GBP/USD

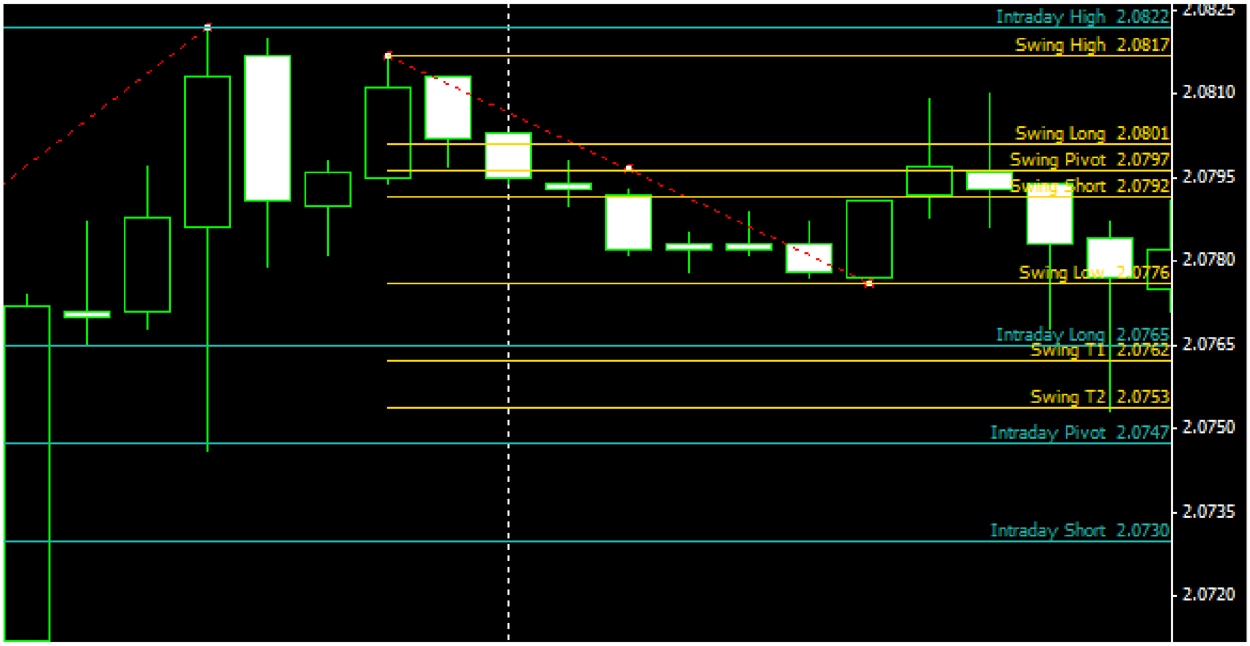
Fibonacci Breakout Trade Results

November 2007

First half of November completed.

Daily chart of November to follow.

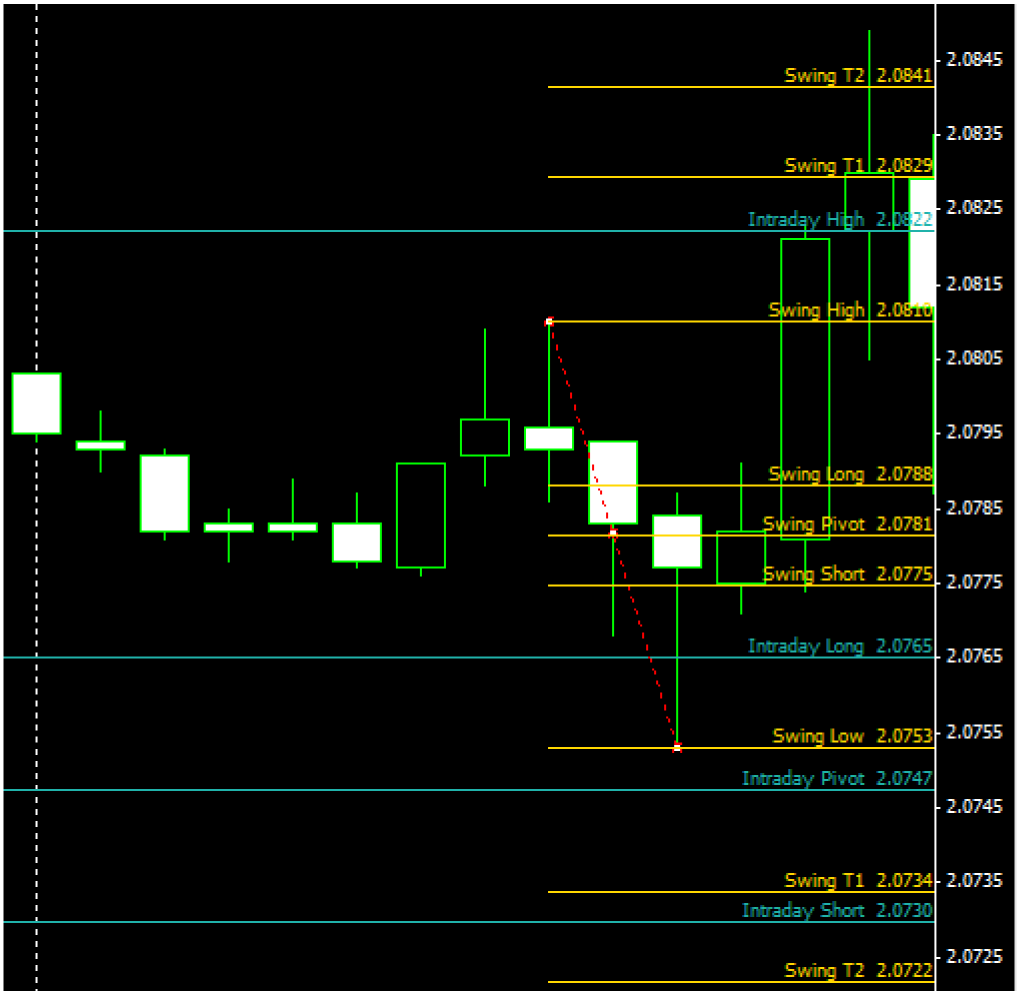
Notice: This PDF would not have been possible with VISTA AND ADOBE. Long live freeware PDF writers! *<u>And beer</u>.*



Thu Nov 1

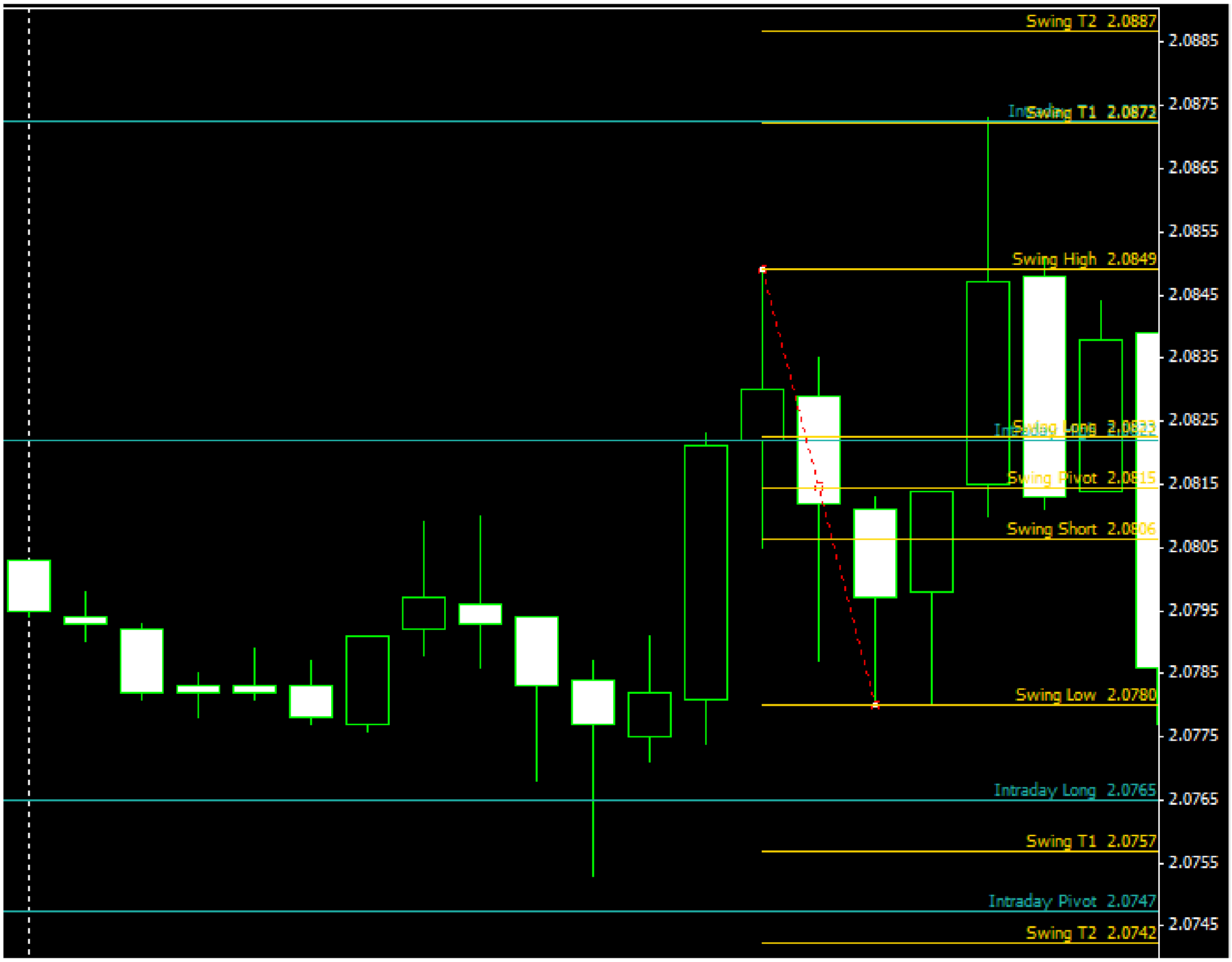
As Asia opens there is no clearly defined low to pull a swing to and the consolidation poking at the possible swing lows makes it too uncertain, so swings are only drawn once a clear move begins.

