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Quick Description

Ichimoku Kinko Hyo is a purpose-built trend trading charting system that has been successfully used in nearly every tradable market. It is unique in many ways, but its primary strength is its use of multiple data points to give the trader a deeper, more comprehensive view into price action. This deeper view, and the fact that Ichimoku is a very visual system, enables the trader to quickly discern and filter "at a glance" the low-probability trading setups from those of higher probability.

History

The charting system of Ichimoku Kinko Hyo was developed by a Japanese newspaper man named Goichi Hosoda. He began developing this system before World War II with the help of numerous students that he hired to run through the optimum formulas and scenarios - analogous to how we would use computer simulated back testing today to test a trading system. The system itself was finally released to the public in 1968, after more than twenty years of testing, when Mr. Hosoda published his book which included the final version of the system.

Ichimoku Kinko Hyo has been used extensively in Asian trading rooms since Hosoda published his book and has been used successfully to trade currencies, commodities, futures, and stocks. Even with such wild popularity in Asia, Ichimoku did not make its appearance in the West until the 1990s and then, due to the utter lack of information in English on how to use it, it was mostly relegated to the category of another "exotic" indicator by the general trading public. Only now, in the early 21st century, are western traders really beginning to understand the power of this charting system.

Equilibrium at a Glance

The name Ichimoku Kinko Hyo, which translates to "Equilibrium chart at a glance" aptly, describes the system and how it is to be used, as described below:

While Ichimoku utilizes five separate lines or components, they are not to be used individually, in isolation, when making trading decisions, but rather used together to form an integrated "whole" picture of price action that can be gleaned "at a glance". Thus, a simple look at an Ichimoku chart should provide the Ichimoku practitioner with a nearly immediate understanding of sentiment, momentum and strength of trend.

Price action is constantly measured or gauged from the perspective of whether it is in relative equilibrium or disequilibrium. Hosoda strongly believed that the market was a direct reflection of human group dynamics or behavior. He felt that human behavior could be described in terms of a constant cyclical movement both away from and back towards equilibrium in their lives and interactions. Each of the five components that make up Ichimoku provide its own reflection of this equilibrium or balance.



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Ichimoku Components

The Ichimoku chart is composed of five separate indicator lines. These lines work together to form the complete "Ichimoku picture". A summary of how each line is calculated is outlined below:

Japanese Name	English Name	Formula
TENKAN SEN	turning line	$(\text{HIGHEST HIGH} + \text{LOWEST LOW})/2$ for the past 9 periods
KIJUN SEN	standard line	$(\text{HIGHEST HIGH} + \text{LOWEST LOW})/2$ for the past 26 periods
CHIKOU SPAN	lagging line	CURRENT CLOSING PRICE time-shifted backwards (into the past) 26 periods
SENKOU SPAN A	1st leading line	$(\text{TENKAN SEN} + \text{KIJUN SEN})/2$ time-shifted forwards (into the future) 26 periods
SENKOU SPAN B	2nd leading line	$(\text{HIGHEST HIGH} + \text{LOWEST LOW})/2$ for the past 52 periods time-shifted forwards (into the future) 26 periods

The Senkou span A and B deserve special mention here as they, together, form the Ichimoku "kumo" or cloud. We cover the kumo and its myriad functions in more detail in the kumo section".

The chart below (**FIGURE 1**) provides a visual representation of each of these five components:

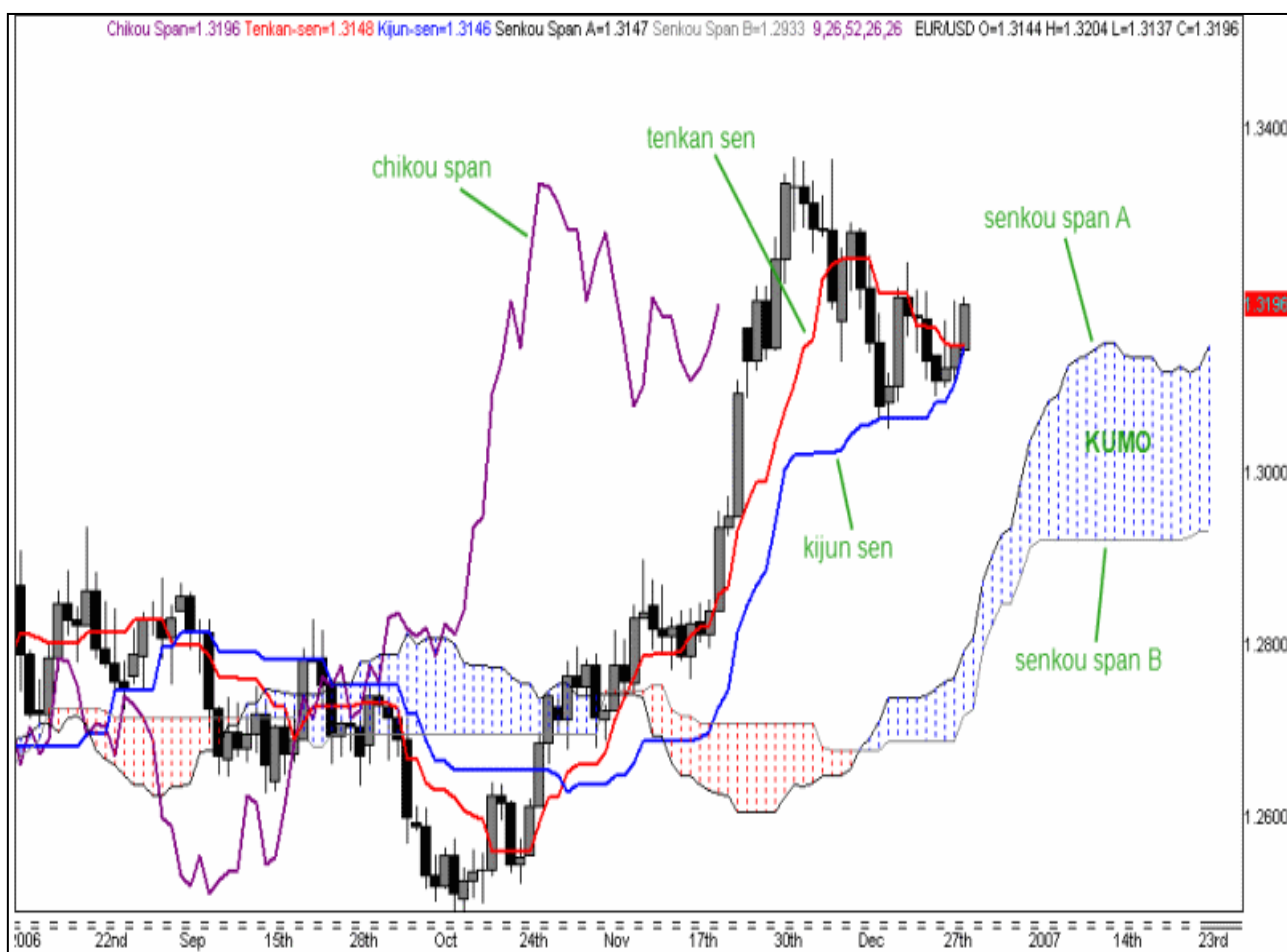


FIGURE 1 - Ichimoku Components

Ichimoku Settings

As you can see in the Ichimoku Components section above, each line calculation has one and sometimes two different settings based on the number of periods considered. After much research and back testing, Goichi Hosoda finally determined that the settings of 9, 26 and 52 were the ideal settings for obtaining optimum results with Ichimoku. He derived the number 26 from what was then the standard Japanese business month (which included Saturdays). The number 9 represents a week and a half and the number 52 represents two months.

The standard settings for an Ichimoku Kinko Hyo chart are 9, 26, 52.

There is some debate around whether or not these settings of 9, 26, 52 are still valid given that the standard work month in the West does not include Saturdays. In addition, in non-centralized markets that do not keep standard business hours like the Forex (which trades around the clock), some have posited that there may be more appropriate settings. Nevertheless, EII Capital, as well as most other professional Ichimoku traders, agree that the standard settings of 9, 26, 52 work extremely well and do not need to be altered.

The argument could be made that, since Ichimoku Kinko Hyo functions as a finely-tuned, integrated whole, changing the settings to something other than the standard could throw the system out of balance and introduce invalid signals.



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Tenkan Sen

The Tenkan Sen, as mentioned, is calculated in the following manner:

$(\text{HIGHEST HIGH} + \text{LOWEST LOW})/2$ for the past 9 periods

While many may compare the tenkan sen to a 9 period simple moving average (SMA), it is quite different in the sense that it measures the average of price's *highest high and lowest low* for the last 9 periods. Hosoda believed that using the average of price extremes over a given period of time was a better measure of equilibrium than merely using an average of the closing price. This study of the tenkan sen will provide us with our first foray into the key aspect of equilibrium that is so prevalent in the Ichimoku Kinko Hyo charting system.

Consider the chart in *Figure 1* below:

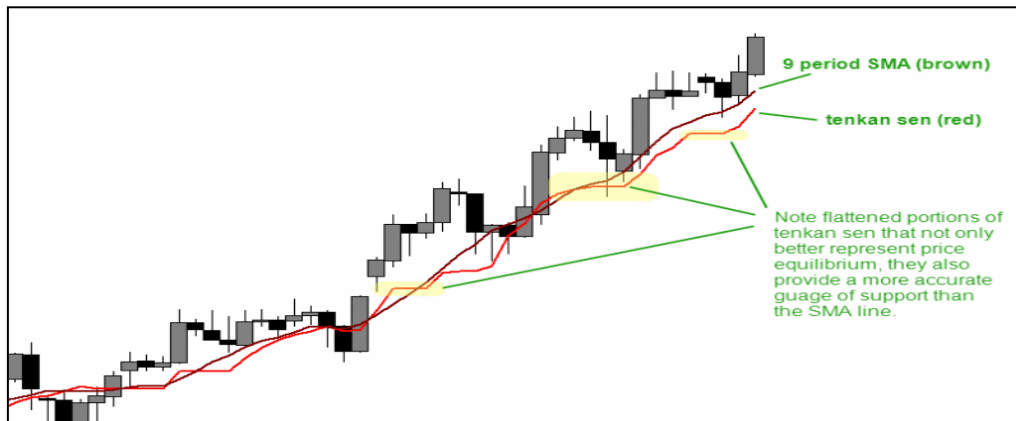


FIGURE 1 - Tenkan Sen vs. 9 Period SMA

As can be seen in the chart, the tenkan sen often exhibits "flattening" whereas the 9 period SMA does not. This is due to the fact that the tenkan sen uses the average of the highest high and lowest low rather than an average of the closing price. Thus, during periods of price ranging, the tenkan sen will clearly show the midpoint of the range via its flat aspect.

When the tenkan sen is flat, it essentially indicates a trendless condition over the last 9 periods.

It can also be seen how the tenkan sen provides a much more accurate level of price support than does the 9 period SMA. With only one exception, price action stayed above the tenkan sen in the three highlighted areas of the chart, while price broke below the SMA numerous times. This is due to the more conservative manner in which the tenkan sen is calculated, which makes it less reactive to small movements in price. On a bearish chart, the tenkan sen will likewise act as a level of resistance.

The angle of the tenkan sen can also give us an idea of the relative momentum of price movements over the last 9 periods. A steeply angled tenkan sen will indicate a nearly vertical price rise over a short period of time or strong momentum, whereas a flatter tenkan sen will indicate lower momentum or no momentum over that same time period.

The tenkan sen and the kijun sen both measure the shorter-term trend. Of the two, the tenkan sen is the "fastest" given that it measures trend over the past 9 periods as opposed to the kijun sen's 26 periods. Thus, given the very short term nature of the tenkan sen, it is not as reliable an indicator of trend as many other components of Ichimoku. Nevertheless, price breaching the tenkan sen can give an early indication of a trend change, though, like all Ichimoku signals, this should be confirmed by the other Ichimoku components before making any trading decision.

One of the primary uses of the tenkan sen is its relation to the kijun sen. If the tenkan sen is above the kijun sen, then that is a bullish signal. Likewise, if the tenkan sen is below the kijun sen, then that is bearish. The crossover of these two lines is actually a trading signal on its own, a topic that is covered in more detail in the Ichimoku Trading Strategies section.

Kijun Sen

The kijun sen is calculated in the following manner:

$$\text{(HIGHEST HIGH + LOWEST LOW)/2 for the past 26 periods}$$

The kijun sen is one of the true "workhorses" of Ichimoku Kinko Hyo and it has myriad applications. Like its brother, the tenkan sen, the kijun sen measures the average of price's *highest high and lowest low*, though it does so over a longer time frame of 26 periods as opposed to the tenkan sen's 9 periods. The kijun sen thus provides us with all the information the tenkan sen does, just on a longer time frame.

