



How To Correctly Identify The Trend (part 3 of a series)

In the previous two installments of this ongoing series of **FX Trading Basics** I outlined the methods I use for determining the trend. In today's installment I want to discuss, how I combine multiple time frame analysis and stochastics in identifying high probability set-ups versus low probability set-ups.

First, some bullet points to outline my thoughts:

1. Higher time frames, generally, but not always, take precedent over lower time frames
2. Stochastics, for me, are a filtering mechanism; not a timing mechanism

To review, I use three primary time frames in day-to-day analysis:

60-minute
240-minute
Daily chart.

I do use a weekly chart to identify key support and resistance levels, rarely as a timing mechanism.

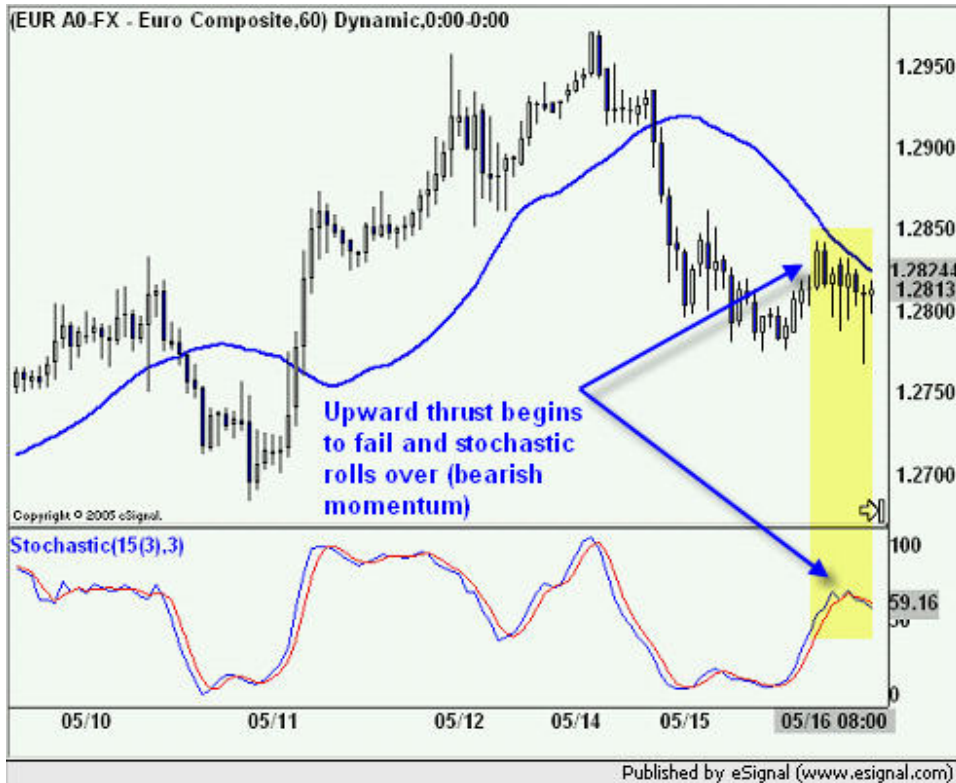
Identifying the trend is simply but one piece to the puzzle, once the trend is correctly identified, you then need to determine whether or not prices will continue to exhibit the trend. There are many times when the trend is easily identified, but is actually on the verge of changing trend direction. For purposes of this article, let's assume that the time frame that we do the primary analysis (i.e. the time frame we will execute on) is the 60-min chart.

The charts below are the 60 & 240-min of EUR/USD. On each chart, the trend is quite clear. If we then defer to bullet point # 1 above - **Higher time frames, generally, but not always, take precedent over lower time frames** – we would have to resist the temptation to short EUR/USD based on the 60-min chart.





However, this simple analysis, will often lead you to miss trades. In order to make a proper assessment, you need to add one more indicator to your chart in order to conclusively know to not short EUR/USD based on the 60-min chart – stochastics.



In this case, the stochastics simply confirm the conclusion we drew from looking at the first 2 charts we posted without the stochastics. However, there are many times when this will not be the case.

In the next installment, I will provide several examples of how to properly use stochastics and inflection points in order to properly identify high probability trade entries.

- I will be appearing on CNBC World's [Foreign Exchange](#) on Wednesday at 5:30 AM PDT (12:30 GMT) to discuss the FX markets.
- Launch Aspen Trading Group's [FX Desktop Ticker](#) for real-time FX trade alerts and commentary

As always, feel free to send me your comments and questions.

[Dave](#)
Aspen Trading Group