After standing aside and drawing a low swing as shown, price moves to the center of the swing and shows signs of resistance to the up side with long wicks, and real bodies remaining more to the short side. A swing low break would result in a successful T2 trade.



Thu Nov 1

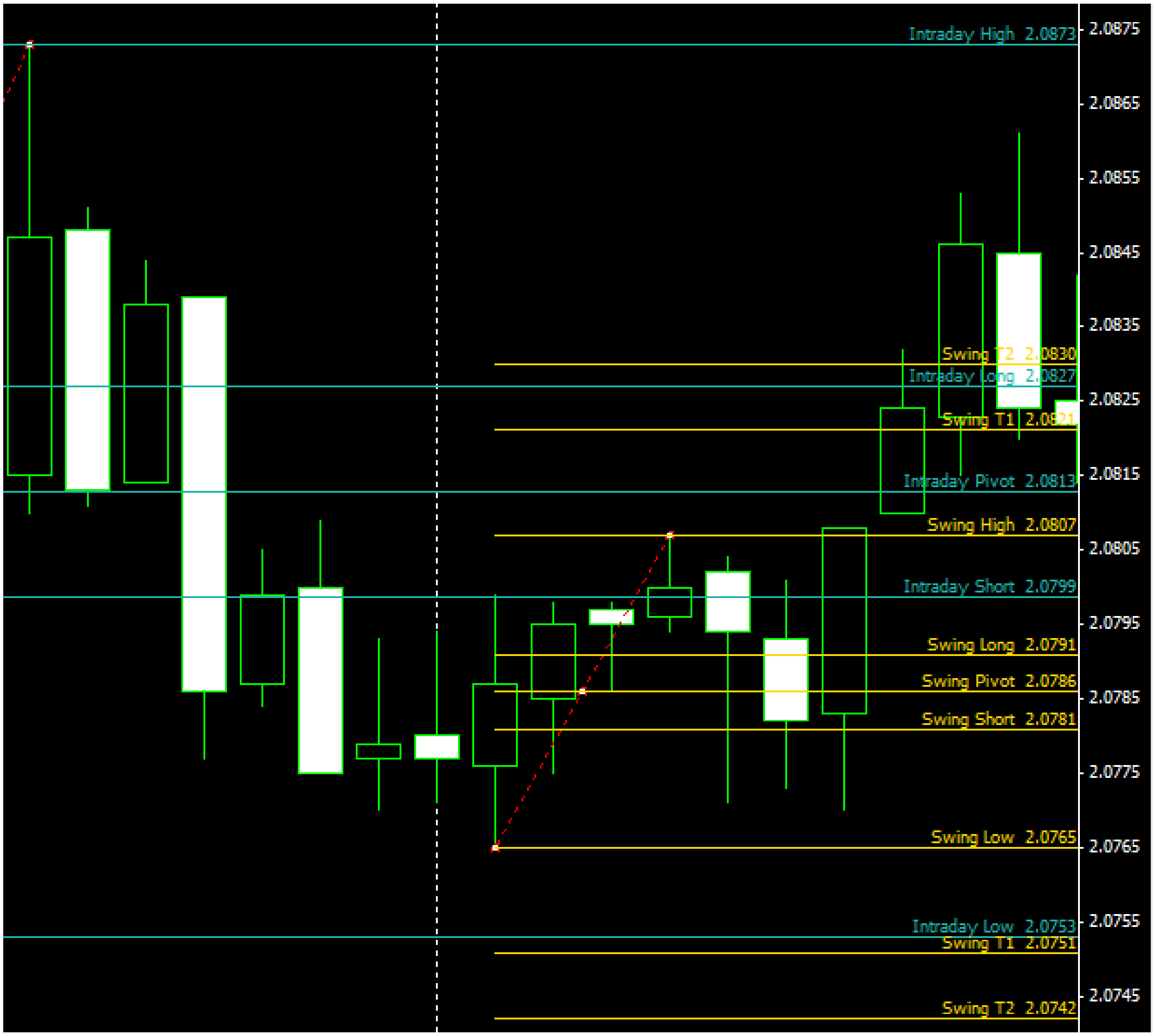
The next swing is drawn after the last target is met and a retrace occurs. Candles move to favour a neutral to long bias and a break reaches T2.



Thu Nov 1

The swing high is relocated to the latest high. When price retraces down after the last move, support is established and a move upward begins.

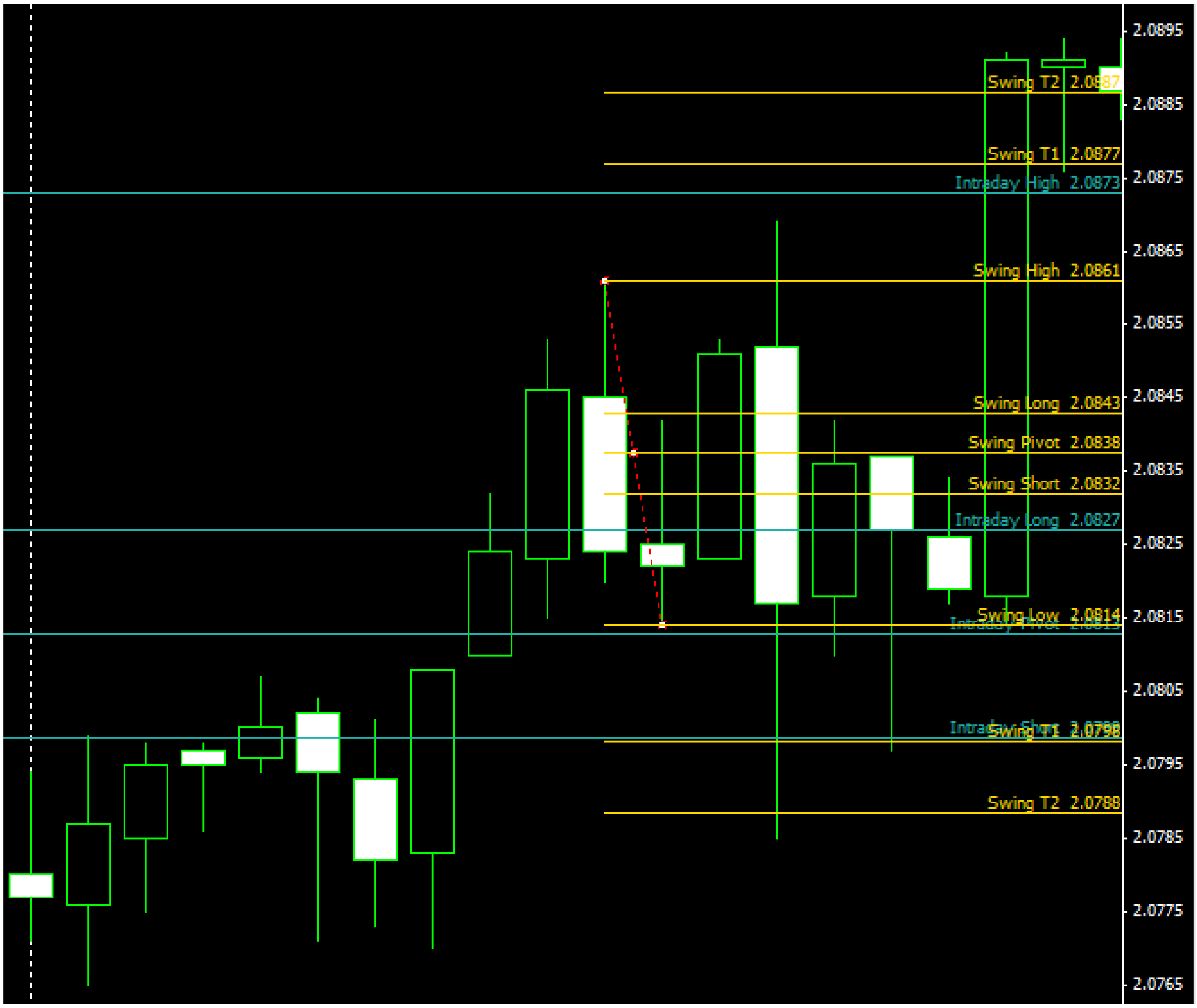
The trade bias appears to switch to the long side and a break of the swing high results in a T1 target.



Fri Nov 2

Within the Asian session there is a clear high and low formed before London. The candles that form within the swing are located physically within the neutral to long side and don't close or open on the short side below swing short, so a long bias is maintained until finally a break occurs.

T2 is more than adequately achieved.

