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PREDICTING TURNING POINTS WITH FIBONACCI: FACTS and HOW TO

By John Novak developer T-3 Fibs ProTrader software – Nexgen Software Services Inc.

Why determining turning points in advance is important for every trader

In our experience we have found that 100% objective fibonacci price projection and retracement methodologies will give you foresight into the potential upcoming moves in time and price in the market you are currently trading whether you trade a daily chart of Microsoft or five-minute bars in the S&P 500. We would like to take a moment to educate you on exactly how to do this on your own.

Fibonacci Projections and Retracements defined

Fibonacci price projections and retracements are very powerful ratios that can be used as a leading indicator. They use the current underlying structure of the market to attempt to predict where the market may go in the future. Fibonacci ratios are common in almost everything in nature from flowers, to the human body, seashells etc. Our intention is to show you how you can use these powerful ratios to assist you in your trading. The basics of market price action are determined by supply and demand. This supply and demand can be measured in waves or swings with charts and graphs. Elliot wave technicians attempt to predict turns by counting waves and projecting them into the future. The downside and the challenge to this methodology is that Elliot wave is extremely ambiguous and often too difficult for most traders to implement into their trading strategy with any degree of consistency. Fibonacci ratios however are just as, if not more powerful and can be done under a more rigid set of rules. After all, rules and discipline are the building blocks for successful trading. Fibonacci ratios are easy to use and just as easy to calculate. You take the range from one pivot to the next and add or subtract the ratios. Simple. Many traders now use spreadsheets and simple charts and graphs to do basic fibonacci ratios. Some common ratios are .382, .500, .618 1.00 1.382, 1.618, 2.00 and 2.618. These ratios also as they get larger tend to have more exhaustive qualities. Where this takes a powerful turn is when you assemble a " CONFLUENCE" or grouping of these fibonacci ratios in a narrow well-defined area.

Then, when you are able to take that one step further and apply a confluence of ratios from multiple timeframes and multiple areas within the same chart, the confluence area develops into a powerful synergistic area that can be effectively traded to or off of depending upon your personal trading style.

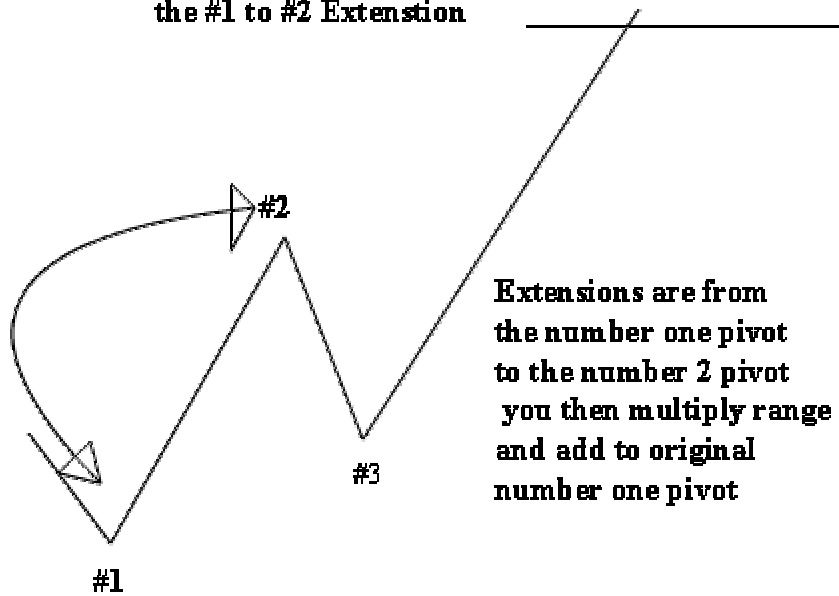
Types of fibonacci ratios that you can calculate

There are 4 main types of Fibonacci Price projections that can be done.

