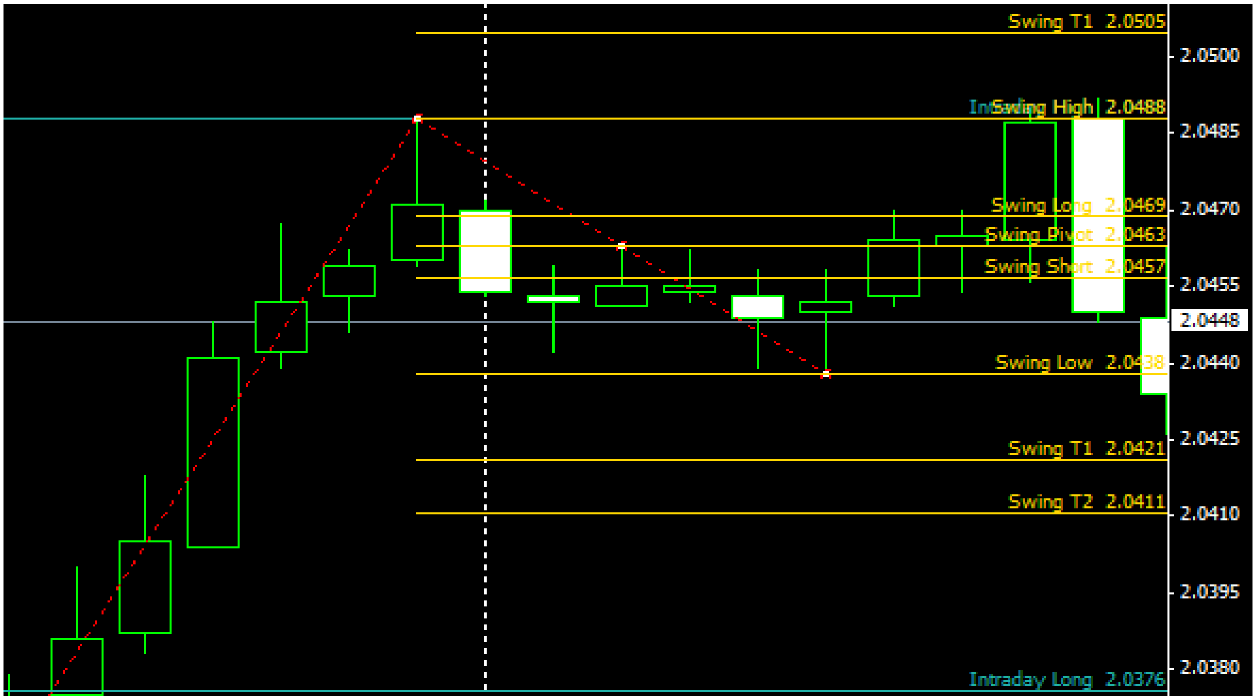
GBP/USD

Fibonacci Breakout Trade Results

October 2007

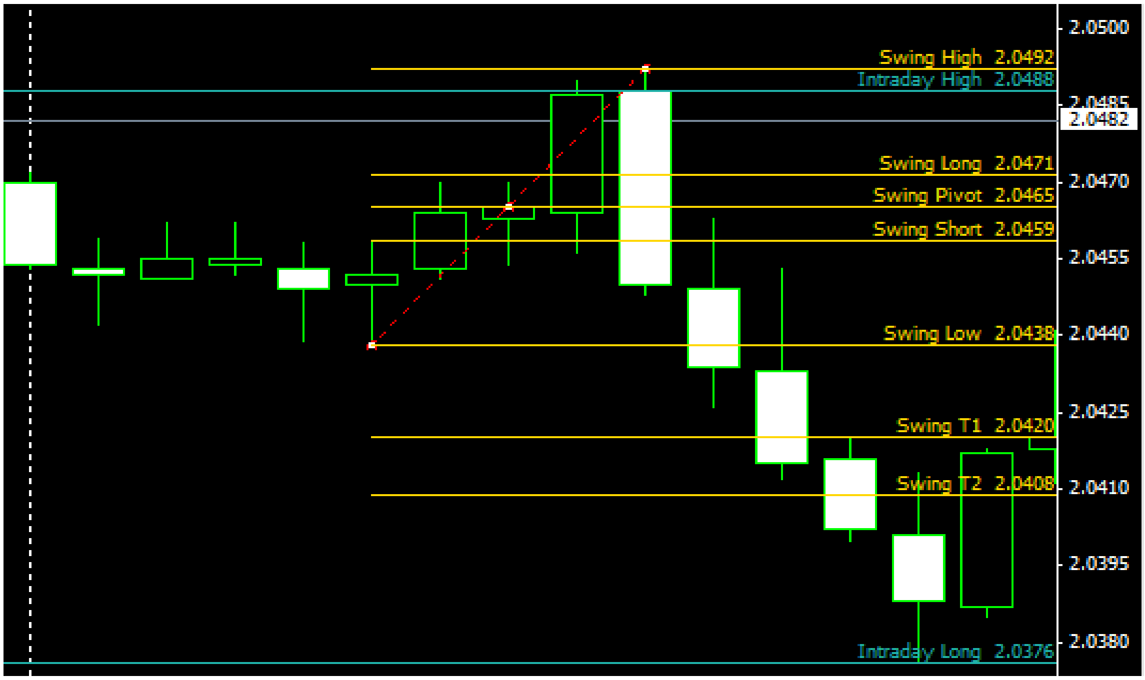

The month of October 2007 is mostly ranging and doesn’t provide much opportunity on the daily chart, but trading on the 1 hour chart using Fibonacci can yield substantial returns.
19 Sep 2007
25 Sep 2007
1 Oct 2007
5 Oct 2007
11 Oct 2007
17 Oct 2007
23 Oct 2007
29 Oct 2007



Mon Oct 1

The first swing break would be a failure if it were blindly taken long but a trader could use discretion and avoid this bad trade.

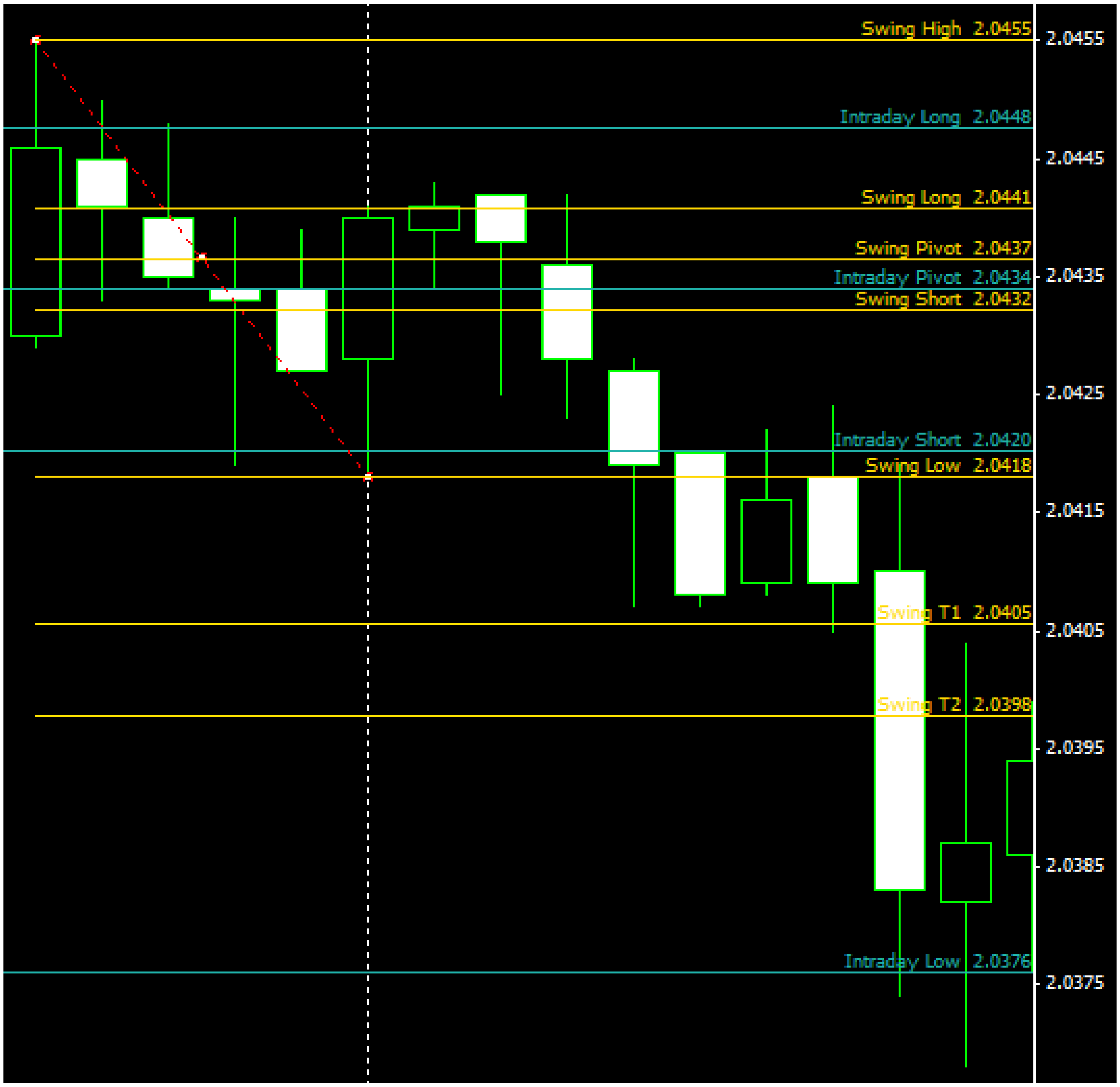
The previous day had an upward move of about 300 pips. A short bias could be taken and this trade could be avoided while anticipating a retrace of the previous day.



Mon Oct 1

After the swing failure, bias shifts to the short side which coincides with the daily retrace anticipated. A bearish engulfing candle moves focus to the short side, followed by a break out candle whose upper wick modestly retraced near the pivot.

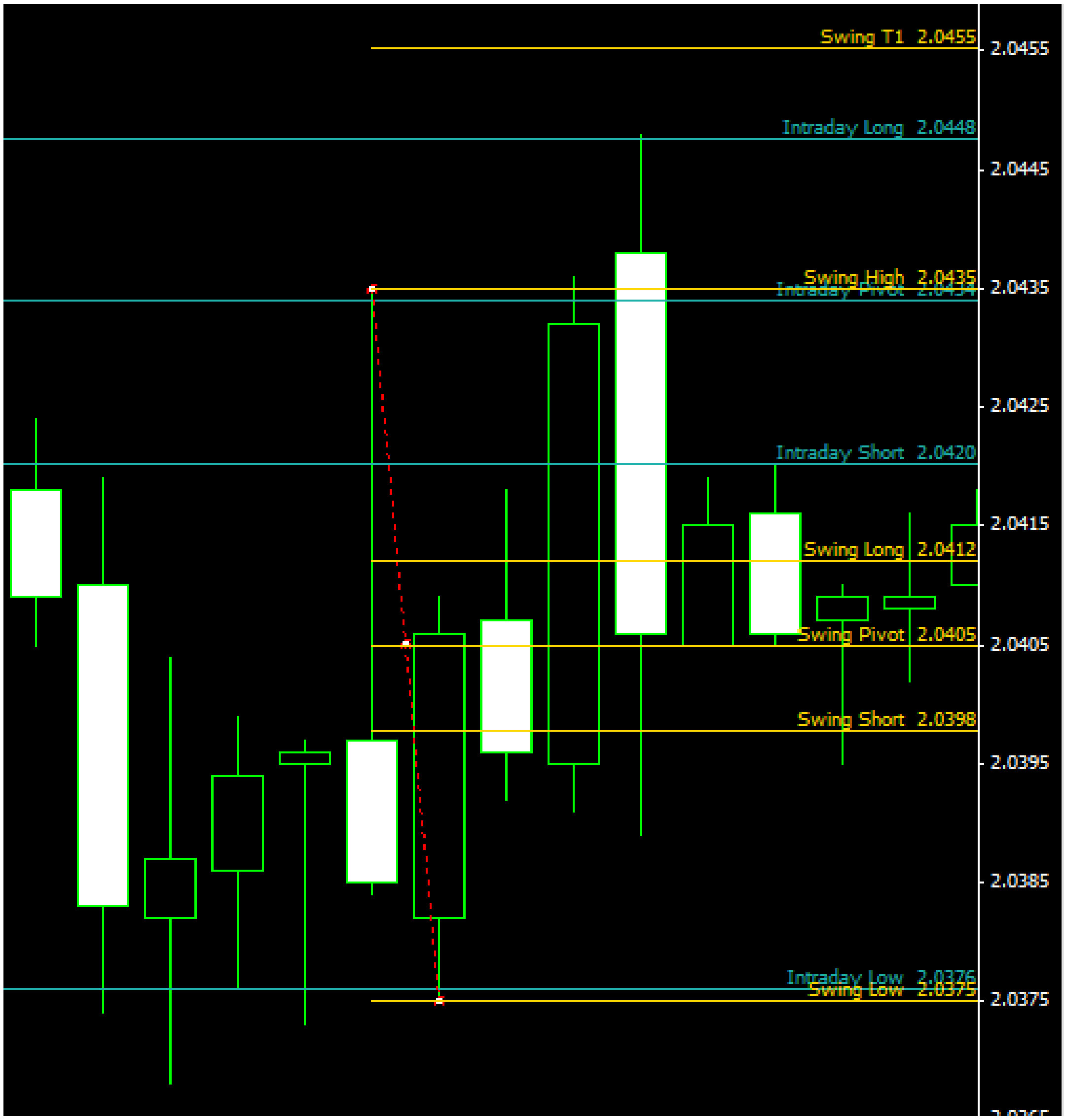
It is a reasonable assumption that a short would work out, and T2 is easily reached.



Tue Oct 2

The swing bias is short with the real bodies of the candles respecting the short area prior to break out, and T2 is achieved.

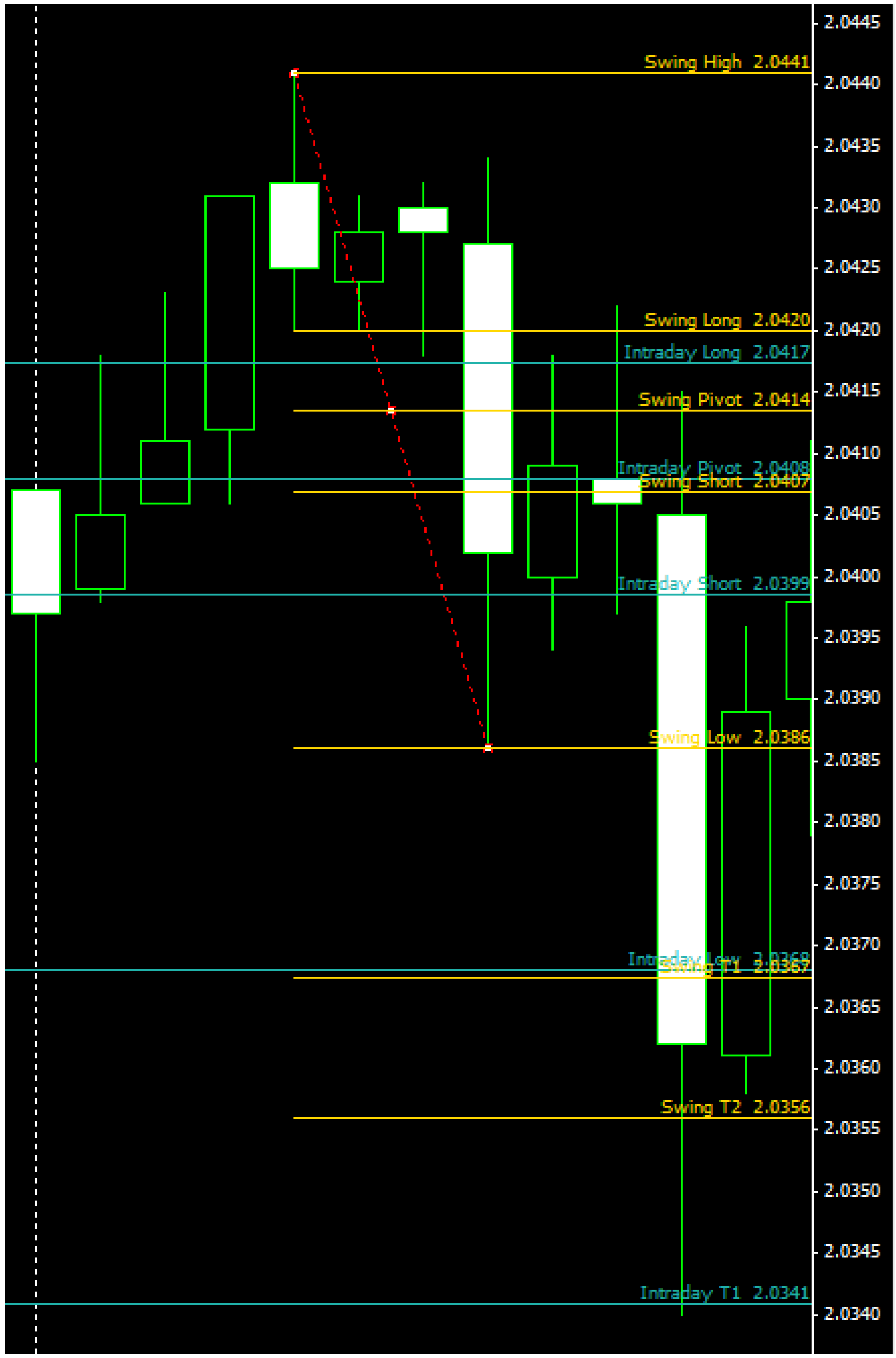
The break out shown occurs during the Asian session but if swings were updated again during London, the result would still be a successful short.



Tue Oct 2

This swing isn't a very valid one but some people might have tried to trade it. The candles technically form a higher high and lower low "wave" (on a smaller time frame it would be more of a visual wave) but the main reason it isn't very wise to trade is because of the uncertainty showing in all the long tails and no clear highs and lows with stable performance.

Just prior to where the swing is drawn it looks like a chaotic consolidation followed by the volatile spike that broke out and retraced. A trader who tries to trade this is looking for a reason to trade.

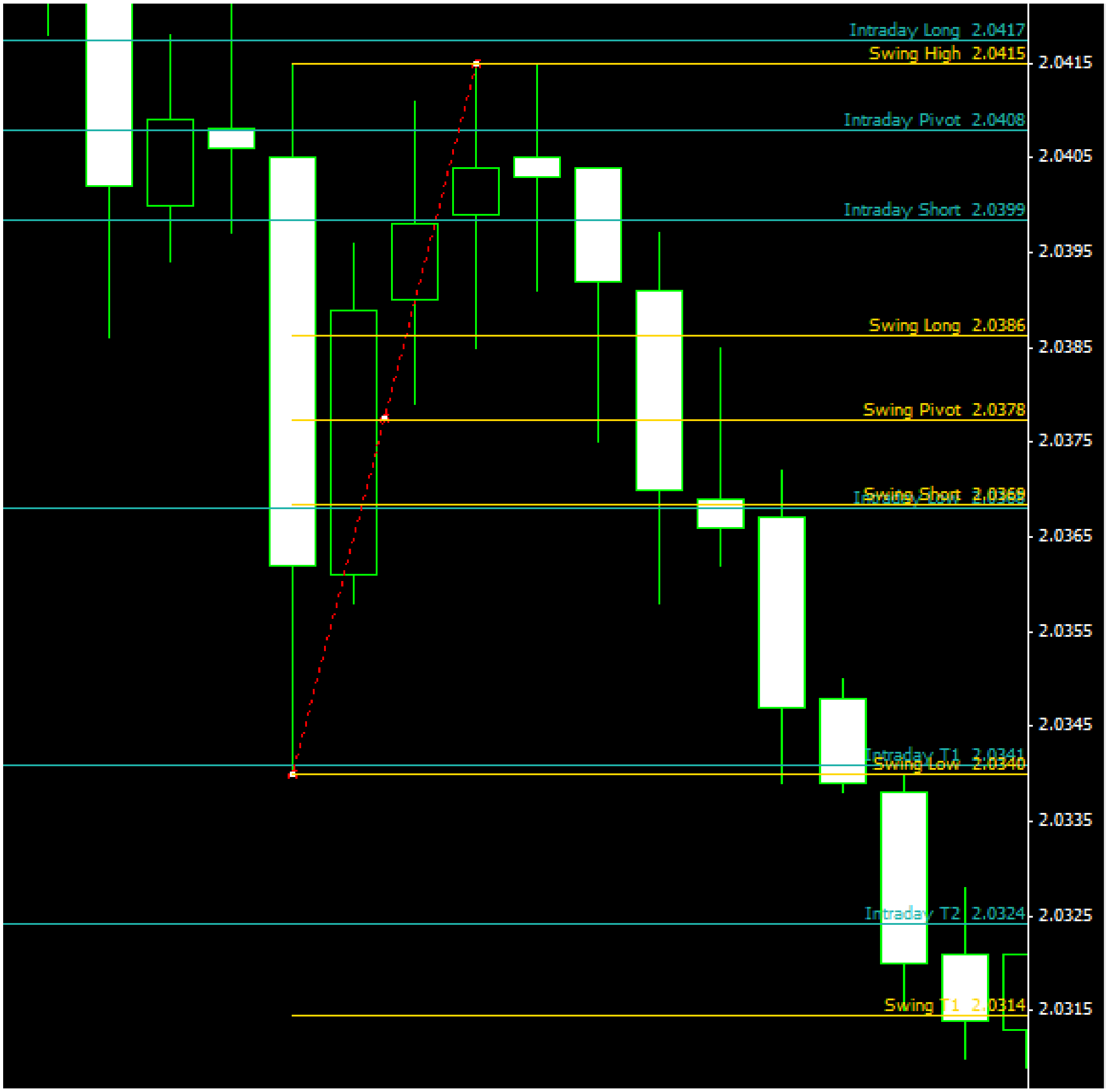


Wed Oct 3

The first swing set resulting in a break, which also happens to be accompanied by a proper trade direction bias, is a short that reaches T2.

