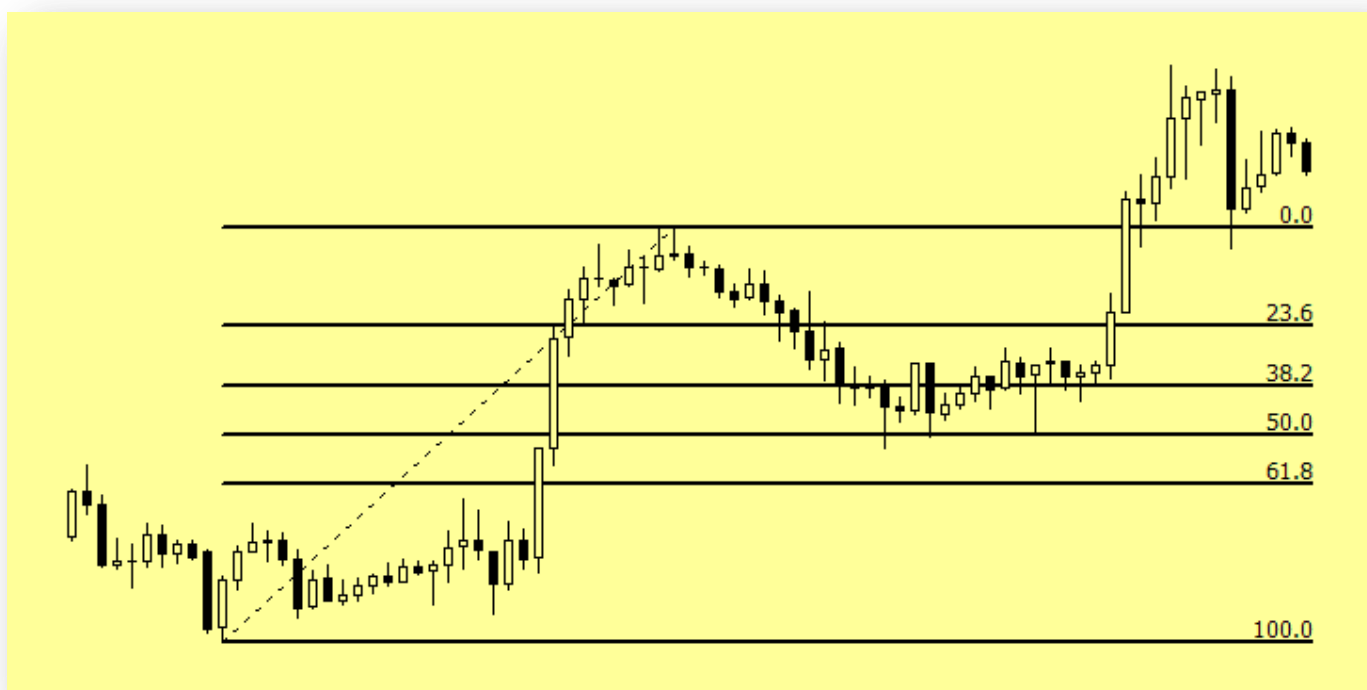


A Profitable Fibonacci Retracement Trading Strategy



by Chris Padgett

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A Profitable Fibonacci Retracement Trading Strategy

This bonus report was written to compliment my article, [How to Use Fibonacci Retracement and Extension Levels](#).

If you don't have the basics down, please go read the main article first.

The idea is to wait for setups where obvious support or resistance (previous market structure) line up with the "sweet spot" of a Fibonacci retracement, and at the same time, the RSI is showing oversold or overbought conditions. Then use price action signals to laser target your entry.

