MACFIBO SYSTEM edition 1.2
Written By : Sufian Said

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Opening Remarks

My objective for this document is to revise Macfibo version 1.0 and version 1.1. I will add some stuff that I did not include in two previous versions and will explain with more details on several things that was not covered in-depth.

My aim for this edition is to cover what have been already covered in version 1.0 and 1.1 and add several things (stated above) and compile it all into a ONE E-book. Do take note, Macfibo System edition 1.2 is not the finished article yet. There are so many Macfibo knowledge that I yet share to you all, but as my audience are for newbies, I will take it one thing at a time. Happy Reading.

MACFibo System
Introduction

MACFibo stands for Moving Averages Crossover Fibonacci. It is almost like any Moving Averages (MA) crossover system you could find. You google MA crossover, you'd find tons of MA based systems. What makes this system a little bit unique is its ability to **objectively picking high probable price levels as profit targets** upon a trading signal (which is the MA crossover ofcourse) has been triggered

For this edition, there are only 2 entry signals that will be revealed : **Macfibo Main Signal** and **Macfibo Secondary Signal**. Each signals has different trading rules and but there are few rules that is applicable for both signals.

I will first explain the fundamentals first which are the entry/exit setup for Main Signal and Secondary Signal with utmost "straightforwardness". Once that covered, then I will move on to the more complex stuff such as Macfibo Filters and the additional information I've stated above and how to apply it in your Macfibo trading. Happy Reading.

MACFibo System
**Chart and Tool Setup**

Timeframe : H1 and H4 ONLY
*** I am against trading this system lower than Hour One and higher than H4. Trading this system lower than H1 and higher than D1 does exist but it has different rules and it is not covered in this edition.*

Currency Pair : EURUSD , XAUUSD
***EURUSD and XAUUSD will be the two main pairs that will be used for logging Macfibo's performance in Babypips.com thread. You may TEST other pairs. It has been reported by my two trading buddies who have traded Macfibo almost as long as I do , that Macfibo (please note, they did mean the version that I am revealing so far) does well in MAJOR pairs and several crosses such as GBPJPY, EURJPY and AUDJPY.*

Indicators : 5 Exponential Moving Average (Red), 8 Simple Moving Average (Gold or Yellow), 20 Simple Moving Average (Black), Fibonacci Retracement Tool (Add 127.2%, 200.0%, 300.0%, 361.8%)

*** You may add (%*$) in description (Look at the image below) so you can see the price levels in the Fibonacci level*
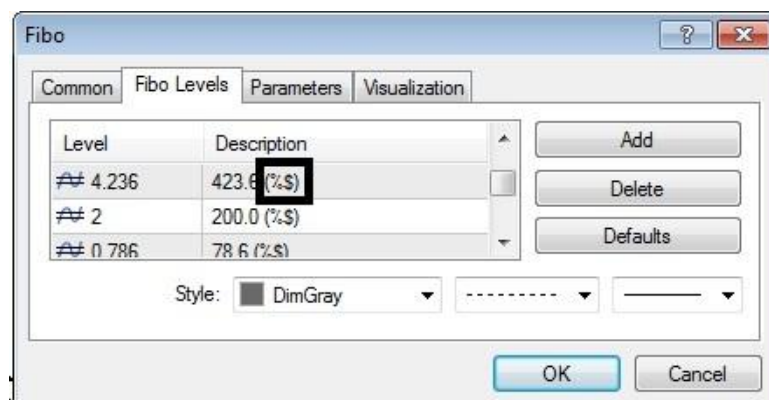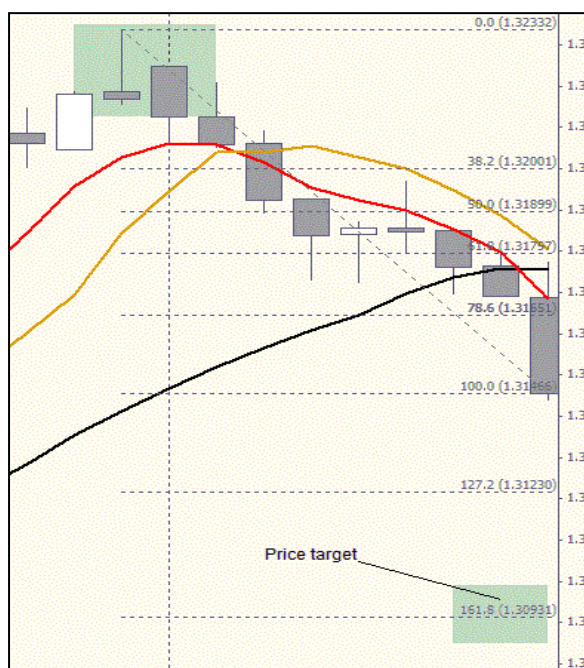
MACFibo System
Main Signal : Entry/Exit Setup

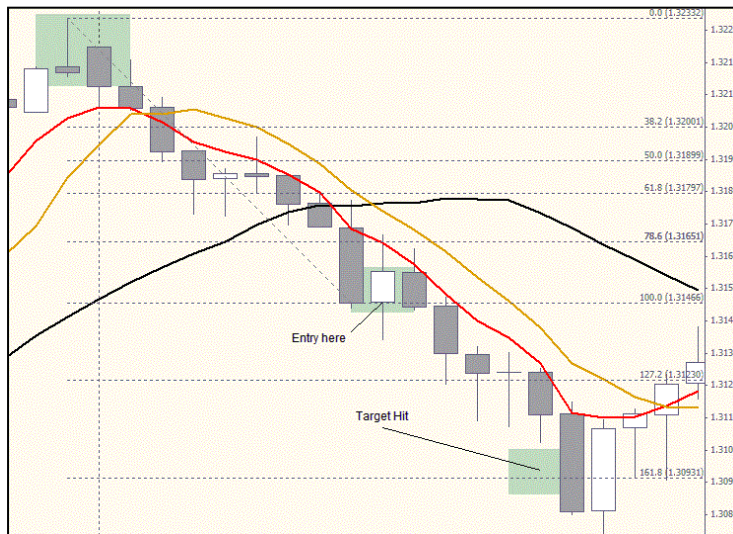SHORT SIGNAL

When 5EMA crossed below 20SMA
DO following steps :

a) Identify Candle **CLOSE PRICE** that confirmed the red/20sma downside crossover, mark that as **POINT A.** After that identify the **HIGHEST PRICE/WICK** of the current wave prior to the crossover, mark that as **POINT B** . *If the confirming candle is a Bullish Candle, then POINT A will be at OPEN PRICE*
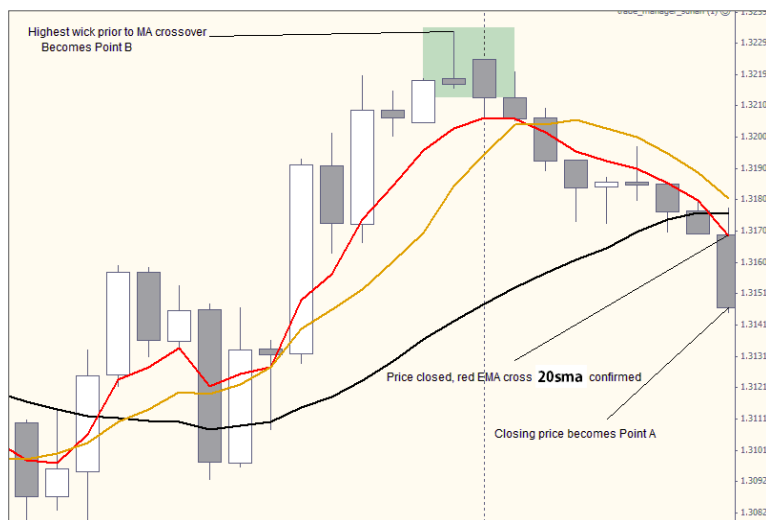
b) Drag your Fibonacci retracement tool from **Point A to Point B** . Mark price @ 161.8 as take profit level. Set Fixed Stoploss @ maximum 38.2 (minimum @ 78.6)
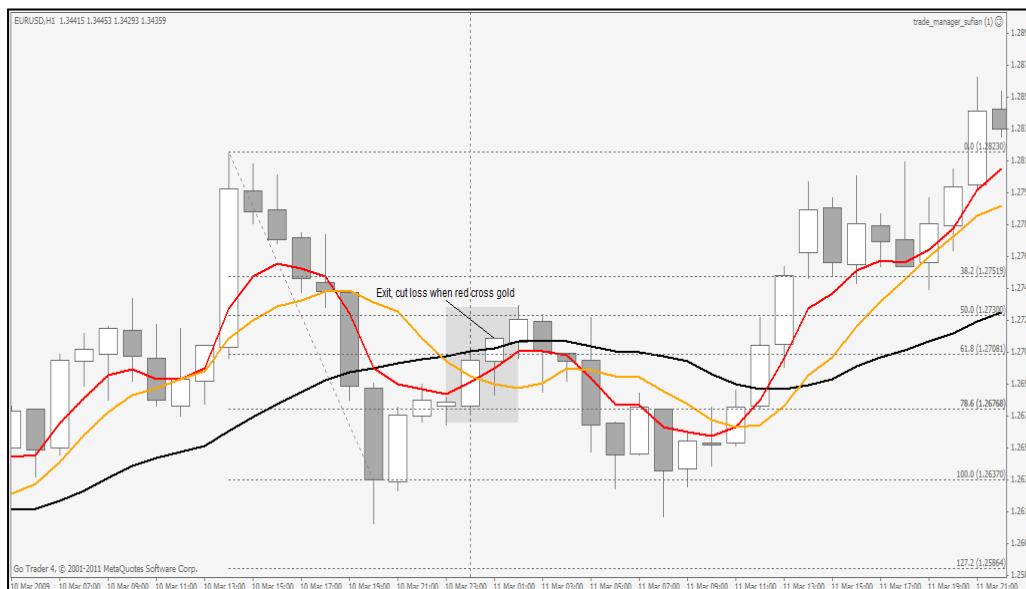
c) Enter Short, TP @ 161.8 Fibonacci

