

The Crypto Master Guide to Fibonacci Trading

Bennett Stein



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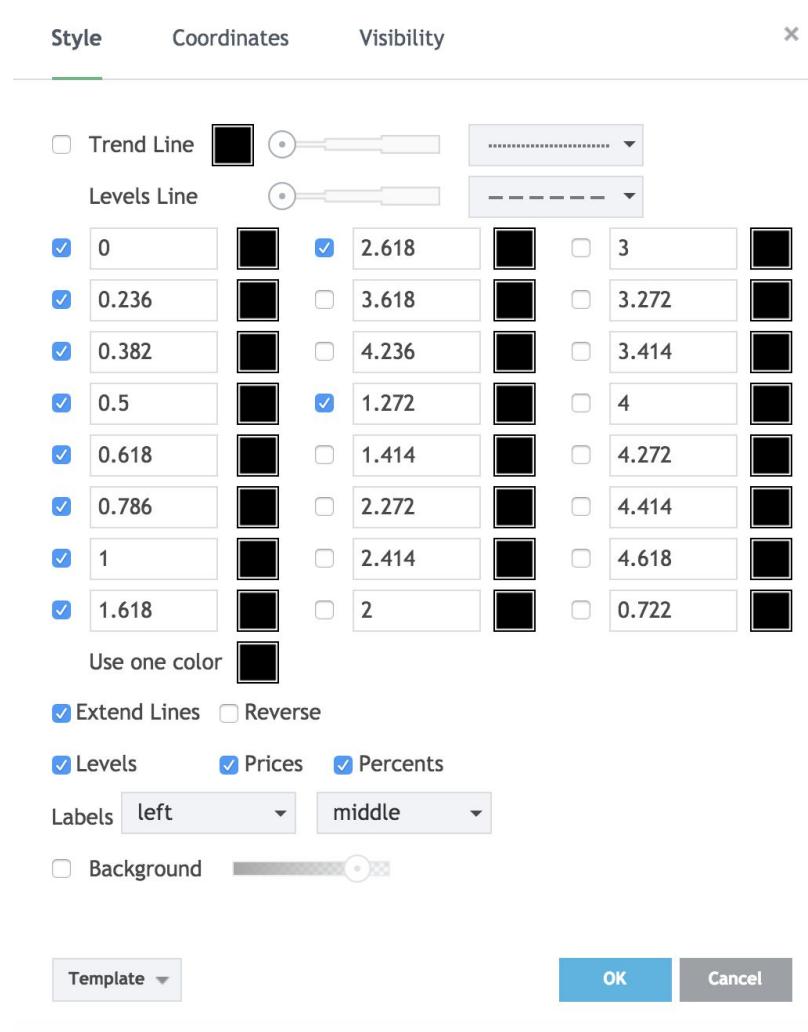
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I am a cryptocurrency educator who has been actively trading since 2011. For years I devoured as many books on psychology and market dynamics that I could before I even started to trade the markets. In early 2017, I started my own youtube channel, Bitcoin Trading Challenge to mentor traders on how to trade cryptocurrencies. I have just completed my 140th video and plan to continue as long as there is information to share.



My Fibonacci Settings on Tradingview



It is also recommended that you use magnet mode when drawing Fibonaccis on Tradingview.



Trading Term List

Bull is one who expects the price to rise.

Bear is one who expects the price to fall.

Bullish Retracement is a bearish (downward) pullback against an uptrend-drawn from low to high of uptrend.

Bearish Retracement is a bullish (upward) pullback against a downtrend-drawn from high to low of a downtrend.

Strong Momentum in a trend is characterized by infrequent and weak retracements (retracements below 38.2%) with trend continuations on high ease of movement. Think BTCUSD from mid November to early December 2017.

Average Momentum in a trend is characterized by regular and average retracements (retracements below 61.8%) with trend continuations on average ease of movement. Think BTCUSD from early May to mid November 2017.

Weak Momentum in a trend is characterized by frequent and strong retracements (retracements above 61.8%) with trend continuations on low ease of movement.

Long Position is one who bought to establish a market position.

Short Position is one who sold to establish a market position.

High Tail is a candlestick formation that forms when price closes drastically below its candlestick high. Typically a bearish signal.



Low Tail is a candlestick formation that forms when price closes drastically above its candlestick low. Typically a bullish signal.

Retail Trader is a trader who trades independently through a broker or an exchange; typically trades with low volume and has limited access to advanced market information.

Institutional Trader is a trader who either trades with direct access to a market (no intermediary broker/exchange), or sends trades to an exchange independently in order to ensure the best execution price possible; typically trades with high volume and has access to advanced market information.

Stop Loss is a market order to buy or sell when the market reaches a specific point with the intention of limiting losses. A stop loss order to buy (used if a trader entered a short position) becomes a market order when price reaches the most available ask price at or above the stop price. A stop order to sell (used if a trader entered a long position) becomes a market order when price reaches the most available bid price at or below the stop price.

Market Stage refers to a market phase of consolidation, an uptrend or a downtrend.

Contraction occurs when price moves against the overall trend (also known as 'pullback' or 'retracement').

Expansion occurs when price moves with the overall trend.

Confluence is when multiple indicators overlap at a price level. When this occurs, that level has a greater likelihood of becoming a support/resistance level.



Altcoin, or ‘Alternative Coin’, is a coin that is not listed as one of the major cryptocurrency coins by market cap, typically traded to BTC or to another coin.

Bid is a request to buy at a specified price.

Ask is an offer to sell at a specified price (also known as an ‘Offer’).

Liquidity refers to the ability to convert an asset into cash (fiat currency) or vice versa. In the crypto world this is the ability to convert between a coin and cash. Institutional traders need high liquidity so that their trading activity will not impact the market price.

High liquidity refers to large transactions that do not cause a substantial change in price.

Low liquidity refers to large transactions that do cause a substantial change in price.

Support refers to a price level where price has historically had difficulty falling past.

Resistance refers to a price level where price has historically had difficulty rising past.

All examples within the guide will be on 5-Minute or 1-Hour charts. However, material from this guide can be used on other timeframes as well due to the fractal-like nature of Fibonacci patterns.



1. Origins

A. *The Fibonacci Sequence*

Everything in the universe is in a constant state of movement. From flowers to the price movements of a cryptocurrency, the universe is consistently contracting and expanding. Now, if you didn't know anything about Fibonacci Theory and I told you that a book written in 1202 AD could predict the movements of the expansions and contractions within the cryptocurrency market, you would likely call me a fool. I might as well have told you that the phases of the moon could predict the price changes of the global markets.

But what if there were precise mathematical patterns that dictated nature's method of contraction and expansion, repeated over time? There are, and it is called the Fibonacci sequence.

The first alleged revelation of the "Fibonacci sequence" came from Leonardo of Pisa in 1202, who uncovered it in his famous book *Liber Abaci* (although many believe that ancient Indian mathematicians may have discovered it first). The sequence was created by taking a number and then adding it to the previous number, wherein the sum of the two numbers creates the next value in the Fibonacci number series. This pattern of numerical expansion continues on to infinity.



The Fibonacci sequence is 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377...

The pattern that 18th century mathematicians discovered after the founder's original finding of the sequence was that if you divide a number in the sequence by the number that comes after it (like 5/8 or 21/34) you eventually approach the ratio of **61.8%**. He also found that if you reverse this and divide a number in the sequence by the number that comes before it (like 55/34 or 144/89) you eventually approach the ratio of **161.8%**. It is no coincidence that these two ratios, the 61.8% and the 161.8%, are the most important ratios in Fibonacci market analysis.

B. In Nature

It's interesting how this mathematical sequence can be derived from, or explain, a series of numbers. It substantiates the theory that the natural universe around us also conforms to this pattern as elements of nature expand and contract. There is a large amount of evidence that indicates that many growing entities incorporate some elements of the Fibonacci pattern, even including the human body.

Measure the length of your hand from the crease at the beginning of your hand to the tip of your longest finger, and then measure the length of your forearm from that same initial crease down to the bend in your elbow. Then gauge the length. You will find that your forearm is around 161.8% the



length of your hand. This is the Fibonacci ratio system at work within your body.

Now take a look at the nearest tree. In most trees, the main trunk extends out to create two large branches. Then, one of those two branches will stay dormant, while the other branch extends to create two more smaller branches. This system of branching will continue until the tree completes its expansion and begins to decay. This branching “pattern” mirrors the Fibonacci sequence of 1, 1, 2, 3, 5, 8...

If you take a look at anything from the intricate spirals within a rose to the formation of a hurricane, the Fibonacci sequence reveals itself. No matter the size of the organism in question, the sequence largely remains, as it plays out in a fractal-like nature. Think of a “fractal” as a pattern that repeats itself infinitely regardless of its scale.

One example of this is the snowflake. As you zoom in, the same shape of a snowflake is visible. This will keep occurring no matter how intensely you zoom in. Since the natural universe clearly acts in concert with the Fibonacci sequence, is it surprising that other patterns of human life, including economic decisions, follow the sequence as well?



C. Fear and Greed

Fibonacci price levels reflect the effects of extreme fear and greed at work in the market. Fibonacci-based traders recognize the mathematical nature to the patterns of fear and greed and set their orders accordingly to Fibonacci ratios.

Fear manifests itself in a “sell-off” as traders panic under the belief that the market can only go lower. Greed manifests itself in a rush of buyers who impulsively buy into an uptrend in order to not miss out on potential profits.

When market sentiment turns into either extreme fear or extreme greed, a Fibonacci trader typically wants to take the other side of the trade. That means that we want to buy when everyone is panicking and sell when everyone is getting greedy.

But why? Why should we buy after everyone else sells and why should we sell after everyone else buys?

Consider this analogy: there are 100 traders in a trading room with unlimited liquidity in the market. They are all trading the same asset, with no outside parties participating. Price begins to rise and suddenly all of the 100 traders buy the asset with their full capital as they are afraid of missing out on profits on the uptrend. Can the price go any higher at this point?



No, it can't. There are no more buyers to push the price any higher making this the perfect opportunity to sell against the crowd that had all just bought.

Fibonacci ratios, especially the 61.8% and 161.8%, provide price points where the crowd is likely acting on emotions of extreme fear or greed. Therefore, Fibonacci retracements and extensions act as important psychological zones with major fear creating "support" levels and major greed creating "resistance" levels.

2. Market Stages

A. Three Types of Market Stages

A market stage refers to price's dominant patterns of movements within the timeframe that you are analyzing. There are three main types of market stages:

1. Consolidation

- a. Price is moving sideways.
- b. Price cycles from a support area to a resistance area and back again.
- c. Price eventually stops this cycle when it breaks out and turns into an uptrend or a downtrend.



2. Uptrend

- a. Price is making higher highs and higher lows.
- b. Previous resistance levels become future support.
- c. Price eventually turns consolidation or a downtrend.

3. Downtrend

- a. Price is making lower highs and lower lows.
- b. Previous support levels become future resistance.
- c. Price eventually turns into consolidation or an uptrend.

How is market stage identification relevant when plotting Fibonaccis? The traders who can label and understand the current market stage have the ability to plot the correct Fibonacci points and thus, gain the benefits of doing so.

Let's identify some basic market stages:





The boxes labeled A, B and C are price zones where the price was in a stage of **consolidation** within the overall market stage of an uptrend.



The market moving from A to B is a clear example of a **downtrend**.





The market moving from A to B is a clear example of an **uptrend**.

Remember that price will always be in one of these three stages, depending on the scale of your chart. One of the hardest parts about plotting Fibonacci points lies in identifying these market stages. Once identified, deciding which endpoints to draw is far easier.

B. Market Stage Transitions

The market is constantly shifting from market stage to market stage as price cycles through time.

An uptrend can turn into a downtrend or consolidation and will naturally do so eventually. Consolidation can turn into an uptrend or a downtrend and

will do so eventually. A downtrend can turn into an uptrend or consolidation and will do so eventually. How can you identify when the market stage is changed? An example of a market stage transition with all three market stages involved would look like this:



Notice how the first market stage is an uptrend at A, followed by a market stage of consolidation at B. This leads to a continuation of the uptrend at C which finally ends in a downtrend at D.

When price breaks out above consolidation (i.e. consolidation turning into an uptrend), we call this a **breakout**. This is exemplified in the market transition from B to C. We use the term **breakdown** to describe price going from consolidation into a downtrend. When price turns from an uptrend into a downtrend, we call this a **bearish reversal**. When price turns from a downtrend into an uptrend, we call this a **bullish reversal**.





The transition from Box A to Line B is a price breakdown. The transition from Line B to Line C is a bullish reversal.

C. Major and Minor Market Stages

There are both major and minor market stages, as some market stages have significantly higher price movement (major) relative to recent price changes, while other market stages have significantly lower price movement (minor) relative to recent price changes.

A market stage that turns from an uptrend into a downtrend is called a reversal if both the uptrend and downtrend are major market stages.



However, if the uptrend was major while the downtrend is minor, we call this a retracement. A retracement is defined as a temporary reversal in the direction of a market's (or coin's) price that goes against the overall trend. However, this does not signify a change in the larger trend, but rather constitutes a minor correction. Here is an example of the market retracing during a downtrend:



The red arrows signify when the market moves with the overall trend (downward) and the blue arrows signify when the market retraces (moves against the overall trend with the market moving upward).



Example above illustrates price in an uptrend. The green arrows signify when the market moves with the overall trend (upward) and the blue arrows signify when the market retraces.

Focusing on the boxed area below, this market has many minor market stages occurring within it, in which the market retraces to the upside.



Whereas the following market price looks to comprise a single major market stage as there is solely minor consolidation and pullback against the bearish trend.



Drawing Fibonaccis is easier applied to markets that are composed of a single major market stage. If multiple stages are present, either draw the Fibonacci endpoints on the most recent major subdivision (for the minor market stage), or on the overall market stage (for major market stage values). *More on exactly how to do this in Chapter 3.*

Drawing Fibonaccis on both minor and major market stages can reveal key levels of confluence, but may clutter a chart. To declutter a chart, try attaching different colors to different Fibonacci drawings or simply mark important levels of confluence and then remove the Fibonacci drawings.

D. Market Stage Strength and Weakness

Both uptrending and downtrending market stages can be categorized as a weak trend, an average trend, or a strong trend. Do not confuse “weak” with “minor” as these mean different things (a minor trend is a retracement or a continuation of the larger trend).

These categories can apply to trends in both major and minor market stages. Knowing the strength of a trend is vital to the placement of orders when using Fibonacci analysis.

A strong market stage consists of strong momentum and high volume in the direction of the trend with weak pullback against the underlying trend. An average market stage consists of middling momentum and volume in the direction of the trend with mediocre pullback against the underlying trend.

A weak market stage consists of trend continuation moves on weak momentum and low volume in the direction of the trend along with many market moves against the underlying trend.

For example, we would expect that a strong bull market would undergo a weaker retracement than a retracement of a weak bull market as consistently high demand will make it harder for price to make a deep retracement. On the flip side, we would expect that a weak bull market



would retrace heavily or potentially reverse as strong demand is not present and sellers may win the fight to push the price down.

Point A to Point B shows a strong downtrending market with little to no bullish movement and strong bearish momentum. This instigates the downtrend.



Point A to Point B on the chart below is an example of a downtrend on middling momentum. Notice the two strong retracements that occur within the downtrend and the constant fight between the buyers and sellers.



Point A to Point B on the chart below is an example of a weak downtrend. The sellers struggle to press price lower as price fails to make a deep retraction after ending at B.





A strong trend consists of strong momentum continuations of the trend and small and infrequent pullbacks against the trend. A weak trend consists of low momentum continuations of the trend and frequent pullbacks against the trend.



3. Fibonacci Retracements

A. Patterns of Contraction

Like all ever-growing beings within the universe, the market goes through periods of both contraction and expansion. Fibonacci retracements allow you to identify the likely levels of contraction from the movements of the previous trend.

It is important to note that expansion DOES NOT refer to the price of a coin increasing and contraction DOES NOT refer to the price of a coin decreasing. Rather, expansion refers to the market's continuation of a previous trend, while contraction refers to the market moving against the underlying trend.

Quick question: Which price trend will retrace the most in price quantity (not percentage-wise)?

Practice 3-1

- A. When price increases from 1000 to 1200
- B. When price increases from 1000 to 1600
- C. When price increases from 1000 to 2000



Practice 3-1 Answer

- A. Price increases from 1000 to 1200
- B. Price increases from 1000 to 1600
- C. Price increases from 1000 to 2000**

The greater the rise, the swifter the fall. The trend that increased the most in magnitude will have the heaviest price retracement, all else equal. That is not to say that the percent of contraction will be higher for option C (the percentage retracement hypothetically would be the same), but that in option C, the market doubled. This made the retracement in price much larger in actual price change.

However, the exact nature of the market's rise dictates the extent to how much it will likely contract. If price increases from 1000 to 2000, as in the example above, with price seeing little resistance on its rise, than the contraction of the uptrend will likely be weaker than if price struggled to increase from 1000 to 2000.

B. The 61.8% Retracement

The most important Fibonacci retracement level is **61.8%**. This ratio is the most common level of market contraction. Recall that this level is derived from the ratio between two adjacent numbers within the Fibonacci



sequence (ie. 144/233). Now that our training wheels are off, let's analyze our first Fibonacci chart:



It may be hard to spot at first, but there is a certain ratio to the price move from Point A to Point B in relation to Point C.



Point C is located at the 61.8% retracement of the price move from Point A to Point B. To draw this Fibonacci retracement, I isolated the market move that began at 6802 and ended at 7880, as those two points made up the extreme low and extreme high respectively of the market stage.

Here is an example of the market in a downtrend:



Now let's draw the Fibonacci from the high located at Point A to the low located at Point B. This represents the major market stage of a downtrend.



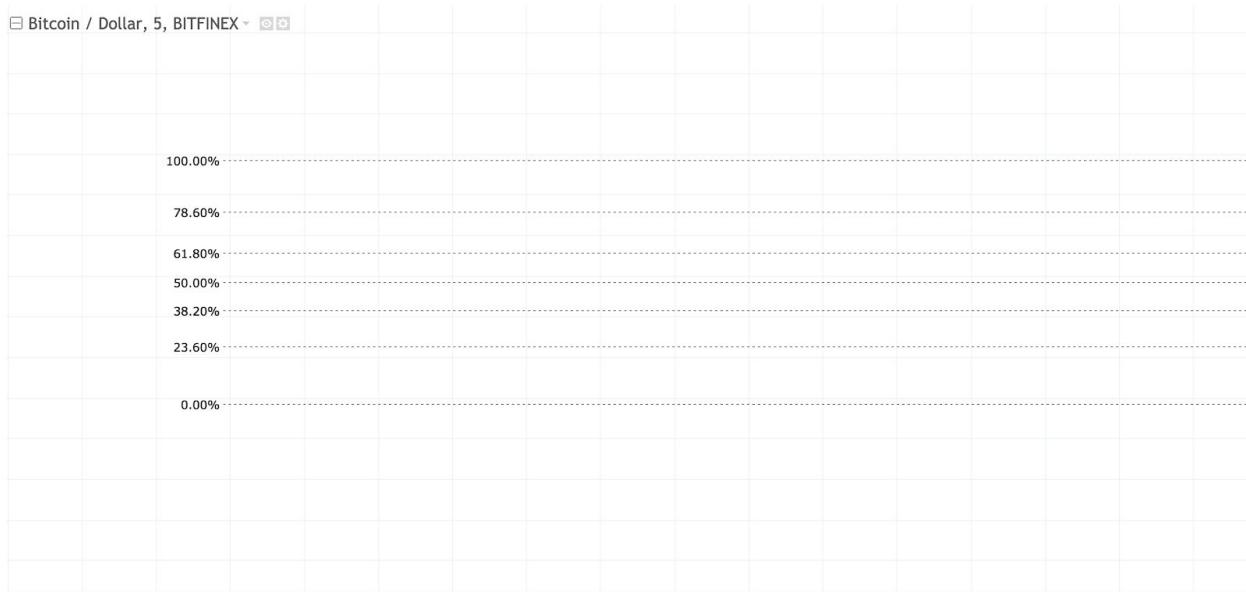
This is what a price retracement in a downtrend would look like, with price heading to the 61.8% at Point C.

