

What is Heikin-ashi?

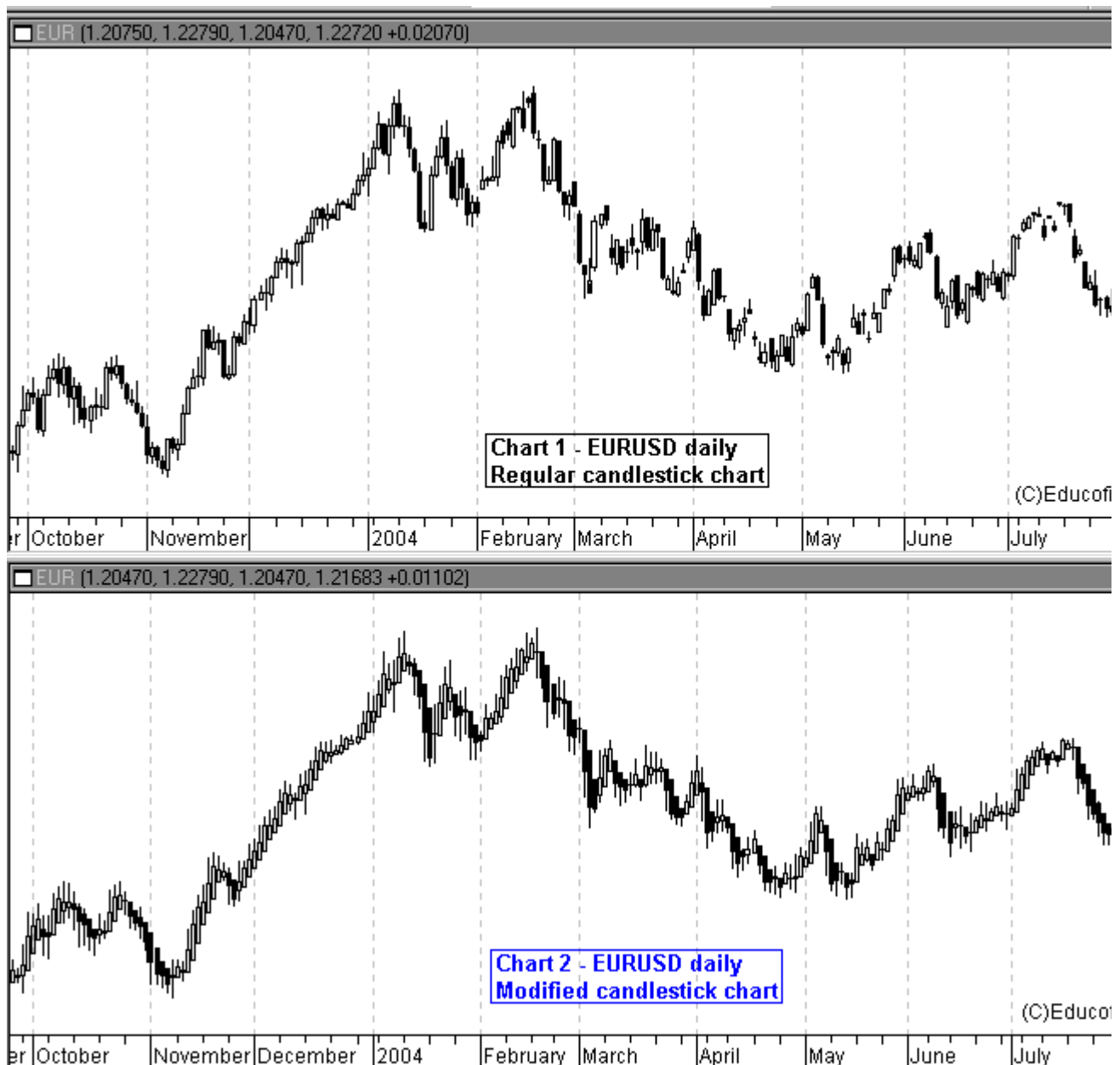
"Trend is Your Friend", so Heikin-ashi may change your way to look at markets and charts...

In the summer of 2003 I was researching about Ichimoku technique and by chance (as it always happens) I came across some outstanding charts. **The trend was very clear, leaving no room for guessing.** I was witnessing **Heikin-ashi charts or modified candlesticks.**

To my surprise there was no other information available in books or on Internet so I decided to make it available to all traders. In a matter of days I wrote an [article](#) for *"Technical Analysis of Stocks and Commodities"*. The article, published in February 2004 as a lead article generated very positive feedback from all corners of the world. Financial sites, technical analysis software companies, and traders all over the world discussed and implemented the technique.

This technique apparently has been developed by a Japanese trader who made a fortune using it and **until then** was used only by Japanese traders.

Heikin-ashi is a **visual** instrument to **assess trends**, their **direction, and strength**. It is not the Holy Grail of trading, but a **great and simple** tool to visualize the **trend**. It is strongly recommended to **combine** it with technical indicators, patterns, and other trading techniques. The results will improve significantly.



How do we calculate **modified OHLC** values? Here is the answer:

| Modified OHLC | | Definition |
|----------------|---------|--|
| Modified Close | HaClose | $(O+H+L+C)/4$ |
| Modified Open | HaOpen | $(HaOpen(prev.bar) + HaClose(prev.bar))/2$ |
| Modified High | HaHigh | $Max(H, HaOpen, HaClose)$ |
| Modified Low | HaLow | $Min(L, HaOpen, HaClose)$ |

Heikin-ashi (modified candlesticks) follows **six simple rules** as shown in the table below:

| Rule # | Rule description | Comments |
|--------|------------------|--|
| 1 | Uptrend | Hollow candles |
| 2 | Downtrend | Filled candles |
| 3 | Strong Uptrend | Hollow candles(1) with no lower shadows |
| 4 | Strong Downtrend | Filled candles(2) with no high shadows |
| 5 | Consolidation | A sequence of candles with small bodies (hollow or filled) and with upper and lower shadows |
| 6 | Change of Trend | Similar to #5, but only one occurrence. Not always reliable as it may be also part of a consolidation sequence. |

Use these rules with the charts above and you'll see the difference... Which chart would you consult before trading?

Each trader is continuously looking for that 'extra inch' which gives him or her an advantage in the markets. **Heikin-ashi offers you this opportunity.** Take some time and consult the charts on the main page of our site. It is not difficult to implement yourself this technique.

If you have questions about this original technique and its use, please contact me at ta@educofin.com. I will be delighted to assist you.

Best regards and GREAT trades using **modified candlesticks**,

Dan Valcu
www.educofin.com