0 Flares Twitter 0 Facebook 0 Google+ 0 0 Flares × Heikin Ashi charts are a unique charting method which get attached to your standard price chart on your trading terminal. The chart will resemble a typical Japanese Candlestick chart, however there are nuances that make reading the Heikin Ashi candles a bit different than the traditional candlestick chart. Below you will see what a Heikin Ashi chart looks like: An untrained eye might not even recognize that this is not a standard Japanese Candlestick chart. As you can see, each Heikin Ashi candle has a body, and an upper and lower candlewick (shadow) – the same as with the Japanese Candlesticks. However, if you take a closer look you will notice that each of the Heikin Ashi bars start from the middle of the bar before it, and not from the level where the previous candle has closed. This is a major distinguishing factor between the two charting styles. Heikin Ashi Calculation Each Heikin Ashi candle has an open, close, high and low. Therefore, there are four segments of the Heikin Ashi formula: The opening level of the Heikin Ashi candle equals the midpoint of the previous candle. If you refer to the chart example above, it is clear that every new candle starts from the middle of the previous one. Open = [Open (previous bar) + Close (previous bar)]/2 The close of each Heikin Ashi bar equals to the average level between the four parameters – open, close, high, and low: Close = (Open+High+Low+Close)/4 The highest point of a Heikin Ashi candle takes the actual high of the period. This could be the highest shadow, the open, or the close. High = Max Price Reached The lowest point of a Heikin Ashi candle takes the actual low of the period. This could be the lowest shadow, the open, or the close. Low = Min Price Reached Japanese Candlesticks Vs. Heiken Ashi Candles The general idea behind the Heiken Ashi bars is that they smooth the price action. As a result, much of the noise shown in traditional Japanese Candlesticks is eliminated with Heikin Ashi charting. Now let's compare the price chart using a Japanese Candlestick chart and a Heikin Ashi chart: On the left side you see a chart composed of Japanese Candles. On the right side we have a chart made up of Heiken Ashi candles. The charts look pretty similar, however, the Heikin Ashi chart is smoother, don't you think? Referring to the colored circles on the chart you see the main differences between the two chart types. Notice that the Heiken Ashi chart isolates some of the noisy price action. As a result, some Forex traders prefer to use the Heiken Ashi candles in order to isolate the noise on the chart, which can provide for a clearer analysis of the price action. Using Heikin Ashi If your goal is to catch longer and persistent trends, then using a Heikin Ashi chart will help you toward that end. Trend detection is one of the main functions of this type of charting style. The Heikin Ashi trading style puts an emphasis on persistent trends. Small corrections and consolidations are left behind and they are barely visible on the chart. You will notice that when the direction changes on a Heikin Ashi graph, the price most likely starts a new move. This helps to distinguish between the potential beginning and the end of a currency pair trend. Since chart noise is filtered, you basically see the naked trend. Using a trailing stop is a good trade management tool to pursue in a trending market. As a result, many traders combine the smoothing benefits of the Heikin Ashi chart with a trailing stop indicator to get the most out of a trending market condition. Another way to use a Heiken Ashi graph is to look for chart patterns and apply price action rules. In most cases this works the same way as with traditional Japanese candlesticks. But you will find that Heiken Ashi chart pattern breakouts are sometimes more reliable than traditional candlestick charts. Learn What Works and What Doesn't In the Forex Markets….Join My Free Newsletter Packed with Actionable Tips and Strategies To Get Your Trading Profitable…. Click Here To Join Heikin Ashi Trends As we have pointed out, the ease of trend identification is one of the major benefits of using a Heikin Ashi chart. With a Heikin Ashi chart you can confidently distinguish strong trends from unsustainable price action. Let's take a look at some examples of trends – both bullish and bearish – using the Heikin Ashi price graph. Bullish Heikin Ashi Trend At first glance, the bullish Heikin Ashi trend looks like a normal Japanese candlestick trend. However, you will notice that the Heikin Ashi trend is built primarily by bullish candles and is absent of lower candlewicks. When the price is shooting up, the price action creates very little to no lower shadows. Below you will see a strong bullish trend on a Heikin Ashi chart: See the strong bullish trend that is marked in blue. Notice that there are only a few lower candlewicks on the way up. This means that this bullish trend is very strong. Bearish Heikin Ashi Trend The bearish Heikin Ashi trend has the same functions as the bullish one but in the opposite direction. This means that it is built mainly by bearish candles. Also, a strong bearish trend on the Heikin Ashi graph has very little to no upper candle shadows. Now let's see how the bearish Heikin Ashi trend appears: This time we have noted a bearish trend on a Heiken Ashi chart. The decrease is marked with blue on the image above. See that the bearish price action has no upper candle wicks. This indicates that the declining momentum is very strong. Heikin Ashi Patterns Now we will discuss three patterns which are commonly found on a Heikin Ashi chart. Doji The first pattern we will start with is the Heikin Ashi Doji reversal candlestick. The Doji candle appears when the price closes at the same level where it opened. As such, the candle has no body and it essentially looks like a dash. The Doji, when it appears after a directional move, has a reversal potential and indicates that the price action is stalling and might be poised to start a counter trend move. Above you see a Heikin Ashi chart, which shows three price swings – bearish, bullish and bearish again. The first starts the bearish price swing down. At the end of this price swing, we see a Doji candle. The direction reverses afterwards. Then comes another Doji candle pattern at the top of the bullish move. The price action reverses again to start a fresh bearish move. Triangles Triangle patterns are commonly found on the Heikin Ashi chart as well. The important point here is to follow the direction that the price action breaks through. If the Heikin Ashi price action breaks the upper level of the pattern, this signals that the increase will likely be extended. If the price action breaks the lower level of the triangle, then we anticipate the price to start a new bearish move. On the chart above, you can see an Expanding Triangle pattern (blue). Then the price action breaks the lower level of the triangle and completes the minimum target of the pattern, based on the measured move calculation. Wedges The other pattern that is often found on the Heikin Ashi chart is the Wedge pattern. There are two types of Wedge patterns – Rising Wedge and Falling wedge. It is important to mention that the Rising Wedge has bearish potential. Contrary to this, the Falling Wedge has a bullish potential. Let's take a look at how a Wedge looks on the Heikin Ashi chart: In the chart above, we have a Rising Wedge chart pattern. The price breaks the lower level of the Wedge to start a fresh bearish move. The minimum target gets reached within a couple of bearish price swings. Heiken Ashi Indicator for MT4 One way to display a Heikin Ashi chart is by using a MetaTrader 4 chart terminal. The MT4 platform has the smoothed Heiken Ashi indicator built in. To pull it up you can simply click on insert > indicators > custom > Heiken Ashi. Then the indicator will replace your original price chart. In some cases, the default MT4 colors of the Heikin Ashi candles are red for bearish and white for bullish. If you are using a white or other very bright color for your chart background, you won't be able to see the bullish candles. If this happens, simply open the settings of the Heiken Ashi add-on and change color for the bullish candles to green, or whatever other color you prefer. How to Trade with Heiken Ashi Heiken Ashi charting is very powerful when combined with price action analysis. Look for the emergence of new trends, or for the reversal of already existing ones. Look for support and resistance levels and important swing points, and keep in mind that these could act as future turning points on the chart. Heikin Ashi and candle patterns should always be considered for the opening and the closing of trades. Always use a stop loss order conformed to a level prior to your entry point. You can always replace the regular stop with a trailing stop order as price moves in your favor. Hold your trades until the price action cues you in to a potential trend reversal. Also if the Heiken Ashi price action creates a relatively large candle which is contrary to your trade, you might want to exit the position as well. As we said, most of the noise is filtered on the Heikin Ashi charts. Thus, a big opposing candle is likely to indicate a shift in sentiment. Heiken Ashi Chart Analysis Examples Let's take a look at a couple of trading examples which can help you better understand trading with Heikin Ashi. The chart above is the H4 chart of the GBP/USD Forex pair for April – May, 2015. You see a bearish trend at the beginning of the chart. Suddenly, a Doji candle appears and the price action reverses. You have a buying opportunity when the price reverses after the Doji candle. The loss of your trade should be located below the lowest point created at the time of the reversal. The optimal place of the stop is shown with the red horizontal line at the bottom of the chart. A Doji candle after the down move on the Heikin Ashi chart implies that the price action is likely to reverse or at least stall the downtrend. A big bullish impulse appears afterwards. Then the price reverses. Notice that the reversal resembles a bullish Flag pattern. At the end of the flag we see the creation of another Doji candle. The price action breaks the upper level of the Flag afterwards and shoots up again. The scenario repeats afterwards. A new flag appears and a new breakout occurs through the upper level. A third bullish impulse is created. On the way up the price consolidates in a triangle. The upper level of the triangle gets broken and the price resumes the bullish move. The exit from the trade comes when the Heikin Ashi price action creates Descending Tops on the chart. This pattern implies that the overall bullish trend might be reversed. Let's now dissect another example of trading with Heiken Ashi candles: This time we have the H4 Heikin Ashi chart of the AUD/USD Forex pair for March – April, 2013. The chart shows how to apply the Heikin Ashi technique in a short trade. The orange lines on the chart show a Head and Shoulders chart pattern. Also note the magenta colored neckline plotted. Prior to the creation of the second shoulder we see that the Heikin Ashi price action creates three bearish candles with no upper shadow. This implies that the bullish trend might be in jeopardy. There is a nice short trading opportunity on the chart at the moment when the price breaks the neck line to the downside. The stop loss order of this trade should be placed above the second shoulder of the pattern. This is shown with the red horizontal line on the graph. The price action enters a sharp bearish trend afterwards. The measured move target was completed quickly, but you may not want to close the trade when the price is still trending sharply in the bearish direction. Here it would have proved to be better to hold the trade for further profit. Suddenly, the price action decreases the intensity of the bearish move. The sharp decrease turns gradually into a Falling Wedge chart pattern. The exit from the trade should come at the moment when the Heikin Ashi price action breaks the upper level of the Falling Wedge pattern. Notice that both trades were completed using pure price action analysis and nothing else. This is absolutely possible and usually the best method for trading with a Heikin Ashi chart. Conclusion Heikin Ashi is a unique chart type, which consists of candles with a specific calculation. The Heikin Ashi Formula consists of four calculations, which respond to Open, Close, High, and Low: Open = [Open (previous bar) + Close (previous bar)]/2 Close = (Open+High+Low+Close)/4 High = Max Price Reached Low = Min Price Reached Despite the different calculation, the Heikin Ashi bars look similar to Japanese Candlesticks. The untrained eye might not even distinguish the two charts for one another. The Heikin Ashi chart puts emphasis on the trending price action and in this manner on trends. This type of chart smoothes the price action and filters the chaotic peaks and troughs and the price action in general. Benefits of using Heikin Ashi: The Heikin Ashi chart helps a trader to catch a bigger trend rather than a small price move. The candles put emphasis on persistent tendencies rather than small fluctuations. Since the Heikin Ashi show naked trends, they can easily be pursued with a Trailing Stop order. There are two important aspects to keep in mind on a Heikin Ashi chart: Bearish Trends – They are created almost exclusively by bearish candles. Strong bearish trends tend to have no upper shadows in the candles. Bullish Trends – They are created almost exclusively by bullish candles. Strong bullish trends tend to have no lower shadows in the candles. Some of the common patterns formed on the Heikin Ashi chart include: Doji Reversal Candlestick Triangle Patterns Rising Wedge and Falling Wedge Patterns Every Heikin Ashi trading system should include price action rules: Look for Support and Resistance levels. Look for chart patterns for potential breakouts. Hop into emerging trends and exit on slowing trends. In this guide, we'll explore what Heikin-Ashi candlesticks are and how they can be incorporated into a trading strategy. What are Heikin-Ashi candlesticks? Candlesticks are one of the forms of technical chart indicators that traders can use in their analysis of asset prices. A candlestick chart is a type of chart used to visualise price movements and identify patterns, with each candle representing a single trading session. A specific form of candlestick chart is Heikin-Ashi, meaning average ("heikin" or "heiken") and bar ("ashi") in Japanese. The candles on these charts differ from traditional Japanese candlestick charts as they incorporate some data from the previous session to show how average values change over time. *Past performance is not a reliable indicator of future results The Heikin-Ashi formula uses a combination of four price averages – open, high, low and close values – from the current and previous trading sessions. This is unlike traditional candlesticks, which use outright open and close prices to form the body of the candle and high and low prices as the shadows, or wicks. As a result, each Heikin-Ashi candle is lined up with the middle of the preceding bar, not with the level of the previous candle's close. *Past performance is not a reliable indicator of future results The open price used in a Heikin-Ashi candle is based on the average of the open and close from the previous candlestick. The close is an average of the open, high, low and close of the current period, rather than just the closing price. The high on the candle wick is the highest number out of the session open, intraday high, or close. Similarly, the low on the wick is the lowest number of the session low, open or close. In this way, the Heikin-Ashi calculation creates a smoother-looking candlestick chart that makes it easier to identify and follow price trends. *Past performance is not a reliable indicator of future results A smoother chart is especially useful for analysing choppy or volatile asset prices. Now that we have Heikin-Ashi candles explained, let's delve deeper into the history. Heikin-Ashi candles, also sometimes spelled Heiken-Ashi, were developed by Japanese rice trader Munehisa Homma back in the 1700s. Homma is considered by many to be the father of technical analysis for his work in identifying price trends. The rice market in Osaka at the time operated like what could be considered an early version of a futures market using coupons, which were then traded for profit before the rice was physically delivered. Homma observed the influence traders' emotions had on their trading decisions and identified the impact of sentiment on markets driven by fear and greed. He introduced the concept of price action trading based on expectations of bullish or bearish reversals. Homma created the first candlestick charts and used them to identify defined trading patterns that formed ahead of changes in the direction of prices. Understanding the psychology driving prices pushed his firm to buy at an advantage to other traders, as he outlined in his 1755 book, "The Fountain Of Gold: The Three Monkey Record Of Money". Analysis of Heikin-Ashi candles provides a way for traders to identify the start of major price trends and trend reversals by filtering out the day-to-day noise in the stock markets. This is especially useful during periods of high volatility, when it can be easy to lose sight of longer-term movements. Traders can use the charts to identify when to open or hold a trading position and when to exit ahead of a reversal, heavy losses on their investments and avoiding heavy losses. The Heikin-Ashi indicators can be applied to any time frame – whether hourly, daily, monthly, etc – although charts showing longer time frames are typically more reliable. Combined with other technical indicators they form a fuller picture of the direction of an asset price. Traders can use Heikin-Ashi candles to analyse forex and commodities as well as stocks and indices. Reading Heiken-Ashi candles is relatively straightforward, but it is important for investors to understand how they work and what they represent to be able to use the tool effectively. In an upward trending market, a Heikin-Ashi chart will show a progression of green (or other coloured) candlesticks with no lower wick. Conversely, in a downward trend, there is no upper wick on (typically) red candlesticks. *Past performance is not a reliable indicator of future results When markets are changing direction and sentiment shifting, there is more volatility and candles resemble the dojis on traditional candlestick charts, with smaller bodies and longer wicks. As trends reverse, the candlestick colours switch. In addition to the candles, there are three kinds of triangles drawn on Heikin-Ashi charts: descending, ascending and symmetrical. If candles break above the upper boundary of an ascending or symmetrical triangle, the upward trend is likely to continue, whereas if there are candles falling below the bottom