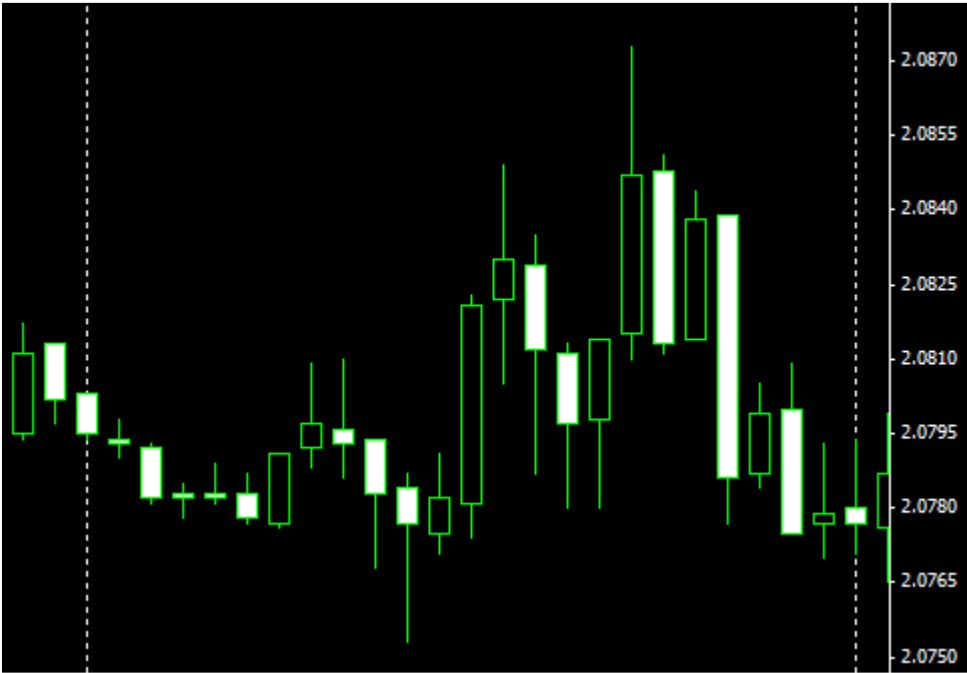


GBP/USD

Fibonacci Breakout Trade Results

November 2007

Thu Nov 1



Trading Session Overview



The first swing setup of the session is pulled as shown with the high located at the end of the previous day. The low point cannot be satisfactorily established until the bullish candles form. Until then, a consolidation was forming with no momentum or distinct lows and price could dwindle indefinitely without direction.

Once the swing area is defined, the trade direction bias starts out on the short side since the most recent move is beginning from the swing low, hence price is on the low side of the swing trading area.

Spikes form a swing retrace beyond the swing long level (61.8% swing retrace toward the swing high point)

and the real bodies of the candles move within the neutral zone (between swing long and swing short). The spikes by themselves don't impact the trade bias. Only the movement of the candle bodies impact where price is expected to go.

Updating Current Swing Fib Levels (Significant Retrace)

Once a candle body has moved into or fully across the neutral zone, if the real body of a future candle closes back within the originating side of the swing zone and there has been at least some sort of activity beyond the 61.8% level (a wick or candle body having fully crossed the neutral zone), then the swing has been significantly retraced and should be updated before a break out occurs (significant because more than a simple spike has retraced).

The exception where the swing would not need to be updated after a significant retrace would be if a candle originates within the neutral zone and proceeds to trigger a break out before the candle closes. The swing would not be updated since the whole mode of the trade would have shifted to watch for trade completion (target or stop) relative to the most recent complete candle before the break out.

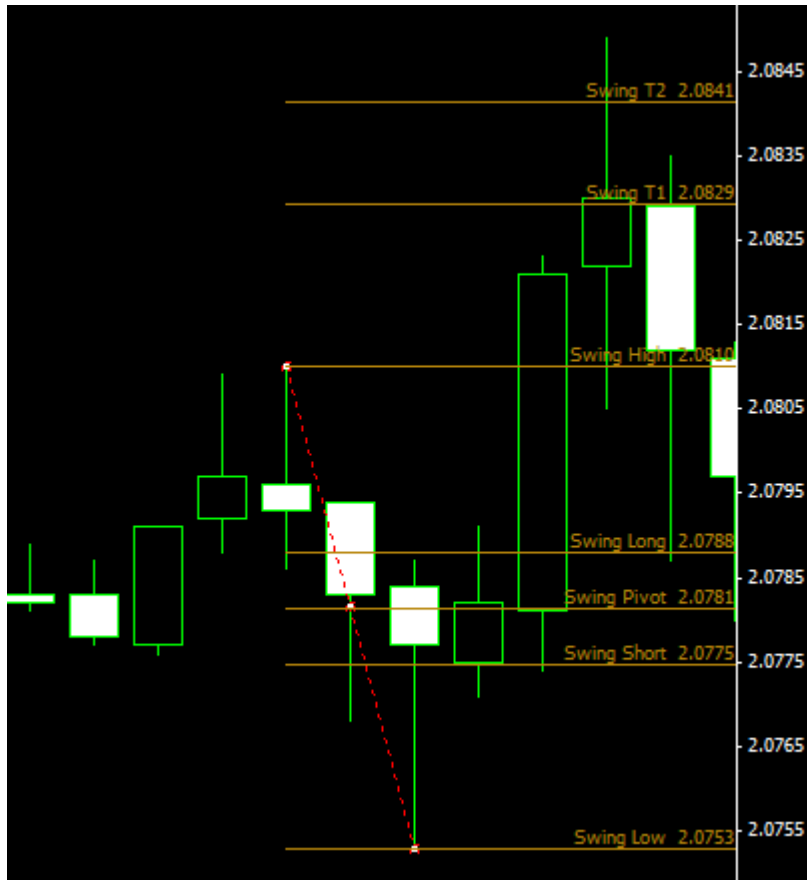
With candle bodies located in the neutral zone, the trade bias remains short. The trade bias would only shift to long if a candle body closes on the opposite side of the neutral zone (a candle body closing beyond a 61.8% retrace of the swing range). If a candle opens anywhere between the swing low and swing long levels right now (the short bias side) and suddenly goes up high enough to break out of the swing high level, the trade would not be taken because the trade bias is short. However, the mode of the swing would be considered as having broken out and we would follow the price action until trade completion without placing any trades.

In this trade the candle bodies moved to the neutral zone and wicks formed beyond the neutral zone, putting the swing in a state of "significant retrace". At this point, four things can happen.

- 1) A candle body remains fully inside the neutral zone, wicks remain anywhere within the swing range. The bias remains short
- 2) A candle body moves to the long side (candle closing or opening above swing long). The bias would change to long because at least some of the candle body will be on the long side.
- 3) A candle body moves from the neutral zone back to the short side without triggering a break out. Since a significant retrace has been declared, at this point the swing high is pulled down to the highest wick between swing long and swing high (a more recent and meaningful swing high)
- 4) A candle opens inside the neutral zone and proceeds to trigger a break out. If the break out is long, it is not taken due to short bias. If it is a short break out, the swing levels remain unchanged because the "significant retrace" was not completed before the break out. Only when a candle body moves back toward the bias end, is the significant retrace complete.

A candle ends up opening within the neutral zone and moves down to trigger a short trade. Targets are met on the next candle, which also retraces back to the swing range area and the swing move is considered complete.

A new swing can be established from the most recent and usable high and low points. If there are no usable high and low points (if there is too much large spiking) it may be necessary to stay out until a clear momentum is established.



After the targets are met the price retraces along the break out move and a new high is formed. A swing across the most recent move can be drawn now.

When a new bullish candle with a higher low forms after targets are met on the first trade, a swing can be established across the most recent high and low. This can only occur when the bullish candle has closed and it is guaranteed that a higher low has formed, permitting swing low to be anchored.

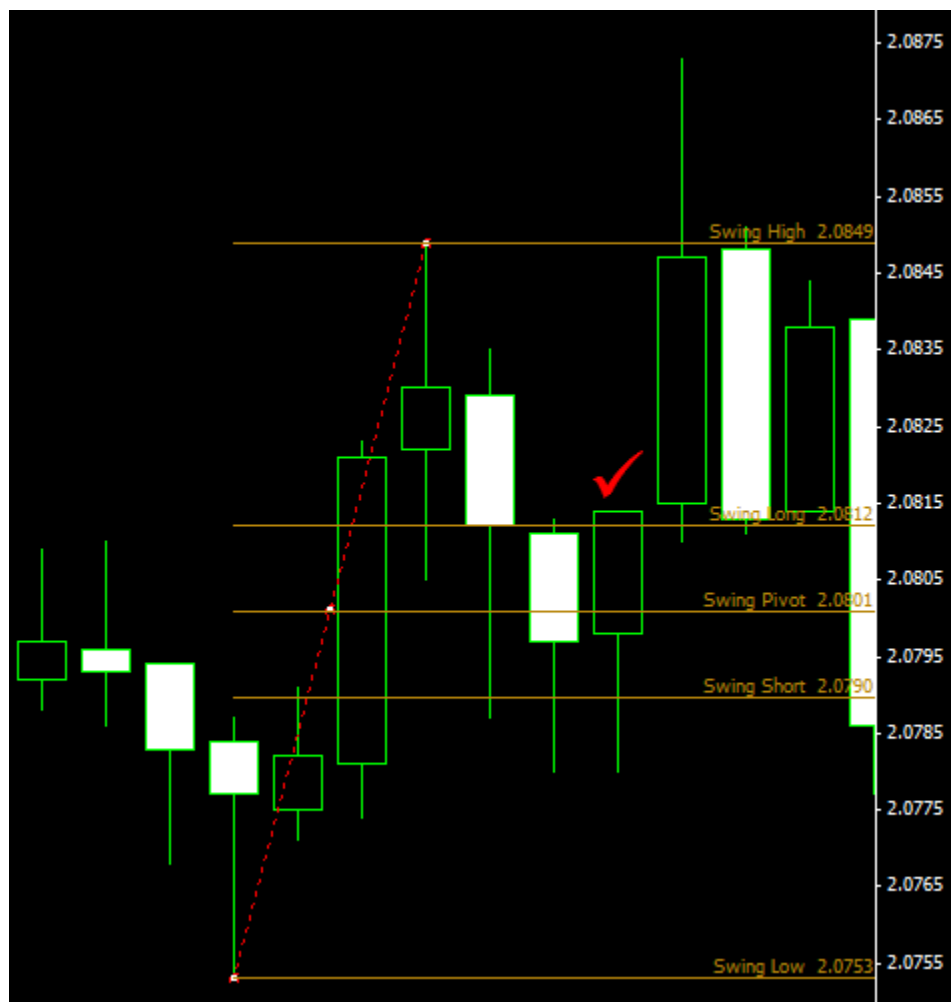
The bias starts out short since the movement begins from a swing low level and the first candle of the swing range has a body within the neutral zone (maintaining any former bias). A sudden bullish surge originates in the neutral zone and breaks swing high, resulting in a swing trade that reaches two targets. Since the trading bias was short, the trade was not taken. Sometimes a sudden change in bias followed by a break out will result in a failed trade that barely triggers the entry before reversing for a stop out.

Drawing New Swing Fib Levels

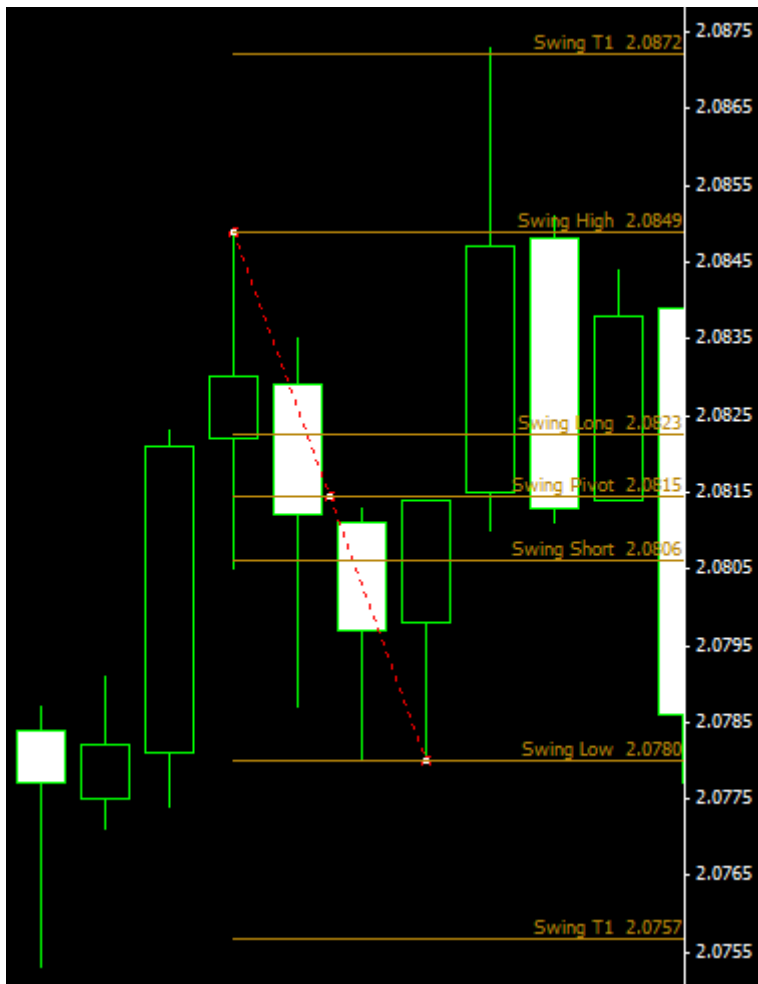
After a swing high or low break out, the price movement is monitored until completion, which occurs when price either retraces back and gets stopped out, or when targets are met and price eventually retraces to some extent. In either scenario, a new high or low point is formed after the break out upon the swing move completion.

