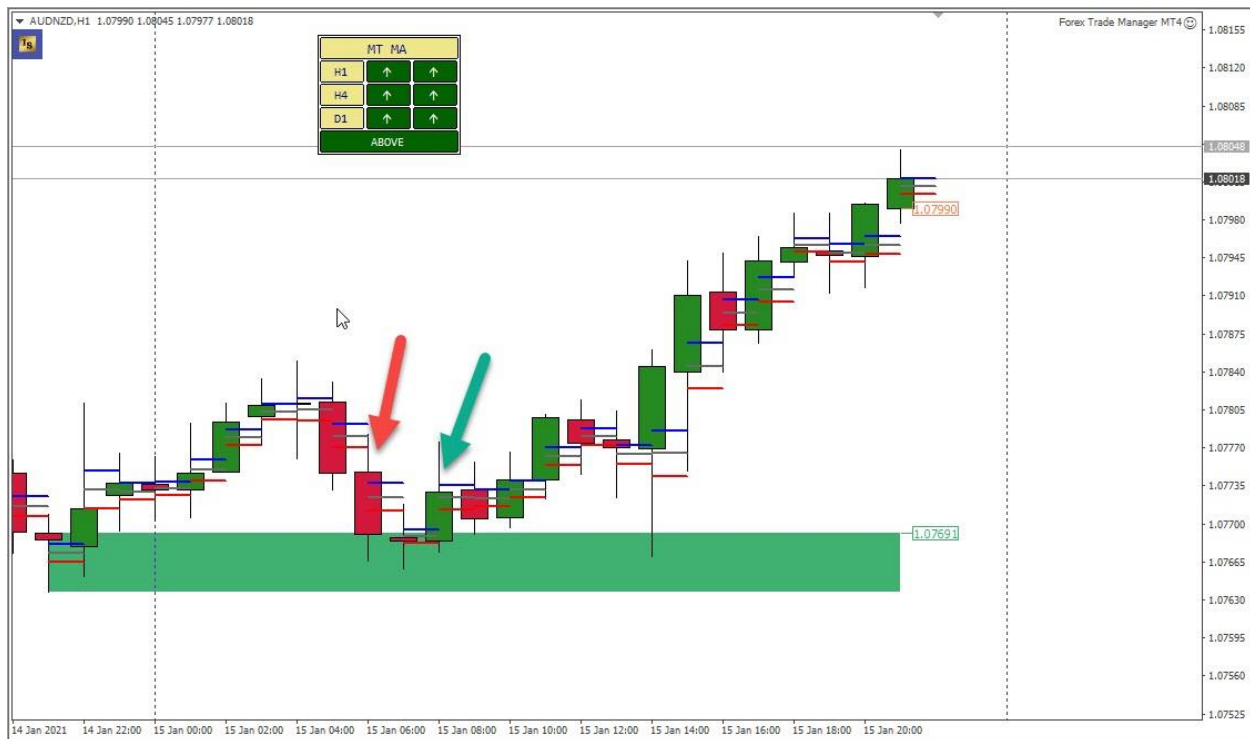


Default Candle Retracement Levels for Pending Orders

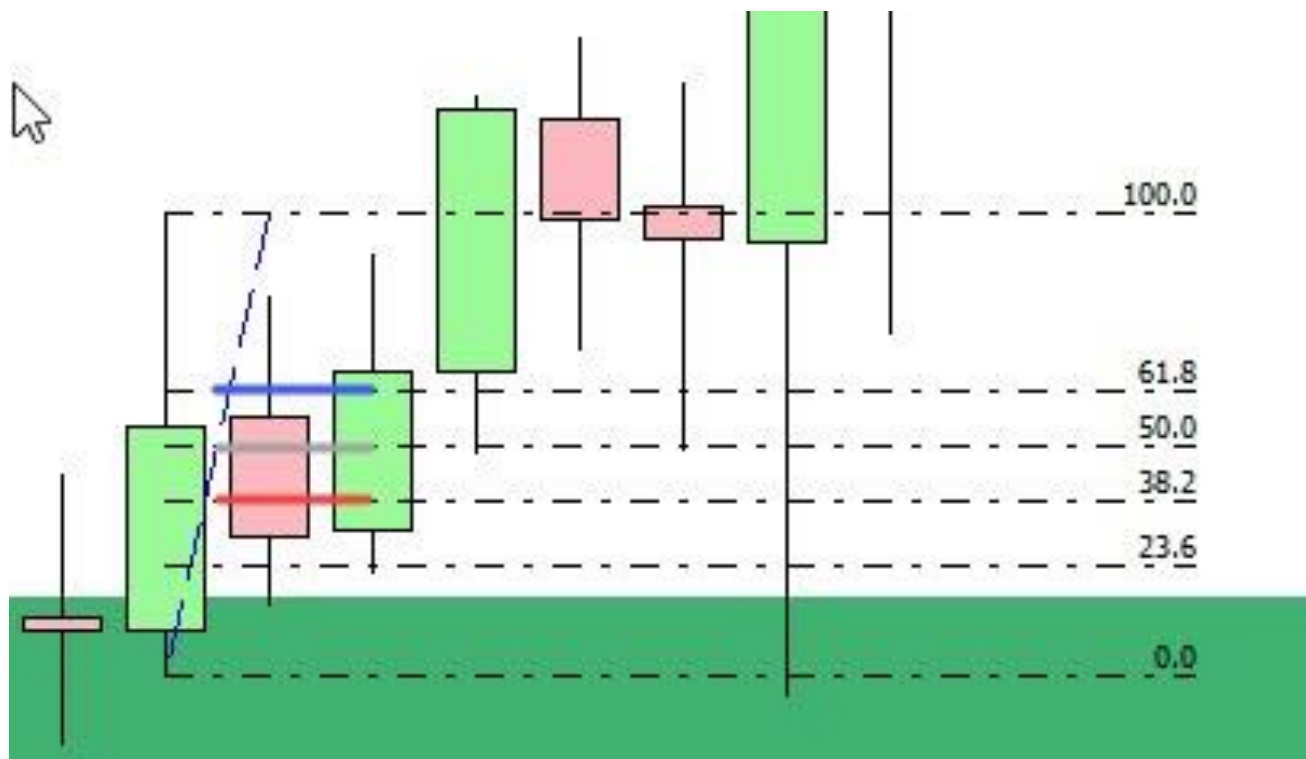
At the moment I do have an indicator that mostly works how I want, but in some instances doesn't at all.

Here is an illustration with my indicator in place:

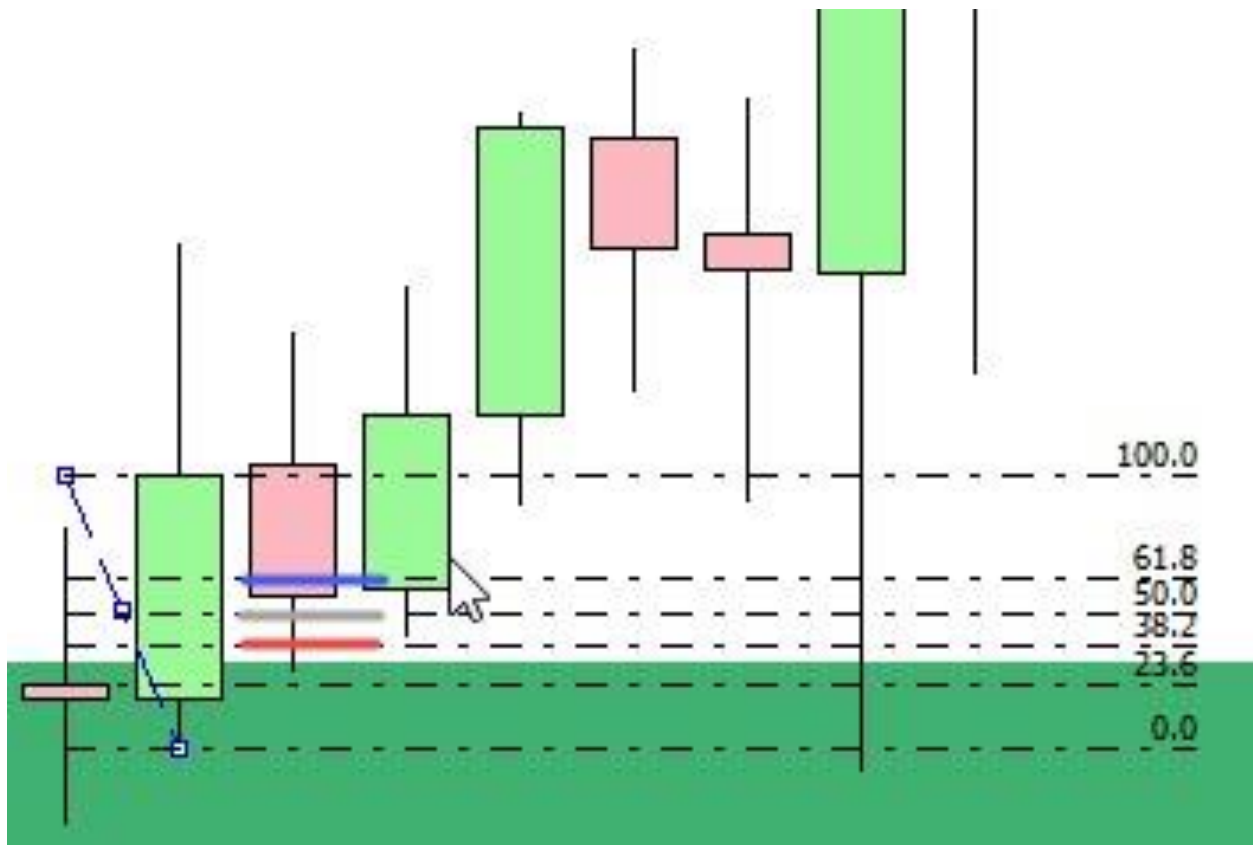


As you can see, each candle has three lines on it. The blue line indicates the 61% level, the gray line is the 50% level, and the red line is the 39% level. All of these ratios are derived from measuring from the low of the bottom wick (0%) to the high of the upper wick (100%). The size or colour of the body of the candle plays no part in this indicator at all. This is where it starts to annoy me as I will explain.

Here is an illustration that shows clearly how it works with the aid of a Fibonacci retracement tool you find on any MT4:



That green engulfing candle I have measured is where I derived my entry point from when it completed, but as you can see, those ratios it came up with does not make any sense if you want to enter at the 61.8% level. Therefore, there is something wrong with how this candle is measured. In the next illustration I will now show you what I believe is a much more sensible way to measure a candle for retracement purposes.