of a descending triangle, the chart indicates a bearish trend. *Past performance is not a reliable indicator of future results Using a Heiken-Ashi candle strategy can help traders to identify the beginning of strong trends and adjust their portfolios accordingly, opening or increasing long positions when bullish trends emerge and closing positions when trends turn bearish. When charts show candlesticks without wicks, or shadows, on the lower end, they provide a strong signal for the beginning of a bullish trend, while traders can look to maximise gains rather than selling stocks early and leaving profits on the table. When candlesticks have no wicks on the higher end, they indicate the start of a bearish trend and prompt traders to sell stocks to avoid losses. The longer the sequence of candles without wicks, the stronger the trend it signifies. Candles with shorter bodies and longer wicks indicate that traders should be aware of a pause in the trend. The trend could then reverse direction, or it could resume its movement in the same direction. This requires some skill and experience to interpret which of those is more likely to happen. Once traders have identified a trend in either direction, they can use contracts for difference (CFDs) to take a position on the price direction of the underlying asset. A CFD is a financial contract, typically between a broker and a trader, where one party agrees to pay the other the difference in the value of a security, between the opening and closing of the trade. You can either hold a long position, speculating that the price will rise, or a short position, speculating that the price will fall. CFDs are leveraged instruments that allow you to open a larger position with a small initial investment. However, they also multiply losses if the share price moves against your position. The Heikin-Ashi technique is recognised as a highly reliable analytical tool, but it does have its limitations. By averaging values, the candles do not show exact opening and closing prices on the session, and by incorporating historical prices, they introduce a time lag into the chart. While the smoother distribution of candlesticks can make it easier to identify trends, it fills in price gaps that traders often use to identify price momentum, entry points and stop-loss* levels for buying and selling. These factors can put day traders or scalpers at a disadvantage, particularly in fast-moving markets like forex, by giving signals that have already become obsolete. That shows the importance of analysing Heikin-Ashi charts in combination with other technical indicators to identify accurate entry and exit points. Having used Heikin-Ashi candlesticks to identify the direction of the market, traders can also employ trend indicators in their trading strategies, such as moving averages and the relative strength index (RSI), to gauge the strength of the momentum behind the price movement. *Stop-losses may not be guaranteed. Heikin-Ashi candlestick patterns are a type of charting technique used to identify trends in financial markets. They are similar to standard candlesticks, but the calculation of the open, high, low and close are different. To use Heikin-Ashi candles, first set up the chart with the desired time frame and instrument. Then, look for patterns in the candles to identify trends. A Heikin-Ashi trading strategy can be used to identify trends in any type of financial market, including stocks, forex, commodities, and more. It can also be used to identify entry and exit points in a trade. Heikin-Ashi candles are calculated by taking the average of the open, high, low, and close of the previous period. The open of the Heikin-Ashi candle is the average of the open and close of the previous candle. The close is the average of the open, high, low, and close of the current period. The high of the candle is the maximum of the high, open, or close of the current period. The low is the minimum of the low, open, or close of the current period. Candlestick charts provide traders with potentially valuable information about price movements and the underlying psychology of the market. This information could potentially help traders make more informed trading decisions. Heikin-Ashi, also sometimes spelled Heiken-Ashi, means "average bar" in Japanese. The Heikin-Ashi technique can be used in conjunction with candlestick charts when trading securities to spot market trends and predict future prices. It's useful for making candlestick charts more readable and trends easier to analyze. For example, traders can use Heikin-Ashi charts to know when to stay in trades while a trend persists but get out when the trend pauses or reverses. Most profits are generated when markets are trending, so predicting trends correctly is necessary. The Heikin-Ashi technique is used by technical traders to identify a given trend more easily. Heikin-Ashi charts are used alongside standard candlestick charts to help traders identify and analyze trends. Heikin-Ashi charts can be used in any market. They smooth out candlestick patterns and identify trading opportunities.There are five primary signals used in Heikin-Ashi charts. Heikin-Ashi charts need to be used with other technical analysis tools because they don't reflect real-time prices. Normal candlestick charts are composed of a series of open-high-low-close (OHLC) candles set apart by a time series. The Heikin-Ashi technique shares some characteristics with standard candlestick charts but uses a modified formula of close-open-high-low (COHL): Close = 1 4 (Open + High + Low + Close) (The average price of the current bar) Open = 1 2 (Open of Prev. Bar + Close of Prev. Bar) (The midpoint of the previous bar) High = Max[High, Open, Close] \begin{aligned}&\text{Close}=\frac{1}{4}\text{ (Open}+\text{High}+\text{Low}+\text{Close})\\&\quad(\text{The average price of the current bar})\\&\text{Open}=\frac{1}{2}\text{ (Open of Prev. Bar}+\text{Close of Prev. Bar})\\&\quad(\text{The midpoint of the previous bar})\\&\text{High}=\text{Max[High, Open, Close]}\\&\text{Low}=\text{Min[Low, Open, Close]}\end{aligned} Close=41 (Open+High+Low+Close)(The average price of the current bar)Open=21 (Open of Prev. Bar+Close of Prev. Bar)(The midpoint of the previous bar)High=Max[High, Open, Close] A Heikin-Ashi chart is constructed like a regular candlestick chart, except the formula for calculating each bar is different, as shown above. The time is defined by the user, depending on the type of chart desired, such as daily, hourly, or five-minute intervals. The down days are represented by filled candles, while the up days are represented by empty candles. These can also be colored in any way the trader likes, depending on the chart platform, so up days are white or green, and down days are red or black, for example. Image by Sabrina Jiang Â© Investopedia 2020 There are a few differences to note between the two types of charts, and they're demonstrated by the charts above. Heikin-Ashi has a smoother look because it is essentially taking an average of the movement. There is a tendency with Heikin-Ashi for the candles to stay red during a downtrend and green during an uptrend, whereas normal candlesticks alternate colors even if the price is moving dominantly in one direction. The price scale is also of note. The current price shown on a normal candlestick chart will also be the current price of the asset, and this matches the closing price of the candlestick. In a Heikin-Ashi chart, the current price on the price scale may not match the close price of the candle for the current price if the bar hasn't closed. Because Heikin-Ashi is taking an average, the current price of the candle may not match the price at which the market is actually trading. For this reason, many charting platforms show two prices on the Y-axis: one for the calculation of the Heikin-Ashi candle and one for the current price of the asset. These charts can apply to any market. Most charting platforms have Heikin-Ashi charts included as an option. There are five primary signals that identify trends and buying opportunities: Hollow or green candles with no lower "shadows" indicate a strong uptrend: Let your profits ride!Hollow or green candles signal an uptrend: You might want to add to your long position and exit short positions.Candles with a small body surrounded by upper and lower shadows indicate a trend change: Risk-loving traders might buy or sell here, while others will wait for confirmation before going long or short.Filled or red candles indicate a downtrend: You might want to add to your short position and exit long positions.Filled or red candles with no higher shadows identify a strong downtrend: Stay short until there's a change in trend. These signals may make locating trends or trading opportunities easier than with traditional candlesticks. The trends are not interrupted by false signals as often and are thus more easily spotted. Image by Sabrina Jiang Â© Investopedia 2020 The chart example above shows how Heikin-Ashi candles can be used for analysis and making trading decisions. On the left, there are long red candles, and at the start of the decline, the candles have no upper shadows. The selling pressure is strong. As the price continues to drop, the lower wicks are quite small. As the price moves lower, the lower wick starts to get larger, indicating that the price dropped but was then pushed back up. Buying pressure is starting to build. This is followed by a strong move to the upside. The upward move is strong and doesn't give major indications of a reversal until there are several small candles in a row, with shadows on either side. This shows indecision. Traders can look at the bigger picture to help determine whether they should go long or short. The charts can also be used to keep a trader in a trade after a trend begins. It's usually best to stay in a trade until the Heikin-Ashi candle changes color. A change in color doesn't always mean the end of a trend—it could just be a pause. Heikin-Ashi uses averages, which may not match the prices the market is trading at. The technique smooths out price data on a chart to give a better trend indicator but should be used with other technical analysis to find entry and exit points. Trading is preference-based, so the indicators that work best with Heikin-Ashi are the ones you are most familiar with and practiced with. Moving averages, Bollinger bands, and the Relative Strength Index are examples of indicators that can be used with Heikin-Ashi. Heikin-Ashi is a trading tool used by some traders in conjunction with technical analysis to assist in identifying trends. By averaging prices, traders use this technique to reduce market noise, making it easier to identify price trends. Heikin Ashi is a trading tool used by technical traders to identify trends and reversals. Heikin-Ashi, also sometimes spelled Heiken-Ashi, smooths candlestick patterns, making it easier to read and reveal price trends. It can be used across many markets and relies on five signals to highlight trading opportunities and decrease false signals. It needs to be used with other technical analysis tools because it does not show real-time prices. A reader recently asked if we use Heikin Ashi Candlestick in our trading. So what exactly is Heikin Ashi? In this article, we will reconsider the price representation called Heikin Ashi, and try to get something good out of the charting technique to use it for algorithmic trading. Can we make a Heikin Ashi trading strategy? Yes, we show you a profitable Heikin Ashi trading strategy. Moreover, we test some additional filters to improve Heikin Ashi so we can use it as a stand-alone Heikin Ashi trading strategy. The Heikin-Ashi method was imported into the West from Japan in the second half of the 90s and is a representation of prices aimed at highlighting the presence of trends or phases of consolidation. Thus, in short, Heikin Ashi is another version of Japanese candlesticks. Let's dig a bit further into the charting method. The name implies it originates from Japan. As it turns out, Heikin Ashi candlesticks are another version of the famous Japanese candlesticks used in all of our charts. Presumably, Heikin Ashi means "average bar" in Japanese, which sums up the difference between the two forms of candlesticks. Candlesticks show the daily price action of the open, high, low, and close, while Heikin Ashi aims to indicate the trend by smoothing the price movements. Heikin Ashi is, to our understanding, used mainly as a supplement for other indicators, something we will test further down in the article. Western trading owes much to Japanese trading. For example, the candlestick price representation is Japanese, imported to the West around the 1980s. Since the second half of the 1990s, a new "candlestick" representation was imported from Japan to the West, largely thanks to an article written by trader Dan Valcu in 2004. This price representation is called Heikin-Ashi, which means Average-Bar. Heikin-Ashi candlesticks aims to eliminate the "noise" in the prices to bring out the directional component or the consolidation phases. The Heikin-Ashi method has obtained tremendous popularity on the web, but if it is not understood thoroughly, it can lead to trading mistakes. First, the Heikin-Ashi do not show the real prices, so it is impossible to trade directly on them. The four prices that characterize the candle are not real prices. Something similar also happens with other charting techniques, such as the one called Range Bar and the one called Renko. Renko Trading Strategy (Renko Charts) Range Bar Trading Strategy (Backtest) To understand the difference, we need to look at how it's calculated: The formula is not straightforward and is a bit complicated. Heikin-Ashi smooths the candlesticks using average open, high, low, and close values. However, the open and close are calculated differently for Heikin Ashi – it's not the actual prints, but a mathematical formula is used to make "artificial" values. As mentioned, the popularity of the Hekin-Ashi method in the West is largely due to trader Dan Valcu who described it in 2004 in an article that appeared in the famous Stocks & Commodities magazine. In this article, he wrote that the Heikin-Ashi values are calculated as follows: haClose = (O+H+L+C)/4; haOpen = ema(Ref(haClose, -1), 2); haHigh = Max(H, haOpen); haLow = Min(L, haOpen); The HAO price is dependent on the previous Heikin Ashi values. Because the open price is the midpoint of the "body" of the previous candle, the Heikin Ashi candle starts at the midpoint of the previous one. These formulas have been taken for granted for twenty years without realizing that they can be simplified and better understood. Let's see how and why. Since haClose is always between H and L, then formulas 3 and 4 are more simply equivalent to the following: 3) haHigh = Maximum(H, haOpen)4) haLow = Minimum(L, haOpen) In all these years, no one has noticed this similarity! Another thing we noticed is the true meaning of haOpen. haOpen is actually an exponential moving average of the previous haClose calculated with a multiplier of 1/2. The formula to get the periods from the multiplier is Periods = (2 / Multiplier) – 1 so the periods are equal to 3. Amibroker doesn't come with the code for Heikin Ashi, at least not the version we have. In light of what we have written above, the formulas in Amibroker for calculating candlesticks according to the Heikin Ashi method are: haClose = (O+H+L+C)/4; haOpen = ema(Ref(haClose, -1), 3); haHigh = Max(H, haOpen); haLow = Min(L, haOpen) Heikin-Ashi is a technical indicator plotted as candlesticks, more precisely: • haClose is the so-called Total Price (the average of the four prices of a candle) • haOpen is an exponential moving average of the total price • haHigh and haLow act as a maximum and a minimum. We, therefore, believe that the question of which is better is "nonsense": candlesticks are about real prices, and Heikin-Ashi is a technical indicator derived from prices and plotted as candlesticks. We will understand this better in the following section. Below is the S&P 500 with standard candlesticks and Heikin Ashi. In the image, you can see a Heikin-Ashi chart. It looks excellent, seem very easy to trade, and you can make a lot of money: The lower half, which contains the Heikin Ashi, shows blue and red candlesticks. Blue signals a positive trend, while red is bearish. A black and filled candlestick in the upper half doesn't necessarily translate into a red Heikin Ashi candle. The main idea with Heikin Ashi candlesticks is to smooth the movements into more reliable trends. The Heikin Ashi above shows fewer blue to red changes than black and white in the original candlestick chart. Blue and red candles flow in patterns or show regularities and trends – at least to the naked eye. Another significant difference is that Heikin Ashi doesn't offer price gaps. However, what seems orderly and trending, might not be obvious when we test some quantifiable rules. Here are a couple of other Heikin Ashi charts: If you trade on a candle's opening or closing price, your trade will not be executed at the Heikin-Ashi price. As evident from the charts above, the actual opening and closing prices can be very far from the ones plotted by Heikin-Ashi. You can see it in the following image, where there are the same Heikin-Ashi candles as in the previous image, with the real prices plotted as overlapping bars. The one sure thing is that Heikin-Ashi always packs the actual bar. The chart below has Heinin Ashi bars and ordinary bars to spot the difference: Heikin-Ashi, as the Japanese name itself states, is an average bar. Each bar price is an average price, and you can't trade on the price (or bar). So the indications it gives us are delayed. Precisely because it's delayed, it manages to visualize the price trend well and can be a valuable tool for analysts and discretionary traders for trend following strategies. The arguments for consecutive colored candles seem apparent, but as with any other indicator, Heikin Ashi tells us what has happened in the past. Does it offer any benefits in predicting future movements? First, let's make a customization: Since we have understood what Heikin-Ashi really is and how to calculate it, we can also propose changing the parameter that regulates the calculation of the Open to filter out more or less noise in the price. haOpen = ema(Ref(haClose, -1), 3); The following image shows how a Heikin-Ashi chart changes when the period's parameter varies from 2 to 9, while on the web is always 3 (please click on the chart to display animated changes in the parameters). We use candlesticks in our charts, not because we look for edges, but because we believe it's easier to grasp the daily action and where prices opened and closed. However, in a previous article, we revealed that some candlestick formations do seem to offer value: Do candlesticks work? A quantitative test of 23 candlestick formations Can we get the same promising results using Heikin Ashi? Now let's look at a specific and profitable