

The Trading Mentor

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How to Use Fibonacci Retracements

Lesson 7

How to Use Fibonacci Retracements

Fibonacci retracement is a popular way of identifying levels of *support or resistance* in trading.

In this short article, I'll explain where these numbers come from and how to apply them for finding levels of support or resistance

What Are Fibonacci Retracement Levels?

The Fibonacci levels use horizontal lines to indicate where potential support or resistance levels may be. Each of these levels are associated with a percentage, which is how much of a prior move price has or is likely to retrace.

So as an example, in a bullish trend the move between a higher low and a higher high would be the basis of the retracement. The next retracement would likely come to a point within this move up.

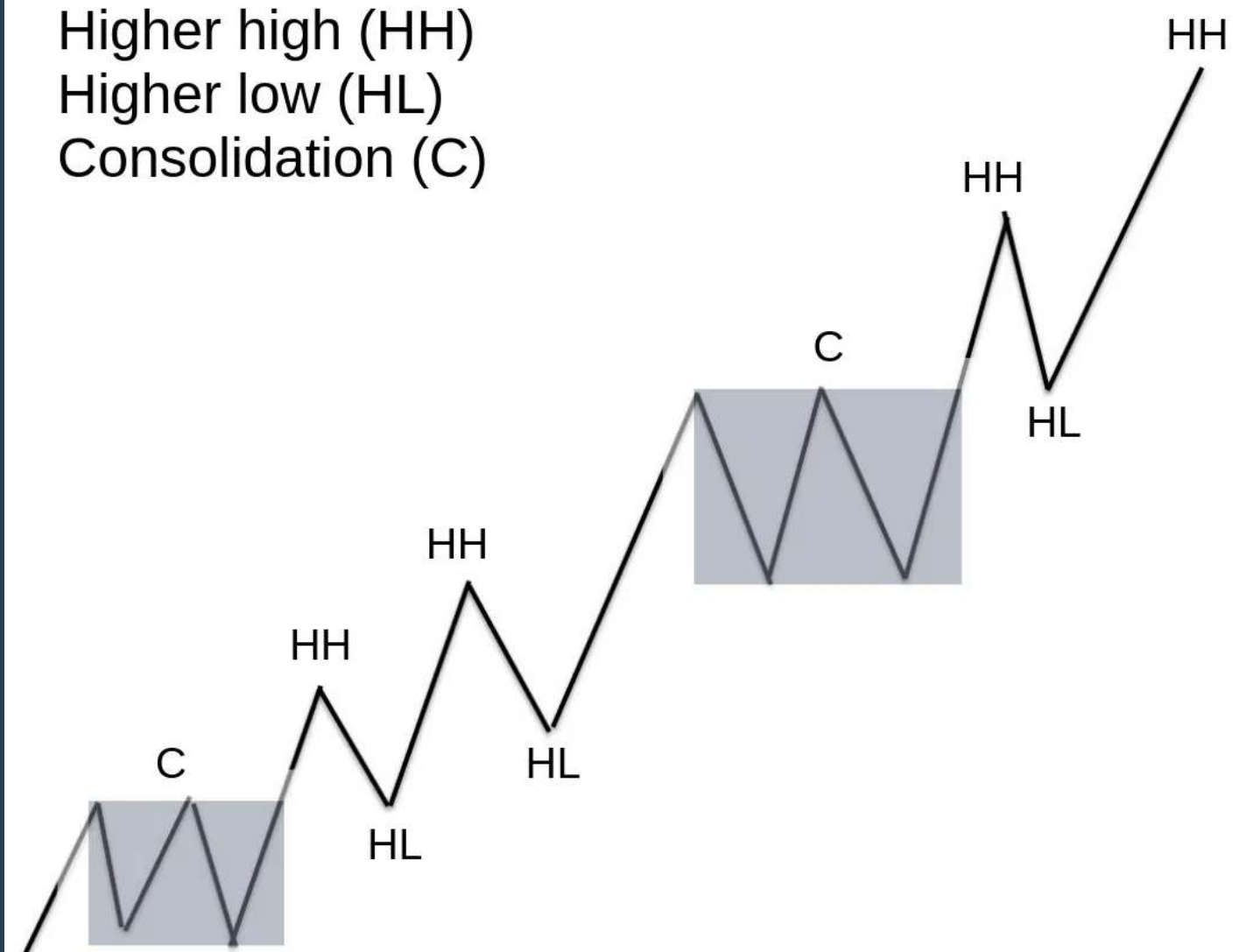
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Anatomy of a Bullish Trend

Higher high (HH)

Higher low (HL)

Consolidation (C)



Which Percentages to Use?

