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Support and Resistance

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Support and Resistance 32 5 We often hear technical analysts talk 32 D about the ongoing battle between the bulls 31.5 31 D and the bears, or the struggle between <u> 20 5</u> 30 D buyers (demand) and sellers (supply). 19.5 19 D This is revealed by the prices a security 18 5 **18 D** seldom moves above (resistance) or below 600.00 (support).

• **Support** is the price level through which a stock or market seldom falls (illustrated by the blue arrows). **Resistance**, on the other hand, is the price level that a stock or market seldom surpasses (illustrated by the red arrows).





Definition



BASIC CONCEPTS Support and Resistance

Figure shows support and resistance in a downtrend.

Figure Downtrend shows a downtrend with descending peaks and troughs.

In the downtrend, points 1 and 3 are support levels under the market and points 2 and 4 are resistance levels of the market.

Downtrend-Support and Resistance m

Support levels indicate the price where the most of investors believe that prices will move higher. Resistance levels indicate the price at which the most of investors feel prices will move lower.



Definition

Support and Resistance

If the <u>support level is violated</u>, then a trend reversal from up to down is likely.

Each time a previous resistance peak is being tested, the uptrend is in an especially critical phase.

Failure to exceed a previous peak in an uptrend, or the ability of prices to bounce off the previous support low in a downtrend, is usually the first warning that <u>the existing trend is changing</u>.

BASIC CONCEPTS

Why does Support and Resistance Support and Resistance happen?

These support and resistance levels are seen important in terms of <u>market psychology and supply and demand</u>.

Support and resistance levels are the levels at which a lot of traders are willing to buy the stock (in the case of a support) or sell it (in the case of resistance).

When these trendlines are broken, the supply and demand and the psychology behind the stock's movements is thought to have shifted, in which case new levels of support and resistance will likely be established.

Supply and Demand
Support and Resistance
Supply/demand lines show what the supply and demand will be at a given price.

The supply line shows the quantity (i.e., the number of shares) that sellers are willing to supply at a given price. When prices increase, the quantity of sellers also increases as more investors are willing to sell at these higher prices.

The demand line shows the number of shares that <u>buyers are</u> <u>willing to buy</u> at a given price. When prices increase, the quantity of buyers decreases as a fewer investors are willing to buy at higher prices.

BASIC CONCEPTS

For example, after a breakout above a resistance level, buyers and sellers may both question <u>the validity of the new price</u> and may decide to sell.

This creates a phenomenon that is referred to as "traders' remorse": prices return to a support/resistance level following a price breakout.

 BASIC CONCEPTS

 Traders' Remorse
 Support and Resistance

 The price action following this remorseful period is crucial.
 One of two things can happen:
 The consensus of expectations will be that the new price is not warranted, in which case prices will move back to their previous level;
 Investors will accept the new price, in which case prices will continue to move in the direction of the breaking through.
 In case number one, following traders' remorse, the consensus of expectations is that a new higher price is not warranted, a cassic "bull trap" (or false breakout) is created.

BASIC CONCEPTS

Traders' Remorse

Support and Resistance

• For example, the prices broke through a certain resistance level (luring in a herd of bulls who expected prices to move higher), and then prices dropped back to below the resistance level leaving the bulls holding overpriced stock.

Similar sentiment creates a <u>bear trap</u>. Prices drop below a support level long enough to get the bears to sell (or sell short) and then bounce back above the support level leaving the bears out of the market.

Secondly, following traders' remorse is that investors' expectations may change causing the new price to be accepted. In this case, prices will continue to move in the direction of the penetration.

Traders' RemorseSupport and Resistance* A good way to quantify expectations following a breakout is with
the volume associated with the price breakout.

If prices break through the support/resistance level with a large increase in volume and the traders' remorse period is on relatively low volume, it implies that the new expectations will rule (a minority of investors are remorseful).

Conversely, if the breakout is on moderate volume and the "remorseful" period is on increased volume, it implies that very few investor expectations have changed and a return to the original expectations (i.e., original prices) is warranted.

BASIC CONCEPTS

Psychology behind Support and Support and Resistance Resistance-1

To illustrate, let's divide the market participants into three categories-the longs, the shorts, and the uncommitted.

The longs are those traders who have already purchased contracts.

The shorts are those who have already committed themselves to the sell side.

The uncommitted are those who have either gotten out of the market or remain undecided as to which side to enter.

Let's assume that a market starts to move higher from a support area where prices have been fluctuating for some time.

