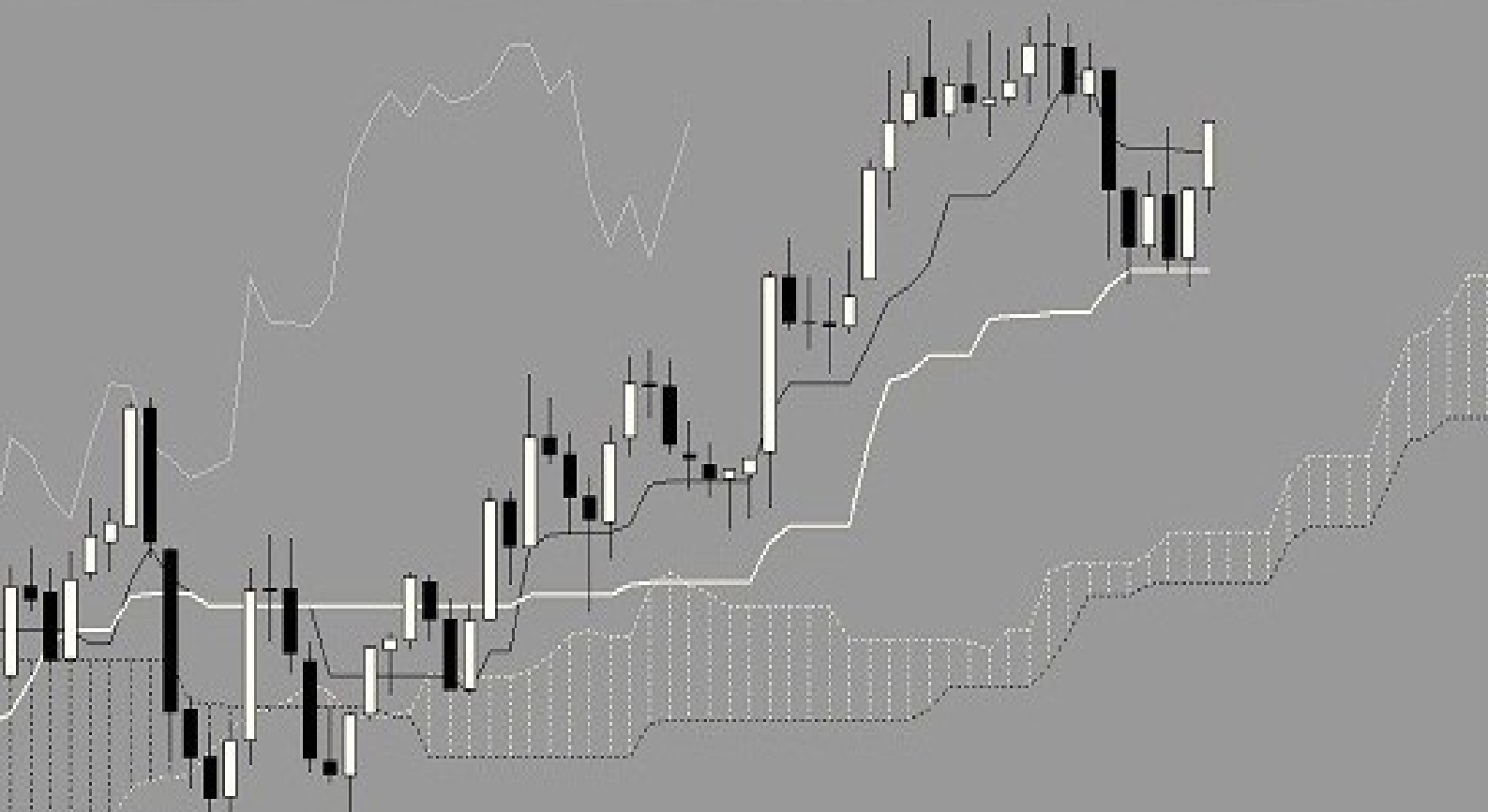


ICHIMOKU BEGINNER

ICHIMOKU WORLD BOOK SERIES



Gabor Kovacs

Ichimoku World Book Series
Volume One

Ichimoku Beginner

Gabor Kovacs

2010

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***I dedicate this book to Angelika,
without whose assistance, advice and support
this book wouldn't be possible.***

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Introduction

The *Ichimoku World Book Series* is a series of three books, each written at the right level for you at each stage in your study of the Ichimoku Kinko Hyo system.

The *Ichimoku Beginner* was written especially for those, who are completely new to the Ichimoku method. The book is divided into three main parts, each of which covers an important topic of basic Ichimoku trading.

The *Getting to Know the Ichimoku Method* chapter introduces the Ichimoku Kinko Hyo system. Also it helps to set up the charts with the Ichimoku indicator, and explains the components of the system.

The *Basic Chart Analysis* chapter teaches how to create a basic chart analysis with Ichimoku, shows how to use it as a charting system and explains how to find exact entry opportunities with the help of it.

The *Practice* section at the end of the book gives the opportunity for practice and enable you to assess how much you have learned. Answers to the exercises are given at the back of the book.

To find more analyses, explanations, learning materials and videos in connecting with the way I trade the Ichimoku system, please visit the Ichimoku World website at <http://www.ichimokuworld.com>

Have a great time reading this book!

Gabor Kovacs

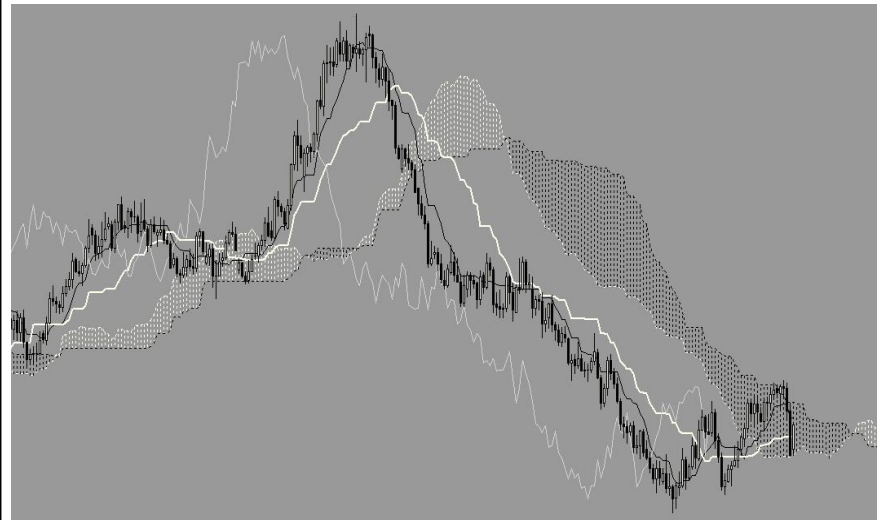


Part One

Getting to Know the Ichimoku Method

What is Ichimoku Kinko Hyo?

Ichimoku Kinko Hyo is a multifunctional visual trend following charting system. It mentioned to be the king of the indicators and trading or analyzing with it is a kind of high-level art.



What does its name mean?

Ichimoku means: one glance, Kinko means: equilibrium (or balance), and Hyo means: chart. The term Ichimoku Kinko Hyo could be translated as: 'One glance equilibrium chart', or 'Chart balance at a glance'.

一目均衡表

**Who created the
Ichimoku Kinko Hyo
system?**

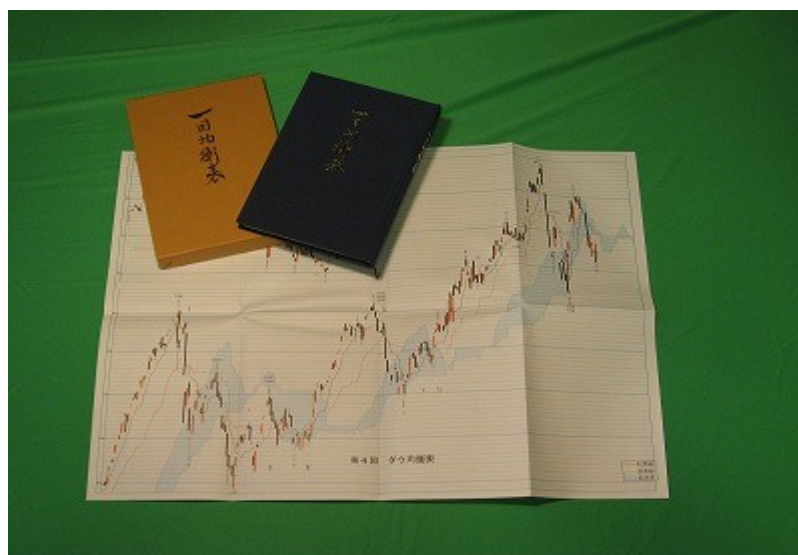
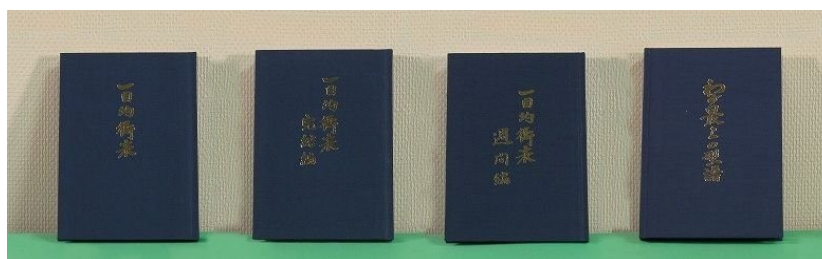
It was developed by a Japanese economic journalist, name Goichi Hosoda, who aimed to create a kind of „all-in-one” indicator to analyze the charts more deeply but in less time. The development of the system was a huge and complex work, as there was no possibility for doing automated back tests at that time. Goichi Hosoda started the process before the Second World War, with a large group of hired students, who had to manually backtest the different calculated formulas. Finally, after more then twenty years of testing and chiseling, Hosoda presented the Ichimoku Kinko Hyo charting system in his book in 1969, and it rapidly became the most frequently used indicator in Japanese trading rooms.

**Why is the system so
special?**

With Ichimoku, it is possible to get the whole picture of the market, including trend direction, the main support/resistance levels, and exact entry or exit points. It also helps to define the strength of the signal. It is also important, that Ichimoku can be used successfully for all markets and on all time frames, but – like most indicators - it performs a bit better on the higher ones.

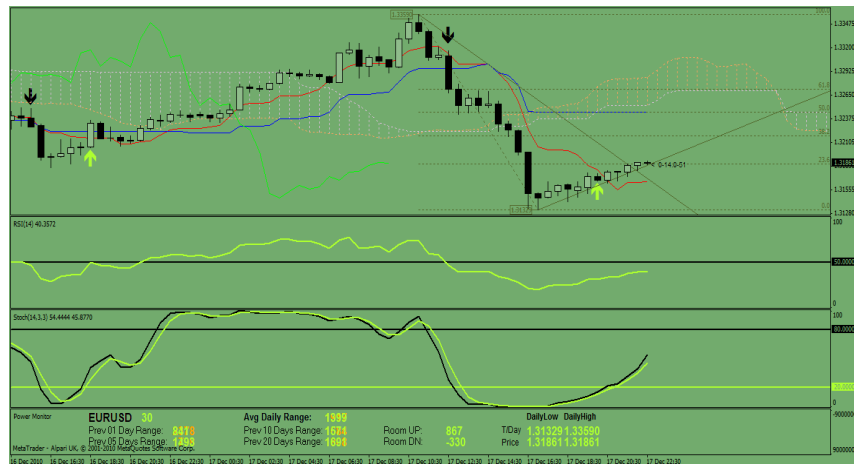
Is it possible to read the original book of Goichi Hosoda in English?

Unfortunately no, as the original Ichimoku books and materials have never been translated into English. Many believes, that these materials are currently stored in a secret safe of the Bank of Japan. Also, it is a gossip, that the whole method described in Hosoda's book was never been shared fully with the public, and there might could be a secret bonus component of the system. However these gossips were never confirmed officially.

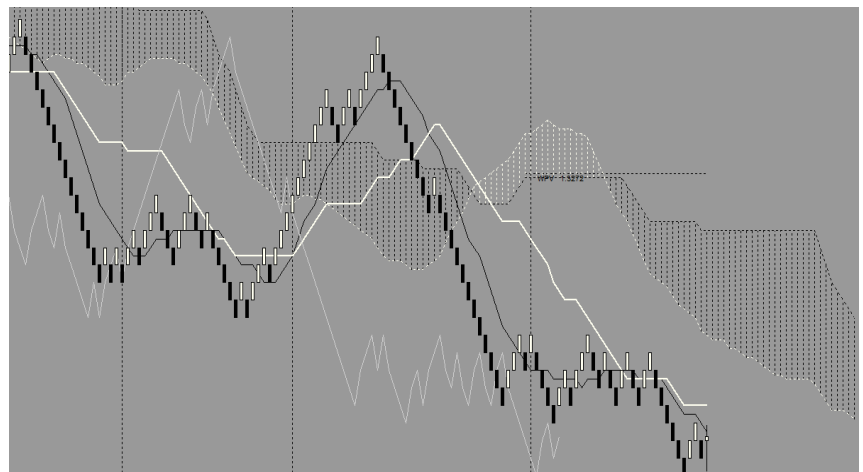


Is it a stand-alone system?

Ichimoku Kinko Hyo can be used in many ways. It can be used as a stand-alone system, or it can be used as a trend and price behaviour analyser and can be combined with any trading systems or strategies. It also can be used as an entry signal generator, or it can be used to filter the signals of another trading system. Furthermore, as trading Ichimoku is a kind of high-level art, and art is quite a subjective thing, every Ichimoku trader trades the Ichimoku a bit differently.



Ichimoku with a commercial trading system.



Ichimoku with another Japanese system, the Renko.

What official sources use Ichimoku regularly for chart analysis?

Just to mention a few from the bigger news sources:

Bloomberg

FXSTREET.COM
The Forex Market



INTERNATIONAL BUSINESS TIMES



San Francisco Chronicle
NORTHERN CALIFORNIA'S LARGEST NEWSPAPER

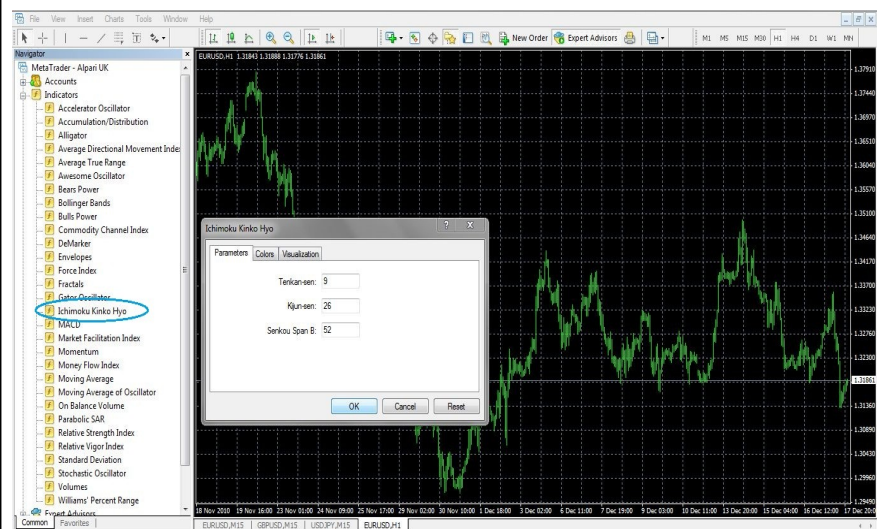


Mizuho Corporate Bank

FOREXPROS.com

How can I add the Ichimoku indicator to my MT4 charts?

