Technical Analysis Workshop Series

Ichimoku Cloud Charting

13th March 2014

Profile

➢ Year 1 Business Administration

➢ Started trading since 2012

➢ Actively trading FX and keen on Technical Analysis

➢ Currently pursuing a professional qualification in TA,

Certified Financial Technician (CFTe)

➢ Running a small import-export business

DISCLOSURES & DISCLAIMERS

Outline

1. Introduction
2. Key Components of Ichimoku
3. Piecing the Puzzle
4. Trade Examples
5. Conclusion

Introduction

Brief Introduction

- Originally developed by Japanese journalist Goichi Hosada as he was looking to develop 'The Ultimate Indicator'

- Full name is the **(均衡表 Ichimoku Kinkō Hyō)** which translates to "one glance equilibrium chart"

- Successfully used in nearly every tradable market, not just limited to those linked to Japan e.g. Yen-pairs on FX

- Works on all timeframes but recommended for longer-term positions e.g. 4hr and above

How it works

- Moving average-based trend identification system factoring in both time and price components

- Illustrates the current trend, helps you time entries, displays support and resistance, clarifies momentum, and shows you when a trend has likely reversed – all in one package

- Considered a self-contained system where no additional indicators are necessary

- Standard settings for an Ichimoku chart indicator are 9, 26, 52

- Ichimoku shows the past, present and the future

The Chart

Key Concept

The Trend Is
Your Friend!

Tenkan Line
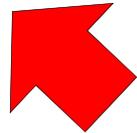
Kijun Line
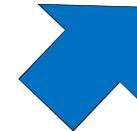
The 4 Key Components of Ichimoku
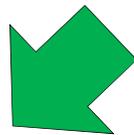
Chikou Line
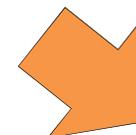
Kumo Cloud

Tenkan-sen (Trigger line)

- Tenkan-sen (転換線) calculation: (highest high + lowest low)/2 for the last 9 periods.

- Derived by calculating the overall midpoint between the highest high and the lowest low for the past nine periods.

- Primarily used as a signal line and a minor support/resistance line

- Indicator of the market trend

Tenkan-sen (Trigger line)

- Called the <u>Trigger Line</u> because this is where all the action takes place

Comparison with MAs

9 period SMA (brown)

tenkan sen (red)

Note flattened portions of tenkan sen that not only better represent price equilibrium, they also provide a more accurate guage of support than the SMA line.
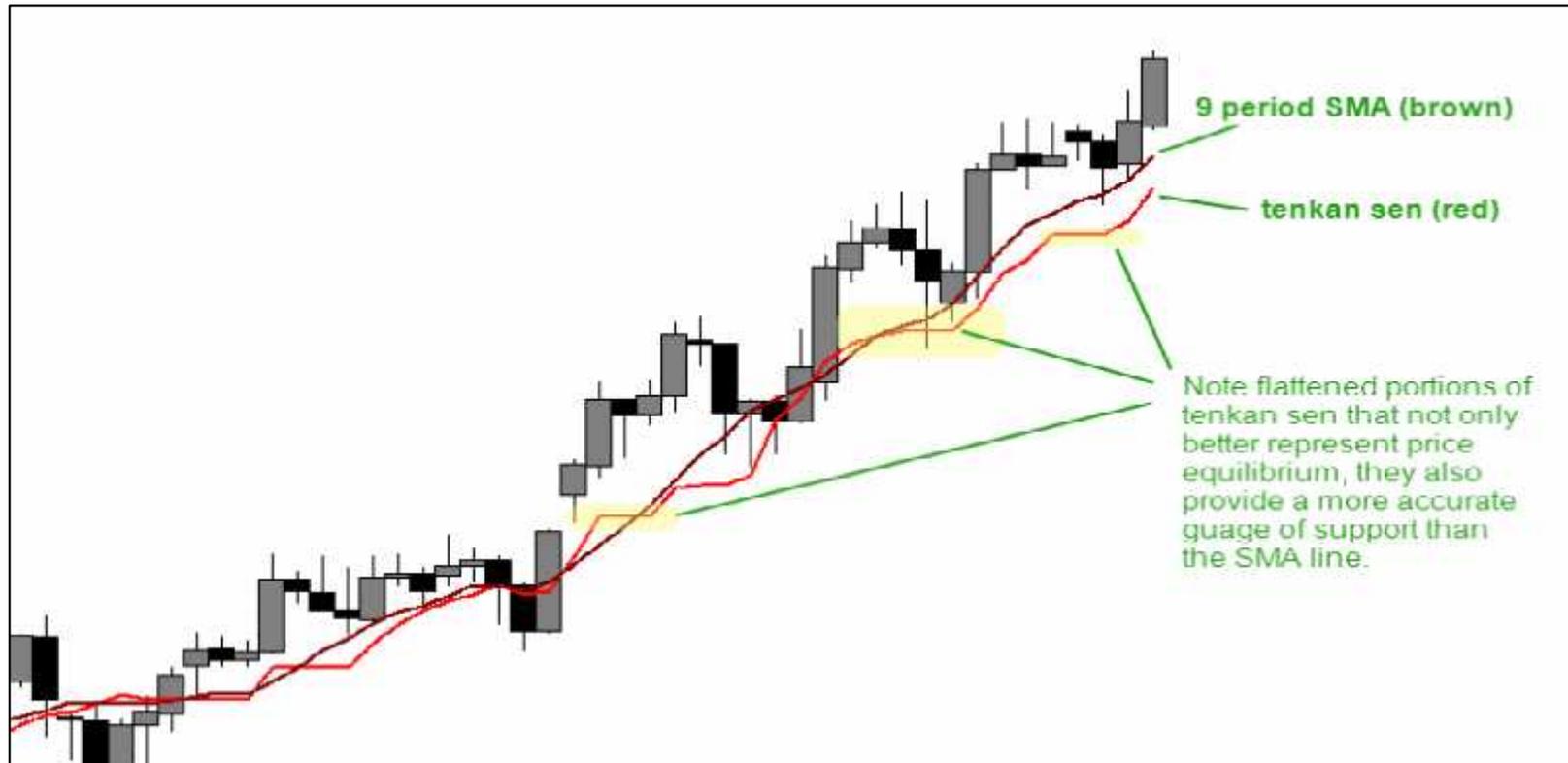
- From the notion that taking average of the extremes > taking average of the closing prices (Moving Averages)