The candles leading up to the break had real bodies that stayed on the low end of the swing range.

The break out is a large bear candle but on a 1 minute chart the move was controlled and there would be no slippage.

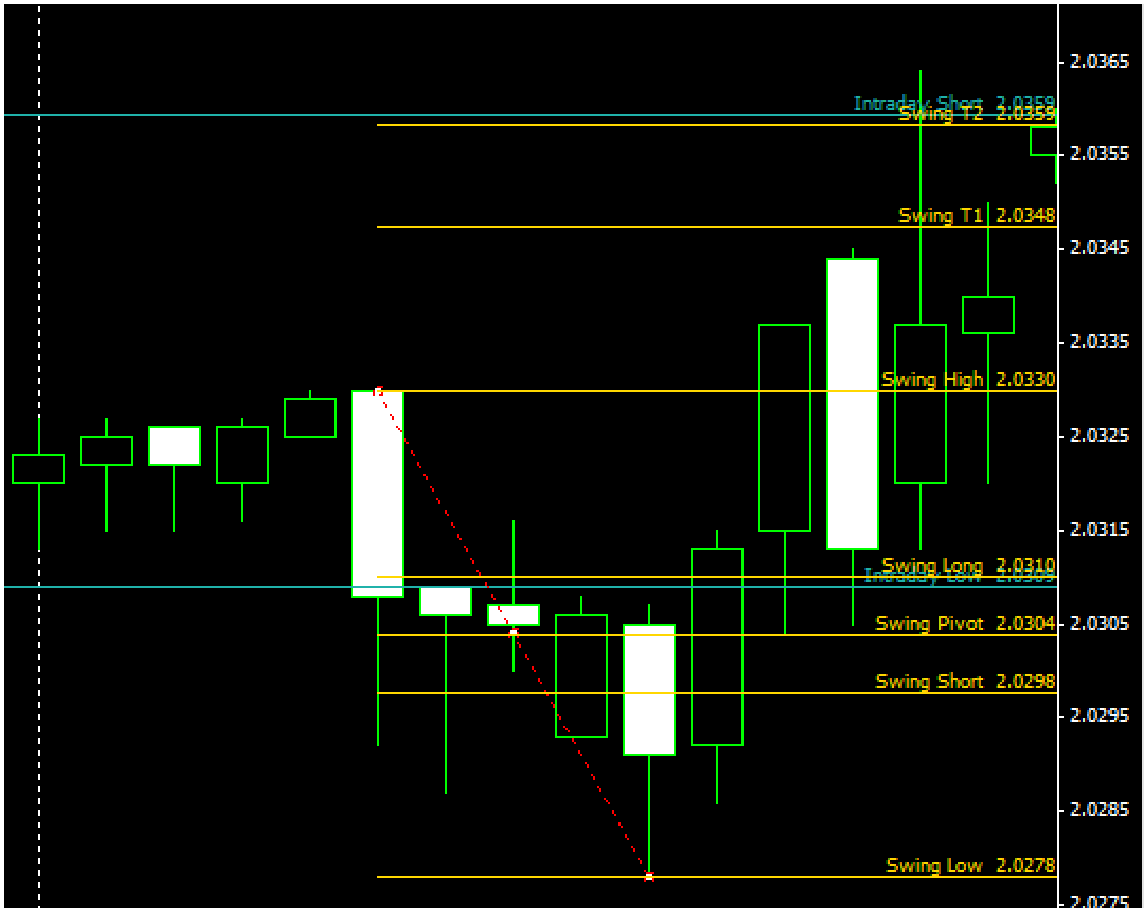


Wed Oct 3

The next trade is borderline since the entry came just around 12pm EST, possibly too late in the day for some traders since there's a chance momentum could decline and targets not be met. Discretionally one could notice the strength of the short bias and take the trade anyway.

All candles starting from the high side moving downward were bearish even when they were on the long side of the swing fib, and the step down towards break out was controlled and gradual.

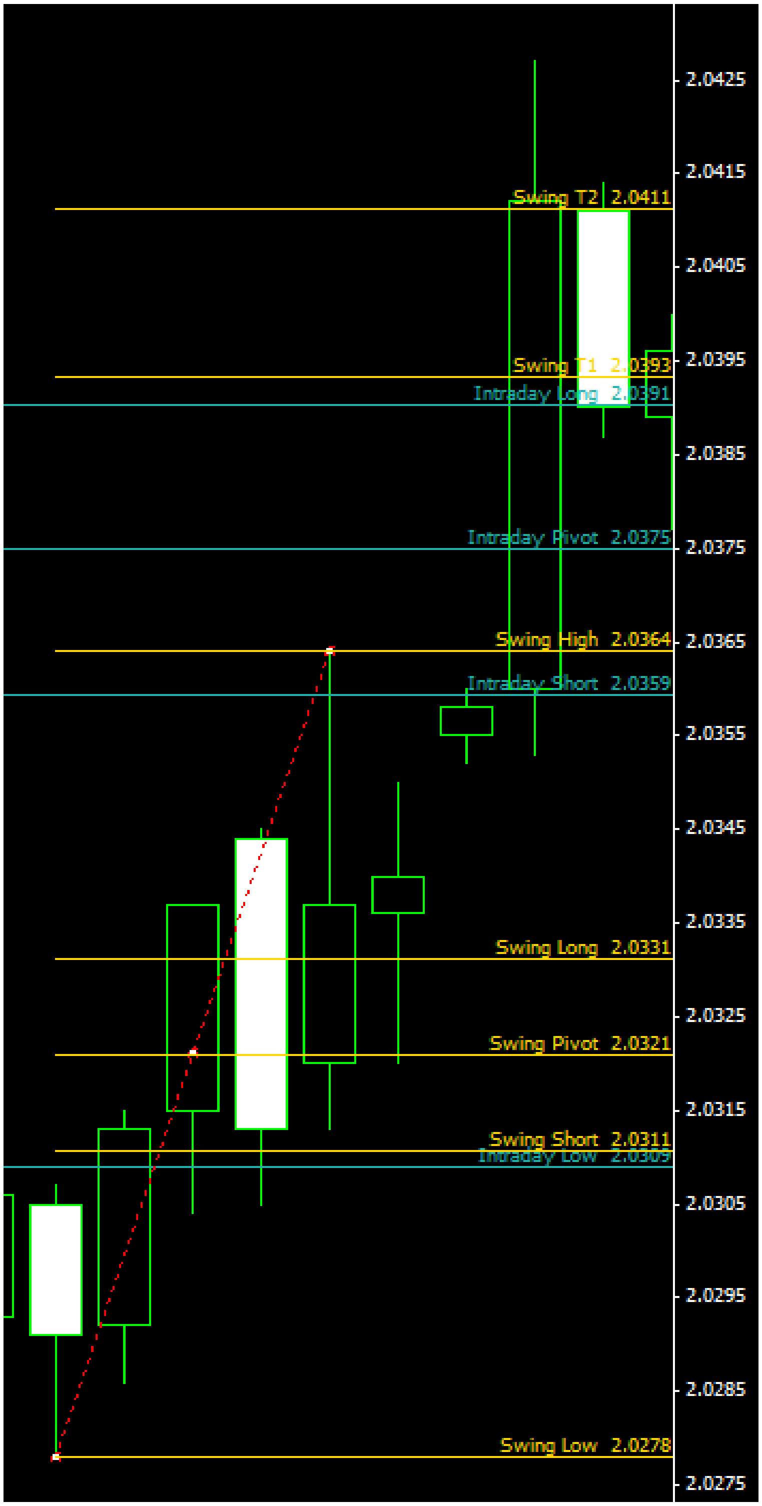
T1 was reached.



Thu Oct 4

The first swing break after Asia is a long that reaches T2, but first comes 1 pip away from a Pivot stop out. With a stop placed at least 1 pip below pivot there is at least 2 pips of padding, assuming the broker with the account doesn't show a different price at that time.

After that, price shoots up quickly to both targets in a move that takes 6 minutes on the 1 minute chart. There should be no slippage on the spike.



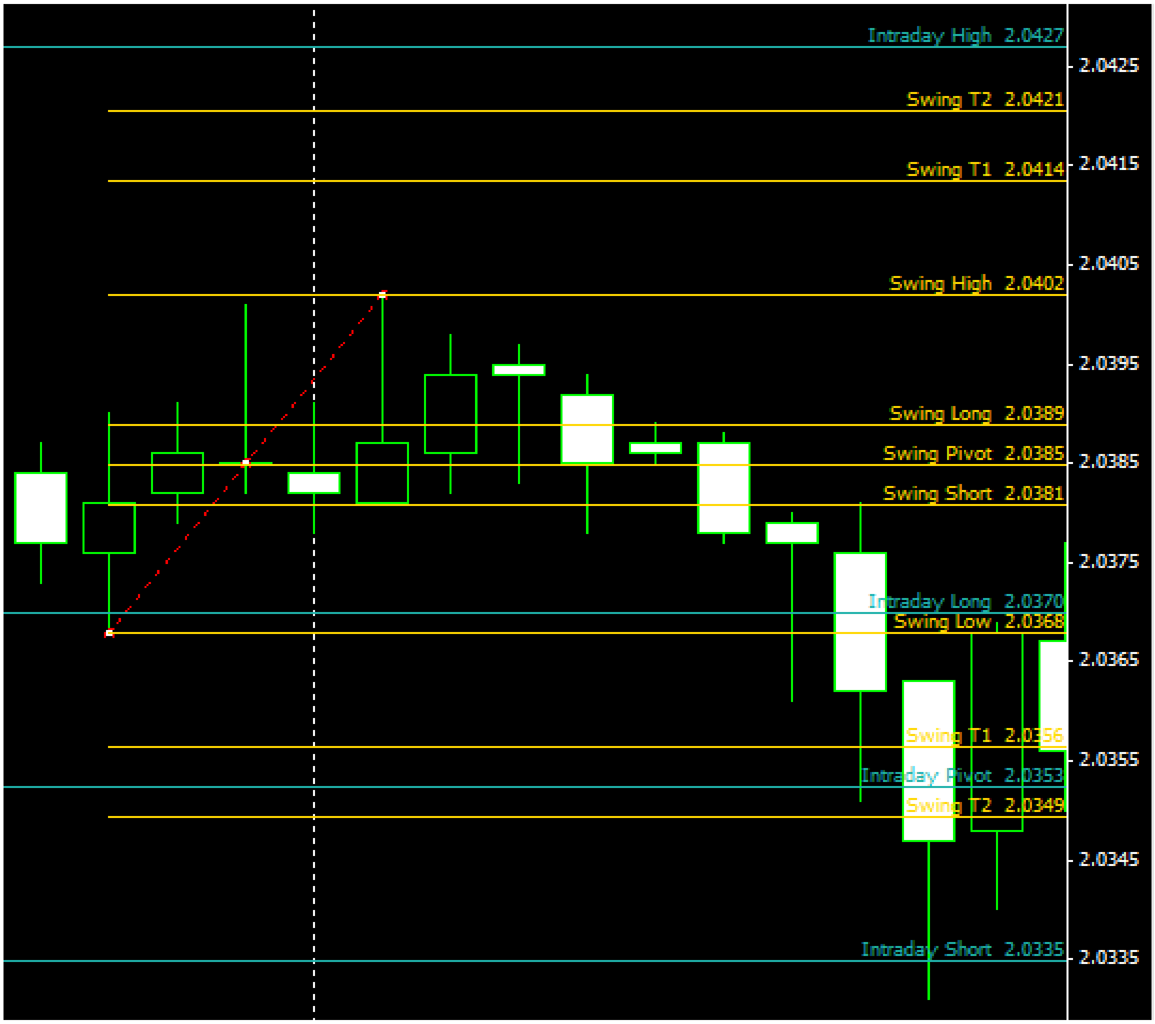
Thu Oct 4

After the last trade there is a new place to move swing high. The candle pattern looks strange but it is technically a peak with a lower high after, and there is 50% retrace from the chosen high to the chosen low.

The candles remain long biased and a break of the high would result in an easy T2 target.

The 1 hour chart shows an error in the data. It looks like there is a gap with that small floating candle just before break out on the hourly chart, but the true swing high break occurred during that small candle as confirmed on a 1 minute chart.

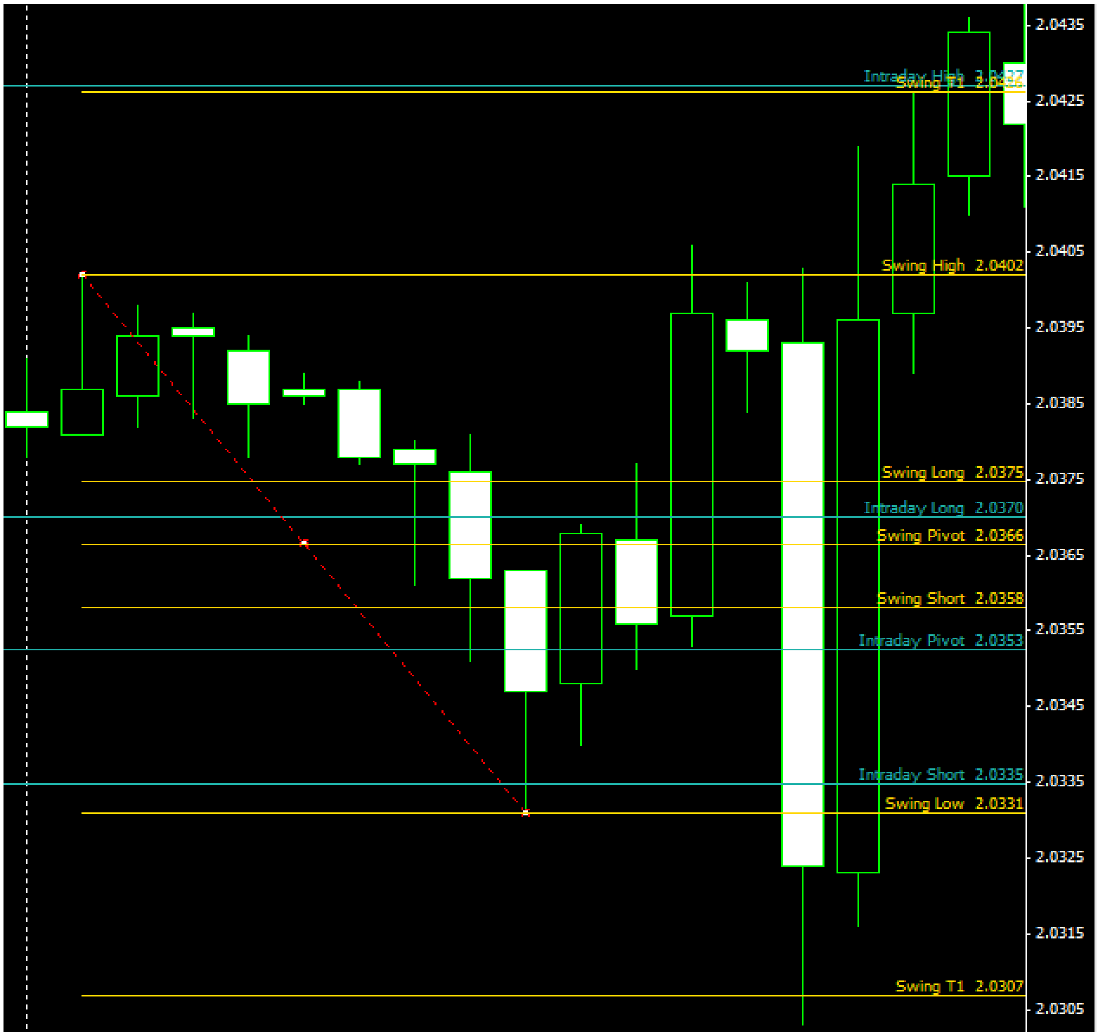
The long candle that reaches the targets was a smooth ride up with no slippage.



Fri Oct 5

The first swing break had a proper short bias before the break out, and T2 was met.

Since the swing range is only 34 pips, the stop should be placed at least above swing high or some arbitrary fixed amount suitable for GBP/USD's daily range.



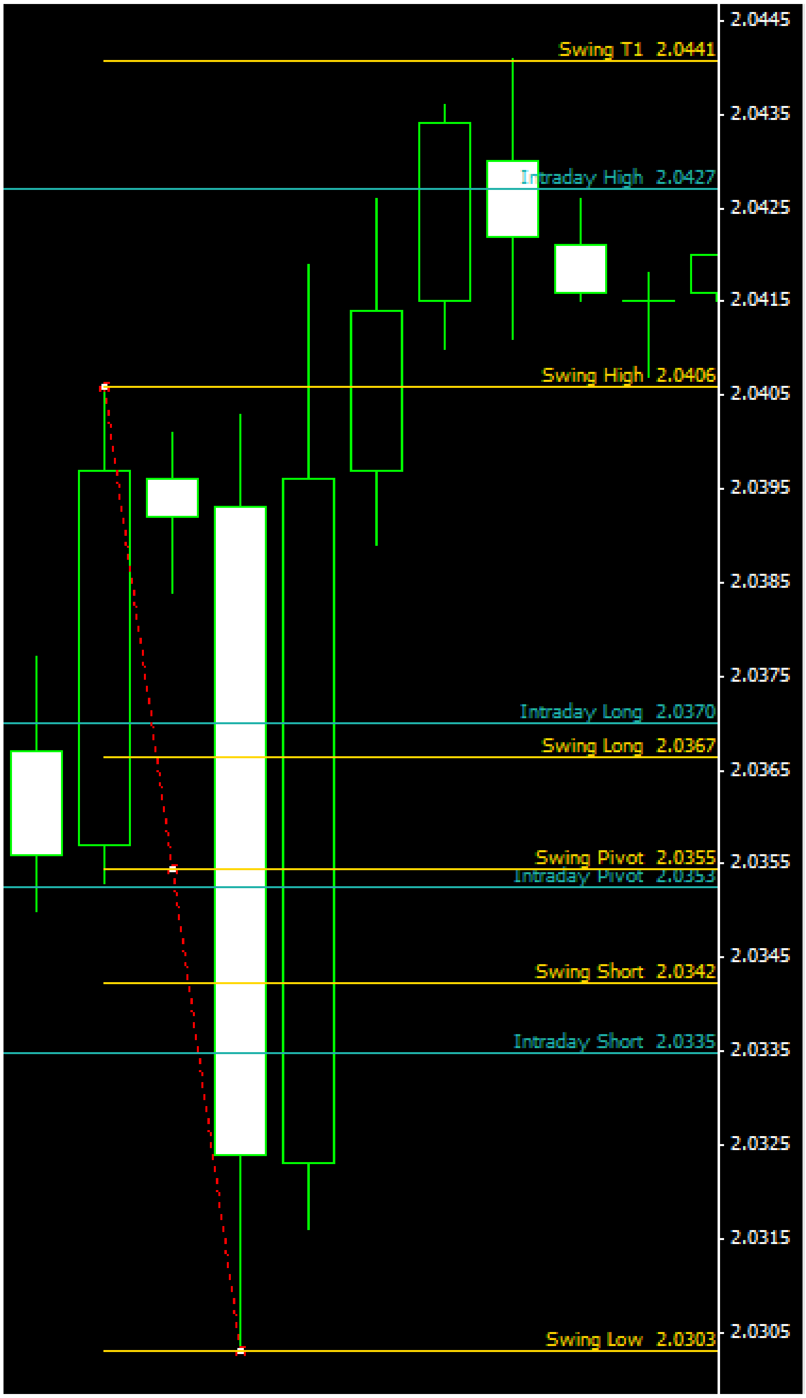
Fri Oct 5

The next swing break is a failed long break but it could have possibly been avoided if the failure was related to any news released on that day. If it was a news item that is known to be problematic, the trade could have been bypassed, otherwise the loss is an acceptable business expense.