1. Download and install the free Metatrader4 (MT4) platform. You can choose any broker that supports Metatrader4 such as Alpari, InterbankFX, FXDD, FXPro etc. Feel free to use your existing brokerage account or choose one by yourself.
2. Open your Metatrader4.
3. On the Navigator panel of your Metatrader choose Indicators> Ichimoku, and add it to you chart(s).



What are the standard settings of Ichimoku and why?

The standard settings of are: 9-26-52. The base number of the formula is 26. The common view is that the number 26 represents a standard Japanese business month (which

included Saturdays), the number 9 represents a week and a half and the number 52 represents two months. Some hold different views and says that the calculation of Goichi Hosoda based on - among others - Moon cycles, as the number 26 is the best approximate number to express a full Moon cycle, the number 9 represents one and a half quarter Moon cycle, and number 52 represents a double Moon cycle.

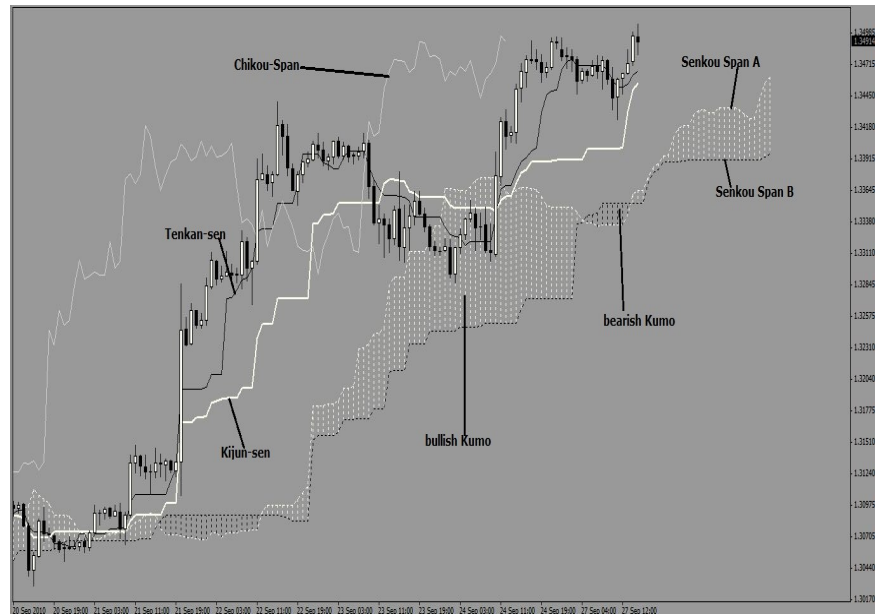
Is it possible to use alternative setting values?

Yes, it is possible. Some traders use the values of 2-22-44, however the recommended settings are still the original values.

What are the components of the Ichimoku Kinko Hyo system?

Ichimoku Kinko Hyo is constituted by five lines:

- The **Tenkan-Sen** (Conversion line) is calculated as $(\text{Highest High} + \text{Lowest Low})/2$ for the past 9 periods.
- The **Kijun-Sen** (Standard line) is calculated as $(\text{Highest High} + \text{Lowest Low})/2$ for the past 26 periods.
- The **Chikou Span** (Lagging Span) is calculated as current price time-shifted backwards 26 periods.
- The **Senkou Span A** (Faster Span A) is calculated as $(\text{Tenkan-Sen} + \text{Kijun-Sen})/2$.
- The **Senkou Span B** (Faster Span B) is calculated as $(\text{Highest High} + \text{Lowest Low})/2$.



Is it necessary to learn the Japanese name of the elements?

It is very important to learn the exact Japanese name of the Ichimoku lines, also it is a must to be able to identify the lines at a glance when they are on a chart.

Please read the following chapters only, if you have fully understood and mastered the informations of this chapter. If you have to think about which line is which, please continue practicing the terminology and the identification of the lines before continuing to the next chapters.

Part Two

Basic Chart Analysis

Using Ichimoku as a charting system

When we use the Ichimoku Kinko Hyo system as a charting system, we don't want to get entry or exit signals, but we want to get important informations about the market, for example the trend direction, the future possibilities and the main support and resistance levels.

Identifying the trend

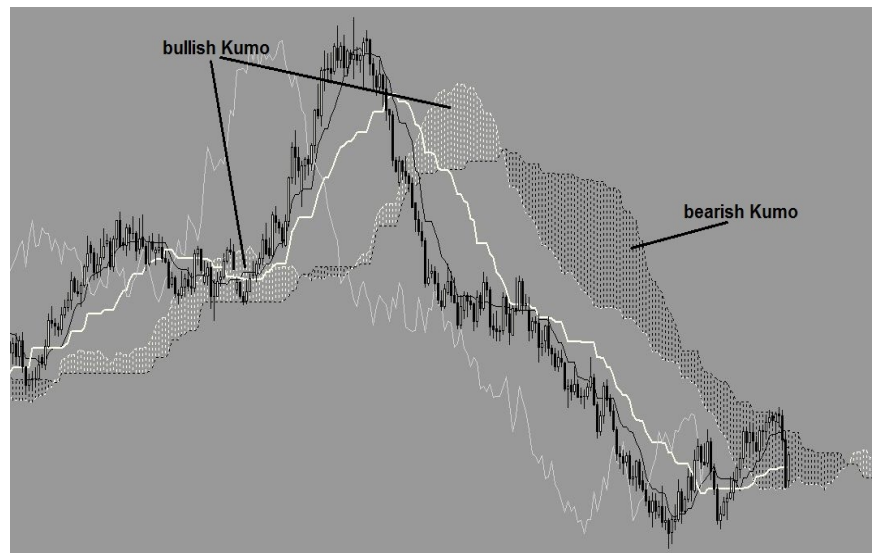
„Trend is your friend” - this is one of the basic and widely known concepts of the technical analysis. However unfortunately it is not just that easy. Trends spectacularly stand out on historical charts, but identifying a trend in the beginning of it is one of the hardest tasks in chart analysis. This following few paragraphs will show how trends can be spotted out with Ichimoku Kinko Hyo.

Analyzing the Kumo

The latter two lines – Senkou Span A and Senkou Span B – form the unique Kumo feature of the system. To indentify the trend, the first thing is to observe this component on it's own and versus the other components and the price.

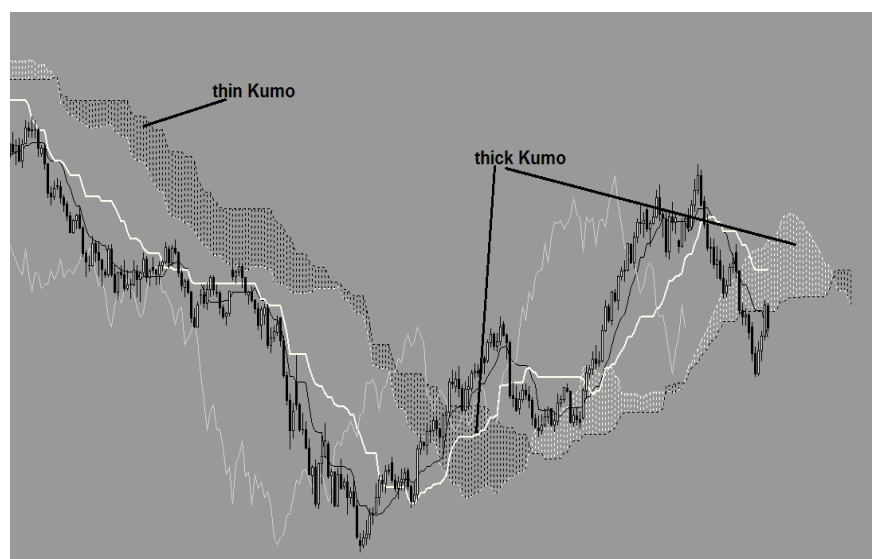
a) The color of the Kumo

If Senkou Span A is above Senkou Span B, the color of the Kumo is light and it indicates a possible bullish trend. If the Senkou Span A is below Senkou Span B, the Kumo color is dark and the trend is indicated as bearish. When Senkou Span A crosses Senkou Span B the color of the Kumo changes, and it raises the plausibility of a possible trend change.



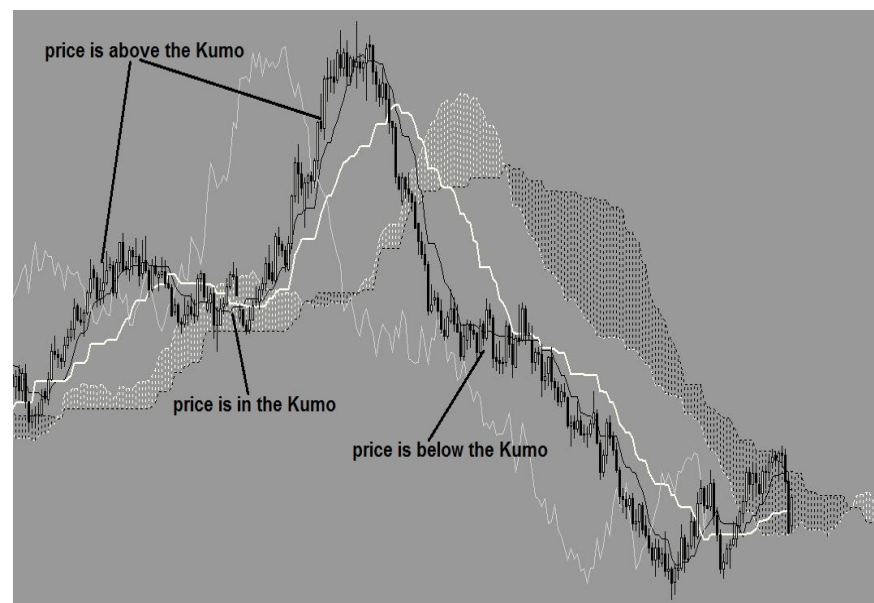
b) The thickness of the Kumo

The thicker the Kumo, the stronger the trend is. A significant Kumo means strong trend and a tiny Kumo indicates a weak trend, as it is more easy for the price to move through a thin Cloud than a thick one. However it is important to keep in mind, that the top and the bottom of the Kumo mean support and resistance lines, so even a thin Kumo can turn the price back to it's previous direction, however the chances are lower.



c) The Kumo versus price

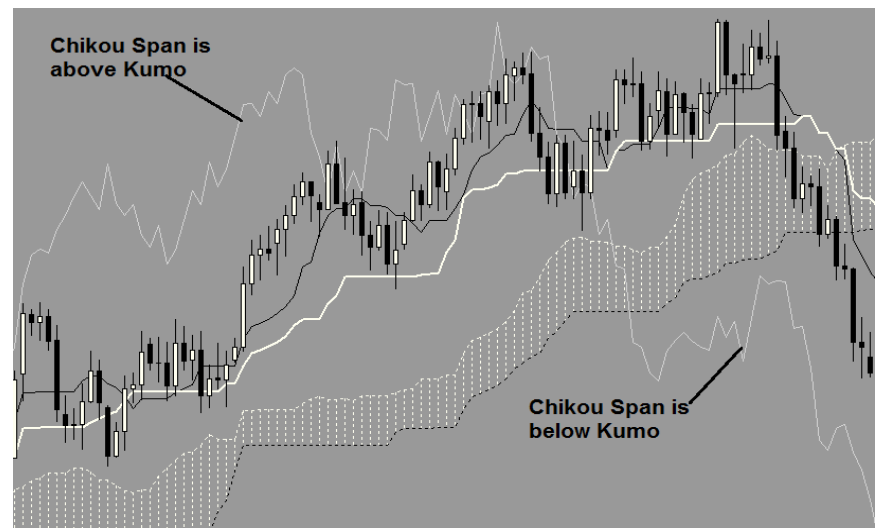
One of the most basic fundamentals of Ichimoku is: if the price is above the Kumo, the trend is bullish, and if the price is below the Kumo, the trend is bearish. It is very visible and easy to determinate if the overall trend is bullish or bearish with this method. It follows that every trend begins with a Kumo breakout, when price breaks out from the Kumo cloud on the upside or on the downside, however for a perfectly formed Kumo breakout Chikou Span has to break out from the Kumo too to confirm the direction. When price is moving in the body of the Cloud, it shows suspense in the trend.



d) The Kumo versus Chikou Span

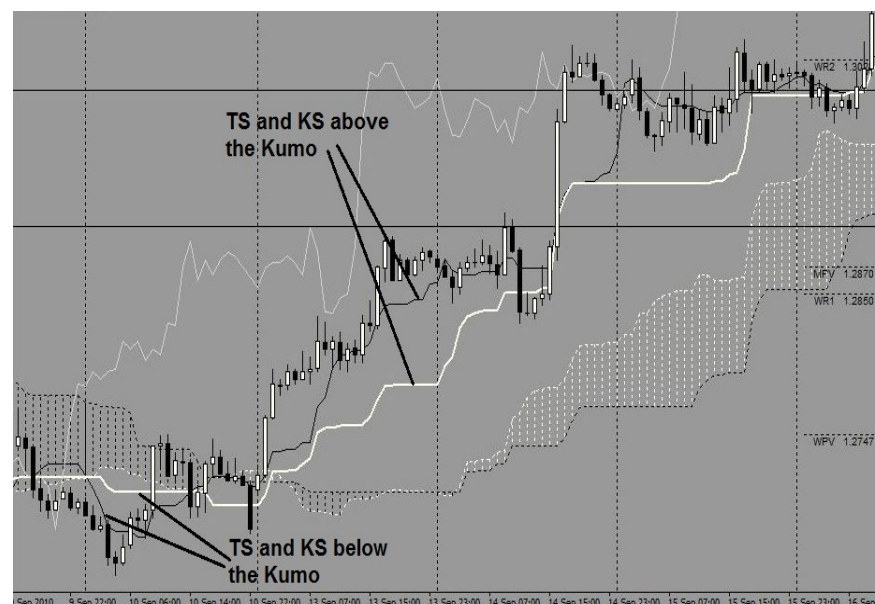
Chikou Span can be above the Kumo (bullish trend), below the Kumo (bearish trend) or in the Kumo (neutral, undecided trend). Chikou Span is a very important trend

confirmation tool, so it is necessary to always reckon with the chart analysis.



e) The Kumo versus Kijun-Sen and Tenkan-Sen

However the position of Kijun-Sen and Tenkan-Sen is usually compared to the price, it's place versus the Kumo can be the indicator of the strength of the trend too. If these lines are extruding on the upside of the Kumo, it supports further bullish trend. The opposite of it supports the continuation of the bearish trend.

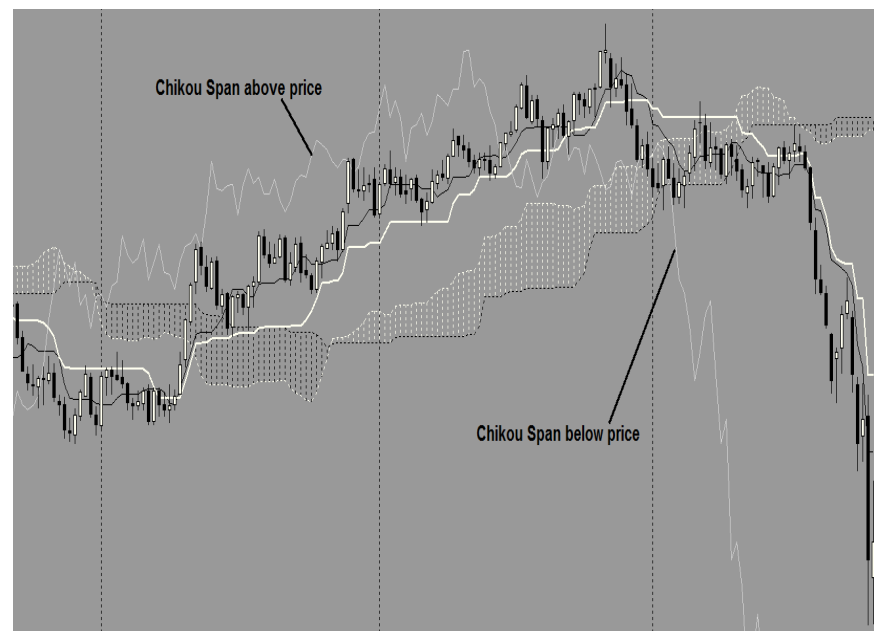


Comparing the other components versus price

We have already compared the Kumo versus price. Now let's do the same with the other components of Ichimoku.

