

Class 3: Testing The System

In This Lesson

- Trading Signal Checklistg
- Testing the system
- Observations

English Names for Ichimoku Cloud Parts

| | |
|-------------------|-------------------------|
| Tenkan Sen | Turning Line |
| Kijun Sen | Standard Line |
| Senkou A | Cloud Span A |
| Senkou B | Cloud Span B |
| Chikou | The Lagging Line |

Trading Signal Checklists

General Notes:

- Interpretation may vary for different instruments
- You should make a rule to back test every stock or currency pair before trading based on the clouds
- Tweak for that trade based on testing
- This will give you more confidence

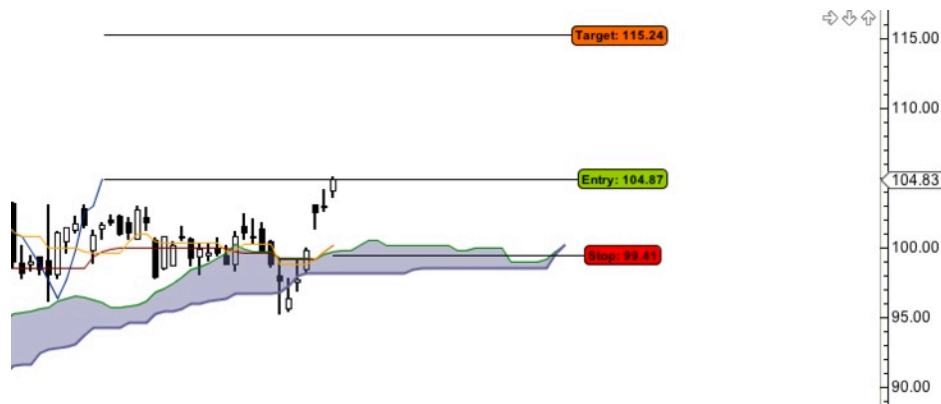
Building a System

- We want a system that will protect us from ourselves
- Remember: no system is perfect
- Need Entry signals/confirmations
- Must have a stop component
- You must follow the system



My Basic System

- In FOSO you learned:
 - ➡ Entry
 - ➡ Target
 - ➡ Stop
- Buy on Break out
- Sell at target



Ichimoku is Different

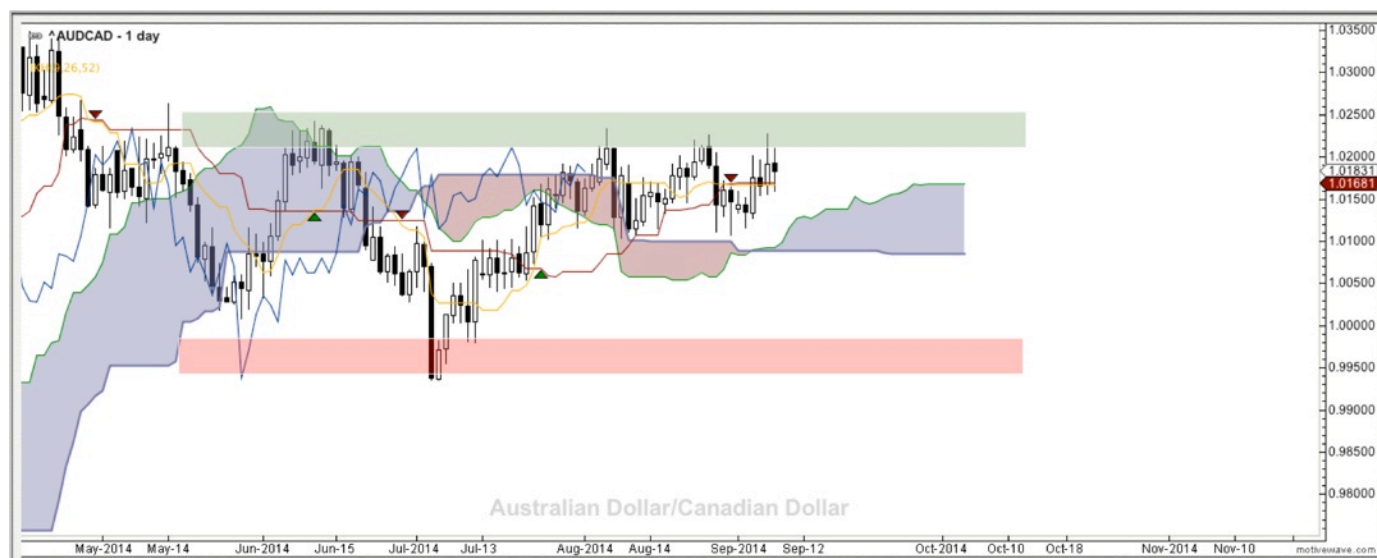
- More difficult to define a target
- Intended to capture the “bulk” of the primary trend
- Attempts to avoid all consolidation
- Provides all signals and confirmation on one screen

