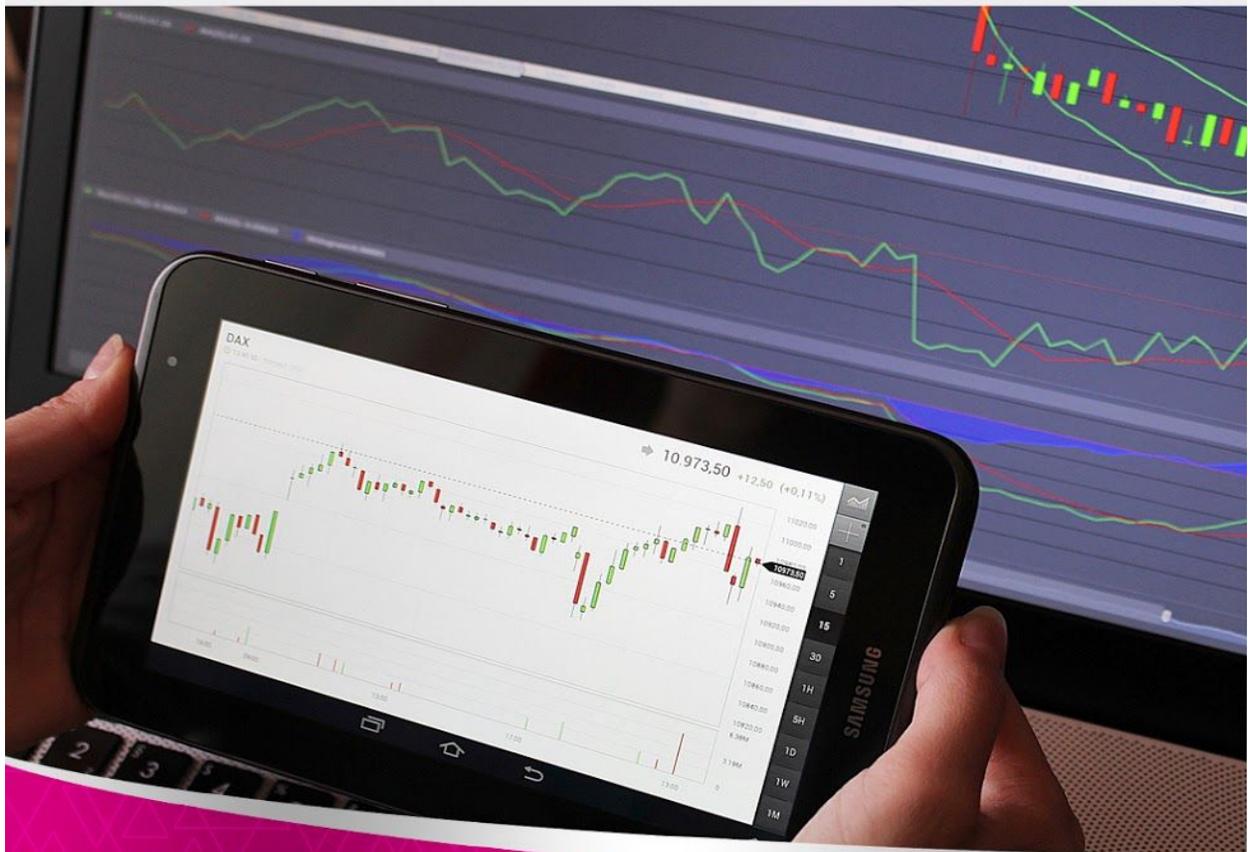


# THE DOUBLE SHOT FIBONACCI STRATEGY



J Crawford

In this report, I will give you an in-depth guide on one of my favorite scale-in strategies. A scale-in strategy means to set a target price and then invest in increments as the stock falls below that price. Scaling in will lower the average purchase price.

This "Double Shot" strategy can give you a huge edge in profit potential while keeping you in complete control of your risk. Before we dive into the setup let's take a look at what the Fib retracement actually is and why it gives us an edge.

## What is the Fibonacci Retracement?



The Fibonacci Retracement is arguably the most effective counter trend trade setup in existence. High probability entry levels and a low-risk stop placement make it incredibly powerful for retail traders.