Due to the longer time period it measures, the kijun sen is a more reliable indicator of short-term price sentiment, strength and equilibrium than the tenkan sen. If price has been ranging, then the kijun sen will reflect the vertical midpoint of that range (price equilibrium) via its flat aspect. Once price exceeds either the last highest high or lowest low within the last 26 periods, however, the kijun sen will reflect that by either angling up or down, respectively. Thus, short-term trend can be measured by the direction of the kijun sen. In addition, the relative angle of the kijun sen will indicate the strength or momentum of the trend.

Price equilibrium is expressed even more accurately in the kijun sen than in the tenkan sen, given the longer period of time it considers. Thus, the kijun sen can be relied upon as a significant level of price support and resistance (see highlighted areas in **Figure II** below).

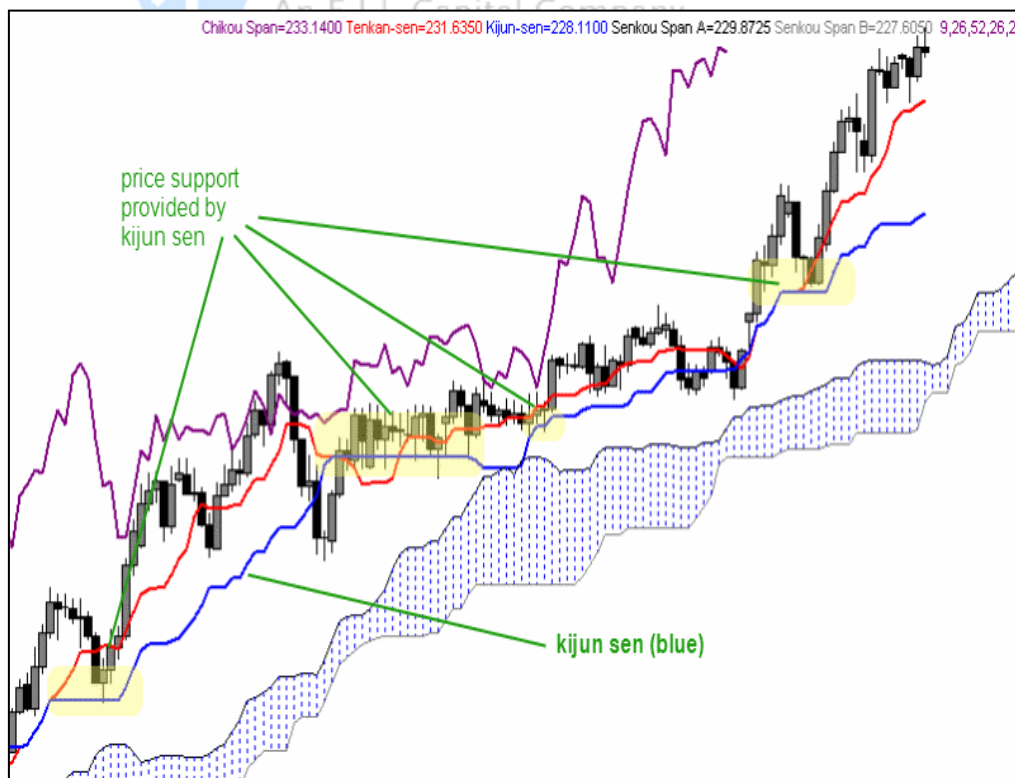


FIGURE II - Kijun Sen Support

Price tends to move alternately away from and back toward the kijun sen in a cyclical fashion due to the kijun sen's strong expression of equilibrium or stasis. Thus, when price momentum is extreme and price moves rapidly up or down over a short period of time, a certain "rubber band" effect can be observed on price by the kijun sen, attracting price back towards itself and bringing it back to equilibrium. An analogy could be made between how price interacts with the kijun sen and how electricity always seeks to return to ground or zero potential. The "ground" in this case is the kijun sen and price will always seek to return to that level. This phenomenon is particularly evident when the kijun sen is flat or trendless, as can be seen in Figure III below:

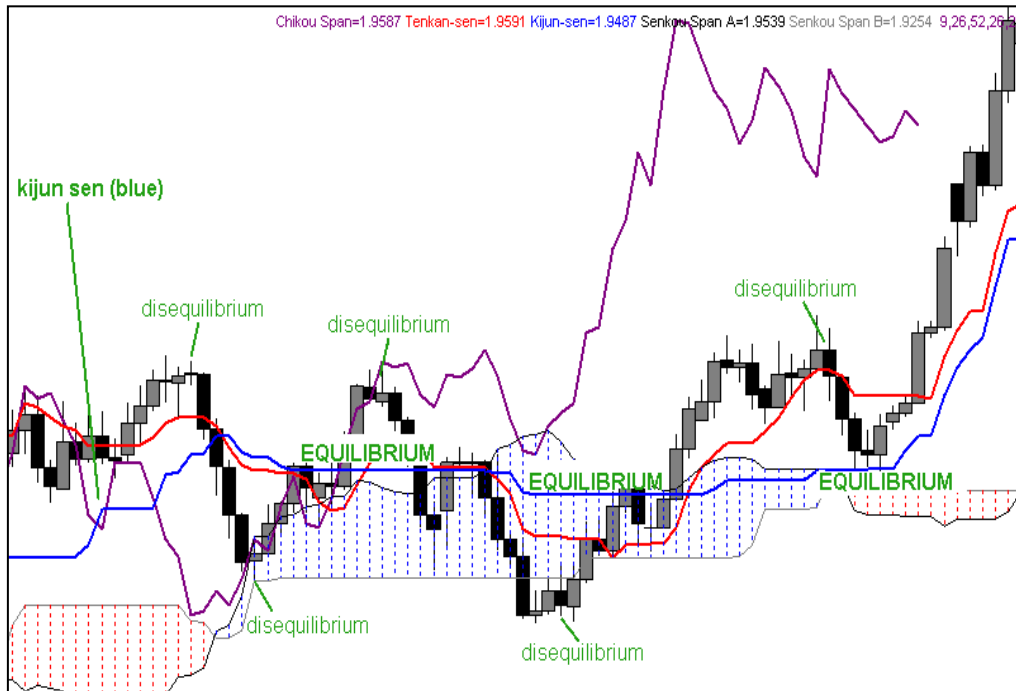


FIGURE III - Kijun Sen "Rubber Band" Effect

Given the dynamics of the kijun sen outlined above, traders can use the kijun sen effectively as both a low-risk point of entry as well as a solid stop loss. These two tactics are employed extensively in both the kijun sen cross as well as the tenkan sen/kijun sen cross strategies which are covered in greater detail in our Ichimoku Trading Strategies section.



Chikou Span

The chikou span is calculated in the following manner:

CURRENT CLOSING PRICE time-shifted backwards (into the past) 26 periods

The chikou span represents one of Ichimoku's most unique features; that of time-shifting certain lines backwards or forwards in order to gain a clearer perspective of price action. In the chikou span's case, the current closing price is time-shifted backwards by 26 periods. While the rationale behind this may at first appear confusing, it becomes very clear once we consider that it allows us to quickly see how today's price action compares to the price action of 26 periods ago, which can help determine trend direction.

If the current close price (as depicted by the chikou span) is lower than the price of 26 periods ago, that would indicate that there is a potential for more bearish price action to come, since price tends to follow trends. Conversely, if the current closing price is above the price of 26 periods ago, that would then indicate the possibility for more bullish price action to follow.

Consider the charts in *Figures IV* and *V* below:

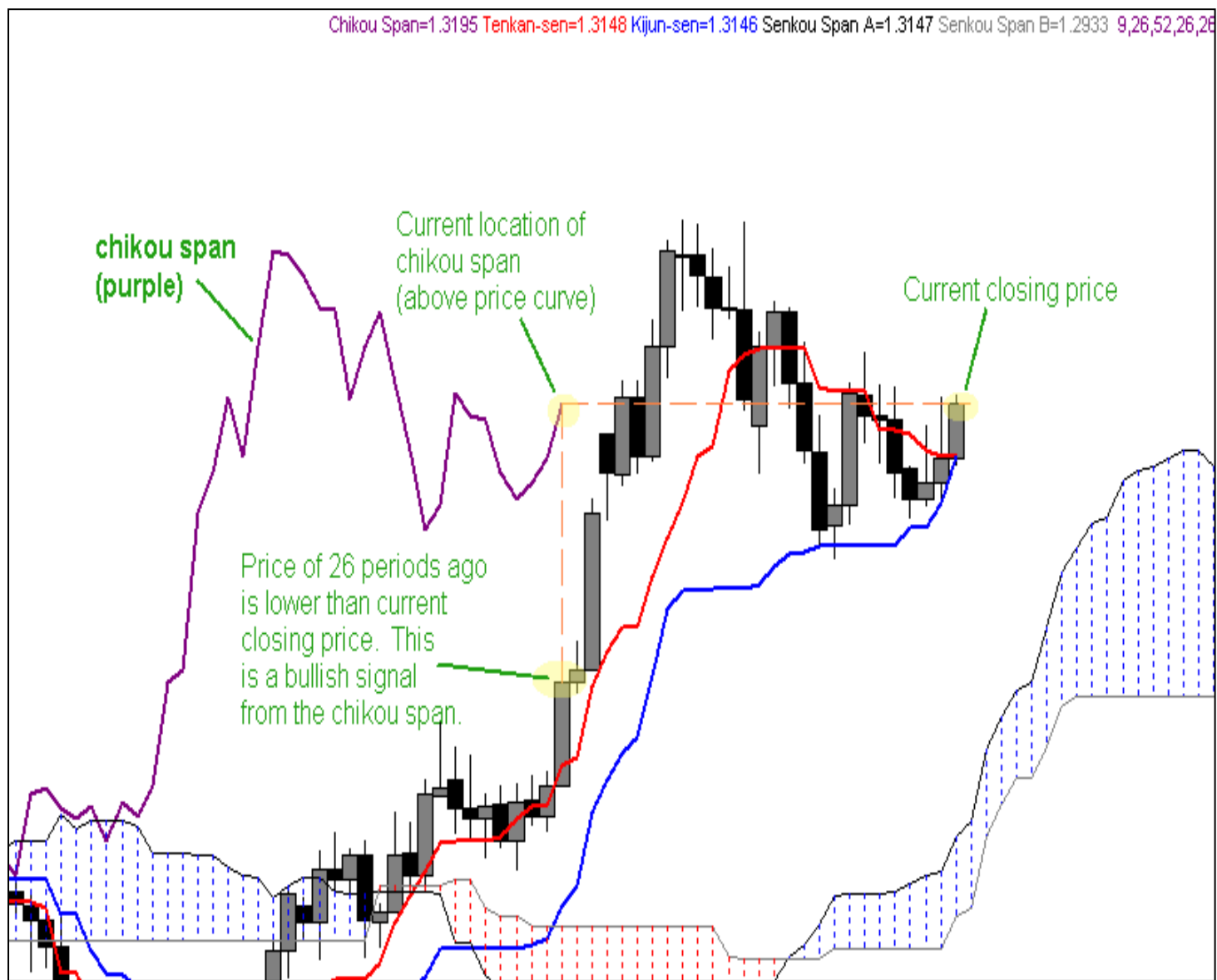


FIGURE IV - Chikou Span in Bullish Configuration

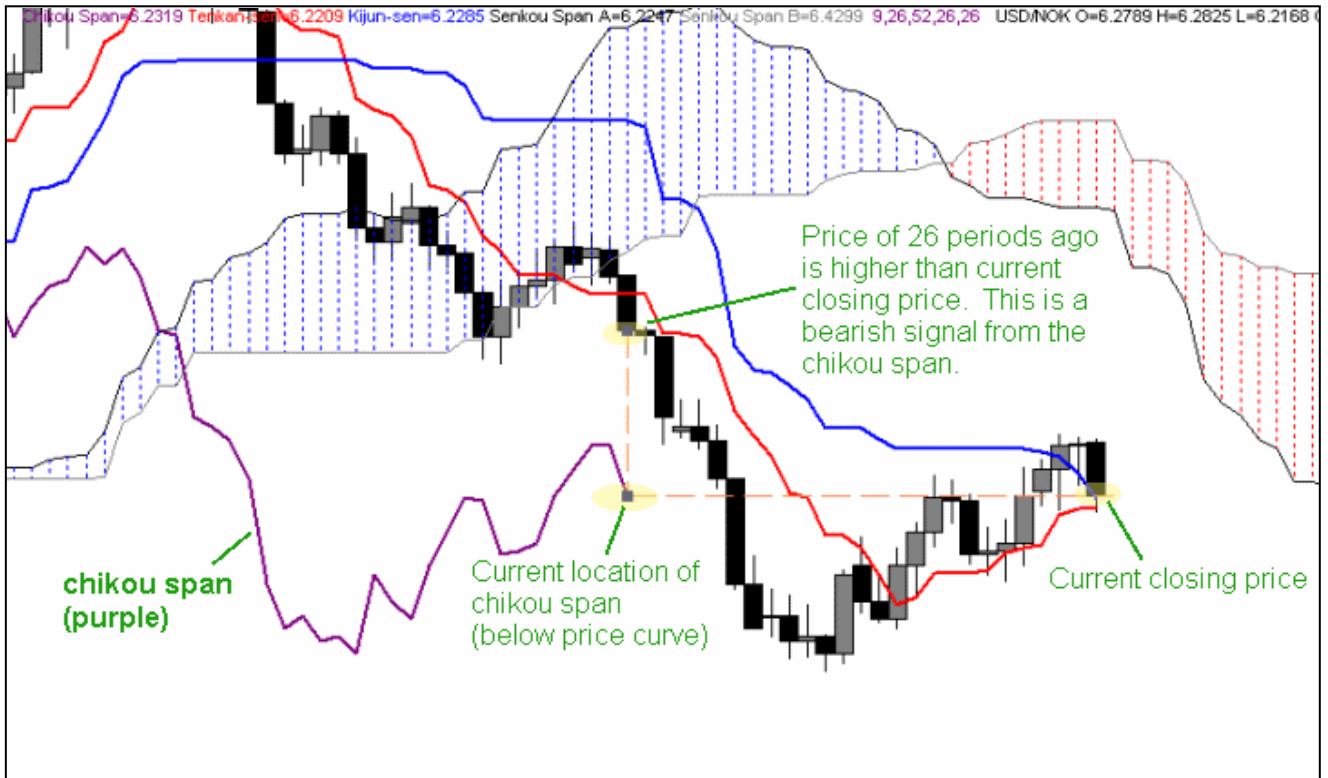


FIGURE V - Chikou Span in Bearish Configuration

In addition to providing us with another piece of the "trend puzzle", the chikou span also provides clear levels of support and resistance, given that it represents prior closing prices. Ichimoku practitioners can thus draw horizontal lines across the points created by the chikou span to see these key levels and utilize them in their analysis and trading decisions (see Figure VI below).

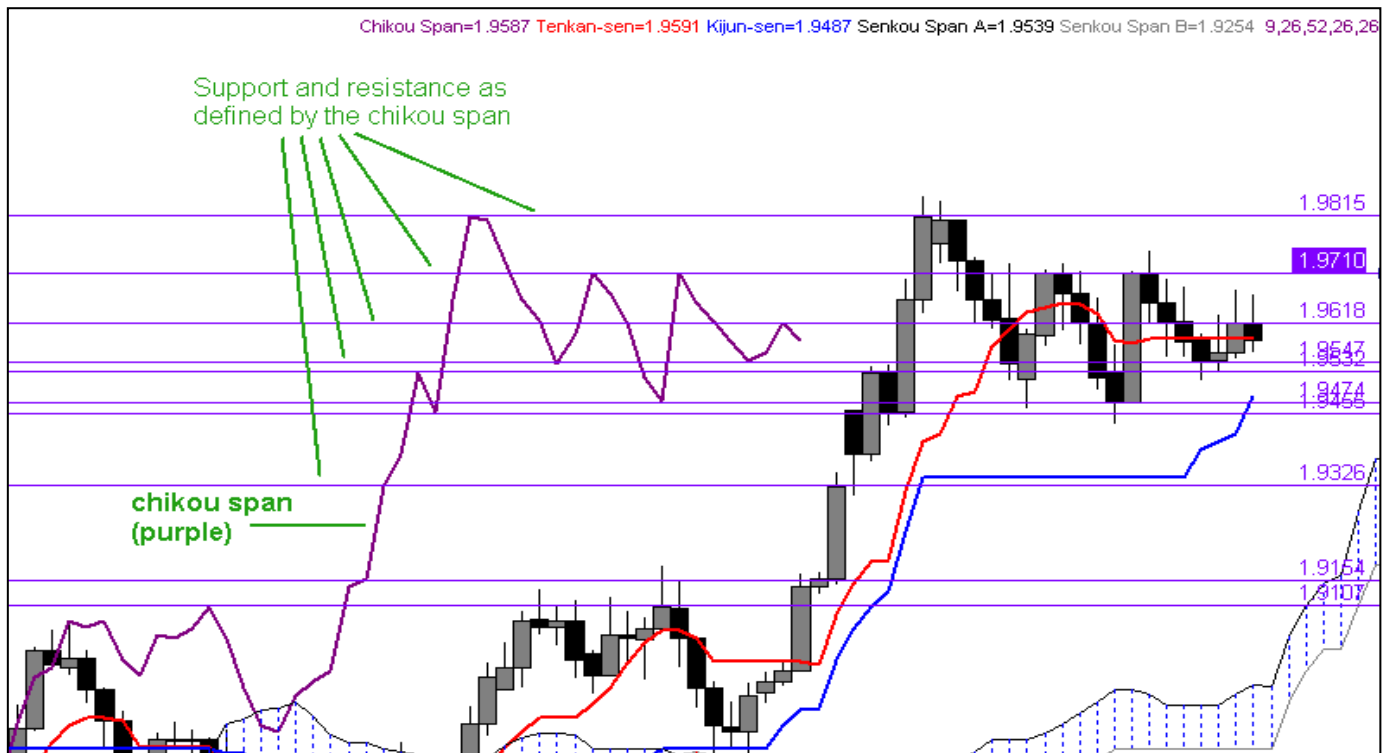


FIGURE VI - Chikou Span Support and Resistance Levels

Senkou Span A

The Senkou span A is calculated in the following manner:

$(\text{TENKAN SEN} + \text{KIJUN SEN})/2$ time-shifted forwards (into the future) 26 periods

The Senkou span A is best-known for its part, along with the Senkou span B line, in forming the kumo, or "Ichimoku cloud" that is the foundation of the Ichimoku Kinko Hyo charting system. The Senkou span A is another one of the time-shifted lines that are unique to Ichimoku. In this case, it is shifted forwards by 26 periods. Since it represents the average of the tenkan sen and kijun sen, the Senkou span A is itself a measure of equilibrium. Goichi Hosoda knew well that price tends to respect prior support and resistance levels, so by time-shifting this line forward by 26 periods he allowed the Ichimoku practitioner to quickly see "at a glance" where support and resistance from 26 periods ago reside compared with current price action.

Senkou Span B

The Senkou span B is calculated in the following manner:

$(\text{HIGHEST HIGH} + \text{LOWEST LOW})/2$ for 52 periods time-shifted forwards (into the future) 26 periods

The Senkou span B is best-known for its part, along with the Senkou span A line, in forming the kumo, or "Ichimoku cloud" that is the foundation of the Ichimoku Kinko Hyo charting system. On its own, the Senkou span B line represents the longest-term view of equilibrium in the Ichimoku Kinko Hyo system. Rather than considering only the last 26 periods in its calculation like the Senkou span A, the Senkou span B measures the average of the highest high and lowest low for the past 52 periods. It then takes that measure and time-shifts it forward by 26 periods, just like the Senkou span A. This convention allows Ichimoku practitioners to see this longer term measure of equilibrium ahead of current price action, allowing them to make informed trading decisions.

While it is possible to trade off of the Senkou span A and B lines on their own, their real power comes in their combined dynamics in the kumo.



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The Kumo Cloud

The basics

The kumo is the very "heart and soul" of the Ichimoku Kinko Hyo charting system. Perhaps the most immediately visible component of Ichimoku, the kumo ("cloud" in Japanese) enables one to immediately distinguish the prevailing "big picture" trend and price's relationship to that trend. The kumo is also one of the most unique aspects of Ichimoku Kinko Hyo as it provides a deep, multi-dimensional view of support and resistance as opposed to just a single, uni-dimensional level as provided by other charting systems. This more encompassing view better represents the way in which the market truly functions, where support and resistance is not merely a single point on a chart, but rather areas that expand and contract depending upon market dynamics.

The kumo itself is comprised of two lines, the Senkou span A and the Senkou span B. Each of these two lines provides their own measure of equilibrium and together they form the complete view of longer-term support and resistance. Between these two lines lies the kumo "cloud" itself, which is essentially a space of "no trend" where price equilibrium can make price action unpredictable and volatile.

Trading within the kumo is not a recommended practice, as its trendless nature creates a high degree of uncertainty.

A Better Measure of Support and Resistance

As mentioned earlier, one of the kumo's most unique aspects is its ability to provide a more reliable view of support and resistance than that provided by other charting systems. Rather than providing a single level for S&R, the kumo expands and contracts with historical price action to give a multi-dimensional view of support and resistance. At times the kumo's ability to forecast support and resistance is nothing short of eerie, as can be seen in the chart below (*Figure I*) for USD/CAD, where price respected the kumo boundaries on five separate occasions over a 30-day span.

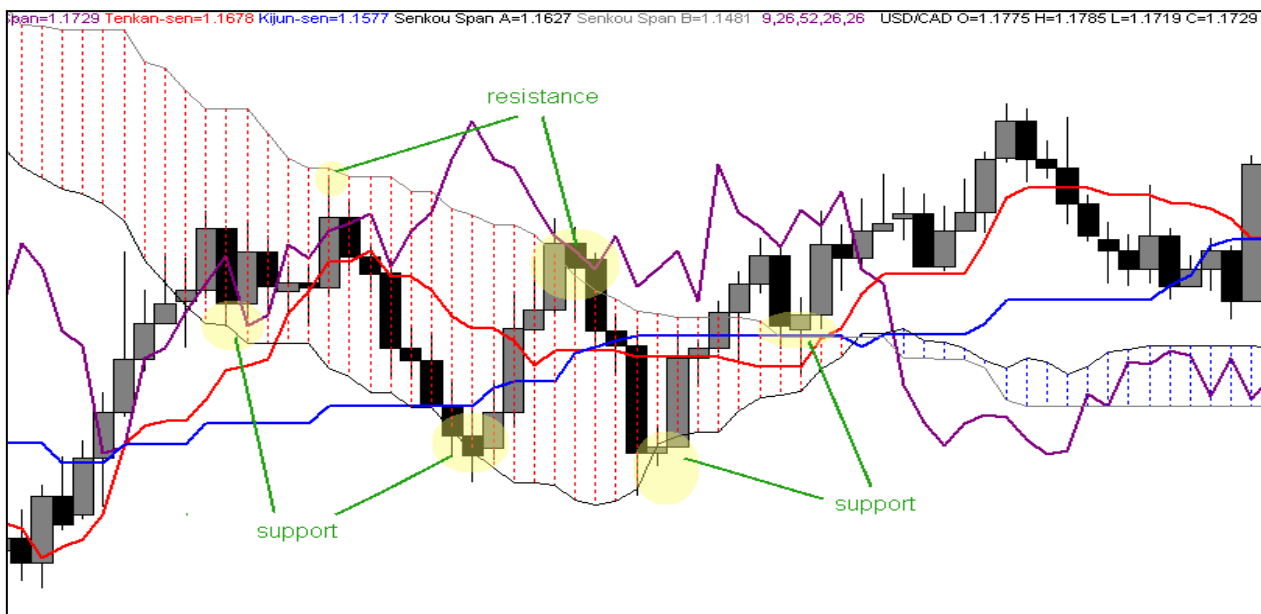


FIGURE I - Kumo Support & Resistance

The power of the kumo becomes even more evident when compared with traditional support and resistance theories. In the chart for Figure II below, we have added a traditional down trend line (A) and a traditional resistance line at 1.1867 (B). Price managed to break and close above both the down trend line and the single resistance level at point C. Traditional S&R traders would take this as a strong signal to go Long this pair at that point. A savvy Ichimoku practitioner, on the other hand, would take one look at price's location just below the bottom edge of the kumo and would *know* that going long at that point is extremely risky given the strong resistance presented by the kumo. Indeed, price did bounce off of the kumo and dropped approximately 250 pips, which would have most likely eradicated the long position of the traditional S&R trader.

Frustrated by his last losing trade, the traditional S&R trader spots another chance to go long, as he sees price break and close above the prior swing high at point D. The Ichimoku trader only sees price trading in the middle of the kumo, which he knows is a trendless area that makes for uncertain conditions. The Ichimoku trader is also aware that the top boundary of the kumo, the Senkou span B, is close at hand and may present considerable resistance, so he again leaves this dubious long trade to the traditional S&R trader as he awaits a better trade opportunity. Lo and behold, after meeting the kumo boundary and making a meager 50 pips, the pair drops like a stone nearly 500 pips.