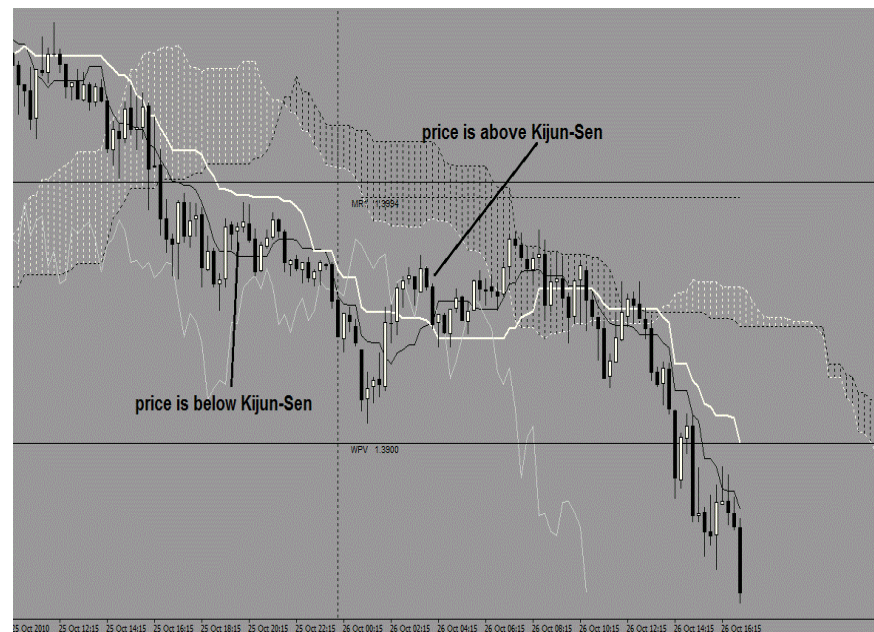
a) Chikou Span versus price

If the Chikou Span crosses up the price it can be counted as a bullish sign, and vice versa. If the price is on the upside of the Kumo and Chikou Span crosses it up, it is a very strong sign of the possibility of a longterm uptrend, and the opposite of it indicates a strong downtrend. If Chikou Span is in the Kumo, the trend is undecided, because the Senkou Span A and Senkou Span B support and resistance lines can affect to it strongly, and Chikou Span can bounce the price back even it has already broken out from the body of the Cloud.



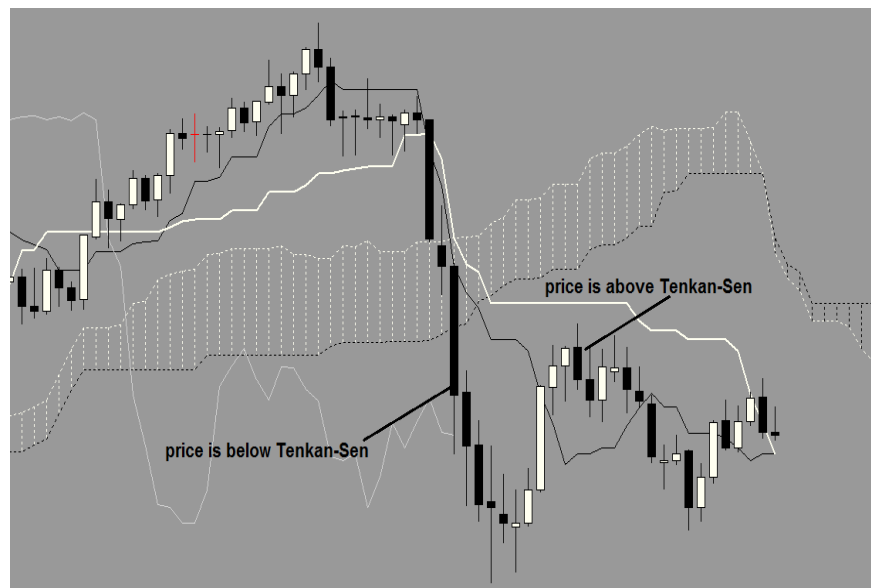
b) Kijun-Sen versus price

The Kijun-Sen is behaving as a very strong support or resistance level so it is a very important tool of identifying trend changes. If price crosses it up, this is a bullish sign, if price crosses it down, that is a bearish sign. A bullish cross can happen above the Kumo (strong sign), in the Kumo (neutral sign), or below the Kumo (weak sign), and vice versa. The distance between Price and Kijun-Sen can be very telling too, as if price leaves behind Kijun-Sen far away, it usually turns flat and attracts back the price to create equilibrium. Please notice, that this is not a sign of the trend change, but only a bounce, and after the harmony of the Kijun-Sen and price was restored, they usually move in the direction of the trend again.



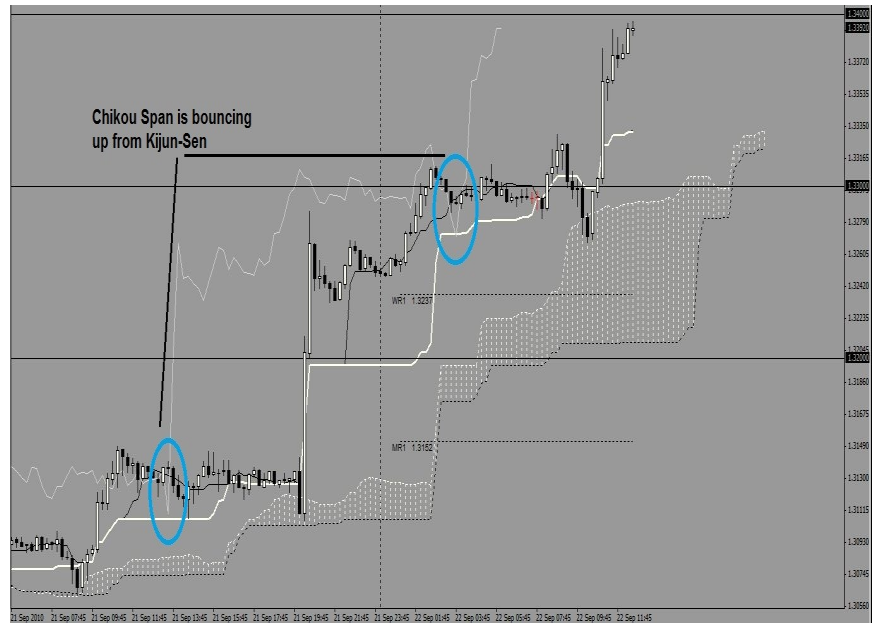
c) Tenkan-Sen versus price

Tenkan-Sen is more sensitive to minor price movements, as it represents the momentum, however it can be used as a trend-confirmation tool too. For example if price is in a trend, it usually creates waves, and moves back through Tenkan-Sen to Kijun-Sen, then bounces into the direction of the trend again. If price moves through Tenkan-Sen in the direction of the trend in the course of a bounce, it confirms the continuation of the trend.



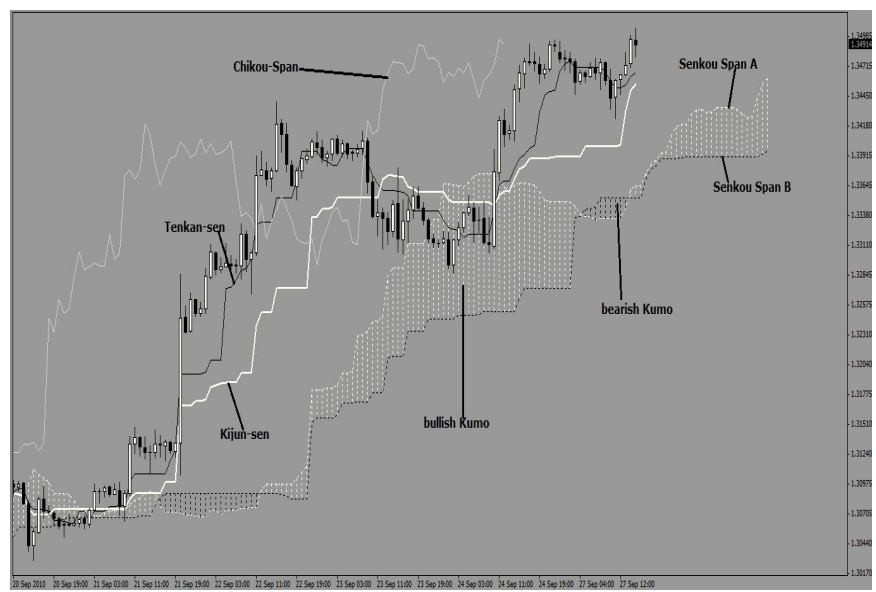
d) Chikou Span versus Kijun-Sen

Chikou Span can be above (bullish sign), or below (bearish sign) Kijun-Sen. As Kijun-Sen is a very strong support/resistance level, as long as the Chikou Span is above it the bullish movements are well supported, and if Chikou Span is staying below Kijun-Sen, the down movements are supported. It is very common, that Chikou Span is bouncing on the Kijun-Sen before a huge move happens.



e) Tenkan-Sen versus Kijun-Sen

A Tenkan-Sen/ Kijun-Sen cross can also indicate the change or the continuation of the trend. An up cross can happen above the Kumo (strong signal), in the body of the Kumo (neutral signal), or below the Kumo (weak signal) and vice versa.



The picture of the ideal trend

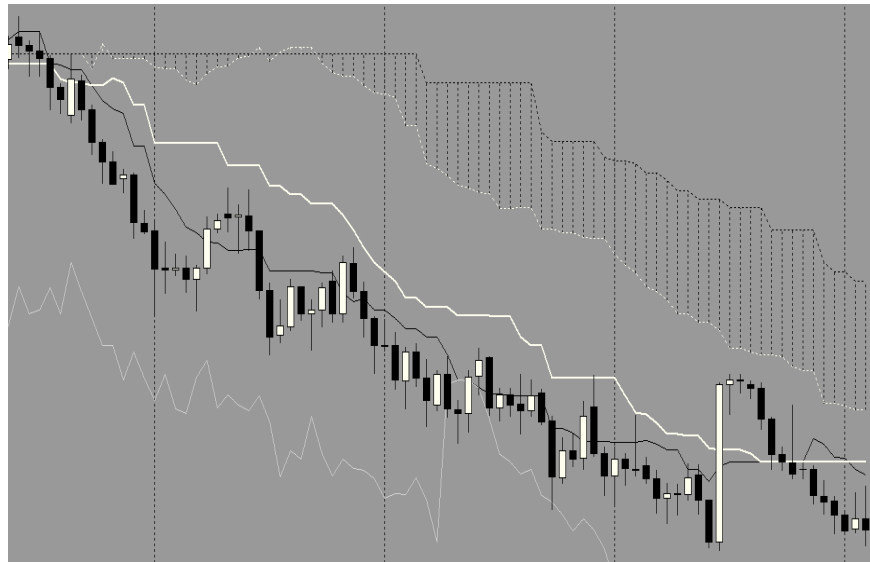
However the components of the Ichimoku Kinko Hyo system were described separately, it is indispensable to use both components together to see the overall trend and the whole picture at a glance.

It follows that the description of an ideal bullish trend sign or confirmation would be:

1. the price is above the Kumo, Tenkan-Sen and Kijun-Sen
2. the Kumo is thick and bullish
3. the Tenkan-Sen has crossed up Kijun-Sen above the Kumo
4. the Chikou Span is above both Kumo, Tenkan-Sen, Kijun-Sen and price

The picture of an ideal bearish trend would be:

1. the price is below the Kumo, Tenkan-Sen and Kijun-Sen
2. the Kumo is thick and bearish
3. the Tenkan-Sen has crossed down Kijun-Sen below the Kumo
4. the Chikou Span is below both Kumo, Tenkan-Sen, Kijun-Sen and price



Ideal bearish trend.

The signs of trend weakening

Regarding to the previously described ideal bullish trend, the signs of the trend weakening would be:

1. Chikou Span moves below Kijun-Sen
2. Price moves below Tenkan-Sen, then Kijun-Sen
3. Tenkan-Sen crosses down Kijun-Sen
4. Both Chikou Span, Tenkan-Sen, Kijun-Sen and price moves into the body of the Kumo
5. The Kumo turns bearish (dark)

Finally, if price breaks out from the Cloud on the downside with at least the confirmation of the Chikou Span, a complete change of the trend (from bullish to bearish) can be diagnosed.

Regarding to the previously described ideal bearish trend, the signs of the trend weakening would be:

1. Chikou Span moves above Kijun-Sen
2. Price moves above Tenkan-Sen, then Kijun-Sen
3. Tenkan-Sen crosses up Kijun-Sen
4. Both Chikou Span, Tenkan-Sen, Kijun-Sen and price moves into the body of the Kumo
5. The Kumo turns bullish (light)

Finally, if price breaks out from the Cloud on the upside with at least the confirmation of the Chikou Span, a complete change of the trend (from bearish to bullish) can be diagnosed.

Identifying support and resistance levels

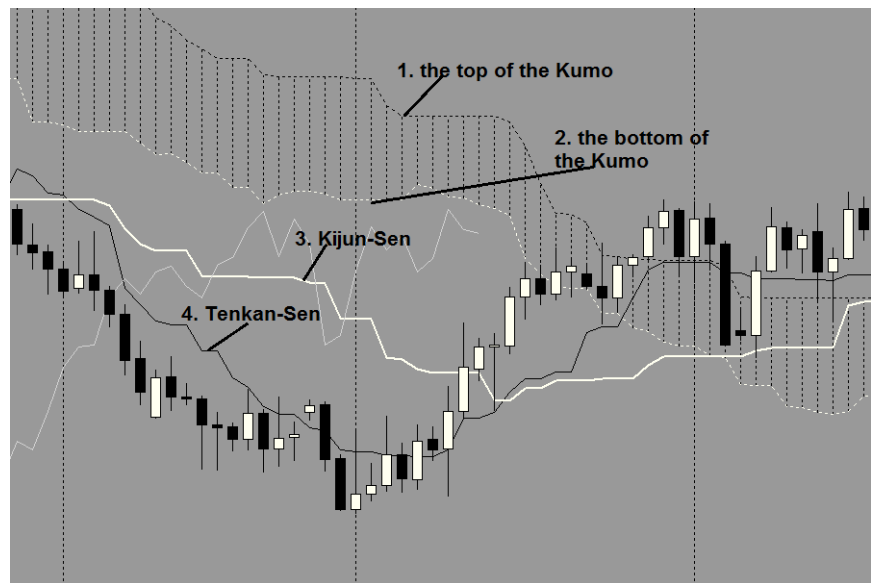
All Ichimoku lines are support and resistance lines, however they don't have the same strength.

Regarding to the previously described ideal bullish trend, the strength order of the support levels (in descending order) would be:

1. The bottom of the Kumo
2. The top of the Kumo
3. The Kijun-Sen
4. The Tenkan-Sen

Regarding to the previously described ideal bearish trend, the strength order of the support levels (in descending order) would be:

1. The top of the Kumo
2. The bottom of the Kumo
3. The Kijun-Sen
4. The Tenkan-Sen



Using Ichimoku as a trading system

When we use the Ichimoku Kinko Hyo system as a trading system, we don't just want to get important informations about the market, but we also want to get exact entry and exit signals from it.

In this book I will only explain the two most commonly used entry techniques what are recommended for beginners.

