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The Two Points You Chose

Market Analysis



Trading Papers

The Two Points You Chose

Fibonacci retracement, what it actually measures, and why your levels are not mine

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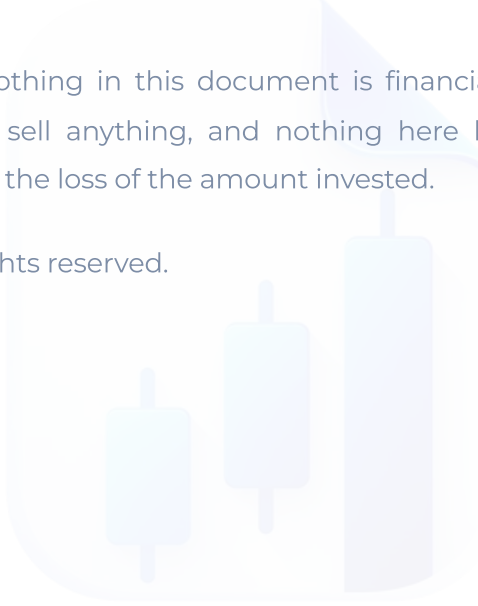
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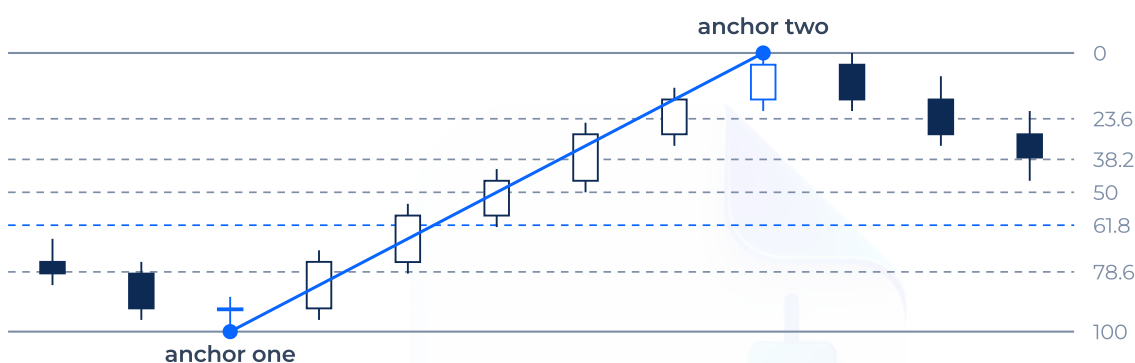
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Every level discussed in this paper is drawn on a chart, with the swing leg it was measured from and both of its anchor points marked. That is deliberate: a Fibonacci grid without its anchors is the one picture that hides what the paper is about.

01

It is division, not prophecy

A Fibonacci retracement is the most drawn tool on any chart and one of the least examined. So start with what it does mechanically, before anything is claimed about it.



The whole mechanism, drawn once. Two anchors — the low at bar 2 and the high at bar 8 — and a set of horizontal lines placed at fixed fractions of the distance between them. Nothing here is a forecast. The grid is arithmetic performed on two points somebody picked.

You pick two points. The tool subtracts one price from the other, multiplies that distance by a set of fixed fractions, and draws a horizontal line at each result. That is all of it. There is no model of the market inside the tool, no forecast, and nothing that reads the candles.

The part	Where it comes from
The two anchors	you, looking at the chart and deciding
The distance between them	subtraction
Each level's price	that distance times a fixed fraction
Which fractions appear	a default in the software

What each part of that picture is, in plain terms. Read the right column downwards: exactly one row involves a decision, and it is the first one. Everything after it is forced.

