Chapter 2.4

Multiple Time Frames

TRADING USING MULTIPLE TIME FRAMES

Traders of virtually every monetary size and temperament trade the Forex market. At any given time, short-term scalpers and long-term fundamental traders are looking at the same currency pairs and are trying to determine how to place or adjust their trades. However, while they may be looking at the same currency pairs, they are not looking at the same chart time frames. Short-term traders are most likely looking at 1-minute to 15-minuted currency charts, while long-term traders are most likely looking at daily to monthly charts.

Trends, support and resistance lines and technical indicators look much different on a 1-minute chart than they do on a daily chart. For example, you may look at a 1-minute chart of the EUR/USD and see that the pair appears to be in a down trend. If you switch your chart to a daily chart, however, you may see that the currency pair has been in an uptrend for years. So which chart is right? Is the EUR/USD in an uptrend or is it in a down trend?

Successful Forex traders trade with a bias toward the long-term trend. It has had a longer time to establish itself, and it will take a large surge of momentum to change its direction. Of course, if you see the fundamentals changing for a currency or a news announcement affecting a currency, you can trade against the long-term trend if you take precautions.

You should always be aware of trends and levels of support and resistance across multiple time frames. This enables you to identify how strong various trends and levels of support and resistance are. Using multiple time frames on your charts helps you expand your technical analysis.

You should be analysing the following three charts (time frames) in your technical analysis:

Contents	
	Trend chart (Longer-term chart)
	Signal chart (Chart you typically use)
	Timing chart (Shorter-term chart)

Once you have analysed each time frame, you can put them all together to confirm a *high-probability trading set up*.

TREND CHART

The trend chart, as the name suggests, helps you identify the predominant trend you should be looking to trade with. If the currency pair in the trend chart is trending upward, you should be looking to buy the currency pair. If the currency pair in the trend chart is trending downward, you should be looking to sell the currency pair.

To identify the time frame you should be using for your trend chart, you first need to identify the time frame you typically use on your trading (signal) charts. Once you have identified the time frame of your signal chart, you should go up one time frame to find the time frame you should be using on your trend chart.

The following is a list of common signal-chart time frames you can use to identify the appropriate time frame for your trend chart:

-	1-minute signal chart = 15- to 30-minute trend chart
-	5-minute signal chart = 1-hour trend chart
-	15- to 30-minute signal chart = 4-hour trend chart
-	1-hour signal chart = 1-day trend chart
-	1-day signal chart = 1-week trend chart
-	1-week signal chart = 1-month trend chart

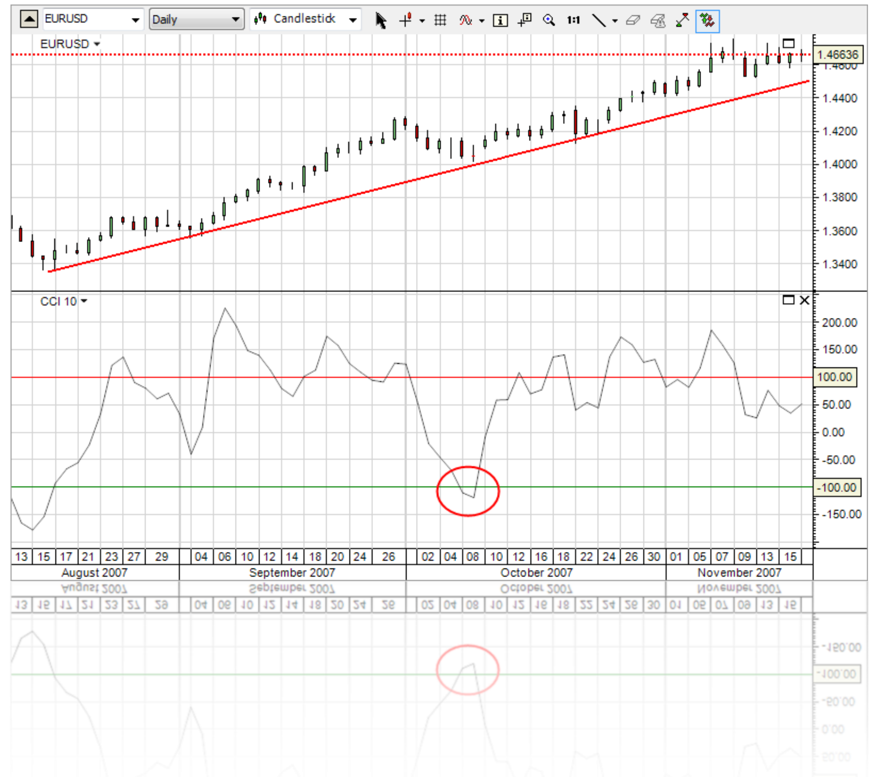
For example, if you typically trade the EUR/USD looking at a 1-hour chart, you should use a 1-day chart for your trend chart. If you typically trade the EUR/USD looking at a 15-minute chart, you should use a 4-hour chart for your trend chart.