EXIT MECHANISM

There are two conditions in how to exit a losing trade. When 5ema crossed above 8sma even before hitting TP or your Stoploss, CLOSE the trade immediately. Second condition, when price hit your Stoploss (which you should set earlier), whether 5ema already crossed above 8sma or not.
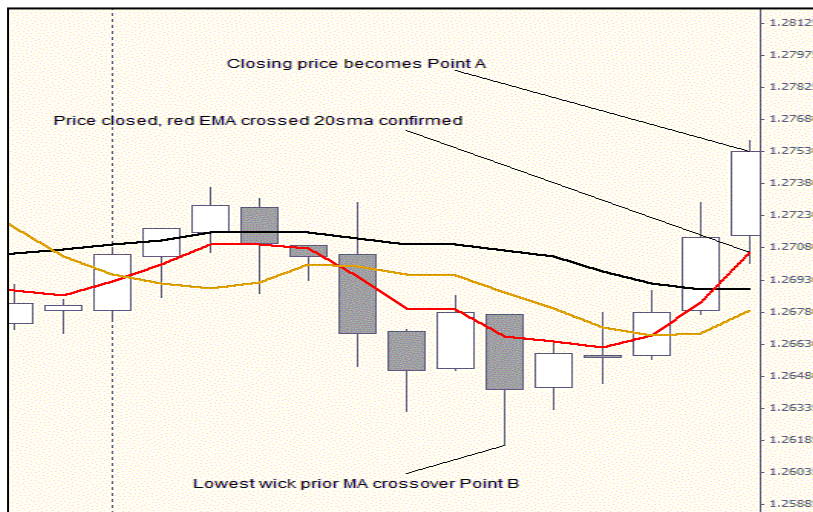
LONG SIGNAL

When 5EMA crossed above 20SMA
DO following steps :

a) Identify Candle **CLOSE PRICE** that confirmed the red/20sma downside crossover, mark that as **POINT A.** After that identify the **LOWEST PRICE/WICK** of the current wave prior to the crossover, mark that as **POINT B** . *If the confirming candle is a Bearish Candle, then POINT A will be at OPEN PRICE*
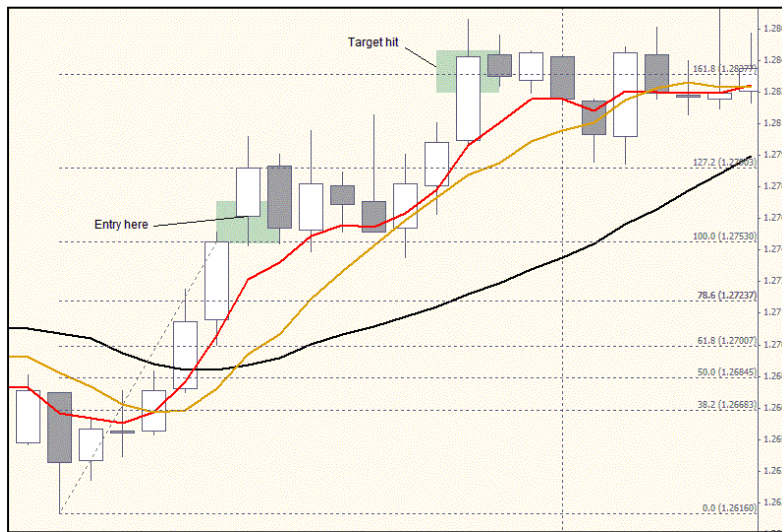

b) Drag your Fibonacci retracement tool from **Point A to Point B** . Mark price @ 161.8 as take profit level. Set Fixed Stoploss @ maximum 38.2 (minimum @ 78.6)
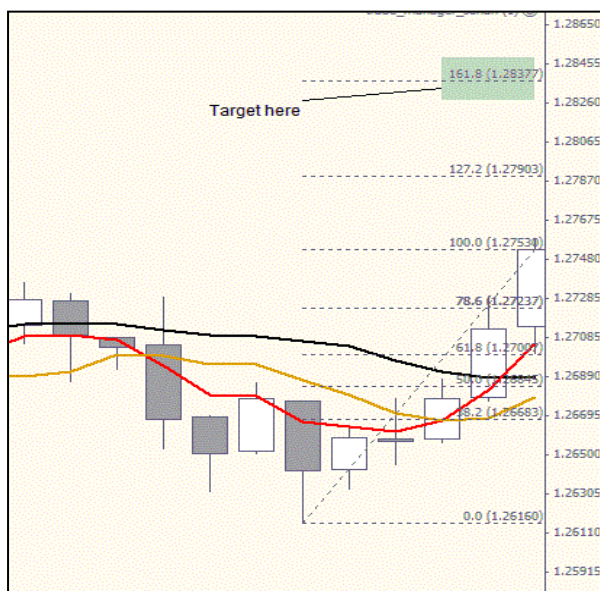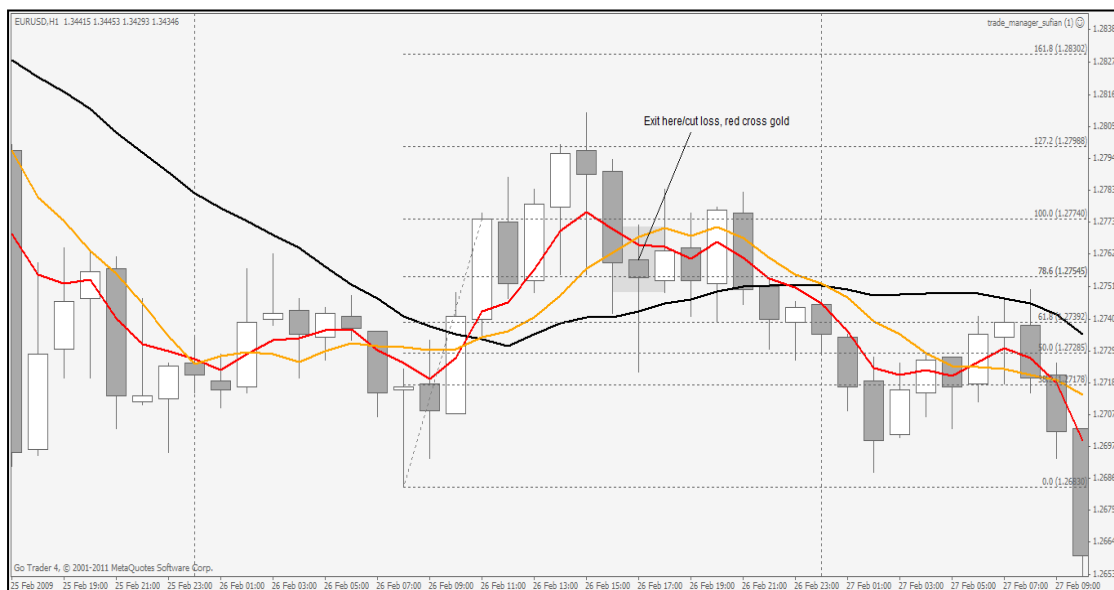
c) Enter Short, TP @ 161.8 Fibonacci

EXIT MECHANISM

There are two conditions in how to exit a losing trade. When 5ema crossed below 8sma even before hitting TP or your Stoploss, CLOSE the trade immediately. Second condition, when price hit your Stoploss (which you should set earlier), whether 5ema already crossed below 8sma or not.

