

INTRODUCTION

Silicon Valley vs. Florence. Analysis vs. creativity. Logic vs. Imagination. Life is a continuous interaction between the left and right sides of our brains. These two giants are constantly shaping our thinking and actions. Some persons are very good analysts trying to extract structures, rules, and logic from everything. Creative people like painters, musicians, and advertisers regularly exercise the right side of their brain. The history of human civilization is a very rich synergy of the existence and collaboration of the two hemispheres. Things are less likely to change in the future. What we will see will be better use of both sides of our brains and a reduced gap between how the two work.

In technical analysis, trading, and investing, the situation looks similar. Certain people look at charts and extract information using only basic visual input such as support, resistance, trend lines, price ranges, patterns, and volume.

The beginnings of technical analysis have been influenced and dominated by the artistic and creative side, by the right side of the brain. The next stage of development allowed the left side of the brain to bring its contribution by introducing numerical methods to quantify price or/and volume action. This was the early 20th century, when Point & Figure charts and the Wyckoff method gained momentum.

Throughout the first half of the 20th century, William Delbert Gann, Ralph Nelson Elliott, and cycle researchers like Nikolai Kondratieff, William Strauss and Neil Howe, B. Berry, Joseph Kitchin, and others built the foundation of a more complete analysis using both visual and scientific components.

The computer revolution and availability of cheap processing power in the late 20th century led to an explosion of technical indicators. Statistical methods gained popularity as more financial historical market data became available. The next logical step was to use computer power to process market information using statistical methods.

Prices of hardware and software fell significantly, markets developed strongly, and more people became interested in starting their own research for profit. This was the time when classic technical indicators, such as Relative Strength Index (RSI), Moving Average Convergence-Divergence (MACD), and Stochastics, were designed to quantify trends and look for reversal indications.

Consequently, thousands of indicators and algorithms were invented, all with the same goal in mind: to beat the markets or, even better, all markets.

Technical analysis was in Left Brain mode.

The disappointment of not finding the Holy Grail in the markets using technical indicators changed this mechanical approach for many retail and even professional traders and investors in recent years. They are returning to the basics of the Right Brain period. We are witnessing a revival of simple technical analysis, such as trend analysis, cycle studies and analysis, Elliott Wave theory, Gann strategies, and Point & Figure charting.

One separate and important chapter of this short historical overview must be dedicated to the Japanese influence. The Japanese contributions to technical analysis are creative, visual, artistic, and many times subject to interpretation. The right side of the brain was and still is very utilized within the Japanese school of technical analysis and investing. More and more people are learning about

and using Japanese candlestick, Ichimoku, Kagi, and Renko charts. They are blending this knowledge with Western contributions to the field of analysis, trading, and investing. The East is meeting the West. However, the objective today remains the same as with the Japanese candlesticks used in the late 19th century: to measure supply, demand, and finally, emotions to gain advantage in the markets.

Nevertheless, our psychological setting disrupts all nice plans. Human emotions sometimes derail our best intentions and damage our perfect trading plans. A strong mechanism with solid risk and money management to control the devil inside us is a vital add-on to everyone's desire to beat the markets.

Combining different techniques and indicators in our search for better results should logically lead to better trading, and this is the result in many cases. But in far many other situations, excessive input generates confusion—even *big* confusion. As everybody knows or should know, things must stay simple. A trading system using too many indicators and techniques is doomed to fail. Christmas trees should only be used for decoration and celebration, not for trading. Is there any hope?

Simple is indeed beautiful.

The immediate solution is the use of simple analysis tools combined with a solid psychological and risk and capital management setup. Recent revival of older visual analysis is a proof that the Right Brain period is gaining momentum. Markets are not efficient, and our decisions require a simpler, better, and more synchronized work of the two hemispheres of our brain.

This book has been written in the same spirit and is the first attempt to bring into the limelight a relatively unknown yet very promising Japanese charting technique: **heikin-ashi**.

It is a visual representation which clearly shows trends and reversals. More importantly, it is a quantifiable technique that is easy to implement and use.

Ultimately, heikin-ashi equally appeals to both sides of the brain for better trading and investing results.