

Our guide to ten popular Auto-Trading Strategies

No 5. Bollinger Bands Breakout 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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Bollinger Bands Breakout System

Risk: Medium to high.

Strategy type: Breakout, Trending.

Recommended timeframes: Longer time frames (1hr+), it doesn't work so well on shorter time frames.

Attention required: High – this strategy is more prone to false breakouts so is one to watch closely and manage manually if needed. Test this strategy sufficiently until you feel comfortable with switching it on.

Overview

The Bollinger Bands Breakout System (BBBS) uses Bollinger Bands to generate signals for potential trading opportunities. It's a very straight-forward strategy that simply waits for a candle to break above or below a Bollinger Band to signal a trade entry opportunity. The strategy tries to capture breakouts that could continue accelerating in the direction of the breakout.

The Bollinger Bands Breakout System is a form of breakout system that buys on the next open when the price closes above the top of the Bollinger Band and exits when the price closes below the lower Bollinger Band. Short entries are the mirror opposite, with selling taking place when the price closes below the bottom of the Bollinger Bands and closes the trade when the price closes above the upper Band.

The centre of the Bollinger Band is set by default to the Simple Moving Average of the closing prices. The type of moving average and the number of periods used can be set in the parameters. The number of 'Periods' is set by default to the most commonly used 20 periods. The top and bottom of the Bollinger Band are defined using a fixed-multiple of the standard deviations from the moving average specified in the parameters also - the default is set to 2.0 standard deviations (Fig. 1).

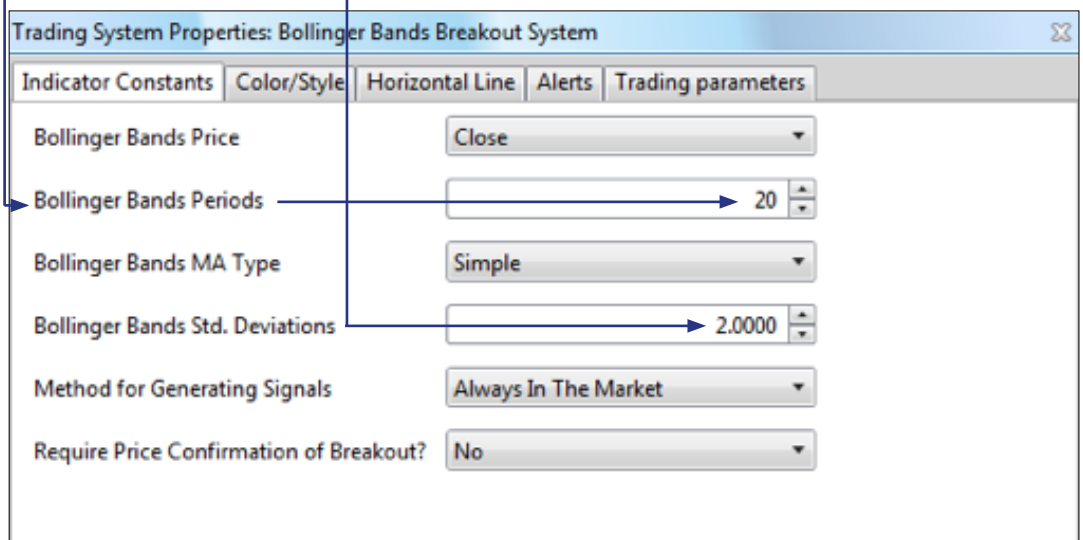


Fig. 1

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The signals are generated using the following logic:

Long Signal = Price breaks out above the Upper Bollinger Band. An optional price confirmation setting is available - if used, the Close price must cross above the High price of the breakout bar within the following 2 bars

Short Signal = Price breaks out below the Lower Bollinger Band. An optional price confirmation setting is available - if used, the Close price must cross below the Low price of the breakout bar within the following 2 bars

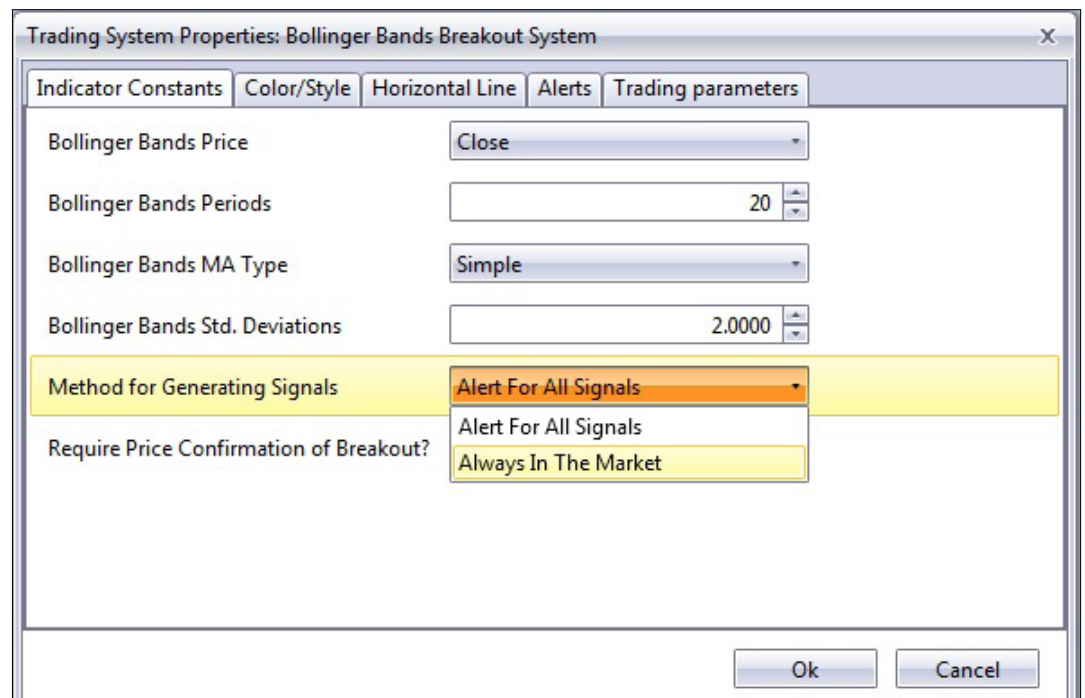


Fig. 2

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You can also choose which setting you set the strategy to in the 'Method for Generating Signals' (Fig. 2). If you set it to 'Alert For All Signals' then the chart will add a notification every time the price closes outside the Bollinger band (Fig. 3, below shows multiple red arrows in a row) . If you set it to 'Always In The Market' then it will only place one open position at a time and so generates far less trade signals. (Fig. 4, bottom only shows the first red arrow where the trade is placed). Both are on the 1-hour Wall St chart.



Fig. 3

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Fig. 4

This strategy is best suited to longer time frames and longer trading horizons as shorter time frames can generate a lot of 'false' signals which are reversed too quickly. If you do decide to trade on a shorter time frame, or trade using the signals generated by the 'Alert For All Signals' settings, it will require a lot more manual attention to ensure you manage your risk effectively.

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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

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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