

CHAPTER 1

Ichimoku Components

Before I start to explain all the Ichimoku components, I need to discuss some background information. First, I use the *daily* time frame as the main reference time frame throughout the book. However, this does not mean that Ichimoku Kinko Hyo only works for the daily time frame. Today, Ichimoku is used at the tick level, 1 minute, 3 minutes, 5 minutes, 60 minutes, 120 minutes, daily, weekly, and so forth. The reason why I discuss the daily time frame is that everything moves at a “slower pace” than the minute time frame. You can “see” everything this way. In order to be able to trade a faster time frame like a 5 minute, you *must* master the daily time frame.

The next question everyone asks now is: Should we look at a lower time frame along with the daily time frame? To answer that question you have to look at the three different types of trades that exist:

1. **Trend:** Price goes in one direction for a long period of time. During a trend, the higher time frames *influence* the lower time frames where the lower time frames are supporting the higher time frames (Figure 1.1).
2. **Countertrend:** Price has gone in a certain direction for a long time *already*. Now, the trader believes that the trend is over and the trader wants to trade *against* the trend. During a countertrend movement, the lower time frames *are not* supporting the trend. They are going against the trend to a point they *influence* the high time frames (Figure 1.2).

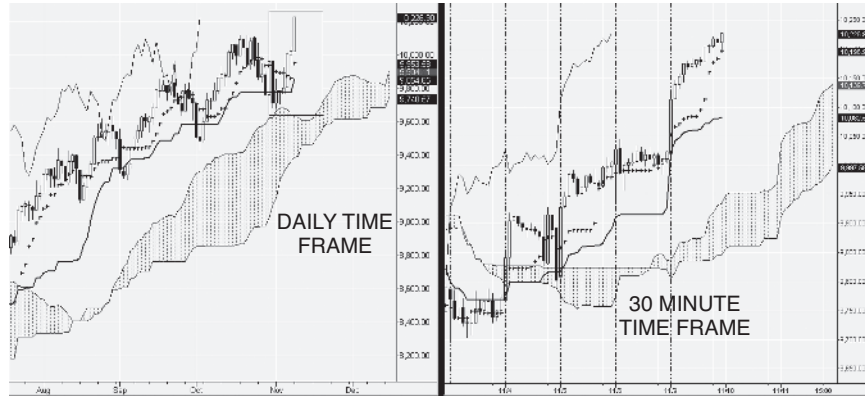


FIGURE 1.1 TradeStation Daily Ichimoku Chart/30 m Chart of \$INDU Nov 9, 2009

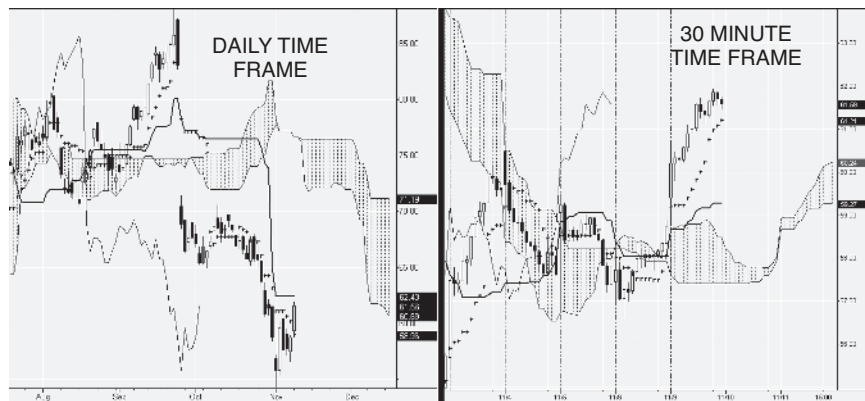


FIGURE 1.2 TradeStation Daily Ichimoku Chart/30 m Chart of RIMM Nov 9, 2009

3. Consolidation: Price is not going in one particular direction at all. It is going back and forth between major support and resistance values (Figure 1.3).

If you do not know how to recognize whether an instrument is trending, in a countertrend mode, or a consolidation mode then you will get confused when you look at the lower time frames. Using multiple time frames is an advance optimization technique. Once you trade the daily time frame for a while, you will learn when price is trending, going against the trend, or in a consolidation pattern.

Ichimoku Components

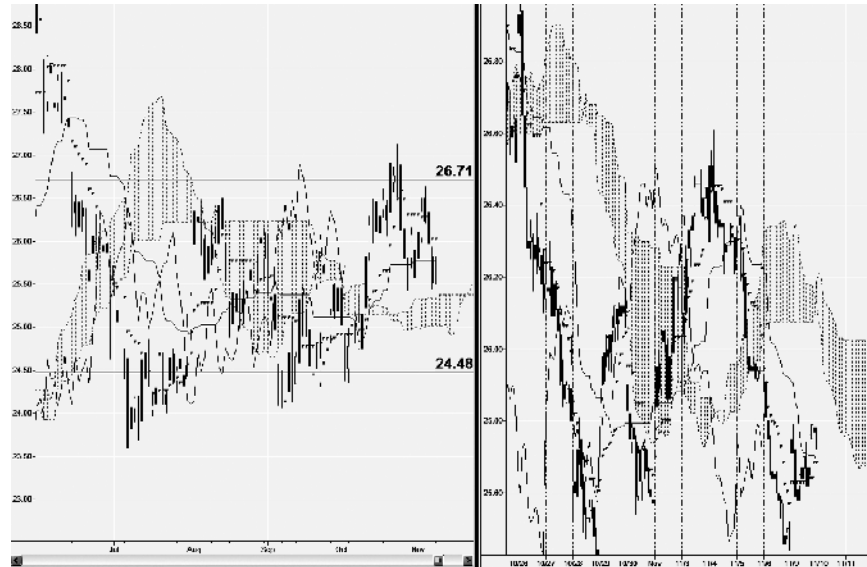


FIGURE 1.3 TradeStation Daily Ichimoku Chart/30m Chart of DBA Nov 9, 2009

The Ichimoku Kinko Hyo system is made up of five components (Figure 1.4):

- 1. Tenkan Sen (red)
- 2. Kijun Sen (green)
- 3. Chikou Span (light purple)

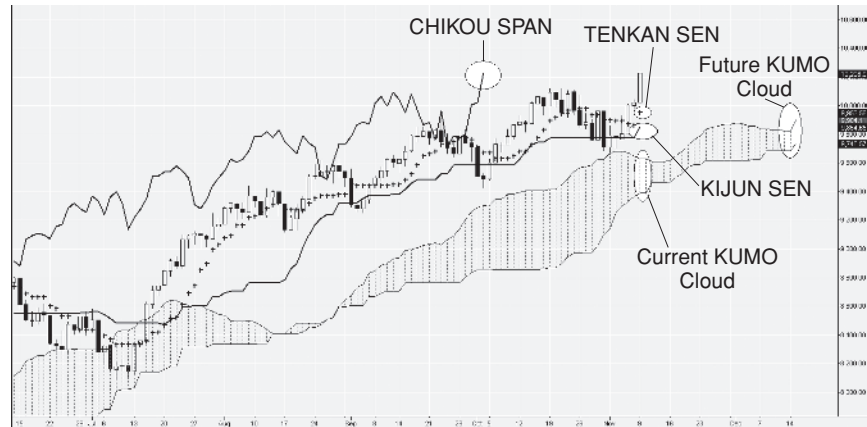


FIGURE 1.4 TradeStation Daily Ichimoku Chart of \$INDU Nov 13, 2009

4. Senkou A
5. Senkou B

In the book, all the pictures will be in black and white. However, all charts on my web site (www.eiicapital.com) are color-coded. I have included the color codes for the various indicators that I use on a normal day-to-day basis so you will be able to recognize them on the web site.

The Ichimoku five components together tell the entire “story” behind the chart for a particular instrument. Many people have tried to use only two or three components and have failed miserably. The key for an Ichimoku trader is to understand each element individually and then understand how and why they work together. Once you master that, you will be able to trade Ichimoku with no problems.

In addition, the indicators are referenced based on price, not time. There is a time element to Ichimoku Kinko Hyo, which is discussed in a later section.

TENKAN SEN

The first indicator I discuss is the Tenkan Sen. It represents the short-term movement for price. The color that represents the Tenkan Sen is red. The formula for the Tenkan Sen (red) is:

$$\frac{(\text{Highest High} + \text{Lowest Low})}{2} \text{ for 9 periods}$$

Most retail and institution traders use a 10 period simple moving average of closing prices (SMA) to represent the short term. By using the average of the Highest High and the Lowest Low instead of the closing prices, the Tenkan Sen takes into account the inter-day volatility.

Figure 1.5 shows both the Tenkan Sen and a 9 period SMA for the Europe-USD dollar (EURUSD). Notice during the trend the Tenkan Sen did not go above the inter-day low except for one time, whereas the 9 period SMA penetrated the inter-day low more than nine times. By using the average of the Highest High and the Lowest Low instead of closing prices, the Tenkan reflects short-term price movement better. In fact, you can use the Tenkan as a *stop* once you have entered a trade. For beginners, a stop is where you will get out of a trade if you made a mistake (i.e., the risk of the trade). When you place an order, you should always have a stop order against the entry order so if you are wrong, the trade will automatically

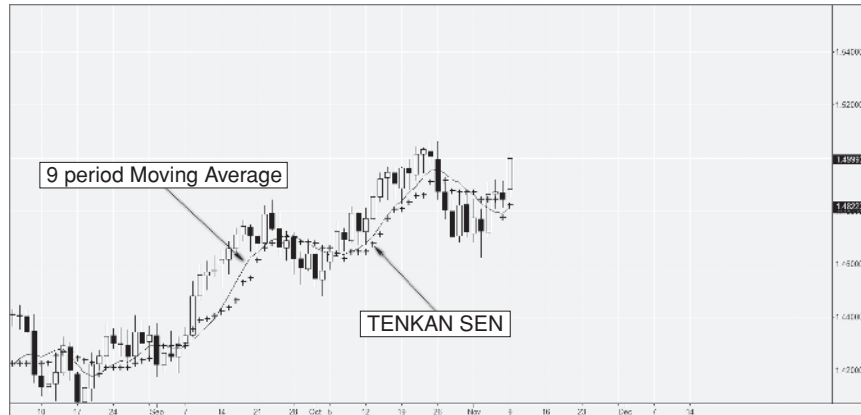


FIGURE 1.5 TradeStation Daily Ichimoku Chart of EURUSD Nov 9, 2009

exit. Many people lose all their money in their accounts because they forget or did not want to place a Stop order. *You have to place a stop order to be a successful trader.*

One question I get all the time is: Why a 9 period? Why not 10, which reflects the trading days in the week or two weeks? That is a good question and really there is no right answer for it. When Ichimoku was first invented in Japan, nine was chosen to reflect the trading days for that period of time. Times have changed so people think that this value should be changed, too. I have not experimented with other period values for any of the Ichimoku indicators as others have done so already. *I do not* plan to do so in the future either. I would rather spend my time analyzing charts and working with the parameters that have worked and been proven over time. There are five Ichimoku indicators. If you change one formula then you will have to adjust the other formulas. How many different combinations do you think there are when you have to alter all five indicators periods? There are thousands . . .

For the Tenkan Sen, there are a few things to note:

- Sentiment
 - *Bullish*: If price is above the Tenkan Sen (Figure 1.6).
 - *Bearish*: If price is below the Tenkan Sen (Figure 1.7).
- The Tenkan Sen should be pointing in the *same direction* as the trend. The steeper the angle, the greater the trend. In Figure 1.8, the Tenkan Sen is pointing upward with a steep angle. This is showing that the instrument is in a strong bullish (upward) trend.



