Twitter Thread by Nikita Poojary

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90 million active demat accounts in India.

Less than 1% understand Fibonacci retracement.

This mega thread will help you understand better—starting today:

Collaborated with @AdityaTodmal

1/What is Fibonnaci (Fibo) retracement?:

•Fibo retracement levels help us to identify potential reversal area or identifying potential entry point after a pullback.

•It represents various levels of significance within a swing high and low.

2/How to plot the Fibo?

•Spot the recent swing high & swing low (usually a peak & a low) on a chart.

•Plot the Fibo on these points.

•You'll get 5 key levels of support & resistance (S/R) in between the peak & low.

•Key Fibonacci ratios: 23.6%, 38.2%, 50%, 61.8%, & 100%.

3/ Importance of retracement levels:

• The retracement level forecast can determine the level at which retracement is likely to occur.

• These retracement levels offer traders a favourable entry to open new trades in the direction of the trend.

4/ When to apply Fibo:

•Fibonacci analysis can be applied when there is a noticeable up-move or down-move in prices.

•Applying it in range bound markets would turn out to be a futile exercise.

5/ Best TF to use for Fibo:

•Though it can be used on any time frame, for better results apply it on a higher TF, anything beyond 30mins.

•Higher the TF you choose, higher would be the holding period for the trade.

•Best TF to choose: Know your type & trading style.

6/How I use Fibo Retracements?:

• I look at larger TF's only for positional trading/ investing.

• While choosing a stock to get an entry, then I will focus only on strong fundamental companies.

• Can be used to make investment decisions in sectoral MFs or Index BeES.

7/ Examples for buying: Stock

•Lets say, you always wanted to purchase few qty of #DMART, but were unable to do so due to a rapid run-up in the stock.

•So wait for the stock to retrace for a favourable entry.

•P.S.: Like any indicator, use this as a confirmation tool.

8/ Examples for buying: Index

• First use the Fibo tool and plot it on the swing low and pull it up till the swing high, thereafter the FIBO ratios will get plotted automatically.

9/ Example to find resistance/ enter fresh sell trades in Index:

• Use the Fibo tool and plot it on the swing high and pull it up till the swing low, thereafter the FIBO ratios will get plotted automatically.

10/ Relevance of the key ratios:

• 23.6% retracement is rather shallow & is appropriate for flag breakouts or brief pullbacks.

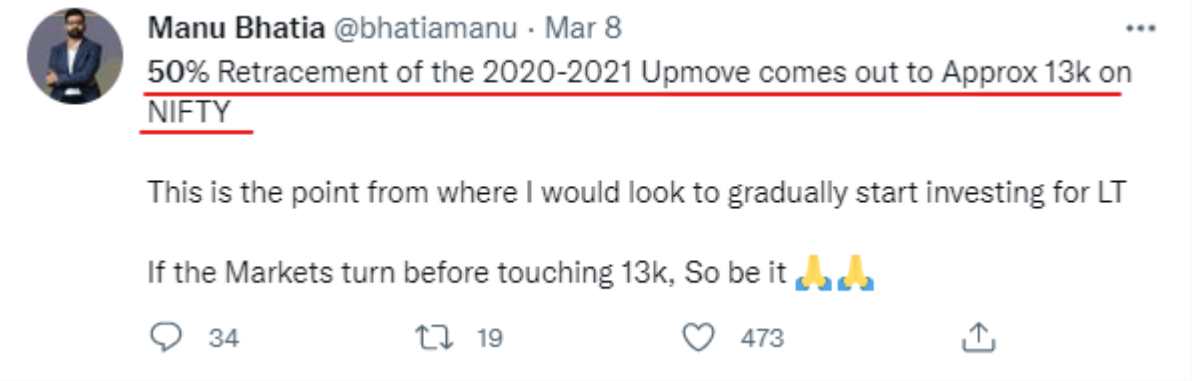
• 61.8% retracement level, aka the golden ratio is relatively deeper, but crucial.

• Retracements between 38.2% to 50%, is regarded as moderate.

11/How pro traders use Fibo to initiate investing:

• Few months ago, one of the super trader @bhatiamanu Sir, had tweeted that he would look to start investing near 13k levels on Nifty.

• This number was arrived from Fibo retracement (refer chart 2)



12/ How to identify weak sectors?

• Unlike Nifty, which didn't even retrace by 38.2%,there are sectors which have retraced > 38.2%

•In other words the correction was relatively deeper than Nifty.

• Those sectors are essentially underperformers:
i) NIFTYIT
ii) NIFTYPHARMA

13/Conclusion:

• A trader can consider taking entry basis Fibonacci retracement only when other conditions are also fulfilled:

i)Formation of a reversal pattern
ii)The pattern formation & the retracement level should form near the long term S/R.
iii)Always have a Stop loss.

14/Few key points to remember:

• This is just the tip of the iceberg when it comes to Fibo retracement.

• I encourage you to do some back testing of your own on different TF's and check the results before taking entries.

• Also remember nothing works in isolation.

If you enjoyed this thread, here's another one which might be helpful:

https://t.co/81q0VY7PF6

> 99% of the newbie traders fail terribly in stock market.
>
> Over the last 310 days I explored how one can systematically work on becoming a successful trader.
>
> Here are the 10 proven ways that will make make you profitable in your trading journey\U0001f9f5:
>
> — Nikita Poojary (@niki_poojary) June 4, 2022

Hope you discovered something new (because that's the point!)

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See past threads here:

@AdityaTodmal

&

@niki_poojary