Or maybe this is a chart error. On a 1 minute chart there is almost a 100 pip instant drop from one minute to the next where the down candle causes the trade failure. If this was a real move and not a glitch, the result would depend on the broker because the pivot stop would be entirely bypassed.

If the trade is kept in play, this would be a negative 100 pip trade that actually stayed in a consolidation for an hour before it recovered and would have proceeded to reach targets of the original long move. A trader would most likely have closed out for a big loss in a panic since price stayed down and even started moving lower, appearing to be stabilized down there. If the broker triggered the stop despite not even having price anywhere near it, there would be a major loss from that.

If the trade caused a loss, it would just about balance out the rest of the week's earnings and end up in a null week. Not knowing what really happened, and not knowing how a broker would handle this, it is omitted in this study. If this trade were counted, the month of October would result in around +200 pips approximately instead of +310.



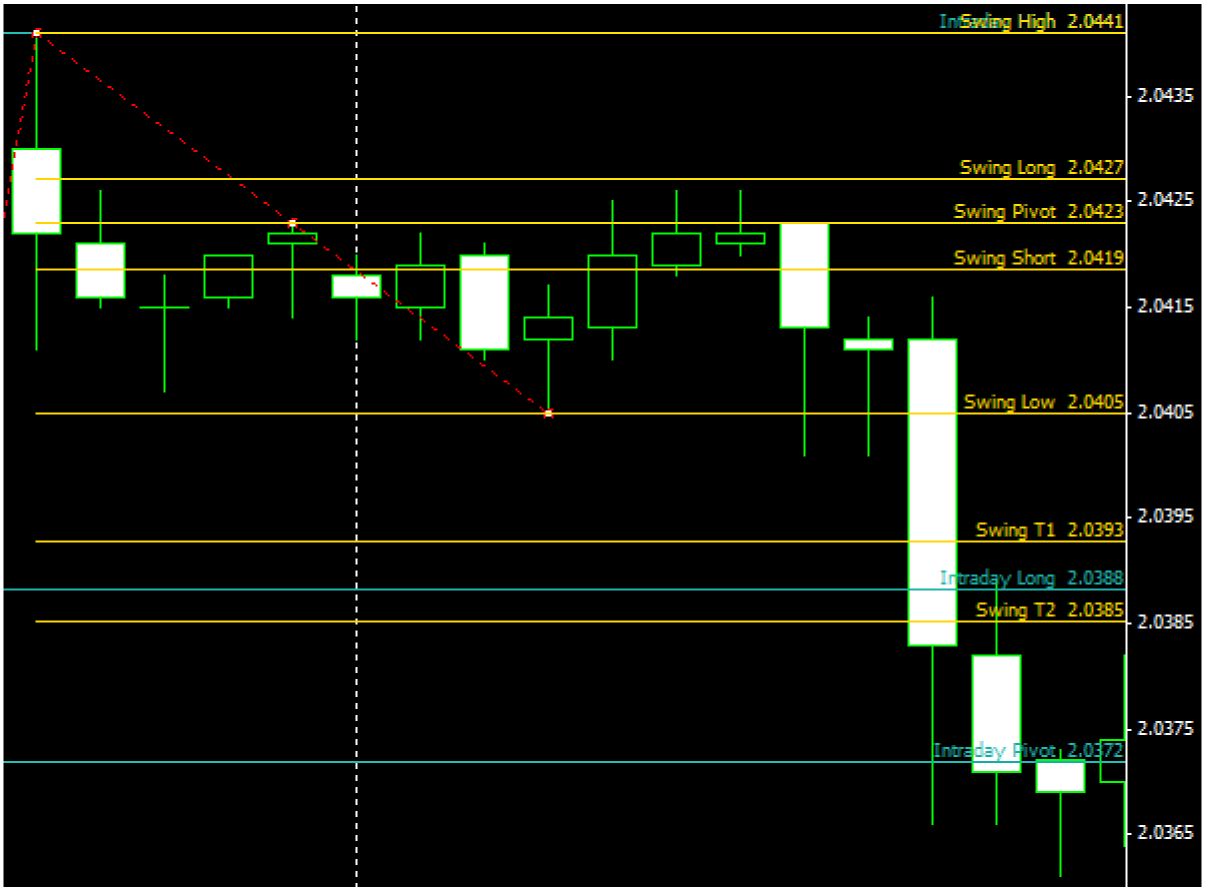
Fri Oct 5

If the gap down didn't scare one away, the retrace and break of the high could be traded successfully for a T1 target.

The one hour rise up occurred smoothly so a swing bias of long could have been discretionally declared. The trade could have partially offset any losses of the previous move if it were taken.

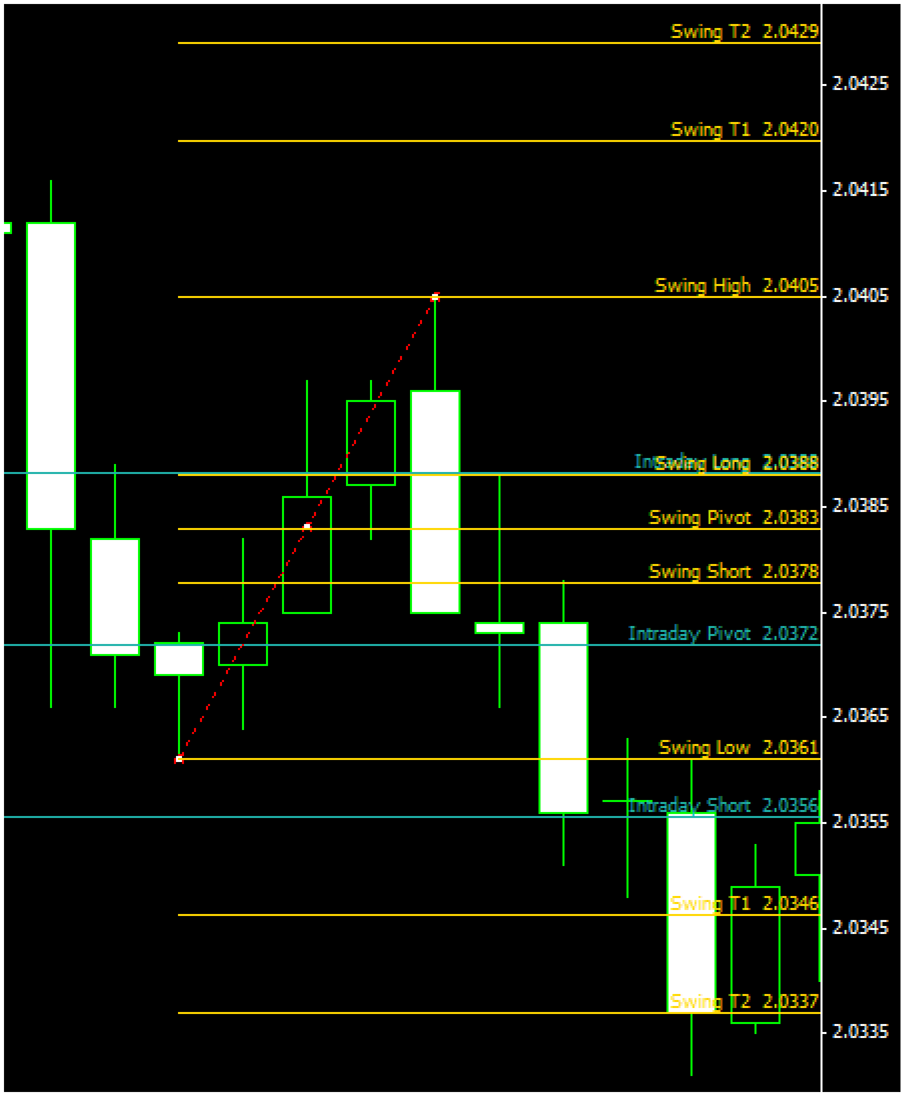
Another way to offset losses with experience is the "fact" that most gaps are usually filled. Once it was seen that price consolidated for a long time at the bottom of the gap down, when a break long occurred from the consolidation on a smaller time frame, a trade could have been taken near the bottom of the gap and it would have fixed everything.

Since the recovery of the gap occurred slowly, the trader would have had time to make decisions on how to react without pulling triggers in a panic.



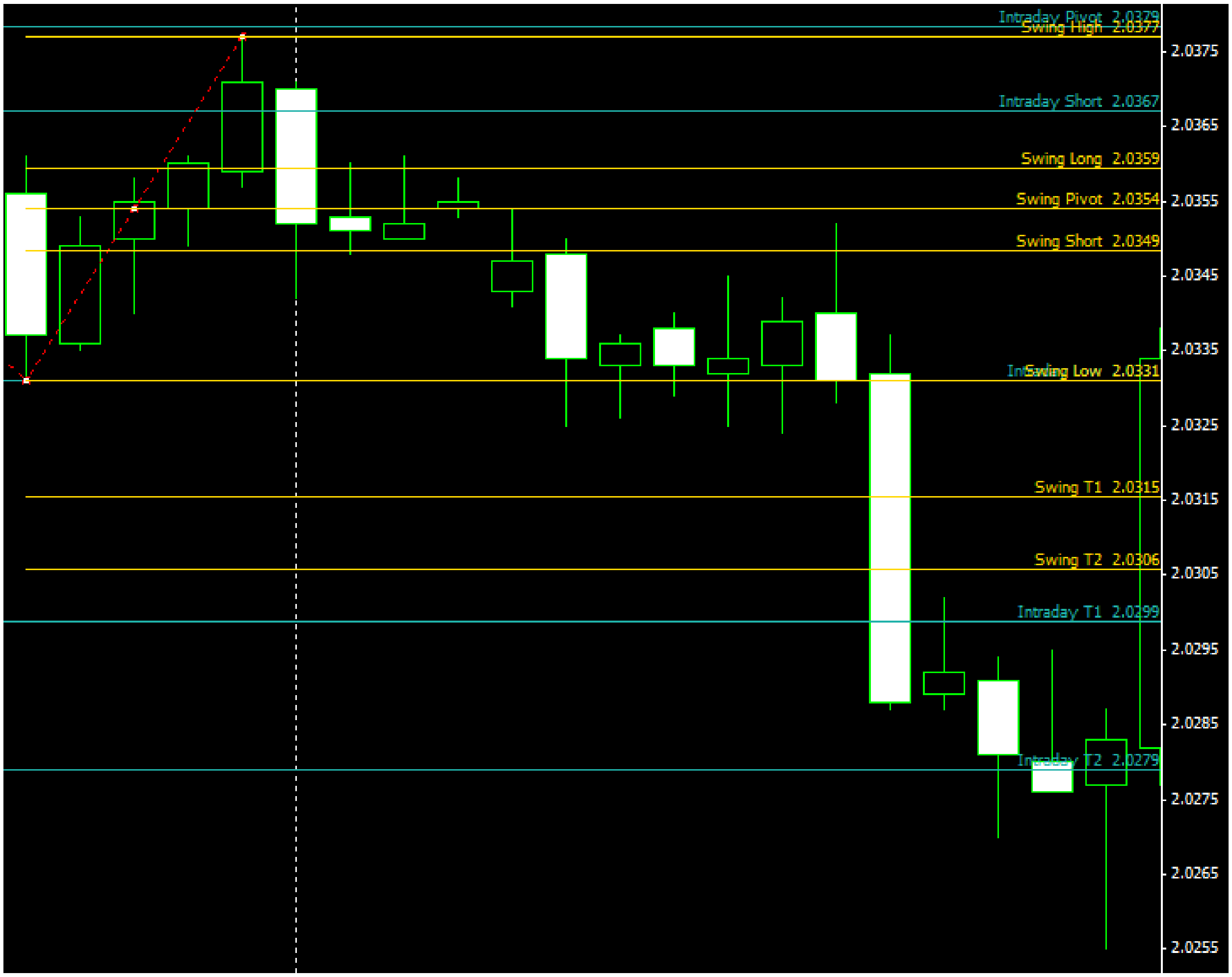
Mon Oct 8

The candle real bodies remain within the short to neutral area of the swing and don't become officially long biased so a pending short order would remain in place and would result in a T2 target being met. If the real bodies started crossing the swing long line, the bias may be shifted from neutral to long.



Mon Oct 8

The next swing set provides another short with a T2 successful target around the end of the trading session. The candles presented a short bias before the low was broken.

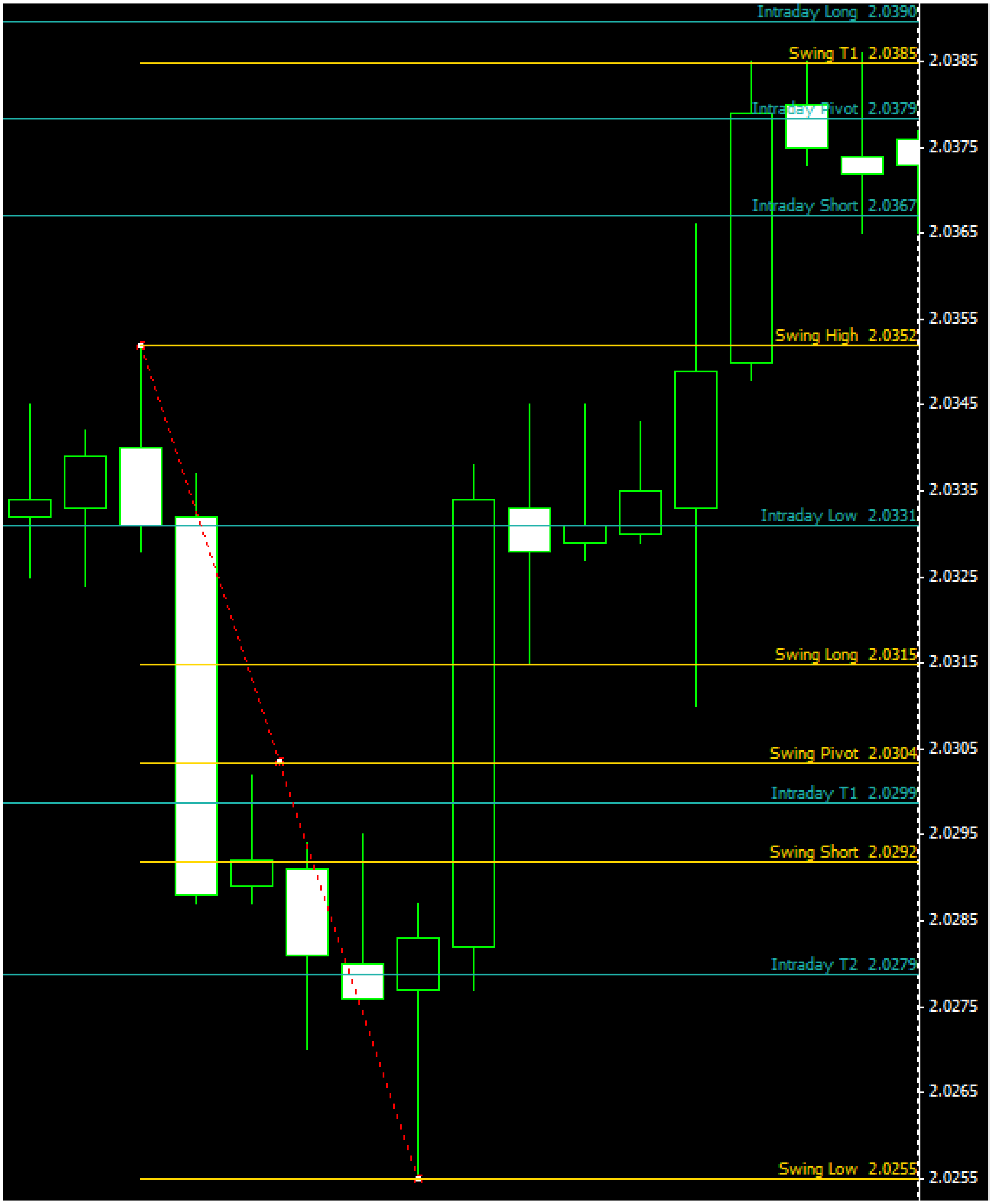


Tue Oct 9

The break out of the swing as shown occurs in the Asian session. Some may have traded it successfully to targets but if not, the trader would be standing by looking for a place to update swing low.

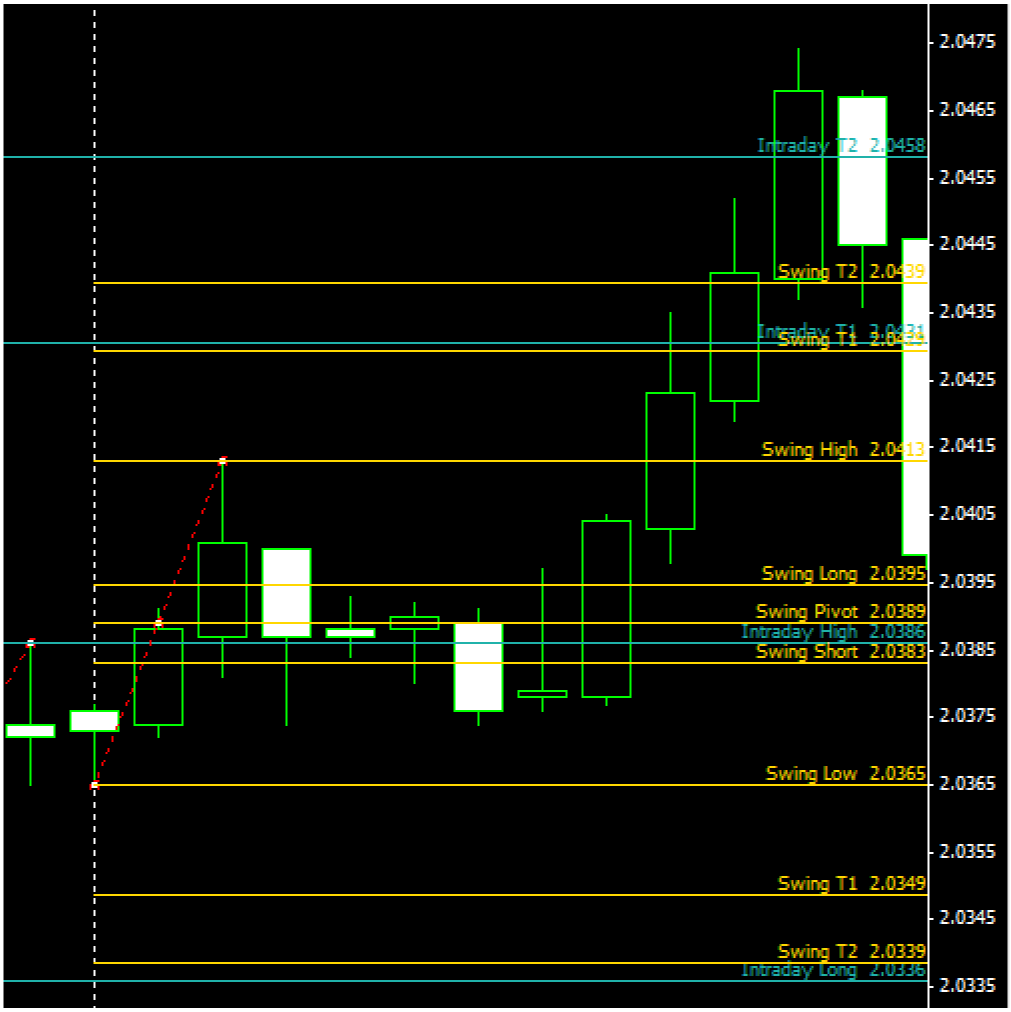
If the late trader is looking for a chance to get short, consideration should be given to the fact that the swing low was breached and a trade is in play, so it will either continue toward targets (a missed trade) or it will retrace and give a new swing set to trade from.