Tenkan-Sen/Kijun-Sen cross

Strong buy signal: cross happens above the Kumo

Strong sell signal: cross happens below the Kumo

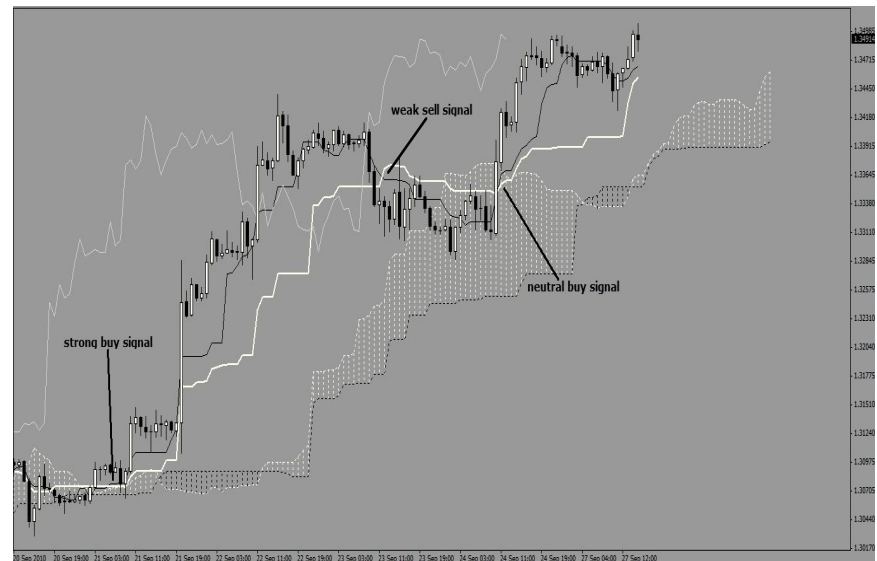
Neutral buy/sell signal: cross happens in the body of the Kumo

Weak buy signal: cross happens below the Kumo

Weak sell signal: cross happens above the Kumo

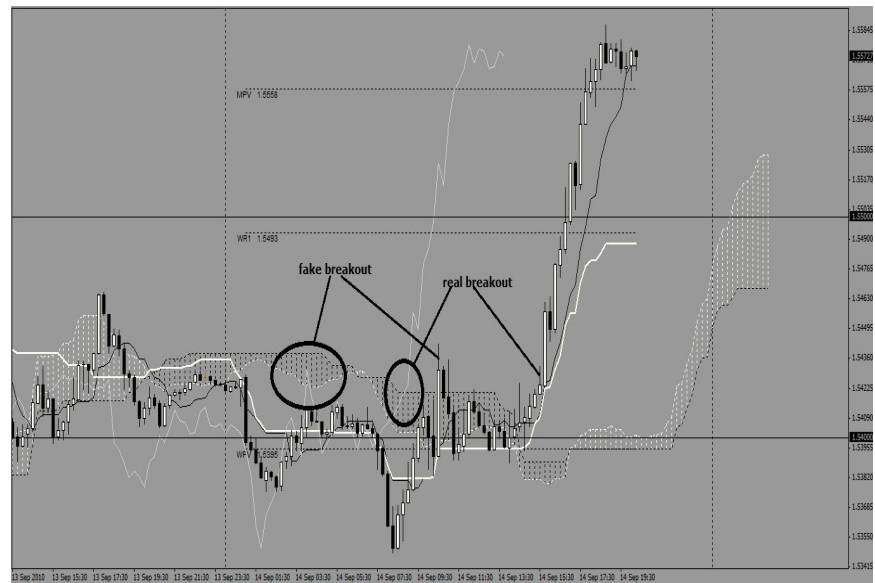
Entry:

- cross happens (prefer strong crosses)
- the other Ichimoku components are supporting the direction (as described in the Trend trading chapter).



Kumo breakout

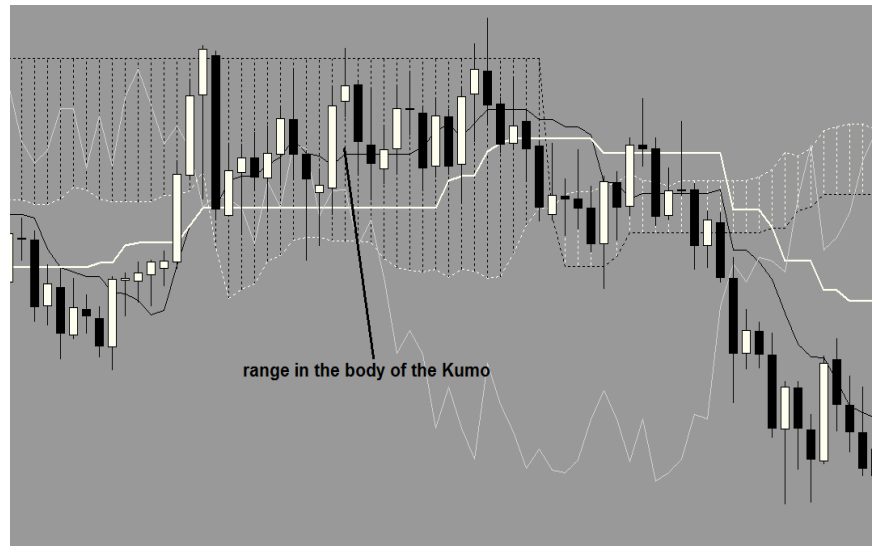
We are talking about a valid Kumo breakout, if the price breaks out from the body of the Kumo (closes outside of it), AND the Chikou Span confirms the move. If the price breaks out from the Kumo, but the Chikou Span doesn't, we call it a fake breakout or a fake-out. If the other components are supporting the move too, it makes the signal more stronger.



Filtering ranging periods

Choppy markets are the worst nightmare of most traders. By the help of the unique Kumo feature of the Ichimoku system, ranging periods of the market can be filtered out with more success. If price marches into the body of the Kumo, it means the trend is undecided, and range is probable. It is not recommended to enter into any position, when price is moving in the Kumo. The same applies to Chikou Span. It doesn't matter, if price has already broken out from the

Kumo, if the Chikou Span is still there. It is very usual, that Chikou Span bounces back from the border of the Kumo and pulls the price back to it's previous direction.



The timeframe question

Naturally an identified trend on the higher time frames can hold more potency and strength, than on the shorter time frames. It follows that also a Kumo breakout or a Tenkan-Sen/Kijun-Sen cross is more relevant on the higher time frames than on the shorter ones. Furthermore, the higher time frame's Ichimoku components usually effect to the Ichimoku lines on the lower time frames. For example, it is typical, that the value of the Daily chart's Kijun-Sen is the exact value of the H4 chart's Kumo top. In that case if price closes below the Daily Kijun-Sen, it also means that it entered into the Kumo on the H4 chart.

Where to put the Stop Loss?

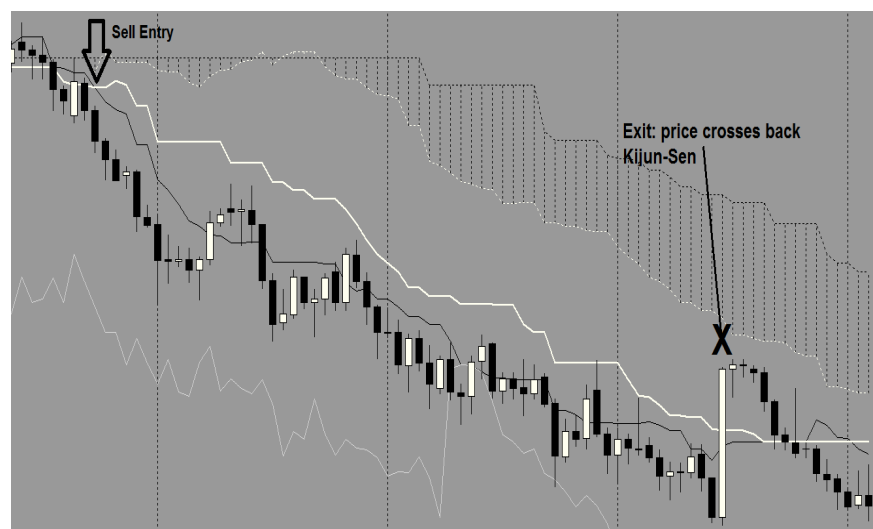
You should always use a stop loss, no matter what. Even with Ichimoku. In the support/resistance lines chapter I described that the strongest support/resistance line is the other side of the Kumo. It follows that it is a good idea to put the safety stop to that level + a few pips buffer. It is also a commonly used technique to put the stop loss to the last high/low + buffer, or the last round number level + buffer.

When to close a position?

A position is closed by the stop loss, or can be closed manually (usually in profit). There are many good techniques regarding to the take profit targeting, in this book I will only mention a few basic ones that are mostly recommended for beginners, and I will go deeper in this topic in the next volume of the book series.

The three main basic methods to close position are:

- close if the price crosses back the Kijun-Sen
- close if it reaches a round number level
- close after x amount of pips in profit.



Creating your first basic Ichimoku analysis

The hardest thing for Ichimoku beginners are creating valid basic analyses. The reason is that the picture and trend is usually not as idealistic as we have learned in the previous sections. For example what if the price is under the Kumo, the Chikou Span is under the Kumo too, put above the price, Tenkan-Sen is below Kijun-Sen, and the Kumo future is bullish. Which signals has more relevance? Also, what if the H4 charts are completely bearish, but the 5M charts are clearly bullish?

The minimum requirements

These are the minimum requirements that you should always check to be able to make a trading decision with Ichimoku:

- the price vs Kumo
- Tenkan-Sen vs Kijun-Sen
- Chikou Span vs Kumo, Price and Kijun-Sen
- Kumo future

These are the minimum requirements. Always check them in this order. If these parameters are showing the same, you can enter with a Tenkan-Sen/Kijun-Sen cross or with a Kumo breakout. If you find that for example the Tenkan-Sen and Kijun-Sen are breaking out from the Kumo too, it can



count as a bonus confirmation of the trend. But the minimum requirements are only the four previously mentioned ones. If you find that three of them are showing the same, but for example Tenkan-Sen crossed Kijun-Sen in the opposite direction, do not enter till it starts to support the direction of the other three components too.

The higher timeframes

It is always recommended to trade only in the direction of the higher timeframes. I would advice to check at least two higher timeframes, so if you for example want to enter on the 15M timeframe, check the H1 and H4 charts first. If you enter on the H1 chart, then check the H4 and Daily charts first, etc. When checking the higher timeframes, please check at least the previous four minimum requirements. Always start from the higher time frames and proceed to lower time frames then and never enter against the higher timeframes. (It is possible to enter against them with some special Ichimoku techniques, but at this beginner stage the best thing is to always trade in the direction of the higher trend.)

Please feel free to use the following cheat sheet with your daily trading routine. Start from the top of it and put a small up or down arrow next to every lines reagrding to that timeframe's Ichimoku. If you have 4 small arrows pointing into the same direction, you can move to the next (lower) timeframe. If you have there 4 small arrows pointing into the same direction again, you can go to your entry timeframe. Analyse the charts with your cheat sheet and start to look for Tenkan-Sen/Kijun-Sen crosses or Kumo breakouts there.

CHEAT SHEET

Higher timeframe 1 (e.g. H4)

- Price vs Kumo
- Tenkan-Sen vs Kijun-Sen
- Chikou Span vs Kumo, Price and Kijun-Sen
- Kumo future

Higher timeframe 2 (e.g. H1)

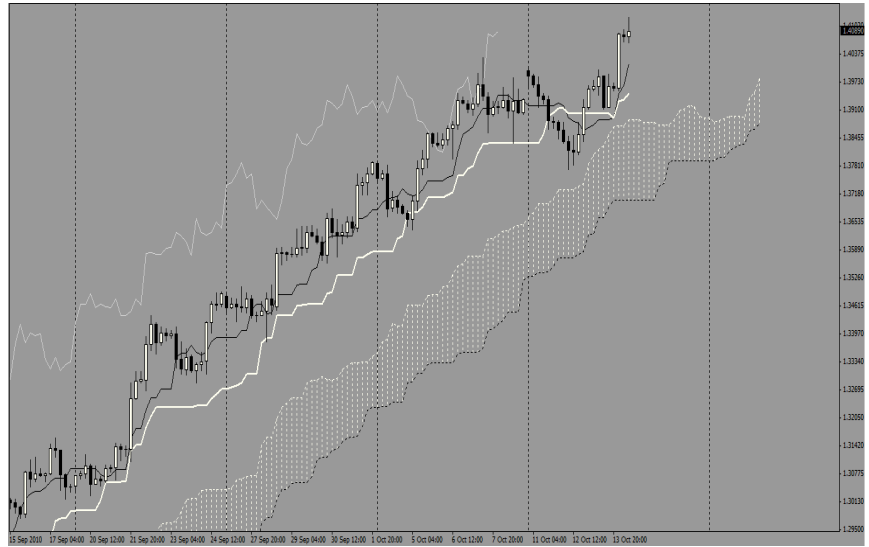
- Price vs Kumo
- Tenkan-Sen vs Kijun-Sen
- Chikou Span vs Kumo, Price and Kijun-Sen
- Kumo future

Entry Timeframe (e.g. M15)

- Price vs Kumo
- Tenkan-Sen vs Kijun-Sen
- Chikou Span vs Kumo, Price and Kijun-Sen
- Kumo future

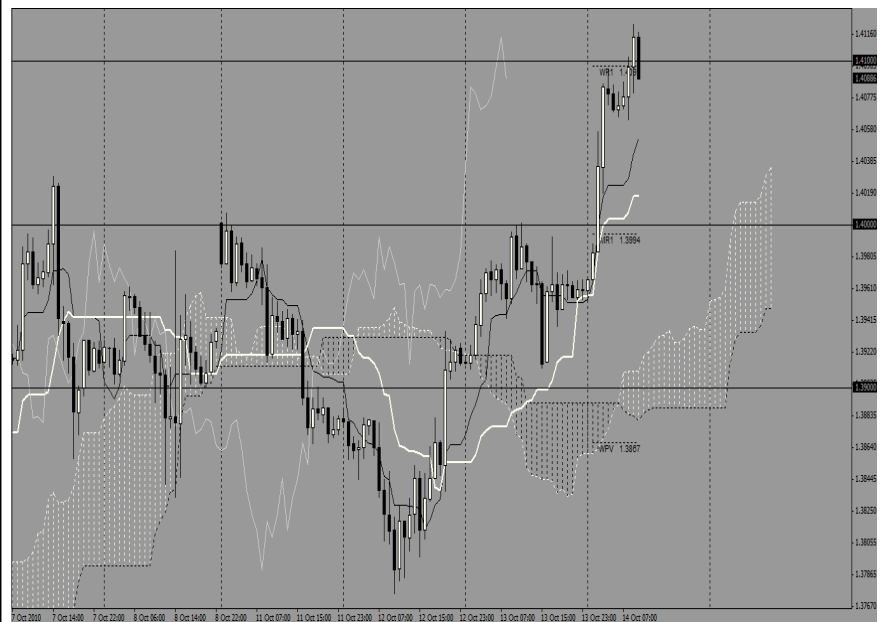
Example analysis 1.

