FIBONACCI - THE TRUTH

BHARAT JHUNJHUNWALA
CMT, MFTA, CFTE, MSTA
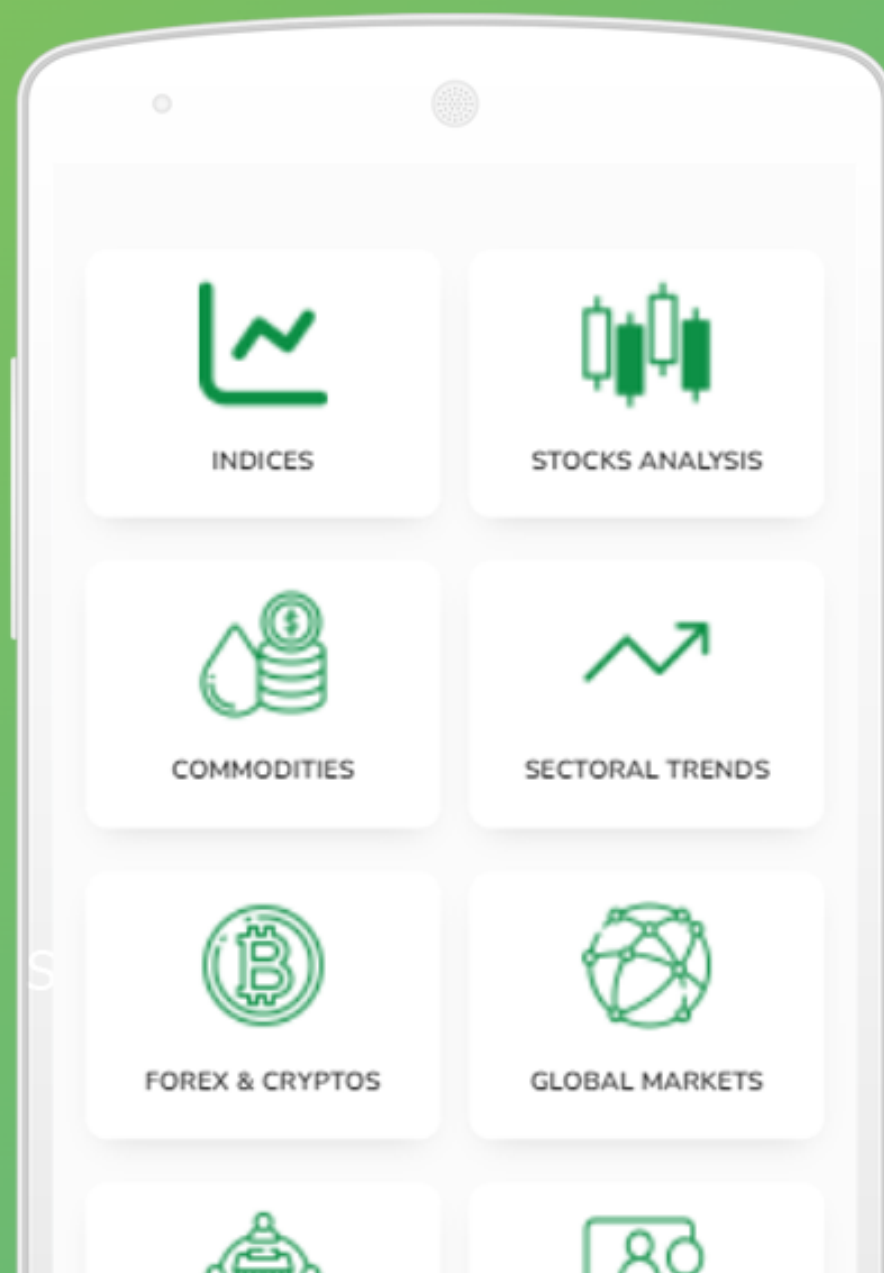
Trade using Fibonacci Tools:

When it comes to Fibonacci there are two groups of traders:
- One who believes that the application of Fibonacci on charts is indispensable.
- Another school considers Fibonacci as just a line in the sand.

They are based on the key numbers identified by mathematician Leonardo Pisano, nicknamed Fibonacci, in the 13th century.

Let's understand the number game:

The Fibonacci sequence of numbers is as follows: 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, etc. Each term in this sequence is simply the sum of the two preceding terms, and the sequence continues infinitely.

The key Fibonacci ratio of 61.8% is found by dividing one number in the series by the number that follows it. For example, 21 divided by 34 equals 0.6176, and 55 divided by 89 equals about 0.61798.

$$21/34 = 0.6176$$

0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144,

The 38.2% ratio is discovered by dividing a number in the series by the number located two spots to the right. For instance, 55 divided by 144 equals approximately 0.38194.

55/144 = 0.382
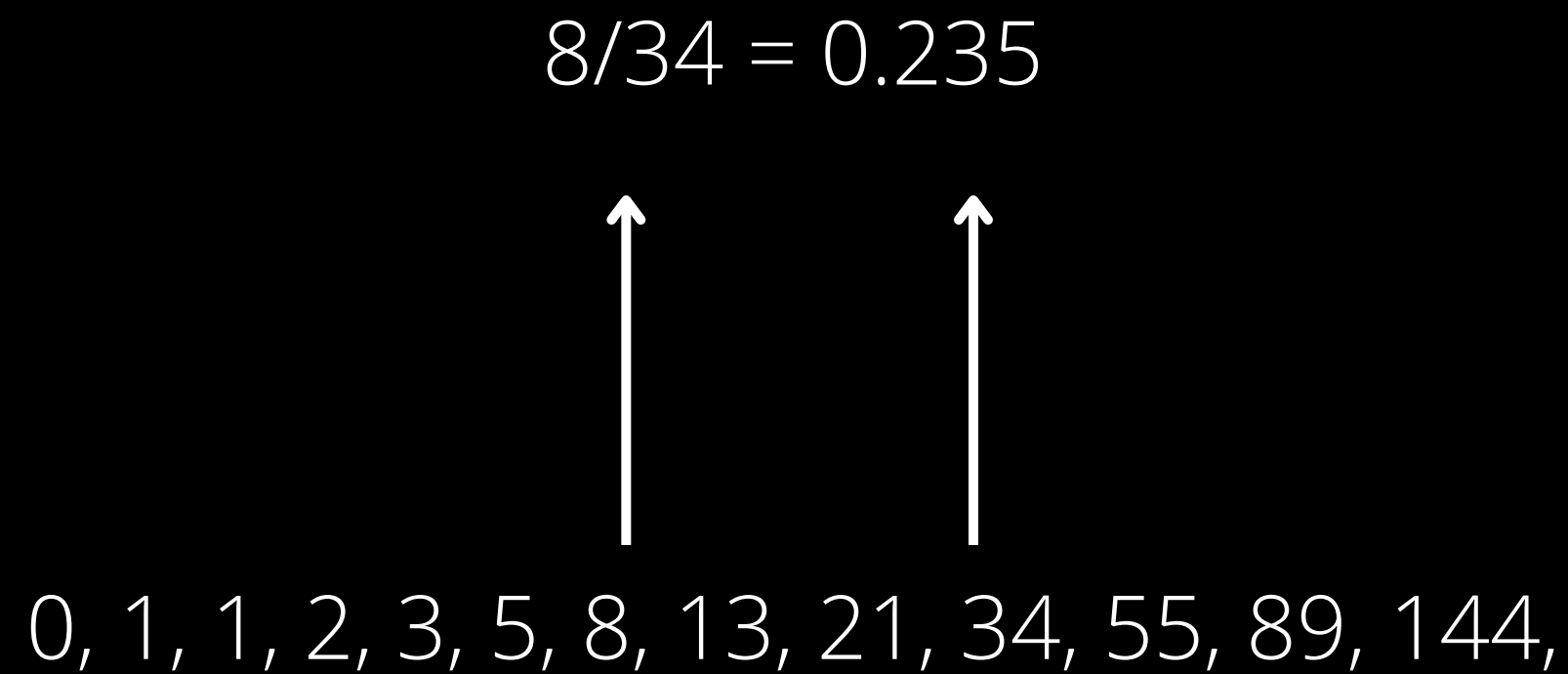
0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144,

The 23.6% ratio is found by dividing one number in the series by the number that is three places to the right. For example, 8 divided by 34 equals about 0.23529.