Heikin Ashi strategy. We apply the following rules: Buy = Cross(haClose, haOpen); //haClose crosses above haOpen i.e. candle turns green from red Sell = Cross(haOpen, haClose);//haClose crosses below haOpen i.e. candle turns red from green It is a "simple" strategy that we will backtest on the S&P500 index from 1960 to today on a monthly timeframe. And this is the resulting equity line: We can think of it as a trend following strategy. We don't take short trades due to the bullish trend in the stock market (in the long term). Let's analyze the trading statistics and metrics: 83 trades since 1960 Annual Return: 4.77% (buy and hold is 7.03%) – not including dividends The average gain per trade is 4.31% 49.4% of the trades are winners You are invested 66.76% of the time Max drawdown is 29.89% (buy and hold 52.56%) Risk-adjusted return is 7.15% (4.77% divided by 0.6676) (buy and hold 7.03%) The low win ratio (49.4%) is typical of a trend-following trading system, but it's not so low for our strategy. The performance metrics are good, and considering that the Heiki-Ashi were developed long ago, the results can be considered out of sample. Here is the profit/loss distribution. It provides insight into how the trading system works: As we might expect, we find a favorable asymmetric profit/loss distribution. The opposite is a negatively skewed profit distribution – typical for a mean reversion strategy. We also tried some trading rules that included the ADX-indicator: Ways to use ADX (Average Directional Index) – does it work? Because stock indices tend to revert to the mean, we backtest by entering at the close after two red Heikin Ashi candles. Additionally, we use an x-day filter of the ADX (test yourself for different parameters). The exit is on a day when the close is higher than yesterday's high. On the S&P 500, we get this equity chart: CAGR is 5.27%, but exposure is only 5% (time spent in the market). However, consumer staples (XLP) seem much better, but the average per trade is a low 0.22%. Heikin Ashi works, but mostly on long time frames. We have shown you several profitable Heikin Ashi strategies and thus given you a greater understanding of Heikin Ashi and what it can do for us. Since we are more interested in quantified strategies, we tried backtesting a straightforward strategy and found it works well. We also proposed a way to customize Heikin-Ashi to filter out noise. For more strategies, please visit our landing page, which has almost 200 potential trading ideas: What is Heikin Ashi candlesticks? Heikin Ashi is a Japanese candlestick charting technique aimed at highlighting trends or consolidation phases by smoothing price movements. Unlike traditional candlesticks, Heikin Ashi uses averages, and its representation is designed to reduce noise in price action. Is Heikin Ashi better than traditional candlesticks, and what are its advantages? Heikin Ashi and traditional candlesticks serve different purposes. While candlesticks represent real prices, Heikin Ashi is a derived indicator aiming to smooth price movements. Heikin Ashi is considered a lagging indicator, offering indications based on past price movements. What is the profitability of the Heikin Ashi trend-following strategy? The strategy, being trend-following, is designed to capture prolonged market trends. This aligns with the nature of Heikin Ashi, which aims to smooth price movements and highlight trends. While the win ratio might seem moderate, the strategy's overall performance metrics, risk-adjusted return, and positive equity growth make it a noteworthy trend-following approach. It's essential to consider that the strategy, like any trading system, has its strengths and limitations. Traders may need to assess its compatibility with their risk tolerance and overall trading objectives. Bullish: A market condition where prices are rising. Bearish: A market condition where prices are falling. Candlestick: A graphical representation of price movement. Doji: A candlestick pattern indicating indecision. EMA (Exponential Moving Average): A type of moving average that gives more weight to recent prices. Fibonacci Retracement: A tool used to identify potential support and resistance levels. Gravestone Doji: A bearish reversal candlestick pattern. Hammer: A bullish reversal candlestick pattern. Heikin Ashi: A charting technique that uses modified candlesticks to filter noise. Ichimoku Cloud: A comprehensive trading indicator. Inside Bar: A candlestick pattern indicating consolidation. Lagging Indicator: An indicator that follows price movements. Leading Indicator: An indicator that predicts future price movements. MACD (Moving Average Convergence Divergence): A trend-following momentum indicator. Morning Star: A bullish reversal candlestick pattern. Moving Average: A statistical calculation of average prices. Oscillator: An indicator that oscillates above and below a central line. Parabolic SAR: A trend-following indicator. Pivot Point: A support and resistance level used in trading. Range: The difference between the high and low prices. Relative Strength Index (RSI): A momentum oscillator. Resistance: A price level where selling pressure is expected. Rogue Wave: A rare and strong Heikin Ashi reversal pattern. Scalping: A trading strategy focused on small, quick profits. Shooting Star: A bearish reversal candlestick pattern. Support: A price level where buying interest is expected. Swing Trading: A trading strategy that aims to capture short- to medium-term price swings. Trendline: A line drawn to represent a trend. Volume: The number of shares or contracts traded. Whipsaw: A situation where a trader is caught in a series of quick, adverse price movements. ADX (Average Directional Index): A trend strength indicator. Aroon Oscillator: A momentum oscillator used to identify trend changes. Bullish Engulfing: A bullish reversal candlestick pattern. Candlestick Pattern: A specific arrangement of candlesticks. Dark Cloud Cover: A bearish reversal candlestick pattern. Engulfing Pattern: A two-candlestick pattern indicating a potential reversal. Fibonacci Extension: A tool used to identify potential price targets. Gap: A price jump between two trading sessions. Hanging Man: A bearish reversal candlestick pattern. Ichimoku Tenkan Sen: The Tenkan Sen line in the Ichimoku Cloud. Inverted Hammer: A bullish reversal candlestick pattern. Leverage: Borrowed capital used to increase trading position size. Margin: Collateral required to trade with leverage. Moving Average Crossover: A signal generated when two moving averages cross. Piercing Pattern: A bullish reversal candlestick pattern. RSI Divergence: A discrepancy between RSI and price movement. Scalp Trader: A trader who specializes in scalping. Stochastic Oscillator: A momentum indicator measuring overbought and oversold conditions. Support and Resistance Zones: Price levels where supply and demand interact. VWAP (Volume Weighted Average Price): A trading indicator based on volume and price. Heikin ashi charts are used by technical traders to smooth out the Japanese candlestick patterns making it easier to spot trends and reversal points. Heikin ashi is a Japanese term meaning "average bar." Heikin ashi candles plot the average price data for each period. They do not plot the exact price changes like regular Japanese candlestick charts. By plotting the average price data, heikin ashi charts help traders identify more significant trends. A heikin ashi candle uses the foundational prices of the Japanese candle – the open, high, low, and close. The heikin ashi candle plots the average closing (using data from the previous candle), opening, high and low prices reached within a specific period. This means the color of the heikin ashi candle could be different from the Japanese candlestick. The result is a smoothed trend of color on the price chart making the trends easier to identify. The heikin ashi candles are calculated as follows: Close Price = (Open + High + Low + Close) / 4This is the average of the candle's four central values. Open Price = (Previous Candle's Open + Previous Candle's Close) / 2This creates a smooth transition between candles. High Price = The highest value among the High, Open, and Close. Low Price = The lowest value among the Low, Open, and Close. This formula generates candles that emphasise trends and filter out short-term fluctuations. They create a generally smoothed color of trends on the heikin ashi chart. To calculate Heikin Ashi candles, follow these steps for each period (e.g., daily, hourly): Calculate the Close Price Close = (Open + High + Low + Close) / 4 This is the average of the current period's four main price points. Unlike a normal candlestick chart, which shows real-time price data, Heikin Ashi uses averaged prices to smooth out transitions from the previous to current candle. Open = (Previous Open + Previous Close) / 2 The open value is a midpoint of the previous Heikin Ashi candle. High = max(High, Open, Close) The high is the greatest value among the current period's high, open, and close prices. Low = min(Low, Open, Close) The low is the smallest value among the current period's low, open, and close prices. Suppose the following values for a period: Open: 1.1000 High: 1.1200 Low: 1.0900 Close: 1.1100 Previous Heikin Ashi Candle: Open: 1.0950 Close: 1.1050 Using the formulas: Close = (1.1000 + 1.1200 + 1.0900 + 1.1100) / 4 = 1.1050 Open = (1.0950 + 1.1050) / 2 = 1.1000 High = max(1.1200, 1.1000, 1.1050) = 1.1200 Low = min(1.0900, 1.1000, 1.1050) = 1.0900 The resulting Heikin Ashi candle has: Open: 1.1000 Close: 1.1050 High: 1.1200 Low: 1.0900 This calculation smooths price data, making trends more evident for traders. To spot and interpret Heikin Ashi patterns, focus on the characteristics of the candles as they reveal the market's trend direction and momentum. These patterns help traders understand the overall price trend in the market. Appearance: A series of green candles with no lower shadows (or tiny ones). Interpretation: The market is powerfully moving upward. Buyers are in control, and momentum is steady. Action: Consider staying in long (buy) positions or entering if the trend has just begun. Appearance: A series of red candles with no upper shadows (or tiny ones). Interpretation: The market is in a steady downward trend. Sellers are dominant, and prices are falling consistently. Action: Consider holding or entering short (sell) positions. Appearance: Small-bodied candles with both upper and lower shadows. Interpretation: The market is uncertain, and buyers and sellers are evenly matched. A potential trend reversal or consolidation may follow. Action: Wait for confirmation of the next trend direction before acting. Bullish Reversal: A green/red candle following a sequence of red candles, frequently featuring a long lower shadow. Bearish Reversal: A red/green candle following several green candles, frequently featuring a long upper wick. Interpretation: These candles indicate that the prior trend could be losing strength, and a reversal might occur. Action: Before making a trade, seek further validation, such as a breach of a support or resistance level. Employ Heikin Ashi alongside trend indicators such as moving averages or the RSI for validation. Focus on patterns of candles instead of lone ones for a clearer insight into market trends. Refrain from analysing trends in low-volume markets, since they may provide deceptive indications. Examining Heikin Ashi candlesticks using these concepts helps you identify trends and predict possible reversals more efficiently. Smooth Trends Heikin Ashi candles filter out noise by averaging price data. Trends are more apparent, with fewer false signals compared to traditional candlesticks. Color Coding for Trends Green Candles: Indicate bullish trends (upward movement). Red Candles: Indicate bearish trends (downward movement). No Shadows in Strong Trends Uptrend: Green candles often lack lower shadows, showing strong buying pressure. Downtrend: Red candles often lack upper shadows, reflecting dominant selling pressure. Small Bodies Signal Indecision Candles with small bodies and both shadows suggest market indecision or potential reversals. Reversal Indicators A change in candle color, often accompanied by long shadows, can signal a possible trend reversal. Lagging Nature Since Heikin Ashi uses averaged prices, patterns may lag slightly behind real-time market changes, making it best for identifying existing trends rather than predicting rapid shifts. These characteristics make Heikin Ashi ideal for identifying clear trends, filtering out market noise, and avoiding hasty trading decisions. Heikin Ashi informs traders of the general market trend by mitigating price variations. Rather than displaying every minor fluctuation like conventional candlesticks, Heikin Ashi emphasises whether the market trends upward, downward, or sideways. Key takeaways: Green Candles: The market is trending upward (bullish momentum). Red Candles: The market is trending downward (bearish momentum). Small Candles with Shadows: The market is uncertain or entering a potential reversal phase. By focusing on trends rather than noise, Heikin Ashi helps traders avoid overreacting to small price movements and make better-informed decisions. Spot Trends Easily Green candles with no lower shadows suggest strong upward momentum. Red candles with no upper shadows indicate strong downward momentum. Action: Stay with the trend until you see signs of a reversal. Identify Trend Reversals Look for a shift in candle colors (e.g., red to green or green to red). Pay attention to candles with long wicks, as they can signal a weakening trend. Action: Wait for confirmation before entering a new position. Filter False Signals Heikin Ashi smooths out market noise, so use it to confirm trends rather than reacting to every price spike. Action: Combine it with other indicators like the RSI or moving averages for stronger signals. Use on Longer Timeframes Heikin Ashi works best on 1-hour charts and above, where trends are more reliable. Action: Avoid using it for scalping or in very volatile markets. Set Entry and Exit Points Use green candles to ride an uptrend and red candles to stay with a downtrend. Exit when the color changes or signals weaken. By using Heikin Ashi charts, traders can focus on broader market movements and reduce the impact of noise, making it easier to ride trends and spot turning points. Heikin Ashi can enhance traditional chart patterns such as triangles, double tops, and head-and-shoulders by clarifying trends. These patterns typically signify areas where prices may break out, reverse, or consolidate, and Heikin Ashi improves this by refining the price fluctuations within them. Triangles (Ascending, Descending, Symmetrical): Heikin Ashi candles help identify the breakout's direction. For instance, a sequence of green candles lacking lower shadows indicates an upward breakout from a triangle. Double Tops and Bottoms: Heikin Ashi more distinctly emphasises trend reversals. Look for a shift in candle color and wicks that show rejection of price levels. Head and Shoulders: Heikin Ashi's color transitions and shadow patterns can confirm a neckline break, making it easier to spot the reversal. By combining Heikin Ashi with classic patterns, traders get smoother visuals and more reliable confirmation of key market movements. Doji and Spinning Tops in Heikin Ashi charts indicate indecision or balance between buyers and sellers, often signalling a potential trend reversal or pause. Heikin Ashi Doji: Appearance: A small body with shadows on both sides. Meaning: The market is at a critical junction where neither buyers nor sellers have full control of the price. Action: Wait for the next candle to verify if the trend will reverse or continue. Heikin Ashi Spinning Tops: Appearance: Small body with longer shadows on both sides. Meaning: Similar to a Doji, it shows market indecision, but with slightly more activity. Action: These often appear during consolidations or before reversals, so monitor the next candles for clarity. Key Tip: Pair these signals with other tools, such as support/resistance levels or indicators (e.g., RSI), to strengthen your analysis. This helps filter out false signals and ensures better trading decisions. Appearance: A series of green Heikin Ashi candles with no or tiny lower shadows. Interpretation: Strong buying momentum, ideal for holding or entering long positions. Appearance: Consecutive red candles with no upper shadows. Interpretation: Selling pressure dominates, this is suitable for short positions. Appearance: A green candle after multiple red candles or a red candle after several green candles. Interpretation: This signals a potential trend reversal, but it should be confirmed with other indicators, such as the RSI or support/resistance levels. Heikin Ashi candles help smooth out price action, making trends easier to spot. These candles focus on average prices, which reduces market noise and highlights clearer trends. Pairing Heikin Ashi with popular indicators can refine entry and exit points for trades. Here's how they work with different tools: The Relative Strength Index (RSI) measures momentum and helps identify when a market is overbought or oversold. Look for Heikin Ashi candles showing a strong trend (several consecutive green or red candles). Check the RSI: If the RSI crosses above 30, it may signal a buying opportunity in an uptrend. If the RSI drops below 70, it could indicate a selling opportunity in a downtrend. Combine the signals: Wait for Heikin Ashi to confirm the RSI move with a color change. For example, a green candle forming after the RSI exits the oversold zone could indicate a buy. The Moving Average Convergence Divergence (MACD) tracks the relationship between two moving averages to find trend changes and momentum shifts. Identify a trend with Heikin Ashi candles: A series of green candles suggests an uptrend, while red indicates a downtrend. Look at the MACD histogram and signal line: A bullish crossover when the MACD line moves above the signal line indicates a potential uptrend. A bearish crossover when the MACD line falls below the signal line signals a potential downtrend. Confirm signals: Enter trades when both the MACD and Heikin Ashi candles suggest the same trend direction. Bollinger Bands® track price volatility using upper and lower bands around a moving average. Observe how Heikin Ashi candles interact with Bollinger Bands: A strong trend is indicated when candles consistently touch or stay near the upper or lower band. Reversals often happen when candles move away from the bands. For a buy, look for green Heikin Ashi candles emerging from the lower band. For a sell, look for red candles forming near or moving away from the upper band. Use the middle band (moving average) as a guide for whether you are in an uptrend or downtrend. Moving averages smooth price data to reveal trends over particular timeframes. Add a simple moving average, such as the 50-period or 200-period, to your Heikin Ashi chart. Look for Heikin Ashi candles to cross above