When this new high or low is formed, new swing fib levels can be drawn across the most recent suitable up or down movement.

After a target is reached, price may reverse immediately and retrace the move, or price may keep going and later reverse, at which point the move is considered complete.



This time the trade bias starts long since price begins moving within the swing from the high side. Candle bodies move into the neutral zone and the trade bias remains long. A candle then closes back on the long side above the neutral zone (check mark), and there have been wicks reaching down beyond swing short (61.8% retrace of the swing move). At this point, a significant retrace of the swing move has occurred and the swing low should be pulled up to the new low formed within the swing.



With the new swing low pulled to the significant retrace level of the last swing, the candle body with the check mark in the last swing is now located within the neutral zone of the updated swing. The long bias from the last swing is maintained.

This allows realistic profit targets to be set based on the most recent swing moves, while retaining the longer term price momentum bias.

A candle originates in the neutral zone with a long bias and proceeds to trigger a long entry, reaching a target. When price retraces to form a new high at the target, swings can be drawn for the next potential move but there are no more trades for the day.

Notice the target was barely achieved. If the swing low had not been dynamically updated after the prior significant retrace, the target would have been out of reach and the trade would have failed.

Fri Nov 2



Trading Session Overview

The first distinct high and low of the day is defined clearly within the Asian session. Since the move then proceeds from the swing high, the bias is long. Wicks achieve a swing retrace beyond 61.8% but the candle bodies never fully cross the neutral zone so the bias is still long.

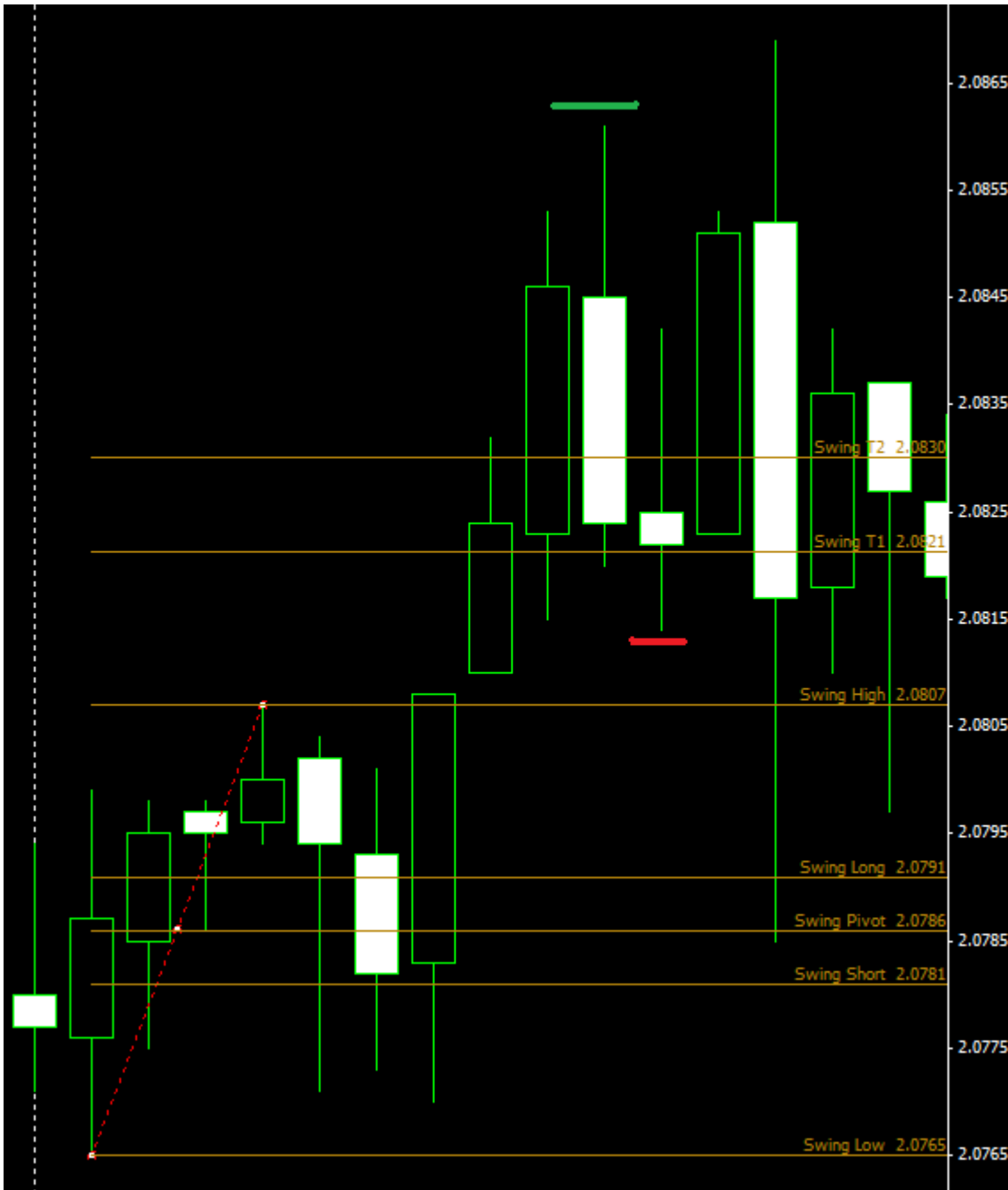
A candle opens within the neutral zone with a long bias in effect and proceeds for a long break out with targets reached. Even though a significant retrace of the swing range occurred (wicks beyond 61.8%, bodies in the neutral zone), the swing low did not need to be moved up to the retrace low point prior to break out because candles did not open back on the long side before the break out occurred.

After targets are met there is a retrace that establishes a new high at the green line once the following candle forms a lower high. This completes the swing trade like all previous cases so far this month, but this time price doesn't return to the original swing area - another candle forms a higher low at the red line, terminating any further immediate retrace of the break out move.

This creates a discontinuity between the swing range prior to break out and the new range forming away from the swing area.

Just like updating the swing high and low levels prior to a break out if a significant retrace occurs, the swing levels that have the most priority in this case are the most recent high and low that form during the closure of the previous swing trade.

The new swing should be drawn from the most recent high at the green line, to the most recent low at the red line.



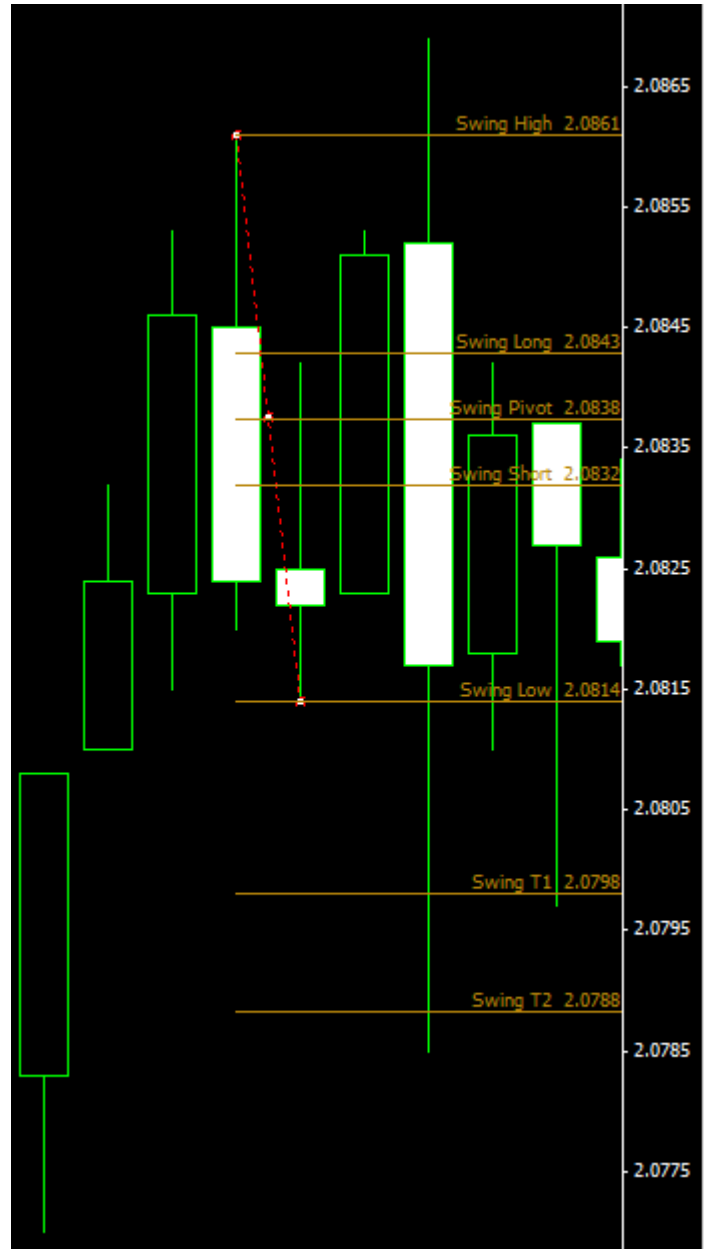
With a new swing drawn across the recent highs and lows formed after the last break out, the bias starts short with price moving from the swing low. A bullish candle crosses the neutral zone and closes on the other side, changing the bias to long.

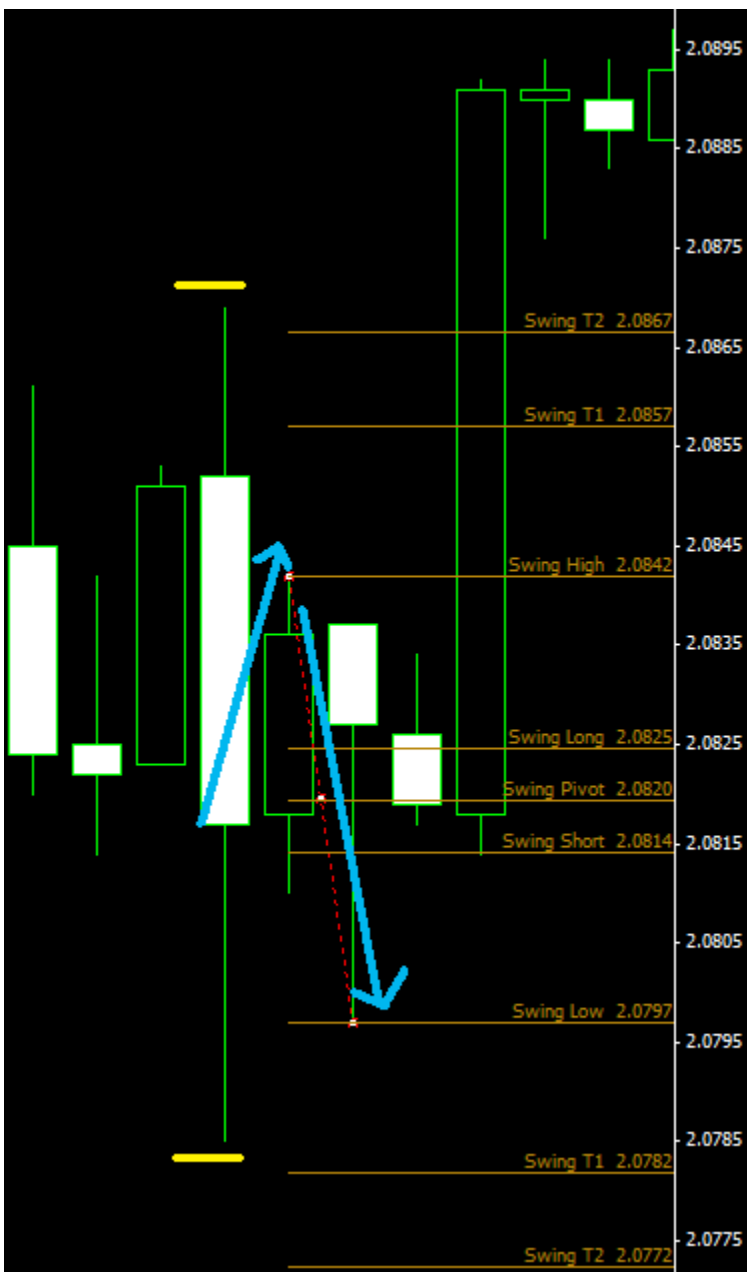
The next candle is a surge from US news releases (Nonfarm Employment Change and Unemployment Rate) which occurs half an hour into the candle. Most people would completely avoid trading when these news events occur but if the trade were in play, the big down spike occurred first and would not be triggered due to the long bias.

Since a swing break did occur, the mode of the swing move changes to observing for a trade completion even though the short wasn't valid. Any pending long orders must be cancelled and hopefully they can be cancelled within 10 minutes of the short break. That's when the upward spike occurred and would have resulted in a stop out.

Notice the spike that triggered the short trade also retraced back within the swing area, completing the swing trade officially with a new recent low at the bottom of the spike. The upward spike that occurs after the downward spike isn't a valid long entry since the swing is complete.

A new swing setup wouldn't be considered while the news candle is in play because the genuine new low point could still change, so the only course of action is to stand by until the news candle closes. In an ideal sequence of events being carried out as planned, there would be no false trades entered here and no losses.





