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What Time Frame Should You Trade

On a recent lecture on trading I asked one of the audience whom I knew traded spot forex where the trend was for the Euro/Dollar this week. He immediately replied that the trend was up. I then asked how he knew the trend was up for all the traders who trade the Euro/Dollar.

You see it's impossible to determine trend until you know what time frame you are talking about. The trend for that audience member was up because he traded on a daily time frame yet for another audience member the trend had been up and down several times that week as he only traded on an five minute chart.

One of the main reason I see traders not do as well as they should is that they are trading the wrong time frame for their personality. In the normal course of events someone learning to trade will either educate himself by taking a course or reading relevant books.

In order for the person giving the course or writing the book to demonstrate his point he will have to use a particular time frame. This often becomes the student's time frame by default because that is how he learnt.

In today's electronic world many new traders start off by studying very small time frames such as 1 minute and 5 minute charts. This often leads them to get frustrated and to become anxious when they trade because it is the wrong time frame for their personality.

Let me just add here that there is nothing wrong with trading any particular time frame just be sure you are trading it for the right reasons.

So what is the right time frame for you? Well, it all depends on your personality. You have to feel comfortable with the time frame you are trading in. You have to feel at home with that time frame. There is always a degree of pressure when you trade because there is the real potential for loss or gain and that will effect you to some degree. You should however not feel that the reason you are feeling pressure or frustration is because things are happening so fast that you find it difficult to make decisions or so slowly that you get frustrated.

When I first started trading I started out as a Spot FX trader trading on 5 minute charts. I traded on that time frame for years. Because it was such a short time frame and I was covering so many currency pairs I always felt a bit unprepared regardless of how much time I spent preparing for the trading day. I also found that after a few years it was beginning to take its toll on my health as I never seemed to have enough time to do anything but trade.

From the 5 minute chart I moved to the 10 minute chart and spent a month trading on that time frame. I then repeated the process with the 30 minute chart, 1 hour chart and 4 hour chart.

I eventually found that trading the 4 hourly charts made a lot more sense to me. As the time frame was much longer and trading signals fewer I found I had a lot more time to analyze the market and I never felt rushed.

On the other side of the coin I have a dear friend who trades the FTSE who just could not trade in that time frame. It would be too slow for him and he would get bored waiting for opportunities. He feels at home trading a 1 minute chart and always feels as though he knows what's going on and has enough time to make his decisions based on his trading method.

Yet another friend thinks that the 4 hourly chart is far too short a time period for him as he trades only daily, weekly and monthly charts. The point is only you can decide what is the correct time frame for your personality.

You will also have to take into consideration the market you are trading and amount you have available to trade. Shorter time frames usually means that you can have better use of margin and stop loss orders can be much tighter.

If you think the reason your trading is not going the way that it should but you believe that your method of trading is sound, it may just be that you are trading the wrong time frame and it is affecting you psychologically.

To sum up, if you have a solid trading plan and a sound method of trading your chosen market. You should be able to take that approach and apply it to any time frame.

The question is if you could make the same amount of money trading any time frame which time frame would you choose. You will of course have to take into consideration that the time frame you choose does generate enough trading opportunities for you to be happy with the results.

It is also worth noting that if your trading is going well and you are profitable then don't even think about changing time frames. As the saying goes "if it ain't broke don't fix it."

When you do eventually find the time frame you are happy with you can then start looking at multiple time frames to help your analysis of the market. We will be discussing multiple time frames in future lessons.

Good Trading

Best Regards
Mark McRae

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