MACFibo System
Secondary Signal : Entry/Exit Setup

<u>LONG SIGNAL</u>

While price is below 20sma, then 5EMA crossed below 8SMA

DO following steps :

a) Draw the initial Main Signal Fibonacci

b) Enter trade, set TP accordingly (more on this later), set SL at maximum 1:1 Risk/Reward Ratio.

EXIT MECHANISM

It is similar like Main Signal. There are two conditions in how to exit a losing trade. When 5ema crossed below 8sma even before hitting TP or your Stoploss, CLOSE the trade immediately. Second condition, when price hit your Stoploss (which you should set earlier), whether 5ema already crossed below 8sma or not.

SHORT SIGNAL

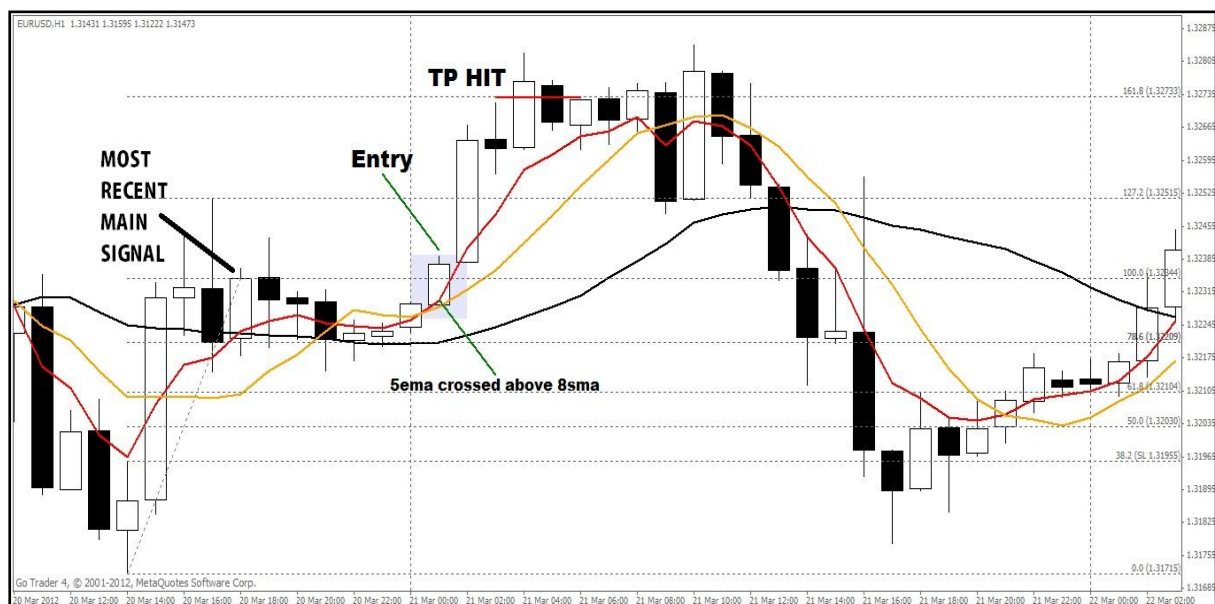While price is below 20sma, then 5EMA crossed below 8SMA
DO following steps :
a) Draw Macfibo Fibonacci at the most recent Main Signal
b) Enter trade, set TP accordingly (more on this later), set SL at maximum 1:1 Risk/Reward
Ratio.

EXIT MECHANISM

It is similar like Main Signal. There are two conditions in how to exit a losing trade. When
5ema crossed below 8sma even before hitting TP or your Stoploss, CLOSE the trade
immediately. Second condition, when price hit your Stoploss (which you should set earlier),
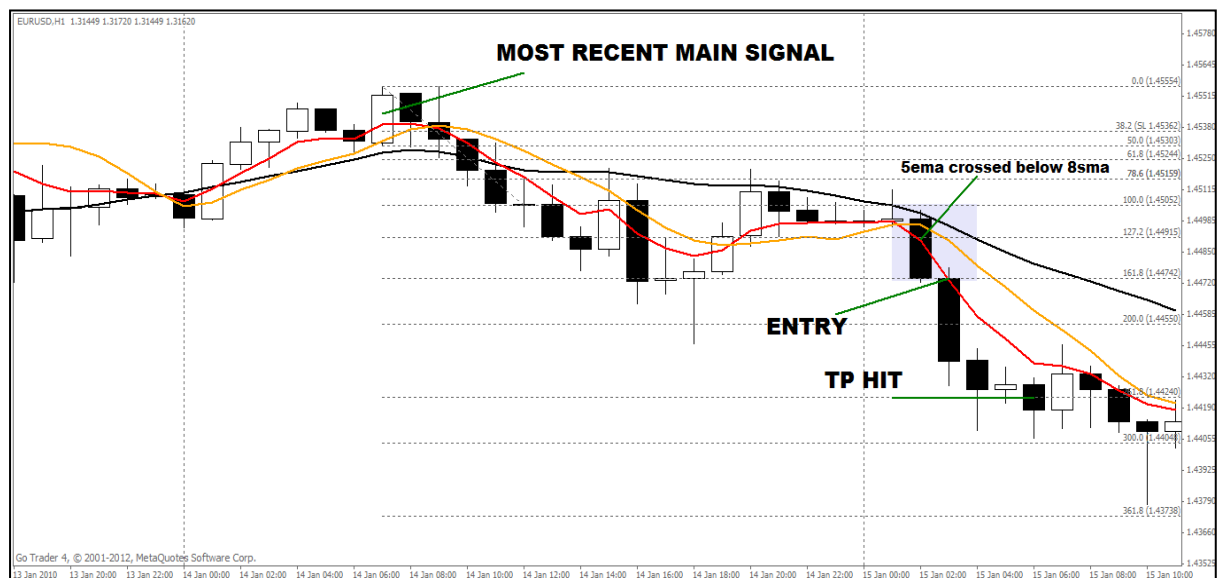whether 5ema already crossed below 8sma or not.

HOW TO PICK TP FOR SECONDARY SIGNALS
Please disregard the TP-ing rule in Version 1.1 for now

Picking a TP for Second Signal is not as straightforward like picking a TP at Main Signal. It is
trickier. This is why I rather new traders just trade the Main Signals. Now I have warned you,
those who chose to trade the secondary signals, let me warn you again, while TP-ing the
secondary signal is NOT subjective but it is still tricky.

There are many ways you can set a TP. I will only share what works for me so far (updated
17th April 2012, so you if you only read this in 17th April 2034, high chance this guide is as
obsolete in your time as Playstation 1 in my time).

Here's some basic TP-ing for secondary signal :

a) If the signal occur before 127.2 or few pips after 127.2, TP at 161.8 or at previous day's HIGH/LOW
b) If the signal occur few pips above 127.2 but before 161.8, then TP it at 261.8 OR at previous day's HIGH/LOW.

What if the Secondary Signal occur after 161.8? or even after 200.0 or 261.8?

For example, secondary signal occur few pips above 161.8 but before 200.0, then you TP at 300.0 or at previous day's HIGH/LOW. If signal occur say few pips above 261.8 but before 300.0, then you TP at 361.8 or at previous day's HIGH LOW.

Is there another Way to TP?.. all of the explanation above are way too complicated..

I have three answers for this.

First answer, ignore any secondary signal because it is only 'Secondary' and not as important as the Main Signal. I know some traders who trade nothing but the Main Signal and their trading performance outperform those who include Secondary Signal in their trading arsenal.

Second answer, you enter the trade and TP at the closest S/R Line.

Third answer, you just enter the trade and exit only when 5ema 8sma re-cross to the opposite way. Yes, without taking note the Fibonacci levels or any other levels. It is simple, very super duper objective. Advantage of this ofcourse, you can take the whole trend, well most of it anyway, when trend does occur. Disadvantage, it is pretty obvious, like any other MA crossover systems.. you will suffer fakeouts now and then.

Now you can choose either to ignore secondary signal entirely (not a bad thing, it's pretty normal) or you can choose second or third option.

