

# Class 4: Strategies & Applications

## In This Lesson

- Various Instruments
- Multiple Time Frames
- How to get great at clouds

## Various Instruments

### Possible Markets

- Stocks
- Options
- Forex
- Futures
- Bonds
- Pretty much anything!

### Stock Strategy

- Apply the basic system from class 3.
- Limit yourself to only trending trades.
- Long = Bullish
- Short = Bearish
- Avoid trying to trade through consolidation periods.

### Forex

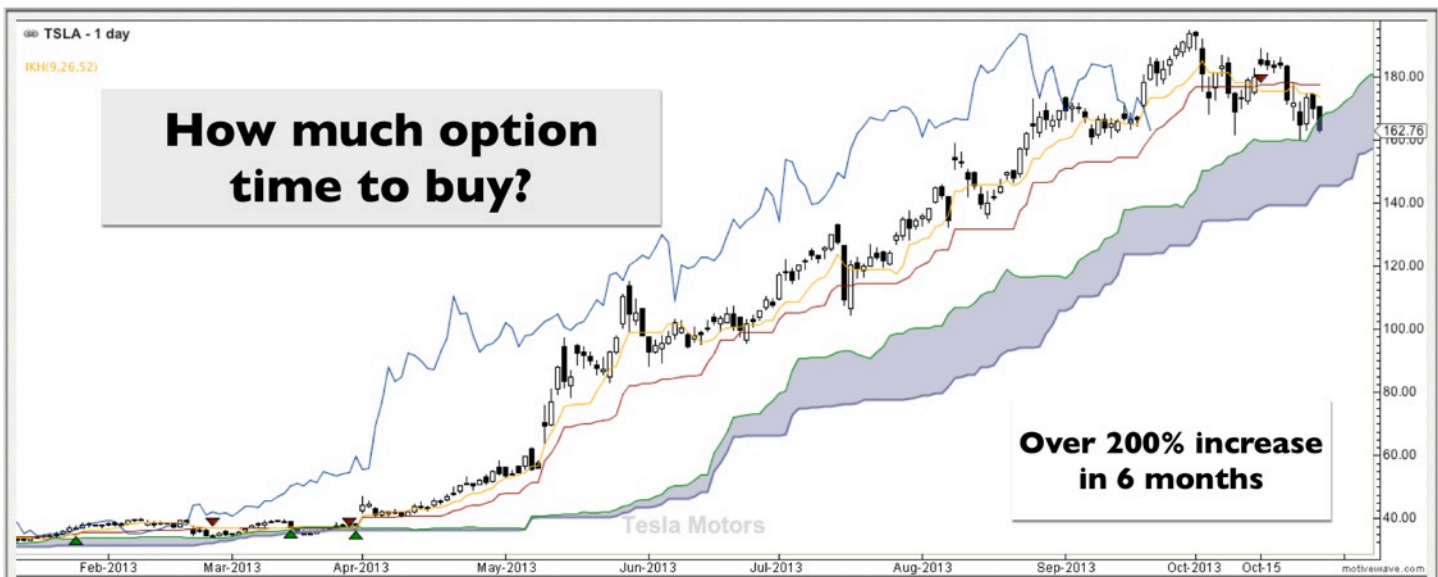
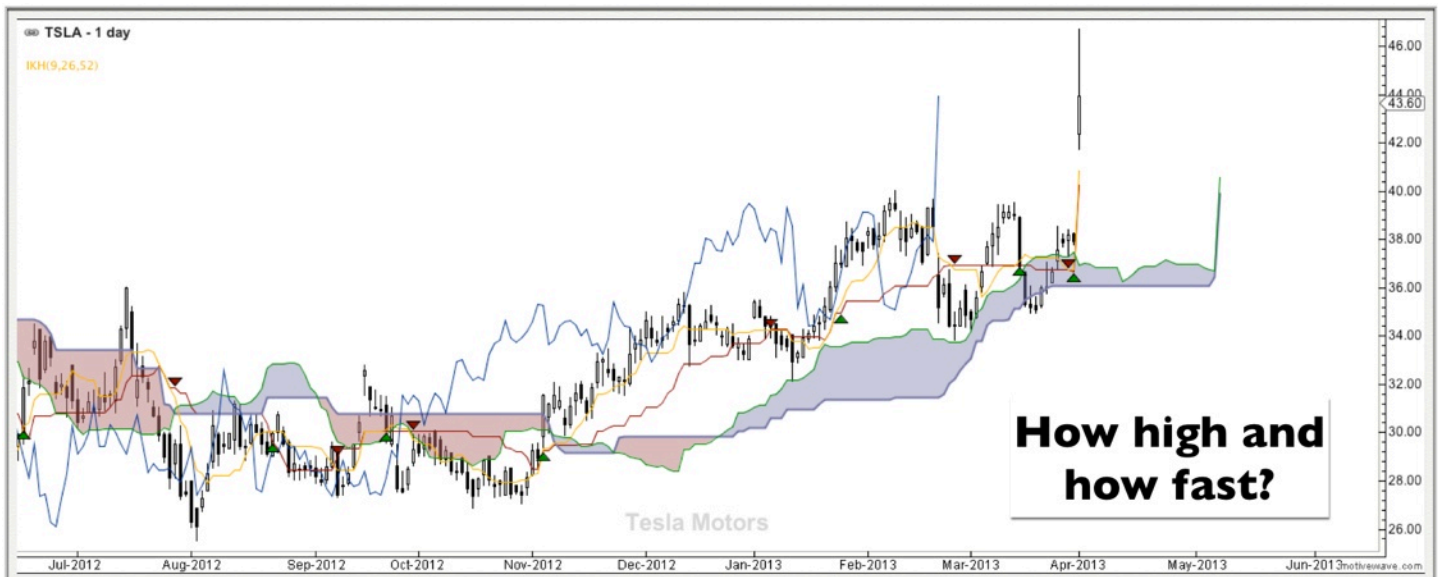
- Apply the basic system from class 3.
- On the daily chart, lower your leverage down to 25:1.
- Limit yourself to only trending trades.
- Avoid trying to trade through consolidation periods.