Higher timeframe 1. (H4)



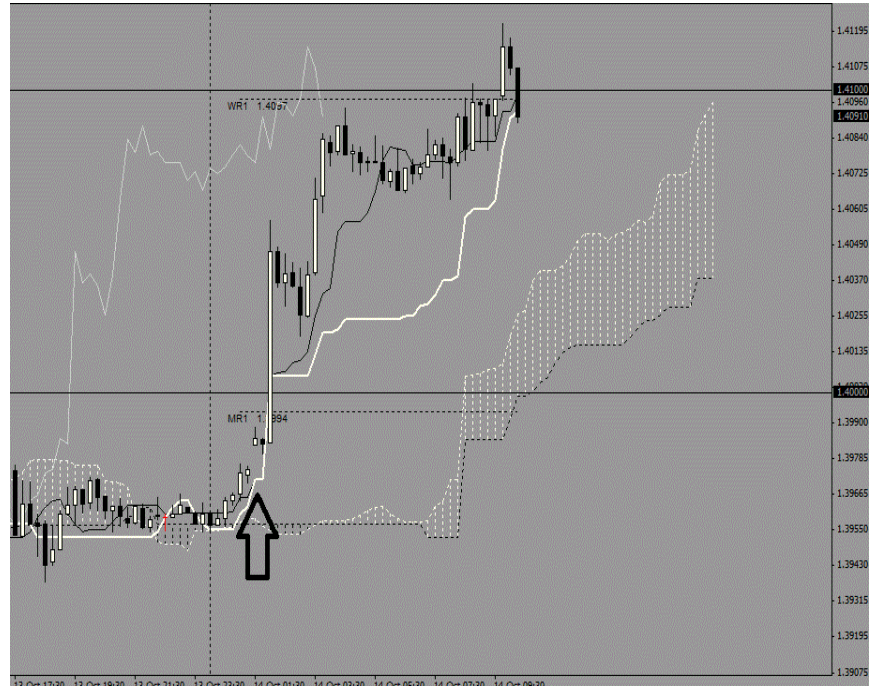
- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

Higher timeframe 2.
(H1)



- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

Entry timeframe (M15)



- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

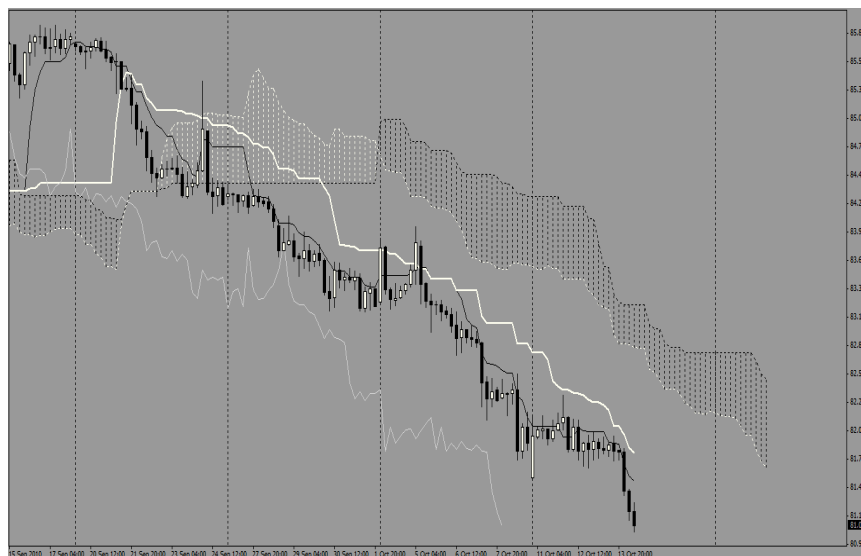
Entry strategy: Kumo breakout and/or Tenkan-Sen/Kijun-Sen cross

Stop Loss: at the bottom of the Kumo + buffer

Exit strategy: round number level, or price/Kijun-Sen cross

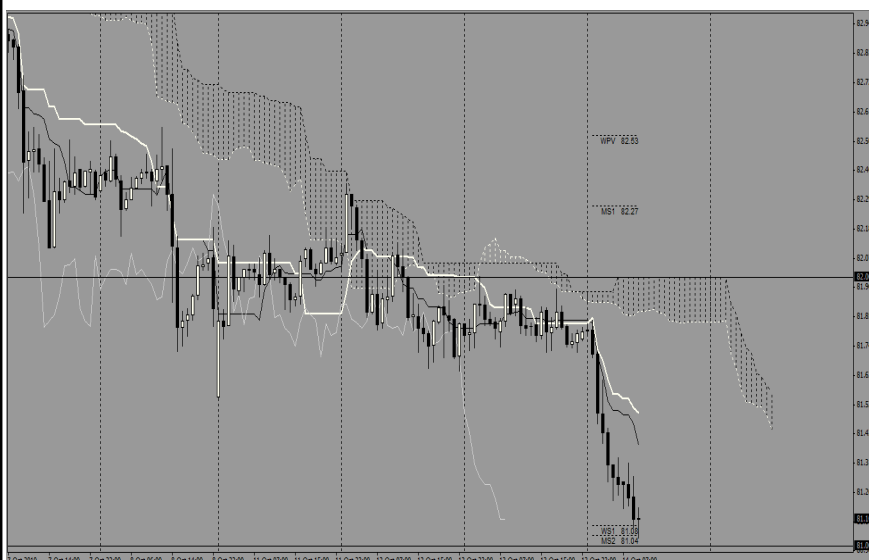
Example analysis 2.

Higher timeframe 1. (H4)



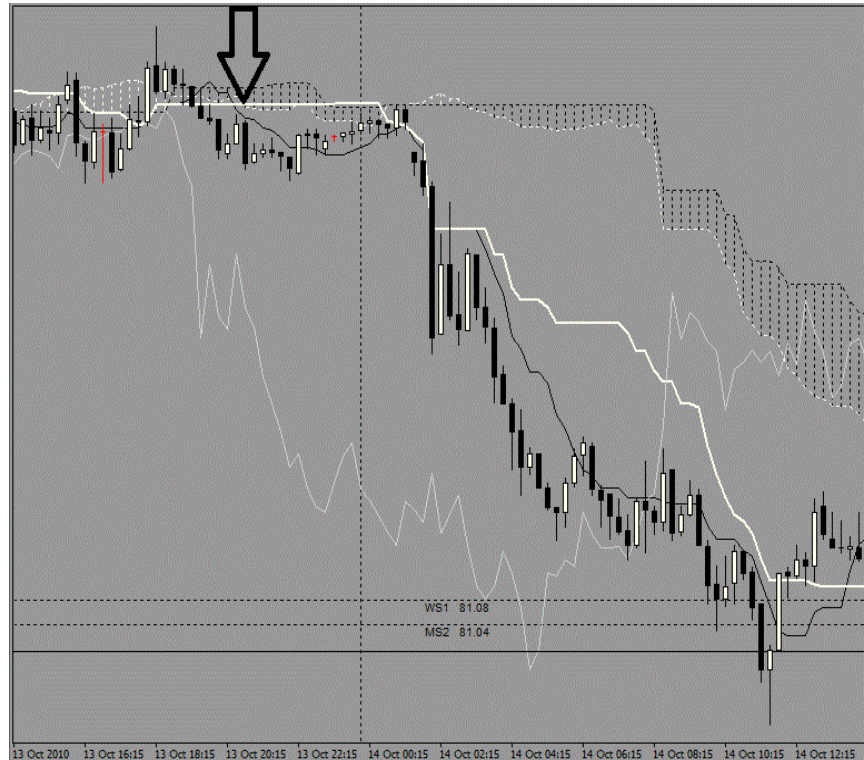
- Price vs Kumo **DOWN**
- Tenkan-Sen vs Kijun-Sen **DOWN**
- Chikou Span vs Kumo, Price and Kijun-Sen **DOWN**
- Kumo future **DOWN**

Higher timeframe 2. (H1)



- Price vs Kumo **DOWN**
- Tenkan-Sen vs Kijun-Sen **DOWN**
- Chikou Span vs Kumo, Price and Kijun-Sen **DOWN**
- Kumo future **DOWN**

Entry timeframe (M15)



- Price vs Kumo **DOWN**
- Tenkan-Sen vs Kijun-Sen **DOWN**
- Chikou Span vs Kumo, Price and Kijun-Sen **DOWN**
- Kumo future **DOWN**

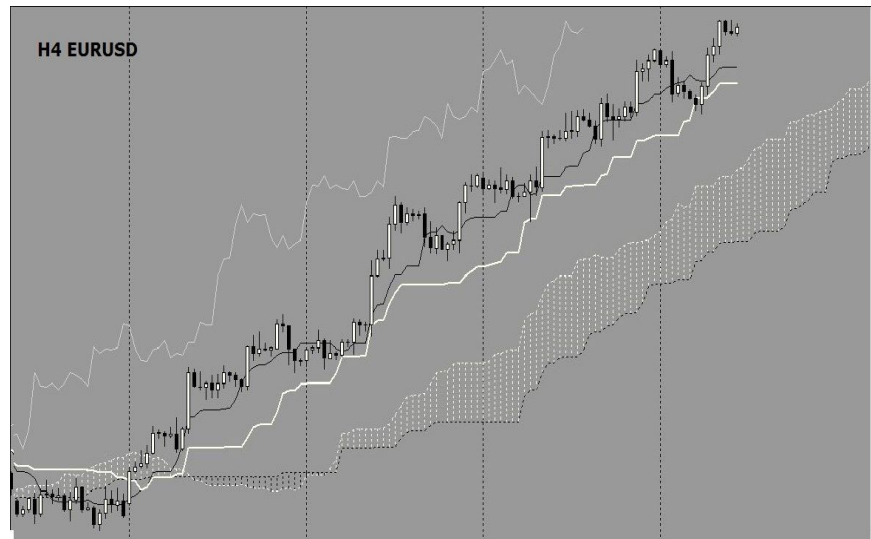
Entry strategy: Kumo breakout and/or Tenkan-Sen/Kijun-Sen cross

Stop Loss: at the top of the Kumo + buffer

Exit strategy: round number level

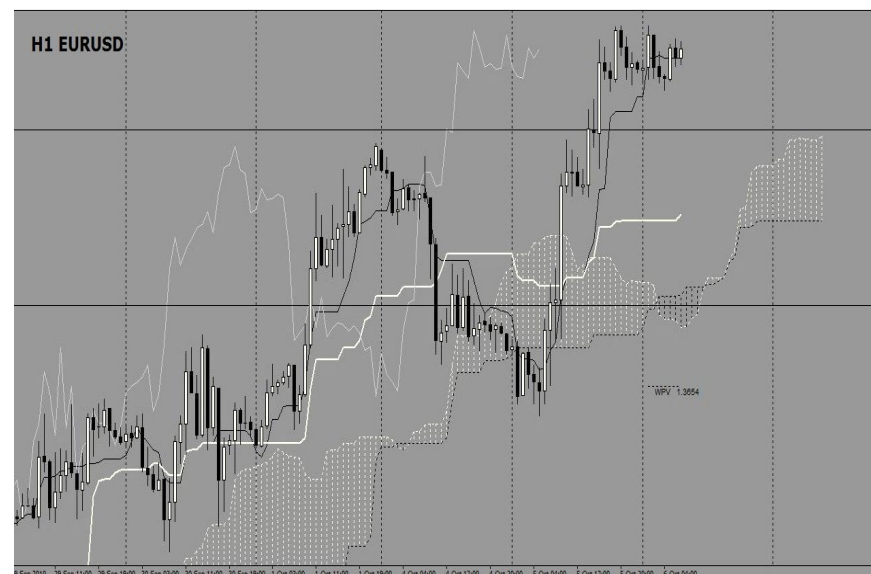
Example analysis 3.

Higher timeframe 1. (H4)



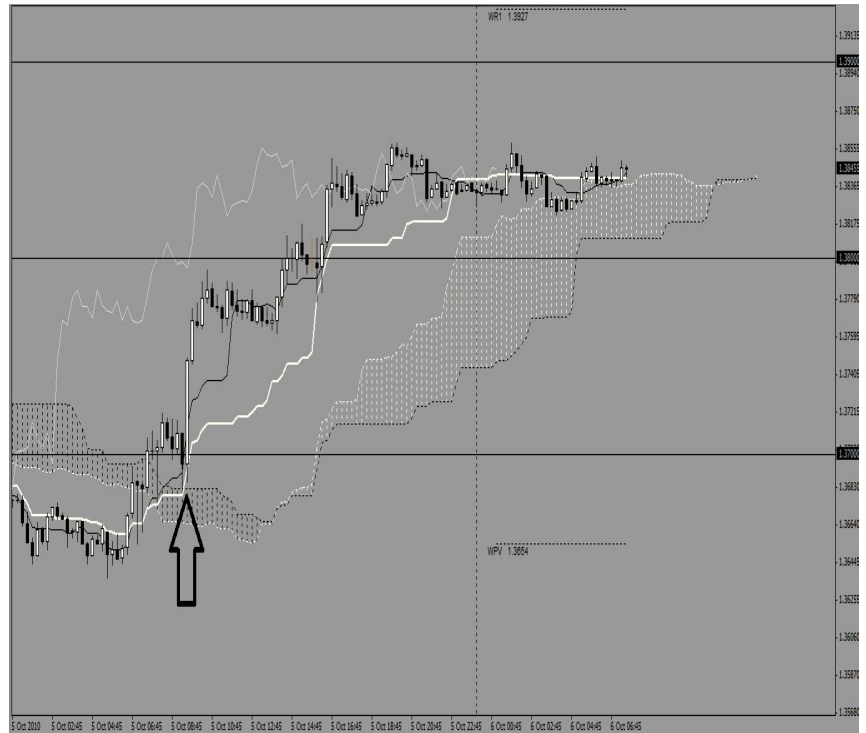
- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

Higher timeframe 2. (H1)



- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

Entry timeframe (M15)



- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

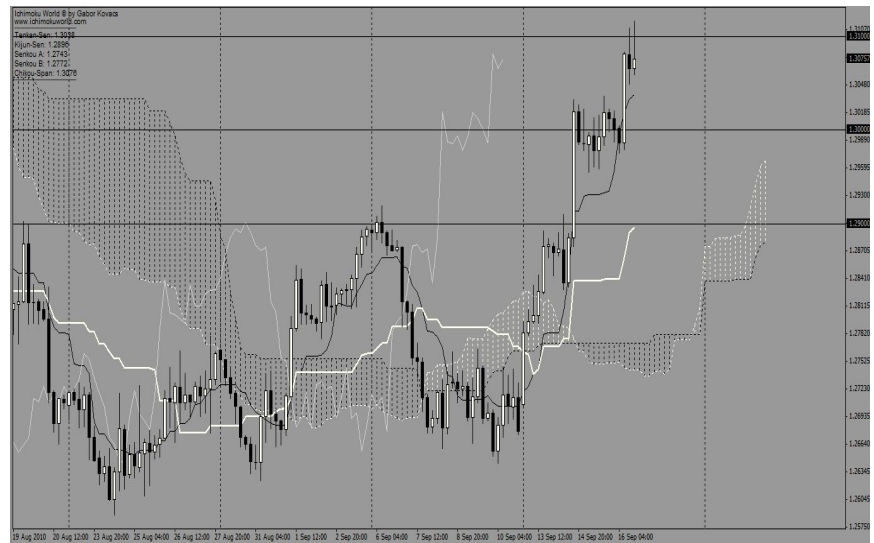
Entry strategy: Kumo breakout

Stop Loss: at the bottom of the Kumo + buffer

Exit strategy: price/Kijun-Sen cross

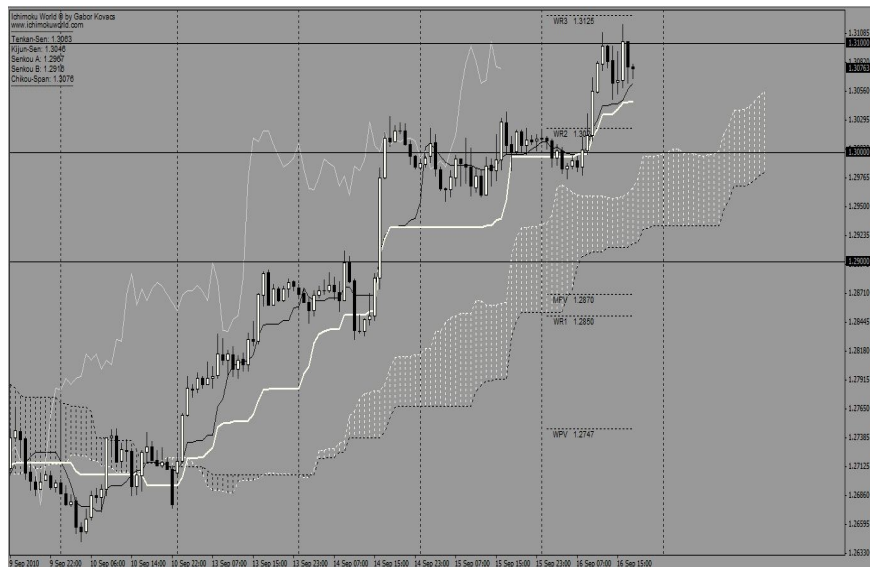
Example analysis 4.

