

Using Multiple Time Frames in Your Analysis

A technique to improve your trading decisions

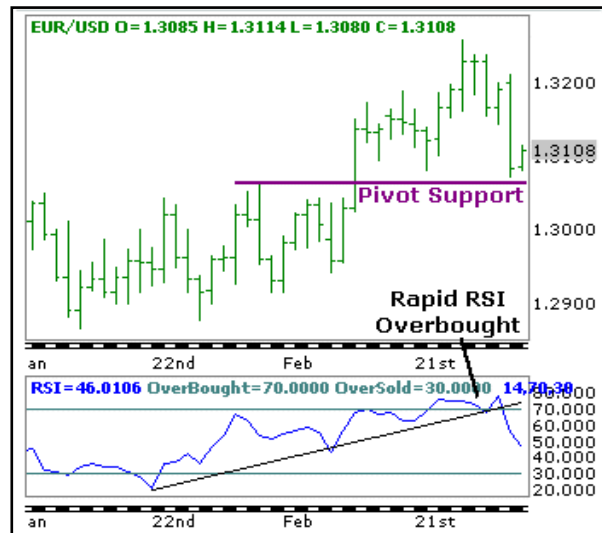
Have you ever seen RSI overbought and wonder whether it was the right time to sell? Let's face it, an overbought reading in a momentum oscillator can merely mean that price is strong and may even turn into an uptrend.

Is it a valid overbought signal? Do you sell? Where do you sell? Where should you place your stop?

Quite often using two charts of different time frames can help. For instance, let us suggest you have seen an overbought reading in the daily chart but there is no bearish divergence. What you can do is look at a shorter time frame chart, a 4-hour or 2-hour chart to see what is happening there and whether a more accurate sell signal can be identified.

Let us look at an example in EURUSD:

To the right is the daily chart of EURUSD as it approached 1.3258. Daily Rapid RSI was showing an overbought reading but there was no bearish divergence. From this chart alone we probably couldn't work out whether there was a selling opportunity or not.



This second image is the 2-hour chart of EURUSD but here it can be seen that the peak at 1.3258 was accompanied by a bearish divergence in Rapid RSI. We are therefore on warning that a reversal can occur and that the daily overbought reading may well be correct.

Next we have to identify a selling level and in this case it is on the break of the price support line which has touched price four times before it finally breaks and this is where we can place our sell-stop. The money management stop should ideally be placed above the 1.3258 high but if this is too high and would cause a large loss then we can look at placing a stop above the rising trend line. However, do note that is a rising trend line and could mean that your stop needs to be raised to allow a possible retest of the line.

In this case the trade would have been very profitable with a decline down close to the daily pivot support which rests around 1.3050. A take profit order can be placed just above this to exit the position at a tidy profit.

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