8/34 = 0.235

↑ ↑

0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144,

These numbers are found on a fibonacci retracement tool!

0(524.70)

0.236(512.70)

0.382(505.25)

0.5(499.25)

0.618(493.25)

1(473.85)
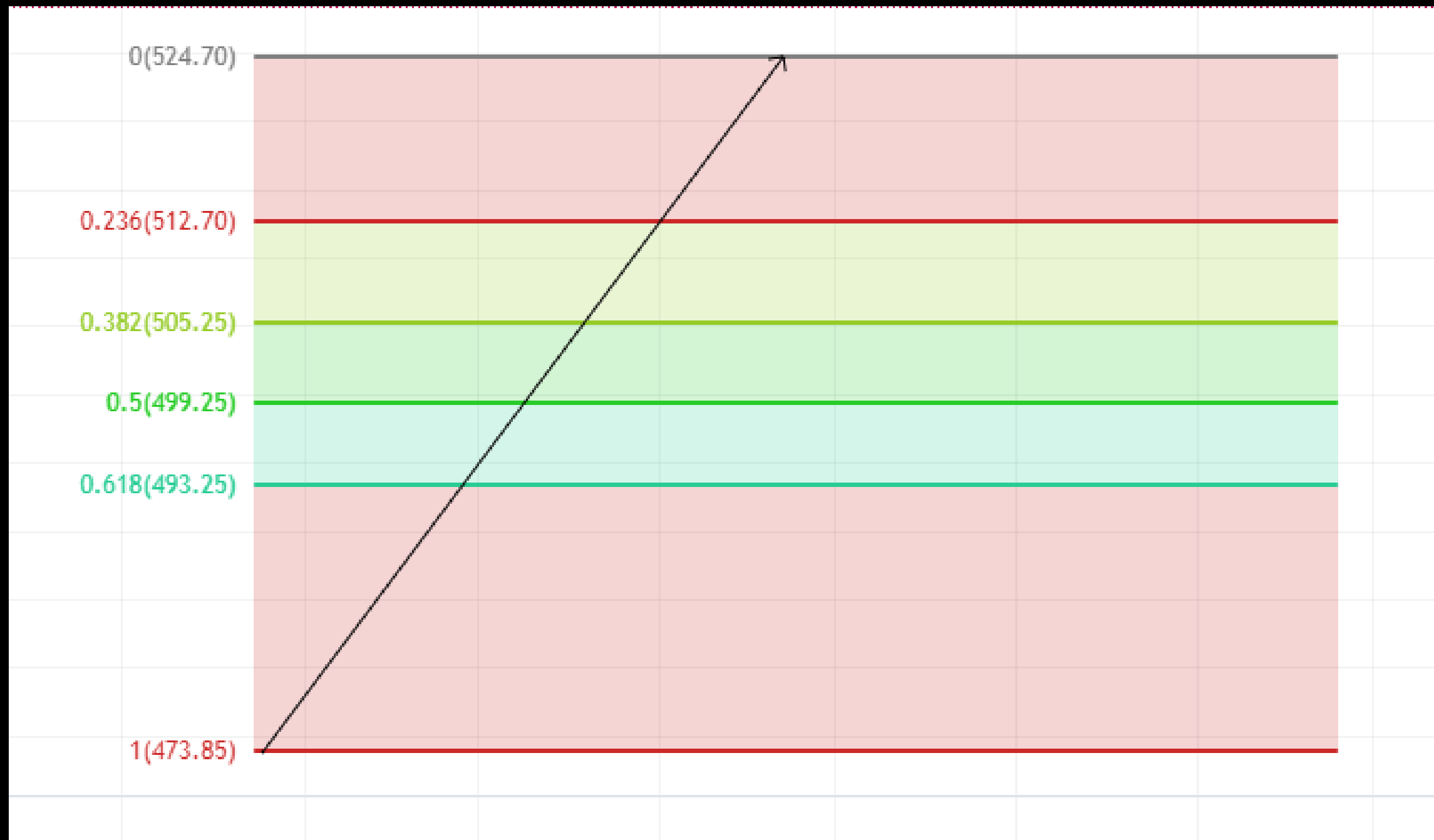
5/8 = 0.618

5/13 = 0.382

5/21 = 0.236

1/2 = 0.50

These Fibonacci Numbers are found everywhere in Nature.

Since Fibonacci was found everywhere in nature, traders thought that it will equally apply to charts, so charting platforms have started to popularise the tool on their platform.

It is believed - since price doesn't travel straight in a single direction, the trend generally retraces to these Fibonacci levels.

Challange using Fibonacci:

- Where other indicators like RSI, MACD, Volumes, OI, etc., use actual market data in their calculations to derive a value, Fibonacci doesn't.
- The selection of the swing from which Fibonacci has to be drawn in up- trend & a downtrend is subjective!
- It has so many levels for reaction, it generally confuses on which one to follow.
- It may have its relevance outside financial markets, while trading it doesn't have any relevance on a **"standalone"** basis.
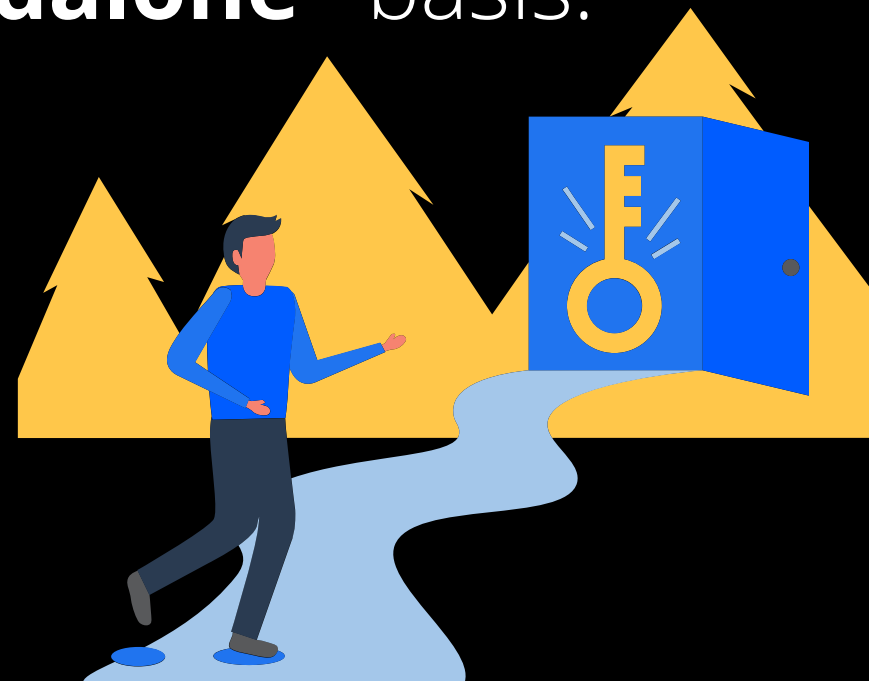
To remove all confusion I decided to backtest the tool!

