Financial Market thoughts from a class from Online Trading Academy

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Risk Management

Develop a plan — use a combination of techniques.

① entry ② exit ③ where to stop? (close position)

"Controlling loss is in your control" "We have to learn not to lose"

Learn how the stock moves, Plan / Do / Check / Act

" when in doubt get out."

"Flat" = break even (this is good!)

Don't forget ... your special ... money is the root of evil / if not in perspective

"We lose our peace when we want things"

"Have to protect the Capital"   "Don't bother with volatile stocks."

"Make a checklist".   "Be logical, not emotional."   " Be disciplined."

"Develop a methodology." "Find your weaknesses and control them".

"The Key to survival is the ability to make clear decisions continuously."

Fibonacci Mathematician — "The Golden Ratio intrigued Fibonacci"

(occurs in nature, and we find it in financial arenas)

A variety of ratios are used in "Fibonacci Analysis"

we use the ratios to calculate

① Retracements - a price move in the opposite direction of a prior trend.

② Extensions - a retracement beyond 100% (hang in there ... me too ..)

③ Projections - logical profit objectives

(remember these are still speculations, that are sometimes confirmed)

To calculate a <u>Retracement</u>
(Speculate)

example: find ~~the~~ "<u>Cycle distance</u>"   use "<u>closing price</u>" charts.
                                                        because this shows us
                                                        wo won (~~the~~ buyers or sellers)

(for <u>Retracement</u>) | High - low = Cycle distance |

                                                        (The more data the
                                                          more accurate)

                                                        ... however keep perspective
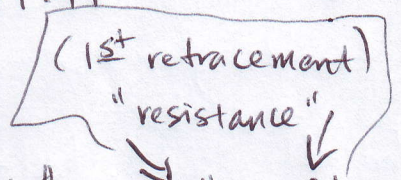
High   Low   <u>1</u> day charts are good (or week
                                                                                          or
① $25 - $20 = 5 unit cycle distance   — also check ~~the~~ hourly to month)
                                              understand more about the
    then multiply by the Fib ratio .382   activity — (depends on your
                                                           <u>chosen plan</u>)
                         (very important
②   ratio for retracements)   <u>Slow n easy</u> ...
  $ 5 × .382 = $1.91   peace ...

         (<u>1st</u> retracement)   the price was going down, we expect it
         "resistance"   to go back up?
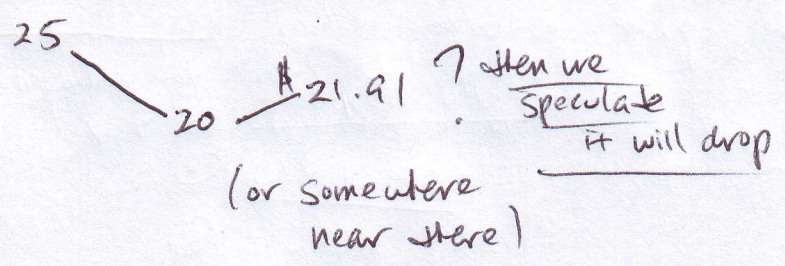
③ Add $1.91 to $20 = $21.91   we can also speculate
                                          2<u>nd</u> and 3<u>rd</u> retracements
         (low)   using other Fib ratios.

<u>If</u> we reach the 1<u>st</u> retracement,   5 × .50 = $25 (+ 20) to find
we expect it to drop down.   then ↙   2<u>nd</u> retracement
                                                    $22.50

   25   5 × .618 = 3.09
     ↘ ____
          20 ___ $21.91 ? ⟍then we   3.09 + 20 = $23.09
                         . speculate
                           it will drop   3<u>rd</u> retracement
   (or somewhere
    near there)

           Draw a "<u>support line</u>" where we speculate
           ~~the~~ Retracement will be.

<u>If</u> ~~the~~ Retracement holds with high volume, stay in until there is a
        shift in candlestick behavior (later stuff)

If the price keeps going, we expect our next retracement will be at the 2nd retracement ....

The lines we draw in become either support or resistance.

[Extensions]

Strongest ratios ("Fib") for Extensions

"where we expect the target to go"

1.272 or 1.618 ("strongest")

(If the 1st is exceeded, expect a 2nd") **Be careful!**

NASDAQ example:

Cycle high 2100
cycle low −1700
_____
400 pts

Cycle distance $(400) \times 1.272 = 508.80$

If in downtrend, subtract

$1,700 − 508.80 = \boxed{1191.20}$

The question is whether the price movements are retracements or extensions?

I'm still trying to understand this stuff.

Pick a stock and try the calculations   Never gamble.

[Projections] "Fib" projections are COP, OP and XOP.

COP = Contracted Objective Point
          (good for 25% or 50% of position)

OP = Objective Point (more improbable, but possible)

XOP = Expanded Objective Point (not probable)

Fibonacci Projection ratios .618, 1.00, 1.618
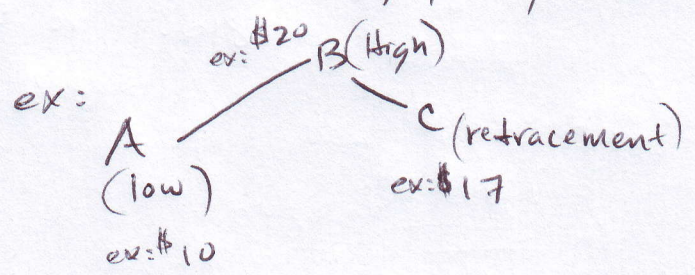(strongest ratios)

$$COP = 0.618 (B-A) + C$$

↑ ↑ ↑
High low retracement

$$OP = 1.0 (B-A) + C$$

$$XOP = 1.618 (B-A) + C$$

How to locate
A, B and C?

use closing positions
(High, lows, retracement)

ex:

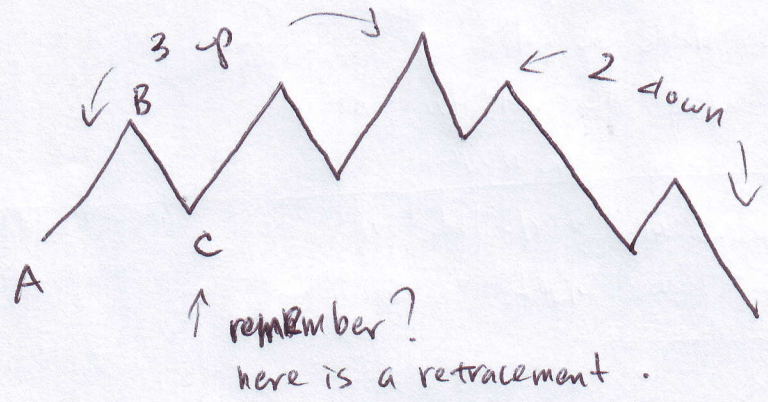ex: $20 B (High)

C (retracement)
ex: $17

A
(low)

ex: $10

Check this out friendly ...

Elliot wave theory says
trends tend to move in 5 waves (3 forward, 2 backward)
and counter-trends move in 3 waves (2 forward, 1 backward)

"repetitive"   (this was based on Fibonacci ratios.)

3 ρ
B

← 2 down

A

C

↑ remember?
here is a retracement.

We can view the price
patterns and calculate

Retracements, Extensions,
and projections too!

yipee!

It truly is difficult to know which wave
we are in! Be careful!

Candlesticks are a great way too round our analysis,
("confidence" and make sure we have
a confirmation of the trend)