



PREDICTING THE STOCK PRICE BY USING AB=CD LEGS WITH HELP OF FIBONACCI RATIOS

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Abstract

Any investor or trader must consider the Technical Analysis tool whether to buy or sell the stock at particular point of time. Technical Analysis does not give absolute prediction about the future stock price movement but it gives only possibility what is going to happen to the price over a period of time. AB=CD wave is a reversal pattern that helps to identify when the price of the stock is about to change the direction.

Key Words: AB Leg, CD Leg, Fibonacci Ratio, Risk and Reward.

Introduction

Technical analysis deals in probabilities, never certainties. This pattern consists of three legs, with two equal legs labeled AB and CD.

In this research paper researcher used Fibonacci ratio that is 0.618 and 1.618 only. Bullish AB=CD pattern are based on following rules.

1. Point A is a significant high, and point B is a significant low. In the move from A to B there can be no highs above point A, and no lows below B.
2. Point C must be lower than point A. In the move from B to C there can be no lows below point B, and no highs above point C. Ideally, point C will be 61.8% (0.618) retracement of point AB.
3. Point D must be lower than point B (market successfully achieves a new low). In the move from C to D there can be no highs above point C, and no lows below point D and CD may equal AB or CD may be 161.8% (1.618) of BC. Similarly there is Bearish AB=CD pattern and rules for that is also the same.

Review of Literature

“A Study on Analysis of Equity Share Price Behavior of the Selected Industries”, Mrs. Vimala. S, Mrs. Saranya P. B. , Ms. Saranya. R. at Global Journal of Research Analysis, April 2014, Volume 3, Issue 4, ISSN No. 2277-8160 in this research paper researcher studies that the securities market is highly volatile in nature. In spite of its volatility the investor has chances to make comfortable profits with the help of moving average, trend line and the relative strength Index trend lines.

“How to use Fibonacci retracement to predict forex market” - VioletaGaucan Journal of Knowledge Management, Economics and Information Technology, ISSN: 2069-5934 ScientificPapers.org, the researcher studies Fibonacci Retracement trading is used in all markets Fibonacci retracement levels are an important part of technical analysis and should be incorporated into your trading system.

“To Study the Trend and Behavior Analysis of Indian Equity Market Using Elliott Wave Principle and Fibonacci sequence” - Dr. PoojaTalreja at International Journal of Innovative Research in Science, Engineering and Technology, June 2014, Volume 3, Issue 6, ISSN: 2319-8753 in this research paper researcher studies that wave principle gives a fair idea about direction of trend reversal with target prices if combined with Fibonacci.

Objective

- Technical Analysis on selected stocks and interpret on whether to buy or sell.
- Risk is low and Reward is high by using Technical Analysis tool.
- Finding entry point and exit point of stock price.

Hypothesis

H0: AB=CD legs and Fibonacci ratio does not help to predicting stock price.

H1: AB=CD legs and Fibonacci ratio helps to predicting stock price.

Practical Significance

- Traders also earn good amount of profit by using technical analysis tool.
- Traders also come to know entry price and exit price of the stock with low risk and high reward.

Limitations

- Only Technical analysis tool is used.

- This study is based on secondary data only and not on primary data.
- The study is constrained to limited stock only.

Research Methodology

The study period is different for different stock. For Technical Analysis, Secondary data the daily share price movements of the selected companies are taken. The data collected for the study is secondary in nature. For YES BANK, stock price data is from September 2015 to February 2016 and for SUNTV August 2015 to January 2016.

Conceptual Framework

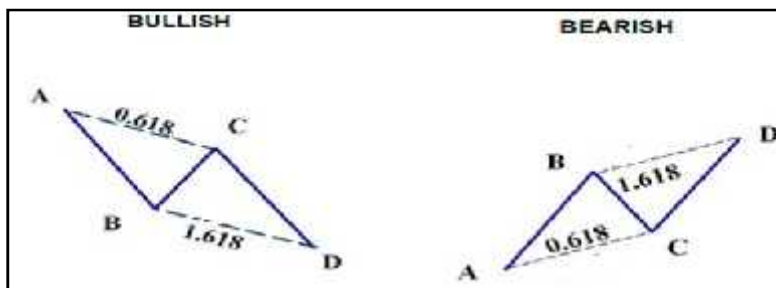
• AB=CD with Fibonacci Ratio

Before we learn more about the Fibonacci retracements, let's focus on price behavior for a minute.