RESULTS:

FIBONACCI	REACTION/REVERSAL
23.6	6%
38.2	18%
50	14%
61.8	15%
78.6	14%
100+	33%

To eliminate subjectivity, I used Zig Zag indicators to draw the swings!
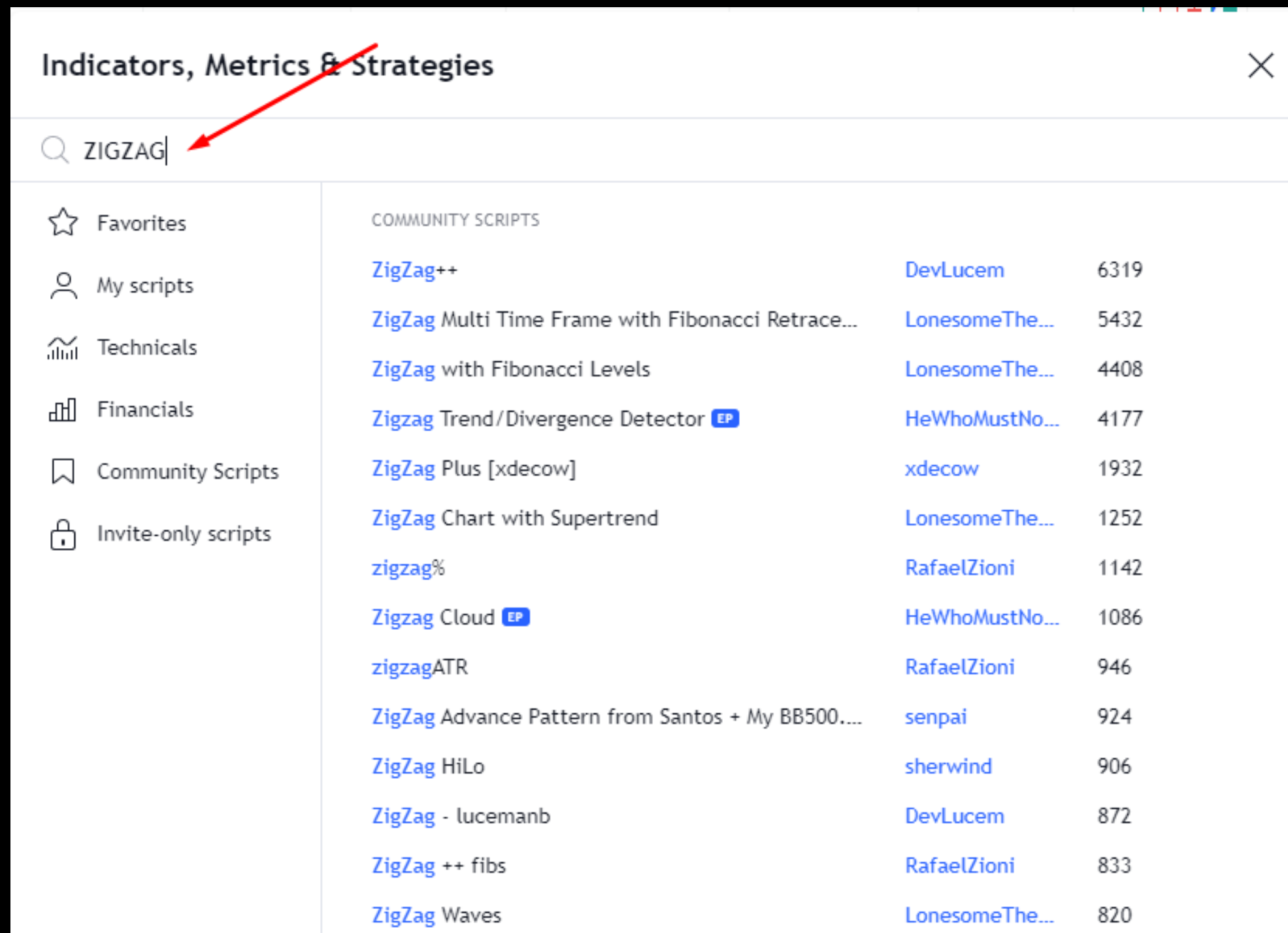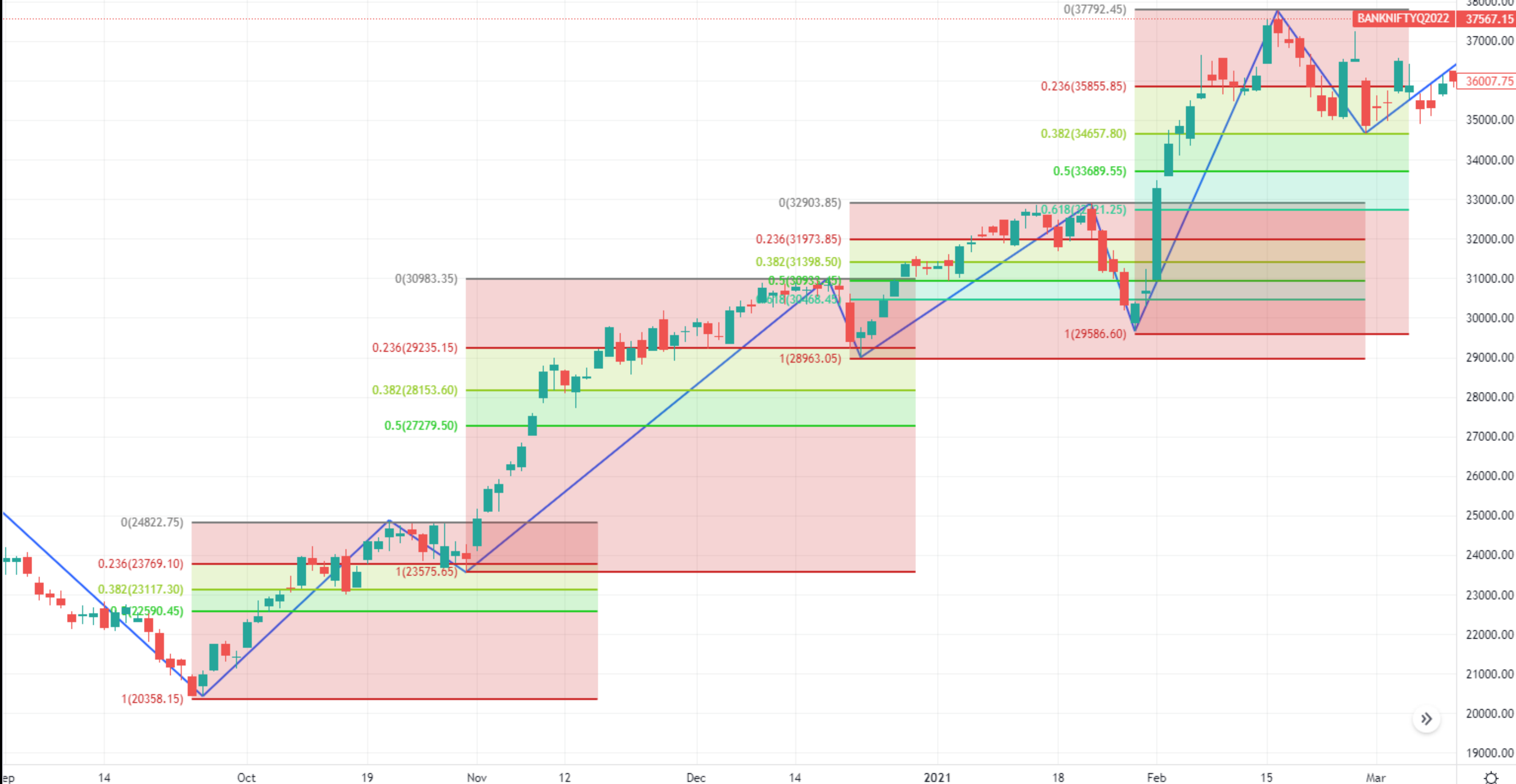
RESULTS:

