Multiple Time Frame Analysis (MTFA)

Trading Forex with Multiple Time Frames

MTFA has been around for nearly 25 years. The MTFA method is applicable to stock and commodities trading, equity options and currency options. The method is applicable to any currency pair. We are respectful of the strong technical work of Kathy Lien and Brian Shannon outlining MTFA.
Multiple time frame analysis (MTFA) is the inspection of trend indicators, starting with the largest trends and timeframes, and working backwards down through successively smaller timeframes to see how the smaller timeframes and trends feed the larger ones. When the smaller timeframes are in agreement with the larger trends you can enter a spot forex trade. If no trend exists the smaller timeframes and trends will, at some point, build a larger trends. MTFA works, it is that simple. Pips can be made and the method is effective, especially when larger timeframes and trends are traded for larger pip totals. Money management ratios also improve when you are entering a larger trend.
By applying MTFA to multiple forex pairs your odds increase again, this is because you can choose to trade the best and largest trend available in the spot forex and ride the trends longer.
Trading time frames are usually categorized into three types: Long-term, Short-term or swing, Intraday or day-trading.

If you use „TraCop Trading System‟, it generally makes sense to use three or more time frames when making trading decisions. This is because if your entry and exit orders are based only upon just one time frame by disregarding the wider trend so risk becomes higher for trading against this longer term trend. For example, if the 4 hour chart and the 1 hour chart of a particular currency pair are in a strong bullish trend, then it's probably not a good idea to be looking for possible shorts on the 15 minute chart, (whereas at a „higher-risk-level-trading‟ on a 10 sec., or 1 minute chart it might be possible to trade counter the main trend).

Conservative, risk-averse traders („old-line‟) should always look to trade in the direction of the trend and viewing charts from longer time frames helps to show this longer term trend. In so doing „Tra-Cop-System‟ could generate profitable trades at 4 hour chart with the EMA-System (EMA 9/20 crossover) - though trade only ever in the direction of the overall trend from the daily chart. Say if the daily trend is bullish then you will look for EMA crossovers upwards and vice versa. Even so you could predominantly made some decent profits with forex trading.

It's important to remember that if you only ever trade in the direction of the longer term trade, then you could stacking the odds in your favor with higher probability, moreover, may be your entry points haven't necessarily so crucial. Often you will be saved by the overall trend going in your favor, until such time as main trend will change.

For example, if you like to trade the 5 minute charts („risk averse‟), then you could use the 15 minute and 1 hour charts, likewise the 4 hour as a basis for your trading decision. So if the pair was trending downwards on the 1 hour and 15 minute charts, for instance, then a good strategy would be to look to go short when the pair is overbought on the 5 minute chart because the odds are in your favor that a continued downwards move will taken place.
(Higher risk level: On the other hand - „prepared to take risk‟ - traders could manage several orders at the 1 minute chart contrary to the main trend short dated).

Similarly you could trade the 1 minute charts and use the 5 and 15 minute charts for complete overview, or if you are a long term trader, you could trade off the daily charts and use the weekly and monthly charts for the guidance.

Whichever time „time-circle‟ you use, I personally think you're always give yourself every chance possible to become a profitable forex trader if you use multiple time frames as an assistance of your trades in the overall direction of the longer term trend.

„Time Circle“

Appendix

In order to conduct and accomplish a multiple timeframe analysis on the spot forex you need the proper platform and a set of trend analysis tools and indicators to facilitate the process. Some tools are very expensive some are free. You must be able to analyze 10 to 20 timeframes per pair prior to conduct a complete MTFA on a currency pair. You also must analyze the top 15-20 traded currency pairs to seek out the best opportunity.

The first step when conducting a MTFA on a currency pair is to inspect the largest 3 or 4 trends. See what pairs have established larger trends, whether the trending pairs are at the beginning, middle or deep into the trend, which pairs are not trending (oscillating) and which pairs could be developing a brand new trend. If there is a pair that interests you check the next support and resistance area and set a price alarm. When the price alarm hits check the smaller timeframes to see if they are in agreement with the larger trends, and if so enter the trade.
You can use off the shelf trend indicators to conduct multiple timeframe analysis. Simple indicators like exponential moving averages are fine. Just apply them across multiple timeframes.

Is it possible to make multiple time frame analysis better?? I believe the answer is yes. Incorporating parallel and inverse analysis into the analysis as well as support and resistance to set price alarms for notification of momentum or possible entry point can all help.