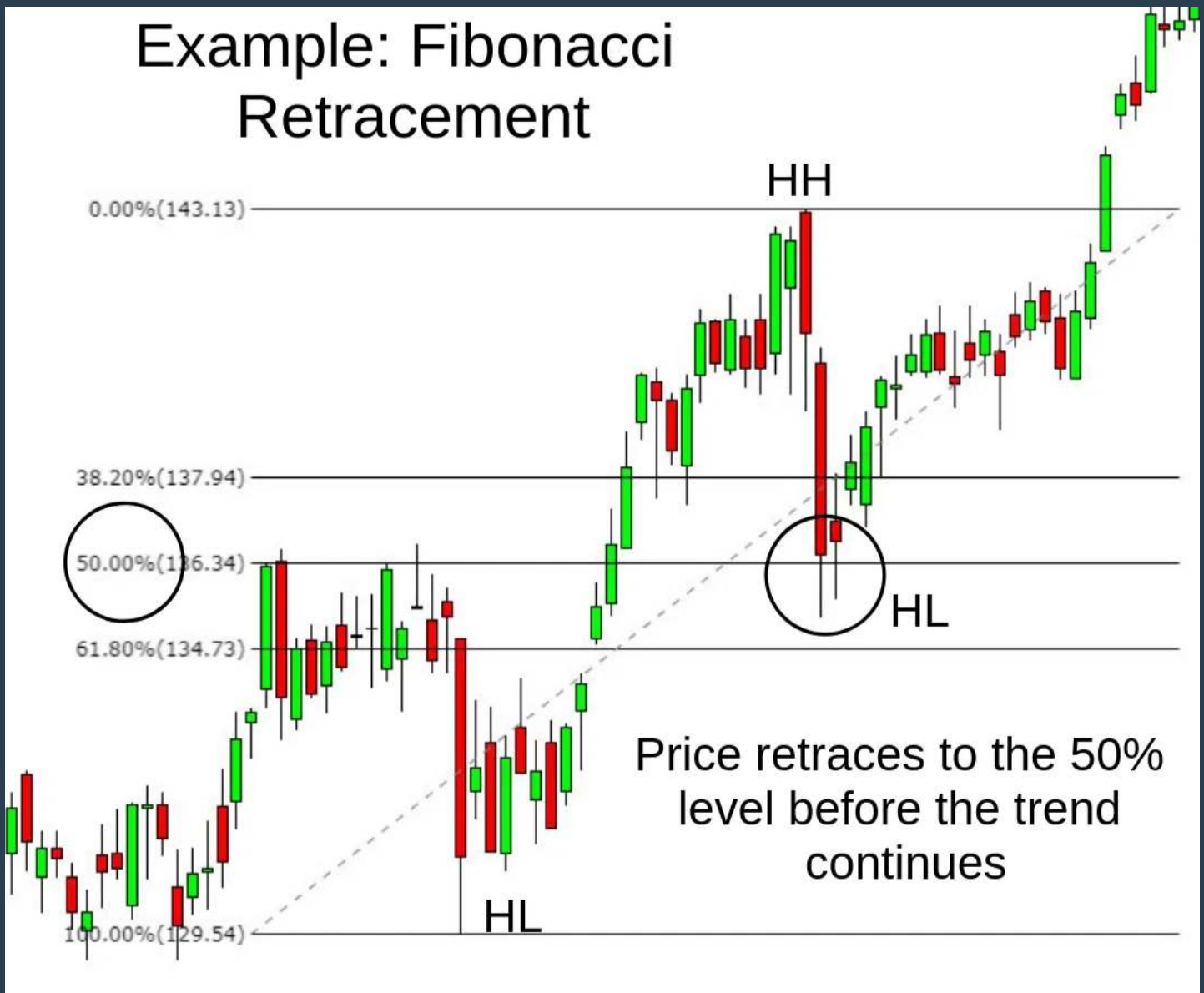
The numbers you should be aware of are 23.6%, 38.2%, 50% (not actually a Fibonacci number, but still psychologically significant) and 61.8%.

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So if price retraces to 61.8% of the move between the previous higher low and higher high, there is a likelihood that price may bounce from here before creating a new higher high.