FIBONACCI	REACTION/REVERSAL
23.6	6%
38.2	18%
50	14%
61.8	15%
78.6	14%
100+	33%

Prices reacted in a similar manner! Any one particular level doesn't have significance!
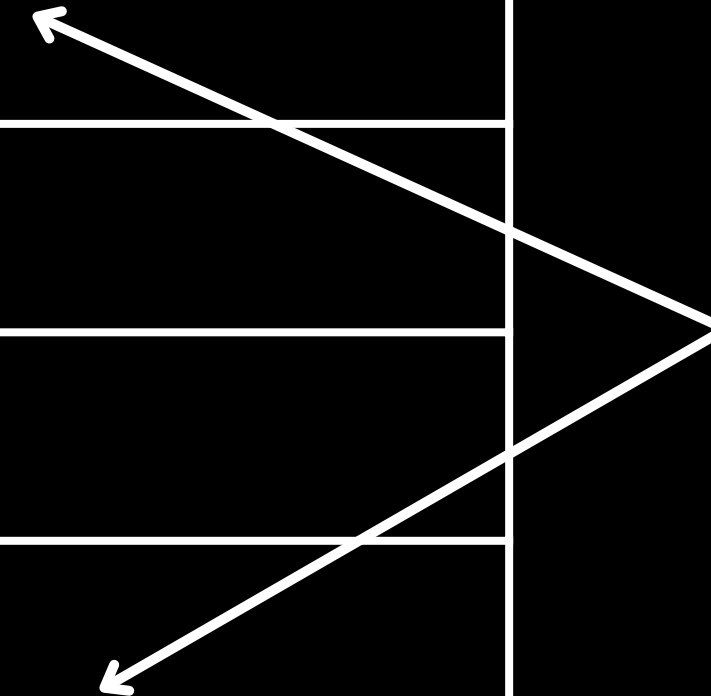
Is the tool useless?
It won't be effective to use it on "standalone basis"

Image Credit: pathdoc

Let us see how to correctly apply the tool!

Things to keep in mind while using Fibonacci Retracement.

There must be a trend for fib levels to have impact on!

The most important aspect while using fib is the presence of a trend & choosing the correct swing points to place the tool!

BANKNIFTY INDEX FUTURES (CONTINUOUS: CURRENT CONTRACT IN FRONT) · 1D · NSE · TradingView
O17499.50 H17899.95 L17005.95 C17216.10 −428.75 (−2.43%)

A
1(31662.90)
0.618(25660.65)
0.5(23806.55)
0.382(21952.45)
0.236(19658.40)
0(15950.20)
B

BANKNIFTYQ2022 17216.10

Things to keep in mind while using Fibonacci Retracement.

Don't try to use Fibonacci levels in very shoter time frame. The reliability of the fabbo levels are very low in the shorter time frame.
Use them daily, weekly & hourly for a better reliability!

COAL INDIA LTD · 5 · NSE · TradingView ◀◀ O206.60 H206.80 L205.90 C206.05 −0.50 (−0.24%)

The difference between the fibbo levels are very narrow so it dosent make any sense to use it on a 5 min or 15 min timeframe!

0(206.75)
0.236(205.65)
0.382(204.95)
0.5(204.40)
0.618(203.80)
1(202.00)

COALINDIA 206.05

COAL INDIA LTD · 1D · NSE · TradingView ◀◀ O 173.00 H 177.80 L 172.90 C 176.90 +4.00 (+2.31%)

˅ 15

0(197.60)

0.236(186.25)

Applying on larger timeframe
makes the levels sensible!
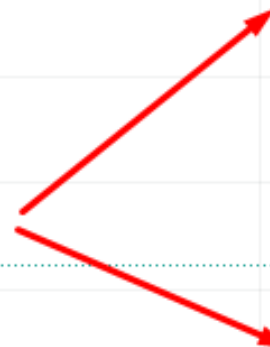
0.382(179.20)

COALINDIA 176.90

0.5(173.50)

0.618(167.85)

1(149.45)

Dec   13   22   2022   17   Feb   14   Mar   14   Apr   18   May

INR ˅
200.00
196.00
192.00
188.00
184.00
180.00
COALINDIA | 176.90
176.00
172.00
168.00
164.00
160.00
156.00
152.00
148.00
144.00
140.00
136.00

Things to keep in mind while using Fibonacci Retracement.

Apply Fibonacci levels on the correct price swings. There are multiple swings in a trend & not everyone will be using the same swings. This brings in subjectivity.

How to draw the Fibonacci Lines?

- Determine the dominant trend.
- Identify the swing high & low before drawing the lines.
- For bullish trends, draw lines from low to high.
- For bearish trends, draw from swing highs to lows.
- Include the candles' full-price action (wicks) to consider the swings.

Things to keep in mind while using Fibonacci Retracement.

Understanding the pullback strength:

- Shallow Vs. Deep Pullbacks
- The shallow pullback has a higher probability of trend continuation.
- While deeper pullbacks may indicate trend reversal.

0(12201.25)

0.236(11850.05)

Pullback between 0.236 - 0.50 levels
are shallow pullbacks.

0.382(11632.80)

0.5(11457.20)

0.618(11281.60)

1(10713.15)

D

E

Jun   7   13   20   27   Jul   11   18   25   Aug   8   12   22

0(8067.95)

0.236(7594.10)

0.382(7300.95)

0.5(7064.00)

0.618(6827.10)

1(6060.05)

DEEP RETRACEMENT
MAY LEAD TO TREND
FAILUER!