## Options

- Ichimoku presents some very interesting challenges *and* opportunities for options.
- Trending vs. Sideways
- If trending, you should be buying
- If consolidating, you should be selling

## Options -Trend Trades

- The challenge is the time frame
- Time decay
- Hard to know how much time to buy for a primary trend trade

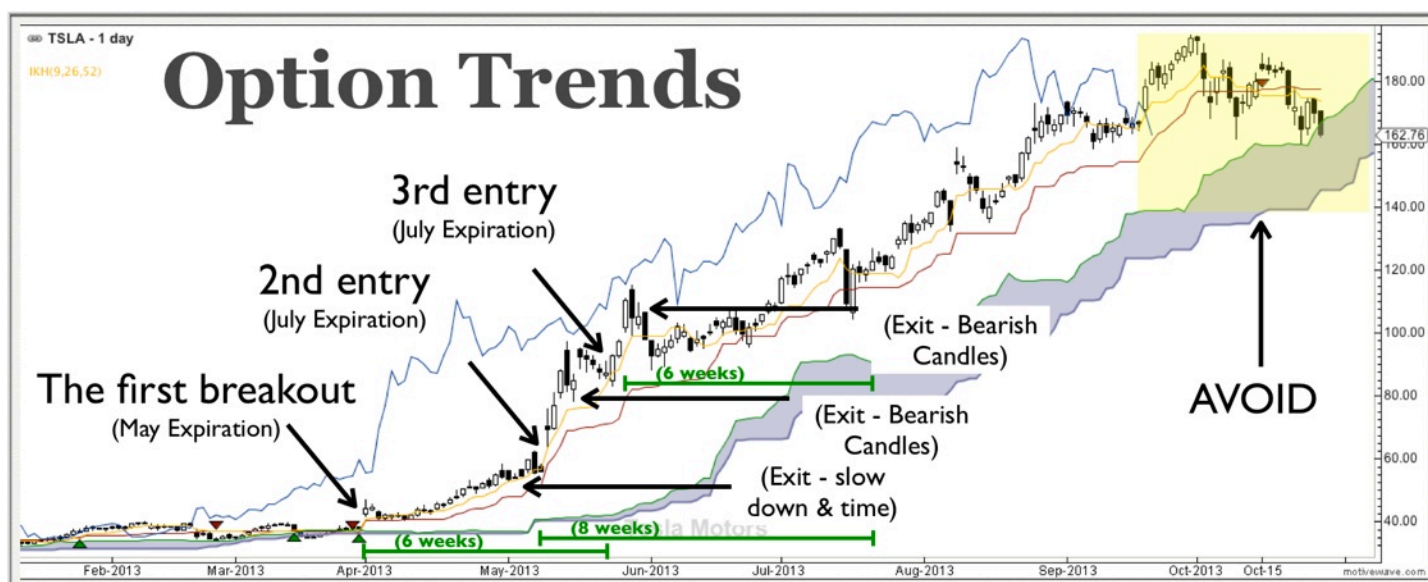


## How Much Time?

- You can't know how long the trend will last
- If you buy an arbitrary 6 months, you are potentially wasting premium.
- If you buy too little time you will sabotage your trades.

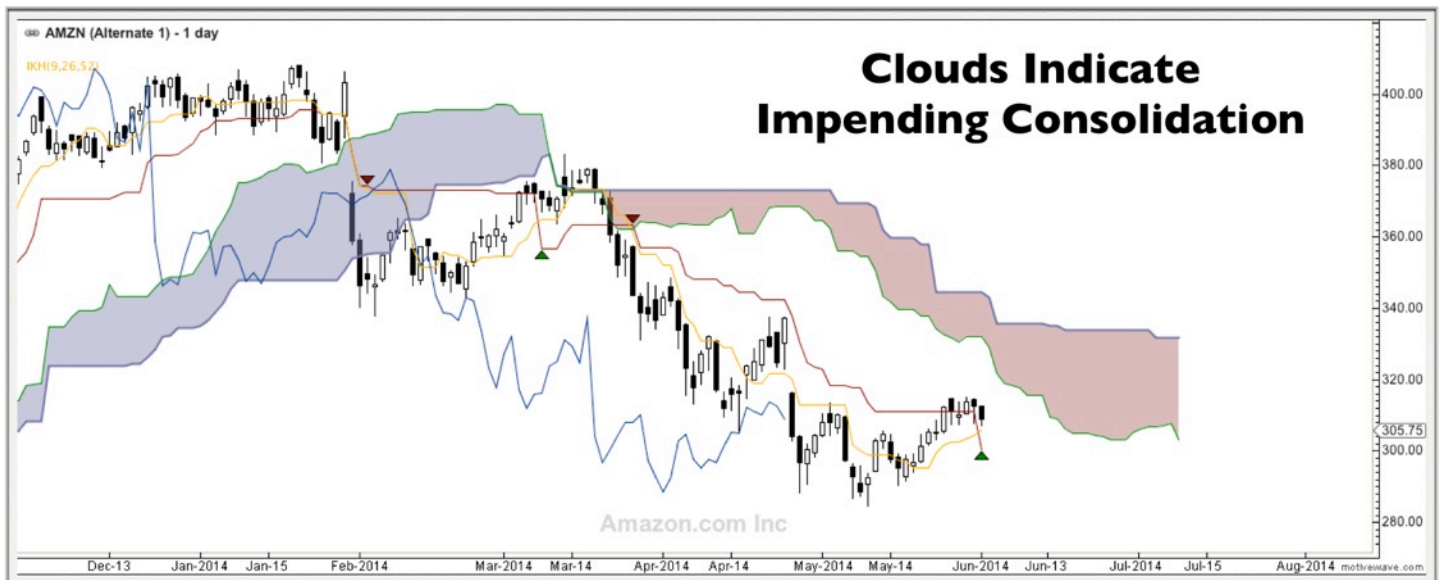
## Option Trend Rules:

- Buy 6-8 weeks of time.
- Look for an exit signal 2-3 weeks before expiration.
- If the trend is still good, "roll out and roll up".
- Close option trades at first sign of any sideways move.



