Kumo Breakout

Kumo Breakout trading or "Kumo Trading" is a trading strategy that can be used on multiple time frames, though it is most widely used on the higher time frames (e.g.: Daily, Weekly, Monthly) of the position trader. Kumo breakout trading is the purest form of trend trading offered by the Ichimoku charting system, as it looks solely to the kumo and price's relationship to it for its signals. It is "big picture" trading that focuses only on whether price is trading above or below the prevailing kumo. In a nutshell, the signal to go long in Kumo breakout trading is when price closes above the prevailing kumo and, likewise, the signal to go short is when price closes below the prevailing kumo.

See the chart in Figure V below for an example of a kumo breakout buy signal:

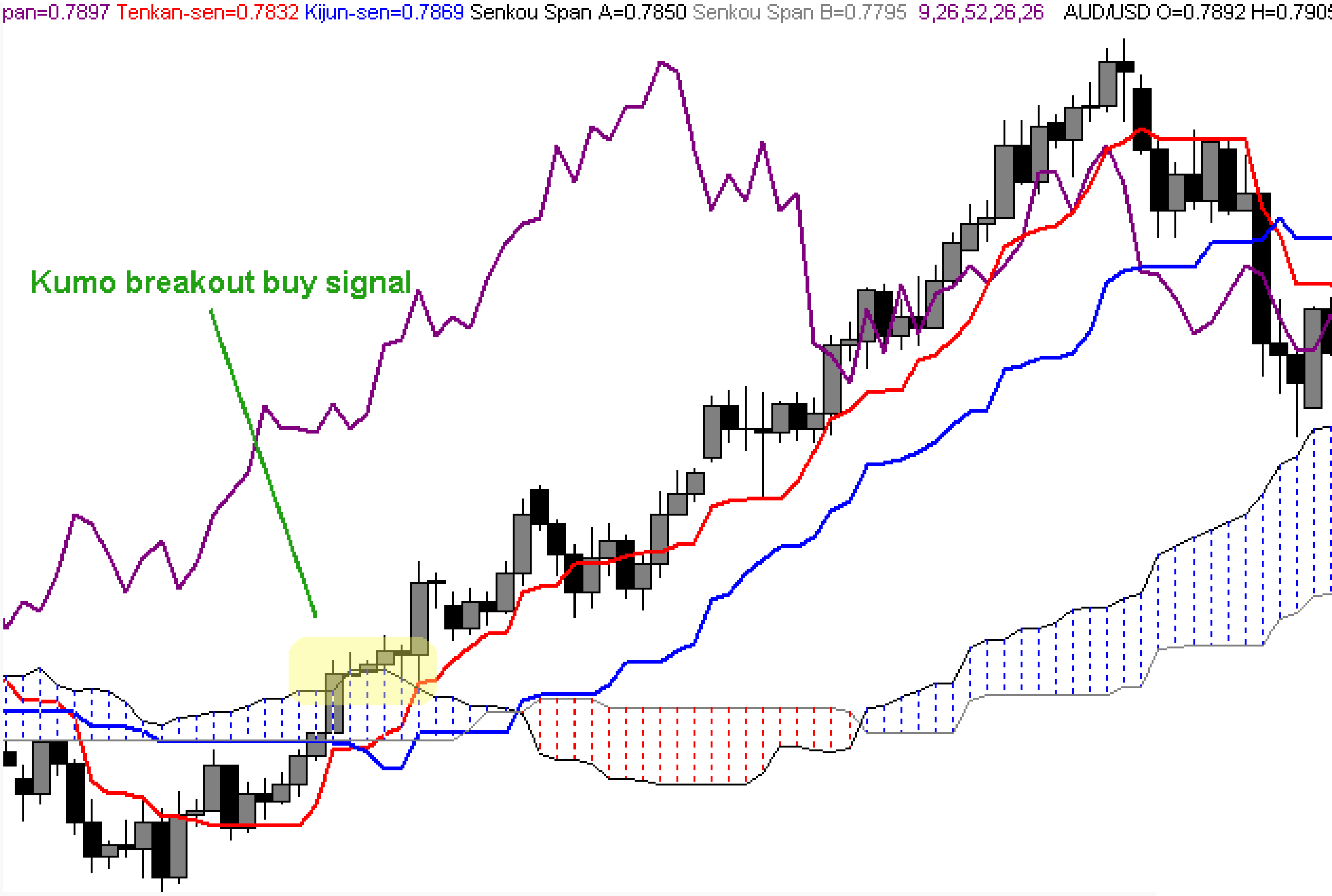

FIGURE V - Kumo Breakout Buy Signal

Entry

The entry for the kumo breakout trading strategy is simple - when price closes above/below the kumo, the trader places a trade in the direction of the breakout. Nevertheless, care does need to be taken to ensure the breakout is not a "head fake" which can be especially prevalent when the breakout takes place from a flat top/bottom kumo. To ensure the flat top/bottom is not going to attract price back to the kumo, it is always advisable to look for another Ichimoku structure to "anchor" your entry to just above/below the kumo breakout. This anchor can be anything from a key level provided by the chikou span, a kumo shadow or any other appropriate structure that could act as additional support/resistance to solidify the direction and momentum of the trade.

Kumo breakout traders also make good use of the leading kumo's sentiment before committing to a trade. If the leading kumo is a Bear kumo and the kumo breakout is also Bear, then that is a very good sign that the breakout is not an aberration of excessive volatility, but rather a true indication of market sentiment. If the leading kumo contradicts the direction of the breakout, then the trader may want to either wait until the kumo does agree with the direction of the trade or use more conservative position sizing to account for the increased risk.

Exit

