ReadySetCrypto Elliott Wave Masterclass

Module Two: Fibonacci Retracements and Extensions

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What is Fibonacci and Why It Matters

I consider the Fibonacci sequence to be the language of the universe. It's really quite a remarkable discovery by Leonardo Pisano Bigollo. The sequence can be found among everything in life, from the spacing of seeds in a sunflower, to the break of the waves of the ocean, and the spiral of the clouds. It's ratios are found even in the human body, and it naturally gives everything it's symmetry. If that doesn't compel you to want to learn more about it then I don't know what will.

How does this intertwine with trading and Elliott Wave? Just as Fibonacci is reflected in the universe, it is also reflected directly in the charts, and therefore we use tools to help us measure these retracements and extensions of price which just so happen to fall on popular Fibonacci numbers. Coincidence? I think not!

This module will provide you with the knowledge on how fibonacci correlates with Elliott Wave and how you can use it to pick strong entries and strong exits. The Fibonacci numbers we use are a great extensions of us in the markets. Although they are not hard rules, they are expressions of the waves characteristics and help us differentiate between certain waves and increase the probability of a wave being a particular one.

R.N Elliott didn't actually know about Fibonacci when he founded Elliott Wave, and its relationships with E.W has been substantially built upon with every wave.

The Fibonacci Relationships with each wave is something I'm very particular about and feel is extremely important in mastering in order to increase your probability of more accurate counts and more successful trades. As such, module two focuses on mastering Fibonacci. Pair this with RSI and you get very strong Elliott Wave counts and predictability.

The Fibonacci Sequence

0,1,1,2,3,5,8,13,21,34,55,89,144 indefinitely repeating the pattern. You start with 0 and 1 and add them together to get the following number in the sequence (1), you then add 1 and 1 to get 2, 2+1 to get 3, 3+2 to get 5, ETC. To get the Fibonacci Decimal numbers you are taking one of these numbers and dividing it by another.

For Example:

34 divided by 55 = .618
    34 divided by 89 = .382
    34 divided by 144 = .236
To get the Fibonacci number .706
.786, and .886 you must do the following:
    Square root of .5 = .706
    Square root of .618 = .786
    Square root of .786 = .886
Keep in mind that .5 is not a Fibonacci number but a common retracement nevertheless, however, it is not a common extension.

[Fibonacci Tool Settings](#)

My Fibonacci Retracement Tool Is Set Up As Follows:
-0.618, -0.382, -0.236, .236, .382,
.5, .618, .706, .786, .886, 1.236, 1.382, 1.618
My Fibonacci Trend-Based Extension Tool Is Set Up As Follows:
.382, .5, .618, 1, 1.236, 1.382,
1.618, 2.236, 2.382, 2.618, 3.236, 3.382, 4.618.

Log vs. Linear Scale and Its Impact on Fibonacci Tools

There are two types of price scale measurement on our charts:

Log Scale

Changes your price axis on your chart to be measured in repeat incremental percentages. For example, the price from 10 to 20 is a 100% increase and will be reflected as the same length as 100 to 200 which is also a 100% price increase. The sequence would look like this, 0,10,20,40,80,160,320, ETC.

Linear Scale

Linear scale makes your price axis move in the same dollar amount, NOT percent. Therefore, the same measured move on the price axis increases by 20, so the axis would be as follows, 0,20,40,60,80,100

How This Impacts Your Trading

When you are charting large amounts of price fluctuation, typically over 2000$ on bitcoin you'll start to see a significant change in your numbers on your Fibonacci tools. If you are on a log scale, then your Fibonacci tools need to measure in log scale as well, otherwise there will be conflicting measurements. You can change this measurement in your Fib settings so that anytime you are on log scale your fib measures in log scale, and vice versa when you go back to linear. Day traders typically use Linear, where as larger price movements are better measured on log. You will also notice an impact on your trend lines and channels as well. Being on log scale squares the charts up nicely.

