How to Trade Using Multiple Time Frames

In this article, we will explore how to trade multiple time frames and how not to overwhelm yourself in this multi-dimensional view. If you are able to identify the right level of confluence across different time frames, you can actually increase the likelihood of identifying a winning trade.

Selecting time frames

The first question you have to ask yourself is what time frame do you primarily trade? This time frame is called your "base" trading time. The next step is to select your "major" and "minor" trading time frame. The major and minor time frames are the most widely used larger and smaller time frames relative to your base time period. In this example, our base time period will be 5 minutes. So, the most widely used larger time frame would be the 15 minute chart for our major. Our minor would be the 1 minute chart. You can use this model for any time frame. Below I have listed out some common base times and their corresponding major and minor time frames.

Base	Major	Minor
1 minute	5 minute	Tick Data
5 minute	15 minute	1 minute
15 minute	30 minute	5 minute
30 minute	60 minute	15 minute
Daily	Weekly	60 minute
Weekly	Monthly	Daily

What to look for on each time frame

This is totally up to you and largely depends on your trading style. If you are looking to buy a breakout on a 5 minute chart, you will want to make sure the stock is trending strongly on both the 15 minute and 1 minute charts. Often times traders will buy a stock that is breaking out on their base time frame, but if the major or minor are not trading in the same direction, you can and will face opposition. The powerful moves in the market occur when different time traders are all moving in the same direction. This confluence generates the “juice” we all need to make easy money in the market.

Only base your entries and exits on one time frame

While you are looking for confirmation that all 3 time frames are in your favor, you can only use your base time frame for determining your entries and exits. Don’t start out using a 15 minute chart as your base, then start using 5 minute bars to stop you out. Remember, the traders in the minor time frame are looking for smaller price movements, so if you go down to that minor level to place your orders, you will be thrown around quite frequently. You are only using the major and minor time frames to confirm what your base time is telling you. Look at the major and minor time frames as technical indicators, but not as something you should base your entries and/or exits upon.

How to Trade Multiple Time Frames

How to enter trades earlier using

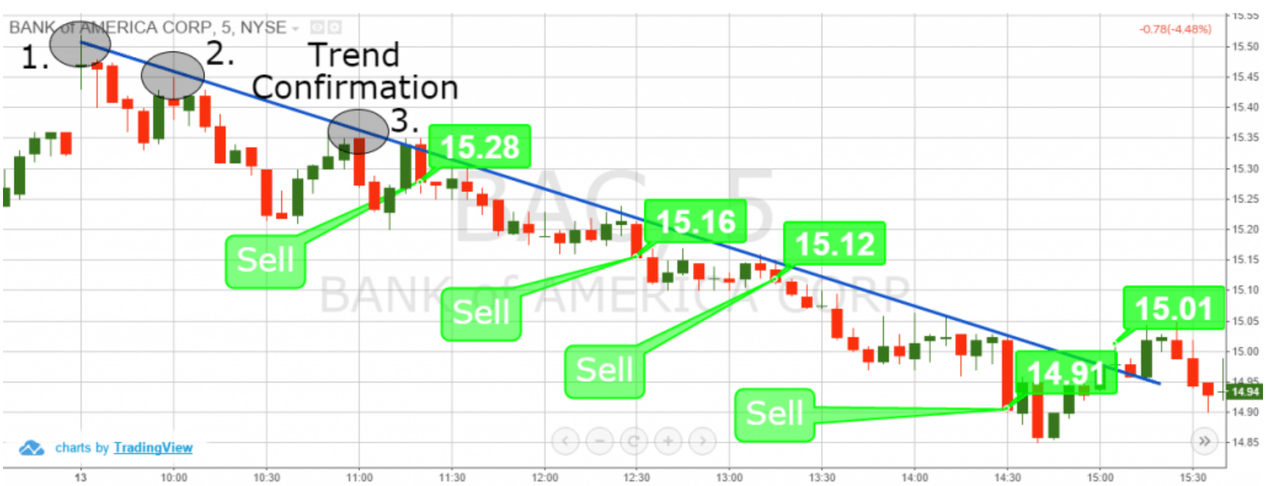
multiple time frames

Do not kid yourself if you think you can spare a few cents on a trade. I work hard for my money, just like you, so never leave one penny on the table for someone else to claim.

To this point, if you open trades on a minor time frame, you can actually enter trades slightly earlier, thus avoiding the slippage that occurs as you wait for your major time frame to print a candlestick.

Sounds a bit wordy let me break this down for you Fisher Price style.

In this trading example, let us assume you are trading on a 5-minute chart. Therefore, your major time frame is the 15-minute chart and the minor time frame is the 1-minute chart. Let's say the price breaks through a crucial level, or it bounces from one. You know that in order to enter the market, we need a candle to close in favor of the position we are willing to take. If the price touches a level on the 5-minute chart, then this level could already have been confirmed on the minor chart (1-minute). Again, you are not only looking for the touch on a trend line, as this will be constant on every time frame, but the actual confirmation that the stock will continue in the direction of the primary trend.