Higher timeframe 1. (H4)



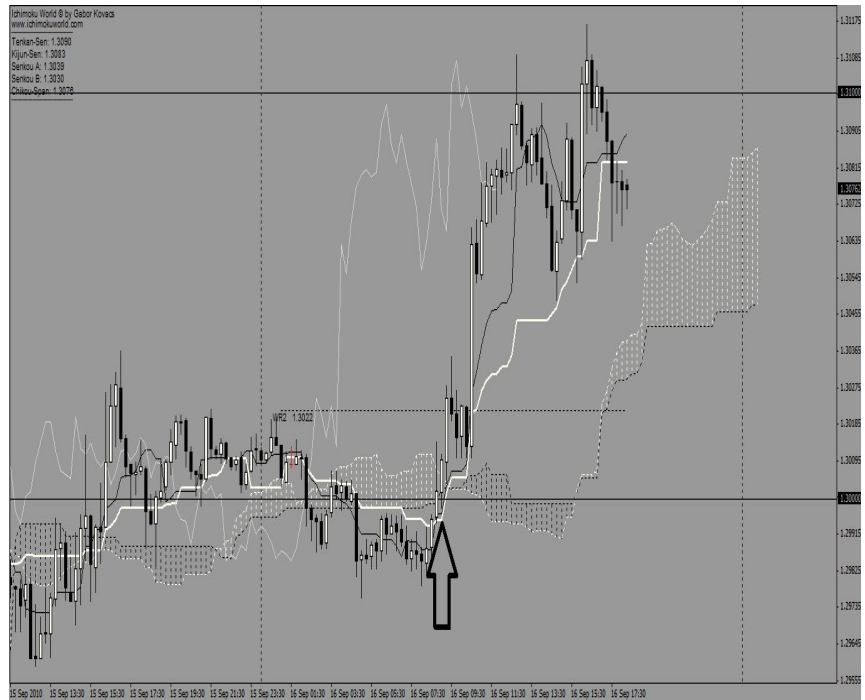
- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

Higher timeframe 2. (H1)



- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

Entry timeframe (M15)



- Price vs Kumo **UP**
- Tenkan-Sen vs Kijun-Sen **UP**
- Chikou Span vs Kumo, Price and Kijun-Sen **UP**
- Kumo future **UP**

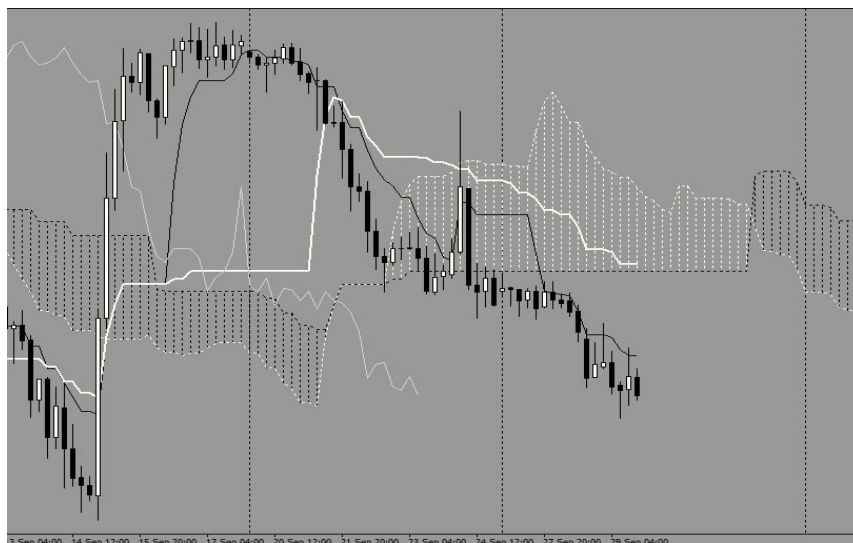
Entry strategy: Kumo breakout

Stop Loss: at the bottom of the Kumo + buffer

Exit strategy: round number level, or price/Kijun-Sen cross

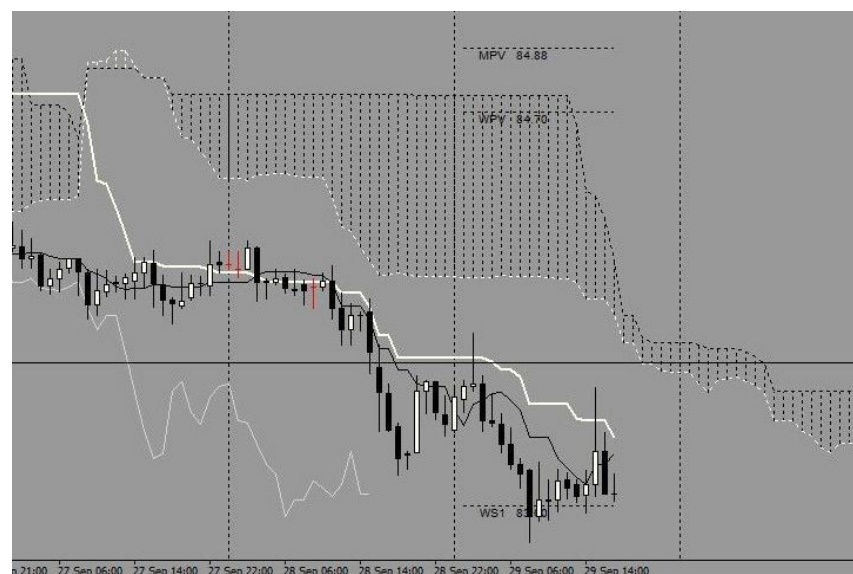
Example analysis 5.

Higher timeframe 1. (H4)



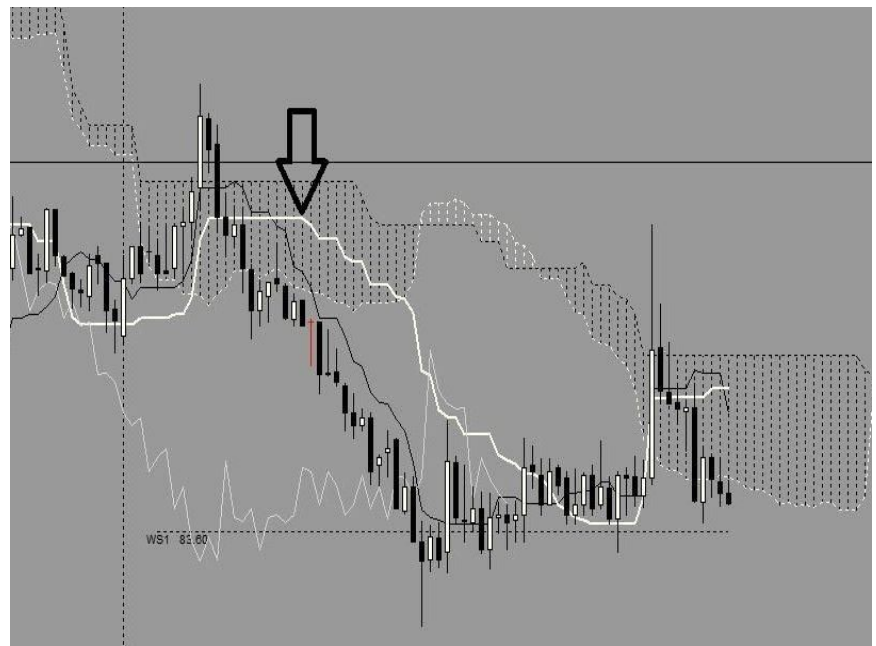
- Price vs Kumo **DOWN**
- Tenkan-Sen vs Kijun-Sen **DOWN**
- Chikou Span vs Kumo, Price and Kijun-Sen **DOWN**
- Kumo future **DOWN**

Higher timeframe 2. (H1)



- Price vs Kumo **DOWN**
- Tenkan-Sen vs Kijun-Sen **DOWN**
- Chikou Span vs Kumo, Price and Kijun-Sen **DOWN**
- Kumo future **DOWN**

Entry timeframe (M15)



- Price vs Kumo **DOWN**
- Tenkan-Sen vs Kijun-Sen **DOWN**
- Chikou Span vs Kumo, Price and Kijun-Sen **DOWN**
- Kumo future **DOWN**

Entry strategy: Kumo breakout and/or Tenkan-Sen/Kijun-Sen cross

Stop Loss: at the bottom of the Kumo + buffer

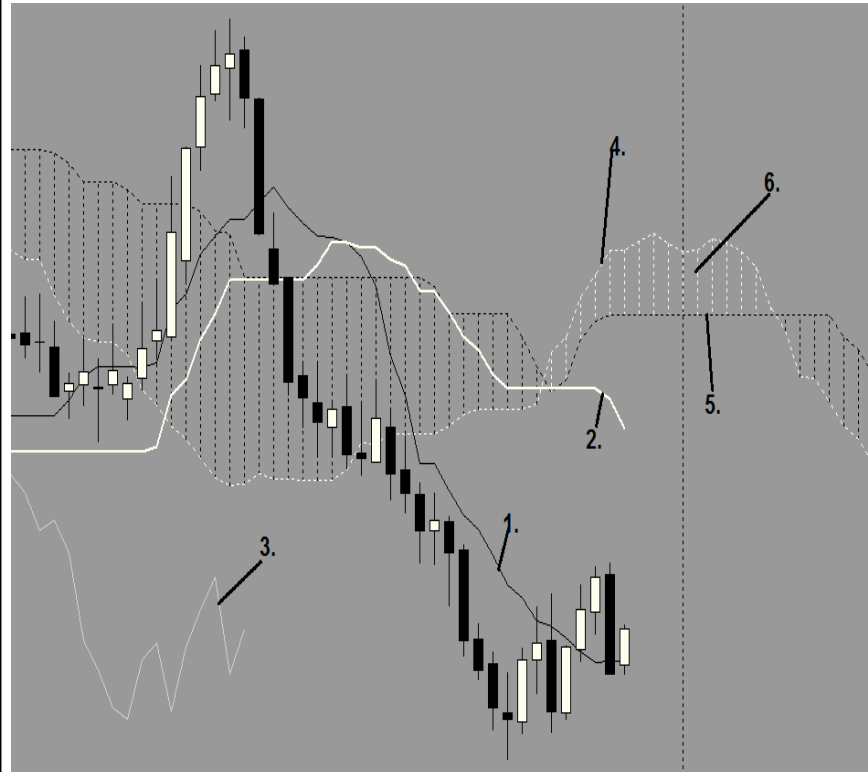
Exit strategy: price/Kijun-Sen cross

Part Three

Practice

Exerciese 1.

**What is the name of the Ichimoku components?
Please write the names next to the correct numbers.**



1.:

2.:

3.:

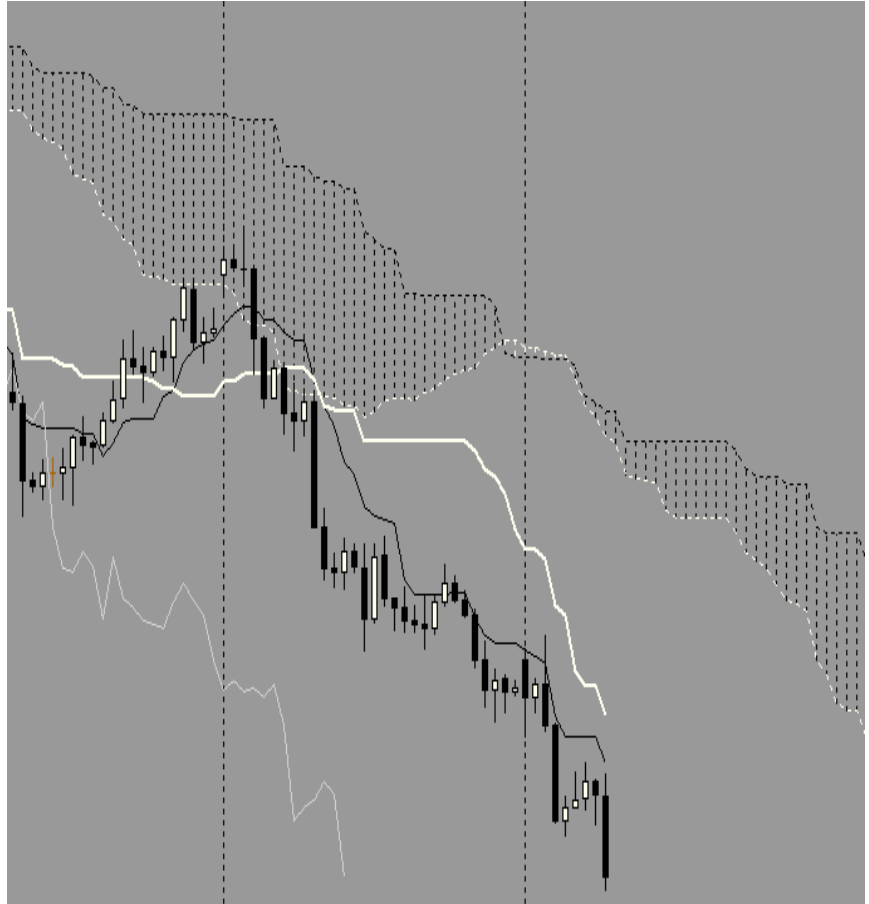
4.:

5.:

6.:

Exerciese 2.

**Is the trend currently bullish or bearish?
Why? Please give at least 4 explanations.**



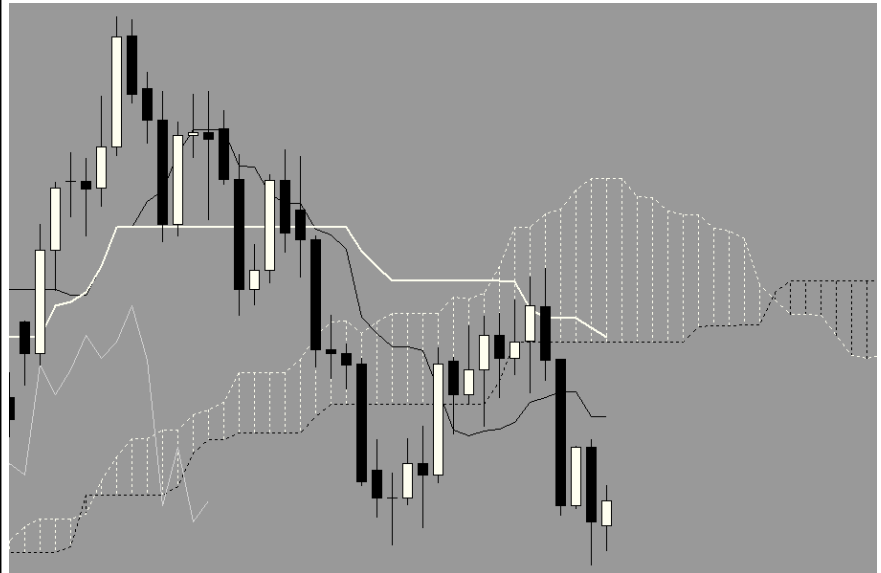
The trend is because:

- 1.:**
- 2.:**
- 3.:**
- 4.:**

Exerciese 3.

