

Heikin-Ashi-two-Bar-Strategy

Guide to Strategic and Tactical Forex Trading

Pull the Trigger and Hit your Targets

Currency: EUR/JPY, GBP/JPY

Time frame: 5 min

Indicators: BB 14, 2, ADX 14, SSD 5, 3, 3, EMA 9, 20, 55, 120

This technique is used in combination with Bollinger Bands 14,2, ADX 14 , SSD 5, 3, 3 and EMA 9, 55, 120.

Buy/Sell signals:

Entry: after two hollow or two filled candles.

Leading indicator:SSD 5, 3, 3, crosses often 1-2 bar before

Confirmation: +DI/-DI-line-crossover.

+DI (green) and -DI (red) line (ADX 14) crosses sometimes 1-4 bars afterward entry point .

Price Momentum:

+DI stays on top of -DI — uptrend is in place.

-DI stays on top of +DI — downtrend is in place.

Strategig Forex Trading:

ADX -/+ DI lines are used for spotting **entry signals**.

All -/+ DI crossovers are disregarded while ADX remains below 20.

Once ADX peaks above 20 a **buy signal** occur when +DI (green) crosses upwards and above -DI (red).

A **sell signal** will be the opposite: -DI would cross +DI downwards.

Exit Ponits:

- When Heikin-Ashi-bar-colour changes and/or Heikin Ashi bar closes over the counterpart side of EMA 9 line.
- In all situation of +DI/-DI-line-crossovers (when trend is changing - two DI cross).
- Buy and exit situations are often signalize with SSD 5, 3, 3, crossing near 20 or 80 % line,

Role Reversal:

If after a newly created signal another opposite crossover happens within a short period of time, the original signal should be disregarded and position protected soon or closed. ^(A)

^(A)*Do not ride out the storm.*

Tactical Planning

Trending or Ranging Environment?

Hollow candles with no lower shadows are used to signal a strong **uptrend**, while filled candles with no higher shadow are used to identify a strong **downtrend**.

Let the buy or sell orders running if **ADX** is high (ADX 25 >) and Heikin-Ashi-Bars are over EMA 9 (uptrend) or under EMA 9 (downtrend) without any +DI/-DI-line-crossover.^(B)

^(B)Stay in your winning trades.

Watch the indicator:

When ADX rises above 20 for the first time and then goes flat for some time, there is believed to be a new trend being born and the reason for ADX being currently flat is because market reacts to this new trend formation by making first initial correction. During this correction it is a good time to initiate new orders. Spent some time reviewing shorter time charts as well (one-minute-time-frame).

- When ADX is too low, don't trade. (Often come along with indifferent candles)^(C)

^(C)Compare the above/underneath illustrations: earmarked ABC or ABCDE.

Yet another reason

- ADX indicator is never traded alone, but rather in combination with other indicators and tools. ADX indicator most of the time **gives much later signals** comparing to faster reacting moving averages crossover or Stochastic, for example, however, **reliability of ADX indicator is much higher** than for other indicators in traders' toolkit, which makes it a valuable tool for many Forex traders.

Over and Out:

- If ADX is traded above 20 but below 40, it is time to apply **trend following methods**. An example would be: Forex trading Moving averages or or trading with Parabolic SAR indicator.

- When ADX reaches 40 level (5-min-chart – e.g. ADX 50-level on 1-min-time-frame), it suggests an overbought/oversold (depending on the trend) situation on the market and it is time to protect some profits of at least move Stop loss order to a break even. See here more at SSD 5,3,3.

-When ADX passes 40 level, it is a good time to begin collecting profits gradually scaling out of the trades on rallies and sell-offs and protecting remaining positions with trailing stops. Looking at SSD 5,3,3.

Bollinger Bands - the methodology of using Volatility indicators

In any market there are periods of high volatility (high intensity) and low volatility (low intensity). Volatility indicators show the size and the magnitude of price fluctuations. These periods come in waves: low volatility is replaced by increasing volatility, while after a period of high volatility there comes a period of low volatility and so on.

