

ICHIMOKU CLOUD LIBRARY**Introduction:**

In 1969, Goichi Hosada, a journalist in Tokyo, developed a very versatile indicator that has withstood the test of time. The Ichimoku Cloud, is also known as Ichimoku Kinko Hyo, which translates into “One glance equilibrium chart.” The indicator defines support and resistance, identifies trend direction, gauges momentum, and provides trading signals. It can also be used with western indicators to help confirm their signals. The Ichimoku Cloud can look overwhelming at first, however it is very straightforward, the concepts are easy to understand, and its signals are clearly defined.

This library is included for Platinum Club members, and may be purchased separately for the Gold version of Trade Navigator.

Benefits:

Commodity Traders: Commodities traders can benefit from this versatile indicator that defines support/resistance, identifies trend direction, and gauges momentum. Trends can be identified using the Ichimoku Cloud, then, classic momentum oscillators can be used to identify overbought or oversold conditions.

Forex Traders: In fast moving currency markets, Forex traders can identify the trend and look for potential signals within that trend with a quick glance.

Stock Traders: The Ichimoku Cloud is usable during range bound markets, and its performance often improves when used over longer time frames.

Included in this Library:

Templates

- Ichimoku Cloud - Prebuilt chart layout which replaces your chart's current indicators with the Ichimoku Cloud settings

Studies

- Ichimoku Cloud - Prebuilt group of functions which adds the cloud settings to an existing chart

Indicators

- Chikou Span - represented on the charts as the close of today's price action shifted back 26 days or periods
- Kijun Line - For showing momentum
- Senkou Span A - plotted 26 periods in the future and forms the faster Cloud boundary
- Senkou Span B - plotted 26 periods in the future and forms the slower Cloud boundary
- Tenkan Line - For showing momentum

Function Descriptions:

Tenkan-sen:

The default setting is 9 periods and can be adjusted. On a daily chart, this line is the mid point of the 9 day high-low range, which is almost two weeks.

Kijun-sen:

The default setting is 26 periods and can be adjusted. On a daily chart, this line is the mid point of the 26 day high-low range, which is almost one month).

Senkou Span A:

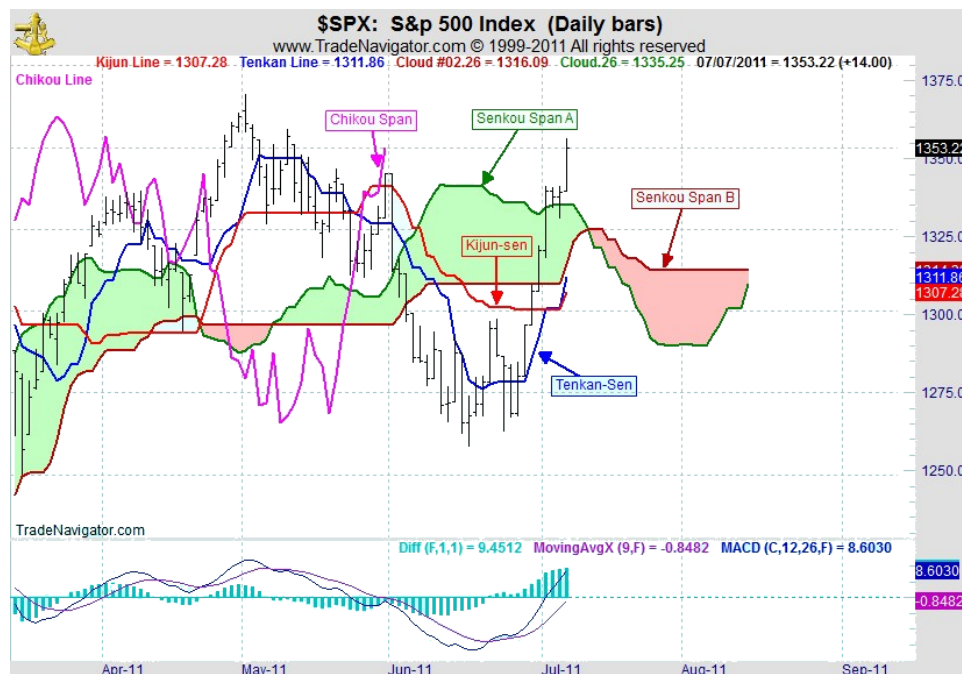
This is the midpoint between the Conversion Line and the Base Line. The Leading Span A forms one of the two Cloud boundaries. It is referred to as "Leading" because it is plotted 26 periods in the future and forms the faster Cloud boundary.

