

Example 4.10: Going Short with Kumo Break Strategy

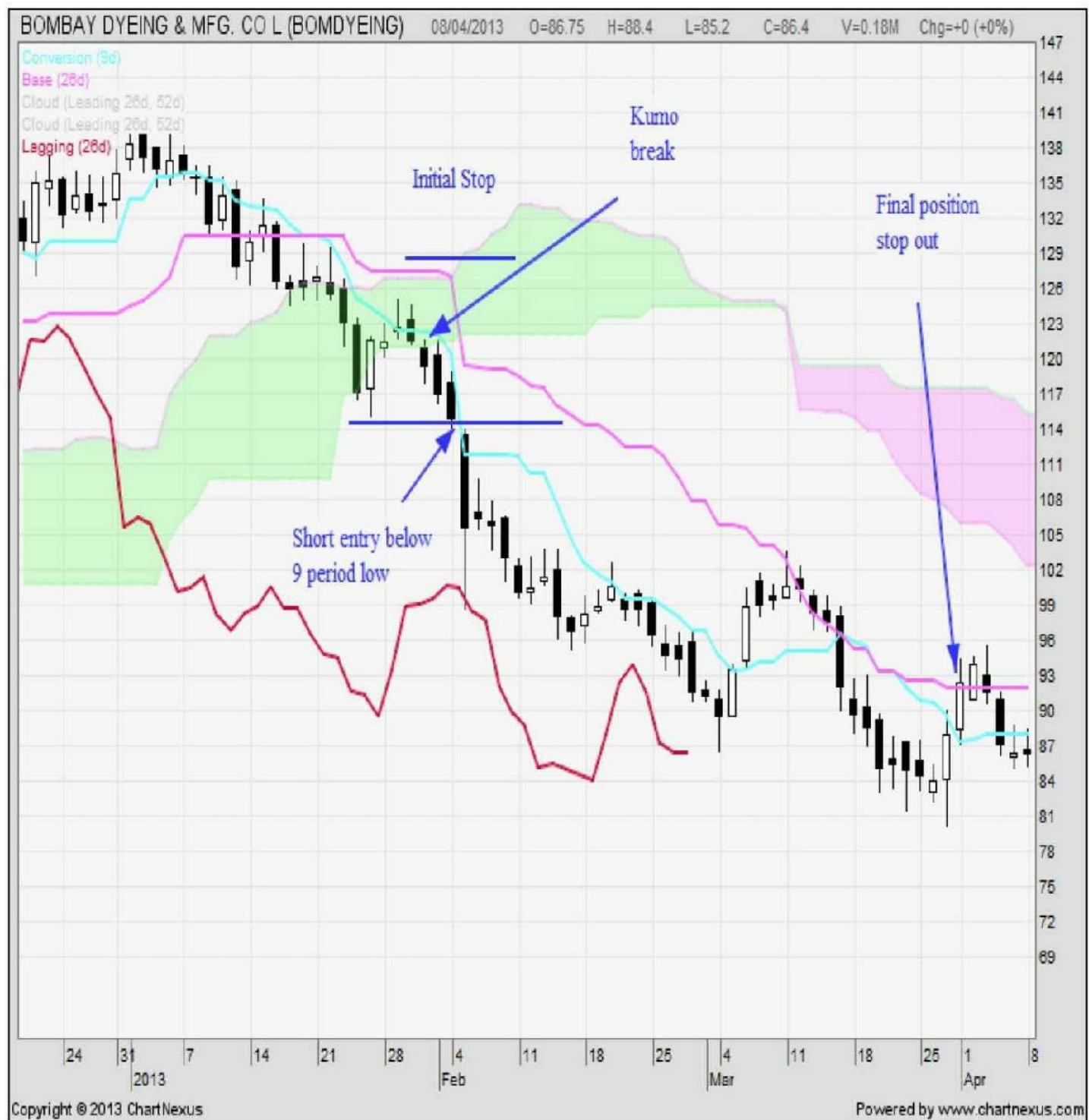


Figure 4.10: Going short in Bombay Dyeing — note the Kumo break, the short entry and the initial stop points

Trade Set-up for Short Entry on 4 February

Tenkan / Kijun: The price is below both Tenkan and Kijun, which is a bearish sign. The Tenkan is below the Kijun, which is also a bearish sign. And, both Tenkan and Kijun will continue to fall as price moves lower.

Chikou: At the point of entry, the Chikou will be clear of any price interaction.

Current Kumo: The price is below the current Kumo.

Future Kumo: The future Kumo is bearish, thus confirming all the other indicators.

Initial Stop: The initial stop will be above the Kijun. This stop can be moved down as the price starts to move lower and the Kijun trails down with it.

Trade Analysis

The price closed below the Kumo on 31 January. The future Kumo looked set for a bearish twist the next day. A short sell order placed below the 9- period low would not only bring the Tenkan down, but also the Kijun. The trade would have triggered on 4 February. Notice from the chart in [Figure 4.10](#) that after 3 days, the 26-period highs would keep getting lower. This ensures that the Kijun would also head south to provide downside guidance to the stock.

Profits should continuously be taken as the trade progresses in the expected direction. Finally, the complete position should be stopped out when the stock closes above the Kijun.

Example 4.11: Going Short with Kumo Break Strategy



Figure 4.11: Going short in Maruti Suzuki — the bearish Kumo break, the trade entry and initial stop points are indicated

Trade Set-up for Short Entry on 21 February

Tenkan / Kijun: The price is below the Tenkan and Kijun, which is a bearish sign. The Tenkan is below the Kijun, which is also bearish. And, both Tenkan and Kijun will continue to fall as the price goes lower.

Chikou: At the point of entry, the Chikou will be clear of any price interaction.

Current Kumo: The price is below the current Kumo.

Future Kumo: The future Kumo turned bearish, thus confirming all the other indicators.

Initial Stop: The initial stop will be above the Kijun. This stop can be moved down as the price starts to head lower and the Kijun trails downward with it.

Trade Analysis

The price closed below the Kumo on 20 February. The future Kumo along with the Chikou and other Ichimoku requirements were thus satisfied for a short entry signal. A short sell order below the 9-period low would draw the Tenkan and Kijun down in the expected direction. Notice again the flat Senkou B where the price took support for a couple of days. Unfortunately for the bulls, though, the price ran out of this support area. Watch that flat Kumo!

Profits should continuously be taken as the trade progresses in the expected direction. Finally, the position should be entirely closed when the stock closes above the Kijun.