Psychology behind Support and Support and Resistance Resistance-1

The longs (those who bought near the support area) are delighted, but regret not having bought more.

If the market would dip back near that support area again, they could add to their long position.

The shorts now realize (or strongly suspect) that they are on the wrong side of the market. (How far the market has moved away from that support area will greatly influence these decisions, but we'll come back to that point a bit later.)The shorts are hoping (and praying) for a dip back to that area where they went short so they can get out of the market where they got in (their break even point).

BASIC CONCEPTS

Psychology behind Support and Support and Resistance Resistance-1

Those sitting on the sidelines can be divided into two groups

- those who never had a position

- those who, for one reason or another, liquidated previously held long positions in the support area.

The latter groups are, of course, mad at themselves for liquidating their longs prematurely and are hoping for another chance to reinstate those longs near where they sold them.

The final group, the undecided, now realizes that prices are going higher and resolve to enter the market on the long side on the next good buying opportunity.

Psychology behind Support and Support and Resistance Resistance-1

All four groups are resolved to "buy the next dip."

They all have a "vested interest" in that support area under the market.

Naturally, if prices do decline near that support, renewed buying by all four groups will materialize to push prices up.

The more trading that takes place in that support area, the more significant it becomes because more participants have a vested interest in that area.

BASIC CONCEPTS

Psychology behind Support and Support and Resistance **Resistance**-1

The amount of trading in a given support or resistance area can be determined in three ways:

a) The amount of time spent there,

b) volume, and

c) how recently the trading took place.

The longer the period of time that prices trade in a support or resistance area, the more significant that area becomes.

For example, if prices trade sideways for three weeks in a congestion area before moving higher, that support area would be more important than if only three days of trading had occurred.

Psychology behind Support and Support and Resistance Resistance-1

Volume is another way to measure the significance of support and resistance.

If a support level is formed on heavy volume, this would indicate that a large number of units changed hands, and would mark that support level as more important than if very little trading had taken place.

BASIC CONCEPTS

Psychology behind Support and Support and Resistance Resistance-1

A third way to determine the significance of a support or resistance area is how recently the trading took place.

Because we are dealing with the reaction of traders to market movement and to positions that they have already taken or failed to take, it stands to reason that <u>the more recent the activity, the</u> <u>more potent it becomes</u>.

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Psychology behind Support and Support and Resistance
Resistance-2
Now let's turn the tables and imagine that, instead of moving

higher, prices move lower.

In the previous example, because prices advanced, the combined reaction of the market participants caused each downside reaction to be met with additional buying (thereby creating new support).

However, if prices start to drop and move below the previous support area; the reaction becomes just the opposite.

All those who bought in the support area now realize that they made a mistake.

BASIC CONCEPTS

Psychology behind Support and Support and Resistance Resistance-2

For futures traders, their brokers are now calling frantically for more margin money.

Because of the highly leveraged nature of futures trading, traders cannot sit with losses very long.

They must put up additional margin money or liquidate their losing positions.

What created the previous support in the first place was the predominance of buy orders under the market.

Now, however, all of the previous buy orders under the market have become sell orders over the market.

Psychology behind Support and Support and Resistance Resistance-2

Now <u>Support has become resistance</u>.

The more significant that previous support area was-that is, the more recent and the more trading that took place there-the more potent it now becomes as a resistance are.

All of the factors that created support by the three categories of participants-the longs, the shorts, and the uncommitted-will now function to put a ceiling over prices on subsequent rallies or bounces.

BASIC CONCEPTS

Psychology behind Support and Support and Resistance

It is useful once in a while to pause and reflect on why the price patterns used by chartists, and concepts like support and resistance, actually do work.

These patterns work because they provide pictures of what the market participants are actually doing and enable us to determine their reactions to market events.

Chart analysis is actually <u>a study of human psychology and the</u> reactions of traders to changing market conditions.

The pictures on the <u>charts have sound psychological reasons</u>, therefore support and resistance levels can be identified on price charts and they can be used to help predict market movements.

BASIC CONCEPTS Role Reversal Support and Resistance So far we've defined <u>"support" as a previous low and "resistance" as a previous high.</u> Whenever a support or resistance level is penetrated by a significant amount, they reverse their roles and become the opposite. If the price falls below a support level, that level will become resistance. If the price rises above a resistance level, it will often become support. As the price moves past a level of support or resistance, it is thought that supply and demand has shifted, causing the breached level to reverse its role.