What you need:

- A Fibonacci retracement tool with the 127.2 and 161.8 levels
- A stochastic indicator/oscillator (5,3,3)
- Knowledge of a few [price action signals](#)

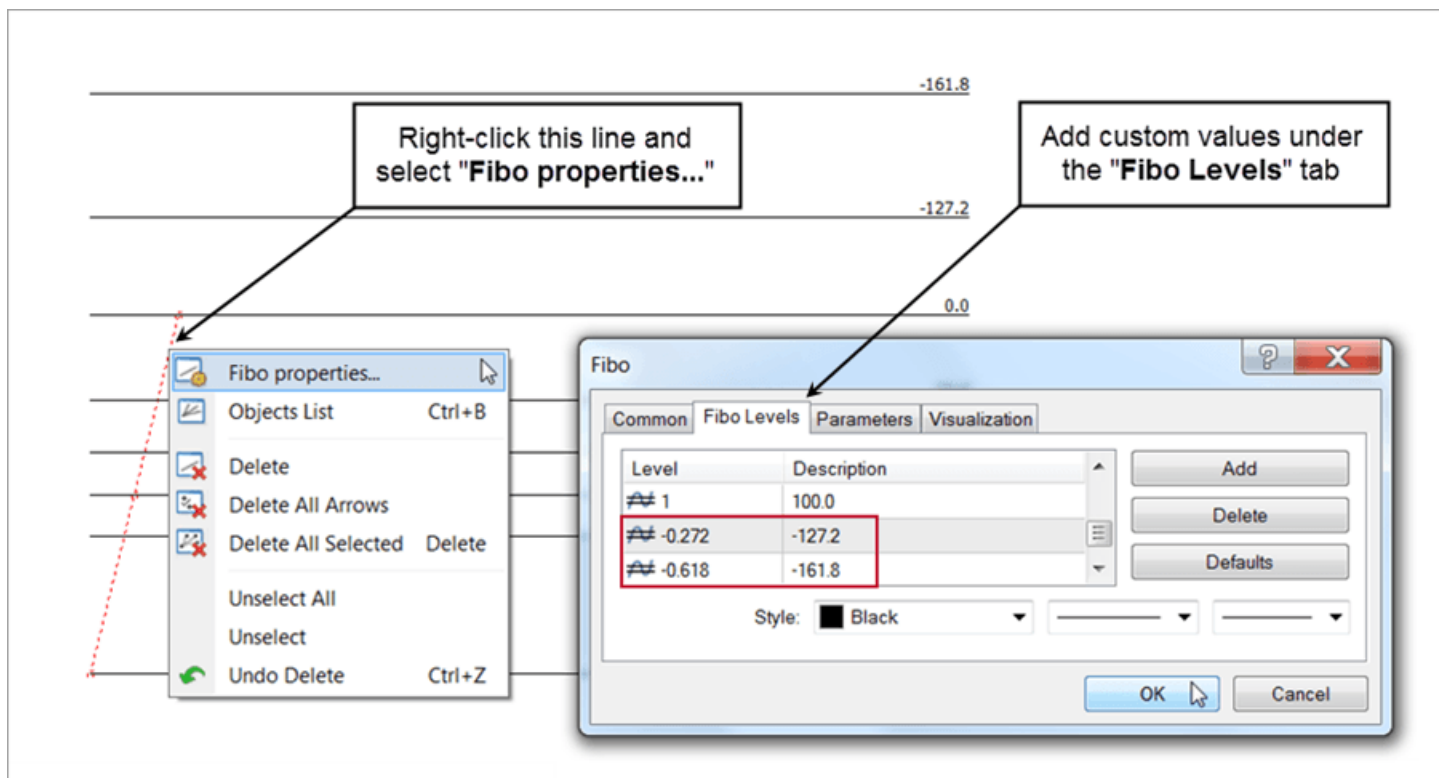
The stochastic oscillator should be set to the default K Period – 5, D Period – 3, Slowing – 3 (5,3,3).

In the examples below I'm using the default Fibonacci retracement tool. However, I've added a -0.272 and a -0.618 level. I've labeled the lines -127.2 and -161.8.

By doing this I'm able to get my Fibonacci retracements and the important extension levels without having to redraw with the tool.

You can do this to by adding those levels to the tool. If you'd like to do this too, simply follow the instructions on the next page.