Kijun-Sen (Base line)

- Kijun-sen (基準線) calculation: (highest high + lowest low)/2 for the past 26 periods.

- Calculated exactly the same way as Tenkan line but with a longer look back period of 26 days

- Used as a support/resistance level and as a confirmation line

- If the price is higher than the Kijun line, it could continue to climb higher and vice versa for lower prices.

Kijun-Sen (Base line)

- Gives entry/exit signals when price crosses
- Gradient determines trend direction and entry/exit points

Kijun-Sen (Base line)

Flat Kiju-Sen attracts the price

price starts to move away from the flattened Kijun-Sen but after that , it changes direction and pulls back towards it again
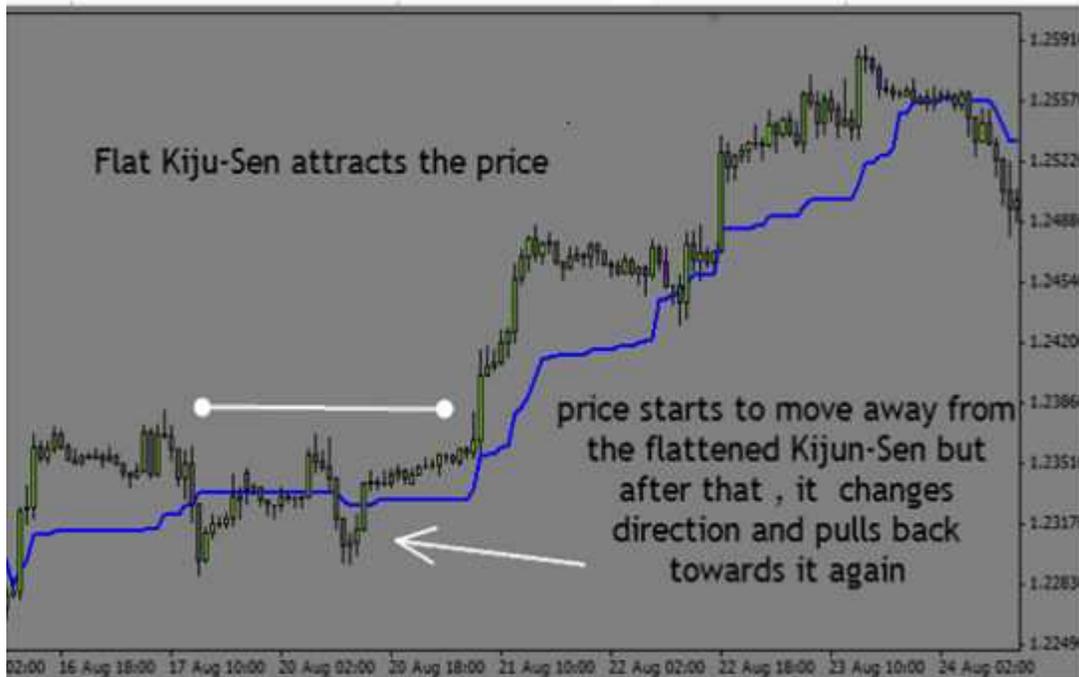
- Avoid entering during ranging market to avoid whipsaws

Flat Kiju-Sen attracts the price

Flat

- Flattened Kijun line attracts the price like a magnet, signals a ranging market

Support/Resistance Level

- Kijun line acts as support/resistance levels, irregardless of gradient

Chikou Span (Lagging line)

- Chikou (遅行) span calculation: today's closing price projected back 26 days on the chart

- Used as a support/resistance aid

- Is the last 'concluding' signal in cloud chart analysis – commonly known as "The Filter"

- If the Chikou Span (Lagging line) crosses the price in the bottom-up direction, that's a buy signal. If the green line crosses the price from the top-down direction, that's a sell signal

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Interpretation

- Purpose of shifting price back 26 periods is to compare today's prices with that 26 periods ago
- If current price < price 26 periods ago = Bearish

