

Heikin-Ashi: A Better Candlestick

by Justin Kuepper,

FREE Forex Report - [The 5 Things That Move The Currency Market](#) ([Contact Author](#) | [Biography](#))

Most profits (and losses) are generated when markets are trending--so predicting trends correctly can be extremely helpful. Many traders use [candlestick charts](#) to help them locate such trends amid often erratic market [volatility](#). The Heikin-Ashi technique--"average bar" in Japanese--is one of many techniques used in conjunction with candlestick charts to improve the isolation of trends and to predict future prices.

Calculating the Modified Bars

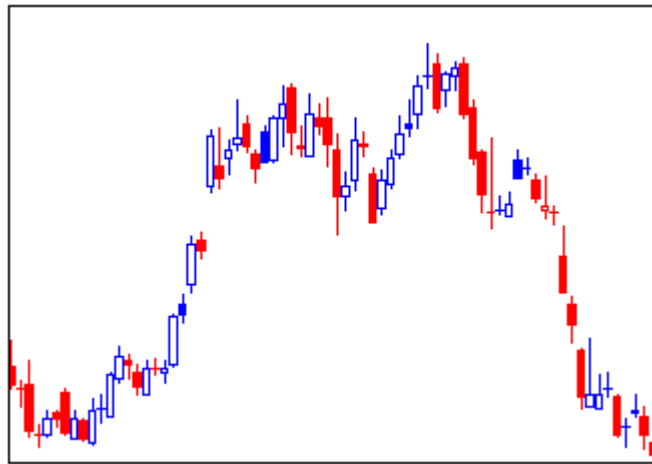
Normal candlestick charts are composed of a series of open-high-low-close (OHLC) bars set apart by a time series. The Heikin-Ashi technique uses a modified formula:

- $xClose = (Open + High + Low + Close) / 4$
 - o Average price of the current bar
- $xOpen = [xOpen(Previous Bar) + Close(Previous Bar)] / 2$
 - o Midpoint of the previous bar
- $xHigh = \text{Max}(High, xOpen, xClose)$
 - o Highest value in the set
- $xLow = \text{Min}(Low, xOpen, xClose)$
 - o Lowest value in the set

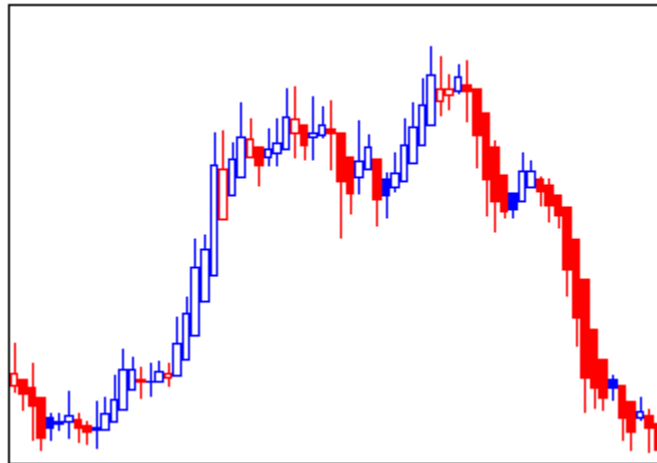
Constructing the Chart

The Heikin-Ashi chart is constructed like a regular candlestick chart (except with the new values above). The time series is defined by the user--depending on the type of chart desired (daily, hourly, etc.). The down days are represented by filled bars, while the up days are represented by empty bars. Finally, all of the same candlestick patterns apply.

Here is a normal candlestick chart:

Chart by Educofin.com

Here is a Heikin-Ashi chart:

Chart by Educofin.com

Putting It to Use

These charts can be applied to many markets; however, they are most often used in the [equity](#) and [commodity](#) markets. Traders often program these new instructions into existing trading programs, such as MetaTrader, or use many online tools (listed in the reference section below). Finally, it can be applied via Microsoft Excel or other similar spreadsheet programs.

There are five primary signals that identify trends and buying opportunities:

- Hollow candles with no lower "shadows" indicate a strong uptrend: let your profits ride!
- Hollow candles signify an uptrend: you might want to add to your long position, and exit short positions.
- One candle with a small body surrounded by upper and lower shadows indicates a trend change: risk-loving traders might buy or sell here, while others will wait for confirmation before going short or long.
- Filled candles indicate a downtrend: you might want to add to your short position, and exit long positions.
- Filled candles with no higher shadows identify a strong downtrend: stay short until there's a

change in trend.

These signals show that locating trends or opportunities becomes a lot easier with this system. The trends are not interrupted by false signals as often, and are thus more easily spotted. Furthermore, opportunities to buy during times of consolidation are also apparent.

Conclusion

The Heikin-Ashi technique is extremely useful for making candlestick charts more readable--trends can be located more easily, and buying opportunities can be spotted at a glance. The charts are constructed in the same manner as a normal candlestick chart, with the exception of the modified bar formulas. When properly used, this technique can help you spot trends and trend changes from which you can profit!

Here are some additional resources:

[Heikin-Ashi TradeStation Addon](#)

[Heikin-Ashi MetaData Addon](#)

by **Justin Kuepper**, ([Contact Author](#) | [Biography](#))

Justin Kuepper has many years of experience in the market as an active trader and a personal retirement accounts manager. He spent a few years independently building and managing financial portals before obtaining his current position with Accelerized New Media, owner of SECFilings.com, ExecutiveDisclosure.com and other popular financial portals. Kuepper continues to write on a freelance basis, covering both finance and technology topics.

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