

Beginner's Guide to Trading with Heikin-Ashi Candlesticks

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Welcome!

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Heikin-Ashi Candlesticks

- ▶ Heikin-Ashi means average bar in Japanese and is a distinctive type of candlestick chart that uses average ranges to calculate the points of the candle.
- ▶ Heikin-Ashi filters out price noise, highlights trends, identifies times of consolidation, and alerts of possible reversals while providing a smoother and clearer view to a trader's eye.
- ▶ Heikin-Ashi candlesticks also differ from traditional Japanese candlestick charts in that they take the prior period's opening and close into account for the opening price, which removes any gaps between bars on the chart.

Heikin-Ashi Formula

Heikin-Ashi candlesticks are modified Japanese candlesticks that consider the previous Heikin-Ashi candlestick.

The Heikin-Ashi (H-A) close is the average price of the period's open, high, low, and close prices.

The opening price is the midpoint of the previous period H-A candlesticks body.

The High is the maximum price between the period high or the H-A open.

The Low is the minimum price between the period low and the H-A open.

$$haClose = \frac{(O + H + L + C)}{4}$$

$$haOpen = \frac{(previous\ haOpen + previous\ haClose)}{2}$$

$$haHigh = Max(H, haOpen, haClose)$$

$$haLow = Min(L, haOpen, haClose)$$

Heikin-Ashi Patterns

There are only three types of patterns a trader needs to be aware of when using Heikin-Ashi candlesticks:

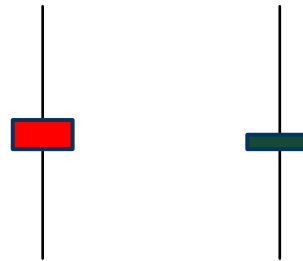
UP



Down



Doji-Like



5 Simple Rules for Using Heikin-Ashi

1. A sequence of one-color candles identifies a trend.

Green-Uptrend Red-Downtrend

2. The trend gets increasingly stronger with longer bodies. Uptrends have upper shadows and little or no lower shadows. Downtrends have lower shadows and little or no upper shadows.
3. Trends become weaker with smaller bodies or when upper and lower shadows start to appear.
4. A consolidation occurs when a series of smaller bodies have upper and lower shadows (doji-like candlesticks).
5. A trend reversal is probable with the appearance of a small body candle with long upper and lower shadows (doji-like candlestick) or a sudden color change.

Takeaways

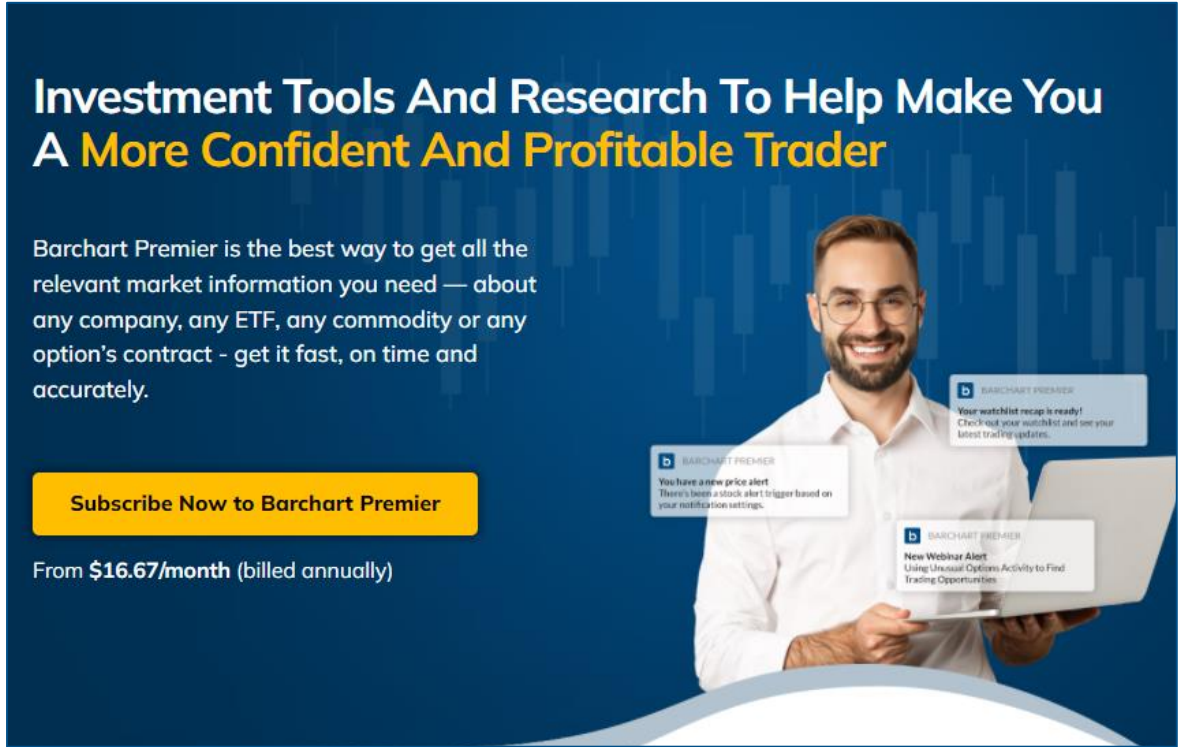
- ▶ Heikin-Ashi is a simple non-subjective visual technique to highlight trends, reduce price noise, and identify areas of consolidation and reversals.
- ▶ Sentiment, trend, and momentum are easily assessed when using Heikin-Ashi.
- ▶ Color and Body length are reliable measures for gauging the market's Bullishness/Bearishness.
- ▶ Doji-Like candlesticks represent indecision, and the following candlesticks will reveal actionable price movement.
- ▶ Heikin-Ashi is, in essence, a two-period moving average; therefore, signals can be delayed and should be used to confirm other technical analyses.

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