Volatility indicators measure the intensity of price fluctuations, providing an insight into the market activity level.

Low volatility suggest a very little interest in the price, but at the same time it reminds that the market is resting before a new large move. Low volatility periods are used to set up the breakout

trades. For example, when the bands of the Bollinger bands indicator squeeze tight, Forex traders anticipate an explosive breakout way outside the bands limit.

A rule of thumb is: a change in volatility leads to a change in price.

Another thing to remember about volatility is that while a low volatility can hold for an extended period of time, high volatility is not that durable and often disappears much sooner.

There are three different ways you can set up trades with Bollinger Bands: Range Trading, Breakout Trading and Tunnel Trading.

Range is the distance between support and resistance for current price action. It is the space between the top and bottom of recent activity.

Bollinger Bands are self-adjusting. When the market becomes more volatile, the Bollinger Bands expand or open up and move in opposite directions from each other. Whenever price enters a tight trading pattern, the bands respond by contracting or moving closer together. In a range bound market, the bands are usually parallel to each other.^(D)

Get in the ring with floors and ceilings.

^(D) The range is the difference between support and resistance peaks and troughs. So, while in a range, it is a good idea to identify support and resistance. To do so, it may be helpful to draw horizontal lines at points where peaks and troughs seem to be level.

Heikin-Ashi-Candlestick-Pattern

Full bodied candles are considered "**decision**" candles, a decision candle tells us the market has made a decision to go in a particular direction.

Indecision candles are candles with little or no body at all. These candles tell us the market cannot make up its mind which direction it wants to go.

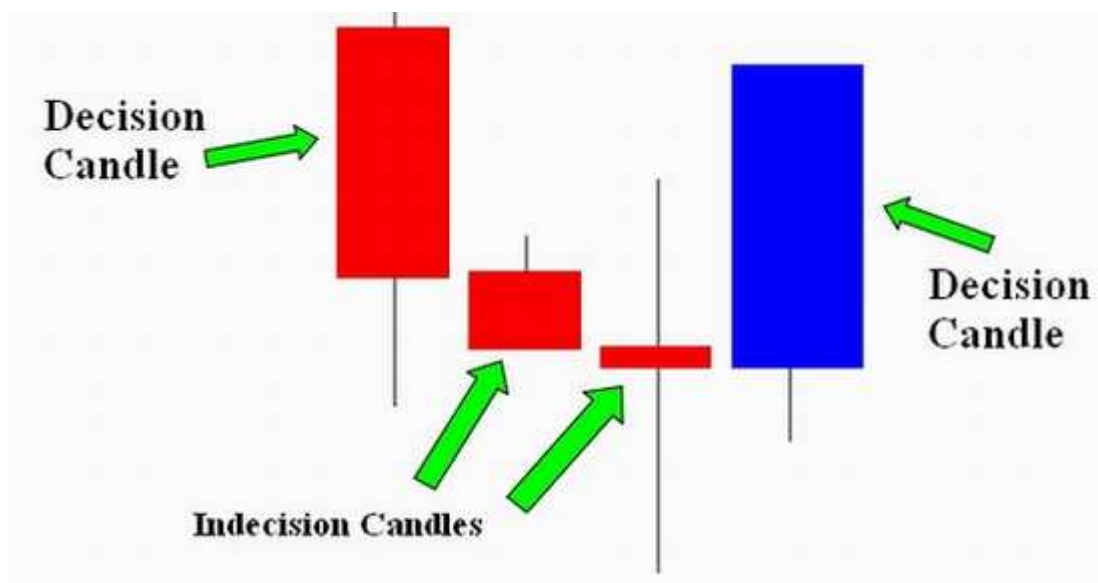


Figure 1: Decision Candles and Indecision Candles

Indecision candles does not mean market is going to reverse, very often price just means for a bit and then continues in the same direction, however indecision candle(s) often appear just before the market reverses which is why this is a good tool to have in your arsenal.

