

**What are Fibonacci (Fib) retracement levels?**

- These are levels of the horizontal lines of support and resistance where we may expect a price reaction or even reversal.

**Background/concept behind Fibonacci**

- Leonardo de Pisa (A.K.A. Fibonacci) was an 11th-century mathematician who introduced a unique sequence of numbers known as the "Fibonacci Sequence."

Fibonacci Sequence

- 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, 987, 1597, 2584... (pattern repeats to infinity)
- Each number in the sequence is derived from the sum of the preceding two numbers.
- What is most fascinating about this number series is that there is a constant found within the series as it progresses toward infinity. In the relationship between the numbers in the series, you will find that the ratio is 1.618, or what is called the Golden Ratio. (For example,  $55 \times 1.618 = 89$ , and 144 is 1.618 times 89.)
- Take any two consecutive numbers in the series after you get beyond the first few and you will find the Golden Ratio.
- Also note that the inverse or reciprocal of 1.618 is 0.618!

**Why use Fib levels?**

- The levels outlined by the fib may correlate with significant levels in the market. Fibonacci levels may be used to identify areas of interest, such as support, resistance, retracement areas.
- As price reacts to these levels, it can provide us optimal entry and exit points or targets
- Three different types of Fibonacci price relationships are used to create trade setups: price retracements (for entry fibs and potential S/R levels), price extensions and price projections (for profit taking and and potential S/R levels).

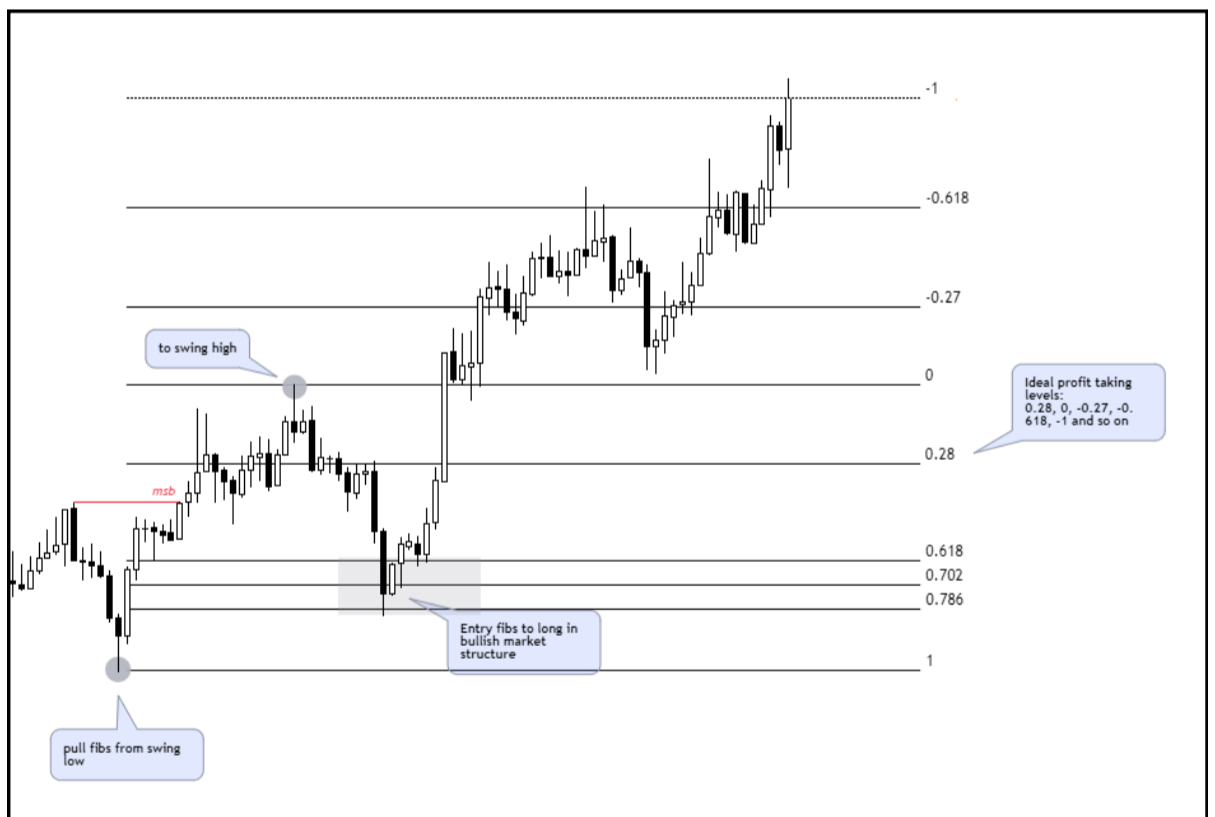
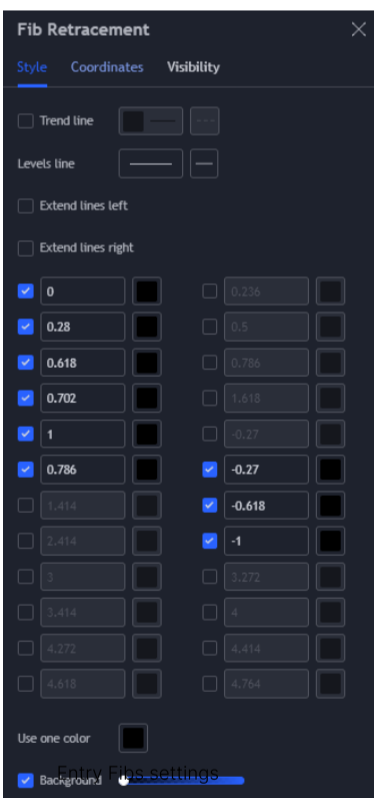
**How to mark Fib levels?**

