

How To Predict Futures Prices For Stock And Forex



By Biini Ong

Crystalballing prices with Fibonacci Retracement

Fibonacci is extremely important to my trading because it has this predictive ability to foretell price in the future. If there is something in trading that you must know, this is it! I advise that you read this article carefully and seriously. And yes, read it many times.

HISTORY OF FIBONACCI AND FIBONACCI IN OUR EVERYDAY LIFE

Leonardo Fibonacci (c. 1170 – c. 1250) discovered the Fibonacci Numerical Sequence and provided an explanation that the trading world is not a mysterious chaotic place that most people fear. His discovery says that 'the sum of the previous two numbers will always equal the next number in the sequence, as shown in the following example:

$1 + 1 = 2$	$13 + 21 = 34$
$1 + 2 = 3$	$21 + 34 = 55$
$2 + 3 = 5$	$34 + 55 = 89$
$3 + 5 = 8$	$55 + 89 = 144$
$5 + 8 = 13$	$89 + 144 = 233$
$8 + 13 = 21$	$144 + 233 = 377$
	To infinity

Since Leonardo's discovery, other mathematicians discovered the

Fibonacci number sequence in many things including breeding of rabbits, pineapples scale, sunflower seeds propagate on the flower, pinecones, sneezewort branch, piano's octave, construction of pyramids, vibration of piano's keys, structure of human body and of course in the financial trading world. Isn't it amazing? If you need more information on how Fibonacci number gels into our daily life, write an email to me and I can forward a document with illustrations.

FIBONACCI IN TRADING

There are two key concepts in Fibonacci – Fibonacci Retracement and Fibonacci Extension.

In this article, I will explain the concept and application of Fibonacci Retracement as this is the more commonly used technique.

FIBONACCI RETRACEMENT LEVELS

Price will often pull back or retrace a percentage of the previous move before reversing. These Fibonacci retracements often occur at these levels – 23.6%, 38.2%, 50%, and 61.8% and 78.6% (0.764 is more commonly used in Forex Trading). These ratios were derived by dividing, and by squaring, and by calculating the square roots of the ratios of adjacent Fibonacci numbers. The last two ratios are often referred as

the golden ratios.

FIBONACCI RETRACEMENT AS SUPPORT OR RESISTANCE

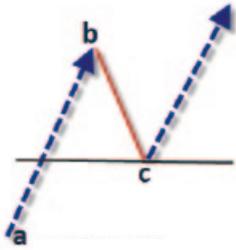


Fig 1: Fibonacci Retracement as Support

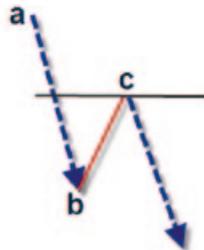


Fig 2: Fibonacci Retracement as Resistance

After price makes an initial movement from point a to point b, it can then retrace part of the move as part of the profit taking activity at point b.

In an upswing from point a to b (Fig 1), price might retrace to a support level at point c. Fibonacci Retracement provides a predictive tool whereby as soon as point a and b is established, we are able to

predict potential support that resides at any of the Fibonacci Retracement level such as 38.2%, 50%, 61.8% or 78.6% (76.4% for forex).

In a downswing from point a to b (Fig 2), should price retraces to point c, Fibonacci Retracement allows traders to predict potential resistance levels. Traders can look for a reversal here. However, one should not assume that price will reverse at Fibonacci level! The way is to mark these resistance levels and wait for a sell signal to go short.

DIFFICULTIES IN APPLYING FIBONACCI

In the forex course which I conducted in my school, students always face difficulties when they are asked to apply Fibonacci retracement to predict future support or resistance prices. Things are made complicated to those who are doing intraday trading or involve in multiple timeframe analysis. They often have problems identifying the starting and ending point of Fibonacci Retracement. One tip that I always tell my student – if low of price is \$1 and high of price is \$2, where is the desired purchase price? Many would tell me \$1.50. Well, that's a Fibonacci retracement support of 50% and to get the ratio, draws the Fibonacci Retracement from swing low to swing high.