The Basic System

- Set up “alert zones” to alert you to a possible trade
- Set a trigger to enter trade
- Manage your stop and your trade

Alert Zone

- Most instruments will only trigger 3-5 trades per year
- You need to be alerted when one might be setting up
- Bullish alert will be *below* the trigger
- Bearish alert will be *above* the trigger

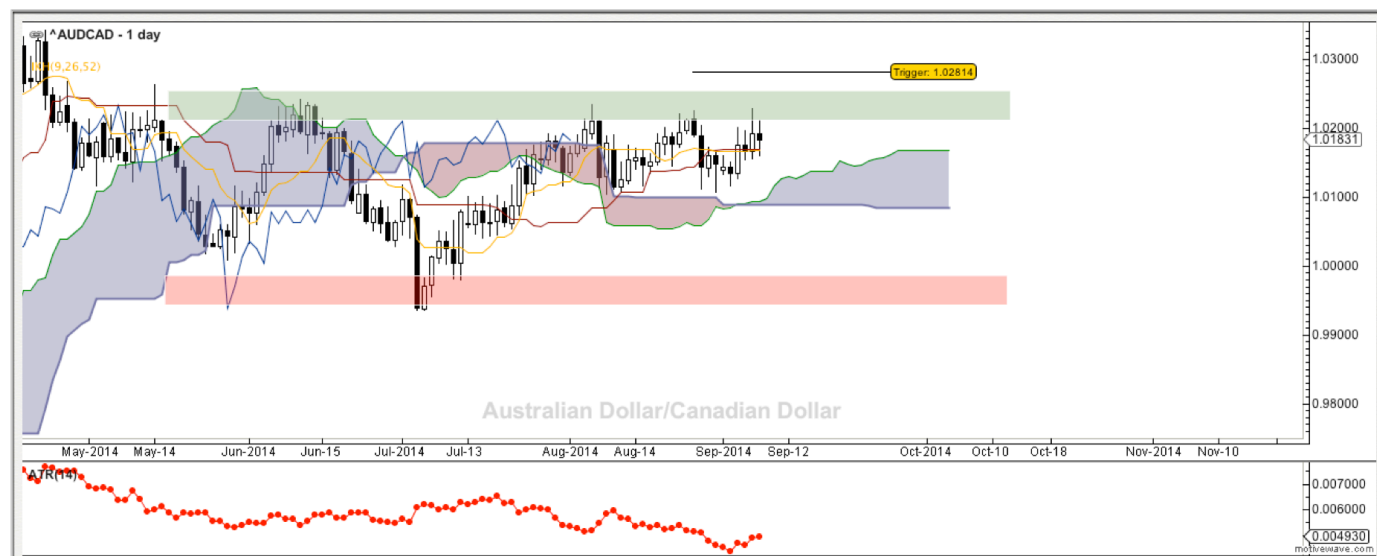


Trigger Setup

- If (and only if) all of your criteria are met, you set a trigger to enter the trade.
- Swing high or low + “buffer”
- Bullish = Above the price
- Bearish = Below the price

Buffer

- The buffer is an amount you put between your swing high or low and your trigger to allow for every day volatility
- Usually is about 1/3 to 1/2 Average True Range