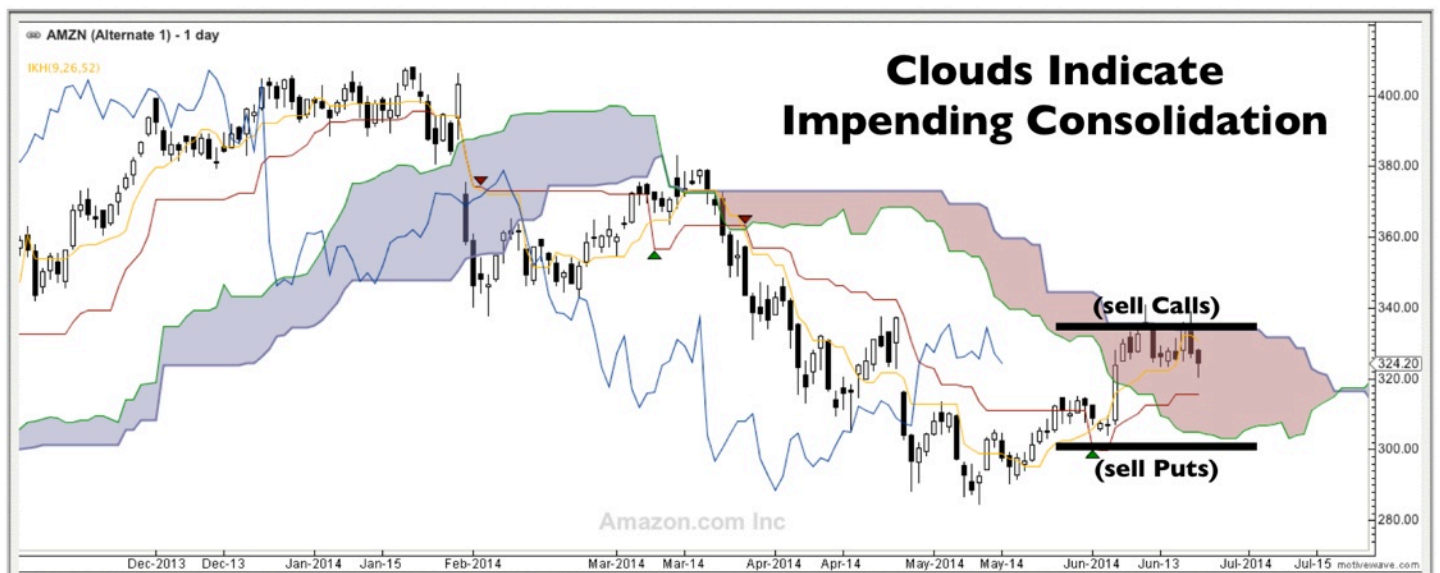
## Options - Sideways

- Ichimoku is very good at identifying upcoming consolidation.
- A great time to use selling strategies



## Option Sideway Rules

- Sell 4 weeks or less to expiration
- Clouds are indicating consolidation
- Sell OTM
- Calls at or above the cloud top
- Puts at or below the cloud bottom



## Possible Selling Strategies

- Naked calls or puts
- Bull Put spread
- Bear Call spread
- Covered Calls
- Iron Condors
- Butterfly (maybe)

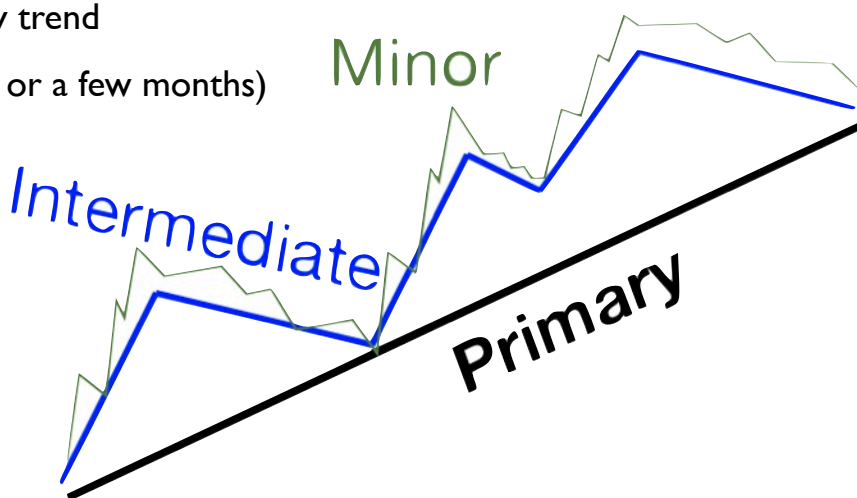
# Multiple Time Frames

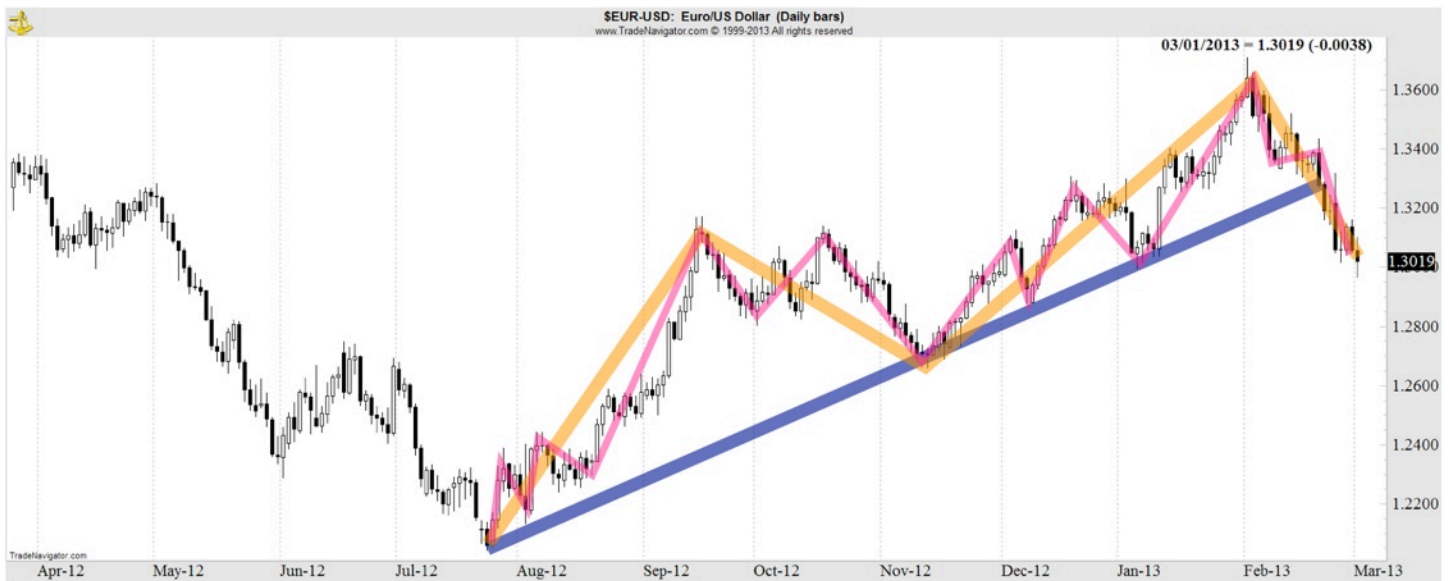
## Time Frames

- Ichimoku was created to work on a “daily” chart.
- But we can apply it to other time frames for a quick insight.