Example 4.12: Going Long Using the Kumo Break Strategy

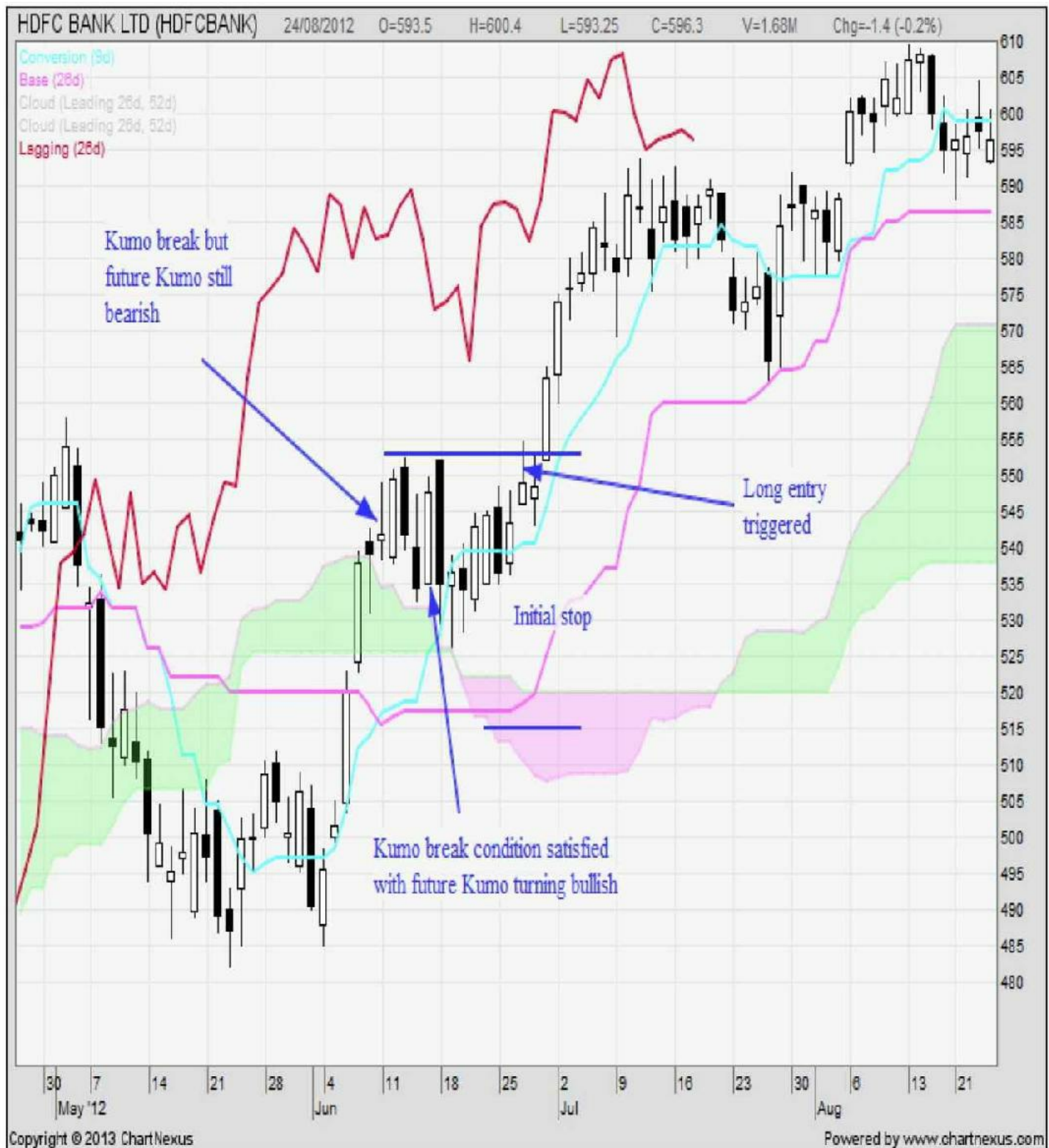


Figure 4.12: Going long in HDFC Bank — note the bullish Kumo break, the entry and initial stop points

Trade Set-up for Long Entry on 27 June

Tenkan / Kijun: The price is above the Tenkan and Kijun, which is a bullish sign. Tenkan is above the Kijun, which is also bullish. And, both Tenkan and Kijun will continue to rise as the price goes higher.

Chikou: At the point of entry, the Chikou will be clear of any price interaction.

Current Kumo: The price is above the current Kumo.

Future Kumo: The future Kumo is bullish, confirming all the other indicators.

Initial Stop: The initial stop will be below the Kijun. This stop can be moved up as the price starts to rise higher and the Kijun trails upward with it.

Trade Analysis

Price closed above the Kumo on 11 June. At this point, the Chikou was about to emerge from price congestion area and the future Kumo was still bearish. It was still a waiting game at this time. On 15 June, however, all the Ichimoku components lined up for a long entry above the 9-period high. This was triggered on 27 June. The Tenkan and Kijun were both drawn up when the trade was triggered as the 9-day high and 26-day high were the same. You will notice in the chart how the Kijun acts as support for the uptrending stock.

Profits should be taken continuously as the trade progresses in the expected direction. The entire position should be stopped out when the stock closes below the Kijun.

Example 4.13: Going Short Using the Kumo Break Strategy



Figure 4.13: Going short in Bajaj Hindustan — note the Kumo break, the short entry and the initial stop points

Trade Set-up for Short Entry on 12 November

Tenkan / Kijun: The price is below the Tenkan and Kijun, which is bearish. The Tenkan is below the Kijun, which is also bearish. And, both Tenkan and Kijun will continue to fall as the price goes lower.

Chikou: At the point of entry, the Chikou will be clear of any price interaction.

Current Kumo: The price is below the current Kumo.

Future Kumo: The future Kumo has turned bearish, effectively confirming all the other indicators.

Initial Stop: The initial stop will be above the Kijun. This stop can be moved down as the price starts to move lower and the Kijun trails downward with it.

Trade Analysis

As you can see in [Figure 4.13](#), the price closed below the Kumo on October 30. All Ichimoku components were lined up for a short entry below the 9-period low. In this case it would be below the low of the candle that closed below the Kumo. What should one be aware of in this case? The flat Senkou B. We have seen specific examples of how this Kumo component influences price. It is a magnet for prices. The price rallies back to the flat Senkou B but fails at the Tenkan. The strongly trending Tenkan contains the price. You can see in [Figure 4.13](#) how even in the days ahead the price tries to rally intraday towards the Kumo. By that time, however, even the Kijun is trending down, adding to the downward pressure on price.

Profits should continuously be taken as the trade progresses in the expected direction. Finally, the position should be entirely stopped out when the stock closes above the Kijun.

Example 4.14: Going Short Using the Kumo Break Strategy



Figure 4.14: Going short in Aptech Limited — the Kumo break and the initial stop points are indicated

Trade Set-up for Short Entry on 22 January

Tenkan / Kijun: In the chart in [Figure 4.14](#), the price is below Tenkan and Kijun, which is a bearish sign. Tenkan is below the Kijun, which is also bearish. And, both Tenkan and Kijun will continue to fall as the price goes lower.

Chikou: At the point of entry, the Chikou will be clear of any price interaction.

Current Kumo: The price is below the current Kumo.

Future Kumo: The future Kumo turned bearish, thus confirming all the other indicators.

Initial Stop: The initial stop will be above the Kijun. This stop can be moved lower as the price starts to move down and the Kijun trails downward with it.