After the news candle, a new swing must be established but the most recent high and low are the extremes of the news candle. The choice is subjective but one way to look at it is to consider the news candle's data to be completely meaningless or at least indeterminate, and wait for a pattern to emerge starting where the news candle left off (the bottom of the candle's body where it closed).

The candle following the news candle moved upward along the first blue arrow. When the second candle after the news candle closed with a lower high, swing high could be established at the high of the first candle after the news. There is still no valid swing low until the close of the candle following second blue arrow location. A higher low was formed and provided a swing low point.

The bias of this swing would initially default to short since price begins from the swing low, but the body of the candle after swing low is long biased, and so is the final bias of the swing the instant it is formed. A long break occurred and targets were met.

Mon Nov 5



Trading Session Overview



The swing range is only 32 pips so a stop should be placed at least that distance from the entry level, if not more. With the volatility of GBP/USD, price can move significantly within the day, up to several hundred pips. An arbitrary stop of at least 40 – 50 pips should be considered if the normal stop is any smaller. When the swing high to low range is at least 40 pips (or some similar chosen range based on preference), the normal location for the stop loss in these trades is behind the swing pivot line.

After the swing is drawn, price is originating on the short side and the candle bodies are short biased. Candle wicks and bodies move in and out of the neutral zone and normally after a candle moves back to the current bias side after being in the neutral zone, the swing high should be moved down to the spikes in the neutral zone (where a 61.8% retrace up along the swing occurred).

Since this swing only has a 32 pip range, the high can't be relocated lower or it would violate the 30 pip minimum swing range. The trade is left in play as shown with a short bias, and a trade is successful.

There are no newly defined swing levels within the tradable time frame of this session.

Tue Nov 6

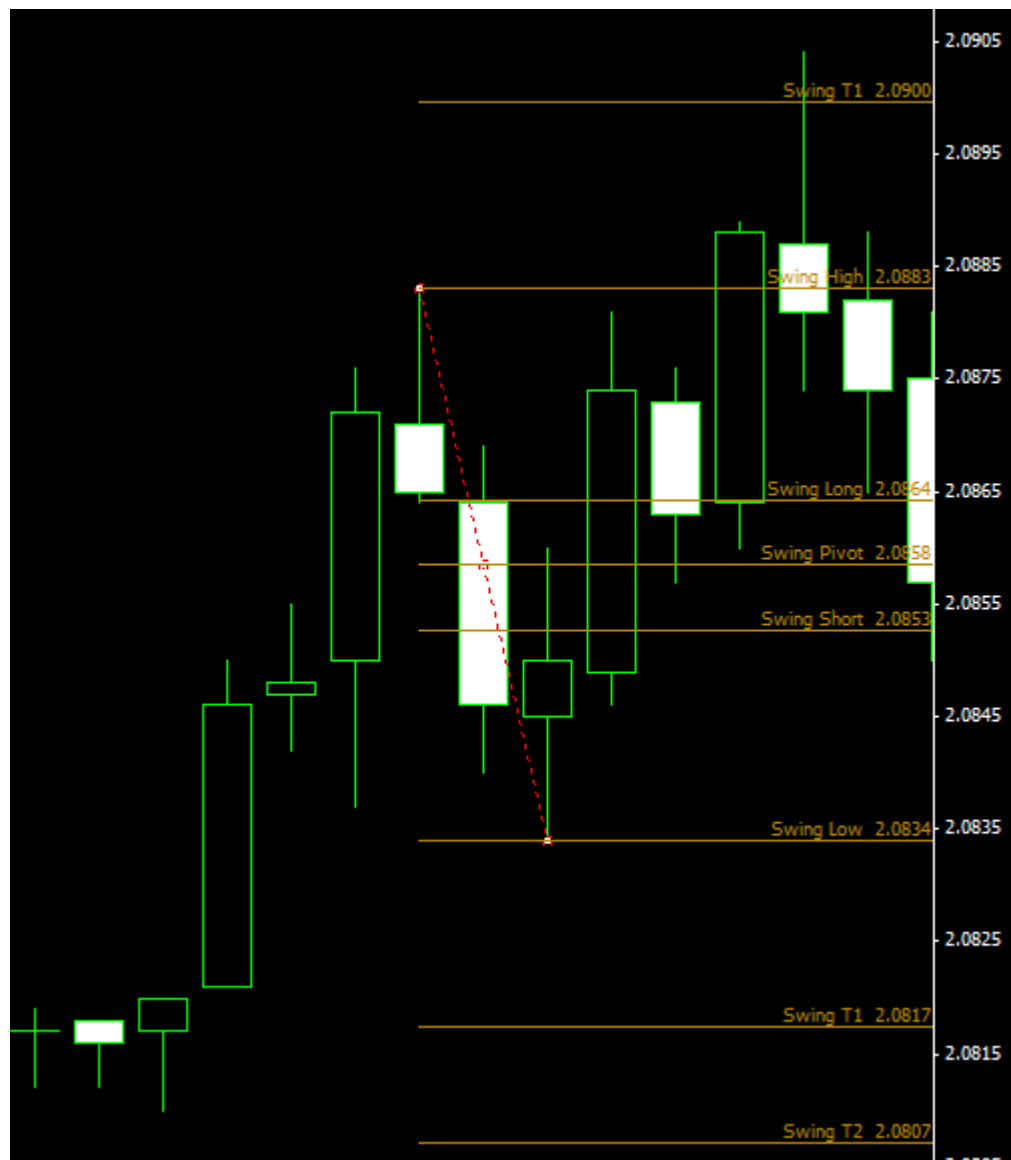


Trading Session Overview



The only swing throughout the Asian session with a minimum 30 pip range occurs well back within the previous day, which is subjectively obsolete, and also as London approaches the candles are consolidating close to the questionable high, so any slight noise could cause a false entry.

This long trade would have worked but it would have been risky from a swing break perspective. Using alternate methods of trade confirmation, a lower time frame would have revealed that during the final candle before break out, several tests of the swing high occurred, forming a solid horizontal resistance. Once penetrated, this combined short term resistance level along with the long term swing high level would make the trade a little more reassuring.



After the last targets are met, candles eventually retreat and leave a new high, and then they advance again forming a new low without having retraced to the original swing area so a new swing low can be drawn here.

The trade bias is short as price begins from swing low, but the bullish candle after swing low closes across the neutral zone, changing the bias to long the instant the swing is drawn.

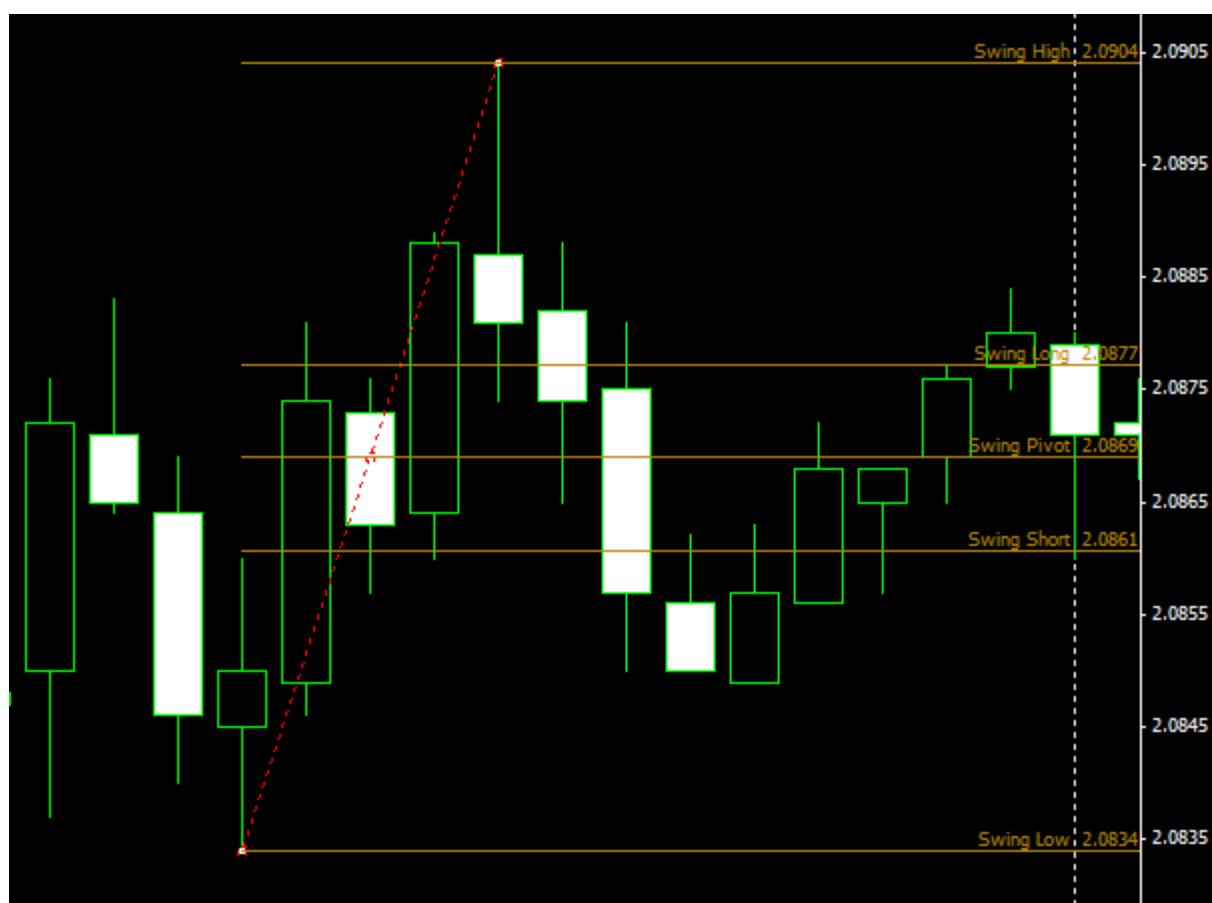
A long break out occurs and T1 is reached.

When the previous target is hit and price retraces back within the swing area, a new swing high level can be drawn at the old target. The swing low doesn't move from the previous swing low location since it is common to the newest significant move where current swings must be drawn.

The bias starts out long as price moves from swing high, then candles close across the neutral zone, giving a short bias.

This also completes a significant 61.8% retrace back across this swing area from the swing high. By this time the trading day is complete.

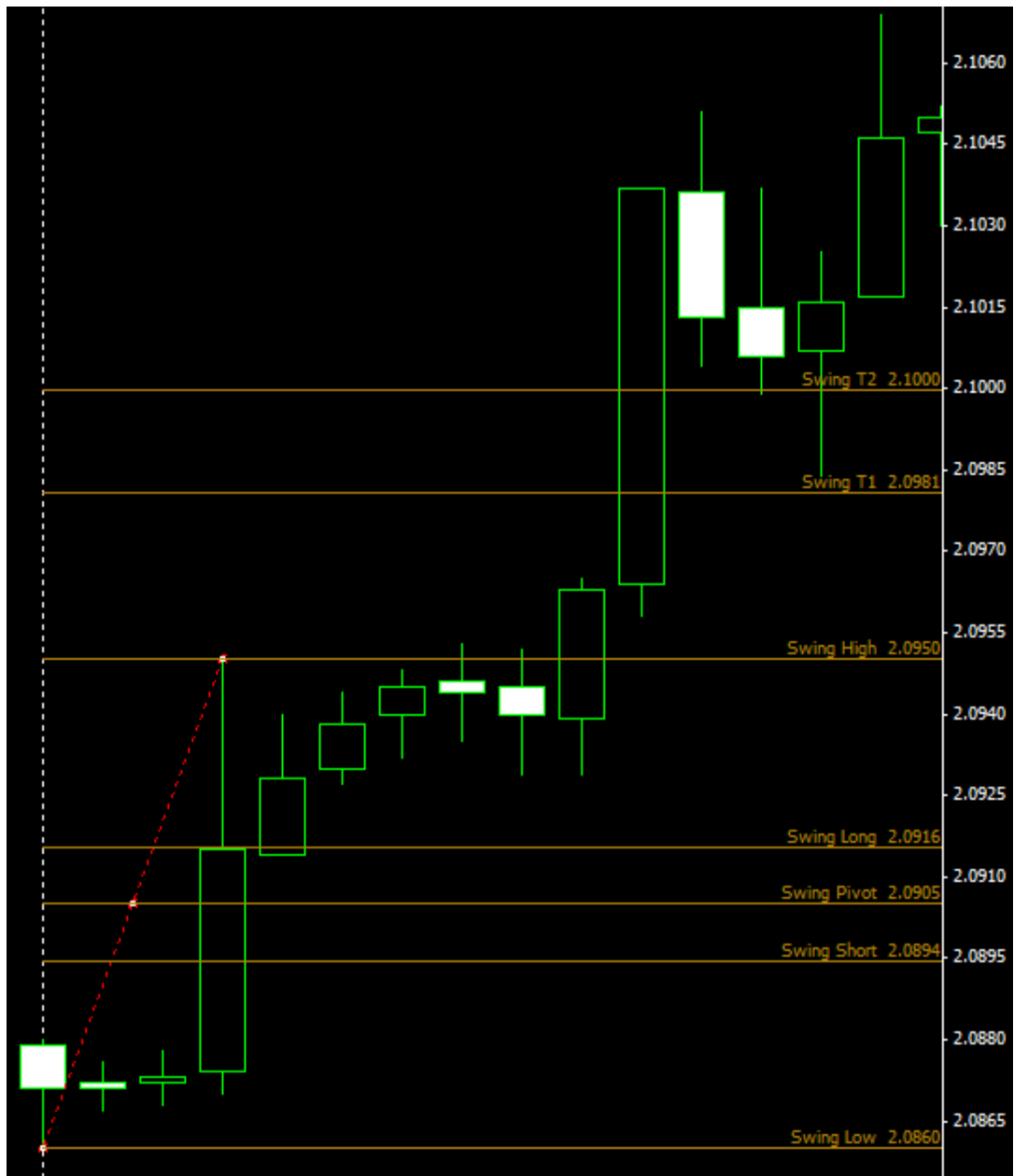
If this weren't the end of the trading session, this is how it would have proceeded. Candle bodies float back to the long side and the bias officially becomes long again, and since there had been candle bodies located in and beyond the neutral zone to the short side with activity beyond 61.8%, the swing low must now be pulled up to the new low formed on the short side of the swing.



