



# HowToTrade

# RENKO TRADING STRATEGY [PDF]

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# What Are Renko Charts?

Renko charts are a way to visualize the upward and downward price movements of the financial market while placing higher weight on significant price movements. As a result, the chart looks like bricks lined up in slanting directions. It's no surprise that it was named after the the Japanese word "renga," meaning "brick."

Unlike a traditional candlestick chart that relies on time intervals, Renko charts shift the focus to price movements, offering traders a unique way of seeing market dynamics.

The main principle behind Renko charts involves drawing boxes or Renko bricks of a fixed size, with each brick symbolizing a specific price movement. Traders have the flexibility to determine the size of these bricks, ensuring they are compatible with their trading strategy and style.

To get a visual grasp of Renko charts, take a glance at the image below. This chart illustrates a typical Renko chart:



One of the primary advantages of Renko charts is their ability to provide a clear and concise representation of price action by showing clear Renko chart patterns.

Unlike the traditional candlestick charts or even Heikin Ashi charts, Renko charts block out market noise, ensuring traders can easily identify trends and pinpoint potential entry and exit points.

## How Does the Renko Chart Work?

Renko charts' focus on significant price movements helps traders make more informed decisions and avoid false signals that minor market fluctuations can trigger. Renko charts are designed to display price movements equal to or greater than the chosen brick size.

Consequently, small price fluctuations that often lead to erratic price chart patterns are omitted from the chart. This feature is invaluable for traders, as it ensures that the signals they receive are rooted in substantial price movements rather than temporary market hiccups.

So, why are some traders considering Renko charts to be better than candlestick and Heikin Ashi charts? The answer is in their simplicity.

Renko charts prioritize price action over time, allowing traders to see the bigger picture with clarity. These charts are especially useful for those who use the [day trading strategy](#) or [the scalping strategy](#).

Candlestick charts, while widely used, can sometimes get cluttered with numerous candlesticks within a short time frame. This can overwhelm traders and lead to confusion when analyzing trends.

Heikin Ashi charts attempt to mitigate this by smoothing out price action, but they still rely on time intervals, which can introduce distortions.

In contrast, Renko charts, with their brick-by-brick approach, provide an uncluttered view of significant price movements. This simplicity empowers traders to spot trends and pivotal levels more efficiently, enhancing decision-making accuracy. Therefore, Renko charts are typically used by traders who mainly utilize the trend trading strategy.

## What is The Renko Trading Strategy?

The Renko strategy involves the use of the charts to easily determine trends. Inherently, the chart helps to filter out minor price fluctuations, highlighting the larger trend. As a result, it's an excellent tool for trend-following, as it removes market noise, allowing traders to focus on significant price movements.

Renko charts represent price changes in a distinct way, resembling a series of bricks. With Renko charts, each brick is placed at a 45-degree angle, either going up or down, compared to the previous brick. Typically, an upward brick is white or green, while a downward brick is black or red. This visual simplicity helps traders quickly grasp the trend direction.

## What are the Renko Chart Settings?

The Renko trading strategy hinges on a critical component: Renko chart settings. To trade them effectively, it's crucial to understand how to configure the Renko charts to align with your specific trading style and strategy.

Let's look at the key considerations for optimizing your Renko chart settings.

## Choosing the Right Brick Size

The focal point of Renko chart settings is selecting an appropriate brick size. This decision should be tailored to the asset or currency pair you're trading. In essence, the brick size determines the sensitivity of your Renko chart.

Here's a basic guideline: opt for a larger brick size when dealing with assets with higher volatility, and conversely, choose a smaller brick size for assets with lower volatility. For instance, if you're trading a highly volatile cryptocurrency, a larger brick size will help you filter out some of the noise, enabling you to focus on significant price movements. Conversely, when trading a stable currency pair, a smaller brick size may be more suitable to capture subtle price changes.

## Matching Time Frames to Your Trading Style

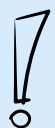
Another critical aspect of Renko chart settings is the choice of time frame. Renko charts can be used on various time frames, offering versatility to traders with different trading styles. The most commonly used time frames in Renko charting are 5 minutes, 15 minutes, and 30 minutes.

For instance, if you're a day trader jumping in and out of a position, a 5-minute Renko chart may be your preference. On the other hand, swing traders who aim for longer-term positions might find the 30-minute Renko chart more fitting.