Once you have identified the time frame you should be using for your trend chart, all you need to do is determine what the prevailing trend on the chart is. You can use diagonal support and resistance levels or moving averages to identify the trend.

You can see on the weekly EUR/USD here that both the diagonal support level and the moving average indicate that this currency pair is in an uptrend.

If there is an uptrend on your trend chart, you should be looking for buy signals on your signal chart. If there is a down trend on your trend chart, you should be looking for sell signals on your signal chart.

Once you have identified the trend, you now need to identify profitable trading signals.



SIGNAL CHART

The signal chart is your most important chart. It provides the trading signals that tell you when to look for buying and selling opportunities based on the trading methodology you use. For instance, if you typically use the commodity channel index (CCI) to help you identify trading signals, you will use the signal chart here. You won't use the indicator on the trend chart or the timing chart.

Using a signal chart in conjunction with a trend chart enables you to more accurately identify potentially profitable trade signals. For example, if your trend chart shows the currency pair is in an up trend, you should only be looking for buy signals on your signal chart. The best way to take advantage of a longer-term up trend is to buy the currency pair. If your trend chart shows the currency pair is in a down trend, you should only be looking for sell signals on your signal chart. The best way to take advantage of a longer-term down trend is to sell the currency pair.

In effect, the trend chart allows you to ignore the less-profitable half of the trading signals you see on your signal chart. Since these trading signals are going against the longer-term trend, they will most likely be unsuccessful.

Now that you have identified your trading signals, you need to determine exactly when to enter and exit your trades using your timing chart.

TIMING CHART

The timing chart, as the name suggests, helps you time exactly when you should enter and exit a trade. Every pip counts when you are a Forex trader so the more accurately you can identify your entry and exit points, the more money you keep in your account.

The following is a list of common signal-chart time frames you can use to identify the appropriate time frame for your timing chart:

-	1-minute signal chart = Tick timing chart
-	5-minute signal chart = 1-minute timing chart
-	15- to 30-minute signal chart = 5-minute timing chart
-	1-hour signal chart = 15-minute timing chart
-	1-day signal chart = 1-hour timing chart
-	1-week signal chart = 1-day timing chart
-	1-month signal chart = 1-week timing chart

You can use one of the following two methods when pinpointing your entry and exit signals on your timing charts:

1. You can identify the trend and support and resistance levels
2. You can use the same technical indicator you use to generate your trading signals

Identify trend and support and resistance—if you see a buy signal on your signal chart, you want to see the currency pair in an uptrend on the timing chart. You also want to see that the currency pair price is closer to support than it is to resistance. This tells you the currency pair has room to move higher before hitting resistance. Of course, if it has just broken up through resistance, it should continue to move higher.

Using a technical indicator—if you use a technical indicator, like the commodity channel index (CCI), on your signal chart to generate buy and sell signals, you can use that same indicator on your timing chart to help you identify when to enter or exit your trade.

