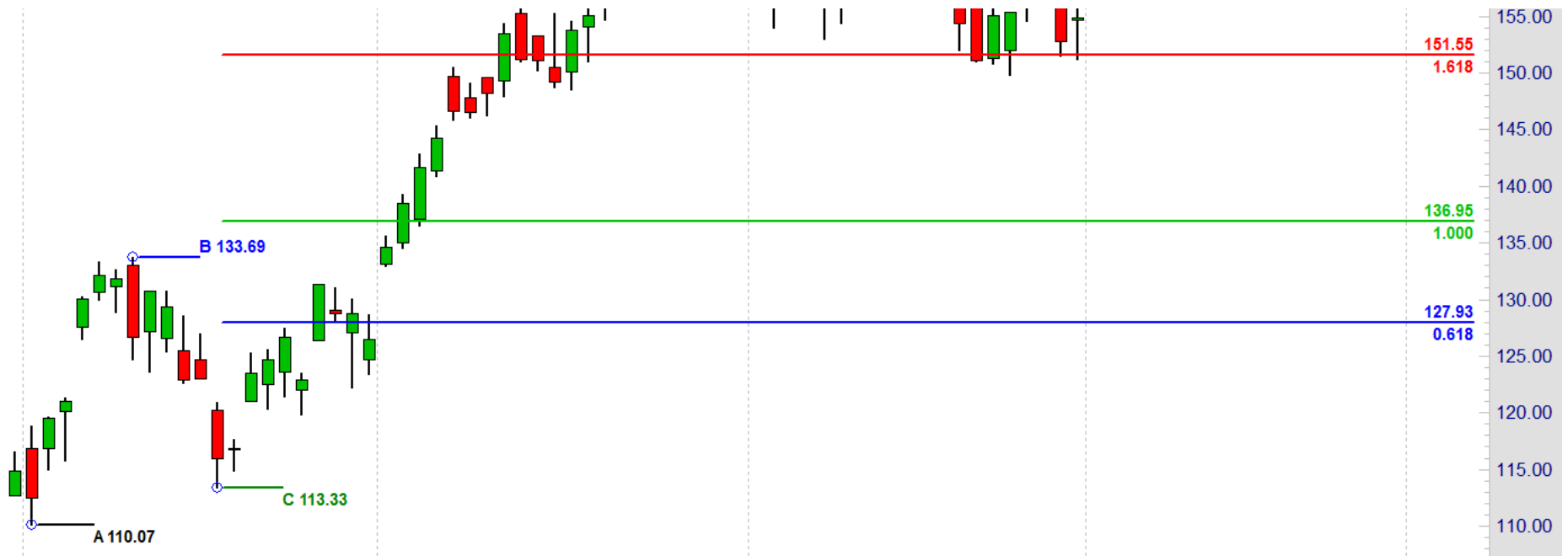
A
B
C
0.618
1.00
1.618

- These have the potential to work well when stocks are near all-time highs or lows
- Use instead of Fibonacci support and resistance for stair step patterns

