

5

C H A P T E R

FIBONACCI PRICE PROJECTIONS OR OBJECTIVES

Last but not least, in this chapter I will show you how to apply Fibonacci price *projections* to the chart we are analyzing. These projections are sometimes also called price *objectives*. I tend to indicate them on my charts by the letters PO for price objectives rather than projections.

These price projections are run from three data points and are comparing swings in the same direction. They are run from a prior low-to-high swing and then projected from another low for possible resistance, *or* they are run from a prior high-to-low swing and projected from another high for possible support. Here we use 1.00 and 1.618 ratios to run the projections.

The 100 percent projection is also where we find *symmetry*. (This concept will be discussed at length in the chapter on symmetry trade setups.) What you need to know at this point is that symmetry is defined as similarity or equality of swings in the same direction. I use symmetry projections every day for setting up trades in the direction of the trend. This concept will become crystal clear as we walk through the chart examples.

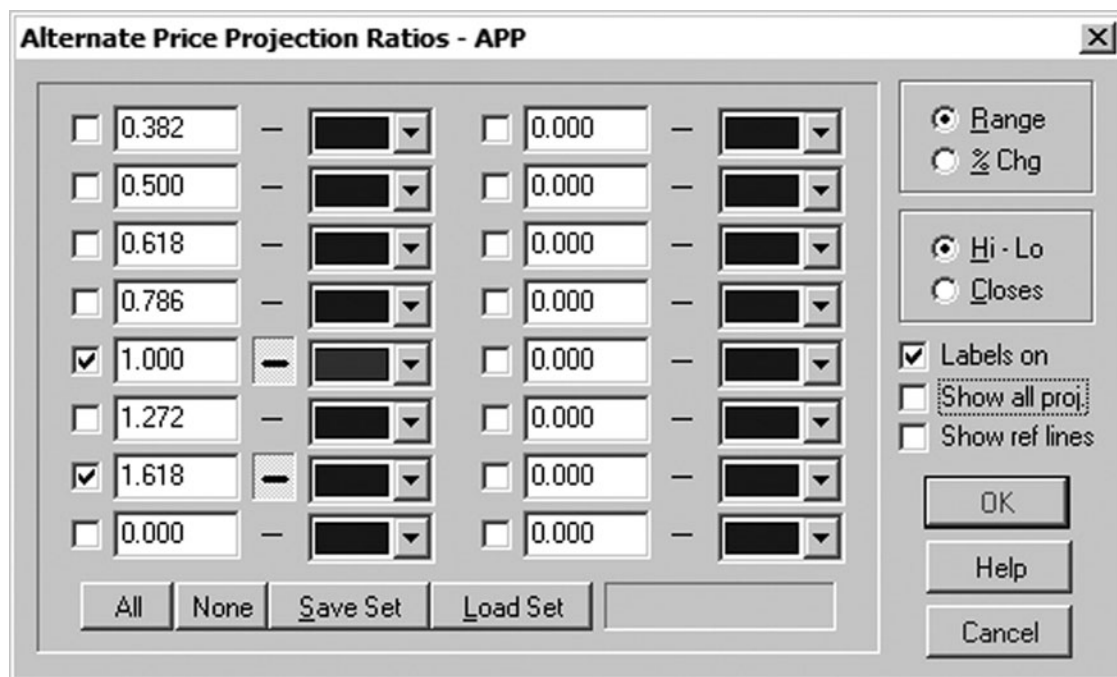


FIGURE 5-1

Price Projection Tool on Dynamic Trader

To run these price relationships, you have to use an analysis tool that allows the use of three points on the chart. In the Dynamic Trader software, it is called the *alternate price projection tool*. The setup of this tool is illustrated in Figure 5-1.

There can be some confusion when I teach how to run the price projection relationships, since many technical analysis programs call the Fibonacci tool using three points an *extension* tool rather than a projection tool. Just remember that to run your projections to compare swings in the same direction, you need to use the tool that allows you to choose three points, regardless of what it is called.

Note: What I call price projections or objectives in my work will be labeled in the following Dynamic Trader chart examples as APPs or Alternate Price Projections.

Our first projection example is Figure 5-2, a daily stock chart of General Motors. Remember that with the projection tool that uses three points, we are comparing swings in the same direction. Here we measured the swing from A to B, which was a 3.90 swing. We then projected both the 1.0 and 1.618 projections of the first swing from point C, looking for potential resistance. The 1.0 projection came in at 34.28. There was no reaction at this first projection. The 1.618 projection came in at 36.69. Notice that the rally in GM terminated just below this second resistance projection—at least temporarily.



FIGURE 5-2

Our second projection example is on a three-minute chart of the E-mini S&P contract. In Figure 5-3, we are using only the 1.0 projection, since we are comparing *corrective rallies* within a downtrend. I like to compare corrective swings because more often than not, you will find similarity or equality in these swings. This becomes a powerful tool to aid in our entries in the direction of the trend.

Notice that the first swing illustrated on this chart was 2.50 E-mini S&P points from the 1434.25 swing low to the 1436.75 swing high. We then took 100 percent of this swing and projected it from the low made at 1433.75, which gave us the 1436.25 level for the projection and possible resistance.

The actual high was made exactly at the 100 percent projection. A decline of more than 4.00 points was seen from this *symmetry projection*. In this case there was perfect symmetry (equality), as both swings were exactly 2.50 points.