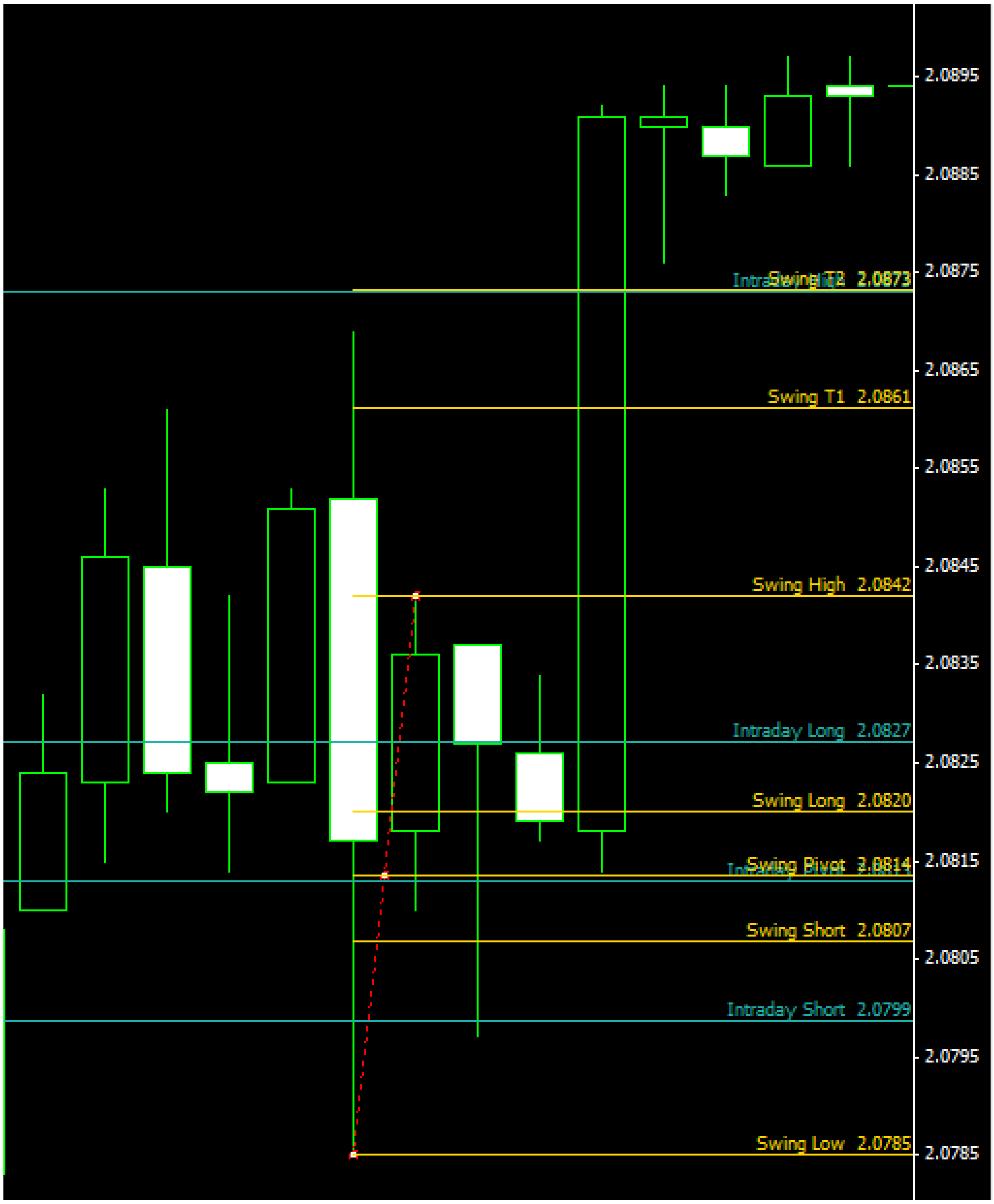


Fri Nov 2

After the previous targets are met, price does not retrace back very far, it stays around the target levels so it could be viewed as a non tradable time until a new distinct swing emerges. The setup shown here is not traded, it is just drawn to illustrate another way a trade can go bad and how it may be prevented.

If this imaginary swing were traded, the bias is long up until the single candle that caused a break out of both the low and high. This was most likely a news related incident. Looking at the candle on a 1 minute chart shows that the down move was first to occur at 7:30am EST and was a surge that went down within one minute and retraced on the next minute. If a long order was the only one pending due to the previous bullish candle, this wouldn't have been a problem and it could alert the trader of a volatile session and to avoid trading until things settle. Any pending long orders could be cancelled until a new swing is placed.

The swing high break occurred 10 minutes after the short trade and would have resulted in a stop out if the long biased trade were allowed to occur. If this were being observed in real time, a trader should have forfeited any pending long orders for a while after the news.



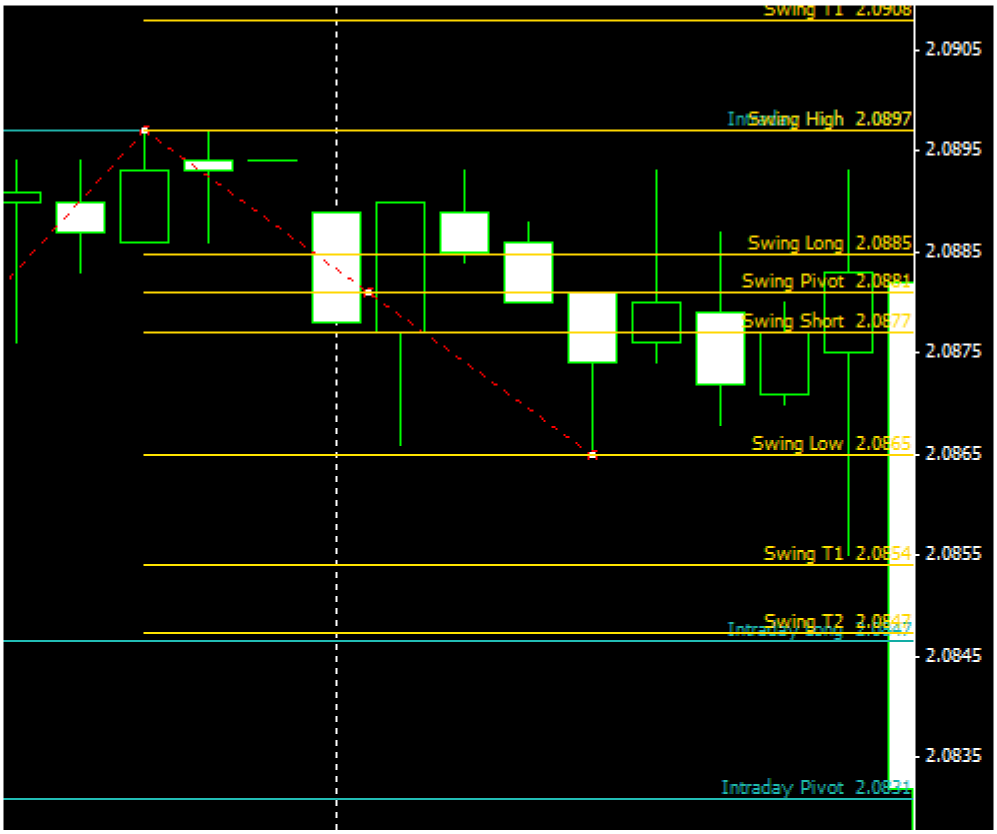
Fri Nov 2

After the news surge, the spike down had retraced the first swing of the day so things are ready to start fresh for a new setup.

The spike provides a low point and the next candle gives a swing high. The swing high candle has significantly retraced the spike candle and is followed by a candle with a lower high and lower low.

The real bodies of the candles in the new swing are biased to the long side and a successful T2 is traded.

The break out candle looks big but on a 1 minute chart the up move was gradual.

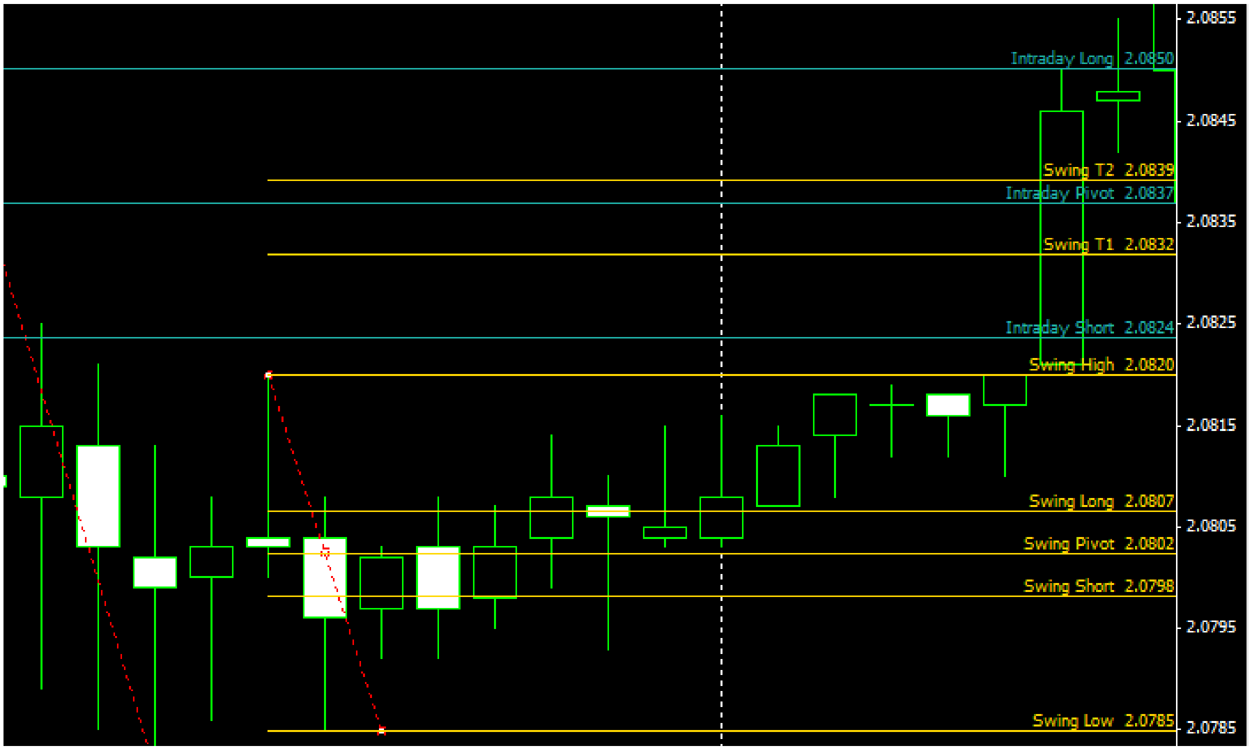


Mon Nov 5

The Asian range is mostly below 30 pips and starts looking choppy so the swing could be drawn from part of Friday as shown above, or stand aside for a better setup.

If the swing is taken from the previous day leading into Asia, the overall bias appears neutral to short by looking at the bearish candles leading to the point where the low is drawn, and the failure of any following candle real bodies to open or close above swing long. The stop should be above swing high since the range is only 32 pips.

The end of Friday was a long up candle with several candles holding that level as seen leading into today. A drop in price would be expected to retrace that long up move. Also there is an upper resistance showing from the spikes within the swing range. There is no reason not to place a pending short order, and price goes beyond T2.