Read the right column of that table downwards. One row involves a decision and the rest are

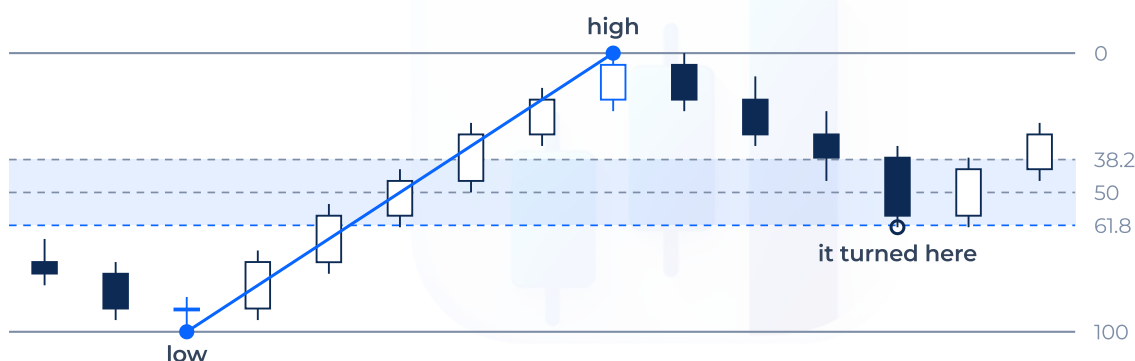
forced. Which means every disagreement about what the fib is saying is, underneath, a disagreement about the first row — and it is almost never discussed, because both people believe they simply drew the fib.

Every level in this paper is drawn on a chart with its leg and both anchors visible. A grid without its anchors hides the one thing that decides where the lines go.

02

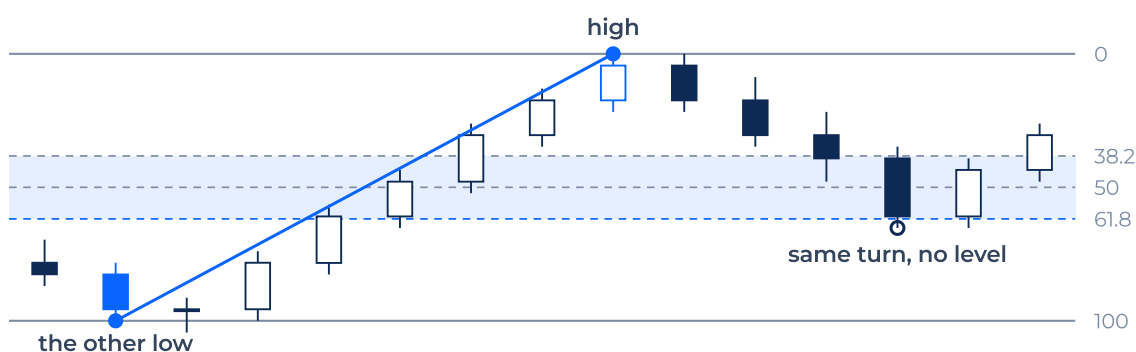
Move one anchor, move every level

The claim that the anchors decide the levels is easy to state and easy to nod along with. It lands differently when you watch it happen.



The same chart, anchored from the low at bar 2 to the high at bar 8. The 61.8 level lands at 45.2, and the candle that turned — circled — sits almost exactly on it. A convincing picture, and the next figure is the same chart with one anchor moved.

That is a good-looking chart. The 61.8 level sits at 45.2 and price turned within a tick of it. Shown on a screen with the caption respecting the golden ratio, nobody would ask a second question.



The identical candles, anchored instead from the earlier low at bar 1. One anchor moved by one bar and three points of price; every level moved with it, and the turn that sat on 61.8 now sits between 38.2 and 50, touching nothing. Neither drawing is wrong. They are answers to two different questions.

Same candles. The anchor moved back one bar, to a low that any reasonable person could have picked instead, and the whole grid slid with it. The turn that sat exactly on 61.8 now sits in the gap between 38.2 and 50, touching nothing at all.