Aug   16   Sep   20   Oct   18   Nov   15   Dec   13   2022   17
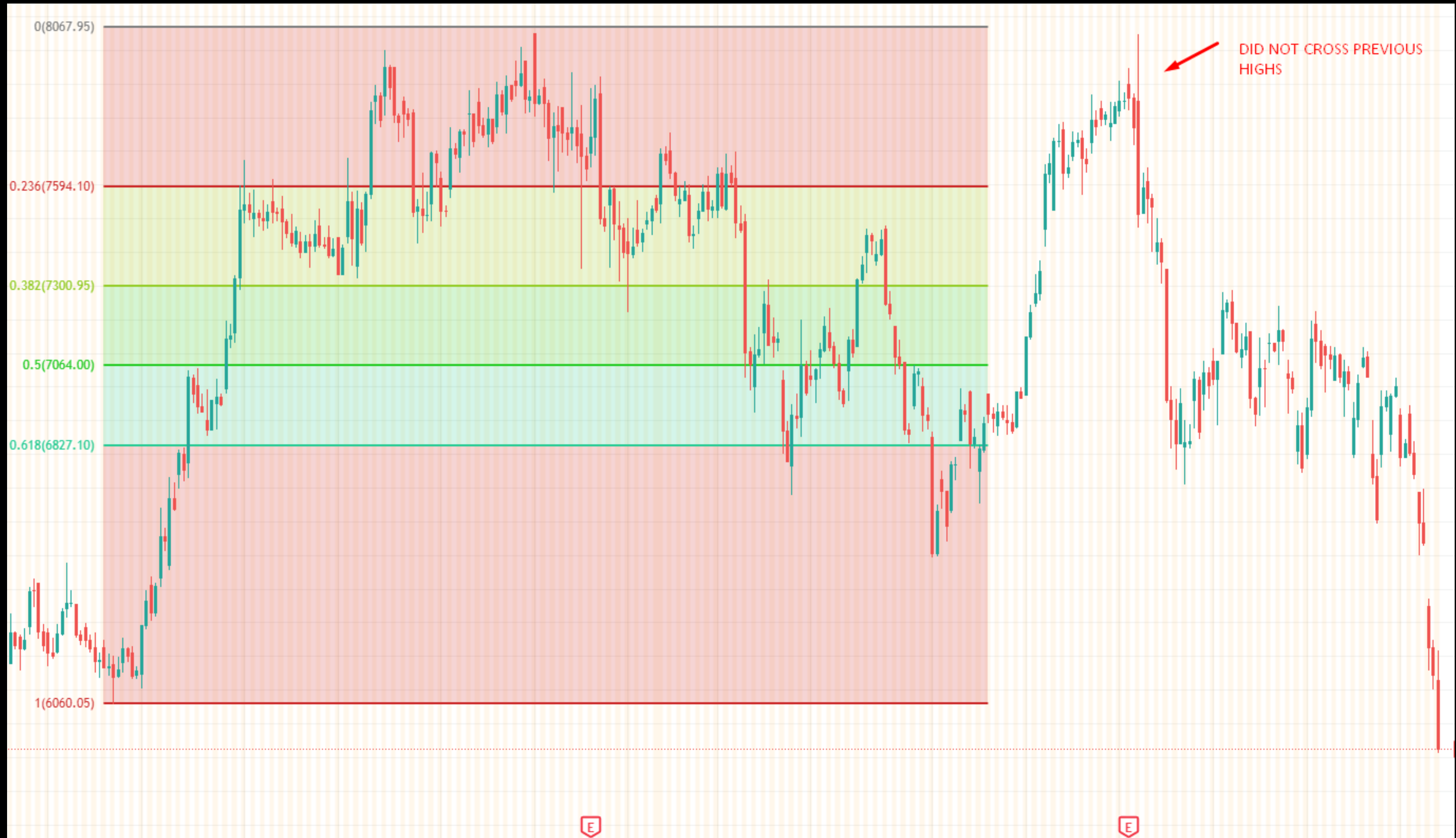
Things to keep in mind while using Fibonacci Retracement.

Using clusters of various swings rather than one swing increases the probability of the support/resistance levels derived from Fibonacci.

FIBONACCI WITH OTHER TECHNICAL TOOLS

StockClub

![profile photo]

Bharat Jhunjhunwala
info@stockclubb.com
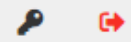
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Comprehensive Price Action Techniques - CPAT

Price Action Trading Concepts for...

🕐 Last updated 07/2022

🌐 Hindi

★★★★☆ (199)

~~₹9999~~ ₹6999
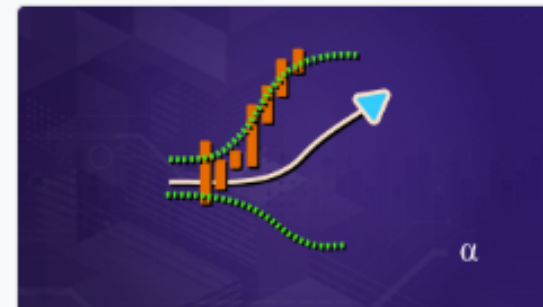
Advanced Bollinger Bands Trading (Hindi)

In this program, we intend to deep...

🕐 Last updated 07/2022

🌐 Hindi

★★★★☆ (223)

~~₹7999~~ ₹5999

Advanced Bollinger Bands Trading (English)

In this program, we intend to deep...

🕐 Last updated 07/2022

🌐 English

★★★★★ (80)

~~₹7999~~ ₹5999

Swing Trading & Short Term Trading Strategies to trade...

You will learn about the process...

🕐 Last updated 07/2022

🌐 Hindi

★★★★★ (22)

~~₹19999~~ ₹14999

VSA - Volume Spread Analysis - Hindi

Learn about Volume, Ranges &...

🕐 Last updated 07/2022

🌐 Hindi

★★★★★ (13)

~~₹7999~~ ₹4999

Master Traders

SUNPHARMA — 939.05 ▼ +7.79 %
QTY 600 +44.20 (+4.94%)
AVG. PRICE 888.98 | CURRENT VALUE 5,63,430.00 | UNREALIZED P&L 30,043.32 (+5.63%)

0 Qty. (T1: 54) • Avg. 694.85 +2,924.10
MBAPL-BE
Invested 37521.90 | LTP 749.00 (+3.85%)

ABB — 2,738.00 ▲
QTY 200 +139.45 (+5.37%)
AVG. PRICE 2,593.76 | CURRENT VALUE 5,47,600.00 | UNREALIZED P&L 28,847.36 (+5.56%)

INDHOTEL — 261.50 ▼
QTY 2000 +8.85 (+3.50%)
AVG. PRICE 251.74 | CURRENT VALUE 5,23,000.00 | UNREALIZED P&L 19,514.20 (+3.88%)

Holdings 5 | Positions 31

200 Qty. NRML
NIFTY SEP 17300 CE +62,645.00
NFO Avg. 110.53 LTP 423.75

-100 Qty. NRML
BANKNIFTY AUG 35500 PE +55,290.00
NFO Avg. 451.27 LTP 172.00

0 Qty. NRML
NIFTY DEC 16500 PE +47,975.00
NFO Avg. 0.00 LTP 412.00

0 Qty. NRML
BANKNIFTY AUG 37500 CE +39,541.25
NFO Avg. 0.00 LTP 773.00

100 Qty. NRML
NIFTY AUG 17200 CE +18,300.00
NFO Avg. 107.00 LTP 290.00

0 Qty. NRML
NIFTY DEC 18000 CE +13,330.00
NFO Avg. 0.00 LTP

SBIN — 534.25 ▼
QTY 512 +1.80 (+0.34%)
AVG. PRICE 498.97 | CURRENT VALUE 2,73,536.00 | UNREALIZED P&L 18,063.1 (7.07%)

ICICIBANK
QTY 706 +30 (+0.83%)
AVG. PRICE 794.28 | CURRENT VALUE 5,79,908.40 | UNREALIZED P&L 9,149.12 (+3.41%)

NIPAUT ₹ 1.25
125.72 | 1968 | 111.92
LTP | Qty | Average Price
0.00 | 27,15 | 12.33

AEGISCHEM
QTY 192 +24.6 (+11.59%)
AVG. PRICE 216.47 | CURRENT VALUE 60,383.20 | UNREALIZED P&L 1,20,025.73 (+8.95%)

GNFC — 670.95 ▼
QTY 500 +14.55 (+2.22%)

RBLBANK — 94.50 ▲
QTY 2500 +3.05 (+3.34%)
AVG. PRICE 84.26 | CURRENT VALUE 2,36,250.00 | UNREALIZED P&L 25,603.25 (+12.15%)

P&L
2022-04-01 — 2022-07-30
Equity | Combined

Realised P&L +7.33L | Unrealised P&L +3.24L
Charges & taxes 2L
Other credits & debits -1.98k
Net realised P&L +5.31L
View charges breakdown →