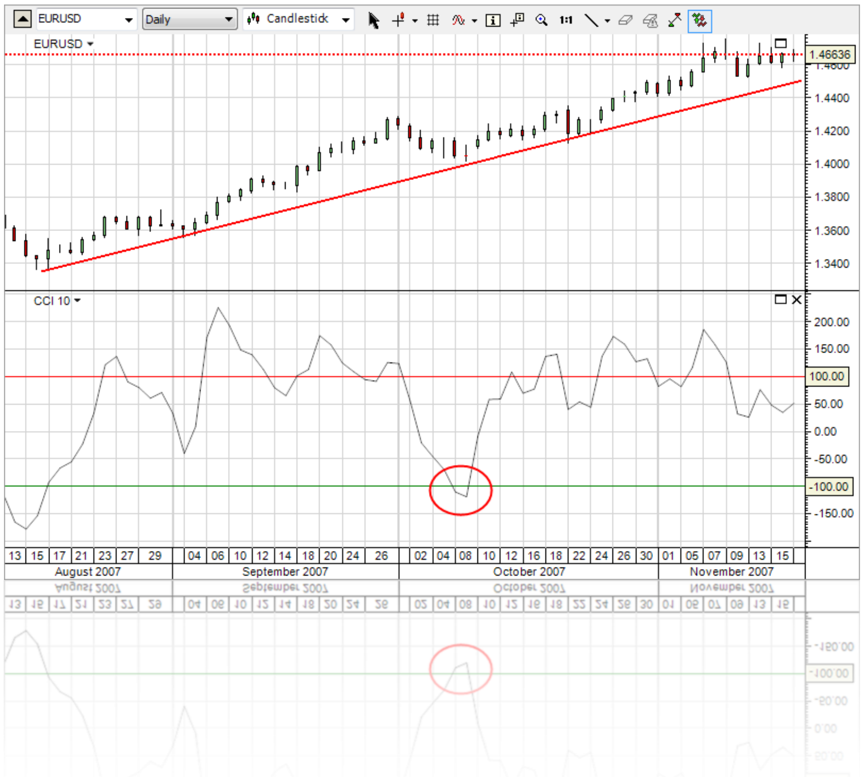
For example, if you did use the CCI on your signal chart and it gave you a buy signal, you would add the CCI to your timing chart and make sure it was giving you a buy signal on the timing chart as well. If the CCI is not giving a buy signal on the timing chart, you should wait until it gives a buy signal on the timing chart before you enter the trade.

HIGH-PROBABILITY TRADE SETUP

Let's take a look at what a high-probability trade setup looks like using the multiple time-frame trading approach. We will be looking at an example of the EUR/USD using a weekly chart as the trend chart, a daily chart as the signal chart and a 1-hour chart as the timing chart.

First, you look at your trend chart to see what direction the currency is trending. As you can see on the EUR/USD weekly chart, the currency pair has been in an up trend for some time now. It would be foolish to fight this trend and try to sell the EUR/USD.

Next, you look at the signal chart to identify an appropriate buy signal for the EUR/USD. In this example, we are looking at using the commodity channel index (CCI) to generate the trading signal. You can see on the daily EUR/USD chart that the CCI gave a buy signal on 10 October 2007 as it crossed from below -100 to above -100. The trend on the daily EUR/USD chart was also moving higher.



Lastly, you look at the timing chart to identify an appropriate time to buy the EUR/USD. You can see on the 1-hour EUR/USD chart that the currency pair is in an uptrend at the time the trading signal was given on the signal chart. You can also see that the CCI on the 1-hour chart had just given a buy signal at approximately the same time the CCI on the signal chart had generated its signal.

Seeing the trading signal generated on the signal chart line up so well with the trend on the trend chart and the currency movement on the timing chart should give you increased confidence in the probability of your trade making you money.

Using multiple time frames provides you with more accurate trading information. Better information leads to better trades. Better trades lead to more profits and a happier you!


TradeMentor

Disclaimer

The curriculum is produced for the purposes of general education.

Comments of persons interviewed are given in their respective personal capacities and do not necessarily represent the views of SCMPL and were extracted with the view of only providing general information.

The information and commentaries are not meant to be endorsements or offerings of any investment product. The curriculum was produced without regard to the individual financial circumstances, needs or objectives of any viewer. The investment products discussed in the curriculum may not be suitable for all persons. The appropriateness of any particular investment product or strategy whether opined on or referred to in these videos will depend on a person's individual circumstances and objectives and should be independently evaluated and confirmed by each person, and, if appropriate, with his professional advisers independently before adoption or implementation. No investment decision should be made in reliance of any such comments.

Information provided, including on technical aspects and functions of SCMPL's platforms through these videos may not be complete.

Risk warning: All investments involve risks. Leveraged investments carry a correspondingly higher degree of risk and may result in magnified losses.

Company registration no: 200601141M.