INDICATOR 8 *Trend*

Ichimoku Cloud Explained: The Five Lines Made Simple

Ichimoku looks complicated at first: five lines and a coloured cloud. But it answers three simple questions at a glance: what's the trend, where is support, and how strong is the move?



What it is

Ichimoku Kinko Hyo, roughly "one glance equilibrium chart", was developed by Japanese journalist Goichi Hosoda and published in 1969. It's a complete trend system that combines trend direction, momentum and support and resistance.

The five lines

- **Tenkan-sen (conversion line):** the midpoint of the highest high and lowest low of the last 9 periods. A fast line.
- **Kijun-sen (base line):** the same calculation over 26 periods. A slower line, often acting as support or resistance.
- **Senkou Span A:** the average of Tenkan and Kijun, plotted 26 periods ahead.
- **Senkou Span B:** the midpoint of the last 52 periods, plotted 26 periods ahead.
- **Chikou Span (lagging line):** today's close, plotted 26 periods back.

The space between Span A and Span B is the **cloud** (kumo). It's green (bullish) when Span A is above Span B and red (bearish) when it's below.

Default settings

9, 26 and 52. They come from the Japanese trading week of the time, and most traders still use them.

How to read it

- **Price above the cloud:** uptrend. **Below the cloud:** downtrend. **Inside the cloud:** no clear trend.
- **A thick cloud** is strong support or resistance. **A thin cloud** is easier to break.

- **The cloud ahead of price** gives a view of future support and resistance.

Three practical ways to use it

1. **Trend filter.** Only look for long trades when price is above the cloud and the cloud ahead is green; only short trades when price is below a red cloud.
2. **Tenkan and Kijun crossover.** When the Tenkan-sen crosses above the Kijun-sen, momentum turns up. The signal is strongest when it happens above the cloud.
3. **Pullbacks to the Kijun-sen.** In a trend, price often pulls back to the base line before continuing. A bounce from it can be an entry point.

Common mistakes

- **Using it on very short timeframes,** where the lines whipsaw. Ichimoku works best on 4-hour, daily and weekly charts.
- **Acting on one line alone.** The strength of Ichimoku is that the lines confirm each other.
- **Trading inside the cloud,** where the trend is undecided.

Works well with

- **ADX** to confirm trend strength.
- **RSI** to spot divergence before a cloud break.

Quick summary

- Ichimoku combines trend, momentum and support in one view.
- Price above a green cloud is bullish; below a red cloud is bearish.
- Look for several lines agreeing before acting.

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