Figure 1

-0.618(6953.44) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

-0.382(6871.24) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

-0.236(6820.87) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

0(6740.24) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬○

0.236(6660.56) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

0.382(6611.74) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

0.5(6572.54) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

0.618(6533.58) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

0.786(6478.50) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

0.886(6445.94) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

1(6409.02) ○▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

1.236(6333.25) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

1.382(6286.83) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

1.618(6212.51) ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬

2.618(6942.91) ▬▬▬▬▬▬▬▬▬▬

2.382(6879.39) ▬▬▬▬▬▬▬▬▬▬

2.236(6840.38) ▬▬▬▬▬▬▬▬▬▬

1.618(6677.72) ▬▬▬▬▬▬▬▬▬▬

1.382(6616.62) ▬▬▬▬▬▬▬▬▬▬

1.236(6579.11) ▬▬▬▬▬▬▬▬▬▬

1(6518.92) ▬▬▬▬▬▬▬▬▬▬

0.618(6422.65) ▬▬▬▬▬▬▬▬▬▬
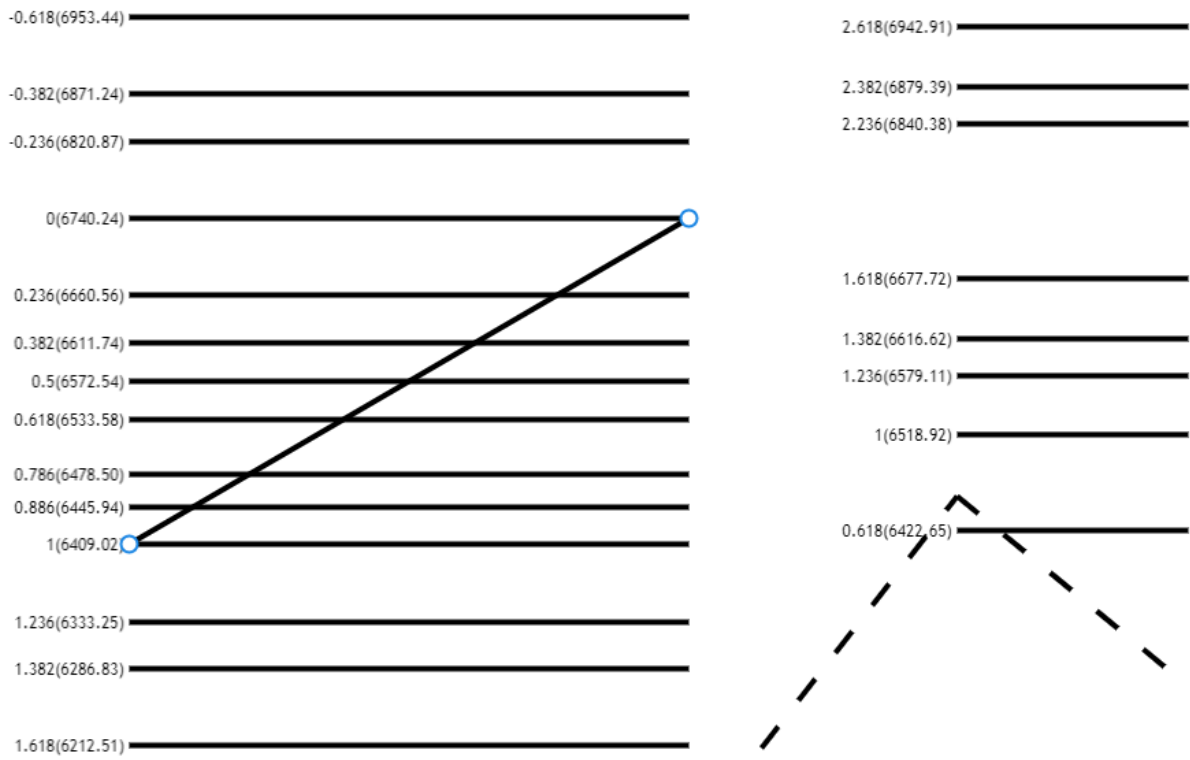
Figure 2
Retracement of a Recent High and Low

Pivot 1

1(8517.50)

0.886(8487.2)

0.786(8461.7)

0.7 (8441.21)

61B(8418.37)

0.5(8387.75)

0.382(8357.13)

0.236(8319.24)

0(8258.00)