FIGURE 1.6 TradeStation Daily Ichimoku Chart of Feeder Cattle Nov 9, 2009

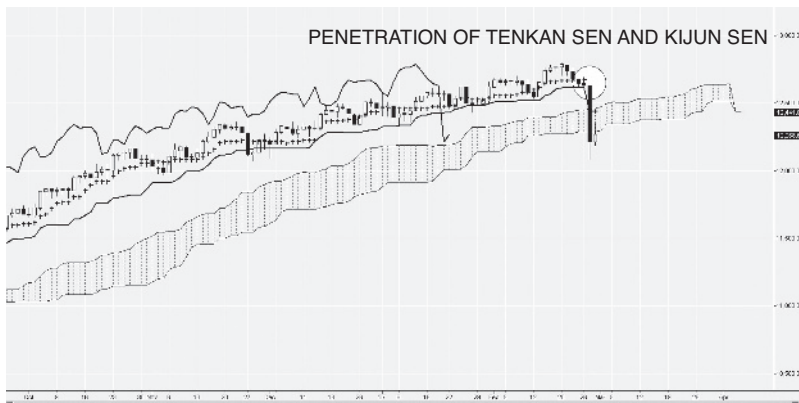


FIGURE 1.7 TradeStation Daily Ichimoku Chart of BBD Nov 9, 2009

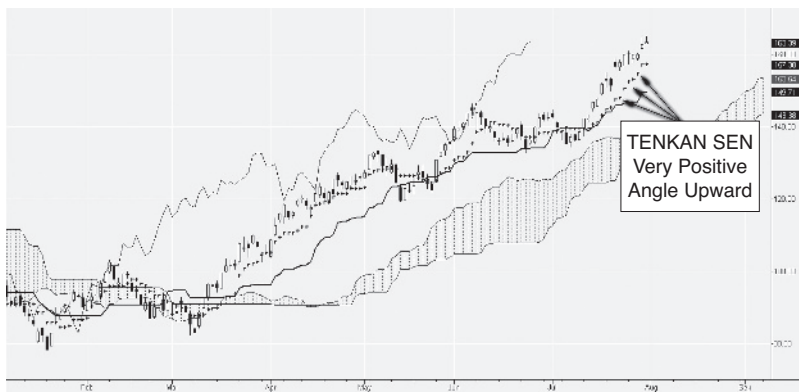


FIGURE 1.8 TradeStation Daily Ichimoku Chart of AAPL Aug 1, 2009

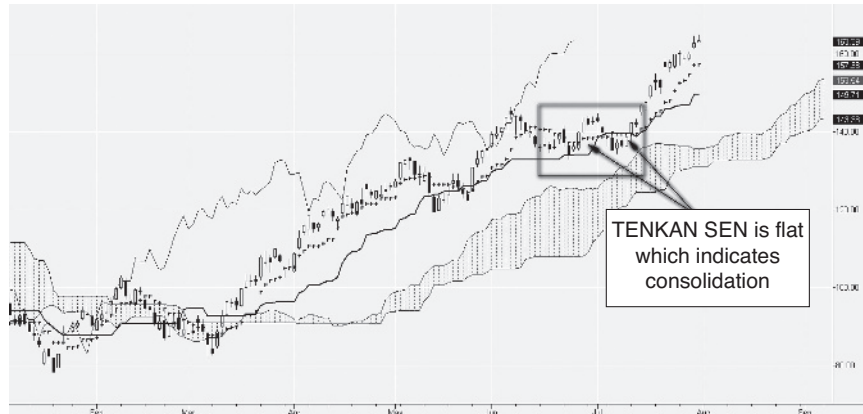


FIGURE 1.9 TradeStation Daily Ichimoku Chart of AAPL Aug 1, 2009

- If the Tenkan Sen is flat then it indicates that price *may* consolidate in the short term. If you are in a trade that is open then you should proceed with caution because the short-term trend could reverse soon (Figure 1.9).
- Tenkan Sen is a short-term support/resistance value. When price crosses the Tenkan Sen it is a major accomplishment because it has broken a major short-term support/resistance value (Figure 1.10).
- During a trend, if price crosses the Tenkan Sen in the opposite direction of the trend, it can indicate one of three different scenarios.
 - Minor Short-Term Pullback: A minor pullback is where price crosses over the Tenkan Sen but never crosses over the Kijun Sen. After it

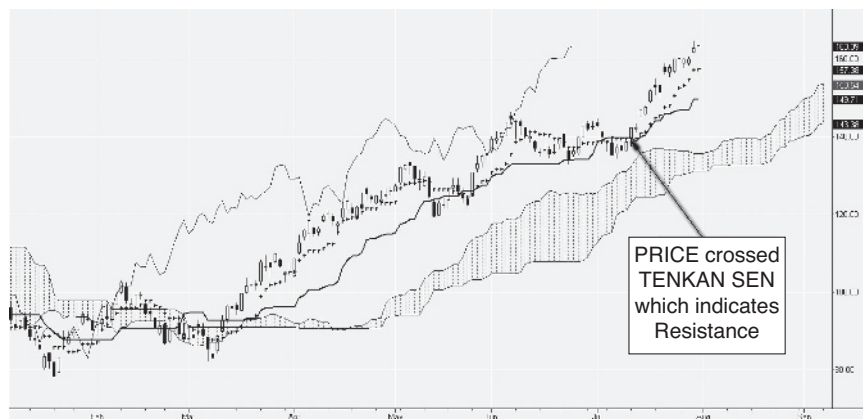


FIGURE 1.10 TradeStation Daily Ichimoku Chart of AAPL Aug 1, 2009

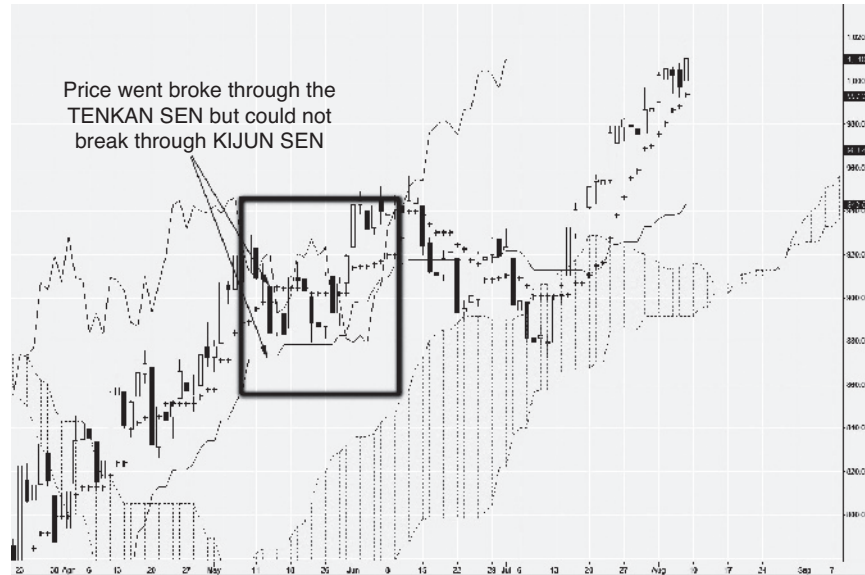


FIGURE 1.11 TradeStation Daily Ichimoku Chart of SPX Aug 7, 2009

crosses the Tenkan Sen, price then continues on the original path of the trend (Figure 1.11). This normally happens when short-term traders take profit. The long-term traders continue to hold their current positions.

- **Major Short-Term Pullback:** A major pullback will have price crossing both the Tenkan Sen and Kijun Sen in the opposite direction of the trend. Once it has done that, price eventually continues on the original trend crossing back over both of them again (Figure 1.12). In this scenario, long-term position traders are taking *some* profits. They are not closing out their entire position at all because they believe the instrument will continue the trend after the major pullback has finished.
- **Countertrend:** The third scenario is similar to the second scenario where price crosses over both the Tenkan Sen and the Kijun Sen. The crossover takes place in the opposite direction of the trend. However, the major trend never resumes. Either the instrument enters a consolidation pattern (sideways) or a new trend forms (Figure 1.13). In this scenario, the long-term traders are exiting their positions completely. They can do so over a certain time period or all at once in some cases.

Ichimoku Components

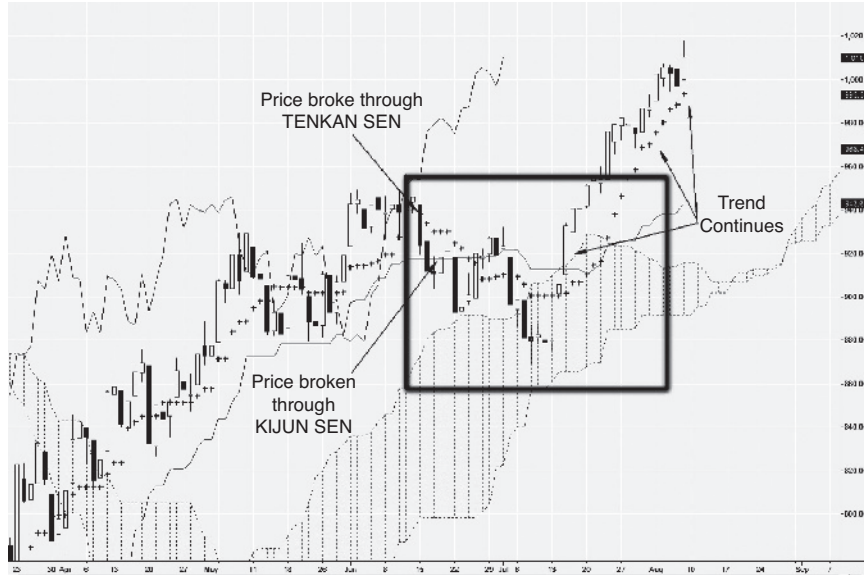


FIGURE 1.12 TradeStation Daily Ichimoku Chart of SPX Aug 7, 2009

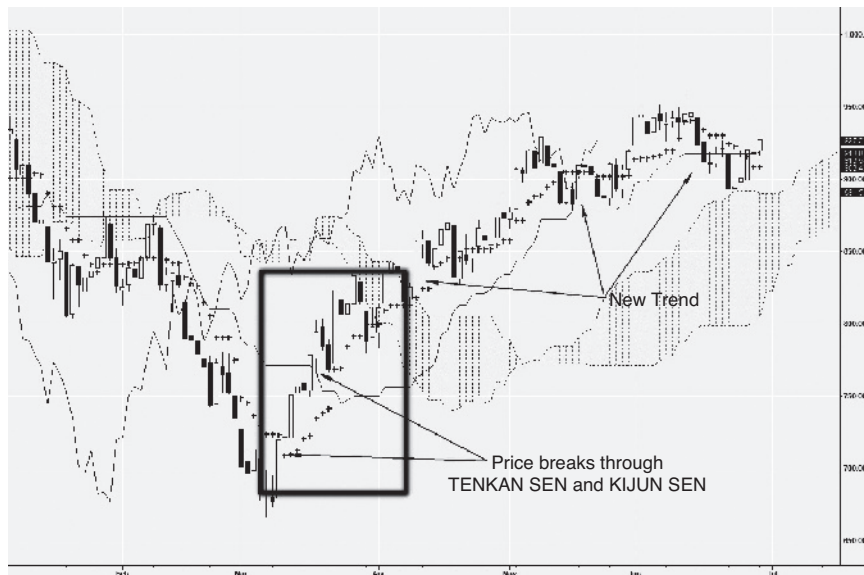


FIGURE 1.13 TradeStation Daily Ichimoku Chart of SPX June 29, 2009



FIGURE 1.14 TradeStation Daily Ichimoku Chart of SPX March 9, 2009

- The Tenkan Sen should be *close* to price. If price and the Tenkan Sen are close to each other then the trend has been developing slowly without much interference from volatility. If price escapes from the Tenkan Sen then there is a high chance that price will pull back and try to go meet the Tenkan Sen because it was out of equilibrium too much. Figure 1.14 is a good illustration of this scenario. Sometimes, price may even go all the way to the Kijun Sen and past it for a major pullback or a trend reversal. Therefore, you have to be *careful* when price is out of equilibrium with Tenkan Sen.

KIJUN SEN

The second indicator I discuss is the Kijun Sen. It represents the medium-term movement for price. Therefore, it caters to a majority of the traders in the market. The color that represents the Kijun Sen is green. The formula for the Kijun Sen is:

$$\frac{(\text{Highest High} + \text{Lowest Low})}{2} \text{ for 26 periods}$$

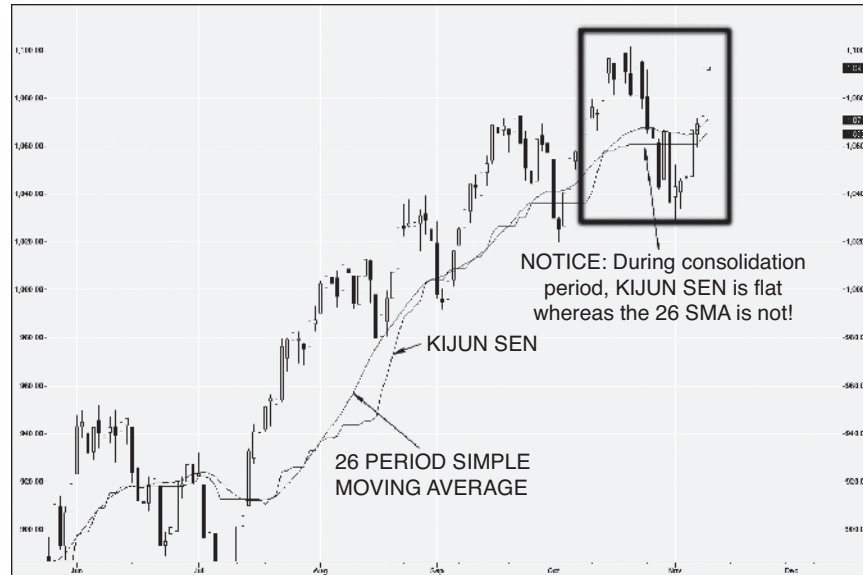


FIGURE 1.15 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009

The Kijun Sen is similar to the 30 period simple moving average that most retail and institution traders use (Figure 1.15). Just like the Tenkan Sen, the Kijun Sen is based on the Highest High and the Lowest Low. Instead of the 9 period of the Tenkan Sen, the Kijun Sen is based on 26 periods. For a daily time frame, the Kijun Sen roughly represents one month (and one trading week and one trading day) of history where the Tenkan Sen represented roughly $1\frac{1}{2}$ weeks (not including weekends on the chart). This is assuming I am not counting the weekends.

The Kijun Sen is one of the key indicators for the Ichimoku system. Many Ichimoku strategies focus around this one indicator. Here are the things to note about the Kijun Sen:

- Sentiment
 - *Bullish*: If price is above the Kijun Sen (Figure 1.16).
 - *Bearish*: If price is below the Kijun Sen (Figure 1.17).
- The Kijun Sen should be pointing in the same direction as the trend. The steeper the angle, the greater the trend. In Figure 1.18, the Kijun Sen was flat and then started to move upward. The Kijun Sen only moved up when the current price was higher than the average of the Highest High and the Lowest Low for the last 26 days. Unlike the Tenkan Sen, price has to move a lot in order to influence the Kijun Sen.