In this case, there was a retrace between 38.2% and 50% before targets were met so the swing fib low could be redrawn to the lows in the consolidation period and the next short could be taken.



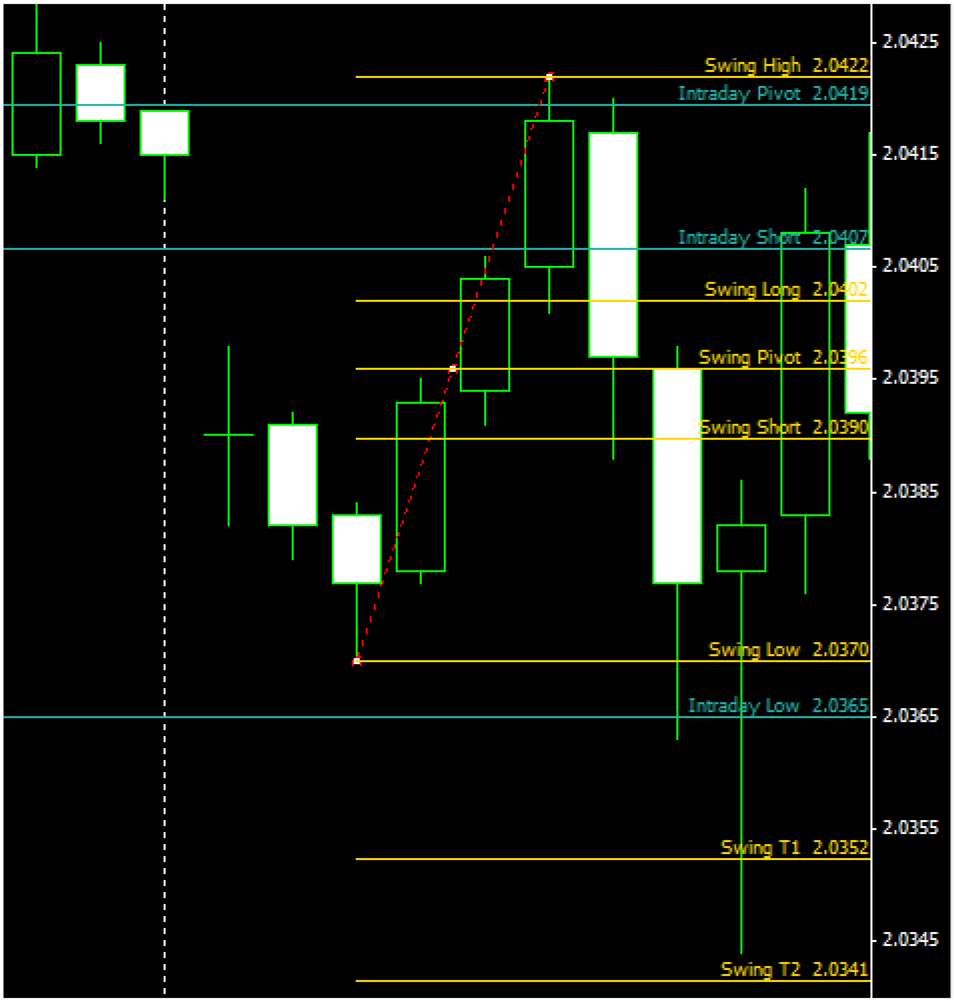
Tue Oct 9

The bias changes to long when the next swing setup occurs and a move to T1 is achieved. T2 is reached during the Asian session of the next day.



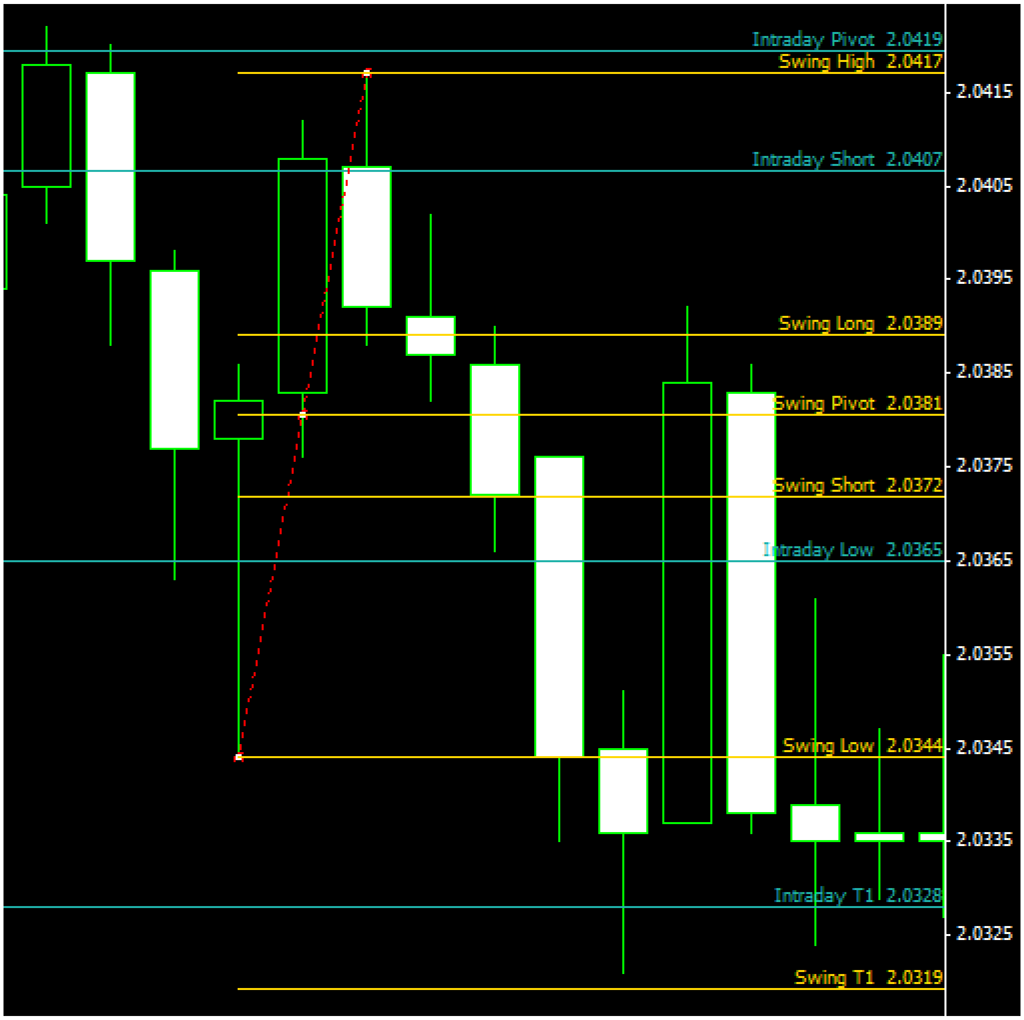
Wed Oct 10

The swing bias shifts around between neutral, short, and long, finally breaking long and going beyond T2.



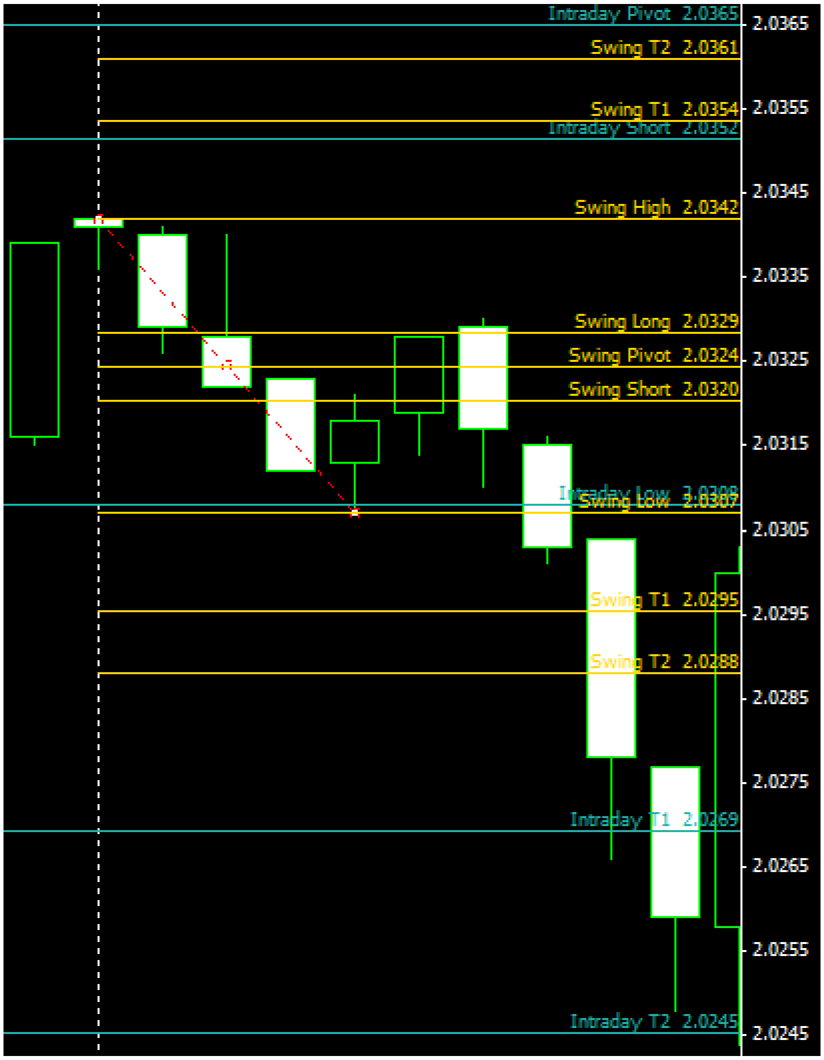
Thu Oct 11

The most recent swing can be seen as short biased by the fact that all activity after the swing high is bearish, with the entry candle's real body staying to the short bias side also. T1 is met before a reversal occurs. The 1 hour candle is a spike but a look at the 1 minute chart reveals a stable descent with no slippage.



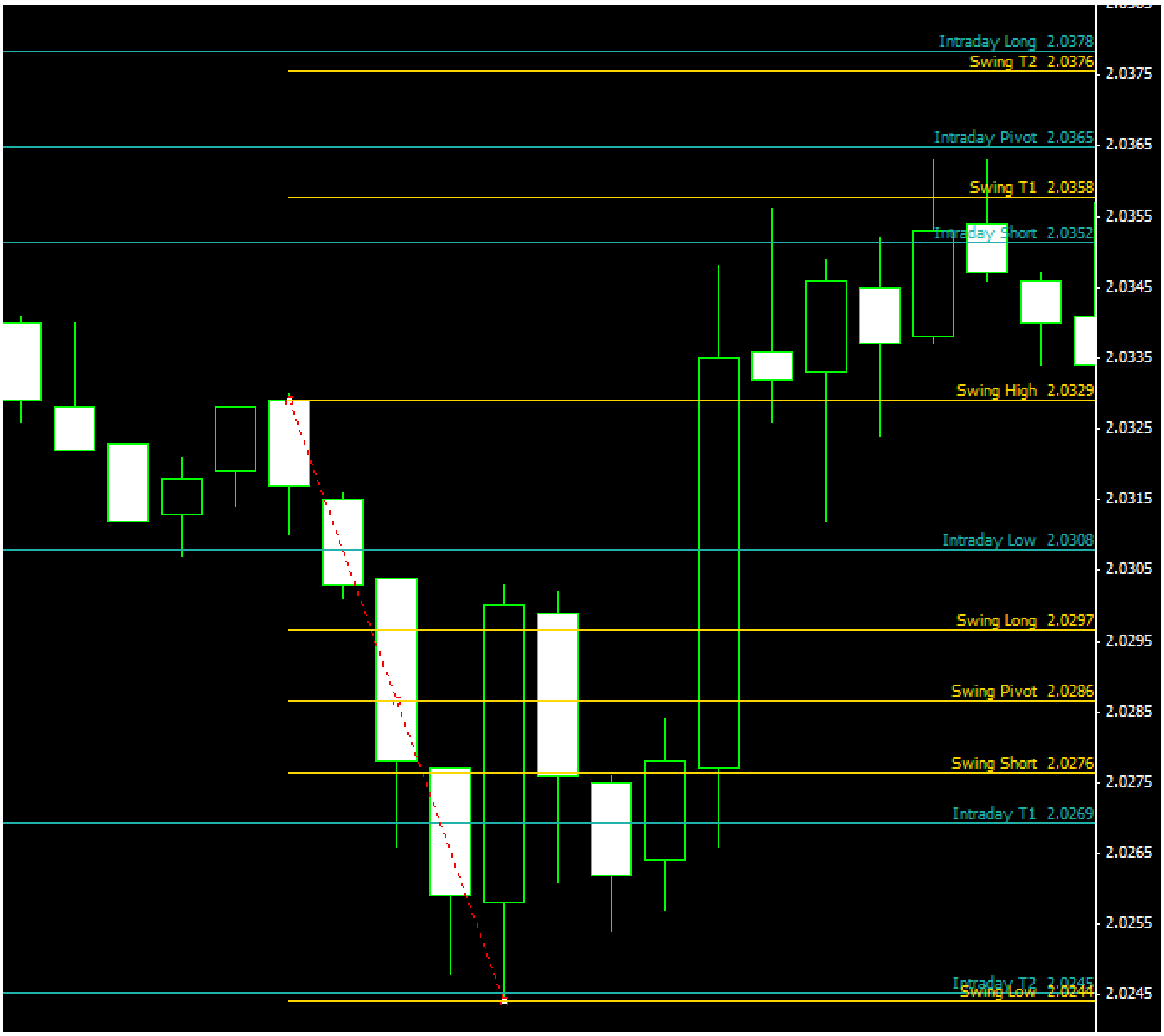
Thu Oct 11

The next swing setup respects a short bias before an entry is triggered but this one would have missed T1 by 2 pips and then been stopped out. Beyond the scope of this exercise there may be a good reason not to have traded this, such as a strong support blocking the targets.



Fri Oct 12

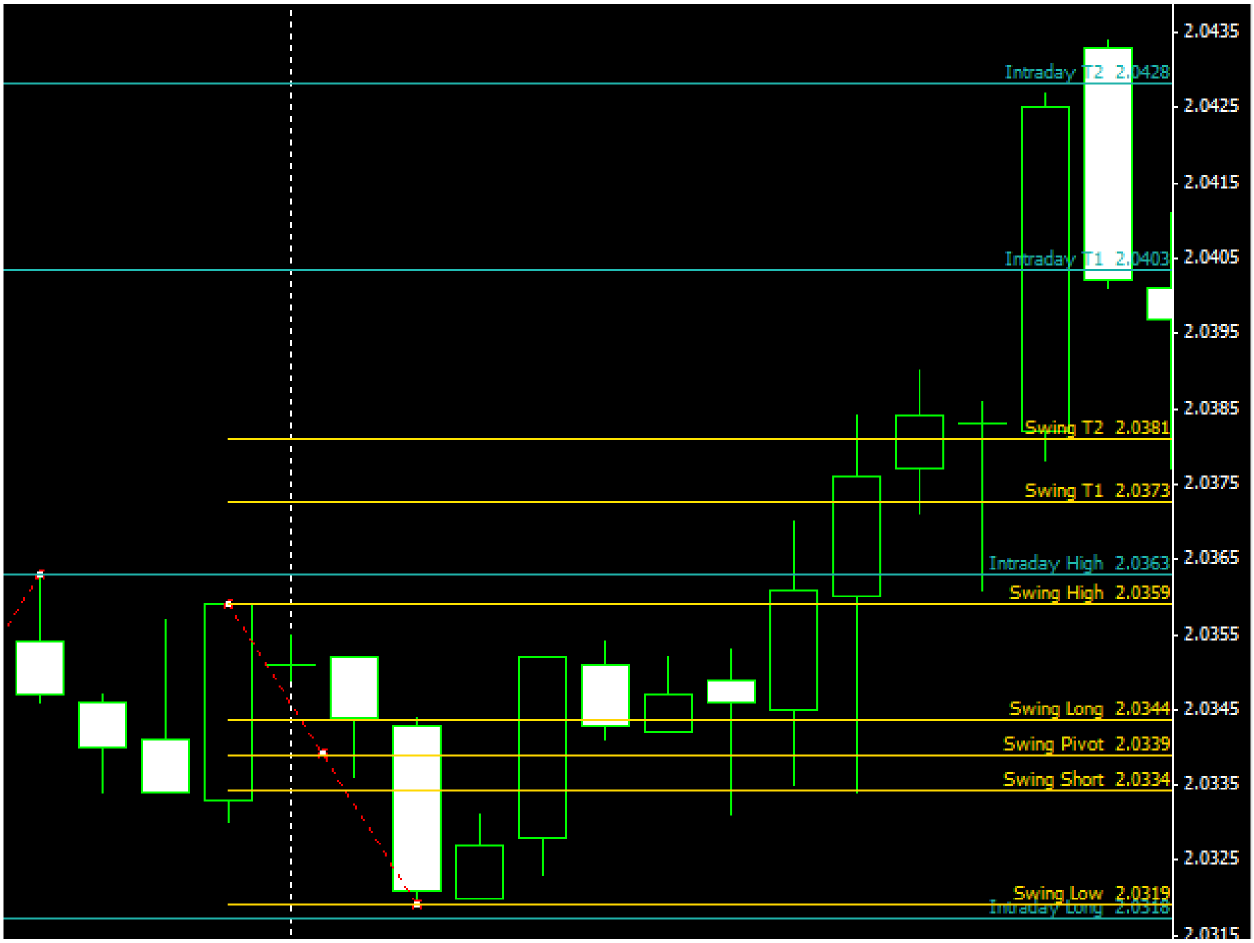
The first swing developed in the Asian session forms a short bias before breaking low and surpassing T2 with ease.



Fri Oct 12

The next swing is subjectively drawn. The high can be left where it is, or it could be moved to the lower high just above swing long. Either choice would have resulted in at least T1 being achieved. The bias was long based on the strength of the movement within the swing.

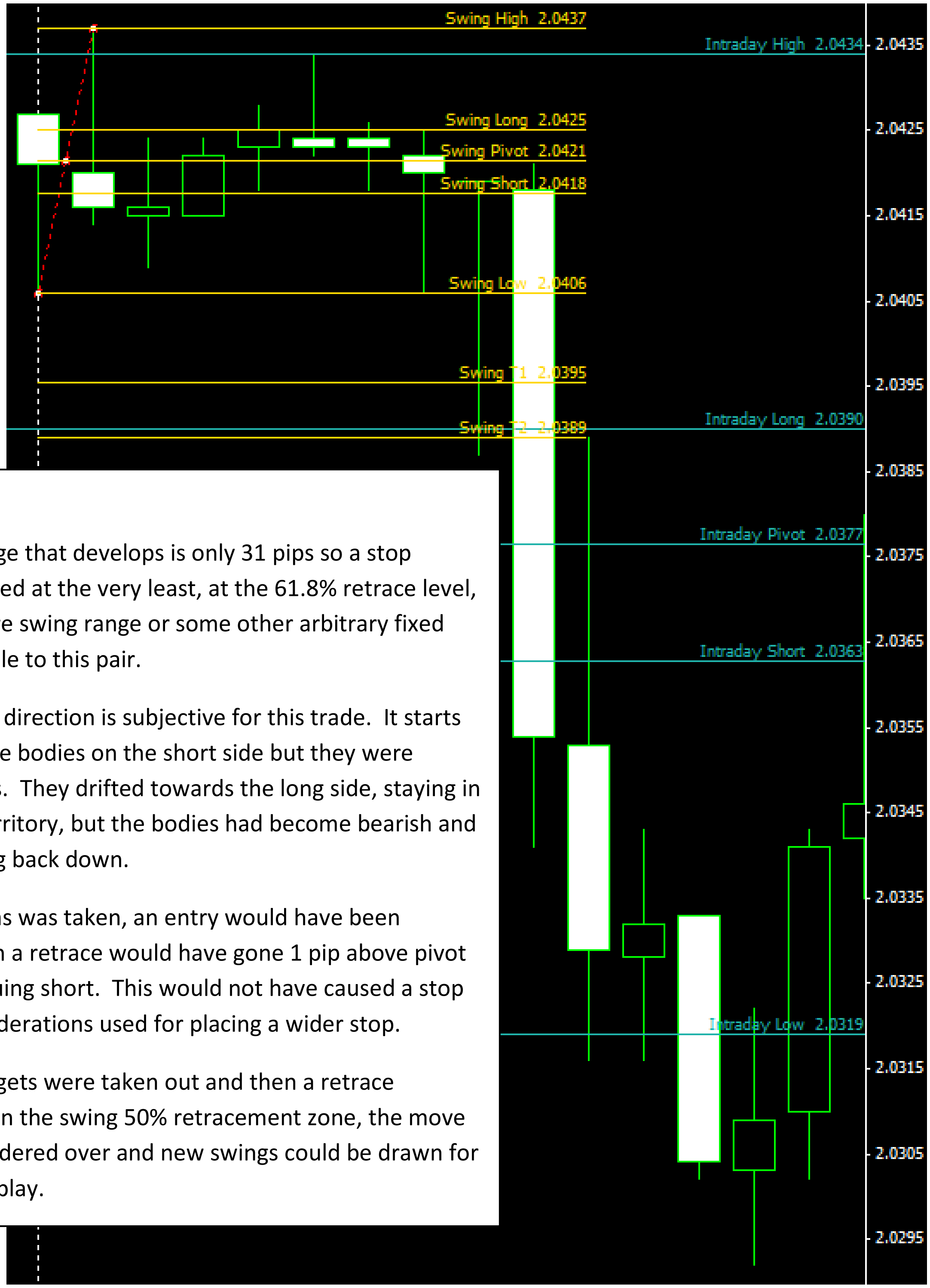
The candle that formed the swing low turned out to be a bullish engulfing reversal followed by a retrace within the swing. Then the bullish move proceeded to break out of swing high (wherever it had been chosen).