Multiple Time Frames and Trend Lines

This is the 5-minute chart of Bank of America from January 12, 2016. As you see, the blue line indicates the supply line or resistance in a strong bearish trend. The black circles are the three touchpoints we need to confirm the downtrend line. As we follow the bearish trend, each touch of the resistance line is an opportunity to open a short position on BAC once the candlestick has a bearish close after touching the line. In this manner, we get the following prices for entries of our short positions:

15. $15.28
16. $15.16
17. $15.12
18. $14.91
19. Trend Breakout – $15.01

Let us now review the entry points if we were to use the minor chart of BAC, which is the 1-minute time frame:

Multiple Time Frames and Trend Lines – 2

Let us compare the two cases:

	1-Minute	5-Minute	Difference
a)	$15.30	$15.28	$0.02
b)	$15.20	$15.16	$0.04
c)	$15.13	$15.12	$0.01
d)	$14.99	$14.91	$0.08

e)	Breakout – $14.98	Breakout – $15.01	$0.03

As you see, when opening our positions based on a bounce on the minor time frame, there is a difference of a few cents per trading opportunity. In our BAC example, the sum of all the deltas comes out to a total of $0.18 (18 cents) per share on a 15-dollar stock or about 1.2%.

These few cents may not seem like much, but added up over 1,000 trades over the course of a year, per share, this can add up to a nice Disney World vacation for the family.

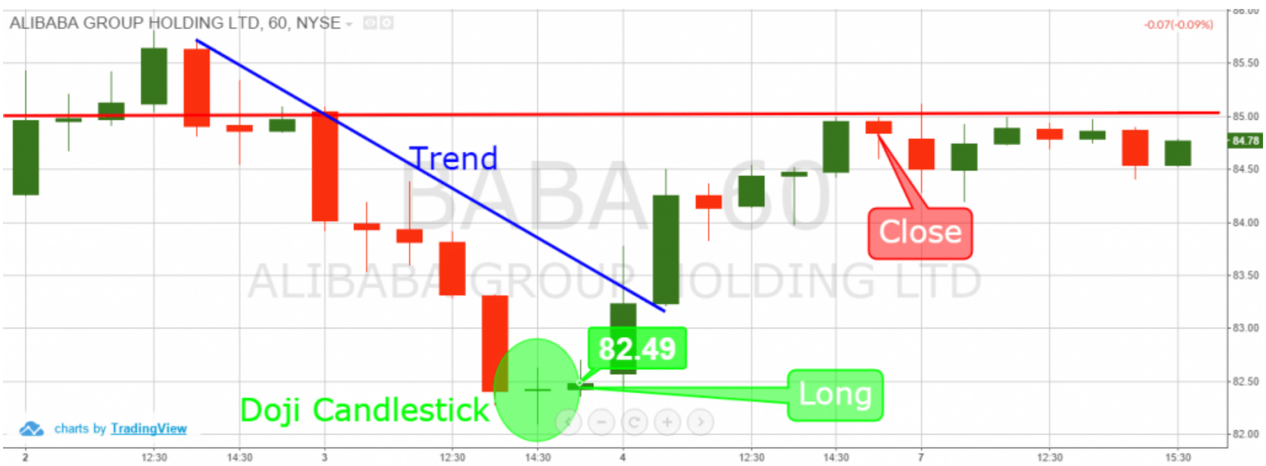
How to trade candlestick patterns and chart patterns using multiple time frames

Have you ever used a microscope or telescope in your life? As you peak through the lens, you will see things you cannot pick up with the naked eye.

Multiple Time Frames – Candlestick Patterns

This is the 30-minute chart of Ali Baba from Dec 2 – 7, 2015. Once the price breaks the downtrend, we open a long position at $83.76. Our target to exit the trade is the red line, which was previous support. Simple enough, but is there more?

Let’s see what the major time frame says – the hourly chart:



Multiple Time Frames – Doji

Hey, isn’t that a doji candle highlighted in green?

Exactly! As you probably know, the doji candle has a strong reversal characteristic. Since we see a doji at the end of a bearish trend, this means the big boys and gals trading on the one-hour chart could be making a play to take the stock higher. Thus, we can enter a long trade based on the doji printing on the 1-hour chart. As you can see, the doji preceded a breakout, which ran the stock north of $85.

Once BABA reached the red line, we exited our position as planned.

Therefore, the trend breakout at the 30-minute chart gave us an entry at $83.76. However, the doji candle on the major time frame gave us a better entry at $82.49. This is a difference of $1.27 per share! This is about 1.5% more!

This may have surprised you that a higher time frame could actually provide a better trade signal. It is human nature to think that if you go to a lower time frame you will have more details, but you may end up unable to see the forest for the trees.