The exit from a kumo breakout trade is the easiest part of the whole trade. The trader merely waits for their stop-loss to get triggered as price exits the opposite side of the kumo on which the trade is transpiring. Since the trader has been steadily moving their stop-loss up with the kumo during the entire lifespan of the trade, this assures they maximize their profit and minimize their risk.

Stop-Loss Placement

Being a "big picture" trend trading strategy, the stop-loss for the kumo breakout strategy is placed at the point that the trend has been invalidated. Thus, the stop-loss for a kumo breakout trade must be placed on the opposite side of the kumo that the trade is transpiring on, 10 - 20 pips away from the kumo boundary. If price does manage to reach the point of the stop-loss, the trader can be relatively assured that a major trend change has taken place.

Take Profit Targets

While traditional take profit targets can be used with the kumo breakout trading strategy, it is more in-line with the long-term trend trading approach to simply move the stop-loss up/down with the kumo as it matures. This method allows the trade to take full advantage of the trend without closing the trade until price action dictates unequivocally that the trend is over.

Case Study

In the Weekly chart in Figure VI below for AUD/USD we can see a bearish kumo breakout taking place at **point A**. We also see that that leading kumo is distinctly bearish as well, which acts to confirm our breakout sentiment. Given that price is exiting from a flat-bottom kumo and that we want to reduce any risks of entering on a false breakout, we look for a close below the last chikou span support at .7600 before entering. The close we are looking for is achieved shortly thereafter at **point B** and we enter short.

For our stop-loss, we follow the kumo breakout guideline of placing it 10 - 20 pips away from the opposite side of the kumo where our breakout is taking place. In this case, we place it 20 pips away from the top of the kumo above our entry candle at **point C** (.7994).

Once we place our entry and stop-loss orders, we merely wait for the trade to unfold while continually moving our stop-loss down with the prevailing kumo. Given that we are using the Weekly chart as our execution time frame, we prepare ourselves for a very long-term trade. In this case, nearly two years later, price rises enough to break out of the kumo to the other side, where it triggers our buy order some 20 pips away at **point D** netting us over 1100 pips in the process.

FIGURE VI - Kumo Breakout Case Study