Entry Signals
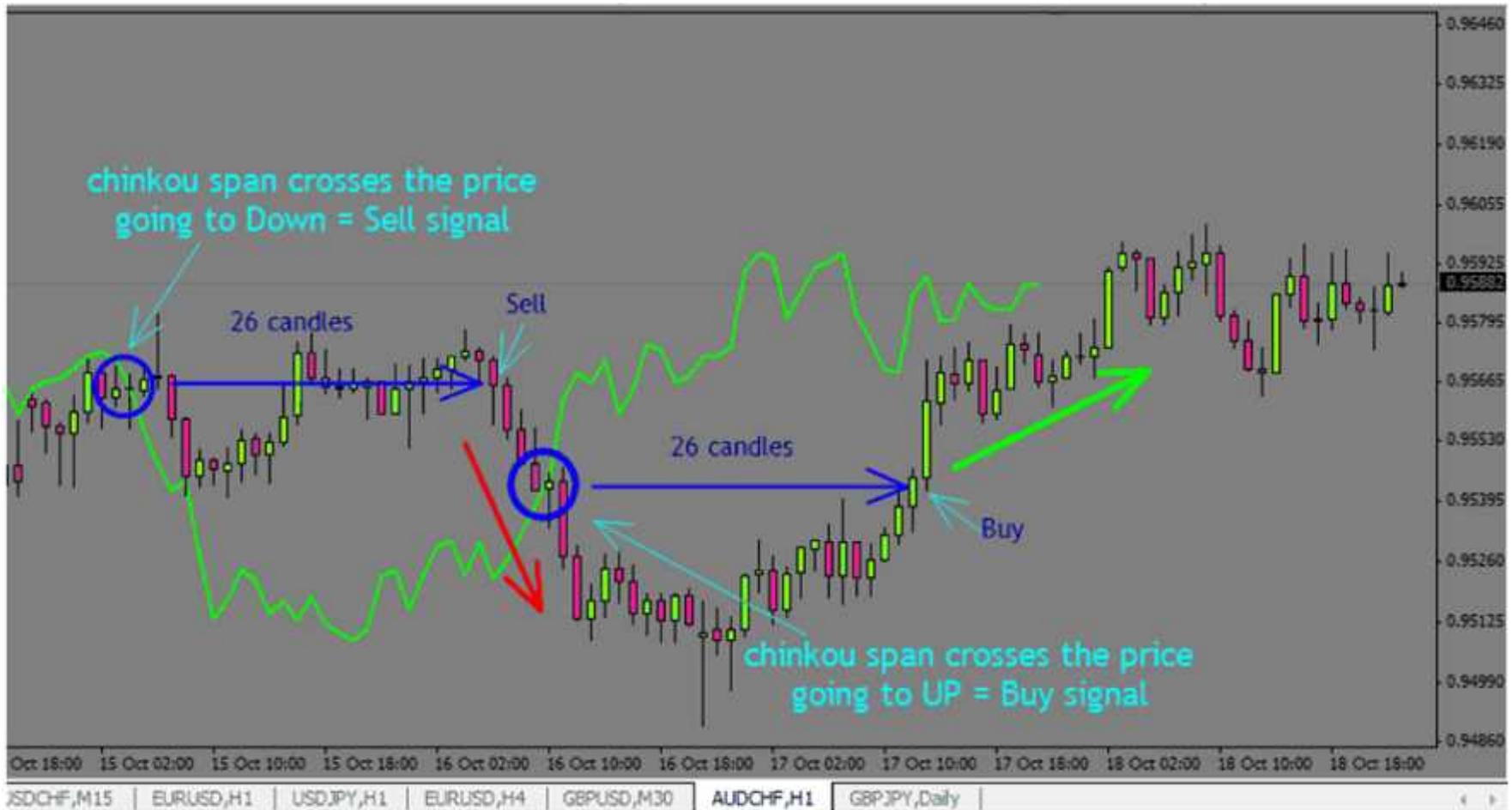
Entry Signals

- Chikou span (26 periods behind) crossing below price = SELL

- Chikou span (26 periods behind) crossing above price = BUY

Support/Resistance Level

- Assists in drawing support/resistance levels, but not a support/resistance level in itself

Support/Resistance Level

Kumo (Cloud)

- Kumo (雲, cloud) is the space between Senkou Span 1 and 2

- Senkou (先行) Span 1 calculation: (Tenkan-sen + kijun-sen)/2 plotted 26 periods ahead.

- Senkou (先行) Span 2 calculation: (highest high + lowest low)/2 calculated over the past 52 time periods and plotted 26 periods ahead.