The 61.8% Fibonacci retracement has many uses when analyzing market retracements, including but not limited to:

1. *Most likely retracement area. The 61.8% to 78.6% price zone of a trend is the most likely area of reversal and a great entry trade area, this area is known as the strong retracement zone.*
2. *Momentum zone. When the previous trend is not moving on strong momentum, it is the 61.8% that will likely become support/resistance (strong momentum trends typically retrace to the 38.2% retracement zone).*
3. *Initial pullback. A strong price rejection of the 61.8% Fibonacci retracement level (single tail touching the level or V-Shaped reversal) reveals the strength of the underlying trend and the weakness of the contracting move, typically leading to a trend continuation.*

C. The Other Retracement Levels

Beyond the **61.8%**, there are four other notable Fibonacci retracement levels. These include the **23.6%**, the **38.2%**, the **50%** and the **78.6%**. Imagine these Fibonacci retracement levels as tools in a toolbelt, with each retracement level fitting a different purpose and allowing for different methods to trade.



The Fibonacci retracement levels also work well together when Fibonaccis are drawn on different market stages and multiple levels overlap. *More on this in Chapter 5.*

The Fibonacci level of 23.6% comes from dividing a number in the sequence by the number that is located three numbers in front of it (e.g. 34/144).

The Fibonacci level of 38.2% comes from dividing a number in the sequence by the number that is located two numbers in front of it (e.g. 34/89). The ratio of 38.2% also comes from $.618^2$ (or $1 - 0.618 = 0.382$.)

The Fibonacci level of 50% is not a level by calculation in relation to the Fibonacci sequence, however, it is included in the Fibonacci retracement list due to an asset's tendency to retrace by a half.

The Fibonacci level of 78.6% is derived from $\sqrt{.618}$.

Notice in the example below how price finds support at each of the Fibonacci levels below before bottoming out at the 78.6% level.





As previously stated, each Fibonacci retracement level has its own specific use in identifying the market's movements. Let's delve deeper into how exactly each Fibonacci level tells a different story.

i. The 23.6%

The 23.6% retracement level has two main uses:

1. *Acts as a barometer to price retracement: a break of the 23.6% level signals a change in the momentum of the market, making it more likely that price will head towards deeper retracement levels.*

2. *Acts as the maximum amount of price pullback in a strong trend without the market stage itself changing: if price is contained within the 23.6% level whilst trending, the trend is likely to continue without a deeper retracement.*

Thus, if positioned long in an uptrend, selling on a strong bearish break of the 23.6% retracement level with the intention of buying when the market retracts to either the 38.2% or the 61.8% would be a solid strategy in increasing your capital over the course of a trend.

Using Fibonacci drawings, this strategy would work better on a major market stage than on a minor market stage because the price difference between levels of a minor market stage can be quite small in comparison to the large price difference in retracement levels of a major market stage.

Major Uptrend Market Stage = sell at a strong break of the 23.6% retracement level with the possible intention of entering at a deeper price retracement.





If you sell when price breaks through this level (circled portion of the graph), you will protect yourself from a major loss. An added bonus to buying at the 78.6% or the 61.8% level is that you can rebuy at a much better price.



As seen below, the uptrend market stage up to the most recent price point on the chart has strong momentum, and is only able to retrace 23.6%.



As a result, the uptrend continues to move upward as the 23.6% retracement was respected.



ii. The 38.2%

The 38.2% retracement level has one important use:

1. *The 38.2% ratio is typically respected when the market moves on a trend with strong momentum, such as a price breakout.*

This tool in our toolkit is reserved for the strong market stages.

Price breaks out above resistance on strong momentum and then briefly touches the 38.2% level.





The 38.2% level acts as support and price consequently continues the uptrend.



Powerful downtrend that acts on strong momentum retraces to the 38.2% of the recent downmove...





Price then continues moving downward after the initial retracement.



iii. The 50%

The 50% retracement can be used in two ways:

1. *Acts as an important barrier for the 38.2% retracement level; the 38.2% to 50% retracement zone is known as the weak retracement zone.*
2. *Acts as another Fibonacci level of support/resistance, as well as added confluence with other levels.*

Price does not move in perfect directions down to specific retracement levels. Rather, there are Fibonacci price zones that signal likely areas of trend reversal depending upon the strength of the trend. The 50% acts as the maximum barrier for strong price trends.

We can note that price is in a strong trend when it moves upward in the chart below (as indicated by the arrow). Price then consolidates at the 38.2% level, with candlestick tails down to the 50% level which acts as final support (as indicated by the circled portion).





In this example, price makes a strong downward move below support, and then retraces 50% before price continues moving downward.





iv. The 78.6%

The 78.6% retracement can be used in two ways:

1. *Acts as a gauge to whether price is retracing or reversing.*
2. *Acts as a price extreme for retracements of weak underlying trends.*

The 78.6% retracement is the most extreme retracement that a trend can have without changing its market stage. If price retraces to the 78.6% level, it is likely that price is in a weak trend, either in a state of consolidation or gearing up to move beyond the 100% retracement (the support or resistance level, depending on the Fibonacci drawn).

Using the example below, from Point A to Point B, price is in a weak uptrend. This is a weak uptrend due to the heavy retracements (i to ii and iii to iv) made as price struggled to make new highs.



As a result of the weak uptrend from point A to B, price finds significant support at the 78.6% level after a rapid retrace.



The 78.6% retracement can also be used to gauge whether price is retracing or reversing which can be useful when protecting yourself against a loss.

From Point A to Point B, price is in a weak uptrend as the majority of the uptrend continuations struggle to make significantly higher highs until price moves rapidly at the end of the uptrend. We then see high price momentum downward as price breaks through the 78.6% retracement level.



Price moves lower:



D. Drawing Fibonacci Retracements

The toughest part of Fibonacci analysis is knowing how to draw them.

Drawing Fibonacci endpoints are not an exact science; they require the difficult practised skill of pattern recognition.

So, how exactly should you pick your highs and lows of the market stage in order to draw your Fibonacci retracement?

Here are some guidelines:

Drawing Fibonacci retracements...

- on any trend gives likely levels of market contraction



- high to low on a downtrend gives us retracement levels
- low to high on an uptrend gives us retracement levels
- reveals the underlying strength or weakness of a trend
- yields high probability reversal opportunities indicating when to buy or sell into a trend at near-optimal prices

Drawing Fibonacci endpoints...

- on a minor market stage gives future minor support/resistance levels
- on a major market stage gives future major support/resistance levels

Practice 3-2

To start off, how would you draw Fibonaccis on this market stage?

- Point O to Point A
- Point O to Point B
- Point O to Point C



Practice 3-2 Answer

- A. Point O to Point A
- B. Point O to Point B
- C. Point O to Point C**



Drawing from the low at Point O to the high at Point C gives you the ability to buy at the optimal price point at the normally targeted 61.8% retracement.

Practice 3-3



How would you draw this Fibonacci retracement on the market stage of a downtrend?

- A. Point O to Point A
- B. Point O to Point B
- C. Point O to Point C

Practice 3-3 Answer

- A. Point O to Point A
- B. Point O to Point B**
- C. Point O to Point C

Drawing Point O to Point A is a mistake as you cannot draw Fibonaccis backward in time (always draw from the left to the right). Drawing Point O to Point C does not make sense either because Point C is not the absolute market bottom.

Practice 3-3 Answer



E. Practice

Here are three examples of market momentum dynamics and their interaction with Fibonacci levels. There are more related examples in the final chapter.

Practice 3-4



1. Does momentum favor buyers or sellers in this example ?
2. Is there a strong market reaction at an important Fibonacci retracement level?
3. Should you buy, sell or avoid trading this market?

Practice 3-4 Answers

1. Buyers. Notice the strong price momentum that instigates the first move of the uptrend as well as the weak move downward as price retraces to the 61.8%.
2. Yes. Two tailed candlesticks with small candle bodies followed by a strong bullish move at the 61.8%.
3. Buy.



Practice 3-5



1. Does momentum favor the buyers or the sellers in this example here?
2. Is there a strong market reaction at an important Fibonacci retracement level?
3. Should you buy, sell or avoid trading this market?

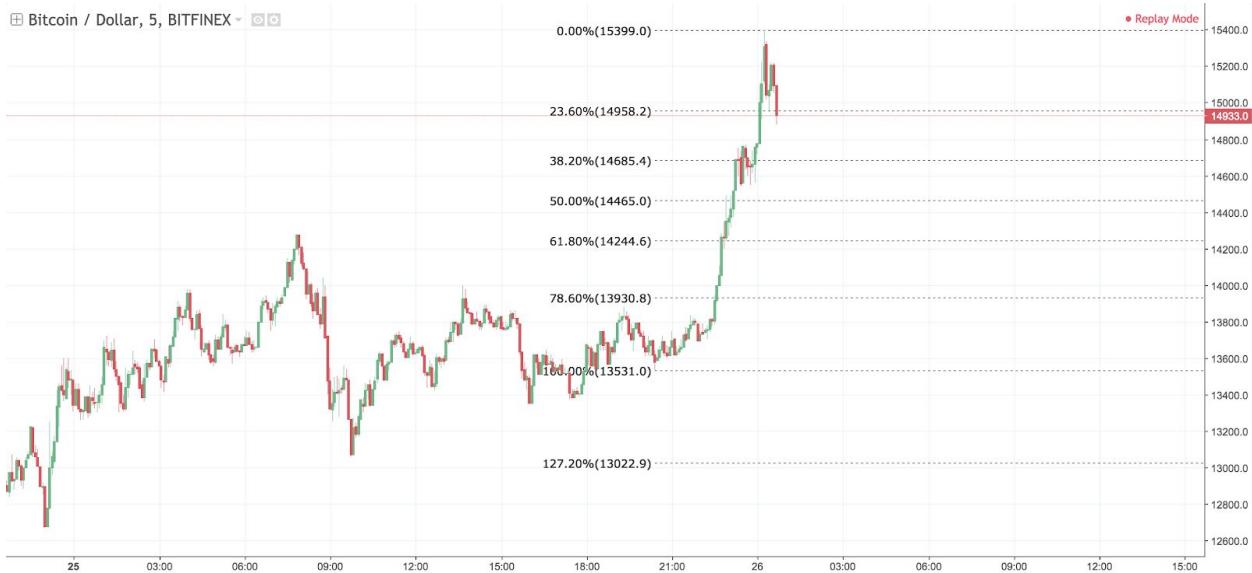


Practice 3-5 Answers

1. Sellers. Momentum to the downside has been strong with weak bullish pullback alongside rapid bearish price movement.
2. All Fibonacci levels have been hit and the 78.6% retracement fails to hold price. This is not a good sign for a bullish market reversal, and price will likely continue to move downward.
3. Sell or avoid trading this market until evidence of bullish momentum re-emerges at an important Fibonacci level.



Practice 3-6



1. Does momentum favor the buyers or the sellers in this example?
2. Which Fibonacci retracement level is most likely to become future support?

Practice 3-6 Answers

1. Buyers. Price broke out upward in a strong bullish manner with weak bearish pullback.
2. The 38.2% is most likely as a strong trend typically retraces to the price area between the 38.2% and 50% Fibonacci retracements.

Practice 3-6 Answer



4. Fibonacci Extensions

A. Patterns of Expansion

Newton's third law of motion states that when one body exerts a force on a second body, the second body simultaneously exerts a force equal in magnitude and opposite in direction of the first body.

Fibonacci extensions are no exception to this rule. They yield likely levels of future support/resistance based off of the price movements of the previous retracement or consolidation range, acting as the “body” exerting a force equal in magnitude and function.

To understand how a period of contraction typically follows expansion, imagine squeezing a spring. The more you contract, the more it eventually expands on release in equal strength.

Imagine that a market retraced from 5000 to 2000. Assuming it began a rally, using Fibonaccis, at what price level would we expect to see significant resistance?

Answer: 6854. *This value comes from the 1.618 extension of the retracement from 5000 to 2000.*



In this example, the Fibonacci retracement principles discussed in earlier sections are not helpful to project trend continuation values. The retracement rules only provide values in between 5000 and 2000. Rather we need a tool that will project future resistance values, in the event that price moves outside this range.

B. The Golden Ratio 161.8%

Phi is the mathematical term for the Fibonacci ratio of 161.8%. Recall that phi is calculated by dividing a number in the Fibonacci sequence by the number that came before it. This ratio is naturally found in the mathematical wave-like movements of the market. Think of each specific market stage as if it were a number within the sequence with Fibonacci extensions dictating the next likely stopping level of that market stage.

Phi is the most respected Fibonacci extension level. The importance of phi over other levels may come from the fact that phi is predominantly found in nature, whereas the other extension levels are just mathematical derivatives of phi.

The 161.8% Fibonacci extension has many uses when analyzing market expansions:



1. Projects likely future support/resistance area. Typically, price moves slightly past the 161.8% level before reversing in the other direction.
2. Projects all-time highs by allowing you to plot new highs that a market makes (Fibonacci retracements cannot plot all-time highs).
3. Projects continuations of weak and average trends typically end at the 161.8% extension of the previous retracement.
4. Trend rejections. A strong price rejection of the 161.8% Fibonacci extension level (single tail touching the level or V-Shaped reversal) reveals the weakness of the underlying trend and a likely reversal.

Below is a market stage of an uptrend where price retraces down to the 61.8% retracement level. We've seen this many times before.



The 161.8% extension in action:



How do you project the level of resistance indicated above by the circle?

You take the previous retracement that occurred (from the first picture above, drawn from the top of the retracement to the bottom of the retracement), then draw the Fibonacci endpoints forward in time of that retracement, thus projecting an extension level.

One major difference between Fibonacci retracements and Fibonacci extensions: Extensions can be drawn on periods of consolidation as well as trending moves, whereas retracements are drawn solely on a trending move.



Notice above that the Fibonacci extension is drawn on the market stage of consolidation (although some may see the market stage as a retracement). The Fibonacci is drawn from the high to the low of consolidation.

You may be wondering why the Fibonacci extension was not drawn using the high from 4425.8 to the low of 4282.2. Wouldn't that high and low

represent the consolidation range? No!



Recall that Fibonaccis can never be drawn backward in time, they must be drawn left to right.

Practice 4-1



Will price rebound back upward after hitting the 161.8% extension?

Practice 4-1 Answer

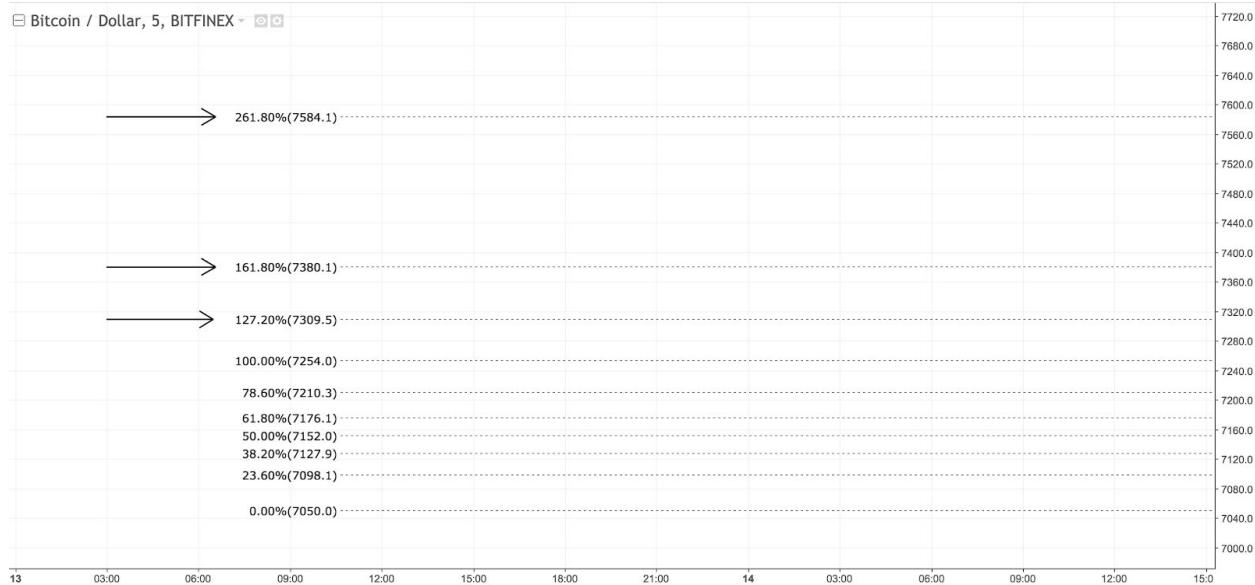
Price rebounds off of the 161.8% and begins a powerful uptrend.



C. The Other Extension Levels

Beyond the 161.8%, there are a few other Fibonacci retracement levels that are notable. The most important levels include the 127.2% and the 261.8%.





i. The 127.2%

The 127.2% extension level comes from the square root of phi: $\sqrt{1.618}$. It has three main uses:

1. An extension used for weak trends: when a trend retraces 78.6%, the market tends to extend to around the 127.2% of that retracement if price has a strong bounce off of the 78.6% level.
2. As a confluence level to be used with other extensions: overlap of the 127.2% and the 161.8% can yield high probability points of reversal.
3. As a barometer to further price extension: a strong break of the 127.2% extension signals that the market may find support/resistance at further extension levels such as the 161.8% or the 261.8%.



Price tends to extend 127.2% off of a 78.6% retracement due to the bull/bear control of the market. If the market is in an uptrend, but the market retraces downward to the 78.6%, it is safe to say that the bulls are not in full control of the market and demand may only carry price so far, thus the 127.2% extension may govern as a barrier to price.

As seen below, the market retraces 78.6% of the previous trend, indicating that the uptrend is likely weak. If price breaks the high of the Fibonacci (9189), then the 127.2% extension of the retracing move from 9189 to 8180 is likely to become resistance.



The market extends 127.2% of the previous retracement before beginning a downtrend.



Below is an example of price in a downtrend retracing 78.6% upward.



Price then extends down to the 127.2% before moving back upward.



Confluence between extensions is a powerful method for generating high probability reversal points.

Let's take a look at how to use this confluence by use of multiple market stages and overlapping Fibonacci extensions.

Focus on the two retracements against the downtrend: A to B and C to D. How did I pick those two retraction levels? Those are the two major retracements that price made against the downtrend.



Both extensions of A to B and C to D find confluence at a zone from the 936 to the 939 support level. The market responds by immediately touching, then rejecting that level and heading back upward to 971.