Custom Fibonacci Extension Levels Instructions:



Step 1: Draw the tool onto your chart as you normally would

Step 2: Double-click the angled line (draw line)

Step 3: Right-click the angled line and select "Fibo properties..."

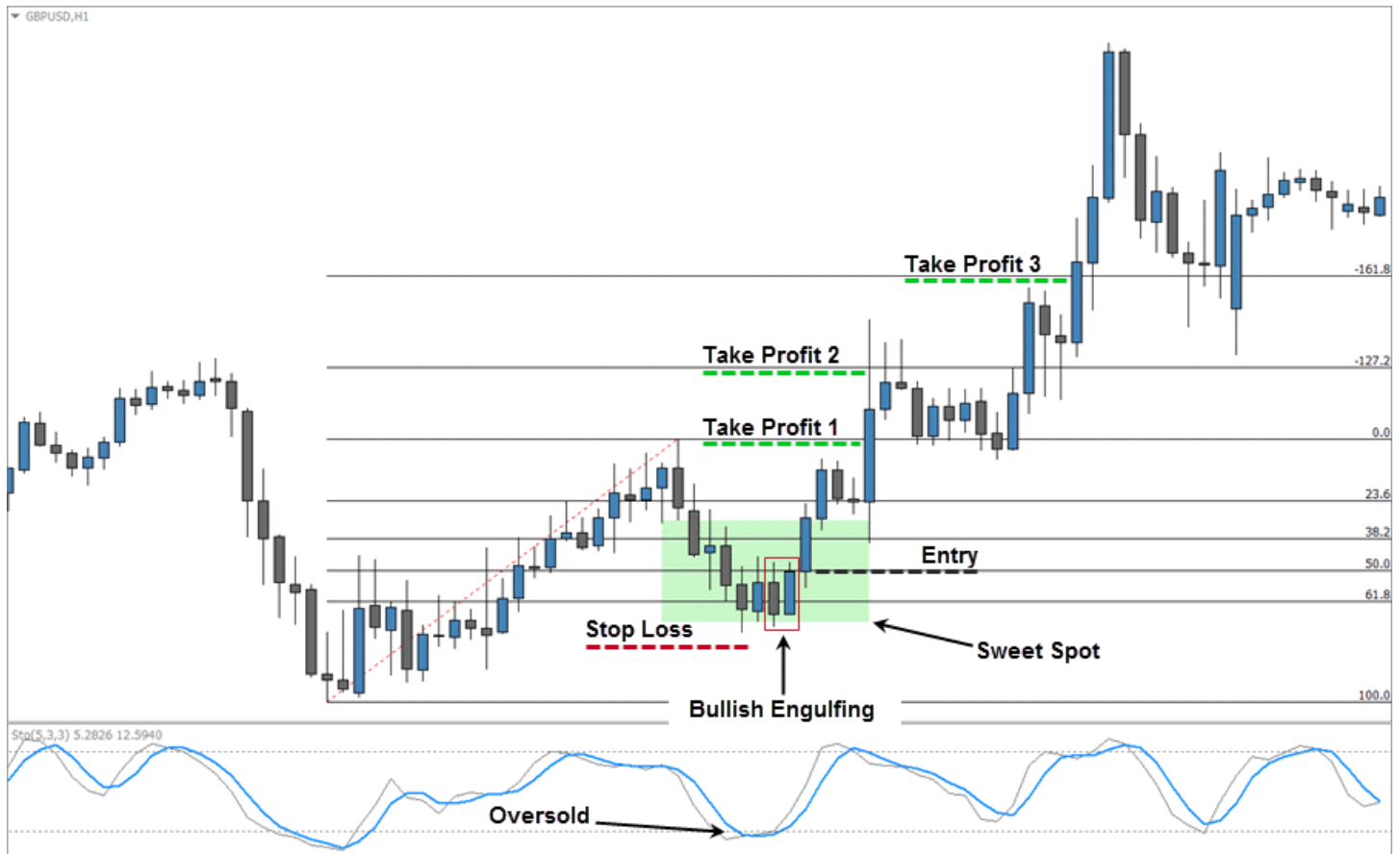
Step 4: Under the "Fibo Levels" tab, add -0.272 and -0.618

Step 5: Label your new levels and click "OK"

Note: Make sure you include the "-" (negative) symbol to the levels that you add. The description can be anything. In the examples, I labeled the new levels -127.2 and -161.8, but you could label them 127.2, Take Profit 1, etc.