- Changes in shape and height based on price changes and market volatility

Kumo (Cloud)
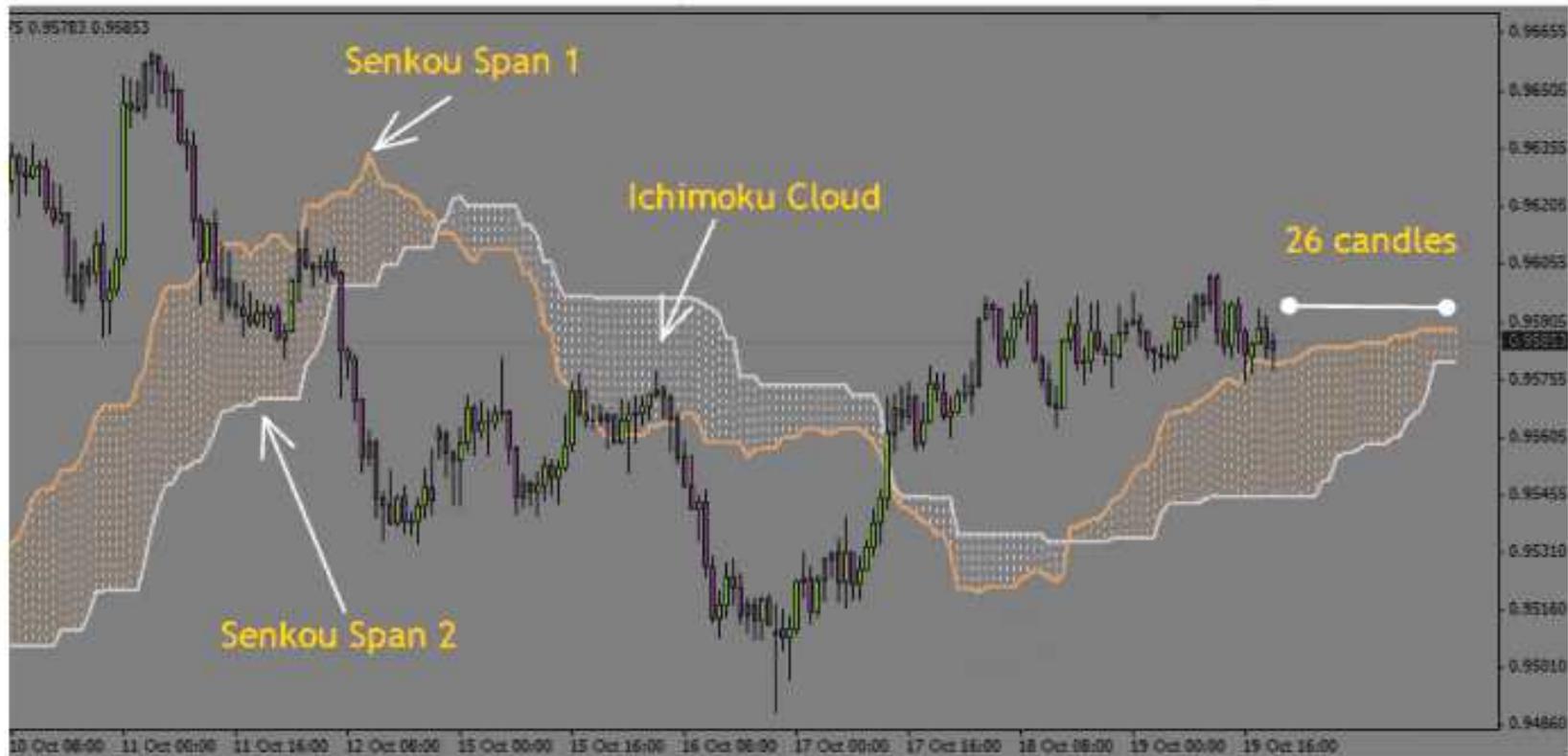
- The cloud is the space between the Senkou Span 1 and the Senkou Span 2
- Cloud is plotted 26 periods forward!

Trend Direction
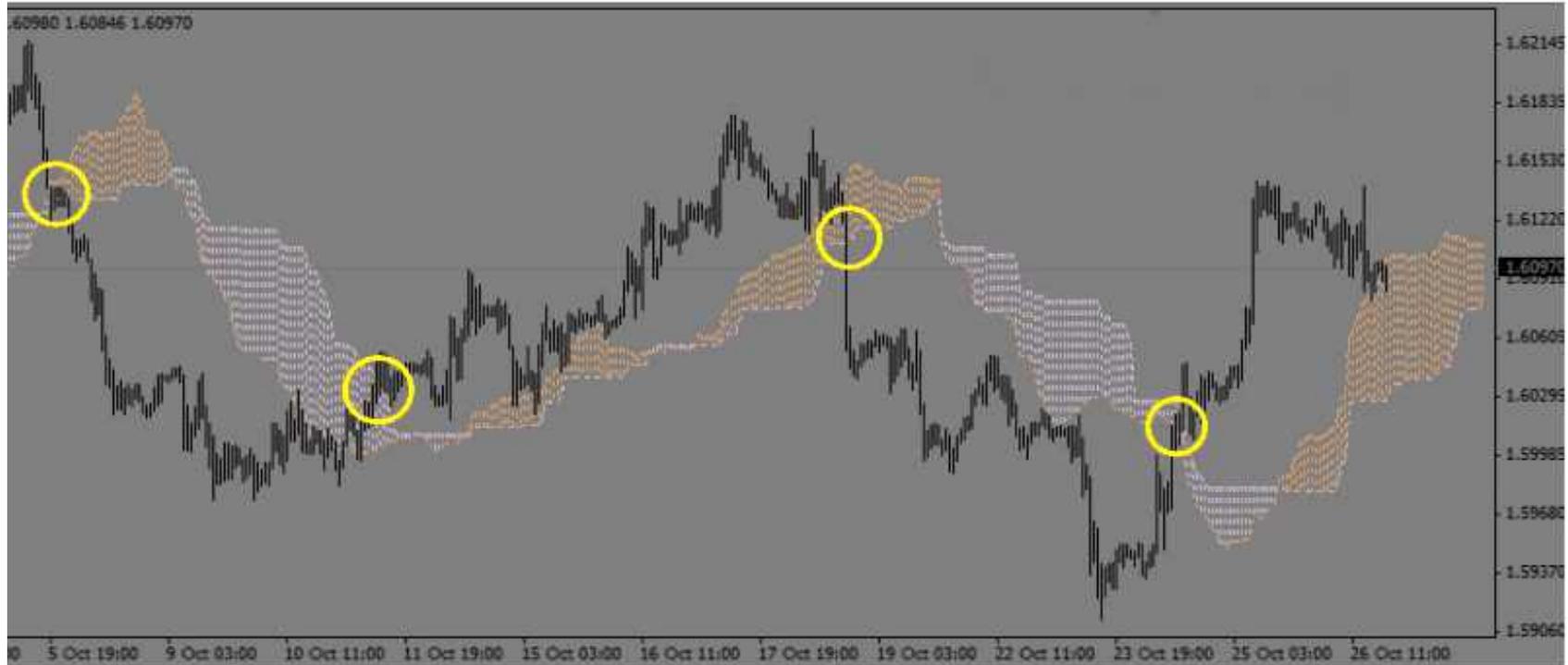
- The cloud reads the market and guides us on the trend direction
- <u>The trend is your friend!</u>