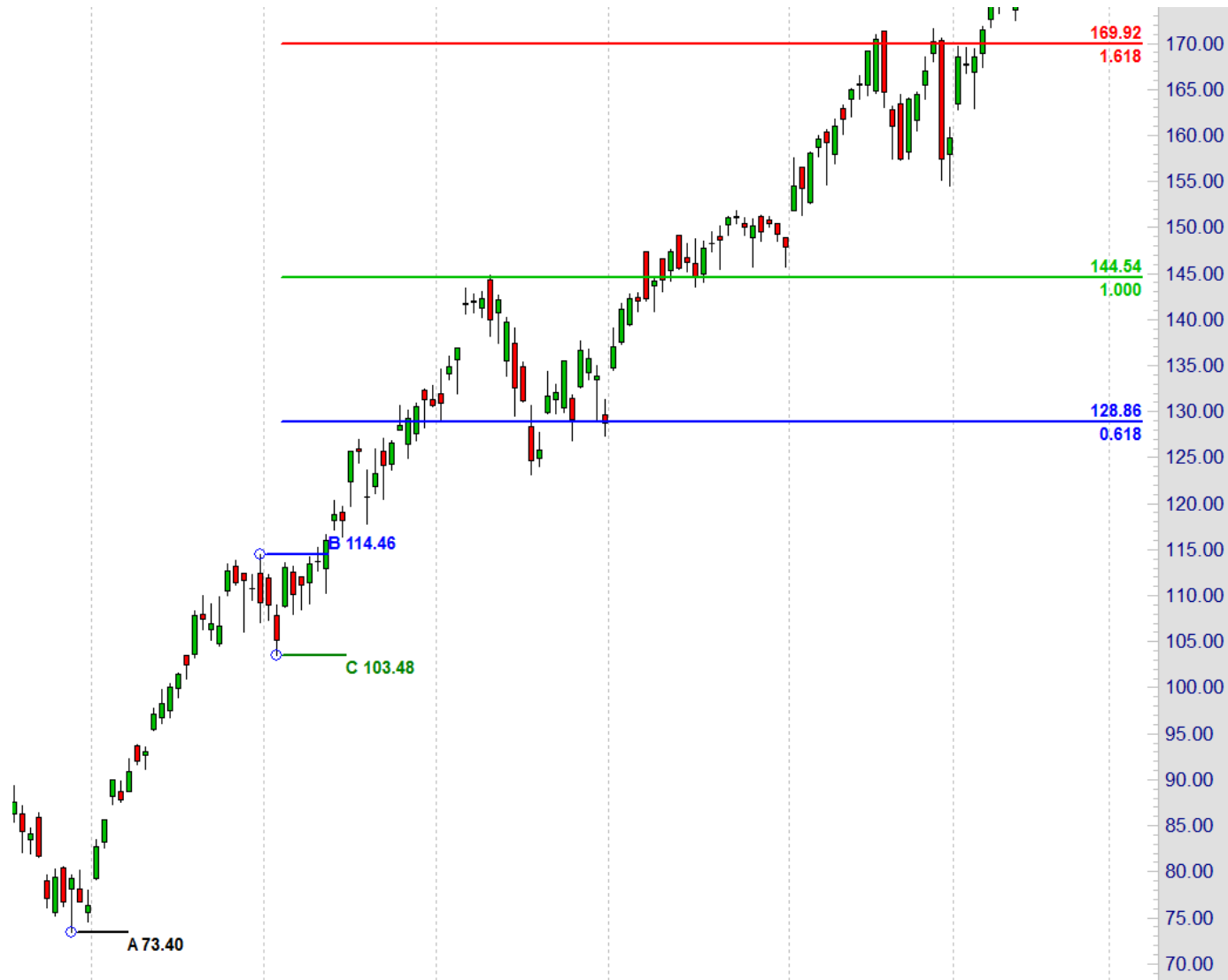
Check Off Boxes

- Extend Primary Lines – None
- Extend Ratio Lines – None
- Test these settings to see what you like
- Hit save as default when you are done

Fibonacci Extensions



Fibonacci Extensions



Fibonacci

Time

Ratios

Fibonacci Time Ratios

Settings

-1

0

.500

1.000

1.272

1.618

2.000

2.272

2.618

3.618

Check Off Boxes

- Show Values
- Show # of Bars
- Test these settings to see what you like
- Hit save as default when you are done

Fibonacci Time Ratios

Time Ratio Process

- 1 - Draw the Fibonacci support / resistance lines
- 2 – Using the same start & finish points as the support / resistance lines, overlay the Fibonacci time ratio lines on the chart
- 3 – We want the lines to be within 1 day accuracy for the line to be considered valid
- 4 – This indicator does not work as well on a very short timeline
- 5 – Volume can be a very helpful indicator to confirm if the position is running out of steam.