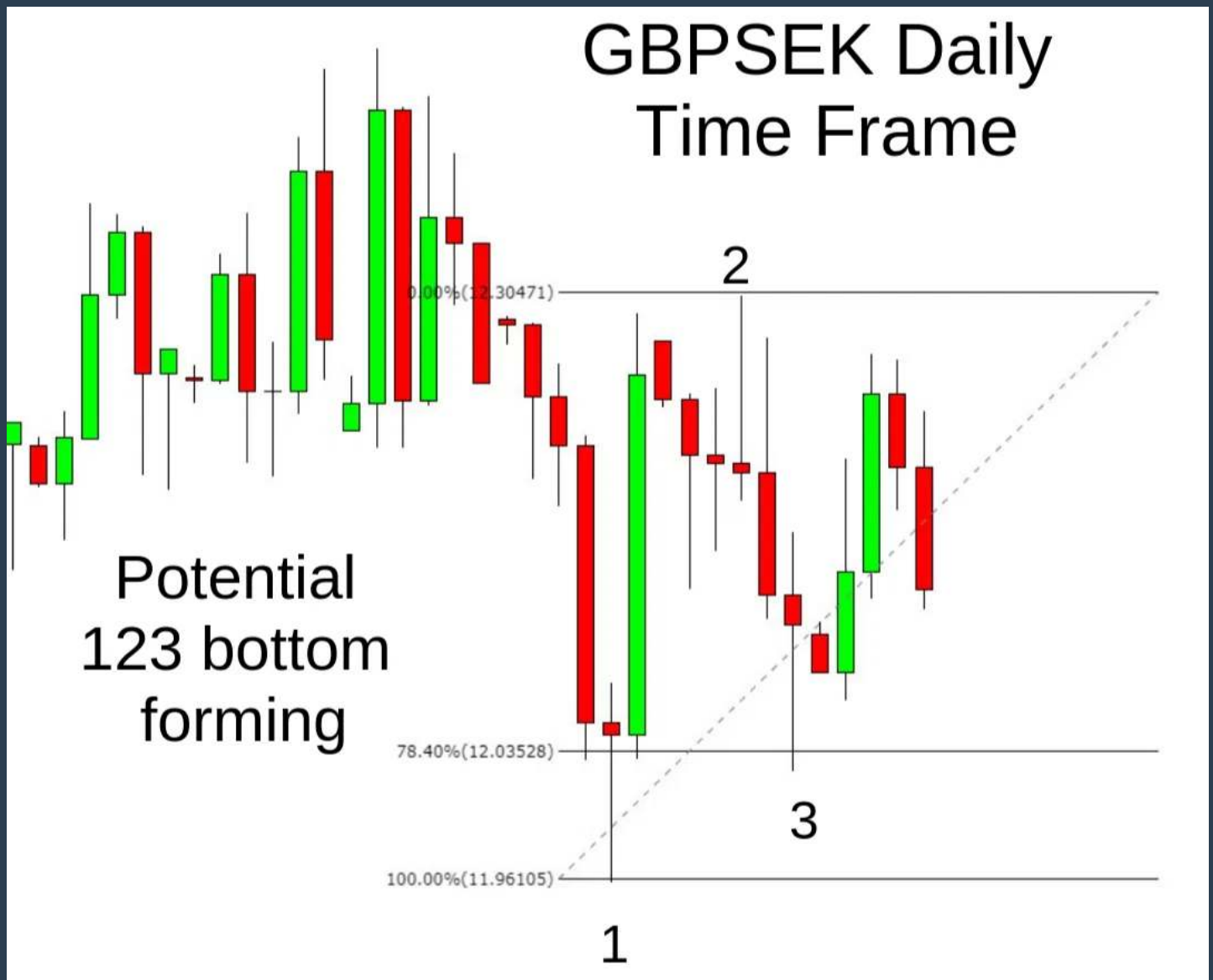
In the below example, price retraces to the 50% level before creating a new higher high.

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The other percentages to be aware of are 78.6% and 94.1%. These are the most relevant for the formation of 123 bottom/top chart patterns.

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78.6 is the square root of 61.8, 88.6 is the square root of 78.6 and 94.1 is the square root of 88.6.

The Maths Behind Fibonacci

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The numbers come from a sequence, which is the 2 preceding numbers added together (1,1,2,3,5,8,13,21,34,55,89,144 etc.). Each number is approximately 1.618 times greater than the preceding number.

So 61.8% is found by dividing one number in the series by the number that follows it.

38.2% is found by dividing one number in the series by the number 2 places to the right.

23.6% is found by dividing one number in the series by the number 3 places to the right.

As mentioned the 50% level does not come from the Fibonacci numbers, but it still psychologically relevant for support and resistance.

Use Fibonacci levels in conjunction with Your Analysis

Although these Fib retracement levels are significant, I wouldn't solely base a trading decision on them.

I like to use Fibonacci along with other technical analysis and support or resistance.

This then builds on the likelihood of something more predictable happening. Using Fibs with other support or resistance can create cluster levels, which hold more weight than Fibonacci alone.

If you found value in this article, please share it with others!

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If you have any questions on Fibonacci or anything trading related, email me at [\[email protected\]](#)

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