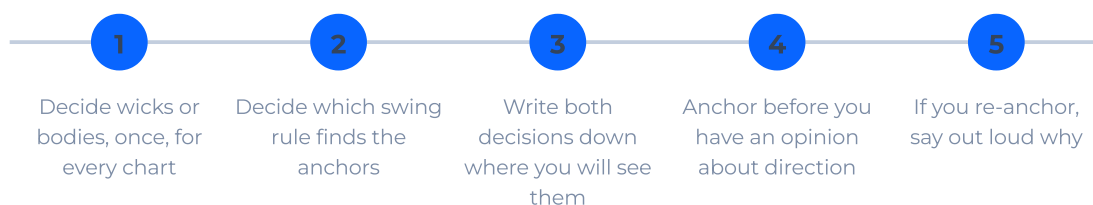
Neither drawing is a mistake. They are answers to two different questions, and the question was set by a choice made before either grid existed.

Anchored from	61.8 sits at	Was the turn on it?
The wick low, bar 2	45.2	yes, within a tick
The body low, bar 2	45.9	close
The earlier low, bar 1	45.9	close
The wick low to the wick high	45.2	yes
Close to close	46.4	no

Five anchor choices on one leg, and where 61.8 lands under each. The spread is nearly four points on a twenty-four point leg. Before anyone can say whether price respected the level, somebody has to say which of these five they meant.

Five defensible ways to anchor the same leg, and 61.8 lands anywhere across nearly four points of a twenty-four point move. Any claim about whether price respected the

level is unreadable until somebody names which of the five they used.



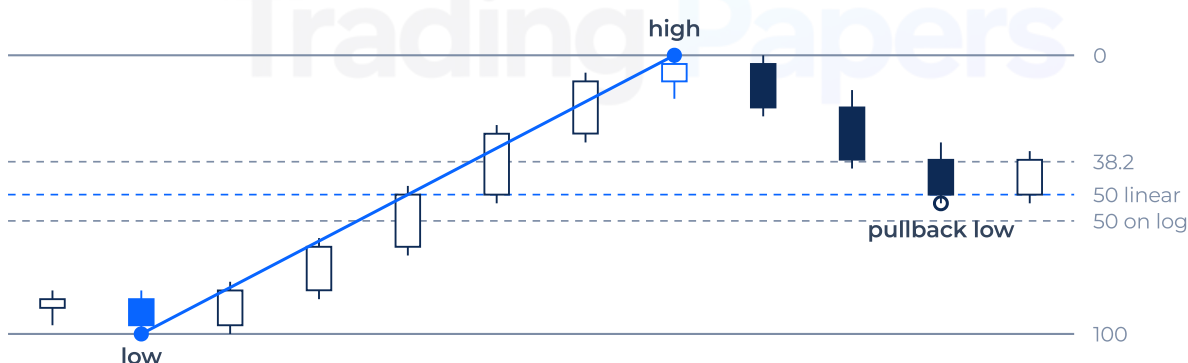
How to stop the anchors moving. None of these steps is clever; all of them are administrative. That is the point — the anchor problem is a bookkeeping problem, and it is solved with bookkeeping.

The remedy is administrative rather than analytical. Decide wicks or bodies once. Decide what a swing is once, in bars, which is the subject of an entire earlier paper. Then anchor before you have a view about direction, because an anchor chosen after the view is an anchor chosen to support it.

03

The axis you did not pick either

The anchors are the obvious hidden choice. There is a second one, made for you by the charting package, and on long moves it matters as much.



A leg where price roughly doubles, with the grid drawn the way every chart draws it by default: on a straight price axis. The 50 line sits halfway in points. On a percentage axis it sits noticeably lower, because halving a doubling is not the same as halving a distance.

A fib grid divides a distance. On a straight price axis, distance means points, so the 50 line falls at the arithmetic middle. On a percentage axis — the one long-term charts are usually drawn on — distance means proportion, and the halfway point of a doubling is not the halfway point in points.

Size of the leg	Gap between the two 50 lines
Ten percent	about one percent of the leg
Fifty percent	about five percent of the leg
Doubling	about nine percent of the leg
Ten times	about a quarter of the leg

How far the 50 line moves between a straight axis and a percentage axis, as the leg gets bigger. On a short leg the difference is noise. On a move that doubles it is a tenth of the whole leg, and neither chart announces which axis it is drawing.