Bullish Fibonacci Retracement Trade Example

In the image below, you will see a successful bullish Fibonacci retracement trade.



Buy Entry Requirements:

- Significant bullish price swing
- Retracement within the “sweet spot”
- A strong bullish candlestick pattern
- Stochastic oscillator is oversold

As you can see from the image, after a healthy bullish price swing, the retracement came down a little lower than the 61.8 level, which is still considered to be in the “sweet spot” of the retracement.

The stochastic indicator is also indicating that price is oversold.

In the example above, the [bullish engulfing pattern](#) was used as the entry signal.

When trading this method, the Fibonacci retracement is the key signal, and the candlestick pattern is used to laser target your entry.

In our example, you would enter at the open of the candlestick following the bullish engulfing pattern.

Stop Loss Strategy:

Place your stop loss 3-5 pips below the lowest low of the retracement.

If the trade moves in your favor, move your stop loss to breakeven before price reaches the previous high.

You can use this [Break Even EA](#) to automatically move your stop loss to breakeven.

Take Profit Strategy:

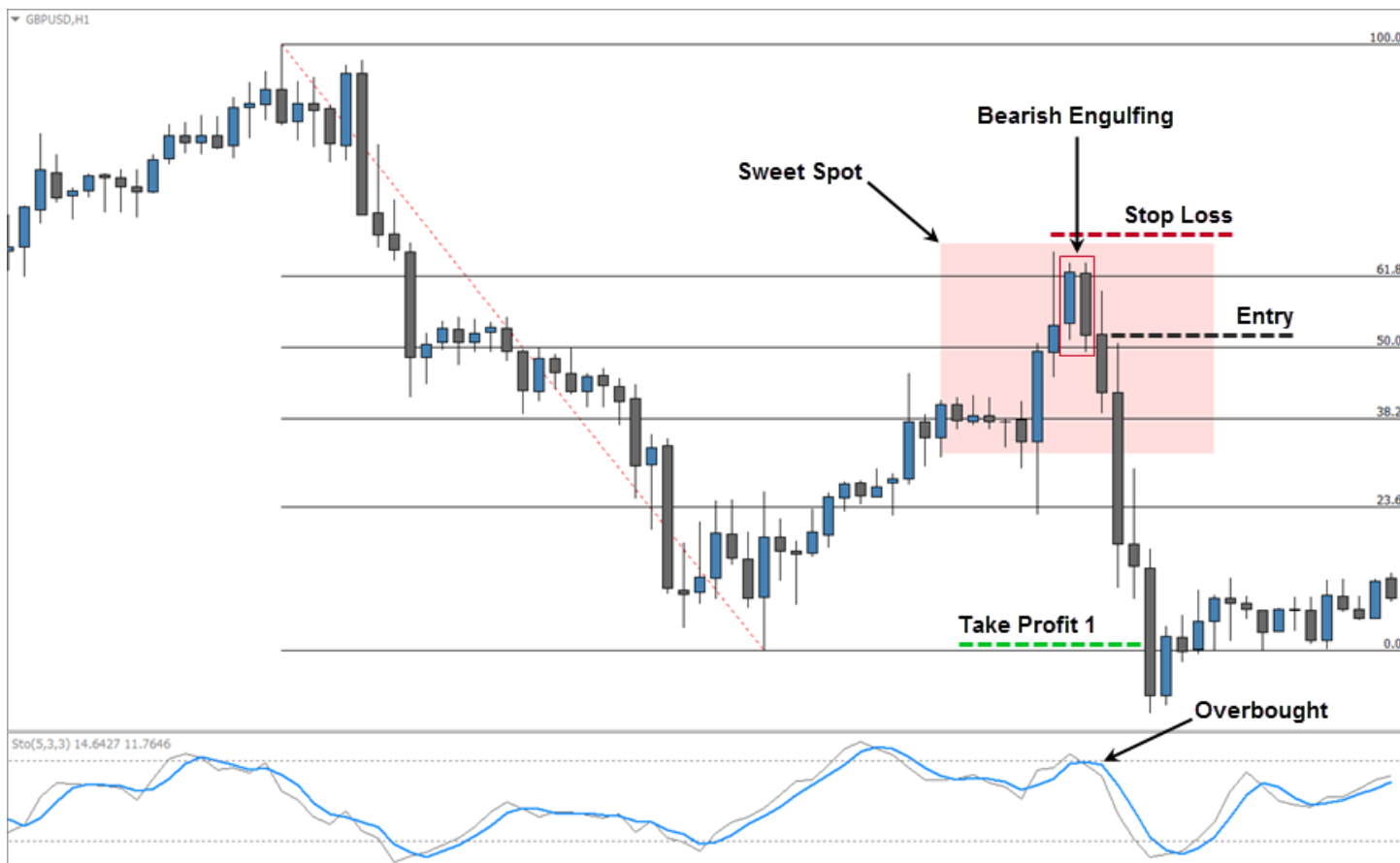
Close half of your position when price reaches the previous high (0 level).