Trend Direction

- When the Senkou Span A and Senkou Span B swap places, it is an indication of change in trend direction

Trend Direction

- The "Kumo Twist" is a replacement of cloud spans 26 candles forward that gives us an indication of trend change

Interpretations

Don't sell above Kumo

enter buying signals only

Don't buy under Kumo

enter selling signals only

- General "rule of thumb" - Long above cloud and short below cloud

Support/Resistance Levels

- Thick cloud = High liquidity and good support/resistance levels
- Thin cloud = Low liquidity and easy to break
- Trending vs. Ranging market

In Summary

- The Chikou Span represents the past, the Tenkan and Kijun lines represent the present and the Cloud represents the future

- Ichimoku works best in a trending market, staying clear from any potential ranging markets that may cause whipsaws

- Avoid using these components individual – Ichimoku is all about the mess, use them all together!
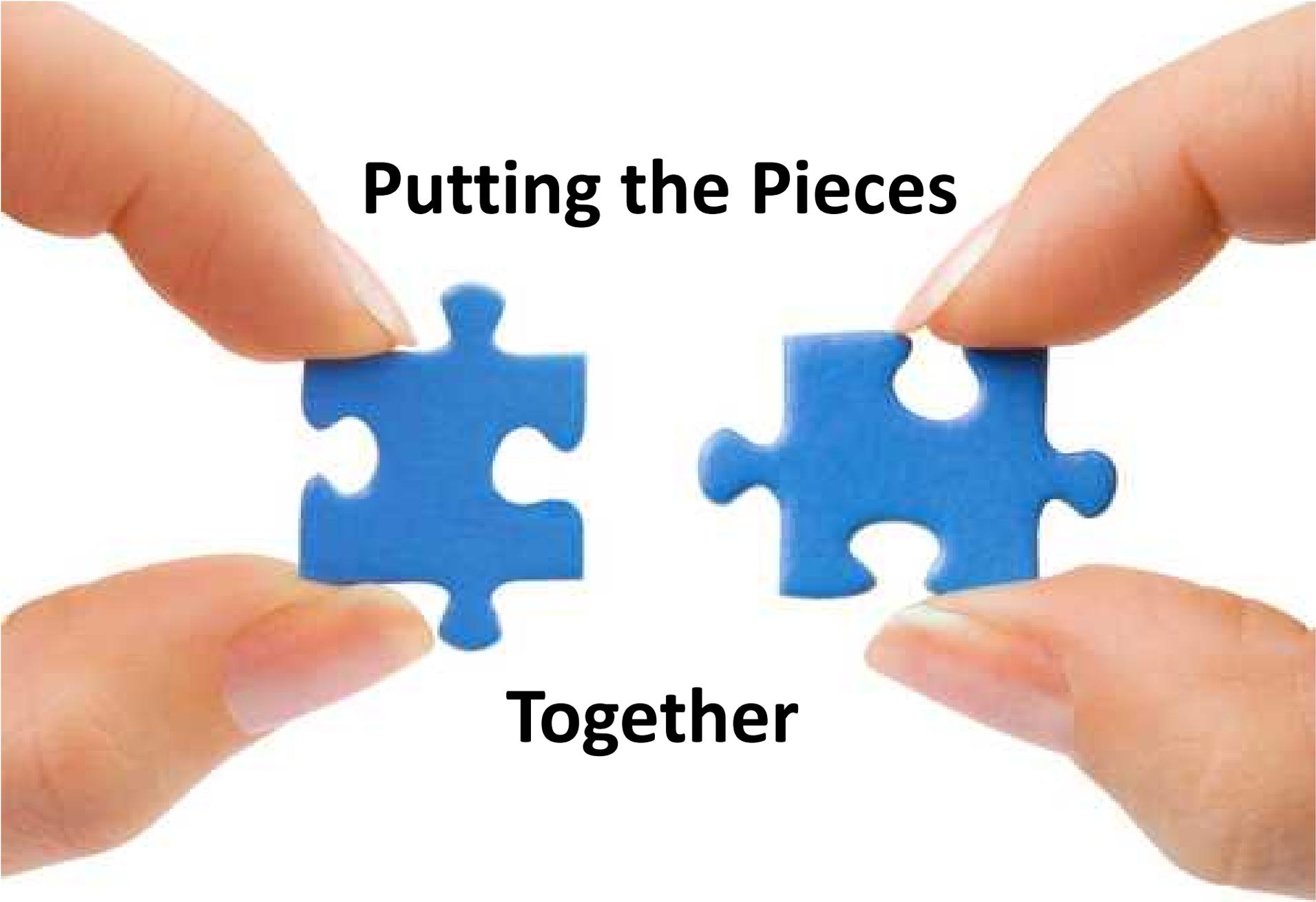
Putting the Pieces Together

Main Trigger


- When Tenkan line crosses <u>above</u> the Kijun line – Bullish
- When Tenkan line crosses <u>below</u> the Kijun line – Bearish
- Bread and butter of Ichimoku