Senkou Span B:

On the daily chart, this line is the mid point of the 52 day high-low range, which is a little less than 3 months. The default calculation setting is 52 periods, but can be adjusted. This value is plotted 26 periods in the future and forms the slower Cloud boundary.

Chikou Span:

Close plotted 26 days in the past. The default setting is 26 periods, but can be adjusted.



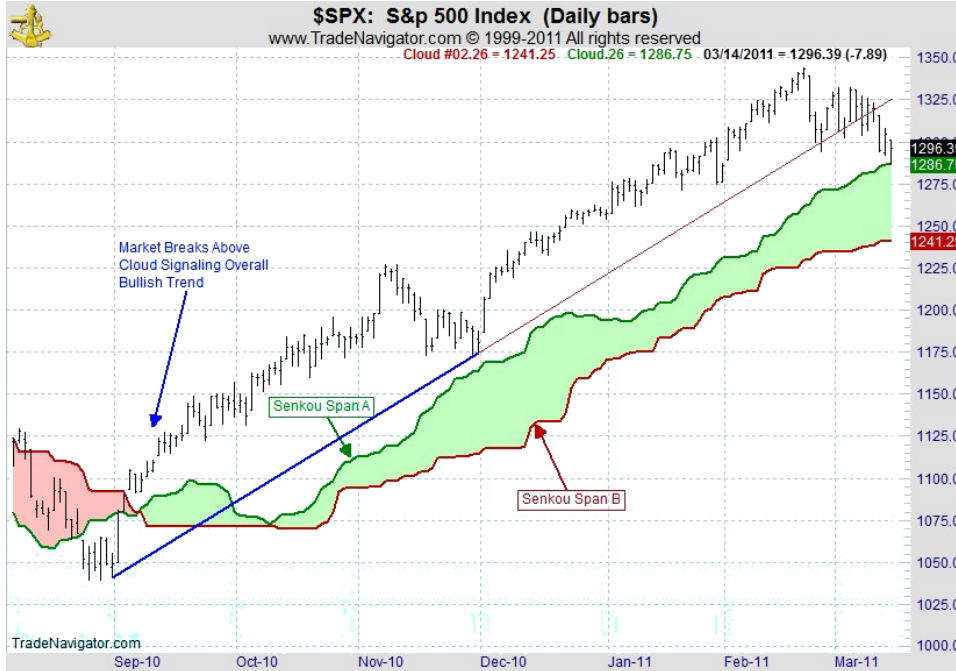
The Cloud or “Kumo” is the most dominating feature of this type of chart. The Senkou Span A (green), which is the average of the Kijun and Tenkan lines, and the Senkou Span B (red), based off the 52 day high to low range, form the Cloud. Due to the fact that Hosada's idea was to have a “one look chart,”

there are two quick ways to determine the overall trend using the Cloud.