or below the moving average: Green candles closing above the moving average can signal a buy. Red candles breaking below the moving average can signal a sell. Combine multiple moving averages: For instance, use a fast-moving average (10-period) and a slow-moving average (50-period). A crossover between these moving averages, along with Heikin Ashi trends, could strengthen signals. Swing trading with Heikin Ashi is focused on taking advantage of medium-term price moves. Heikin Ashi candles are useful here because they smooth out price fluctuations, making it easier to see trends. Spot the trend: Look for a series of green candles in an uptrend, or red candles in a downtrend. Entry point: Enter a swing trade when a new trend begins—typically when the first green or red candle occurs after a series of candles of the opposite color. Exit point: Wait for a reversal signal, such as a color change in the candles or smaller body candles with wicks on both ends, signaling indecision. This method works well when paired with support and resistance levels to time entries and exits effectively. Scalping involves quick trades to secure small gains. Heikin Ashi simplifies scalping by filtering out the noise in price action, helping scalpers focus on clear trends. Use short timeframes, such as the 1-minute or 5-minute charts. Enter trades when the candles are consistently green or red, with little to no wicks in the direction of the trend. Exit quickly when smaller candles or candles with wicks on both ends appear, signaling a possible consolidation or reversal. Combine Heikin Ashi with fast-moving averages or momentum indicators such as the RSI for better precision in this high-speed approach. Heikin Ashi helps gauge the strength of a trend by examining candle characteristics: Strong trend: Large candles with no wicks on the opposite side, such as green candles without lower wicks in an uptrend. Weakening trend: Smaller candles with wicks on both sides, indicating indecision. Reversal or consolidation: A series of smaller candles or candles with alternating colors. By observing these details, traders can decide whether to stay in a trade or prepare for a potential reversal. Reversal patterns in Heikin Ashi charts hint at a possible change in trend direction. Key signals include: Doji-like candles: Small candles with long wicks on both sides. These often signal market indecision before a trend reversal. Color change after a strong trend: For instance, after several green candles in an uptrend, a red candle signals the start of a downtrend. Shrinking candle size: Large candles followed by smaller ones can indicate the trend is losing momentum and may reverse. Heikin ashi candlesticks with no shadows indicate the presence of a robust trend in the specific direction. For instance, the presence of multiple red candles with no upper shadows signals the presence of a sustained downtrend. On the other hand, the presence of green candles with no lower shadows indicates the presence of a robust uptrend. Traders should always remember this when reviewing heikin ashi charts. Easier Trend Recognition Heikin Ashi candles provide a smoother view of market direction, making it easier to spot trends at a glance. A series of green candles signals an uptrend, while a sequence of red ones points to a downtrend, offering a more structured visual compared to traditional candlesticks. Less Market Distraction This charting method reduces erratic price movements, filtering out the smaller fluctuations that often mislead traders. With the unnecessary noise removed, it's easier to focus on the broader market movement instead of getting caught up in minor price shifts. Fewer Misleading Signals Since Heikin Ashi averages price data, it helps traders avoid impulsive decisions triggered by short-lived market movements. This filtering effect minimizes the chances of reacting to misleading signals, which can improve trade accuracy. Better Risk Planning The structured nature of Heikin Ashi charts simplifies decision-making when setting stop-loss and take-profit levels. The smoother price representation helps traders establish more reliable exit and entry points. Stronger Trend-Following Application For traders who prefer riding trends, Heikin Ashi is a valuable tool. It makes it easier to stay in winning trades by clearly showing when a trend is still intact rather than exiting too soon due to minor pullbacks. Lagging Price Reflection Because Heikin Ashi candles rely on averaged prices, they don't display real-time price action as precisely as standard candlesticks. This can be a disadvantage for traders who depend on immediate price data for quick decision-making. Lack of Exact Price Points Traditional candlestick charts show the precise open, high, low, and close for each period. In contrast, Heikin Ashi modifies these values, which means traders lose direct visibility into actual market prices. Challenges in Sideways Markets When the market moves without a clear trend, Heikin Ashi charts can be less reliable. The candles may lack consistency, making it harder to determine whether the price is preparing for a breakout or continuing to range. Needs Extra Confirmation While Heikin Ashi helps clarify trends, it shouldn't be relied upon alone. Traders often combine it with other indicators like volume analysis, moving averages, or support and resistance levels to validate signals. Less Suitable for Quick Trades Scalpers and other short-term traders may find Heikin Ashi impractical due to its smoothing effect. The lag in price representation can make it difficult to react swiftly to fast-moving market conditions. Both Heikin Ashi and Renko charts smooth out price movements, but they do so in very different ways. Heikin Ashi blends current and past price data to create candles that highlight trends while reducing market noise. The transitions between green and red candles are gradual, making it easier to spot trend direction. However, because prices are averaged, the exact market price isn't always clear. Renko Charts ignore time entirely and focus only on price movement. Instead of traditional candles, Renko uses "bricks" that appear only when price moves by a set amount. This removes minor fluctuations and keeps traders focused on the bigger picture. Since these charts filter out small price swings, they are excellent for identifying strong trends but may not capture short-term price action well. If you want a trend-focused view with some time reference, Heikin Ashi is a good choice. If you prefer a pure price-action approach that eliminates time-based distractions, Renko charts might suit you better. Standard candlestick charts display the open, high, low, and close for each time period exactly as they happen. Every candle tells the raw story of price movement, making them useful for spotting quick reversals and market sentiment shifts. However, the downside is that they show every fluctuation, including minor price movements that can create a lot of noise. Heikin Ashi charts smooth out the noise by averaging price data. This makes trends easier to see and helps traders avoid reacting to small, misleading price changes. The trade-off? These charts don't show real-time prices accurately, so traders need to check a traditional candlestick chart for precise entry and exit points. If you need precise, real-time data, stick with candlestick charts. If you're looking for a smoother, less cluttered view of trends, Heikin Ashi can be a valuable tool. Heikin Ashi is a powerful tool in forex trading, helping traders smooth out price fluctuations and identify strong trends with greater clarity. Heikin Ashi's unique approach helps traders reduce market noise, filter out minor price swings, and focus on the overall trend. One of the biggest challenges forex traders face is market whipsaws—false signals that can lead to premature entries and exits. Heikin Ashi addresses this problem by providing a more consistent visualization of trends. Smoother Trends for Better Decision-Making HA candlesticks use an averaged formula that eliminates erratic price movements, making trends easier to follow. Instead of reacting to short-term volatility, traders can confidently hold positions during a well-defined uptrend or downtrend. Color-Based Trend Recognition HA charts often maintain several consecutive green (bullish) or red (bearish) candles, making it easier to determine the prevailing trend. A consistent series of green candles signals a strong uptrend, while red candles indicate a downtrend. This visual clarity prevents traders from getting caught in choppy, indecisive markets. Identifying Trend Reversals with Candlestick Patterns Small-bodied HA candles with wicks on both sides can signal trend exhaustion or possible reversal. Traders wait for a confirmed color shift before entering a new position, reducing the likelihood of false breakouts. Using HA with Other Indicators for Confirmation Many forex traders combine Heikin Ashi with moving averages, RSI, or MACD for additional confirmation. A strong Heikin Ashi trend supported by a moving average crossover or momentum shift improves trade accuracy. Heikin Ashi helps forex traders avoid unnecessary stop-outs while reducing emotional trading decisions. Cryptocurrency markets are known for their extreme volatility, often experiencing rapid price swings within short timeframes. This high level of price fluctuation can make it challenging for traders to identify clear trends and avoid false signals. Heikin Ashi (HA) candlesticks provide a solution by smoothing out price action, helping crypto traders filter out market noise and focus on the overall trend direction. Unlike traditional candlestick charts that depict raw price data, Heikin Ashi modifies price calculations to create a more stable representation of market trends. This is particularly useful in crypto trading, where sharp spikes and wicks often trigger unnecessary panic or misleading signals. Here's how crypto traders use Heikin Ashi to improve their trading strategies: Smoothing Out Crypto Volatility Crypto markets are prone to sudden price spikes and dips due to liquidity changes, news events, or large whale movements. HA candlesticks average out price movements, making it easier to spot sustained uptrends and downtrends without being misled by short-term volatility. Filtering Out False Signals Traditional candlestick charts can produce frequent reversals or choppy price action that leads to poor trade entries and exits. HA reduces these whipsaws by maintaining a consistent color pattern—a prolonged sequence of green (bullish) or red (bearish) candles provides clearer trend confirmation. Identifying Strong Trends for Swing and Position Trading Crypto traders often hold positions for days or weeks, and HA helps them stay in trades longer by reducing emotional reactions to minor pullbacks. When HA candles show several consecutive green bars, traders can confidently ride an uptrend. Similarly, a series of red bars confirms a sustained downtrend. Using HA for Entry and Exit Signals HA candles with small bodies and wicks on both sides indicate market indecision—often appearing before a trend reversal. Traders wait for a confirmed color change (e.g., from red to green) before entering a long position or exiting a short trade. Combining HA with Technical Indicators Many crypto traders use

HA alongside moving averages, RSI, Bollinger Bands, and MACD to refine their trading decisions. For example, a HA trend breakout above a 50-day moving average strengthens a bullish bias, while a red HA candle under a key support level may confirm a downtrend. By reducing the impact of short-term price swings, HA allows traders to avoid emotional decision-making and stick to more reliable trade setups. Treating It Like a Regular Candlestick Chart – Heikin Ashi modifies price data, so it doesn't show the actual market price at any given moment. Relying on it for precise entry and exit points can lead to miscalculations. Always cross-check with a standard candlestick chart. Ignoring Lagging Nature – Since it smooths out price movements, Heikin Ashi is slower in reacting to market shifts. Traders who use it for fast decision-making, like scalping, might enter or exit too late. Overlooking Consolidation Phases – In sideways markets, Heikin Ashi candles can become small and choppy, making it harder to tell where price is headed. This can lead to false trend signals. Using It Alone – Heikin Ashi helps identify trends, but it's not enough by itself. Pairing it with indicators like volume, moving averages, or support and resistance levels improves accuracy. The ideal time frame depends on your trading style: Swing traders prefer 4-hour and daily charts since Heikin Ashi works best for spotting larger trends. Day traders might use 30-minute or 1-hour charts for a balanced view of trend direction without too much lag. Scalpers generally avoid Heikin Ashi since it reacts too slowly for rapid trades. For most traders, higher time frames (4H, daily, weekly) provide clearer trends and reduce the impact of short-term market noise. The Heikin Ashi technique was developed by Munehisa Homma, a legendary Japanese rice trader from the 1700s. He is also credited with inventing candlestick charting itself. Homma's insights into market psychology and price movement laid the foundation for many modern trading strategies. Heikin Ashi is very effective for trend-following but has limitations: Reliable for spotting trends – The smoothing effect makes it easier to see when a trend is gaining strength or losing momentum. Less reliable for reversals – Because of its lagging nature, Heikin Ashi doesn't provide early reversal signals. Traders often use additional indicators like RSI or MACD to confirm changes in direction. Not great for fast markets – If you need immediate price data, Heikin Ashi may not be the best choice, as it hides short-term price action. In summary, it's a strong tool for staying in trends but should always be used with other analysis techniques to confirm signals. Heikin Ashi is highly accurate for identifying trends but less precise when it comes to exact price levels. Since it smooths out price movements, it reduces false signals and helps traders stay in trades longer. However, because it averages price data, it lags behind actual market prices. It's best used alongside traditional candlestick charts and other indicators for confirmation. Yes, Heikin Ashi is a lagging indicator because each candle is calculated using past price data. This means it does not update in real-time like standard candlesticks. While this delay makes it better at filtering out noise and spotting trends, it also means traders might react slower to sudden price reversals. A strong trend-following strategy works best with Heikin Ashi. Here's a simple approach: Identify the Trend – Look for a series of green candles (uptrend) or red candles (downtrend). Use Moving Averages – Combine with the 50- or 200-period moving average to confirm trend direction. Enter on Trend Continuation – Enter a trade when a red-to-green shift happens in an uptrend (or vice versa in a downtrend). Exit on a Color Change – If green candles turn red, it might be time to take profits or exit. Set Stop-Loss Wisely – Place stop-loss orders below the recent swing low (in an uptrend) or above the swing high (in a downtrend). This approach helps traders ride trends while minimizing false signals. The Heikin Ashi 5-rule method is a simple way to interpret trends: Long Green Candles = Strong Uptrend – No shadows (wicks) on the bottom signal strong buying momentum. Long Red Candles = Strong Downtrend – No upper shadows mean sellers are in control. Small Candles with Wicks = Trend Weakening – If candles shrink and show wicks on both ends, the trend is losing strength. Color Changes = Potential Reversal – A green-to-red or red-to-green switch hints that momentum is shifting. Wait for Confirmation – A single color change isn't enough. Always wait for two or more consecutive candles before making a move. This rule helps traders stay in winning trades longer and avoid jumping in too early on weak reversals. Heikin-Ashi, also sometimes spelled Heiken-Ashi, means "average bar" in Japanese. The Heikin-Ashi technique can be used in conjunction with candlestick charts when trading securities to spot market trends and predict future prices. It's useful for making candlestick charts more readable and trends easier to analyze. For example, traders can use Heikin-Ashi charts to know when to stay in trades while a trend persists but get out when the trend pauses or reverses. Most profits are generated when markets are trending, so predicting trends correctly is necessary. The Heikin-Ashi technique is used with candlestick charts to help traders identify and analyze trends.Heikin-Ashi charts can be used in any market; they smooth out candlestick patterns and identify trading opportunities.There are five primary signals used in Heikin-Ashi charts.Heikin-Ashi charts need to be used with other technical analysis tools because they don't reflect real-time prices. Normal candlestick charts are composed of a series of open-high-low-close (OHLC) candles set apart by a time series. The Heikin-Ashi technique shares some characteristics with standard candlestick charts but uses a modified formula of close-open-high-low (COHL): Close = 1 4 (Open + High + Low + Close) (The average price of the current bar) Open = 1 2 (Open of Prev. Bar + Close of Prev. Bar) (The midpoint of the previous bar) High = Max[High, Open, Close] \begin{aligned}&\text{Close}=\frac{1}{4}\text{ (Open}+\text{High}+\text{Low}+\text{Close)}\\&\quad(\textit{The average price of the current bar})\\&\text{Open}=\frac{1}{2}\text{ (Open of Prev. Bar}+\text{Close of Prev. Bar)}\\&\quad(\textit{The midpoint of the previous bar})\\&\text{High}=\text{Max[High, Open, Close]}\\&\text{Low}=\text{Min[Low, Open, Close]}\end{aligned} Close=41 (Open+High+Low+Close)(The average price of the current bar)Open=21 (Open of Prev. Bar+Close of Prev. Bar)(The midpoint of the previous bar)High=Max[High, Open, Close] The Heikin-Ashi chart is constructed like a regular candlestick chart, except the formula for calculating each bar is different, as shown above. The time series is defined by the user, depending on the type of chart desired, such as daily, hourly, or five-minute intervals. The down days are represented by filled candles, while the up days are represented by empty candles. These can also be colored in by the chart platform, so up days are white or green, and down days are red or black, for example. Image by Sabrina Jiang Â© Investopedia 2020 There are a few differences to note between the two types of charts, and they're demonstrated by the charts above. Heikin-Ashi has a smoother look because it is essentially taking an average of the movement. There is a tendency with Heikin-Ashi for the candles to stay red during a downtrend and green during an uptrend, whereas normal candlesticks alternate colors even if the price is moving dominantly in one direction. The price scale is also of