Wed Nov 7



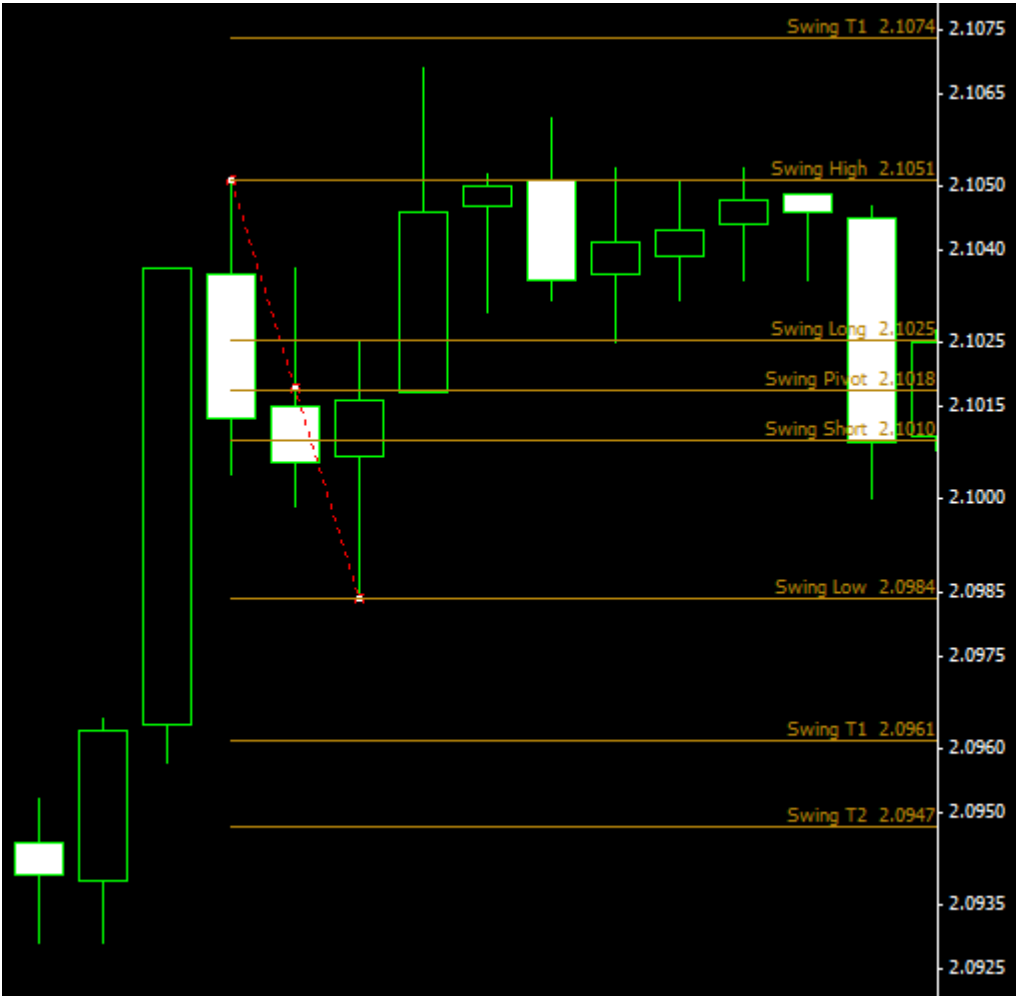
Trading Session Overview



There is an early long move before London that is missed but it gives a place to locate a swing range and the activity stays long biased. A break long reaches T2 and then a descent begins, marking a new swing high. A new low is also formed up near the targets without a retrace to the original swing area, so a new swing is drawn for the next trade.

When the new swing is drawn, the bias starts out short with a move away from swing low. The first candle closes in the neutral zone and maintains a short bias, so when the following candle shoots from the neutral zone up through swing high, the trade is not taken.

Since there was a swing break out, the trade is considered to have been set in motion and any pending trades are cancelled. Targets are never reached and eventually the trade is completed by a stop out.

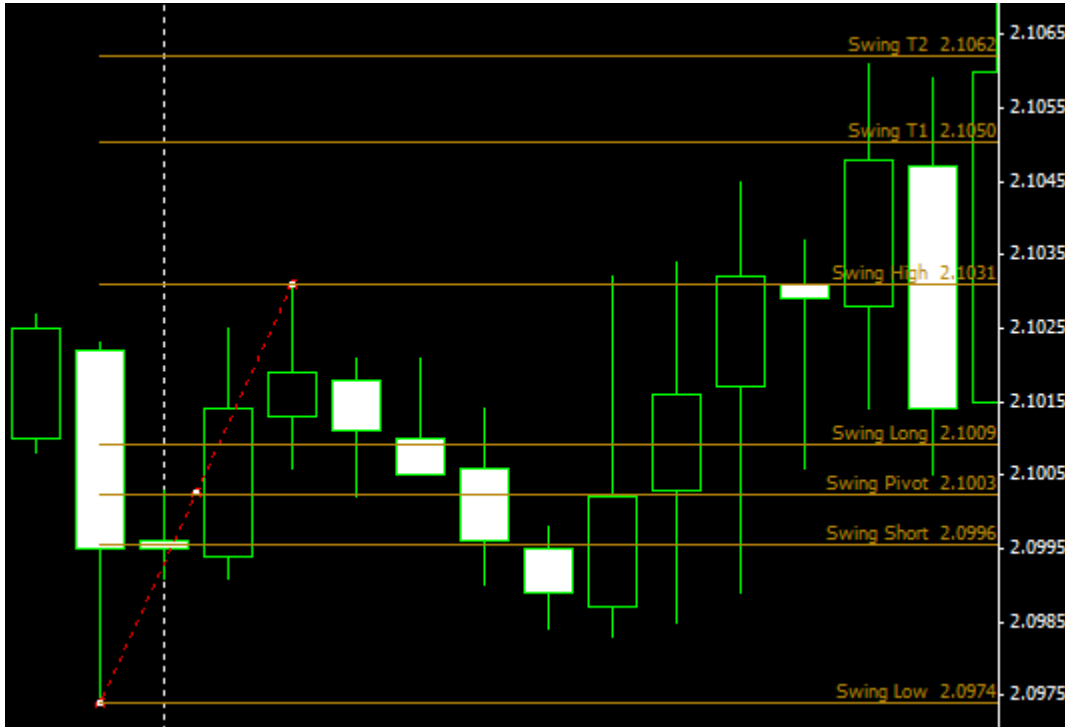


Thu Nov 8



Trading Session Overview

When London opens and allows trading to begin the bias is short since candle bodies have crossed into the short side of the swing drawn during Asia.



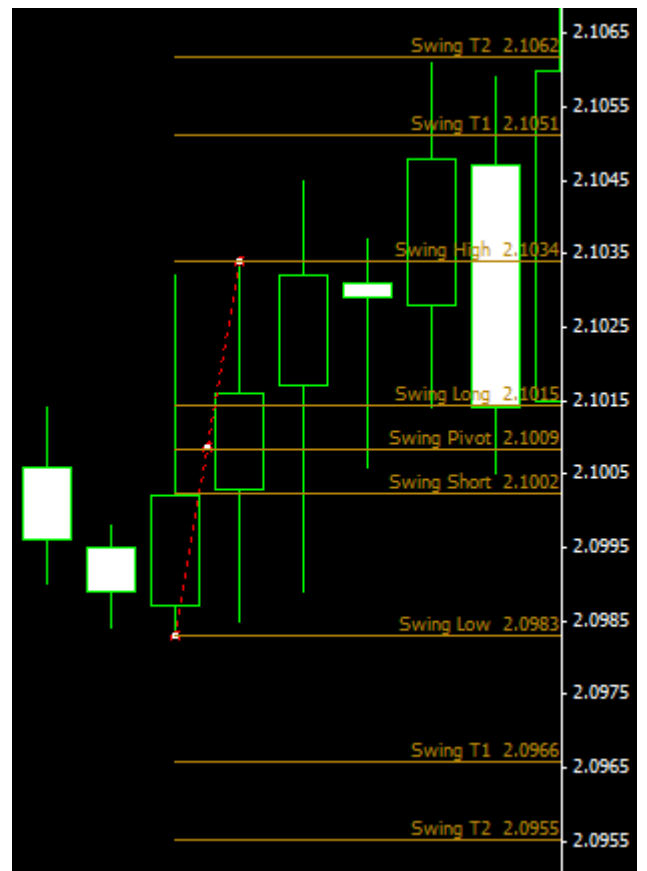
The first long spike back to the long side initiates a long break out and although the trade is not taken due to a short bias, the trade is considered in play until stopped out or targets are met.

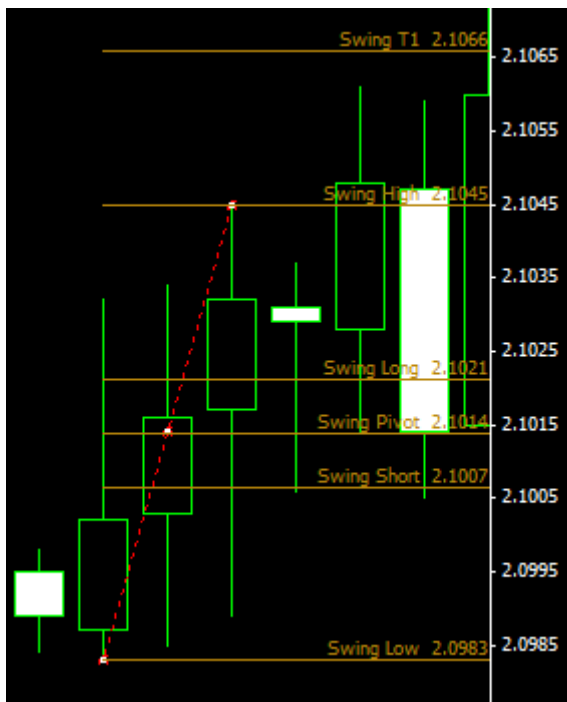
The stop out occurs on the next candle, which spikes down first causing the stop, then spikes to the long side before closing.

When the second spike candle has closed, completing the trade triggered from the first spike candle, swings can be redrawn. There is a recent low and high across the two spike candles at this point in the move.

When the swing is drawn across the most recent low and high formed on the two spiking candles, both candles almost completely span the range of the swing, so it is not considered tradable any further until a better pattern emerges.

Even though the swing is not traded, the activity must be considered. A long break out occurs and fails with a stop out, completing the swing drawn across the first two spike candles.

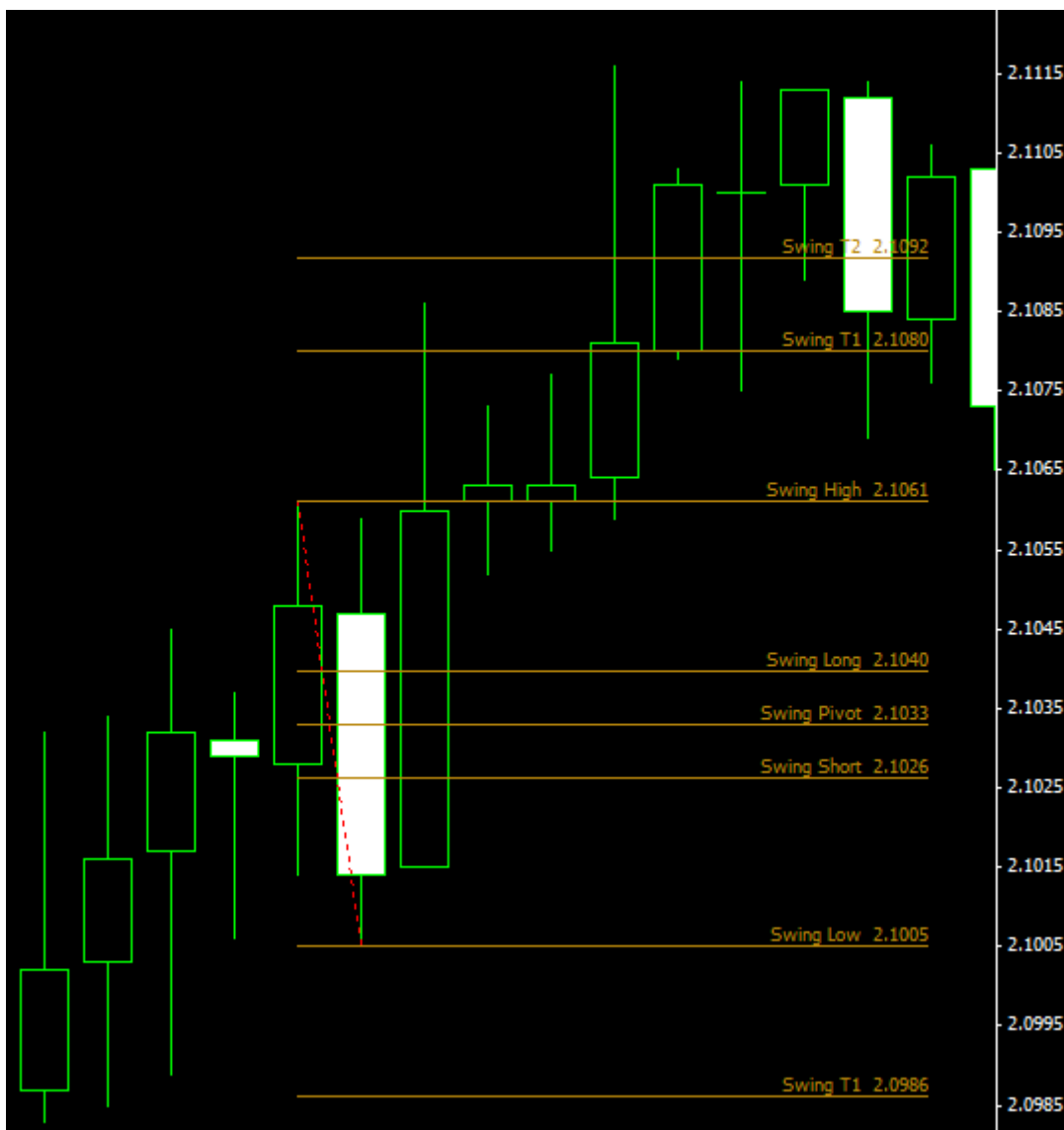




A new swing can be drawn using the higher high formed at the top of the third spike candle when the break out trade is completed with the stop out and the lowest low is still the low of the first spike candle.