BASIC CONCEPTS					
Role Reversal Support and Resistance					
Resistance becomes support					
A Resistant level, penetrated by a significant margin, becomes a					
Support level.					
The reason for it is that a new "generation" of bulls appears who					
refused to buy when prices were low. Now they are anxious to buy at					
any time the prices return to the previous level.					
Similarly, when prices drop below a support level, that level often					
becomes a resistance level that prices have a difficult time breaking					
through.					
When prices approach the previous support level, investors seek to					
limit their losses by selling.					



Role Reversal Support Becomes Resistance

Support and Resistance

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A support level, penetrated by a significant margin, becomes a resistance level. In figure, showing declining prices.
Point 1 (Which had been a previous support level under the market) has now become a resistance level over the market acting as a ceiling at point 4.



BASIC CONCEPTS

Support and Resistance Many traders who begin using technical analysis find this concept hard to believe and don't realize that this phenomenon occurs rather frequently, even with some of the most well-known companies.

For example, as you can see in Figure, this phenomenon is evident on the Wal-Mart Stores Inc.

(WMT) chart between 2003 and 2006. Notice how the role of the \$51 level changes from a strong level of support to a level of resistance.







The Importance ofSupport and ResistanceSupport and Resistance

Support and resistance analysis is an important part of trends because it can be <u>used to make trading decisions and identify when</u> <u>a trend is reversing</u>.

For example, if a trader identifies an important level of resistance that has been tested several times but never broken, he or she may decide to take profits as the security moves toward this point because it is unlikely that it will move past this level.

Support and resistance levels both test and confirm trends and need to be monitored by anyone who uses technical analysis.

BASIC CONCEPTS				
The Importance ofSupport and Resistance				
Support and Resistance				
As long as the price of the share remains between these levels of				
support and resistance, the trend is likely to continue.				
It is important to note, however, that a break beyond a level of support				
or resistance does not always have to be a reversal.				
For example, if a price moved above the resistance levels of an				
upward trending channel, the trend has accelerated, not reversed.				
This means that the price appreciation is expected to be faster than it				
was in the channel.				
Being aware of these important support and resistance points should				
affect the way that we trade a stock.				

The Importance ofSupport and Resistance

Support and Resistance

Traders should <u>avoid placing orders at these major points</u>, as the area around them is usually <u>marked by a lot of volatility</u>.

If you feel confident about making a trade near a support or resistance level, it is important that you follow this simple rule: do not place orders directly at the support or resistance level.

This is because in many cases, the price never actually reaches the whole number, but flirts with it instead.

So if you're bullish on a stock that is moving toward an important support level, do not place the trade at the support level. Instead, place it above the support level, but within a few points. On the other hand, if you are placing stops or short selling, set up your trade price at or below the level of support.

Support and Resistance

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Round Numbers and Support and Resistance

One type of universal support and resistance that tends to be seen across a large number of securities is round numbers.

Round numbers like 10, 20, 35, 50, 100 and 1,000 tend be important in support and resistance levels because they often represent the major psychological turning points at which many traders will make buy or sell decisions.

BASIC CONCEPTS

Round Numbers and Support and Support and Resistance

Buyers will often purchase large amounts of stock once the price starts to fall toward a major round number such as \$50, which makes it more difficult for shares to fall below the level.

On the other hand, <u>sellers start to sell off a stock as it moves</u> toward a round number peak, making it difficult to move past this upper level as well.

It is the increased buying and selling pressure at these levels that makes them important points of support and resistance and, in many cases, <u>major psychological points as well</u>.

IntroductionPivot Point Trading• Using pivot points as a trading strategy has been around for a long
time and was originally used by floor traders.

This was a nice simple way for floor traders to have some idea of where the market was heading during the course of the day with only a few simple calculations.

The pivot point is the level at which the market direction changes for the day.

Using some simple arithmetic and the previous days high, low and close, a series of points are derived. These points can be critical support and resistance levels. The pivot level, support and resistance levels calculated from that are collectively known as pivot levels.

BASIC CONCEPTS

Introduction

Pivot Point Trading

Every day the market you are following has an open, high, low and a close for the day (some markets like forex are 24 hours but generally use 5pm EST as the open and close). This information basically contains all the data you need to use pivot points.

The reason pivot points are so popular is that <u>they are predictive</u> <u>as opposed to lagging</u>. We use the information of the previous day to calculate potential turning points for the day we are about to trade (present day).

Because so many traders follow pivot points you will often find that the market reacts at these levels. This gives you an opportunity to trade.



How to use PivotsPivot Point TradingIf the market opens above the pivot point then the bias for the day is
long trades.