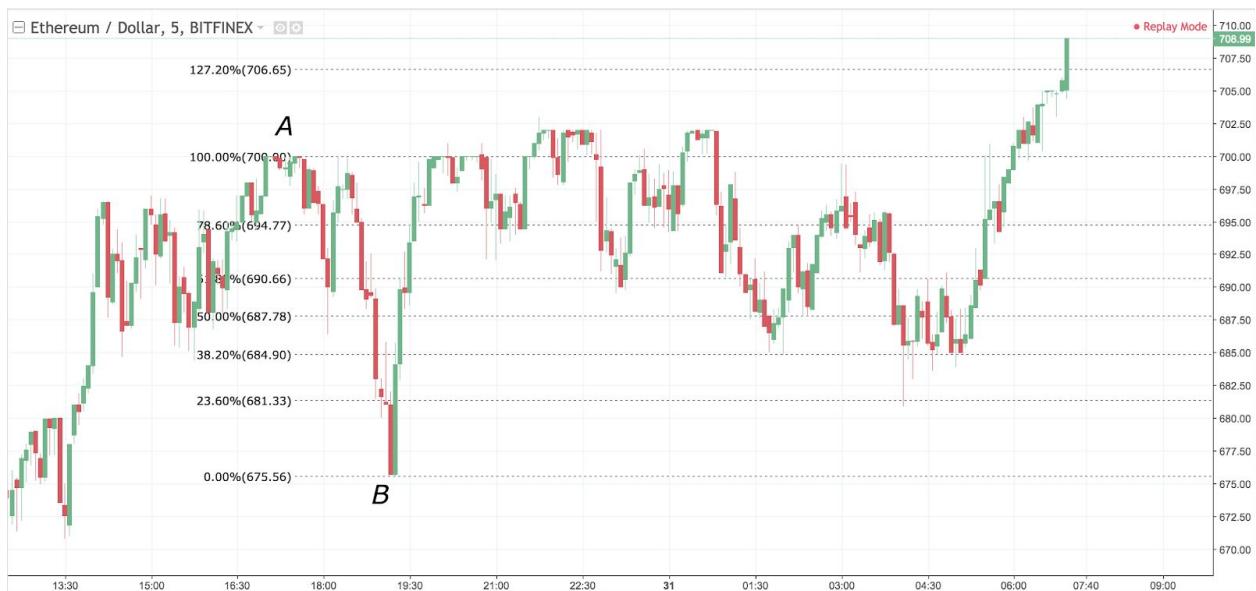
ii. The 261.8%

The 261.8% extension level is calculated by squaring phi: 1.618^2 . It has three main uses:

1. As a reversal level for very strong trends: when the market stage is in a strong trend, the 261.8% extension drawn off of the previous market stage of a retracement or consolidation will yield a likely reversal point.

2. When price is consolidating in a very tight range and the underlying trend is moving on strong momentum, a breakout will typically end at the 261.8%.
3. As a confluence level with other extensions, especially when drawn on a minor market stage.

If we draw the Fibonacci endpoints from the high to the low forward in time of the consolidation, we project potential higher levels that may act as reversal areas. The 161.8% as well as the 261.8% extension levels are expected to become important areas of resistance.



Drawing from the high of C to the low of D forward in time for the high to low of consolidation is another way to draw the Fibonacci endpoints.



As you can see in the chart - both methods for drawing Fibonacci extensions yield about the same resistance level for the 261.8% (it is not typical that two separately drawn high to low Fibonacci endpoints will yield the same extension, but when this occurs it strengthens the level of support/resistance).





Also notice that the 161.8% extension(s) level yields minor resistance.

Price is in a strong downtrend from Point A to Point B. We then see a weak retracement from Point B to Point C. Due to the strong momentum



downtrend, we would expect the 261.8% extension of the B to C move to become the next level of support.



The downtrend produces a support level from the 261.8% extension at 11750.



Let's first mark the major pullbacks against the uptrend. We see a sharp retracement from the high at Point A to the low at Point B, and we also see a retracement from Point C to Point D. Confluence between the extensions of those two levels yields a potential resistance level.



We then see the 476 to the 482 price zone acting as a major resistance area as it has confluence from two different Fibonacci extensions drawn off of retracements.



D. Drawing Fibonacci Extensions

The Fibonacci extension tool is incredibly versatile, allowing for many overlapping methods that can be used to draw Fibonacci extensions.

Fibonacci Extensions:

1. Can be drawn on any market stage
2. Are drawn high to low to project a Fibonacci extension upward
3. Are drawn low to high to project a Fibonacci extension downward
4. Are drawn on the final move of a downtrend for initial resistance levels
5. Are drawn on the final move of an uptrend for initial support levels
6. Are a powerful tool for giving selling opportunities when price breaks above resistance (or makes an all-time high)
7. Are a powerful tool for giving buying opportunities when price breaks below support
8. Reveal the underlying strength/weakness of a trend



Practice 4-1



We can see that the market is currently consolidating above. If you were to project a downward extension level, from where would you draw the Fibonacci endpoints? (*Hint: Recall that a downward extension level would be projected by drawing from a low to a high going forward in time*).

Practice 4-1 Answer



There are two correct answers here. Drawing from A to B or from C to D yield nearly identical Fibonacci extension points.

Practice 4-1

Now the question remains, at what extension level would you place your buy order?

- A. 127.2%
- B. 161.8%
- C. 216.8%

Practice 4-1 Answer



- A. 127.2%
- B. 161.8%**
- C. 216.8%

The 161.8% extension level drawn from either A to B or from C to D would have yielded a fantastic buying level at 10300. This may have been because the market move from A to B moved on weak momentum and the move from C to D moved on average momentum. The market responded by respecting the 161.8% Fibonacci level and further created new highs within the uptrend.

Practice 4-2



Price moves in a downtrend from Point A to Point B and then retraces up to Point C. After this 78.6% retracement, how would one draw the Fibonacci extension + which extension level would be a good price level for a buy order?

Practice 4-2 Answer



Drawing the Fibonacci endpoints from Point B to Point C would have given the correct extension level. Additionally, the market retraces 78.6% of the A to B move with the B to C move, making the 127.2% extension a high probability level of reversal to place a buy order at.

How would you draw a Fibonacci upward extension within this market stage (located in the rectangle)?



If drawn from the high to low of that consolidation range, the 161.8% extension alongside a high tail offered a fantastic selling opportunity.



E. Practice

The three examples below are on market momentum dynamics and its interaction with Fibonacci levels. They feature Fibonacci extensions drawn by using the endpoints on retracing moves within a trend. There are many more related examples in the final chapter.



Practice 4-3



1. Does the momentum favor the buyers or sellers?
2. How does price react to the Fibonacci extension level?
3. Buy, sell, or avoid trading this market?



Practice 4-3 Answer

1. The momentum of the market favors the buyers.
2. Price burst past the 161.8% before consolidation. This bullish reaction means that demand is likely to remain greater than supply, hence price moves upward.
3. Buy or hold current long position.

Practice 4-3 Answer



Practice 4-4



1. Does the momentum favor the buyers or sellers?
2. How does price react to the Fibonacci extension level?
3. Buy, sell, or avoid trading this market?



Practice 4-4 Answer

1. The momentum is relatively balanced - strong bearish movement during the downtrend with weaker bearish movement on the approach of the 161.8% extension.
2. Price has a bullish reaction to the 161.8% extension. Price makes low tails before moving back upward.
3. Both buying or avoiding (or possibly waiting to gather more information and allowing the trend to partially develop first) would be optimal.

Practice 4-4 Answer



Practice 4-5



1. Does the momentum favor the buyers or sellers?
2. Which Fibonacci extension level is likely to see major resistance?
3. Buy, sell, or avoid trading this market?

Practice 4-5 Answer

1. Recent momentum is quite bullish because sellers are unable to push the coin's price significantly lower; uptrend continuation is likely.
2. The 261.8%. Price moves in a strong bullish manner which is then followed by a period of consolidation/weak bearish pullback. The 261.8% Fibonacci extension is more likely to see resistance than the 161.8% in this example.
3. Buy.



5. Fibonaccis in Context

A. *Support + Resistance Confluence*

Fibonacci retracements/extensions provide great opportunities for buying and selling based on the patterns of nature's growth and decay patterns. However, Fibonaccis do not offer exact levels of support and resistance. To best improve your trading efficiency, you must also place your buy/sell orders in accordance with support/resistance levels.

The advantage of using support and resistance levels in conjunction with Fibonacci analysis is that order placement can be more well-defined within Fibonacci price zones.

Support and Resistance Dynamics

1. In a consolidating (sideways) market, price typically bounces from support to resistance and back again until a change in the market stage occurs.



2. In an uptrend, price typically retraces downward to a previous resistance level that then becomes future support.
3. In a downtrend, price typically retraces upward to a previous support level that then becomes future resistance.

Let's first examine what support and resistance look like within a few different market stages.

Practice 5-1



At which price level within the rectangle would you label as major support?

Practice 5-1 Answer



The price level of 9764 acts as major support during price's consolidation because it is the lowest point that price reaches within the trading range, before price breaks downward.



Practice 5-2



At which price level would you label as major resistance?

Practice 5-2 Answer



The 11700 price area has major resistance as price consolidates. We expect that if price breaks through that resistance level, a retest of 11700 may act as future support. Price breaks through the resistance level at 11700, so we can then draw a Fibonacci retracement from the origin of this



recent uptrend (11390) to the very top of this recent uptrend (12190) as shown below.



The 61.8% retracement of that retracement gives us a value of 11695.

Recall that the previous resistance high (within the consolidation phase) was exactly 11691, so we place our buy order at 11691.



Practice 5-3

At what price level do you note previous support (that will likely turn into future resistance)? *Hint: There are two major previous support levels, pick the lower of the two major support levels.*



Practice 5-3 Answer



Price moves upward to the previous support level at 14798 that becomes a 61.8% resistance level and then rapidly moves back downward.



Price looks to be consolidating after an uptrend. We see a move from A to B and then a retracement down from B to C. We also see major resistance at 849.



Projecting the Fibonacci extension yields the price level of 845 as resistance.



The 845 price level coincides with the top resistance level at 849, so you should place your sell order at that level.



Order Placement within Fibonacci price zones

1. When price is in an uptrend, buy orders are best placed at the absolute top of a previous resistance level (as resistance typically becomes support in an uptrend). Pay close attention to the Fibonacci retracement levels that overlap with previous resistance levels.
2. When price is in a downtrend, sell orders are best placed at the absolute bottom of a previous support level (as support typically becomes resistance in a downtrend). Pay close attention to the Fibonacci retracement levels that overlap with previous support levels.
3. Fibonacci extensions can be used to strengthen the confluence of active support/resistance levels.

B. Volume

Behind every price movement is a series of transactions, known as volume. Volume acts as both the fuel as well as the eventual stopping force of trends.

Volume increasing as price is trending is a sign of a healthy trend that is likely to continue because it shows that there is high demand for the current trend. Volume decreasing or remaining low as price is trending is a



sign of an unhealthy trend that is not likely to continue because it shows that there is low demand for the current trend.

This applies to both uptrends and downtrends, meaning that if volume is increasing as price is trending downward, we expect price to continue moving downward. If volume is increasing as price is trending upward = expect price to continue moving upward.

Practice 5-4



From what you read above, do you think price will move down or continue moving upward based on the most recent continuation of the uptrend (denoted by the green arrow)?

Practice 5-4 Answer



Price moves downward as volume falls just as the trend is moving upward. This represents a loss of interest and lack of demand from the buyers in the market.

Going one step further, what volume trends do you expect in a trend making a retracing move? We would expect volume to increase as price moves with the overall trend and volume to decrease when price moves against the overall trend (i.e. retracement).

Okay...but what about consolidation? Volume will typically be falling as interest in the trend decreases when price moves sideways.

Take a look at the graph below. Move 1 shows the market moving in a downtrend, and we see increasing volume. Move 2 shows a weakly retracing market (also may be called consolidation) and we see falling



volume. Move 3 shows a rapidly declining market with a rapid increase in volume.



However, there are instances in which the forces of supply/demand become too strong. When this occurs, the market is **oversold/overbought** and likely to reverse. These price extremes are typically formed when volume surges many times higher than the moving average value.

Overbought/Oversold Volume Spikes:

Overbought: When a volume spike occurs in an uptrend. You would then expect the market to struggle moving upward.

Oversold: When a volume spike occurs in a downtrend. You would then expect the market to struggle moving downward.



Not many new traders are aware of the simple fact that trends typically end when many traders rush to buy into an established uptrend, or when many traders rush to sell in an established downtrend.

Going back to the 100 traders in a room analogy, why do traders continue to make the same mistakes time and time again? The reasoning behind this is due to the herd-like moves that occur as many traders tend to feel the same emotions (of fear and greed) when looking at the same price chart. They see the price crash and many sell (fear), or they see the price skyrocket upward and they buy because they don't want to miss out on potential profits (greed). Because many traders act on their emotions at the exact same time, we end up seeing that many retail traders end up buying market tops (resistance) and selling market bottoms (support). We plot Fibonaccis in advance of these points to find these likely areas of mass greed or fear.

Thus, after many traders buy into an established uptrend, the market struggles to move upward as it is over-bloated with buyers (traders who have already bought) and there may not be enough capable buyers (traders who would like to buy in the short-term, but have yet to do so) to continue to press the price continually upward. A reverse situation occurs after a massive sell off in a downtrend to which price is over-bloated with sellers.

When these tops and bottoms occur, a volume spike will typically occur on a candlestick or on multiple candlesticks. Recall that a volume spike simply



refers to volume soaring much higher than its corresponding moving average value.

However, a volume spike can also signify the beginning of an uptrend or a downtrend, as in a breakout. Thus, volume spikes must always be compared back to price's location within the current market stage.

Breakout Volume Spikes:

Breakout: When the market is breaking upward out of consolidation on strong momentum and a volume spike occurs at the point of the breakout, we expect the market to continue to trend upward.

Breakdown: When the market is breaking downward out of consolidation on strong momentum and a volume spike occurs at the point of the breakdown, we expect the market to continue to trend downward.

A minor volume spike has a value around three to four times as large as the corresponding moving average value, while a major volume spike has four times or more volume than the moving average.

Let's do an example. This time we will use only volume to locate the likely major changes in the market stage.



Practice 5-5

Which points on the chart likely show a major change in the market stage?



Practice 5-5 Answer



Even by looking at volume without price, we can observe minor and major changes in the market stage:

Point A shows a minor change in the market as it retraces upward, but the downtrend is still intact. Point A is oversold.

Point B shows a stronger retracement upward, but the corresponding downtrend is also still intact. Point B is oversold.

Point C shows similar volume to Point B. The market reacts by consolidating and then weakly moving upward before crashing downward. Point C is overbought.



Point D shows a series of violent volume spikes as many traders panic and exit. Point D is oversold.

Point E shows a major volume spike that is almost as large as Point D's volume spike, and it also establishes a support level at the price of 12800. Point E is oversold.

Point F can be classified as in-between a minor and a major volume spike. When it occurs the market consolidates before retracing downward. Point F is overbought.

Point G shows a minor volume spike relative to the other volume spikes. However, there is a large amount of time that passed since the last volume spike which is likely why the market has a major reaction as price travels upward to resistance. Point G is oversold.

Point H shows a major volume spike that dwarfs all volume spikes before it. Price breaks below a major support level and then crashes. Point H is a breakdown.

As mentioned in Point G above: if price hasn't had a volume spike after a significant amount of time, it is reasonable to expect that the next volume spike will have a major effect on price.



Practice 5-6



One more volume example: Is price breaking out upward, or is it overbought based on the most recent volume spike(s)?

Practice 5-6 Answer



Price immediately moves down as price is overbought. If you thought it was a breakout, then take a look back at the original chart. Price never breaks through a major resistance level, so we cannot classify it as a breakout.

Now let's combine volume analysis with the Fibonacci levels.



The two values located on the bottom right portion of the chart are the most recent candlestick's volume moving average value and the volume value itself (can also be found on the top left portion of the chart).

Drawing from the high to the low of this recent uptrend gives a 61.8% retracement value at 279.67. We see a volume spike of 22.876k (k means 1000, so 22876 BTC transacted) with a volume moving average value of 2.207k, about 10 times the moving average. Notice that the most recent price tail touches down at the previous resistance level at 276.

All of these factors of confluence allow for a high probability trade setup with a buy order at the 61.8% value.



Volume spikes located directly at a Fibonacci level typically lead to a reversal.

C. Technical Indicators

There are four main types of technical indicators: *trend*, *momentum*, *volatility* and *volume*.

1. **Trend indicators** give you the ability to enter into an established trend. These indicators include EMA's, SMA's, MACD, among many more.

Pro: Allows you to buy into a new trend after the trend shows significant strength as it reverses from a Fibonacci level.



Con: The trader using these indicators may be buying/selling into the trend after it has already run its course.

2. **Momentum indicators** give you the ability to trade reversals and retracements. These indicators are typically oscillators such as RSI, Stochastics, CCI, and so on. They can provide powerful confluence to both Fibonacci retracements and extensions.

Pro: Signals when the market has reached an overbought/oversold point allowing for the trader to potentially trade a reversal.

Con: When price breaks out upward of consolidation, momentum indicators will likely give overbought readings which act as an indication to sell (vice versa for downtrends and oversold readings). Selling genuine price breakouts is typically not a good idea because the strong bullish momentum is not overbought, but rather an emerging uptrend.

3. **Volatility indicators** give you information about price's rate of change over time to allow you to capitalize on rapid price movement. This includes indicators such as the ATR, Bollinger Bands, ADX, etc. High volatility readings typically lead to a change in the market stage.

Pro: Can offer confluence when used with Fibonaccis to signal market tops and bottoms.

Con: May give false signals that price is reaching a market top or bottom due to natural fluctuating volatility. To prevent this, you could



use major Fibonacci retracements and extensions instead of minor Fibonacci levels.

4. **Volume indicators** give you information about the historical nature of the market's participants. They include historical volume (the standard volume on a price chart), OBV, CMF and many other volume-based indicators. These indicators work well with Fibonacci levels as they provide the transaction data that can signify when the market is entering a stage of extreme fear/greed.

Pro: Can be used in many ways in conjunction with Fibonacci levels. For example, OBV price divergence could be used to identify weak and strong trends. Volume spikes could be used to signal the end/start of an uptrend or downtrend.

Con: No indicator in trading will work 100% of the time and volume indicators are no exception. Even though volume spikes may occur, price may keep moving with the trend. A trend may also have weak volume, but still continue moving in that direction. Remember to always take note of the location of major Fibonacci levels, and then analyze how volume is reacting to that specific level.

1. Fibonacci levels in conjunction with trend indicators.



We have a standard move down to the 61.8% retracement from A to B. We also see a volume spike with a low tail that occurs around that retracement. Currently, the B to C move is on high bearish momentum, so we are awaiting a bullish confirmation.



We can use two EMA's (Exponential Moving Average) in order to buy into this market. We see an EMA crossover, so we buy.



Then you can exit the trade on one of the two future EMA cross-unders as indicated by the arrow:



2. Fibonacci levels in conjunction with momentum indicators.

We have a strong uptrend from A to B that retraces to the 38.2% support level as strong trends typically do. RSI (Relative Strength Index) will allow a trader to buy at the 38.2% support level as RSI was oversold each time the market tested that level of support.



You could have further exited the trade by either selling when RSI went overbought, or selling at the 161.8% extension drawn from 345.6 down to 298.



3. Fibonacci levels in conjunction with volatility indicators

In the example below, we see that price is in a strong downtrend and the ATR (Average True Range) remains relatively low until a large spike on the 22nd of the month. This is a strong indication of a market stage reversal. We then see that price recently retraced down to the 61.8% retracement from A to B with declining volume and an additional ATR spike at the 61.8% level.



