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How To Use Fibonacci Technical Analysis In Your Your Forex Trading Strategy

Fibonacci Retracements are a widely used technical tool used by Forex traders to identify areas of support and resistance in the market. Fibonacci levels are useful in defining levels in the market where pullbacks are likely to occur following a strong directional move. These levels can be used either as an opportunity to trade the pullback or alternatively as a point to position for rejoining of the major trend.

The term Fibonacci comes from an Italian mathematician named Leonardo Fibonacci who lived in the late twelfth century. He studied many ancient number sequences which had previously been observed in nature. He found that these number sequences formed a pattern. The Fibonacci number sequence that he identified was formed from adding the two preceding numbers in a sequence to create the next. What he also discovered was that in dividing any number in the sequence by the next logical number, you ended up with a ratio of 61.8%. This is referred to as the Golden Number and is part of the Fibonacci sequence used in Forex trading.

[Fibonacci Technical Analysis](#) may seem complicated to a novice trader but is actually quite simple to grasp. Fibonacci levels are commonly applied to Forex trading in two ways.

Identifying market retracements with Fibonacci

The first use of retracement levels is to identify where a market may pull back to following a strong move. After identifying the high and low of the move the retracement levels can be plotted and traded.

Fibonacci Retracements can be used on all time frames and by all Forex traders. The retracements occur at specific levels of the preceding move. The most common levels used are 23.2%, 38.2%, 50% and 61.8%. In relation to the current market price, each of these levels will provide either support or resistance to future market moves. The 61.8% is given a special significance by Forex traders. If this level is breached on a retrace then it is assumed that the entire preceding move will be retraced.

These defined support and resistance levels are also often used by Forex traders as both areas for stop losses and profit targets to be placed.

Using Fibonacci to enter a trend

The retracement levels identified can also be used as areas in the market to rejoin the previous trend. In this case, the retracement levels are used to identify levels that the market may sell off to. This could be because of a healthy correction or consolidation in the market. By being aware of where the market is likely to pull back to, the trader is able to position themselves to rejoin the major trend.

You can easily calculate a Fibonacci Retracement level by the use of a [Fibonacci calculator](#). Remember that as with all technical analysis approaches, always seek further confirmation from other forms of technical analysis before employing any one trading indicator.

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