FIBONACCI RETRACEMENT (FR)

Fibonacci retracement levels are used as support or resistance levels and they are computed using the Fibonacci ratio. Fibonacci ratios derived from Fibonacci series (0, 1,1,2,3,5,8,13….). The various Fibonacci ratios are 0.236, 0.382, 0.500, 0.618, etc. It Plots percentage retracement lines based upon the mathematical relationship within the Fibonacci sequence. These retracement levels provide multiple support and resistance levels that can be used to target price objectives.

Based upon the number sequence, a set of percentage retracements have been developed that identify important support or resistance areas. These are 23.6%, 38.2%, 50%, 61.8%, 76.4%, and 100%. Applying these percentages to the difference between the high and low price for the period selected generates a set of price objectives with regard to each retracement level. The theory of Fibonacci retracements states that after a period of market movement in one direction (up or down), prices retrace a significant portion of the previous trend before resuming the move in the original direction. These countertrend moves tend to fall into certain predictable parameters, which are often the Fibonacci Retracement levels.

When to use…

Prices tends to stop frequently at Fibonacci Retracement Levels, each of the retracement levels present themselves as possible reversal points. Traditionally 50% was used for retracements, but the 38.2 and 61.8 Fibonacci levels, which many equate to 33% (1/3rd) and 67% (2/3rds), are also the important levels and are seen very often in the markets. These levels can best be used in conjunction with other technical signals. For i.e. selling a bounce in a strong downtrend that rallies up to a Fibonacci Retracement Level at the same time that the market becomes overbought and is also touching its near-term downtrend line.