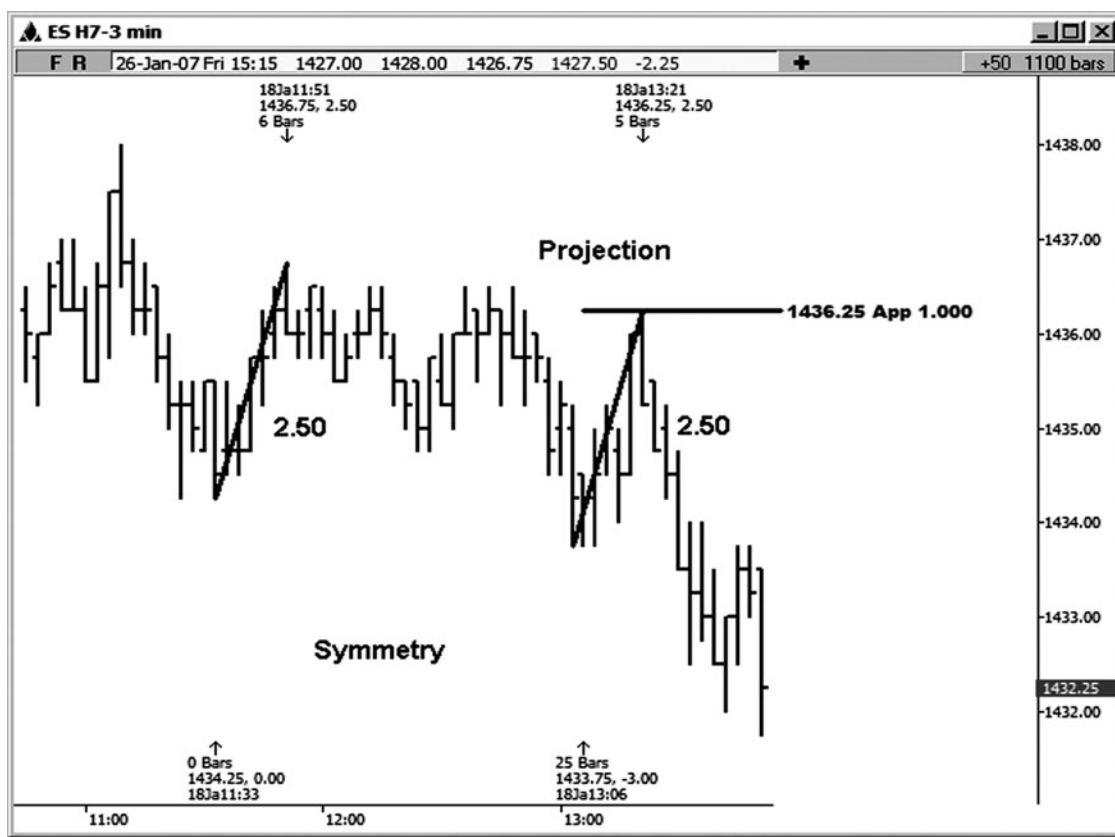


FIGURE 5-3

Let's look at another price projection example in Google stock. In Figure 5-4, we measured the swing from point A to point B and then ran our projections of 1.0 and 1.618 from point C, looking for possible resistance. The 1.0 projection came in at 389.32. Though it was not a perfect hit in price (the actual high was made at 390.00), it definitely ended up producing a nice downside reversal. The 1.618 projection at 402.50 didn't provide any resistance at all in this case.

There will be days when some of these Fibonacci price relationships will hit exactly at the level projected, and it will seem very magical. Don't expect to always see perfection with this work, however. As long as a level