note. The current price shown on a normal candlestick chart will also be the current price of the asset, and that matches the closing price of the candlestick (or the current price if the bar hasn't closed). Because Heikin-Ashi is taking an average, the current price of the candle may not match the price at which the market is actually trading. For this reason, many charting platforms show two prices on the Y-axis: one for the calculation of the Heiken-Ashi and another for the current price of the asset. These charts can apply to any market. Most charting platforms have Heikin-Ashi charts included as an option. There are five primary signals that identify trends and buying opportunities: Hollow or green candles with no lower "shadows" indicate a strong uptrend: Let your profits ride!Hollow or green candles signify an uptrend: You might want to add to your long position and exit short positions.Candles with a small body surrounded by upper and lower shadows indicate a trend change: Risk-loving traders might buy or sell here, while others will wait for confirmation before going long or short.Filled or red candles indicate a downtrend: You might want to add to your short position and exit long positions.Filled or red candles with no higher shadows identify a strong downtrend: Stay short until there's a change in trend. These signals may make locating trends or trading opportunities easier than with traditional candlesticks. The trends are not interrupted by false signals as often and are thus more easily spotted. Image by Sabrina Jiang Â© Investopedia 2020 The chart example above shows how Heikin-Ashi charts can be used for analysis and making trading decisions. On the left, there are long red candles, and at the start of the decline, the lower wicks are quite small. As the price continues to drop, the lower wicks get longer, indicating that the price dropped but was then pushed back up. Buying pressure is starting to build. This is followed by a strong move to the upside. The upward move is strong and doesn't give major indications of a reversal until there are several small candles in a row, with shadows on either side. This shows indecision. Traders can look at the bigger picture to help determine whether they should go long or short. The charts can also be used to keep a trader in a trade after a trend begins. It's usually best to stay in a trade until the Heikin-Ashi candles change color. A change in color doesn't always mean the end of a trend—it could just be a pause. Heikin-Ashi uses averages, which may not match the prices the market is trading at. The technique smooths out trends on a chart to give a better trend indicator but should be used with technical analysis to find entry and exit points. Heikin-Ashi is a trading tool used by some traders in conjunction with technical analysis to assist in identifying trends. By averaging price data, traders use this to reduce market noise, making it easier to identify price trends. Trading is preference-based, so the indicators that work best with Heikin-Ashi are the ones you are most familiar with and practiced with. Moving averages, Bollinger bands, and the Relative Strength Index are examples of indicators that can be used with Heikin-Ashi. Heikin-Ashi is a trading tool used by technical traders to smooth out candlestick patterns, making it easier to read and reveal price trends. It can be used across many markets and relies on five signals to highlight trading opportunities and decrease false signals. It needs to be used with other technical analysis tools because it does not show real-time prices. A Japanese candlestick-based technical trading technique that uses candlestick charts to represent and visualize market price data Over 2 million + professionals use CFI to learn accounting, financial analysis, modeling and more. Unlock the essentials of corporate finance with our free resources and get an exclusive sneak peek at the first module of each course. Start Free The Heikin-Ashi technique is a Japanese candlestick-based technical trading tool that uses candlestick charts to represent and visualize market price data. It is used to identify market trend signals and forecast price movements. The Heikin-Ashi method uses average price data that helps to filter out market noise. The absence of market noise results in a clear illustration of market trends and direction which helps determine potential price movements. The trading technique assists traders in identifying when they should hold on to a trade, pause a trade, or identify if a reversal is about to occur. Traders can adjust their positions accordingly, i.e., either avoid making losses or lock in a profit on the chosen position. The Heikin-Ashi trading technique was developed by Munehisa Homma in the 1700s. The technique shares some characteristics with the traditional candlestick charts used in trading but differs in how the values for candlesticks are computed. In Japan, the word Heikin means "average" or "balance," and the word Ashi means "bar" or "foot." Hence, Heikin-Ashi means "average bar," resonating with the trading technique, which uses the average price of the security. The main difference between the traditional candlestick chart and the Heikin-Ashi chart is that the latter uses a modified formula based on two period moving averages instead of open, high, low, and close prices. Hence, the technique generates a smoother chart making it easier to spot trends and reversals. The Heikin-Ashi charts also obscure gaps and some price data. Heikin-Ashi Formula When calculating the Heikin-Ashi formula, we use the open-close data from the previous period and the open-high-low-close (OHLC) data from the current period. Modified OHLC values are displayed as candlesticks. The computations are as given below: Where: HA – Heikin-Ashi -1 – Prior period figures 0 – Current period figures Heikin-Ashi data can be of different time frames, i.e. intraday, weekly, or monthly, etc. The HA Open is always set to the midpoint of the body of the previous bar, and the HA Close is calculated as the average price of the current bar. The HA High is the highest value among the current high, HA Open, and HA Close. HA Low is the lowest value among the current low, HA Open, and HA close. Constructing the Heikin-Ashi Chart The color of the Heikin-Ashi chart candles is usually red during a downtrend and green during an uptrend. However, different color variants have been known to be used. The indication of a potential change in the trend is given by a change in the color of the HA candle. We've used stock data for a listed entity from February 2020 to June 2020 to generate figures for the Heikin-Ashi chart below. The Heikin-Ashi chart has smooth directional moves with more successive bars of the same color which gives a clearer picture of price movements. The Heikin-Ashi chart shows a few differences from the traditional candlestick chart. The traditional candlestick chart pattern changes colors from green to red and vice versa, making it difficult for traders to interpret and identify trends. The Heikin-Ashi chart removes the noise and displays consecutive colored candles, making it that much easier to interpret and identify prior price movements and current trends. Heikin-Ashi Indicator Signals The Heikin-Ashi technique reflects the trend prevailing in the market through indicator signals. There are two main aspects of the Heikin-Ashi indicator signals; trend strength and trend reversal. Trend Strength The first aspect is measuring the strength of the trend. Small consolidations and corrections may not be visible on the chart due to the smoothing effect of the indicator. Hence, in order to trade in the trend with the Heikin-Ashi technique, it is advisable to use a trailing stop to widen the rewards of trading within the trend. It is recommended that a trader should stay in the trend to profit from it if the trend is strong. Below are the different kinds of trends for Heikin-Ashi: Bullish trend: A strong signal for an uptrend shown by the presence of a lot of consecutive green candlesticks without lower shadows. Bearish trend: A strong downtrend signal is shown by a lot of consecutive red candlesticks without upper wicks. Triangles: There are three types of Heikin-Ashi triangles being ascending, descending, and symmetrical ones. If the indicator breaks above the upper boundary of a symmetrical or ascending triangle, it's very likely that the uptrend will persist. If candles drop below the bottom line of the descending triangle, the bearish trend will continue and strengthen. Trend Reversal A trend reversal signal helps in the determination of the time to exit a previous trend-following trade and enter a new trend. By identifying a reversal signal, a trader is able to avoid losses by entering a new trade instead. Doji candlestick: A candlestick with a small body and long shadows. It always signals the presence of market uncertainties. When it comes to the Heikin-Ashi, it signals a trend reversal. Wedges: There are two types of wedges, rising and falling wedges. Wedges are also a little more like triangles. A rising wedge indicator requires a trader to wait until the candlestick breaks below the indicator's bottom line. If a falling wedge is present, a trader should wait for the price to break above the upper line, and the downtrend will reverse. Heikin-Ashi Strategies Below are some Heikin-Ashi strategies that can be utilized for the benefit of traders to increase their profits and margins. 1. The Emergence of a Strong Bullish or Bearish Trend This is the most common strategy for the Heikin-Ashi technique i.e. to identify the beginning of a strong uptrend or downward trend. Signal indicators of Heikin-Ashi are normally considered very reliable and are rarely wrong. Hence, traders can ride the trend profitably due to the credibility of the Heikin-Ashi trend signal. With the emergence of a bullish trend, traders with short positions may exit while those with long positions should increase and consolidate their positions. 2. Identify Candlesticks with No Shadows Identifying candlesticks with no shadows is a very credible signal that a strong bullish trend is starting. This strategy is one of the prime Heikin-Ashi strategies because of its record performance and success rate. The greater the sequence of candlesticks with no tails, the stronger the expected trend will be. Equally so, identifying candlesticks with no upper shadows, traders should expect a new stable downward bearish trend to continue. 3. Candlesticks with Small Bodies Indicate Trend Pauses or Reversals The emergence of candles with small bodies is a signal that traders should be aware of and take notice. These candles are used to signal when a trend is about to pause or reverse. Hence, when traders notice this, they move to open new positions in response to an ending trend. However, traders should be cautious as the trend might be pausing and not necessarily reversing. In that case, skill is required on the part of the trader to determine if it is really a reversal coming or just a trend pause. Benefits of the Heikin-Ashi Technique Accessibility: Heikin-Ashi is one of the most accessible indicators that does not require any installation and can be found on any trading platform. High chart readability: It is easy to interpret as any trader is able to read the candlestick patterns. Heikin-Ashi candlesticks are better deciphered than traditional candlestick charts hence its easier to identify market trends and movements. Reliability: Heikin-Ashi is a very reliable indicator, providing accurate results. It uses historical data, which is also quite dependable. Filtering of market noise: The indicator filters out market noise and reduces small corrections making the signals more transparent. The smoothing effect makes it easier for trend identification. Markets are full of noise nowadays; hence, with the help of noise reduction, the Heikin-Ashi technique helps traders plan their entry and exit points more efficiently. Ability to combine with other indicators: The Heikin-Ashi indicator can be combined with other technical indicators to give even stronger signals on market movement. Timeframe tolerant: The technique can be used on any time frame from hourly, daily, monthly, etc. However, bigger time frames are more reliable. Limitations of the Heikin-Ashi Technique Time gap: The use of historical prices where the base signals of the Heikin-Ashi indicator are based on means that there is a time lag involved. Lack of price gaps: Most traders use price gaps to analyze price momentum, trigger entries, or position stop-loss orders. Although Heikin-Ashi lacks price gaps, traders can counter such a limitation during a trading session by switching temporarily to traditional candlesticks. No full price information: Heikin-Ashi data is averaged; hence, it does not show actual open and close prices. This may not work well for day traders or scalpers with more active securities. Thank you for reading CFI's guide on the Heikin-Ashi Technique. To keep advancing your career, the additional CFI resources below will be useful: Let me ask you…Have you ever found it hard to trade using Japanese Candlestick charts? There are too many green candles and red candles in the chart that you just can't decide if you should be a buyer or a seller!That's why in today's post…I want to make your life easier by introducing the Heiken Ashi candlesticks.Here's what you'll learn:What is the Heiken Ashi candlestickWhy you should start using Heiken Ashi candlestick in your tradingHow not to use the Heiken Ashi (and what to do instead)Heiken Ashi trading techniques to profit in bull & bear marketsCool?So first, let's get started with the basics.Shall we?What is the Heiken Ashi candlestick The Heiken Ashi is a type of candlestick that is used in technical analysis.It looks very similar to Japanese candlesticks that you must have seen before.But!There are slight differences that you must know.For Japanese candlesticks…Each candle is independent of the other, and you're pretty much just looking at actual Open, High, Low, Close prices for the period.Here's what I mean: You can be looking at the daily chart, hourly or 1-minute chart.But each candle is not affected by the other!For Heiken Ashi, each new candle is calculated based on the previous candle.Here's what I mean: Heiken Ashi Close price is an average of the actual O+H+L+C of the current candle!Wherein…The High is the maximum of H or O or C of the current candle.The Low is the minimum of L or O or C of the current candle.The Open price is half of the previous candle's Open price + the previous candle's Close price.This means that a bullish and bearish candlestick is slightly different in Heiken Ashi as well.To summarize things…Here's a brief explanation on what makes the two different:For Japanese candlesticks:A bullish candlestick has its closing price above its opening priceA bearish candlestick has its closing price below its opening price For Heiken Ashi candlesticks:A bullish candlestick has its closing price above the middle of the previous candleA bearish candlestick has its closing price below the middle of the previous candle Makes sense?So, now that you know the differences between a Japanese Candlestick and a Heiken Ashi bar…Let me teach you "why" you'd want to consider trading with the Heiken Ashi.Sounds good?Then keep on reading!Why you should start using Heiken Ashi candlestick in your tradingIf you're a newbie trend trader and can't identify the trend for nuts…Then the Heiken Ashi candlesticks will help you a lot.Here's a quick example!Look at this Japanese candlestick chart of USDJPY: Now let's compare that with the Heiken Ashi chart of the same USDJPY: Now tell me…Which allows you to see the trend at a glance?Without having to second guess…You can clearly see trends on the Heiken Ashi chart of the USDJPY!Still not convinced?Then let me show you more examples of how these perform in multiple trading conditions…Uptrend You can see the uptrend characterized by these green candles with:Big bodiesNo lower wickMore often than not, they have a longer upper wickDowntrend Over here you can see minor pullbacks or downtrends, by red candles with:Big bodiesNo upper wickUsually have a longer lower wickReversal Now, how do you tell that the market is about to reverse?Look at these candles with:Super long upper and lower wicksBut very small bodiesThey look exactly like a doji reversal candlestick.It's really straightforward, right?You pretty much get a less noisy chart and look beyond minor pullbacks in a trend that prevents analysis paralysis.This means you can use the Heiken Ashi as a trend filter for the markets and decide if you want to go long or sell short!But just like every other tool and concept out there, it's not the holy grail.There are some strengths, while there are some weaknesses.Since I've shared what Heiken Ashi is capable of, I'll now share with you what it's not.Curious?Then let's move on…How not to use the Heiken Ashi (and what to do instead)Recall…Heiken Ashi's Close price is an average of the actual O+H+L+C of the current candle.Its Open price is half of the previous candle's Open price + the previous candle's Close price.This means as a scalper on the 1-min timeframe…You don't want to be using the Heiken Ashi candlesticks.Why?Because the Open and Close prices are calculated based on average prices which take time to form!So, you'll never be able to make quick scalping decisions!If you're a scalper who needs the latest price…It's best to stick with Japanese candlesticks.So, to unlock Heiken Ashi candlesticks' full potential, do this instead…Trade using Heiken Ashi on the higher timeframes, like the hourly timeframe and above.You can use then use it to easily identify the trend and hop into a trade (which I'll explain more about next).Moving on…Heiken Ashi trading techniques to trade with the trend in bull & bear marketsIn this section…I want to share with you the Heiken Ashi trading techniques along with examples so you can start to crush your trades.Even as a newbie trader!So let's get straight to the point…How to use Heiken Ashi for bullish trend continuationThere are 4 parts to this bullish trend continuation technique:Identify the trend on the higher timeframe using Heiken Ashi candlesWait for pullback into an area of value using 20 & 50 EMAs on the lower timeframeGo long on a valid entry triggerStop loss 1 ATR below recent swing low and take profit before previous swing highLet me explain…Firstly… Identify the trend on the higher timeframe using Heiken Ashi candles. On the right-hand side…You can see USDJPY is clearly in an uptrend at this stage as the Heiken Ashi candles are green, with big bodies and little to no lower wicks.However, the price has moved quite a bit and you don't want to jump in straight, in case it makes a huge collapse against you.So, what you want to do is this… Secondly, wait for pullback into an area of value using 20 & 50 EMAs on the lower timeframe. At this point…The price has pulled back within the EMAs and resting right above the 50 EMA.This is when the