## Leveraging Multiple Time Frames for Confirmation

In trading, [multiple time frame analysis](#) is valuable for mitigating risk. Renko chart settings can be enhanced by using multiple time frames. Suppose you're using a 15-minute Renko chart for your primary analysis. In that case, you can strengthen your trading decisions by cross-referencing it with 5-minute and 30-minute Renko charts.

This multi-timeframe approach provides a broader perspective on market trends and helps validate your trading signals while reducing false signals and improving your win rate.



Renko charts are designed to display price movements equal to or greater than the chosen brick size. Consequently, small price fluctuations that often lead to erratic price chart patterns are omitted from the chart.

## How Do You Trade Using the Renko Trading Strategy?

Trading with the Renko strategy involves a unique approach to charting and analysis. Here's how to go about it:

## Step 1: Determine the Brick Size

The first step in using Renko charts is to set the brick size. This crucial parameter dictates the minimum price movement required to draw a new brick on the chart. Here's how you should set the brick size on MetaTrader4 and 5:



For instance, if you're trading in the forex market and set the brick size to 100, a new brick will only appear when the price moves up or down by at least 100 points (pips).

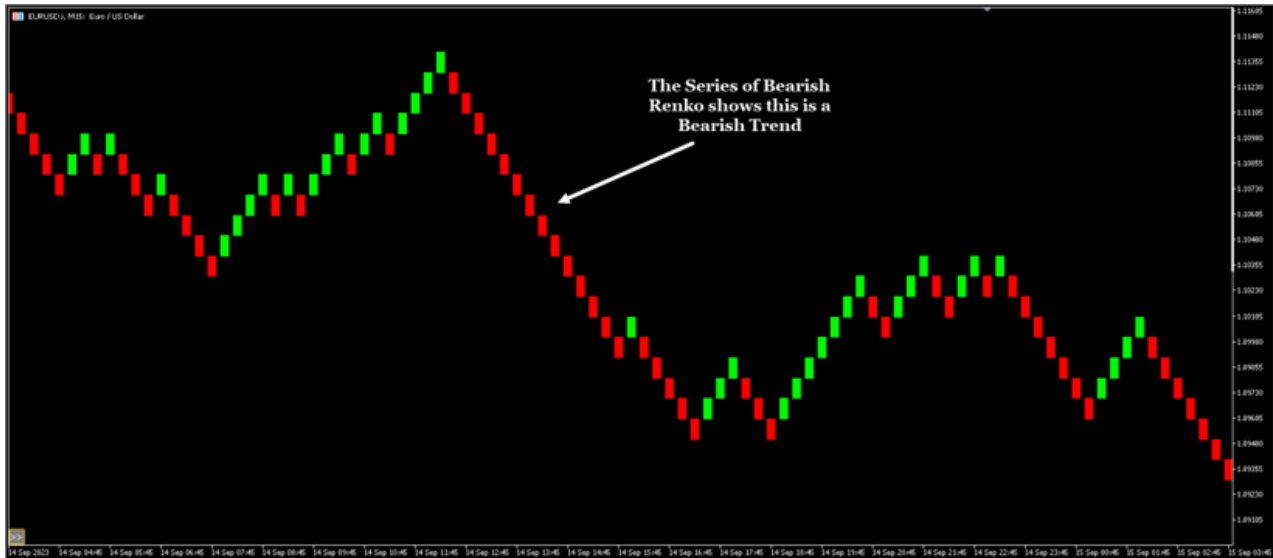
As stated earlier, selecting the appropriate brick size is a decision tailored to your trading style and the specific asset or currency pair you're dealing with.

Larger brick sizes yield fewer bricks, which can simplify trend identification. Conversely, smaller brick sizes generate more bricks, potentially opening up more trading opportunities.

## Step 2: Identify Trends

Renko charts simplify trend identification by eliminating noise and volatility, providing a clean canvas for spotting trends.

To identify a trend using Renko charts, you should look for a series of bricks that are consistently bullish (green) or bearish (red).



As you can see in the chart above, if you observe a sequence of bullish bricks, it signifies an uptrend, indicating that prices have been consistently rising. On the other hand, a string of bearish bricks suggests a downtrend where prices have been consistently falling. This simplifies trend analysis compared to traditional charts cluttered with minor price fluctuations.