- First, identify significant swing highs and lows and anchor the fibs on those two points using the Fib retracement tool.
- Always take your Fib retracements from left to right on a chart.
- In a bullish market/long set-ups - pull the fibs on the Swing Low and drag the cursor to the most recent Swing High.
- In a bearish market/short set-ups - pull the fibs on the Swing High and drag the cursor to the most recent Swing Low.

**Illustrations:**

**1. Optimal Trade Entry/Golden Pocket retracements/Entry Fibs**

The premise is we can enter on the retracement of these S/R levels ( 0.786, 0.702, 0.618).  
 Worth noting that the 0.618 ratio is particularly important for trading with Fibonacci retracements.  
 It is called the "golden ratio" as when the price reaches one of these levels, we expect that either a trend continuation or reversal will occur. But always remember: confluence/context is important in entering a trade. More confluences = higher probability!



Entry Fibs - bullish MS (longs)



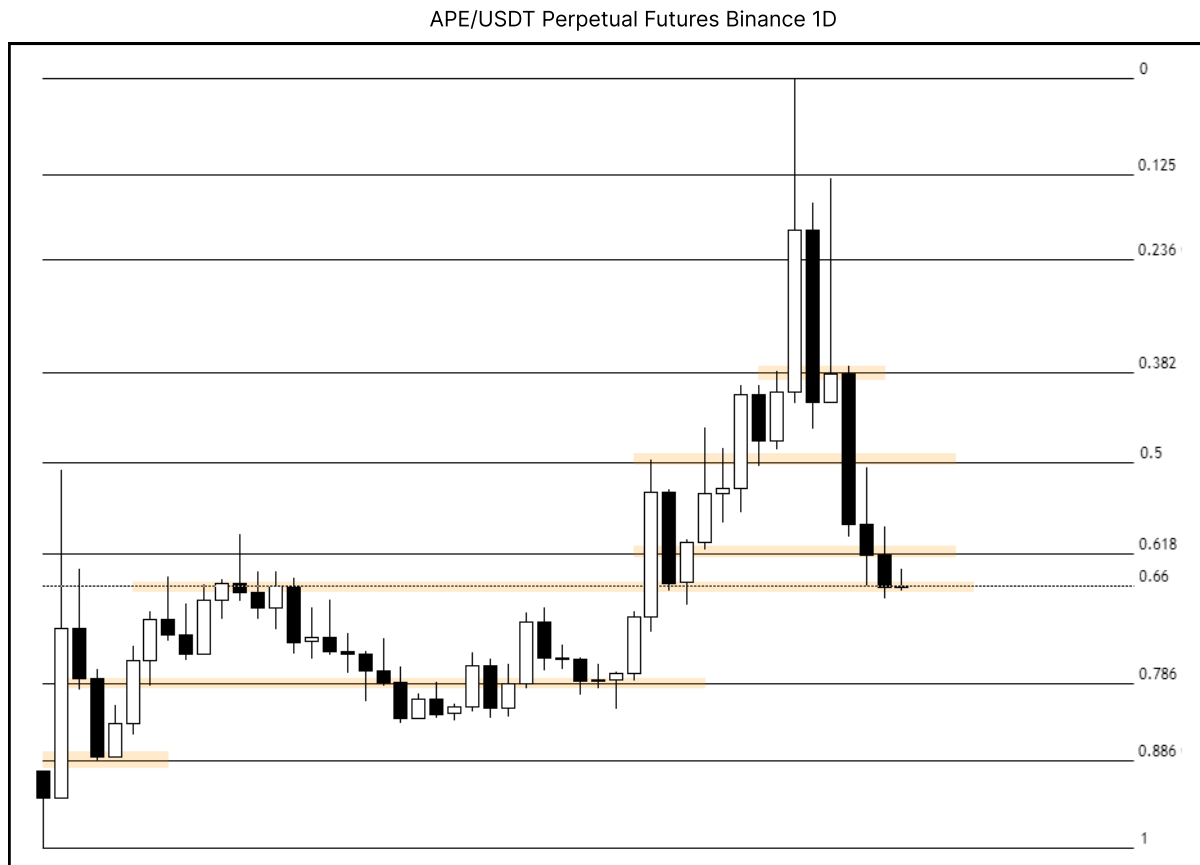
Entry Fibs - bearish MS (shorts)

2. Global Fibonacci Levels -

The levels outlined by the fib may correlate with significant levels in the market. These levels may help us identify areas of interest, such as support, resistance, retracement areas.



Global Fibs settings



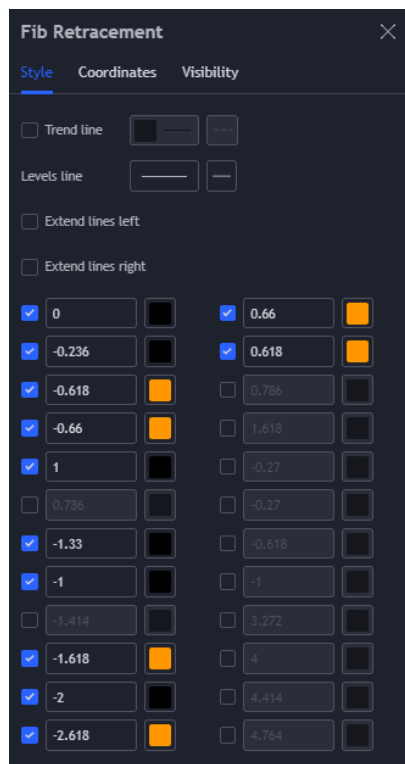
All Fib levels - notice how price reacts and respects these levels