Trade Analysis

In [Figure 4.14](#), the price closed below the Kumo on 10 January. The future Kumo, however, was still bullish. When this future Kumo turned bearish, a sell order placed below the 9-period low would have got a trader in a short position on 22 January. The Tenkan and Kijun both drew lower with the trade entry.

Notice, too, the earlier Kumo break in December. By now, the reader would know the reason why this Kumo break was not a sell signal — because the Chikou was still in price congestion. The Chikou has to be in an open space for a trend to continue and develop momentum.

Partial profits should continuously be taken as the trade progresses in the expected direction. Finally, the entire position should be stopped out when the stock closes above the Kijun.

Example 4.15: Going Long — and Short — Using the Kumo Break Strategy



Figure 4.15: Going long and short using the Kumo break strategy in Adani Power

Trade Set-up for Long Entry in Adani Power on 30 November

Tenkan / Kijun: In the chart in Figure 4.15, the price is above the Tenkan and Kijun, which is a bullish sign. The Tenkan is above the Kijun, which is also bullish. And, both Tenkan and Kijun will continue to rise as the price climbs higher.

Chikou: At the point of entry, the Chikou will be clear of any price interaction (Point B).

Current Kumo: Prices are above the current Kumo.

Future Kumo: The future Kumo is bullish, thus confirming all the other indicators.

Initial Stop: The initial stop will be below the Kijun (Point A). This stop can be moved up as prices start to rise and the Kijun follows suit.

Trade Analysis

The price had closed above the Kumo on 27 November. The Chikou then was, however, still in price congestion from 26 days ago. From the chart, traders can visually note that it would take another day for Chikou to be free of the congestion. As the price closed higher the next day, it cleared the Chikou and thus aligned all Ichimoku components for a long entry (Point C) above the 9-period high. Note again in this chart how the flat Senkou B provided support for the stock from where it rallied to close above the Kumo.

Profits should continuously be taken as the trade progresses in the expected direction. Finally, the position should be entirely stopped out as the stock closes below the Kijun.

Trade Set-up for Short Entry in Adani Power on 12 February

Tenkan / Kijun: Staying with [Figure 4.15](#), we find that the price is below the Tenkan and Kijun, which is bearish. The Tenkan is below the Kijun which is also bearish. And both Tenkan and Kijun will continue to fall as the price heads lower.

Chikou: As can be seen from the chart, Chikou will be clear of any price interaction at the point of entry (Point D).

Current Kumo: Prices are below the current Kumo.

Future Kumo: The future Kumo turned bearish, thus confirming all the other indicators.

Initial Stop: The initial stop will be above the Kijun (Point E). This stop can be moved lower as the price starts to move lower and the Kijun trails down with it.

Trade Analysis

As [Figure 4.15](#) reveals, the price closed below the Kumo on 2 February. The Chikou was free at this point, but the future Kumo was still bullish. The price tries to rally as it is attracted to the flat Senkou B. At this point, Tenkan is, however, strongly heading down to offer resistance and guide the price lower. As the future Kumo gets the bearish twist, a sell order placed below the 9-period low would trigger a short entry for a very profitable trade (Point F).

Profits should continuously be taken as the trade progresses in the expected direction. Final position should be stopped out when the stock closes above the Kijun.

Example 4.16: Long Trade Using the Kumo Break Strategy

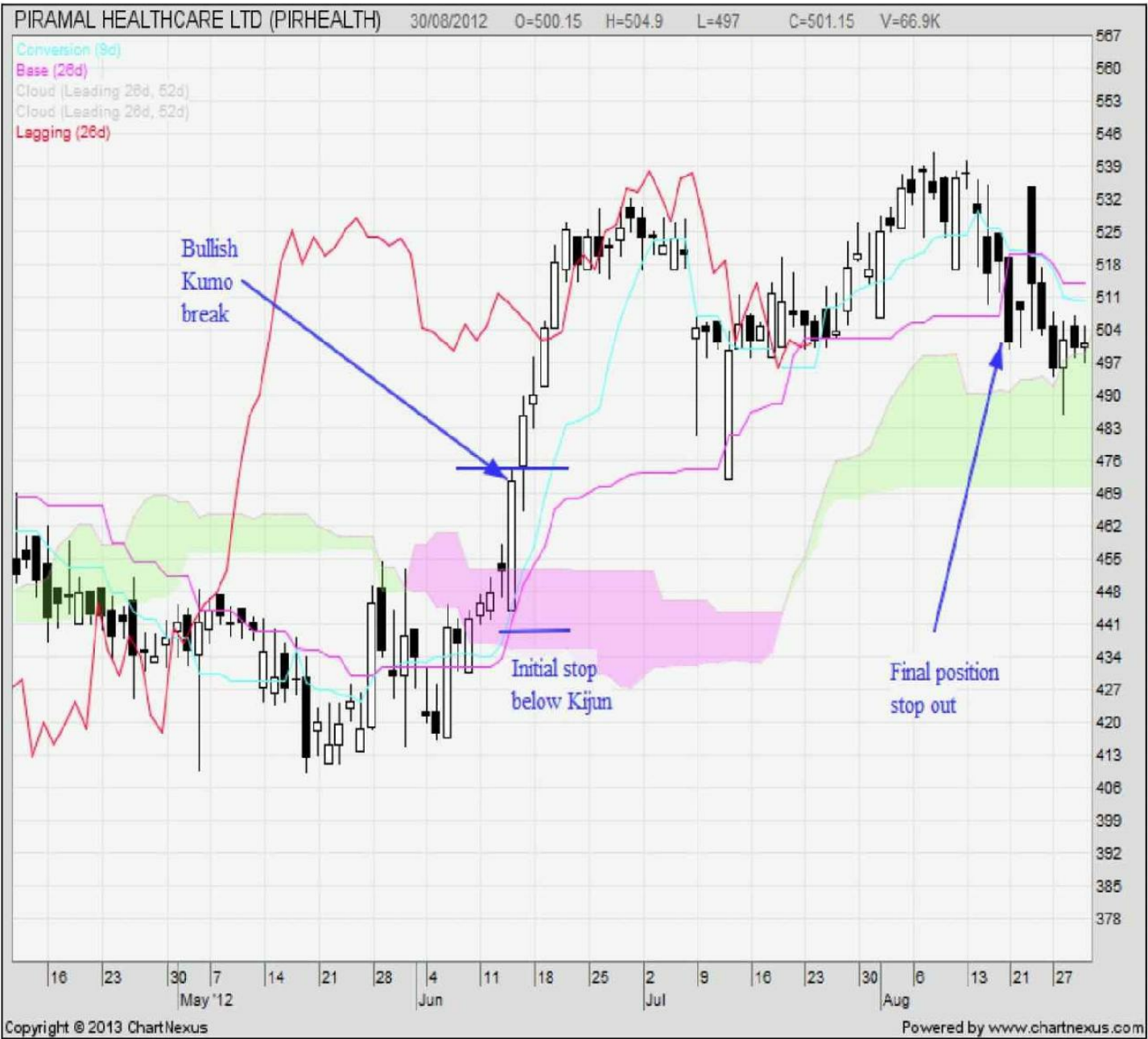


Figure 4.16: Going long in Piramal Healthcare — the bullish Kumo break, the initial stop and the final stop positions are indicated

Trade Set-up for Long Entry on 15 June

Tenkan / Kijun: As can be seen in the chart in [Figure 4.16](#), the price is above the Tenkan and Kijun, which is a bullish sign. Tenkan is above the Kijun, which is also bullish. And, both Tenkan and Kijun will continue to rise as the price goes higher.