If the market opens below the pivot point then the bias for the day is short trades.

The three most important pivot points are R1, S1 and the actual pivot point.

The general idea behind trading pivot points is to look for a reversal or break of R1 or S1.

By the time the market reaches R2,R3 or S2,S3 the market will already be overbought or oversold and these levels should be used for exits rather than entries.

How to use Pivots

Pivot Point Trading

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A perfect set would be for the market to open above the pivot level and then stall slightly at R1 then go on to R2.

We would enter on a break of R1 with a target of R2 and if the market was really strong close half at R2 and target R3 with the remainder of your position.

Unfortunately life is not that simple and we have to deal with each trading day the best way we can.

A day picked at random and what follows some ideas on how one has traded that day is using pivot points.

BASIC CONCEPTS						
How to use Pivots Pivot Point Trading						
On the 12th Ar	ugust 04 the Euro/Dollar (EUF	VUSD) had the following:				
> High - 1.2297	> Low - 1.2213 > Close - 1	.2249				
This gave us:	Resistance 3 = 1.2377	San San San San San Sa				
	Resistance 2 = 1.2337	and the second and and an				
	Resistance 1 = 1.2293	A Carl Carl Carl Carl				
A share the	Pivot Point = 1.2253	on the the top the				
Frank Frank	Support 1 = 1.2209	And a start and a start				
and the states	Support 2 = 1.2169	the the the the the				
The First State	Support 3 = 1.2125	F1. F1. F1. F1. F1. 5				
Have a look at the 5 minute chart,						







BASIC CONCEPTS	
How to use Pivots The Pullback Trade Pivot Point	Trading
EURUSD(5 min. 5 day)	- 12236
Market passes through S1	- 1.2225
PullBack	- 1.2215
	- 1.2205
Support	- 12105 - 12105 - 12105 - 12105 - 12105 - 12105
Market not strong enou to take out support	- 1.2176
12109	- 1.2105
	- 1.2155
00:10 00:40 01:10 01:40 02:10 02:40 03:10 03:40 04:10 04:40 05:10 05:40 06:10 06:40 07:10	- 1.2146
and the first of the	48

BASIC CONCEPTS How to use Pivots The Pullback Trade Pivot Point Trading * The market passes through S1 and then pulls back. * An entry order is placed below support, which in this case was the most recent low before the pullback. * A stop is then placed above the pullback (the most recent high - peak) and a target set for S2. * The problem again, on this day was that the target of S2 was to close, and the market never took out the previous support, which tells us that, the market sentiment is beginning to change.



Pivot Point Trading How to use Pivots **Breakout of Resistance** * As the day progressed, the market started heading back up to S1 and formed a channel (congestion area). This is another good set up for a trade. An entry order is placed just above the upper channel line, with a stop just below the lower channel line and the first target would be the pivot line. If we are trading more than one position, then we would close out half of our position as the market approaches the pivot line, tighten our stop and then watch market action at that level. As it happened, the market never stopped and our second target then became R1. This was also easily achieved and I would have closed out the rest of the position at that level.



BASIC CONCEPTS How to use Pivots Advanced Pivot Point Trading * A more advanced method is to use the cross of two moving averages as a confirmation of a breakout. * We can even use combinations of indicators to help us make a decision. * It might be the cross of two averages and also MACD must be in buy mode. * Mess around with a few of our favorite indicators but remember the signal is a break of a level and the indicators are just confirmation.

BASIC CONCEPTSIntroductionFibonacci Retracement Levels• The Fibonacci number series and the properties of this series were made famous by the Italian mathematician Leonardo de Pisa.• The Fibonacci number series starts with 0 and 1 and goes out to infinity, with the next number in the series being derived by adding the prior two.• For example, 55 + 89 = 144, 89 + 144 = 233, 144 + 233 = 377, and so on (see the following number series):• 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, 987 ... out to infinity.

BASIC CONCEPTS					
Introduction	Fibonacci Retracement Levels				
 What is most fascinating a constant found within the 	ng about this number series is that there is ne series as it progresses toward infinity.				
In the relationship bet find that the ratio is 1.6 Golden Mean, or Golden	ween the numbers in the series, you will 18, or what is called the Golden Ratio , or Divine Proportion.				
For example, 55 x 1.61	8 = 89, and 144 is 1.618 times 89.				
Take any two consecu beyond the first few and y	utive numbers in the series after you get you will find the Golden Ratio.				
The Golden Ratio is w infinite number of decima	hat we call an irrational number: it has an I places and it never repeats itself!				