If you are unfamiliar, the Fibonacci Retracement tool acts to exploit the

cyclical movements of financial instruments. When a stock advances or declines by a given percentage, the odds of a reversal increase significantly.

It is based on a series of numbers developed by Italian mathematician Leonardo Fibonacci in the 12th century.

What did a math nerd from the Dark Ages know about trading stocks? Well...nothing to be honest. But his 0.618 “Golden Ratio” sets up some of the most consistent entry points I’ve ever seen. And traders have been using it with great success for decades.

Financial instruments tend to move in cycles. When a stock advances or declines by a given percentage, the odds of a reversal increase significantly. The Fibonacci Retracement tool identifies the levels with the highest chance of reversal while establishing precise support and resistance levels.

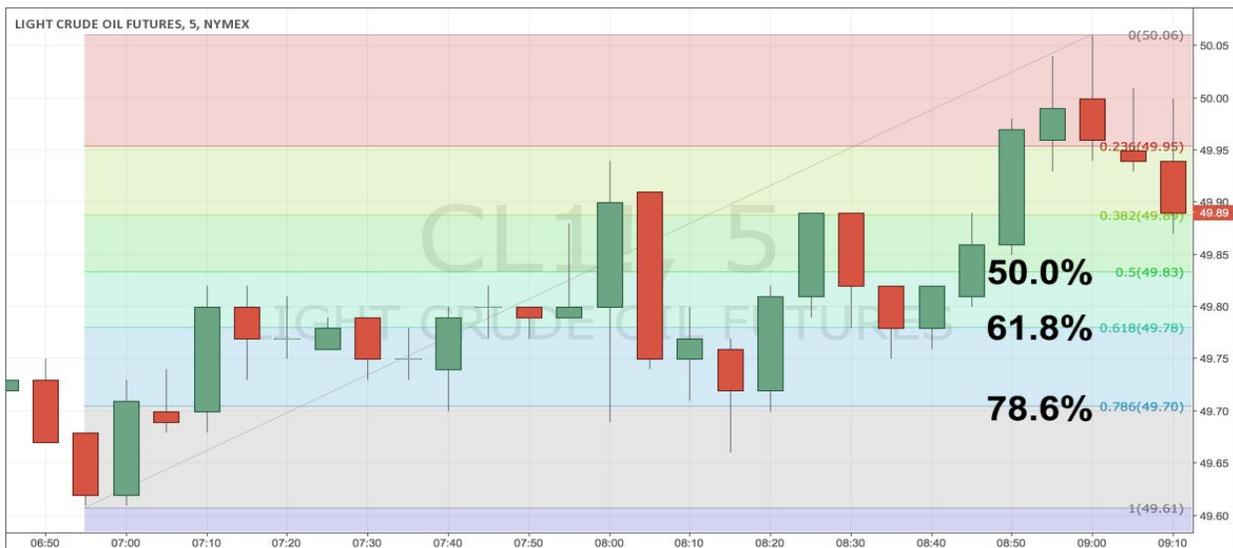
## **The Fibonacci Setup**

This setup identifies key prices with the highest chance of a reversal while establishing precise support and resistance levels.

Below is a 5-minute intraday chart of crude oil futures (/CL) from December 8th.



The commodity established a bullish trend leading into the 9:00 am cash market open. The market then experienced a small retracement. Using the Fibonacci Retracement tool, traders could identify the key pullback zones that would serve as support for a continued move higher.



The two key areas we will be targeting, the 50.0% and 61.8% retracement levels.

The reason we are going to use these two is because, statistically, a retracement back to these prices will offer the greatest chance of rejection.

So to get into this trade (with limited risk mind you) this is the highest probability place to do it.

Plotting the retracement tool from the swing low and high of the current move, entry and stop placement levels are quickly established.



The 50.0% and 61.8% retracements give two entry prices - \$49.83 and \$49.79.

Traders should enter  $\frac{1}{2}$  of their long position at each of these levels. If filled on both, the average price will be \$49.81.

The stop loss is placed at the 78.6% level of \$49.70. A move below this

price would signal a trend reversal instead of a pullback, so the trade should be abandoned if this area is breached.