Since all candles involved in this swing are still spanning most of the swing range, it is not a very tradable setup because any noise within the movement of the currently acceptable price range could cause false signals.

Standing aside would have been wise because another long break occurred and failed on the next candle with a spike down through pivot. If that swing were being traded, the failed break out would have been traded because the bias would have been long.



After the last stop out occurred on the bearish candle, another higher high was formed and also a new lower low so the swing can be updated.

The swing range is still dominated by spikes reaching across the entire swing area, making it untradeable.

There is a break out to the long side but it isn't traded because of the decision not to trade this noisy range period, and also the trade bias would have been to the short side based on this swing fib.

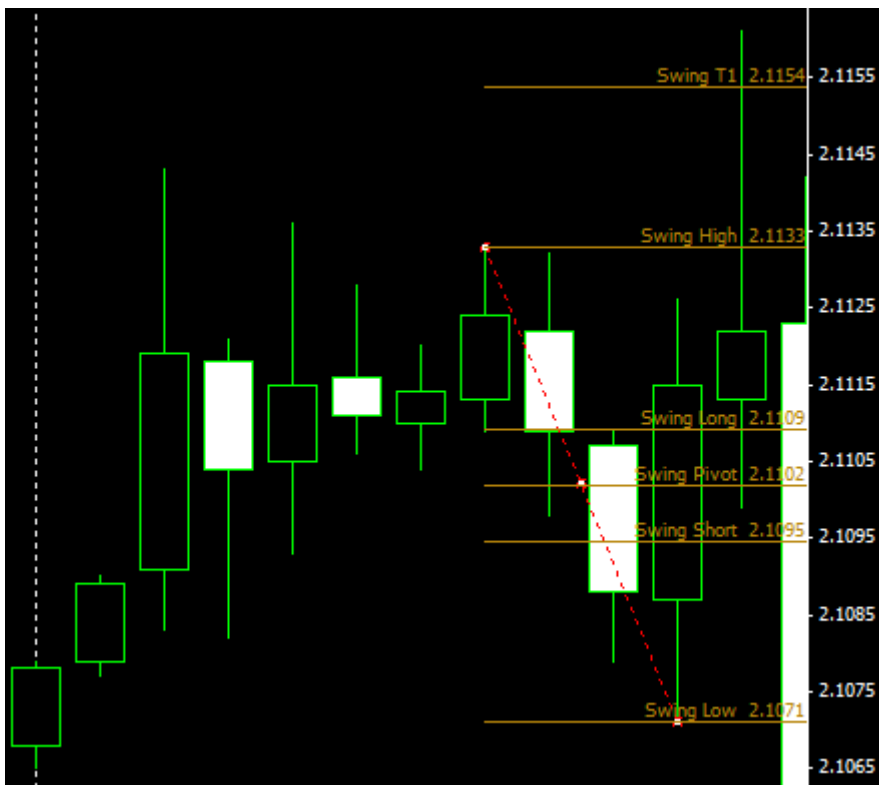
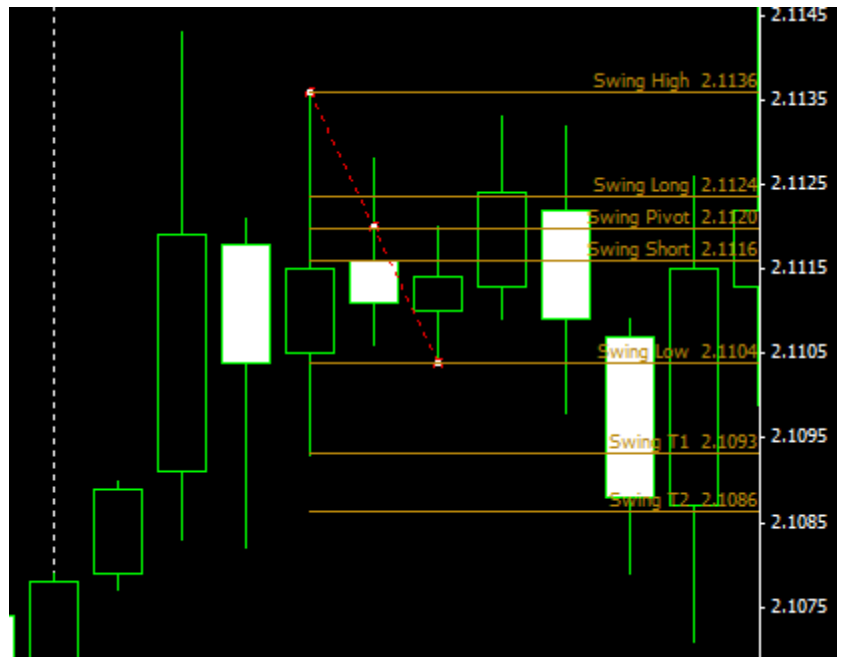
By the time this trade plays out, the day is done with no trades taken.

Fri Nov 9



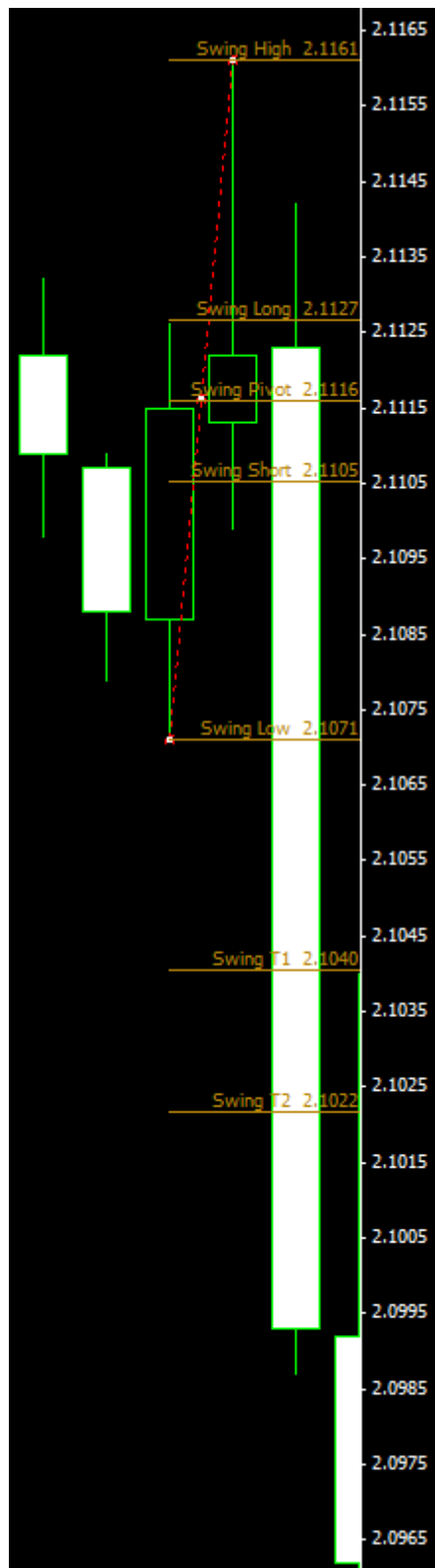
Trading Session Overview

The Asian session begins with a triangle of consolidation that keeps bringing the swing range tighter until it breaks short from a 32 pip swing. This trade wouldn't have been taken since the bias was switched to long with a candle closing above swing long before the break out candle but the action is followed until the swing trade is complete.



When targets are met and there is a retracement to the swing area, a new swing is drawn across the most recent move.

The bias starts out short with price moving from swing low but a candle crosses the neutral zone and closes for a long bias. A long break out reaches the target and returns to the swing area, completing the move.

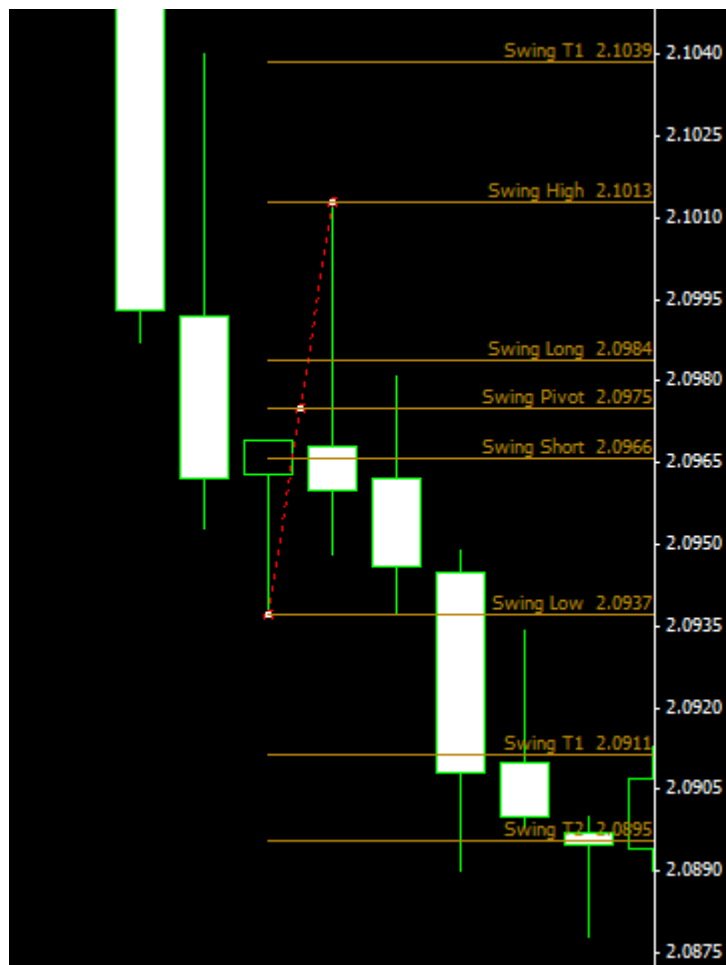


The swing high can be updated to the target peak while leaving swing low in place (it is common between the last swing and the latest significant move's low).

Since the activity begins from the swing high and the most recent candle before a break out is still long biased in the neutral zone, the short break out is not taken.

After the big drop, there is an opportunity for a fast short. It is clear price is not returning to the swing area where the drop began, so a new swing range must be established when there is a new high and low formed.

Once this occurs, the immediate bias is short because price started moving from swing high (long bias) but the candle body closed on the short side. A break of the swing low reaches targets.



