



Technical analysis of Cryptocurrencies

This is the fourth part of our training lessons on
cryptocurrencies trading that gives insight about
technical analysis of cryptocurrencies.

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Fibonacci

Fibonacci ratios were created by an Italian named Leonardo Fibonacci to describe the natural proportions of things in the universe.

Fibonacci extension and retracement levels help in predicting the future price of an asset. Fibonacci extension levels predict the price targets to take profits and Fibonacci retracement tells the possible retracement levels of an asset after a spike in the price. You may enter in a long trade after a retracement on a Fibonacci support level when the price is going up and may enter in a short trade after a retracement on a Fibonacci resistance level when the price is going down.

Fibonacci Retracement Levels

0.236, 0.382, 0.500, 0.618, 0.764

Fibonacci Extension Levels

0, 0.382, 0.618, 1.000, 1.382, 1.618, 2.618, 3.618, 4.236

Fibonacci index is widely used by traders to enter and exit in their trades which makes the price predictable due to its immense use. Like many traders will set orders at 1.618 Fibonacci extension level to take the profit which will result in a retrace in the price. And upon retracement, traders will use the Fibonacci retracement levels to predict the bounce back price of the asset. Some will place the orders at 0.382 Fibonacci retracement level which will bounce the price from this level.

Fibonacci Retracement

We will look into Fibonacci retracement in detail first. Fibonacci retracement is a great tool to use while the market is trending in a particular direction instead of sideways. It helps you to provide levels of price retracement in both directions to enter in a long or short trade after a recent spike in the price of an asset.

The first and most important thing is to define the recent swing highs and swing lows price levels to find the Fibonacci retracement levels. if you are looking to find the retracement



levels for an uptrend then you click the swing low and drag the cursor to the most recent swing high and if you are looking to find the retracement levels of a downtrend then you need to click the swing high and drag the cursor to the recent swing low.

The strongest levels usually are 0,382; 0,618; 0,786 and 1.618 (once the price breaks out of the previous high or low).

Fibonacci retracement in an uptrend

Let's first take a look at an example of Fibonacci retracement levels in an uptrend. Hereafter selecting the Fibonacci retracement tool in tradingview.com charting tool, I clicked the swing low level and dragged the cursor to the swing high level. Retracement tool automatically calculates all the fib ratios and shows you on the chart.



The asset has made a large spike and is looking to retrace now. Fib retracement tool here has given us various levels where traders will be placing orders to buy it back for the next leg up.

Let's see what actually has happened after that. You can see in the chart below the price retraced to 0.382 Fibonacci level and bounced back up. Sellers tried hard to move the price below the 0.382 fib level but buyers gained the control and moved the price up. Even a few candles retraced below the 0.382 fib level but closed above.



Fibonacci retracement in a downtrend

We will take an example of how to find Fibonacci retracement levels in a downtrend. Hereafter selecting the Fibonacci retracement tool in tradingview.com charting tool, I clicked the swing high level and dragged the cursor to the swing low level. Retracement tool automatically calculates all the fib ratios and shows you on the chart.



The asset has made a large spike downwards and is looking to retrace up now. Fib retracement tool here has given us various possible levels where traders will be placing orders to sell it back for the next leg down.

Let's take a look at what actually has happened after that. You can see in the chart below the price retraced to 0.50 Fibonacci level and moved back down which indicates a high supply area for this asset where buyers lost control and sellers dominated, resulting in a rejection in the price to make new lows. Sellers tried to reverse the price from 0.23 and 0.38 fib levels but ultimately managed to reverse it from 0.50 fib level.



Fibonacci Extension

Taking profit is an important part of trading plans. It doesn't matter if you are good at taking profitable trades as the thing that matters most is how much profit you take from a trade. If you are not good at taking profit then you will be leaving lots of money for others on the table. That's where the Fibonacci extension tool will help you to predict the profit targets of your trade.

The trend-based Fibonacci extension is an important, yet underused, tool in the Tradingview arsenal. Its main function is to use Fibonacci ratios to gauge where the next swing has high probabilities to form a turning point. Possible Fibonacci extension levels are as follows: 0, 0.382, 0.618, 1.000, 1.382, 1.618, 2.618, 3.618, 4.236.

Unlike the Fibonacci retracement tool, this tool works by placing three clicks instead of two on the price action.

The first one must be placed at the beginning of the trend, the second one at the apex of the wave, while the third one at any of the retracement levels. Like in the example below, 1st we clicked at swing low price level of 1.0132 and dragged the mouse to click on the most recent high level of 1.0899 and then dragged the mouse again to click on the retracement level of 1.0435 price of the asset. It shows us the various price extensions on the chart to book profit.



Fib levels of 0.61, 1.00 and 1.61 are considered to be the good profit taking levels as you can see there was a strong resistance at 0.61 fib level but price broke up after retracing back to 0.38 fib level. And when the price reached at 1.00 fib level it again faced a strong resistance and retraced back to 0.61 fib level. After that price reached the 1.61 level and the price trend changed from that level. Depending upon your trading style you need to book profit partially at all these levels or at one particular level where you feel good.