Mon Oct 15

The first swing maintains a long bias with real bodies near swing high, then a break of swing high occurs. Price comes within 3 pips of T1 and then a retrace would have caused a pivot stop before the long move continued to meet targets.

This swing range was 40 pips and the stop was 20 pips from the entry point, which may have been unrealistic for GBP/USD. Discretion may suggest increasing the stop for such a range, either to an arbitrary fixed amount, or a certain level that may turn out to be generally respected in an overall successful move such as the 61.8% level or the 100% retrace of the swing levels.



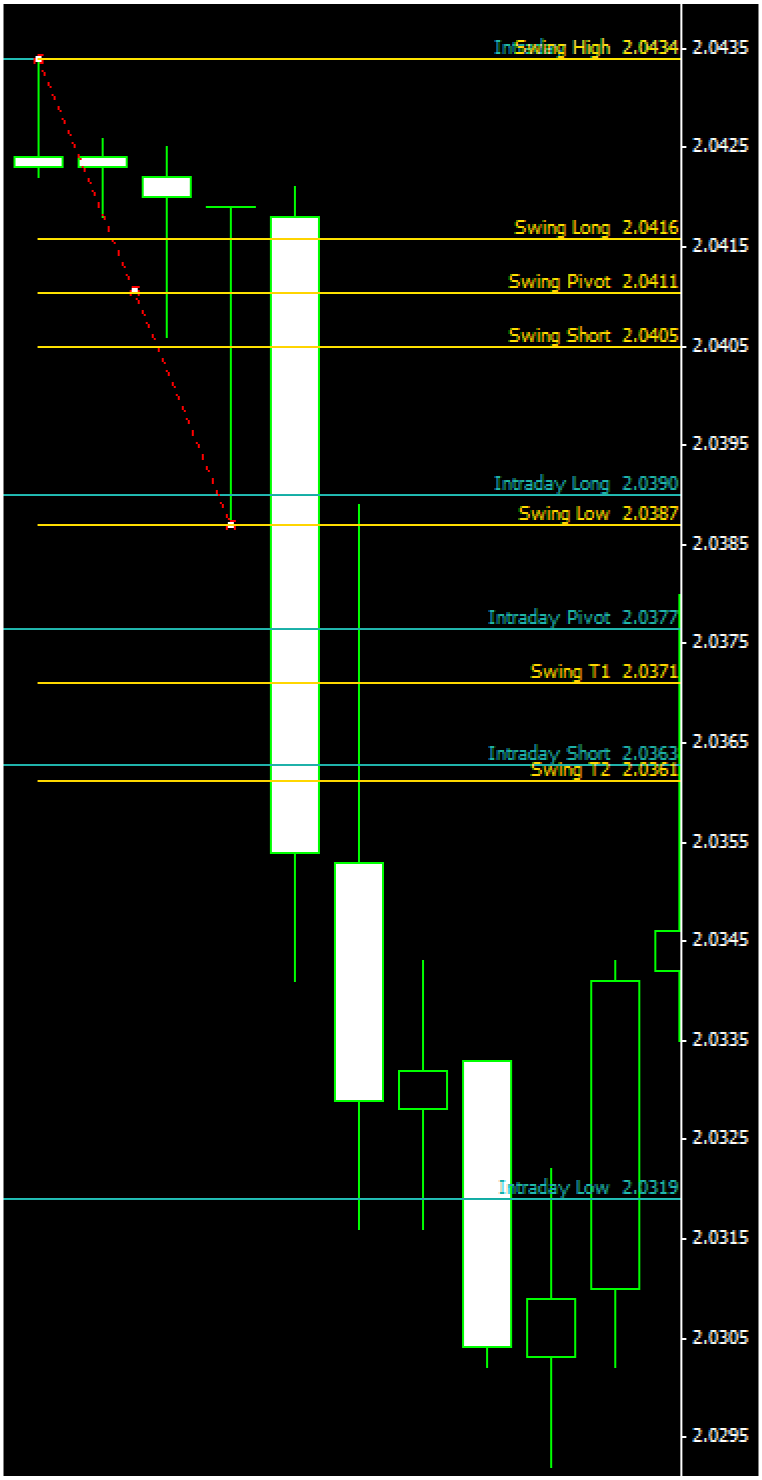
Tue Oct 16

The swing range that develops is only 31 pips so a stop should be placed at the very least, at the 61.8% retrace level, if not the entire swing range or some other arbitrary fixed amount suitable to this pair.

The bias trade direction is subjective for this trade. It starts out with candle bodies on the short side but they were bullish candles. They drifted towards the long side, staying in the neutral territory, but the bodies had become bearish and started drifting back down.

If the short bias was taken, an entry would have been triggered, then a retrace would have gone 1 pip above pivot before continuing short. This would not have caused a stop with the considerations used for placing a wider stop.

Since both targets were taken out and then a retrace occurred within the swing 50% retracement zone, the move could be considered over and new swings could be drawn for an aggressive play.



Tue Oct 16

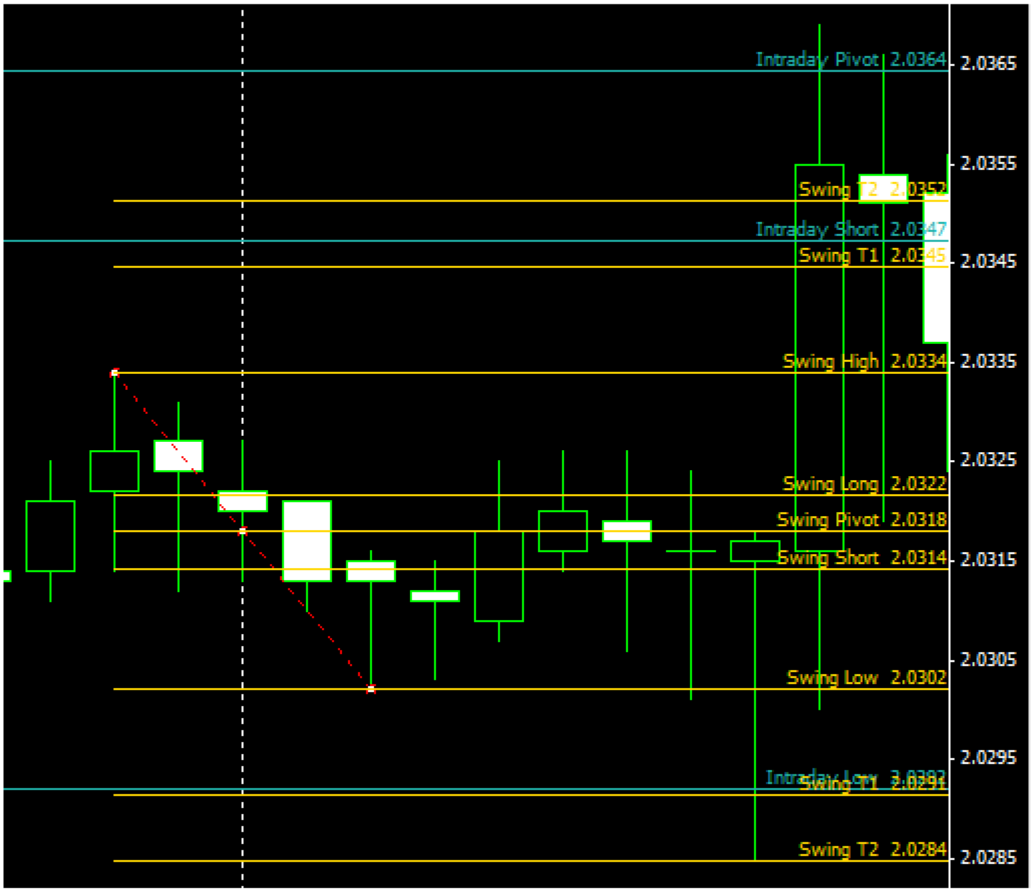
After the previous targets were reached and the retrace of the move was completed, allowing swings to be updated as shown, the candles that were previously evaluated for the first trade need to be looked at fresh from the viewpoint of the latest swing move.

The real bodies of the candles leading up to this second short were within the long side of the swing area, but they were all bearish candles and drifting down, giving a bearish sentiment. Depending on the perspective, a pending long order would not be executed and a pending short order would have worked out, so nothing tragic would happen due to different views on the setup.

The break out candle gives strength to the bearish sentiment just before the trade is executed and completed all on the same candle.

The move is confirmed as stable on a lower time frame and should experience no slippage.

Once targets were met, a significant retrace occurred and another short could have been played successfully but the swing low and high would be basically drawn across a spike formed across two candles. It would be up to the trader to stand aside for more candles, or trust the fib retrace and continuation mindset.

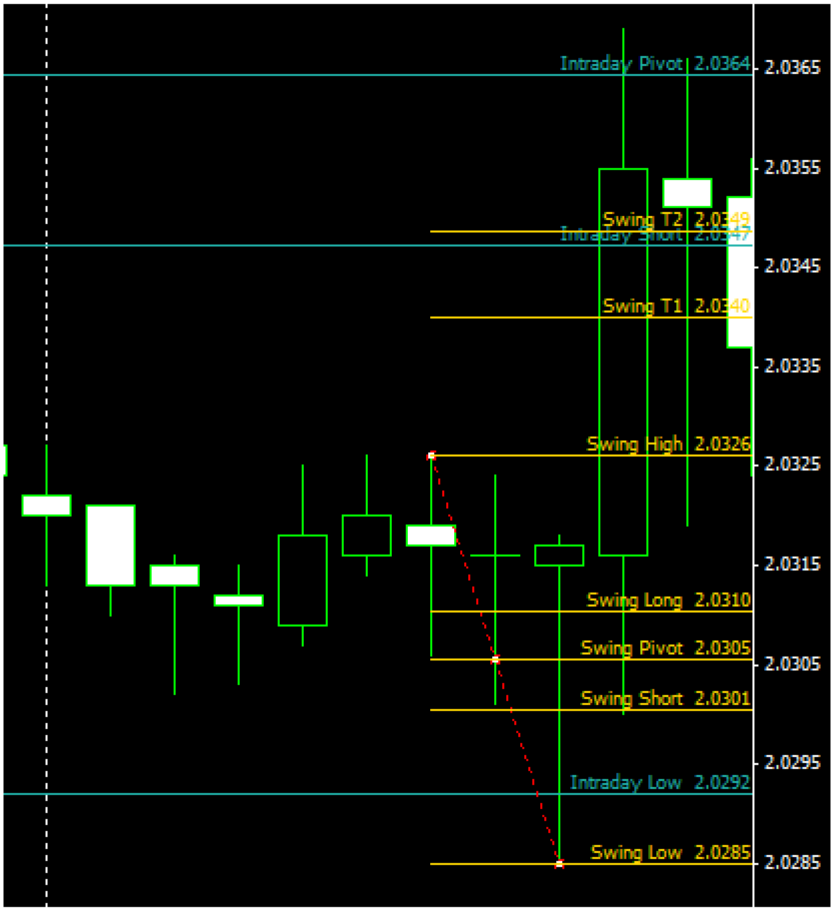


Wed Oct 17

This is another subjective entry which may have been missed with lack of clear directional bias, or if a short bias were decided, the trade would have been executed and succeeded, provided a reasonable stop were used.

This swing range is only 32 pips and the retrace took out the 61.8% retrace level before reaching T2. A stop placed above swing high (32 pip stop) or an even larger arbitrary fixed stop would have been ok.

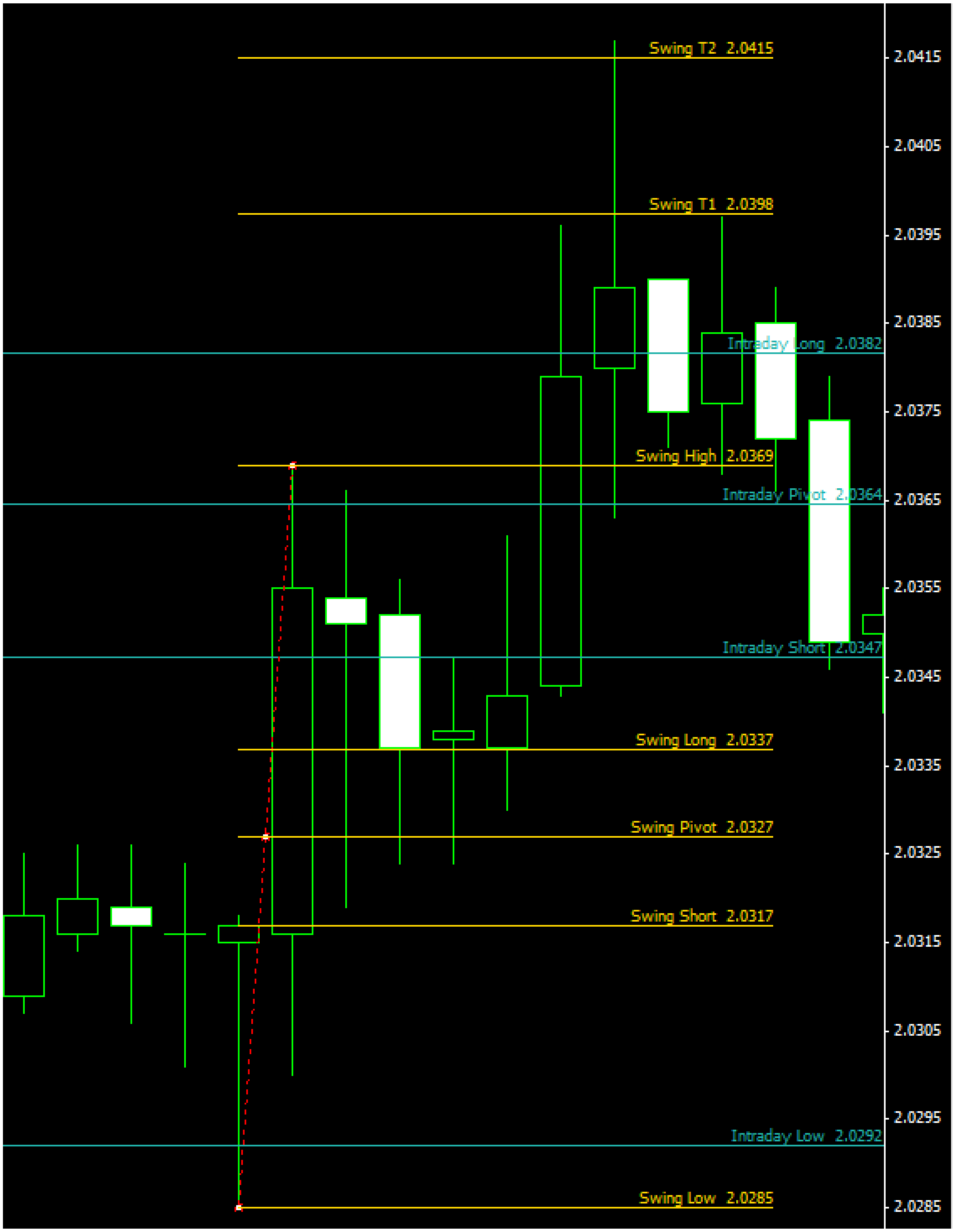
The 1 hour spike that reached targets was a stable descent on the smaller time frames.



Wed Oct 17

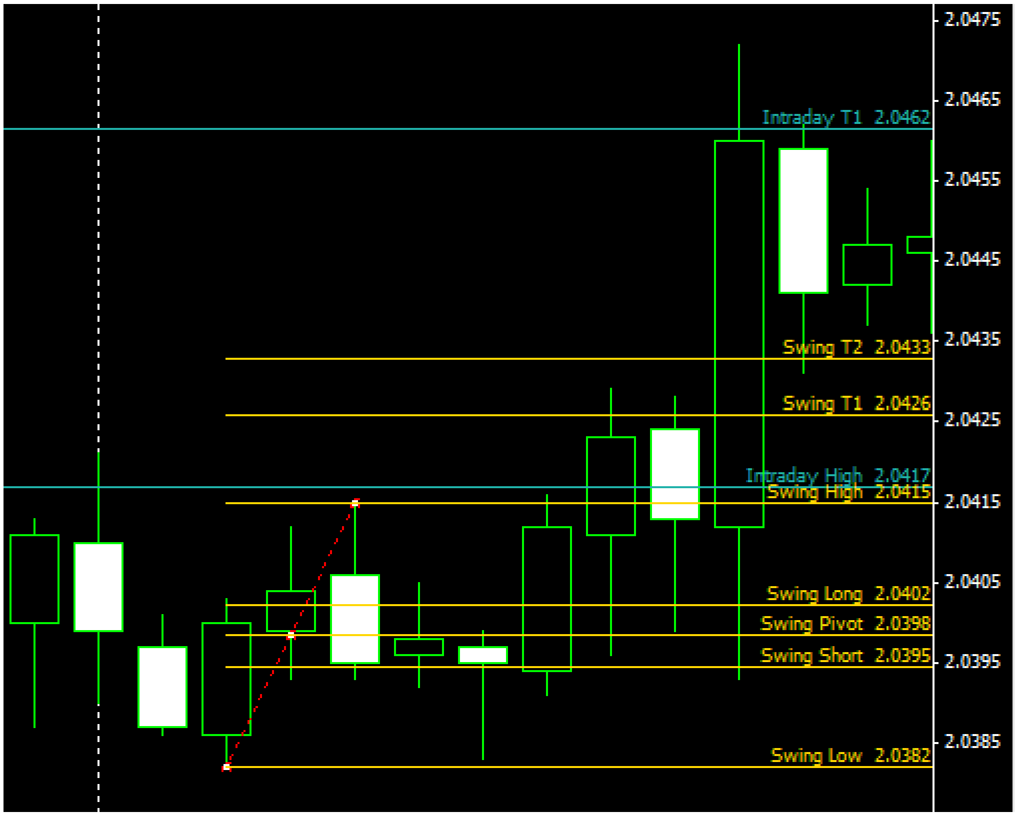
With all the uncertainty in the candles it is a subjective call for where to update fibs, but they are shown with a high located where candles next formed lower highs and lows. The low point is obvious.

With swing fibs as shown, the bias is clearly long, and a long move reaches T2.