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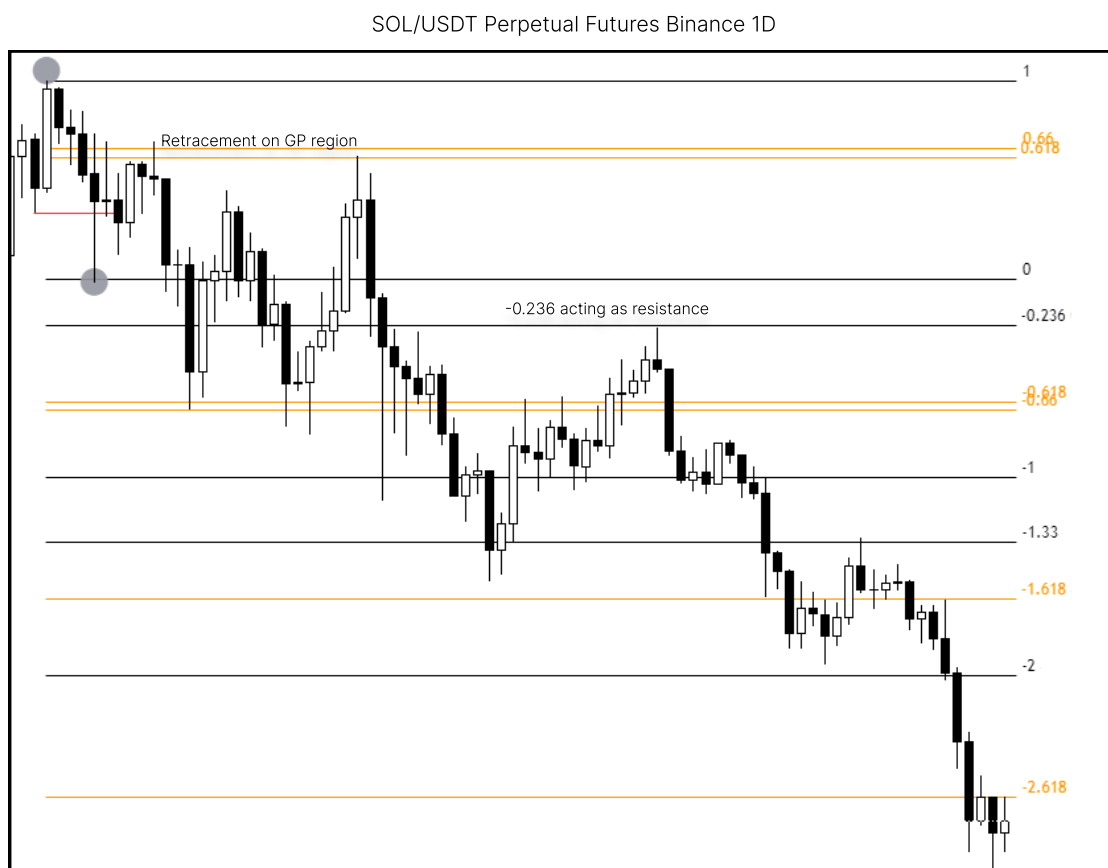


3. Negative Fibonacci Levels -

Adds another level of confluence for entries and targets. When we have set the Fib points on the chart and we expect a retracement to the Golden Pocket, we can use negative Fib levels to find potential targets. Again, confluence is key!



