Top Down Approach to Trading

Outline

- What Is a Top Down Approach?
- Do You Need a Top Down Approach?
- Understanding and Choosing Time Frames
- Using a Top Down Approach for Trading
- Nuances

What Is a Top Down Approach?

- Definition: Using a synthesis of high time frames (HTF) and low time frames (LTF) to analyse and trade the market
- Goal: Create a multi-time frame map of the market wherein its moves can be interpreted in the appropriate context
- Basic example:
  - Weekly support, daily break in market structure higher, intraday pullback lower
  - On its own terms: Price breaking lower = bearish
  - In context: Price breaking lower = opportunity to establish an entry for a long trade

Do You Need a Top Down Approach?

- Not necessary, but definitely helpful
- LTF trading
  - Aiming for smaller rotations, so market can be contextualised primarily by your trading time frames
  - BUT: Using a top down approach can still provide confluence and 'boost' your low time frame setups
- HTF trading
  - Aiming for bigger rotations, so LTF movements are generally less important
  - BUT: Using a top down approach can still provide tighter trade execution parameters
- In summary
  - No real downsides to using a top down approach
  - Not a prerequisite but can improve your trading regardless of your style
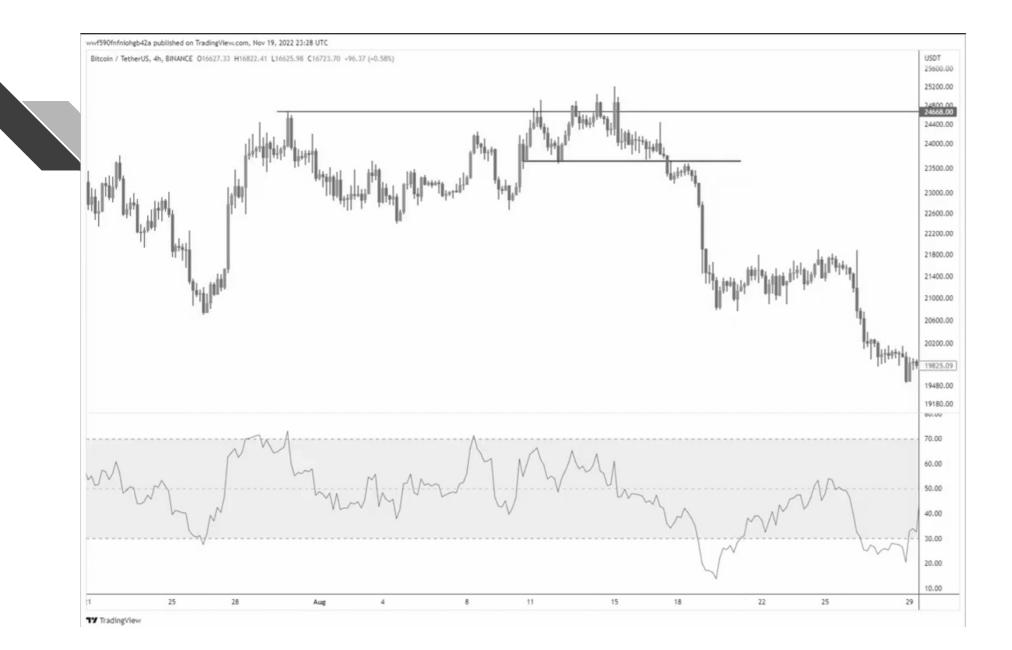
Understanding and Choosing Time Frames