Price bounces off of the 61.8% retracement at 20.472 and moves slightly above resistance marked at Point B. Using this strategy, one could take profit on either a spike of the ATR, or from a major Fibonacci retracement/extension.



4. Fibonacci levels in conjunction with volume indicators

Here we see that price is in a strong uptrend and makes a retracement from A to B. As a result, we would expect major resistance at the 161.8% extension of that level.



As price moves into the 161.8% extension, we see a spike in OBV (On-Balance Volume). This is a fantastic opportunity to sell.



D. Overlapping Fibonacci Analysis

A trader who trades Fibonaccis professionally would likely be drawing Fibonaccis on many market movements to look for both level overlap and confluence within key areas of support and resistance. Identifying and ultimately drawing relevant Fibonaccis is a skill that takes practice. This step-by-step guide is meant to give a solid basis for how a Fibonacci trader would approach the market. After having a basis for how to use Fibonacci analysis, you can develop your own method to marking up a chart with Fibonacci levels and finally setting orders according to those levels.



Step-by-Step Guide for Analyzing Multiple Fibonacci levels

1. Draw Fibonaccis from the current overall trend
2. Draw Fibonaccis on the more recent major market stage.
3. Identify consolidation and retracements within both the overall trend and in the more recent trend. Draw Fibonacci extensions off of both of these types of minor market stages.

When all Fibonacci drawings are complete, identify important levels and overlapping areas within each trend.

Here is an example:

1. Draw Fibonaccis on the current overall trend (typically drawn on a higher timeframe such as the 1H and 4H for medium/long term trading styles).



2. Draw Fibonaccis on the more recent major market stage available.





The Fibonaccis drawn here can also be used for the 161.8% extension of the last leg of this uptrend.

3. Identify consolidation and retracements within both the overall trend and in the more recent trend. Draw Fibonacci extensions off of both of these types of market stages. Target the 161.8% extension as future support/resistance.

In the example below, notice that the major Fibonacci is drawn from the low to the high of the overall uptrend in blue. The Fibonacci drawn from the major last upmove that occurred within the uptrend is colored black. The Fibonacci drawn from the minor final upmove is in orange.





The levels and price reaction to those levels can be hard to see so lets zoom in...



We can see that the last major leg of the uptrend 61.8% (black) was respected as price moved down to the 161.8% (orange) extension of the

minor last leg of the uptrend. Setting a buy order at this level of confluence can result in a profitable bounce trade. Additionally, this area of confluence in between the 61.8% and the 161.8% is known as a **confluence zone**. A confluence zone can be drawn when there are important Fibonacci levels in close proximity.

Price then retraced upward ~ 38.2% of the recent downtrend before continuing to move lower. Price retraced 38.2% likely due to the fact that the previous market stage (downtrend from 11788 to 10680) was strong.



Here's another example of overlapping Fibonacci analysis:



We see price move into the sharp retracement zone (61.8% to 78.6%) before moving back upward.



If we draw a new Fibonacci from the high to the present low, we would find that price moved and rejected the 38.2% retracement level. Additionally, if

price continues upward, the 61.8% retracement is the next likely area of resistance.



Additionally, If you were to isolate the market stage of the retracement from 9255 down to 8950, the 161.8% Fibonacci extension emerges at what looks to be a previous support level (could become future resistance) at 9443.5.



The 61.8% retracement (black) in conjunction with the 161.8% Fibonacci extension provides a tight zone of overlapping Fibonacci confluence to which price briefly touches before moving lower.

E. Fibonacci Planning

A Fibonacci trader can plan for multiple scenarios by plotting both bullish and bearish Fibonaccis. This allows you to take advantage of the non-biased nature of the Fibonacci system. In order to plot both future support and resistance areas, you must identify the present market stage and draw Fibonacci endpoints accordingly.

In consolidation:

1. Draw Fibonacci extensions to prepare if price moves to the upside or to the downside.

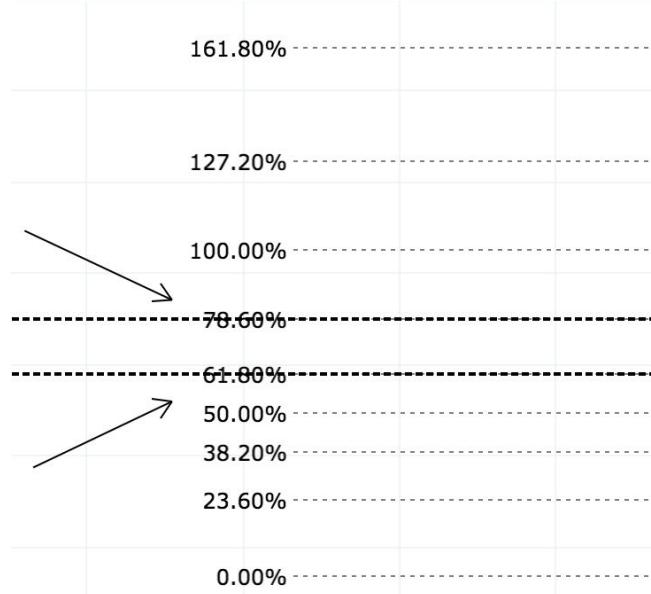


2. Resistance/Support is likely to be found at the 161.8% extension - and in strong trends that then consolidate, the 261.8% extension.

In an uptrend:

1. Draw Fibonacci endpoints from the high at the top of an uptrend to the retracing move lower. If price continues to move downward, redraw the low of your previous endpoint to that newly produced low.
2. If price moves past the 61.8% to 78.6% Fibonacci zone, then resistance will likely be found at the 161.8% extension.

The 61.8% to 78.6% Fibonacci Resistance Zone:

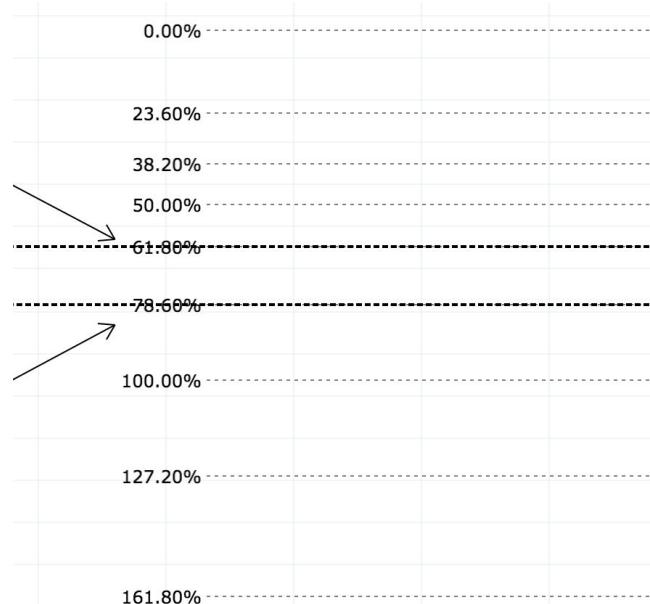


In a downtrend:



1. Draw Fibonacci endpoints from the low at the bottom of downtrend to the retracing move higher. If price continues to move upward, redraw the high of your previous endpoint to that newly produced high.
2. If price moves past the 61.8% to 78.6% Fibonacci zone then support will likely be found at the 161.8% extension.

The 61.8% to 78.6% Fibonacci Support Zone:



Practice 5-7



Price is consolidating after a strong downtrend. As Fibonacci traders prepare for any market move that can occur post-consolidation, drawing both a bullish and bearish Fibonacci extension off of the consolidation pattern would be optimal.

Within the consolidation pattern ranging from 137.25 to 143.15,

What high and low would one use for a bullish Fibonacci extension?

(Recall that a bullish Fibonacci extension drawn within consolidation has Fibonacci endpoints at the absolute high of consolidation to the absolute low of consolidation)

What high and low would one use for a bearish Fibonacci extension?

(Recall that a bearish Fibonacci extension drawn within consolidation has Fibonacci endpoints at the absolute low of consolidation to the absolute high of consolidation)

Practice 5-7 Answer



The bearish Fibonacci extension.

Practice 5-7 Answer





The bullish Fibonacci extension.

Practice 5-7 Outcome



Price moves to the 161.8% extension of the bullish Fibonacci extension before continuing the overall downtrend.



Practice 5-8 Downtrend



Price moves downward on strong momentum with weak bullish pullback.

Price then moves upward on strong momentum. Drawing the Fibonacci endpoint from the bottom of the move (197.05) to the top of the move (203.02) reveals both possible continuations of the downtrend at the 161.8% extension and possible retracement areas at the 38.2% and 61.8% for support.

Practice 5-8





Price moves rapidly downward with little signs of bullish pullback. Both the 38.2% and 61.8% possible retracement levels have been disrespected. From this, one would expect the 161.8% to be a potential level of support.

Practice 5-8 Answer





Price moves downward to the 161.8% extension and finds support after a few volume spikes that occurred ahead of the level. Price then moves upward on above average momentum.

Practice 5-9 Uptrend



Price moves upward with weak bearish pullback from 862 to 894.99. Price then moves downward on strong momentum, which indicates a possible reversal.

reversal. If the bearish move from 894.99 to 876.11 is a strong downmove (price continues moving lower than 876.11), then a strong market reaction of price resistance at the 38.2% or the 61.8% of the bearish move is likely.

Practice 5-9



If instead of a retracement and a move further downward, the market continues the uptrend, price may find resistance at the bullish 161.8% Fibonacci extension.

Practice 5-9 Answer





Price moves upward to the 61.8% to 78.6% zone before a major bearish market reaction occurs. In conjunction with the previously strong downtrend, price will continue to move in a bearish manner to break below the low at 876.11.

Practice 5-9 Outcome



Practice 5-9 Extra





If you were to draw Fibonacci endpoints on the bullmove from 876.11 to 889.9, the 161.8% extension yields an important level of support.

Planning for both bullish Fibonacci and bearish Fibonacci scenarios avoids confirmation bias, as well as allows for flexibility within multiple strategies for entry/exit order placement.

6. Fibonacci Market Structure

A. The 5 Shapes of Respected Fibonacci Levels

The market reaction to a major Fibonacci price level provides an important indication of the likelihood of a reversal. These various market reactions

are called **Fibonacci Market Structures**, in which price establishes support/resistance at a Fibonacci level. It does so in 5 major shapes.

Remember, these Fibonacci market structures can form in either a downtrend or in an uptrend. The examples below feature solely Fibonacci shapes within an uptrend, however in a downtrend the Fibonacci market structure would look like the inverted shape.

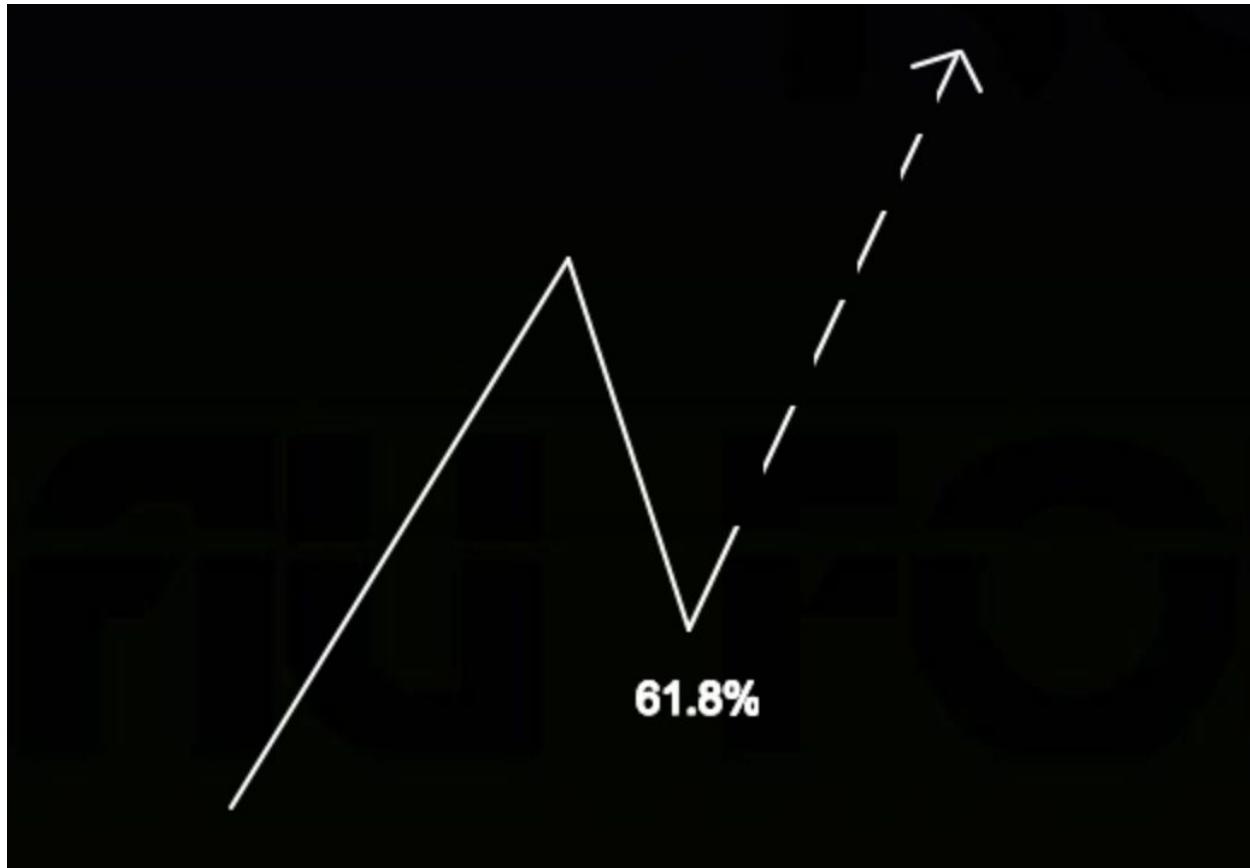
These include:

- I. The V-Shaped Fibonacci Reversal*
- II. The Wild Tail*
- III. The Stop Loss Hunt*
- IV. Consolidation Spring*
- V. Multi-Tail Rejection*

I. The V-Shaped Fibonacci Reversal

When price reaches a 61.8% retracement or a 161.8% extension, one of the most powerful market reactions that can occur is the V-Shaped reversal. This type of reversal off of a Fibonacci level occurs when heavy buying rapidly turns into heavy selling (or vice versa), creating the 'V' shape. This type of market reaction at a Fibonacci retracement level demonstrates that a powerful new trend may be emerging.

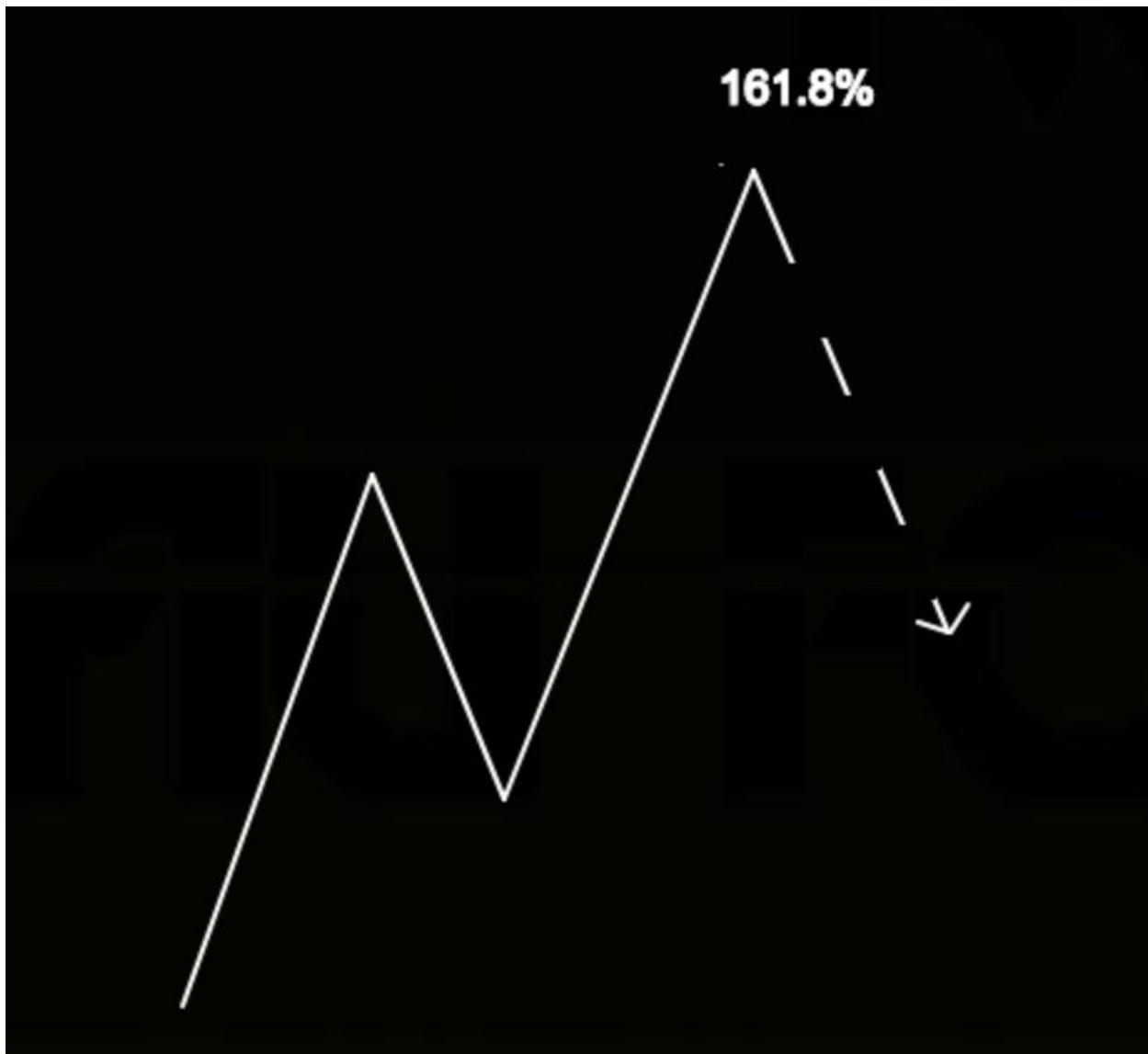




Price makes a V-Shaped reversal at the initial 61.8% Fibonacci retracement and then makes another V-Shaped reversal in a smaller scale Fibonacci retracement at 6875.