Fibonacci Time Ratios



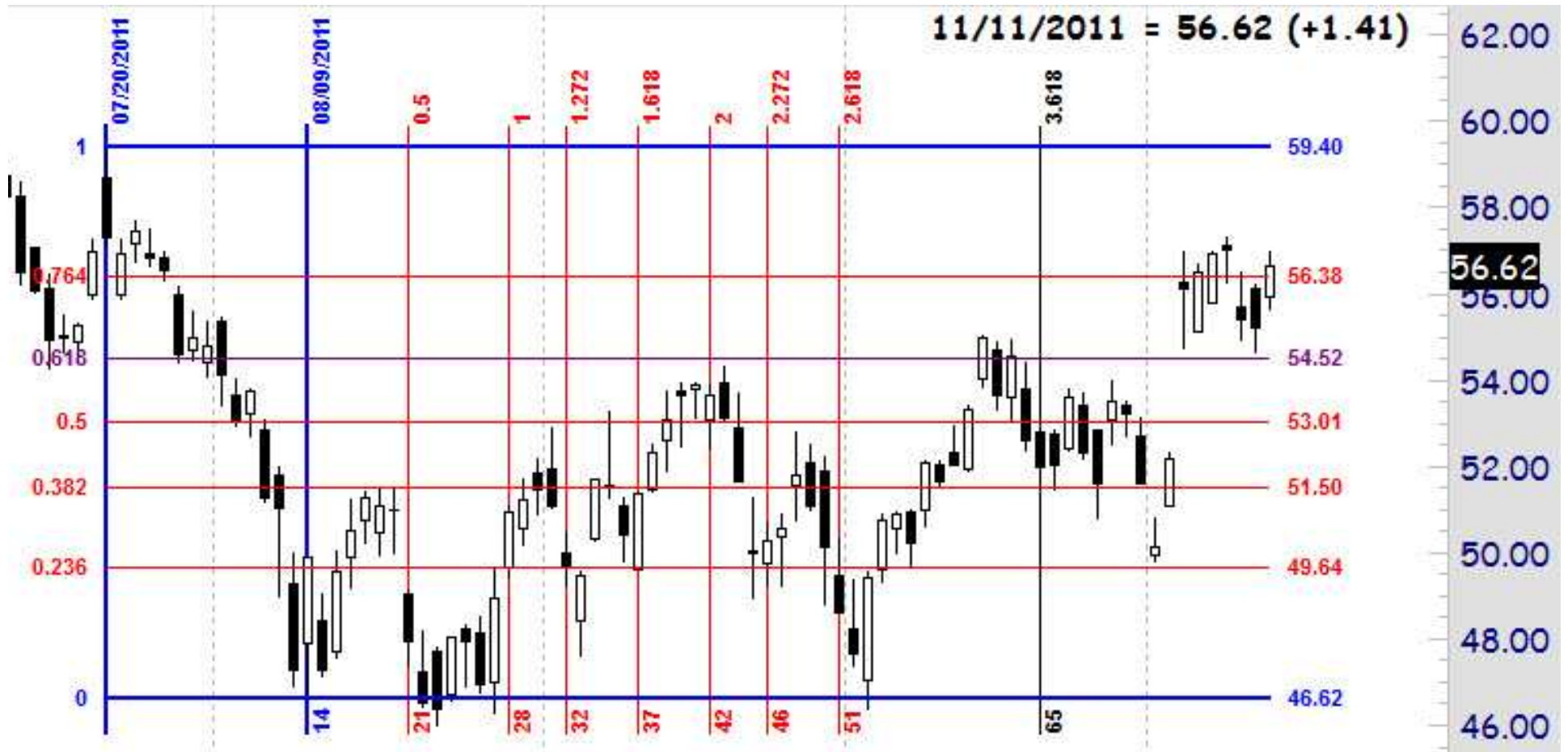
Fibonacci Time Ratios



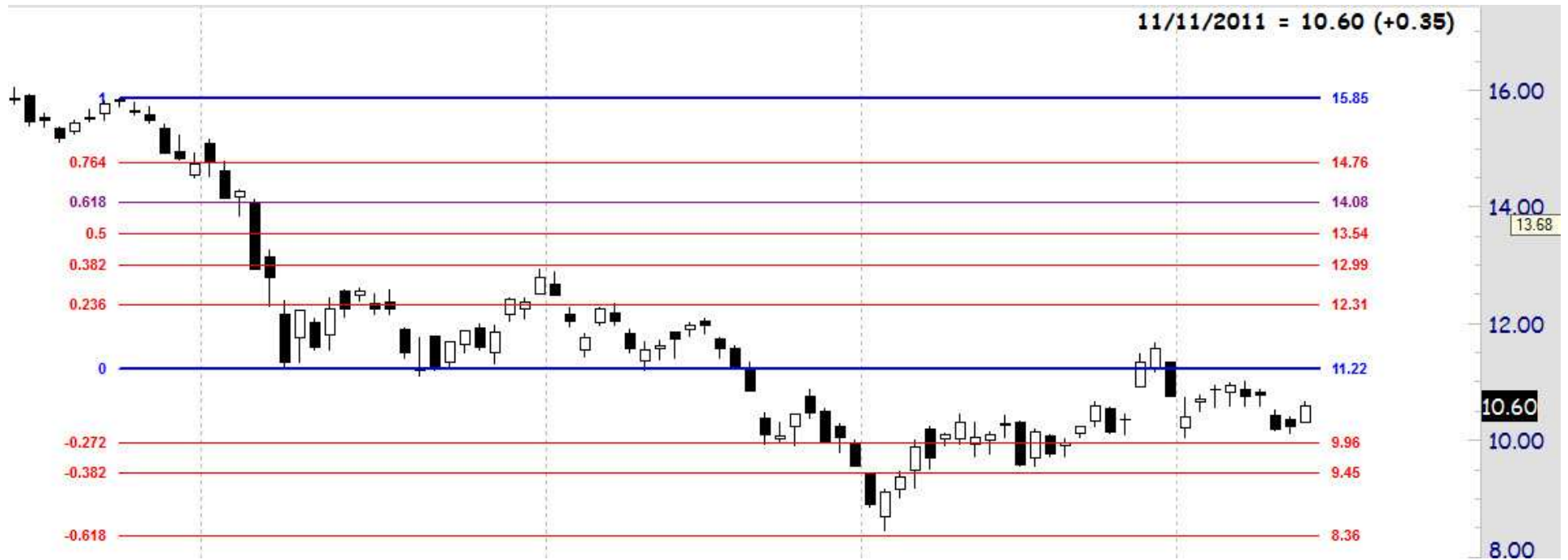
Fibonacci Time Ratios



Fibonacci Time Ratios



Fibonacci Time Ratios



Fibonacci Time Ratios



Monster Market Movers

When: Monday, April 10th, 8 to 10 p.m. EST
Location: Online (Recorded For 30 Days)
With: Robert Roy (Trading Education Coach)

Retail Cost:	\$149.95
Discount:	<u>-\$ 50.95</u>
Your Investment:	\$ 99.00

Register online to receive your discount!

Beating the Odds with Credit Spreads

When: Monday, April 24th, 8 to 10 p.m. EST
Location: Online (Recorded For 30 Days)
With: Robert Roy (Trading Education Coach)

Retail Cost:	\$149.95
Discount:	<u>-\$ 50.95</u>
Your Investment:	\$ 99.00

Register online to receive your discount!

Bonus Section

- Trading Plan
- Trading Mantra

General Trading Plan Criteria

- * KISS: Keep It Simple Stupid.
- * Be flexible to change the criteria if experience shows a better way. But you must be in total control. You must not make a change to try to fix a position. Follow the rules. The trend is your friend. Don't fight it.
- * A good trader cannot predict the direction the market will go. You will have an opinion on the market direction but you must follow the direction the market decides to go. You are not a player in the game. You are only a spectator.
- * Don't trade if you are not in the right frame of mind.
- * Set up a trading environment that allows you to trade without distractions. Keep the trading environment clean and neat; this may help set your mind at ease. Organization in your trading environment will allow for better organization in your trading.
- * Never become emotional about a trade or a position. Be objective and mechanical.
- * Believe in yourself.

General Trading Plan Criteria

- * The most important qualities in a trader are to be patient, disciplined, able to pull the trigger, able to take a loss and be honest with myself.
- * Believe in your ability to win in the long run. Do not allow a loss to discourage you.
- * Never allow anyone to steal your dream.
- * Trading is a battleground for testing your self-control, self-discipline and wisdom. It is also a place to better yourself in all three of these areas.
- * Work on thyself by playing motivational tapes, working out and reading. These are all positive things that put you in the correct frame of mind for trading.
- * Trading is not about finding the Holy Grail. It is about learning to use a system to make more than you lose.
- * Find an exposure point that will allow you to trade without feeling uncomfortable.
- * Know thyself; this is where the real battle will be.