1. Extensions
2. Alternates
3. Expansions
4. Retracements

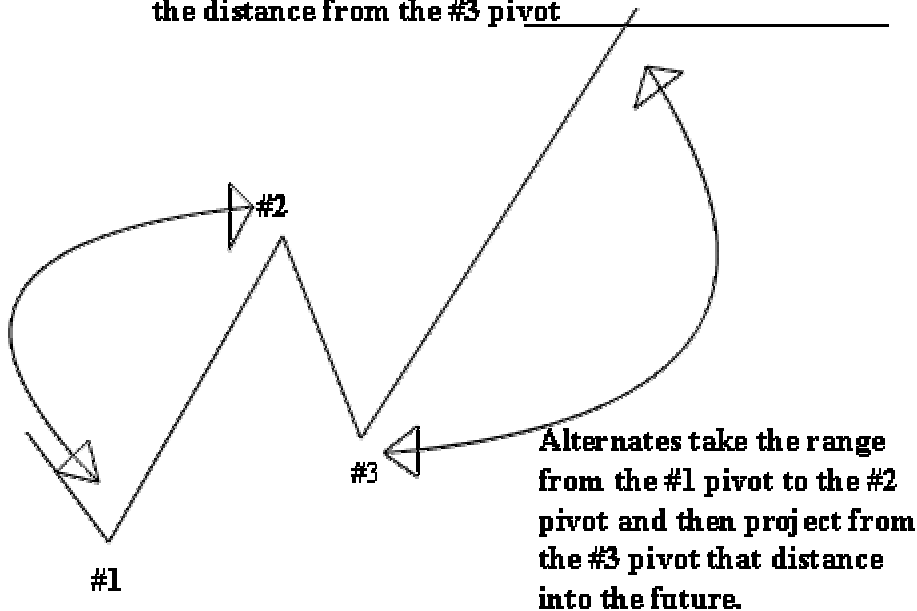
1. Extensions take the range from point #1 to Point #2 and multiplying that distance by a Fibonacci number, add the two numbers together and project into the future where a possible turning point could be.

**This will be your projection from
the #1 to #2 Extension**

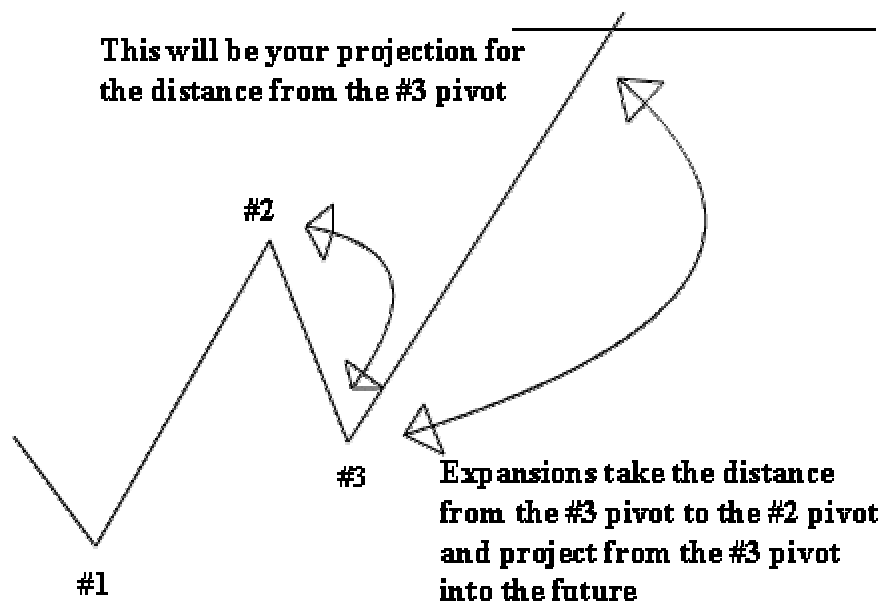


2. Alternates take the distance between point #1 and point #2 and adding that distance to point #3 to give you another type of projection into the future.