Let's start from one tricky question and the basics of price behavior. In which direction can price move? You will probably answer: up or down. What if there is no main trend? If there is no strong trend, the price will probably move sideways. Statistics say that the price is moving about 30% of time in a trend and rest of this time it is moving in a range. Why is moving in a range such a bad thing? It is because there is no clear direction and the price moves up and down, so it is very hard to make money in this kind of movement.

Movement of price to some point on the trading chart and then retracing back is known as Fibonacci Retracement. 0% is the lowest level in a Fibonacci sequence and 100% is the highest. The other most important Fibonacci Retracement levels are 38.2%, 50% and 61.8%. Support or Resistance levels for any currency exist at the points obtained by dividing the length of swing by ratios of figures such as .382, .50 and .618.

The 50% retracement level does not come from the Fibonacci sequence, but it's an important level. Traders tend to react when a price is near half of the previous swing, so they added it to retracement levels. In this research paper only 0.618 and 1.618 ratios are taken for the study.



Data Analysis & Interpretation



Above chart is the candle stick chart of YES BANK

A-B Leg: When a stock price is trending down, the first leg (A-B) is formed as the price decreasing from A to B. Above YES BANK chart stock price starting down trend price around Rs.770/- that is point A and goes to around Rs.670/- that is point B, so our A-B leg complete. **B-C leg:** At point B the price switches direction and retrace up sharply up to from the B-C leg. The

retracement (from B to C) is 0.618 or 61.8% (Fibonacci Ratio) of the A-B leg. Above chart when point B is created then stock price moves sharply upward around Rs.740/- that is approx. 0.618 retracement of A-B leg.

C-D Leg: At point C, the price switches direction again and continues its original down trend. This leg (C-D) slopes downward, parallel with the A-B leg and should ideally be the same length as the A-B leg when it completes.

Above YES BANK chart when point C is created then stock price again falls to original downtrend. The ideal point D being a Fibonacci extension of 1.618 or 161.8% (Fibonacci Ratio) of the BC leg.

Point D is the end of the pattern. Trader can buy at point D when stock is down trending. Above yes bank chart when point D is created this is the point when pattern is over and trader should buy the stock at price around Rs.665.50 and having a stop loss of Rs.631/- with the target price of Rs.771.50.



Above chart is the candle stick chart of SUNTV

A-B Leg: When a stock price is trending up, the first leg (A-B) is formed as the price increasing from A to B. Above SUNTV chart stock price starting up trend price around Rs.360/- that is point A and goes to around Rs.410/- that is point B, so our A-B leg complete.

B-C Leg: At point B the price switches direction and retraces up sharply down to from the B-C leg. The retracement (from B to C) is 0.618 or 61.8% (Fibonacci Ratio) of the A-B leg. Above chart when point B is created then stock price moves sharply downward around Rs.375/- that is approx. 0.618 retracement of A-B leg.

C-D Leg: At point C, the price switches direction again and continues its original uptrend. This leg (C-D) slopes upward, parallel with the A-B leg and should ideally be the same length as the A-B leg when it completes.

Above SUNTV chart when point C is created then stock price again goes up to original uptrend. The ideal point D being a Fibonacci extension of 1.618 or 161.8% (Fibonacci Ratio) of the BC leg.

Point D is the end of the pattern. Trader can sell at point D when stock is up trending. Above SUNTV chart when point D is created this is the point when pattern is over and trader should sell the stock at price around Rs.426/- and having a stop loss of Rs.436.50 with the target price of Rs.360/-

Conclusion

With the help of candle stick chart of two listed companies (YES BANK, SUNTV) the researcher studies and investigated that Fibonacci ratio and AB=CD legs pattern helps to the trader for prediction of stock price.

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