On a ten percent leg the two answers are within a rounding error and nobody needs to care. On a leg that doubles, they sit about nine percent of the move apart, which is wider than most people's invalidation. The chart does not announce which axis it is on, and the tool does not ask.

This has the same shape as the anchor problem, which is why it belongs here rather than in a footnote. A decision was made, it was not made by you, it moved every line, and the picture that came out looks equally authoritative either way.

04

Where the numbers come from

The ratios have a genuine derivation, and it is worth separating the part that is arithmetic from the part that is a leap.

$3 \div 5$	
$5 \div 8$	
$13 \div 21$	
$55 \div 89$	the limit

The ratio of each Fibonacci term to the next, converging on 61.8 percent. This convergence is real arithmetic and is not in dispute anywhere in this paper. What is in dispute is the step after it: that a number appearing in the sequence should therefore appear in a price series.

Divide each term of the sequence by the next and the result converges on 0.618. That is a fact about the sequence, it is not controversial, and nothing in this paper disputes it.

Level	Its derivation	Fibonacci?
23.6	a term divided by the one three places along	yes
38.2	a term divided by the one two places along	yes
50	half	no — not a ratio in the sequence
61.8	a term divided by the next one along	yes, the limit itself
78.6	the square root of 61.8	derived, not a sequence ratio

Where each number on the grid actually comes from. Read the right column: the level people talk about most is the one with no Fibonacci in it at all, and the level with the best mathematical pedigree is not the most used.

Now read that table. The 50 line — the one most people watch, the one that gets called the fifty percent fib — is not a Fibonacci ratio at all. It is a half. It arrives on the chart because it is a half, and the software draws it because everyone expects it.

The 78.6 line is a square root of 61.8 rather than a ratio in the sequence. This is not a scandal; it just means the grid is a mixture of derived numbers, conventional numbers and one number that is on the chart because of Charles Dow rather than Leonardo of Pisa.

- Certain** ● the sequence converges on 0.618
- Certain** ● the grid is arithmetic on your two anchors
- Arguable** ● traders watch these levels, so orders gather there
- Unsupported** ● the market obeys the ratio

Four claims that get made about the ratios, ordered by how much of a defence they need. The top two are safe and the bottom two are where the arguments happen; a reader can hold the top two and reject the bottom two without contradicting themselves.

The ladder is where the argument actually is. The top two rungs are safe. The third — that traders watch these levels and therefore leave orders there — is arguable and might well be true; it is a claim about crowd behaviour, not about mathematics, and it would need order data to test. The bottom rung is the one that gets asserted most and supported least.

05

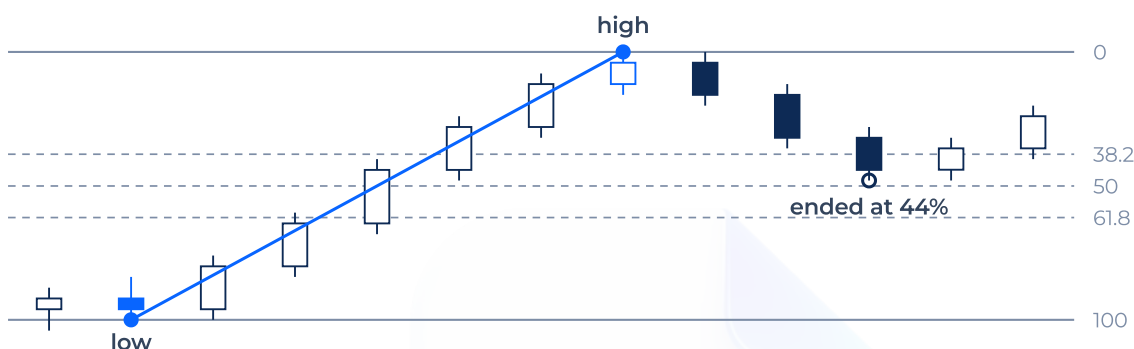
What the pullbacks actually do

If the levels have any special pull, the depths of real pullbacks should pile up near them. So count.