## Three Levels of Trend

- Primary
  - ➡ Major trends
  - ➡ Extensive up or down movements
  - ➡ Usually 1 year or more
  - ➡ Usually result in a move (up or down) of 20% or more
- Intermediate
  - ➡ “Reactions” during a primary trend
  - ➡ Shorter term (usually weeks or a few months)
- Minor
  - ➡ Small moves
  - ➡ Days, or up to 2-3 weeks

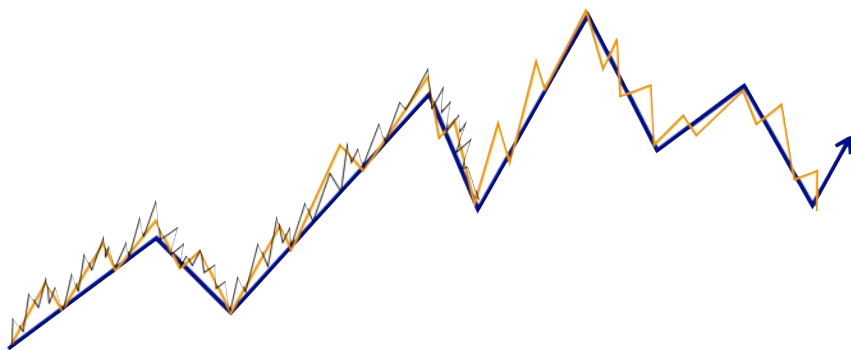
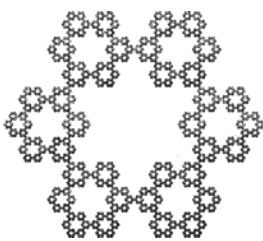




## Ralph Nelson Elliott

- Elliott Wave Principle
- Builds on Dow Theory
- Key points:
  - ➔ Trends build in 5,3 wave formations
  - ➔ The pattern repeats in a fractal relationship

## What is a Fractal?



## Elliott's Levels

- |                    |                |                |
|--------------------|----------------|----------------|
| • Grand Supercycle | • Primary      | • Minute       |
