The **Fibonacci retracement** is a very popular technical analysis indicator, but many investors are still unaware of its use. I will explain everything you should know to be able to use Fibonacci in your analysis:
Unlike other technical analysis indicators, which have parameters and dynamic calculations over time, the Fibonacci retracement is more of a drawing tool and its main objective is to help find Resistance or Support levels, that is, values where the price tends to change trend.

Whenever a high or low occurs, you can apply a Fibonacci retracement to any type of chart, taking into account high and low values, to help determine reversal points and correction limits.

Before we start, it is worth remembering that like any indicator, the Fibonacci retracement should never be used alone, but in conjunction with other indicators it can be a powerful investor ally.

Sequence and percentages of Fibonacci

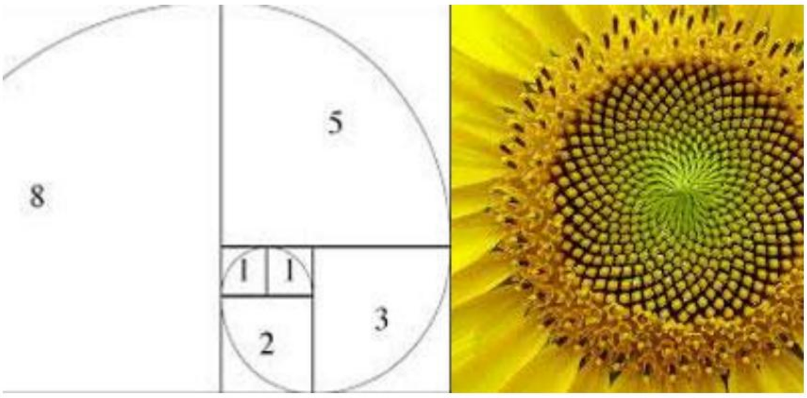
The Fibonacci retracement is made up of horizontal lines that cut the price series.
The distance between these lines varies according to the so-called Fibonacci numerical series.

In the technical analysis these values are expressed in % and are: 100%, 61.8%, 38.2%, 23.6% and 0%.

In addition to these more common values, other points where prices tend to change direction are incorporated: 50%, 76.4% and all these values added to 100%.

These percentages are based on the series of numbers created by mathematician Leonardo Pisano Bigollo (1170-1250), which came to be known as the Fibonacci series where the next number is the sum of the previous two: 0, 1, 1, 2, 3 , 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610 and so on.

One of the properties of this series is that any number divided by the previous one results in something very close to 1.618, the so-called *"Phi number"* , which gives rise to the "Golden Rule", a mathematical proportion that explains various phenomena in nature.



The other percentage levels will derive from rules in this series. Here we will learn how to use the Fibonacci retracement in Technical Analysis to understand the natural movements of the financial market and the stock market.

Alert Zones

The main purpose of the Fibonacci retracement is to point out the zones you should pay attention to. These are called *alert points.*

Retracement points alert traders to potential trend reversals, resistances or supports. A rebound is expected to retrace a portion of the previous decline.

After a rally from the high or low, traders can use the Fibonacci retracement to identify levels of possible rebounds or reversals and stay alert for these points.

See how in the image below the GOLL4 chart recovered almost 38% from the first drop and reversed when approaching this limit:

Conversely, the AMBV3 chart delivered almost 38% of the bullish and also found a reversal near this point:

TIP: Always keep in mind that these limits are not strong reversal points, they are just attention points.

It is at these limits that traders should employ other technical analysis tools or order flow to identify and confirm reversals. Due to its characteristic of defining zones, many investors use the values indicated by Fibonacci to place their "stops". So when the price exceeds that value, the investor leaves his position to realize his profit or limit his loss.

most common retractions

In the Fibonacci retracement available three most common reversal points (23.6%, 38.2% and 61.8%) and some additional ones based on complementary theories: 50% (Dow Theory), 76.4% and these values add up to 100%.

1) Light Retractions (23%):

Light retractions are very common, but because they are quick and short-lived, they require a lot of attention and speed to take advantage of.

See below the PDGR3 chart with a recovery close to 23% from the previous drop. after reaching this level of 23%, the trend reverses and from then on, another drop occurs:

2) Moderate Retractions (38%)

Moderate retracements occur when the correction approaches 38% and then weakens.

3) Gold Retracements (62%)

These are the strongest, least frequent and easiest retracements for traders to take advantage of. The correction comes close to 62%, the value that gives rise to the number of the golden rule of mathematics.