What are the most important resistance levels on this picture?

Mention the 3 most important ones in descending order.



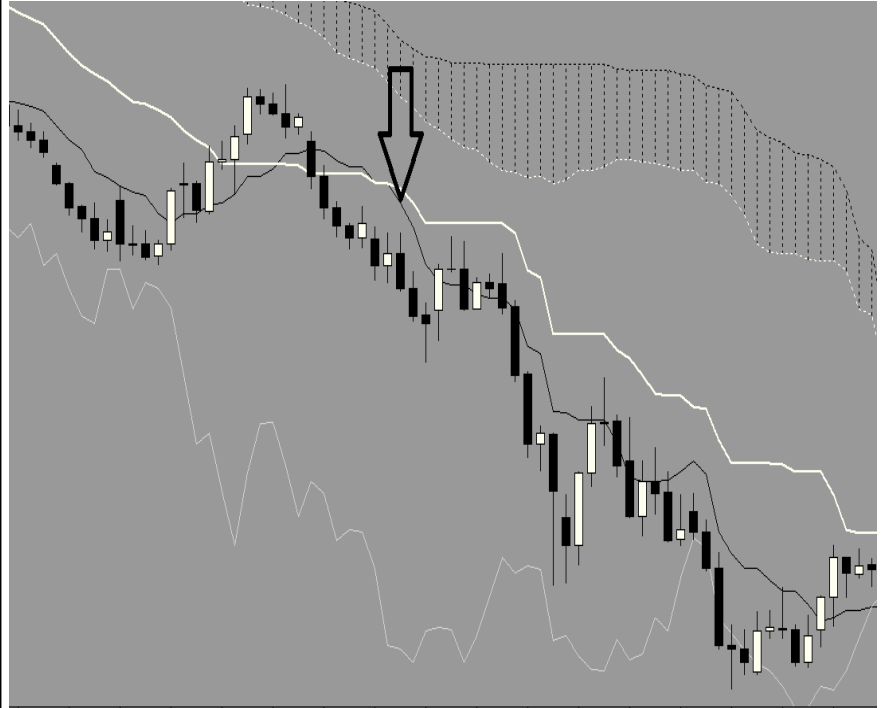
1.:

2.:

3.:

Exerciese 4.

A.) Which strategy did we use when we entered at the candle marked with the arrow?

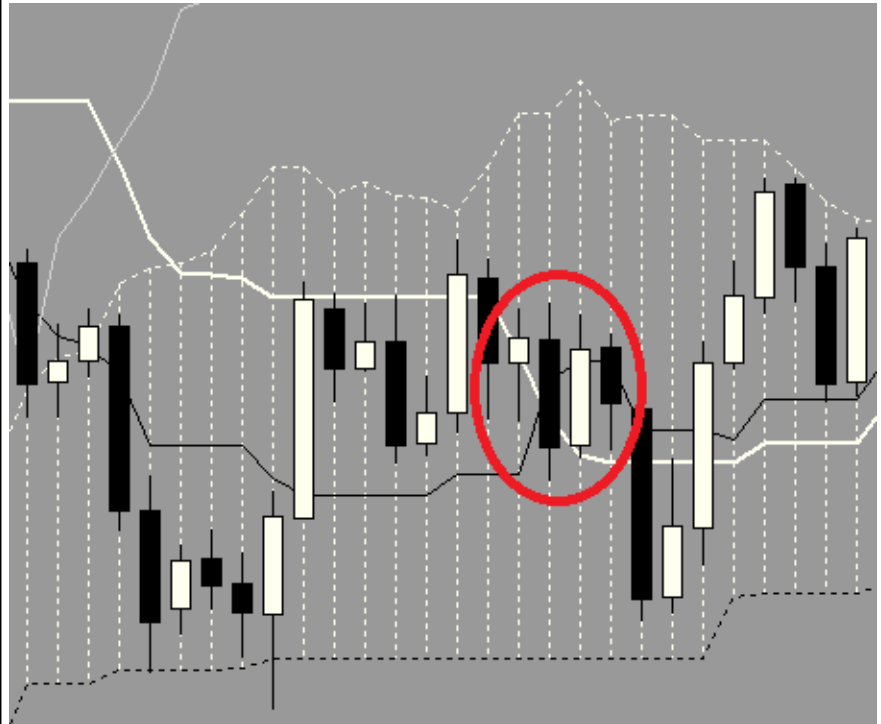


Answer:

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B.) In the red circle you can see a Tenkan-Sen/Kijun-Sen cross. But we haven't entered there. Why? Please mention the one MOST important reason.

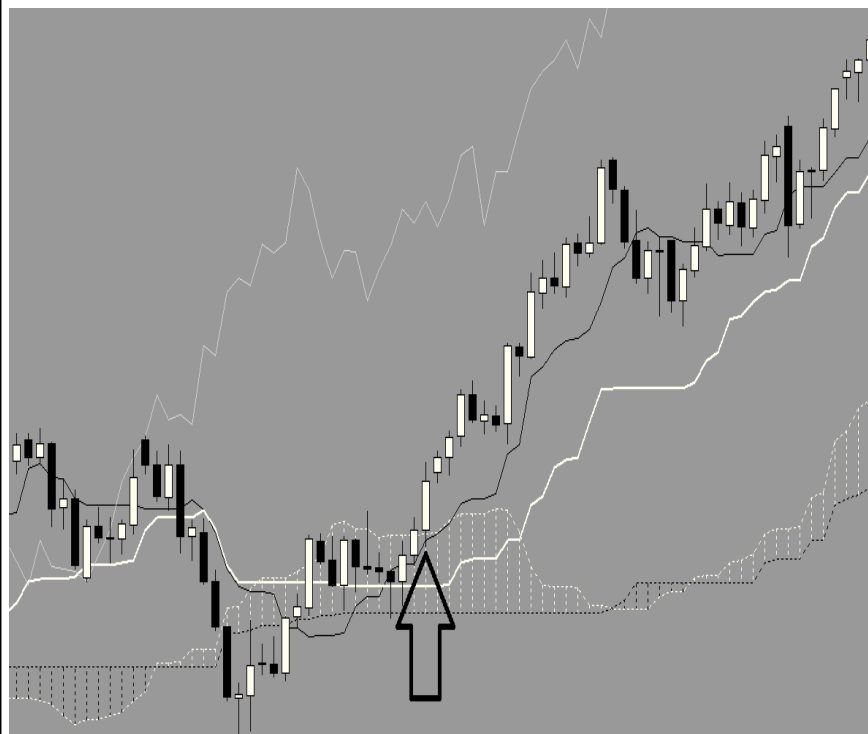


Answer:

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Exerciese 5.

Which strategy did we use when we entered at the candle marked with the arrow? Was it a correct entry? Why?



The name of the strategy:

.....

Correct entry or not:

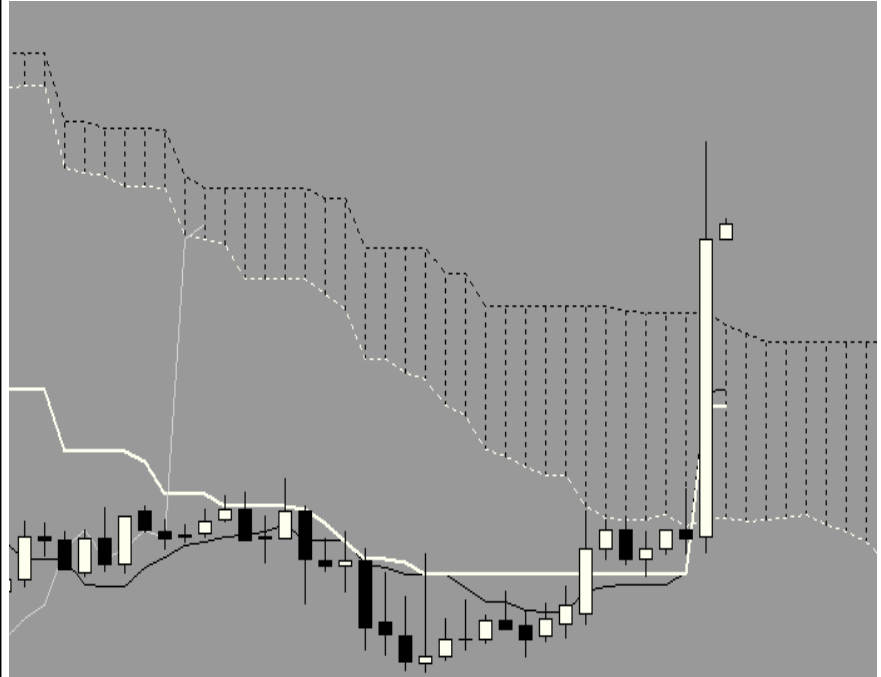
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Why?

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Exerciese 6.

Price broke out from the Kumo with a spectacular bullish candle. Is it a good idea to enter now? Why?



Answer:

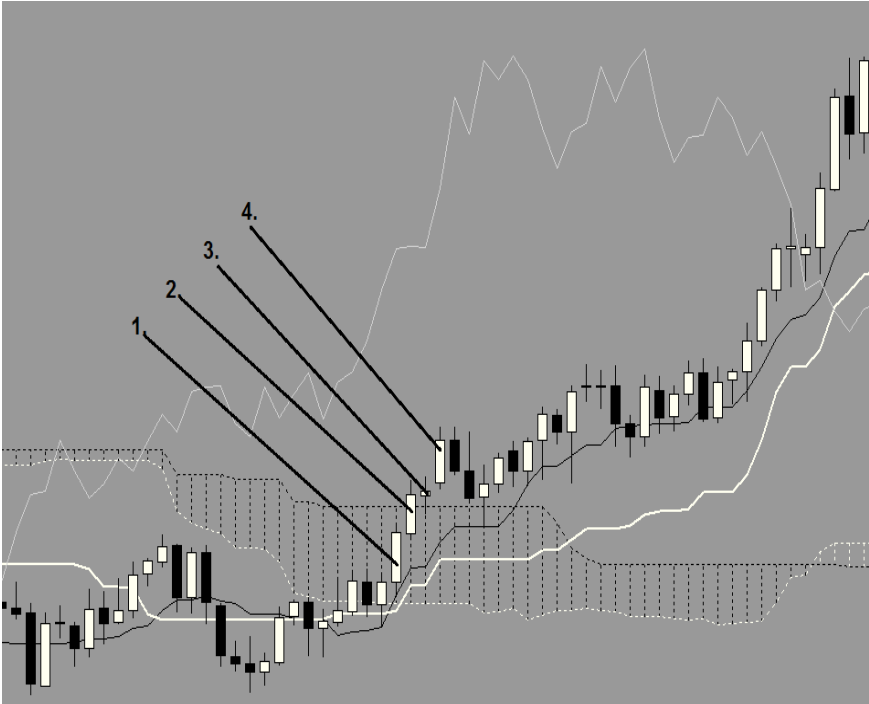
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Why?

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Exerciese 7.

Which one is the only good entry? Why?



Answer:

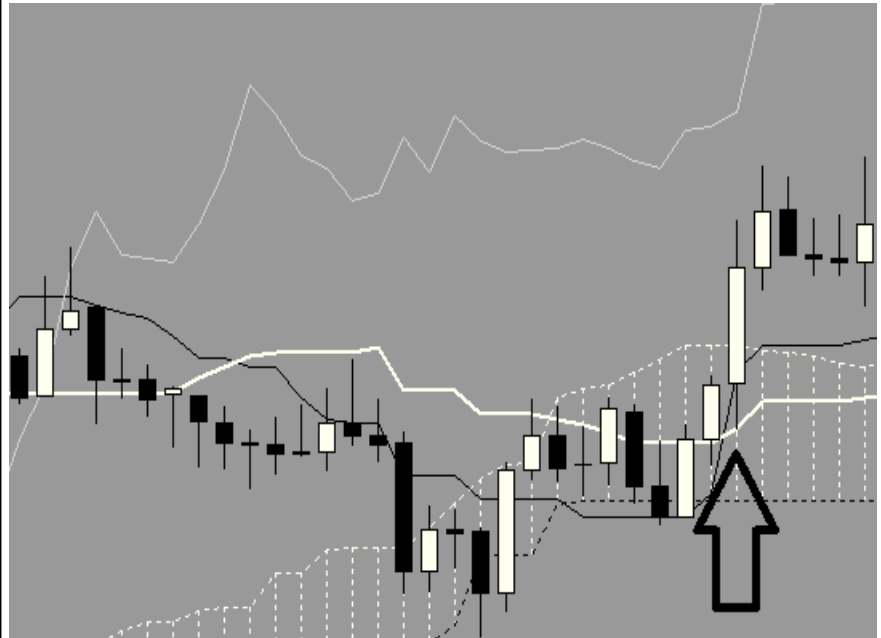
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Why:

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Exercise 8.

We have entered long after the close of the marked candle. Where do we have to put the safety Stop Loss?

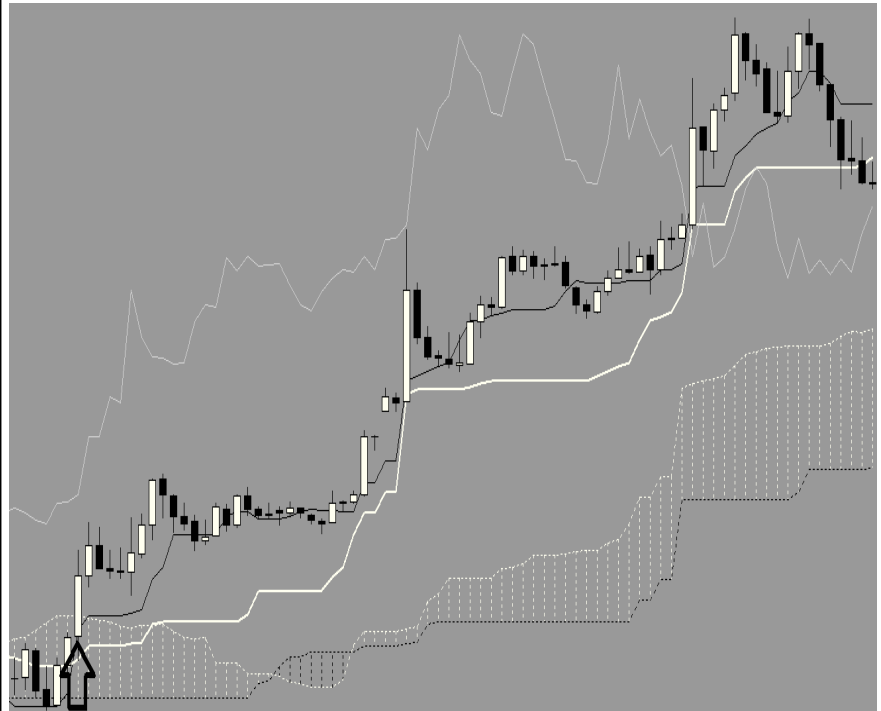


Answer:

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Exerciese 9.

Regarding to the previous chart, we have entered with the marked candle and now we are in profit. When should we close the position if we use only Ichimoku (no round number levels, etc)?



