

## Fibonacci trading

Contributed by Administrator  
Thursday, 16 October 2008

Here is one very nice trading system that can be worth your attention.

When a trader chooses to use small time frames (like 10 min, 15 min, 30 min even 1 hour) risks to be wrong are always higher than with larger time frames.

Therefore, it is very important to have a really good Forex trading system that can advise on entries with high chances to win and what's more important it should be able to tell exactly where to exit without need to constantly monitor the price.

Note also, the more traders look at charts, the more they tend to have controversial feelings about the success of a current open trade...

With all this long introduction, it is only left to mention that this strategy will require from traders basic knowledge of use of Fibonacci tool.

What is Fibonacci tool and how to use it? Simply Google "forex fibonacci" phrase and you'll find a lot of information about it.

...This is probably the only reason we classified this trading system as Complex one, not every trader is comfortable with using Fibonacci studies in Forex.

Trading setup:

Time frame: any over 5 min and less than 3 hour.

Currency pairs: any.

Indicators: 5 WMA

Rules:

Look at the price waves. Find the most recent swing high and the most recent swing low = so called Fibonacci A swing and B swing.

Pull Fibonacci from A to B.

To know which direction to pull (up or down) simply look at the trend; if it is unclear, find appropriate AB swings and set Fibonacci in both directions.

Once set, wait and watch the retracement from AB swing to unfold.

During the retracement there are three conditions to be met in order to consider trading:

1. The price must touch 5 WMA.
2. The price must at least touch 0.382 Fibonacci retracement level.
3. The 0.618 Fibonacci retracement level must not fail. Here it means the price should not close below (uptrend) / above (downtrend) 0.618 retracement line. It can touch or poke it, but the level must withstand

the "attack".

When all three criteria are met, enter once the candle is clearly closed above 5 WMA for Long entry, below - for Short.

Stop order is placed always 4-5 pips above (downtrend) / below (uptrend) the 0.618 Fibonacci retracement level.

Profit target is set to 1.618 Fibonacci expansion level derived from point A.