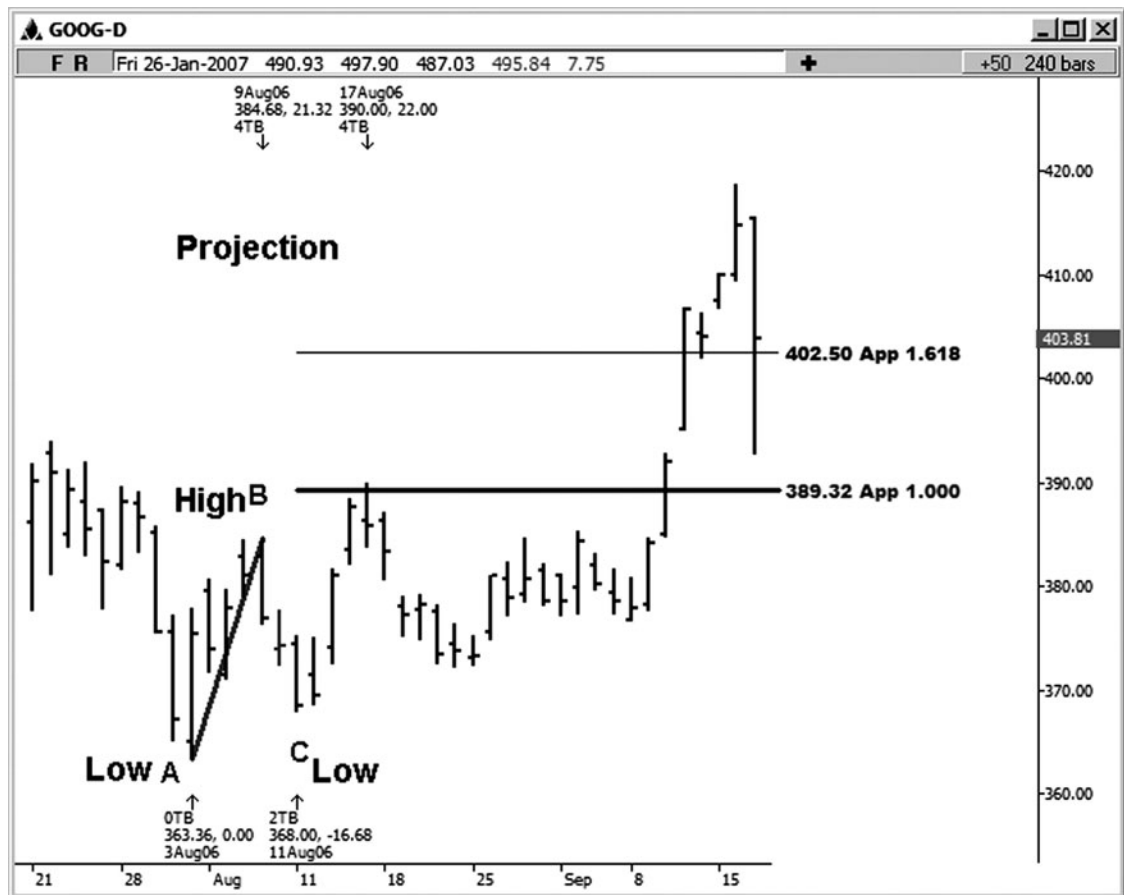


FIGURE 5-4

is not violated by a huge margin or does not fall short of a level by a huge margin, it still has value as a price decision. Personally, I have been found guilty of erasing Fibonacci levels too quickly. My chat room traders are the first ones to call this to my attention.

Figure 5-5 is a daily chart of Intel stock. Here we measured the swing from point A to point B, which was a 2.55 decline. We then projected 1.0 of this decline from point C, for a projection of possible support at 19.95. The actual low in this case was made at 20.03, which was just a bit short of the support level. There was definitely some similarity (symmetry) between these swings, as the first swing was a decline of 2.55 and the second was a decline of 2.47.



FIGURE 5-5

Let's look at another example of a price projection in the mini-sized Dow. On this 15-minute chart (Figure 5-6), we started with a rally from point A to point B that was 32 points. We then multiplied the range of this first swing by 1.0 and 1.618 (actually, the computer program did) and projected the results from point C. In this case, all we saw was a short-term stall around the 1.0 projection. Beyond that, the projections really didn't provide much resistance to the rally. (Remember that many of these price relationships will be violated and won't have any predictive value at all!)