Wed Oct 17

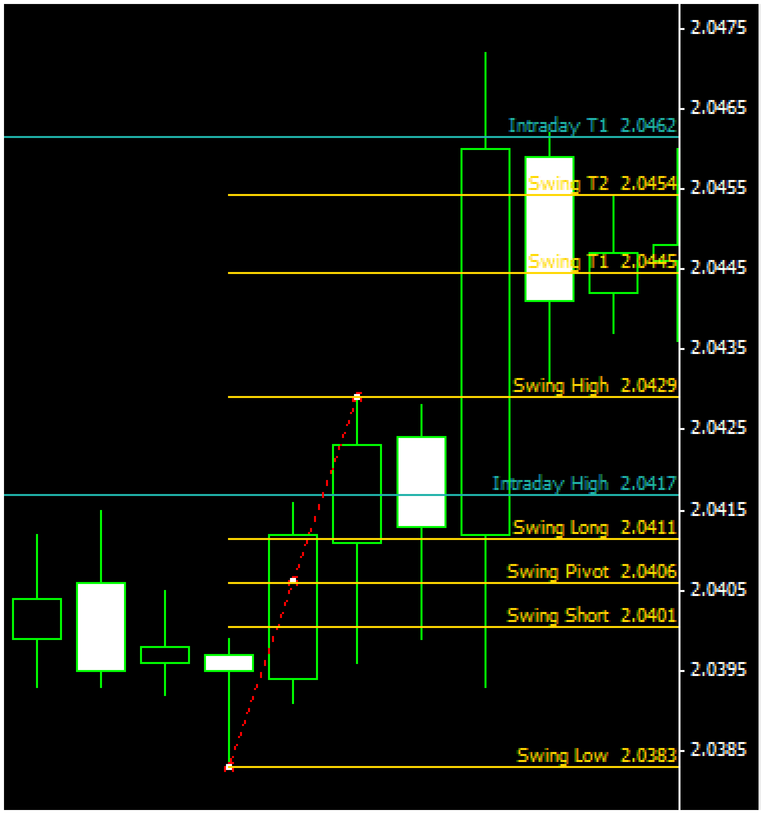
A retrace has occurred after the last move so swings can be updated. All candle bodies remain long biased and an entry reaches T2. The spike was a non slippage ascent.



Thu Oct 18

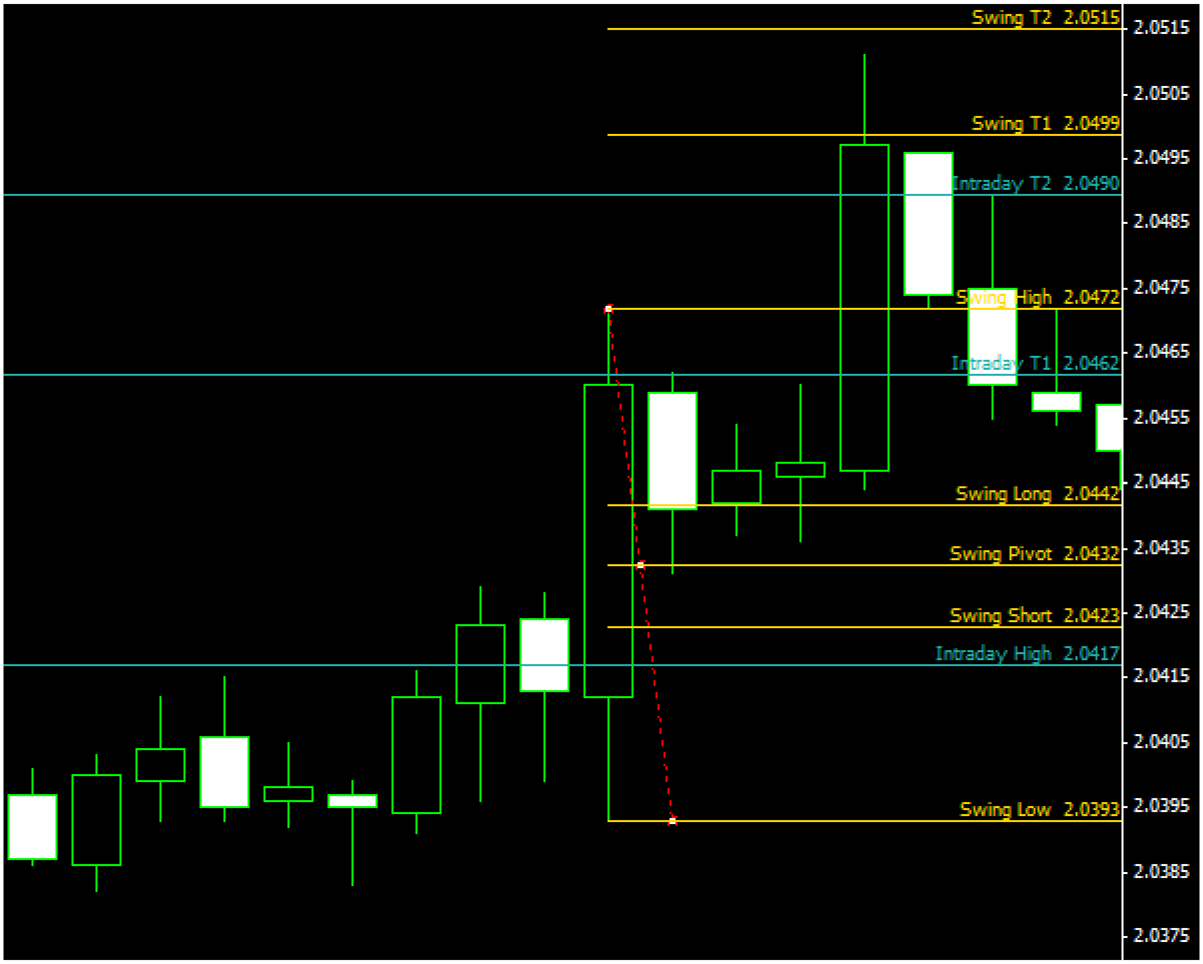
The first swing formed in the Asian session is 33 pips so a wider stop would be used, and needed to prevent a stop out before T1 is met.

An aggressive trader may note that after T1 is reached, a retrace occurs to the pivot so new swing fibs may be drawn and traded for the next long move.



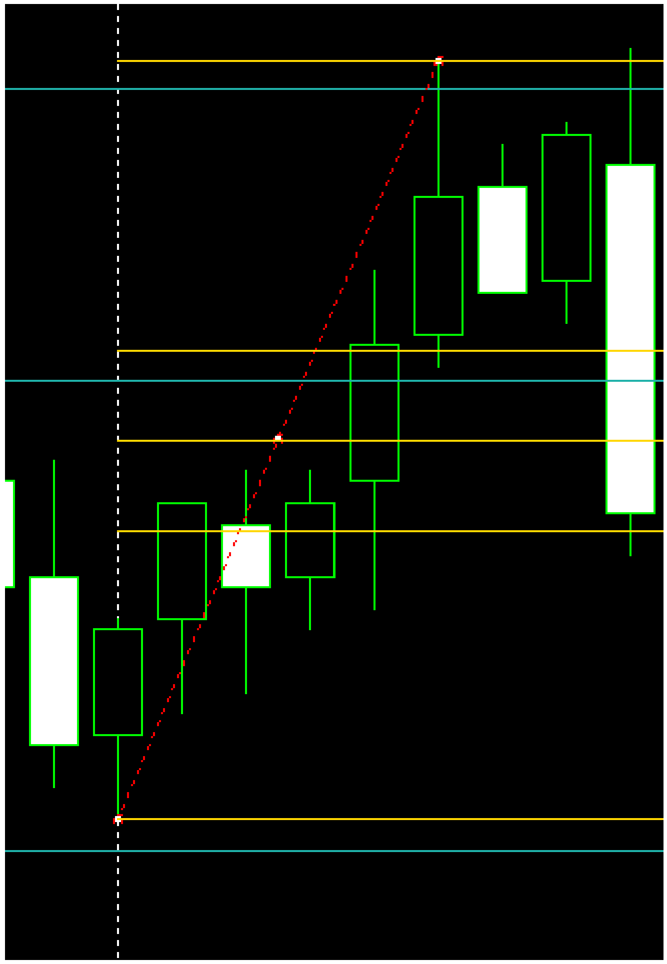
Thu Oct 18

If the retrace from the previous move is considered a completion of the first swing and the current swing is traded, the candle bodies favour the long side, and a long trade reaches T2.



Thu Oct 18

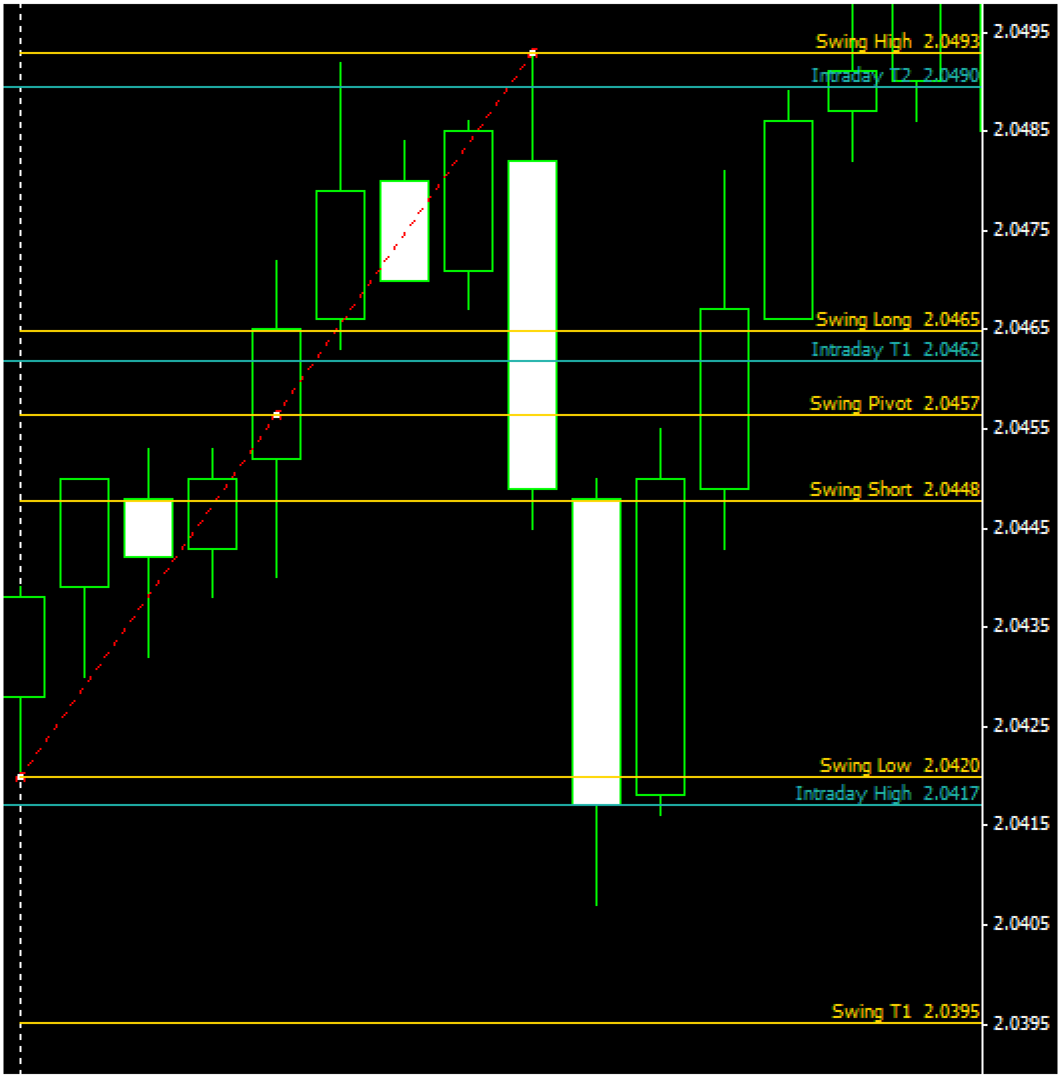
Since both targets were met on the last swing and a new high has emerged, swings can be updated. The candle bodies are long biased and a T1 target is reached on a long break. The swing low is chosen on the same candle as the high because leading up to that point the candles showed a few waves with higher low points, the last being as shown.



Fri Oct 19

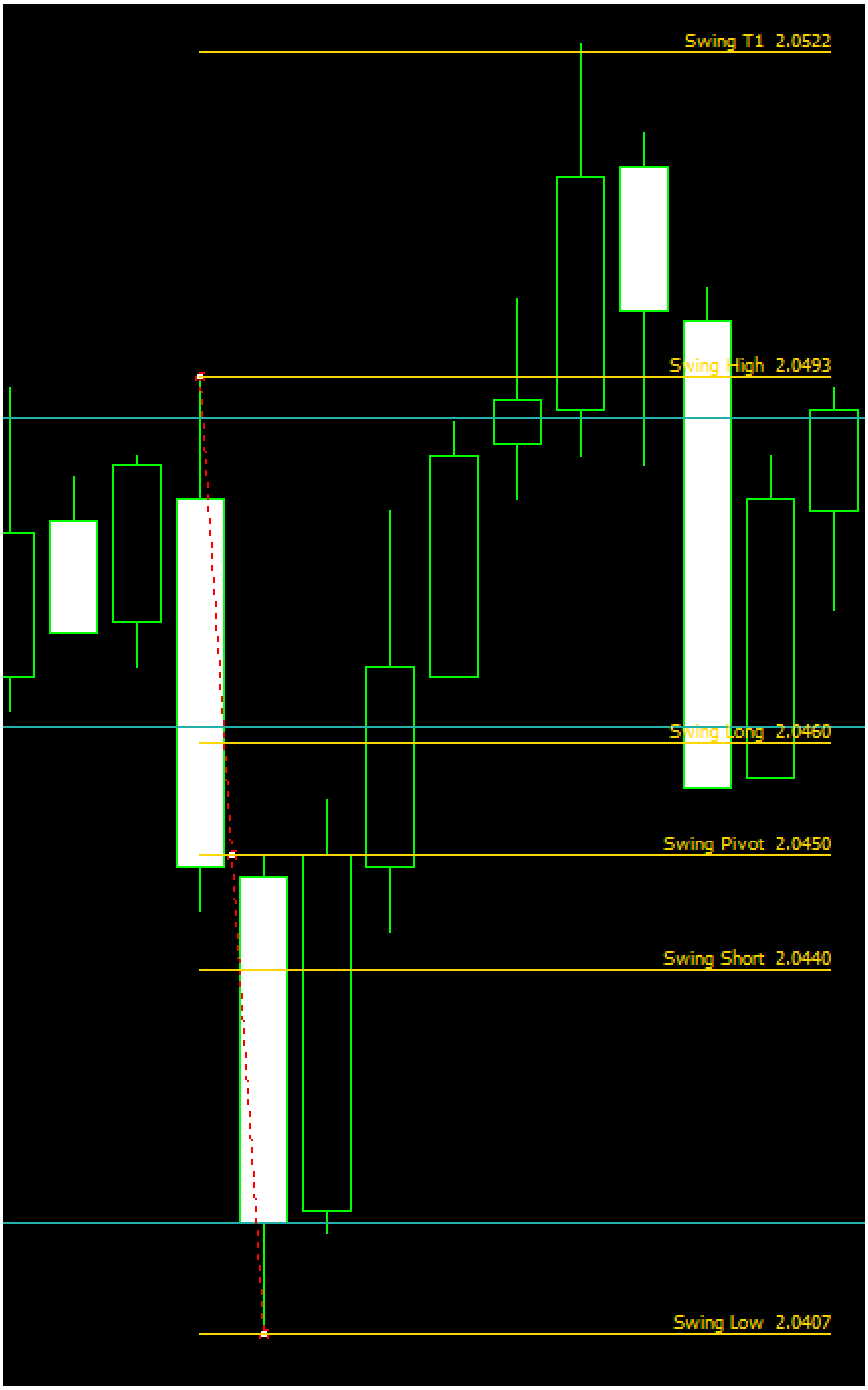
The first trade would be a failed long.   The bias was long and the trade was triggered by 1 pip before reversing and going short right after triggering the long.

Since the entry was triggered 1 pip above the entry price, a study could be conducted to assess any value in delaying an order by one more pip, but this is one trade out of more than 3 weeks that triggered this way and failed. The net result may be more profitable to accept this loss and keep the entry point at 1 pip above the swing high.



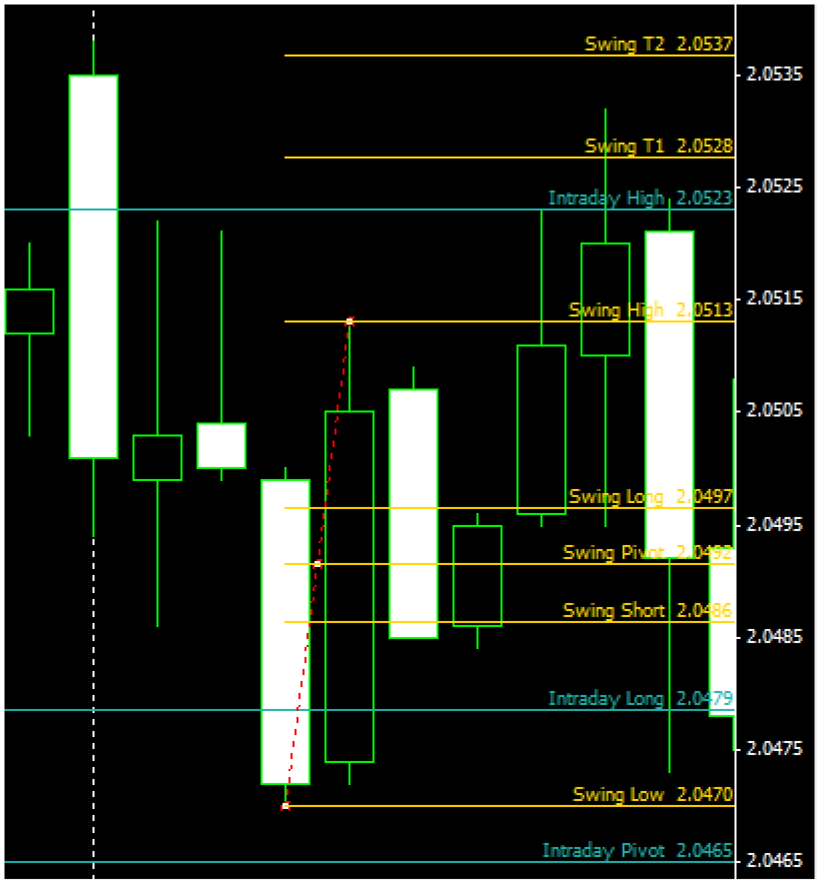
Fri Oct 19

After the first failure, if swings are updated and a short bias is decided based on the bearish candles, another failure would occur.



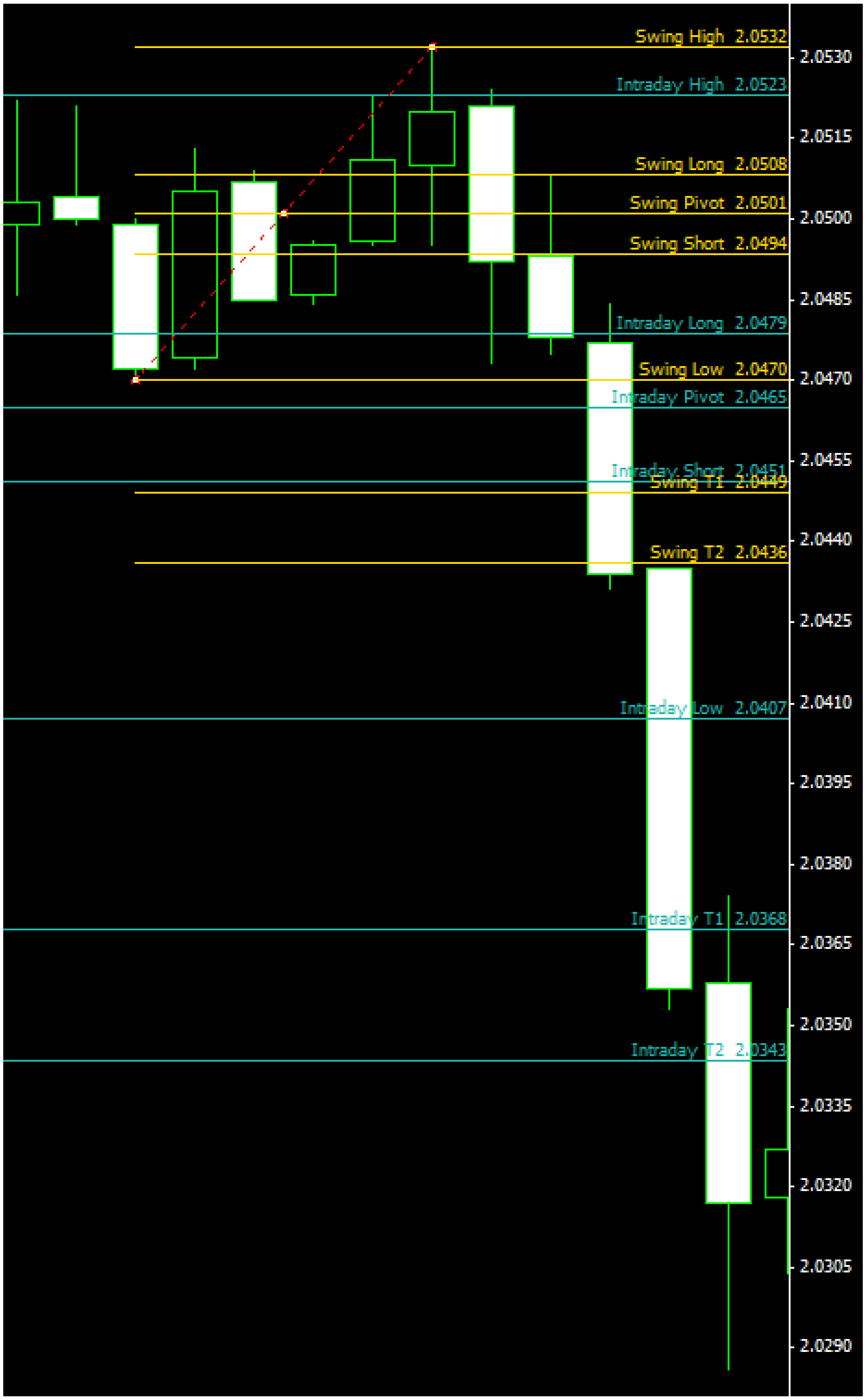
Fri Oct 19

When swings are redrawn for a 3rd attempt, the bias is long, the long is taken and T1 is met.