Answer:

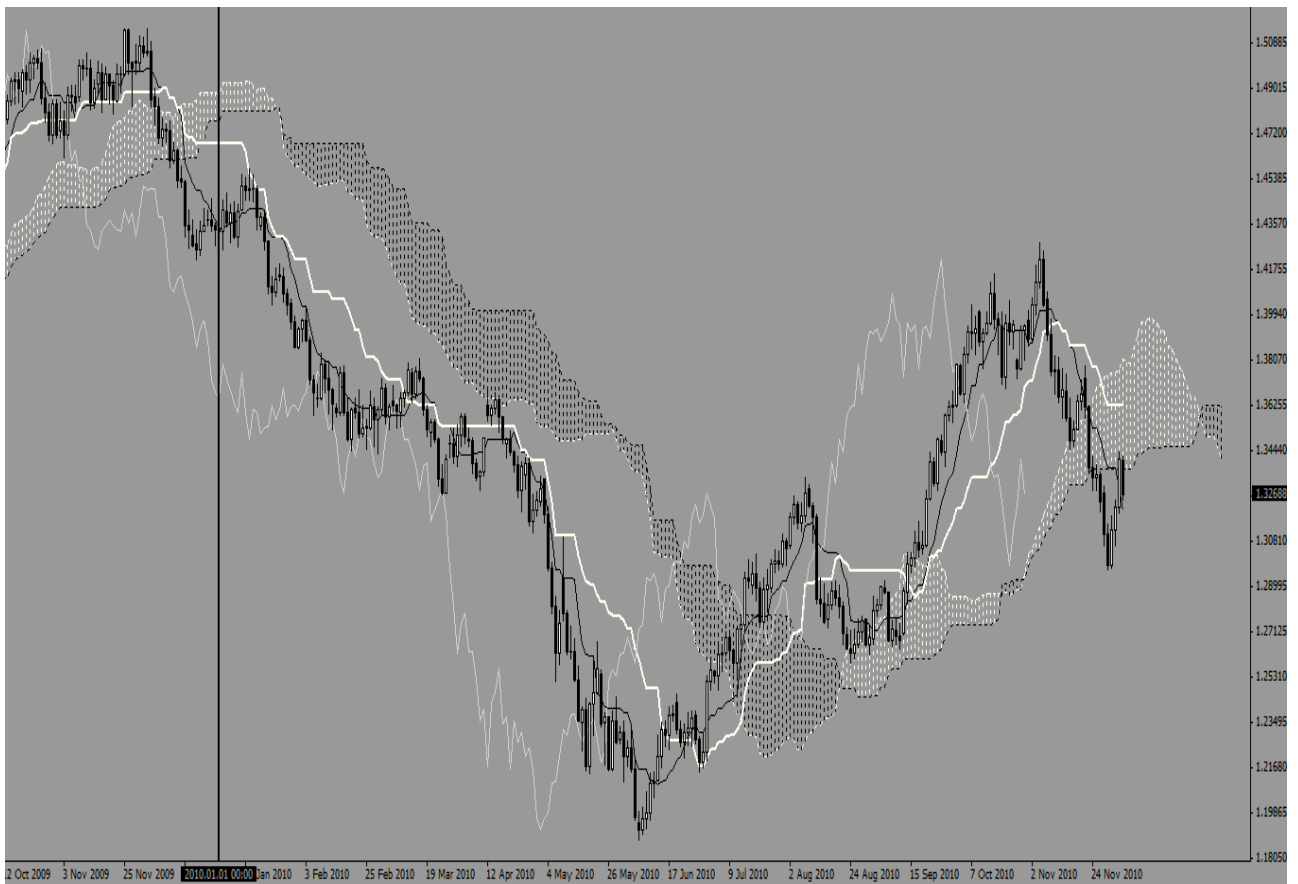
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Exercise 10.

Now look at the following two charts. It is time to create your first own analyses. The first chart shows the (nearly) whole 2010 year on the EURUSD Daily timeframe. The second chart shows the (nearly) whole 2010 year on the USDJPY Weekly timeframe.

Please do the full detailed analysis of the 2010 year regarding to these charts. Start from the black line on the left (01.01.2010), and analyse every movement with the Ichimoku till the end of the chart. Please explain what happened, and why happened. Be professional. After you have made your first two high quality analyses, you can start practicing what you have learned here on a demo account.

When you are ready with the analyses, you can compare them with my retrospect analysis what you can find in the 2011 January edition of the FX Trader Magazine, or alternatively you can send it back to me (gabor.kovacs@ichimokuworld.com) and ask for a review.



Analysis of the EURUSD Daily chart

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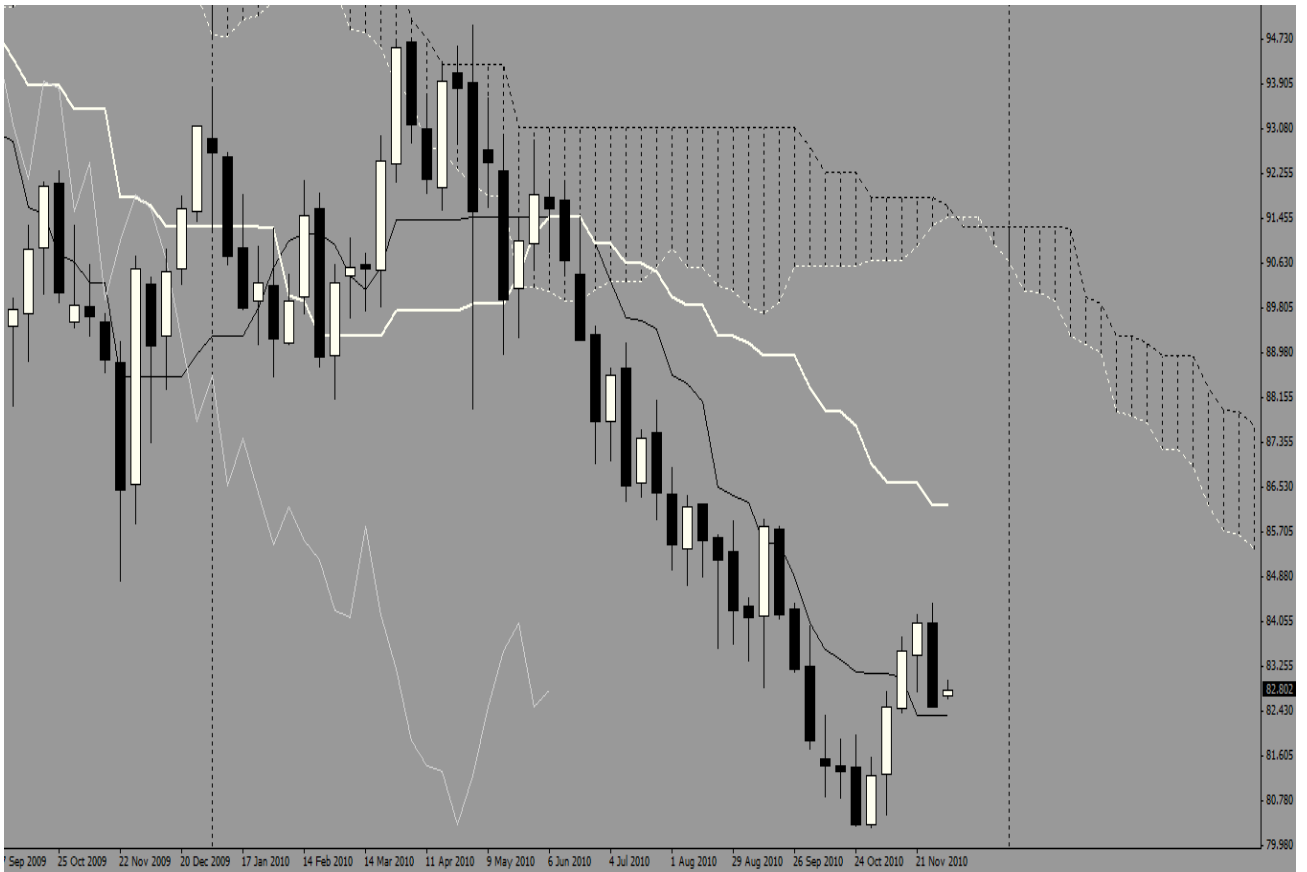
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Analysis of the USDJPY Weekly chart

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Answer Key

Exerciese 1.

- 1.: Tenkan-Sen
- 2.: Kijun-Sen
- 3.: Chikou Span
- 4.: Senkou Span A
- 5.: Senkou Span B
- 6.: Kumo

Exerciese 2.

The trend is BEARISH because:

1. The price is below the Kumo.
2. Tenkan-Sen is below Kijun-Sen
3. Chikou Span is below Kumo, price and Kijun-Sen
4. The Kumo future is bearish (dark).

Exerciese 3.

1. The top of the Kumo
2. The bottom of the Kumo
3. The Kijun-Sen

Exerciese 4.

A.) We used the Tenkan-Sen/Kijun-Sen cross strategy.

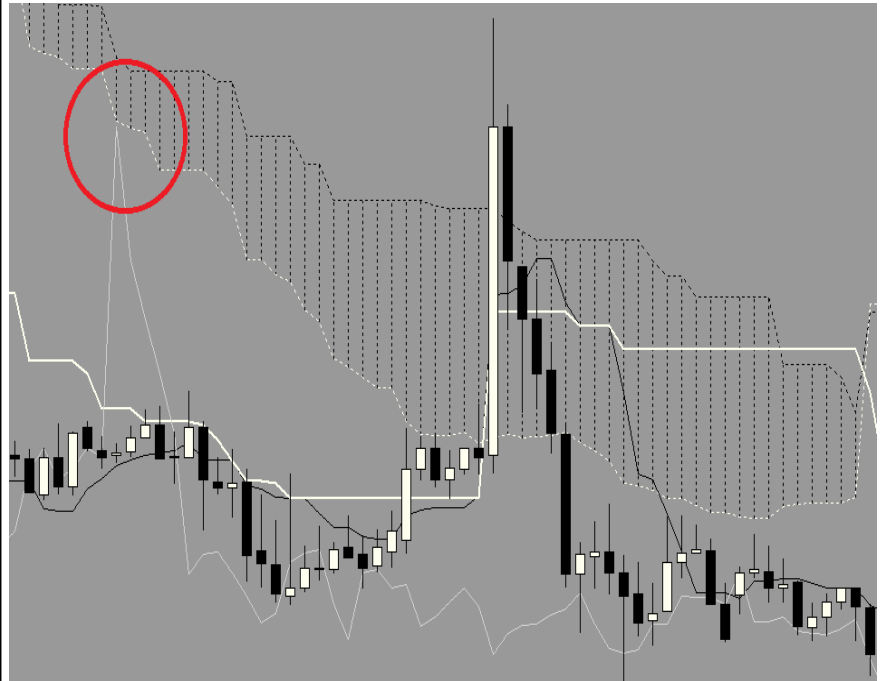
B.) If price marches into the body of the Kumo, it means the trend is undecided, and range is probable. It is not recommended to enter into any position, when price is moving in the Kumo.

Exerciese 5.

We used the Kumo Breakout strategy. It was a correct entry, as Chikou Span confirmed the move and all other Ichimoku components were supporting the move too.

Exerciese 6.

No, it is not a good idea to enter now, as a Kumo breakout is valid only if at least the Chikou Span confirms the move. Here the Chikou Span was still in/under the Kumo, and look what happened later:



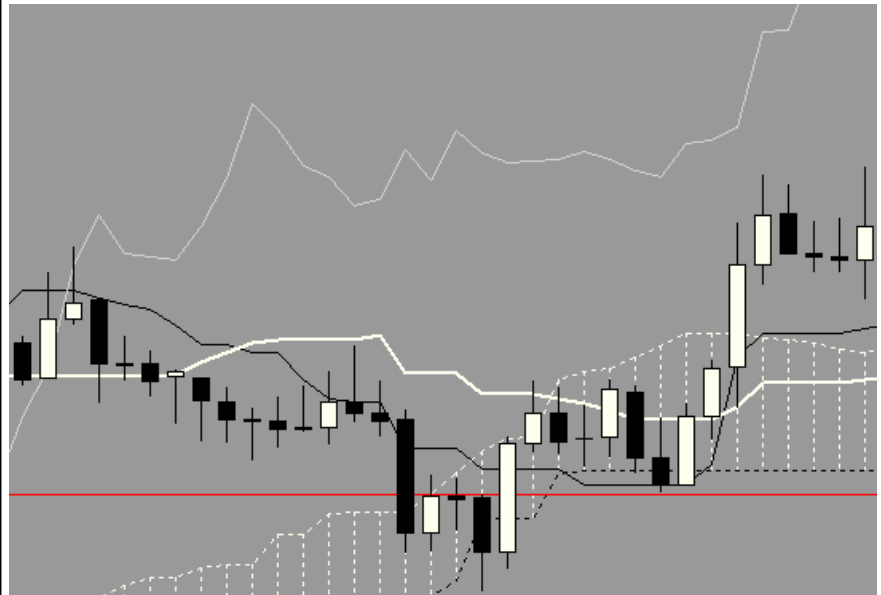
Chikou Span was bounced back by the bottom of the Kumo (which is a strong resistance line as you have learned previously). So the move was only a fakeout. That is why you should always confirm a Kumo breakout with (at least) the Chikou Span.

Exerciese 7.

The No. 4. is the only good entry, as Chikou Span confirms the move after the close of that candle.

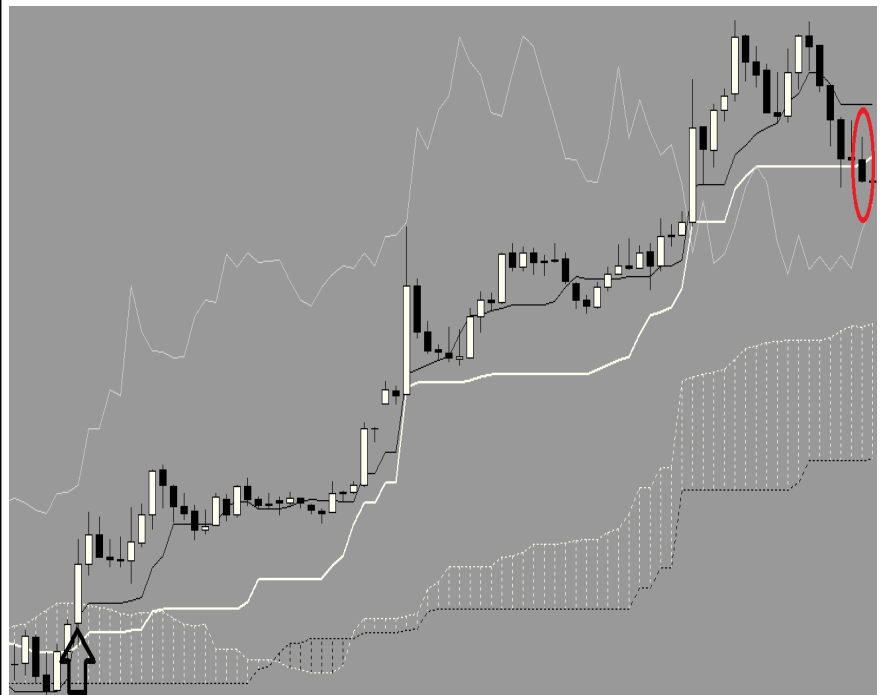
Exerciese 8.

To the bottom of the Kumo + buffer. As in this case the last low is near, it is also a good idea to put it under the last low + buffer.



Exerciese 9.

We should close the position when the price crosses back the Kijun-Sen.



Final Words

Thank you for reading the first volume of the *Ichimoku World Book Series*. I hope you found it useful and learned a lot. If you have studied through this book, you are not an Ichimoku beginner anymore. However I would advise you to read it through at least one more time to be sure you understood everything rightly. Now you can start to practice the knowledge you gained on a demo account.

Please keep in mind, that the whole Ichimoku system is not fully covered in this book. This is the basic knowledge you should master first to be able to step to the next level. However with this knowledge you already can create a basic Ichimoku chart analysis and you are now able to identify a few safe entry opportunities.

The next stage will be the second volume of the *Ichimoku World Book Series*, the *Ichimoku Expert*. Till the release of that book, please feel free to read my regular Ichimoku analyses on my website or on the other sources I publish, or watch the educational videos I have created.

Wishing you many success in your first steps with this wonderful system!

Gabor Kovacs