Chikou: At the point of trade entry, the Chikou will be clear of any price interaction.

Current Kumo: Prices are above the current Kumo.

Future Kumo: The future Kumo is bullish, thus confirming all the other indicators.

Initial Stop: The initial stop will be below the Kijun. This stop can be moved higher as the price starts to move up and the Kijun trails higher with it.

Trade Analysis

The price closed above the Kumo on 14 June with a strong bullish candle. This was needed as the price was contending with a flat Kumo (Senkou B). A weak close above this would likely have drawn the price back inside the Kumo, thus leading to a false breakout. This strong candle pulled the Tenkan and Kijun up with it. At this point all Ichimoku components were lined up for a long entry above the 9-period high. This would have triggered the next day as bulls came back and pierced the previous day's high.

Partial Profits should be taken along the way as the stock rises as anticipated.

Example 4.17: Going Short Using the Kumo Break Strategy



Figure 4.17: Going short in Orchid Chem & Pharma — note the bearish Kumo break, the entry, the initial and final stop points

Trade Set-up for Short Entry on 10 May

Tenkan / Kijun: As the chart in [Figure 4.17](#) would confirm, the price is below the Tenkan and Kijun, which is a bearish sign. Tenkan is below the Kijun, which is also bearish. And, both Tenkan and Kijun will continue to fall as the price heads lower.

Chikou: At the point of trade entry, the Chikou will be clear of any price interaction.

Current Kumo: Prices are below the current Kumo.

Future Kumo: The future Kumo is bearish, thus confirming all the other indicators.

Initial Stop: The initial stop will be above the Kijun. This stop can be moved lower as prices start to head down.

Trade Analysis

On 8 May, the price closed below the Kumo. Zooming in on the chart would probably indicate a Kumo break on 6 May, but the Chikou was not free at that point, thus nullifying any trade entry. All Ichimoku components were lined up for a short entry below the 9-period low, which in this case is also be the 26-period low. Notice in the chart how the price waited for the Kumo to thin out. The thicker Kumo in the days prior supported the stock, but the bulls could not capitalize on this. Bears then took control as the Kumo thinned. As informed traders piled up on the short side, the price collapsed, yielding a handsome profit in a short period of time.

Example 4.18: Long Trade Using the Kumo Break Strategy



Figure 4.18: Going long in Patni Computer — note the Kumo break, the long entry and initial stop points

Trade Set-up for Long Entry on 28 October

Tenkan / Kijun: As you would note from the chart in [Figure 4.18](#), the price is above the Tenkan and Kijun, which is a bullish sign. Tenkan is above the Kijun, which is also bullish. The Tenkan and Kijun will continue to rise as the price goes higher.

Chikou: At the point of trade entry, the Chikou will be clear of any price interaction.

Current Kumo: The price is above the current Kumo.

Future Kumo: The future Kumo is bullish, thus confirming all the other indicators.

Initial Stop: The initial stop will be below the Kijun. This stop can be moved up as the price starts to rise higher and the Kijun follows it upward.

Trade Analysis

The price closed above the Kumo on 18 October with a strong bullish candle. Notice how the candle found the end of the flat Kumo (Senkou B) to break through and closed above it. This bullish move was large enough to move the Tenkan and Kijun above the Kumo. All Ichimoku components were then lined up for a trade entry above the 9-period high, which would also be the 26 period high. The trade entry would have triggered on 28 October. The price moved up nicely, following the bullish breakout.

Partial profits should be taken along the way as the stock rises as anticipated, and the position should be fully exited below the Kijun.

Example 4.19: Short Trade Using the Kumo Break Strategy



Figure 4.19: Short trade in Arvind Ltd. — the bearish Kumo break and the initial and final stops are indicated

Trade Set-up for Short Entry on 14 February

Tenkan / Kijun: As the chart in [Figure 4.19](#) reveals, the price is below both Tenkan and Kijun, which is a bearish sign. Tenkan is below the Kijun, which is also bearish. And, both Tenkan and Kijun will continue to fall as the price goes lower.

Chikou: At the point of trade entry, the Chikou will be clear of any price interaction.

Current Kumo: Prices are below the current Kumo.

Future Kumo: The future Kumo is bearish, thus confirming all the other indicators.

Initial Stop: The initial stop will be above the Kijun. This stop can be moved down as the price starts to move lower.

Trade Analysis

The price closed below the Kumo on 7 February. All Ichimoku conditions were satisfied at this point for a short trade entry below the 9-period low of 28 January. As the price wavered for the next few days, the 9-period low moved up and the trade would have executed as shown in [Figure 4.19](#). The sell order could still have been kept at the same price as that of 28 January and would have triggered on 14 February.

Partial profits should be taken along the way as the price moves in the anticipated direction and the trade position should be finally closed when the price closes above the Kijun.

When the Kumo Break Strategy Fails

Let us now look at a few examples of a failed Kumo break strategy.

Example 4.20: Failed Long Using the Kumo Break Strategy



Figure 4.20: Going long using the Kumo break strategy in ONGC and losing

Trade Set-up for Long Entry on 4 January

Tenkan / Kijun: As you would notice in the chart of ONGC in [Figure 4.20](#), the price is above Tenkan and Kijun, which is a bullish sign. Tenkan is above the Kijun, which is also bullish. And, both Tenkan and Kijun will continue to rise as the price goes higher.

Chikou: At the point of entry, the Chikou will be clear of any price interaction.

Current Kumo: Prices are above the current Kumo.

Future Kumo: The future Kumo is bullish, thus confirming all the other indicators.

Initial Stop: The initial stop will be below the Kijun. This stop can be moved up as prices start to move higher and Kijun trails with it.

Trade Analysis

The price closed above the Kumo on 28 December. To enter a long trade, one would need to wait for the future Kumo to turn bullish. This happened on 3 January. A buy stop order placed above the 3 January candle would draw the Tenkan as well as Kijun up.

As the stock moves up, profits should be taken off the table and the position should be completely exited when the price closes below the Kijun on 8 February.

Example 4.21: Failed Long Trade Using the Kumo Break Strategy



Figure 4.21: Going long using the Kumo break strategy in MTNL and losing

Trade Set-up for Long Entry on 25 January

Tenkan / Kijun: As can be seen in the chart in [Figure 4.21](#), the price is above the Tenkan and Kijun, which is a bullish sign. Also, the Tenkan is above the Kijun, which too is bullish. And, both Tenkan and Kijun will continue to rise as the price goes higher.