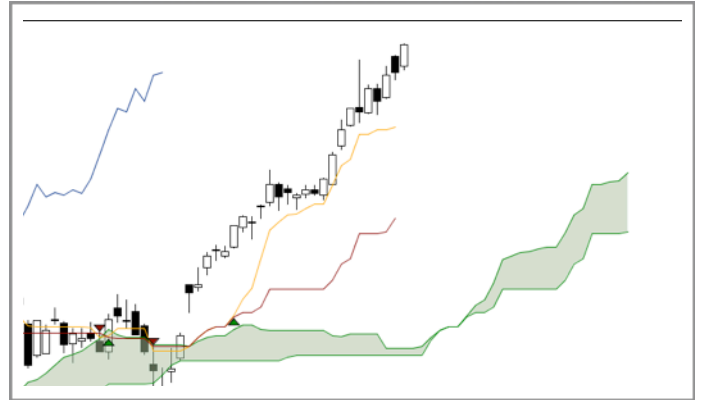


Stops

- Initial stop needs to be a little loose
- When you see possible slow downs, you need to tighten your stop
- Only tighten stop, do not loosen it just because you are afraid of stopping out

Remember The Signals!

- Future
- Current
- Historical



Senjou A & B signals (“The Cloud”)

| | |
|--|-------------------------|
| Price above the cloud | Bullish |
| Price below the cloud | Bearish |
| In the cloud from above | Bullish |
| In the cloud from below | Bearish |
| Thick Clouds | Likely consolidation |
| Thin clouds | Potential turning point |
| Entire cloud is support or resistance | |
| Flat Senkou B is Support or Resistance | |

Tenkan & Kijun Signals

| | |
|-----------------------------------|--------------------------|
| Above Tenkan & Kijun | Bullish |
| Below Tenkan & Kijun | Bearish |
| Tenkan & Kijun both up | Bullish |
| Tenkan & Kijun both down | Bearish |
| Tenkan & Kijun converging | short term consolidation |
| Tenkan crossing Kijun | Buy/Sell |
| Tenkan = 9 day Support/Resistance | |
| Kijun = 26 day Support/Resistance | |

Chikou

| | |
|----------------------------------|---------------|
| Chikou above candles 26 days ago | Bullish |
| Chikou below candles 26 days ago | Bearish |
| Chikou above cloud | Bullish |
| Chikou below cloud | Bearish |
| Chickou running into candles | Consolidation |
| Chikou running into cloud | Consolidation |

Rules for Bullish Setup

| Entry Confirmation | | Setup/Trigger | Money Management |
|--------------------|----------------------------------|--|---|
| | Price above the cloud | Set alert just below resistance | Initial stop @ <u>Kijun</u> - "buffer" |
| | <u>Tenkan</u> above <u>Kijun</u> | Set buy trigger above swing high + "buffer" | Adjust Stop every day with <u>Kijun</u> |
| | <u>Chikou</u> in the clear | | If candlesticks present reversal, adjust stop to equal with Sen A |
| | No other obvious resistance | Determine buffer approximately 1/3-1/2 of Average True Range | Adjust to <u>Tenkan</u> if very large profit is at risk |
| | Future cloud bullish | | Never exceed initial risk drawdown |
| | <u>Tenkan</u> pointing up | | |

Rules for Bearish Setup

| Entry Confirmation | | Setup/Trigger | Money Management |
|--------------------|----------------------------------|--|---|
| | Price below the cloud | Set alert just above support | Initial stop @ <u>Kijun</u> + "buffer" |
| | <u>Tenkan</u> below <u>Kijun</u> | Set buy trigger below swing low "- buffer" | Adjust Stop every day with <u>Kijun</u> |
| | <u>Chikou</u> in the clear | | If candlesticks present reversal, adjust stop to equal with Sen A |
| | No other obvious support | Determine buffer approximately 1/3-1/2 of Average True Range | Adjust to <u>Tenkan</u> if very large profit is at risk |
| | Future cloud bearish | | Never exceed initial risk drawdown |
| | <u>Tenkan</u> pointing down | | |

Homework

- Pick 2-4 of your own trades
- Do 12-24 months of back testing
- Practice the signals
- Test the system
- See what tweaks you can make
- Try virtual trading with your new skills