BASIC CONCEPTS						
Introduction Fibonacci Retracement Levels						
Generally, we	e round the	Golder	n Ratio to	1.618.	新たい新	49544954
Let's look at :	some of the	ese ratio	os:	PR 24	R. W.R.	小天小天
2/1 = 2.0	1/2 =	0.50	1/3 =	0.333	1/5 =	0.200
3/2 = 1.5	2/3 =	0.67	2/5 =	0.400	2/8 =	0.250
5/3 = 1.67	3/5 =	0.60	3/8 =	0.375	3/13 =	0.231
8/5 = 1.6	5/8 =	0.625	5/13 =	0.385	5/21 =	0.238
13/8 = 1.625	8/13 =	0.615	8/21 =	0.381	8/34 =	0.235
21/13 = 1.615	13/21 =	0.619	13/34 =	0.382	13/55=	0.236
34/21 = 1.619	21/34 =	0.618	21/55 =	0.382	21/89=	0.236
55/34 = 1.618	34/55 =	0.618	34/89 =	0.382	34/144=	0.236
89/55 = 1.618	55/89 =	0.618	55/144 =	0.382	55/233=	0.236

BASIC CONCEPTS Introduction Fibonacci Retracement Levels • Also note that the inverse or reciprocal of 1.618 is 0.618. • • If we take the ratio of any number in the Fibonacci sequence to the next number (this is the reverse of what we did before), the ratio will approach the approximation 0.618. • • This is the reciprocal of Golden Ratio: 1 / 1.618 = 0.618. It is highly unusual for the decimal integers of a number and it's reciprocal to be exactly the same. • • The Golden Ratio can be found in many different places. The 1.618 ratio is used in architecture in what is called the "golden rectangle," as it is known to be leasing to the eye. •



What are Fibonacci Ethonacci Ethonacci Retracement Levels retracements?
Levels at which the market is expected to retrace to after a strong trend.
Based on mathematical numbers that repeat themselves in all walks of life, Fibonacci retracements attempt to measure the likely points that a stock/commodity/currency will retrace, or pull back to within a range.
The key numbers in trading are 38.2%, 50%, and 61.8%.

BASIC CONCEPTS					
What are Fibonacci Fibonacci Retracement Levels					
 Parameters: <u>38.2%</u>, <u>50.0%</u>, and <u>61.8%</u> are the most common <u>Fibonacci Levels</u>. The <u>38.2%</u> level is considered the least significant of the three major Fibonacci levels. The larger the percentage line (i.e. <u>61.8%</u>) the greater the 					
likelihood that the price will find support.					
• Other retracement levels exist in Fibonacci Studies but that are not widely watched by the market. These levels include 21.4% and 78.6% as well as 127.2% and 161.8% extensions.					
Most traders would argue that if the market retraces 100% of a previous move, the original trend is no longer valid.					







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Price Retracement: Fibonacci Retracement Levels
Fibonacci price retracements are run from a prior low-to-high swing.
• Using the ratios 0.382, 0.50, 0.618, and 0.786 (0.236 is also used in
some cases if the swing is relatively long) to identify possible support
levels as the market pulls back from a high.
Retracements are also run from a prior high-to-low swing using these
same ratios, looking for possible resistance as the market bounces from
a low.
A price retracement with a ratio less than 100%. Same as an
"Internal Retracement" in Dynamic Trader terms.
Ratios
- 38.2%, 50%, 61.8%, 78.6%
- Sometimes 23.6% if the swing is very long





Price Extension:

Fibonacci Retracement Levels Fibonacci price extensions are similar to price retracements, in that they are also run from prior lows to highs or from prior highs to lows, using only two data points to run the price relationships.

The only difference is that with retracements, we are running the relationships of a prior swing that are less than 100 percent, or retracing the prior move, whereas with extensions, we are running the relationships of a prior swing that are extending beyond 100 percent of it.

Extensions are run from prior low-to-high swings using the ratios 1.272 and 1.618 for potential support. 67

BASIC CONCEPTS

Price Extension: **Fibonacci Retracement Levels** They are run from prior high-to-low swings using the ratios 1.272 and 1.618 for potential resistance.

We may also add the ratios 2.618 and 4.236.

We will use 2.618 as the third target for a trade setup, but we will look at 4.236 only if we are looking at a very extended move in a market and trying to look for a place where it might finally terminate.

A retracement with a ratio greater than 100%. Same as an "External Retracement" in Dynamic Trader terms.