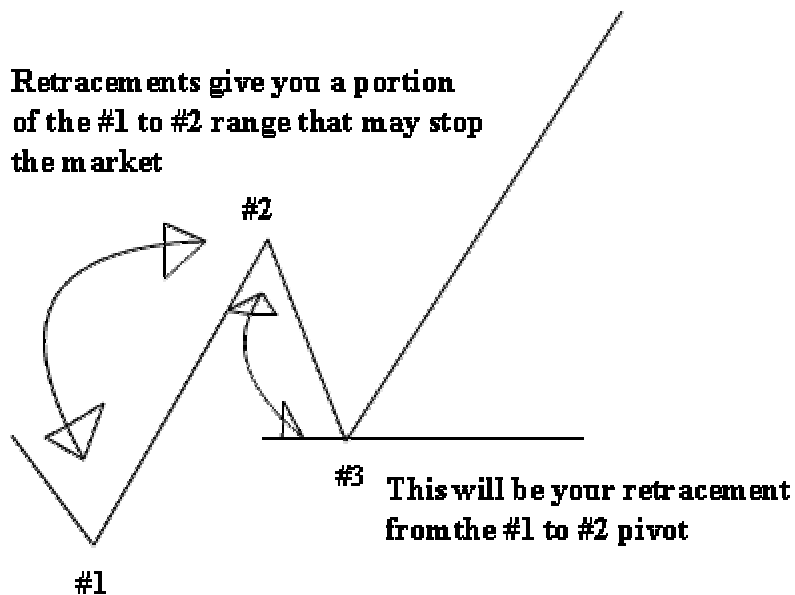
**This will be your projection for
the distance from the #3 pivot**



3. Expansions take the distance from the #3 pivot to the #2 pivot and then multiply that distance by Fibonacci numbers and add that range to the #3 pivot.