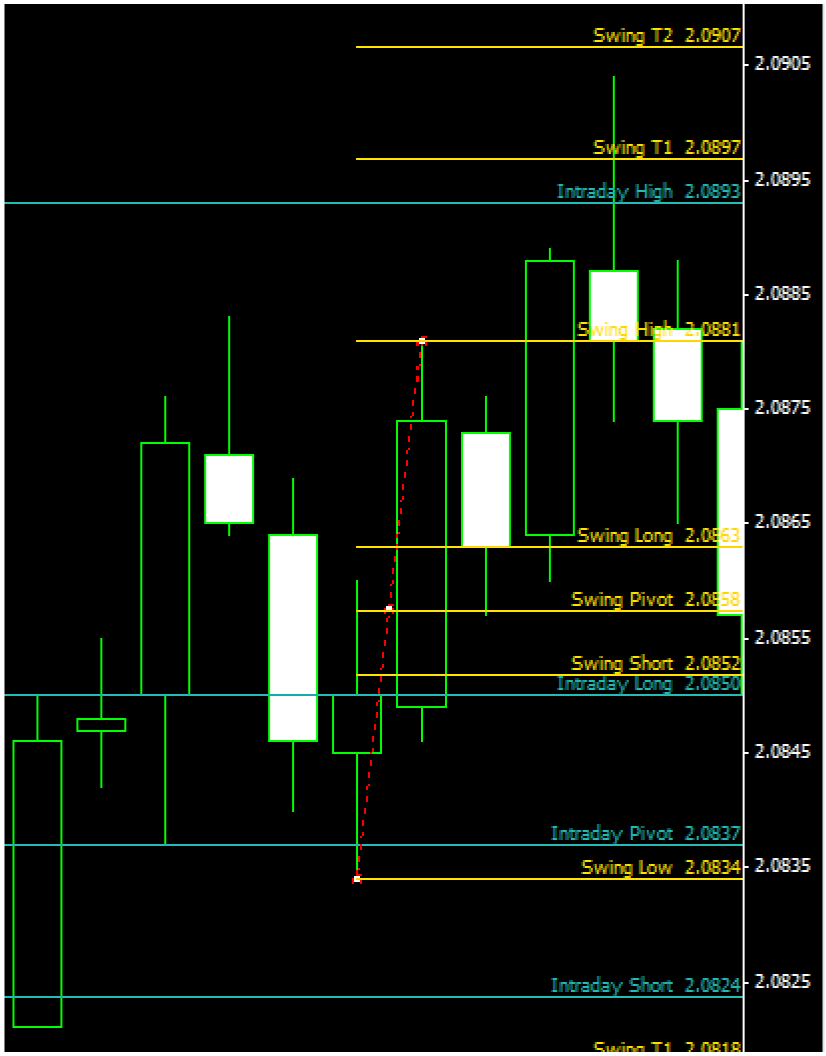
Tue Nov 6

This is a similar situation to Nov 1 where an Asian consolidation occurs near a swing extreme, resulting in a judgment call to stand aside and wait for a clear level to pull swing fibs, or put faith in the bias unfolding. If the swing high is broken due to consolidation noise, the trade might fail.

In this case, the long break out occurs just a little before London but it does look stable and long biased, so if a trader wished to use other analysis methods to support a long move, it could be justified.

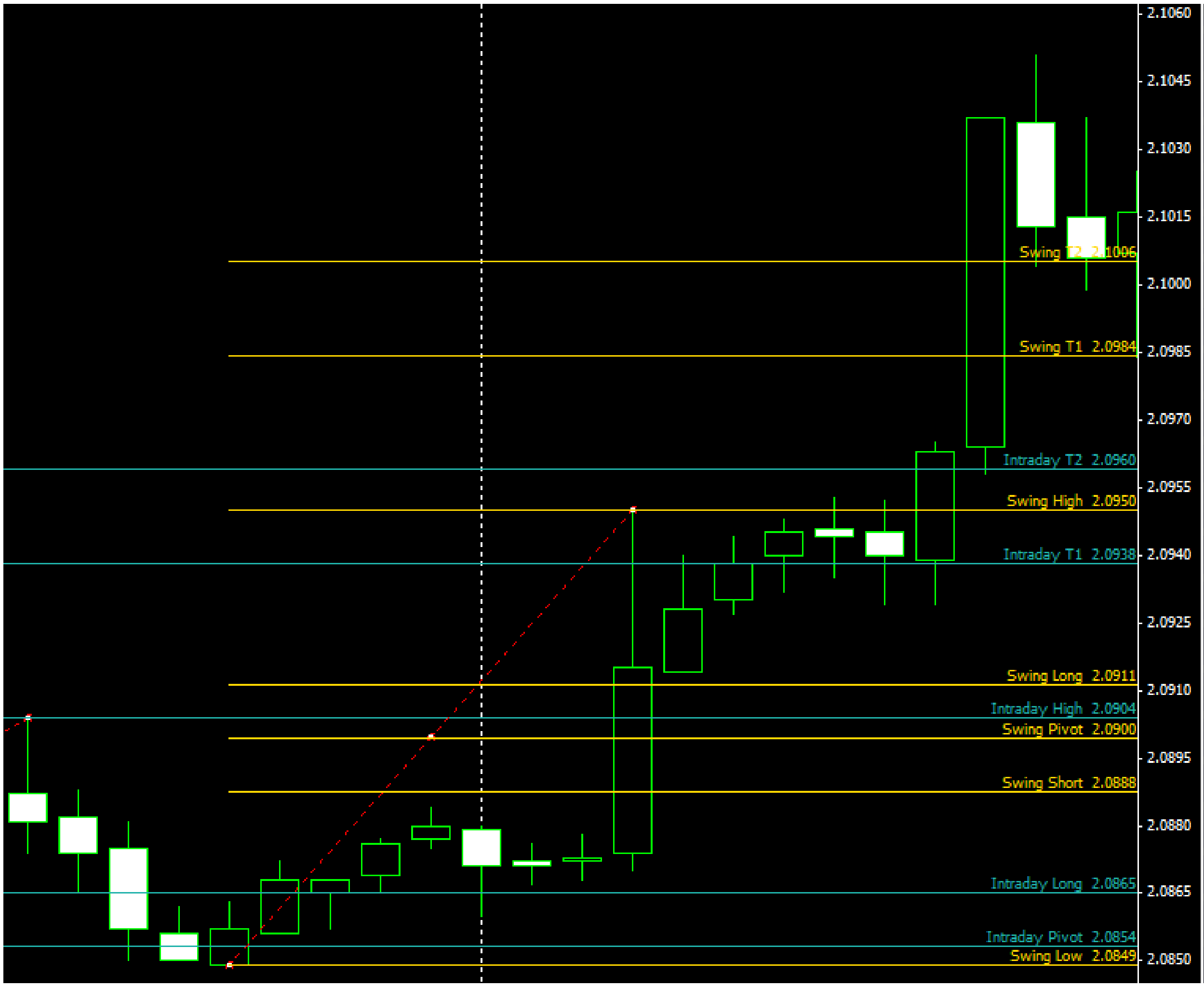
For example, looking at a lower time frame exploits a horizontal resistance line right at the swing high level , supporting a pending long order with confluence of swing high resistance and lower time frame resistance being tested prior to break out.

T2 is the reward.



Tue Nov 6

After the previous move is finished, the swing levels can follow the successive highs and lows until the next break occurs as shown. T1 is reached on this move.

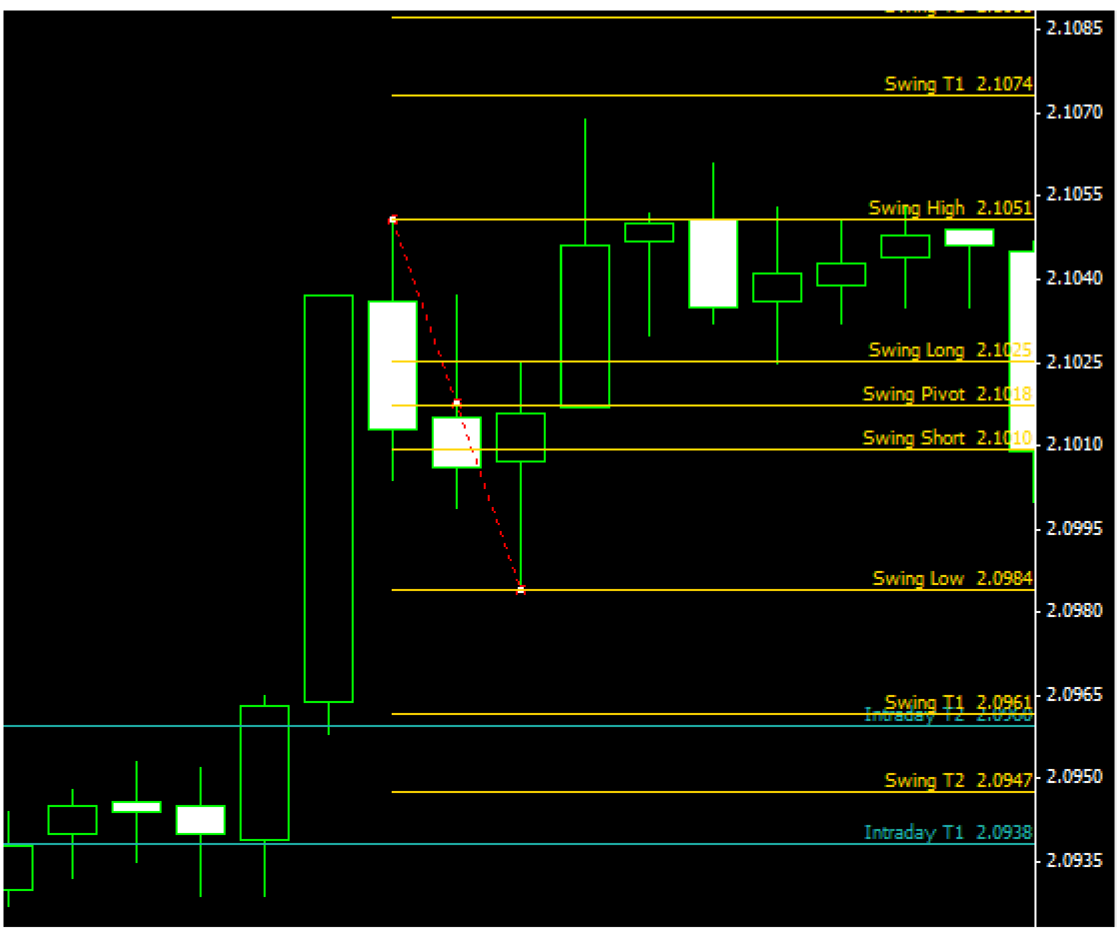


Wed Nov 7

There was an early break out at 9pm EST that wouldn't have been caught but it gives a point to draw a swing high. Swing low can be alternately drawn at the low of 0:00GMT (vertical separator line) and probably should have since it appears to have significantly retraced the small wave, but it's all subjective and enough traders were looking at the bigger picture to move the market far enough to cover either option of swing low.

