

TradeMentor

Chapter 2.4

Trading using multiple time-frames

TRADING USING MULTIPLE TIME-FRAMES

Stock markets worldwide function because, at any given time, some traders want to buy whilst others want to sell. A trader's desire to buy or sell depends on their strategy, their objectives and their chart time-frames. Short-term traders and long-term traders see dramatically different data on different charts. Short-term traders usually watch 1-minute to 15-minute charts, whilst long-term traders usually watch daily, weekly or monthly charts.

Trends, support and resistance lines, and technical indicators look different on a 1-minute chart to their appearance on a daily chart. For example you may look at a 1-minute chart for Barclays (BARC:xlon) and see that their stock price appears to be on a downward trend. But, if you switch to a daily chart, you would probably see that the price has been on an upward trend for years. So a momentary reversal is unlikely to be of consequence.

It is important to realise that, in this example, both charts are right depending on your perspective and your trading time-frame. If you are a short-term trader you should be focusing on short-term charts and trends. If you are a long-term trader you should be focusing on long-

term charts and trends. However, when the short-term and long-term trends are in agreement you are probably right to be confident in an investment.

To get a comprehensive idea of the trends as well as support and resistance forces that influence the stocks and CFDs in which you have an interest, you should analyse the following three charts:

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

Once you have analyzed each time-frame on an individual basis you can compare them to confirm if, taken together, they indicate a high probability of this being a good time to invest.

TREND CHART

As its name suggests, the trend chart helps users to identify the predominant trend. If the price on the trend chart is on an upward trend you should consider buying the stock or CFD. If the price on the trend chart is on a downward trend you should consider selling.

The optimum time-frame for your trend chart is determined by the time-frame you typically use for your trading (signal) charts. Think of them as pairs.

The list below identifies the most common signal-chart time-frames and identifies the most appropriate time-frame to use for your trend chart:

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

As you can see from the pairings above, if you typically trade stocks and CFDs looking at a 1-hour chart then you should use a 1-day chart for your trend chart. It is fairly straight-forward!

Once you have identified the ideal time-frame for your trend chart you must spot the prevailing trend using diagonal support and resistance levels or moving averages.

You can see on the weekly chart for Exxon Mobil (XOM:nyse) that both the diagonal support level and the moving average show that its price is on an upward trend.



If there is an upward trend on your trend chart then you should be looking for buy signals on your signal chart. If there is a downward trend on your trend chart then you should be looking for sell signals on your signal chart.

Once you have identified the trend you should 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. For instance if you typically use the commodity channel index (CCI) to help you identify trading signals then you will use it here on the signal chart. You do not have to make use of any indicator on the trend chart or the timing chart. They are there for guidance. You have free-will!



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 stock price is on an upward trend, you should only be looking for buy signals on your signal chart. The best way to capitalise on a long-term upward trend is to buy the stock or CFD. If your trend chart shows the stock price is on a downward trend, you should only be looking for sell signals on your signal chart. The best way to take advantage of a longer-term downward trend is to sell the stock or CFD.

In effect the trend charts allow 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 long-term trend they will most likely be an irrelevance.

Having identified your trading signals you need to decide when to enter and exit your trades using your timing chart.

TIMING CHART

Timing charts, as their name implies, help time entries and exits. Timing can be critical to profitability when you are a trader because even small swings in the price of individual stocks or CFDs could be very significant if you own or manage lots of them.

The list of common signal-chart time-frames below identifies the ideal 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 methods when pinpointing entry and exit signals on your timing charts:

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

Identify trend as well as its support and resistance - if you see a buy signal on your signal chart then you should view the price on an upward trend on the timing chart. Hopefully the price is closer to support than it is to resistance. This tells you the stock or CFD has the potential 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 such as the commodity channel index (CCI) on your signal chart to generate buy and sell signals, you can likewise use that same indicator on your timing chart to help do the same.

For example if you use the CCI on your signal chart and it creates a buy signal then add the CCI to your timing chart and ensure it generates a buy signal there too. If the CCI is not giving a buy signal on the timing chart you should wait for that to happen before acting.



HIGH-PROBABILITY TRADE SETUP

Let's examine a high-probability trade setup using the multiple time-frame trading. We will look at the Altria Group (MO:xnys) 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 look at your trend chart to see the currency's trend. On the Altria weekly chart the stock price has been on an upward trend for some time. It would be unwise to ignore such a trend and prematurely sell the stock or CFD.



Next look at the signal chart to spot a buy signal for the Altria Group. This time we are using the commodity channel index (CCI) to generate the trading signal. On the daily Altria Group chart the CCI gave a buy signal on 13 February as it crossed from the 100 threshold. The stock price also bounced up off support at that same time.



Lastly look at the timing chart to see an appropriate time to invest in the Altria Group. On the 1-hour chart the stock price has found support at approximately \$72 and appears to be moving slightly higher.



Seeing the trading signal on the signal chart correspond so well with the trend on the trend chart and the currency movement on the timing chart should increase your confidence in the probability of an investment making money.

Using multiple time-frames provides you with a variety of accurate and useful trading information. Using it wisely will lead to better deals. Better deals lead to more profits.



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