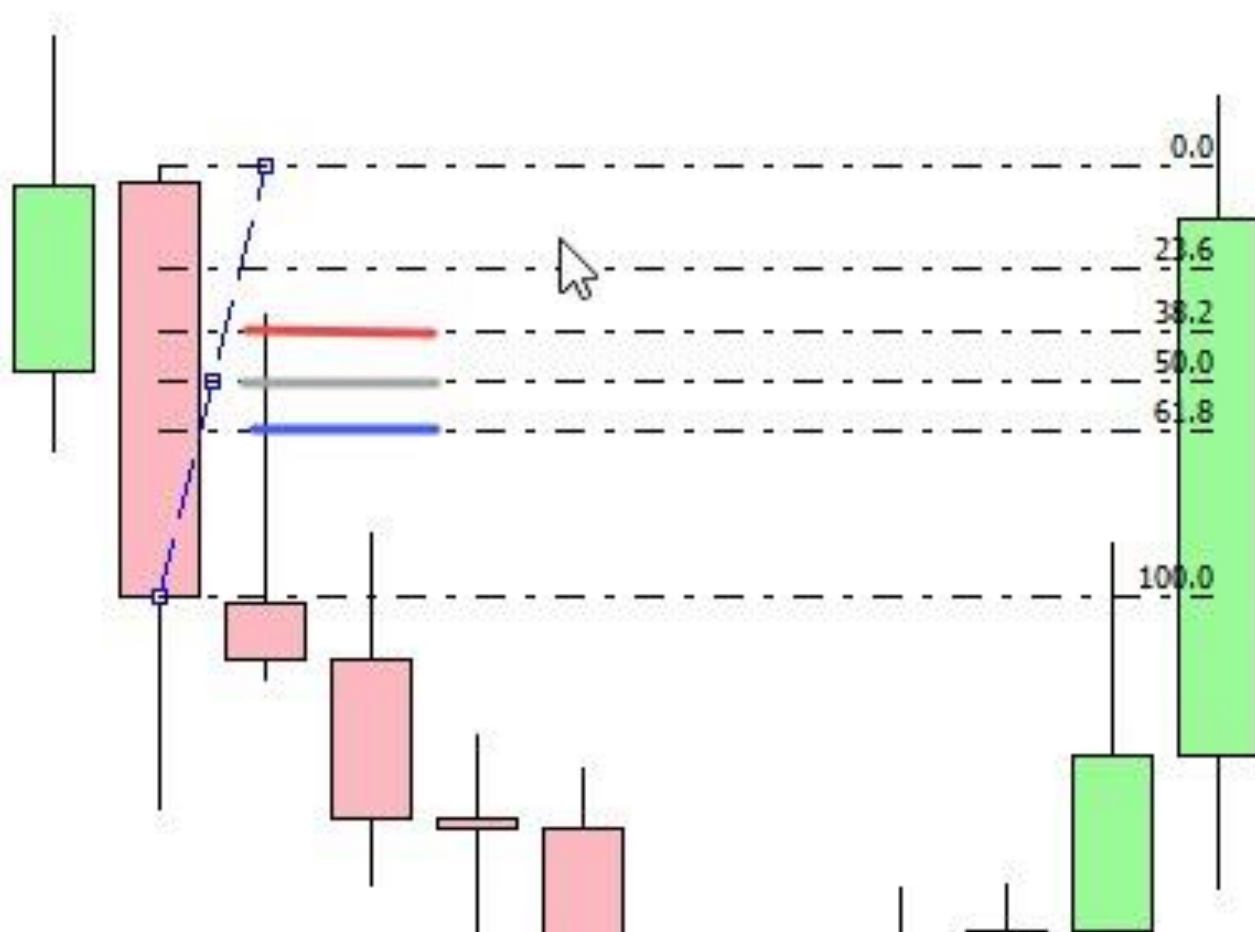


I have measured from the close of the candle to the end of the furthest wick from the close to get my retracement levels. You must admit that when I now talk about entering at the 61.8 level it makes perfect sense.

If you think it is bad for this green candle I showed you, it is worse for a red candle. I shall explain:



I am now measuring for a possible retracement entry on that pink engulfing bearish candle. Even though a 61.8% retracement with this tool kinda works, I still much prefer a measurement from the close of the candle to the end of the opposite wick like this:



In the case of measuring a red candle it is upside down from how the indicator did it. As you can imagine, this difference in measuring like this becomes even more profound when the ratios of wick and candle bodies differ in different scenarios.

Now that I have explained my thoughts of how my desired retracement levels are derived, I will now delve into my ideas of incorporating this concept into your tool.

I will do it in one of two ways to begin with:

I will either include it as additional defaults into the “Adjusting line to current price” icon, or I would make its own icon that looks something like this:



I would have a couple of menus in the defaults to make this work:

Menu 1: Candles to derive Retracement levels from

Input 1: 0 to 9 (This input is the most recent completed candle in deriving the retracement level. I would choose the value of 1 indicating the most recently completed candle. 0 is the current candle uncompleted, and 2 is the candle before the one I would choose.)