Where pullbacks in one trending instrument actually ended, sorted into bands, over four hundred qualifying legs found by a written swing rule. The distribution has no spike at 61.8. It has a broad middle, which is what a distribution of pullback depths looks like whether or not anyone has heard of Fibonacci.

Four hundred legs from one trending instrument, found by a written swing rule rather than by eye, sorted by how deep the pullback went. There is no spike at 61.8. There is a broad hump across the middle of the range, which is what a distribution of pullback depths looks like in any market, on any instrument, whether or not anyone has heard of the sequence.



One of those four hundred legs, drawn with the grid it produced. The pullback ended at 44 percent — between two levels, touching neither. This is the ordinary case, and it is the case that never gets screenshotted.

Here is one of those legs. The pullback ended at forty-four percent — in the gap, touching nothing. This is the ordinary outcome and it is the one that never appears in a thread, because there is nothing to circle.

	Price turned near a level	Price turned nowhere near one
Level written down beforehand	A hit. Counts toward a real rate.	A miss. Counts too, which is what makes the rate real.
Grid drawn after the turn	Unknown. The anchors could have been chosen to fit.	Never seen. Nobody draws this one.

Why the screenshots and the counts disagree. The row is whether the level was named before the pullback finished; the column is what price did. Only the top row can produce evidence, and almost every fib example you have ever seen is from the bottom row.

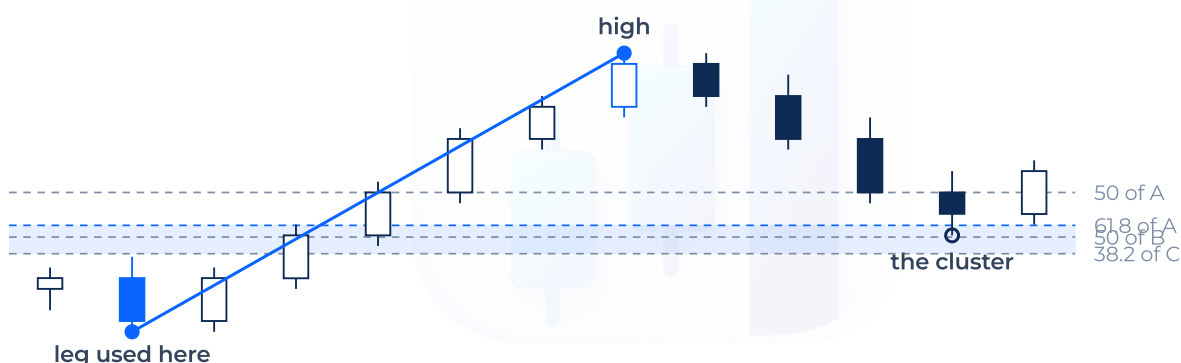
That grid explains the gap between the counts and the screenshots. Every example you have seen is from the bottom-left cell: a grid drawn after the turn, anchored to the points that make the turn land on a line. It is not dishonesty, usually. It is that drawing the grid afterwards is so much easier than writing the level down first.

The top row is the only one that can produce a number. It also produces misses, which is exactly why it produces a number.

06

Confluence is manufactured, not found

The usual response to a level missing is to look for confluence — several levels from several legs landing in the same place. Drawn honestly, it looks like this.



Confluence, drawn honestly. Three grids from three different legs on the same chart, and the levels they produce fall within two points of each other around 46. That looks like agreement. The next table counts how many places on this chart could have produced a cluster like it.

Three legs, three grids, and four lines inside a two-point band around 46. That is a real cluster and it would be reasonable to find it persuasive, until you count what was available.