Here's what a V-Shaped reversal looks like at a 161.8% extension:





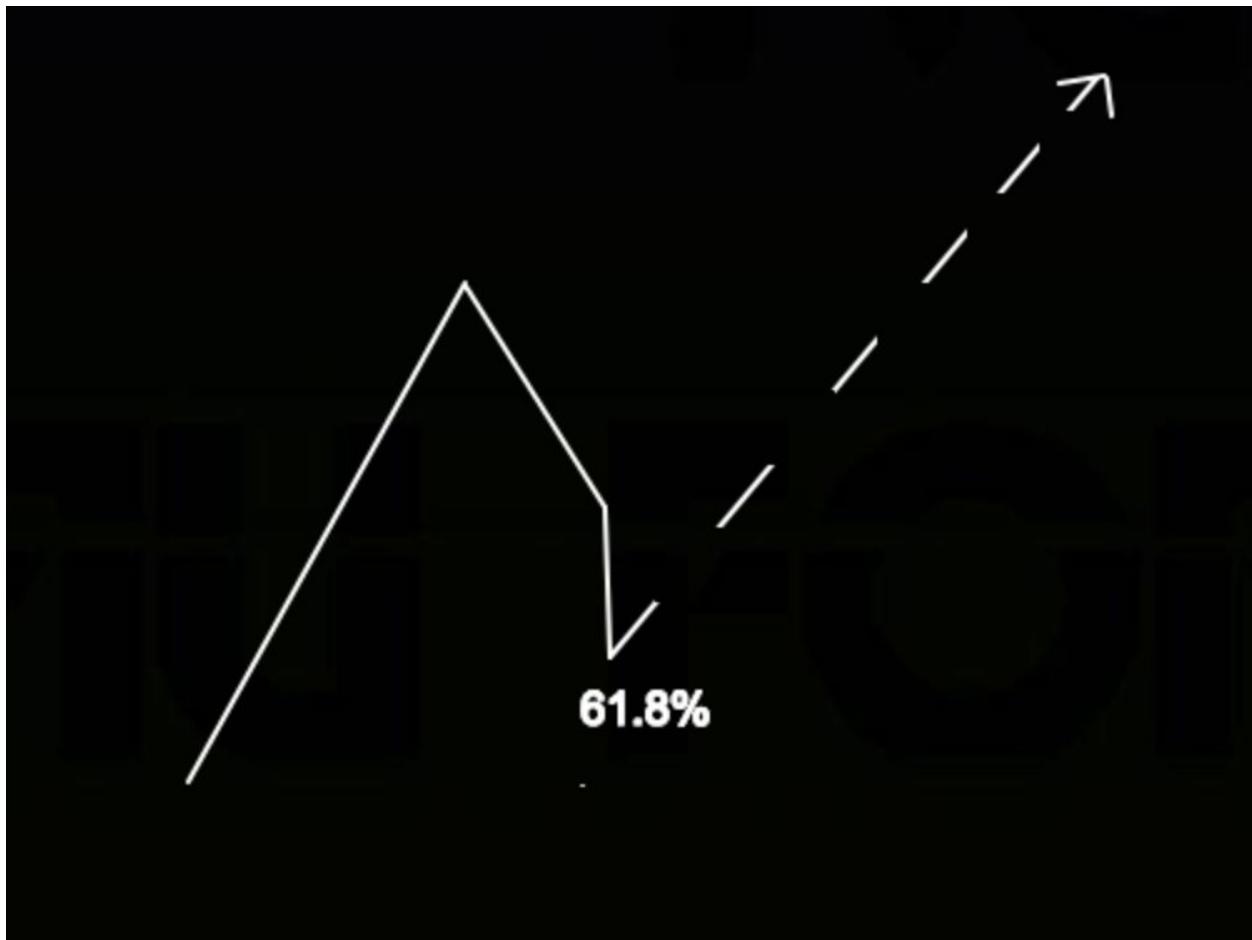
Price hits the 161.8% extension at 9156 (Fibonacci endpoints drawn off of the retracement), and then precedes to make a V-Shaped reversal.

II. The Wild Tail

Tails typically form when a large market order fills a large string of bids or offers, and then price reverses in the other direction as demand meets supply (or as supply meets demand). Self-fulfilling prophecy or not, major Fibonacci levels are known to contain clusters of large limit orders, which is why you may notice price tails ending at Fibonacci levels.



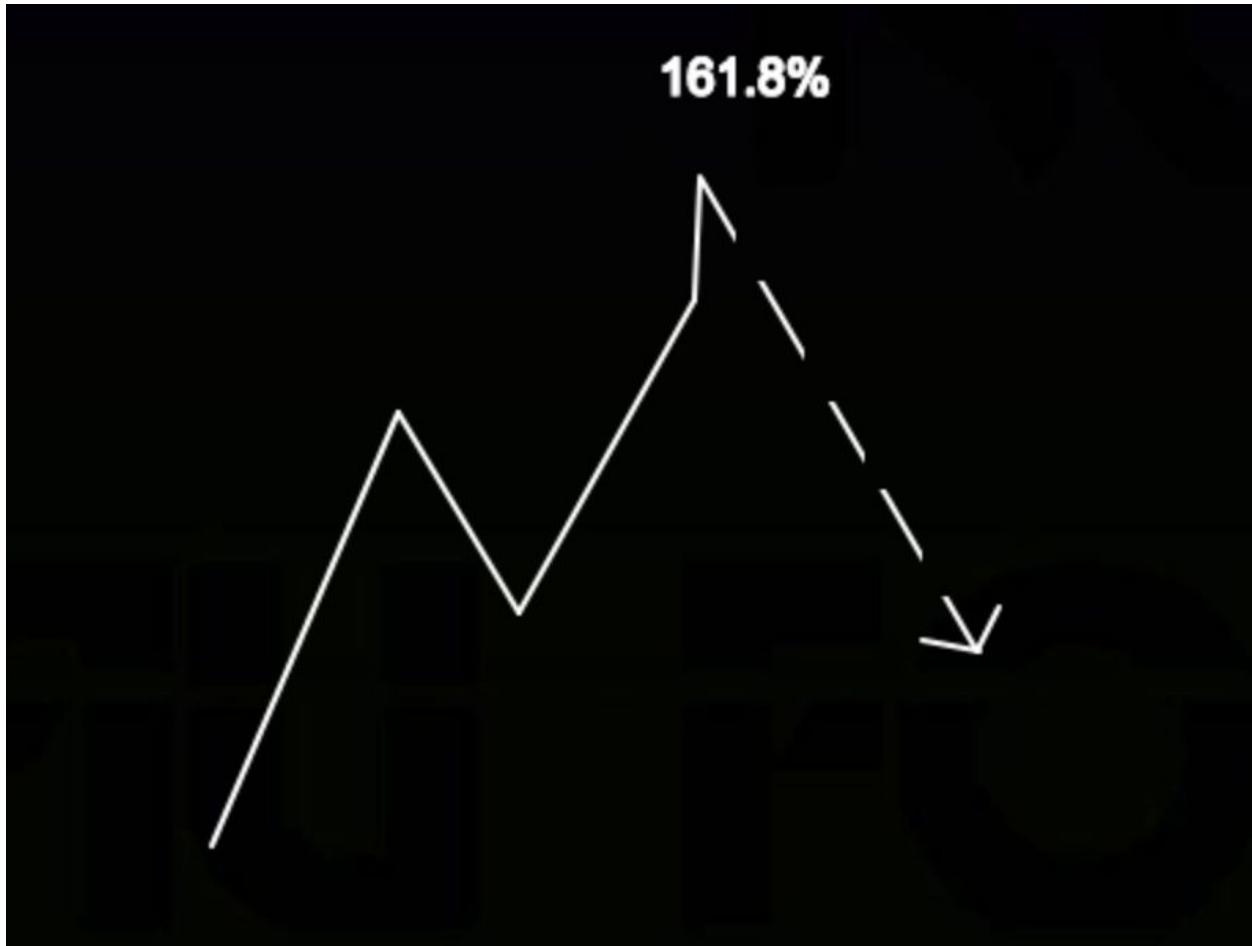
After the uptrend, price retraces downward to the 61.8% Fibonacci retrace level, and then immediately moves back upward. This creates the 'wild tail' price formation.





Prior to the retracement, price is moving in a strong momentum uptrend. It then begins to retrace followed by a rapid downmove to 8032, only \$1 below the 61.8% Fibonacci retracement.

As price expands past previous resistance and up to the 161.8% extension of the previous retracement, price enters a period of high demand. It propels past the 161.8% and then quickly moves back downward, creating the wild tail price formation below.





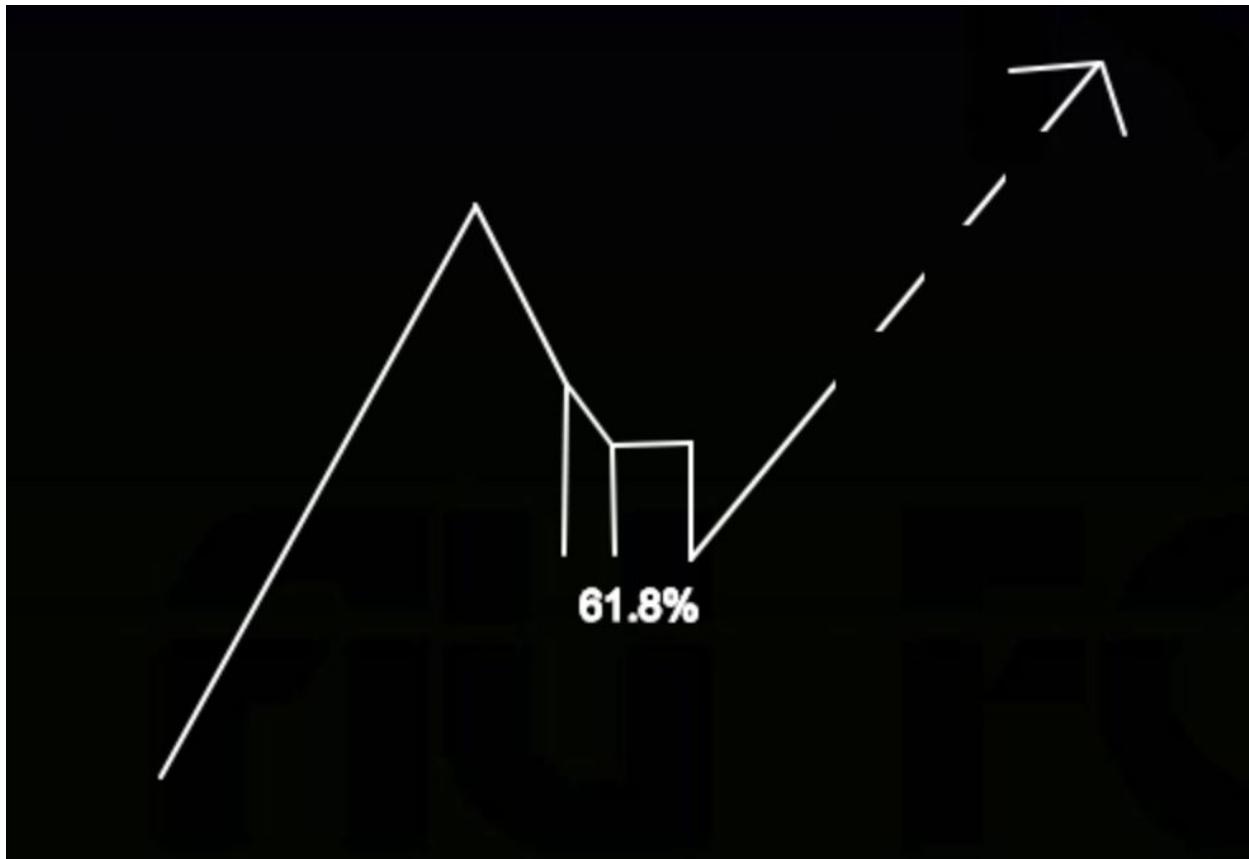
Price is moving in an uptrend from around 13500 to 14700 and then has a period of consolidation/weak bearish pullback. Drawing the Fibonacci off of the high and low of this consolidation creates the high tail that later forms before price moves downward.

III. Multi-Tail Rejection

Sometimes multiple tails will sell downward/buy upward to a Fibonacci level. This may occur due to the lack of bids/offers around the Fibonacci price level, resulting in many limit orders around these Fibonacci levels to hold price from continuing its retracement/extension. However, if price is able to significantly close above high tails (or below low tails), then the Fibonacci level will likely not hold and price may move further in that direction.

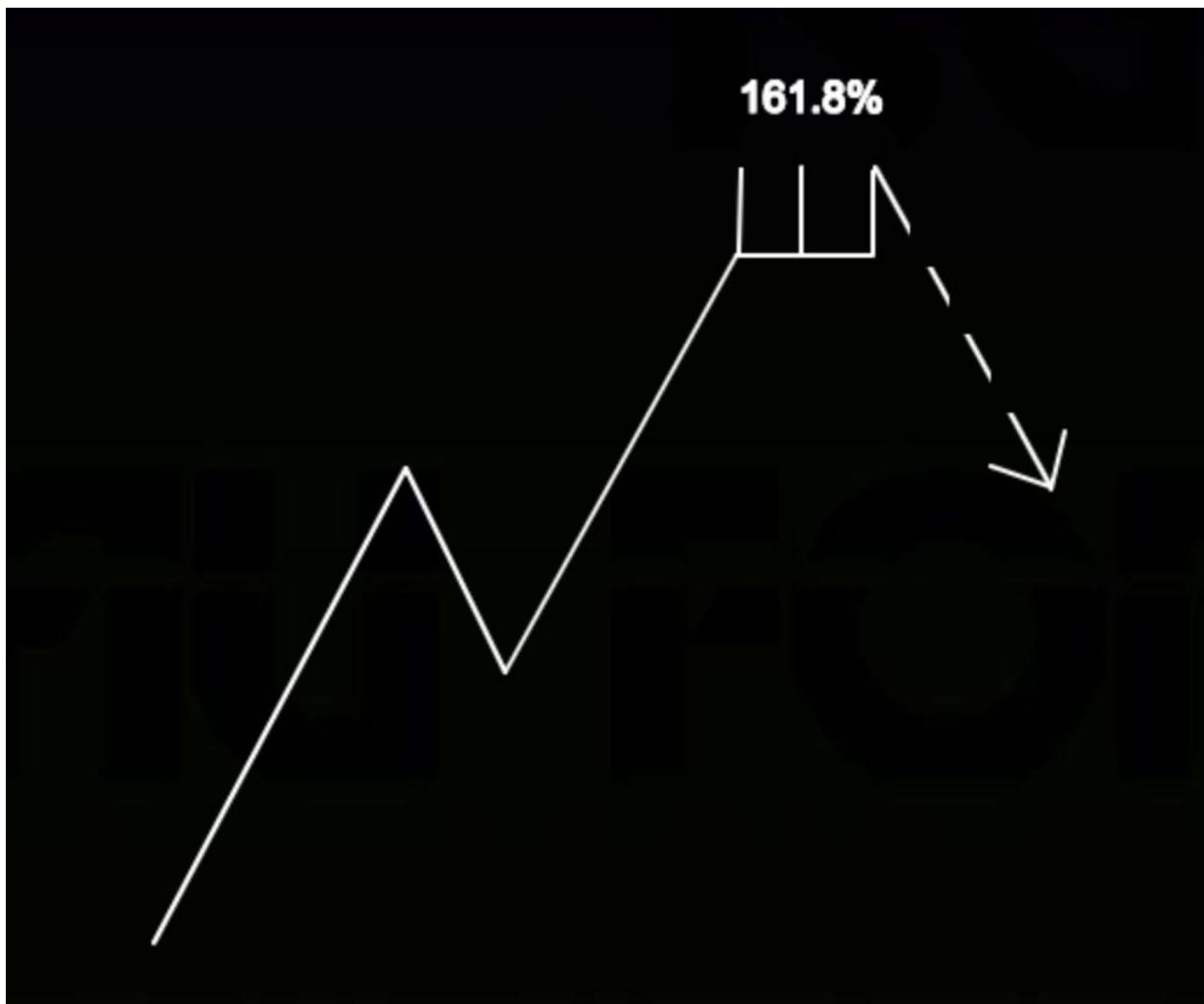


As price retraces, it makes multiple tails to the 61.8% Fibonacci retracement level before continuing the uptrend.



Price is moving in an overall uptrend until it retraces down to the 61.8% retracement level with multiple tails. The tails that move below the 61.8% level have volume spikes as well which indicates a higher likelihood of a reversal off of the 61.8% retracement level.

Price moves beyond the 161.8% extension of the previous retracement, yet struggles to move past this level as multiple tails form strong resistance.





Price is moving in an overall uptrend and sees a retracement from 8185 to 7859 before continuing on strong momentum and high volume. However, as price reaches the 161.8% extension of the previous retracement, multiple tails move above the level with volume spikes. As a result, the market moves back downward.

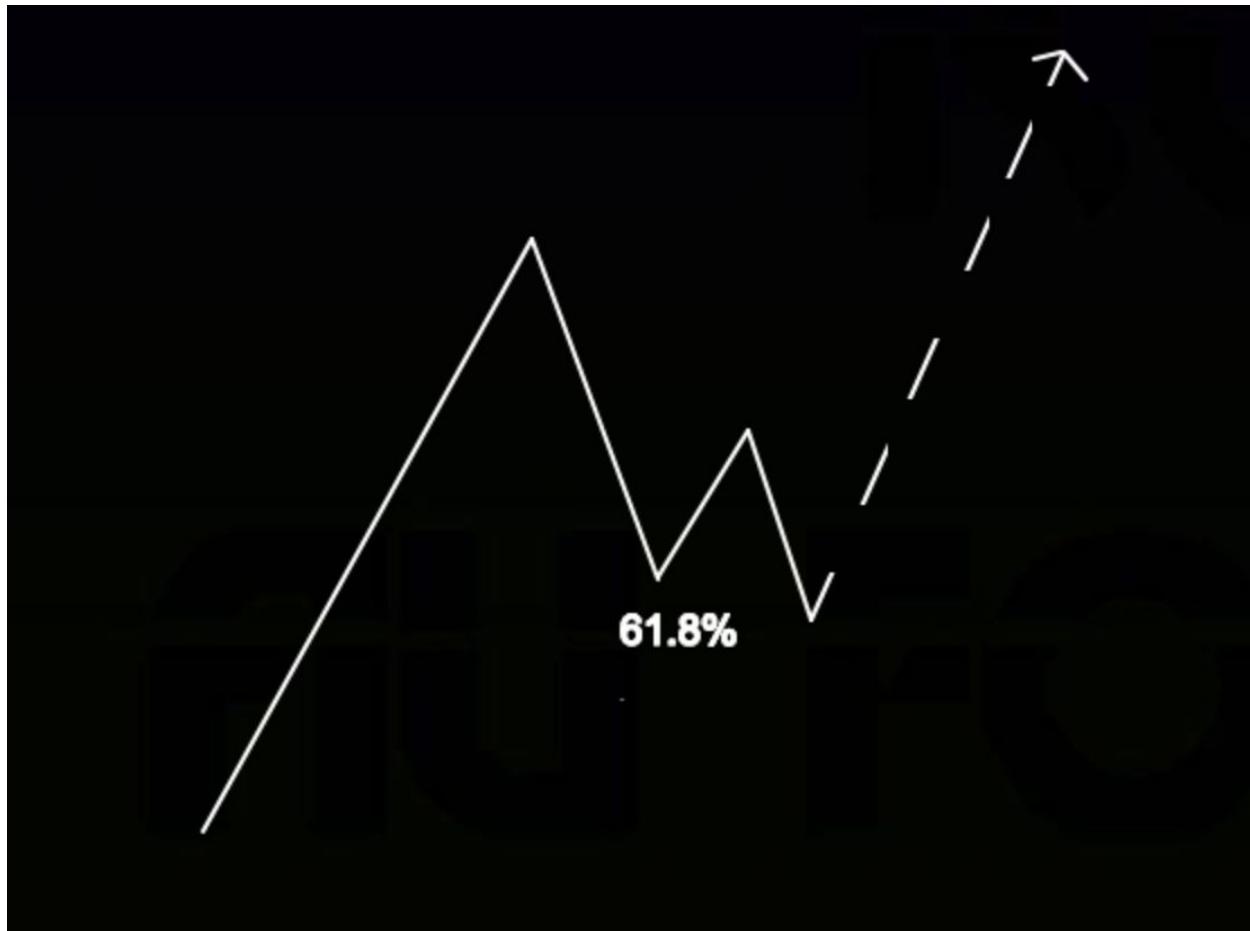
IV. The Stop Loss Hunt

When large players/institutions need to accumulate or distribute high levels of volume, they need an equally large pool of liquidity to take the other side of the trade. These pools of high liquidity are typically found slightly above resistance/below support as these price areas contain many stop losses. When reached, the stop losses will act as market orders, executing at the most available bid/offer.