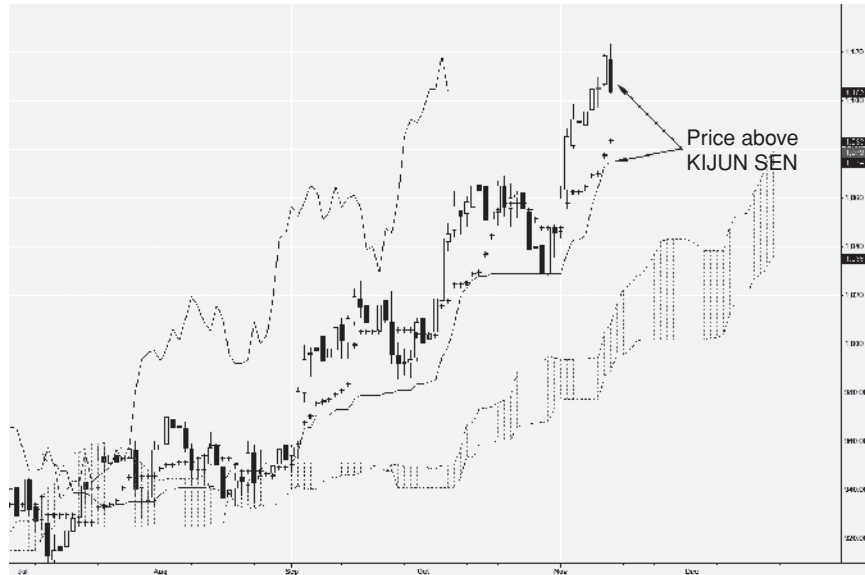


FIGURE 1.16 TradeStation Daily Ichimoku Chart of Mini Gold Futures Nov 10, 2009

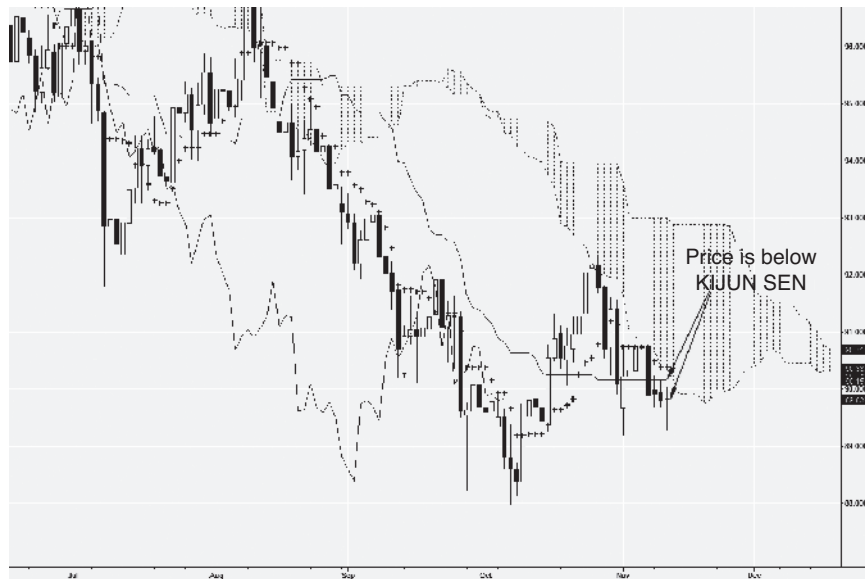


FIGURE 1.17 TradeStation Daily Ichimoku Chart of USDJPY Nov 11, 2009



FIGURE 1.18 TradeStation Daily Ichimoku Chart of Mini Gold Futures
Jan 25, 2008

In using the Kijun Sen, we know that the trend has to be a minimum 26 days *established*. What does this mean? Will we miss the beginning of the trend? The answer to that question is yes. We will definitely miss the beginning of the trend because we are *waiting* for the trend to establish itself. Why take a risk if price has not proven itself to us that a trend can exist? If we get into a trade that is not in a trend then it is in consolidation. With consolidation, your account will swing positive and negative and back and forth.

- When the Kijun Sen is flat, it indicates that the price is consolidating and not trending (Figure 1.19).
- The Kijun Sen is a key support/resistance value. When price crosses the Kijun Sen, it is a major accomplishment because it broke a major support/resistance value (Figure 1.19).
- When price crosses the Kijun Sen, it indicates that a trend change *may* occur. This is key to determine if a major pullback or a trend reversal is about to occur. Neither one of them can occur until price crosses over the Kijun Sen (Figure 1.19).
- With price crossing over the Kijun Sen, one of two possible scenarios can occur:
 - Minor pullback: Price will bounce off the Kijun Sen and continue on the original trend path. Some people took profit but the major

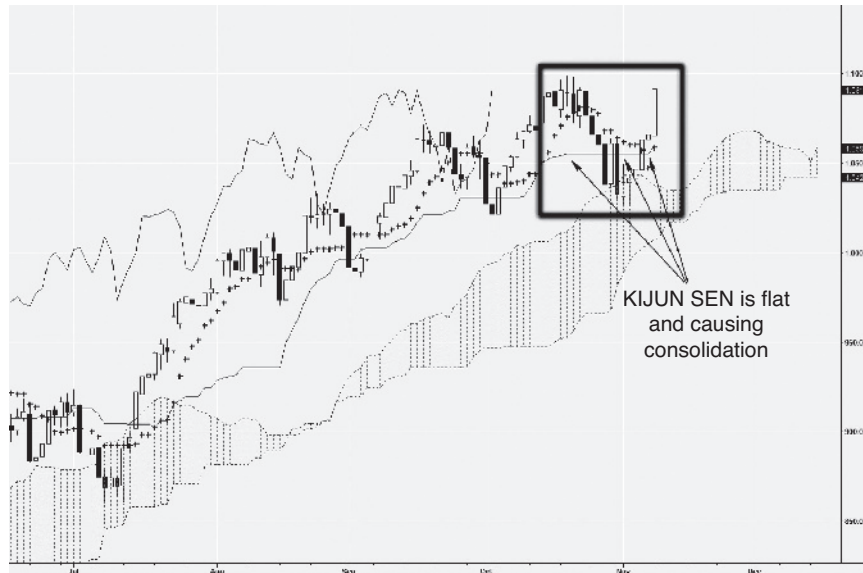


FIGURE 1.19 TradeStation Daily Ichimoku Chart of S&P Mini Futures Nov 9, 2009

“players” are still holding their positions and possibly increasing them now with the minor pullback. People really believe that the trend will continue strong (Figure 1.20).

- Major pullback: Price will cross over the Kijun Sen and eventually cross back to continue the major trend that was occurring (Figure 1.21). Long-term traders gained some profits but they still have some open positions because they believe the instrument will continue to move in the direction of the trend.
- Trend reversal: Price crosses the Kijun Sen once and then never crosses back over the Kijun Sen to continue the major trend. Instead, the instrument will enter a consolidation period or a trend reversal (Figure 1.22). The majority of the long-term traders are exiting their positions.
- The Kijun Sen should be *close* to price. When price is far away from the Kijun Sen it shows that price has moved at a faster rate than the Kijun Sen (Figure 1.23). A good trend has price and the Kijun Sen moving at a constant rate. Since the Kijun Sen represents 26 days, there is a high probability that price will retract toward the Kijun Sen causing a major *pullback or even a trend reversal*.

So how far is far considering the Kijun Sen is based on 26 periods? To determine what is “far,” you can look back in time (history, previous bars)

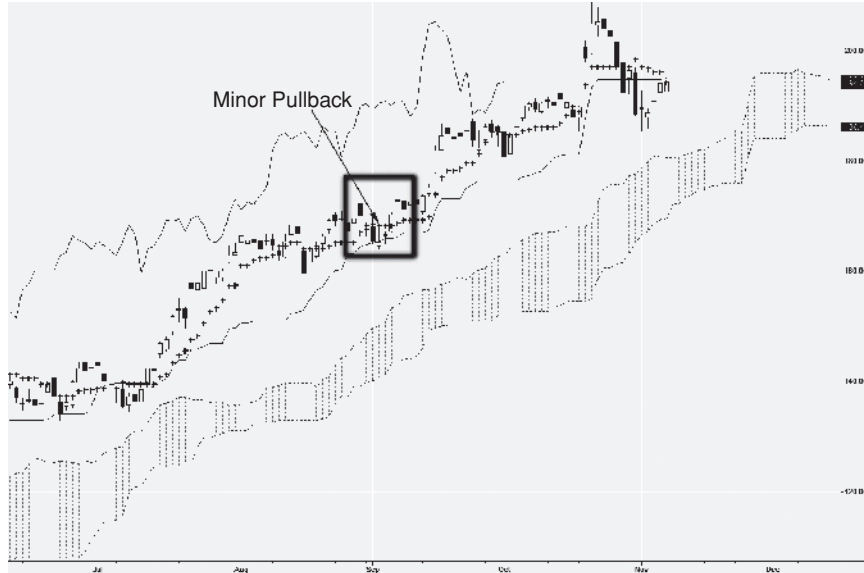


FIGURE 1.20 TradeStation Daily Ichimoku Chart of AAPL Nov 6, 2009

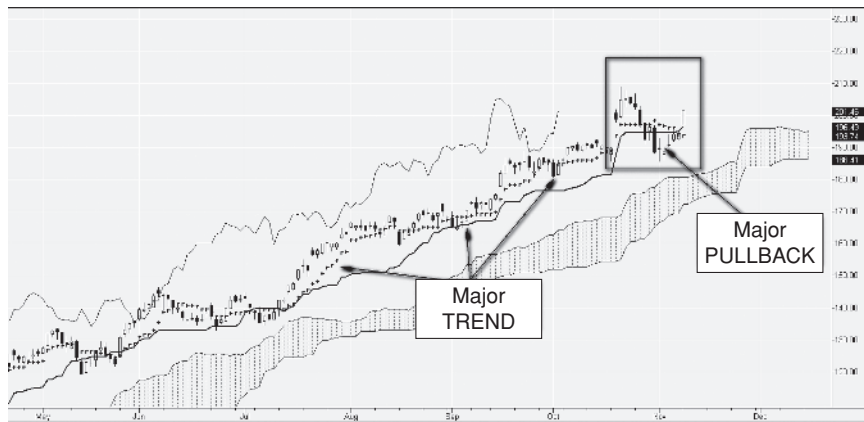


FIGURE 1.21 TradeStation Daily Ichimoku Chart of AAPL Nov 9, 2009

at other major pullbacks and trend reversals and determine what is “far” for price versus the Kijun Sen. Figure 1.23 illustrates one example of how you look at historical charts to determine the value of “far.” The problem with looking back historically for a definite value for “far” is that it varies with time. *During high volatility these values will be bigger than during low volatility.* Therefore, the “far” value needs to be adjusted with volatility.