| • Supercycle       | • Intermediate | • Minuette     |
| • Cycle            | • Minor        | • Sub-Minuette |



# K.I.S.S.

- Do not make it complicated.
- Look for a primary trend for that time frame.
- Build from there.



All trends work together, regardless of the time frame.



## Which Time Frames?

- What is your personality?
- Can you sit at your computer?
- Do you need the larger time frame?
- How much risk are you willing to accept?
- Select a time frame that will be your *main* time frame.
- This will be your “home” or “base”.
- Everything will build from the center.

## Combinations

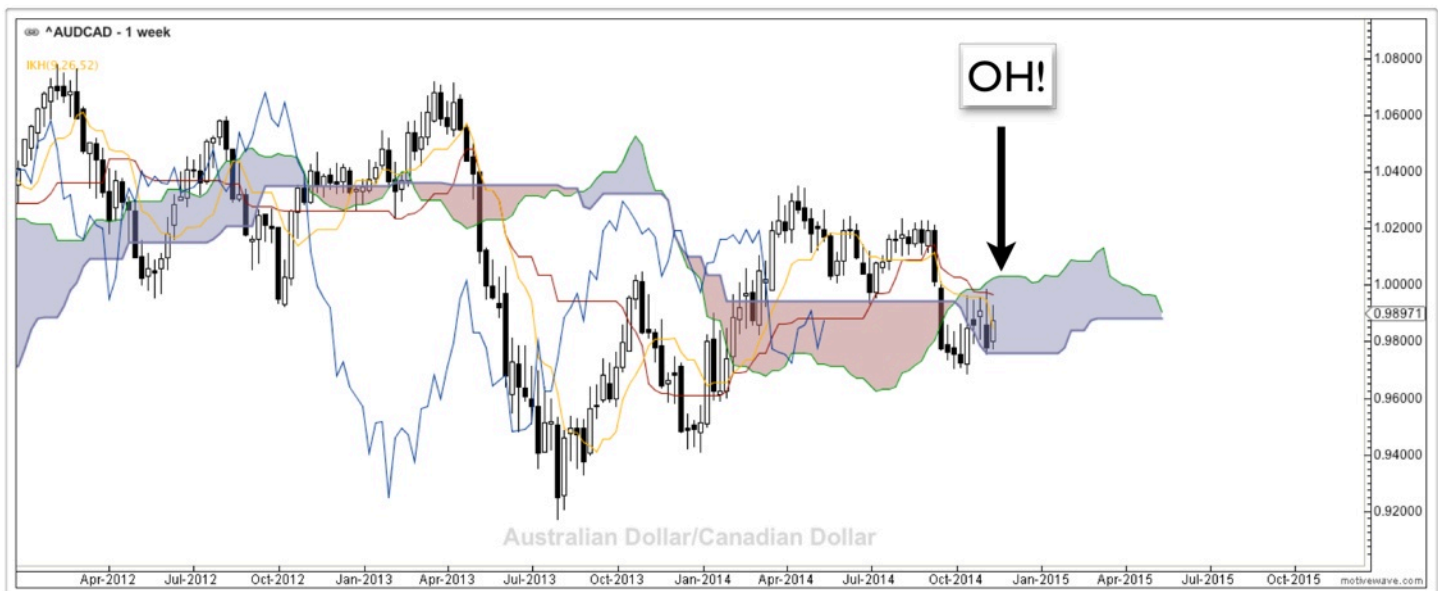
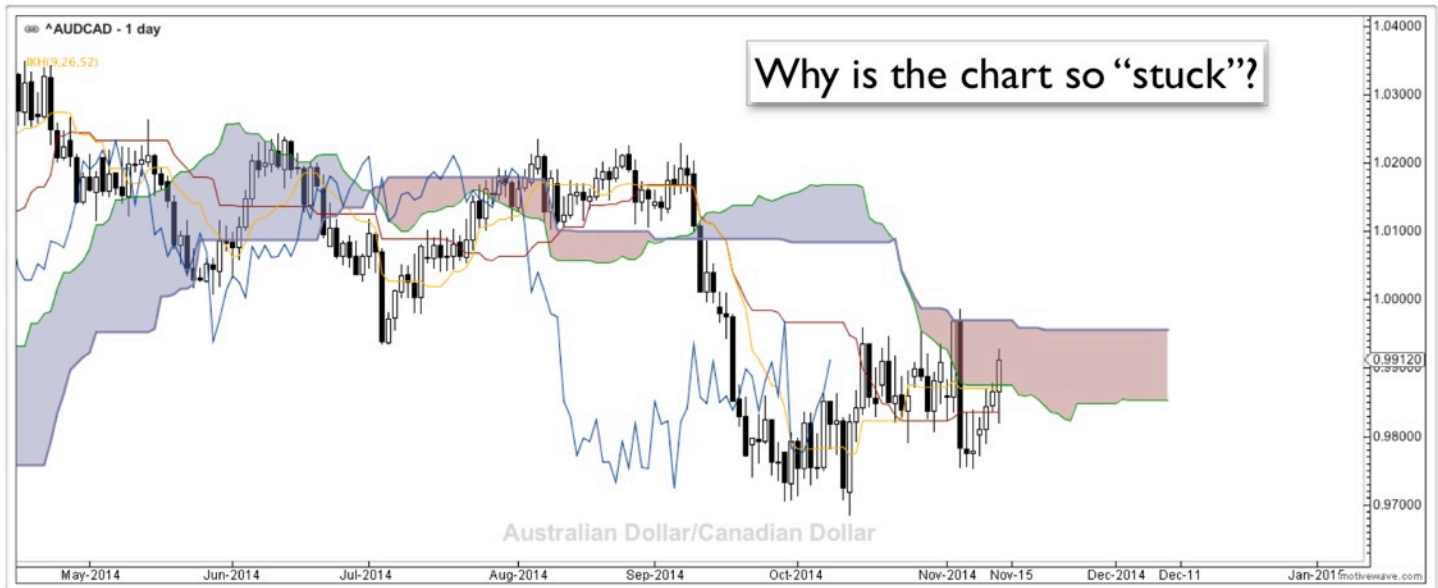
- When selecting your combinations choose 2 or 3 to work with.
- Choose time frames that work well together.
- The rule is a ratio of approx. “x4”.
  - ➔ 15m, 1 hr, 4 hr