MACFibo System
Macfibo Filters : Significant Support and Resistance Lines (S-SR Lines)

Identifying S/SR Lines is very objective but some traders will find it hard and confusing. Due to that, I will divide this section into two : Version A) Steps to Identify S-SR Line for more experienced traders and Version B) Steps for beginners/novice traders

VERSION A - Below are the steps how to identify S-SR Line for a more experienced traders
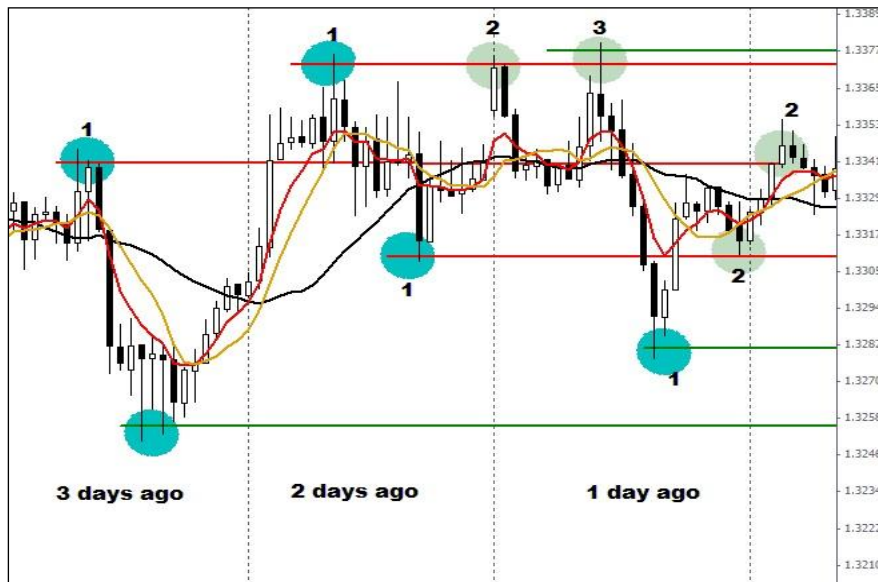
Step 1 – Every new trading day, you go to H1 chart (make sure you put PERIOD SEPARATORS on so the process will be easy), you go back atleast 3 previous trading days (the more the better, I went as far as 12 trading days). Then you mark the day's highest price and lowest price's ZONE, not exact price but ZONES (Minus 5-15 pips of the exact price). For charts clarity, I just show up to previous 3 days as an example.

Step 2 - Once you mark the S/R Lines, then you see if those lines/zones obeyed atleast twice

<u>Step 3</u> - Now any S/R Lines been tested twice or more, then that's your 'Significant S/R Line' and should stay in your chart. You keep the other S/R Lines in your chart as well but you might want to colour it differently so you can differentiate which one is significant and which is.. well for now, not. For this particular example, the significant S/R lines is colored Red and others as Green.
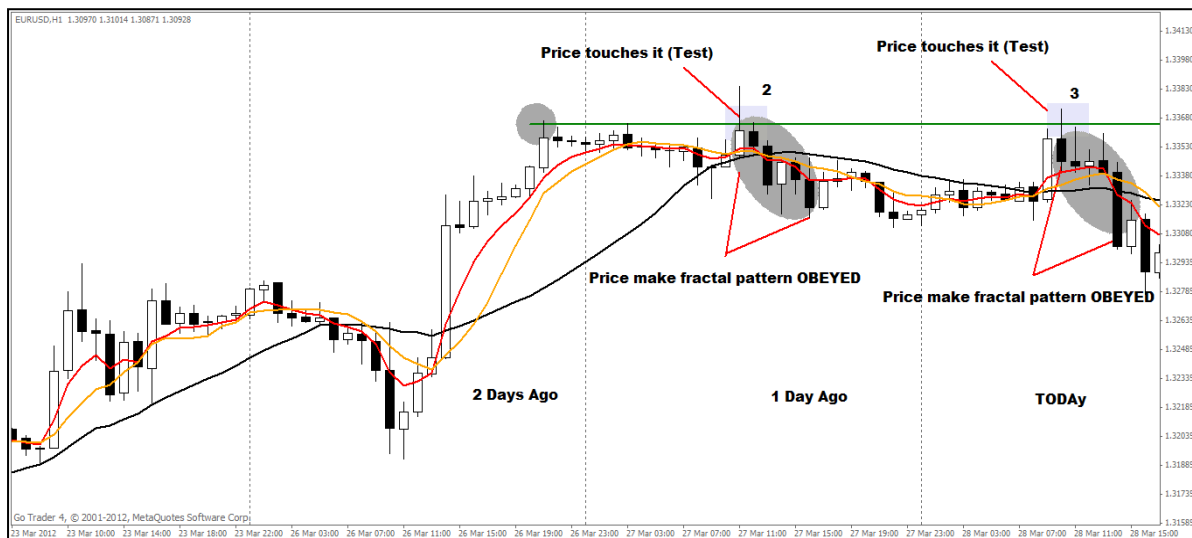

What qualifies as S/R Line obedience?
This is simple than you think. When price touches the zone and unable to continue to break it and price reverses 2 to 3 candles upon touching it, then that qualifies as "S/R Line Obedience". I will show some charts to show you what I mean
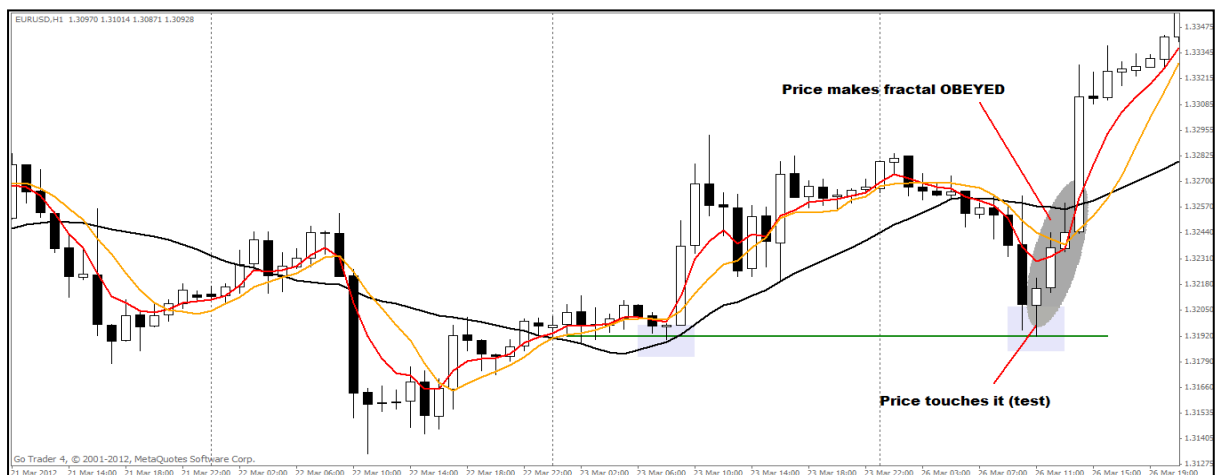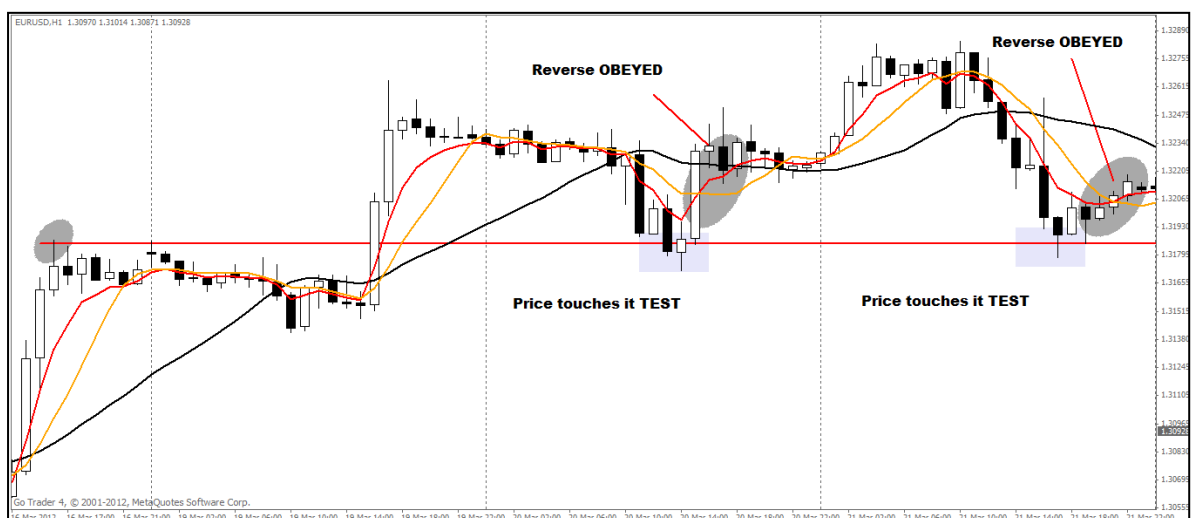
S/R Line Obedience Example 1
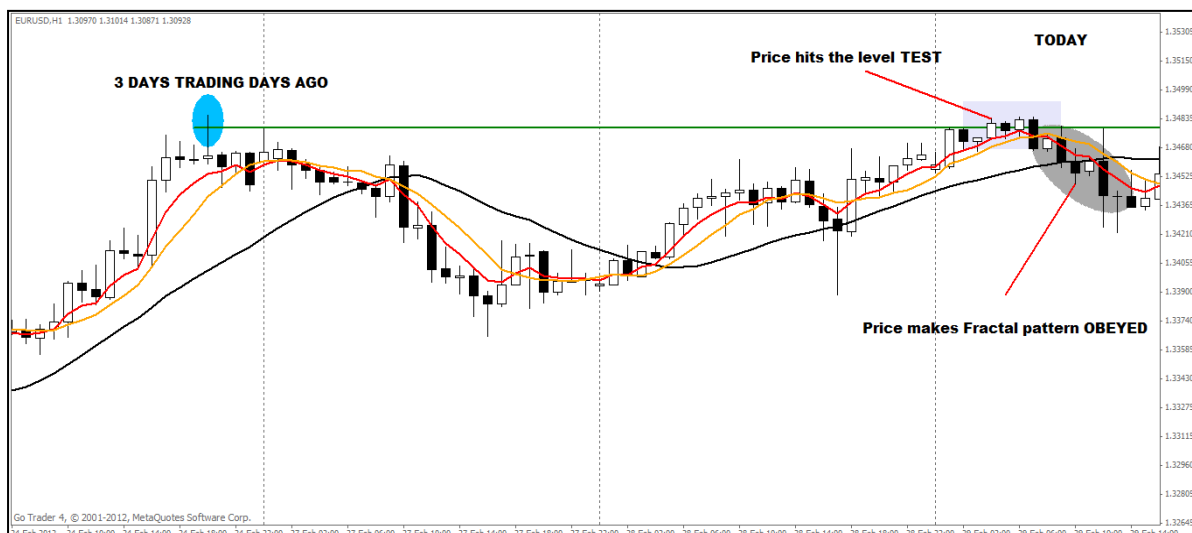
S/R Line Obedience Example 2