Close half of your remaining position when price reaches the 127.2 Fibonacci extension level.

Exit your trade by closing your remaining position at the 161.8 Fibonacci extension level.

Bearish Fibonacci Retracement Trade Example

In the image below, you will see a successful (or semi-successful) bearish Fibonacci retracement trade.



Sell Entry Requirements:

- Significant bearish price swing
- Retracement within the “sweet spot”
- A strong bearish candlestick pattern
- Stochastic oscillator is overbought

Once again, price went just past the 61.8 Fibonacci retracement level before a good entry signal appeared, but that is still considered to be within the “sweet spot.”

In this case, the strong bearish candlestick pattern that was used as an entry signal was the [bearish engulfing pattern](#).

You can also see that the stochastic oscillator was indicating that price was overbought.

Since this trade setup meets all of our requirements, the entry would have been taken at the open of the candlestick following the bearish engulfing pattern.

Stop Loss Strategy:

Place your stop loss 3-5 pips above the highest high of the retracement.

If the trade moves in your favor, move your stop loss to breakeven before price reaches the previous low.

Take Profit Strategy:

Close half of your position when price reaches the previous low (0 level).

Close half of your remaining position when price reaches the 127.2 Fibonacci extension level.

Exit your trade by closing your remaining position at the 161.8 Fibonacci extension level.

Notes:

The last setup had the added strength of a bearish stochastic divergence pattern going for it. Read my article, [How to Trade Divergence Like a Pro](#), to learn more about trading stochastic divergence.

What you can't see to the right of the last chart is that this particular trade did not work out. However, since we moved our stop loss to breakeven and closed half of our position at the previous low, we still would have made a nice profit (about 1.5:1 [reward to risk](#)).

Often, by the time you get a good entry signal, the stochastic indicator is not technically oversold or overbought anymore. As long as it was oversold (for bullish setups) or overbought (for bearish setups) very recently, the setup is still valid.

Resources:

Visit [FXDayJob.com](#) for more free trading tips and techniques.

Check out my free [Price Action Course](#) to learn more about how to trade price action patterns.

See my full review of [Day Trading Forex Live](#) to learn more about the trading system that I personally use and recommend to any new or struggling trader.

I've also written [full reviews](#) of other trading systems that I've tested or traded, as well as other products and services that are useful to traders.

All of the information on my website is free, so if you like anything, please share it.

Thanks for reading and for signing up to my newsletter. **I appreciate you.**