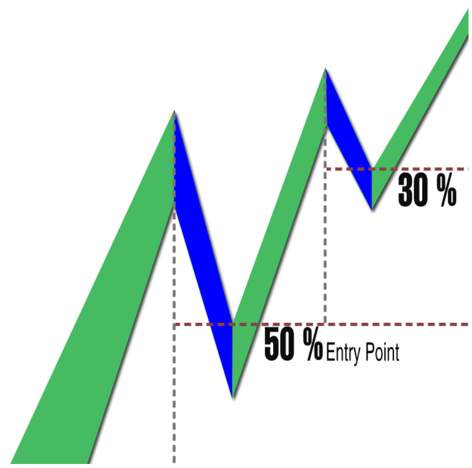
Retracement Concepts

Our Delta 123 Turnaround with the Trend is our basic trade and identifying the trend is a major component of the trade.

A **Retracement** is a temporary price reversal that takes place within a larger trend.

A **Trend Reversal** is a pull back in price that changes the long term trend. In our Delta 123 trade it is based on the 90-minute EMA.

Retracement Or Reversal: That is the question???
As a rule of thumb, we look for a retracement between 30-50%. That is usually a good indicator that it is a retracement.

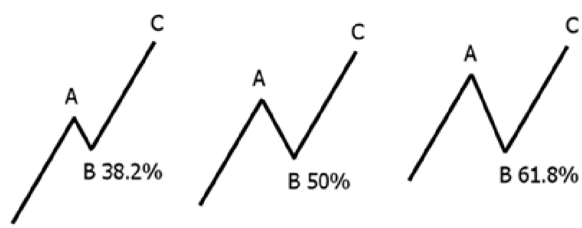


Often retracements that exceed 50% become trend reversals. Losing traders enter trades thinking they are retracements and end up getting stopped out by the time they can identify the pull back as a trend reversal.

The market never moves in a straight line. It goes up, it pulls back, and it goes up again. Time after time the process repeats itself.

Always before a retracement, there is a sign of indecision (Doji Pin Bar, Double Bar, a Pivot Point or a Turning Point.)

Fibonacci Retracements
The mathematician Fibonacci identified classic patterns that occur in nature and we can see the patterns in everything around us… including the stock market. They are excellent tools for calculating the scope of a retracement. The classic Fibonacci Retracements happen at 38.2%, 50%, and 61.8%.



By accurately identifying the market movement as a retracement or price reversal you can limit your losses and preserve your gains. It will help you identify good trades and keep you from entering bad trades.

Learn to be patient with pull backs and retracements. Overtime as you watch the price action you will begin identifying patterns. Make it your goal to get in on trades only after a retracement or "discount on the price".

"When it is obvious that the goals cannot be reached, don't adjust the goals, adjust the action steps."

– Confucius