Main Trigger
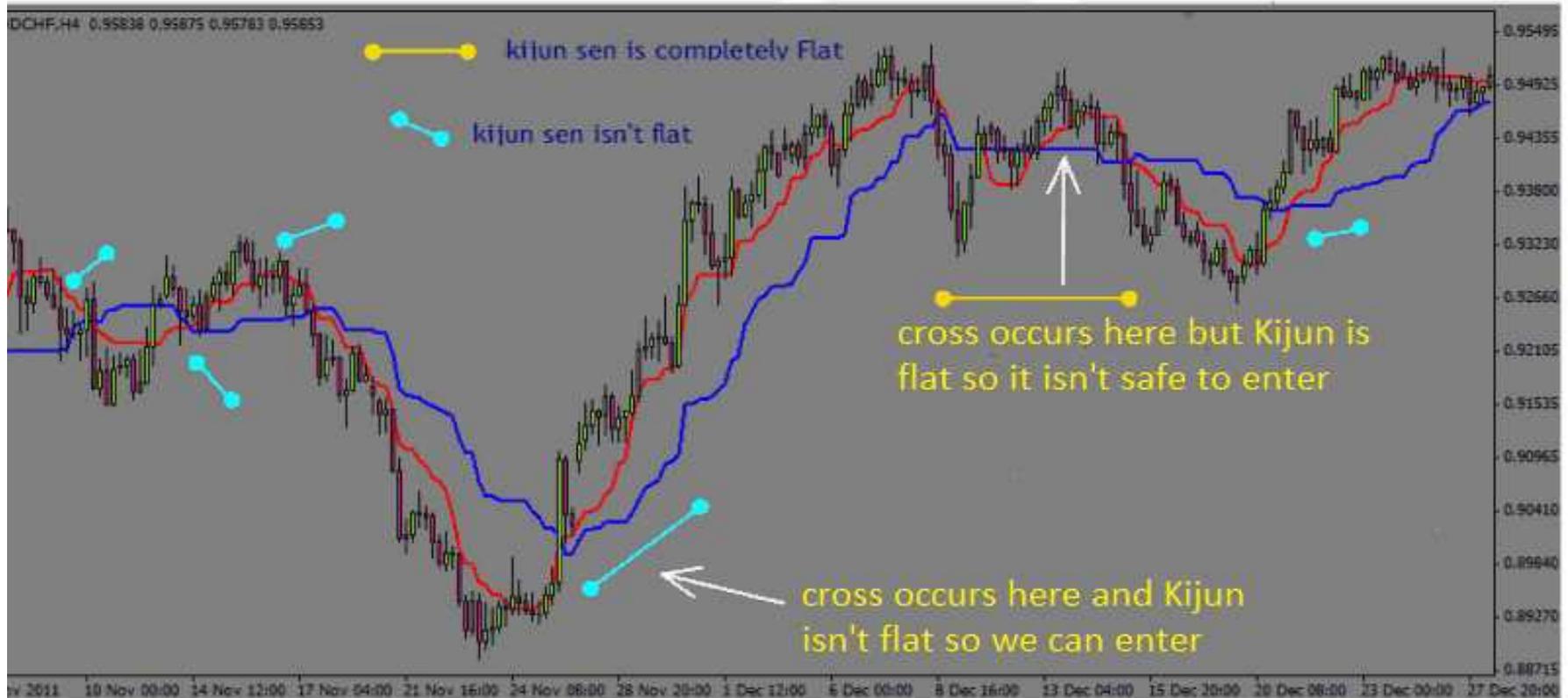
- Remember that Ichimoku works best in trending markets and <u>NOT</u> ranging markets
- Look out for gradient of Kijun line

Incorporating the Cloud
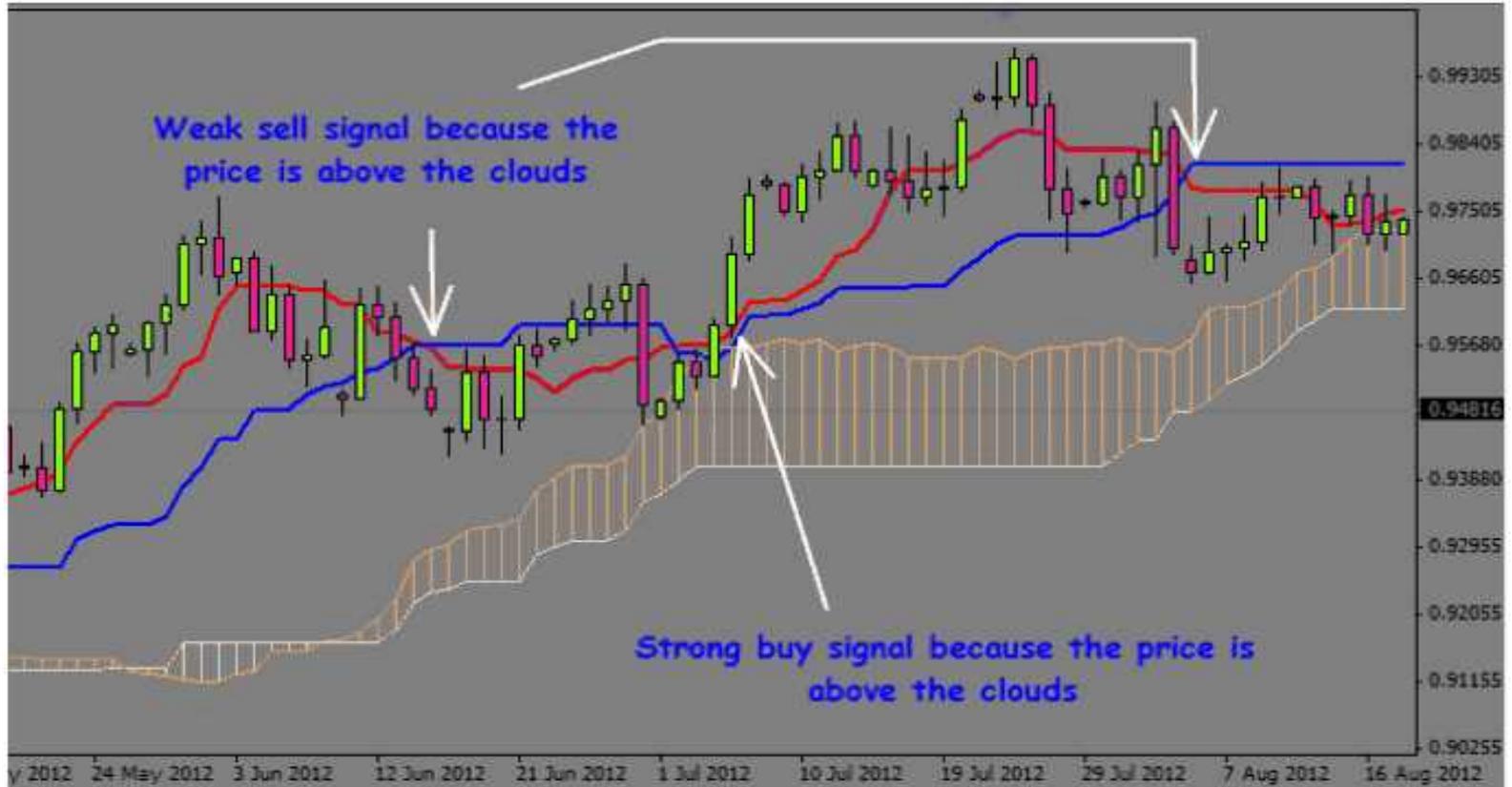
- Buy signals stronger above cloud -> use top of cloud as support
- Sell signals stronger below cloud -> use bottom of cloud as resistance