The example given above illustrates how Ichimoku multi-dimensional view of support and resistance gives the Ichimoku practitioner an "inside view" of S&R that traditional chartists do not have. This enables the Ichimoku practitioner to select only the most legitimate, high reward trade opportunities and reject those of dubious quality and reward. The traditional chartist is left to "hope" that their latest breakout trade doesn't turn into a head fake - a shaky strategy, at best.



FIGURE II - Traditional S&R Theory vs. Ichimoku Kumo

Price's Relationship to the Kumo

In its most basic interpretation, when price is trading above the kumo, that is a bullish signal since it indicates current price is higher than the historical average. Likewise, if price is trading below the kumo that indicates that bearish sentiment is stronger. If price is trading within the kumo that indicates a loss of trend since the space between the kumo boundaries is the ultimate expression of equilibrium or stasis. The informed Ichimoku practitioner will normally first consult price's relationship to the kumo in order to get their initial view on a chart's sentiment. From a trading perspective, the Ichimoku chartist will also always wait for price to situate itself on the correct side of the kumo (above for long trades and below for short trades) on their chosen execution time frame before initiating any trades. If price is trading within the kumo, then they will wait to make any trades until it closes above/below the kumo.

Kumo Depth

As you will see upon studying an Ichimoku chart, the kumo's depth or thickness can vary drastically. The depth of the kumo is an indication of market volatility, with a thicker kumo indicating higher historical volatility and a thinner one indicating lower volatility. To understand this phenomenon, we need to keep in mind what the two lines that make up the kumo, the Senkou span A and the Senkou span B, represent. The Senkou span A measures the average of the tenkan sen and kijun sen, so its "period" is between 9 and 26 periods, since those are the two periods that the Tenkan Sen and Kijun Sen measure, respectively. The Senkou span B line, on the other hand, measures the average of the highest high and lowest low price for the past 52 periods. Thus, the Senkou Span A is essentially the "faster" line of the two, since it measures a shorter period of equilibrium.

Consider the chart in Figure III below. For the previous 52 periods, price made a total range of 793 pips (from a high of 1.2672 to a low of 1.1879). The midpoint or average of this range is 1.2275 and that is thus the value of the Senkou span B. This value is then time-shifted forwards by 26 periods so that it stays in front of current price action. The Senkou span A is more reactive to short-term price action and thus is already reflecting the move of price back up from its low of 1.1879 in its positive angle and the gradually thinning kumo. The Senkou span B, on the other hand, is actually continuing to move *down* as the highest high of the last 52 periods continues to lower as it follows the price curve's move down from the original high of 1.2672. If price continues to rise, the Senkou span A and B will switch places and the Senkou span A will cross above the Senkou span B in a so-called "kumo twist".

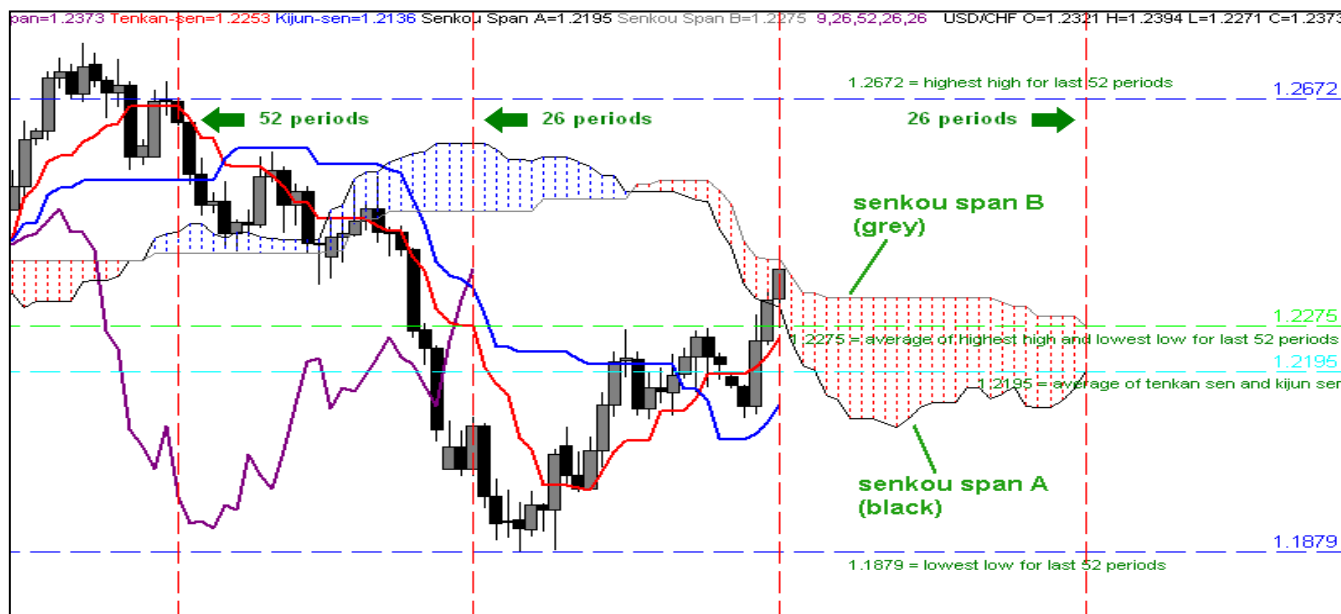


FIGURE III - The Kumo and its Calculations

The kumo expands and contracts based on market volatility. With greater volatility (i.e. where the price of a given currency pair changes direction dramatically over a short period of time), the faster Senkou span A will travel along in relative uniformity with the price curve while the slower Senkou span B will lag significantly given that it represents the average of the highest high and lowest low over the past 52 periods. Thicker kumos are thus created when volatility increases and thinner ones are created when volatility decreases.

Kumo depth or thickness is a function of price volatility

From a trading perspective, the thicker the kumo, the greater support/resistance it will provide. This information can be used by the Ichimoku practitioner to fine tune their risk management and trading strategy. For example, they may consider increasing their position size if their Long entry is just above a particularly thick kumo, as the chances of price breaking back below the kumo is significantly less than if the kumo were very thin. In addition, if they are already in a position and price is approaching a very well-developed kumo on another time frame, they may choose to either take profit at the kumo boundary or at least reduce their position size to account for the risk associated with the thicker kumo.

In general, the thicker and more well-developed a kumo is, the greater the support/resistance it will provide.

Kumo Sentiment

In addition to providing a view of sentiment its relationship with price, the kumo itself also has its own "internal" sentiment or bias. This makes sense when we consider that the kumo is made up of essentially two moving averages, the Senkou span A and the Senkou span B. When the Senkou span A is above the Senkou span B, the sentiment is bullish since the faster moving average is trading above the slower. Conversely, when the Senkou span B is above the Senkou span A, the sentiment is bearish.

This concept of kumo sentiment can be seen in **Figure IV** below:



FIGURE IV - Kumo Sentiment

When the Senkou span A and B switch places, this indicates an overall trend change from this longer-term perspective. Ichimoku practitioners thus keep an eye on the leading kumo's sentiment for clues about both current trend as well as any upcoming trend changes. The "Senkou span cross" is an actual trading strategy that utilizes this kumo twist as both an entry as well as a continuation or confirmation signal. More on this strategy is covered in our Ichimoku Trading Strategies section.

Flat Top/Bottom Kumos

The flat top or bottom that is often observed in the kumo is key to understanding one piece of the kumo's "equilibrium equation". Just like the "rubber band effect" that a flat kijun sen can exert on price, a flat Senkou span B can act in the same way, attracting price that is in close proximity. The reason for this is simple: a flat Senkou span B represents the midpoint of a trendless price situation over the prior 52 periods - price equilibrium. Since price always seeks to return to equilibrium, and the flat Senkou span B is such a strong expression of this equilibrium, it becomes an equally strong attractor of price.

In a bullish trend, this flat Senkou span B will result in a flat bottom kumo and in a bearish trend it will manifest as a flat top kumo. The Ichimoku practitioner can use this knowledge of the physics of the flat Senkou span B in order to be more cautious about both their exits out of the kumo. For instance, when exiting a flat bottom (bullish) kumo from the bottom, rather than merely placing an entry order 10 pips below the Senkou span B, savvy Ichimoku practitioners will look for another point around which to build their entry order to ensure they don't get caught in the flat bottom's "gravitational pull". This method minimizes the number of false breakouts experienced by the trader.

See the highlighted areas in the chart for Figure V below for an example of flat top and bottom kumos:

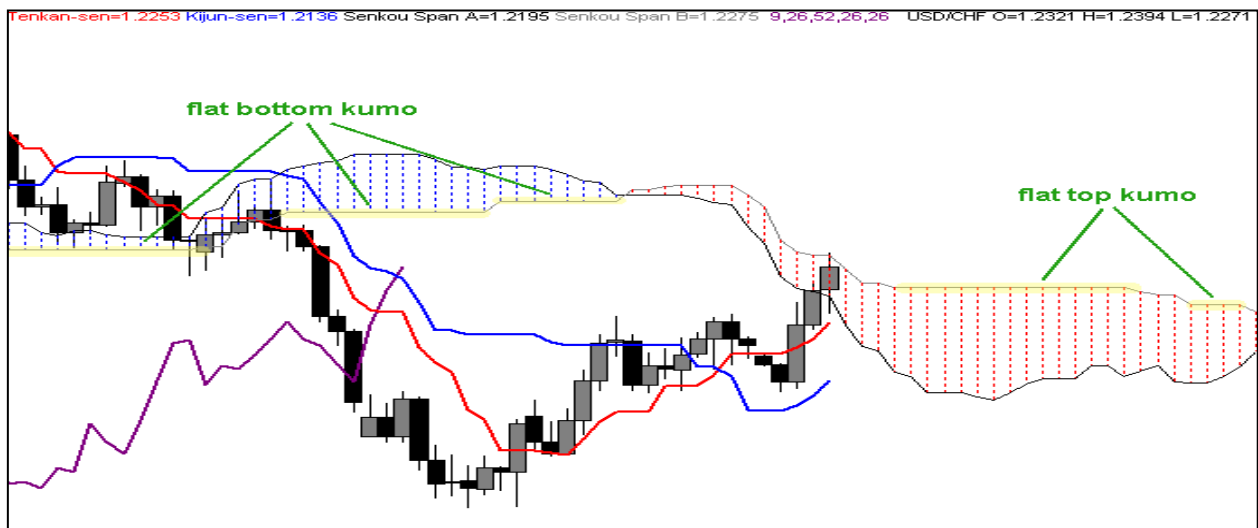


FIGURE V - Flat Top and Flat Bottom Kumos

Trend trading

"Trend following is an investment strategy that takes advantage of long-term moves that play out in various markets... Traders who use this approach can use current market price calculation, moving averages and channel breakouts to determine the general direction of the market and to generate trade signals. This approach is reactive, diversified, long-term, and systematic by nature. Traders who subscribe to a trend following strategy do not aim to forecast or predict markets or price levels; they simply jump on the trend and ride it."

Ichimoku Kinko Hyo and Trend Trading

It must be understood by any who wishes to use the power of Ichimoku Kinko Hyo that it is, first and foremost, a trend trading system. It is further assumed that the trader wielding Ichimoku does so with a solid understanding of the basic tenets of trend trading. This is a key assumption, since knowledge of how to trade the trend is absolutely critical to long-term success with Ichimoku. Ichimoku on its own will not teach one the underlying philosophy of trend following, so we must make a special mental note at this point regarding the key factors involved in successful trend trading.

Trend traders:

- NEVER attempt to predict where the market will go
- NEVER attempt to pick "tops" and "bottoms" of price action
- ALWAYS respect the trend and align their trades accordingly
- Let the market tell them when the trend is finished, not their "intuition"
- Realize that they will necessarily sacrifice some pips at the beginning and end of a trend as they wait for confirmation that the trend beginning and end are authentic
- Look at price action from a long-term perspective and don't get shaken by volatility
- Understand that they will go through some potentially significant but temporary periods of drawdown as the trend matures
- Understand that trend trading can lead to large gains but also equally large losses
- Understand that trends can take place on multiple time frames

Profitable trend trading is 99% mental. If one can conquer their mind and quell the inevitable inner dialogue that screams "Whoa! Looks like price is going against your position! The trend must be ending - SELL NOW!!" and keep their eyes on the long term, they stand an excellent chance at being a successful, happy and stress-free trend trader. However, if they cannot turn off this inner dialogue or at least ignore it and keep their focus on the long-term, then they are in for a very short, very bumpy ride as a Forex trader.