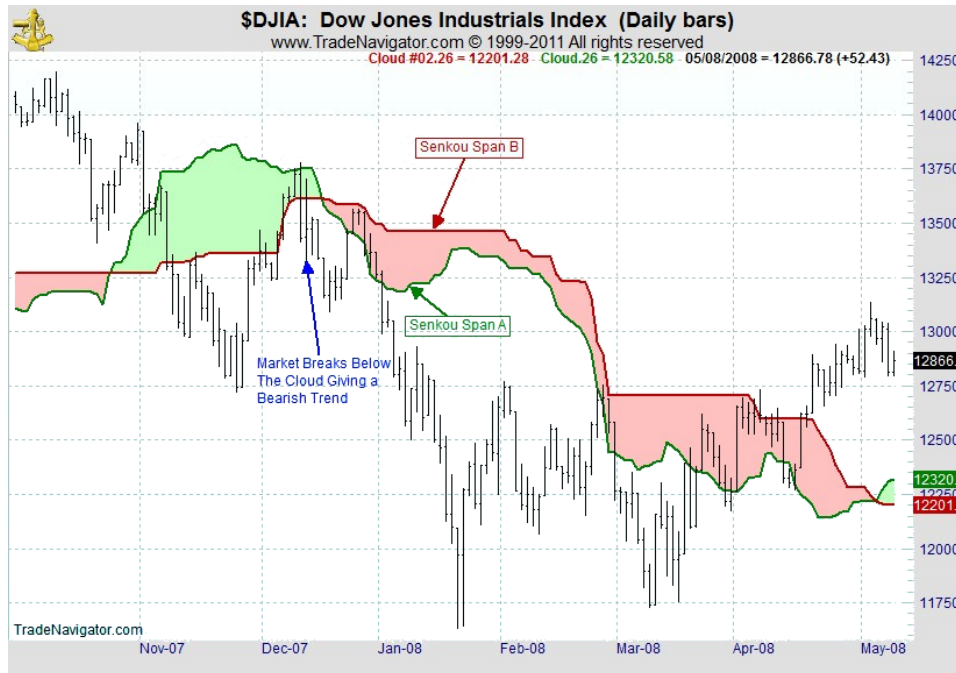
First, when market is above the Cloud the overall trend is bullish and when the market falls below the Cloud, the trend is bearish.

Secondly, the uptrend is also bullish when the Senkou Span A is rising and above the Senkou Span B, which will produce a green Cloud.

Bullish signals appear in the opposite formation, the Senkou Span A is falling and below the Senkou Span B, which will create a red Cloud. Span A and Span B are also used as support and resistance, since the Cloud is shifted 26 days, it identifies possible areas of future support and resistance.



This chart shows the S&P 500 Index (Trade Navigator Symbol: \$SPX) on a daily bar period. The market has broken above the cloud and Span A is rising above Span B creating a bullish trend in the market.



In this chart it shows the Dow Jones Industrial Average (Trade Navigator Symbol: \$DJIA) on a daily bar period. The market has broken below the cloud and Span A is falling below Span B creating a bearish trend in the market.