Chikou: At the point of entry, the Chikou will be clear of any price interaction.

Current Kumo: Prices are above the current Kumo.

Future Kumo: The future Kumo is bullish, thus confirming all the other indicators.

Initial Stop: The initial stop will be below the Kijun. This stop can be moved up as prices start to move higher and Kijun trails upward with it.

Trade Analysis

MTNL's price closed above the Kumo on 24 January. All Ichimoku components were thus aligned for a long entry. A buy order placed above the preceding 9-period high was the correct entry setup. This would have executed the following day. On 24 February, the price closed decisively below the Kijun and the trader would need to abort the trade and get out at that point.

As mentioned all along in the previous examples, profit should always be taken on a continuous basis as the trade progresses along the expected path. If no profits were taken, then this would have resulted in a scratch trade.

There were a couple of days — 14 and 16 February for example — when the price closed just below the Kijun. But this was not decisive at all. In such cases, I would recommend getting stopped out the next day if the price moves below the low of the candle which closed below the Kijun.

Example 4.22: Failed Short Trade Using the Kumo Break Strategy



Figure 4.22: Failing with the Kumo break strategy in Yes Bank

Trade Set-up for Short Entry on 9 May

Tenkan / Kijun: The chart in [Figure 4.22](#) reveals that the price is below the Tenkan and Kijun, which is a bearish sign. The Tenkan is below the Kijun, which is also bearish. And, both Tenkan and Kijun will continue to fall as the price goes lower.

Chikou: As can be seen in the chart in [Figure 4.21](#), the Chikou will be clear of any price interaction at the point of entry.

Current Kumo: Prices are below the current Kumo.

Future Kumo: The future Kumo is bearish, thus confirming all the other indicators.

Initial Stop: The initial stop will be placed above the Kijun. This stop can be moved lower as prices start to move down.

Trade Analysis

The price closed below the Kumo on 8 May. All Ichimoku components were therefore aligned for a short entry. A sell order placed below the 9- period low was the correct entry setup. This would have executed the next day and the stock promptly followed the Tenkan down for a few days. A bullish engulfing candlestick signal stopped the fall and the price then started reversing. The trade would have stopped out on 28 May as the price closed above the Kijun. This would have resulted in a losing trade, assuming no profits were taken along the downward move.

Notice, however, that loss is small compared to the big profits that one makes when the stock starts trending. This is the basis of successful trading . . . small losses and larger profits.

Example 4.23: Failed Short Trade Using the Kumo Break Strategy

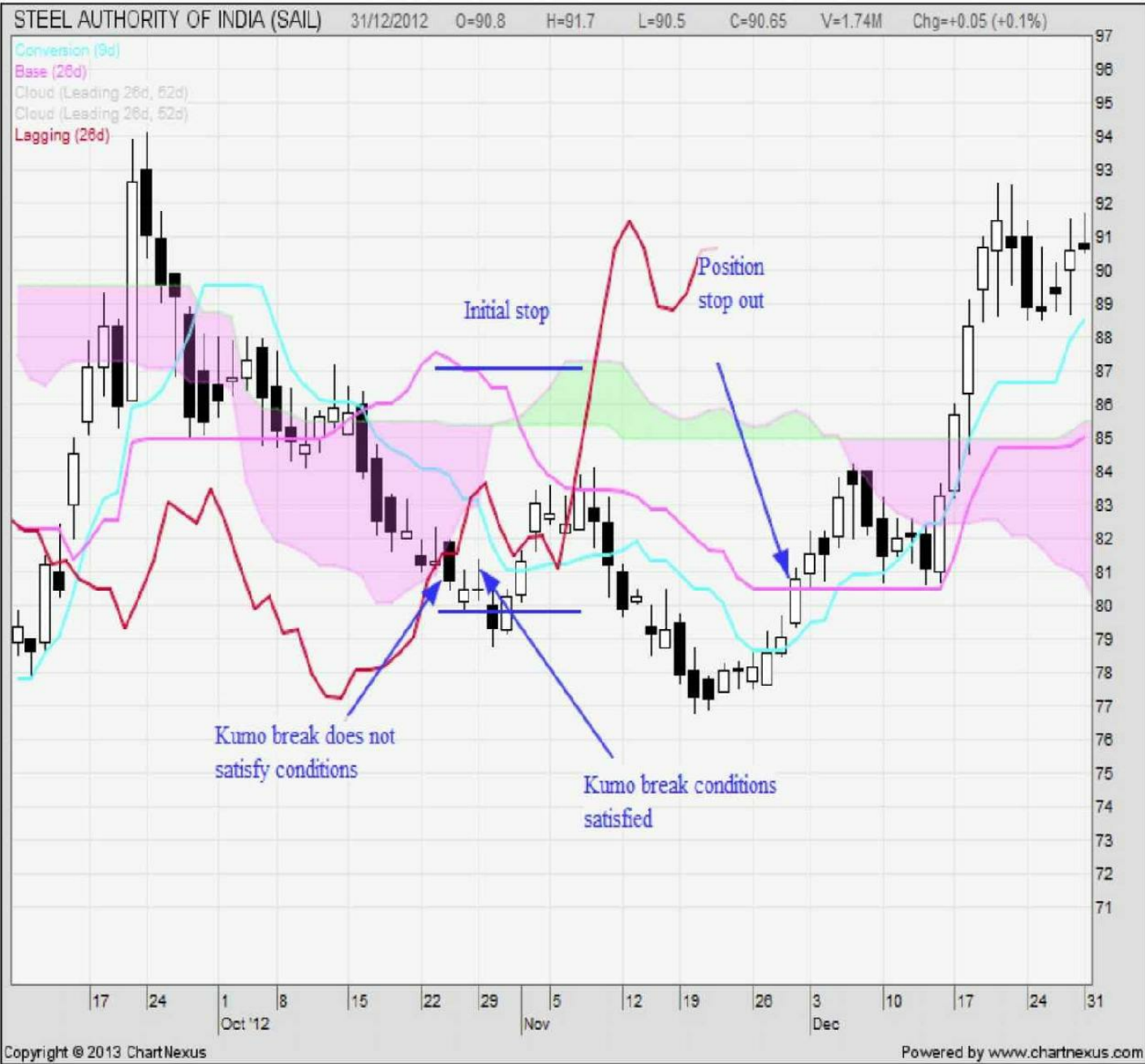


Figure 4.23: Unprofitable short trade using the Kumo break strategy in SAIL

Trade Set-up for Short Entry on 30 October

Tenkan / Kijun: As can be seen in the chart in [Figure 4.22](#), the price is below the Tenkan and Kijun, which is a bearish sign. The Tenkan is below Kijun, which is also bearish. And, both Tenkan and Kijun will continue to fall as the price heads lower.

Chikou: At the point of entry, the Chikou will be clear of any price interaction.

Current Kumo: Prices are below the current Kumo.

Future Kumo: The future Kumo is bearish, confirming all the other indicators.

Initial Stop: The initial stop will be above the Kijun. This stop can be moved lower as prices start to move down.