So, if retail begins buying/selling into a major Fibonacci level, price may move deeper into the Fibonacci retracement/extension to trigger their stop losses.

Notice how price touches the 61.8% Fibonacci retracement level and makes a bullish move. Price then moves beneath the previously established low of the 61.8% before moving upward again.





Price is in an uptrend and makes a retracement down to the 61.8% before making a failed move back upward. Price then moves below the previously established low before continuing the uptrend.

Price initially moves to the 161.8% Fibonacci extension of the previous retracement within the uptrend. After price makes a preliminary move



downward, it heads back upward above the previously established high before beginning the downtrend.



Price is in an uptrend and makes a high tail at the 161.8% extension of the previous retracement. Price then weakly dips down before springing above the previous high. After a market fakeout to the upside, price moves lower.

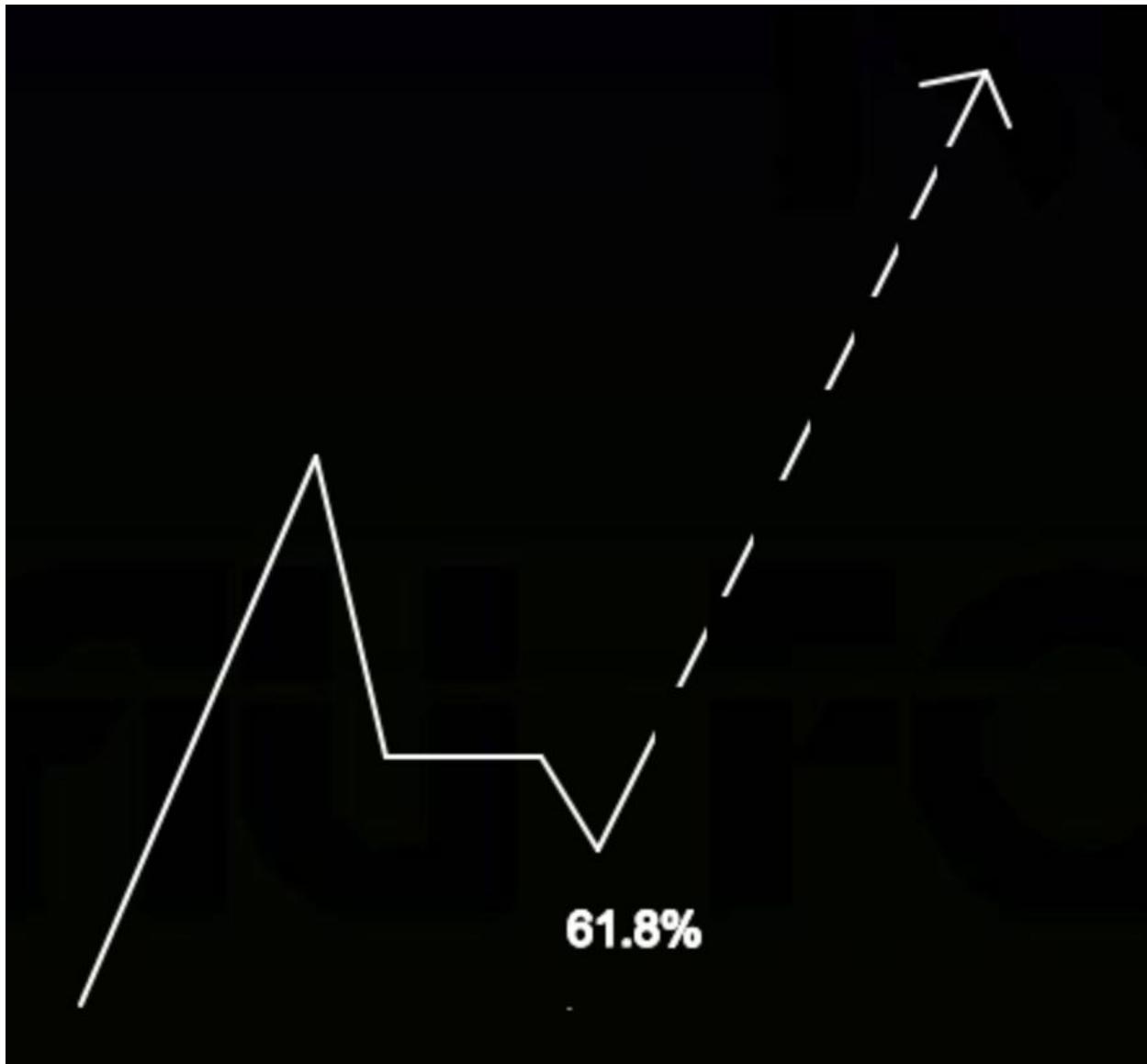
V. Consolidation Spring

A pattern similar in theory to the stop loss hunt, the consolidation spring allows institutions to accumulate positions at the expense of retail traders having their stop losses hit at a major Fibonacci level. Typically, the consolidation period will occur at the end of a market retracement, right before price dips down to the 61.8%.

Price consolidates ahead of the 61.8% level as neither the bulls nor the bears are in control. Any retail traders who may attempt to enter long



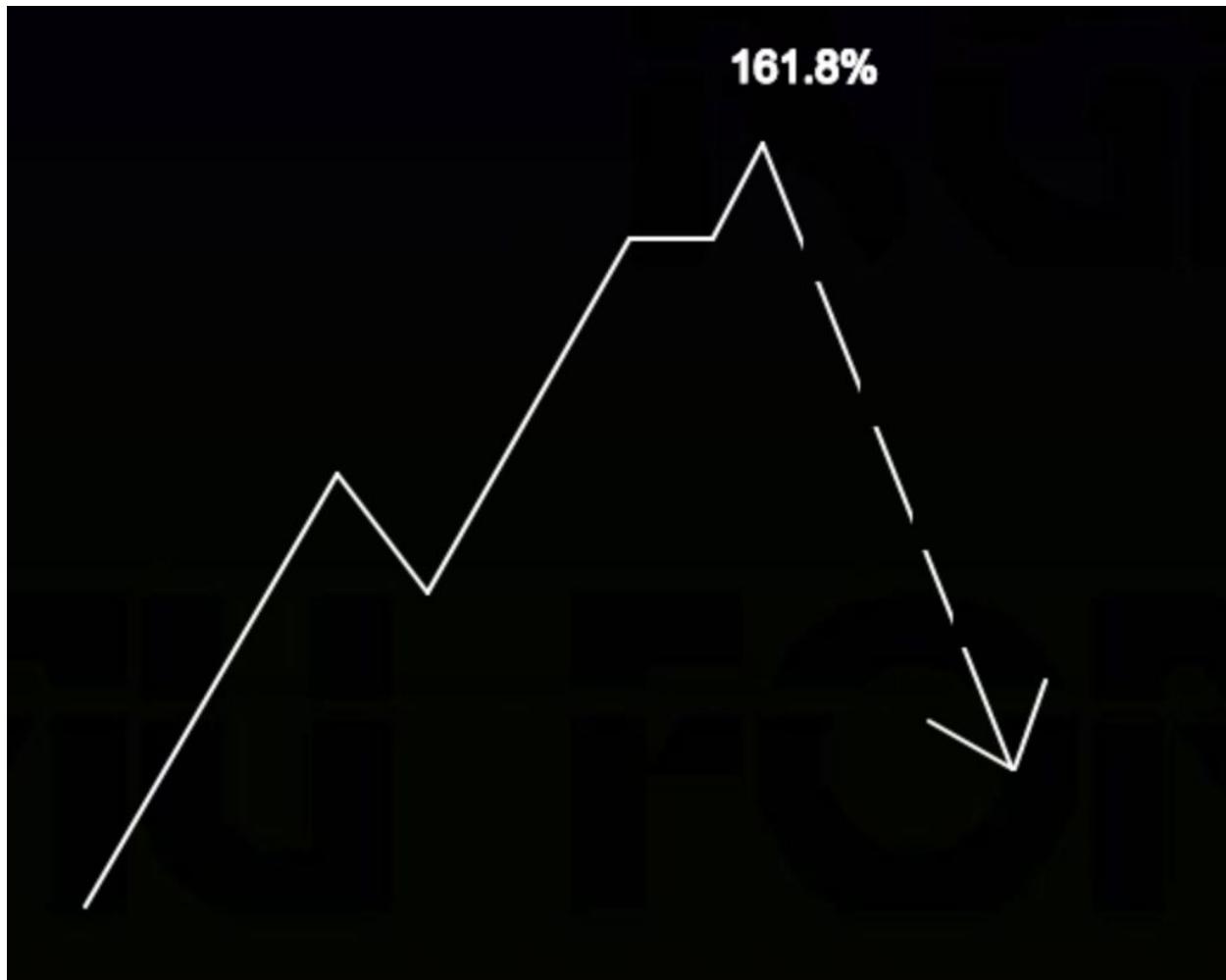
positions may have been shaken out with the continued move down to the 61.8%.





Price consolidates after the bullmove then moves downward, convincing many retail traders that the market will continue on the overall downtrend as price reaches the 61.8%. However, after a low tail, price reverses back upward to continue the minor market stage uptrend.

Price consolidates after an uptrend as traders begin to take profit. Price then springs upward to fill the limit sell orders located at the Fibonacci level as retail traders likely buy in.





Price moves upward and makes a retracement before breaking the high of that retracement. Price then consolidates ahead of the major 161.8% Fibonacci extension. When price reaches this extension, price reacts in a bearish manner and begins a downtrend.

B. The 3 Shapes of Disrespected Fibonacci Levels

These three types of market reactions (or non-reactions) to a major Fibonacci level create market structures that give warning that Fibonacci levels will likely not hold.

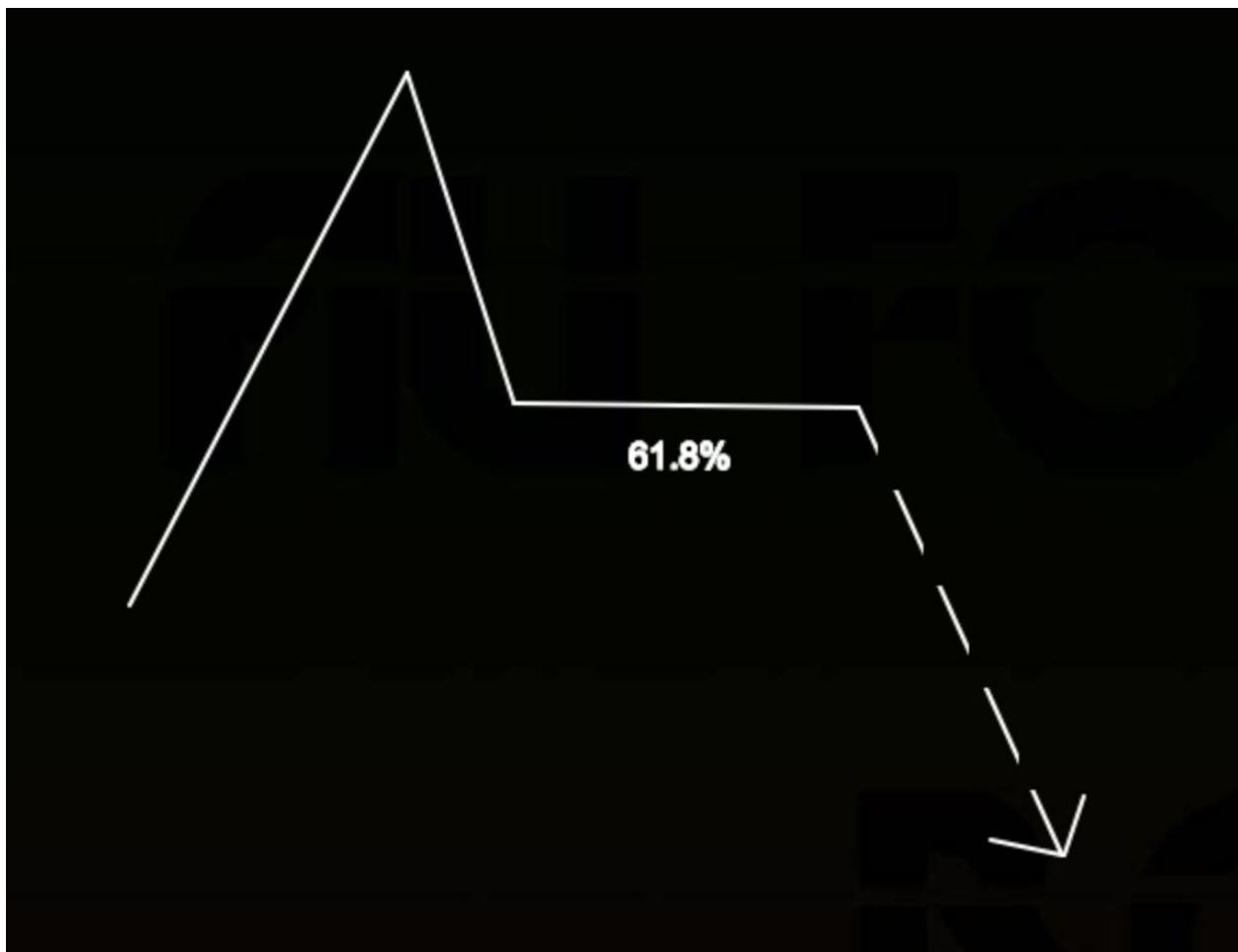
All examples below feature examples of uptrends. The same dynamics apply to a downtrend, just in the reverse.

I. Consolidation at Important Fibonacci Levels



Consolidation ahead of a Fibonacci level followed by a drop to that level signifies that the level will most likely hold. However, a rapid move followed by consolidation directly at a major Fibonacci level is a sign that a reversal is not likely.

Price is moving in an uptrend and then retraces rapidly down to the 61.8%. Once there, price consolidates as retail traders buy into the retracement and institutions sell. Price then breaks the consolidation structure and propels the market into a downtrend.





In the chart above, price is consolidating around the 61.8% price area; this type of consolidation exhibits weakness of the uptrend and the strength of the sellers to keep the price down.



Price moves downward past the consolidation zone.

Price moves upward to the 161.8% Fibonacci extension and then consolidates without moving to the downside, representing bullish strength. If you were in a long position, you would want to hold and take profit at a higher price level.





Price is in a sustained uptrend, and after a weak retracement, price moves to the 161.8% extension of that retracement. Price then consolidates around the level, representing the inability of the sellers to push the price lower as well as the high present demand.

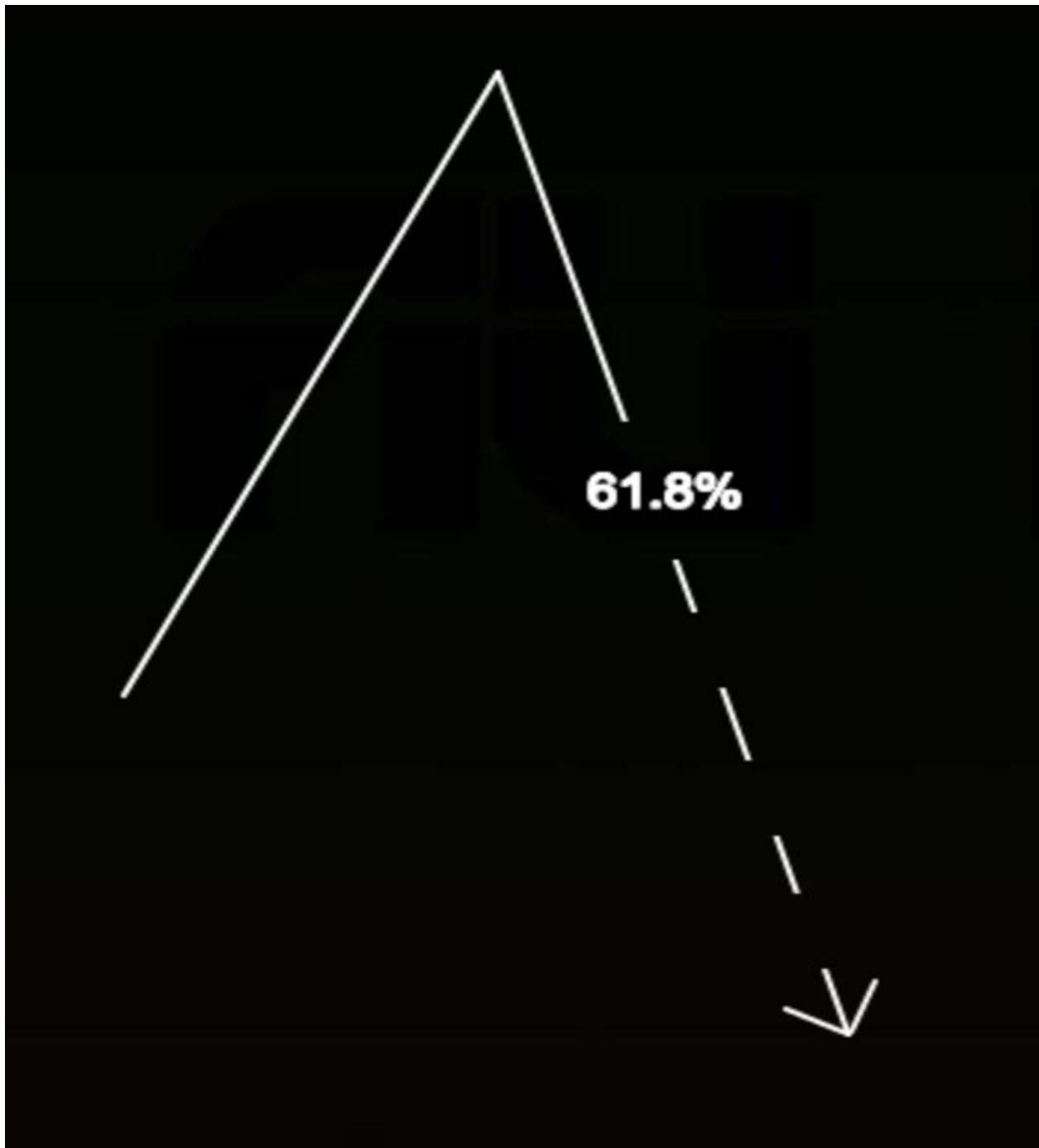


Price continues the uptrend.

II. Strong Retracing Momentum

Strong price momentum alongside above average volume hurtling towards a major Fibonacci level will usually disrespect the Fibonacci level, as price continues in that direction. Additionally, when price moves in a single wave down to a major Fibonacci level (meaning no major retracements within the original retracement, i.e. in a bearish retracement, little to no bullish pullback), it is labeled as strong momentum.

Price moves downward to the 61.8% retracement level, disregards it, and moves past current support. Attempting to buy into the market in this situation would yield a negative result.