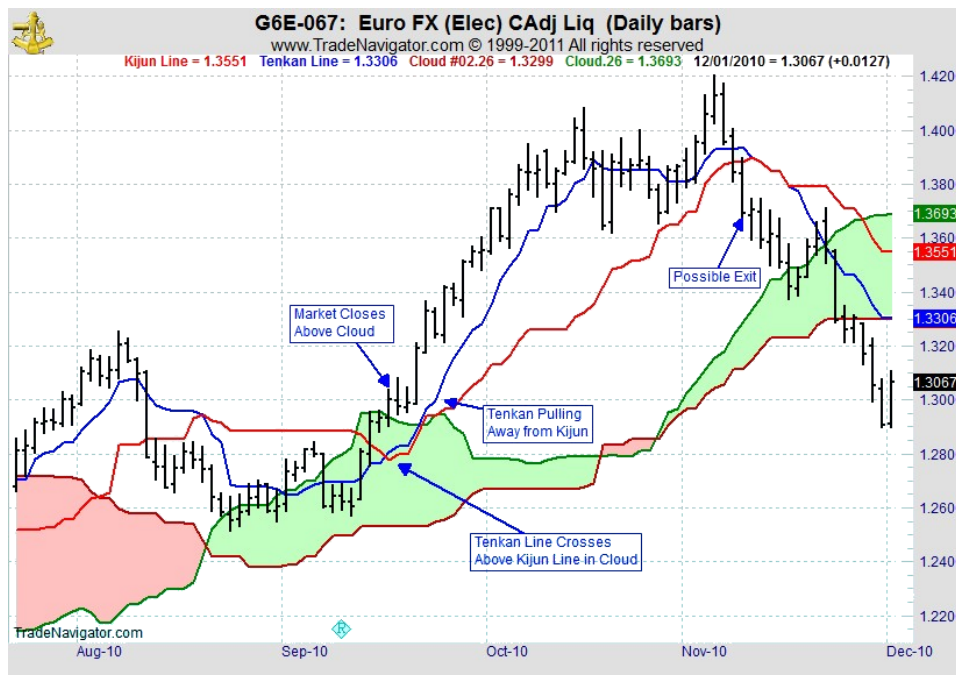
Tenkan-sen and Kijun-sen Signals

The Tenkan (blue) and Kijun (red) lines are based off of the high to low range of the last 9 and 26 days. Much like the MACD, these lines are useful for showing momentum in the market. The theories behind these lines are used much like a crossover in the MACD. For example, a bullish signal the market must be above the Cloud and the Span A line must be rising above the Span B line. With a strong bullish signal an investor should look for a cross of the Tenkan line above the Kijun line. If this happens in the Cloud it can be considered a mild to medium signal, however, if this occurs above the Cloud it is considered a medium to high signal. If the cross above happens below the Cloud the signal is no longer valid due to the fact the market will be trading into resistance.

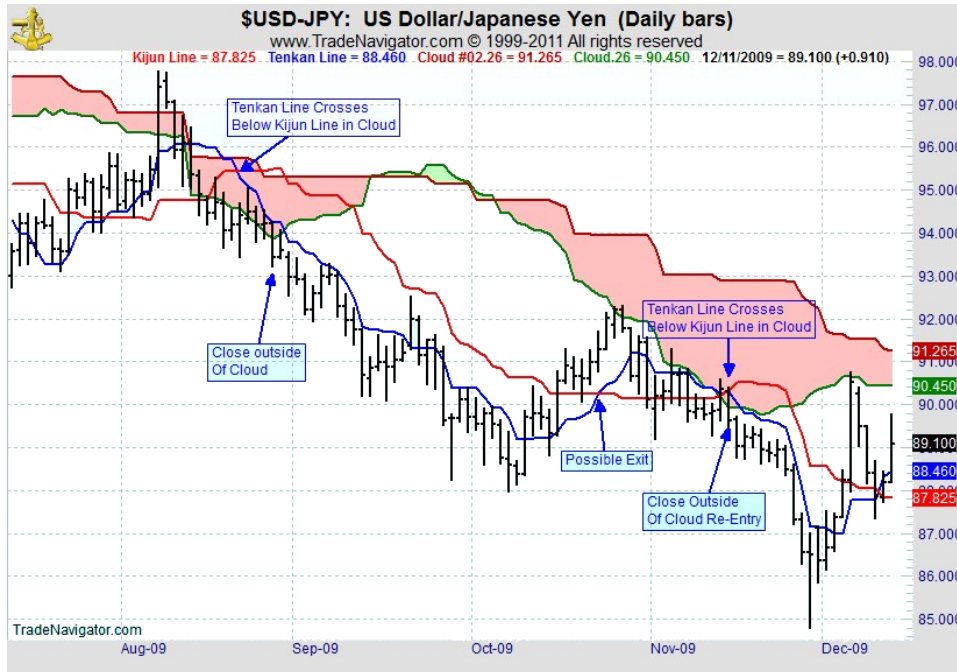
Moving on to the bearish signals, the market should be below the Cloud and the Span A line is below the Span B line, therefore, there is a bearish trend in the market.

Investors should identify a crossover of the Tenkan line below the Kijun line for a valid signal. If the cross below happens above the Cloud the signal is no longer valid due to the fact the market will be trading into support. Where this crossover happens, can tell the investors, the strength of the trend or if the trend will continue.

Below is a chart of the Euro FX Futures Contract (Trade Navigator Symbol: G6E-067) based on a daily bar. In this chart the Cloud turns from red to green signaling a possible change in trend. Once the market breaks above the Cloud and the Tenkan line crosses above the Kijun line a bullish signal is confirmed. The Tenkan Line also starts to pull away from the Kijun line as the trend gets stronger.



Some investors prefer to hold their positions until the Tenkan like crosses below the Kijun line, this indicates the trend is losing strength and trading back into support.



This is a chart of the Forex pairing of the U.S. Dollar compared to the Japanese Yen (Trade Navigator symbol: \$USD-JPY) based on a daily bars.