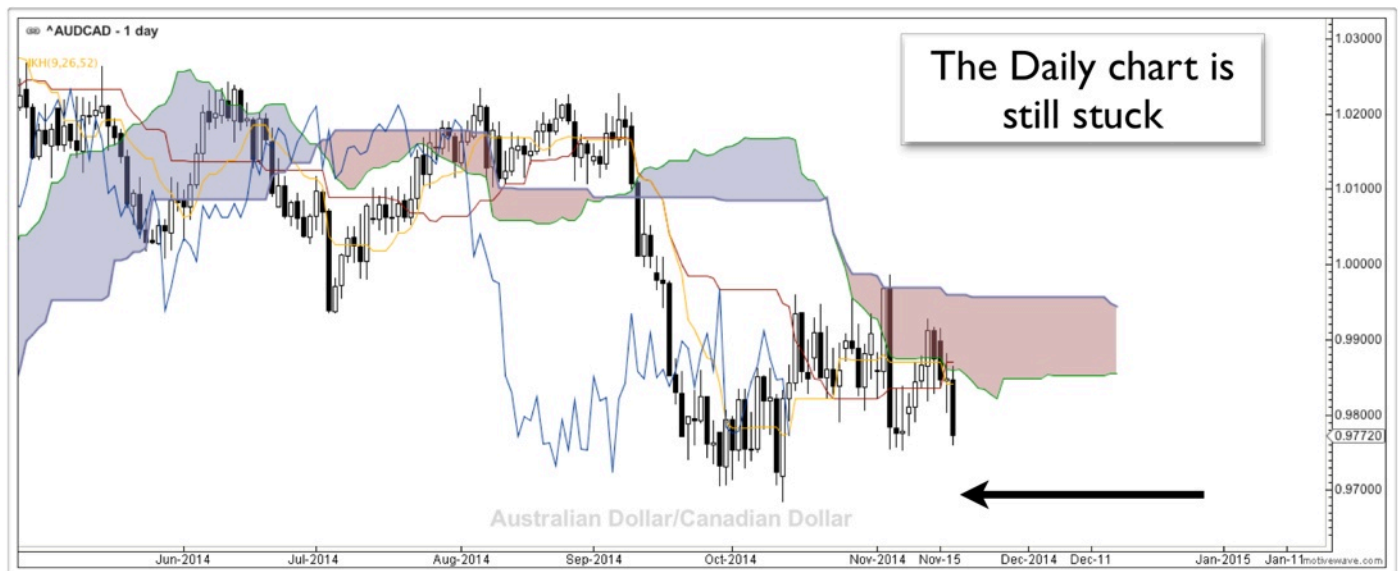
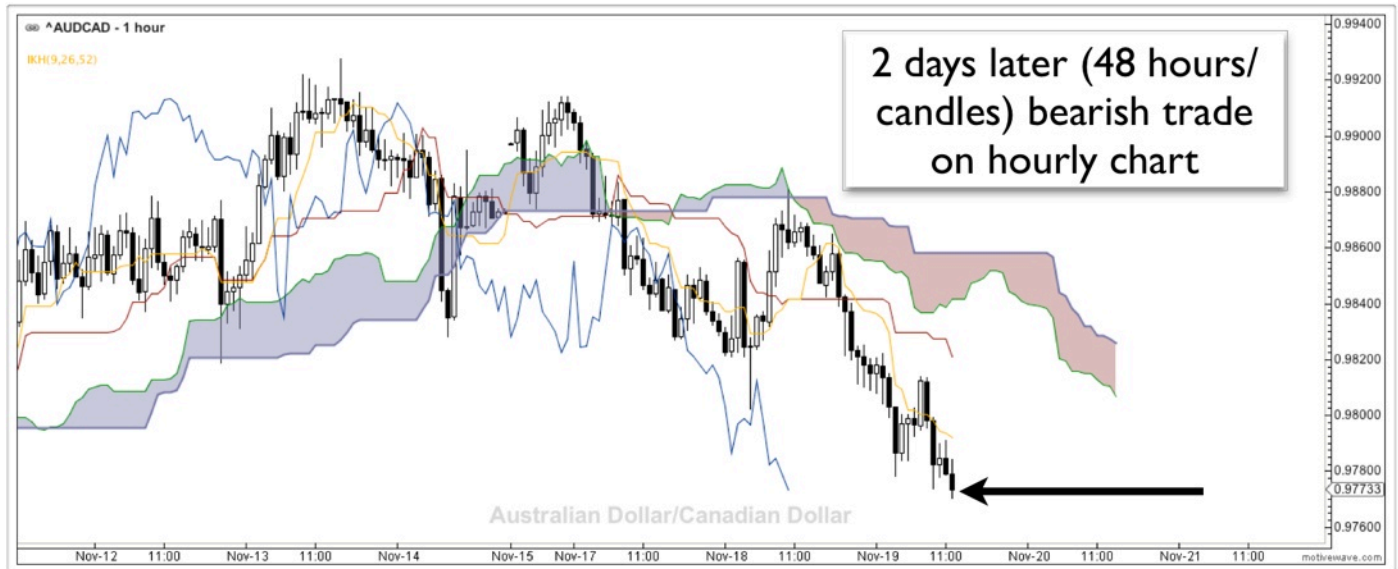
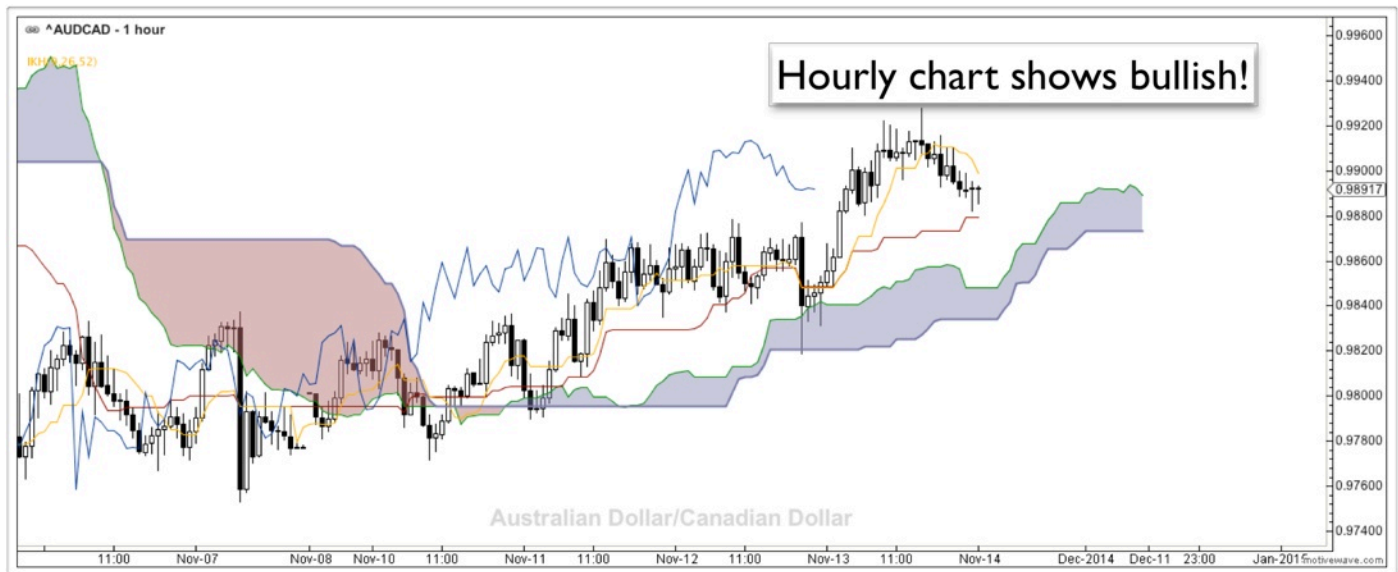
Personality	Micro view (entry)	Main view	Big View (large trend)
Fast and limber	1 min	5 min	30 min
Anxious but patient	5 min	30 min	2 hr
Settled, on your toes	15 min	1 hr	4 hr/daily
Typical swing trader	30 min	2-4 hr	daily
Slow swingin’	4 hr	daily	weekly
Ridin’ the big waves	Daily	weekly	monthly