Mon Nov 12

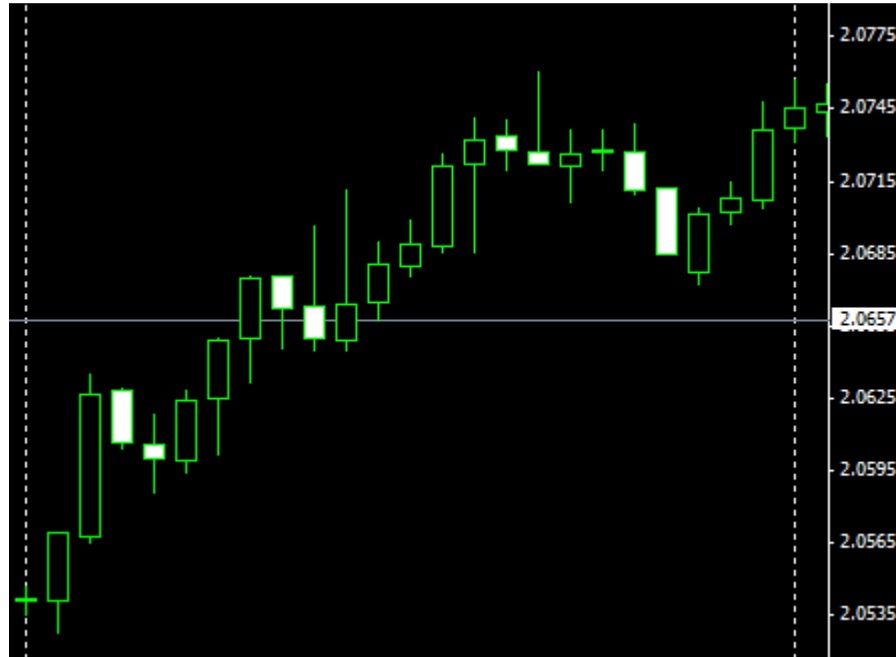


Trading Session Overview



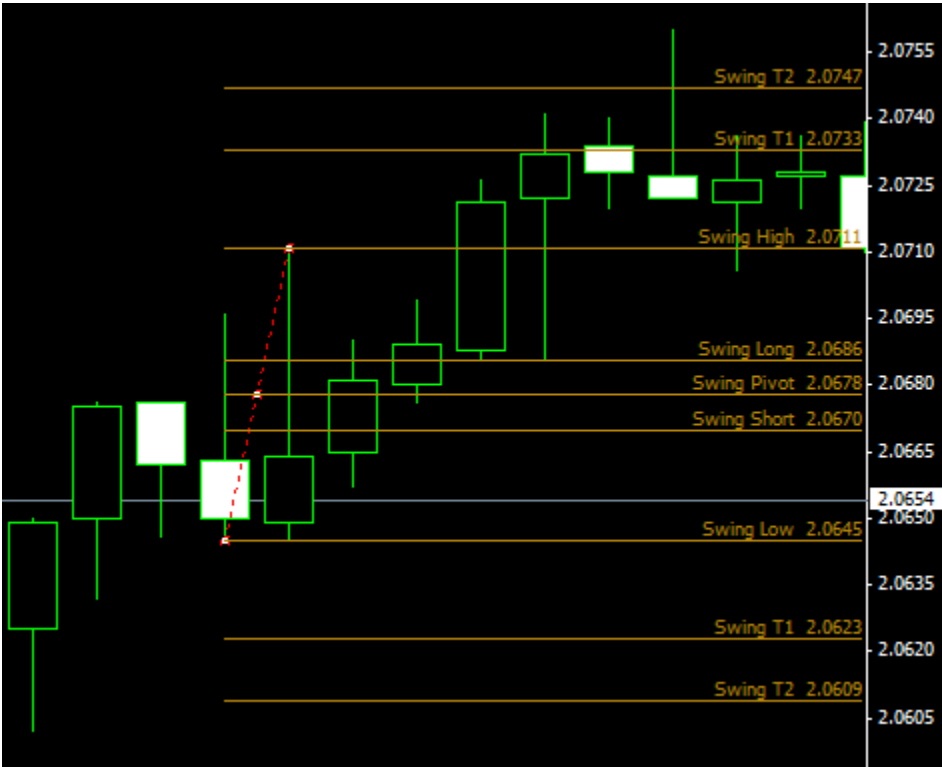
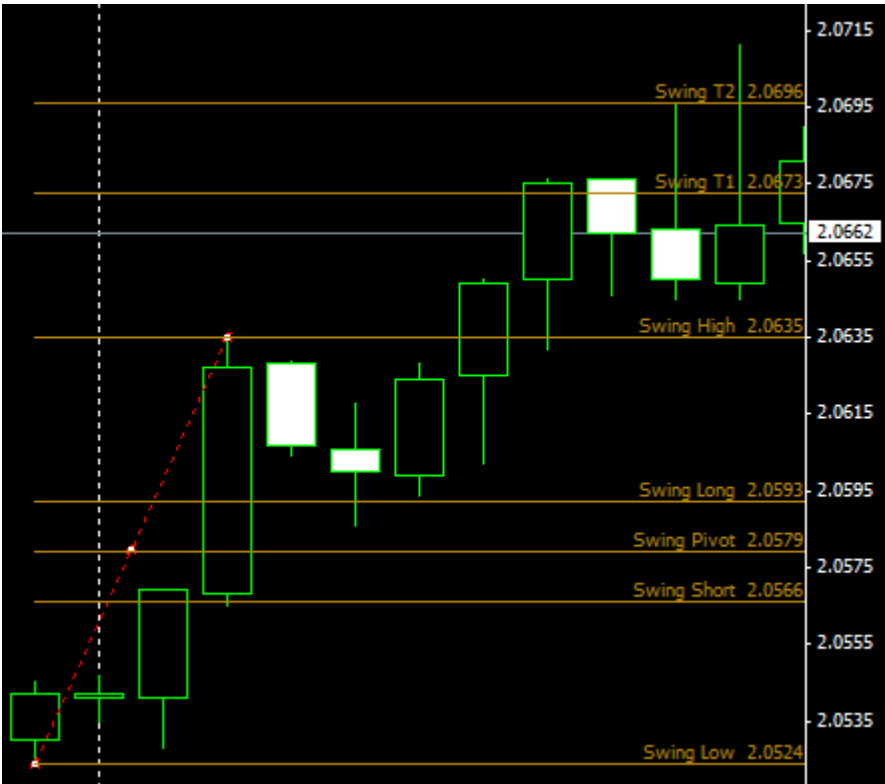
The first swing starts with a short bias which remains short until a break occurs, reaching targets. The movement inside the neutral zone reached the 61.8% level exactly, but didn't officially cross into the long side so there was no significant retrace. Therefore when candle bodies returned back to the short side, the swing high was not pulled down to the most recent high within the swing area.

Tue Nov 13



Trading Session Overview

There is a clear swing established early in the Asian session and a break out of the high near London. The bias starts out long from swing high and stays long with the candle bodies. Targets are reached.



There are new highs and lows established after the first target is met without a retrace to the swing area, so a new swing can be established.

The two candles forming the new swing are covering significant area within the swing range so it may be best to avoid any trade from that swing, but a proper long bias would have lead to a successful long trade.

Confidence in taking the trade is established by watching the bullish candles build support along their way to the break out level without any noise, unlike the actual swing high and low candles.

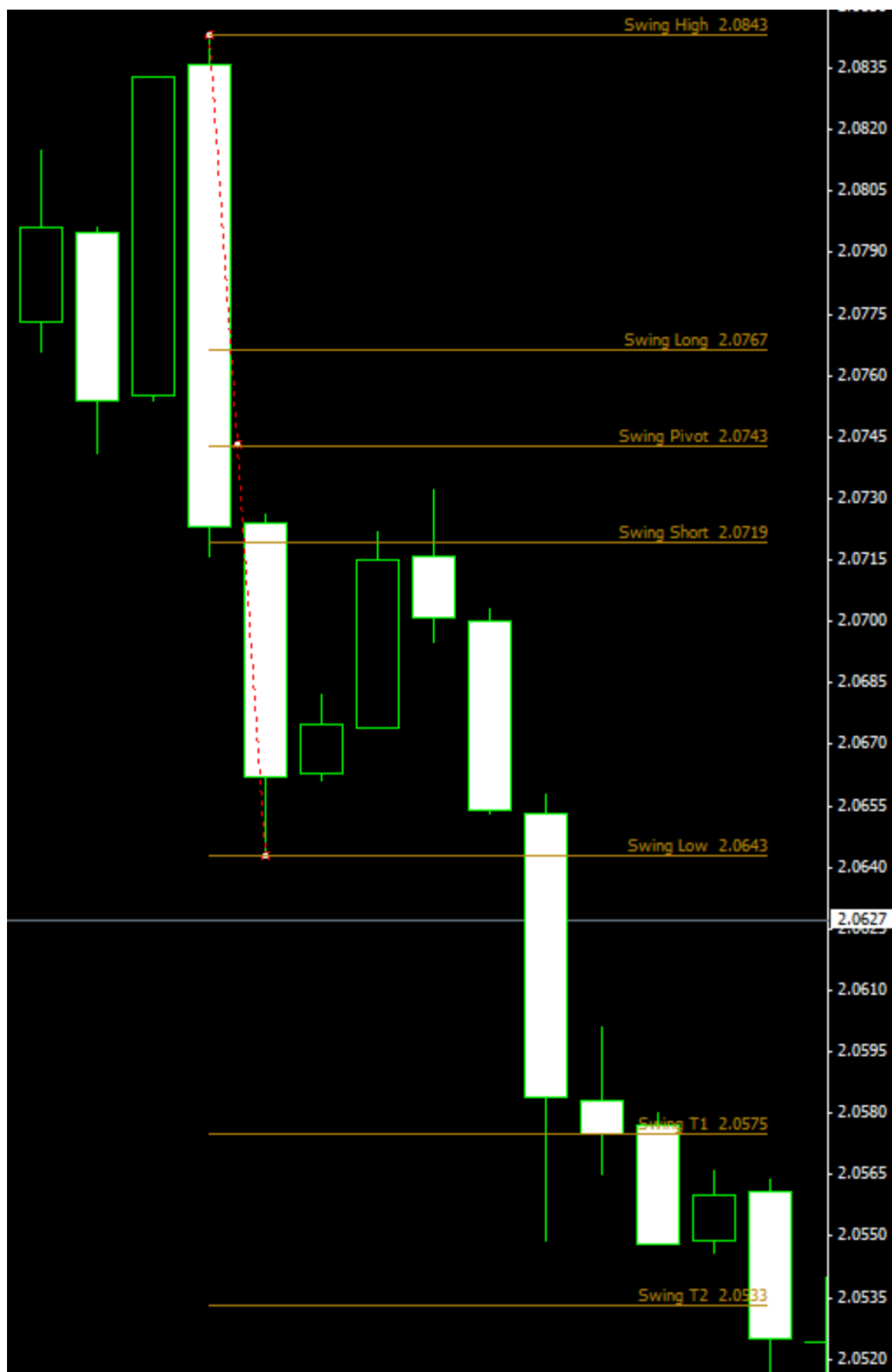
Wed Nov 14



Trading Session Overview



The swing established in the Asian session begins with and maintains a long bias and a successful long trade occurs, followed by a retrace to the swing area. The trade is completed.



This is a subjective placement of the new swing. One way to look at it is the high should be where it is drawn here at the target level before retrace, and the swing low would normally have been located two candles earlier.

The candle that met the target and performed a retrace to the swing area also surpassed the swing low that would have been drawn two candles prior, so the swing low can't be located there by the time the retrace candle has closed.

This movement below the "swing low two candles prior" can be thought to have "triggered a new trade short" by dropping through the phantom swing low level, putting an active trade in play that must be carried out before new trades are considered, but since it all happened on the same candle, there is no phantom swing low being considered. Data is not valid until the candle closes and when it does, the only thing that can be said with certainty is the target was met and price had retraced to the swing area, completing that first trade.

So a new swing high is placed at the previous target and a new swing low point must be chosen when price retreats and leaves a lower low behind.

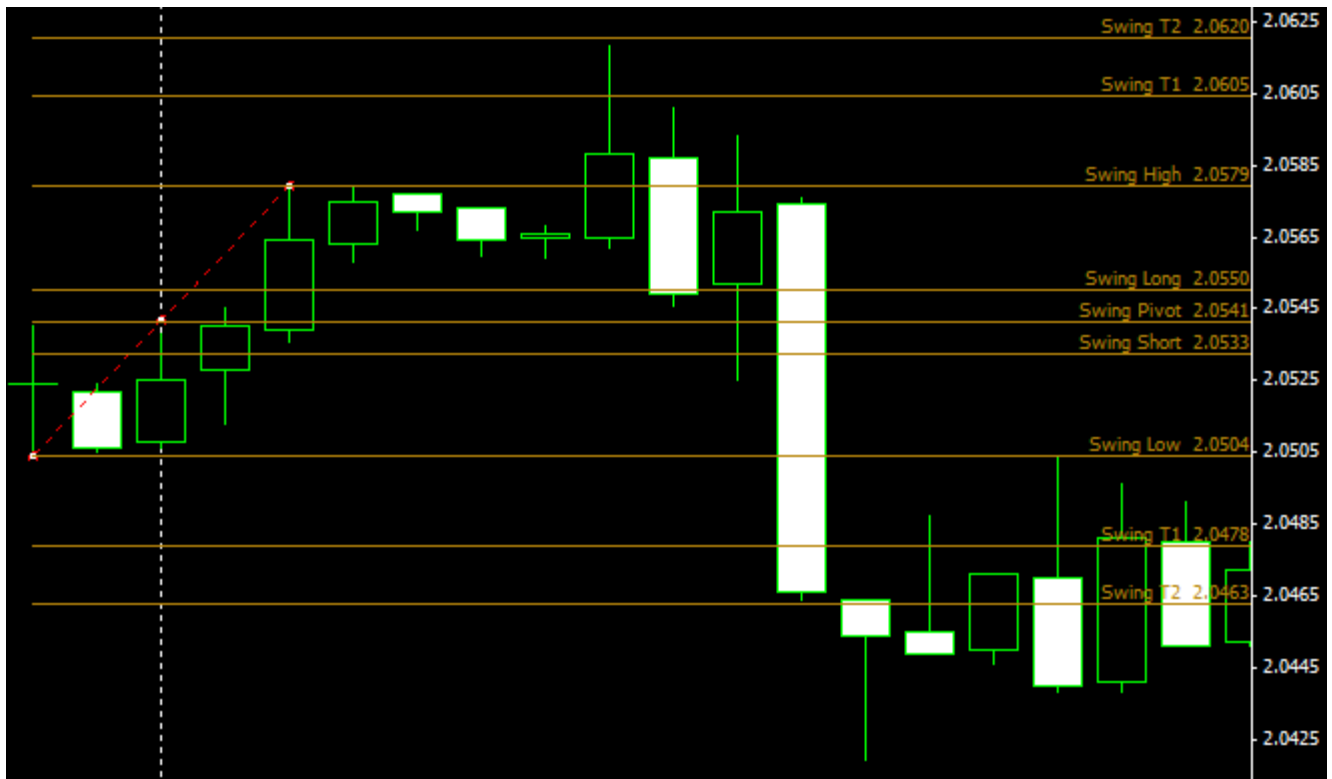
When the new swing is established the bias starts low and candles retain the low bias. The swing

range is exactly 200 pips, leaving a stop of 100 pips to withstand. Price breaks through the swing low and doesn't threaten the stop. Both targets are met and a minimal profit of 68 – spread is obtained.