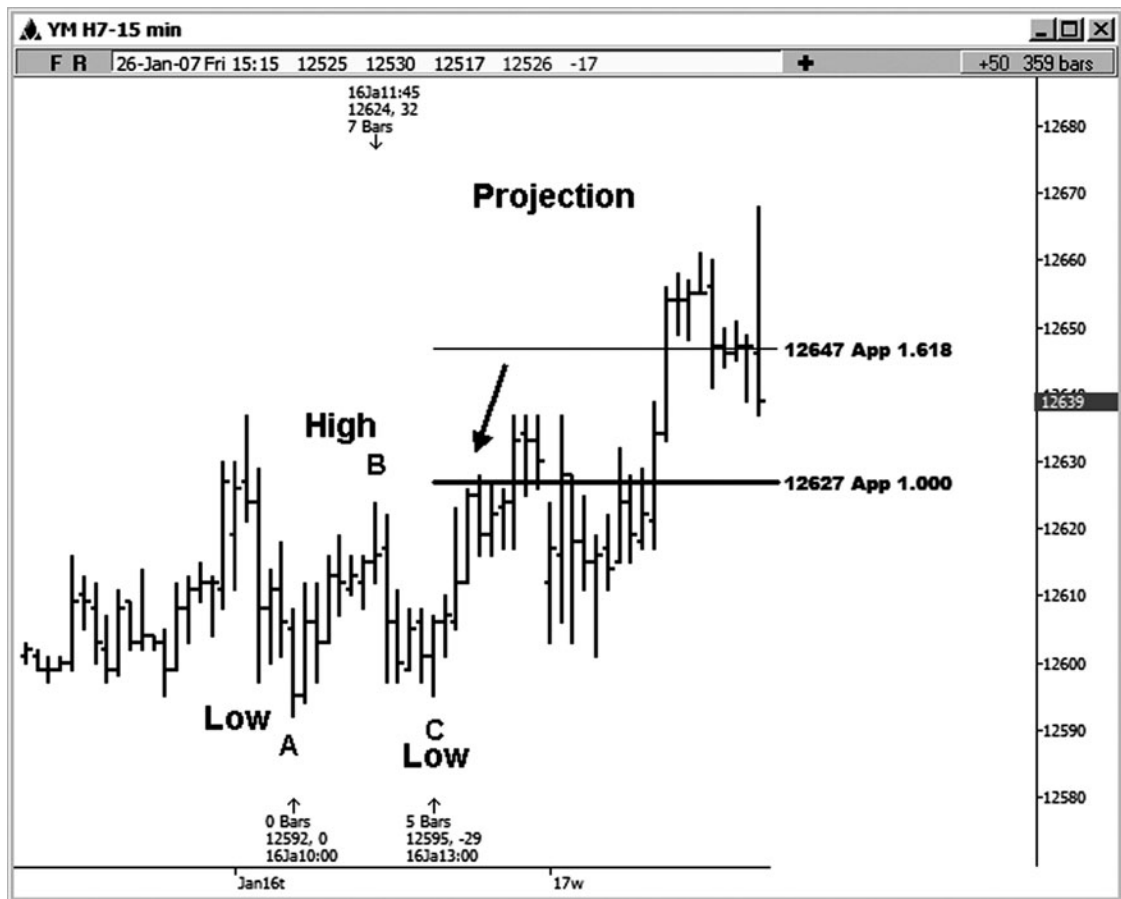


FIGURE 5-6

Again, I don't want to give you the idea that Fibonacci price relationships always hold, so I'd like to share an example in Google where the price projections did not produce any change at all (see Figure 5-7). It would be irresponsible of me as an author to show you *only* examples where the levels have held. Besides the fact that there is no methodology or analysis in existence that will work 100 percent of the time, as a trader you would know *not* to enter a trade against these price zones if you do not see any reversal indications or entry triggers as they are tested.

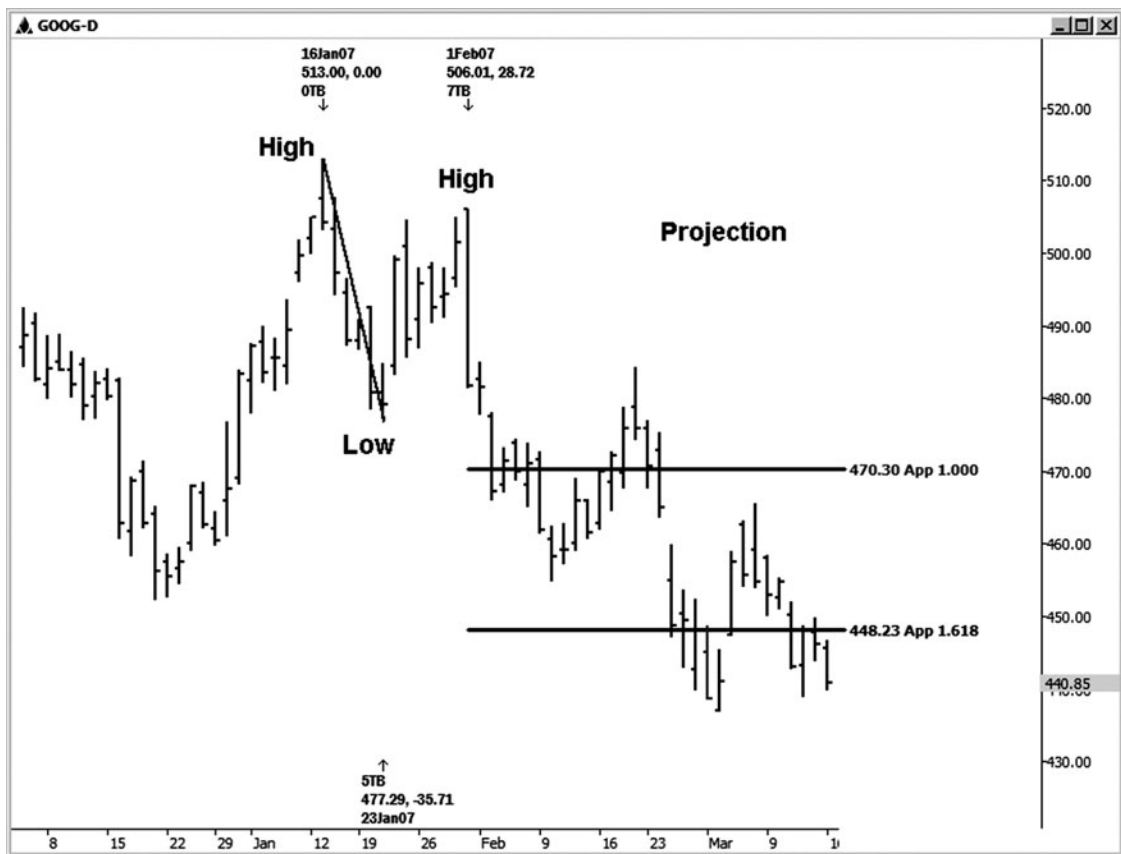


FIGURE 5-7

Figure 5-8 is an example of a price projection on a daily cash chart of the Russell index. We measured from the 2/14/06 low (point A) to the 3/3/06 high (point B) and ran the projections from the 3/8/06 low (point C) for possible resistance. Notice the minor reaction at the area of the 1.0 projection and then the healthier decline just a touch below the 1.618 projection of this same swing.



FIGURE 5-8

In the S&P cash daily chart (see Figure 5-9), we measured from the 8/13/04 low at 1060.72 (point A) to the 10/6/04 high at 1142.05 (point B) and then projected the ratios from the 10/25/04 low at 1090.19 (point C), looking for possible resistance. In this example, we saw a minor stall at the 1.0 projection of this swing from A to B. In addition, we saw a much healthier downside reversal a bit below the 1.618 projection.

