FOREX TRADING

A TRADER'S GUIDE TO USING FIBONACCI

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Blackwell Global is a global brokerage, aiming to be the most trusted financial service provider. We are committed to transparency, integrity and service excellence.

Founded in 2010, we now have global presence in over 90 countries, with main offices in the separately regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

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A PROVEN STRATEGY

FOREWORD

Many traders agonise over their profitability. In doing so, they invest significant amounts of time into finding the 'perfect' trading strategy.

Unfortunately, no such methodology exists. But that doesn't mean that there aren't strategies out there that can yield impressive results.

The aim of this eBook is to introduce you to one of those strategies - Fibonacci.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

WHY TECHNICAL ANALYSIS

A PROFESSIONAL METHODOLOGY

Many professional Forex traders use something called technical analysis to help them place trades. With this in mind, many first-time traders have also adopted the methodology in an effort to replicate professional results.

But what is technical analysis? The answer is simple - it's a methodology whereby a trader uses historical price data to predict future price movements. As you might have guessed, it involves a trader analysing data on price charts in an effort to find trends and patterns.

It's very different from fundamental analysis, as it doesn't try to gauge market sentiment by looking at global events. In fact, technical analysis removes this from a trader's thinking altogether. Decisions are based purely on past price data.

Advocates of technical analysis believe in two key assumptions of price data. It's important that you're aware of these assumptions, as they act as a foundation for understanding technical analysis as a whole.

Assumption One: We Can Identify Patterns Within Price Movements

This assumption underpins all technical analysis, as the price of any given instrument moves in cyclical patterns or trends. By understanding what those patterns are and identifying them, traders can place profitable trades.

Assumption Two: Current Price Reflects Market Sentiment

As previously mentioned, technical traders aren't concerned with gauging market sentiment. They just take the current price of any given instrument to be an accurate representation of how the market is feeling.

In the following pages, we'll explore the terminology and tools you'll need to be familiar with to move forward with technical analysis while exploring one strategy that falls under its umbrella: Fibonacci.

THE BASICS OF TECHNICAL ANALYSIS

TERMINOLOGY YOU NEED TO KNOW

In order to move forward with technical analysis, it's important that you understand some basic terminology.

Bear Market (Bearish)

A bearish market is a term used to describe a market trend which is falling, and that widespread pessimism in its recovery causes this trend to continue. As a mnemonic device, a bear swipes its paws down, signalling a downward market.

Bull Market (Bullish)

A bullish market is a term used to describe a market trend which is rising, and that widespread optimism in its success causes this trend to continue. As a mnemonic device, a bull drives its horns up into the air, signalling an upward market.

Daily Chart

The daily chart is a graph that shows the price movement of a product through the day.

Support Level

The diametrical opposite of resistance, the support level is a technique that is used in analysis that determines a specific price floor where an exchange rate would automatically correct itself. It's the level in which buying is expected to take place.

Resistance Level

Resistance refers to price levels that a currency doesn't often go over, either due to market psychology or the laws of supply and demand.


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TRADING WITH FIBONACCI

THE MAGIC OF FIBONACCI

Fibonacci is a technical strategy that can help traders determine future levels of support and resistance on a price chart. So why would a trader want to do this? Well, by identifying future support and resistance levels, a trader is essentially highlighting the best points at which to enter or exit a trade.

Remember, a support level is simply the threshold at which the price of a currency pair will not (generally speaking) go under. A resistance level is the opposite of this - it's a threshold at which the price of a currency pair will not (again, generally speaking) surpass. These are some of the most basic technical indicators.

When using Fibonacci as a strategy, these levels are visually represented by a series of horizontal lines. These are known as Fibonacci retracements (some traders also use the name Fibonacci lines). When using a trading platform such as MetaTrader 4, there are tools which traders can use to draw Fibonacci retracements onto a price chart.

But before we explore how Fibonacci works in calculating support and resistance lines, you may be scratching your head as to where you've heard the term 'Fibonacci' before. Fibonacci is s famous mathematical sequence. Each number within the sequence is a sum total of the two preceding numbers: 1, 1, 2, 3, 5, 8, 13 and so on.

The Fibonacci sequence is key to calculating retracement lines. This is achieved through Fibonacci ratios. There are three Fibonacci ratios that traders need to be aware of: 61.8% (any number in the sequence divided by the first preceding number), 38.2% (any number in the sequence divided by the second preceding number) and 23.6% (any number in the sequence divided by the third preceding number). The ratio 50%, while unrelated to Fibonacci, is also a standard retracement level.

These ratios are the levels at which retracement points are drawn in between a selected low and high point within a price trend. Using these retracement lines, traders can identify entry/exit points along with stop loss and take profit levels.

EXAMPLES OF FIBONACCI IN ACTION

EXAMPLE RETRACEMENT LINES

The charts below demonstrate Fibonacci retracement lines on a price chart. As you should be able to see, they're incredibly useful in determining support and resistance levels.


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TAKE ME THERE

WHY BLACKWELL GLOBAL?

We can't pretend that is easy to become a successful trader. But we are here to help and support you as you make your trading journey, providing dedicated resources such as our demo trading accounts and regularly published research materials.

Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

We offer access to multiple asset classes including more than 60 currency pairs, precious metals and other contracts for differences. As a global broker, we are always striving to achieve excellence in our customer service, as well as developing innovative technology to support our customers needs.

Today, the Blackwell Global group of companies has a presence in over 90 countries, with its main offices situated in the individually regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

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