Thu Nov 15



Trading Session Overview



The swing established during Asia starts with a long bias, remains long biased and breaks high for a fast target. Price retraces into the swing area on the bearish candle after the target to complete the trade and allow a new setup.

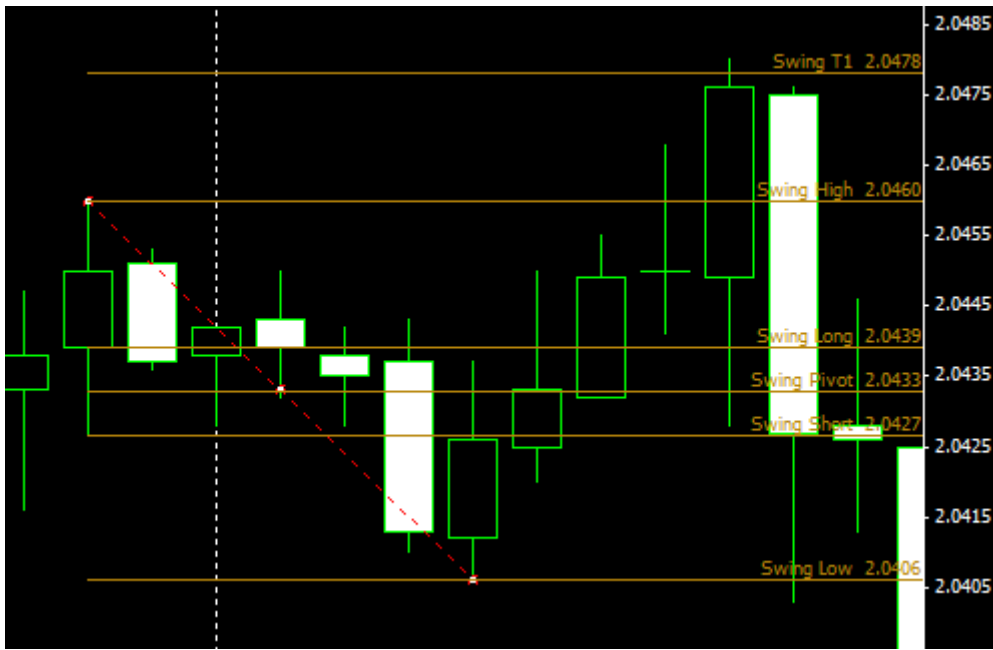
A swing high can be located at the target candle while the most recent swing low would have been located one or two candles before the break out occurred. Since the bearish candle that completed the trade also bypassed the potential new swing low, a new one must be chosen.

There are no clear new lows followed by higher lows until after the big down move occurs, so the short trade is missed.

Fri Nov 16



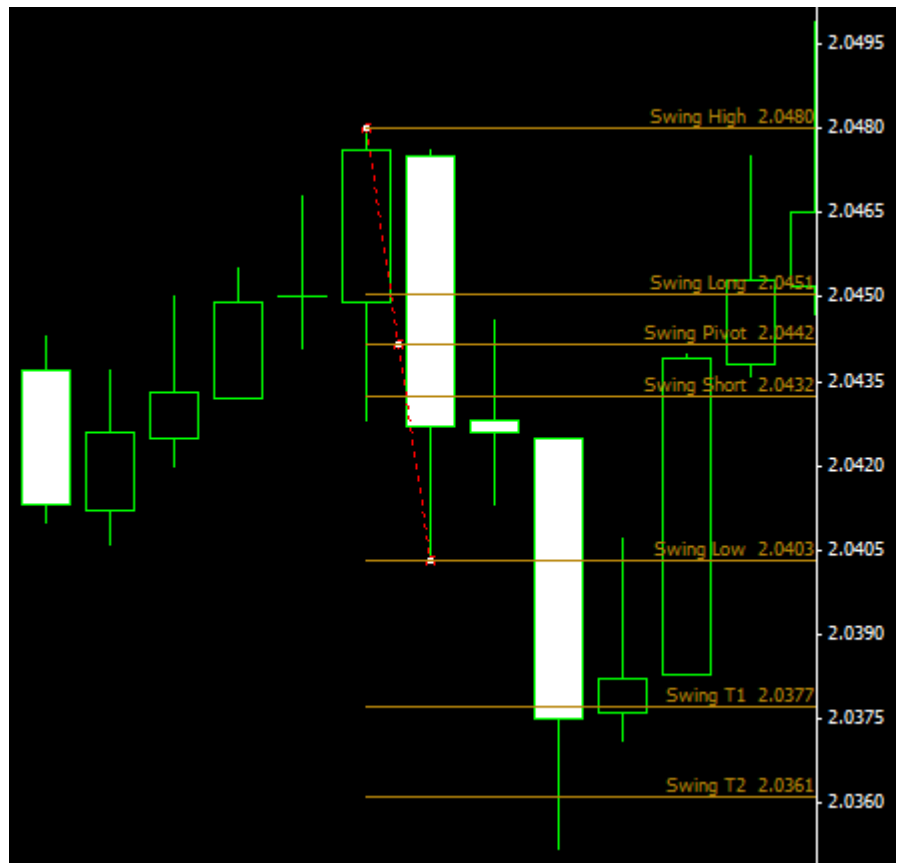
Trading Session Overview

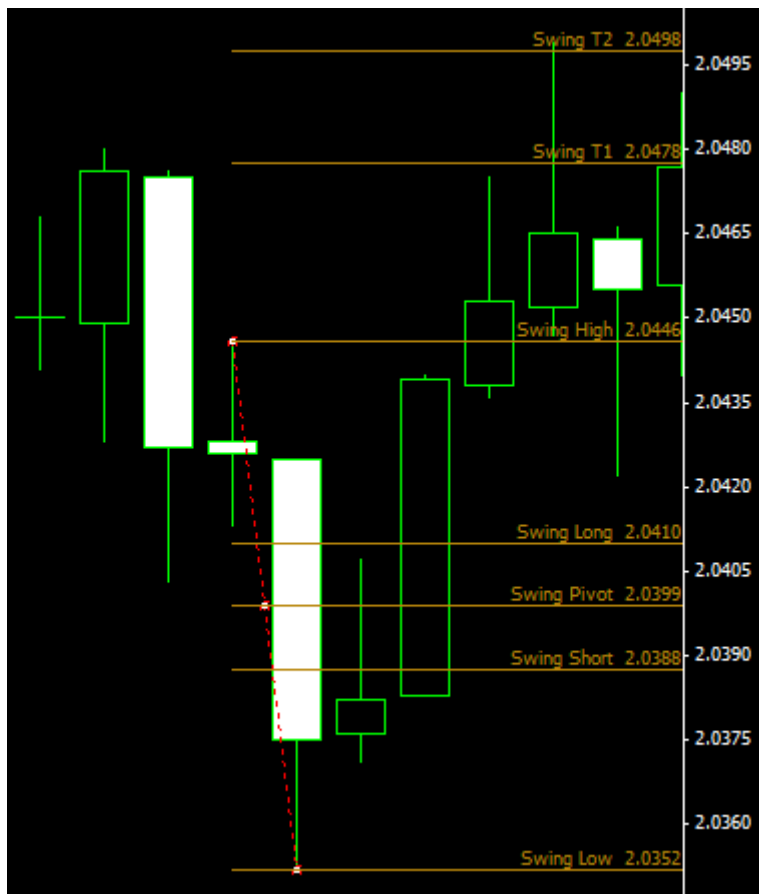


The first swing starts short biased and graduates to a long bias before breaking out and hitting a target. The following candle retraces within the swing area, giving completion to the trade and leaving a new swing high location. In the process of completing the swing trade, the same candle retraces beyond the most recent candidate for a new swing low, so a new low must be formed before a new swing can be drawn.

A candle forms a higher low, providing a place to pull swing low, and the updated swing is ready to be traded.

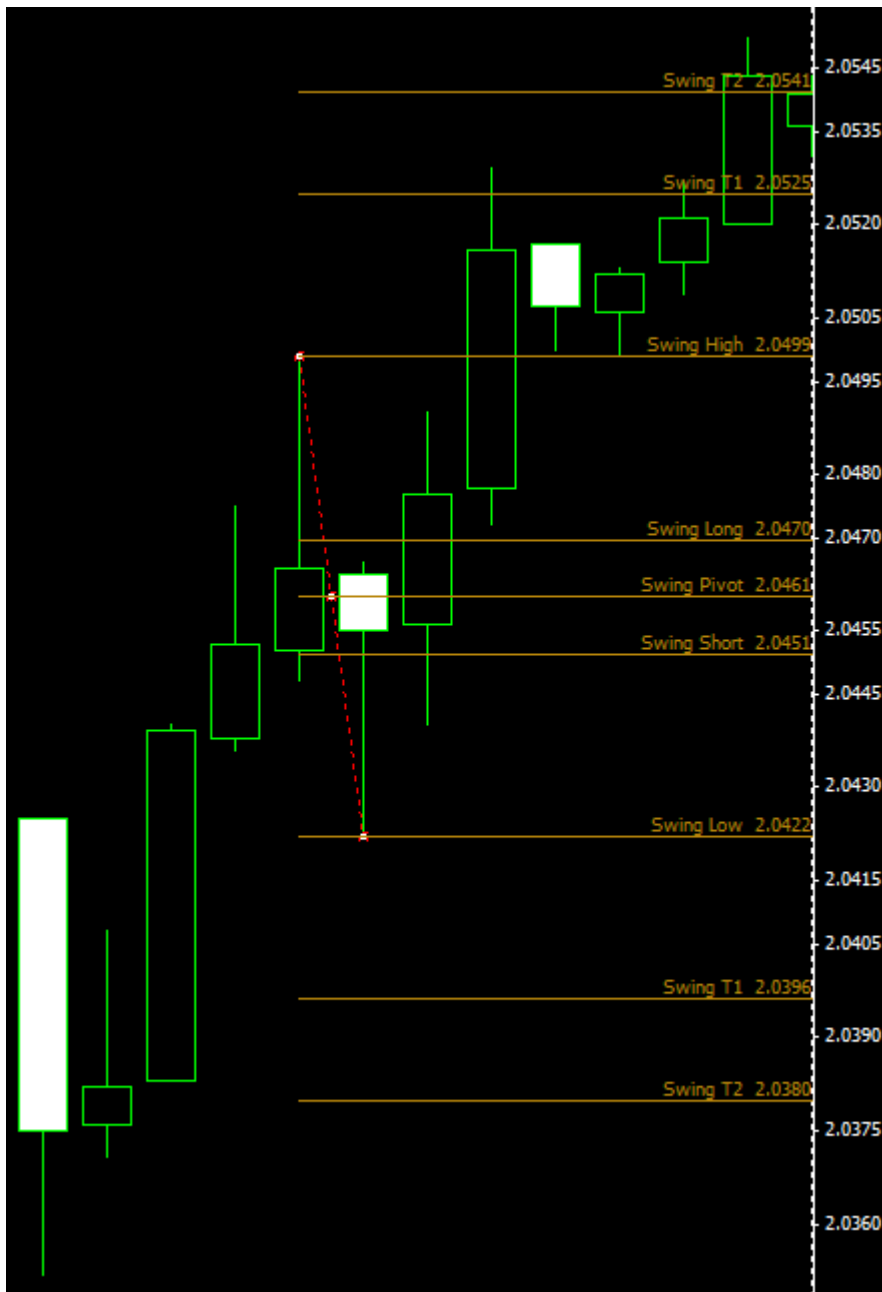
The bias starts short and a successful short entry is made, followed by a retrace to the swing break out area. With that trade completed there is already a high and low point defined to pull a new swing.





The first candle to retrace upward forms the higher low that gives a place to move swing low. Swing high can be located on the retrace of the first downward movement since it is a clearly defined point without any significant retrace until now.

The trade bias starts out short as price moves up from the swing low. A bullish candle crosses the neutral zone and closes on the long side to confirm a long bias just before a successful break out and target.



After targets are met a retrace dips into the swing area to complete the move, leaving a new high swing point at the old target as the most recent high.

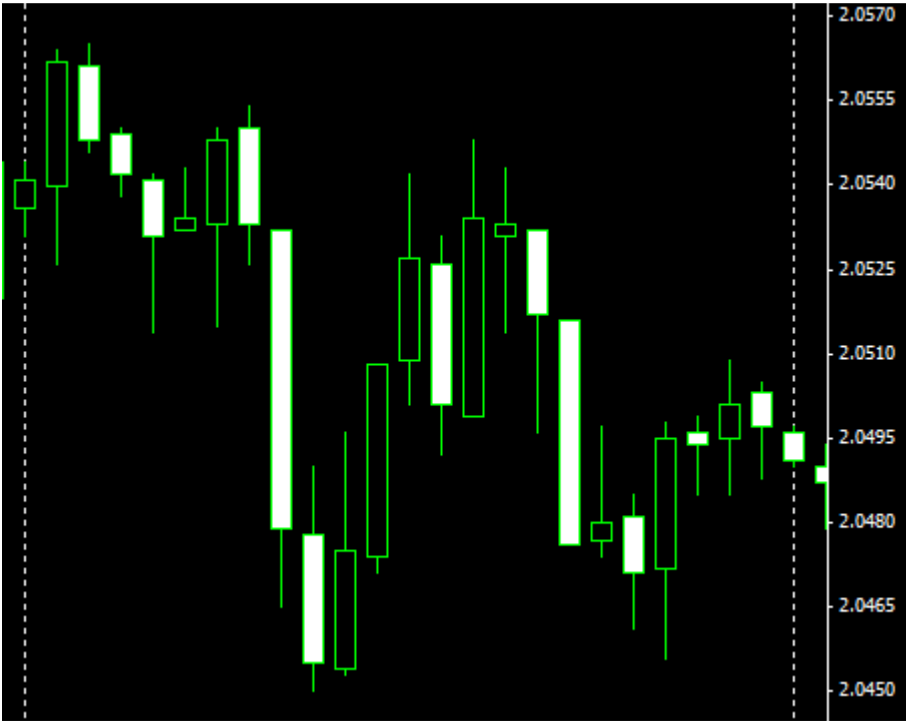
Observing how price moves by the time the retrace candle closes, it ends up attempting to continue higher and it leaves a convenient new location to place a swing low once a candle closes with a higher low.

