Ichimoku Charts

Introduction

The Ichimoku Cloud is a graphical representation of support and resistance that flows along the current direction of the trend. It helps indicate if the trend is weakening or strengthening in relation to the current established trend. The iconic nature of the Ichimoku cloud helps us decode the ongoing trend in a very visual manner.

History

The Ichmioku Cloud charts were first published by the journalist Goichi Hosonda in his book *Ichimoku Kinko Hy*o. In the 30’s and 40’s Hosonda charted rice prices and rice markets – writing extensive reports on the rice pricing models in Japan. In this time he organized a group of university students to manually run extensive pricing equations – basically manually optimizing the markets for a sequence of equations. In his quest for the ultimate pricing model the culmination of twenty years of work became the legendary Ichimoku Cloud charts. The name Ichimoku Kinko Hyo translates to “Equilibrium at a glance” and defines the meaning behind the indicator.

The similarity in numbers between Gerard Appeals hand optimized figures for the Moving Average Convergence Divergence (MACD) being 12, and 26 with a 9 day smoothing factor which he published in 1977.

Calculations:

The lines that help define the cloud are based on the averages of the highs and the lows.

9 Day average of the high and low range or the average of the median price.

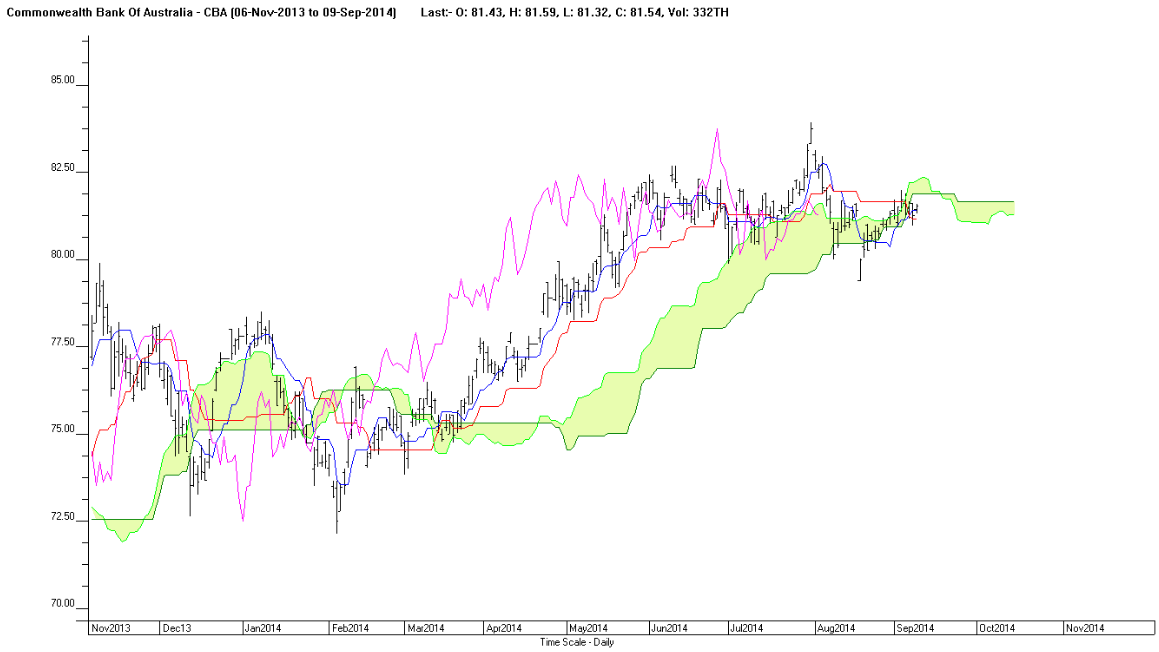
26 Day average of the mid-point of the high-low price or the average of the median price.

These lines are extended 26 days into the future and become the “fast cloud” upper boundary. The lagging line extends 26 days into the past for a historical reference to the current trend.

52 day average of the high and low range or the average of the median price. This extends 26 days into the future and forms the “slow cloud” boundary.

These settings can be adjusted BUT it should be remembered that these have been painstakingly optimized by hand to suit general market behavior already.

Simple Analysis



The above chart is Commonwealth Bank (CBA) 2013-2014.

UP-trend: This occurs when the price action of the bars is above the current cloud (coloured cloud zone above). Price action above the cloud is likely to find PRICE SUPPORT at the upper cloud level.

Down-trend: This occurs when the price action of the bars is below the current cloud. Price action below the cloud is likely to find PRICE RESISTANCE at the lower cloud level.

The forward projection cloud will give the expected price resistance and support for future trading.

Where the Cloud Base Line (52 MA) moves to be the cloud ceiling (Above the 26 MA) this is indicative of an expected change in trend in the near future.

In the above example we can see CBA experiencing a STRONG trend above the upper cloud line. However, above $80 CBA moved back into the cloud line (consolidation). Here the cloud base swapped position and became the cloud ceiling indicating that the short-term direction of CBA is likely down. The cloud has ceased being support and is now predicting future resistance at this level.

The interpretation here is that CBA has become potentially DEFENSIVE. It is an ideal time to move stops up, look at CFD's to neutralise any downside by selling short and alternatively deploy options (Puts) to insure current value.

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The Ichmioku Cloud Indicator can be accessed through the: INDICATORS Menu under OTHER INDICATORS. The settings for the Ichimoku Cloud can be changed in the same area under Ichimoku Settings.

Conclusions

The Ichimoku Cloud is designed to easily identify the current and probable future trend quickly and reliably. The indicator establishes a trend and then indicates price ranges that look at the progressive direction of the market, and in this it is very useful.

The Ichimoku Cloud is UNAWARE of dividend price action and so fundamentals for dividend paying stocks should be monitored as most stocks with yields greater than 3% will expereince an UP-TREND prior to going Ex-DIVIDEND and this can catch the trend-predicating component of the Ichimoku a little flat-footed.

This text describes the basic interpretation of the Ichimoku Cloud. There are a number of advanced texts that arbitrarily describe other uses of the underlying indicator lines. This is not part of the original Hosonda text but has been applied since. Gobar Kovacs has written extensive texts on this subject and has created a 3 volume text on the uses and advanced uses of Ichimoku Clouds as an indicator.

The strength of the Indicator is that it has the ability to easily identify the current trend and forewarn of a potential change in trend.

The weakness of the indicator is that it can not accurately forecast sudden changes in volatility and will also get caught in a sideways movement in the market.

The Ichimoku Clouds are best used in conjunction with fundamental indicators such as dividends and the use of the ELLISS Big Money Indicator. It is also highly successful when used in conjunction with PORTFOLIO DEFENDER.