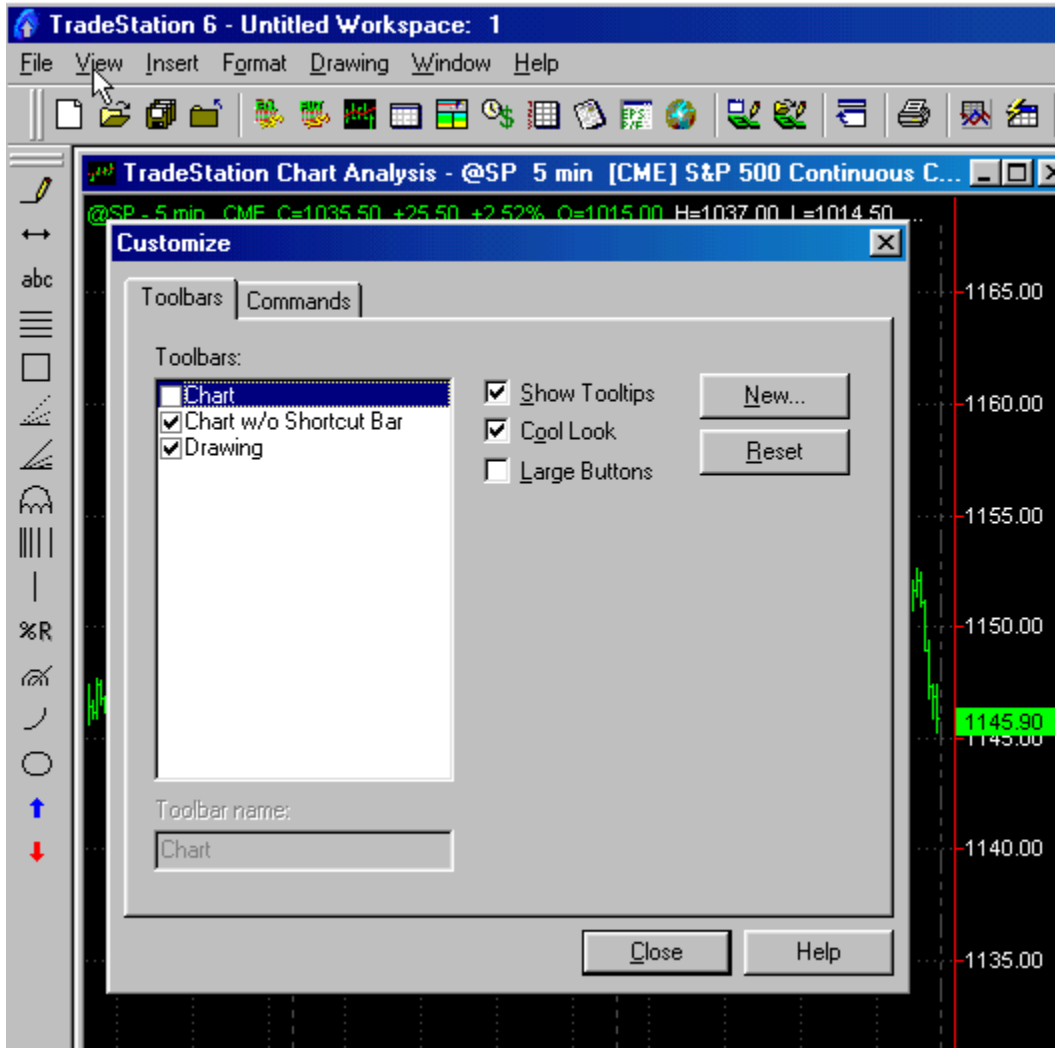


4. Retracements take the distance from one pivot to the next. Preferably a #1 to a #2 pivot and take a portion of that range that is generally 100% or less. Common ratios to calculate retracements are .382, .500, .618, and .786.

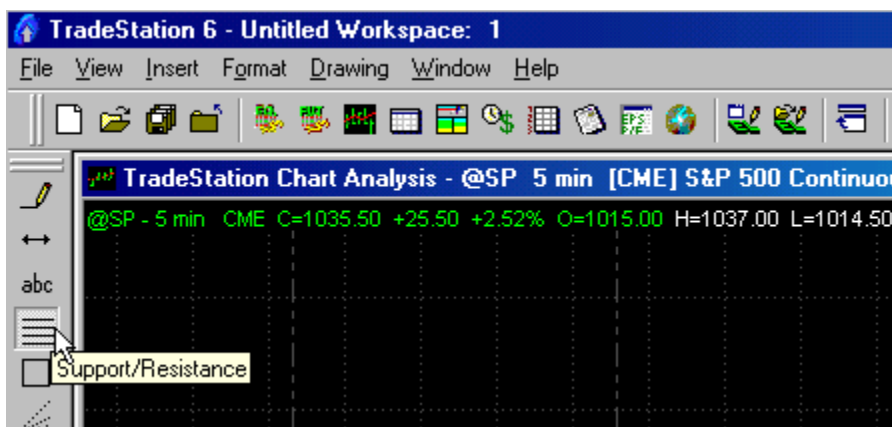


To do this in your Tradestation

Make sure you have your drawing toolbar shown to do this CLICK >View then TOOLBARS then CUSTOMIZE and check the drawing toolbox.



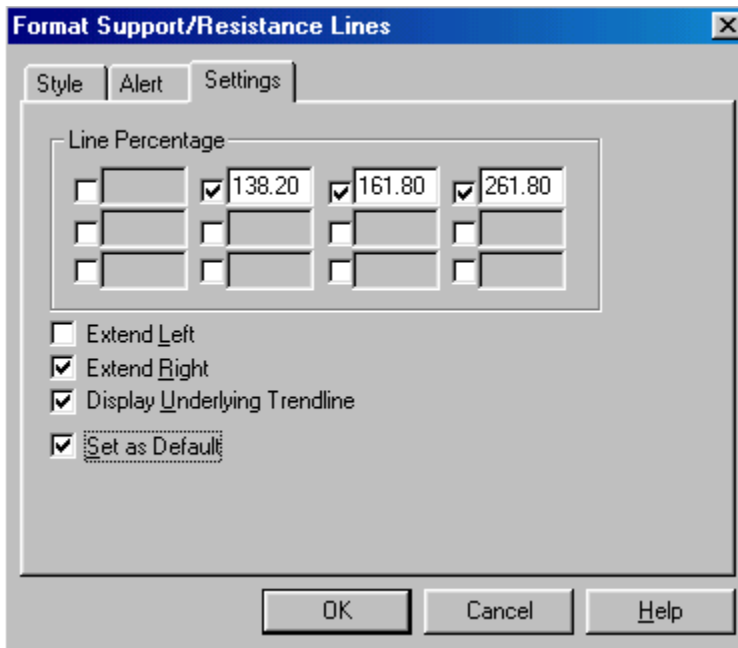
Then you will want to CLICK on your Support Resistance tool.



