

Our guide to ten popular Auto-Trading Strategies

No 2. Moving Averages Cross System

CITYINDEX

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.

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Moving Averages Cross System

Risk: Low to medium.

Strategy type: Trending.

Recommended timeframes: Can be used with almost all time frames but shorter time frames can cause a lot of 'Noise' trades.

We recommend using 30m, 1hr or 4hr time frames.

Attention required: Low.

Overview

The Moving Averages Cross System (MACS) is a popular auto-trading system as it automates a popular strategy used by many traders manually – place a trade when a faster moving average crosses a slower moving average. This can indicate a trend reversal and can generate signals for potential trading opportunities.

The signals are generated using the following logic:

Long Entry = Fast MA crosses above Slow MA

Long Exit = Fast MA crosses below Slow MA

Short Entry = Fast MA crosses below Slow MA

Short Exit = Fast MA crosses above Slow MA

You can change a number of the strategies parameters as per the properties box below (Fig. 1). You can change the number of periods used for the moving averages as highlighted - popular timeframes are 15 for the Fast MA and 30 for the Slow MA, but you could change it to 20/50 or whatever you think works best for your trading strategy.

Indicator Constants	Color/Style	Horizontal Line	Alerts	Trading parameters
Fast MA Periods				15
Fast MA Price				Close
Fast MA Type				Exponential
Fast MA Vertical Shift Method				Percent
Fast MA Vertical Shift (in Pips)				0.0000
Fast MA Vertical Shift (by %)				0.0000
Fast MA Horizontal Shift (# of Bars)				0
Slow MA Periods				30

Fig. 1

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You can also choose what type of Moving Average you want to use, such as Exponential, Simple, Weighted etc. using the 'Fast MA Type' selector as per the screenshot below – the strategy in the chart is using the Exponential Moving Average (EMA), which is a moving average that is more heavily weighted to the most recent prices.

Once you have the strategy added to your chart it will add the 15 and 30 period moving averages as per the settings above (Fig. 3). If a Moving Average Cross has already occurred on your chart it will be marked with an up or down arrow, indicating previous points where signals were generated. You will need to switch on the strategy for it to place automated trades – you can do this by right-clicking on the strategy name on the chart and selecting 'Switch strategy on'. It will stay running as long as your platform is open and connected to an internet signal or unless you click 'Pause trading strategy'.

The system is useful at indicating a trend reversal and can indicate a good point to enter a long or a short trade. It can also be very useful for giving signals as to whether you should stay in or exit an existing manually placed trade.

As renowned trader Jim Rohrbach of Investment Models says about whether to exit a long position "Keep in as long as the 15 is above the 30". So if you are long and the trend is keeping the 15 EMA above the 30 EMA then it is a good idea to hold the trade. Conversely, if the 15 Fast MA falls and crosses back below the 30 Slow MA then another signal/trade will be generated and you should exit the trade/go short (Fig. 2).

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Fig. 2

It is a lower-risk strategy, and you can control just how low or high risk you want it to be by adjusting the settings of the Fast and Slow Moving Averages. It works better in trending markets, as you may find it trading more often than you might like in a volatile market that is trading sideways with lots of changes in direction.

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If you can get in to a trade that starts to trend strongly, the return on the trade can be very profitable – for example, in the EUR/GBP one-hour chart below (Fig. 3), the long trade indicated by the blue Up arrow on the left would have resulted in approximately 190pips profit on a 20-50 Moving Average, when closed by the red down arrow on the right.

Conversely, when the price changes direction shortly after getting in to the trade you could end up with a loss, as would have happened in the first trade on the left hand side of the chart. The red arrow would have instigated a short position around 0.7040 and as the price reversed and generated a blue arrow at a higher level, around 0.7060, you would have lost 20pips.



Fig. 3

If you find that it is generating too many buy or sell signals, then maybe look for a longer time frame on the chart or longer time frames on the Moving Averages to try to nullify some of the 'noise'. Popular time frames for the MACS is 1 hour but you could also use the 15 minutes, 30 minutes, 4 hour or 1 day chart time frame, depending on your strategy and time horizons.

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These are 'Always in the Market' strategies, meaning that if you are short and a buy signal is detected it will close your short position and go long, and vice-versa. So for example, if you switched on your strategy at the start of the chart above, it would have generated a sell trade at the red down arrow on the left of the chart and then closed the short position and gone long at the point of the blue arrow and then closed that position and gone short again at the red arrow on the right.

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

Risk Warning

Trading CFDs, Spread Bets and Foreign Exchange carries a high level of risk to your capital with the possibility of losing more than your initial investment and may not be suitable for everyone. Ensure you fully understand the risks involved and seek independent advice if necessary. Trading using auto-trading strategies carries additional risks so please ensure you understand the risks involved in auto-trading strategies and test your strategies using demo accounts and the back-testing tools until you are comfortable with using real-money accounts.

Our Risk Warning Notice can be found in the Terms and Policies document. It summarises the key risks involved in trading on an underlying product. It also explains leverage, the nature of margined trading, and volatility.

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