S/R Line Obedience Example 3

S/R Line Obedience Example 4

VERSION B - Below are the steps how to identify S-SR Line for new/beginner traders

Step 1 – Every new trading day, you go to H1 chart (make sure you put PERIOD SEPARATORS on so the process will be easy), you pick previous trading day's HIGHEST and LOWEST price. You mark it's zone.

Step 2 – You go to H4 and mark previous week's HIGHEST and LOWEST price. You mark it's zone
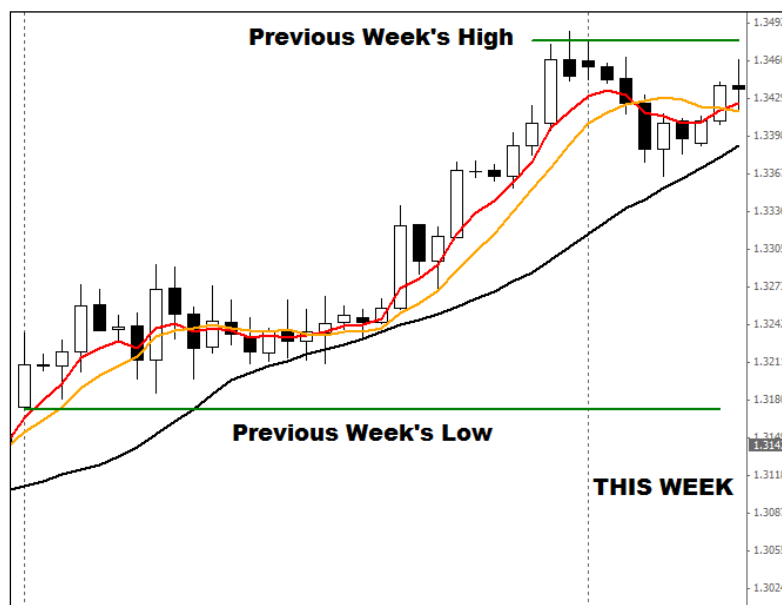
CONCLUSION

For beginners, now you have your basic S-SR Lines identification steps and should be easier and don't worry, it is as effective as the other way.

MACFibo System
Macfibo Filters : Trading Sessions

I believe you all know market sessions right? Since the potential readers are from everywhere, I decide not to state the exact time of each session to avoid confusion. Just sort it yourself what is your time during a specific market session.

When I tested Macfibo, I include market sessions as part of my log because I strongly believe each market sessions provide different volume, volatility and range for different kind of currency pairs. I will not go through about how come Session A has larger volume in Currency Pair A than it is in Currency Pair B. That is a different subject.. a bigger subject at that.

I divided market sessions into 4 sessions : Asian Session *(including the one-hour Asian-London session),* London Session, London-US Session and US-Session. I've conducted a thorough study/backtest/live trade logs on Macfibo System. For this document, I will use results I've extracted from EURUSD backtest/live trade logs from July 2008 data up to December 2011. Here are the winning percentage results on each session :

Asian Session
Win Percentage : 67.0%

London Session
Win Percentage : 71.7%

London-US Session
Win Percentage : 81.3%

US Session
Win Percentage : 61.9%

Based from this statistics I've concluded that Asian Session Open until the London Close is the best time to trade Macfibo.

Why not the US-only session?

I've read from many sources that suggests this is the time when the market is normally starts to slow. Most trading losses I've endured trading the EURUSD in live trades and backtesting are from this session.

The average loss in this session is 33.7 pips, the largest compared Asian Session which is 29.2 pips. Though US-only session carries the second largest average wins (36.2 pips) but the ratio is the worst compared to second worst which Asian Session (Avg Win 34.1 pips :

Avg Loss 29.2 pips). Apart from these statistical results, I rather sleep during this time (it is mostly midnight or after midnight after the London Close aka US Session).

I want to trade crosses or other majors, what market sessions that gives better performance?

Fortunately I have trading buddies who shares my 'nerdiness' and backtested and logged Macfibo in other pairs like GBPUSD, GBPJPY, USDCHF, USDJPY and EURJPY. I rather you don't take my word for it but after going through the results, I recommend that you trade any signal that occurred between Asian Session until London Close as well. Do your own backtesting and see which market session that suits to your trading objective.
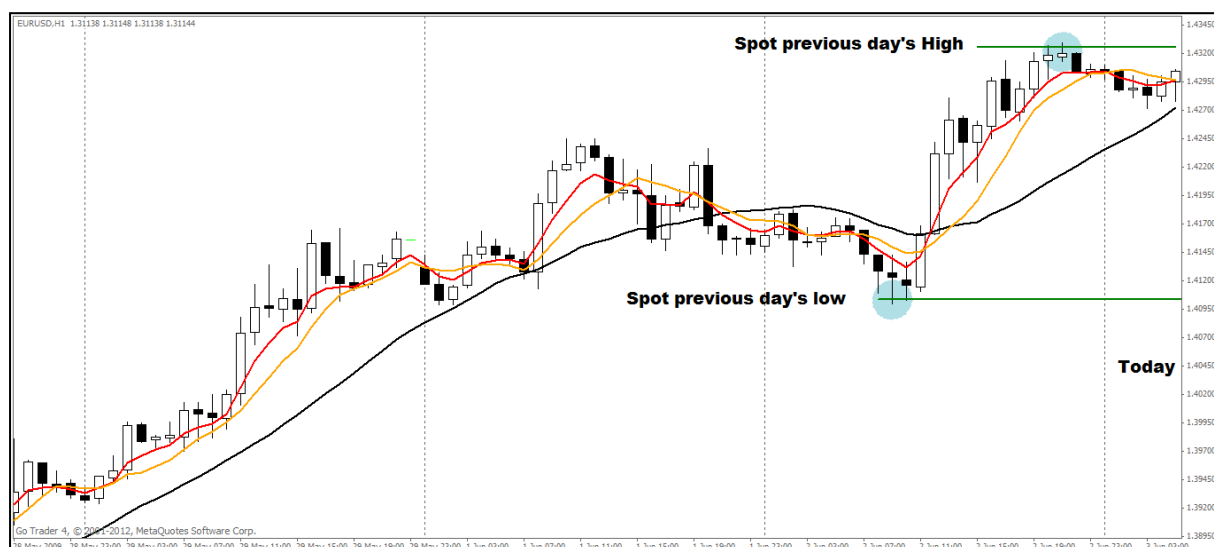
MACFibo System
How to trade the system