Input 2: 0 to 9 (This is the oldest candle you want to use in the calculations some people may want to combine a few candles together into one to derive retracement levels, but in my case I only ever want to deal with the most recently completed candle, and so my input for this will also always be 1.)

Menu 2: How the Fibo tool is used

Input 1: Base measurements on “Close Price” or “Open Price”?
(I would always choose “Close Price”)

Input 2: How to measure Candle?

- Wick to Wick
- Body to Wick (This is what I would choose)
- Body to Body
- Tail to Wick (I cannot imagine anyone using this one, but you never know.)

Menu 3: Your retracement level

Input 1: 0% to 100% (I will always go for the 61.8% level)

Now that my settings are done, all I need to do is click the “Retracement” icon, click the pencil icon, and now similar to how an engaged “Adjusting line to current price” icon, it will now place my entry on the desired spot for where I want my pending order to be no matter where on the screen I click.

As an extra feature which I care nothing about, but that I suspect many would enjoy is to add this to the default stop loss level the way it can do with ATR.



Here you can see a lovely hindsight 6 risk to reward has worked out to perfection with the stop being in the 23.6% level. I'm sure there are traders out there that would love to place a default stop loss setting like this in a big and dominating candle that often has a setup like this on a middle Bollinger band bounce with strong RSI/Stochastic Divergence thrown in for confirmation.

Additionally, I'm sure there are traders that like doing their Take Profits (Risk to Reward) as an expression of a Fibonacci extension as illustrated below at the 161.8% level.