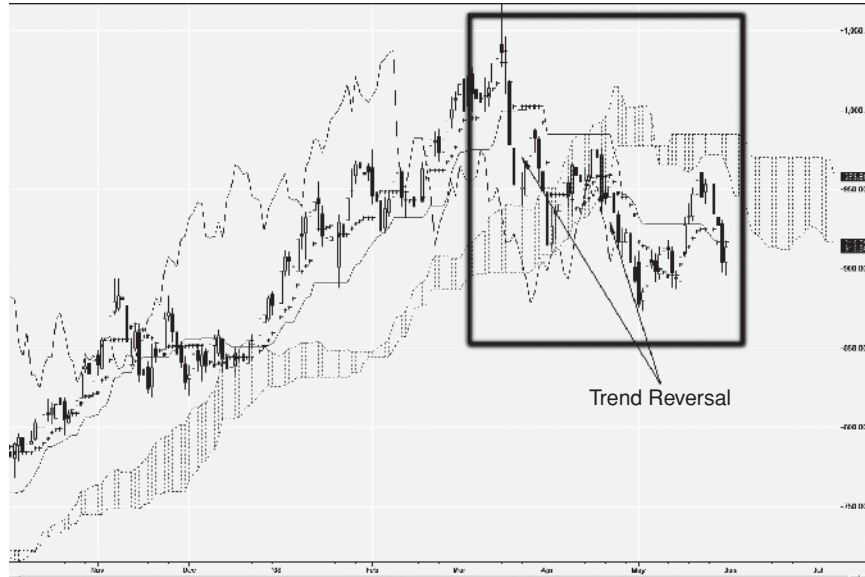


FIGURE 1.22 TradeStation Daily Ichimoku Chart of Mini Gold Future May 30, 2008

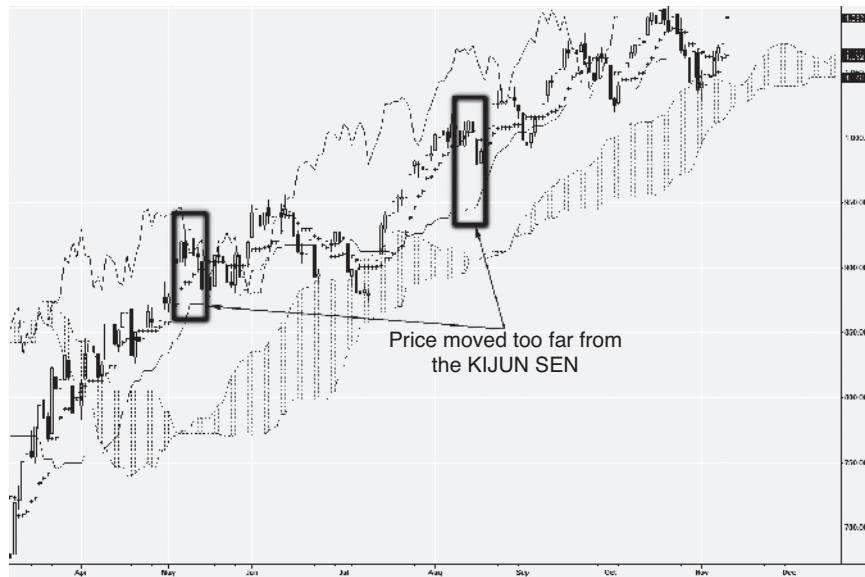


FIGURE 1.23 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009

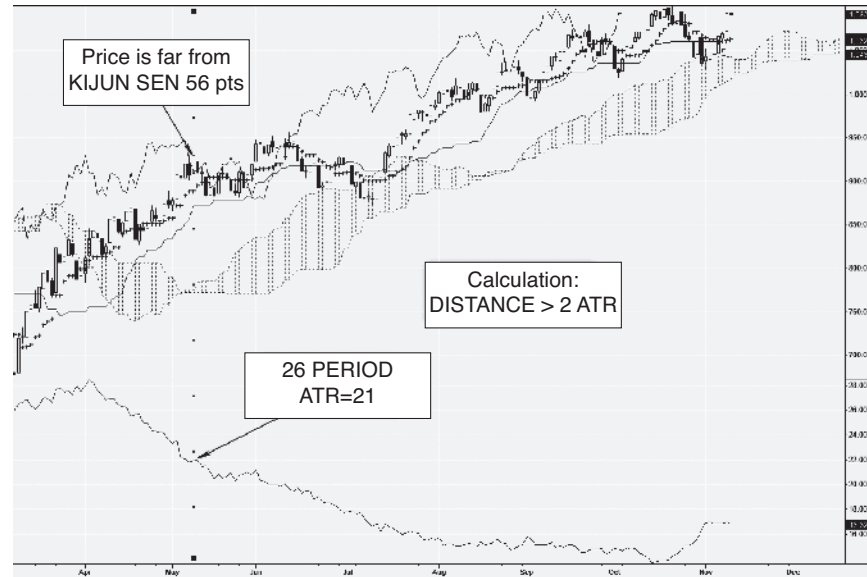


FIGURE 1.24 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009

Some traders use volatility indicators such as a multiple of Average True Range. Figure 1.24 shows how the price on June 8, 2009, was greater than $2 \times \text{ATR}$ and a pullback occurred. Therefore, one possible rule can be if price is greater than or equal to $1.5 \times \text{ATR}$ then price can be considered “far” away from Kijun Sen.

Let us look at one more example to understand the relationship of price and Kijun Sen. In Figure 1.25 you can see that price dropped and the bearish (downward) trend continued. When the trend continued, the Kijun Sen was pointing downward. Later, the Kijun Sen went flat, which indicated that price was consolidating. Since the Kijun Sen remained flat for a long period, it forced price and the Tenkan Sen to “meet it” instead of the Kijun Sen resuming its downward trend movement.

Up to this point, we have discussed the relationship of price and Tenkan Sen and then price and Kijun Sen. Now, let us put it all together to discuss the relationship among price, Tenkan Sen, and Kijun Sen. The analogy I like to use in my class to best illustrate the relationship among these three variables is where a couple is going for a walk in the park with their child. The couple’s names are John and Mary and their son’s name is Ben. Ben represents price, John represents the Kijun Sen, and Mary represents the Tenkan Sen. Initially, when the journey begins in the park, all three are together. They walk in the same direction together. Ben, like

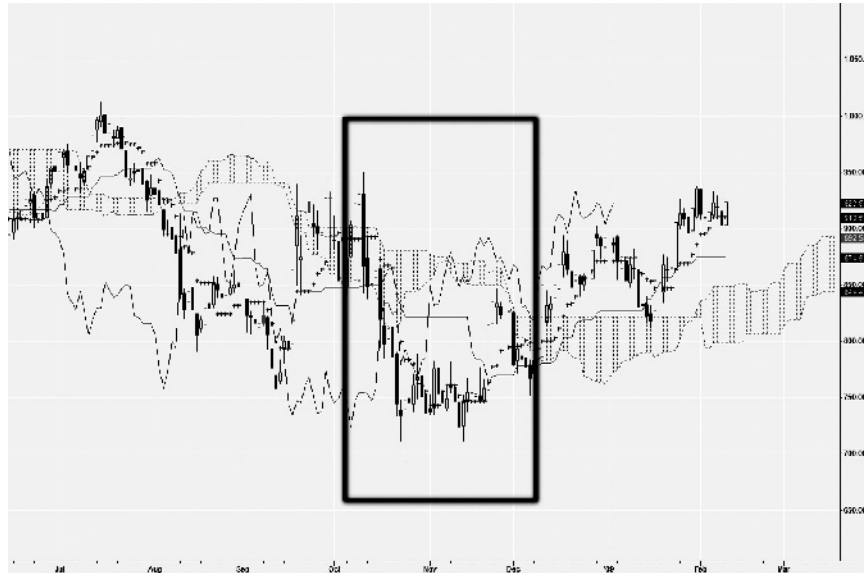


FIGURE 1.25 TradeStation Daily Ichimoku Chart of Mini Gold Futures
Feb 10, 2009

most children, tries continuously to walk faster than his parents. However, both Mary and John keep Ben in order and keep him close to them at all times. After some time, John gets an important phone call from work. When John receives the phone call, everyone is together. However, after some time, John starts to walk slower due to his phone call. As he walks slower, he begins to trail both Mary and Ben. Mary and Ben continue to walk at the normal pace so they are moving ahead of John gradually. They are doing that because the phone call conversation is disturbing the peaceful walk so they want some distance between John and themselves. As the phone call continues, John is further and further away from Mary and Ben. This creates some different scenarios for the walk. They are as follows.

The first scenario is where John makes a decision to continue to walk at a slow pace in hope of catching up with both Mary and Ben. However, as some time goes on, Mary and Ben will be so far ahead that they will not be able to see John anymore. This will pose a big problem because now Mary has to make some choices for herself. One choice is that both Mary and Ben stop and wait for John to catch up. This is assuming that John has not completely stopped walking. There is no way Mary knows that because John is not in viewing range anymore. Second, she can let Ben continue to

walk a little further ahead of her while she walks slower in hope for John to catch up. If Ben gets too far from her, she will call out to him either to stop walking so she can catch up with him or she will call Ben to come to her. Once one of these two events occurs, Ben and Mary will have to wait for John to come. If he does not come after a long period of time, Mary will have to assume he has stopped walking completely so they will have to go back to find him. Once they find John, they have to make a decision on whether they want to continue to walk in the park or to go home.

The second scenario is where John makes a decision to stop walking completely due to the phone call. Mary sees that John has stopped walking but both Mary and Ben continue to walk forward. When they get to a point they cannot see John anymore, they will stop and return to where John had stopped walking.

These are just two of many different scenarios that can occur in this analogy. You should think of them all because this will give you a great insight on the relationship of price, Kijun Sen, and Tenkan Sen. You can take it one step further and associate the concept of pullbacks to the analogy, too.

CHIKOU SPAN

The third indicator I discuss is the Chikou Span (Figure 1.26). It represents the *momentum* of price. In other words, it tells you if a trend can occur or not occur. Remember, a trend is where price moves in one direction for a long period of time. The color that represents the Chikou Span is purple. The formula for the Chikou Span is:

Current Price Shifted back 26 periods

Simple as it sounds, it is the indicator that most people cannot understand. Also, it is one of my favorite Ichimoku indicators. Basically, it is today's price shifted back 26 periods. You compare today's price movements to price from 26 periods ago (Figure 1.27).

Here are the things to note about the Chikou Span:

- Sentiment
 - *Bullish*: If the Chikou Span is above price from 26 periods ago (Figure 1.28).
 - *Bearish*: If the Chikou Span is below price from 26 periods ago (Figure 1.29).