Setting Up Your Trading Plan

Questions To Ask Yourself

1. Why do you trade?
2. What do you trade? What do you prefer trading? What are you most comfortable with? (stocks, futures, options)
3. What time frame do you prefer to trade in? (day, swing, intermediate-term, etc.)
4. What position size do you trade? (Is it too large or too small) (What percent of the total account are you trading)

Setting Up Your Trading Plan

5. How many positions at once are you comfortable trading?

6. What overall market conditions must be met for you to trade? (What conditions do you avoid?)

7. What are your trade entry signals? Are you using them effectively? Do you use a combination of signals?

Market Conditions, specific patterns, technical Indicators

8. When do you get out of a winning position?

What are the criteria? Do you have any?

Setting Up Your Trading Plan

9. When do you get out of losing positions?

- Do you always use protective stops?
- What are the criteria? (Percentage, set dollar amount, support/resistance levels, volatility based, technical indicators, fear)

10. What do you do when you have a losing streak?

- How do you define a losing streak?

11. What specific money-management tools do you use?

- How much do you risk on each trade?
- If you were stopped out of all positions at once, what would the result be?

12. Do you trade both long and short?

- Do you need to?
- Are you comfortable with going short?
- What is your experience trading on the short side?

Setting Up Your Trading Plan

13. How do you trade the open? Or do you? Should you?

- What is your gap-up strategy?
- What is your gap-down strategy?

14. How do you create a watch list?

- How can you improve it?
- How often do you update it?

15. What is your trading style? What traders do you follow?

16. What do traders that you admire do that you don't do?

Setting Up Your Trading Plan

17. How much time do you spend daily outside market hours doing research/homework?

- What is your routine? Do you have a routine?
- How much better would your trading be if you were more disciplined about this?
- What specifically needs to be done?

18. What is your annual income goal?

- Break it down to daily/weekly goals (i.e. \$250,000 = \$1,000/day or \$5,000/week)
- What do you need to do to achieve this goal?

The next two questions are designed for newer traders:

19. How much money will you start out with?

- What percent of your net worth does this represent?

20. When do you plan on becoming profitable? (if not already)

- How long will your “paper trading” period last?

Setting Up Your Trading Plan

When this exercise is complete, you'll have two things:

1. A better understanding about yourself, and your trading
2. The basis for your Written Trading Plan.

Writing Your Trading Plan

1. Goals

- Long-term, short-term, daily
- Make them specific and realistic

2. Tasks

- What do you need to do to get there?

3. Trading Criteria

- You'll use these daily
- Make these very specific
- (This is perhaps the most important section)

For trading criteria, here are some examples to consider:

“I will only trade stocks with MACD crossing over.”

“My daily goal is X.”

“I will only trade 100 shares until I'm profitable for three straight months.”

Writing Your Trading Plan

Once your plan is written, it's important to review it on a regular basis. This is done for a number of reasons:

- to track profitability

- to track how closely you are following your trading criteria

- to identify areas that need improvement.

- to modify it as needed (At least once a year)

Rob's Personal Trading Mantra

- * I admit that I am powerless over the market. The market is unmanageable by me. As a trader I am not in the game, I am on the sidelines.
- * I realize that I can do great harm to my family's finances in the market.
- * I believe that a power greater than I can restore my sanity when in a trade (good or bad).
- * I am entirely ready to have God remove all of my defects of character in my trading.
- * I humbly ask God to remove all of my shortcomings in my life.
- * I made a list of all of the ways that I can harm myself while I am in a trade. If I follow my system, then the market will not be able to hurt me.
- * I made amends with myself for the harm that I have done to myself in past trades. I will no longer do harm to my families finances.
- * I will continue to take a personal inventory and when I am wrong in a trade I will admit it and follow my system.

Rob's Personal Trading Mantra

MY PROMISE

I am going to know a new freedom and a new happiness in my trading. I will not regret the past nor wish to shut the door on it. No matter how bad my trading has been, I will use my experience to benefit others and myself. The feeling of helplessness and self-pity while in a trade will disappear. My whole attitude and outlook about trading will change. Fear of losing and of economic insecurity has left me. I will intuitively handle situations that used to baffle me. I now realize that God is doing for me what I could not do for myself.

SPIRITUAL EXPERIENCE

Most emphatically I wish to say that as a trader I am capable of honestly facing my problems in the light. My experience can recover, provided I do not close my mind to my trading criteria. I can only be defeated by not following my system or belligerent denial. Through experience I have found that willingness, honesty and open mindedness are the essentials of good trading.

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