PLOT it on your chart anywhere by Dragging and dropping it. Then you will RIGHT CLICK it and format it to include the fibonacci ratios that you wish to plot.



For the purpose of this lesson we will do EXTENSIONS and EXPANSIONS FIRST so we will use some common ratios of 138.2%, 200%, and 261.8%. I will set these to default so they will be there each time I use the indicator.



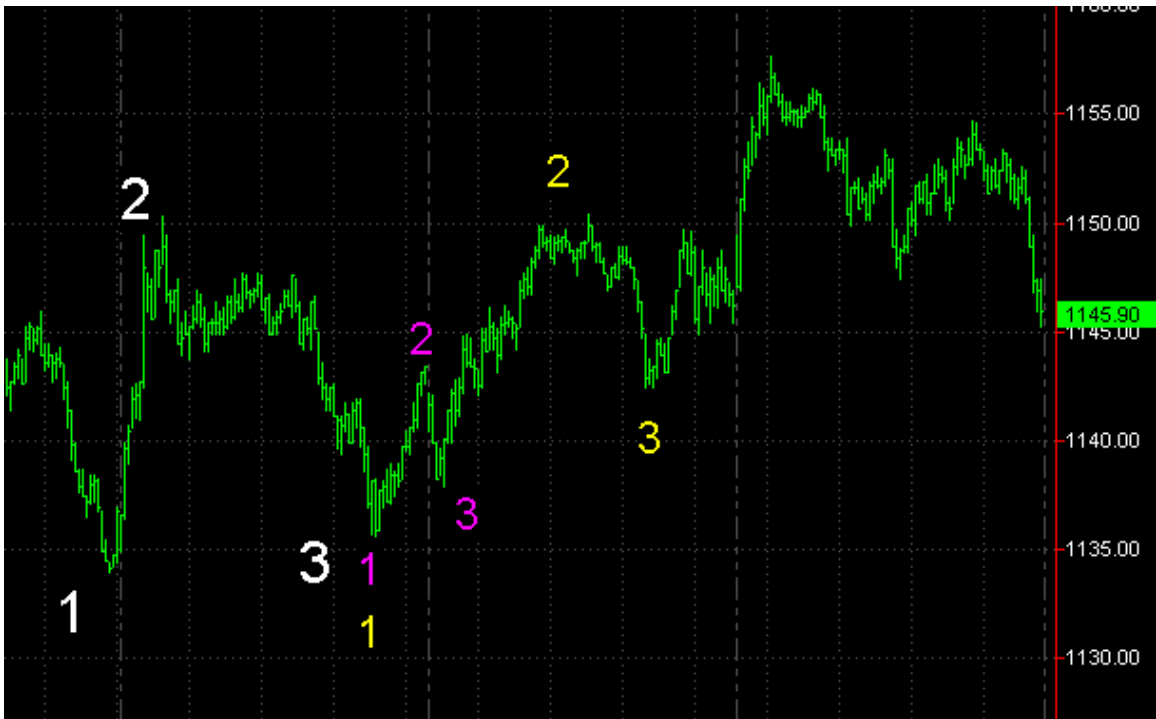
Due to constraints of space we will not do EVERYTHING that we could possibly do but some of the basics on a single timeframe to show you the power of the analysis.

Let's look at our chart. We have the S&P 500 futures. 5-minute is our timeframe and we have made a bottom and looking for the termination of where the retracement could end.



WE must first label our pivots from which we will work.