Ratios

- 127.2%, 161.8%

- Optionally, 261.8% and 423.6%







Price Projection :Fibonacci Retracement LevelsThese price projections are run from three data points and are comparing swings in the same direction.

They are run from a prior low-to-high swing and then projected from another low for possible resistance, or they are run from a prior high-tolow swing and projected from another high for possible support.

Here we use 1.00 and 1.618 ratios to run the projections.

The 100 percent projection is also where we find symmetry. What you need to know at this point is that symmetry is defined as similarity or equality of swings in the same direction.

We will use symmetry projections every day for setting up trades in the direction of the trend. This concept will become crystal clear as we walk through the chart examples.







Applying Time CycleFibonacci Retracement LevelsProjections

With Fibonacci time cycle projections, we are looking for a possible trend reversal of whatever the market is doing at the time of the projection(s).

• For example, if the market is rallying into a .618 time cycle, we would look for a possible high and trend reversal to develop around this cycle, which in this case would suggest that the market will turn back down.

Similar to our work with Fibonacci price relationships, we are also looking for a confluence or clustering of time relationships to identify a standout time window for a possible change in trend.

BASIC CONCEPTS					
Applying Time Cycle	Fibonacci Retracement Levels				
Projections	an an an an an an an an				
To find these confluences, we	will measure the time between key				
swing highs and lows and make	projections forward in time, using the				
same ratios used to analyze the	price axis of the market.				
We will start our analysis with	a Fibonacci timing tool that projects				
from two points on the char	t to identify some of these time				
relationships.	the the the the the the the the the				
The time relationships that can	be projected from two points are the				
following:	$h_{1} = h_{2} = h_{1} = h_{2} = h_{2} = h_{2} = h_{2}$				
- High-to-high - Low-to-h	nigh				
- Low-to-low - High-to-	low				

Applying Time CycleFibonacci Retracement LevelsProjections

The ratios that are primarily used for timing projections between two points are <u>.382, .50, .618, .786, 1.0, 1.272, 1.618, and 2.618</u>.

Occasionally we will use .236 and 4.236 for confirming ratios.

By this it is meant that they are not that important by themselves, but if they overlap our other time projections, this helps to confirm that those projections are important.

Figure is a daily crude chart illustrating an example of how we would run time cycles from a prior high to high.



Applying Time CycleFibonacci Retracement LevelsProjections

The program measures the distance in time between the two points chosen, which in this case was 98 trading days. The 98 days is then multiplied by the appropriate ratios and projected forward in time.

On this chart, you can see some turning points or changes in trend, typically within one trading day of the projected cycles. The March 16 (.382), April 20 (.618), May 12 (.786), and June 13 (1.0) cycles produced a tradable change in trend.

The actual dates of the highs or lows were March 16, April 21, May 11, and June 14. Typically we want to watch a time cycle projection plus or minus one day for a possible change in trend. Note that the other cycles illustrated in this chart did not produce any meaningful change at all.



Applying Time CycleFibonacci Retracement LevelsProjectionsFibonacci Retracement Levels

Here we measured the cycle from the 5/16/05 low to the 11/30/05 low, which lasted 137 trading days, and projected the cycles forward from .382 to 1.618.

On this chart, we saw reversals near or on .382 in time, .786 in time, 1.272 in time, and 1.618 in time of this prior low-to-low cycle.

A low was made one day after the .382 cycle, another low was made exactly on the .786 cycle, a high was made exactly on the 1.272 cycle, and another high was made one day after the 1.618 cycle. (It looks like we also saw a reversal around the 50 percent cycle, but it doesn't look like a clean hit.)



Applying Time CycleFibonacci Retracement LevelsProjections

The example on the crude oil shows us a high-to-low projection from the 8/30/05 high to the 11/30/05 low swing, which lasted 63 trading days.

All the same cycles were projected from this swing.

On this chart, we saw a reversal within one trading day of the 1.0 cycle; it came in on a Friday, and the actual high was made on Monday. Another tradable reversal was seen exactly on the day of the 1.618 cycle.



Applying Time CycleFibonacci Retracement LevelsProjections

The example illustrates a low-to-high projection from the 11/30/05 low to the 4/21/06 high, using the same Fibonacci ratios as in our prior examples.

Here we saw quite a few market reversals develop where the time cycles hit. We saw a low develop at the .382 time cycle.

A high developed at the .618 time cycle. Another high developed at .786 in time.

A low developed at the 1.272 time cycle, and last but not least, we saw a bit of a reversal right around the 1.618 time cycle!