The initial short bias starting at the swing low becomes a long bias due to a candle closing above swing long, and a break out is successful.

This isn't the usual way to draw new swings if a retrace occurs to the swing area after a target is met. Normally the swing low would have been kept at the low of the first candle shown in the chart from the previous swing move.

This would have still met targets, but it would have occurred in the evening. This alternate swing was chosen for faster targets in the style of a swing target being met but no retrace occurring to the swing area. The choice was aided by the behavior of the candle, spiking down to the previous swing area and then showing a strong incentive to continue away again, almost as if the retrace didn't occur.

Mon Nov 19



Trading Session Overview

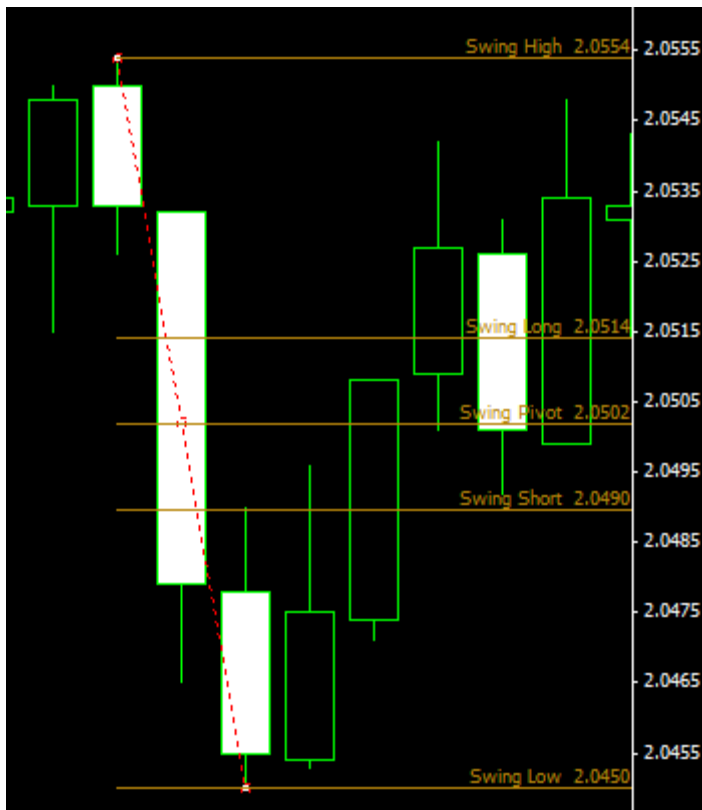


The swing area defined in the Asian session starts short biased, moves to long biased, then closes below swing short to form a short bias again. Since candle bodies have migrated above swing short and there was activity beyond the 61.8% retrace level, followed by a re-cross of candle bodies to the original side, the swing high should be relocated down to the longest retrace level within the swing. The significant retrace of the swing can be considered as establishing a new valid swing to work from.

The short bias established from the first swing is retained in the new swing as long as the candle is located within the neutral zone or on the short side. A break out leads to a target within one minute.

The last peak before the short provides a place for a new swing high that hasn't experienced a significant retrace from the down move. When the drop finally ends a new low is revealed and the retrace can be monitored.



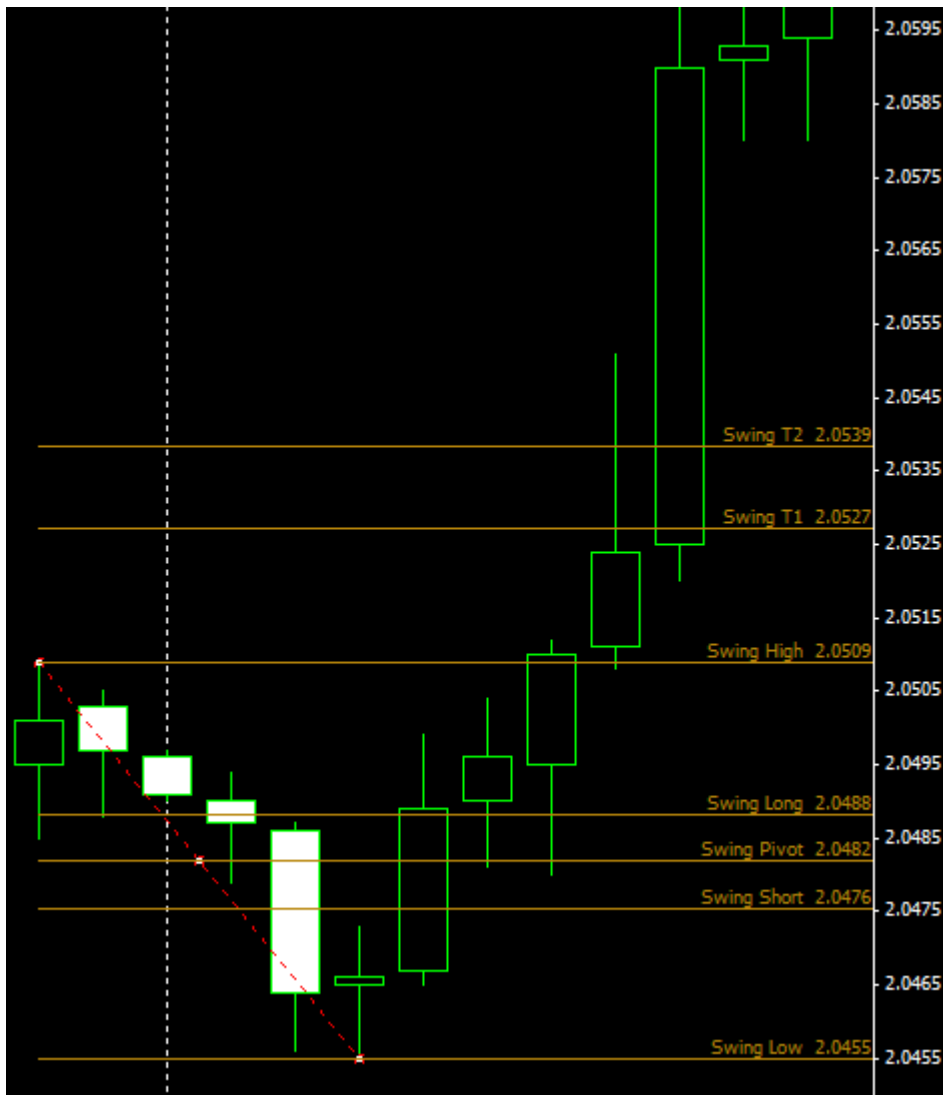


The bias moved from short to long but then returned to the short side without a break out. With the significant retrace occurring as a result of a shift in candle bodies beyond 61.8% and then a return, the swing high would normally be pulled to the retrace level within the swing but by this time, the trading day is done. Everything will be reset on the next day's Asian session.

Tue Nov 20



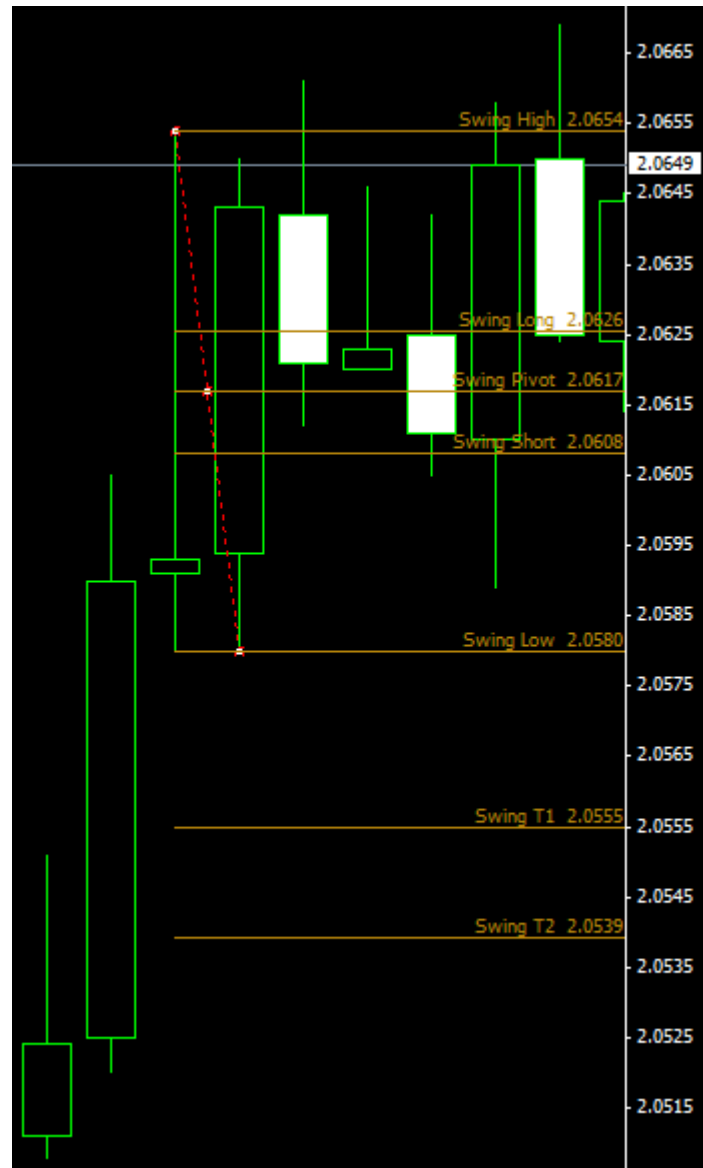
Trading Session Overview



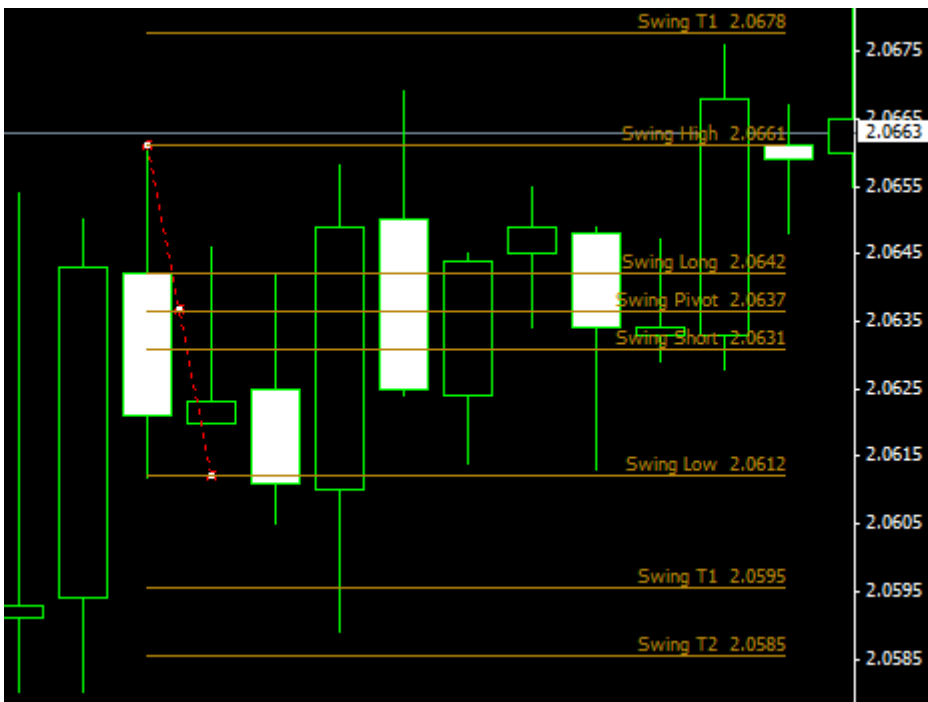
The Asian session swing moves from a short to long bias with little struggle and proceeds with a break out just around London. It is extremely successful and keeps going.

When the up move starts to retreat, a swing can be drawn across two candles that have a higher high and lower low than those after each of them. The resulting swing area is significantly covered by the ranges of both candles so it is not tradable.

A break of the high does occur and this trade must be observed to completion before any new swings may be drawn. The stop out occurs on the same break out candle and now swings can be drawn where next available.



Since the trade was stopped out, it's time to find the most recent high and low, or wait for a new suitable range if nothing usable exists. At this point the most recent high



and low movements occurred on the same candle that broke out and caused a stop out. It makes sense to wait for more to develop before choosing a swing but nothing does develop in time for a trade. A new swing high and low could eventually be pulled across new defined high and low points but no break out occurs within the trading day.

Alternatively, if the single high and low swing candle were traded without waiting for something to develop further, a successful short trade could be made when the swing low is broken with short bias as shown.