

Contributor - Mr. Ramesh Raja

Firststly, I would like to explain you all, the secret of Fibonacci Expansion levels, which is nothing but TGTs.

Fibonacci nmbers are discovered by Mr Leonardo Fibonacci Da Pisa. He was born between 1170-1180. He was an Italian Mathmatician and his discovery of numbers were initially used for lending money for interest.

This Fibonacci was originally first used only by Europeans and later came to the centre stage in Financial Markets around the Globe

It starts with 0 and 1., which takes to next Fib number by adding the previous Fib Numbers. The Frist Fib Nos. are 0,1,2,3,5,8,13,21,34,55 so on and so forth

The ratio of any number to the next one to the right is approx. .618 to 1 and 1.618 to 1, if you go to the lower number on the left.

And the ratio to the alternate number is .382

Beyond this let us not discuss deeply into numbers.

What are retracement ??

Retracement are nothing but pull backs in either in the uptrend or in the downtrend.

You may ask me one question what is a trend and how it can be measured or gauged.

Unfortunately, in technical Analysis, there is no theory to explain what is a trend. The Trend is the one what U visualise

But still, on technical Analysis, we use Moving averages to to satisfy ourselves bout the trend.

The Main Question is Why we should use Fibonacci Technique ??

All over the world, in finacial markets, people use Fibonacci since it is a leading indicator. Whatever the other indicators we commonly use in TA are trend following indicators.

In Fibonacci method, we know the entry points with appropriate SL and along with the visibility of TGTs.

From Fibonacci method, you can anticipate the probable reversal at Top or at Bottom.

Fibonacci can be used for any time frame, be it from 1 minutes to 1 year time frame.

What is important is, you need to identify the swings, and all your entry points to be in pullbacks.

Time frame is not the criteria. But in stock Market like ours, we donot use 1 minutes or 5 minutes charts, since we cannot do the scalping in the market, as our cost of transactions in the market are high.

1 minute and 5 minutes charts are extensively used in Developed markets for scalping as also in Forex

Now let us discuss , how are we going to trade with Fibonacci .

In an uptrend of a stock, the market usually, pauses for sometime and does the pullback. In pullback, which is called as RETRACEMENT, in Fib we enter into position.

What are retracement levels: Common Retracement Levels are .236 / .382 / .50 / .618 / .764 / .786

of these we are interested only in .382 / .50 / .618. and the rest are not paid much of importance in our markets.

In an uptrend of stock, when the stock retraces from the high, we entr the long at 38.2% of retracement.

This 38.2% retracement is nothing but the difference between high and low and calculate 38.2% and then deduct it from high

When the stock retraces by 38.2% retracement from the high, it will try to stabilise at that level. The whole world will be watching that level to enter long.

After a brief pause at 38.2% retracement, the stock will continue in its move to the original trend.

When you enter long at 38.2% retracement, you need to place your SL at 61.8% for the TGTs of I , II , III. These TGTs are nothing but expansion levels.

When you place your SL at 61.8% retracement, I suggest you always have Rs.2 below the 61.8%.

You may ask me why Rs.2. Rs. 2 is nothing but Filter. Market has got the tendency, at times, to reach the level of 61.8% and triggers all SL.

Market always moves like waves. It doesn't move in a straight line.

When a stock retraces to 38.2% retracement, you will invariably find, that there will be lot of consolidation happening around that level for sometime. Both Bulls and Bears settle their scores around that level.

In a downtrend, when the stock retraces to 38.2% from the low, you create a short position and place the SL at 61.8% with RS.2 added as SL

To have a high probable trade under Fibonacci, you need to have the following setup.

4,17 Simple moving average and 34 EMA. 4 should be lesser than 17 and 17 to be lesser than 34. MACD should not exhibit divergence and to be in buy mode. RSI to be above 50. This is required FOR ENTERING LONG.

For ENTERING SHORT, the same set of parameters, but all being negative or quite opposite of long requirement what I have given you just now.

If you are a clever trader, what you should do is, you do not enter either long or short at 38.2% retracement, (Though all parameters allow you to do) but instead wait for the perfect reversal happening at 38.2% retracement. This you can find

It is always anticipated that retracement to any stock will happen at 38.2%. But circumstances may even lead to retracement happening to 50% level or closer to 61.8%.

Before we enter into Expansion levels or the TGTs , we should know how to classify the swing of the scrip

In an uptrend of a stock, let us classify, the low is A and the high is B. The retracement level at which the stock takes the support, we will name that point as C

For the downtrend of a stock, let us classify the High as Point A and the Low as point B and the pullback to the earlier trend or to the retracement level as POINT C

now after entering long or short, at that point of time, as of now, you only know about SL. Now you should know the TGTs

Now you got into the vehicle, you should know the destination.

What are Expansion levels:

Common Expansion levels are .618 / 1 / 1.618

The secrecy of Fibonacci Technique, is only Expansion levels and that is why it is called 'TRADERS SECRET CODE "

Then how do you calculate expansion levels. I will teach you now.

The calculation are as follows

$$.618 = .618 (B - A) + C$$

$$1 = B - A + C$$

$$1.618 = 1.618 (B - A) + C$$

.618 of Expansion level is called TGT I. 1 of expansion level is called TGT II and 1.618 of Expansion level is called TGT III

I will explain you all in a simple arithmetic calculation.

Let us first take the uptrend.

Hypothetical uptrend example: POINT A is Rs.20, Point B is 100 and the retracement of POINT C is 60.

$$TGT I = .618(100-20)+60 = 109.45$$

$$TGT II = 100 - 20 + 60 = 140$$

$$\text{TGT III} = 1.618 (100-20)+60 = 189.45$$

That means what ?? If you enter long at 60, your TGTs are 109.45 / 140 / 189.45

Now let us take the downtrend: Point A is 180 and point B is 100 and point C on retracement is 140

Now the TGTs are as follows:

$$\text{TGT I} = .618(100-180)+140 = 90.56$$

$$\text{TGT II} = 100-180+140=60$$

$$\text{TGT III} = 1.618 (100-180)+140=10.56$$

In a nutshell, if you short this stock on retracement at 140, then your downside TGTs are 90.56 / 60 / 10.56

Now, I would like to tell you about my calculator, that I have sent to you all.

You would have noticed that point A and Point B are only there in my calc and not point C for plugging the rates

I have assumed, that in any uptrend and or downtrend, market invariably takes support at 38.2% retracement, and I have kept point C by default to 38.2% and formulae were written accordingly

This is all about Fib method of trading in market.