- HTF
  - Slower signals
  - Less ambiguity
  - Bigger moves
  - Lower frequency of setups
  - Longer resolution time
  - Monthly/Weekly/Daily
  - Typically used to set bias (levels, market structure)
- LTF
  - Faster signals
  - More ambiguity
  - Smaller moves
  - Higher frequency of setups
  - Shorter resolution times
  - H4/H1/M15/M5 etc.
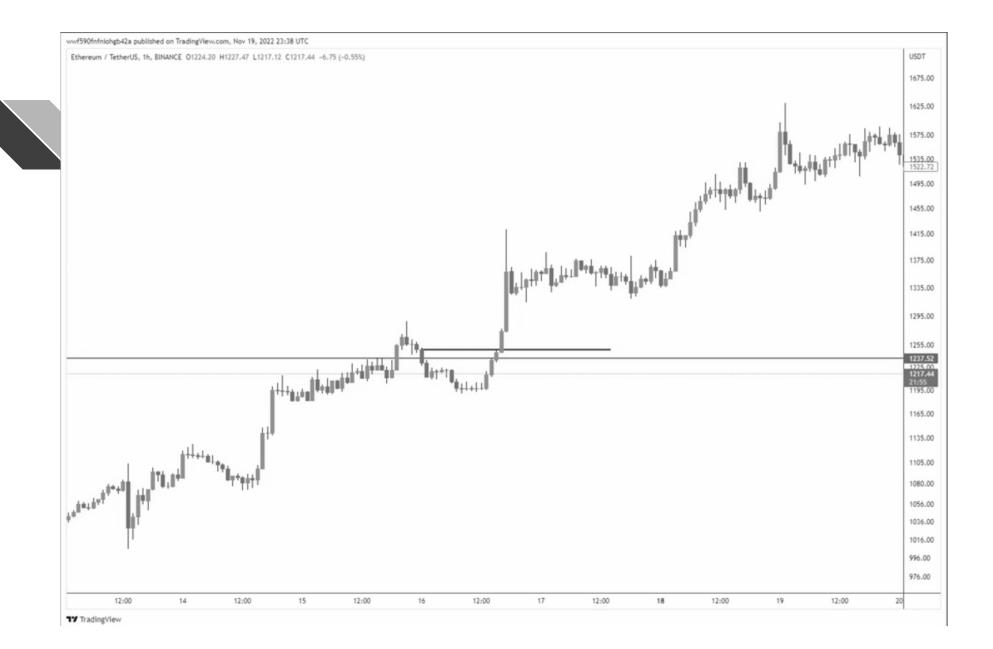 - Typically used to execute trades

Using a Top Down Approach for Trading

- Two approaches:
  - Executing LTF setups exclusively in HTF areas
    - Core setup: LTF
  - Executing HTF setups using LTFs
    - Core setup: HTF
  - Approach 1: Using HTF areas as a 'filter' for LTF
    - Monday Range
    - Daily Open Pivot
    - Standard price action setups
    - Rule: Setup actionable only if it occurs in an area of HTF structure
      - Bullish LTF setups at HTF support
      - Bearish LTF setups at HTF resistance
  - Approach 2: Using LTFs to execute on HTF ideas
    - LTF Fractal logic from Entry Triggers video → setups within setups
    - HTF offers bias & structure + LTF offers setups & execution
  - Some overlap as you still +- end up doing business in a HTF area

S&P 500 Index, 4h, OANDA O3942.6 H3975.0 L3938.4 C3963.7 +21.1 (+0.54%)

USD

4360.0
4310.8
4270.0
4220.0
4170.0
4130.0
4090.0
4050.0
4010.0
3963.7
3930.0
3890.0
3850.0
3820.0
3798.0
3760.0
3730.0
3700.0
3670.0
3642.0
3617.0
3591.0

20   26   Jul   11   18   25   Aug   8   15   22   Sep   12   19

Ethereum / TetherUS, 1h, BINANCE O1224.20 H1227.47 L1217.12 C1217.44 −6.75 (−0.55%)

Ethereum / TetherUS, 4h, BINANCE O1208.59 H1235.00 L1208.59 C1218.62 +10.02 (+0.83%)

USDT

2050.00
2000.00
1960.00
1933.53
1920.00
1880.00
1840.00
1800.00
1760.00
1720.00
1680.00
1650.00
1620.00
1590.00
1560.00
1535.00
1510.00
1490.00
1469.93
1450.00
1430.00
1411.00

29   Aug   3   5   8   10   12   15   17   19   22   24   26

TradingView

Chiliz / TetherUS, 1h, BINANCE O0.2450 H0.2459 L0.2436 C0.2451 +0.0002 (+0.08%)

Nuances

- It doesn't hurt to always have an understanding of where the market is on HTFs
  - Market structure/trend
  - S/R levels
- Trading around HTF areas:
  - Unlocks HTF swing trades
  - Improves probability of LTF trades working
  - Golden goose: Using LTFs to execute HTF ideas to supercharge R:R and therefore sizing
- Introducing LTFs also introduces more noise → be open-minded about taking scratches and re-entering
  - Remember HTFs may take longer to unfold/move doesn't have to come immediately
- Study your journal: Does a multi-time frame approach actually improve trading outcomes?
  - Maybe LTF setups better in isolation and/or work perfectly fine outside of HTF context
  - Maybe HTF setups better in isolation and/or work perfectly fine outside of LTF parameters