The deep hammer candle(candle with the long wick at the end of the above chart) at 9:30 am hit both long entries for this trade. Traders would now be long from a \$49.81 average with 11 cents of risk to the stop loss order.



In this example, the reversal was text book. The \$49.70 stop loss was never hit and the uptrend resumed into the afternoon.



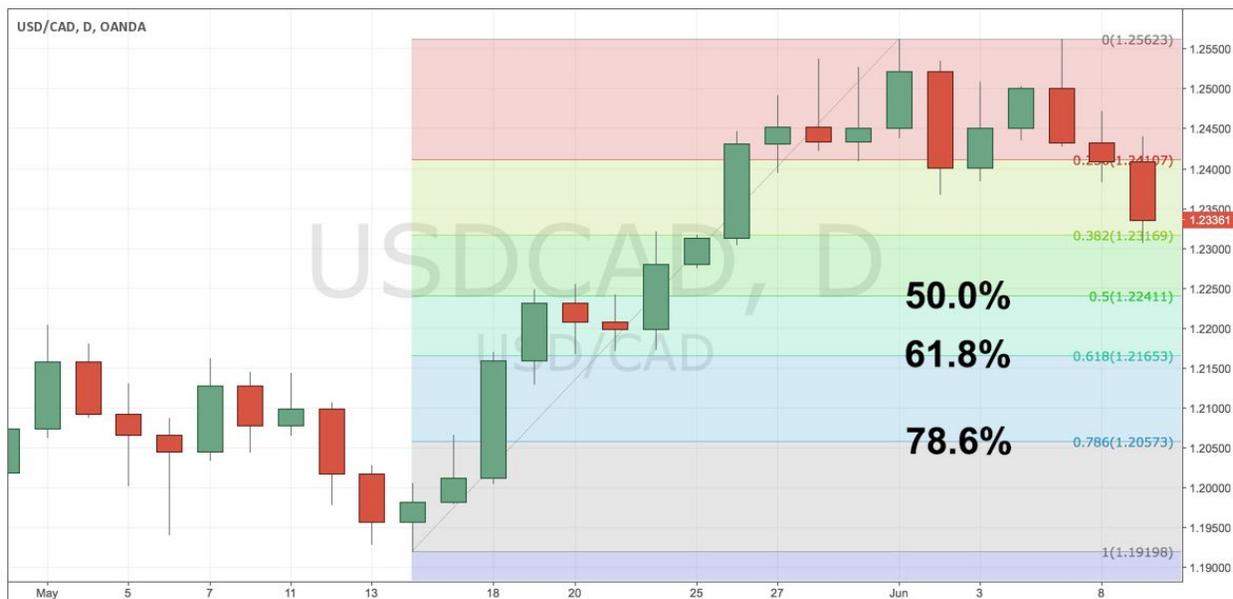
Risking just \$110/contract, traders had the chance to book gains of over \$900.

## Other Examples

The Fibonacci Retracement pattern is not limited to intraday use, however. Below is a daily chart of the USD/CAD Forex pair. After a 3-week uptrend, the currency stalled and began to reverse.



This created an opportunity to buy the pullback and ride the bullish trend with limited risk. Using the low and high of the move, we can lay out the Fibonacci Retracement and find our ideal entry points.



Using limit orders, our long entries would be 1.22411 and 1.21653 at the 50% and 61.8% retracement levels. Our stop would be at the 78.6% - 1.20573.



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The USD/CAD pair crossed the 50% retracement level on June 10th, filling one half of the target long position. It took another six trading sessions before filling the other half at the 61.8% level. Note the deep hammer candle on June 18th that filled the second half of the long position. This is a common theme that generally signals seller exhaustion and the end of a retracement. While not required for a successful Fibonacci Retracement setup, it is a positive sign that a reversal is underway.



Following this candle, the USD/CAD pair resumed its uptrend without ever approaching the stop loss level. The market remained bullish through mid-September, handing sizeable gains to counter trend traders.

## Final Thoughts

As you can see, entering on Fibonacci Retracements is straightforward. The precise buy and stop levels established by this tool contribute both to its popularity and success, since traders can execute it methodically without emotion.

Regardless of your preferred market or time frame, the Fibonacci Retracement is an invaluable tool for counter trend trade entries.

Enjoy!

-J Crawford