Portfolio
Positions 5 | Holdings 1
MTM / P&L 55,365.0
P&L +32.23k +5.61%

NRML | NFO
BANKNIFTY 04AUG22 36700 CE MTM : 52,290.00
Qty : 0 Price : 771.6

NRML | NFO
BANKNIFTY 28JUL22 37100 CE MTM : -24,870.00
Qty : 0 Price : 203.8

NRML | NFO
BANKNIFTY 28JUL22 37000 CE MTM : 9,020.00
Qty : 0 Price : 288.1

NRML | NFO
BANKNIFTY 28JUL22 36500 PE MTM : 31,605.00
Qty : 0 Price : 0.00

NRML | NFO
BANKNIFTY 28JUL22 36000 PE MTM : -12,680.00
Qty : 0 Price : 0.00

Current 6.07L | Invested 5.75L
P&L +32.23k +5.61%

Overview | Treemap | Insights
I agree to share my holdings with tickertape.
Last updated: Equity - 2022-07-18 | MF - 2022-07-15
Download: XLSX Sort

AUBANK 25-Aug-2022 575.65
NSEFO | INVESTMENT
Net Qty 1000
Today's BPL (₹) / Total BPL (₹) 581.35

BANKBARODA 25-Aug-2022 +12,300.00
Qty : 2000 • Buy avg. 106.50
Invested 2,13,000.00 LTP 112.65

FCL 25-Aug-2022 +2,668.00
Qty : 290 • Buy avg. 196.50
Invested 56,985.00 LTP 205.70

GNFC 25-Aug-2022 +3,120.80
Qty : 188 • Buy avg. 638.00
Invested 1,19,944.00 LTP 654.60

REPORTS
EQUITY | DERIVATIVES | MUTUAL FUNDS
Net Position / Turnover
Hide Total

Total Today MTM 19.24 K | Total Settled MTM -23.08 K
Total Today BPL 20.61 K | Total BPL (₹) 8.50 K
Total MTM 97.41 K | Total Buy / Sell Value 83.86 Lk / -29.40 Lk

NIFTY 04-Aug-2022 PE 16200.00 10.85
NSEFO | INVESTMENT
Net Qty 0
Today's MTM (₹) -20600.00
Today's BPL (₹) / Total BPL (₹) 0.00 / 0.00

NIFTY 25-Aug-2022 PE 16000.00 62.75
NSEFO | INVESTMENT
Net Qty 0
Today's MTM (₹) 14040.00
Today's BPL (₹) / Total BPL (₹) 14040.00 / 30348.00

NIFTY 28-Jul-2022 PE 15900.00 0.05
NSEFO | INVESTMENT
Net Qty 0
Today's MTM (₹) -13980.00
Today's BPL (₹) / Total BPL (₹) -13980.00 / -33395.00

GNFC
26 +10.20 (+1.42%)
AVG. PRICE 669.31 | CURRENT VALUE 3,63,050.00 | UNREALIZED P&L 28,395.20 (+8.48%)

Details | Market Depth | Charts
Invested Value 3,34,654.78
Day's P&L 5,100.00 (+1.42%)
Realized P&L 7,241.68 (2.16%)

Transaction History
● 27 July 2022 BUY
Qty : 250 Avg. Price : 697.37
Invested Value : 1,74,341.40 Days to LTCG : 363
Bill No : N/142

21 July 2022 SELL
Qty : 250 Avg. Price : 670.22
Sell Value : 1,67,555.05
Bill No : N/138

18 July 2022 BUY

Portfolio
Holdings | Positions | Mutual Funds
Invested Value 1.89L | Current Value 1.93L | Total G/L (₹) 3.91K (2.06%)
Search within Holdings | Insights

MFSL 2.15K (2.15%)
Quantity 119 | Avg Price 842.14 | LTP 860.25 ↓ | Current Value 1.02L

OBEROIRLTY 1.75K (1.96%)
Quantity 100 | Avg Price 892.64 | LTP 910.15 ↑ | Current Value 91.01K

REPORTS
EQUITY | DERIVATIVES | MUTUAL FUNDS
Net Position / Turnover
Hide Total

Total Today MTM 1.50 Lk | Total Settled MTM 79.01 K
Total Today BPL 1.04 Lk | Total BPL (₹) 1.63 Lk
Total MTM 1.70 Lk | Total Buy / Sell Value 89.27 Lk / -1.14 Cr

325.32
Net Rate (₹) -2460.02
Today's BPL (₹) / Total BPL (₹) 0.00 / 0.00

HDFCLIFE 557.13
25-Aug-2022
NSEFO | INVESTMENT
Net Qty 3300
Net Rate (₹) 531.13
Today's BPL (₹) / Total BPL (₹) 66660.04
25740.00 / 34597.00

ICICIPRULI 559.45
25-Aug-2022
NSEFO | INVESTMENT
Net Qty 3000
Net Rate (₹) 533.73
Today's BPL (₹) / Total BPL (₹) 82050.11
36525.06 / 34080.00

Things to keep in mind while using Fibonacci Retracement.

Using Fibonacci with other support/resistance tools will improve the likelihood of the success of the trade.

- Fibb & Moving Averages.
- Volumes.
- Fibb levels with Divergences.
- Fibb levels & Candlesticks

CONTRACT

0(593.80)
0(594.20)
0.236(548.15)
0.236(542.00)
0.382(519.70)
0.382(509.95)
0.5(496.70)
0.5(484.00)
0.618(473.70)
0.618(458.10)
1(399.20)
1(374.20)

A
A2
B

Prices also took support at the 50 DMA

1(623.20)

0.618(588.05)
0.5(577.20)
0.382(566.35)
0.236(552.95)

0(531.20)

Low Volume Pullbacks into Fibb
Resistance Levels

0(2083.95)

0.236(1975.00)

Confluence of Moving Averages _Fibb levels!

0.382(1907.60)

0.5(1853.10)

0.618(1798.65)

1(1622.25)

Advance with increasing Volumes _Correction with decreasing volumes!

0(7387.00)

0.236(7187.00)

0.382(7063.20)

0.5(6963.20)

0.618(6863.20)

1(6539.40)

0(7387.00)

0.236(7187.00)

0.382(7063.20)

0.5(6963.20)

0.618(6863.20)

1(6539.40)