Pivot 2
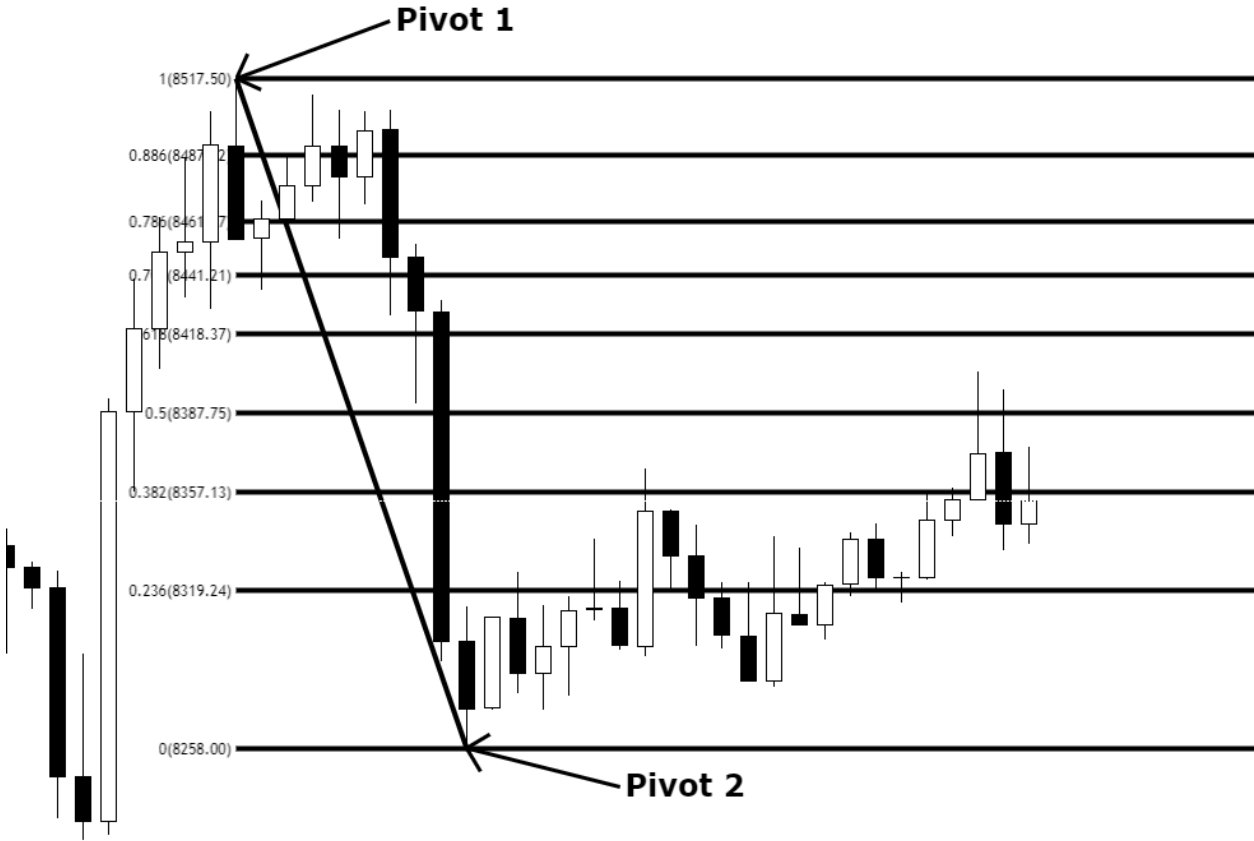
Figure 3
Example of Pulling The Trend-Based Fib Extension

1.236(8415.49)

1(8390.00)

Pivot 2

0.786(8366.8?)

0.618(8348.74)

0.5(8336.00)

0.382(8323.26)

0.2?(8307.?9)

0(8282.00)