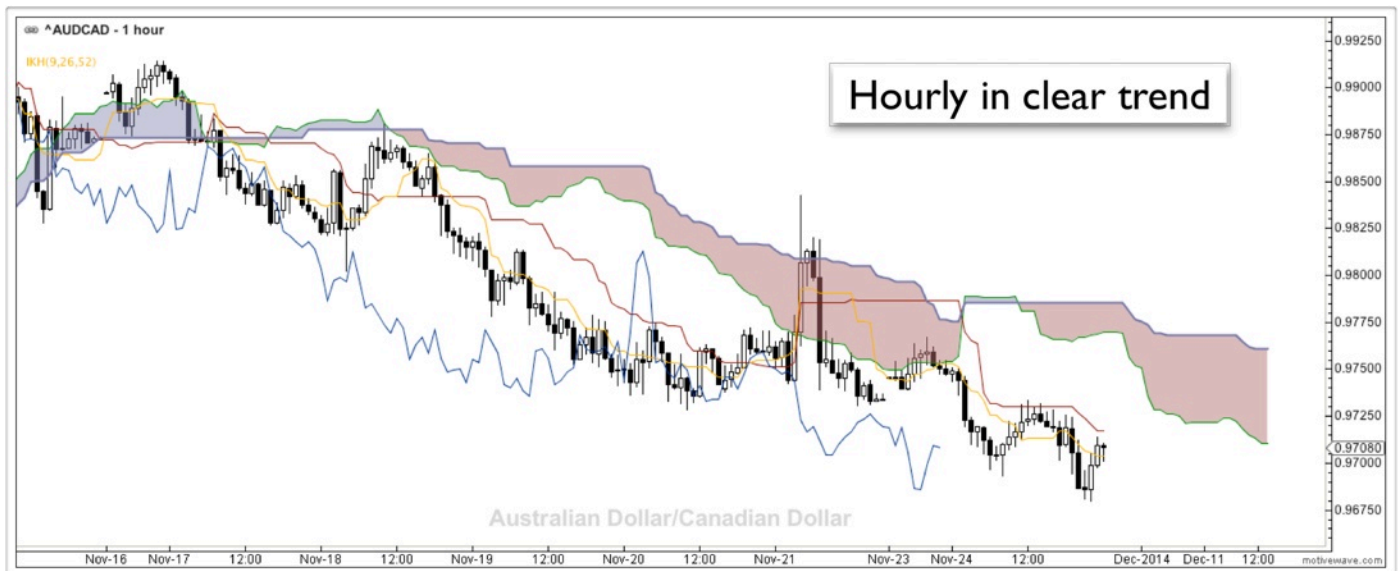
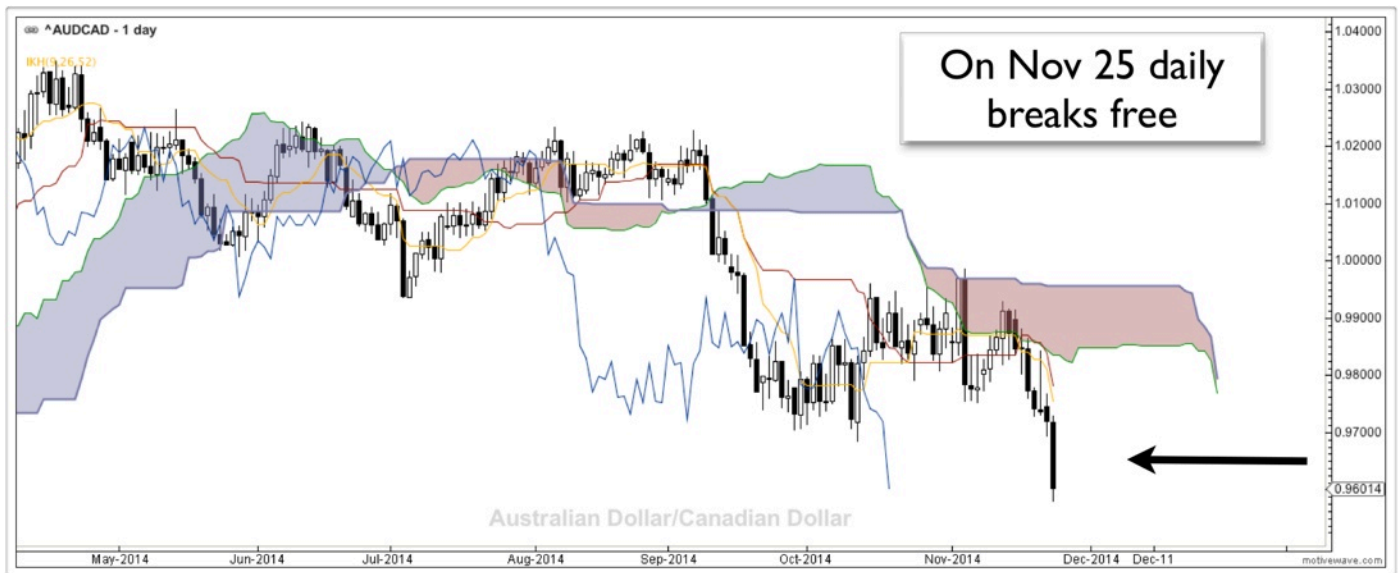
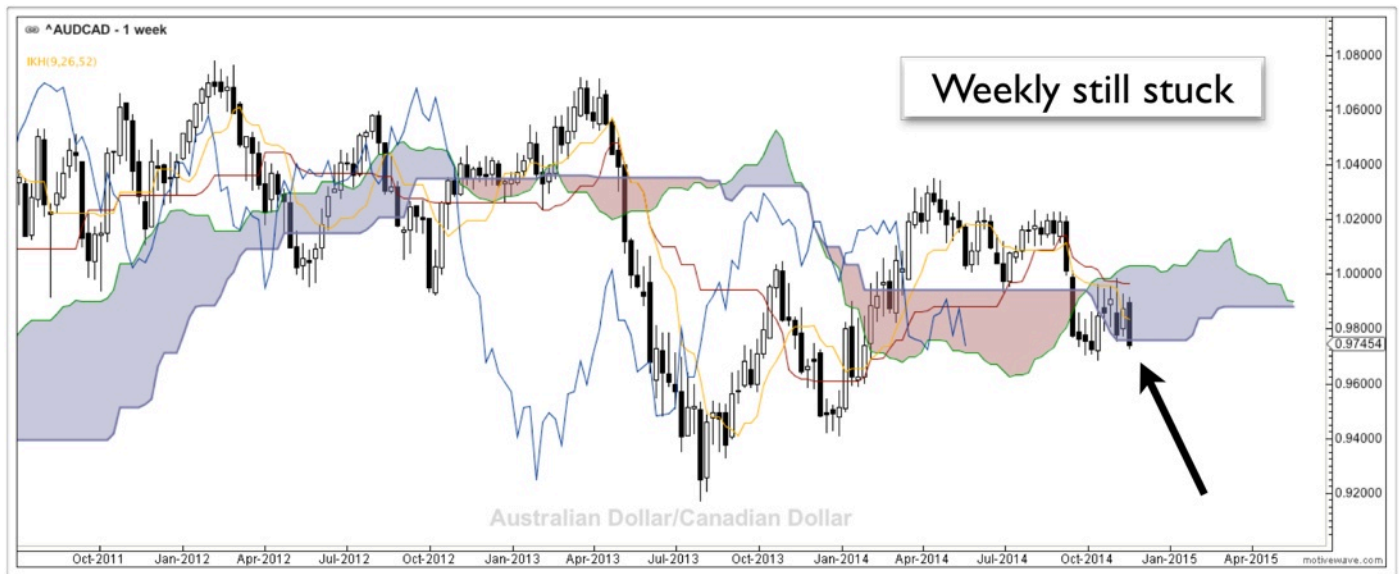


