Our guide to ten popular Auto-Trading Strategies

No 10. Linear Regression
Cross System

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The City Index AT Pro platform offers over 100 Automated Trading Strategies which can be used to generate trade signals and place automated trades on your account.

We appreciate that when looking at automated trading systems for the first time, they can be intimidating, and it's hard to know where to start or what strategy will work best for you. That is why we have put together these guides to getting started with ten of the most popular strategies as used by our clients.

Of course, there's no such thing as a 'holy grail' trading strategy that will work on all products, over all time frames, all of the time, but by learning what each strategy does and their strengths and weaknesses you can start to get an idea of what strategies suit your trading style.

The Advantage Trader Auto-Trading strategies currently work on a 'Complete Bar' mode, which means that trading systems request a trade on the open of the next, newly forming chart interval, rather than placing a trade at the point in time a signal is generated.

Please note: Auto-Trading strategies can be high risk – you are permitting the trading platform to trade automatically on your behalf. We highly recommend that you test whatever strategy you are planning on using thoroughly, and start with small stakes to control your exposure. City Index will not be responsible for any losses incurred as a result of using the Auto-Trading Strategies. You can learn how to run the Back-Testing tool to test strategies on the product you are thinking of trading by visiting the Auto-Trading Systems section of the City Index website.

10 Linear Regression Cross System

Risk: Low.

Strategy type: Reversal.

Recommended Timeframes: Most timeframes, but work best on longer timeframes (1hr+).

Attention Required: Low in a trending market, more attention required in a volatile market.

Overview

The Linear Regression Cross System (LRCS) uses Fast and Slow Linear Regression indicators to generate signals for potential trading opportunities.

The Linear Regression Indicator plots the trend of a market instrument's price over a specified length of time. The trend is determined by calculating a Linear Regression Trend Line using the least squares fit method. It is similar to a moving average, but reacts faster to a change in trend – this can be good for catching the trend earlier, but also can generate false signals in a volatile market.

That is why the Linear Regression Cross System uses two lines, one a faster time frame and one a longer time frame - The Fast Linear Regression indicator is set as default to 20 periods and the Slow Linear Regression indicator is set as default to 50 periods. By using the two lines, a signal is generated when the Fast Line crosses the Slow Line as per the following logic:

Long Entry = Fast Linear Regression Indicator crosses above Slow Linear Regression Indicator

Long Exit = Fast Linear Regression Indicator crosses below Slow Linear Regression Indicator

Short Entry = Fast Linear Regression Indicator crosses below Slow Linear Regression Indicator

Short Exit = MACD Fast Line crosses above MACD Signal Line

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An example of the LRCS in action on the AUD/USD currency pair on an hourly chart, below (Fig. 1), shows how the Fast line crossing the Slow line generated four very nice trades in a week. As can be seen from this chart, the strategy works well in a strongly trending market, as once a trend reverses it gets you in to a trade quickly on the trend and as long as the Fast Line stays above or below the Slow Line then you will stay in a profitable trade.

Fig. 1

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More information on how to back-test your strategies can be found on the Auto-Trading systems section of the City Index site at **www.cityindex.co.uk/platforms-and-tools/auto-trading**