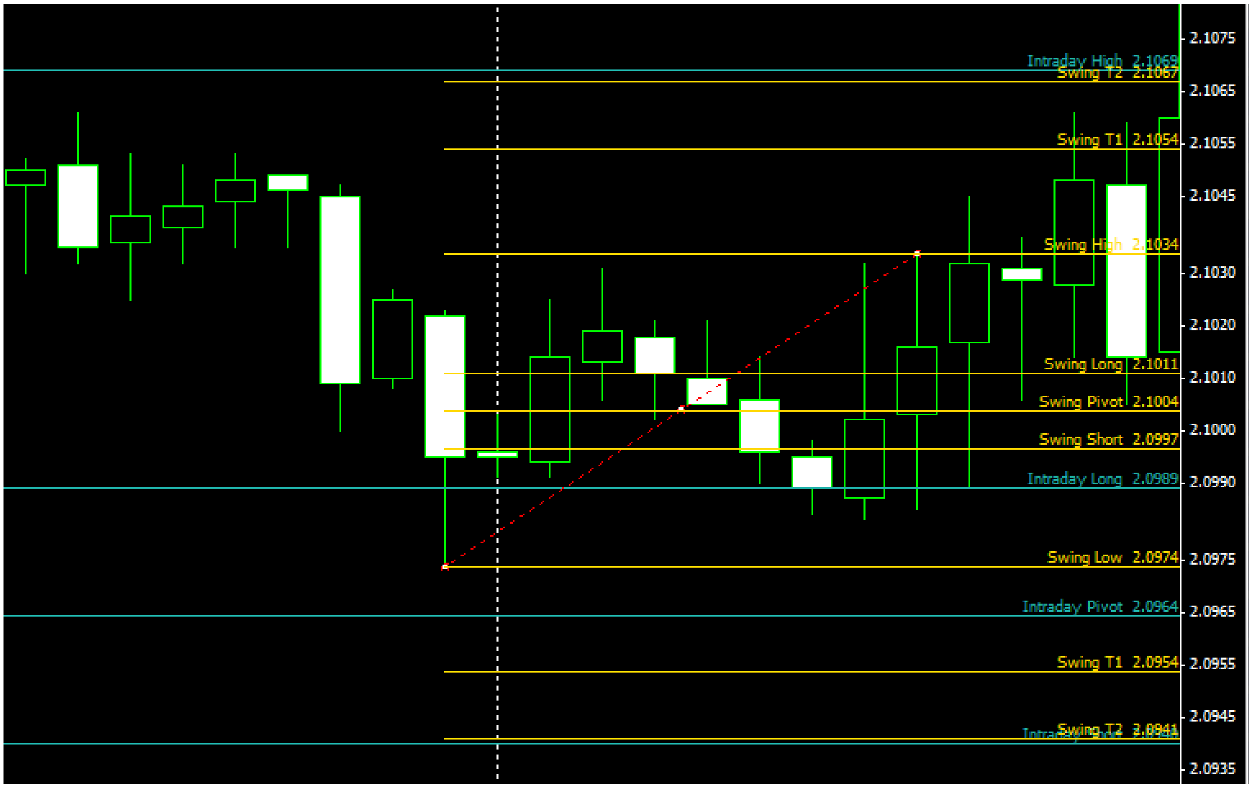
The activity that followed the break out showed a 38.2% retrace as well as an overall long bias.

A break of the long would result in an easy target with minimal threats to a pivot stop.



Wed Nov 7

The next swing setup results in a failure to reach T1, but the price activity stays close enough to the order entry point all day without a stop out, allowing a discretionary exit at break even or a small loss when things don't work out.



Thu Nov 8

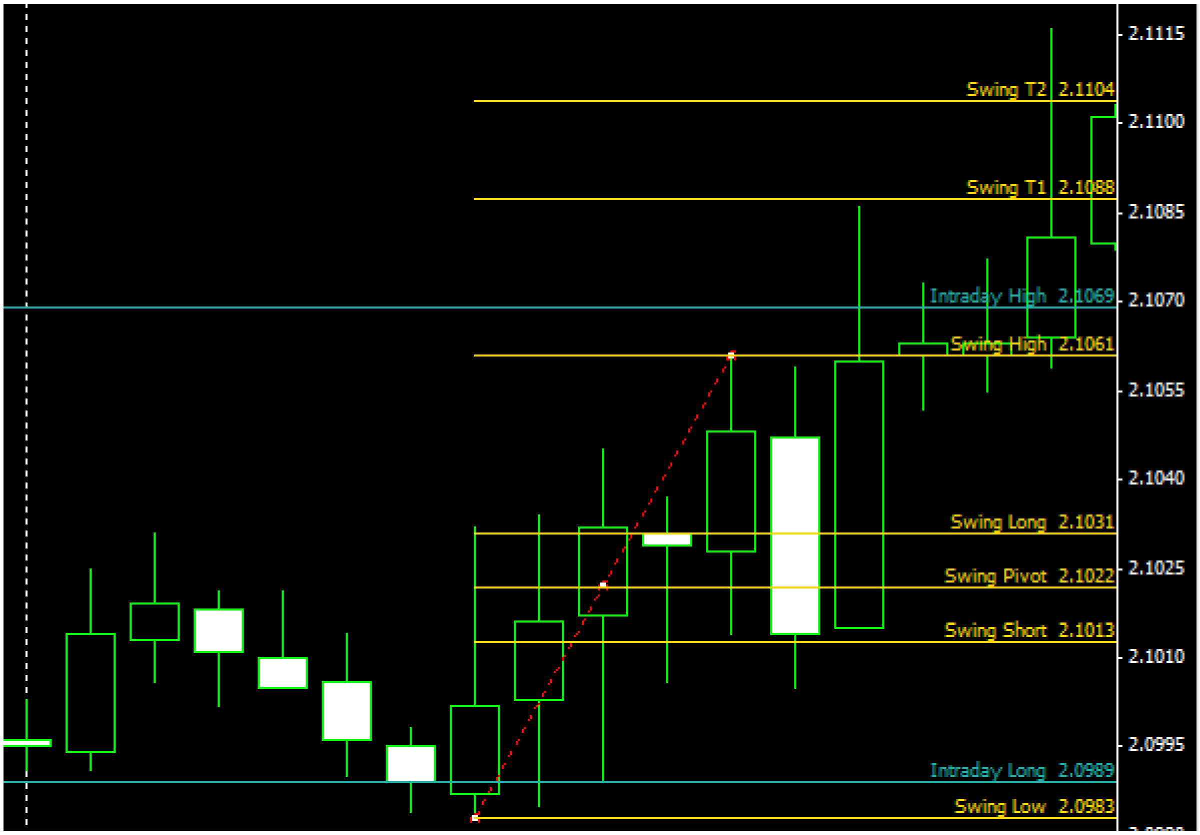
The swings as shown are the final decided location before an entry is placed long. The reason the swing low is not closer to the low near London is due to the volatility of the spike candles that start threatening the extremes of the swing range if the low is pulled too close. The swing high ends up on the spike as shown by following the directional bias from short to long.

During Asia there was a distinct high and low swing range, and the bias was for a short break with the candles behaving on their way down. A long order would not be pending once the real bodies of candles are located below the swing short, so no false sudden triggers would occur, but a candle shoots up near the swing high, then returns. This forms the first spike up.

At this point the bias is still short to neutral, so no long orders would be falsely triggered by spikes up. The next candle is equally volatile and the real body shifts the bias to the long side when the candle completes, as well as providing a new place to move a swing high, as drawn. Now any further spikes up higher will trigger a long order.

The swing low remains anchored in the previous day instead of moving to the latest low because the range would be too narrow for all the long wicks going end to end by the time the newest low is formed. It’s subjective.

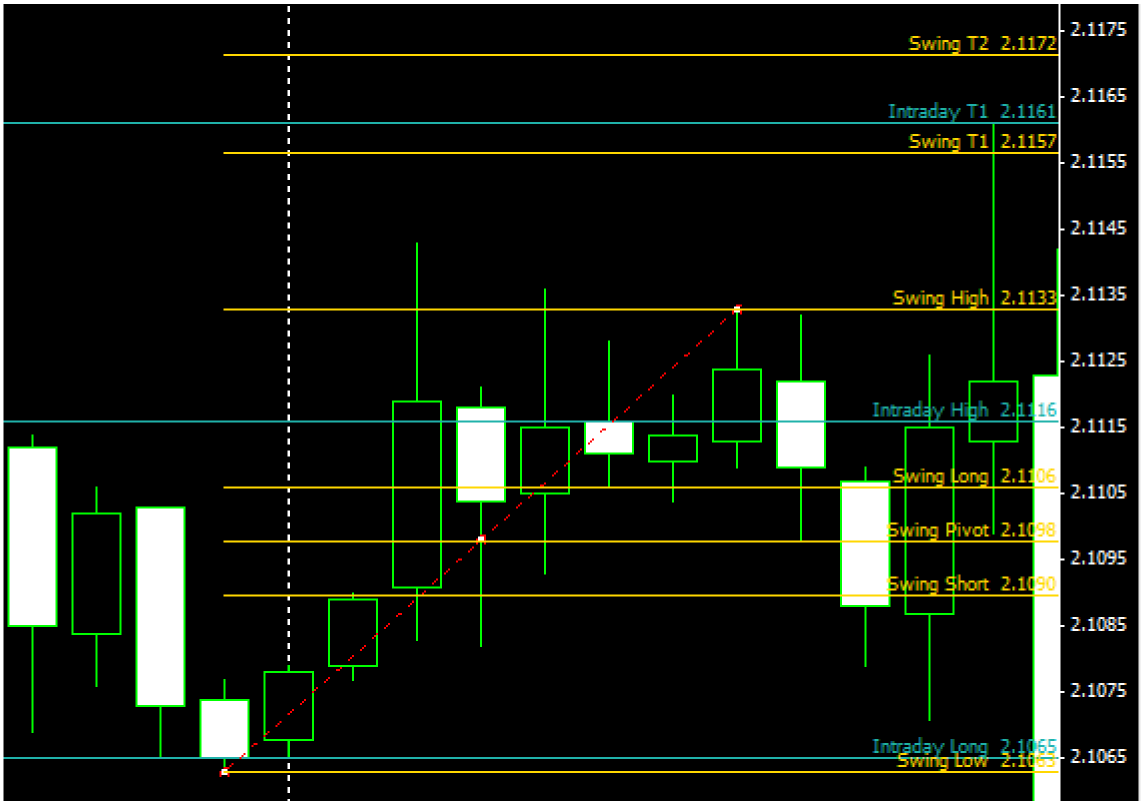
With the swing as shown and the bias shifted long, a break of swing high results in T2 being met. A look at a smaller time frame confirms there would have been no stop triggered with all the volatility. The break out candle moved down before it went long.