### Step 3: Look for Trading Opportunities

The final step in trading with the Renko strategy is identifying trading opportunities within the trend. One approach is to seek out price reversals. A price reversal occurs when the price abruptly changes direction, moving opposite to the prevailing trend.



For example, if you've identified an uptrend with a series of green bricks, and suddenly, the price begins to move downward, this could indicate a potential reversal. Reversals can present lucrative trading opportunities, but they also carry a level of risk, so it's essential to use other [technical analysis indicators](#) and strategies for confirmation.



Another valuable technique is to locate support and resistance levels on your Renko chart. These levels act as price zones where an asset tends to find either buying support or selling pressure. By identifying these key levels, you can pinpoint potential entry and exit points with greater precision.

## What are the Benefits and Limitations of the Renko Trading Strategy?

The Renko trading strategy, with its unique approach to charting, comes with its own set of advantages and disadvantages.

### Benefits of the Renko Trading Strategy

Renko charts are great at filtering out market noise, providing a clear and uncluttered view of price action. This makes it easier for traders to identify trends, whether they are uptrends or downtrends. The charts are easy to understand, even for novice traders. The visual representation of bricks simplifies the interpretation of price movements, which is a reason why many traders who utilize [the naked trading strategy](#) integrate Renko charts into their trading system.

#### Pros

- Reduces noise
- Provides clear trend signals
- Eliminates volatility
- Reduces false signals



## Limitations of Using the Renko Trading Strategy

One downside of Renko charts is that they may provide slightly delayed entry signals compared to other chart types. This delay is due to the requirement for a minimum price movement to form a new brick. They also do not provide precise price information. Since they only show significant price movements, traders may miss out on detailed price levels that could impact their decisions.

### Cons

- Not ideal for all markets
- Brick size selection is complex
- Limited historical data
- Misses small moves
- Can delay entry or exit

## Why Renko Charts Are Better Than Other Types of Charts?

In sum, traditional candlestick and the bar chart can become cluttered with insignificant price movements, making it challenging to identify trends. Renko charts, with their brick-by-brick approach, cut through the noise, providing a crisp view of significant price changes.

These charts simplify trend identification. With a glance, traders can spot a series of green bricks for an uptrend or red bricks for a downtrend. This simplicity is a game-changer for traders who rely on trends for profitable trades.

They also offer flexibility in brick size and time frames, catering to various trading styles. This adaptability ensures that Renko charts can be seamlessly integrated into your unique trading strategy.

By focusing on substantial price movements, Renko charts minimize false signals, enhancing the accuracy of trading decisions. This is especially crucial in volatile markets.

## Is Renko Better than Candlestick?

The Renko chart is not inherently better than the candlestick chart, as both serve different purposes in trading.

Candlestick charts provide more detailed information on price movements, making them suitable for various trading strategies, including day trading. Renko charts, on the

other hand, filter out noise and simplify trend identification, making them ideal for trend-following strategies. The choice between Renko and candlestick charts depends on your trading style and objectives.

## Do Professional Traders Use the Renko Trading Strategy?

Professional traders often use the Renko trading strategy, especially those who focus on trend-following approaches. Renko charts are valued for their ability to provide a clear and uncluttered view of price action.

## What is the Best Timeframe for Using Renko Charts?

The best timeframe for using Renko charts depends on your trading style and objectives. Renko charts can be applied to various timeframes, including 5 minutes, 15 minutes, and 30 minutes, among others.

Having said that, day traders may prefer shorter timeframes, like 5 or 15 minutes, for rapid entries and exits, while swing traders might opt for longer time frames, like 30 minutes, to capture more extended trends. The choice of timeframe should align with your trading strategy and preferences.

## How Do You Use Renko in MT4/5?

Using Renko charts in MetaTrader 4 (MT4) or MetaTrader 5 (MT5) is relatively straightforward. First, ensure you have the Renko chart indicator installed. For that matter, you can visit [our guide on how to download and install custom indicators to MetaTrader 4/5](#). Then, select the asset you want to trade and open a chart. Right-click on the chart, choose "Insert," and select "Custom Indicator." Locate the Renko indicator and apply it to the chart.

Then, you can customize the brick size and other settings as needed. Renko charts will then be displayed alongside your regular charts, allowing you to analyze and trade based on Renko's unique perspective on price action.