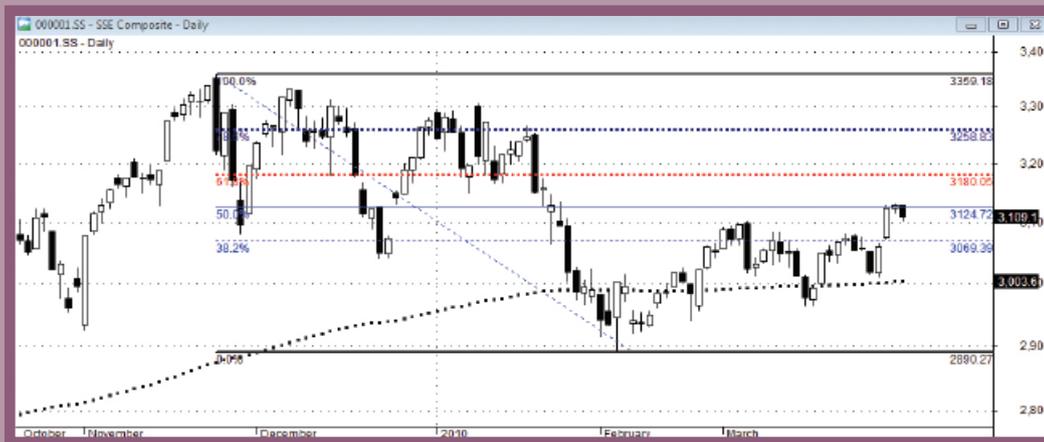


CHART 1 : SHANGHAI COMPOSITE INDEX (SSE) (CHART 1 AND 2) – FIBONACCI RETRACEMENT PREDICTED RESISTANCE AT 3180 (61.8%) AND 3258 (78.6%)



CHART 2 : INDEED, PRICE REACHED A HIGH OF 61.8% TWICE (FORMED A DOUBLE TOP FORMATION) AND HEADED DOWN TO FALL BY 861 POINTS.



CHART 3 : SEMBCORP MARINE (CHART 3 AND 4) – FIBONACCI RETRACEMENT PREDICTED SUPPORT AT \$3.23 (78.6%) WHICH CONFLUENCES WITH MOVING AVERAGE 200 DAYS SUPPORT.



CHART 4 : WE CAN SEE THAT PRICE TOUCHED SUPPORT PROVIDED BY FIBONACCI RETRACEMENT 78.6% AND BOUNCE UP STRONGLY.

However, one shouldn't simply buy or sell when price reaches a Fibonacci retracement ratio. Instead, Fibonacci retracement provides a clue on support and resistance level but must be confluence with other signals such as prior levels, candlestick pattern, chart pattern to increase its reliability.

APPLICATION OF FIBONACCI RETRACEMENT IN STOCKS AND FUTURES TRADING

Fibonacci Retracement can be used to predict future prices. The accuracy of this tool is simply amazing. However, there is no conclusion to its accuracy. I attribute the accuracy to self prophecy – Fibonacci is accurate simply because many people are using it especially important and large traders in the financial market. In the few charts below, I am going to illustrate how I use Fibonacci Retracement to predict future prices.

PARTING WORDS

I'm not choosing the most perfect examples to illustrate how wonderful Fibonacci is in trading. In fact, these examples took me less than 5 minutes to search because Fibonacci retracement happens everywhere – stocks, forex, futures, commodities and in any time-frame – weekly, daily, hourly or even in a 1 minute chart.

As a trader and trainer, I strongly urge anyone who wish to trade or invest to acquire the knowledge of Fibonacci. Tell you a secret; I use Fibonacci retracement to buy a house! ■

Binni Ong is the Chief Trainer of TerraSeeds Market Technician Pte Ltd, an education provider in Strategies for Stocks, Forex, Futures, Commodities and Options Trading. She has been invited to present on many investing and trading seminars and courses held by banks, institutions and brokerages. She specializes Fibonacci, Elliot Waves, Momentum Trading methods and applies her own formulated system for stock, options and currency trading.



CHART 5 : AUDUSD (CHART 5 AND 6) – PRICE RETESTED 50% FIBONACCI RETRACEMENT SUPPORT. AT EACH TEST, WE CAN SEE BULLISH REVERSAL CANDLE.



CHART 6 : PRICE CONFIRMED THAT FIBONACCI RETRACEMENT 50% OFFERS STRONG SUPPORT. SUBSEQUENTLY PRICE SHOT THROUGH RECENT HIGH TO MAKE A MOVE OF 250 PIPS.