

## Fibonacci Retracement Levels

Fibonacci Retracement Levels may be a useful tool for the technical trader, but they should not be relied upon in isolation from other confirming indicators, trends or patterns.

Leonardo Fibonacci da Pisa was a mathematician from the 13<sup>th</sup> century, who used a mathematical equation that became known as the Fibonacci sequence. This is the process of adding 1+1, and then adding the sum to the previous number to create a sequence, seen here: 1,1,2,3,5,8,13,21,34,55...

Fibonacci sequences are surprisingly recurrent in nature and their ratios create the percentages of 38%, 50%, and 62%. They're also somewhat recurrent ratios in the financial markets.

However, simply because Fibonacci patterns can be observed in past market performances, doesn't guarantee their success at predicting the road ahead; although a number of technical traders choose to use them to some degree or other.

The ratios serve a variety of purposes when it comes to analyzing technical aspects of the market. It can be seen that once a market reaches some of the Fibonacci ratio levels, the market may encounter support or resistance.

To identify Fibonacci retracement points, you need to identify the newest peak and valley in the chart. Then you measure the distance from valley to peak in 3/8ths, 4/8ths, and 5/8ths. This will give you your 38%, 50%, and 62% lines.

If you're looking for a short position, you would measure the opposite in the same manner to obtain the correct formula and ratios. Typically, traders use charting software for these calculations.

Some traders use Fibonacci levels for entry levels, exit levels, or money management. They are not a tool I frequently use.

