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TIMESCALES

The length of time you are going to remain in a trade is what we call the "timescale". You will need to decide on your timescale when you start forex trading. There are three types of timescales; long term, medium term and short term.

Long Term Timescale

This timescale implies anything from a few weeks to a few months. If you choose to stay in a trade long term, you will need to examine daily as well as weekly charts.

The positive thing about long term trading is that you will not need to watch every peak or valley occurring in the market, and you will have more freedom to step away from your computer.

The most important consideration when taking longer term positions is to reduce your position size to compensate for the bigger price movements over the longer period. You must still establish your stop loss levels in advance to prevent losing too much money from an unexpectedly large market move. You need to be patient, and you must have sufficient of capital to support the considerable price changes of the market.

A feature of long term trading is the charging of Swap or Roll Over by the broker. This can be a profit or loss for the trader and is the difference in the interest rates between the currencies making up the pair. When trading long or medium term this interest on the market exposure can erode or enhance your profitability and must be carefully considered in the direction you are looking to trade.

Medium Term Timescale

The length of a medium term timescale can be a few hours or even a few days. You will need to examine hourly, 4 hour and daily charts to evaluate your trades.

With medium term trading there are more trading opportunities, and it is acceptable to take slightly larger positions than with long term trading.

The disadvantage is that you can hit stop losses overnight, and you will need to watch the market more frequently. Medium term traders may leave positions on over days but will not leave positions open over a weekend when significant news events can cause prices to move significantly and gap – missing stop loss levels.

Short Term Timescale

This timescale can be a few minutes to few hours. You will need to examine 15 minute, 30 minute and hourly charts to evaluate your trades.

Short term trading provides a large number of trading opportunities, you can take larger positions, and you know of your success or failure very quickly. Because of the larger position sizes it is even more critical to have stop loss levels in place on the trade as the market can move very quickly. A short term trader will typically not leave positions open overnight and certainly not over a weekend.