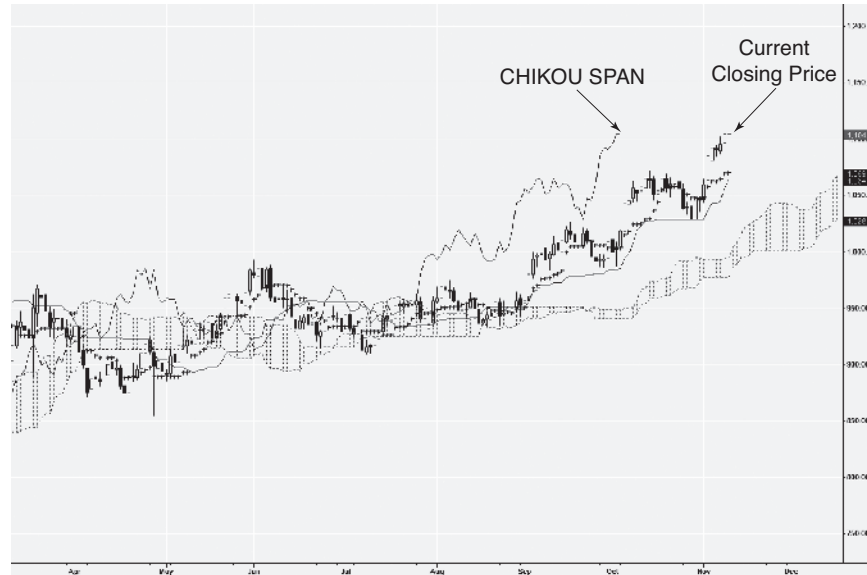


FIGURE 1.26 TradeStation Daily Ichimoku Chart of Mini Gold Futures Nov 10, 2009

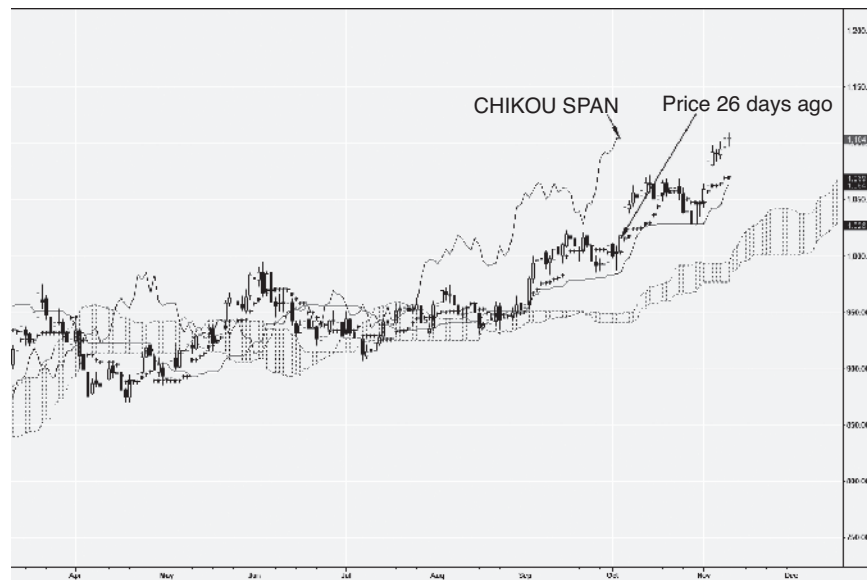


FIGURE 1.27 TradeStation Daily Ichimoku Chart of Mini Gold Futures Nov 10, 2009

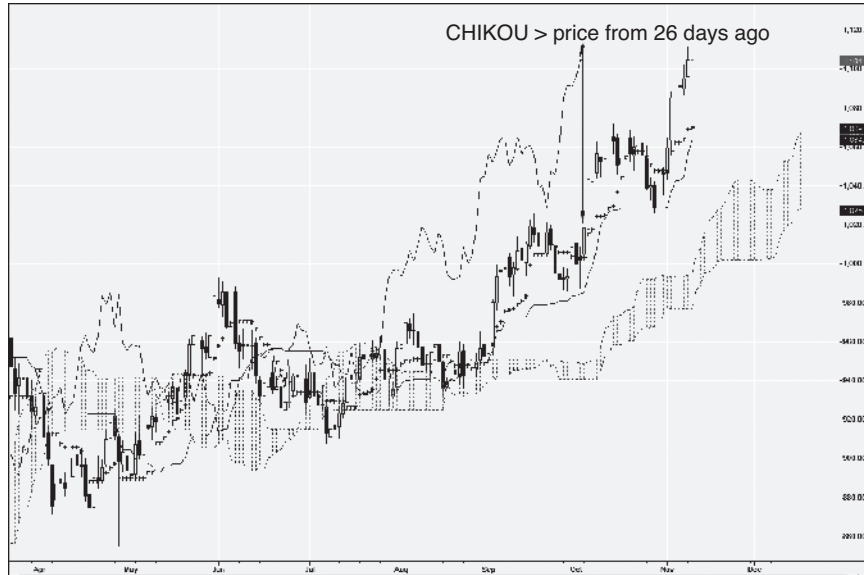


FIGURE 1.28 TradeStation Daily Ichimoku Chart of Mini Gold Futures Nov 10, 2009



FIGURE 1.29 TradeStation Daily Ichimoku Chart of USDCAD Nov 9, 2009

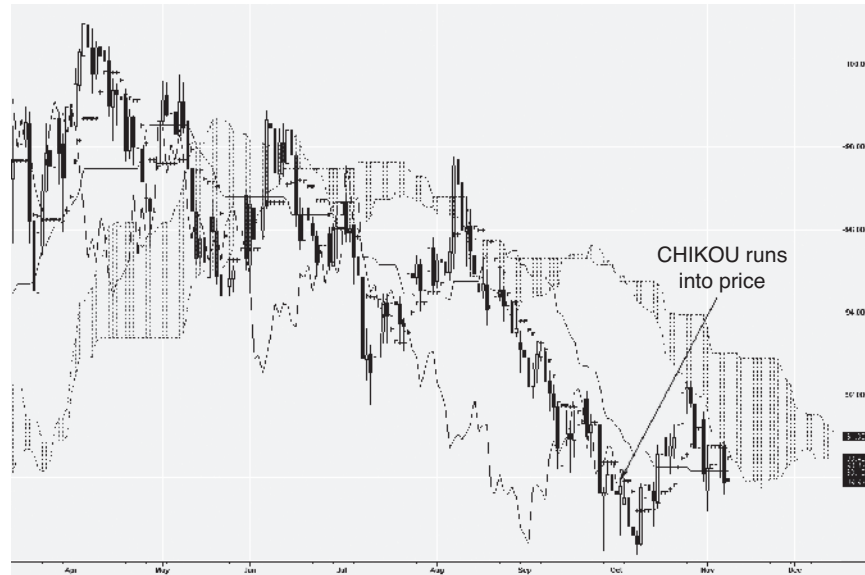


FIGURE 1.30 TradeStation Daily Ichimoku Chart of USDJPY Nov 9, 2009

- *Consolidation:* If the Chikou Span is touching or very close to price from 26 periods ago (Figure 1.30).
- This indicator is a momentum indicator. The way you judge momentum is to determine if the Chikou Span is going to run into price in the next couple of periods. I typically look ahead 5 to 10 periods. If the Chikou Span runs into price, then there is not much of a trend momentum. Price action in the past represents support/resistance in the future, which causes major problems for current trends. If the Chikou Span is in “open space” then the trend momentum is strong because today’s price is not going to run into any price support/resistance from 26 periods ago.

Figure 1.31 illustrates a good example where the momentum is strong. The Chikou Span is below price from 26 days ago so it is bearish. If price consolidates for a couple of days, the Chikou still will *not* run into price. The Chikou is in “open white space” where only a big drastic movement can cause it to run into price. Therefore it is strong bearish, which means that there is a high probability of a bearish trend occurring or continuing.

Figure 1.32 illustrates an example of where the Chikou Span has weak momentum. Based on what happens in the next couple of days,

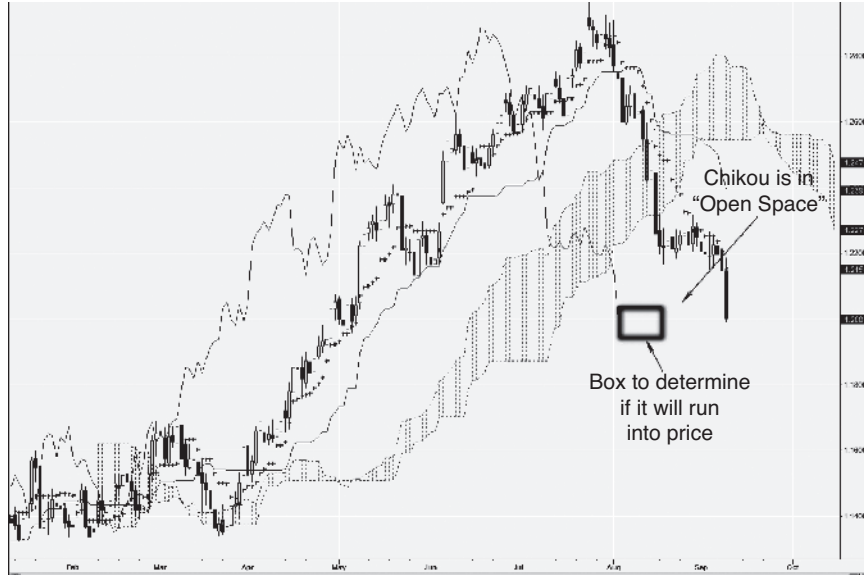


FIGURE 1.31 TradeStation Daily Ichimoku Chart of AUDNZD Sept 9, 2008

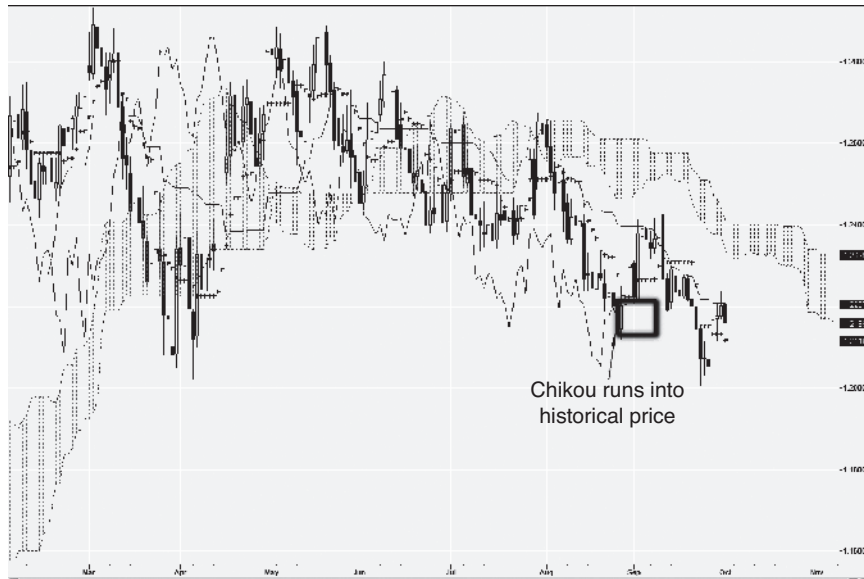


FIGURE 1.32 TradeStation Daily Ichimoku Chart of AUDNZD Sept 29, 2009

the Chikou Span could become bullish (trend reversal) or consolidate for momentum, two scenarios that are not good when you are looking at trading a bearish trend.

When you judge the momentum based on the Chikou Span for an instrument, you have to look vertically and horizontally on when the Chikou could run into price. If price moves up or down 5 percent to 10 percent, will it run into price? If price consolidates for 5 or 10 trading days, will it run into price? Some of my students actually create a visual square box after the Chikou Span. If price hits that box then the momentum is very weak. Go through the various scenarios in your mind to see what could happen. Figure 1.33 illustrates a “visual box” around the Chikou Span for the AUDNZD currency on Nov 9, 2009.

- The Chikou peaks are major support and resistance values. If you draw a horizontal line through a Chikou peak, it represents a support/resistance value. If you get many Chikou peaks hitting that horizontal line then it is a major support/resistance value. In most cases, if you get two or more peaks, this typically represents a Fibonacci value.

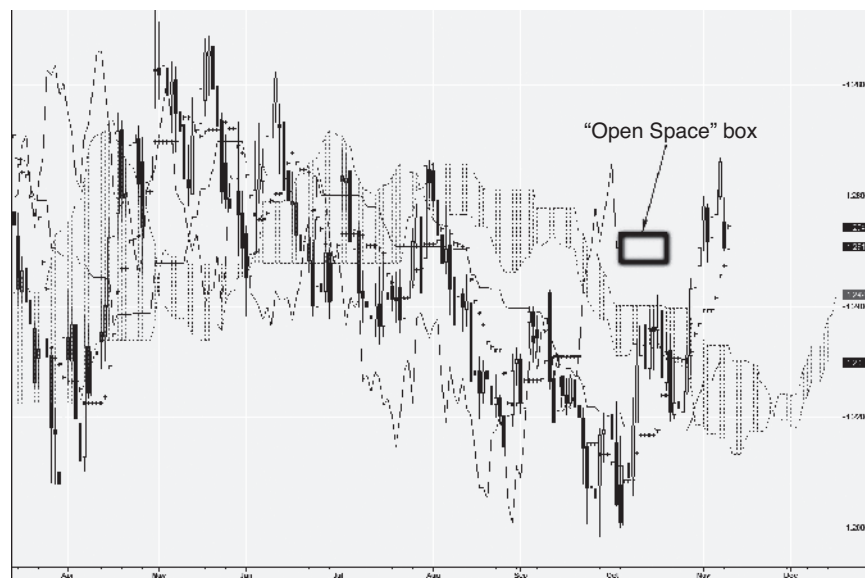


FIGURE 1.33 TradeStation Daily Ichimoku Chart of AUDNZD Nov 9, 2009

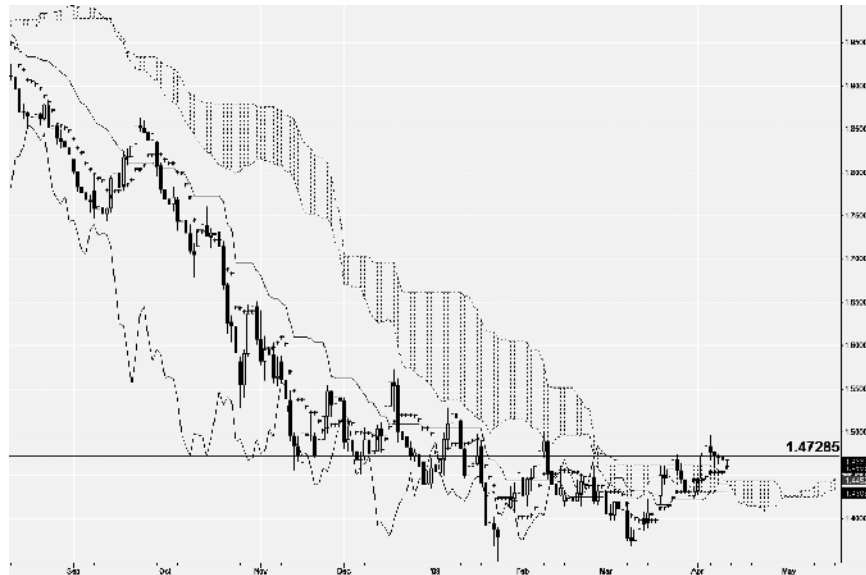


FIGURE 1.34 TradeStation Daily Ichimoku Chart of GBPUSD Apr 10, 2009

Figure 1.34 shows a horizontal line drawn where it intersects five Chikou peaks.

Figure 1.35 shows the same chart as Figure 1.34, but now we have overlaid the Fibonacci values on top of the chart. Notice the Fibonacci value of 23.60 percent retracement matches the support/resistance line drawn from the Chikou Span. This is just one example of how other indicators are “built in” Ichimoku Kinko Hyo.

KUMO CLOUD COMPONENTS

The last two indicators remaining are the Senkou Span A and Senkou Span B (Figure 1.36). These are discussed differently from that of the other Ichimoku indicators. The reason is that together they provide a lot of information. Together, they form a cloud called the “Kumo Cloud.” The Cloud is formed by filling the gap between the Senkou Span A and Senkou Span B with a particular color. If Senkou A is greater than Senkou B then the color is yellow (bullish) and if Senkou A is less than Senkou B then the color is red (bearish). You can use any color for the Kumo Cloud, but this is the color I like to use on my charts (Figure 1.37).