As a charting system that is purpose-built for trend trading, Ichimoku Kinko Hyo can provide the savvy practitioner with a much deeper view of the trend and therefore, more secure entry and exit signals than any other trend trading system available. Nevertheless, it must be combined with the proper mindset in order to be used to its full potential.

NOTE: We talk only about trending trading in this E-Book. However, you can easily use the strategies for Counter trend trading with multiple timeframes.



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Ichimoku Strategies

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Ichimoku is a finely-tuned, integrated charting system where the five lines all work in concert to produce the end result. We emphasize the word "system" here because it is absolutely key to understanding how to use the various trading strategies we outline in this section. Every strategy covered below is to be used and measured against the prevailing Ichimoku "picture" rather than in isolation. This means that, while a scenario that matches a given strategy may have transpired, you still must weigh that signal against the rest of the chart in order to determine whether or not it offers a high-probability trade. Another way of looking at it is that Ichimoku is a system and the discrete strategies for trading it are merely "sub-systems" within that larger system. Thus, looking at trading any of these strategies from an automated or isolated approach that doesn't take into account the rest of what the Ichimoku chart is telling you will meet with mixed long-term success, at best.

Don't misinterpret the message; the strategies outlined below are very powerful and can bring consistent results if used wisely - which are within the scope of the larger Ichimoku picture. We ask that you always keep this in mind when employing these strategies.

Tenkan Sen/Kijun Sen Cross



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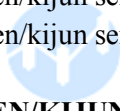
The tenkan sen/kijun sen cross is one of the most traditional trading strategies within the Ichimoku Kinko Hyo system. The signal for this strategy is given when the tenkan sen crosses over the kijun sen. If the tenkan sen crosses above the kijun sen, then it is a bullish signal. Likewise, if the tenkan sen crosses below the kijun sen, then that is a bearish signal. Like all strategies within the Ichimoku system, the tenkan sen/kijun sen cross needs to be viewed in terms of the bigger Ichimoku picture before making any trading decisions, as this will give the strategy the best chances of success.

In general, the tenkan sen/kijun sen strategy can be classified into three major classifications: strong, neutral and weak.

STRONG TENKAN SEN/KIJUN SEN CROSS SIGNAL

A strong tenkan sen/kijun sen cross Buy signal takes place when a bullish cross happens above the kumo.

A strong tenkan sen/kijun sen cross Sell signal takes place when a bearish cross happens below the kumo.



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NEUTRAL TENKAN SEN/KIJUN SEN CROSS SIGNAL

A neutral tenkan sen/kijun sen cross Buy signal takes place when a bullish cross happens within the kumo.

A neutral tenkan sen/kijun sen cross Sell signal takes place when a bearish cross happens within the kumo.

WEAK TENKAN SEN/KIJUN SEN CROSS SIGNAL

A weak tenkan sen/kijun sen cross Buy signal takes place when a bullish cross happens below the kumo.

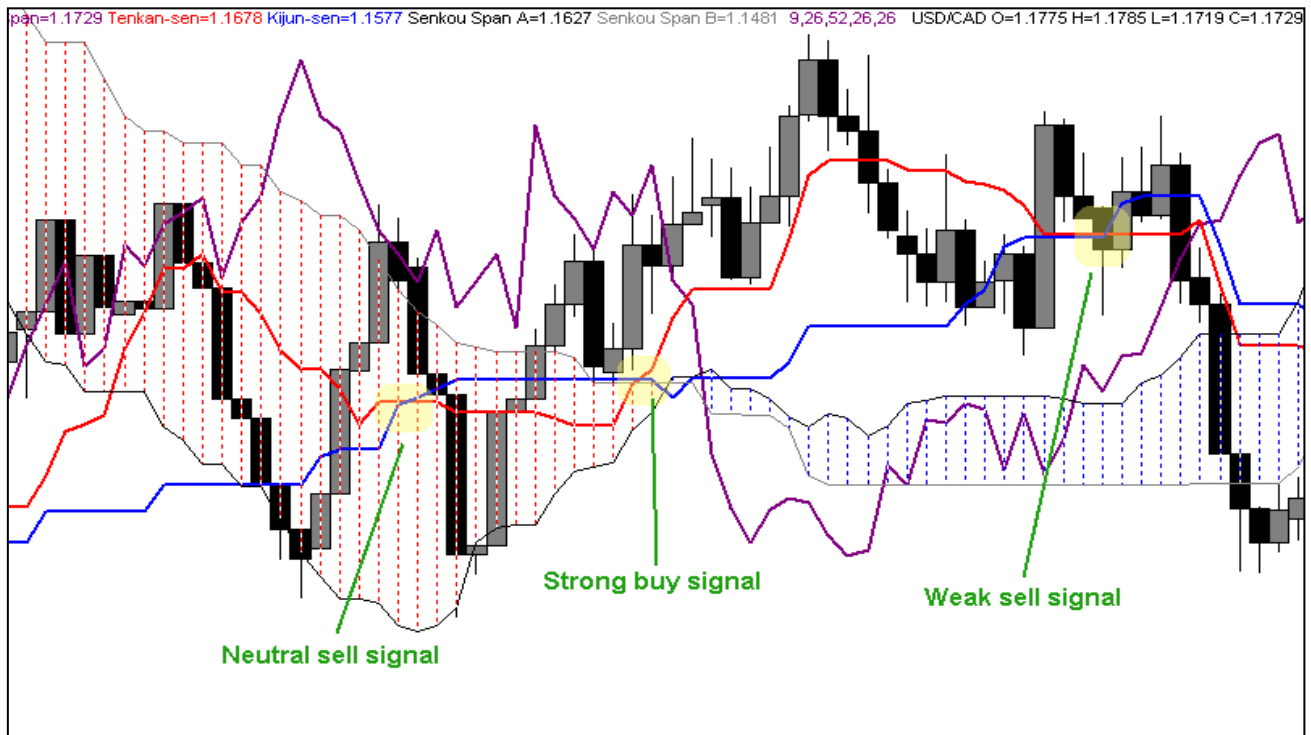
A weak tenkan sen/kijun sen cross Sell signal takes place when a bearish cross happens above the kumo.

See the chart in Figure I below for an example of several classifications of the tenkan sen/kijun sen cross:



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FIGURE I - Tenkan Sen/Kijun Sen Cross Classifications

But wait! Have you checked the chikou span?

With these three major classifications in mind, we will add something else into the equation - the chikou span. As we explained in the section detailing the chikou span, this component acts as a "final arbiter" of sentiment and should be consulted with every single trading signal in the Ichimiku Kinko Hyo charting system. The tenkan sen/kijun sen cross is no different. Each of the three classifications of the TS/KS cross mentioned above can be further classified based on the chikou span's location in relation to the price curve at the time of the cross. If the cross is a "Buy" signal and the chikou span is above the price curve at that point in time, this will add greater strength to that buy signal. Likewise, if the cross is a "Sell" signal and the chikou span is below the price curve at that point in time, this will provide additional confirmation to that signal. If the chikou span's location in relation to the price curve is the opposite of the TS/KS cross's sentiment, then that will weaken the signal.

Entry

The entry for the tenkan sen/kijun sen cross is very straightforward - an order is placed in the direction of the cross once the cross has been solidified by a close. Nevertheless, in accordance with good Ichimoku trading practices, the trader should bear in mind any significant levels of support/resistance near the cross and consider getting a close above those levels before executing their order.

Exit

The exit from a tenkan sen/kijun sen cross will vary with the particular circumstances of the chart. The most traditional exit signal is a tenkan sen/kijun sen cross in the opposite direction of your trade. However, personal risk management and time frame concerns may dictate an earlier exit, or an exit based upon other Ichimoku signals, just as in any other trade.

Stop-Loss Placement

The tenkan sen/kijun sen strategy does not dictate use of any particular Ichimoku structure for stop-loss placement, like some other strategies do. Instead, the trader should consider their execution time frame and their money management rules and then look for the appropriate prevailing structure for setting their stop-loss.

Take Profit Targets

Take profit targeting for the tenkan sen/kijun sen cross strategy can be approached in one of two different ways. It can be approached from a day/swing trader perspective where take profit targets are set using key levels, or from a position trader perspective, where the trader does not set specific targets but rather waits for the current trend to be invalidated by a tenkan sen/kijun sen cross transpiring in the opposite direction of their trade.

Case Study

In the 4H chart in Figure II below we can see a bullish tenkan sen/kijun sen cross at point A. Since this cross took place within the kumo itself, it is considered a "neutral" buy signal, thus we wait for price to exit and close above the kumo to confirm this sentiment before placing our long entry. Price does achieve a close above the kumo at point B (1.5918) and we place our long entry at that point. For our stop-loss, we look for the place where our trade sentiment would be invalidated. In this case, the bottom edge of the kumo provides us with just that at point C (1.5872).

Once we place our entry and stop-loss orders, we merely wait for the trade to unfold while keeping an eye out for potential exit signals. Price rises nicely for the next 10 to 11 days and then, on the 15th day of the trade, price drops enough to have the tenkan sen cross below the kijun sen at point D. This is our exit signal, since Ichimoku is telling us that the sentiment has changed, so we close our order at 1.6014 at point E for a total gain of over 95 pips.

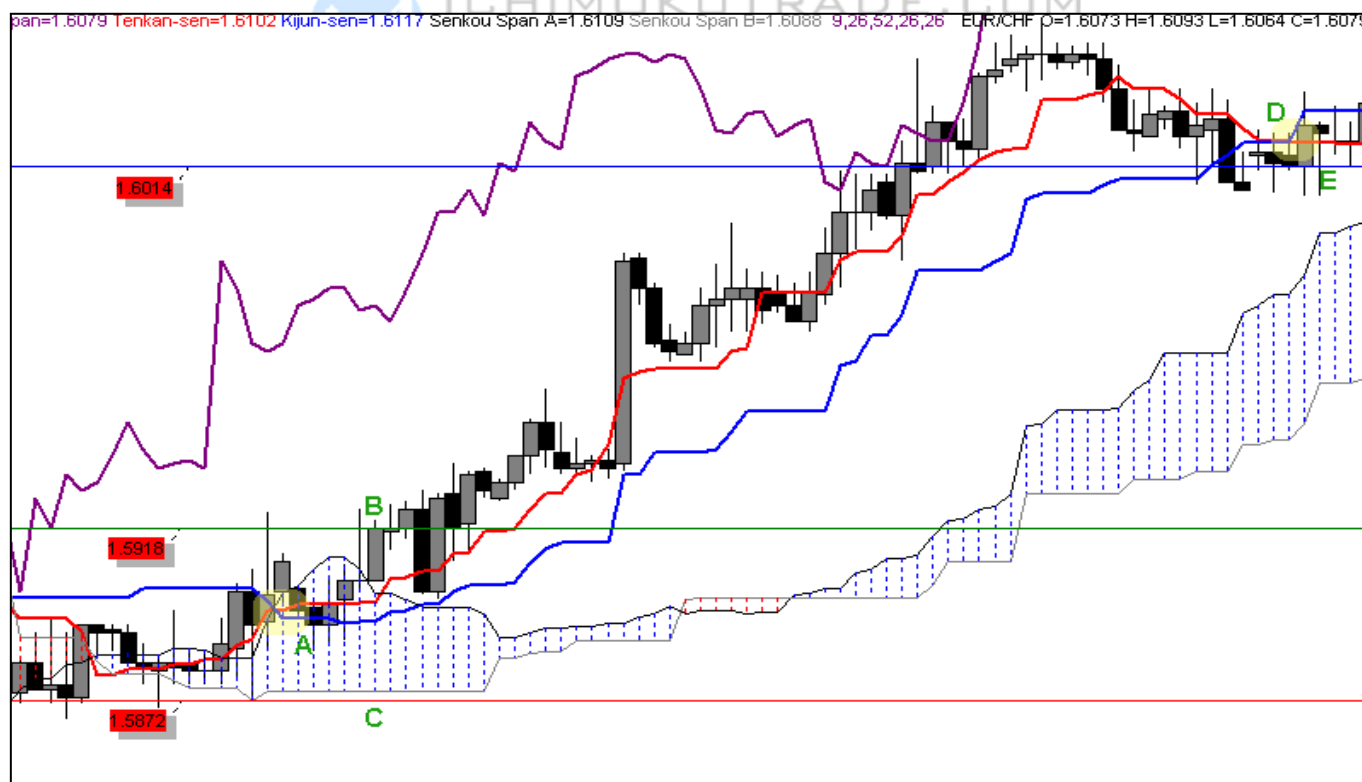


FIGURE II - Tenkan Sen/Kijun Sen Cross Case Study

For maximum risk management on this trade, we also could have moved our stop-loss up with price once price was a conservative distance away from our entry. One option for doing this would be to move the stop-loss up with the kumo, keeping it just below the bottom edge. For even tighter risk management, we could have moved our stop-loss with the kijun sen, keeping it 5 to 10 pips below that line as it moved up.