Thu Nov 8

With all the noise it is very subjective where to pull swing high and lows. After the last move, a new high can be drawn when a candle forms a lower high and lower low, leaving a peak behind it. The swing low could be moved up to a candle that went for a dip within the up move, but the swing fib doesn't look very tradable so the low is left as shown.

The candles respect the long side of the fibs and T2 is eventually reached. On a 1 minute chart there is a big up candle that triggers the long entry. Slippage may have caused up to 19 pips to have been lost but when the target was met there would have been no net loss.

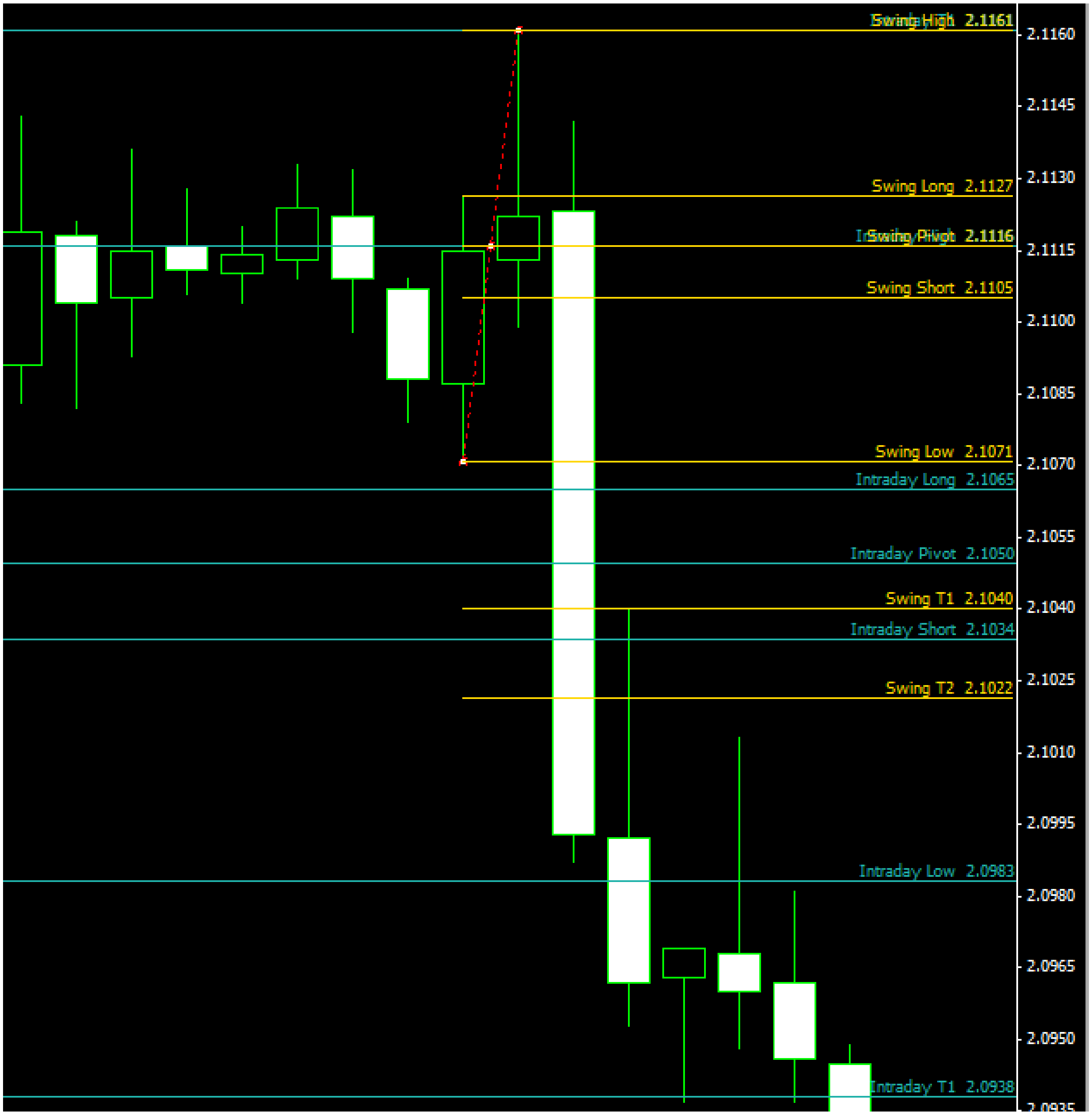


Fri Nov 9

The first and highest spike of Asia could be a swing high, but as the following candles form, a consolidating triangle leads into London. By the time a pending order can be placed near London, the triangle breaks out and moves slightly up to the swing high shown, then starts to move in a proper wave, most likely to obey fibs now that the markets are open and candles are shaping up.

Since the candle bodies cross back and forth the swing retrace levels, the pending order bias may be altered from long to short, then back to long, where the high breaks and reaches T1.

The long break looks like a 1 hour spike, so verifying on a smaller time frame reveals a smooth transaction with no slippage.



Fri Nov 9

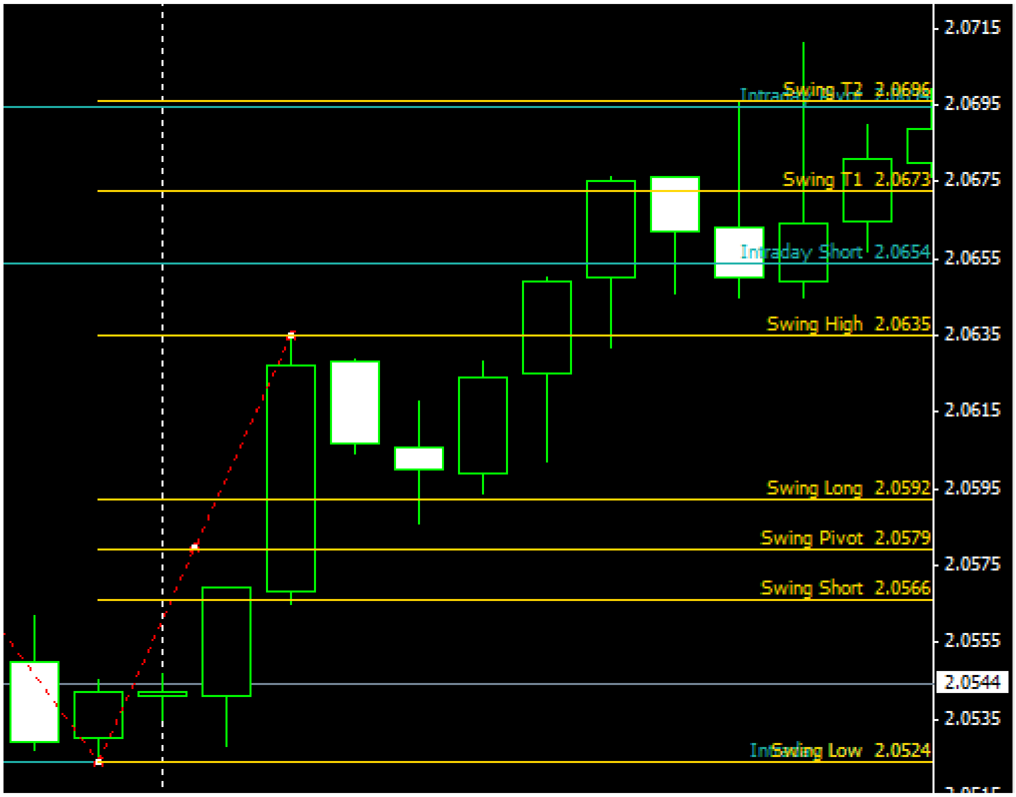
After the previous target is met and a significant retrace of the swing has occurred, a trader may choose to pull a swing since things begin to look very bearish and a short may work out. When the swing is drawn, the real body of the candle is neutral. All activity after that is bearish, leading to a short order if the trader's experience gives enough incentive.

The way this breakout occurred in real time was a controlled descent, not a spiking chaotic hazard, so the bearish sentiment could have been reinforced with experience of how markets move and the probability of success.

Mon Nov 12

Faith would have to be put in this trade. There was a gap down between Friday and Sunday so the swing high has to be subjectively chosen. If it were as shown, a short trade would have worked out well but if the swing were drawn any lower, it would have been a failed trade with a stop out of at least 50 pips.