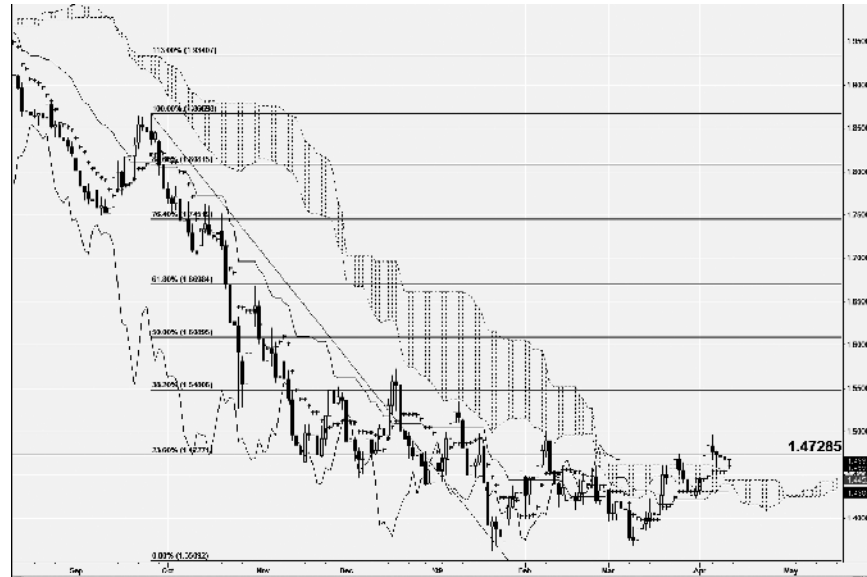


FIGURE 1.35 TradeStation Daily Ichimoku Chart of GBPUSD Apr 10, 2009

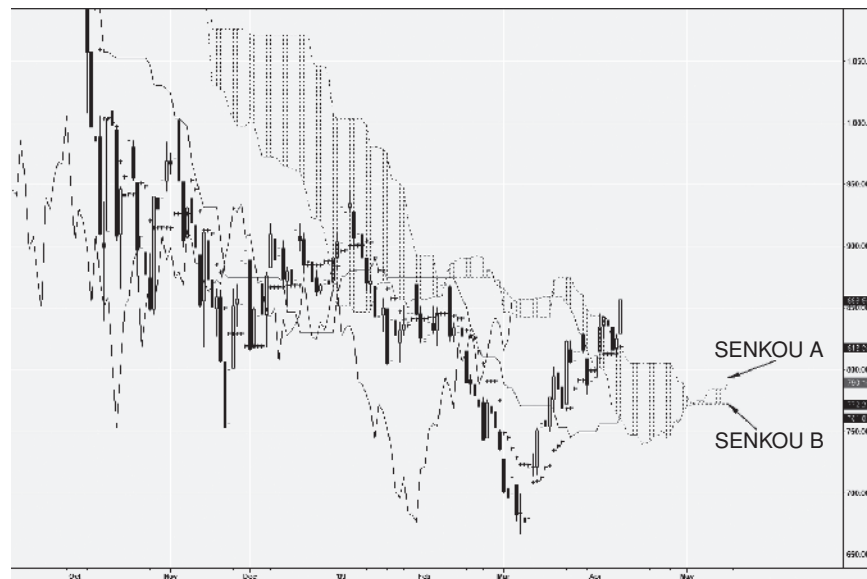


FIGURE 1.36 TradeStation Daily Ichimoku Chart of SPX Apr 9, 2009

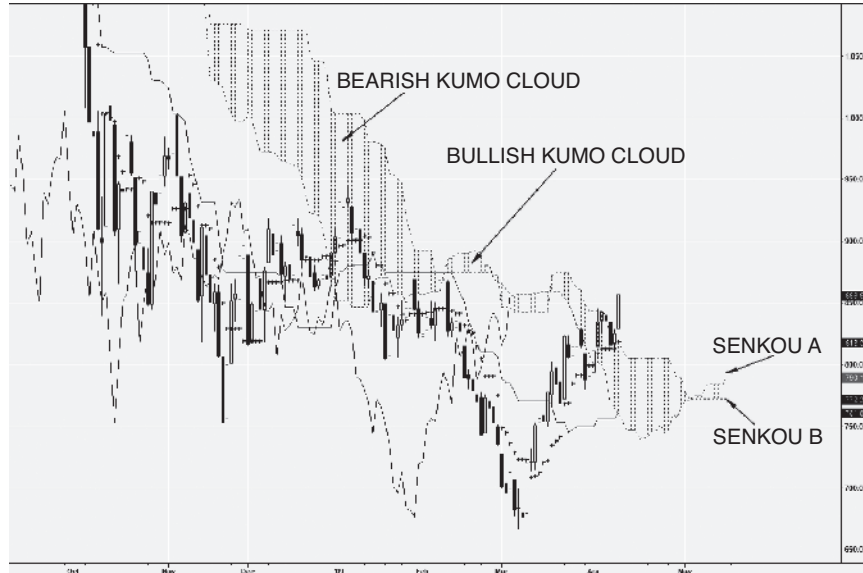


FIGURE 1.37 TradeStation Daily Ichimoku Chart of SPX Apr 9, 2009

In this section, I reference two types of clouds:

1. Kumo Cloud: Cloud above/below current price (Figure 1.38).
2. Future Kumo Cloud: Cloud 26 bars into the future (Figure 1.38).

SENKOU SPAN A

The fourth indicator I discuss is the Senkou A. This represents half of the “Kumo Cloud,” which I discuss later. The color that represents the Senkou A is dark blue. The formula for the Senkou A is:

$$\frac{(\text{Tenkan Sen} + \text{Kijun Sen})}{2} \text{ Shifted forward in time 26 periods}$$

This indicator confuses most people because there are really two Kumo Clouds, the current Kumo Cloud and the Future Kumo Cloud. You have to look at two Senkou A, the current one and the future Senkou A. The current Senkou A is the average of the Tenkan Sen and Kijun Sen *from* 26 periods ago. Therefore, when you compare the current price against Senkou A, you are really comparing current price to the Tenkan/Kijun Sen

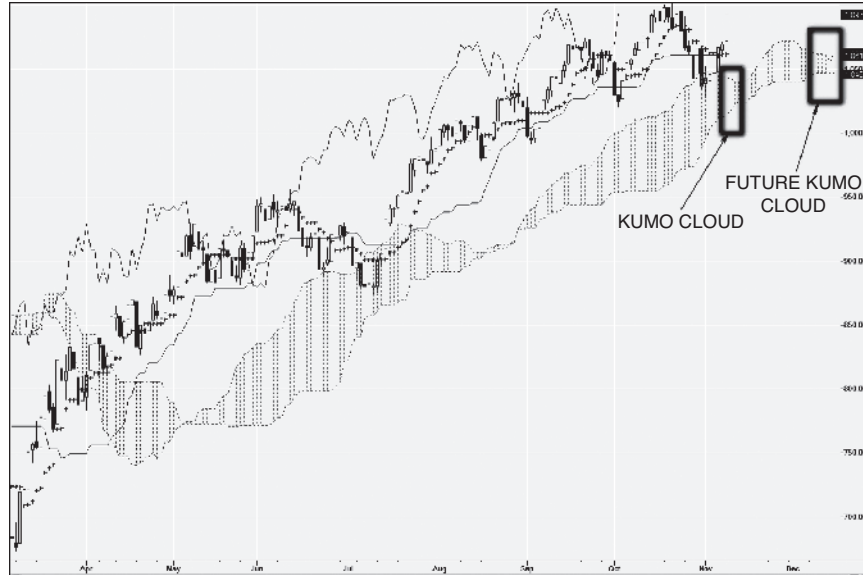


FIGURE 1.38 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009

values from 26 periods ago. The future Senkou A is the average of the *current* Tenkan Sen and the *current* Kijun Sen (Figure 1.39). Current price movement will influence the future.

SENKOU SPAN B

The fifth indicator I discuss is the Senkou B. This represents the second half of the “Kumo Cloud,” which I discuss later. The color that represents the Senkou B is purple. The formula for the Senkou B is:

$$\frac{(\text{Highest High} + \text{Lowest Low})}{2} \text{ for 52 periods and then shifted forward by 26 periods}$$

This indicator deals with 52 periods, the most periods out of all the Ichimoku indicators. For a weekly time frame, this is 52 weeks. Remember, we have two Senkou Bs just like Senkou A. The Senkou B is really the calculation from 52 periods ago. The future Senkou B is the current calculation. This is powerful because the Senkou B incorporates many historical bars (Figure 1.40).

Ichimoku Components

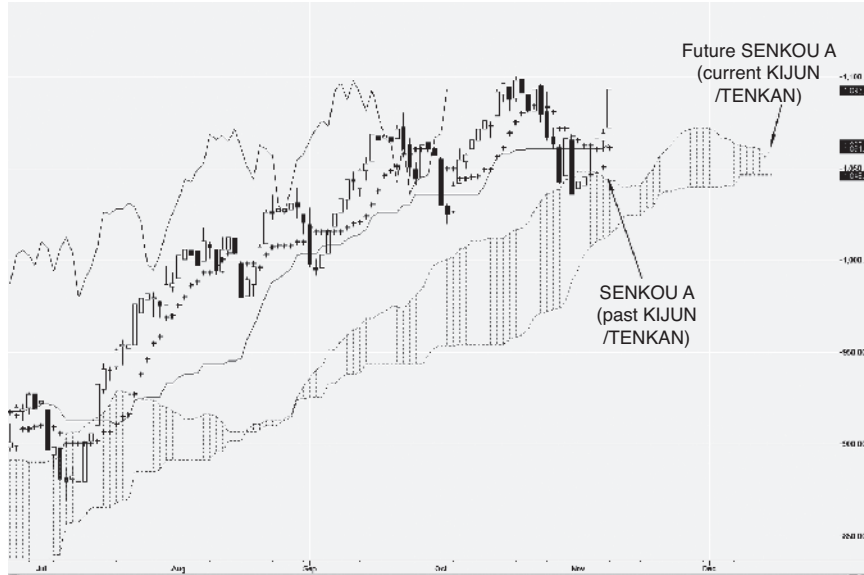


FIGURE 1.39 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009

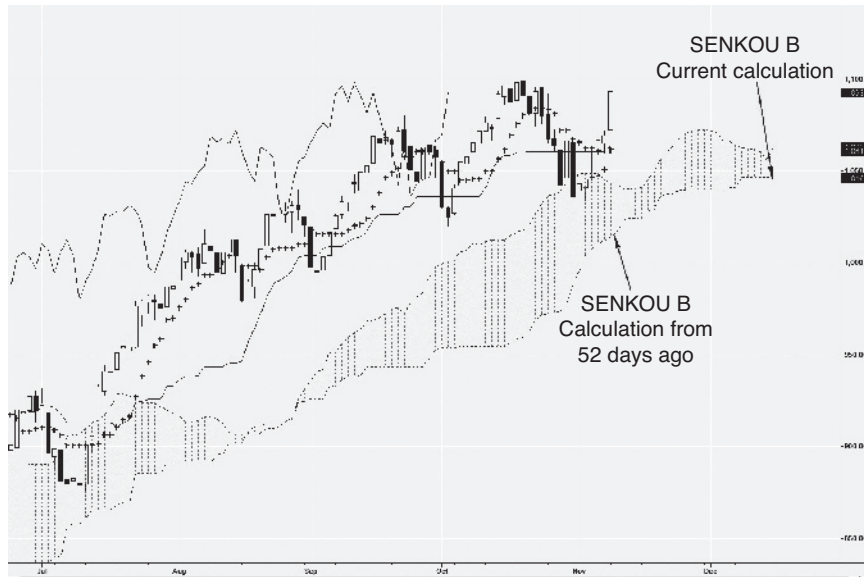


FIGURE 1.40 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009

KUMO CLOUD

Here are the things to note about the Kumo Cloud:

- Current Sentiment:
 - *Bullish*: Price is above the Kumo Cloud (Figure 1.41).
 - *Bearish*: Price is below the Kumo Cloud (Figure 1.42).
 - *Consolidation*: Price is within the Kumo Cloud (Figure 1.43).
- Future Sentiment (Future Senkou A and Senkou B):
 - *Bullish*: Senkou A is above Senkou B (Figure 1.44).
 - *Bearish*: Senkou A is below Senkou B (Figure 1.45).
 - *Consolidation*: Senkou A is equal to Senkou B (Figure 1.46).
- Strength: The strength of the Future Kumo Cloud is determined by both the future Senkou A and future Senkou B. Here are the different scenarios:
 - *Strong Bullish*: Kumo Future is bullish and both future Senkou A and future Senkou B are pointing upward (trend) (Figure 1.47).
 - *Medium Bullish*: Future Kumo Future is bullish, future Senkou A is pointing upward, and future Senkou B is flat (Figure 1.48).
 - *Weak Bullish*: Future Kumo Future is bullish, future Senkou A is pointing downward, and future Senkou B is flat. In other words, this can be a major pullback or a trend reversal (Figure 1.49).