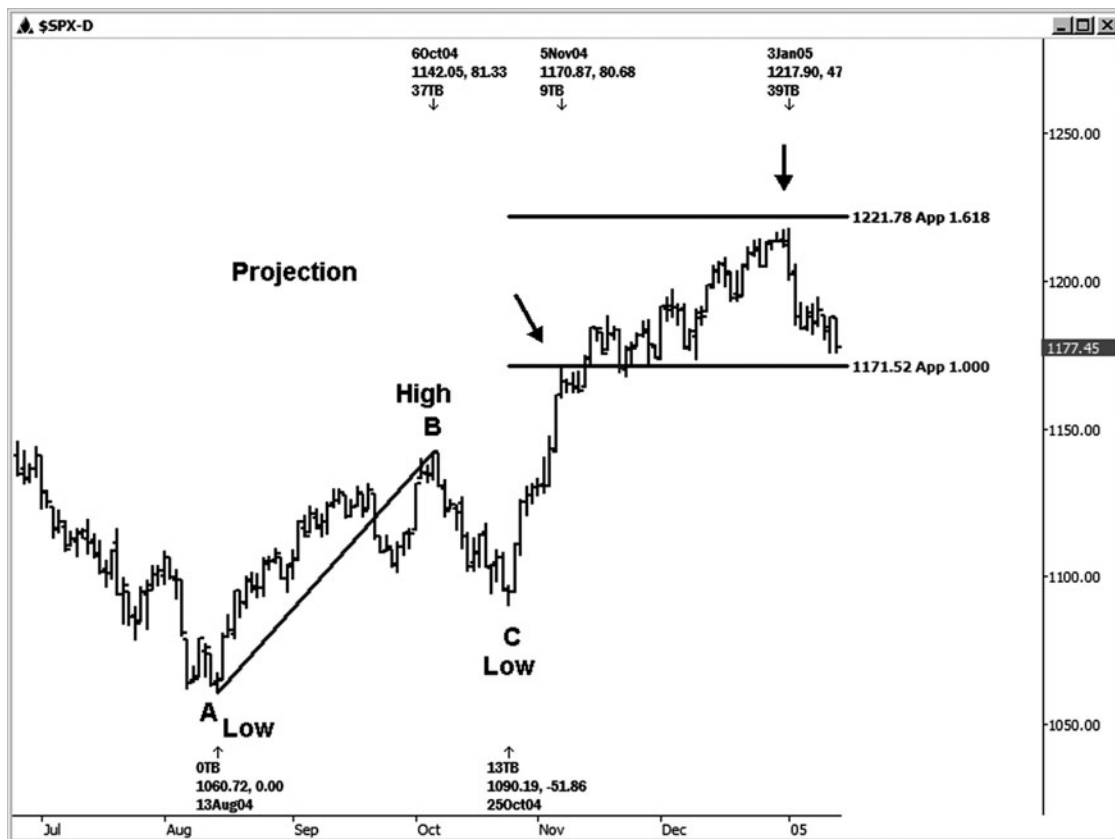


FIGURE 5-9

In the next example, in the daily cash S&P chart, Figure 5-10, we measured from the 1/8/07 low at 1403.97 (point A) to the 1/25/07 high at 1440.69 (point B) and then projected the ratios from the 1/26/07 low at 1416.96 (point C), looking for possible resistance. A tradable high was seen just a touch below the 1.0 projection. (We did not test the 1.618 in this case.)