market is "taking a break" and the area between 20 EMA and 50 EMA serves as an area of value for you to start looking for an entry trigger.Thirdly, go long on a valid entry trigger. Your entry trigger will be the big, green-bodied candlestick with little to no lower wick after the price bounces off the 50 EMA.Go long on the next candle after you see this candle form.Why is that big green candle a good entry trigger?Recall that the closing price of a Heiken Ashi candle is the average of the actual O+H+L+C of the current candle.And despite being an average value (which could have been affected by highs and lows of the day), it still closes above the previous Heiken Ashi candle's high.This means there is momentum behind the move, so it serves as a valid entry trigger for a bullish trend continuation.And finally, stop loss 1 ATR below recent swing low and take profit before previous swing high. Your stop loss will simply be 1 ATR below the most recent swing low (below the 50 EMA).If you want to learn more about stop loss hunting secrets, you can check out this video. I'll not be diving into too many details here.You'll also want to take profit before the previous swing high.You don't want to be too greedy with your profit target if you're just starting with this simple trend continuation technique.Next…How to use Heiken Ashi for bearish trend continuationFor a bearish trend continuation, it is simply the opposite:Identify the trend on the higher timeframe using Heiken Ashi candlesWait for a pullback into an area of value using 20 & 50 EMAs on the lower timeframeGo short on a valid entry triggerStop loss 1 ATR above the recent swing high and take profit before the previous swing lowFirstly, identify the trend on the higher timeframe using Heiken Ashi candles. Using just the Heiken Ashi candles on the Daily chart, you can see the price is currently bearish with big, red-bodied candles, with little to no upper wicks.Next…Secondly, wait for pullback into an area of value using 20 & 50 EMAs on the lower timeframe.Let the price come into the area of value within the 20 EMA and 50 EMA. You can see that even within the 20 EMA & 50 EMA, there's a doji that formed.This means that the short-term bullish candles are about to lose momentum and the market is about to turn bearish.Thirdly, go short on a valid entry trigger. This latest red Heiken Ashi candle with no upper wick but a long body with its closing price much lower than the previous candle is your entry trigger.You'll go short on the open of the next candle.And finally, stop loss 1 ATR above recent swing high and take profit before previous swing low. Having your stop loss 1 ATR above the previous swing high gives your trade some space to "breathe", so you don't get stopped out of your trade too early.You can then take profit before the previous swing low.However…You don't want to set your profit target beyond the swing low because the market is more likely to reverse altogether without touching it.Makes sense?So, that's it!That's how you trade the Heiken Ashi across different market scenarios!With that said, let's do a quick recap on what you've learned today.Shall we?ConclusionTo summarize everything in this training guide…Here's what you've learned today:Heiken Ashi candlesticks' OHLC prices are calculated differently from Japanese candlesticksUse Heiken Ashi candlesticks as trend filters to know when to be a buyer or sellerAvoid using Heiken Ashi for scalping as the candles take time to form and are not exact open or close prices of the periodHeiken Ashi trend continuation techniques to profit in both bull and bear marketsNow over to you…Have you used Heiken Ashi in your trading before?If not, will you give the Heiken Ashi a shot in your trading?Let me know in the comments below! Heikin-Ashi, also sometimes spelled Heiken-Ashi, means "average bar" in Japanese. The Heikin-Ashi technique can be used in conjunction with candlestick charts when trading securities to spot market trends and predict future prices. It's useful for making candlestick charts more readable and trends easier to analyze. For example, traders can use Heikin-Ashi charts to know when to stay in trades while a trend persists but get out when the trend pauses or reverses. Most profits are generated when markets are trending, so predicting trends correctly is necessary. The Heikin-Ashi technique is used with candlestick charts to help traders identify and analyze trends.Heikin-Ashi charts can be used in any market; they smooth out candlestick patterns and identify trading opportunities.There are five primary signals used in Heikin-Ashi charts.Heikin-Ashi charts need to be used with other technical analysis tools because they don't reflect real-time prices. 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Bar)(The midpoint of the previous bar)High=Max[High, Open, Close] The Heikin-Ashi chart is constructed like a regular candlestick chart, except the formula for calculating each bar is different, as shown above. The time series is defined by the user, depending on the type of chart desired, such as daily, hourly, or five-minute intervals. The down days are represented by filled candles, while the up days are represented by empty candles. These can also be colored in by the chart platform, so up days are white or green, and down days are red or black, for example. Image by Sabrina Jiang Â© Investopedia 2020 There are a few differences to note between the two types of charts, and they're demonstrated by the charts above. Heikin-Ashi has a smoother look because it is essentially taking an average of the movement. There is a tendency with Heikin-Ashi for the candles to stay red during a downtrend and green during an uptrend, whereas normal candlesticks alternate colors even if the price is moving dominantly in one direction. The price scale is also of note. The current price shown on a normal candlestick chart will also be the current price of the asset, and that matches the closing price of the candlestick (or the current price if the bar hasn't closed). Because Heikin-Ashi is taking an average, the current price of the candle may not match the price at which the market is actually trading. For this reason, many charting platforms show two prices on the Y-axis: one for the calculation of the Heiken-Ashi and another for the current price of the asset. These charts can apply to any market. Most charting platforms have Heikin-Ashi charts included as an option. There are five primary signals that identify trends and buying opportunities: Hollow or green candles with no lower "shadows" indicate a strong uptrend: Let your profits ride!Hollow or green candles signify an uptrend: You might want to add to your long position and exit short positions.Candles with a small body surrounded by upper and lower shadows indicate a trend change: Risk-loving traders might buy or sell here, while others will wait for confirmation before going long or short.Filled or red candles indicate a downtrend: You might want to add to your short position and exit long positions.Filled or red candles with no higher shadows identify a strong downtrend: Stay short until there's a change in trend. These signals may make locating trends or trading opportunities easier than with traditional candlesticks. The trends are not interrupted by false signals as often and are thus more easily spotted. Image by Sabrina Jiang Â© Investopedia 2020 The chart example above shows how Heikin-Ashi charts can be used for analysis and making trading decisions. On the left, there are long red candles, and at the start of the decline, the lower wicks are quite small. As the price continues to drop, the lower wicks get longer, indicating that the price dropped but was then pushed back up. Buying pressure is starting to build. This is followed by a strong move to the upside. The upward move is strong and doesn't give major indications of a reversal until there are several small candles in a row, with shadows on either side. This shows indecision. Traders can look at the bigger picture to help determine whether they should go long or short. The charts can also be used to keep a trader in a trade after a trend begins. It's usually best to stay in a trade until the Heikin-Ashi candles change color. A change in color doesn't always mean the end of a trend—it could just be a pause. Heikin-Ashi uses averages, which may not match the prices the market is trading at. The technique smooths out trends on a chart to give a better trend indicator but should be used with technical analysis to find entry and exit points. Heikin-Ashi is a trading tool used by some traders in conjunction with technical analysis to assist in identifying trends. By averaging price data, traders use this to reduce market noise, making it easier to identify price trends. Trading is preference-based, so the indicators that work best with Heikin-Ashi are the ones you are most familiar with and practiced with. Moving averages, Bollinger bands, and the Relative Strength Index are examples of indicators that can be used with Heikin-Ashi. Heikin-Ashi is a trading tool used by technical traders to smooth out candlestick patterns, making it easier to read and reveal price trends. It can be used across many markets and relies on five signals to highlight trading opportunities and decrease false signals. It needs to be used with other technical analysis tools because it does not show real-time prices. The Heikin Ashi (HA) is a type of price chart that uses averages to show the price movement of an asset. This chart is used as a form of technical analysis to look at an asset's price movements with regard to an overall trend. By being able to see the overall trend more clearly, you can make a better-informed decision about whether to enter or exit a trade. Like regular candlesticks, Heikin Ashi candles will display four different price levels (lowest point, highest point, and open and close prices), but it will use data from the current and previous session to derive their values. That being said, Heikin Ashi charts can be applied to the same time values as regular candlestick charts, making them useful as part of a scalping, day or position trading strategy. As can be seen from the below comparison, HA charts have a smoother appearance than regular candlestick charts. The Heikin Ashi formula is the method used to calculate each candlestick on the chart. Some of the formulas or calculations are more complicated than those used for a standard candlestick. Here's a simplified version of how to calculate the open, close, high and low for Heikin Ashi candlesticks: Open = (open of previous bar + close of previous bar) divided by 2 Close = (open + close + high + low of current bar) divided by 4 High = the maximum value from the high, open, or close of the current period Low = the minimum value from the low, open, or close of the current period When reading HA candlesticks, you should look at their wick, body and colour. The top of the upper wick is the highest value on the candle The bottom of the lower wick is the lowest value on the candle The body is the difference between a session's open and close prices If the candle is green, the closing value is greater than the opening value, and is represented at the top of the body If the candle is red, the closing value is lower than the opening value and is represented at the bottom of the body There are a few ways to trade using the Heikin Ashi chart. First, understand that each candlestick will tell you something about the price trend. For example, a long-bodied green Heikin Ashi candle with no lower wick is considered indicative of a strong upward trend. Traders who have bought into a market might use these HA signals as indications to hold on to their positions in an attempt to maximise gains in an uptrend. The emergence of a lower wick on a Heikin Ashi candle signals that an uptrend might be losing its bullish momentum. Traders who have bought into a market might consider this as a signal to start looking to exit their respective long trades. A long-bodied red HA candle with no upper wick is considered indicative of a strong downward trend. Traders who have shorted a market might use these HA signals as indications to hold on to their positions in an attempt to maximise gains during a bearish trend. The emergence of an upper wick on the HA candle signals that a downtrend might be losing momentum. Traders who have shorted a market might consider this as a signal to start looking to exit their respective bearish positions. Because HA charts show the directional market trend over the longer term, it can also be useful to apply trend indicators to identify the strength of market momentum. Then, you can trade according to the outcome of your analysis, knowing that day-to-day fluctuations have not been taken into account. The most common technical indicators to use include moving averages, the relative strength index (RSI) and the average directional index (ADX). To trade using the Heikin Ashi chart, you can use derivatives such as CFDs. With derivatives, you won't take ownership of the underlying assets. Instead, you'll be speculating on their positive or negative price movements. Follow these steps to trade using the Heikin Ashi candlestick chart: You can practise trading with an IG demo account. You'll be able to open and close positions in a risk-free environment with £10,000 in virtual funds. The Heikin Ashi (HA) chart is a type of price chart that uses daily averages to show the median price movement of an asset Regular candlesticks display four different price levels of an asset in a specified period, but HA candlesticks use data from the current and previous session to derive their values Heikin Ashi charts can be useful as part of a scalping, day or position trading strategy When reading HA candlesticks, the high is the highest value on the candle and the low is the lowest value on the candle If the candle is green, the closing value is greater than the opening value, and is represented at the top of the body If the candle is red, the closing value is lower than the opening value and is represented at the bottom of the body A long-bodied green Heikin Ashi candle with no lower wick is considered indicative of a strong bullish trend A long-bodied red HA candle with no upper wick is considered indicative of a strong bearish trend Because HA candlesticks show the directional market trend, it can also be useful to apply trend indicators (moving average, RSI and ADX) in order to identify the strength of market momentum To trade using the Heikin Ashi chart, you can use derivatives such as CFDs Open an account to start trading Heikin ashi charts are used by technical traders to smooth out the Japanese candlestick patterns making it easier to spot trends and reversal points. Heikin ashi is a Japanese term meaning "average bar." Heikin ashi candles plot the average price data for each period. They do not plot the exact price changes like regular Japanese candlestick charts. By plotting the average price data, heikin ashi charts help traders identify more significant trends. A heikin ashi candle uses the foundational prices of the Japanese candle – the open, high, low, and close. The heikin ashi candle plots the average closing (using data from the previous candle), opening, high and low prices reached within a specific period. This means the color of the heikin ashi candle could be different from the Japanese candlestick. The result is a smoothed trend of color on the price chart making the trends easier to identify. The heikin ashi candles are calculated as follows: Close Price = (Open + High + Low + Close) / 4This is the average of the candle's four central values. Open Price = (Previous Candle's Open + Previous Candle's Close) / 2This creates a smooth transition between candles. High Price = The highest value among the High, Open, and Close. Low Price = The lowest value among the Low, Open, and Close. This formula generates candles that emphasise trends and filter out short-term fluctuations. They create a generally smoothed color of trends on the heikin ashi chart. To calculate Heikin Ashi candles, follow these steps for each period (e.g., daily, hourly): Calculate the Close Price Close = (Open + High + Low + Close) / 4 This is the average of the current period's four main price points. Unlike a normal candlestick chart, which shows real-time price data, Heikin Ashi uses averaged prices to smooth out transitions from the previous to current candle. Open = (Previous Open + Previous Close) / 2 The open value is a midpoint of the previous Heikin Ashi candle. High = max(High, Open, Close) The high is the greatest value among the current period's high, open, and close prices. Low = min(Low, Open, Close) The low is the smallest value among the current period's low, open, and close prices. Suppose the following values for a period: Open: 1.1000 High: 1.1200 Low: 1.0900 Close: 1.1100 Previous Heikin Ashi Candle: Open: 1.0950 Close: 1.1050 Using the formulas: Close = (1.1000 + 1.1200 + 1.0900 + 1.1100) / 4 = 1.1050 Open = (1.0950 + 1.1050) / 2 = 1.1000 High = max(1.1200, 1.1000, 1.1050) = 1.1200 Low = min(1.0900, 1.1000, 1.1050) = 1.0900 The resulting Heikin Ashi candle has: Open: 1.1000 Close: 1.1050 High: 1.1200 Low: 1.0900 This calculation smooths price data, making trends more evident for traders. To spot and interpret Heikin Ashi patterns, focus on the characteristics of the candles as they reveal the market's trend direction and momentum. These patterns help traders understand the overall price trend in the market. Appearance: A series of green candles with no lower shadows (or tiny ones). Interpretation: The market is powerfully moving upward. Buyers are in control, and momentum is steady. Action: Consider staying in long (buy) positions or entering if the trend has just begun. Appearance: A series of red candles with no upper shadows (or tiny ones). Interpretation: The market is in a steady downward trend. Sellers are dominant, and prices are falling consistently. Action: Consider holding or entering short (sell) positions. Appearance: Small-bodied candles with both upper and lower shadows. Interpretation: The market is uncertain, and buyers and sellers are evenly matched. A potential trend reversal or consolidation may follow. Action: Wait for confirmation of the next trend direction before acting. Bullish Reversal: A green/red candle following a sequence of red candles, frequently featuring a long lower shadow. Bearish Reversal: A red/green candle following several green candles, frequently featuring a long upper wick. Interpretation: These candles indicate that the prior trend could be losing strength, and a reversal might occur. Action: Before making a trade, seek further validation, such as a breach of a support or resistance level. Employ Heikin Ashi alongside trend indicators such as moving averages or the RSI for validation. Focus on patterns of candles instead of lone ones for a clearer insight into market trends. Refrain from analysing trends in low-volume markets, since they may provide deceptive