Trade Analysis

On 25 October, the price closed below the Kumo. At this point, the future Kumo was still bullish, thus not satisfying the short entry criteria. The bearish future Kumo twist occurred on 29 October and the short entry could then be placed below the 9-period low. Notice that once the trade was executed the next day, the stock rallied and failed at the Kijun. It then had a nice move down. However, the price then reversed again without handing the trader a good point to take profits. The trade would have stopped out on November 30. Again, notice, that the loss one would have incurred here was only a small one.

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Traders need always to keep in mind that nothing is guaranteed in trading. What you are doing by using Ichimoku is that you are putting probabilities in your favor. This also means that sometimes the trades will not go as expected. It is then best to cut one's loss as soon as the reason for entering the trade is negated. Many traders act like deer paralyzed by a headlight. The consequences are also the same — the market will trample you. To become a successful trader, you will have to accept losses as a part of your bigger strategy.

Tenkan / Kijun Cross Strategy

This is my favourite Ichimoku strategy.

Basic Strategy

- Long positions are initiated when the Tenkan crosses the Kijun to the upside.
- Short positions are initiated when the Tenkan crosses the Kijun to the downside.

Rules / Conditions

Price *versus* Current Kumo

In Chapter 4, we looked at the different bullish and bearish scenarios related to the T/K cross *versus* current Kumo. Personally, I tend to give this less importance. As long as all the other Ichimoku components are lined up, I consider the T/K cross a good entry signal. However, when the price is either below or in the Kumo, the trader needs to be careful about Senkou B. If Senkou B is observed to be currently flat, and remains flat in the near future, the trade needs to be evaluated thoroughly before putting in a buy / sell order. Keep in mind that a flat Senkou B will have the tendency to offer resistance to the stock. So the price will more than likely reverse at Senkou B if the Kijun and Tenkan aren't close by to provide support in the anticipated direction. As one studies more and more charts, these dynamics of support and resistance will become clearer.

On a long entry below the Kumo, it will favor the trade if the Kumo is thin. Chances then are that the price will burst through it. This is also true for a thin Kumo which is in a flux.

When the Kumo is fat, price will expend a lot of energy simply going through it. This needs to be considered in the trade and the target formalized accordingly.

Future Kumo

- If one is looking at a long entry with the T/K cross, the future Kumo needs to be bullish.
- If it is a short entry, then the future Kumo needs to be bearish.

In the long entry, it helps more if both Senkou A and Senkou B are pointing in the upward direction. For the short entry, it is better for both Senkou A and Senkou B to be pointing south.

Many times, though, for the long side, Senkou A will be pointing upwards and Senkou B will be flat. On the short side, Senkou A will be pointing down and Senkou B will be flat.

Keep in mind that the T/K cross is signaling a possible trend reversal. As the trend develops, it will pull Senkou B with it at some point in time.

Chikou

Repeating that the Chikou is critical for trading success with Ichimoku will only help in emphasizing its importance.

The T/K strategy, like the Kumo break strategy, needs the Chikou to be free and clear.

There will be many opportunities where the trader sees the T/K cross and is tempted to buy even as he observes that the Chikou is mired in price action of 26 periods ago. Heed this warning and do not take those trades. They are the low probability trades. Find stocks with the T/K cross and a free Chikou to enter and profit from. The Ichimoku system makes it visually easy to see when the Chikou will be free if it currently isn't. One can anticipate the chart conditions at that point in time. Remember, everything revolves around 9, 26 and 52.

Tenkan and Kijun

Since we are trading the T/K cross, Tenkan will be above the Kijun for a long entry and below the Kijun for a short entry.

Sometimes when the T/K cross sets up, the other components might not yet be aligned. However, the price might keep pushing in your expected direction. It is a better strategy not to chase price, but wait for a pullback. Price will often come back to equilibrium (Kijun) and then climb back up over the Tenkan. By this time, more often than not, the other Ichimoku components will be aligned for the trade.

Price *versus* the Tenkan and Kijun

- For a long entry, the price should be above the Tenkan and Kijun.
- For a short entry, the price should be below the Tenkan and Kijun.

Keep in mind that you should not enter a trade if the price is considerably stretched away from the Tenkan and Kijun. The latter two are magnets and, in most cases, will attract the price back towards themselves. This is especially so in cases where a big jump in price causes a T/K cross. You will then see that the Kijun soon goes flat and pulls the price towards it. Entering a trade when price is near the Tenkan and Kijun has the advantage of a lower stop loss setting.

Trade Entry

Once all the Ichimoku components signal a long trade entry, a buy order can be put in above the highest high of the last 9 periods. Correspondingly, for a short entry, a sell order can be programmed below the lowest low of the prior 9 periods. This assures the trader that price will draw the Tenkan with it.

Initial Stop Loss

It is a good idea to put the initial stop loss under the Kijun. As the trend progresses in the anticipated direction, the Kijun will follow and the stop can be trailed with it. Profits should always be taken on a continuous basis as they build up. Finally, the entire position should be exited when the price closes below the Kijun.

T/K Cross Trading Strategy in Action

The next several charts show the T/K trading strategy in action. I have described the scenarios in the initial few charts and then for the rest, I have hit on the key indicators that need to be looked at.

Also, do pay attention to the charts showing losing trades. Even with all Ichimoku components lining up, there will be times when the trade fails. That is an inevitable part of the game.

Example 5.1: Going Short Using the T/K Cross Strategy



Figure 5.1: Going short in Reliance Infrastructure — the T/K cross and the short trade entry are indicated on the chart

Trade Set-up

- Our first entry criterion for going short using the Tenkan / Kijun cross is satisfied on 24 January.
- Notice in [Figure 5.1](#) that on this date the Chikou is getting support from the candles of 26 days ago, namely the candle of 18 December.
- At this point, one can visually see in [Figure 5.1](#) that the Chikou will be facing congestion for the next 7 to 8 days unless the stock drops quickly through the support offered by those candles in the congestion area. Keep in mind that you do not want to get in until the Chikou is actually free of that congestion. It is possible that during the next 7 to 8 days, the stock drops intraday but comes back up by the end of the day. In such a case, the Chikou will still be in the congestion area. You need to wait for a closing candle to visually see the Chikou closing clear of the support area.
- After the T/K cross, the stock rallies and fails to close decisively over the Kijun. This is expected by the trader. If the stock had managed to close above the Kijun, the trade scenario is voided.
- For the next few days, the stock drops giving the Tenkan time to start moving down and the Chikou to become free of price congestion.
- The Kumo is in flux. This is perfect for a cross of the price below it. The future Kumo is almost turning over to bearish.

Trade Analysis

- Given the current scenario, the trader can place a sell-stop entry at the lows as indicated in [Figure 5.1](#). Setting the entry below the lows would do two things. One, it would draw the Tenkan down and, two, it would also draw the Kijun down. Keep in mind that you want these two components to help guide the stock lower. A look at the chart suggests that the Tenkan would be moving down anyway as the highs over the last 9 days continue to fall. The Kijun would start moving down after the next 7 days as the 26-week highs start dropping down.