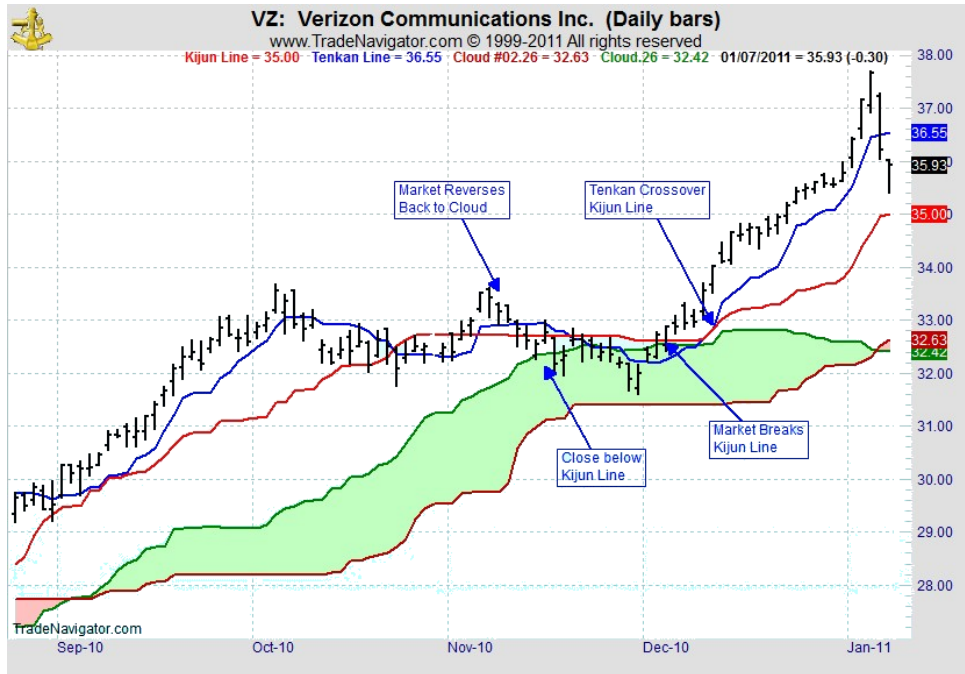
The first crossover of the Tenkan line below the Kijun line occurs at the top of the cloud. Once the market closes outside of the cloud a downtrend is confirmed. The Tenkan line then crosses back above the Kijun line and the market is held at Span A where there is resistance. The market continues to ride the Span A line for a couple of weeks. Then the Tenkan crosses once again below the Kijun line and closes outside of the cloud, for a re-entry signal. In a larger downtrend these signals can be very rewarding to investors.

Market and Kijun-sen Signals

The market will often pull back to the Cloud and meet resistance or support. In this case what an investor should be looking for is the market to cross the Kijun line (red). This indicates that the market is either overbought or oversold. A bullish signal, the market will meet the Cloud bullish signals and then pull back under the Kijun line. This shows that the market is in a short term oversold area within a larger uptrend. Once the market breaks above the Kijun line the bullish trend can continue.

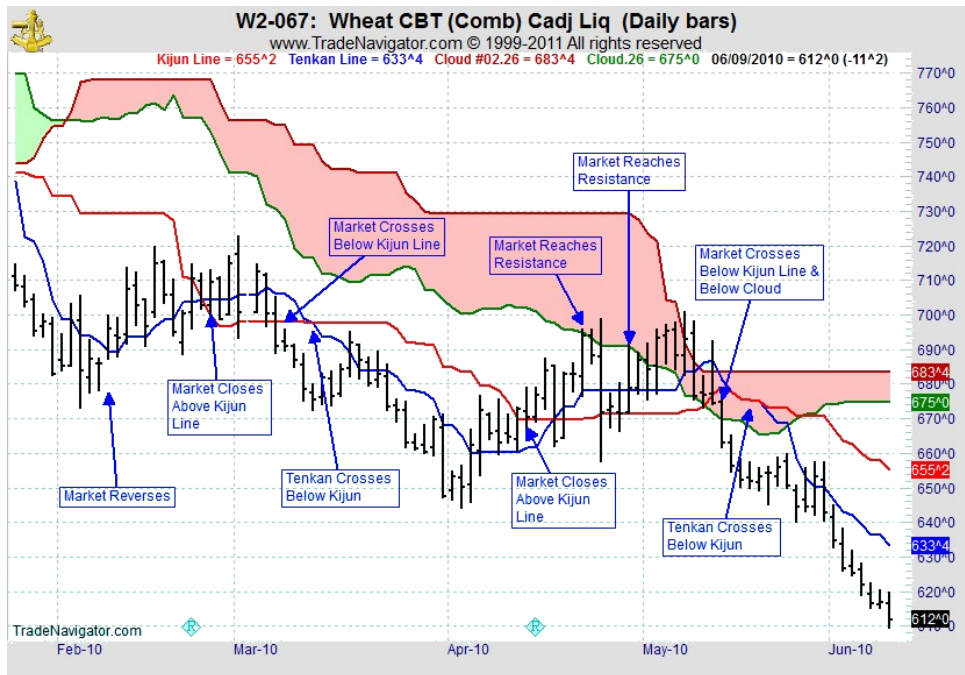
Often an investor can enter into the market based on this signal or wait for the Tenkan line to cross above the Kijun line, for a confirming signal. The market must line up with the Cloud's bearish signals and the market should bounce above the Kijun line for bearish signals. This tells investors that the market is in a short term overbought areas within a larger downtrend.