indications. Examining Heikin Ashi candlesticks using these concepts helps you identify trends and predict possible reversals more efficiently. Smooth Trends Heikin Ashi candles filter out noise by averaging price data. Trends are more apparent, with fewer false signals compared to traditional candlesticks. Color Coding for Trends Green Candles: Indicate bullish trends (upward movement). Red Candles: Indicate bearish trends (downward movement). No Shadows in Strong Trends Uptrend: Green candles often lack lower shadows, showing strong buying pressure. Downtrend: Red candles often lack upper shadows, reflecting dominant selling pressure. Small Bodies Signal Indecision Candles with small bodies and both shadows suggest market indecision or potential reversals. Reversal Indicators A change in candle color, often accompanied by long shadows, can signal a possible trend reversal. Lagging Nature Since Heikin Ashi uses averaged prices, patterns may lag slightly behind real-time market changes, making it best for identifying existing trends rather than predicting rapid shifts. These characteristics make Heikin Ashi ideal for identifying clear trends, filtering out market noise, and avoiding hasty trading decisions. Heikin Ashi informs traders of the general market trend by mitigating price variations. Rather than displaying every minor fluctuation like conventional candlesticks, Heikin Ashi emphasises whether the market trends upward, downward, or sideways. Key takeaways: Green Candles: The market is trending upward (bullish momentum). Red Candles: The market is trending downward (bearish momentum). Small Candles with Shadows: The market is uncertain or entering a potential reversal phase. By focusing on trends rather than noise, Heikin Ashi helps traders avoid overreacting to small price movements and make better-informed decisions. Spot Trends Easily Green candles with no lower shadows suggest strong upward momentum. Red candles with no upper shadows indicate strong downward momentum. Action: Stay with the trend until you see signs of a reversal. Identify Trend Reversals Look for a shift in candle colors (e.g., red to green or green to red). Pay attention to candles with long wicks, as they can signal a weakening trend. Action: Wait for confirmation before entering a new position. Filter False Signals Heikin Ashi smooths out market noise, so use it to confirm trends rather than reacting to every price spike. Action: Combine it with other indicators like the RSI or moving averages for stronger signals. Use on Longer Timeframes Heikin Ashi works best on 1-hour charts and above, where trends are more reliable. Action: Avoid using it for scalping or in very volatile markets. Set Entry and Exit Points Use green candles to ride an uptrend and red candles to stay with a downtrend. Exit when the color changes or signals weaken. By using Heikin Ashi charts, traders can focus on broader market movements and reduce the impact of noise, making it easier to ride trends and spot turning points. Heikin Ashi can enhance traditional chart patterns such as triangles, double tops, and head-and-shoulders by clarifying trends. These patterns typically signify areas where prices may break out, reverse, or consolidate, and Heikin Ashi improves this by refining the price fluctuations within them. Triangles (Ascending, Descending, Symmetrical): Heikin Ashi candles help identify the breakout's direction. For instance, a sequence of green candles lacking lower shadows indicates an upward breakout from a triangle. Double Tops and Bottoms: Heikin Ashi more distinctly emphasises trend reversals. Look for a shift in candle color and wicks that show rejection of price levels. Head and Shoulders: Heikin Ashi's color transitions and shadow patterns can confirm a neckline break, making it easier to spot the reversal. By combining Heikin Ashi with classic patterns, traders get smoother visuals and more reliable confirmation of key market movements. Doji and Spinning Tops in Heikin Ashi charts indicate indecision or balance between buyers and sellers, often signalling a potential trend reversal or pause. Heikin Ashi Doji: Appearance: A small body with shadows on both sides. Meaning: The market is at a critical junction where neither buyers nor sellers have full control of the price. Action: Wait for the next candle to verify if the trend will reverse or continue. Heikin Ashi Spinning Tops: Appearance: Small body with longer shadows on both sides. Meaning: Similar to a Doji, it shows market indecision, but with slightly more activity. Action: These often appear during consolidations or before reversals, so monitor the next candles for clarity. Key Tip: Pair these signals with other tools, such as support/resistance levels or indicators (e.g., RSI), to strengthen your analysis. This helps filter out false signals and ensures better trading decisions. Appearance: A series of green Heikin Ashi candles with no or tiny lower shadows. Interpretation: Strong buying momentum, ideal for holding or entering long positions. Appearance: Consecutive red candles with no upper shadows. Interpretation: Selling pressure dominates, this is suitable for short positions. Appearance: A green candle after multiple red candles or a red candle after several green candles. Interpretation: This signals a potential trend reversal, but it should be confirmed with other indicators, such as the RSI or support/resistance levels. Heikin Ashi candles help smooth out price action, making trends easier to spot. These candles focus on average prices, which reduces market noise and highlights clearer trends. Pairing Heikin Ashi with popular indicators can refine entry and exit points for trades. Here's how they work with different tools: The Relative Strength Index (RSI) measures momentum and helps identify when a market is overbought or oversold. Look for Heikin Ashi candles showing a strong trend (several consecutive green or red candles). Check the RSI: If the RSI crosses above 30, it may signal a buying opportunity in an uptrend. If the RSI drops below 70, it could indicate a selling opportunity in a downtrend. Combine the signals: Wait for Heikin Ashi to confirm the RSI move with a color change. For example, a green candle forming after the RSI exits the oversold zone could indicate a buy. The Moving Average Convergence Divergence (MACD) tracks the relationship between two moving averages to find trend changes and momentum shifts. Identify a trend with Heikin Ashi candles: A series of green candles suggests an uptrend, while red indicates a downtrend. Look at the MACD histogram and signal line: A bullish crossover when the MACD line moves above the signal line indicates a potential uptrend. A bearish crossover when the MACD line falls below the signal line signals a potential downtrend. Confirm signals: Enter trades when both the MACD and Heikin Ashi candles suggest the same trend direction. Bollinger Bands® track price volatility using upper and lower bands around a moving average. Observe how Heikin Ashi candles interact with Bollinger Bands: A strong trend is indicated when candles consistently touch or stay near the upper or lower band. Reversals often happen when candles move away from the bands. For a buy, look for green Heikin Ashi candles emerging from the lower band. For a sell, look for red candles forming near or moving away from the upper band. Use the middle band (moving average) as a guide for whether you are in an uptrend or downtrend. Moving averages smooth price data to reveal trends over particular timeframes. Add a simple moving average, such as the 50-period or 200-period, to your Heikin Ashi chart. Look for Heikin Ashi candles to cross above or below the moving average: Green candles closing above the moving average can signal a buy. Red candles breaking below the moving average can signal a sell. Combine multiple moving averages: For instance, use a fast-moving average (10-period) and a slow-moving average (50-period). A crossover between these moving averages, along with Heikin Ashi trends, could strengthen signals. Swing trading with Heikin Ashi is focused on taking advantage of medium-term price moves. Heikin Ashi candles are useful here because they smooth out price fluctuations, making it easier to see trends. Spot the trend: Look for a series of green candles in an uptrend, or red candles in a downtrend. Entry point: Enter a swing trade when a new trend begins—typically when the first green or red candle occurs after a series of candles of the opposite color. Exit point: Wait for a reversal signal, such as a color change in the candles or smaller body candles with wicks on both ends, signaling indecision. This method works well when paired with support and resistance levels to time entries and exits effectively. Scalping involves quick trades to secure small gains. Heikin Ashi simplifies scalping by filtering out the noise in price action, helping scalpers focus on clear trends. Use short timeframes, such as the 1-minute or 5-minute charts. Enter trades when the candles are consistently green or red, with little to no wicks in the direction of the trend. Exit quickly when smaller candles or candles with wicks on both ends appear, signaling a possible consolidation or reversal. Combine Heikin Ashi with fast-moving averages or momentum indicators such as the RSI for better precision in this high-speed approach. Heikin Ashi helps gauge the strength of a trend by examining candle characteristics: Strong trend: Large candles with no wicks on the opposite side, such as green candles without lower wicks in an uptrend. Weakening trend: Smaller candles with wicks on both sides, indicating indecision. Reversal or consolidation: A series of smaller candles or candles with alternating colors. By observing these details, traders can decide whether to stay in a trade or prepare for a potential reversal. Reversal patterns in Heikin Ashi charts hint at a possible change in trend direction. Key signals include: Doji-like candles: Small candles with long wicks on both sides. These often signal market indecision before a trend reversal. Color change after a strong trend: For instance, after several green candles in an uptrend, a red candle signals the start of a downtrend. Shrinking candle size: Large candles followed by smaller ones can indicate the trend is losing momentum and may reverse. Heikin ashi candlesticks with no shadows indicate the presence of a robust trend in the specific direction. For instance, the presence of multiple red candles with no upper shadows signals the presence of a sustained downtrend. On the other hand, the presence of green candles with no lower shadows indicates the presence of a robust uptrend. Traders should always remember this when reviewing heikin ashi charts. Easier Trend Recognition Heikin Ashi candles provide a smoother view of market direction, making it easier to spot trends at a glance. A series of green candles signals an uptrend, while a sequence of red ones points to a downtrend, offering a more structured visual compared to traditional candlesticks. Less Market Distraction This charting method reduces erratic price movements, filtering out the smaller fluctuations that often mislead traders. With the unnecessary noise removed, it's easier to focus on the broader market movement instead of getting caught up in minor price shifts. Fewer Misleading Signals Since Heikin Ashi averages price data, it helps traders avoid impulsive decisions triggered by short-lived market movements. This filtering effect minimizes the chances of reacting to misleading signals, which can improve trade accuracy. Better Risk Planning The structured nature of Heikin Ashi charts simplifies decision-making when setting stop-loss and take-profit levels. The smoother price representation helps traders establish more reliable exit and entry points. Stronger Trend-Following Application For traders who prefer riding trends, Heikin Ashi is a valuable tool. It makes it easier to stay in winning trades by clearly showing when a trend is still intact rather than exiting too soon due to minor pullbacks. Lagging Price Reflection Because Heikin Ashi candles rely on averaged prices, they don't display real-time price action as precisely as standard candlesticks. This can be a disadvantage for traders who depend on immediate price data for quick decision-making. Lack of Exact Price Points Traditional candlestick charts show the precise open, high, low, and close for each period. In contrast, Heikin Ashi modifies these values, which means traders lose direct visibility into actual market prices. Challenges in Sideways Markets When the market moves without a clear trend, Heikin Ashi charts can be less reliable. The candles may lack consistency, making it harder to determine whether the price is preparing for a breakout or continuing to range. Needs Extra Confirmation While Heikin Ashi helps clarify trends, it shouldn't be relied upon alone. Traders often combine it with other indicators like volume analysis, moving averages, or support and resistance levels to validate signals. Less Suitable for Quick Trades Scalpers and other short-term traders may find Heikin Ashi impractical due to its smoothing effect. The lag in price representation can make it difficult to react swiftly to fast-moving market conditions. Both Heikin Ashi and Renko charts smooth out price movements, but they do so in very different ways. Heikin Ashi blends current and past price data to create candles that highlight trends while reducing market noise. The transitions between green and red candles are gradual, making it easier to spot trend direction. However, because prices are averaged, the exact market price isn't always clear. Renko Charts ignore time entirely and focus only on price movement. Instead of traditional candles, Renko uses "bricks" that appear only when price moves by a set amount. This removes minor fluctuations and keeps traders focused on the bigger picture. Since these charts filter out small price swings, they are excellent for identifying strong trends but may not capture short-term price action well. If you want a trend-focused view with some time reference, Heikin Ashi is a good choice. If you prefer a pure price-action approach that eliminates time-based distractions, Renko charts might suit you better. Standard candlestick charts display the open, high, low, and close for each time period exactly as they happen. Every candle tells the raw story of price movement, making them useful for spotting quick reversals and market sentiment shifts. However, the downside is that they show every fluctuation, including minor price movements that can create a lot of noise. Heikin Ashi charts smooth out the noise by averaging price data. This makes trends easier to see and helps traders avoid reacting to small, misleading price changes. The trade-off? These charts don't show real-time prices accurately, so traders need to check a traditional candlestick chart for precise entry and exit points. If you need precise, real-time data, stick with candlestick charts. If you're looking for a smoother, less cluttered view of trends, Heikin Ashi can be a valuable tool. Heikin Ashi is a powerful tool in forex trading, helping traders smooth out price fluctuations and identify strong trends with greater clarity. Heikin Ashi's unique approach helps traders reduce market noise, filter out minor price swings, and focus on the overall trend. One of the biggest challenges forex traders face is market whipsaws—false signals that can lead to premature entries and exits. Heikin Ashi addresses this problem by providing a more consistent visualization of trends. Smoother Trends for Better Decision-Making HA candlesticks use an averaged formula that eliminates erratic price movements, making trends easier to follow. Instead of reacting to short-term volatility, traders can confidently hold positions during a well-defined uptrend or downtrend. Color-Based Trend Recognition HA charts often maintain several consecutive green (bullish) or red (bearish) candles, making it easier to determine the prevailing trend. A consistent series of green candles signals a strong uptrend, while red candles indicate a downtrend. This visual clarity prevents traders from getting caught in choppy, indecisive markets. Identifying Trend Reversals with Candlestick Patterns Small-bodied HA candles with wicks on both sides can signal trend exhaustion or possible reversal. Traders wait for a confirmed color shift before entering a new position, reducing the likelihood of false breakouts. Using HA with Other Indicators for Confirmation Many forex traders combine Heikin Ashi with moving averages, RSI, or MACD for additional confirmation. A strong Heikin Ashi trend supported by a moving average crossover or momentum shift improves trade accuracy. Heikin Ashi helps forex traders avoid unnecessary stop-outs while reducing emotional trading decisions. Cryptocurrency markets are known for their extreme volatility, often experiencing rapid price swings within short timeframes. This high level of price fluctuation can make it challenging for traders to identify clear trends and avoid false signals. Heikin Ashi (HA) candlesticks provide a solution by smoothing out price action, helping crypto traders filter out market noise and focus on the overall trend direction. Unlike traditional candlestick charts that depict raw price data, Heikin Ashi modifies price calculations to create a more stable representation of market trends. This is particularly useful in crypto trading, where sharp spikes and wicks often trigger unnecessary panic or misleading signals. Here's how crypto traders use Heikin Ashi to improve their trading strategies: Smoothing Out Crypto Volatility Crypto markets are prone to sudden price spikes and dips due to liquidity changes, news events, or large whale movements. HA candlesticks average out price movements, making it easier to spot sustained uptrends and downtrends without being misled by short-term volatility. Filtering Out False Signals Traditional candlestick charts can produce frequent reversals or choppy price action that leads to poor trade entries and exits. HA reduces these whipsaws by maintaining a consistent color pattern—a prolonged sequence of green (bullish) or red (bearish) candles provides clearer trend confirmation. Identifying Strong Trends for Swing and Position Trading Crypto traders often hold positions for days or weeks, and HA helps them stay in trades longer by reducing emotional reactions to minor pullbacks. When HA candles show several consecutive green bars, traders can confidently ride an uptrend. Similarly, a series of red bars confirms a sustained downtrend. Using HA for Entry and Exit Signals HA candles with small bodies and wicks on both sides indicate market indecision—often appearing before a trend reversal. Traders wait for a confirmed color change (e.g., from red to green) before entering a long position or exiting a short trade. Combining HA with Technical Indicators Many crypto traders use HA alongside moving averages, RSI, Bollinger Bands, and MACD to