Mon Oct 22

The trade bias might have started to shift from long to short after the swing high, but it recovered and permitted a successful long with a T1 target.

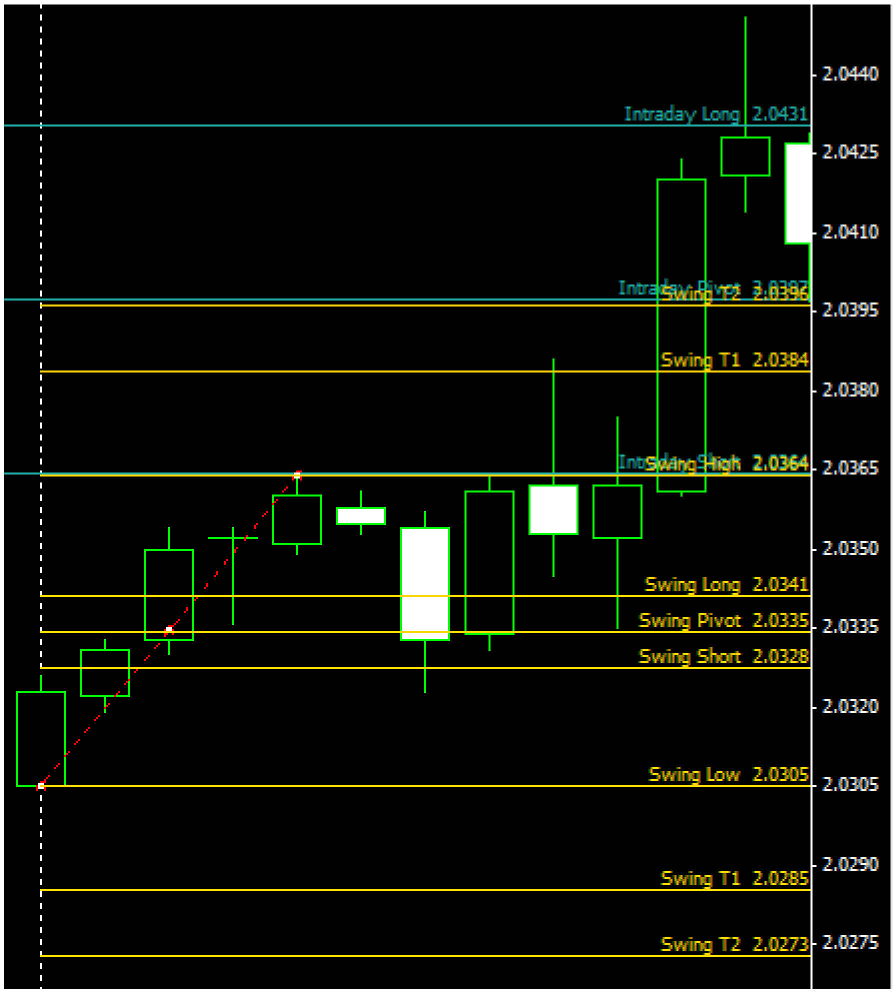


Mon Oct 22

This is the most likely way the second swing set of the day would have been configured. After the previous T1 was met, a large bearish candle retraced significantly, rendering the first trade complete.

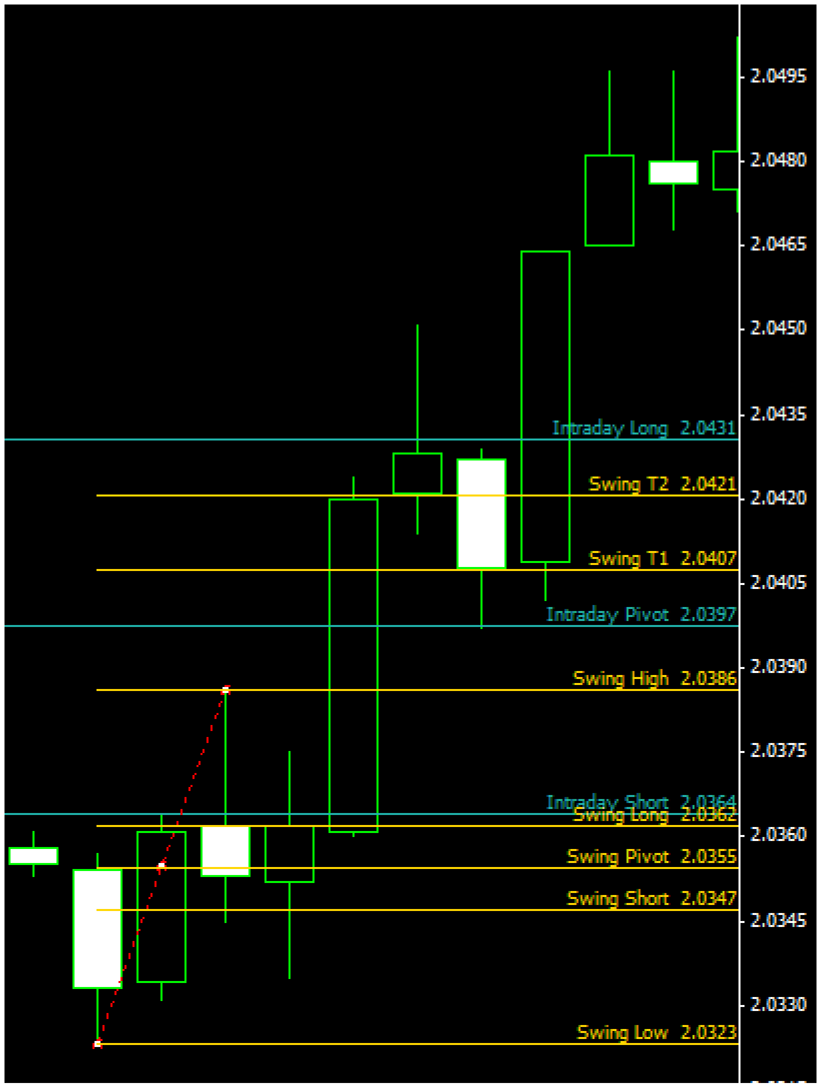
There was now a new place to move swing high, but swing low remained anchored rather than being moved to the low point three candles later, since this level has already been pierced by the bearish candle after T1 of the previous swing was reached (first candle after swing high).

With the swing set up as shown, the bias is short and a large move occurs.



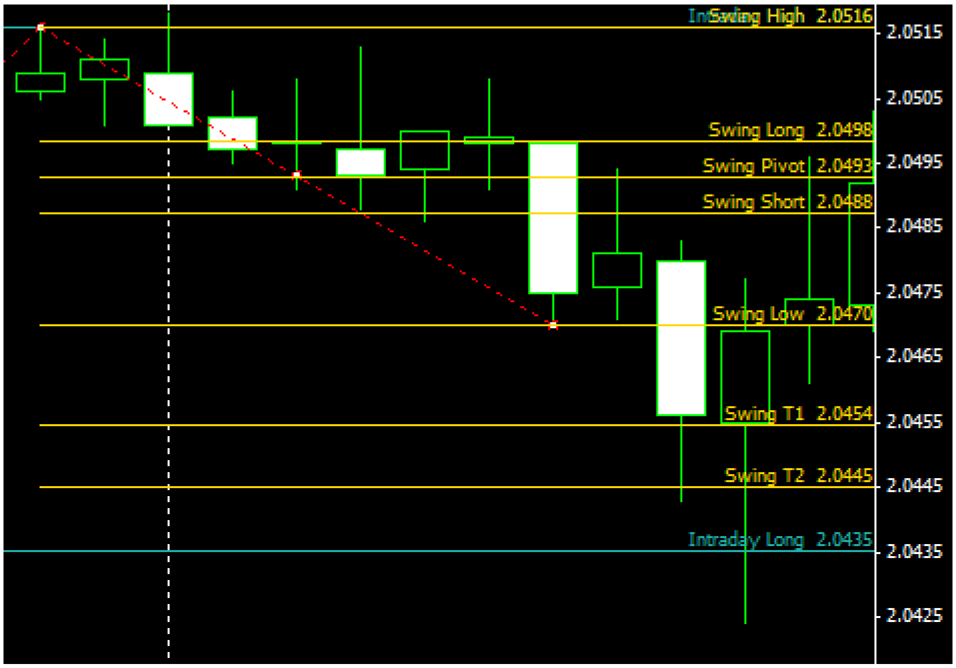
Tue Oct 23

The first swing shows a long bias and a successful T1 target, followed by a retrace to the 50% level. If the trader wishes to interpret this retrace as a completed swing, a new swing can be redrawn and the next long may discretionally be traded.



Tue Oct 23

The second swing, if taken based on the previous 50% retrace, results in a move that continues up for the rest of the day.

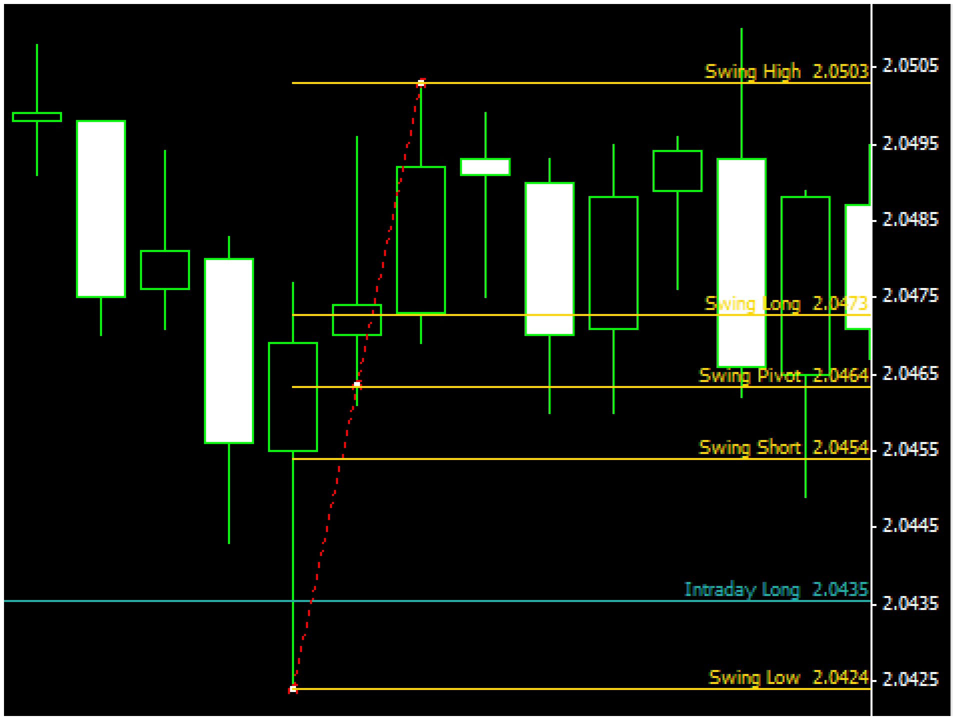


Wed Oct 24

The first swing set that is wide enough to be worth drawing, as well as showing some sense of ending consolidation is shown. In retrospect, the true high should have been drawn two candles later, the spike was missed due to the GMT 0:00 vertical marker.

Candle bodies indicate a short bias and T2 is reached before any significant swing area retrace occurs.

The spike down is a smooth transaction on smaller time frames.



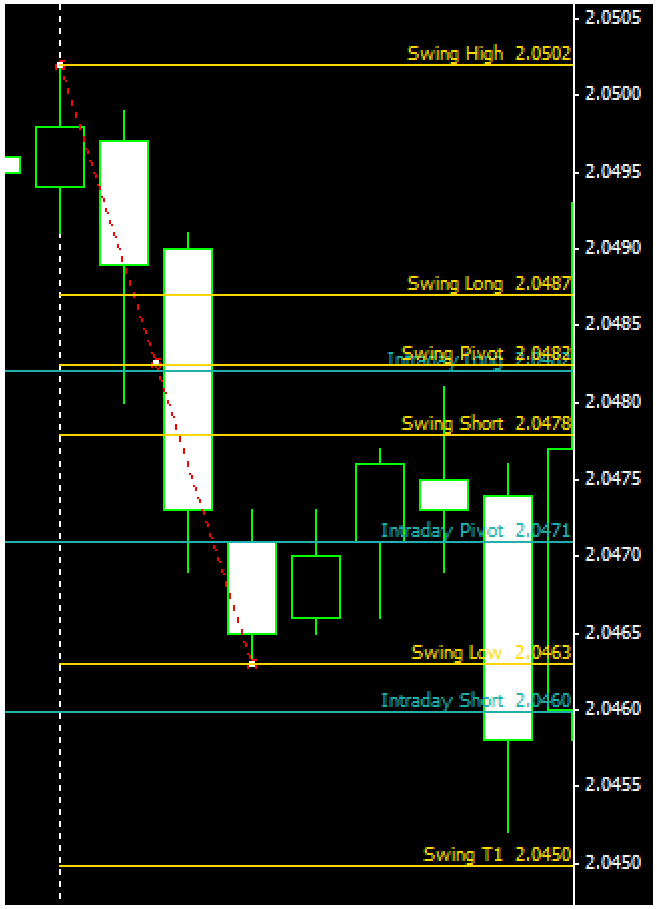
Wed Oct 24

The next trade is a failure. The swing low is moved to the low reached on the last trade and the high is placed where candles started retreating after the up move from swing low.

The candle bodies favoured the long side but a false long break out was followed by a retrace beyond 61.8% and took out a pivot stop. With that much retrace, the entire trade was complete.

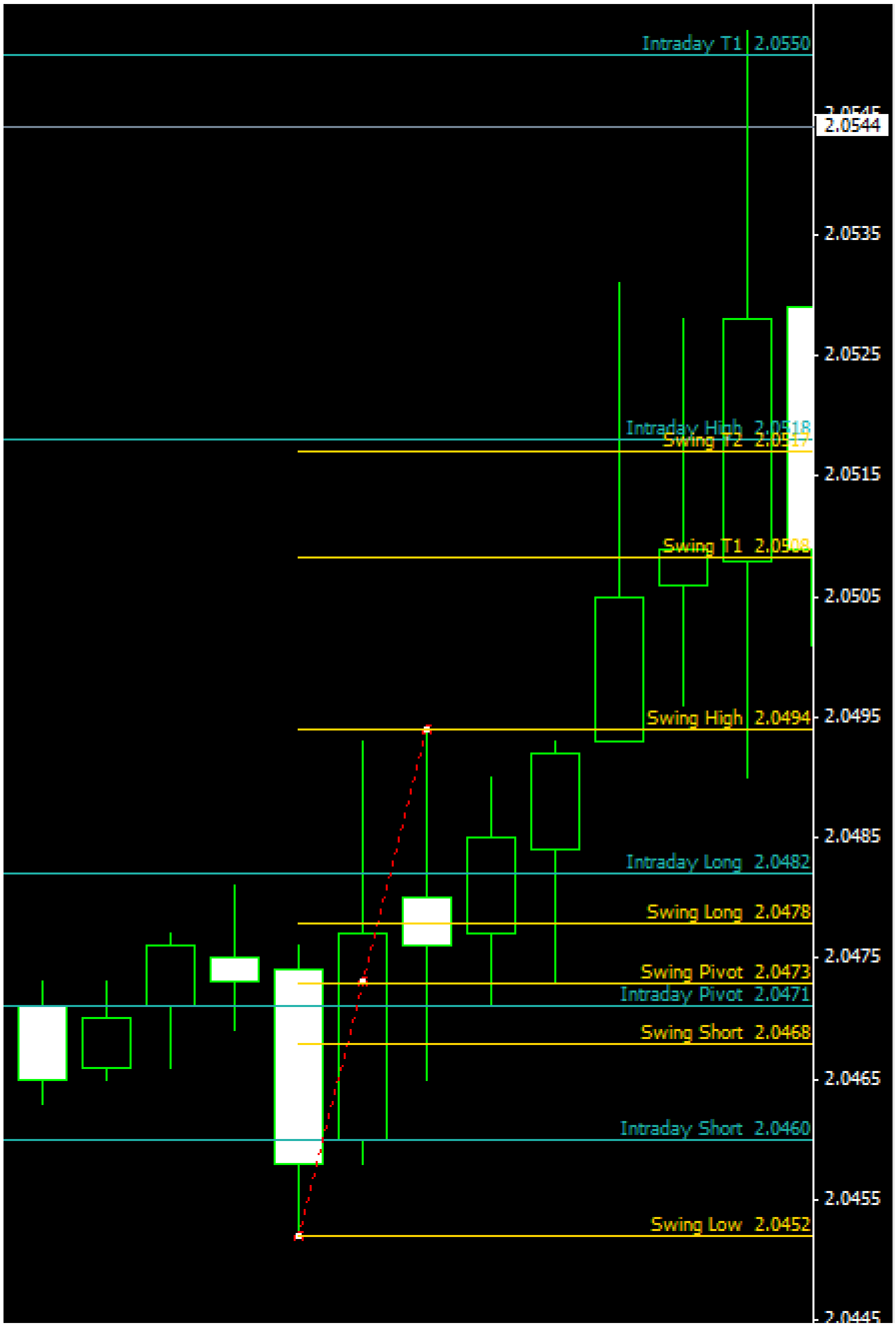
This trade could have possibly been avoided by the fact that there were so many candles ranging before the break out point, potentially invalidating the entire setup. It was also getting near the end of the trading day by the time the break out came.

A paranoid trader could have chosen to end the day early when the ranging occurred. By this point in October it was obvious that the month was in a ranging period and the trader could have been cautious of situations like this, taking only confident setups.