Kijun Sen Cross

The kijun sen cross is one of the most powerful and reliable trading strategies within the Ichimoku Kinko Hyo system. It can be used on nearly all time frames with excellent results, though it will be somewhat less reliable on the lower, daytrading time frames due to the increased volatility on those time frames. The kijun sen cross signal is given when price crosses over the kijun sen. If it crosses the price curve from the bottom up, then it is a bullish signal. If it crosses from the top down, then it is a bearish signal. Nevertheless, like all trading strategies within the Ichimoku Kinko Hyo system, the kijun sen cross signal needs to be evaluated against the larger Ichimoku "picture" before committing to any trade.

In general, the kijun sen cross strategy can be classified into three major classifications: strong, neutral and weak.

STRONG KIJUN SEN CROSS SIGNAL

A strong kijun sen cross Buy signal takes place when a bullish cross happens above the kumo.

A strong kijun sen cross Sell signal takes place when a bearish cross happens below the kumo.

NEUTRAL KIJUN SEN CROSS SIGNAL

A neutral kijun sen cross Buy signal takes place when a bullish cross happens within the kumo.

A neutral kijun sen cross Sell signal takes place when a bearish cross happens within the kumo.

WEAK KIJUN SEN CROSS SIGNAL

A weak kijun sen cross Buy signal takes place when a bullish cross happens below the kumo.

A weak kijun sen cross Sell signal takes place when a bearish cross happens above the kumo.

See the chart in **Figure III** below for an example of several classifications of the kijun sen cross:



FIGURE III - Kijun Sen Cross Classifications

Chikou span confirmation

As with the tenkan sen/kijun sen cross strategy, the savvy Ichimoku trader will make good use of the chikou span to confirm any kijun sen cross signal. Each of the three classifications of the kijun sen cross outlined above can be further classified based on the chikou span's location in relation to the price curve at the time of the cross. If the cross is a "Buy" signal and the chikou span is above the price curve at that point in time, this will add greater strength to that buy signal. Likewise, if the cross is a "Sell" signal and the chikou span is below the price curve at that point in time, this will provide additional confirmation to that signal. If the chikou span's location in relation to the price curve is the opposite of the kijun sen cross's sentiment, then that will weaken the signal.

Entry

The entry for the kijun sen cross is very straightforward - an order is placed in the direction of the cross once the cross has been solidified by a close. Nevertheless, in accordance with good Ichimoku trading practices, the trader should bear in mind any significant levels of support/resistance near the cross and consider getting a close above those levels before executing their order.

Exit

A trader exits a kijun sen cross trade upon their stop-loss getting triggered when price crossing the kijun sen in the opposite direction of their trade. Thus, it is key that the trader move their stop-loss in lockstep with the movement of the kijun sen in order to maximize their profit.

Stop-Loss Placement

The kijun sen cross strategy is unique among Ichimoku strategies in that the trader's stop-loss is determined and managed by the kijun sen itself. This is due to the kijun sen's strong representation of price equilibrium, which makes it an excellent determinant of sentiment. Thus, if price retraces back below the kijun sen after executing a bullish kijun sen cross, then that is a good indication that insufficient momentum is present to further the nascent bullish sentiment.

When entering a trade upon a kijun sen cross, the trader will review the current value of the kijun sen and place their stop-loss 5 to 10 pips on the opposite side of the kijun sen that their entry is placed on. The exact number of pips for the stop-loss "buffer" above/below the kijun sen will depend upon the dynamics of the pair and price's historical behaviour the kijun sen as well as the risk tolerance of the individual trader, but 5 to 10 pips should be appropriate for most situations. When looking to enter Short, the trader will look to place their stop-loss just above the current kijun sen and when looking to enter Long, the trader will place their stop-loss just below the current kijun sen.

Once the trade is underway, the trader should move their stop-loss up/down with the movement of the kijun sen, always maintaining the 5 to 10 pip "buffer". In this way, the kijun sen itself acts as a "trailing stop-loss" of sorts and enables the trader to keep a tight hold on risk management while maximizing profits.

Take Profit Targets

Take profit targeting for the kijun sen cross strategy can be approached in one of two different ways. It can be approached from a day/swing trader perspective where take profit targets are set using key levels, or from a position trader perspective, where the trader does not set specific targets but rather waits for the current trend to be invalidated by price crossing back over the kijun sen in the opposite direction of their trade.

Case Study

In the 1D chart in Figure IV below for USD/CHF we can see a bullish kijun sen cross at point A. While the initial cross is above the kumo and therefore a relatively strong cross, it is still beneath a very key chikou span level (not visible on this chart), so we wait until we get a close above that key level before entering at point B. At this point, we also have the additional benefit of confirmation from a bullish tenkan sen/kijun sen cross and a nice upward angle to

the kijun sen, bolstering our prospects for more bullish price action even more. For our stop-loss, we follow the kijun sen trading strategy guidelines and place it 10 pips below the prevailing kijun sen at point C.

Once we place our entry and stop-loss orders, we merely wait for the trade to unfold while continually moving up our stop-loss with the kijun sen. Price rises nicely for the next 40 days staying well above the kijun sen. After this point, price begins to drop and, on the 44th day, price crosses the kijun sen and hits our stop-loss at point D closing out our trade and netting us a profit of 641 pips.

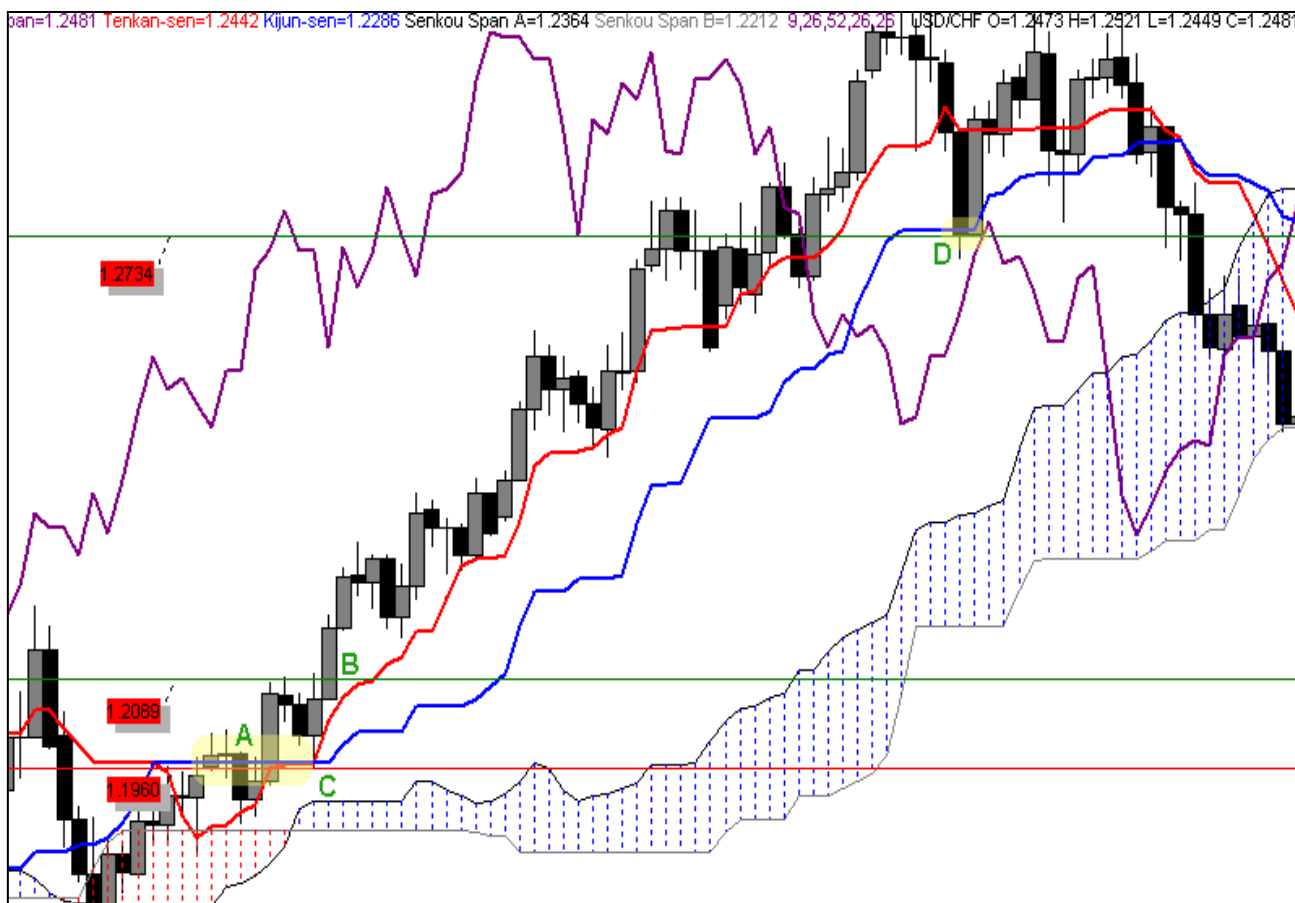


FIGURE IV - Kijun Sen Cross Case Study

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:

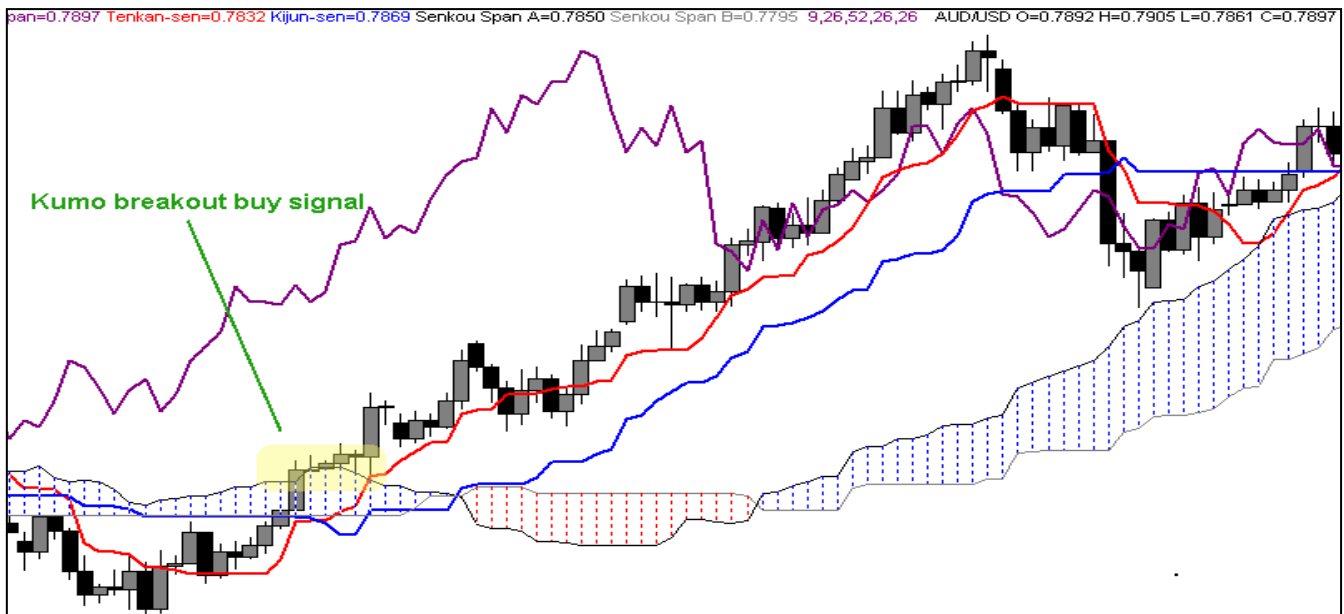


FIGURE V - Kumo Breakout Buy Signal

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.

