

Technical Analysis: Trading Using Multiple Time-frames

Intermediate Level

Introduction

- /// Stock markets worldwide function because, at any given time, some traders want to buy whilst others want to sell. Traders' desires to buy or sell depends on their strategy, their objectives and their chart time-frames. 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 than they do on a daily chart. For example, you may look at a 1-minute chart for Barclays (BARC:xlon) and see that the stock price appears to be in a downward trend. But, if you switch to a daily chart, you would probably see that the price has been in 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.

Introduction cont...

- /// Different charts will give you different information. Depending on what time frame you are trading to, you will gather this information from a combination of different accounts.
- /// 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 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
- /// 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

Trend Charts

- /// As its name suggests, the trend chart helps users to identify the predominant trend. If the price on the trend chart is in an upward trend, you should consider buying the stock or CFD. If the price on the trend chart is in 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.
- /// Once you have identified the ideal time frame for your trend chart, you can spot the prevailing trend using diagonal support and resistance levels or moving averages.
- /// You can see on the weekly chart for Royal Bank of Scotland (RBS:xlon) that both the diagonal support and resistance levels, and the moving average show that its price is in an downward trend (right).



Signal Charts

- /// The signal chart is your most important chart. It provides the trading signals that tell you when to look for buying and selling opportunities.
- /// 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 downtrend, you should only be looking for sell signals on your signal chart (purple on chart below). If your trend chart shows the stock price is on a upward trend, you should only be looking for buy signals on your signal chart.
- /// 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 have a higher likelihood of performing poorly.
- /// Having identified your trading signals you need to decide when to enter and exit your trades using your timing chart.



Timing Charts

- /// 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.
- /// You can use one of the following methods when pinpointing entry and exit signals on your timing charts:
 - /// **Identify trend as well as its support and resistance**
If you see a buy signal on your signal chart, then you should be looking for 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 may 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 confirm those signals

Trading Setup

/// We will look at Euro vs Pound Sterling (EURGBP) using a weekly chart as the trend chart, a daily chart as the signal chart and a 1-hour chart as the timing chart

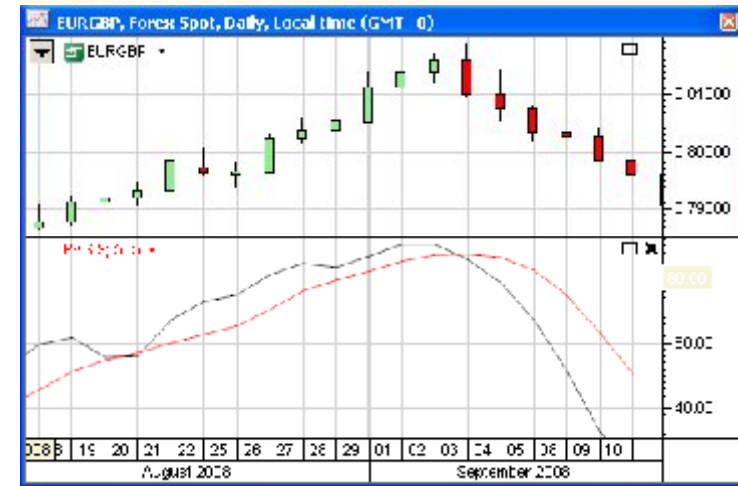
/// First, look at your trend chart to see the current trend. On the EURGBP weekly chart, the stock price has been in a range trend for some time. It would be unwise to prematurely trade the currency pair without looking for signals and timing.



More informed trading

Trading Setup cont...

- Next, look at the signal chart to spot a buy signal for the EURGBP. This time we are using the slow stochastic to generate the trading signal. On the daily chart, the slow stochastic gave a sell signal on 4th September as the short term indicator line crossed below the long term indicator. The red horizontal line illustrates that the pair was already overbought (right).



- Lastly, look at the timing chart to see an appropriate time to invest in the EURGBP. On the 1-hour chart, the stock price has hit resistance at 0.8180 and appears a good time to sell. Alternatively, the previous highs around 0.8160 could be used as a sell point as the price breaks below this level (left).

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