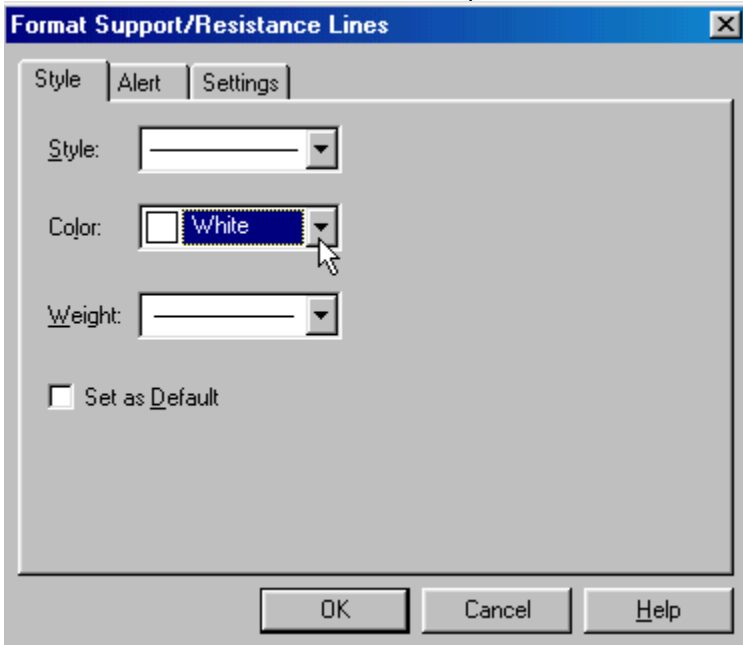
Just the basics of a #1, #2, #3 pivot. I have done each of the 1,2,3's in a different color so you can see them as separate.



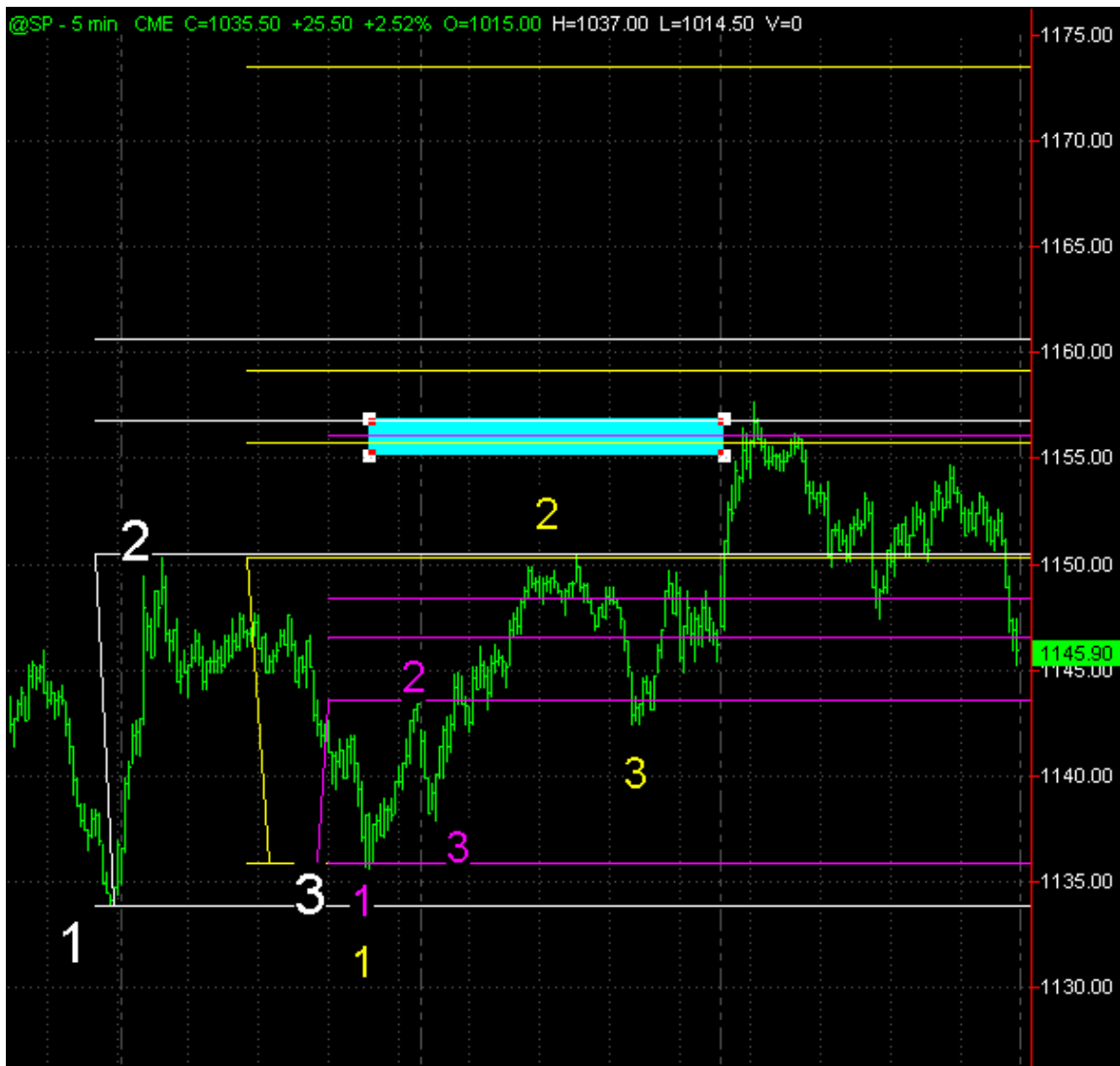
We will then grab our Support and Resistance tool in Tradestation and anchor (start it) at the #2 pivot and pull it down to our #1 pivot. As you hold it down you will see your extension values displayed.