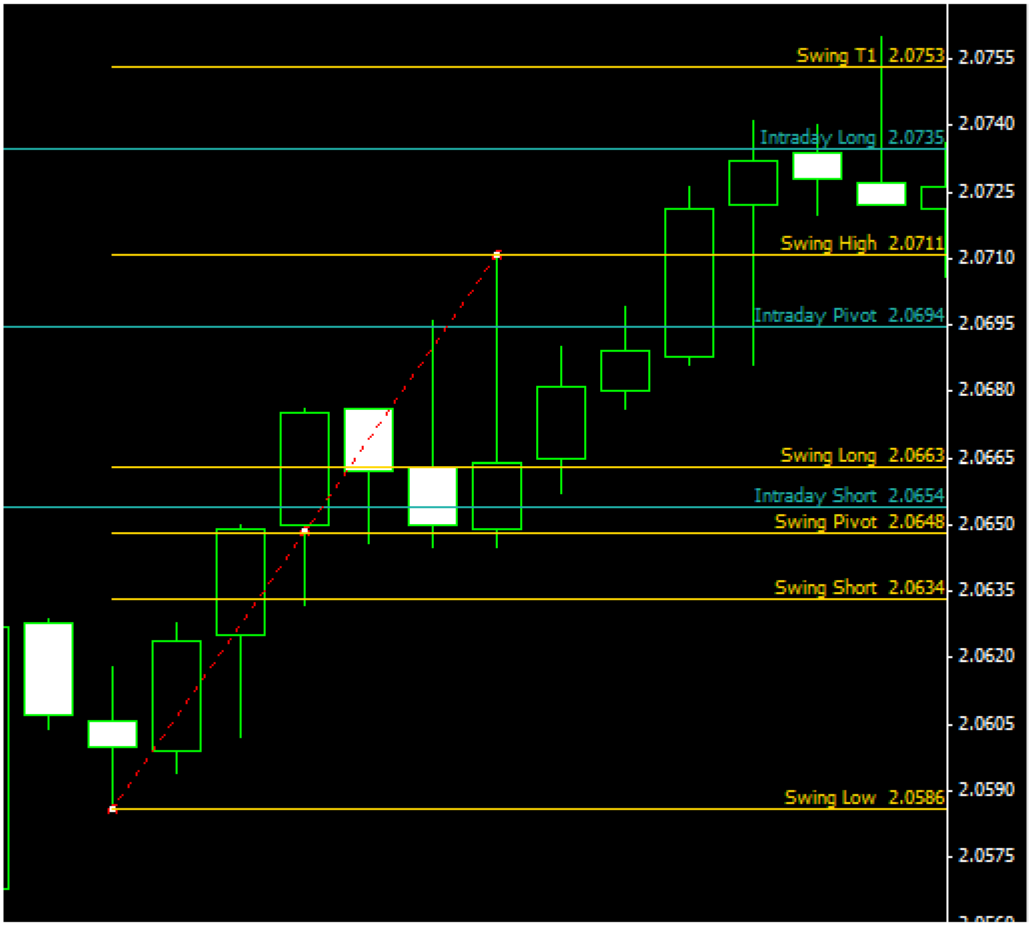
Visually it looks like a smooth descent from Friday through the Sunday Asian session so the swing high would be placed on Friday.



Tue Nov 13

The first break occurs just on the borderline between Asia and London so it is up to discretion to take it or not. It looked very clean and strongly long biased, plus the past several days had been heavily short biased so a retrace was due.

T2 was met, and if that first swing was missed, there was another swing overlapping this swing's break that could have been traded.



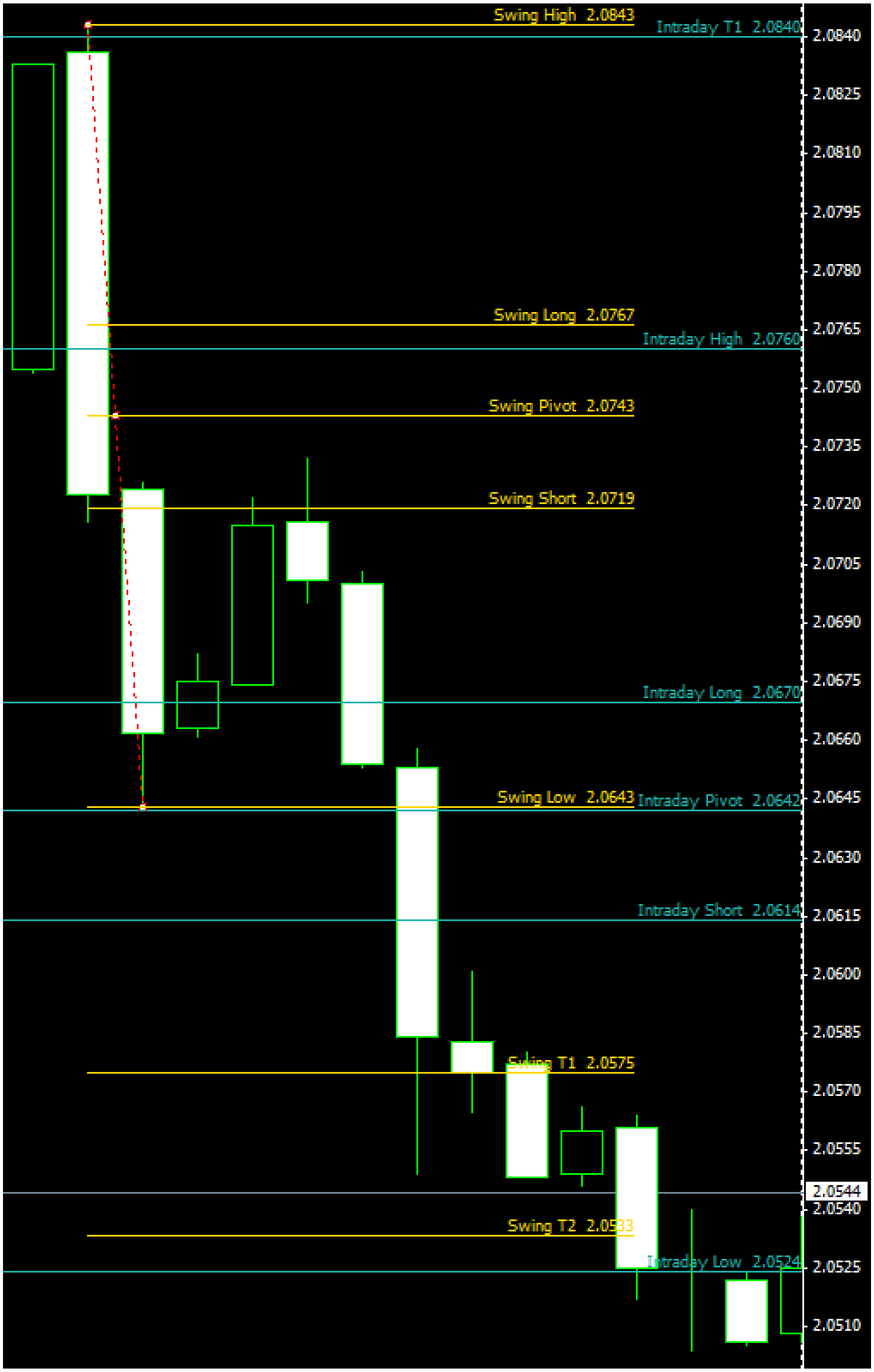
Tue Nov 13

When the previous swing targets are tested with a few spikes, things appear to stabilize with a few small bullish candles heading back up to test the spike peak for a 3rd time. This gives a place to draw a swing high since the previous move is settling down and it looks like it may break long again rather than going for a retrace.

T1 is reached after a break of the new high.

Wed Nov 14

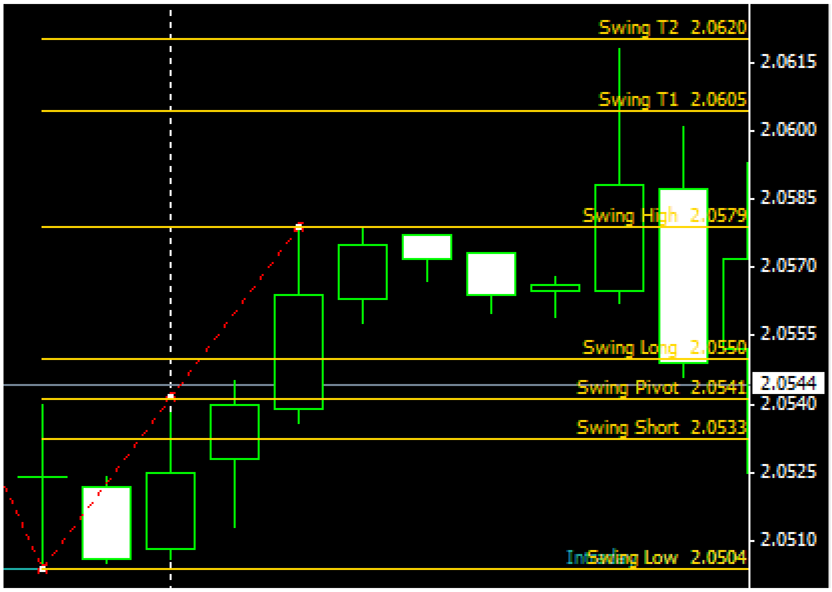
This would have been scary but successful for a T1 target. The activity was all bullish but once the high was broken, a retrace occurred near the pivot. The long move proceeded to T1, where it remained for several minutes on the smaller time frame before plummeting.



Wed Nov 14

After the sudden reversal short, this is the next opportunity to update swings. The bias remains short and a successful T2 target is realized.