Note the bullish decision candle after the Doji. It appears the market has "made up its mind" and is starting to go up.

Profiting with Forex:

- Would you take risk/reward ratio and money management into consideration?
- Set stop losses and trailing stops.

Grace note:

- Calculate your trade budget - define your stop price - define your risk tolerance - calculate your trade budget - trade your budget (e.g. set at first one half of your investment, by confirmation set the rest of investment) - identify Pivot Profit Zone (1 hour, 4 hours and 1 day) – watch for a pullback bounce (Fibonacci Retracement Levels) - don't trade where indecision candles take to the skies - gives market ambiguous signals look forward to larger time frames (if index frame: 5 min, look at 15 min, > 30 min, > 1h) - make Market Analysis: Speed of the market⁽¹⁾, Momentum of price and Trend⁽¹⁾ – cope with pre- and post-trading - commit 100 percent or walk away from the trade - use a trade journal properly –

⁽¹⁾There is a difference between market speed and price momentum: speed is **how** the market is moving (look at 20, 55 EMA), Momentum is **where** price is going (e.g. reverse and continuation patterns; where will the candles likely start to turn green again?).

Keep an eye on the clock:

Pay attention to London open (6 to 8 A.M. London time), the New York open (6 to 8 A.M. New York time) and the London close (5 to 6 P.M. London time). The markets move when these traders open and close their trades for the day.

Heikin-Ashi-Bars, Scenarios, Trend Behavior and Current Trends

Scenario	Trend Behavior	Current Trend	
		Ascending	Descending
1	Trend is normal	Rising white bodies	Falling filled bodies
2	Trend gets stronger	Rising longer white bodies with no lower shadows	Falling longer filled bodies with no upper shadows
3	Trend gets weaker	Candle bodies get smaller emergence of lower shadows	Candle bodies get smaller emergence of upper shadows
4	Consolidation	Smaller bodies with both upper and lower shadows	Smaller bodies with both upper and lower shadows
5	Change of trend	Very small body with long upper and lower shadows (not too reliable)	Very small body with long upper and lower shadows (not too reliable)

Heikin-ashi technique is based on the effect of the size and color of the candle bodies. The heikin-ashi is a visual technique that eliminates irregularities from a normal chart, offering a better picture of trends and consolidations. All trends are well-defined by sequences of white or red bodies, making them easy to identify and follow.

The Heikin-Ashi technique is used by technical traders to identify a given trend more easily. More to heikin-ashi-technique e.g.:

<http://www.answers.com/topic/heikin-ashi-technique>

Time Chart

Figure February 2, 2009 gives practical information how this technique can be used.

Labeling

Entry signals: **E**, (Entry signals can be buy or sell orders)

Exit signals: **X** (the matching part)

Indifferent candles: **ABC** or **ABCDE**

Compare the above/underneath illustrations.

Figures „February 02, 2009“ clearly represented without BB 14⁽²⁾.

⁽²⁾ Why do I remove the Bollinger Bands from the charts „February 02, 2009“? You won't find BB in the figures „February 02, 2009“. I like to keep things as simple as possible and then go for the number of lines on the charts as well. Nevertheless Bollinger Bands are one important factor to Heikin-Ashi-two-Bar-Strategy mentioned above.

Thank you for investing your time. So I know Heikin-Ashi-two-Bar-Strategy has become a great success and will positively impact your currency trading.

Happy pipp'n.
Kind regards.
sam



Heikin-Ashi-two-bar-Strategy, GBP/JPY, 5 min., EMA 9, 20, 55, 120, ADX 14, Stochastic 5, 3, 3, February 02, 2009



Heikin-Ashi-Two-Bar-Strategy, GBP/JPY, 1 min., EMA 9, 20, 55, 120, ADX 14, Stochastic 5, 3, 3, February 02, 2009, 14.30-17.30 GMT +1