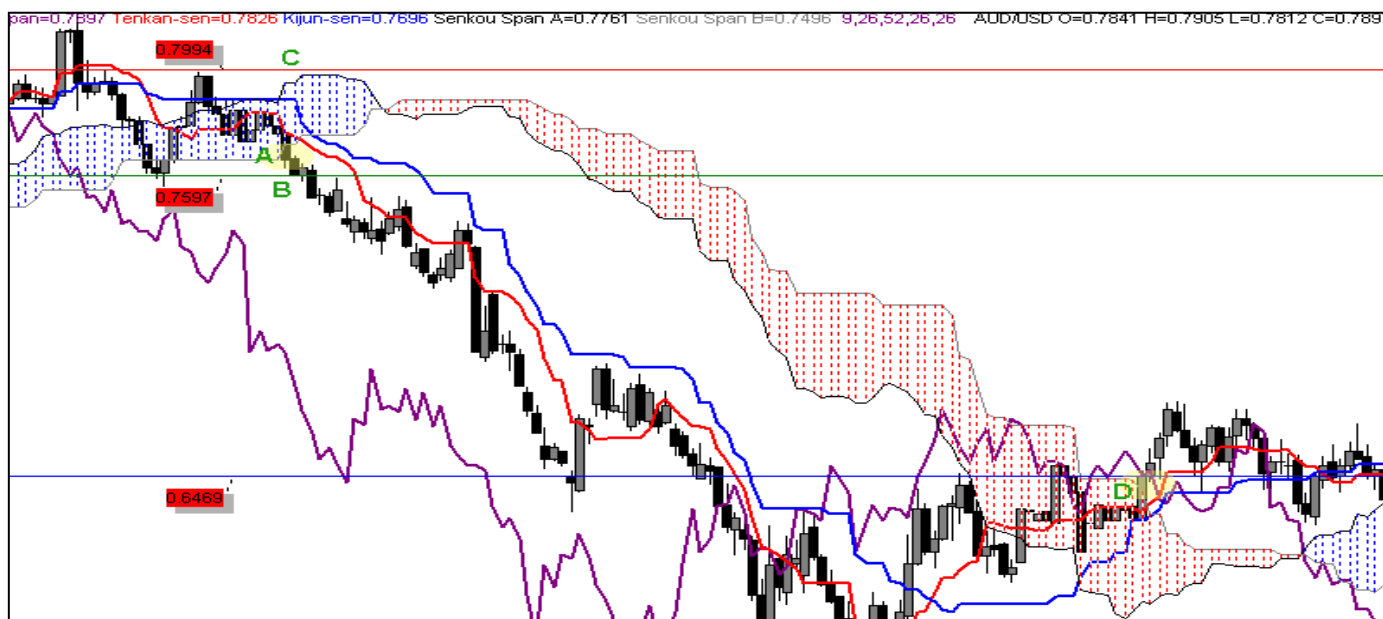


FIGURE VI - Kumo Breakout Case Study

Senkou Span Cross

The Senkou span cross is one of the lesser known trading strategies within the Ichimoku Kinko Hyo system. This is mostly due to the fact that the Senkou span cross tends to be more commonly used as an additional confirmation with other trading strategies rather than being used as a standalone trading strategy in its own right. However, it is nonetheless a solid trend trading strategy and can definitely be used on its own.

Given that the Senkou span cross strategy, like the kumo breakout trading strategy, utilize the kumo for signal generation, it is best employed on the longer time frames of the Daily chart and above. The Senkou span cross signal is given when the Senkou span A line crosses over the Senkou span B line of the kumo. If the Senkou span A crosses the Senkou span B from the bottom up, then it is a bullish signal. If it crosses from the top down, then it is a bearish signal. Nevertheless, like all trading strategies within the Ichimoku Kinko Hyo system, the Senkou span cross signal needs to be evaluated against the larger Ichimoku "picture" before committing to any trade.

The thing to keep in mind with the Senkou span cross strategy is that the "cross" signal will take place 26 periods *ahead* of the price action as the kumo is time-shifted 26 periods into the future. This relationship is obvious when one looks at the current price on a live chart, but less so when looking at historical price action. In addition, while all Ichimoku strategies should be exercised with the larger Ichimoku picture in mind, this is particularly important with the Senkou span cross. Thus, determining the overall trend on higher time frames first and then taking only Senkou span signals that align with that trend on the lower timeframes is the best implementation of the Senkou span strategy.

In general, the Senkou span cross strategy can be classified into three (3) major classifications: strong, neutral and weak.

STRONG SENKOU SPAN CROSS SIGNAL

A strong Senkou span cross signal takes place when the price curve is on the side of the kumo that matches the sentiment of the Senkou span cross.

NEUTRAL SENKOU SPAN CROSS SIGNAL

A neutral Senkou span cross signal takes place when the price curve is inside the kumo at the time of the Senkou span cross.

WEAK SENKOU SPAN CROSS SIGNAL

A weak Senkou span cross signal takes place when the price curve is on the opposite side of the kumo that matches the sentiment of the Senkou span cross.

The chart in *Figure VII* below shows some classifications of the Senkou span cross. The dashed vertical lines represent the 26-period relationship between price and the Senkou span cross. Thus, point A represents a bullish Senkou span cross that can be categorized as a "strong" buy signal due to the fact that price (point B), at the point of the cross, was trading above the kumo. Likewise, point C represents a bearish Senkou span cross that generated a strong sell signal due to price's location at point D below the kumo. The Senkou span cross at Point E generated a neutral buy signal since price (point F) was trading within the kumo at that point.



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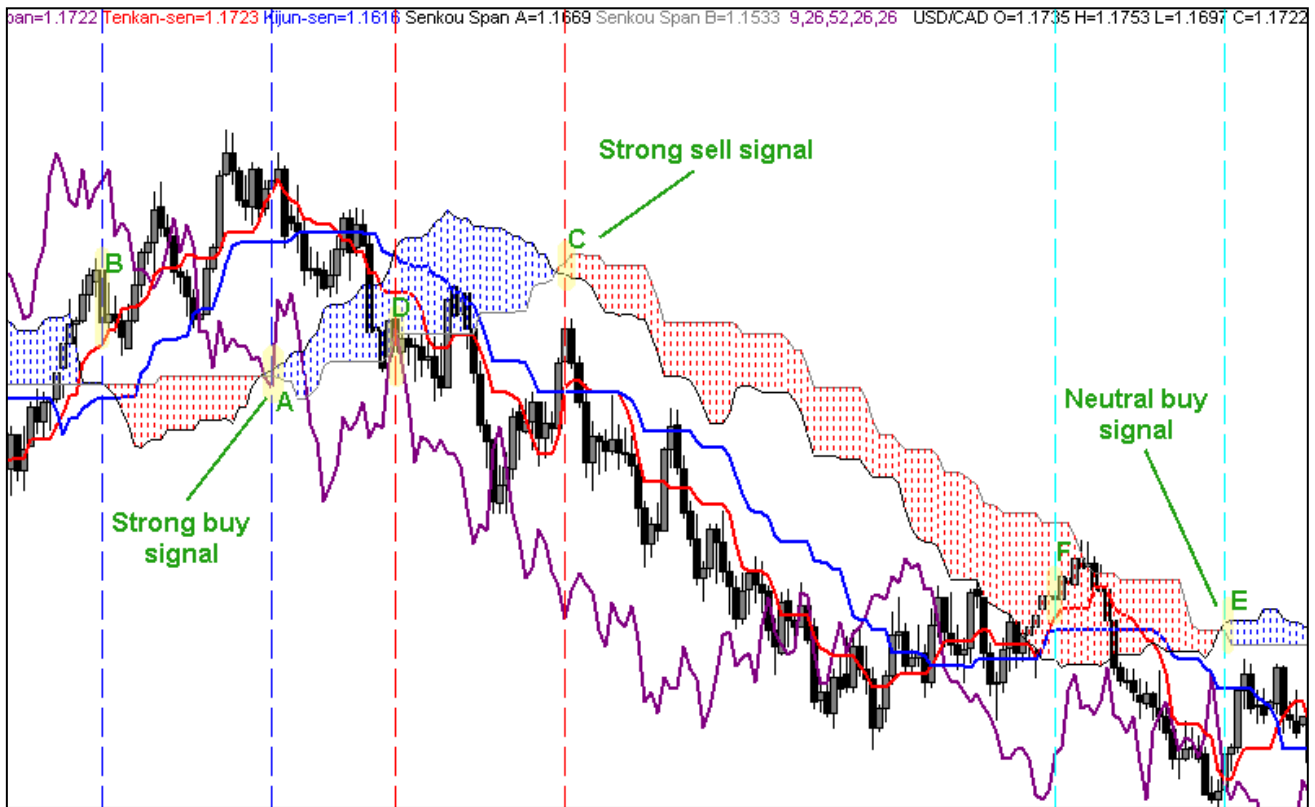


FIGURE VII - Senkou Span Cross Classifications

Entry

The entry for the Senkou span cross trading strategy is relatively simple, though, as mentioned above, entries do require even more attention to the overall trend on higher time frames before executing any trades. After determining the trend on the higher time frames, the trader looks for a fresh Senkou span cross in the same direction as the overall trend that has been solidified by a close on the execution time frame. Once they identify a suitable opportunity, they initiate a position in the direction of the Senkou span sentiment. As in all Ichimoku trading strategies, traders will be well-advised to consider the relative strength of the cross (vis-a-vis price's location relative to the kumo) as well as the sentiment provided by the remaining Ichimoku components at the time of the cross in order to ensure the most optimum entry.

It is worth mentioning here that the strong bull (buy) signal outlined in our first chart that took place in April of 2005, while technically strong from a 1D perspective, was not aligned with the overall downtrend in-place on the Weekly and Monthly charts. Thus, traders taking this trade signal and using a Senkou span cross in the opposite direction as their exit signal would have actually lost pips. This underscores the importance of evaluating sentiment on multiple time frames and trading with the overall trend.

Exit

The exit from a Senkou span cross trade is generally signalled by a Senkou span cross in the opposite direction of the trade, though other exit signals may be taken depending upon the trader's risk tolerance and profit goals.

Stop-Loss Placement

Being a "big picture" trend trading strategy like the kumo breakout strategy, the stop-loss for the Senkou span cross strategy is placed on the opposite side of the kumo that the trade is transpiring on, 10 - 20 pips away from the kumo boundary.

Take Profit Targets

While traditional take profit targets can be used with the Senkou span cross trading strategy, it is more in-line with the long-term trend trading approach to wait for a Senkou span cross to transpire in the opposite direction of the trade before closing out the position. 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 Daily chart in Figure VIII below for USD/CAD we can see a bearish Senkou span cross at point A. This cross corresponds to the candle at point B. Since the candle closed just below the kumo, the signal is considered a strong one given that its sentiment agrees with the sentiment of the bearish Senkou span cross. In addition, we confirm that the direction of this signal is aligned with the overall downtrend in-place on the Weekly and Monthly time frames, so we know that we are trading with the trend. Nevertheless, we are wary of the flat bottom kumo just to the right of the candle, which could act as an attractor for price, so we look for a conservative entry point that will ensure we will not get caught in any false breakouts. The last chikou span support at 1.2292 looks like a good anchor point for assuring this. Price closes below this point a couple of days later at 1.2290 and we enter short at point C.

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 trade is taking place. In this case, we place it 20 pips away from the top of the kumo above our entry candle at point D (1.2542).

Once we place our entry and stop-loss orders, we wait for the trade to unfold while continually moving our stop-loss down with the prevailing kumo. In this case, a bit more than four months later, price ranging has created a fresh Senkou span cross in the opposite direction of our trade at point E, corresponding to the candle at point F where we close out our trade at 1.1908, netting us over 380 pips in the process.