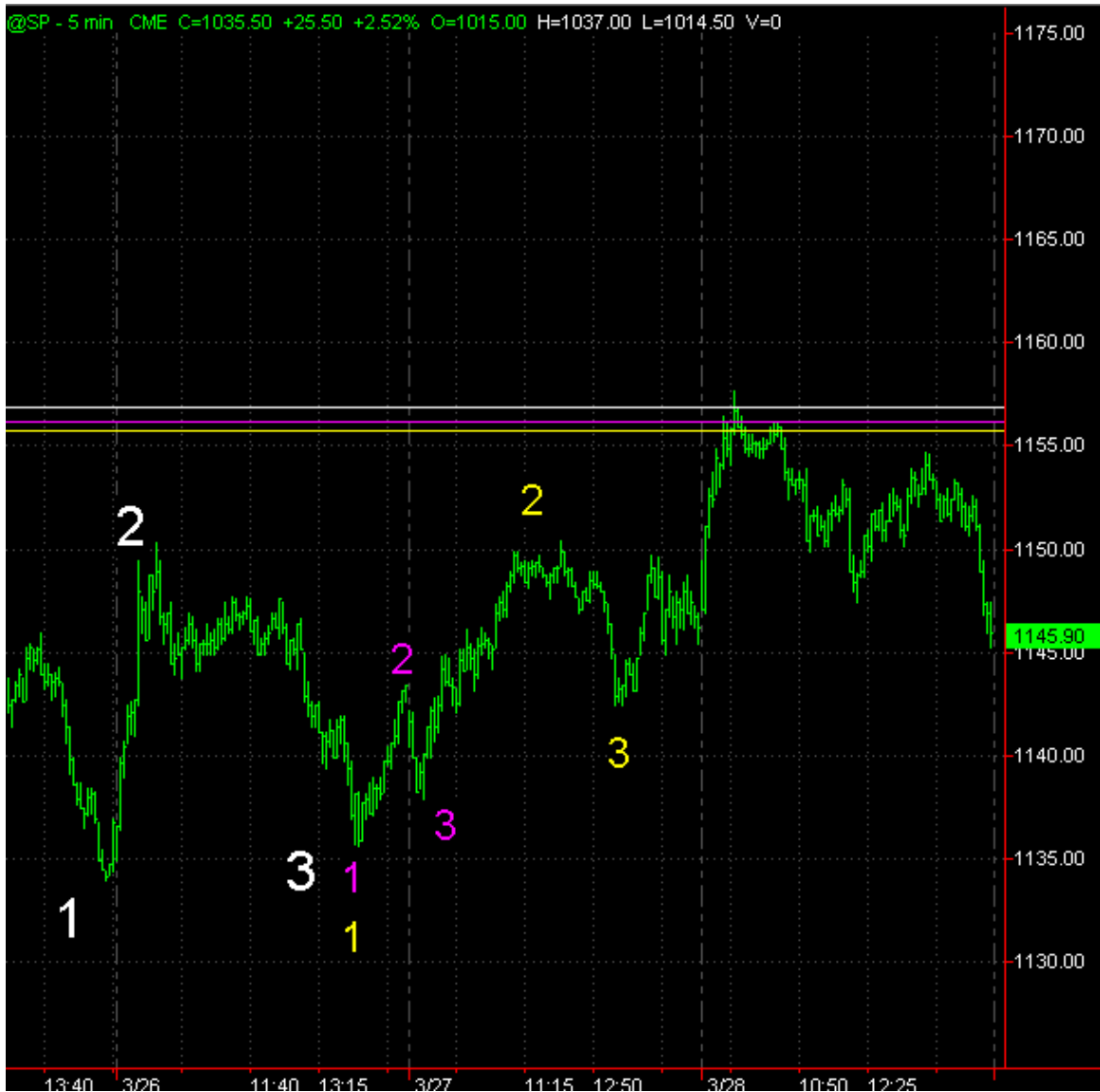
We will then format it to be white to keep it consistent with the labeling of our pivots.



