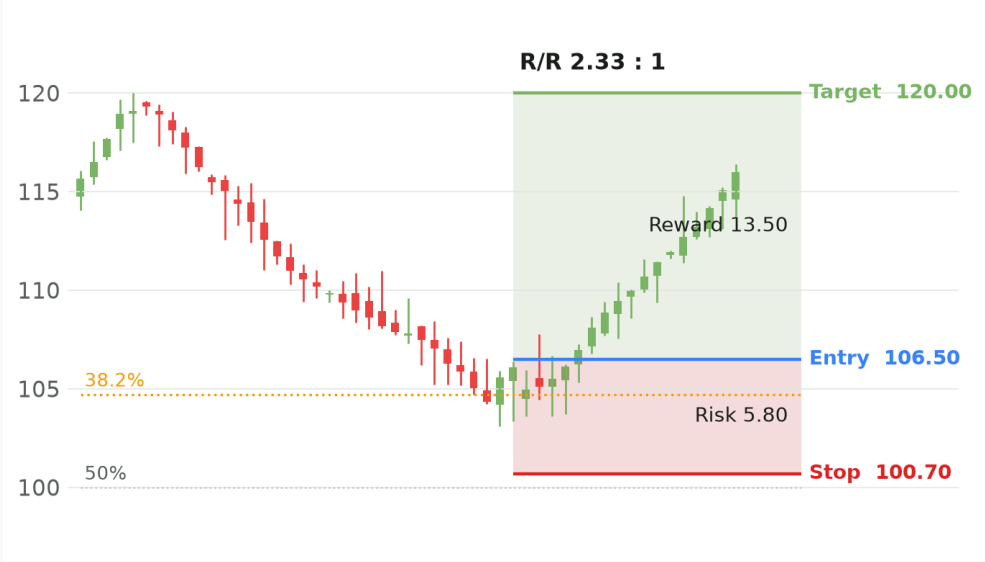
Buy setup at the 38.2% Fibonacci retracement

The pre-trade checklist, with a worked example and a trade plan to fill in

This setup buys a stock in an intact uptrend after it has given back part of its last rise. You buy once the pullback turns at the 38.2% level and price breaks out of it. Stop, target and share count are fixed before you place the order.

The setup in 6 steps

1. **Check the trend.** On the weekly and daily chart: price above the 100-day moving average, 50-day above the 200-day.
2. **Find the impulse.** The clear low and high of the last strong move up. No clear points, no retracement.
3. **Draw the retracement.** From the impulse low to the impulse high. You want an orderly pullback to about 38.2%, ideally on falling volume.
4. **Wait for confirmation.** A reversal candle, a close back above the level, then a break above its high or the top of the pullback.
5. **Stop, target, reward-to-risk.** Stop below the reaction low, first target at the previous impulse high. Below 2 to 1, skip the trade.
6. **Size the position.** Your risk amount divided by the distance from entry to stop gives the number of shares.



Example stock X with made-up prices: impulse from €80 to €120, 38.2% at €104.72. Entry €106.50, stop €100.70, target €120: risk €5.80 against reward €13.50, reward-to-risk 2.33 : 1. With a €20,000 account and 1% risk, that's 34 shares.

How to use it: Print it and tick every line. Only buy when every required line is ticked. Lines marked "optional" strengthen the picture but never replace a required line. Axiomly's free position size calculator works out the share count.

 For learning only. Not investment advice and not a recommendation to buy. Trading can lose you the money you put in.

Pre-trade checklist

Only buy when every required line is ticked. One open required line means no trade.

1 Uptrend

- [ ] Price is above the 100-day moving average.
- [ ] The 50-day moving average is above the 200-day.
- [ ] The weekly chart shows the same uptrend as the daily chart.
- [ ] The stock makes higher highs and higher lows. OPTIONAL
- [ ] The stock is stronger than its market and its sector. OPTIONAL

2 Impulse

- [ ] The last move up has a clear low and a clear high.
- [ ] The impulse isn't a bounce inside a downtrend.
- [ ] The rise came on higher volume. OPTIONAL

3 Pullback

- [ ] Retracement drawn from the impulse low to the impulse high.
- [ ] Price has reached the 38.2% level and hasn't settled below it.
- [ ] The pullback is orderly (flag, falling wedge or ABC).
- [ ] Volume falls during the pullback. OPTIONAL
- [ ] An old price level or the 20/50-day average adds support. OPTIONAL

4 Confirmation

- [ ] No more lower lows, and a reversal candle has formed (hammer, bullish engulfing).
- [ ] The daily close is back above the 38.2% level.
- [ ] Price rises above the reversal candle's high or breaks out of the pullback to the upside.
- [ ] RSI divergence: a lower price low without a lower RSI low. OPTIONAL

5 Stop, target and reward-to-risk

- [ ] Stop below the reaction low or below the 50% retracement.
- [ ] The stop is further away than a normal day's range (ATR).
- [ ] First target is the previous impulse high, with no strong resistance just above the entry.
- [ ] Reward-to-risk to the first target is at least 2 : 1.

6 Position size and dates

- [ ] Shares = risk amount ÷ (entry − stop), rounded down.
- [ ] No earnings report or other date that could make the price jump falls within the planned holding period.

✕ No trade if …

- ✕ the stock trades below its 200-day moving average.
- ✕ price settles below 38.2% and doesn't stabilise.
- ✕ selling volume rises sharply during the pullback.
- ✕ a breakout collapses again soon after.
- ✕ you're only tightening the stop to make the reward-to-risk work.

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Trade plan

Fill this in before every order. If a number doesn't pass the checklist, skip the trade.

Stock / date

Impulse low	Impulse high	38.2% level
Entry	Stop	Target
Risk per share	Reward per share	Reward-to-risk
Risk amount (account × %)	Shares	Position value

38.2% level = high − 0.382 × (high − low). Reward-to-risk = reward ÷ risk. Shares = risk amount ÷ risk per share.

Notes: Why this stock? What would prove the idea wrong? After the trade: what went to plan and what didn't?

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