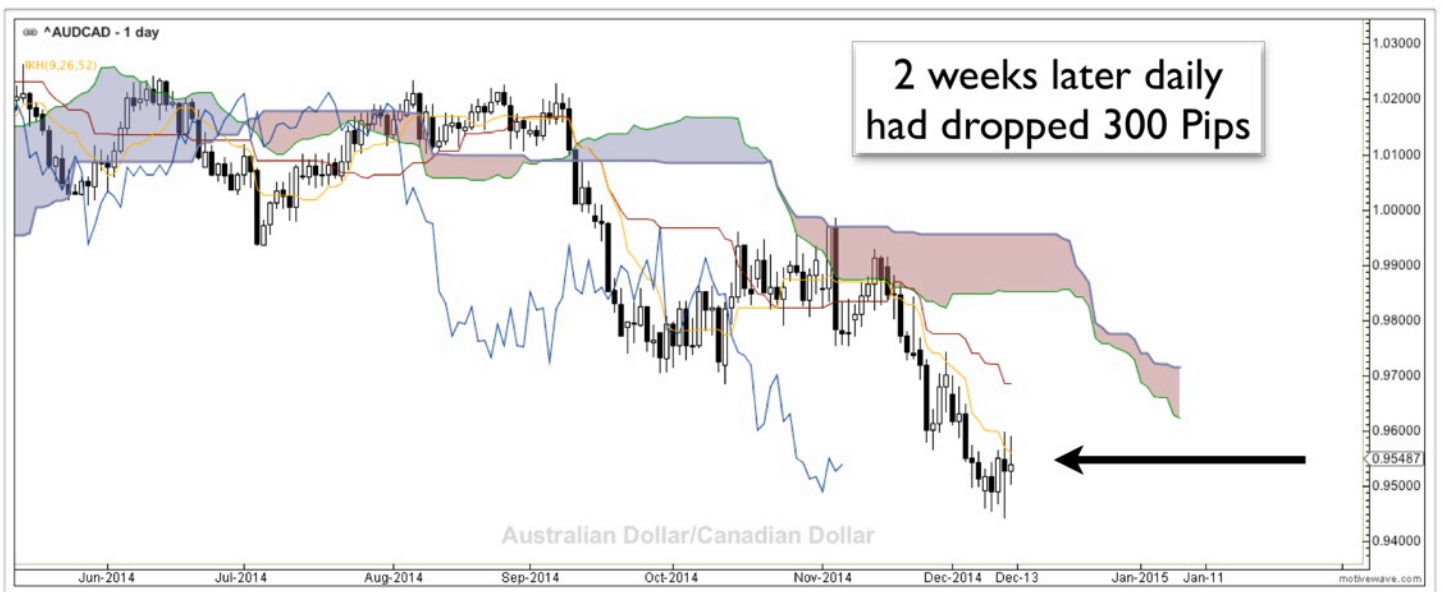
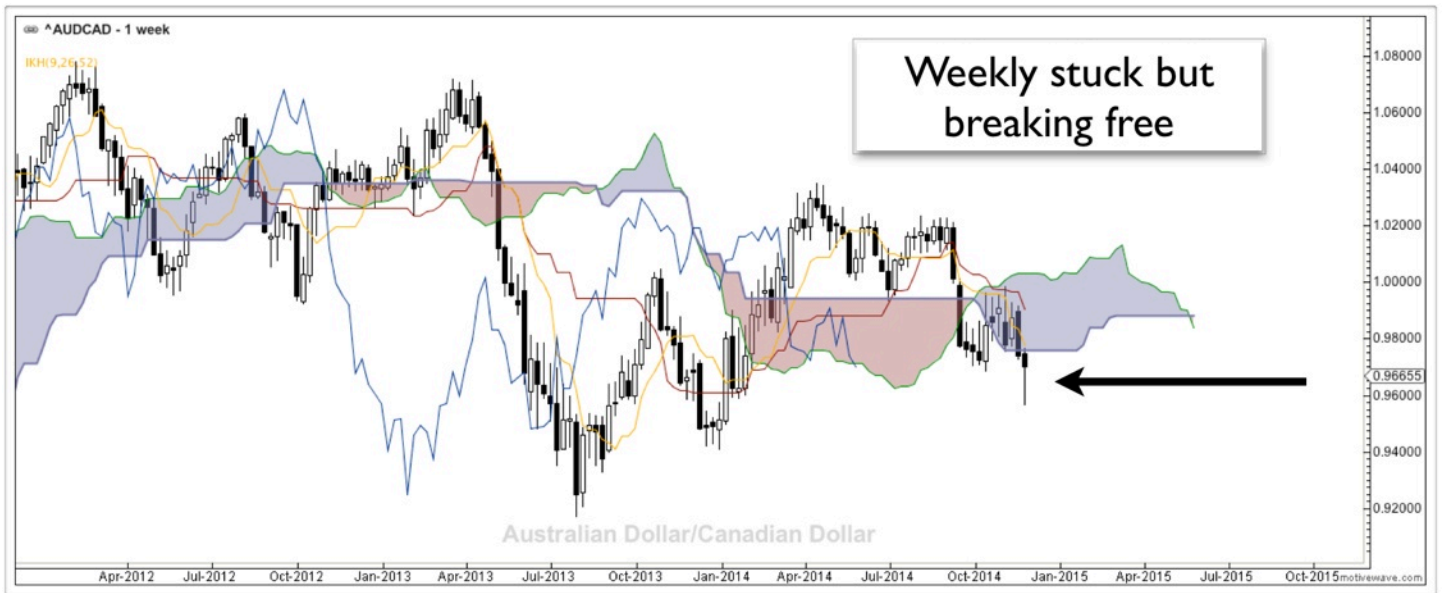
## The 3 Step Process

- Do your analysis on your primary time frame.
- Move *up* one time frame to check for congruency.
- If congruent, move *down* one time frame to check better entry.









# How to get Great at Clouds

## How do I Get Great?

- Practice!!!!
- Walk through the process in class 2 until you are comfortable with the individual signals.
- Combine all signals like we did in class 3.
- Back test *months* of data.
- Remember Ichimoku gives big picture trends, so you will only have a handful of signals.
- The more you backtest the better you will be.
- Practice adding additional analysis techniques to your trades.
- When you feel confident, do some virtual trades (real time) and check the results.
- Move into real money.

## Homework

- Create plans for your own trading style.
- Backtest various time frames.
- Continue Practicing what you have learned.
- Enjoy trading with clouds!