Pivot 3

Pivot 1
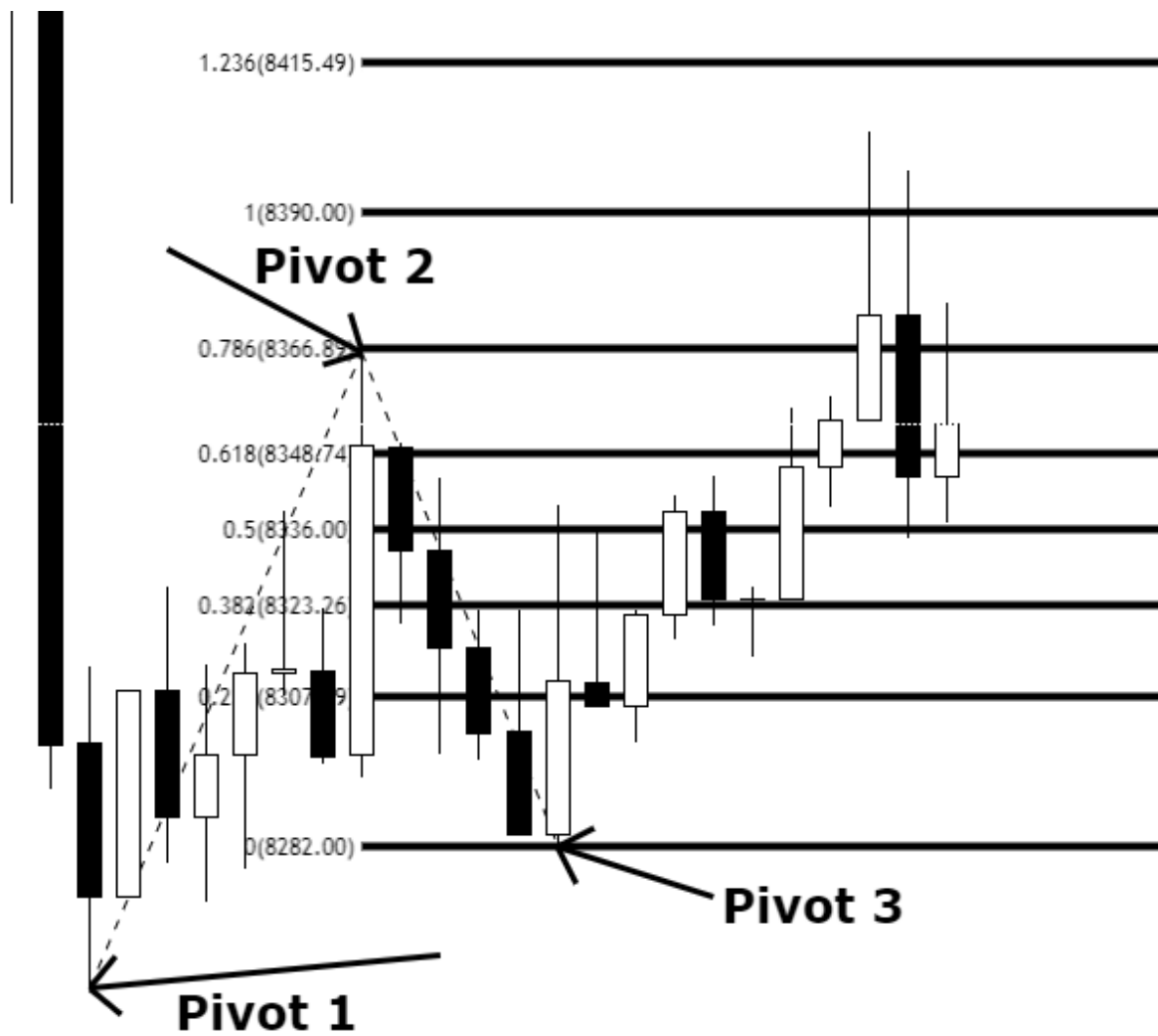
Summary - Fibonacci Retracements and Extensions

By completing this module you should have a clear understanding of how the Fibonacci numbers are derived and their importance in the market as retracement and extension targets. You should also have set up your Fibonacci tools with similar settings as mine and made sure they were turned on to log scale when your chart is in log scale. Furthermore, a clear understanding of how to use the tool to measure retracements and to measure extensions should be had as well. Such as where to pull your pivots from and always pulling from left to right. Lastly, you should have a basic understanding of the difference between log and linear scale, when is appropriate to use one over the other and how it impacts your technical analysis. Make sure you are not just watching the videos, but doing the exercises as well as the application of the teachings is the most important part in order to retain the information and learn.

Homework and Next Steps

☐ Read the following PDF

☐ Watch the accompanying module video

☐ Setup your Fib Tool according to the video settings

☐ Take the module 2 quiz

☐ Practicing measuring fib retracements from highs and lows and trend based fib extensions as well to establish how well these line up so you are familiar with the actual application of the tool