We will repeat this process for each of our #2 and #1 pivot labeling. Notice we have an area of confluence or a grouping of projections from different levels on the chart that fall into a relatively tight area.



We will mark this area with color coordinated horizontal lines to keep our chart clean and move on to Expansions.



To do expansions we will pull the tool from the #2 to the #3 pivots.
 From the white #2 to the White #3 you will see another projection in the exact same window.



Repeat this process for all of your pivots.



We color coordinate and now have an unmistakable window of fibonacci projections that offer us a tight window of confluence or grouping at the 1055-1057 price.



Now we will back up and look for a retracement that falls in this window as well. Using the top and bottom we are looking for the most exhaustive retracements which one of them happens to be 78.6% retracement. As you will see it falls in the 1158.50 area.



Now to do our ONLY alternate due to space limitations, we will use the YELLOW #1 , #2 , #3. To do this we will remove all of our fib ratios from our tool and pull from the #2 to the #1 pivot... we will then slide the tool up to the bottom of the #3 pivot and get a 100% alternate. You can see that this also terminates in our KEY window of potential resistance.



We now have 8 fibonacci projections and retracements that fall within a tight clearly defined area. If you were long you would look to exit your position in this window. If you are a counter trend trader or swing trader you would look to initiate a short position in this window. That is how you use fibonacci ratios to predict potential turning points in the market. This becomes even more powerful if you have a confluence of ratios using a 1, 3, 15, 30 minute chart that all fall into the same window.

Automation of this entire process

Now this is a very powerful setup. Yet, the question remains, “ can this entire process be fully automated to alleviate this massive amount of analysis?” YES!

We have done just that with the T-3 Fibs ProTrader software. Not only is this entire process automated but this exact analysis is done on up to 50 timeframes that are “ synthetically” built by the program – weighted – ranked and then shown to you in an easy to read RED LINE (resistance) or BLUE LINE (support) on a single chart. See figure below for an example using a one minute Nasdaq futures chart.



This setup is equally effective on Forex – S&P futures – Stocks and Bonds. Below is an example of a 233-tick chart in the E-mini S&P futures.



Nexgen Software goes well beyond just offering a Fibonacci support and resistance tool. We specialize the training and education of the software – supply additional indicators to help with entry and exit techniques and timing and run a live educational trading room in Hotcomm for all users of the software showing all the possible setups using the program until they are comfortable using the program on their own.

For a free demo of the software or just to watch our educational videos you may visit us on the web at <http://www.nss-t3.com>

Nexgen Software may also be reached by phone at 281-298-9918 during trading hours.