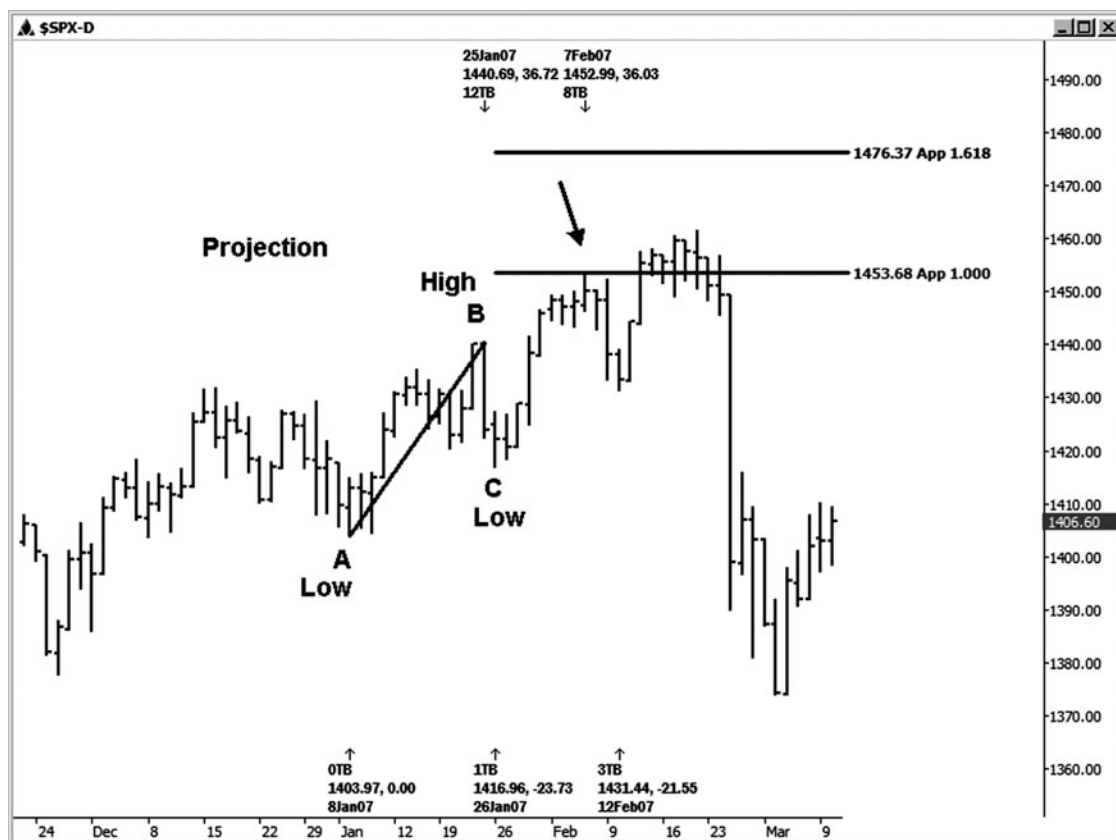


FIGURE 5-10

Our next example is in the FOREX market—the Canadian dollar (see Figure 5-11). Since we are looking at a healthy uptrend in this case, we wanted to use the projection tool to look for possible symmetry support within the uptrend. When we took the move from the high made on 12/18/06 to the low made on 12/20/06 and then projected from the new high made on 1/11/07, the 1.0 projection from the 1/11/07 high showed us possible support at the 1.1644 area. The actual low was made at 1.1646, which was a couple of pips short of the projection. This low was followed by a beautiful rally to 1.1851, which was a 205-pip rally from the 1/16/07 low. Notice that this rally made it up to the 1.272 extension and then stalled.

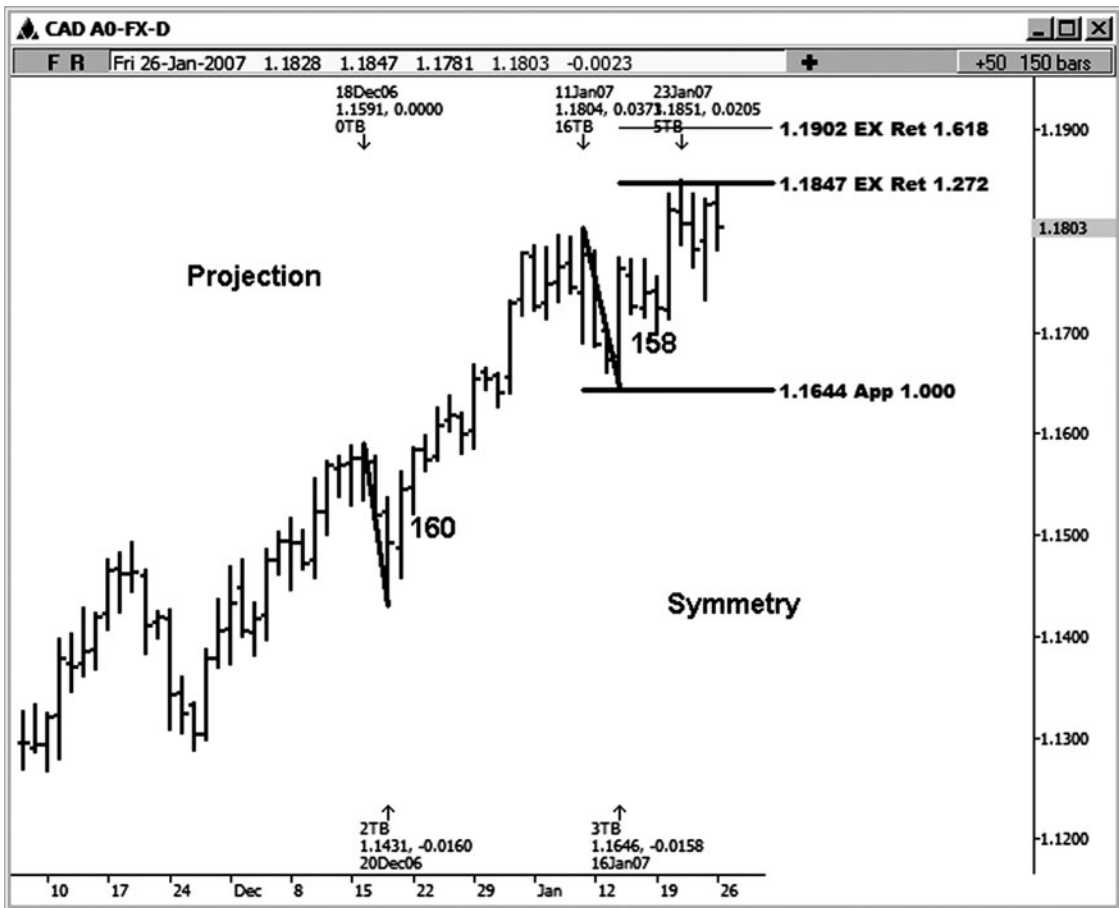


FIGURE 5-11

Next, let's take a look at JC Penney stock on a daily chart (Figure 5-12). Here, we measured the range from the 11/13/06 high to the 12/1/06 low (points A and B) and projected from the 12/15/06 high (point C) for possible support. In this case, the 1.0 projection of that prior swing pretty much caught the low before a rally of 11.95. (The 1.618 projection was not tested.)