Thu Oct 25

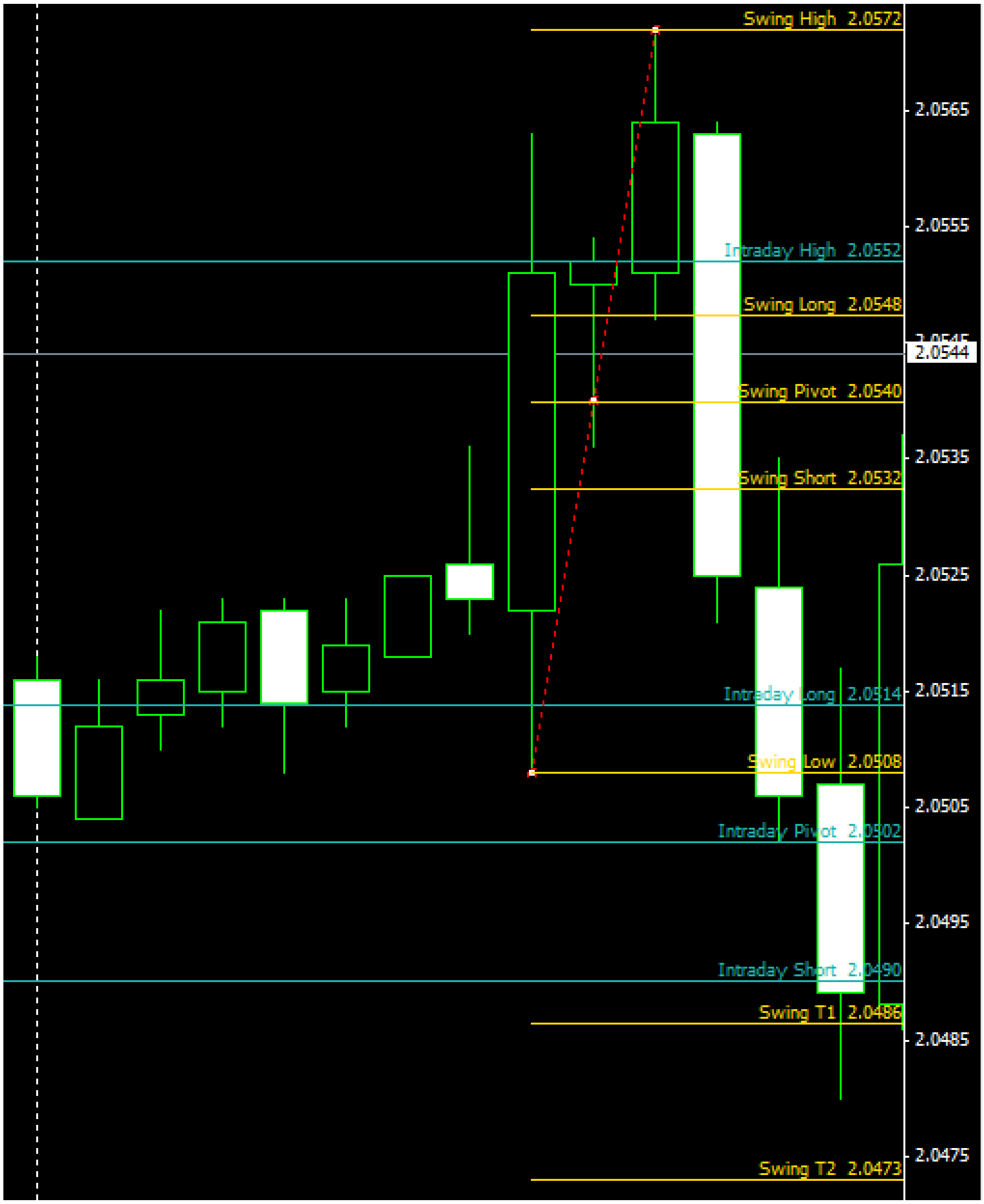
The first swing setup of the day fails on a short, missing T1 by 2 pips. Swings can be updated after the failure.



Thu Oct 25

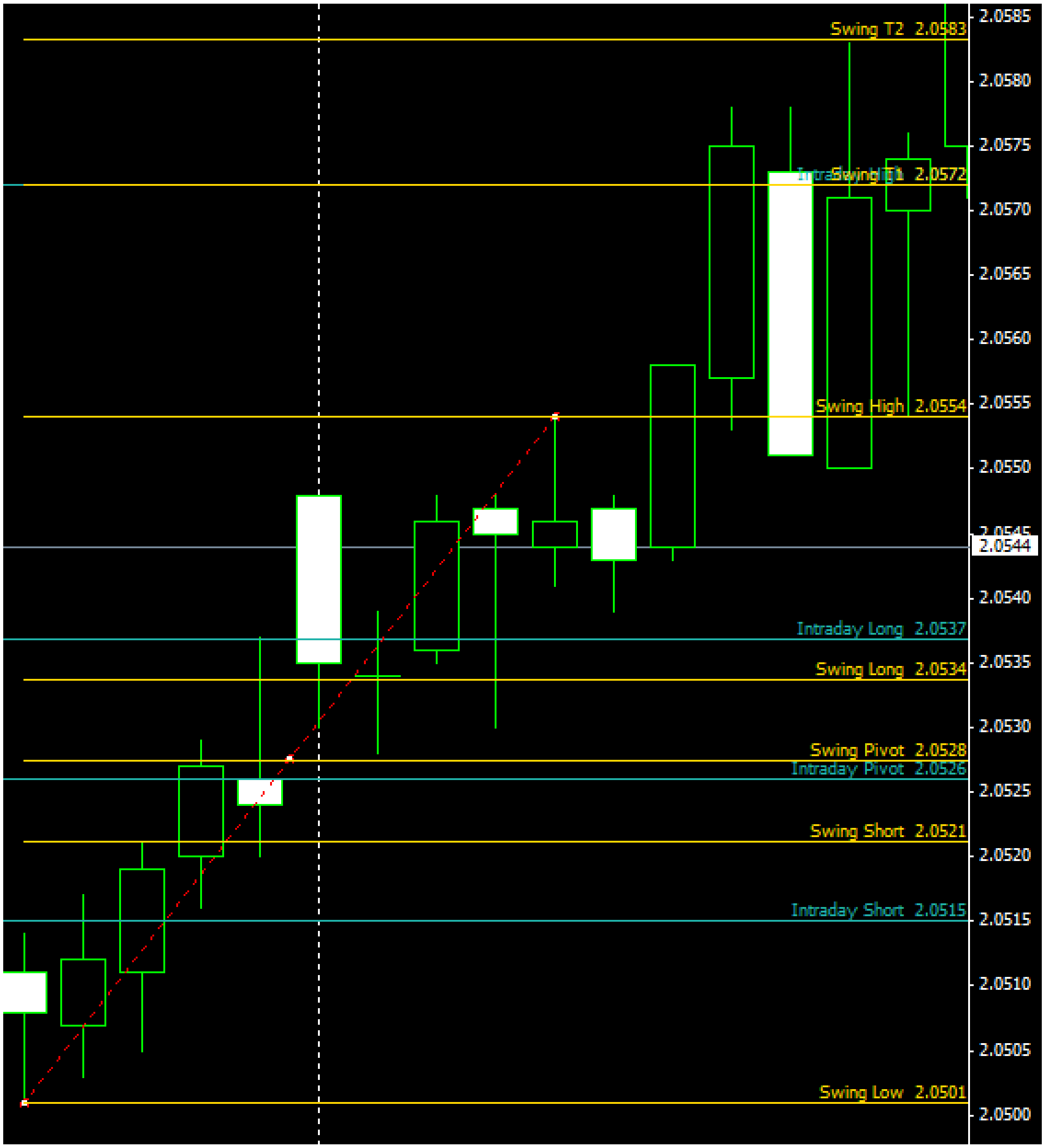
The next swing is drawn as shown with the high located two candles after the low because only after that point did the candles form lower highs.

T2 is reached on a break long.



Fri Oct 26

The up move would have been missed since there was no clear point to place a swing high before the move occurred (all highs were the same or higher highs, no lower highs) but the short trade that followed gave a T1 target. There are no more trades for the day.

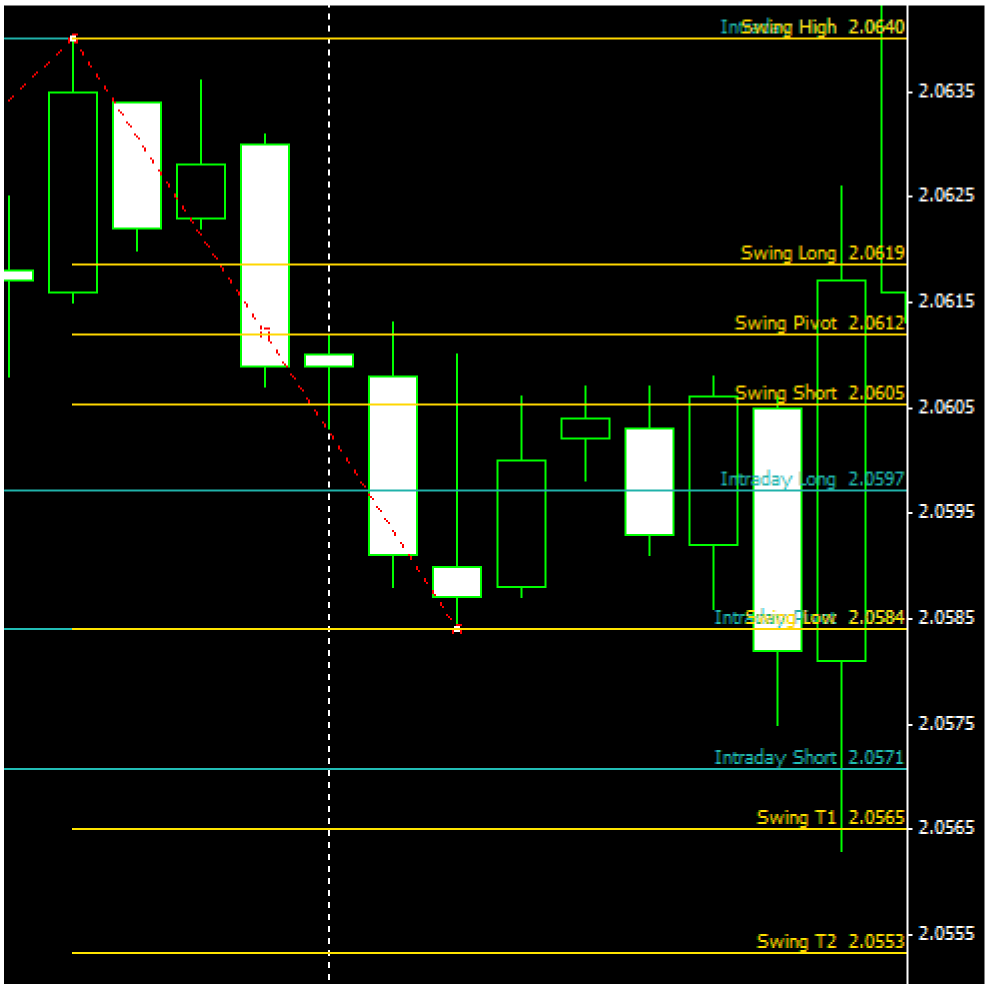


Mon Oct 29

This would be a daring trade to make but it would have reached T2. The Asian session did not produce any swing points with enough range to trade from so the trader can choose to wait for something to form, missing this up move, or take the last official low point that gives more than 30 pips trading range when combined with a high from the Asian session.

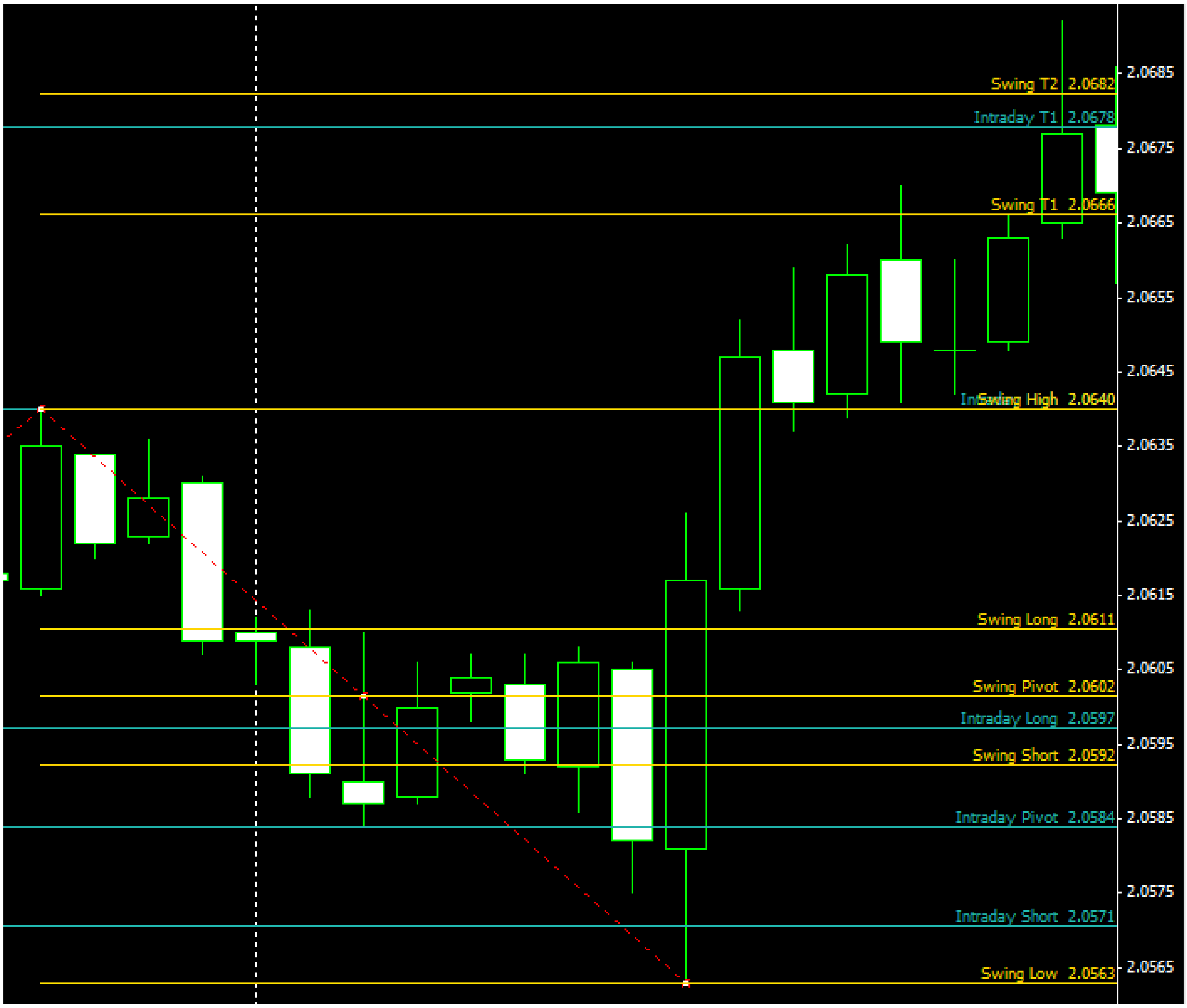
A break of the high would meet the targets and keep going without significant retrace.

The next setup would have been a long break near the end of the trading day and it would have failed to complete. Given time of day, the trader would either not take the trade, or would have enough time within the next few hours to realize it won't meet targets and exit for break even.



Tue Oct 30

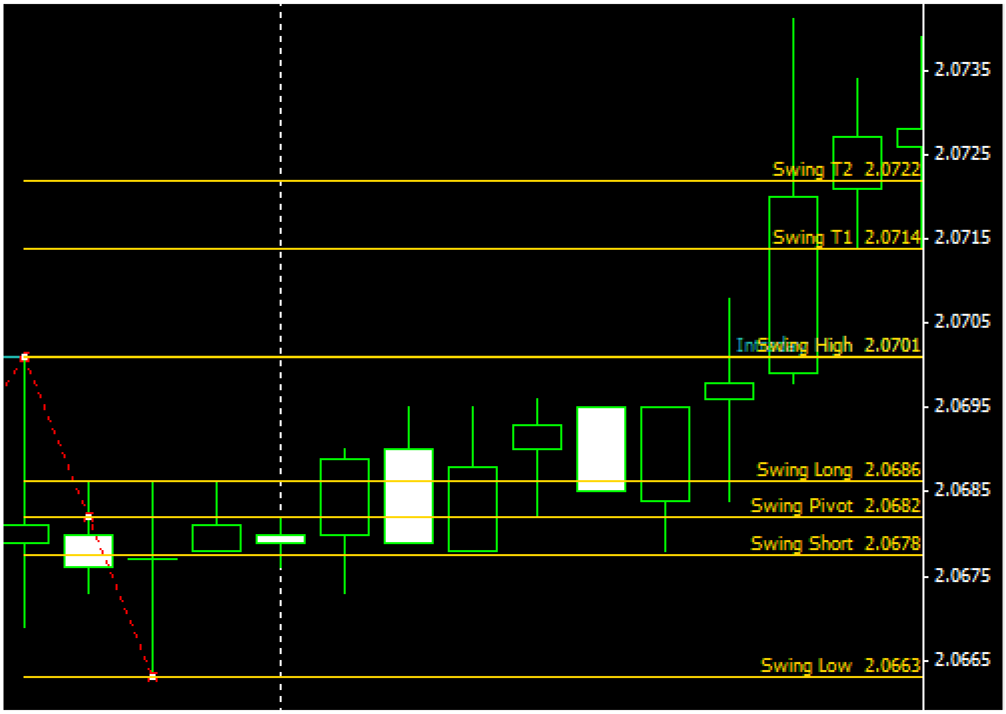
The first trade is a short that successfully meets T1 before reversing. The spike down to T1 was reliable on the shorter time frames.



Tue Oct 30

The next trade may take courage because the range is very big. The original swing high is still used subjectively. A lower swing high from the Asian session would also work but the profits would be smaller. The highs of the Asian session were more like a consolidation with no distinct new peak.

Whichever high was used, it would have resulted in a T2 target without significant retrace so the large stop wouldn't have been threatened at all. A nervous trader could have used a smaller stop based on some other form of support/resistance determination or a fixed arbitrary that suits their tolerance.

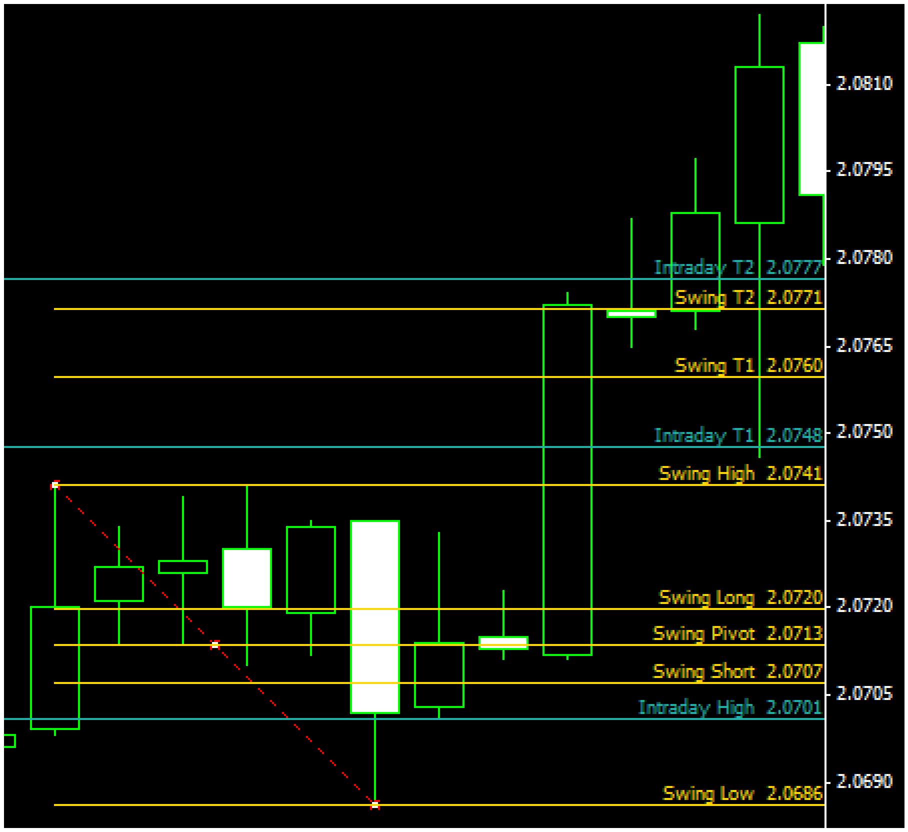


Wed Oct 31

The first swing maintains a long bias and a break of the high easily meets T2.

Although this trade was successful, price came within 2 pips of hitting the pivot stop. This is another one of those swing ranges where the stop is only 19 pips and a larger arbitrary stop could/should be used.

Although there were a lot of candles going nowhere before the break out, it wouldn't necessarily be considered a stale trade setup, which was the view taken in a previous trade that failed after a bunch of ranging candles (Oct 24). These candles occur during the Asian session and are expected to be ranging candles.



Wed Oct 31

There is one more long trade within the valid trading day time frame, but entering a long trade requires subjective decision of a long bias first.

The candle bodies were transitioning from short to neutral before the large bullish candle went from pivot up to T2. A trader would have to decide if a long bias existed or else stand aside and miss it, but at least a loss wouldn't have been taken either way.

Justifications for a long bias prior to break out include the fact that there were previously two candles that provided a neutral bias overall, and they seem to have formed a consolidation triangle, ready to make a move in either direction. When that direction started appearing bullish, the bias could have been established and the trade taken.