Let’s now shift gears from candlesticks to chart patterns.

Multiple Time Frames – Chart Patterns

This is the 15-minute chart of EBay from Nov 4 – 6, 2015. As you see, there aren't any visible buy signals, which could help us trade this bullish move. Thus, we pull up the minor chart of EBay on the 5-minute chart for clues.

Multiple Time Frames – Double Bottom

What is this? Is that a double bottom?

As you can clearly see, the double bottom formation was hidden from us on the 15-minute chart.

Now, that we have a clear double bottom, we can buy EBay when the price breaks the neckline, which occurs at $29.05.

When the double bottom figure is completed, we are about $0.12 (12 cents) ahead. We now have two choices. The first one is to hold EBay during the correction in order to catch the next increase.

The second option is to close the trade and reenter the position when the price confirms the black trend line and bounces in a bullish direction. Although both of these options are profitable, the second one finishes out slightly ahead.

Moving Average Cross on Base and Major Time Frames

In this particular example, our base time frame is the 5-minute chart; therefore, our major time frame is 15-minutes.

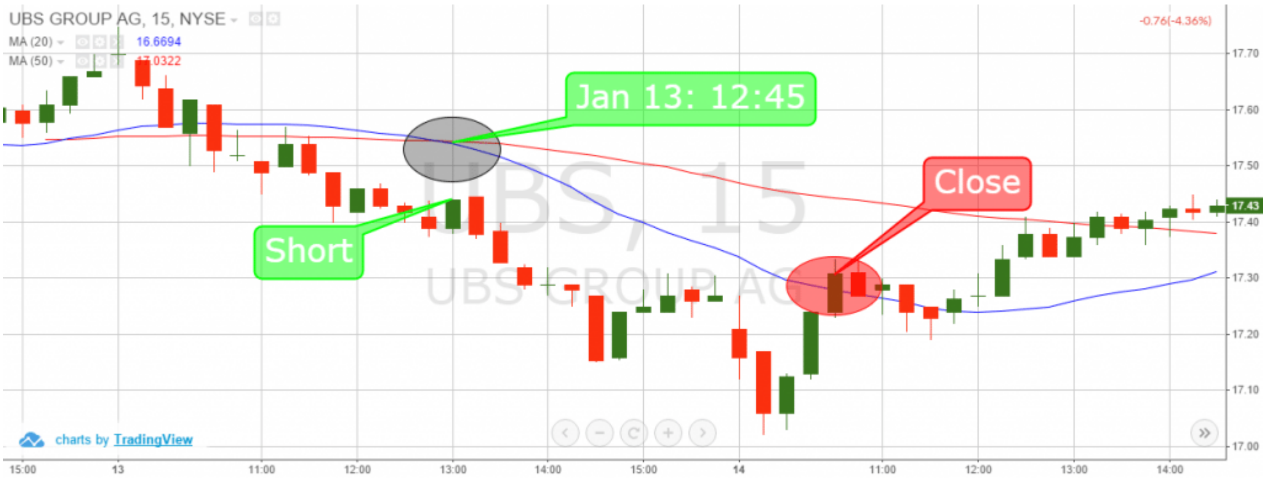
We are going to use two SMAs – 20-period and 50-period. We will enter the market whenever we identify an SMA crossover in the same direction on the base and major time frames.

We will hold the trade until the price breaks the 20-period SMA in the opposite direction on the 15-minute chart.

Let’s start with the base time frame – the 5-minute chart.

Multiple Time Frames – Moving Average Crossover

As you see, on the 5-minute chart of UBS, the SMA crossover comes in at 11:10 am. We now look to the 15-minute chart for a confirmation signal.



Multiple Time Frames – Moving Average Crossover 2

This is the 15-minute UBS chart. The 20-period crosses below the 50-period SMA at 12:45 pm, at which point we open our short position.

Notice how the price starts decreasing with higher intensity after the SMA crossover on the 15-minute chart. We exit the trade the moment UBS breaks the blue 20-period SMA.

Which time frame is best for intraday trading?

I think the answer to this question is very simple. If you are a day trader, you definitely need to concentrate on the lower time frames. These are the 1-minute, 5-minute and 15-minute charts. The reason is that the smaller time frames give you more data to analyze.

What to avoid when trading multiple time frames

- Do not base your order execution for entries and exits on multiple time frames
- If a stock is trending hard on all 3 time frames, exercise extreme caution if you plan on going counter to the primary trend

- Do not use multiple criteria for identifying commonality between multiple time frames. So, if you are looking for stocks trending strongly, do not use the RSI on one chart and a simple moving average on another. Make sure you use the same criteria for trading multiple time frames, this way they are all providing the same picture.

Conclusion

- There are three trading time frames:

– Base, Minor, Major

- Multiple time frames gives us an advantage when:

– Setting entry and exit points, identifying chart patterns and candle patterns, trading MA crossovers