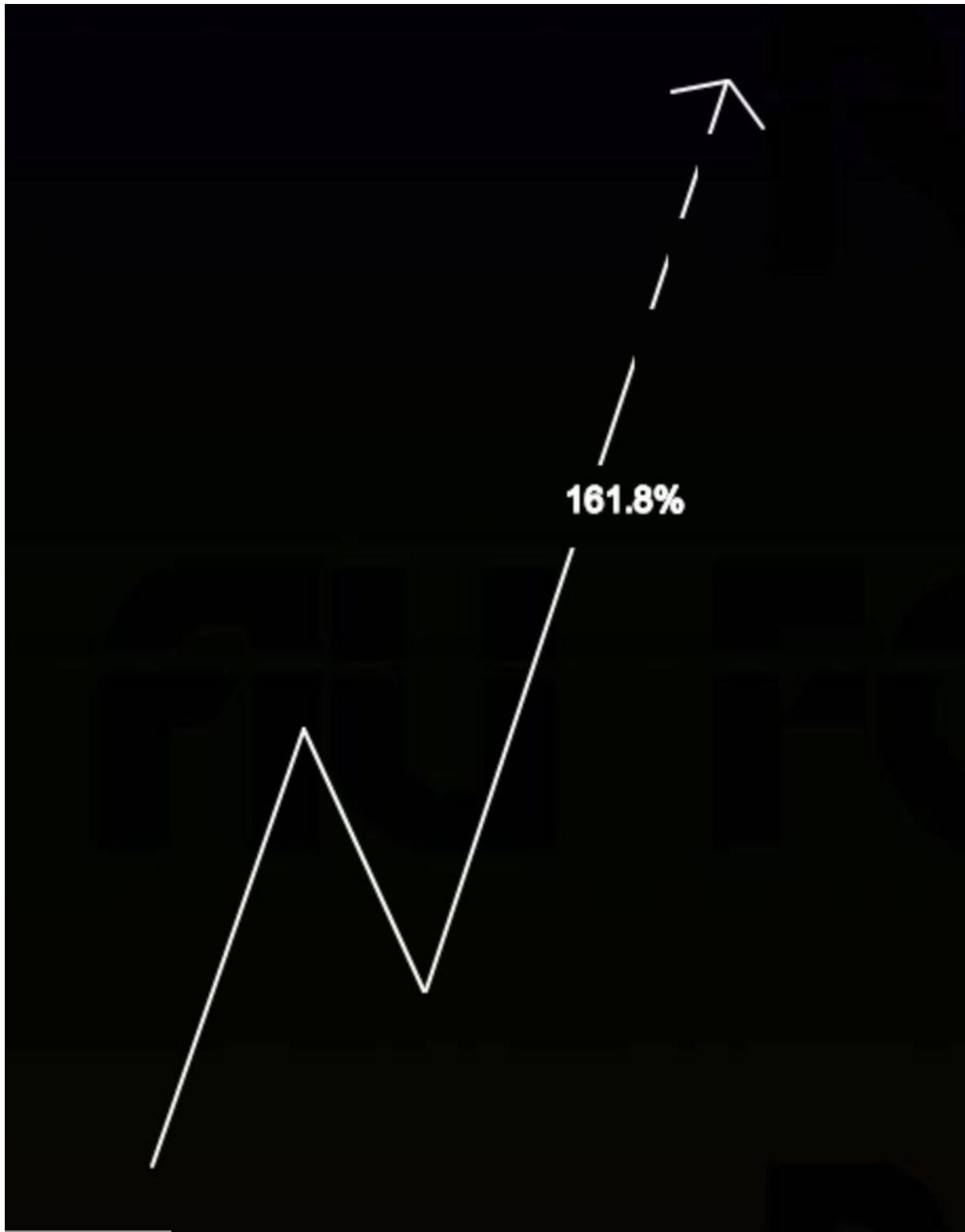


In the chart above, price moves on strong momentum and high volume to the downside below the 61.8% retracement and breaks through support. Buying into this would likely fail, and any currently held long position should be exited.



Price continues the downtrend.

Price moves upward to the 161.8% extension of the previous retracement on strong momentum and above average volume.





Price moves upward on high volume and strong momentum after approaching the 161.8% Fibonacci extension. Selling here is likely not a good idea. It would be better to wait for a bearish confirmation or to just hold your long trade.



III. Consecutive Lows

When price makes a new low, it is usually said to be in a bearish state and will likely continue to move lower. When price moves into a major Fibonacci level and then proceeds to create consecutive lows (at least three), that level will likely be disrespected and price will likely not reverse to the upside. Again, the inverse is true for a bearish retracement with the creation of new highs or in a bullish 161.8% extension.



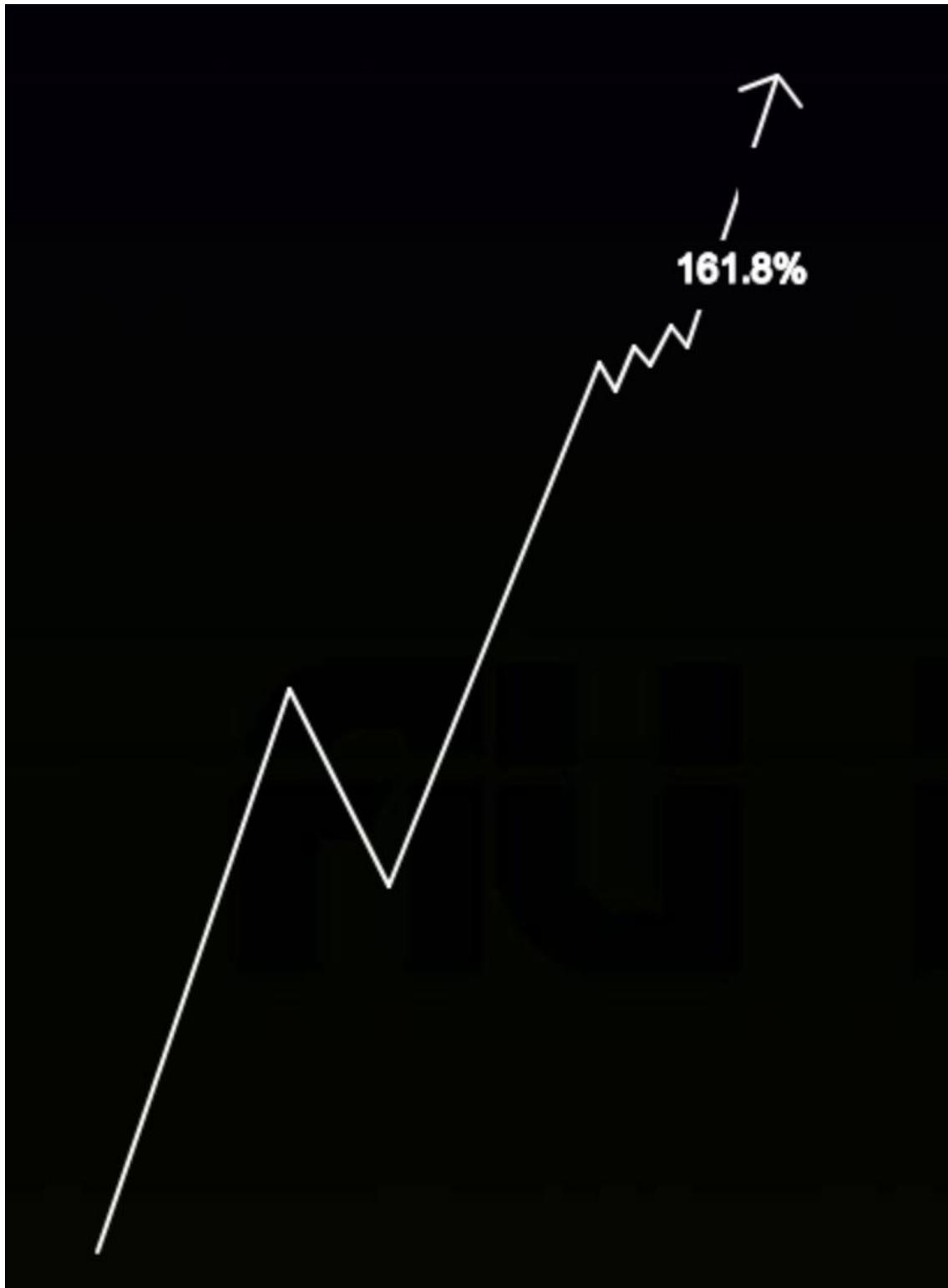
Price makes a retracement down to the 61.8%. Then, sellers repeatedly test the lower limits of the Fibonacci level, thus creating new lows. After multiple lows have been created, price moves downward violently.





Here price makes the initial low at the 61.8% retracement. After a weak bullish move upward, price continues to make new lows before it breaks below support.

Price continues the uptrend and finds weak resistance at the 161.8%. As a result, the buyers push price up higher.





Here, price makes multiple highs after testing the 161.8% Fibonacci extension drawn off of a bearish retracement. Bullishness is likely to continue, so holding onto a long position is advised.



Bullishness ensues.

C. Practice

Identify the Fibonacci market structure and decide whether to *buy, sell or avoid* the trade.

Practice 6-1



Practice 6-1 Answer



Stop loss hunt (as the shorts are squeezed, having their stop losses hit and retail buys the new high). One may mislabel this pattern as consecutive highs, but only two highs are made with a failure to reach a third. Additionally, price has a strong bearish reaction after establishing the initial high at the 161.8% with a wild tail and a volume spike. You should sell the 161.8%.

Practice 6-2



Practice 6-2 Answer



V-Shaped Reversal: price reacts in an immediate bearish manner after price hits the high around the 61.8% retracement. You should sell the 61.8%.

Practice 6-3



Practice 6-3 Answer





Wild Tail: price makes a low tail down to the 161.8% extension of the previous retracement within the downtrend. You should buy the 161.8%.

Practice 6-4



Practice 6-4 Answer



Strong momentum retracement: there is strong momentum and above average volume as price moves down toward the 61.8%. This is characteristic of a bearish reversal, not a retracement with a subsequent move to the upside. You should avoid the trade or sell off on a retracement. Price finds eventual major support at the 261.8% extension at 638.22.

Practice 6-5



Practice 6-5 Answer



Consolidation Spring: price consolidates after touching the 38.2% retracement before springing downward to the 61.8% for a quick bullish reversal with a low tail. You should buy the 61.8%.

7. Finale

A. How to Actively Trade Fibonaccis

So how can you use Fibonacci analysis to suit your trading personality?

Let's take a look at the three different styles of trading possible:



Day Trading: Trades can last anywhere from 30 minutes to four hours.

Pro: More trading opportunities, smaller losses, easier to cash out profits

Con: Smaller gains, higher fees (due to more trades), short amount of time to plan trades, faster-paced trading which could lead to poor emotional trading

Swing Trading: Trades can last anywhere from four hours to a few days.

Pro: Larger profits, gives ample time to prepare for important levels ahead of time

Con: Larger losses, harder to cash out profits , higher variance due to fewer trading opportunities

Position Trading: Trades can last anywhere from one week to three months

Pro: Massive profit potential, easier to recognize confluence factors at play in the market, more than enough time available to prepare for important levels ahead of time

Con: Trades are rare to come by, difficult to cash out profits, massive losses possible

I. Day Trading



Pre-Trading:

1. Draw a Fibonacci retracement on the recent minor market stage (on an uptrend if you are looking to enter into a long position).



2. Draw Fibonacci extensions on the recent market stages of consolidation and retracements to find levels of confluence. (*Chart below has the 161.8% extension drawn from the bottom to the top of consolidation at the minor market top.*)



(In the chart above, price does not fully respect the 161.8% extension. However, it does provide confluence for other levels that did hold).

Active Trading:

1. Set buy orders to major zones of either Fibonacci confluence or major Fibonacci levels. Remember that price tends to overshoot Fibonacci levels more often than undershoot, leading us to place our buy orders at the deepest retracement/extension level of confluence (the 61.8% Fib retracement is colored black below).



2. If buying into a retracement at a major market stage 61.8% level, place your stop loss just below the 78.6% retracement. If buying into a retracement at the major market stage 38.2% level, place your stop loss just below the 50% retracement. (*Stop loss below is the red line at 337.73.*)
3. Set your take profit to the 161.8% extension of the recent market stage or to the Fibonacci retracement from a higher timeframe.





4. Pay close attention to volume or other indicators that compliment Fibonacci analysis. For example, arrow points toward the major volume spike present an alternate exit point.



II. Swing Trading

The timeframe used for swing trading in the example below is the 5M, the same timeframe used in the day trading charts. The only notable difference is that a swing trader will likely have a zoomed-out chart and will plan to hold their respective trades for a longer amount of time.

Pre-Trading:

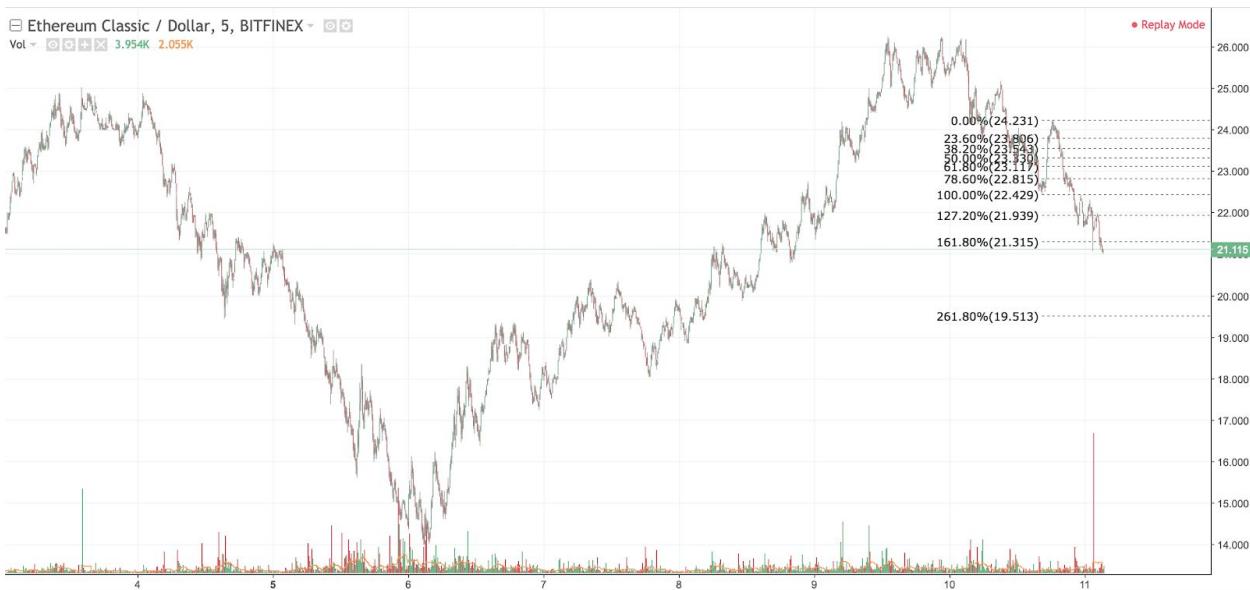
1. Draw a Fibonacci retracement on the overall major market stage (on an uptrend if you would like to buy).



2. Draw a Fibonacci retracement on the recent minor market stage.



3. Draw Fibonacci extensions on recent market stages of consolidation and retracements to find levels of confluence.





Notice the amount of confluence that is revealed when following the step-by-step method of plotting both Fibonacci retracements and extensions.

Active Trading:

1. Set buy orders to important zones of either Fibonacci confluence or major Fibonacci levels (such as the 61.8%).



2. If buying into a retracement at a major market stage 61.8% level, place your stop loss just below the 78.6% retracement. If buying into a retracement at the 38.2% level, place your stop loss just below the 50% retracement. (*Stop loss below is indicated by the red line below.*)



3. Set your take profit to the 161.8% extension of the recent market stage or to a Fibonacci retracement from a higher timeframe.



4. Pay close attention to volume or other indicators that compliment Fibonacci analysis. *For example, the arrow points toward the major volume spike that occurred with a low tail and hits both the major*

market stage 38.2% and the minor market stage 61.8%.



III. Position Trading

Pre-Trading:

1. Draw a Fibonacci retracement on the current major market stage.



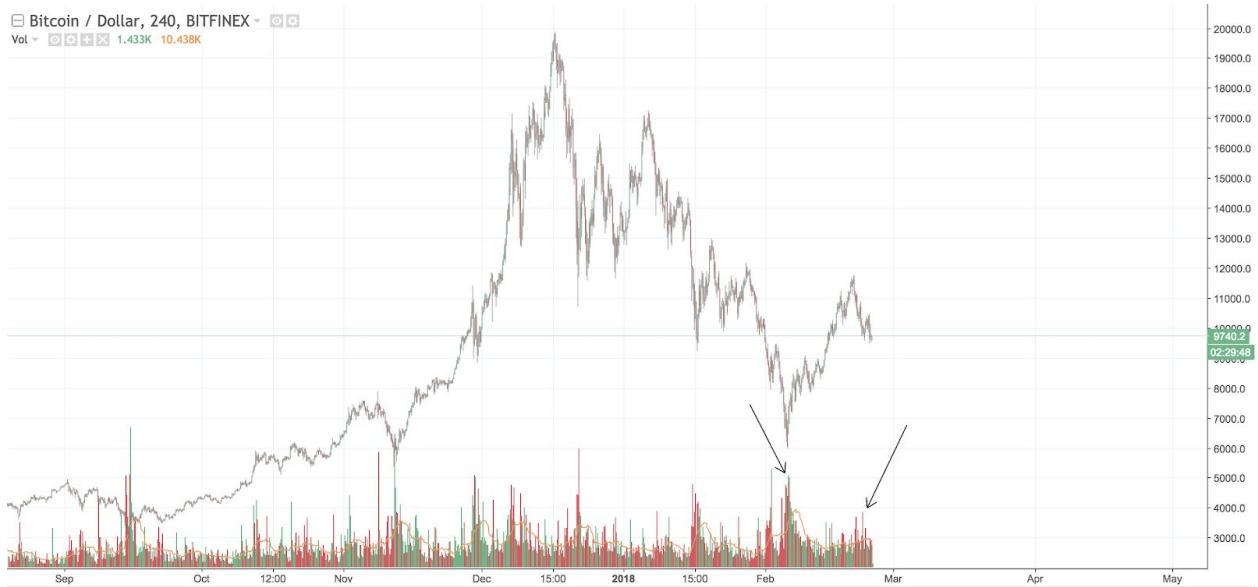
2. Draw a Fibonacci retracement on the recent market stage within the larger market stage above. Identify the likely reversal point (usually the 61.8%).



3. Draw Fibonacci extensions on recent market stages of consolidation and retracements to find levels of potential confluence.



4. Pay close attention to volume or other indicators that compliment Fibonacci analysis. The first volume spike is indicated by the left arrow that changes the market stage from a downtrend to an uptrend. The second, smaller, volume spike on the right of the chart marks the beginning of the retracement off of the high around 12000.



Active Trading:

1. Set buy orders to important zones of either Fibonacci confluence or important Fibonacci levels on a major market stage (such as the 61.8%).



2. If buying into a retracement at a major market stage 61.8% level, place your stop loss just below the 78.6% retracement. (*Stop loss below is indicated by the red line.*) However, if price continues to move downward on strong momentum and volume, then entering into a long position is not advised.





3. Set your take profit to the 161.8% extension of the recent market stage or to a Fibonacci retracement from a higher timeframe. Both the major market Fibonacci 61.8% and the minor Fibonacci 161.8% extensions are shown below. The red rectangle represents the position sell area.



Here's a zoomed-in look: The Fibonacci extension is drawn from the recent high at 11788 down to the *projected low* of 8211 because 8211 is the 61.8% of the Fibonacci drawn from 6k to 11788. If price makes a low below 8211 for the 161.8% Fibonacci extension levels, then the Fibonacci low value would be drawn on that value instead.