After the market pulls back below the Kijun line the bearish signal occurs. Again, the investor can enter into the market with the break below the Kijun line or wait for a confirming crossover of the Tenkan line below the Kijun line.



This chart shows Verizon Communications Inc. (Trade Navigator Symbol: VZ) on a daily bar. The overall trend in the market is up with the market being above the green Cloud. The market then pulls back to the Cloud and closes below the Kijun line showing the market has reached a short term oversold area.

The market stays in the Cloud for a couple of days then closes above the Kijun line and above the Cloud. A few days after the Tenkan line then crosses the Kijun line for a confirmation signal.



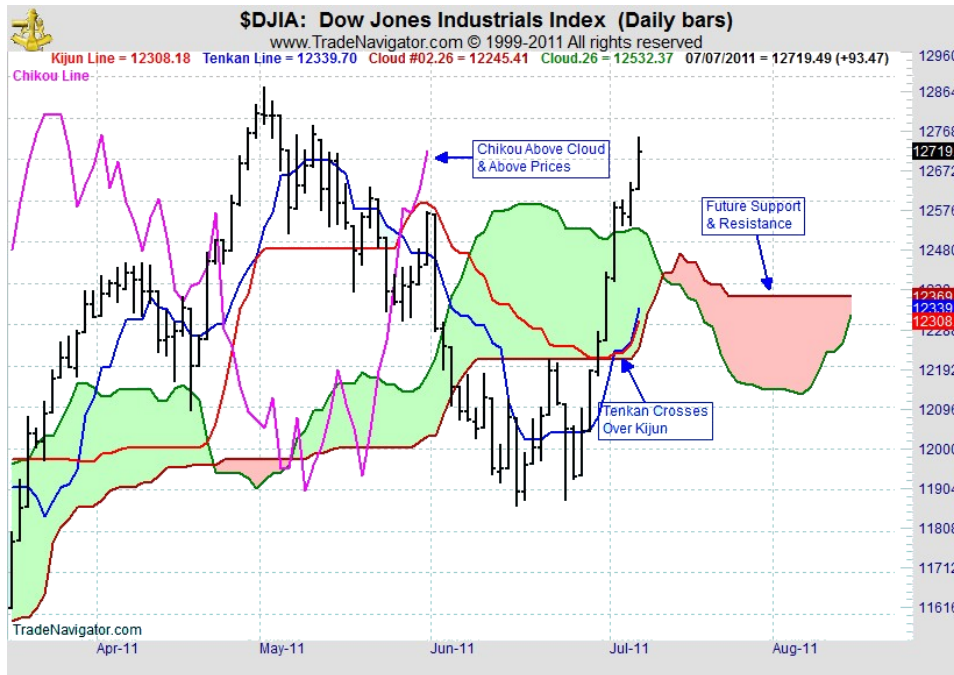
This chart shows Chicago Wheat (Trade Navigator Symbol: W2-067) based on a daily bar. The overall trend in the market is down when the market reaches a tipping point. The market then crosses over the Kijun line, signifying an area of overbought. The prices try to reach the Cloud but never make it and then cross below the

Kijun line in mid-March, soon after the Tenkan line crosses below the Kijun line to confirm the bearish move.