Now that I have explained what is entry and exit rule for both Main and Secondary Macfibo signal, it's filters and good trading sessions for Macfibo. Now it's time I'll show you the complete steps how YOU TRADE it the way how it SHOULD be traded. What I mean is I want to show you what to do before a signal triggers, what to do when a signal occur, what to do while you are in a trade and what to do when certain conditions happen when you are in or not in a trade. This is what the chapter is all about.
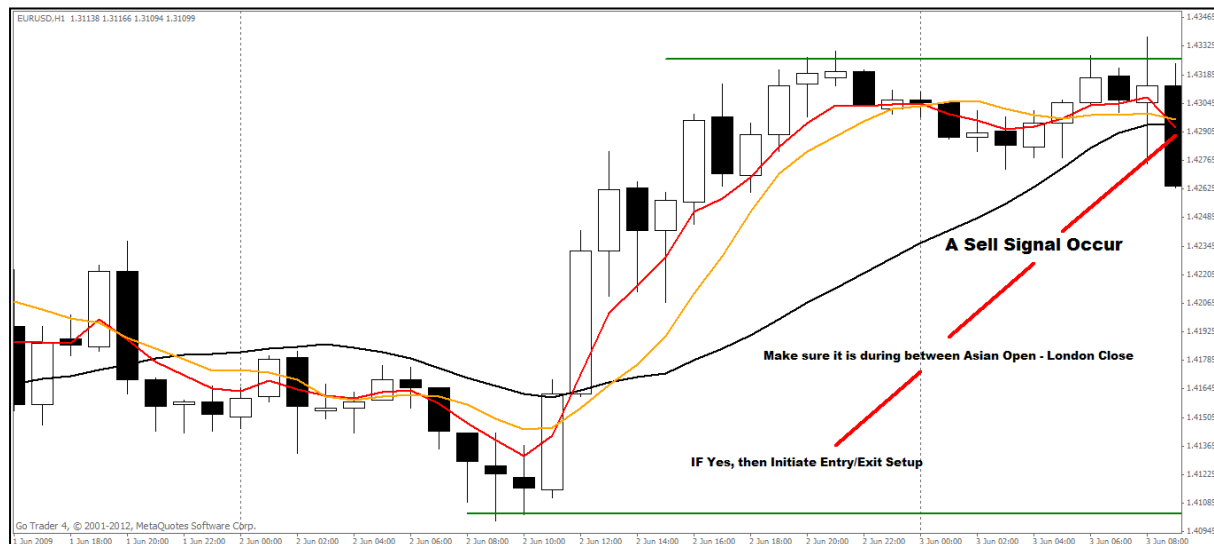
Before I start, I need to clarify on S-SR Line Analysis, for the benefit of my audience : S-SR Line Analysis Version B will be used for this guide, not Version A.

Trading The Main Signal

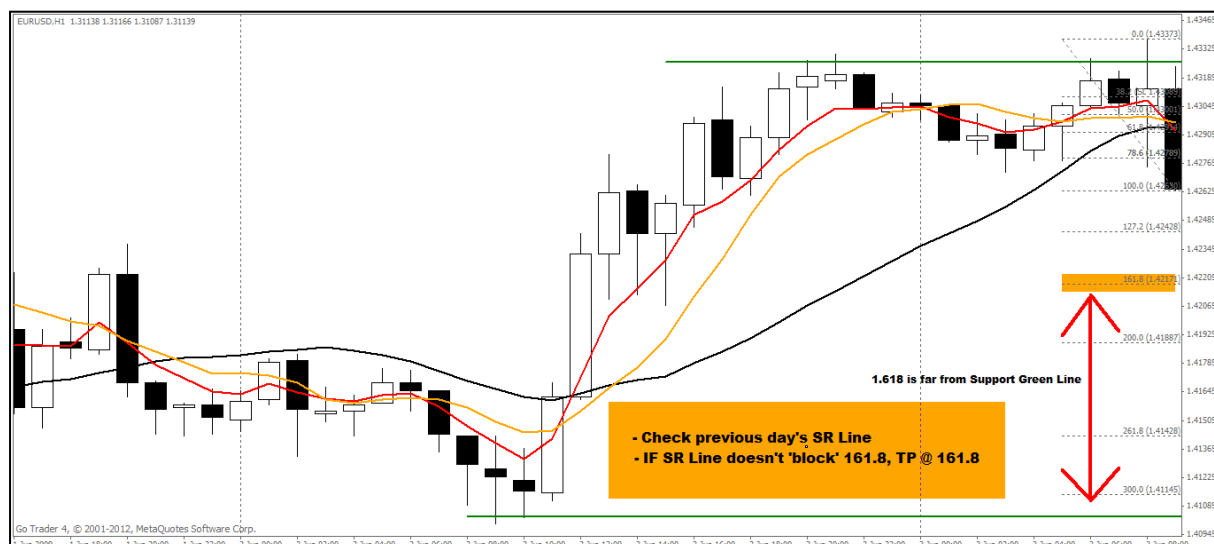**Step One :** Identify Previous Day's and Previous Week's Highest and Lowest Price (it's Zone). Make a habit to do this EVERYDAY without fail (**For experienced traders, I also advice you just use this SR Line technique for Main Signal Macfibo filtering, be flexible with Macfibo Main Signal). It is very straightforward and very simple.

Step Two : When there is Main Signal triggered, you firstly have to make sure the signal is within Asian-London Market session. If it is OK, then proceed pull your fibonacci's**. IF NOT, IGNORE SIGNAL.**


Step Three : Once you pull your Macfibo Fibonacci extensions, now you have to see if previous day's or previous week's High or Low 'blocks' the path towards 161.8. In other words, for a Sell signal, check if Support is above 161.8. **IF NOT**, mark 1.618 as your TP. **(IF S/R Line Blocks 1.618, Do Step Four)**

Step Four? Hold on a minute! I am still not sure what S/R Line blocks 1.618 really means?

Incase you still confuse what I mean by S/R line blocking the 1.618, let me firstly show you an example of S/R Line that is NOT blocking the 1.618

Here's two examples activation where S/R Line doesn't block the 1.618
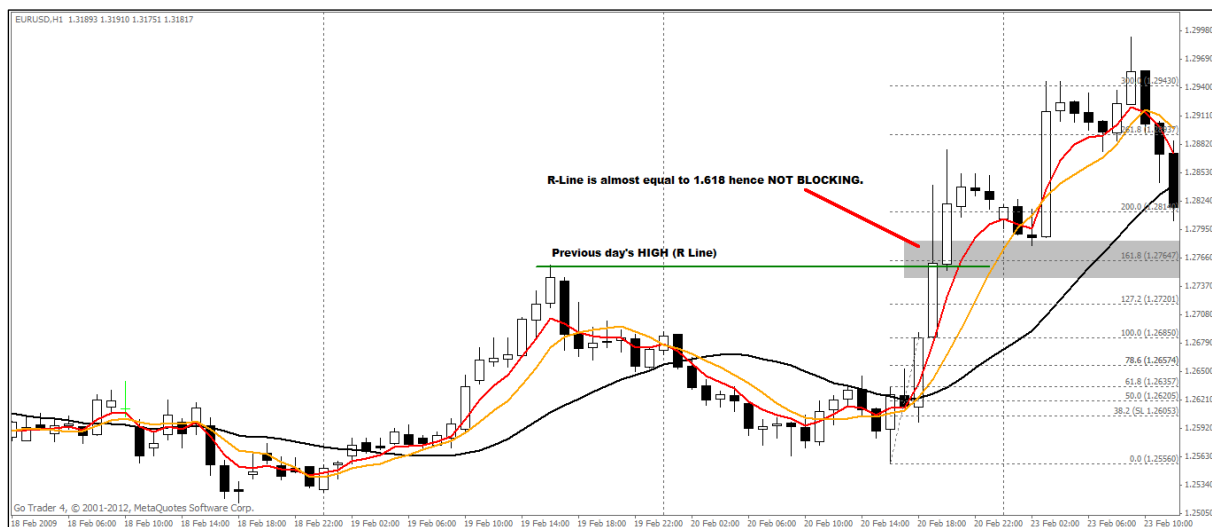
In this buy activation, the R-Line is more-or-less equal to 1.618 and it is not counted as blocking though it is 5-8 pips before the 1.618 level. In this situation, you TP @ 1.618
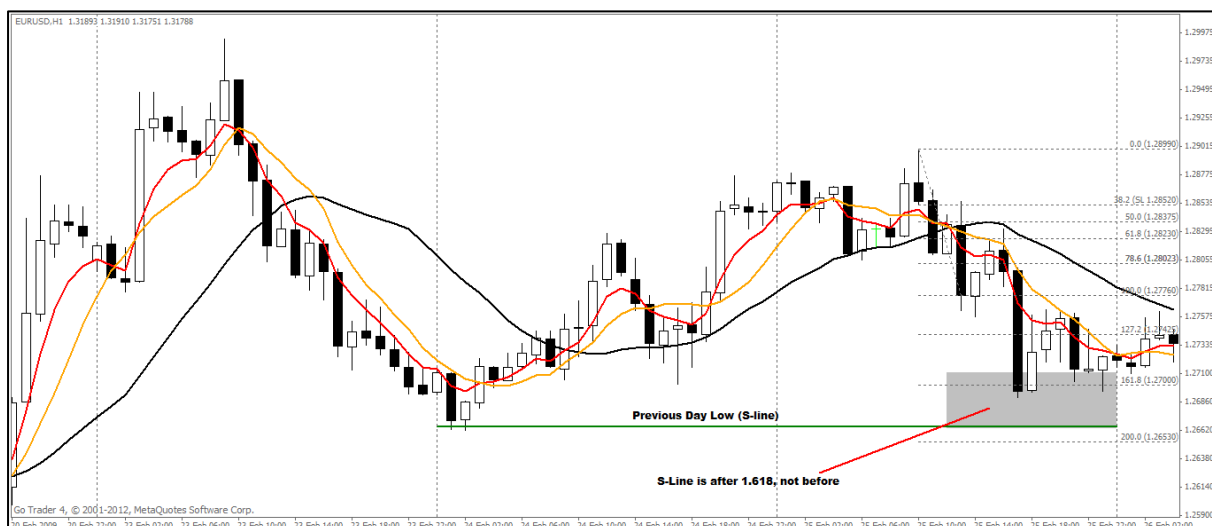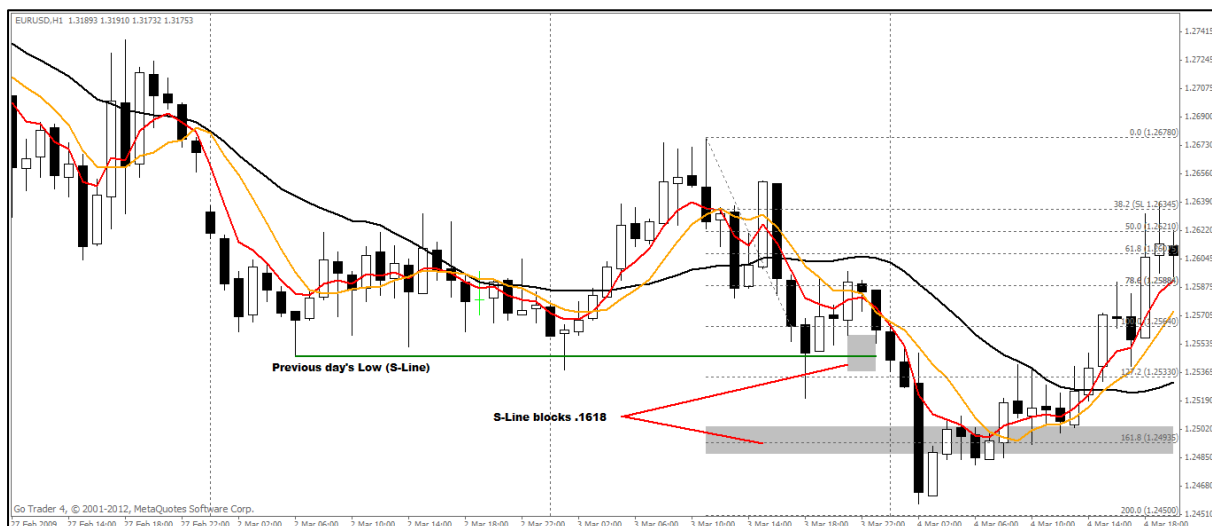

