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Multiple Time Frames

Multiple time frame trading has probably done more to increase my overall profitability than any other one thing alone. The correct use of multiple time frame trading will allow you to stay in the trade longer by better identifying where you are relative to the big picture.

I first became interested in multiple time frames after a lot of research about why particular support and resistance levels held or broke. It became apparent that the time frame I was dealing in was only reacting to the larger more powerful trend in a higher time frame.

There is also the question of which other time frames should I use. Many traders like to multiply the time frame there are trading by 5 e.g. If they like to trade a 5 minute chart they would multiply 5 minutes by 5 to get 25 minutes. They would then round the number up to a time period they like such as a 30 min chart.

When trying to determine the chart of the next order of magnitude the important thing to remember is that there must be enough of a difference for the smaller time frame to oscillate without every move reflecting in the larger time frame. If the time frames are to close you won't see any discernible difference.

There is obviously a limit to how many time frames you can study. You don't want to have a screen full of charts that are all telling you different things. First, decide what your own favorite time frame is (refer to the last lesson for information on this). Let's assume that it is a daily chart. This would imply regardless of your trading method that you want to take as much profit from the daily chart as possible. We will also use a bit of Dow theory here and affix this main time frame as your intermediate trend.

Now we have a daily chart representing our intermediate trend we need a chart to represent our long-term trend which, shall be the weekly chart. Now here's where it gets interesting. As you can see from the charts (refer to charts) we have used a simple 10 period exponential moving average to signify trend on both the weekly and daily charts. You can see from the weekly chart (first chart) that the trend was in force with virtually no retracement to the moving average. On the other hand the daily chart (second chart) retraced back to its 10 period moving average numerous times and each time it presented a buying opportunity.

The trick to this approach is to monitor the longer time period and trade the shorter time period (medium term trend). As long as your longer time period trend stays intact you can use the medium term trend to buy the retracement in an uptrend or sell the rallies in a downtrend.

As we mentioned the weekly chart represents the long-term trend and the daily chart represents the medium term trend. You could also add a third chart of an even short time period to represent the short term trend. This short-term trend could be used purely for monitoring the trade you have just entered or you could use it to help place a tight stop loss.

Another very effective use of multiple time frames is for resistance and support. If you identify resistance or support on a higher time frame you can anticipate that you will meet resistance at that level on a smaller time frame. This can be invaluable for entering and exiting positions.

I personally wouldn't monitor more than three time frames at any one time. This is not to say you should not analyze other time frames but there is a limit to what you can realistically watch.


EUR/USD (1 wk. 3 yr.)
EMA (10)
1.0292
1.0044
0.9796
0.9548
0.9300
0.9052
0.8804
0.8556
01/11
02/15
03/22
04/26
05/31
07/05
08/09


USD (1 day 6 mo.)
EMA (10)
1.0292
1.0168
1.0044
0.9920
0.9796
0.9672
0.9548
0.9424
0.9300
0.9176
0.9052
3
05/27
06/10
06/24
07/08
07/22

Good Trading

Best Regards
Mark McRae