Putting it all together

- Tenkan and Kijun bullish crossover 🙂
- Above cloud 🙂
- Not in ranging market (cloud and Kijun) 🙂
- Chikou span crosses price 🙂

Putting it all together

entered after Tenkan Kijun crossover and missed out on this amount

2)

3)

1)

Buy

- If Tenkan and Kijun bullish crossover is below cloud, buy after:
  1) Cloud changes direction
  2) Prices emerge upwards from cloud
  3) Chikou span crosses above price

Putting it all together

- If Tenkan and Kijun bearish crossover is above cloud, sell after:
  1) Cloud changes direction
  2) Prices emerge downwards from cloud
  3) Chikou span crosses below price

General Rules for Exit

- Rule one: If the price crosses the Kijun line
- Rule two: If the Tenkan line crosses the Kijun line

General Rules for Exit

- Rule one: If the price crosses the Kijun line
- Rule two: If the Tenkan line crosses the Kijun line

Alternative Rules for Exit

- Using the support/resistance levels of the cloud as exit points
- If prices rebound off these levels after closing trade, re-enter again

Stop Losses

Alternative Rules for Exit
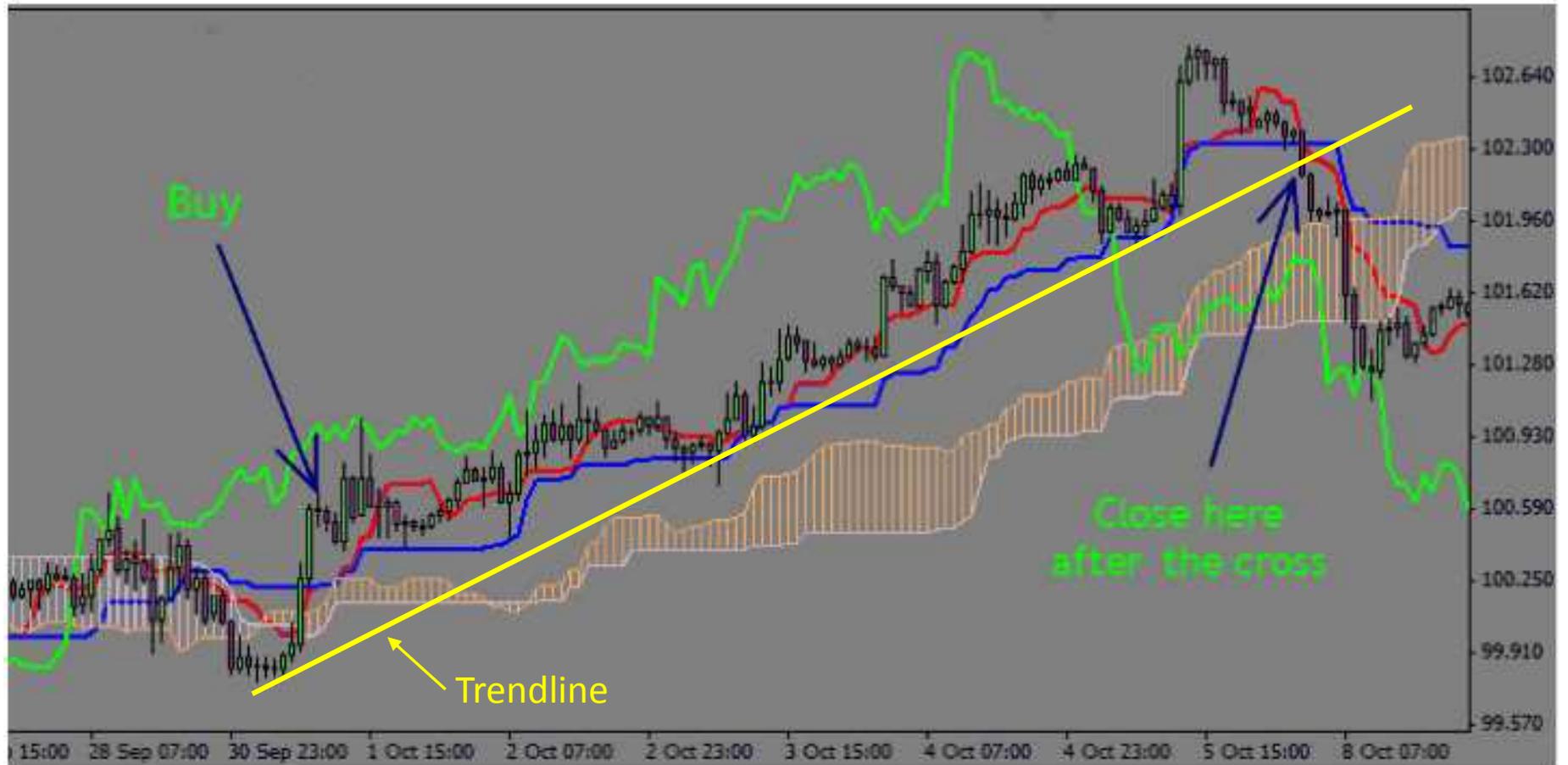
- Use other methods such as trendlines and candlestick patterns
- Pairs well with trend-following indicators such as the ADX