Source of levels	How many
Fib ratios per leg	six or seven
Plausible legs on one chart	three to five
Timeframes usually checked	two or three
Total lines available	sixty and upward

How many levels are available to cluster, before you have found anything. Multiply the rows: on a chart with four plausible legs there are more than sixty fib lines, on a price range a few hundred points wide. Two of them landing within a point of each other is not a coincidence — it is arithmetic.

Six or seven ratios, on three to five defensible legs, across two or three timeframes. That is sixty-odd horizontal lines on a chart whose whole range is a few hundred points wide. Lines landing within a point of each other is not evidence of anything. It is the pigeonhole principle.



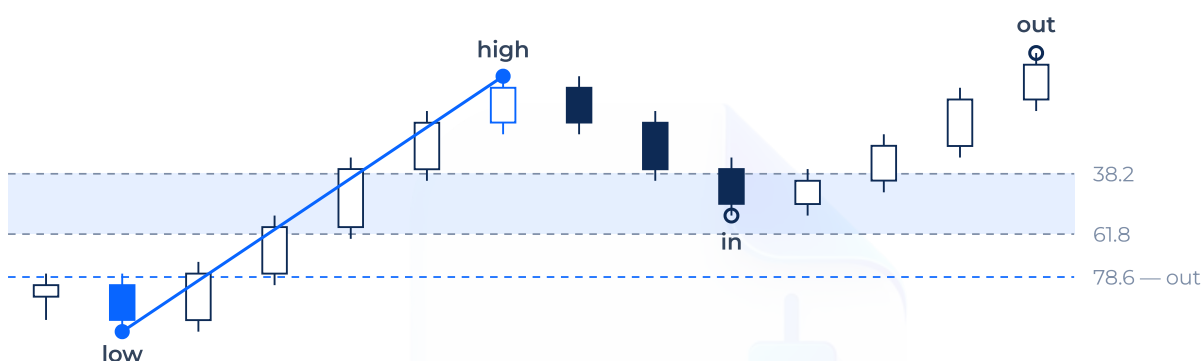
The test that separates a real cluster from an inevitable one. Step three is the whole test, and it is the step nobody performs, because performing it usually kills the setup.

The test is the third step and almost nobody runs it. Draw every level your written rules permit, not the ones you noticed, and count the clusters across the whole chart. Five clusters means this one is unremarkable. One cluster means you have found something worth testing — and it is genuinely rare to get that answer, which is what makes it worth having.

07

The narrow job it does well

None of the above makes the tool useless. It makes it a different tool than advertised: not a forecast, but a way of naming a location in advance, in a way somebody else could check.



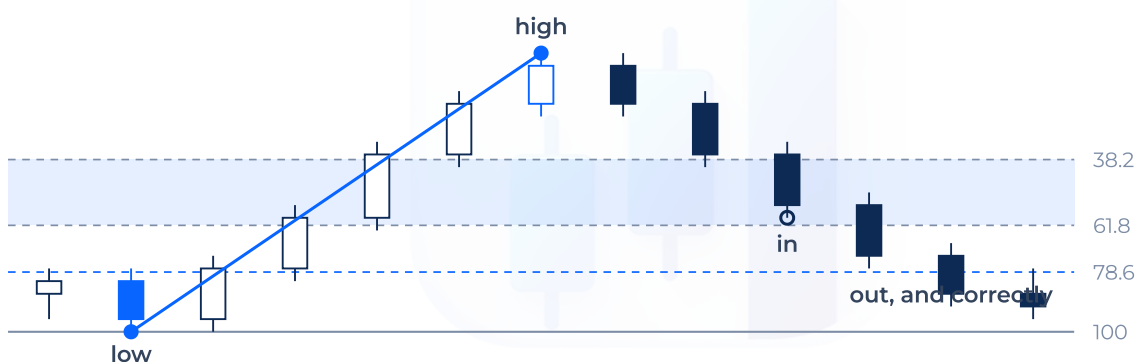
The narrow job the tool does well. The grid was drawn at the high, before the pullback began, and a zone was named in advance: 38.2 to 61.8, with an invalidation under the 78.6 line. Price arrived, the entry rule triggered, and — this is the part that matters — the same picture would have shown a loss just as plainly if it had continued down.