So you are assured that the resistance lines will shortly be moving in your favor.

- The initial stop out point would be above the Kijun. As the stock moves lower, the Kijun will follow, and the stop can be trailed with it.
- Currently, the stock still should be held short (or long put options). Profits must be taken along the way. Rest of the position should be closed when the stock closes above the Kijun.

Example 5.2: Going Short Using the T/K Cross Strategy

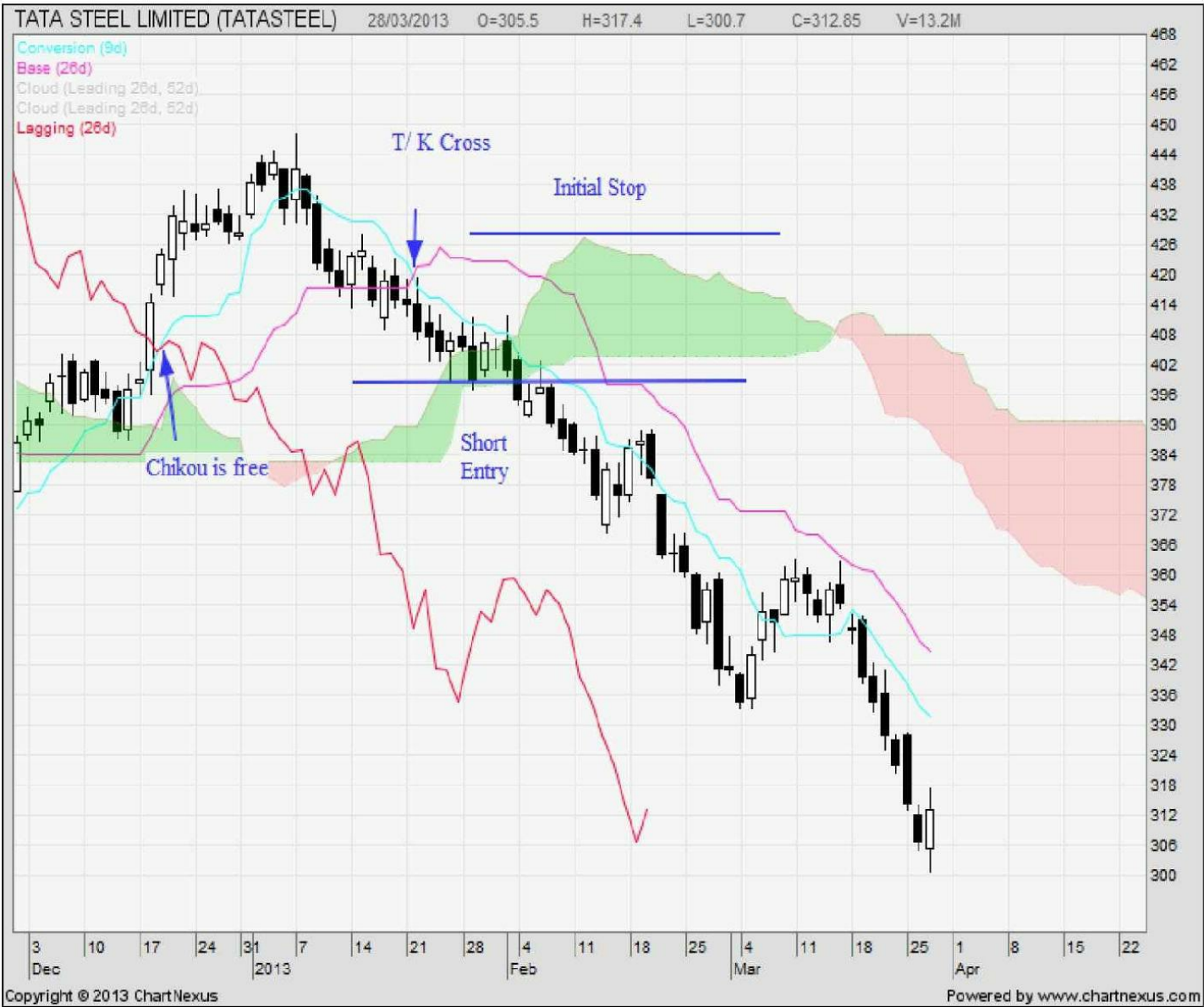


Figure 5.2: Going short in Tata Steel — the bearish T/K cross and trade entry points are indicated on the chart

Trade Analysis for Short Entry on 4 February

- Our short entry criteria of the T/K cross was satisfied on 22 January (see [Figure 5.2](#)).
- At that point, the Chikou was still above the corresponding price 26 days ago. It needed to cross the price to the downside. This happened on 25 January.
- The Kumo is in flux, which will make it easier for the price to cross and close below it. Notice that the Senkou B does support the price for 4 days before Tenkan provides enough resistance for a break. This would be the ideal entry point for the short entry.
- At the entry point, the future Kumo looks set to turn bearish in the next few days, thus confirming the rest of the Ichimoku components. Can you guess why the future twist is inevitable? Hint: Look at the prior 52- day lows. They are rising, which will make Senkou B go higher. Senkou A will go lower when Tenkan / Kijun move downward at the buy point, leading to the future Kumo twist.
- The initial stop out point would be above the Kijun, as indicated in [Figure 5.2](#).
- At this entry point, the Kijun would also be drawn down as it is the lowest point of the last 26 days. Also notice that the Kijun will move down in the next 4 to 5 days as the highs of the last 26 days start dropping down. This should provide continued downward pressure for the stock. It will also help in moving the stop out point lower and reducing the loss in case the trade does not go as expected.
- The short position can continue to be held till the end of the period covered in [Figure 5.2](#), with partial profits taken along the way. The remaining position should be closed when the stock closes above the Kijun.
- Notice how the stock was able to break the thin and trending Kumo on 4 February. A few more days of consolidation would have provided strong support for the stock in the form of a flat Senkou B. It would have been harder at that point for the Tenkan to offer resistance, especially with the Kijun being some distance away. Not that this doesn't happen, but it is difficult and a scenario best avoided to be traded until the stock closes below the Kumo.

Example 5.3: Going Long Using the T/K Cross Strategy



Figure 5.3: Going long in TCS — the bullish T/K cross, the trade entry and initial stop points are indicated on the chart

Trade Set-up for Long Entry on 14 January

Tenkan / Kijun: In [Figure 5.3](#) the price is above both Tenkan and Kijun, which is bullish. Tenkan is above the Kijun, which is also bullish. The T/K cross, however, occurred within the Kumo, which is considered neutral. The Tenkan and Kijun will continue to rise as the price climbs higher.

Chikou: At the point of entry, Chikou will be clear of any price interaction (see [Figure 5.3](#)). This is bullish as there is no near term resistance.

Current Kumo: The current Kumo is bullish. Rising prices will also bring the Kijun and Tenkan above the Kumo.

Future Kumo: The future Kumo has turned bullish, confirming all the other indicators.