# Trade Examples

Market Outlook Report (09/03/14)

GBPJPY
(Short)

- Price broke below Kijun line after taking support many times
- Chikou Span broke below prices
- Violation of significant trendline

Market Makers

Result
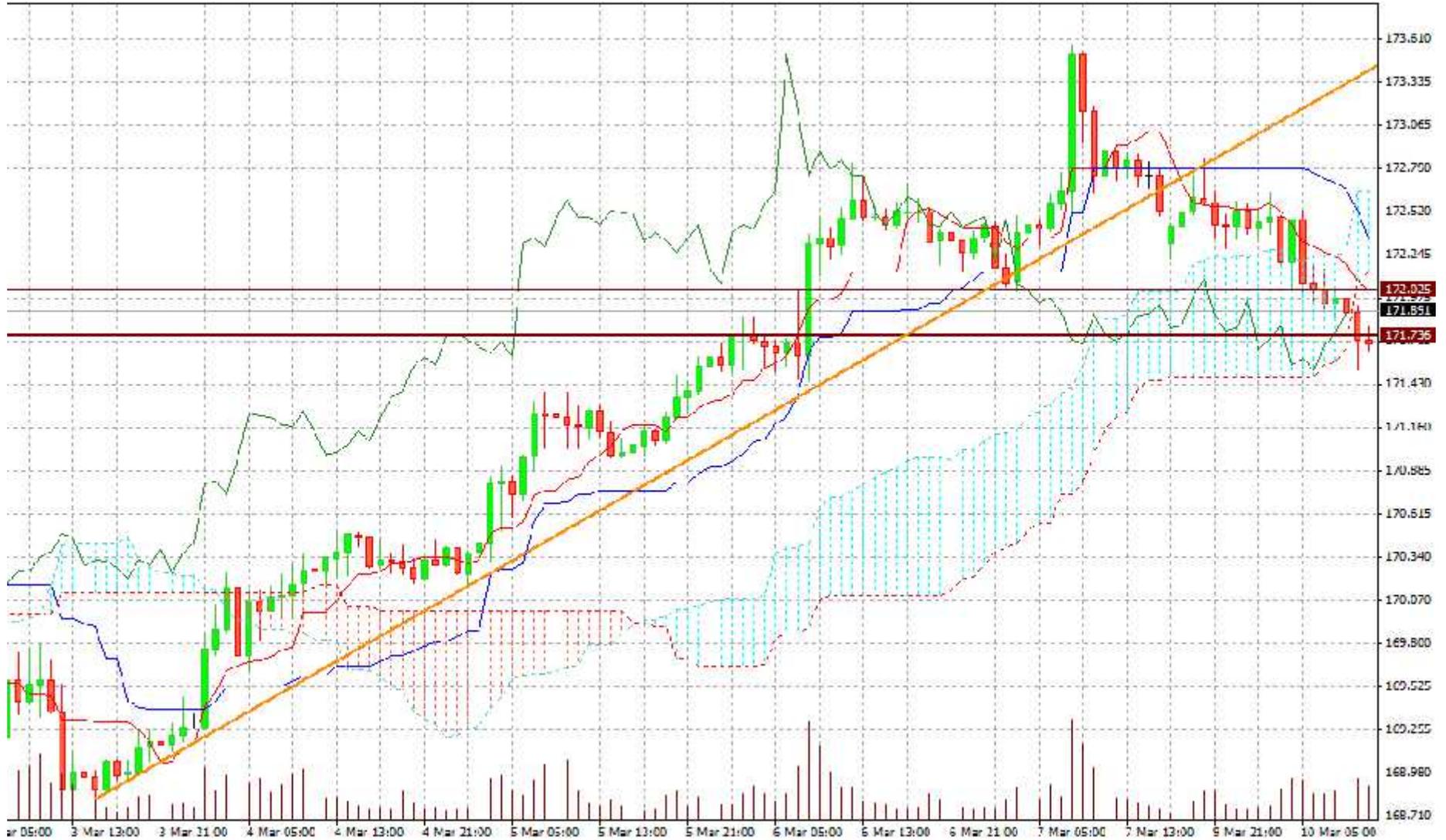
Market Outlook Report (03/02/14)

**GBPUSD
(Short)**

- Candlestick patterns showing bearish implications
- Prices broke through both cloud support levels
- Prices taking resistance from bottom of cloud and Tenkan line
- Chikou span crossed well below prices

Result

Flat Kijun line indicating ranging market

Tenkan Kijun crossover

- Continues on downtrend taking resistance on Tenkan until the Tenkan Kijun crossover and price crossing above Kijun where an exit was made

Market Makers