B. Large Market Cap Coins vs Altcoins

Fibonacci analysis can be used on nearly all coins within the crypto space. Fibonacci ratios can be used on both USD pairs (such as BTC/USD, LTC/USD, XRP/USD) and BTC pairs (such as ETH/BTC, XRP/BTC, XMR/BTC). Fibonaccis follow different patterns depending on the coin.

The more liquidity and volume that a coin has, the larger of an impact that “crowd psychology” plays, leading to Fibonaccis acting as more powerful



reversal areas of fear and greed. When a coin has little liquidity and absent volume, individual market players will have a larger sway on the coin's price movements rendering Fibonacci analysis less successful.

Keep in mind that the high volatility of bitcoin can lead to massive price fluctuations of the BTC pairs (XRPBTC and ETHBTC) which may interfere with traditional Fibonacci price patterns.

Additionally, BTC pairs' actual price movements are not dictated by supply and demand dynamics (like BTCUSD is). Rather, their price movements are dictated against Bitcoin. For example, this means that XRPBTC will move upward if XRPUSD is more bullish than BTCUSD in a given timeframe (However a coin like ADABTC would act differently - as there is no ADAUSD, because ADA is only traded to BTC).

If you want to trade altcoins to BTC using Fibonaccis, it would be best to apply Fibonaccis to three different rates:
(BASE Currency/QUOTE Currency)

1. The base currency (xxxUSD)
2. The quote currency (BTCUSD)
3. The traded rate (xxxBTC)

Example using LTCBTC:

1. LTCUSD



2. BTCUSD
3. LTCBTC

It would be most optimal to use the same exchange for all three currencies, as rates will likely vary significantly across other exchanges. If you are new to trading Fibonaccis or new to day trading altogether, it would be best to solely markup and trade high market cap coins traded to USD.

With USD pairs (such as BTCUSD and XRPUSD), draw Fibonaccis on the most liquid exchange for market analysis, instead of the exchange you use. As of 2018, that exchange is Bitfinex. If you wish to trade on GDAX, for example, you would enter a trade when the Bitfinex BTCUSD rate moves into a major Fibonacci level and then enter a trade on GDAX.

C. Practice makes Perfect

Each of the following examples will test individual elements of trading Fibonaccis. These practices will improve your recognition of strong/weak markets and Fibonacci price patterns, as well as advise you on how to select an execution price for a trading opportunity.

- 1. Market Stage Practice**
- 2. Confluence Zone Practice**



- 3. Entry Practice**
- 4. Exit Practice**
- 5. Stop Loss Placement Practice**
- 6. Final Tips**

1. Market Stage Practice

Within the five examples in this section, gauge whether the emerging market stage is *strong* or *weak*. After determining this, estimate which direction the market will likely move in the near future. This specific training serves as a warmup for filtering out potential trading opportunities.

Practice 7-1



Practice 7-1 Answer



The high bearish momentum and high volume candlestick signifies that the bears are in control and that price will likely continue its bearish market stage. It is worth mentioning that the previous market stage of an uptrend moved on high volume and strong momentum, but that bullish market stage ended once price began making high tails and was unable to produce new highs and eventually broke below support.



Practice 7-2



Practice 7-2 Answer



The bullish market stage emerges out of a prolonged stage of consolidation (far left portion of the chart). When a period of low volatility is followed by a period of high volatility, this typically means that price will continue in the direction of high volatility.

Practice 7-3



Practice 7-3 Answer



Price moves downward on strong momentum and we see a weak market stage of a retracement. After price moves on low momentum and low volume upward, price rapidly moves downward before breaking support on high volume.

Practice 7-4



Practice 7-4 Answer



Price feints a move downward and creates a low tail before later responding with a strong bullish momentum candlestick (the two circles respectively).

This is an example of a high volume tail acting as a reversal followed by strong bullish follow-up, a popular pattern among Fibonacci price reversals.

Practice 7-5



Practice 7-5 Answer



Price consolidates at a support level after a strong market stage of a downtrend. During the downtrend, we see strong momentum and above average volume as price continues to move lower. The market consolidating at support after strong bearish momentum represents a sign of weakness for that market, signaling that continued lows are likely.

Typically, tight consolidation patterns at support/resistance occur before price moves beyond that support/resistance level.

1. Confluence Zone Practice

Within the five examples in this section, identify likely zones of high confluence via the use of Fibonacci retracements and extensions. There are multiple correct answers for this section that may go beyond the



possible confluence zones listed. Identify the endpoints for which you would use to draw your confluence zone(s).

Practice 7-6



Which endpoints would you use to draw a *resistance* confluence zone?
Identify a possible Fibonacci retracement and a bullish Fibonacci extension
(drawn from a high to a low).



Practice 7-6 Answer



The confluence zone was drawn using the endpoints from the recent high down to the low of the downtrend, as well as a Fibonacci extension from the recent retracement from 9255 to 8950.

Practice 7-6 Outcome



Practice 7-7



Which endpoints would you use to draw a *resistance confluence zone*?

Identify a possible Fibonacci retracement and a bullish Fibonacci extension. (Identifying the endpoints for the Fibonacci extension may be tough here).



Practice 7-7 Answer



The confluence zone was drawn by identifying the recent high at 1067 drawn down to the absolute low at 957.2 in a Fibonacci retracement (black Fibonacci). The Fibonacci extension (blue Fibonacci) was drawn by using the spike upward to 996.9 drawn downward to the same absolute low at 957.2. The 61.8% and 161.8% overlap in a similar area, suggesting a potential strong resistance zone.

Practice 7-7 Outcome



Practice 7-8



Which endpoints would you use to draw a *support confluence zone*? Select a possible Fibonacci retracement and two bearish Fibonacci extensions.
 Hint: Identify the two major bullish moves against the current downtrend to draw the Fibonacci extensions.



Practice 7-8 Answer



The confluence zone was drawn with a combination of a Fibonacci retracement and two Fibonacci extensions, drawn off of the retracements. The black Fibonacci retracement was drawn using the recent low at 141.75 up to the high at 154.69 to encapsulate the start to finish of the uptrend. Price then weakly retraces (weak bearish movement as there is consistent bullish pullback throughout the retracement) with two major bull moves against the trend. Drawing Fibonacci extensions off of these two bull moves yields a tight zone of confluence between the two 161.8% extensions, which is in the price territory of the 61.8% to 78.6% retracement zone.

Practice 7-8 Outcome





Practice 7-9



Which endpoints would you use to draw a resistance confluence zone?

There is no possibility in this chart to draw a Fibonacci retracement (as we are projecting future areas to sell), rather, there are 3 bullish Fibonacci extensions that you can draw to generate a confluence zone for a major resistance area. Hint: Identify the retracements against the current uptrend in the chart.



Practice 7-9 Answer



Shown above are the three major retracements against the bullish trend.



Shown above is the confluence zone, drawn from 532 - 537, created by the overlap of the 161.8% Fibonacci extensions.



Practice 7-9 Outcome



Practice 7-10



Which endpoints would you use to draw a support confluence zone?

Identify two possible Fibonacci retracements that could be drawn and one possible bearish Fibonacci extension.



Practice 7-10 Answer



The two Fibonacci retracements drawn in the chart share the same endpoint for the high, but use two different endpoints for the low. The base of the uptrend at 8000 (black Fibonacci) gives the first endpoint for the overall uptrend. The endpoint at 8357.4 (blue Fibonacci) gives the endpoint for the low. The Fibonacci extension (orange Fibonacci) yields the 161.8% extension for a possible support area, and was drawn off of the retracement from 8621 to 8793. Altogether, the confluence zone itself is drawn from the 61.8% of the minor uptrend down to the 161.8% Fibonacci extension drawn off of the bearish retracement with added confluence of the 38.2% retracement of the major uptrend.



Practice 7-10 Outcome



2. Trade Entry Practice

Within the five examples in this section, identify the price that you would place your entry buy/sell order at (or, alternatively, decide to not take the trade at all). Take into account market momentum, volume patterns, and Fibonacci retracements/extensions.



Practice 7-11 Potential Short



Which price would you place your entry order to short?



Practice 7-11 Answer



Price respects the confluence around the minor market stage downtrend 61.8% retracement and the major market stage downtrend 38.2% retracement. The strong bearish momentum on the major market stage of the downtrend reveals that it is the 38.2% retracement that is most likely to be respected before price continues to move down lower. The highest price that XRP/USD reaches is .87134, slightly above the 38.2% retracement. If your order was any value below that, it would have gotten filled.



Practice 7-11 Outcome



Price continues to move on strong bearish momentum to the downside.

Practice 7-12 Potential Long



Which price would you place your entry order to buy?



Practice 7-12 Answer



Price respects the confluence around the uptrend market stage 61.8% retracement and the bearish 161.8% extension. A volume spike occurs in the candlestick before price reaches the key level of confluence, showing a potential oversold price area emerging. The lowest price that LTC/USD reaches is 198.72, just slightly below both the 61.8% retracement and the 161.8% extension.



Practice 7-12 Outcome



Price continues to move on strong bullish momentum to the upside.

Practice 7-13 Potential Long



Practice 7-13 Zoomed In



Which price would you place your entry order to buy?



Practice 7-13 Answer



Price is currently in a strong overall uptrend and retraces downward to the 61.8% retracement with a low tail. Additionally, the candlestick with the low tail is the highest volume candlestick within the retracement from 684.47 downward. Within the current bullish price action, there is no sign of climatic volatility, indicating that the overall uptrend is still intact. The lowest price that ETH/USD reaches is 671.32 as price establishes support at the previous resistance level (at 672).



Practice 7-13 Outcome



Price continues to move on strong bullish momentum to the upside after respecting the 61.8% retracement.

Practice 7-14 Potential Short



Which price would you place your entry order to short?



Practice 7-14 Answer



Price is currently in a downtrend that is moving with strong momentum and volume. Recall that strong trends typically have retracements that end in the 38.2% to 50% price area. Price then weakly moves upward and possible shorting opportunities begin to emerge. By drawing a Fibonacci extension on the recent retracement, it is clear that the 161.8% extension had just been touched with a high tail. The highest price that BCH/USD reaches is 1618.6, slightly above the 161.8% extension.



Practice 7-14 Outcome



Price continues to move on strong bearish momentum to the upside.

Practice 7-15



Which price would you place your entry order to buy?



Practice 7-15 Answer



You do not want to buy into this market as it is overbought. The major volume spike has a high tail that is typical near the end of an uptrend; however, if that exact type of candlestick occurs in a downtrend, the reverse is true as the high volume may signal a bullish reversal. Additionally, the move down to the 61.8% level (of the Fibonacci retracement drawn from the low at 8777.1 to the high at 9069) has little to no bullish pullback as the sellers are clearly in control.



Practice 7-15 Outcome



The sellers continue to push price lower after the overbought top.

3. Trade Exit Practice

Within the five examples in this section, identify the price that you would place your exit buy/sell order at (or decide to not exit the trade altogether).

Take into account market momentum, volume patterns and Fibonacci retracements/extensions.



Practice 7-16



If you were currently in a long position, at which price would you place your exit sell order (take profit)?



Practice 7-16 Answer



Price moves upward on strong momentum to the confluence area of the 50% retracement, as well as the bullish 161.8% Fibonacci extension of the previous consolidation stage. Additionally, the lack of volume within the uptrend shows a lack of demand, another reason to exit a long position.

Practice 7-16 Outcome



Price moves downward after encountering strong resistance at the confluence level. The highest price that BTC/USD reaches is 9272.2.

Practice 7-17



Practice 7-17 Upward Tilt



If you were currently in a long position, at which price would you place your exit sell order (take profit)?



Practice 7-17 Answer



Price moves upward on strong momentum, and, then, enters a period of consolidation/weak retracement. The bullish volume spike that occurs on the left side of the chart is met with a weak bearish reaction on falling volume as price responds with upward and, later, sideways market movement. The 161.8% Fibonacci extensions have confluence, however, the strong upward movement reveals that the uptrend may still be intact, meaning that taking profit would not be optimal at the current price point.

Practice 7-17 Outcome



Price meets resistance at the 261.8% confluence zone before continuing to move higher.

Practice 7-18



If you were currently in a long position, at which price would you place your exit sell order (take profit)?



Practice 7-18 Answer



Price moves downward from 1849.9 on relatively average momentum as the bulls fight back with multiple pullbacks. Price then moves upward from the low tail at 1637.4 on strong momentum. There is confluence between the 61.8% Fibonacci retracement (black Fibonacci) and the 127.2%, however, the strong uptrend continues to move to the 161.8% extension at 1786.1. The highest price that BCH/USD reaches is 1787.



Practice 7-18 Outcome



Price moves downward after a V-Shaped Reversal at the confluence zone.

The highest price that BCH/USD reaches is 1787.

Practice 7-19



If you were currently in a short position, at which price would you place your exit buy order (take profit)?



Practice 7-19 Answer



Price moves upward on weak momentum, with repetitive bearish pullback.

This weak market stage of an uptrend is expected to retrace down at least to the 61.8% Fibonacci level. When price does retrace to the level, volume surges, followed by a brief touch of the 61.8% level and then strong bullish momentum upward. Taking profit off of a short position around this level is optimal.



Practice 7-19 Outcome



Price moves back upward after a V-Shaped Reversal at the 61.8% retracement. The lowest price that BTC/USD reaches is 9736.



Practice 7-20



If you were currently in a short position, at which price would you place your exit buy order (take profit)?

In this example, price is not able to touch the 161.8% Fibonacci extension level before moving back upward. Would you sell immediately or still place an exit order at the 161.8% extension (156.101)?



Practice 7-20 Answer



Price moves downward to touch the 161.8% Fibonacci extension of the previous retracement before moving back upward again. Taking profit at that level is optimal as price has a bullish rejection of (upmove from 156.14 to 158.1) after establishing initial support with the first low.



Practice 7-20 Outcome



Price moves back upward after a Stop Loss Hunt at the 161.8% extension.

The lowest price that BTC/USD reaches is 156.01.

5. Stop Loss Placement Practice

Within the five examples in this section, identify the exact price that you would place your stop loss order at. Take into account Fibonacci retracement/extension dynamics, support/resistance levels and volume.



Practice 7-21



If you were currently in a long position, at which price would you place your stop loss order?



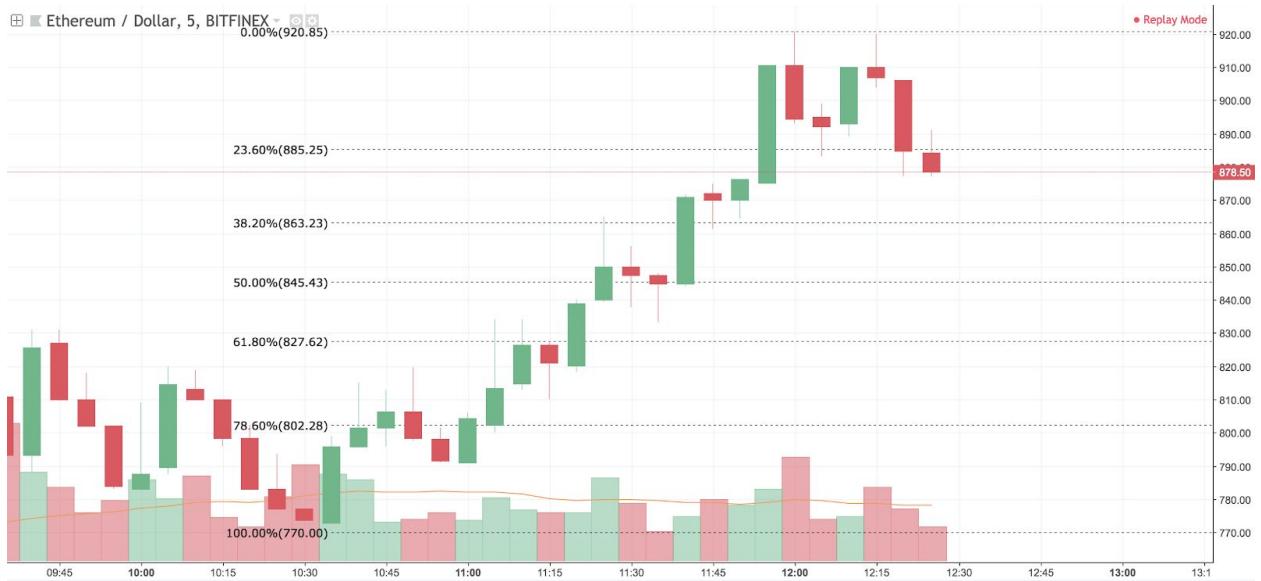
Practice 7-21 Answer



Price moves downward to touch the 61.8% Fibonacci retracement with a low tail. The optimal placement for a stop loss is just beneath the 78.6% retracement. The uptrend from 8219 to 8353.7 runs on average bullish momentum and a sharp retracement is likely (the 61.8% to 78.6% area).



Practice 7-22



If you were currently in a long position, at which price would you place your stop loss order?



Practice 7-22 Answer



Price moves downward to touch the 50% Fibonacci retracement. The optimal placement for a stop loss is beneath the 50% retracement as the uptrend from 770 to 920.85 runs on strong bullish momentum with weak bearish pullback. A weak retracement is expected after a trend on strong momentum (the 38.2% to the 50% retracement area).

Practice 7-23



If you were currently in a long position, at which price would you place your stop loss order?



Practice 7-23 Answer



Price moves downward towards the confluence zone of the 50% as well as the 161.8% extension of the previous retracement. The optimal placement for a stop loss is either below the 161.8% extension (conservative) or below the 78.6% (higher risk). To the latter placement, a case could be made to place the stop loss just below the 78.6% because there is confluence within the 161.8% to 61.8% Fibonacci zone and price may have traveled to that area.

Practice 7-24



If you were currently in a long position, at which price would you place your stop loss order?



Practice 7-24 Answer



Before the rapid downmove, placing a stop loss just below the 78.6% would have made the most sense as the previous uptrend moved on weak momentum. Additionally, the single wave downtrend that started at 9677.9 is quite unlikely to move back into the bullish direction as price moves downward on strong momentum and escalating volume after the previous uptrend fails to make significantly higher highs.



Practice 7-25



If you were currently in a short position, at which price would you place your stop loss order?



Practice 7-25 Answer



The market stage of a downtrend from 9450 down to 9100 moves on strong bearish momentum, although there is notable bullish pullback. This type of market is more likely to retrace into the 61.8% to 78.6% retracement zone, thus placing a stop loss just beyond the 78.6% (above 9375.1) is optimal. After retracing to the 61.8%, price moves downward in a continuation of the overall downtrend.

Final Tips

1. Always place a stop loss.
2. Always have a take profit plan.
3. Mark-up a chart before initiating any trade.
4. Prior to making a trading decision, analyze factors such as momentum, volume and the market stage(s).
5. Analyze Fibonnacis on the highest volume exchanges, even if that exchange is not the one that you trade with.
6. Coins that are traded to a fiat currency (USD, EUR, etc.) tend to respond more accurately to Fibonaccis than coins traded to another coin (BTC, ETH, etc.). For example, BTCUSD will likely conform to Fibonacci analysis better than a coin pair like LTCBTC.
7. Practice Fibonacci analysis by using both the 'Bar Replay' tab on Tradingview and by making short-term Fibonacci predictions to find if price follows your analysis.
8. Prepare for both bullish and bearish price scenarios by plotting multiple sets of Fibonaccis.
9. Remember that price is more likely to overshoot a major Fibonacci level than to undershoot it.



If you have any questions about the material, feel free to
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Happy Trading