Initial Stop: The initial stop will be below the Kijun, as indicated in [Figure 5.3](#). Keep in mind that the Kijun represents equilibrium. This stop can be moved up as price starts to rise and draws the Kijun up with it.

Trade Analysis

Notice that in [Figure 5.3](#) the point of entry comes after one of the most powerful candlestick signals, namely a Kicker signal. This should add to the confidence of the trader that this trade has a very high probability of success. Profits should be taken along the way and the entire position should finally be stopped out when price closes below the Kijun.

Another entry point would have been near 6 February. All conditions at this point were bullish as well and the reader can mentally make a note of all the different Ichimoku components to confirm this.

Example 5.4: Going Short Using the T/K Cross Strategy



Figure 5.4: Going short in Educomp — the bearish T/K cross and trade entry point are indicated on the chart. Note that the Chikou is free

Trade Set-up for Short Entry on 17 January

Tenkan / Kijun: In [Figure 5.4](#), the price is below both Tenkan and Kijun, which is a bearish sign. Tenkan is below the Kijun, which is also bearish.

The T/K cross occurred below the Kumo, which is considered strongly bearish. Both Tenkan and Kijun will continue to fall as the price goes lower, offering resistance to the stock.

Chikou: As indicated in [Figure 5.4](#), Chikou will be clear of any price interaction at the point of entry,. This should help the price move down without much support coming in.

Current Kumo: The current Kumo is bearish.

Future Kumo: The future Kumo is also bearish, confirming all the other indicators. Notice this section is strongly trending down as both Senkou A and Senkou B are being drawn downward.

Initial Stop: The initial stop will be above the Kijun. This stop can be moved down as the price starts to head lower and draws the Kijun down with itself.

Trade Analysis

The trader could have initiated the trade anytime after 9 January. However getting in on the 17th at the price level then prevailing assured the trader that the stock would draw the Kijun and Tenkan down with itself. Also, this will clear the support area that the Chikou created due to the candle from 31 December. So much confirmation adds a lot to the probabilities in the traders favor.

Partial profits should be taken at various points as the stock moves down and the remaining position should be finally stopped out when price closes below the Kijun.

Example 5.5: Going Long Using the T/K Cross Strategy



Figure 5.5: Going long in Andhra Bank using the T/K cross strategy — note the long entry and initial stop loss points on the chart

Trade Set-up for Long Entry on 6 December

Tenkan / Kijun: In [Figure 5.5](#), the price is above both Tenkan and Kijun, which is bullish. Tenkan is above the Kijun, which is also a bullish sign.

The T/K cross occurred within the Kumo, something which is considered neutral. Both Tenkan and Kijun will continue to rise as the price goes up, offering support to the stock.

Chikou: As can be seen in [Figure 5.5](#), the Chikou will be clear of any price interaction at the point of entry. This should help the price move up without much resistance coming in.

Current Kumo: The current Kumo is bullish.

Future Kumo: The future Kumo is also bullish confirming all the other indicators. You would notice that the future Kumo is trending up as the 52- day low rises higher and the Tenkan / Kijun also trend higher.

Initial Stop: The initial stop will be below the Kijun. This stop can be moved up as the price starts to rise higher and draw the Kijun up with itself.

Trade Analysis

Notice how throughout the chart in [Figure 5.5](#) the flat Kijun and the flat Senkou B provide support / resistance to the stock. Remember, the Kijun is the 26-period equilibrium and Senkou B is the 52-period equilibrium. If the price gets too far away from a flat Kijun, a pullback will most likely occur to bring things to base again.

Partial profits should be taken as the stock moves up and the entire remaining position would be finally stopped out on 23 January when the price closes below the Kijun.

Example 5.6: Going Long — and Short — Using the T/K Cross Strategy

The chart in [Figure 5.6](#) depicts two trading opportunities. Let us analyze each separately.



Figure 5.6: Going long — and going short — in ICICI Bank. The T/K crosses, entry points and initial stops are indicated on the chart

Trade Set-up for Long Entry on 2 July

Tenkan / Kijun: The price is above both Tenkan and Kijun, which is a bullish sign. Tenkan is above the Kijun — see the “Bullish T/K cross” on the chart in [Figure 5.6](#) — which is also bullish. The T/K cross occurred within the Kumo, something which is considered neutral. The Tenkan and Kijun will continue to rise as the price goes up, thus offering support to the stock.

Chikou: As can be seen in [Figure 5.6](#), the Chikou will be clear of any price interaction at the point of entry. This should help the price move down without much support coming in.

Current Kumo: The current Kumo is bearish.

Future Kumo: The future Kumo is also bearish but will turn bullish in the next couple of days. This is due to the fact that the Tenkan will rise as the 9-period lows get higher in the next few days.

Initial Stop: The initial stop will be below the Kijun (*see* [Figure 5.6](#)). This stop can be moved up as prices start to move higher.

Trade Analysis

This is one of those scenarios mentioned in the Chapter 2, where the price runs away from the Kijun. The Tenkan keeps up and supports the price, but the Kijun, which is the equilibrium, goes flat. In this case notice where the low of the previous 26 days is on June 21, which is close to the current price action. This means there will be another couple of weeks before the Kijun starts moving higher on its own. The way it stands now, the Kijun can move up only if the stock price goes higher every day. As stated earlier, these trades should be taken with caution, preferably with reduced position sizes. In this case, the trade would not have been executed as the buy point was not breached.

Trade Set-up for Short Entry on 3 August

Tenkan / Kijun: As can be seen in [Figure 5.6](#), in early August the price is below both Tenkan and Kijun, which is a bearish sign. Tenkan is below the Kijun, which is also bearish. The T/K cross occurred within the Kumo, something which is considered neutral. At the point of entry, the Tenkan and Kijun will continue to fall as price goes lower, offering resistance to the stock.

Chikou: At the point of short entry, the Chikou will be clear of any price interaction (see [Figure 5.6](#)). This should help the price move down without much support coming in.

Current Kumo: The current Kumo is bearish.

Future Kumo: The future Kumo is also bearish, thus confirming all the other indicators.

Initial Stop: [Figure 5.6](#) indicates the initial stop above the Kijun. This stop can be moved down as price starts to move lower and draws the Kijun down with itself.

Trade Analysis

All the conditions were met on 2 August for a short entry the day after. Should the trader buy below the low of that day or, as shown on the chart, below the low of the candle on 29 July? The idea of the current entry is to get the Tenkan and Kijun to move lower with the price to help keep guiding it down. If you short below the low of the 2 August candle, the Tenkan / Kijun pair would not necessarily move down. This can happen only if the price goes down through the low of the candle of 29 July. Notice also that within the next 5 days, the Kijun will start moving down on its own because the 26-day high will start dropping. So the trader is assured at this point that the equilibrium is going to be much lower in the coming days even if the stock does not move down fast.

This is a very important concept worth emphasizing time and time again — as a trader, you want the equilibrium to be heading in the direction you are trading. This not only provides constant resistance to the stock, but also helps you lock in more profits every day you are in the trade.