Technical Analysis Workshop Series

Ichimoku Cloud Charting

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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
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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

EURUSD, 240 min - Euro vs US Dollar

- tenkan sen
- senkou span cloud
- kijun sen
- chikou span

???
Key Concept

The Trend Is Your Friend!
The 4 Key Components of Ichimoku

- Tenkan Line
- Kijun Line
- Chikou Line
- Kumo Cloud
Tenkan-sen (Trigger line)

• Tenkan-sen (転換線) calculation: \((\text{highest high} + \text{lowest low})/2\) 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 Trigger Line because this is where all the action takes place
Comparison with MAs

- 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: \((\text{highest high} + \text{lowest low})/2\) 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)

- Flattened Kijun line attracts the price like a magnet, signals a ranging market
- Avoid entering during ranging market to avoid whipsaws
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
• 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

chinkou span crosses the price going to Down = Sell signal

chinkou span crosses the price going to UP = Buy signal
Entry Signals

- Chikou span (26 periods behind) crossing below price = SELL
- Chikou span (26 periods behind) crossing above price = BUY
• Supports 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: \((\text{Tenkan-sen} + \text{kijun-sen})/2\) plotted 26 periods ahead.
- Senkou (先行) Span 2 calculation: \((\text{highest high} + \text{lowest low})/2\) 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
- The trend is your friend!
• When the Senkou Span A and Senkou Span B swap places, it is an indication of change in trend direction
• The “Kumo Twist” is a replacement of cloud spans 26 candles forward that gives us an indication of trend change
Interpretations

- 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 **above** the Kijun line – Bullish
- When Tenkan line crosses **below** the Kijun line – Bearish
- Bread and butter of Ichimoku
Main Trigger

- Remember that Ichimoku works best in trending markets and **NOT** 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

- 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

entered after Tenkan Kijun crossover and missed out on this amount
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

BULLISH CROSS - KUMO AGREEMENT - 'STRONG SIGNAL'

'Tight,' Stop - Base Line

'Moderate,' Stop - Top of Kumo (in Uptrend)

'Wide,' Stop - Bottom of Kumo
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
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
• Continues on downtrend taking resistance on Tenkan until the Tenkan Kijun crossover and price crossing above Kijun where an exit was made