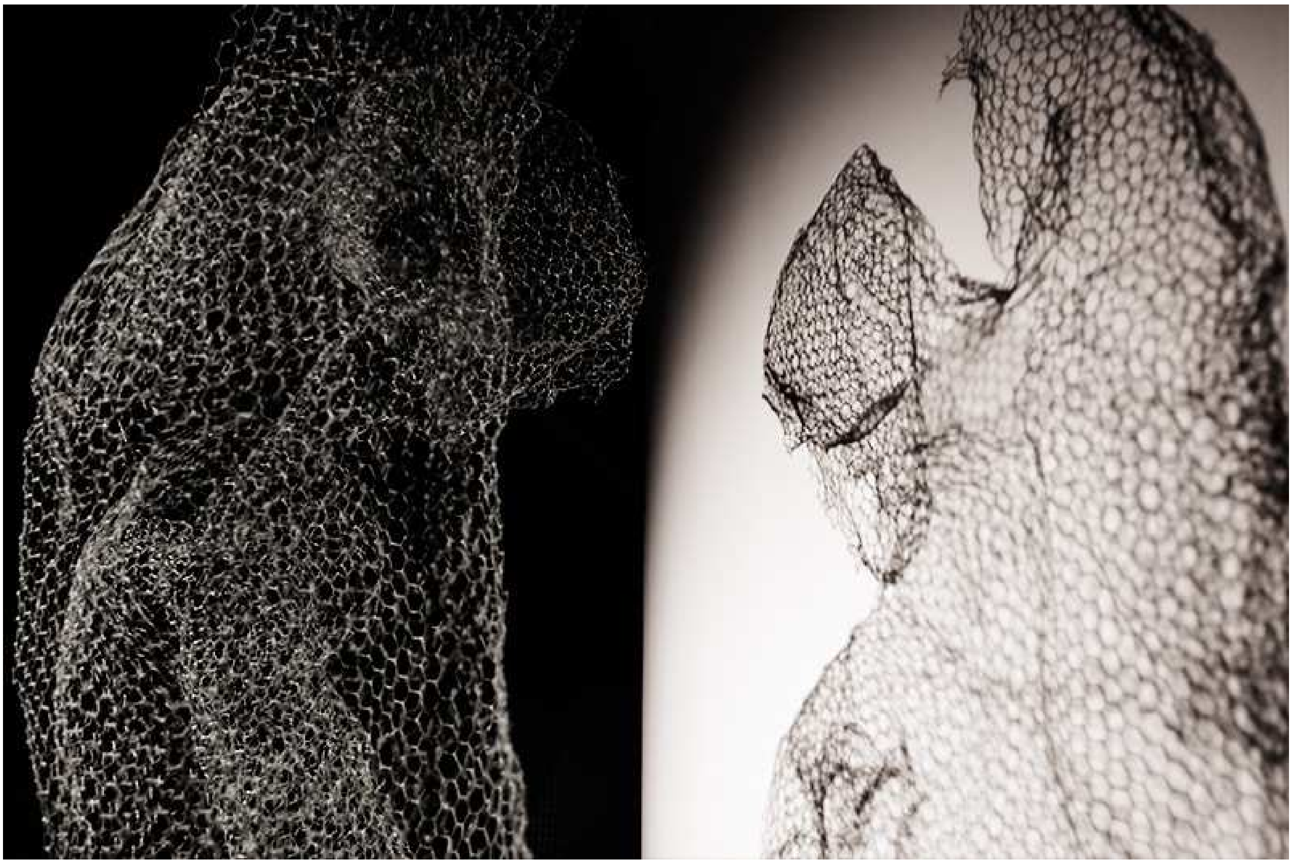
Scalpers may find the method to be to their liking because you will never trade against the larger trends and potentially hang onto trades much longer. One of the biggest reasons people scalp is that they have no idea which direction the trend is on the pair they want to trade. Or they only look at one timeframe. Traders scalp the foreign exchange but statistics show that people who hang on longer and ride longer trends make the most pips.

Why do traders not use multiple timeframe analysis? Mostly because analyzing alot of pairs and timeframes takes time and people basically are lazy. Most scalpers only look at one timeframe and could possibly be trading against a larger trend, or a scalper may be at the beginning of a very large move and exit way too early. If you are near the end of a trend you may also enter a trade after a long move and be entering near the end of the trend. This is bad money management under any scenario. Scalpers need MTFA but people who would like to stay in their trades longer would by nature require knowledge of MTFA.

MTFA analysis of the spot forex is here to stay. Traders worldwide are accepting and learning to understand the method. MTFA is a rigorous method or analyzing the forex. But it is not difficult to learn. When combined with parallel and inverse analysis is quite powerful. It can be applies to any pair using free tools available on the internet from many spot forex brokers.

Kindest regards
Forexcube

Trading throughout the „time cells"



Links:
http://www.babypips.com/school/which_timeframe_should_i_trade.html
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