

Trading the Tenkan/Kijun Cross

It is simple, elegant and great at picking up trends and trend reversals. If you like trading trends or momentum trading, the Tenkan/Kijun cross is a great method to use.

What are they?

The Tenkan Line or Tenkan Sen (Sen means line in Japanese) is known as the conversion line or turning line is similar to a 9SMA but actually is quite different. Remember a SMA (simple moving average) will smooth out all the data and make it equal but the Tenkan Line will take the highest high and lowest low over the last 9 periods. The explanation for this is Hosada felt price action and its extremes were more important than smoothing any data because price action represented where buyers/sellers entered and directed the market, thus being more important than averaging or smoothing the data out. As you can see by the chart below, the Tenkan Line is quite different than a 9SMA. Because the TL (Tenkan Line) uses price instead of an averaging or the closing prices, it mirrors price better and is more representative of it. You can see this when the TL flattens in small portions to move with price and its moments of ranging.

Akin to all moving averages, the angle of the Tenkan line is very important as the sharper the angle, the stronger the trend while the flatter the Tenkan, the flatter or lesser the momentum of the move is. However, it is important to not use the Tenkan line as a gauge of the trend but more so the momentum of the move. However, it can act as the first line of defense in a trend and a breaking of it in the opposite direction of the move can often be a sign of the defenses weakening.

The Kijun Line (or Kijun Sen) is known as the datum line, standard line or trend line designed to indicate the overall trend for the instrument or pair. The formula behind it is the same as the Tenkan line using price action and the highest high + lowest low with the only change being in the periods as it does it over the last 26 periods.

Why 26 periods? The answer to that is a matter of history. When the Ichimoku was first created, the Japanese markets were open 6 days a week on Saturdays. If the markets are open 6 days a week, this generally results in 26 trading days for the month - hence 26 periods for the Kijun. In essence, what it was meant to be was a measure of the highest high + lowest low for the last month of price action. If the Kijun has been climbing - it means price has been gaining ground for the last month. If it is flat, then it will be the midpoint of the range of price for the last month of price action (or representative of the price equilibrium).

Also like the Tenkan Line, the angle of the Kijun is reflective of the overall trend in place. Price breaking the Kijun after being in an up/down trend often has serious consequences for that trend and can many times lead to a reversal of sorts. Ultimately because it uses a longer period to measure price action, it's a more stable method for determining the direction of the trend than the Tenkan Line. Because of price to respect this line during a strong trend, it can potentially be used as a stop loss for traders already in the correct direction of the trend. Hence, when price breaks or closes below it by a significant amount, the trend is often over.

Applications for the Tenkan and Kijun

The most common usage of the Tenkan and Kijun are the "cross" or what we call the TKx (Tenkan-Kijun Cross). Similar to how a MACD uses a cross of its two lines, the Ichimoku Cloud does the same. It is interesting to note that the Ichimoku uses the same periods as the MACD, however it was created over a decade earlier.

One of the main signals for Ichimoku traders, the TKx can often indicate when a trend is about to begin by forming a cross (upward cross = possible upward trend while downward cross = possible down trend). A generic upward cross can be used as a bullish signal (or exit for people already short) and a generic downward cross can be used as a generic bearish signal (and vice versa for current bulls). However, notice we used the term "generic" meaning there is more to the cross.

Hosada was able to give a further definition to the cross based upon its position to the Kumo or cloud. If the cross was below the Kumo, then it was considered a "weak" signal since the cross was below the Kumo or below resistance. A medium signal was when a cross happened inside the Kumo as it was occurring within the field of support/resistance. A strong signal was when the bullish cross happened above the Kumo as it was happening after clearing resistance. The opposite is true for bearish signals whereby a weak signal is a cross above the Kumo, while a medium signal is inside the Kumo and a strong signal below the Kumo. One important reminder to all this is to make sure you reference the Chikou Span to see how current price is in relationship to previous price action.

Take a look at how the USD/INX gave 3 strong downward crosses with each move selling off nicely and never penetrating the Kumo highlighting the downtrend.

In another example, the AUDUSD gives a nice upward cross in an already established uptrend. First it entered the Kumo but had a very shallow penetration leading to a strong upmove over 1300pips from the Tenkan/Kijun cross.

Closing

There are many important factors to consider when trading the Tenkan/Kijun cross such as time frame, kumo shape/configuration, previous moves-series of crosses, angle/shape of the cross, etc.

We have proprietary quantitative data on all pairs for the last 10 years to give you an edge when trading the Tenkan/Kijun cross. To get access to this data, or learn how to trade the Ichimoku on an advanced level, check out the Advanced Ichimoku Course.

About the Author

To learn more about the [Cloud 9 Signals](#), or proprietary quantitative based strategies on the [Forex Education](#).

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