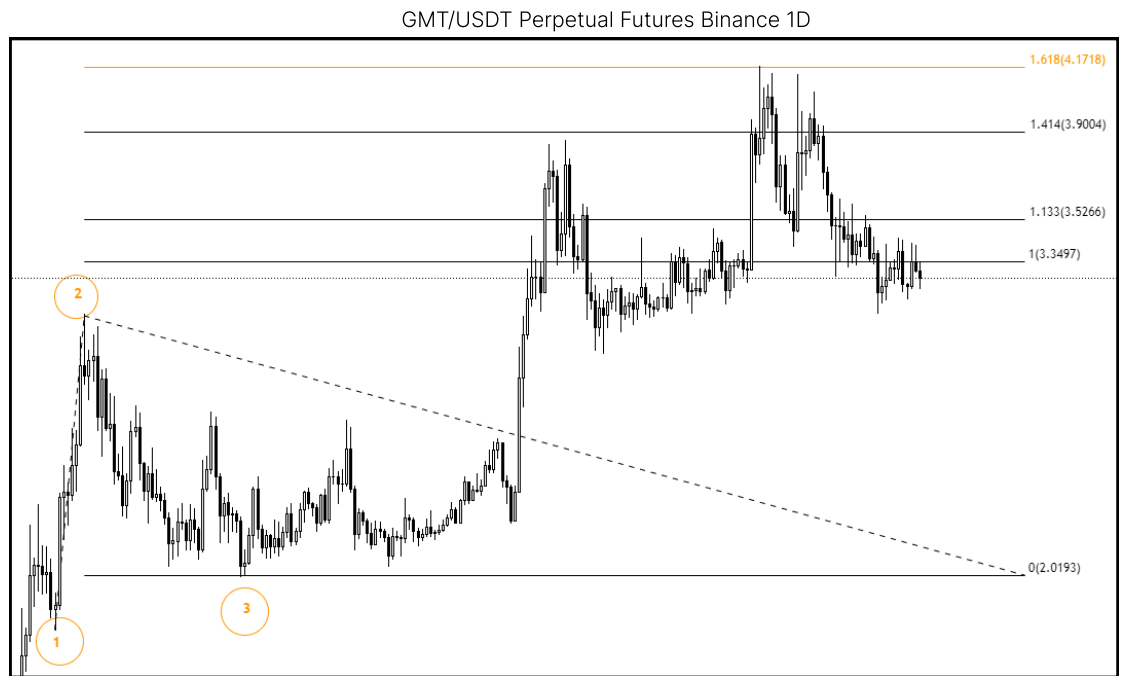
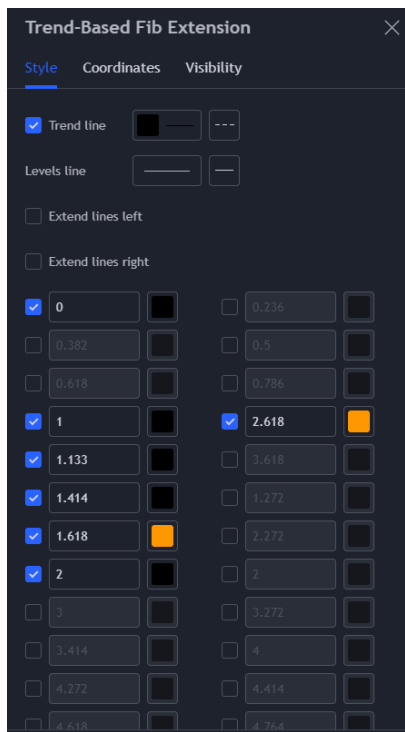
Negative Fibs settings



Bearish market structure: Anchored fibs from swing high to swing low. From the Fibonacci retracement where we can open a short, we may set targets from the negative Fibonacci levels such as -0.236 -0.618 -1, -1.618, -2 and -2.618.

4. Fibonacci Expansion Tool

Best used if price is reaching all-time highs (ATH) or all-time lows (ATL). In an uptrend, when price breaks the previous high we can look for potential targets with Fib Expansion tool (vice versa for downtrends).



Bullish market structure: Anchored fibs from swing low (1) to swing high (2), and to support found (3). As you can see here the price topped at exact 1.618.

TIP: FIB CONFLUENCES

If at least two Fibonacci levels (pulled differently from #1 to #4 above) aligned together, it creates a strong Fib confluence.



See how price reacts in the areas where there are fibs lining up together - power of Fib confluence.

WHAT'S NEXT?

**Remember, CONTEXT IS KING.** When these Fib confluences are combined with SMC/PA concepts, it adds more confluence to the set-up. More confluence = higher probability!

Here is a sample trade I took using combination of Fibs confluence (see chart above) and PA:



Disclaimer:

None of my posts are financial advice. This is not bulletproof. I will never be right 100%. This is not original material. I am merely a student sharing how I understood the concepts.

All credits to @JohnnieJacks and @Mindset\_BTC