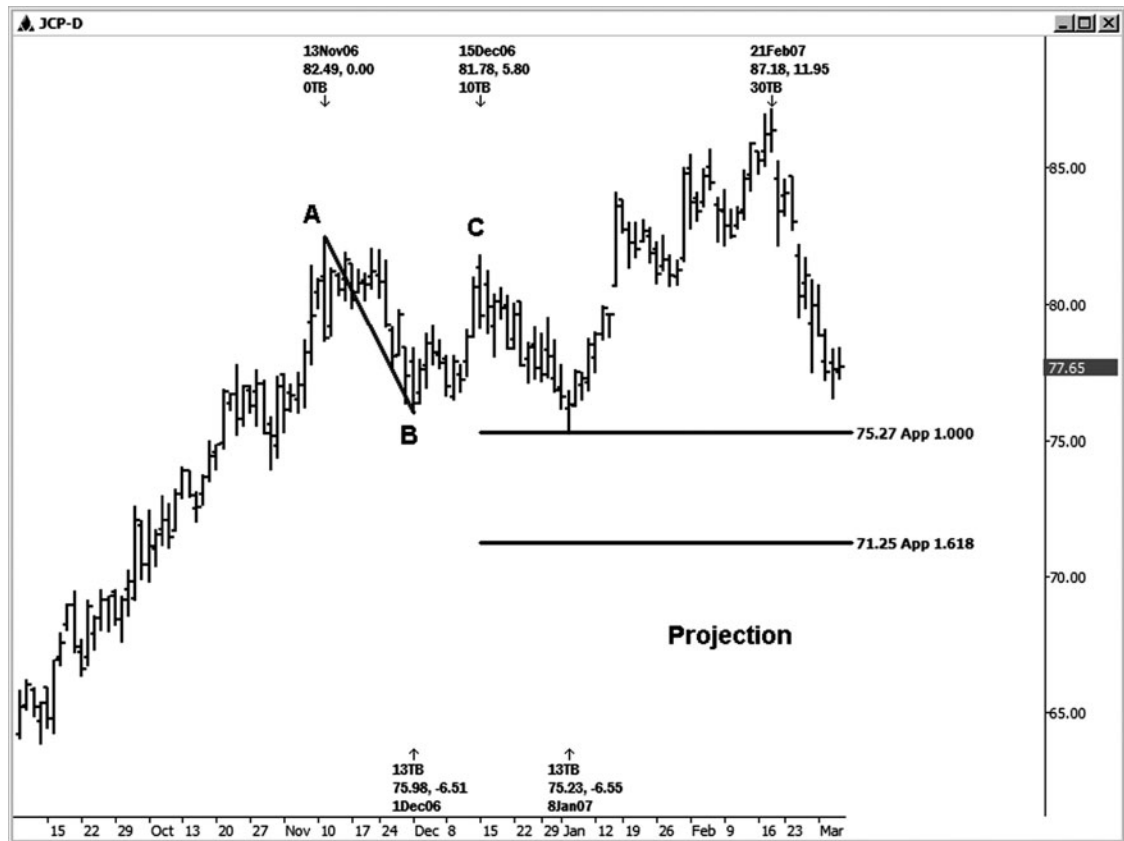


FIGURE 5-12

On the next daily stock chart of YHOO, it may be a bit difficult to see an obvious place to run a projection (see Figure 5-13). The swing low at point C is not as well defined as some of the other examples you've seen so far. Running Fibonacci price relationships on a chart is sometimes more of an art than a science. There will be times when you just have to use some common sense and/or intuition while doing your analysis. Even though the swings in this example may not be obvious on a daily chart, if you took this down to a 60-minute chart, they would be more obvious. You can always go down to a lower time frame chart and make an assessment if you are wondering whether or not to use a certain high or low in your calculations.

We measured the swing from the 10/25/05 low to the 11/1/05 high (points A and B) and then ran the projections from the 11/3/05 low (point C), looking for possible resistance. We did not see any reaction at the 1.0 projection of the prior swing, although we did see a tradable high develop right around the 1.618 projection of this same prior swing.