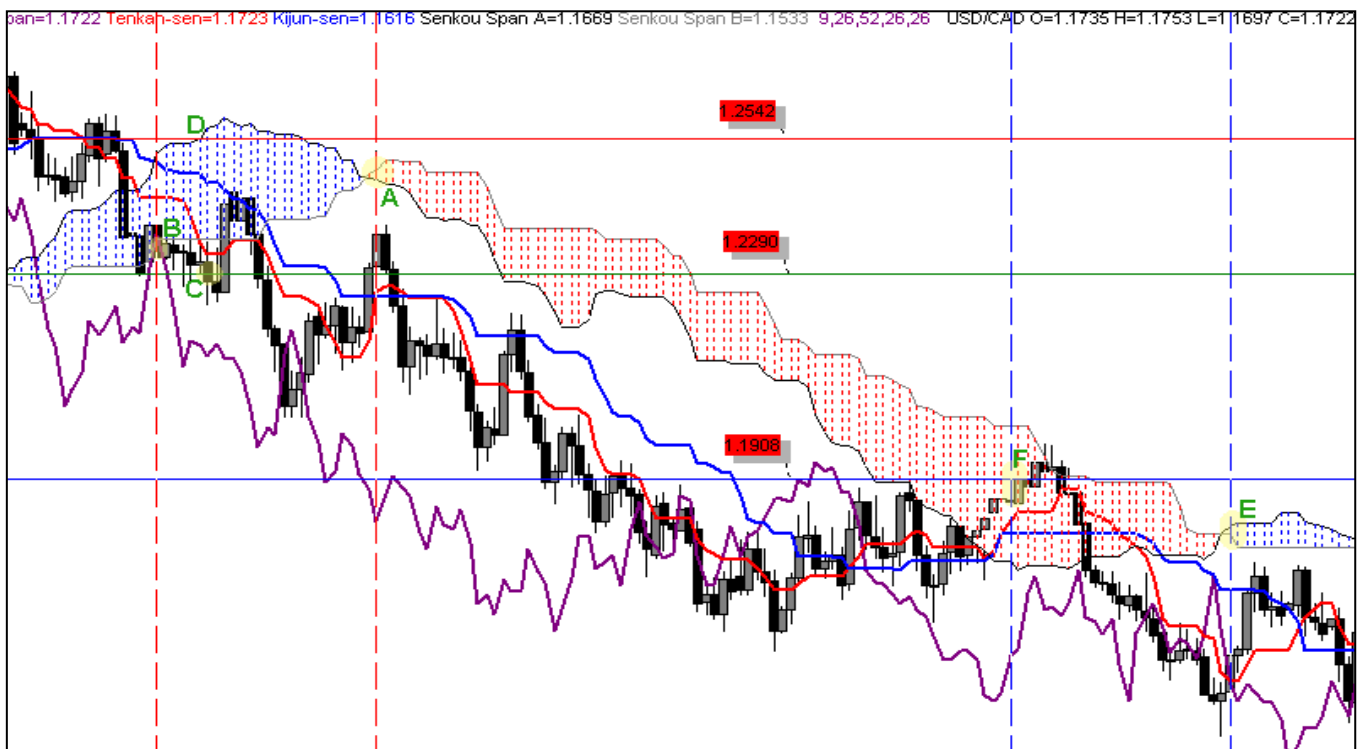


FIGURE VIII - Senkou Span Cross Case Study



Chikou Span Cross

For those that have been using the Ichimoku Kinko Hyo charting system for any length of time, utilizing the chikou span cross strategy should be like second nature. Why? Because the chikou span cross is essentially the "chikou span confirmation" that savvy Ichimoku traders utilize to confirm chart sentiment before entering any trade. This confirmation comes in the form of the chikou span crossing through the price curve in the direction of the proposed trade. If it crosses through the price curve from the bottom up, then it is a bullish signal. If it crosses from the top down, then it is considered a bearish signal.

Thus, we already know the power of the chikou span cross via its use as a confirmation strategy. However, when used within some simple guidelines, the chikou span cross can be used as its own standalone trading strategy with very good success.

Like many other Ichimoku trading strategies, the chikou span cross strategy uses price's relationship to the kumo to categorize its signals into three major classifications: strong, neutral and weak.

STRONG CHIKOU SPAN CROSS SIGNAL

- Buy signal takes place when a bullish cross takes place and current price is above the kumo
- Sell signal takes place when a bearish cross takes place and current price is below the kumo.

NEUTRAL CHIKOU SPAN CROSS SIGNAL

- Buy signal takes place when a bullish cross takes place and current price is within the kumo
- Sell signal takes place when a bearish cross takes place and current price is within the kumo.

WEAK CHIKOU SPAN CROSS SIGNAL

- Buy signal takes place when a bullish cross takes place and current price is below the kumo
- Sell signal takes place when a bearish cross takes place and current price is above the kumo.

The chart in Figure IX below provides several examples of the chikou span cross. Given the fact that the chikou span is a measure of closing price shifted 26 periods into the past, we must always keep in mind both the location of the chikou span in relation to the price curve (the "cross" itself) and the current candle and its relation to the kumo. Thus, Point A1 is the point where the chikou span crossed the price curve downward and Point A2 is the closing candle that initiated that bearish cross. However, since the candle at Point A2 was above the prevailing kumo at the point of the cross, this particular signal would be categorized as a "weak" bearish cross. A strong bullish cross can be seen in Points B1 and B2 since the chikou span crossed upward through the price curve and the closing candle at that point in time was above the prevailing kumo. Points C1 and C2 represent a weak bearish cross given that they transpired above the prevailing kumo.



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FIGURE IX - Chikou Span Cross Classifications

Entry



The entry for the chikou span cross is relatively straightforward - the trader initiates a position in the direction of the chikou span cross after taking into consideration the cross's strength and other chart signals. For the highest probability of success, the trader will also look for the chikou span itself to be free of the kumo as the chikou span can often interact with the kumo much like the price curve.

Exit

The most traditional exit for a chikou span cross trade is generally signalled by a chikou span cross in the opposite direction of the trade, though other exit signals may be taken depending upon the trader's risk tolerance and profit goals.

Stop-Loss Placement

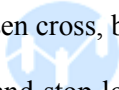
The chikou span strategy does not dictate use of any particular Ichimoku structure for stop-loss placement, like some other strategies do. Instead, the trader should consider their execution time frame and their money management rules and then look for the appropriate prevailing structure for setting their stop-loss.

Take Profit Targets

Take profit targeting for the chikou span cross strategy can be approached in one of two different ways. It can be approached from a day/swing trader perspective where take profit targets are set using key levels, or from a position trader perspective, where the trader does not set specific targets but rather waits for the current trend to be invalidated by a chikou span cross transpiring in the opposite direction of their trade.

Case Study

In the Daily chart in Figure X below for USD/CHF we can see a bullish chikou span cross at point A. However, while it is technically a strong cross, the chikou span is still below significant resistance provided by the two chikou span points at 1.2090. In addition, the tenkan sen and kijun sen are in a flat configuration which doesn't provide any additional confirmation. Thus we wait for a more convincing setup before entering Long. This is achieved five days later at Point B1 when the chikou span moves back up through the price curve after a brief dip below. We wait for the daily candle to close and then enter long at 1.2164 at Point B2. Our confidence in this entry is increased by the bullish tenkan sen/kijun sen cross that has since transpired.

For our stop-loss, we consider the prevailing structures and decide to place it just below the kijun sen at 1.1956, since a cross below that point will not only have the chikou span executing a fresh bearish cross, but also have price executing a bearish kijun sen cross, both of which would invalidate our long position. 

Once we place our entry and stop-loss orders, we wait for the trade to unfold. Depending upon our trading style, we could opt to trail our stop-loss along with the kijun sen to keep a tighter rein on risk management or we could utilize the more traditional method of waiting for a chikou span cross in the opposite direction of our trade. In this case, a chikou span cross in the opposite direction takes place just under two months later (Point C1) at 1.2619 (Point C2) and we close out our trade for a gain of over 450 pips. It is worth noting that, even though the chikou span cross on its own would be considered technically "weak" due to its location above the kumo, it is bolstered by a bearish tenkan sen/kijun sen cross to form a bearish three-line pattern. Alternatively, if we had chosen to use the kijun sen as our trailing stop in this trade, instead of waiting for a chikou span cross, we would have exited somewhere around the 1.2735 level, which would have netted us over 560 pips.

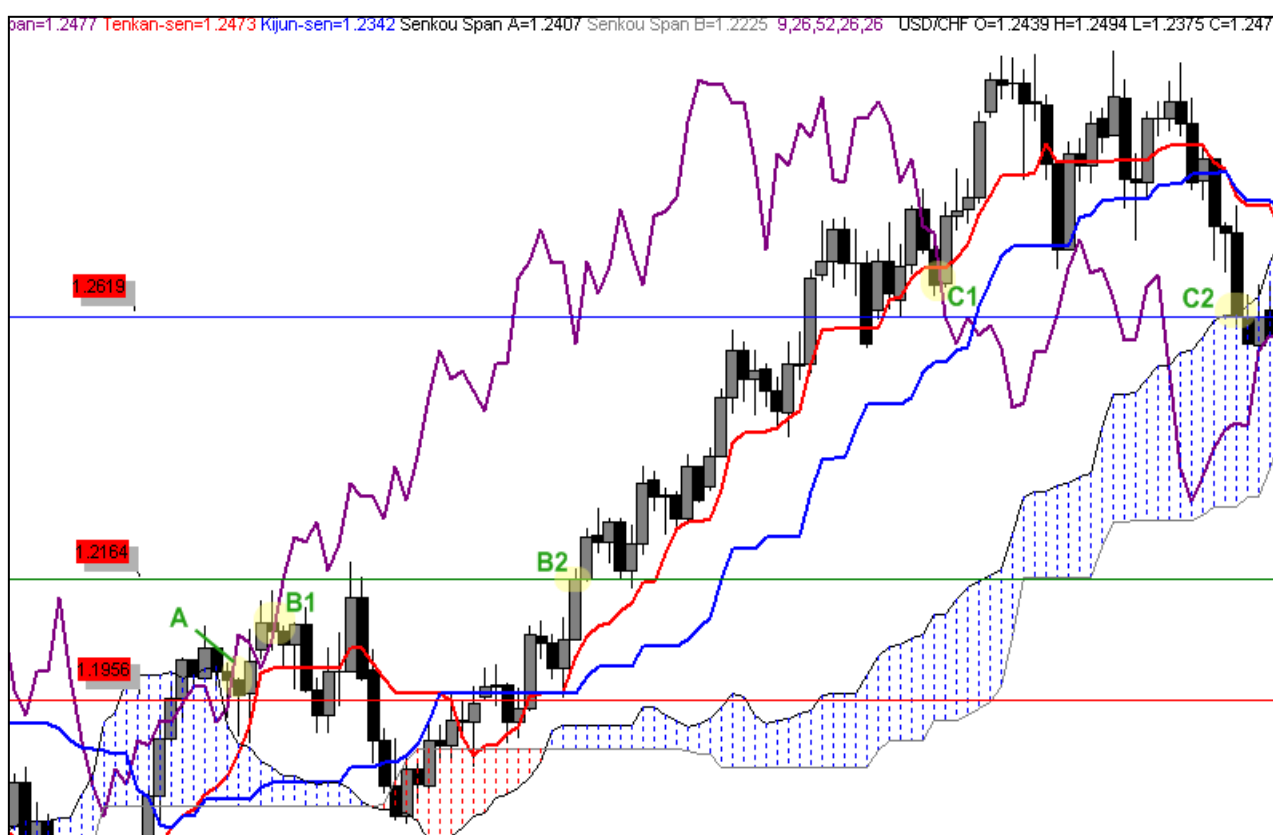


FIGURE X - Chikou Span Cross Case Study

Other Resources

Websites:



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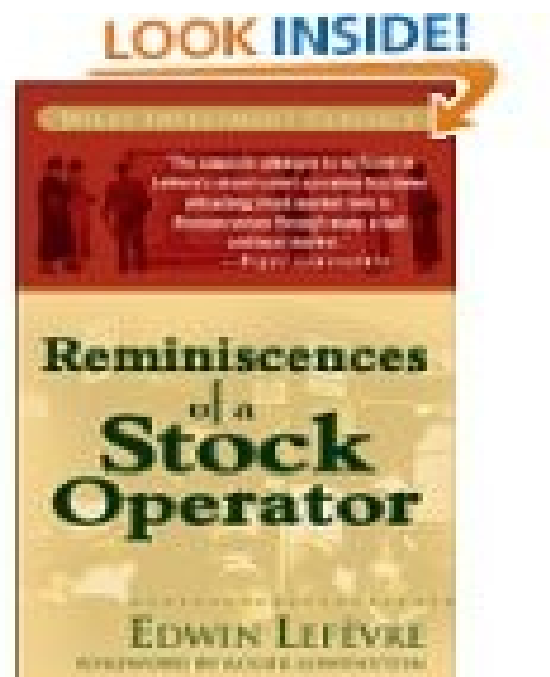
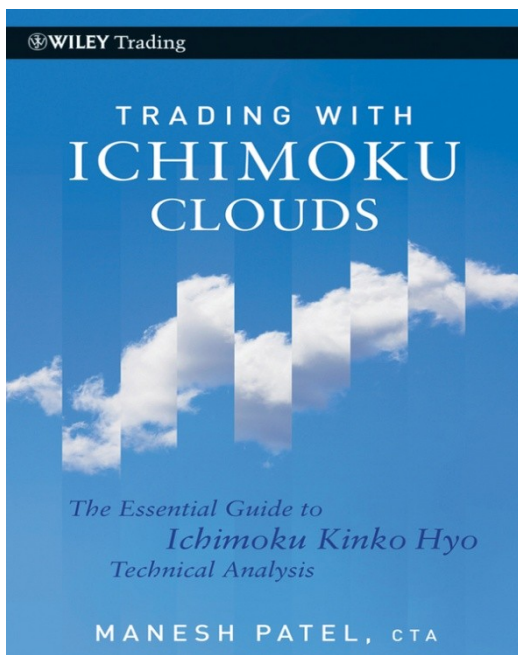
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