

Our guide to ten popular Auto-Trading Strategies

No 3. Momentum 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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Momentum Cross System

Risk: Low to medium.

Strategy type: Reversal, Momentum.

Recommended timeframes: Longer time frames (1hr+) recommended.

Attention required: Medium – closer attention required on this strategy in volatile markets.

Overview

The Momentum Cross System uses the Momentum indicator to generate signals for potential trading opportunities. The Momentum Indicator is a popular indicator for displaying the momentum behind a trend in a stock or any other financial instrument.

It is calculated by taking the close of the current period and subtracting the close of a previous period, the time between periods being specified by you in the 'Momentum Periods' setting when setting up your strategy. For example, the default setting when adding the strategy is 10 periods, as you can see in the example below (Fig. 1).

Lowering the number of periods or reducing the time frame of the chart on which you are placing the trading system will result in more signals being generated - if the market is choppy and range-bound this can result in weaker signals being generated, but could get you in to moves quicker. Increasing the number of periods will reduce some of the 'noise' of volatile markets but could mean you enter trades later in the move.

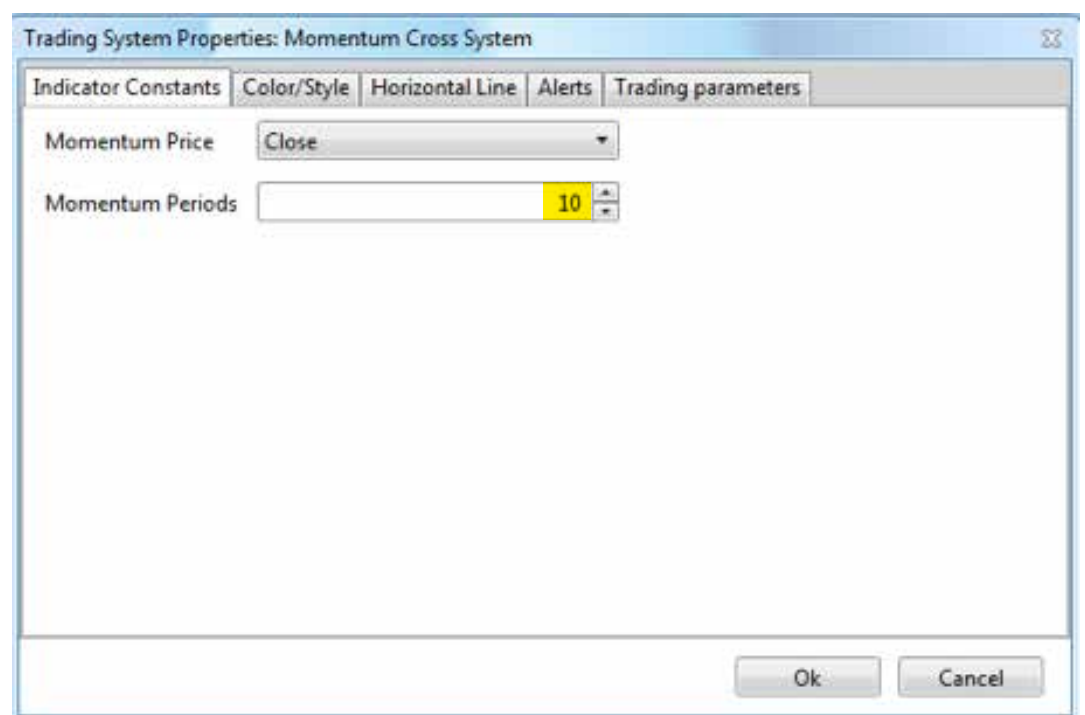


Fig. 1

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The Momentum Indicator measures the rate of change in closing prices and is used to detect trend strength and weakness and possible reversal points. When the Momentum Indicator turns and crosses above or below the zero line it implies that the price of the instrument is reversing and has started to trend strongly. This could be because it has either topped out at a high point and is now trending lower, or maybe it has found support and is now starting to trend higher.

This logic is used by the Momentum Cross System strategy to identify opportunities and place trades automatically on your behalf when the MI crosses the zero line.

The signals are generated using the following logic:

Long Entry = Momentum crosses above the zero line

Long Exit = Momentum crosses below the zero line

Short Entry = Momentum crosses below the zero line

Short Exit = Momentum crosses above the zero line

Some examples of the Momentum Cross System in action are on the EUR/USD Chart below (Fig. 2).



Fig. 2

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The MCS is a relatively simple strategy to understand as it basically finds when a trend is gathering momentum and goes with it. You may find that this strategy needs to be watched closely if the price is trading sideways and the momentum line is close to the zero line – it could cross frequently which could lead to a number of small losses on your account. The strategy works best when price action starts to trend strongly and reverses frequently after sizeable moves.

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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