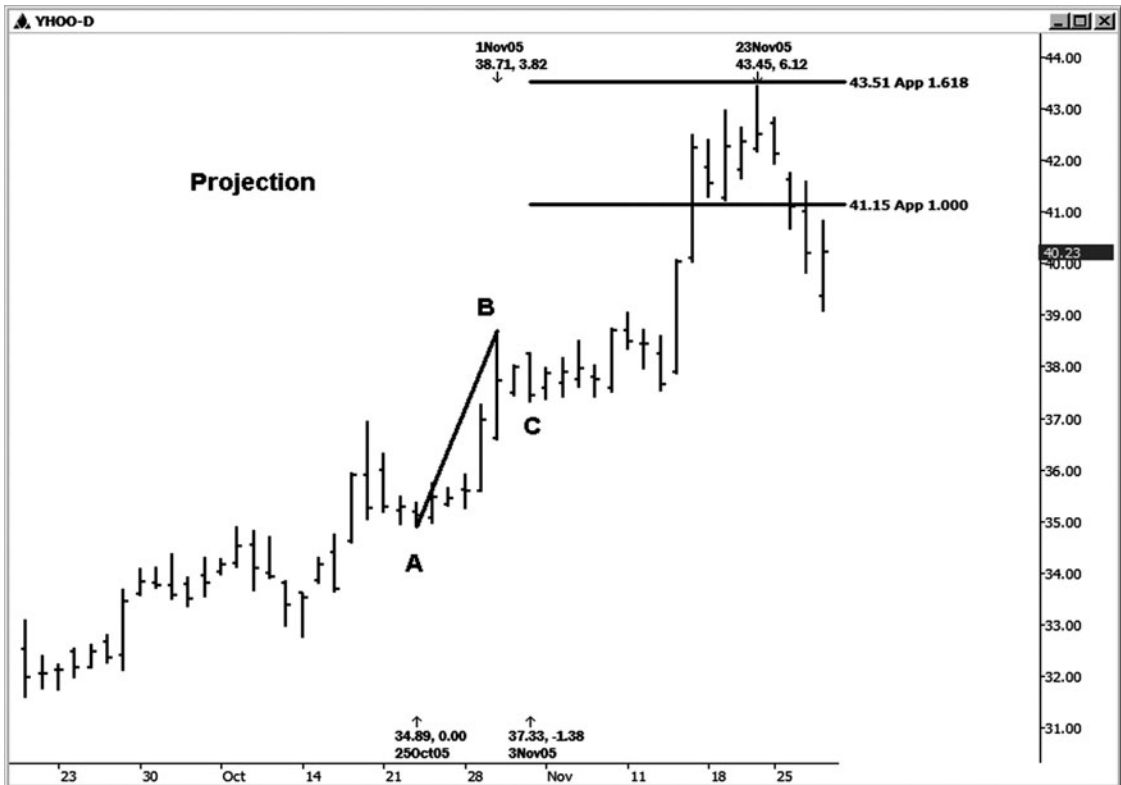


FIGURE 5-13

Figure 5-14 shows the daily GM chart where we measured from the 6/8/06 low to the 6/30/06 high (points A and B) and then ran the projections from the 7/14/06 low (point C), looking for possible resistance. On this chart, we saw a nice reaction off the 1.0 projection of that prior swing. (While the reaction just below the 1.618 projection was not really close enough for this perfectionist to call it a hit, it is still a good habit to trail stops up closer to the current market activity any time you are moving close to an important price decision. Strategies using trailing stop-loss orders will be discussed later in this book.)

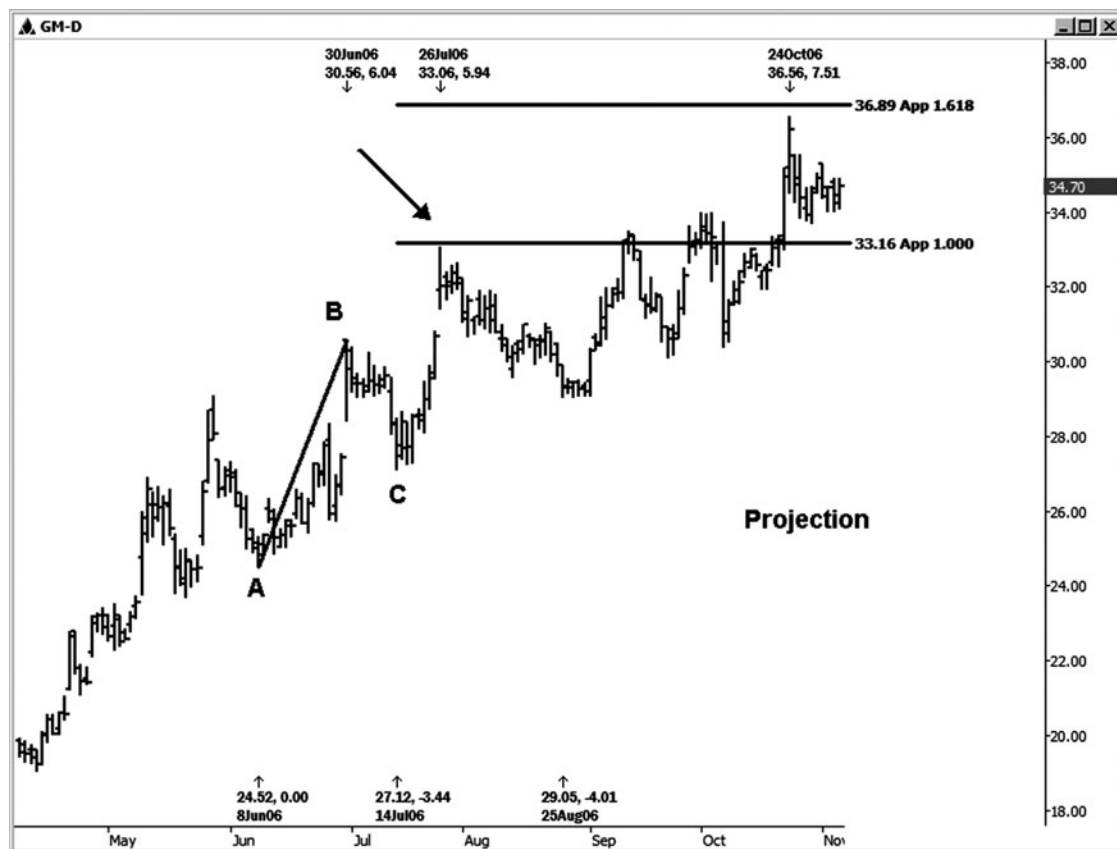


FIGURE 5-14

The last several chapters showed examples of how you can run the three different types of Fibonacci price relationships that we will use to create our trade setups: price retracements, price extensions, and price projections. The next chapter will look at the “price clustering effect,” or “confluence,” of these price relationships, which will identify our first type of trade setup: a Fibonacci price cluster.