The grid was drawn at the high, before the pullback began. A band was named — 38.2 to 61.8 — and an invalidation was named under 78.6. Price arrived, the rule triggered, the trade worked. The picture would have shown a loss just as plainly if price had kept going down, and that symmetry is the only thing that makes it evidence.

Clause	Decided in advance as
Which leg	the swing rule that finds it
Which band counts	two ratios, named
What confirms entry	a close, a time, or nothing
What makes it wrong	a price beyond a named level

The four clauses a fib entry needs before it is a rule rather than a feeling. Each one is a number you write down before price arrives; without all four the level is a place you looked at, not a plan you executed.

Four clauses, all of them numbers, all written before price arrives. This is the same six-clause discipline the AI Trading collection argued for, minus the two clauses the fib grid supplies for free: the tool hands you a location and an invalidation, which is a real convenience.



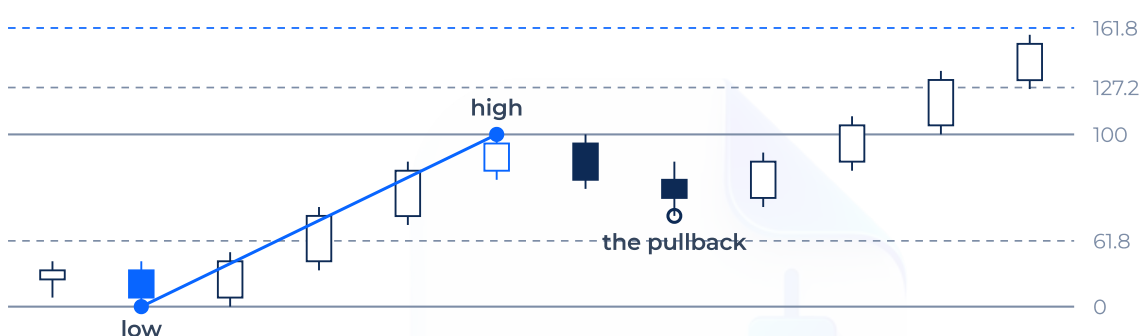
Where the invalidation goes, and why the grid is genuinely useful for it. Below the 78.6 line the leg's premise is gone: price has retraced almost the whole move, and whatever the entry was reacting to is no longer true. That is a reason, not a preference, and it survives being asked why.

The invalidation is where the grid earns most of its place. Under 78.6 the premise of the leg has gone: price has given back nearly the entire move, so whatever the entry was reading is no longer on the chart. That is a reason with a mechanism behind it, and it survives being asked why — which is more than can be said for a stop placed at a round number.

08

Extensions, and the same caveat

Run the arithmetic past the far anchor instead of between the anchors and the retracement becomes an extension.



Extensions, which are the same arithmetic run past the far anchor. The 127.2 and 161.8 projections are drawn above the high, where they are targets rather than levels price has visited. They are worth exactly what the anchors are worth, which is the same caveat as everything else here.

The 127.2 and 161.8 lines sit above the high, in price the market has not visited. They are targets rather than levels, and they are worth precisely what the anchors are worth — which by now should sound like a complete evaluation rather than a caveat.

People say	What it is
Price will reach 161.8	a distance, projected from your anchors
The target held	price stopped somewhere; the line was nearby
Extensions predict tops	they mark a multiple of the last leg
Use it to size the trade	no — that needs your account, not a ratio

What an extension level is and is not. The right column is the honest reading, and it is a much smaller claim than the one usually attached to these lines.