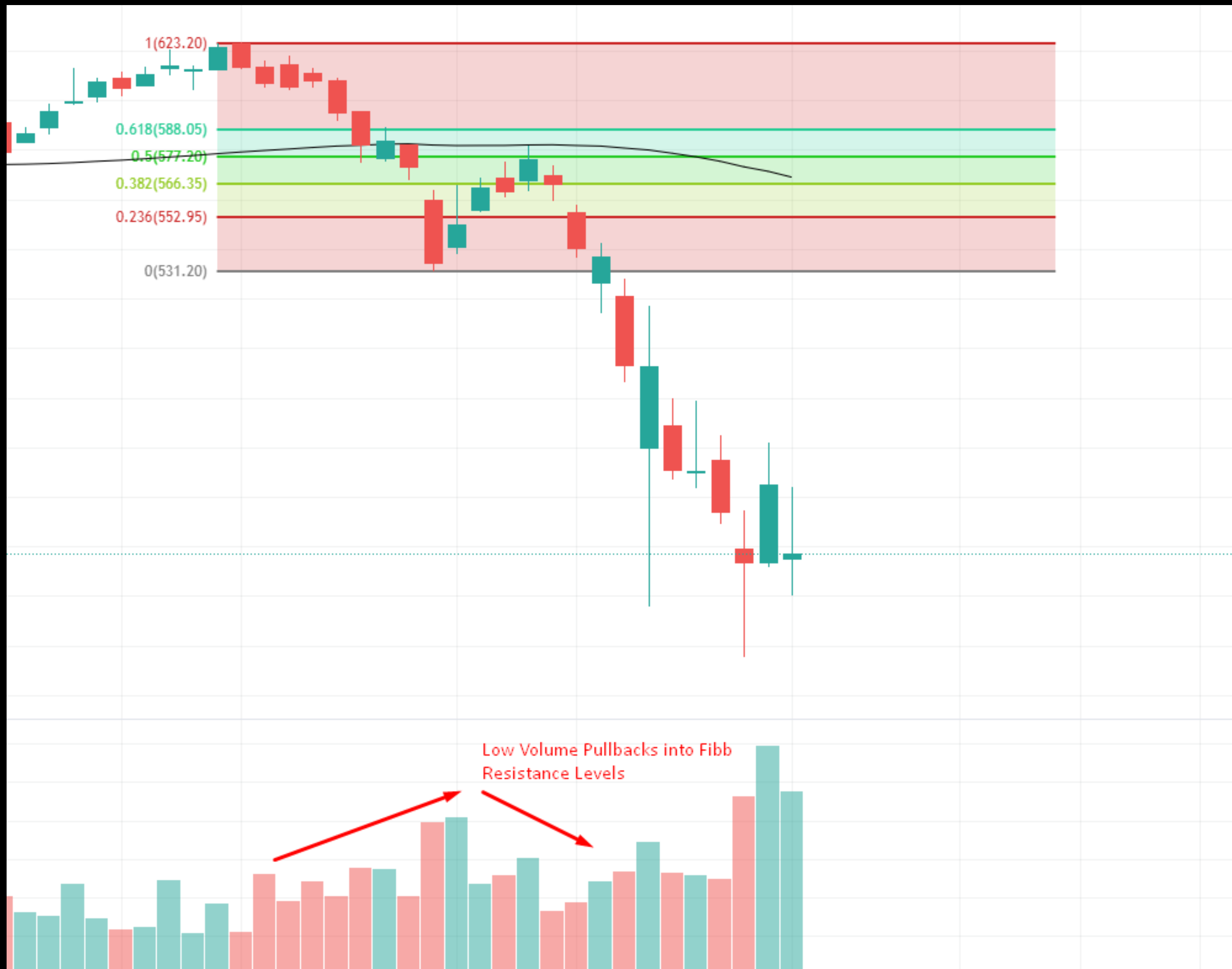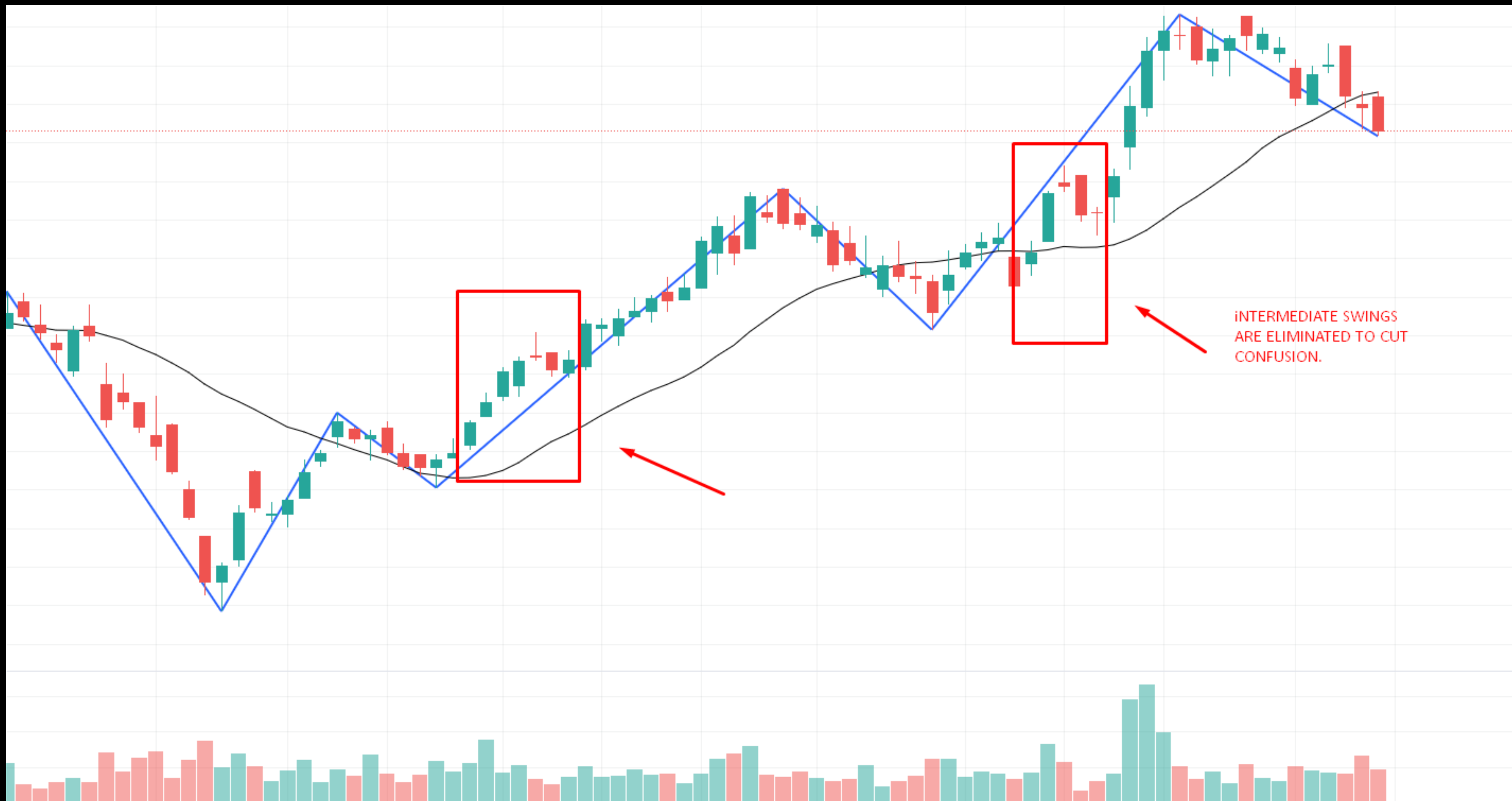Bullish Candle with good volumes
on support of fib _moving average

Things to keep in mind while using Fibonacci Retracement.

How to determine the swings without much subjectivity:

- Using Zig Zag Indicator

ZIG ZAG INDICATOR MAKES LIFE EASY

INTERMEDIATE SWINGS ARE ELIMINATED TO CUT CONFUSION.
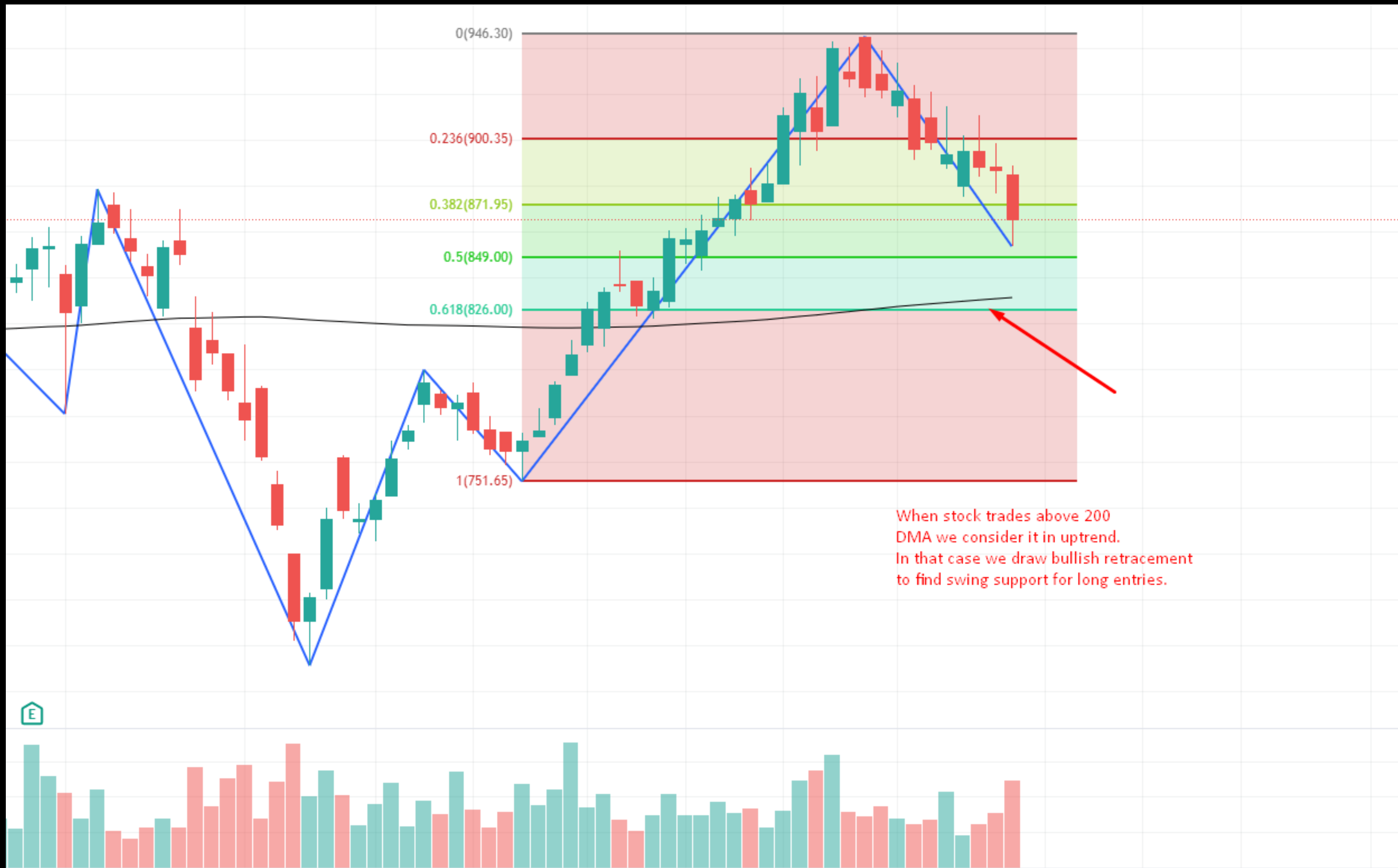
IT ELIMINATES UNIMPORTANT SWINGS!
MAKING LIFE EASY!

Things to keep in mind while using Fibonacci Retracement.

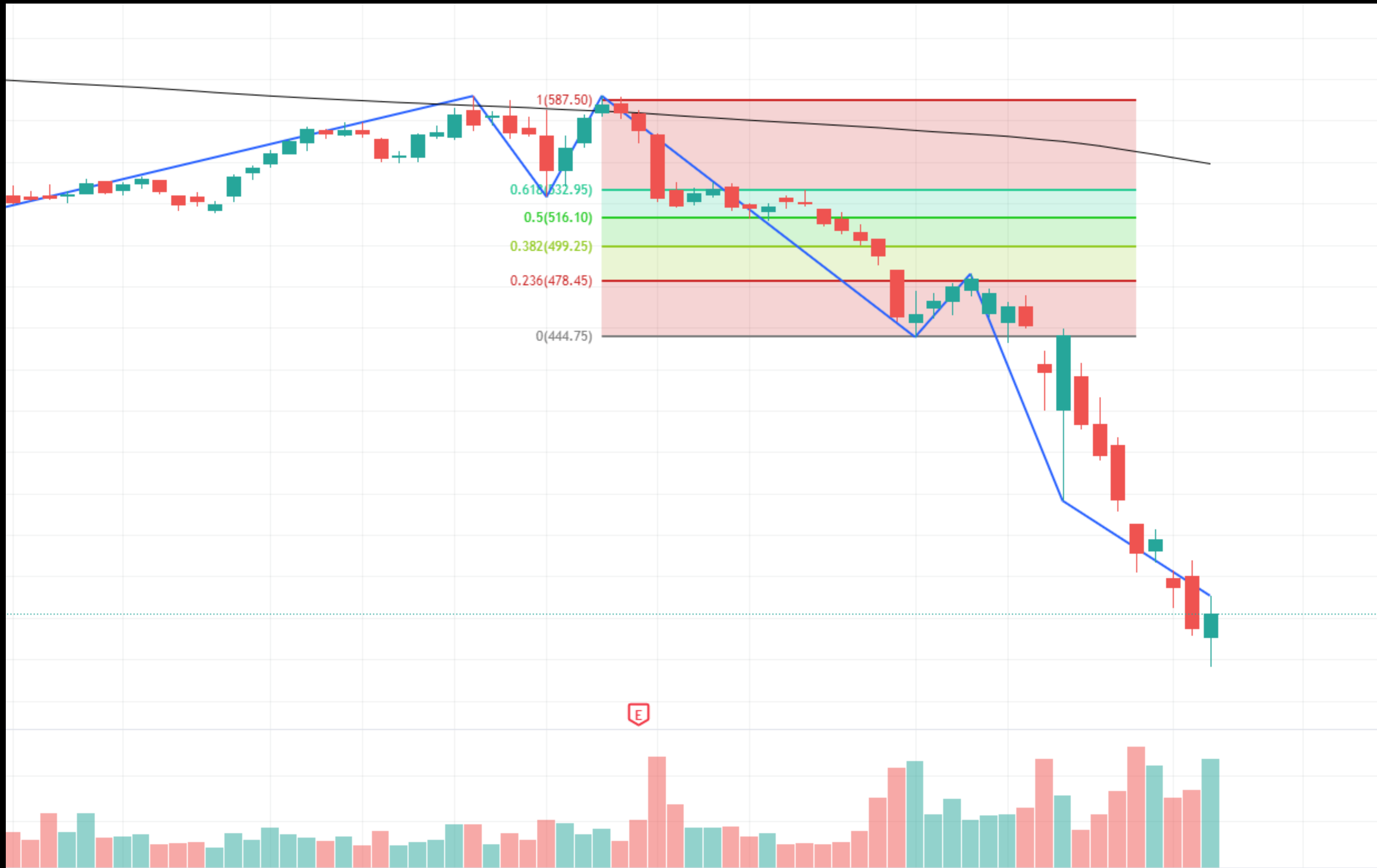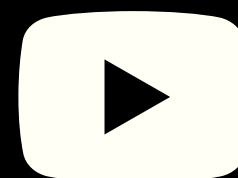When to draw bullish retracement & when to draw bearish retracement?

- Use 200 DMA

0(946.30)

0.236(900.35)

0.382(871.95)

0.5(849.00)

0.618(826.00)

1(751.65)

When stock trades above 200
DMA we consider it in uptrend.
In that case we draw bullish retracement
to find swing support for long entries.

1(587.50)

0.618(532.95)

0.5(516.10)

0.382(499.25)

0.236(478.45)

When stock is below 200 DMA it is considered in downtrend ,in that case we will draw bearish retracement.

0(444.75)

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