refine their trading decisions. For example, a HA trend breakout above a 50-day moving average strengthens a bullish bias, while a red HA candle under a key support level may confirm a downtrend. By reducing the impact of short-term price swings, HA allows traders to avoid emotional decision-making and stick to more reliable trade setups. Treating It Like a Regular Candlestick Chart – Heikin Ashi modifies price data, so it doesn't show the actual market price at any given moment. Relying on it for precise entry and exit points can lead to miscalculations. Always cross-check with a standard candlestick chart. Ignoring Lagging Nature – Since it smooths out price movements, Heikin Ashi is slower in reacting to market shifts. Traders who use it for fast decision-making, like scalping, might enter or exit too late. Overlooking Consolidation Phases – In sideways markets, Heikin Ashi candles can become small and choppy, making it harder to tell where price is headed. This can lead to false trend signals. Using It Alone – Heikin Ashi helps identify trends, but it's not enough by itself. Pairing it with indicators like volume, moving averages, or support and resistance levels improves accuracy. The ideal time frame depends on your trading style: Swing traders prefer 4-hour and daily charts since Heikin Ashi works best for spotting larger trends. Day traders might use 30-minute or 1-hour charts for a balanced view of trend direction without too much lag. Scalpers generally avoid Heikin Ashi since it reacts too slowly for rapid trades. For most traders, higher time frames (4H, daily, weekly) provide clearer trends and reduce the impact of short-term market noise. The Heikin Ashi technique was developed by Munehisa Homma, a legendary Japanese rice trader from the 1700s. He is also credited with inventing candlestick charting itself. Homma's insights into market psychology and price movement laid the foundation for many modern trading strategies. Heikin Ashi is very effective for trend-following but has limitations: Reliable for spotting trends – The smoothing effect makes it easier to see when a trend is gaining strength or losing momentum. Less reliable for reversals – Because of its lagging nature, Heikin Ashi doesn't provide early reversal signals. Traders often use additional indicators like RSI or MACD to confirm changes in direction. Not great for fast markets – If you need immediate price data, Heikin Ashi may not be the best choice, as it hides short-term price action. In summary, it's a strong tool for staying in trends but should always be used with other analysis techniques to confirm signals. Heikin Ashi is highly accurate for identifying trends but less precise when it comes to exact price levels. Since it smooths out price movements, it reduces false signals and helps traders stay in trades longer. However, because it averages price data, it lags behind actual market prices. It's best used alongside traditional candlestick charts and other indicators for confirmation. Yes, Heikin Ashi is a lagging indicator because each candle is calculated using past price data. This means it does not update in real-time like standard candlesticks. While this delay makes it better at filtering out noise and spotting trends, it also means traders might react slower to sudden price reversals. A strong trend-following strategy works best with Heikin Ashi. Here's a simple approach: Identify the Trend – Look for a series of green candles (uptrend) or red candles (downtrend). Use Moving Averages – Combine with the 50- or 200-period moving average to confirm trend direction. Enter on Trend Continuation – Enter a trade when a red-to-green shift happens in an uptrend (or vice versa in a downtrend). Exit on a Color Change – If green candles turn red, it might be time to take profits or exit. Set Stop-Loss Wisely – Place stop-loss orders below the recent swing low (in an uptrend) or above the swing high (in a downtrend). This approach helps traders ride trends while minimizing false signals. The Heikin Ashi 5-rule method is a simple way to interpret trends: Long Green Candles = Strong Uptrend – No shadows (wicks) on the bottom signal strong buying momentum. Long Red Candles = Strong Downtrend – No upper shadows mean sellers are in control. Small Candles with Wicks = Trend Weakening – If candles shrink and show wicks on both ends, the trend is losing strength. Color Changes = Potential Reversal – A green-to-red or red-to-green switch hints that momentum is shifting. Wait for Confirmation – A single color change isn't enough. Always wait for two or more consecutive candles before making a move. This rule helps traders stay in winning trades longer and avoid jumping in too early on weak reversals. Heikin-Ashi, also sometimes spelled Heiken-Ashi, means "average bar" in Japanese. The Heikin-Ashi technique can be used in conjunction with candlestick charts when trading securities to spot market trends and predict future prices. It's useful for making candlestick charts more readable and trends easier to analyze. For example, traders can use Heikin-Ashi charts to know when to stay in trades while a trend persists but get out when the trend pauses or reverses. Most profits are generated when markets are trending, so predicting trends correctly is necessary. The Heikin-Ashi technique is used with candlestick charts to help traders identify and analyze trends.Heikin-Ashi charts can be used in any market; they smooth out candlestick patterns and identify trading opportunities.There are five primary signals used in Heikin-Ashi charts.Heikin-Ashi charts need to be used with other technical analysis tools because they don't reflect real-time prices. Normal candlestick charts are composed of a series of open-high-low-close (OHLC) candles set apart by a time series. The Heikin-Ashi technique shares some characteristics with standard candlestick charts but uses a modified formula of close-open-high-low (COHL): Close = 1 4 (Open + High + Low + Close) (The average price of the current bar) Open = 1 2 (Open of Prev. Bar + Close of Prev. Bar) (The midpoint of the previous bar) High = Max[High, Open, Close] \begin{aligned}&\text{Close}=\frac{1}{4}\text{ (Open}+\text{High}+\text{Low}+\text{Close)}\\&\quad(\textit{The average price of the current bar})\\&\text{Open}=\frac{1}{2}\text{ (Open of Prev. Bar}+\text{Close of Prev. Bar)}\\&\quad(\textit{The midpoint of the previous bar})\\&\text{High}=\text{Max[High, Open, Close]}\\&\text{Low}=\text{Min[Low, Open, Close]}\end{aligned} Close=41 (Open+High+Low+Close)(The average price of the current bar)Open=21 (Open of Prev. Bar+Close of Prev. Bar)

(The midpoint of the previous bar)High=Max[High, Open, Close] The Heikin-Ashi chart is constructed like a regular candlestick chart, except the formula for calculating each bar is different, as shown above. The time series is defined by the user, depending on the type of chart desired, such as daily, hourly, or five-minute intervals. The down days are represented by filled candles, while the up days are represented by empty candles. These can also be colored in by the chart platform, so up days are white or green, and down days are red or black, for example. Image by Sabrina Jiang Â© Investopedia 2020 There are a few differences to note between the two types of charts, and they're demonstrated by the charts above. Heikin-Ashi has a smoother look because it is essentially taking an average of the movement. There is a tendency with Heikin-Ashi for the candles to stay red during a downtrend and green during an uptrend, whereas normal candlesticks alternate colors even if the price is moving dominantly in one direction. The price scale is also of note. The current price shown on a normal candlestick chart will also be the current price of the asset, and that matches the closing price of the candlestick (or the current price if the bar hasn't closed). Because Heikin-Ashi is taking an average, the current price of the candle may not match the price at which the market is actually trading. For this reason, many charting platforms show two prices on the Y-axis: one for the calculation of the Heiken-Ashi and another for the current price of the asset. These charts can apply to any market. Most charting platforms have Heikin-Ashi charts included as an option. There are five primary signals that identify trends and buying opportunities: Hollow or green candles with no lower "shadows" indicate a strong uptrend: Let your profits ride!Hollow or green candles signify an uptrend: You might want to add to your long position and exit short positions.Candles with a small body surrounded by upper and lower shadows indicate a trend change: Risk-loving traders might buy or sell here, while others will wait for confirmation before going long or short.Filled or red candles indicate a downtrend: You might want to add to your short position and exit long positions.Filled or red candles with no higher shadows identify a strong downtrend: Stay short until there's a change in trend. These signals may make locating trends or trading opportunities easier than with traditional candlesticks. The trends are not interrupted by false signals as often and are thus more easily spotted. Image by Sabrina Jiang Â© Investopedia 2020 The chart example above shows how Heikin-Ashi charts can be used for analysis and making trading decisions. On the left, there are long red candles, and at the start of the decline, the lower wicks are quite small. As the price continues to drop, the lower wicks get longer, indicating that the price dropped but was then pushed back up. Buying pressure is starting to build. This is followed by a strong move to the upside. The upward move is strong and doesn't give major indications of a reversal until there are several small candles in a row, with shadows on either side. This shows indecision. Traders can look at the bigger picture to help determine whether they should go long or short. The charts can also be used to keep a trader in a trade after a trend begins. It's usually best to stay in a trade until the Heikin-Ashi candles change color. A change in color doesn't always mean the end of a trend—it could just be a pause. Heikin-Ashi uses averages, which may not match the prices the market is trading at. The technique smooths out trends on a chart to give a better trend indicator but should be used with technical analysis to find entry and exit points. Heikin-Ashi is a trading tool used by some traders in conjunction with technical analysis to assist in identifying trends. By averaging price data, traders use this to reduce market noise, making it easier to identify price trends. Trading is preference-based, so the indicators that work best with Heikin-Ashi are the ones you are most familiar with and practiced with. Moving averages, Bollinger bands, and the Relative Strength Index are examples of indicators that can be used with Heikin-Ashi. Heikin-Ashi is a trading tool used by technical traders to smooth out candlestick patterns, making it easier to read and reveal price trends. 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Heikin-Ashi is a trading tool used by technical traders to smooth out candlestick patterns, making it easier to read and reveal price trends. It can be used across many markets and relies on five signals to highlight trading opportunities and decrease false signals. It needs to be used with other technical analysis tools because it does not show real-time prices. Financial chart in Japan Heikin-Ashi is a Japanese trading indicator and financial chart that means "average bar".[1] Heikin-Ashi charts resemble candlestick charts, but have a smoother appearance as they track a range of price movements, rather than tracking every price movement as with candlesticks. Heikin-Ashi was created in the 1700s by Munehisa Homma,[2][3] who also created the candlestick chart. These charts are used by traders and investors to help determine and predict price movements.[4] difference between traditional candlestick chart and Heikin-Ashi chart Like standard candlesticks, a Heikin-Ashi candle has a body and a wick, however, they do not have the same purpose as on a candlestick chart.[5] The last price of a Heikin-Ashi candle is calculated by the average price of the current bar or timeframe (e.g., a daily timeframe would have each bar represent the price movements of that specific day). The formula for the last price of the Heikin-Ashi bar or candle is calculated by: (open + high + low + close) ÷ {\displaystyle \div } 4.[6] The open of a Heikin-Ashi starts at the midpoint of the previous candle; it is calculated by: (the open of previous bar + the close of the previous bar) ÷ {\displaystyle \div } 2.[7] The highest and lowest price points are represented by wicks similarly to candlesticks.[1] To calculate the highest and lowest price of a period: Heikin-Ashi High=Max value of (High-0, Open-0, and Close-0) [8][9] Heikin-Ashi Low=Min value (Low-0, Open-0, and Close-0)[8] (where -0 indicates that values are being taken from the current bar or period). The main purpose of a Heikin-Ashi chart is to show the general trend of the price (direction of price) and the strength of each trend;[10] these are represented by the wicks: small lines that extend from the main body of the candle.[11] A series of candles rising with no lower wick signifies a strong uptrend, and vice versa with candles falling with no upper wick.[12] A doji signifies a possible change in the price trend. The chart shows the direction and trend of price. Heikin-Ashi is normally paired with other indicators to indicate long (buy) and short (sell) positions.[10] Heikin Ashi charts have been shown to have a lower mean entropy than candlestick charts, and thus a lower level of uncertainty/disorder when displaying market data. This study was conducted over one year of the historical prices from 10 different stocks. The results showed a mean entropy of 4.2675 for Heikin Ashi charts and a mean entropy of 5.001 using raw market data.[13] These studies also indicate that Heikin Ashi charts display a much higher probability of success when predicting the next move in a market.[13] The results from this test show a 72.3% chance of predicting the next day of the market, this is in contrast to using raw market data which only gives a 49.1% chance of a successful prediction of the next day. The study conducts a hypothesis test with significance level of 0.05, the result of this hypothesis test confirms that using Heikin Ashi, with a confidence of 95% we can predict the next move of the market with up to 75% accuracy.[13] This is in reference to predicting the nature of the next candle (bullish or bearish) that will form in the market and so thus in conclusion it is more reliable to establish a trend in Heikin Ashi charts compared with using just raw market data and candlestick charts.[13] Detailed backtesting of the Heikin-Ashi trading methodology using 12 years of data on each security in the Dow Jones Industrial Average index confirmed the approach's efficacy. 66% of the equities tested outperformed the underlying index over the 12 years.[14] Heikin Ashi charts use average data values and so the actual opening and closing prices of the bars in a set period are not shown, therefore, traders looking for exact prices e.g. in some price action based systems should not rely on the averaged prices shown on these charts. [15][16] As the nature of Heikin Ashi charts is to filter out market noise and reduce the frequency of false signals being shown, some important price gaps (areas where no trading has taken place and so the market has jumped in price) will also be missed from these charts. Candlestick charts will however show price gaps.[16] ^ a b Kuepper, Justin. "Heikin-Ashi: A Better Candlestick". Investopedia. ^ "Heikin-Ashi Technique Definition and Example". ^ "Heikin-Ashi Technique". Corporate Finance Institute. Retrieved 2022-11-11. ^ "Heikin Ashi Chart Basics". ^ "Heikin Ashi Chart Basics". The Balance. ^ Mitchell, Cory. "Heikin-Ashi Technique Definition and Example". Investopedia. ^ "What Is The Heiken Ashi Indicator And How Do You Use It?". Admirals. ^ a b "school.stockcharts.com". StockCharts. Retrieved November 11, 2022. ^ "How to trade using the Heikin Ashi candlestick". IG. Retrieved 2022-11-11. ^ a b "How to Use a Heikin Ashi Chart". BabyPips.com. 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The Heikin-Ashi candle technique should be a complement to the analyses with other existing means. In Heikin-Ashi, there are no patterns that we have to learn as we do with the Japanese Candle technique, and therefore we only have to follow the three types of candles that Heikin-Ashi uses. Large white body with upper shadow (in uptrends). Large black body with lower shadow (in downtrends). Candles are similar to a doji (in moments of indecision or near change of trend). Here, the existing trends are better appreciated, and in the initial moments of possible trend changes, doji-like candles appear. It must also be said that with this system there are no gaps between successive candles due to the formula used in the creation of Heikin-Ashi candles. What the ha7 indicator shows is a reinforcement of the application of the Heikin-Ashi technique, confirming or denying buy and / or sell signals depending on the type of crossover made by the indicator and a 7-session moving average. Rules in Heikin-Ashi White body sequence = uptrend. Black body sequence = downtrend. Strong bullish trend = Large white bodies and no lower shadows. Strong bearish trend = Large black bodies with no upper shadows. When the trend weakens, small bodies appear with possible upper and / or lower shadows. A consolidation occurs when small bodies appear with both shadows, both above and below. The reversal of a trend can be suspected with the appearance of small bodies with long shadows both above and below, or a sudden change in colour. Heikin-Ashi Sail Construction haClose = (O + H + L + C) / 4 haOpen = (previous haOpen + previous haClose) / 2 haHigh = Max (H, haOpen, haClose) haLow = Min (L, haOpen, haClose) Heikin-Ashi Quantification Technical analyst Dan Valcu, introducer of Heikin-Ashi candles in the West, in his article published in 2004 in the magazine 'Stocks & Commodities V. 22: 2 (16-17,20-22,24-26,28): Using The Heikin-Ashi Technique by Dan Valcu' quantifies Heikin-Ashi with an Indicator called haDelta, which is simply the difference between haOpen and haClose, adding a moving average of three sessions to it. We have investigated the ProRealTime Platform and we have created a variant of haDelta, which we have called ha7, and which differs from haDelta by not seeing so many false signals of crossover between the Indicator and its moving average. So in the examples in this article, we will use ha7. We do the quantification of the Heikin-Ashi candles with the ha7 Indicator using the ProRealTime platform: The ha7 code for this platform is as follows: IF Data = BarIndex- (BarIndex-1) THEN x = (Open + (Open + High + Low + Close) / 4) y = (Open + High + Low + Close) / 4 ELSIF Data = (BarIndex-BarIndex