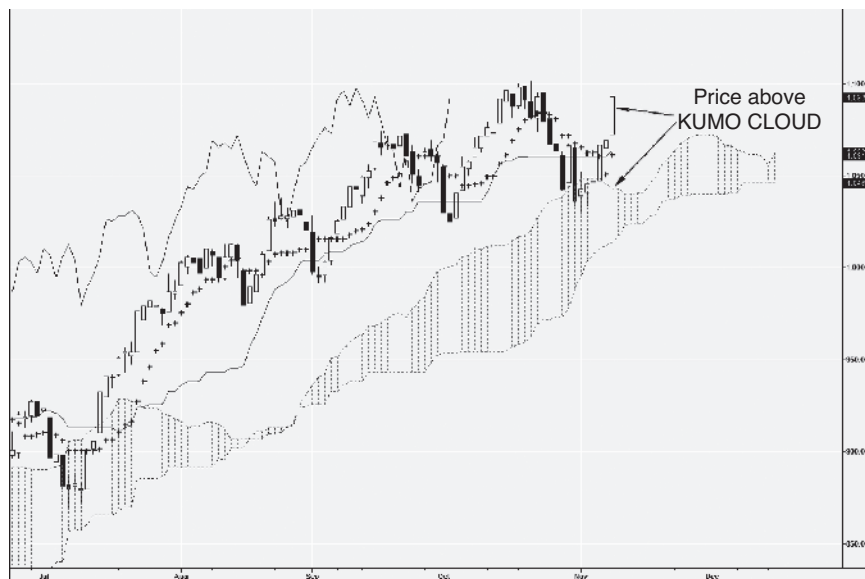


FIGURE 1.41 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009

Ichimoku Components

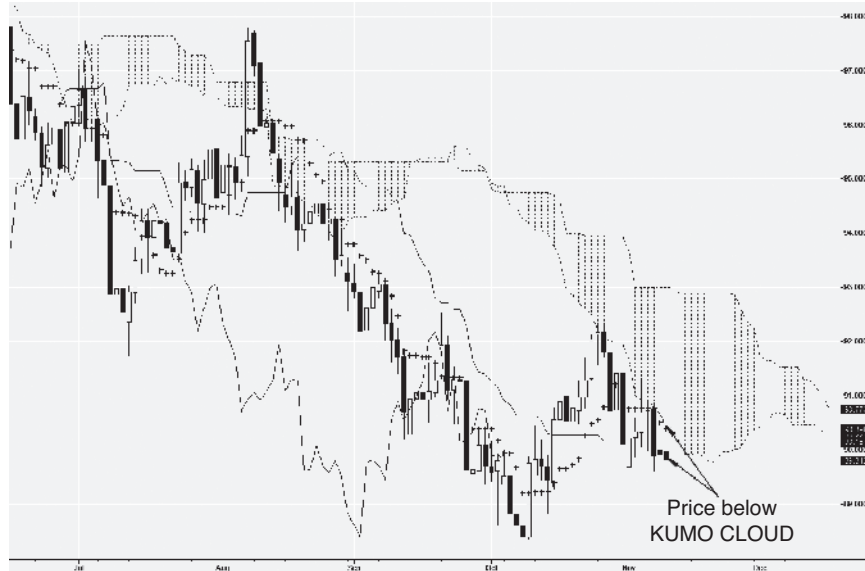


FIGURE 1.42 TradeStation Daily Ichimoku Chart of USDJPY Nov 9, 2009

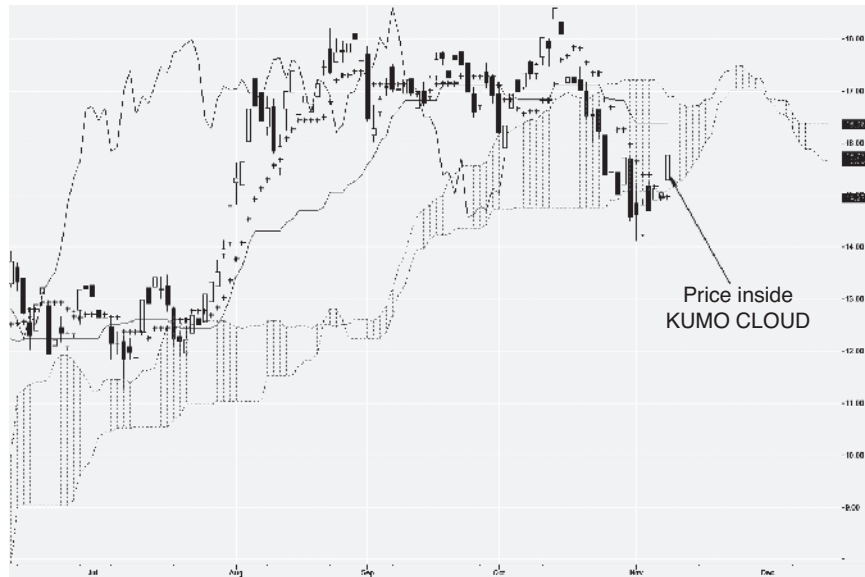


FIGURE 1.43 TradeStation Daily Ichimoku Chart of BAC Nov 9, 2009

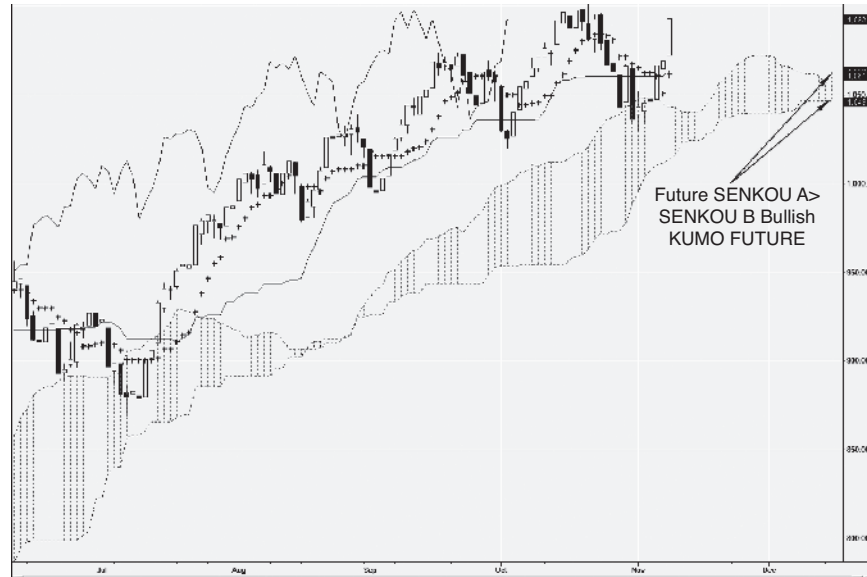


FIGURE 1.44 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009

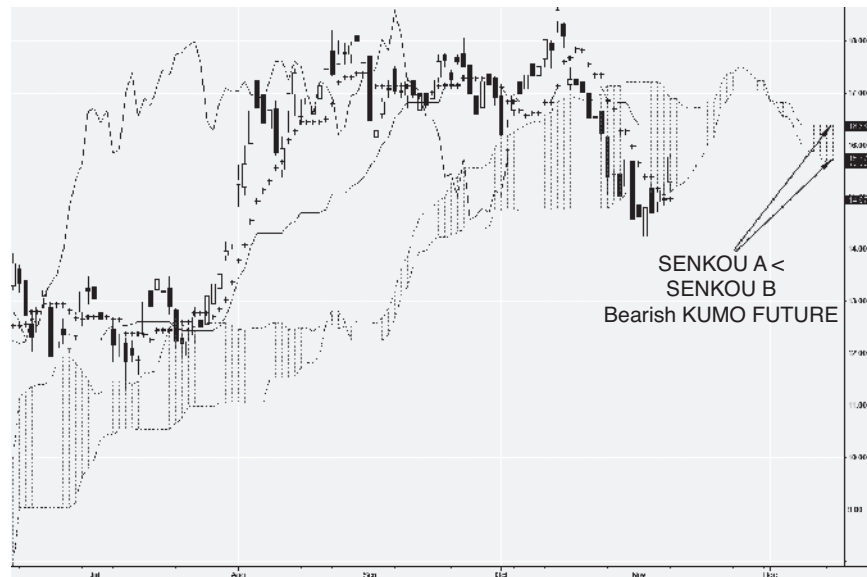


FIGURE 1.45 TradeStation Daily Ichimoku Chart of BAC Nov 9, 2009

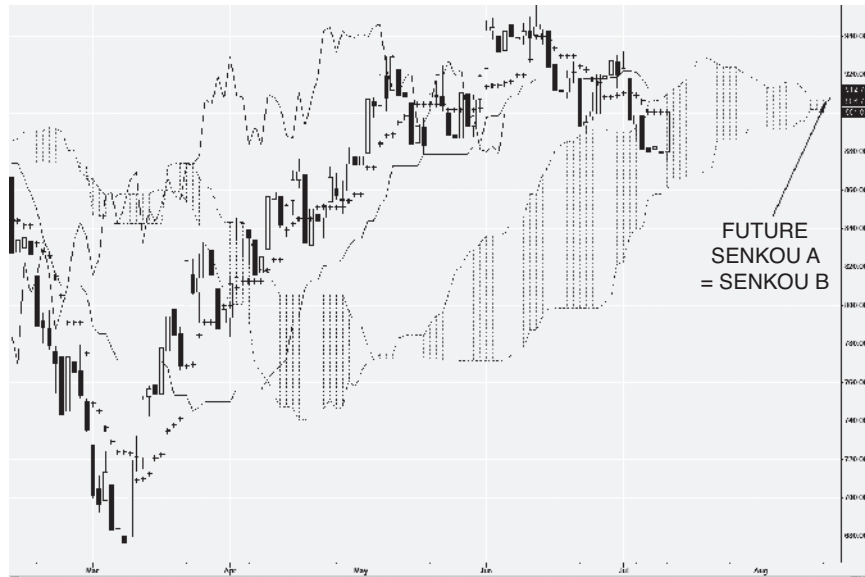


FIGURE 1.46 TradeStation Daily Ichimoku Chart of SPX July 13, 2009

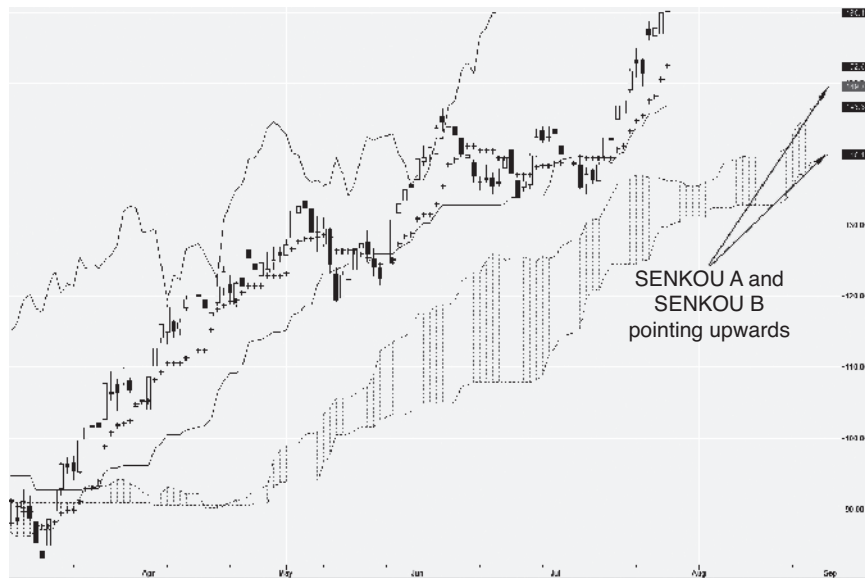


FIGURE 1.47 TradeStation Daily Ichimoku Chart of AAPL July 27, 2009

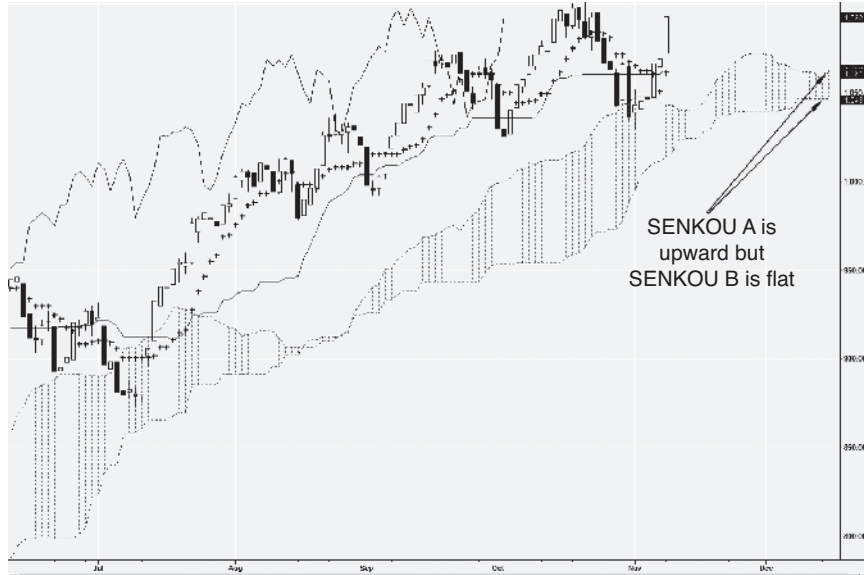


FIGURE 1.48 TradeStation Daily Ichimoku Chart of SPX Nov 9, 2009



FIGURE 1.49 TradeStation Daily Ichimoku Chart of AAPL Sept 2, 2008

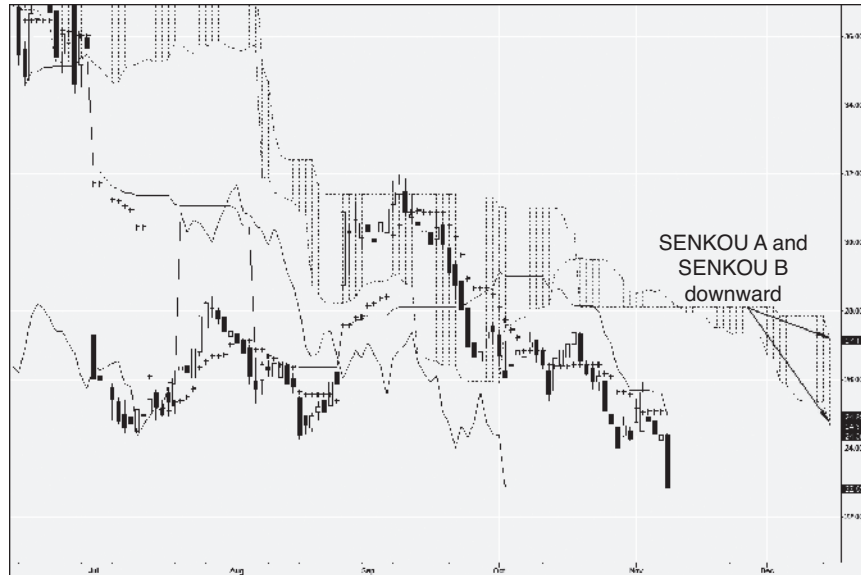


FIGURE 1.50 TradeStation Daily Ichimoku Chart of MYGN Nov 9, 2009

- *Strong Bearish:* Future Kumo Future is bearish and both future Senkou A and future Senkou B are pointing downward (trend) (Figure 1.50).
- *Medium Bearish:* Future Kumo Future is bearish, future Senkou A is pointing downward, and future Senkou B is flat. This means that there is minor pullback or major pullback with high volatility (Figure 1.51).
- *Weak Bearish:* Future Kumo Future is bearish, future Senkou A is pointing downward, and future Senkou B is flat. This means that there is a major pullback or trend reversal (Figure 1.52).
- Kumo shadow represents major support and resistance values. A Kumo shadow is a cloud that exists *behind* price. They are created from past consolidation patterns and trend reversals (Figure 1.53).