In this sell activation, the S-Line is way lower than1.618 it is not counted as blocking. In this kind of situation, you TP @ 1.618

Now I show you chart examples when a S/R Line blocks 1.618



In this buy activation, you can see the R-Line is lower than 1.618 hence it is obvious that price has to go through the R-Line before trying to hit 1.618. This is counts as S/R Line blocks 1.618

In this sell activation, you can see the S-Line is higher than 1.618 hence it is obvious that price has to go through the S-Line before trying to hit 1.618. This counts as S/R Line blocks 1.618

Step Four : IF S/R LINE BLOCKS 1.618

Now that you know what S/R Line blocking is, then I can tell you now when S/R Line blocks 1.618, you to TP @ 127.2 only. Check the following chart examples
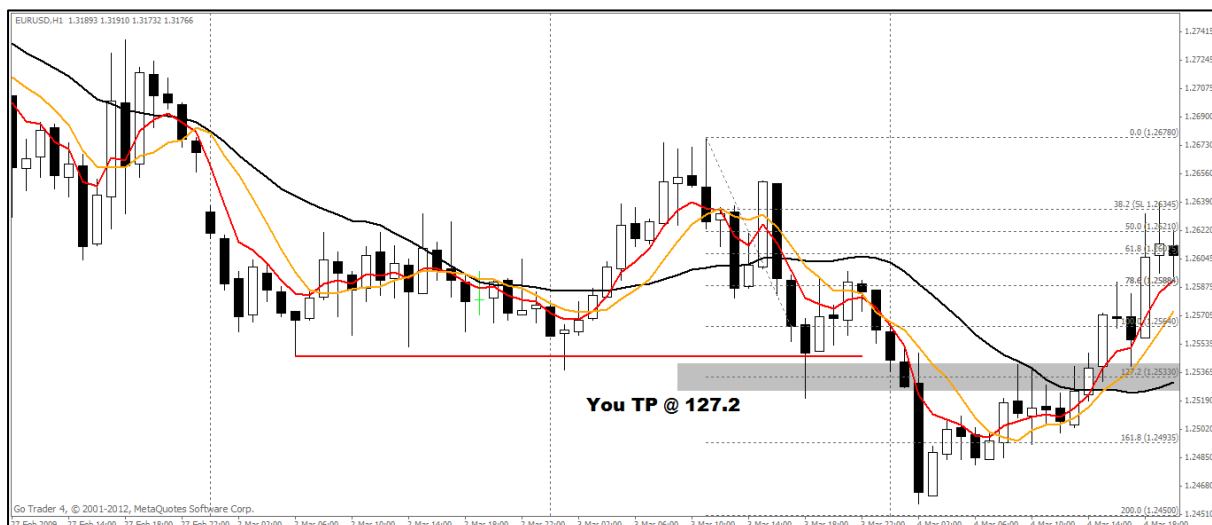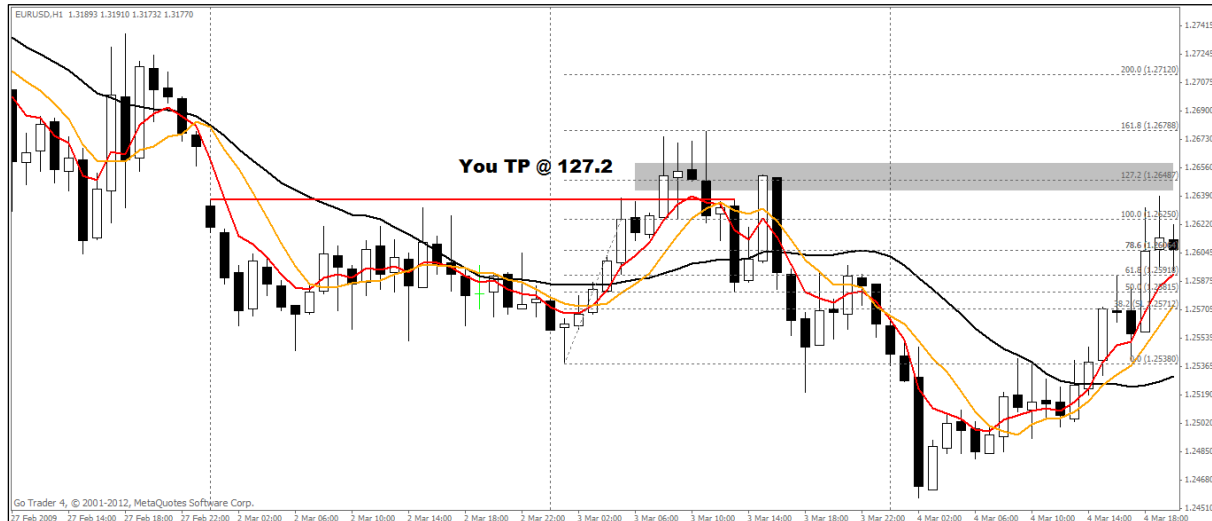
SUMMARY :

Step One : Identify Previous Day's and Previous Week's Highest and Lowest Price (it's Zone). Make a habit to do this EVERYDAY without fail (**For experienced traders, I also advice you just use this SR Line technique for Main Signal Macfibo filtering, be flexible with Macfibo Main Signal). It is very straightforward and very simple.

