

Our guide to ten popular Auto-Trading Strategies

No 4. Bull / Bear Heikin-Ashi
Candlesticks Reversal 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.

4

Bull / Bear Heikin-Ashi Candlesticks Reversal System

Risk: Medium.

Strategy type: Reversal.

Recommended timeframes: Can be used with almost all time frames but shorter time frames can cause a lot of 'Noise' trades. We suggest using 30m, 1hr and 4hr charts.

Attention required: Medium – watch for sideways trending markets as they can generate excessive 'Noise' trades if candles reverse frequently.

Overview

The Bull/Bear Heikin-Ashi Candlesticks Reversal System uses the Heikin-Ashi Candlesticks to generate signals for potential trading opportunities.

The Heikin-Ashi method (Heikin in Japanese means the "middle" or the "balance", and Ashi means "foot" or "bar") is a popular and easy-to-use type of candlestick used by traders for assessing trends, their direction and strength.

The candlesticks on the Heikin-Ashi chart can show a trend more clearly than traditional candlesticks as they remove a lot of the 'noise'. When the trend weakens, the candlestick bodies are reduced, and the shadows grow. The change in the colour of candlesticks can be a signal to buy / sell. It can be useful in determining the end of a corrective movement or trend.

The trade signals are generated using the following logic:

Long Signal = a Bull (i.e. its Close price is greater than its Open price) Heikin-Ashi candlestick forms to reverse a downtrend. You can choose the number of consecutive Bull candlesticks required to trigger this alert in the strategy settings, the default, and most popular method is to set it to 1. That means that on the first reversal candle in a trend a signal to buy or sell is indicated as you can see clearly on the first four arrows on the left of the chart below in the blue box.

Short Signal = a Bear (i.e. its Close price is less than its Open price) Heikin-Ashi candlestick forms to reverse an uptrend. You can choose the number of consecutive Bear candlesticks required to trigger this alert in the strategy settings - the default, and most popular method is to set it to 1.

4

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Fig. 1

Please note: The chart should be set to use the 'Heikin-Ashi' candles in order to see the trade signals match up to the candles on your chart. If you set your chart to using Japanese candlesticks or another chart type, the strategy will still calculate the signal in the background based on the Heikin-Ashi candlesticks, but the signals may seem out of line on your chart.

The strategy identifies opportunities where a trend reversal signal is generated by the Heikin-Ashi candlestick, and if the strategy is switched on, it will place a trade on your behalf.

This system's Auto-Trade mode will always attempt to request orders based on the "Always in the Market" method of generating signals to help ensure that only one position is open at any given time even if the option to "Alert for ALL Signals" is in use.

The Bull / Bear Heikin-Ashi Candlesticks Reversal System works well in a market that is trending one direction or another - it can signal trend reversals or correction reversals and can generate good buy/sell signals.

4

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Where it doesn't work so well, is when a market is trading sideways, as it can generate too many false signals as the market flips from red to green candles, as you can see in the centre section of the chart, circled in orange above (Fig. 1). So it is definitely a system that you should pay close attention to and switch on or off periodically depending on how the chart pattern is playing out.

As with almost all auto-trading strategies, you should also examine other indicators to try to confirm whether a trend has the potential to reverse or not before you switch it on. Look for other supporting evidence before making your trade. And test it out before you try it for real – read here on how to Back-Test your Auto-Trading strategies before switching it on.

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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