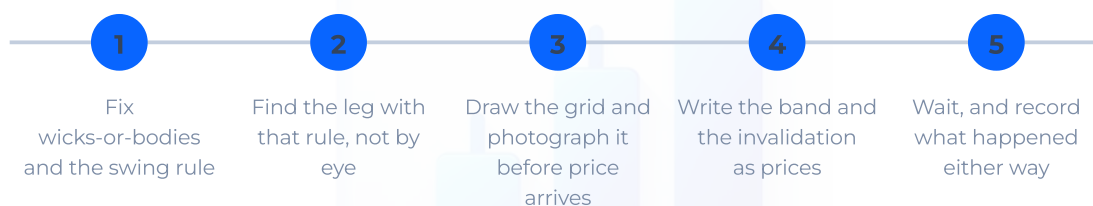
The last row deserves emphasis because it is where extensions do actual damage. Sizing a position off a projected target means sizing off a ratio instead of off your account, and the account is the only input that matters to that decision.

Used as a place to take something off, decided in advance, an extension is a perfectly ordinary exit rule. Used as a forecast of where a move ends, it is a distance multiplied by a number.

09

A pass that produces evidence

Everything above collapses into about ten minutes of work, once, on one instrument.



A complete pass, once, on one instrument. It takes about ten minutes and produces a written zone, a written invalidation and a record you can check later — which is more than most people get from an afternoon of redrawing.

The third step is the one that turns the whole exercise into evidence rather than decoration. Photograph the grid before price arrives. It costs nothing and it is the only thing that can prove afterwards that you did not quietly re-anchor.

Keep	Why
The anchor rule you fixed	next week's grid will be comparable
The photograph taken before the move	it is the only proof you did not re-anchor
The two prices you wrote	they can be scored
The grid you redrew afterwards	discard; it fits by construction

What is worth keeping from that pass and what to throw away. The discarded row is the one that feels like the output, which is the recurring lesson of this whole library.

And the discarded row is the one that feels like the output. The grid you redrew after the move is a beautiful picture that fits by construction, contains no information, and is the single most shared artefact in this entire subject.

10

What this does not settle

Three limits, then the short version.

The limit	What it means here
A level is a location, not an edge	arriving somewhere is not a reason to buy
The counts are one instrument	another market has another distribution
Self-fulfilment is untested here	plausible, and not shown by anything above

Three limits, stated plainly. The first is the one that decides whether any of this matters, and it is not a limit of Fibonacci in particular.

The first is the one that matters most, and it is not about Fibonacci. A level is a location. Price arriving at a location you named is not a reason to buy; it is a reason to look, with a rule already written about what would count.

The third is a genuine open question rather than a criticism. If enough people watch 61.8,

orders may well gather there, and the level would work for a reason that has nothing to do with the sequence. That is plausible and this paper has not shown it — it would take order-book data, not a chart.

- Anchors** ● what counts as a swing — The Structure You Drew
- Levels** ● what a level survives — The Market That Isn't Trending
- Evidence** ● what a rate has to show — What a Claim Has to Show
- Discipline** ● writing it before you need it — The Plan That Can Be Tested

Where each half of this paper has a longer treatment elsewhere in the library. The anchor problem in particular is the swing-rule problem wearing different clothes.

The anchor problem, in particular, is not a Fibonacci problem. It is the swing-rule problem from an earlier paper, wearing different clothes: a discretionary choice about where a move starts and ends, quietly deciding an answer that then gets reported as though the chart produced it.

The short version is three sentences. A Fibonacci grid is arithmetic performed on two points you chose, so every level on your chart is downstream of that choice and moves the moment either anchor moves. Counted honestly on real legs, pullback depths do not pile up at the famous ratios, and confluence is easier to manufacture than to find, because sixty lines on one chart will always cluster somewhere. What survives is narrow and real: the grid names a

Term	As used here
Anchor	one of the two points the grid is measured between.
Leg	the price move running from one anchor to the other.
Retracement	how far price came back, as a fraction of the leg.
Extension	the same fraction projected past the far anchor.
Re-anchoring	moving an anchor after seeing what price did.

The terms this paper uses in a fixed sense.

location and an invalidation in advance, in numbers, before price arrives — and a location you can be publicly wrong about is worth more than a prediction nobody scores.

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