Step Two : When there is Main Signal triggered, you firstly have to make sure the signal is within Asian-London Market session. If it is OK, then proceed pull your fibonacci's**. IF NOT, IGNORE SIGNAL.**

Step Three : Once you pull your Macfibo Fibonacci extensions, now you have to see if previous day's or previous week's High or Low 'blocks' the path towards 161.8. In other words, for a Sell signal, check if Support is above 161.8. **IF NOT**, mark 1.618 as your TP. **(IF S/R Line Blocks 1.618, do Step Four)**

**Step Four :** mark 127.2 as your TP
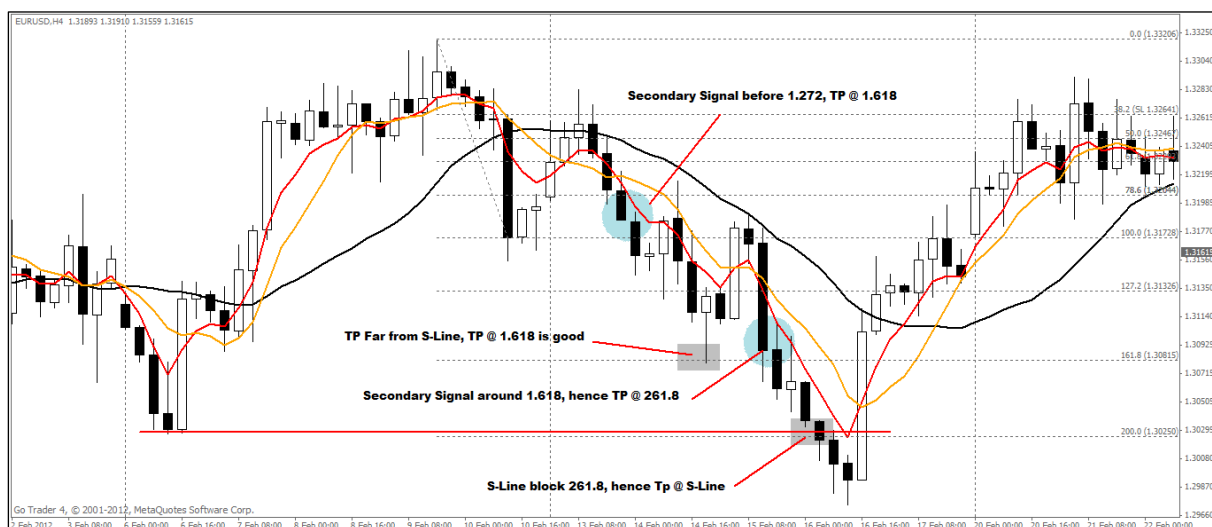
Trading The Secondary Signal

Step One : As you should do everyday, you identify Previous Day's and Previous Week's Highest and Lowest Price (it's Zone). Make a habit to do this EVERYDAY without fail. As soon as there is a Secondary Signal (Look at Step One for Main Signal for chart example) ** If you choose to trade the secondary signal 'blindly' and let 5ema and 8sma to decide when to exit your trade, then you can skip this step and go straight to Step Two

Step Two : When secondary signal triggered, the first you need to know is wether the signal occurs during Asian-London Session. **If NOT, IGNORE SIGNAL.**

Step Three : If previous day's or previous week's High or Low 'blocks' the path towards your TP then you TP at the S/R Line or you Ignore the signal completely. Study chart examples below :
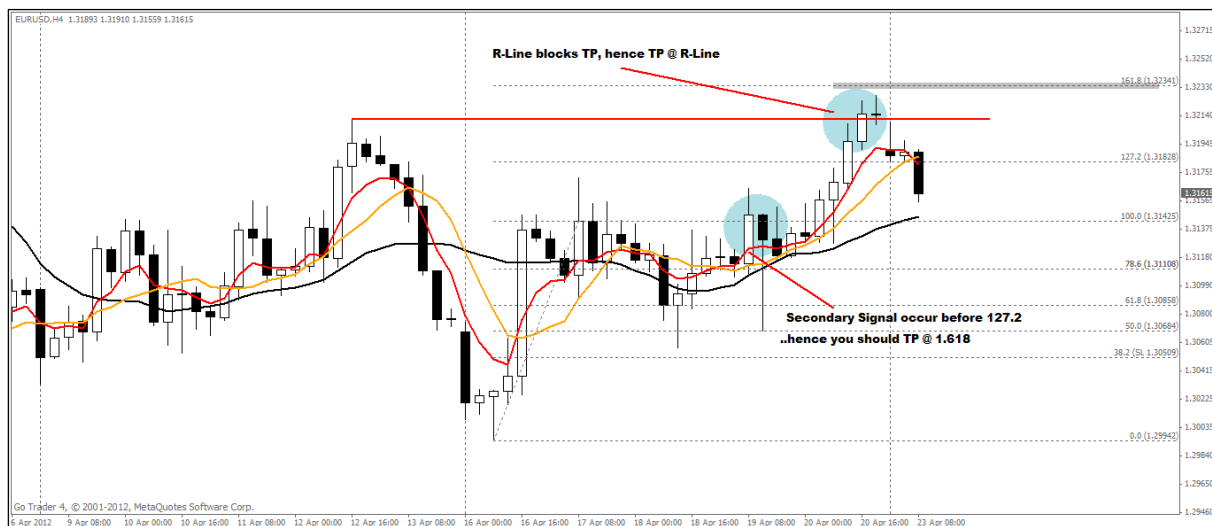
The secondary signal occur before 127.2, hence according to my own rule, we TP @ 1.618. But R-Line blocks the TP, hence you TP it there or you ignore the signal completely

The first secondary signal occur before 127.2, then you should TP @ 1.618. Since the S-Line doesn't block TP, then you can TP it @ 1.618. The second secondary signal, it occurs around 1.618, then you should TP it @ 261.8 but since S-Line blocks the 261.8, then you TP at S-Line or you ignore the signal completely

MACFibo System
Backtesting The System

One important stage in your trading is to test the system you decide you want to trade This is how I backtest Macfibo back in the days and I still do it now. You can add few things here as long as it serves the objective of doing this -> Obtain data/statistics that allow you to analyse objectively how your system perform in a specific pair and in a specific timeframe and in a specific trading rules. The following are just guides how I do my Macfibo backtest. One piece of warning before you backtest... BACKTEST IS HELL!! My standard of backtest sample size is minimum 700 trades. So if you find yourself during backtesting having bad results after 100 trades.. don't stop there. Carry on doing it until you've reached 350 trades then analyze and do it again.

Choose ONE pair that you want to test : Choosing what pair you want to trade is as simple as picking what kind of movie genre you want to watch. Providing you understand and appreciate that each pair has different characteristics, different volume, different range, different volatility and has different correlations. It is down to your own preference and knowledge actually. You can go to Babypips' Pipsology to understand more on this. Once you've decided which pairs that you think will suit you personally and your trading objective, then CHOOSE ONE of the list and test that ONE pair only.

Choose ONE timeframe you want to test : First of all you need to understand Macfibo is designed mainly for Intraday trading but I am against trading this system lower than Hour One and larger than Hour Four. I'd like to you to choose either Hour One or Hour Four only.

Define Trading Parameters and Follow It : Before you begin backtest the system, you need to define YOUR OWN trading rule/parameters that you want to test. Particularly for Secondary Signal because I allow you to be flexible with it and you decide which TP technique you want to use. Once you've define every trading rules, WRITE IT DOWN and you 'trade' it in your backtest STRICTLY according to that parameters/rules.

Go Back as Far As your Trading Platform Allow : If you use MT4 (which I recommend highly), you just hold 'Home' key after your platform stops 'moving'. Then it should be the farthest your platform could go. You can google to download some historical data for MT4 if your platform could only go up to 2011.

Create a new spreadsheet and create the following variables :
a) Trade Number
b) Date
c) Pips Won
d) Pips Loss
e) Drawdown (biggest reversal pips before hitting TP or SL)
f) Total No. Of Pips Won after Consecutive Wins
g) Total No. Of Pips Lost after Consecutive Losses
h) Notes (very important you record anything you noticed in the particular trade)

<u>Spice your Spreadsheet that will automatically calculate the following stats as you log in your spreadsheet :</u>

Total Pips Won
Total Pips Lost
Net Profit (in Pips)
Average Wins
Average Loss
Biggest Drawdown
Average Drawdown
Average Consecutive Wins (In Pips)
Average Consecutive Loss (In Pips)

FINAL WORDS..

Macfibo System is not the Holy Grail. It will suffer losses like any other trading system. You TEST the system with open mind but also very critical for every trade you tested. Take note every trade you tested. Log it and read it every time before you start backtesting again.

This system guide is not the final article. There are more Macfibo knowledge I will share but let's keep it slow and steady. You are open to 'modify' the system that will suit more to your own personality or trading objective.. by all means do it.. but you must not trade the modified version until it is proven good by backtesting.

Happy testing and Happy Trading. Keep reading the thread, as long as there are interest in the system, I will keep posting System Updates and revealing one by one on a more advanced Macfibo Trading.

Cheers..

SUFIAN SAID