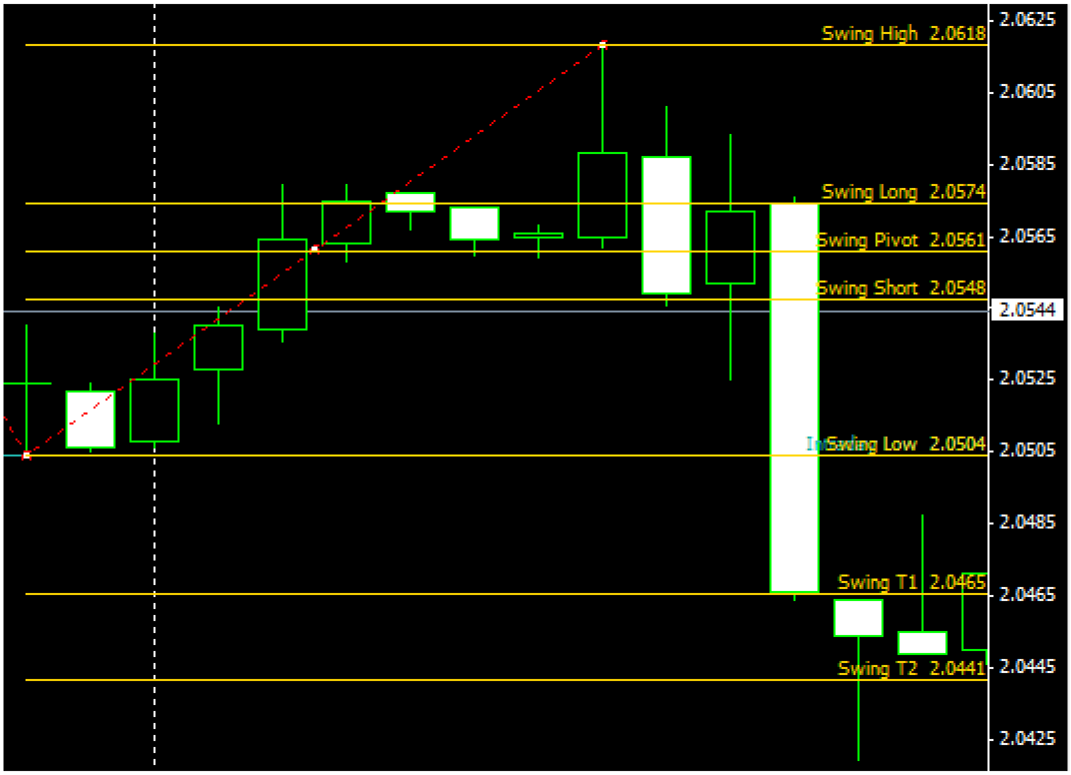
68 pips are earned just from the T1 target.



Thu Nov 15

A clean swing with strong long bias results in a T1 target before a major retrace renders the trade complete.

The price action on the T1 spike is smooth on the smaller time frame.

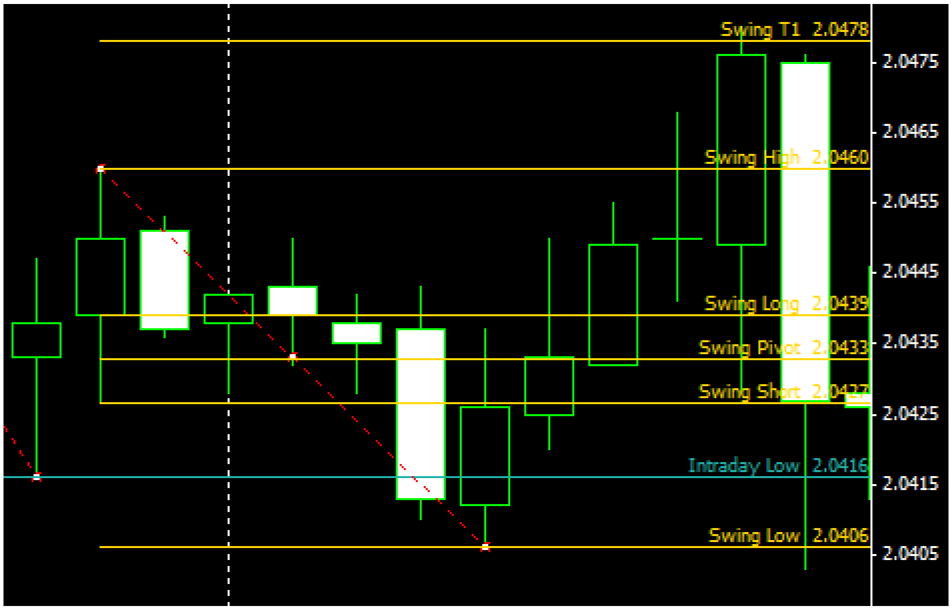


Thu Nov 15

After the last swing completed and gave a new high point, there was still no good place to redraw the swing low so it remained anchored.

The candles turned to a short/neutral bias so the sentiment can be considered potentially short biased, especially by the time the break out candle has fallen near the swing low.

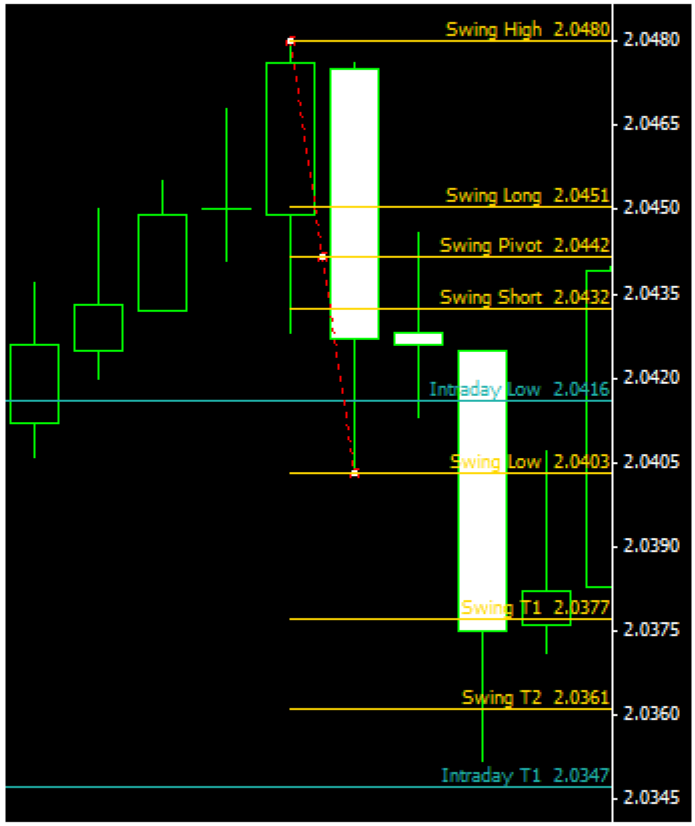
T2 is reached if the short is taken.



Fri Nov 16

By the time there was a swing from the Asian session, the bias was long and a break of the swing high was triggered. The following candle shows a T1 target along with a spike down to swing short.

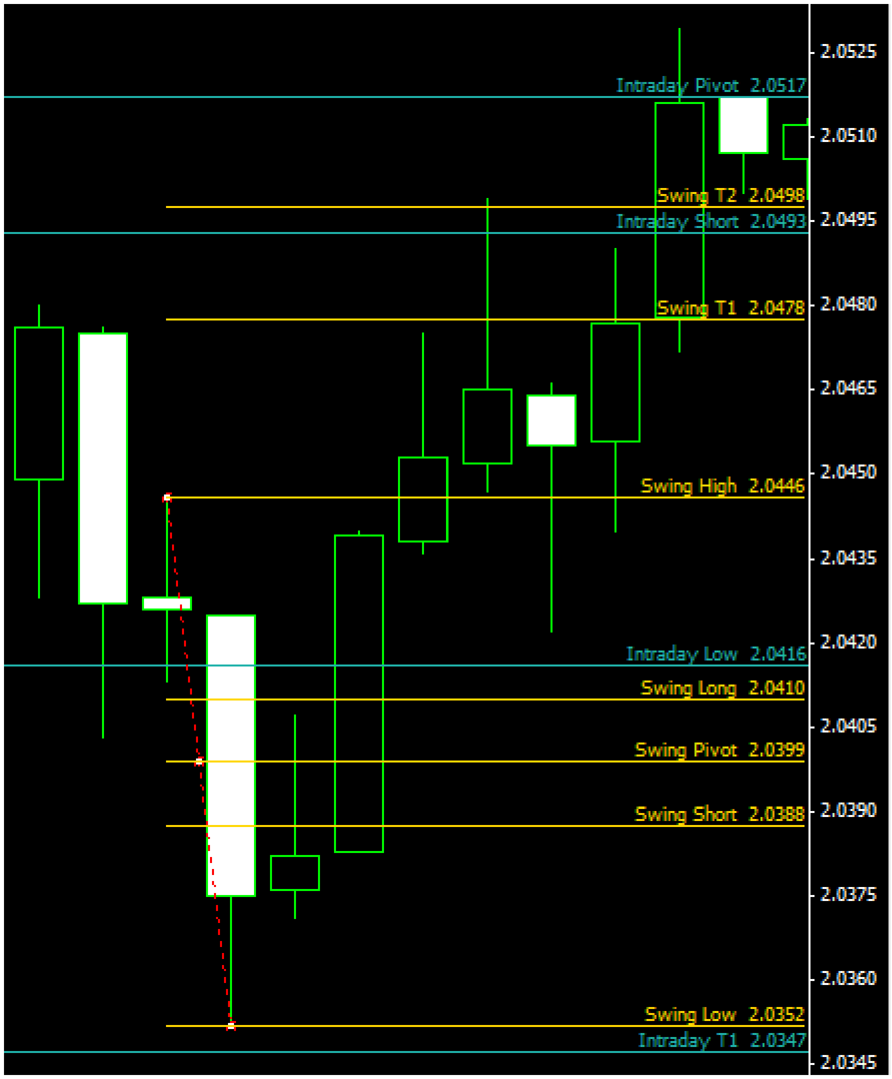
On a smaller time frame, T1 was reached before the spike down, although price did come within 8 pips of the pivot stop.



Fri Nov 16

After the reversal down, an ambitious trader could notice the significant retrace of the down move (between 50% and 61.8%), followed by a stabilization to the short side.

A short entry at swing low hits T2 before everything reverses again to the upside.



Fri Nov 16

When things reverse to the upside, swings can be drawn as shown. It looks like the high is located in the middle of the down move but since it was a "significant retrace" of the first big bearish candle and did stabilize there, it's a good place for a high.

A bullish sentiment emerges, followed by a T2 target. Any further trade setups occur too late in the day and the week is over.