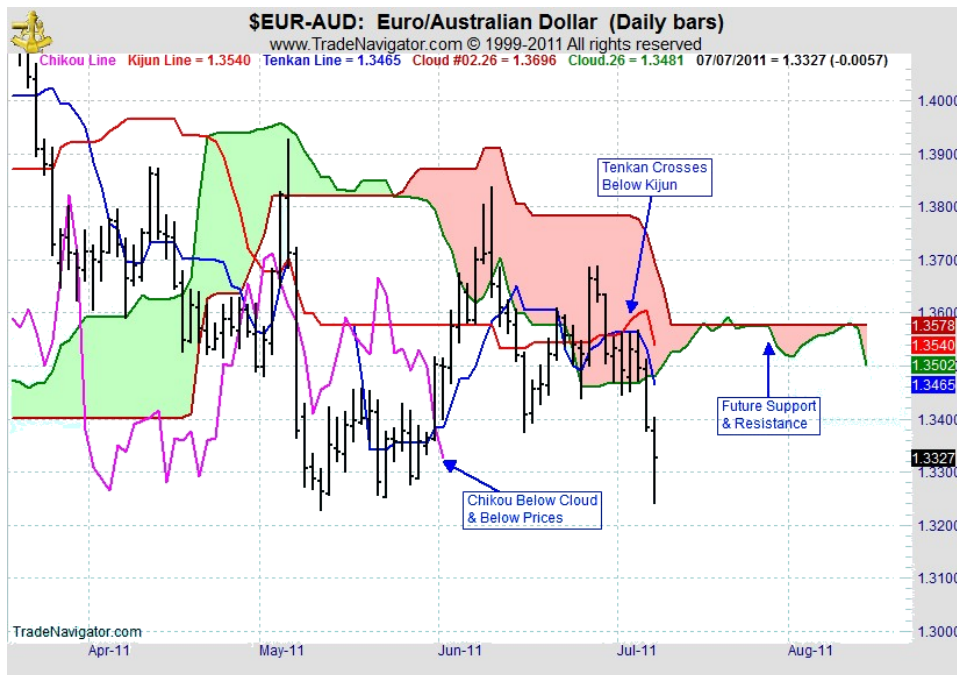
In mid-April the market turns back into the Cloud and is met at resistance. After a sideways period in early May the prices move back below the Kijun line and close outside of the Cloud to confirm another downtrend. Shortly thereafter, the Tenkan line crosses below the Kijun line to confirm the bearish move.

Chikou Span

The Chikou Span is represented on the charts as the close of today's price action shifted back 26 days or periods. Using the Chikou Span as an additional filter can be helpful as well. For example, if the Tenkan line crosses above the Kijun line in a bullish trend, the Chikou Span confirms the trend if the line is above the cloud. Stronger signals occur when the Chikou Span is above the price 26 periods ago. The Chikou Span is also used in a similar fashion during a downtrend. The Chikou Span must be below the cloud and for stronger signals be below the price action.



Confirming Bullish Signal



Confirming Bearish Signal

Synopsis

There are four basic bullish and bearish signals that are covered with the Ichimoku Cloud. Trend following signals rely on the Cloud formed by Senkou Span A and Span B. Momentum of the market focuses on the Tenkan-sen and Kijun-sen, that respond similar to the MACD. Overbought and Oversold areas are determined by the market crossing above or below the slower high to low average of the Kijun-sen line.

Investors need to remember that it is important to not get lost in the lines of these charts but to focus on the clear and direct signals that the Ichimoku Cloud indicator can produce. The Cloud offers support and resistance during larger trends and foreshadows what is to come. As always, it is more advantageous to take advantage of bullish signals in an uptrend and bearish signals in a larger downtrend.

The Ichimoku Cloud can also be used in conjunction with western indicators. Traders can identify the trend using the Cloud and then use classic momentum oscillators to identify overbought or oversold conditions.

Bullish Signals:

- Price moves above Cloud (trend)
- Cloud turns from red to green (ebb-flow within trend)
- Price Moves above the Kijun Line (momentum)
- Tenkan Line moves above Kijun Line (momentum)

Bearish Signals:

- Price moves below Cloud (trend)
- Cloud turns from green to red (ebb-flow within trend)
- Price Moves below Kijun Line (momentum)
- Tenkan Line moves below Kijun Line (momentum)