Figure 1.54 shows a Kumo shadow for a price movement going up (bullish). Until price moves above the Kumo shadow, it will run into resistance causing it to consolidate. If price consolidates for a while then the shadow will get weaker and weaker. The closer the shadow is to current price, the stronger it is in influencing price. Therefore, a *strong* trend really cannot occur until it breaks through the price of the peak of the shadow. The shadows were created from past price consolidations, which are now current support and resistance values.

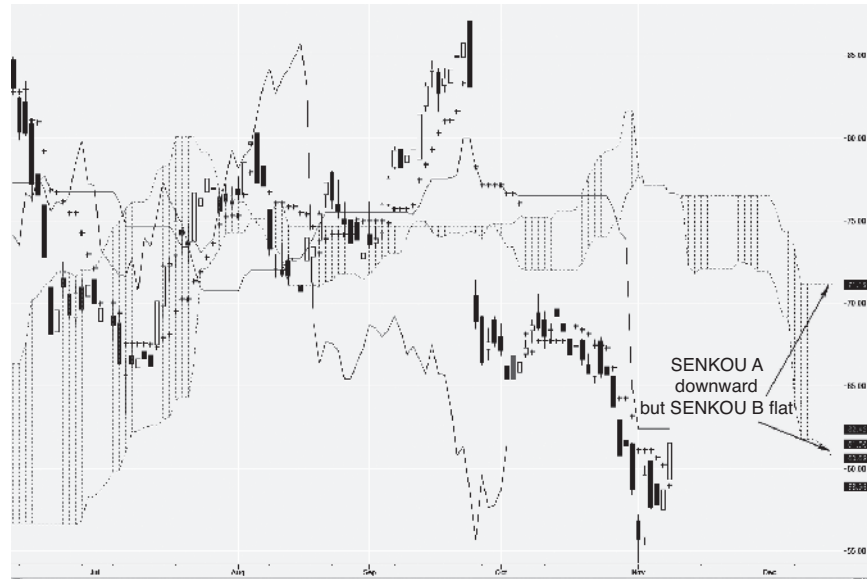


FIGURE 1.51 TradeStation Daily Ichimoku Chart of RIMM Nov 9, 2009

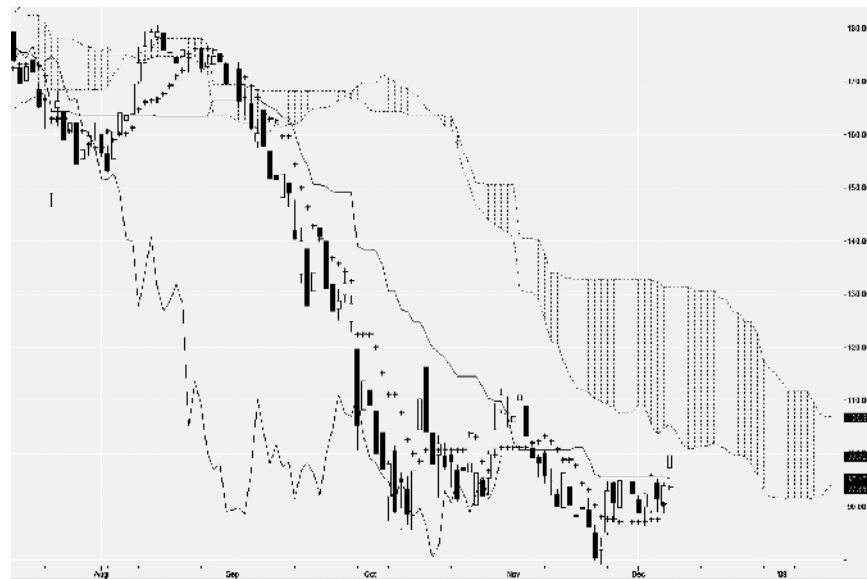


FIGURE 1.52 TradeStation Daily Ichimoku Chart of AAPL Dec 8, 2008

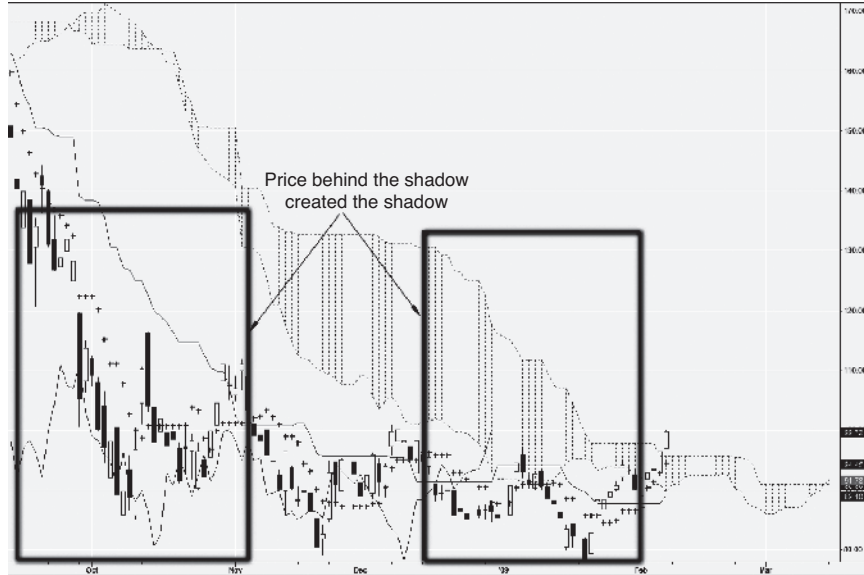


FIGURE 1.53 TradeStation Daily Ichimoku Chart of AAPL Feb 6, 2009

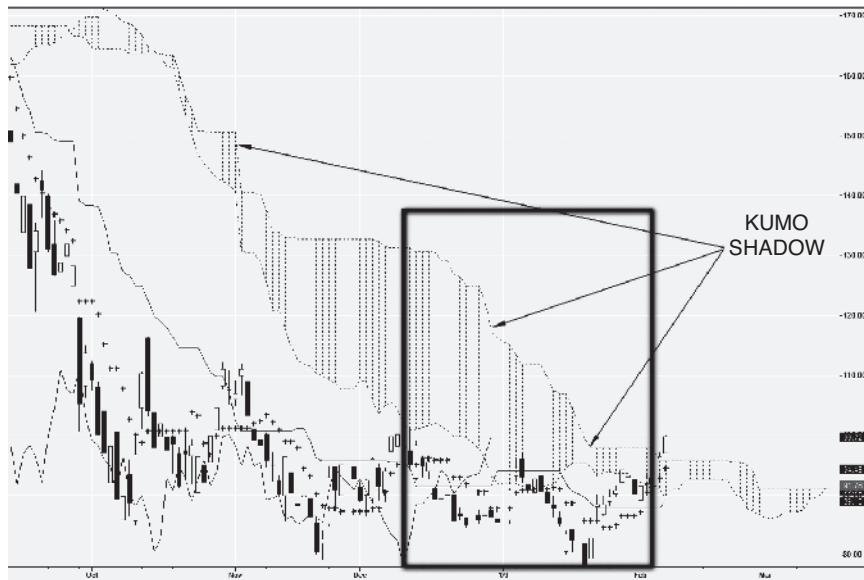


FIGURE 1.54 TradeStation Daily Ichimoku Chart of AAPL Feb 6, 2009

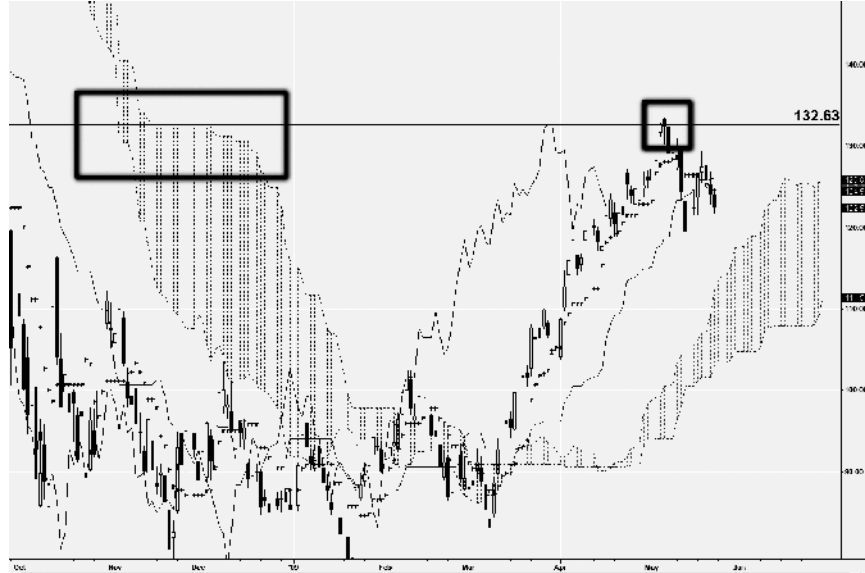


FIGURE 1.55 TradeStation Daily Ichimoku Chart of AAPL May 21, 2009

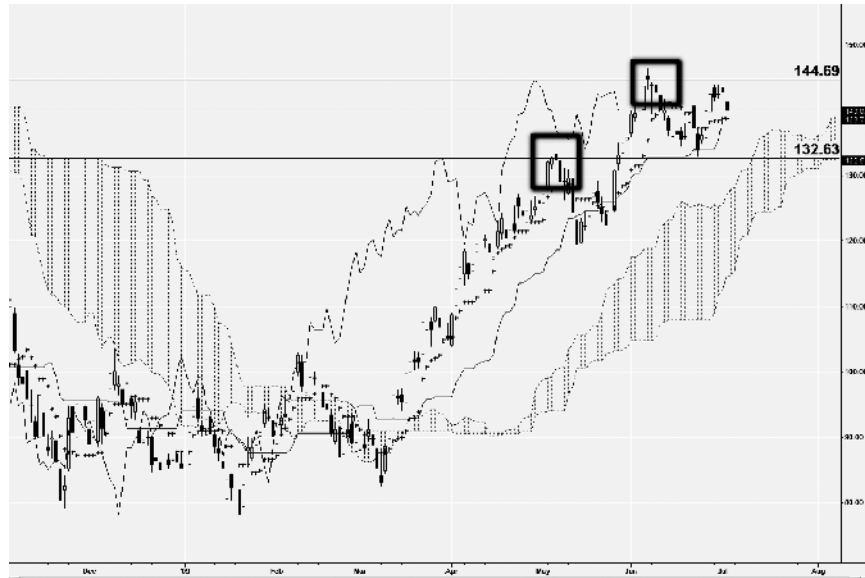


FIGURE 1.56 TradeStation Daily Ichimoku Chart of AAPL July 1, 2009

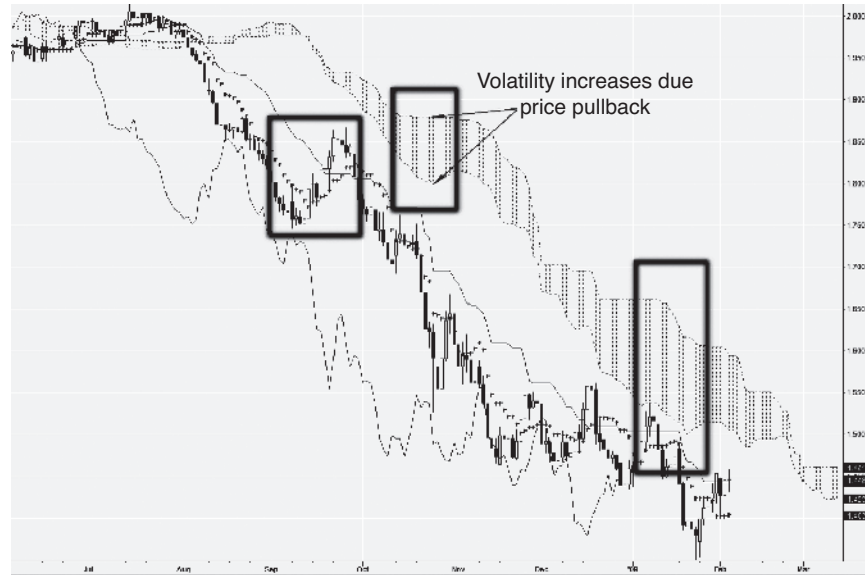


FIGURE 1.57 TradeStation Daily Ichimoku Chart of GBPUSD Feb 2, 2009

- The flat Senkou B of the Kumo Cloud is a major support and resistance value. The longer the flat part of Senkou B, the greater the support/resistance value it is going to be to cause problems for the current or future trend. In Figure 1.55, price just penetrated barely above the Senkou B (past) resistance of the Kumo Cloud (shadow). Notice how flat the Senkou was in the past around that price range. It acts as a major resistance to a point and it caused a major pullback in the bullish trend action.
- The peaks created by Senkou A of the Kumo Cloud are a major support and resistance value (Figure 1.56).

The spacing between Senkou A and Senkou B for the future Kumo Cloud represents volatility. The thicker the future cloud, the more consolidation has occurred. This in turn causes high volatility. When a *major* trend occurs, the future Kumo Cloud will be thin with both Senkou A and Senkou B pointing in the direction of the Kumo Cloud (Figure 1.57).

