

Our guide to ten popular Auto-Trading Strategies

No 6. Bull / Bear Japanese 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.

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Bull / Bear Japanese Candlesticks Reversal System

Risk: Medium.

Strategy type: Reversal/Momentum.

Recommended timeframes: Longer timeframes (30 minutes, 1hr, 4hr).

Attention required: Medium – as you increase the number of confirmation candles, more attention is required to manage open positions.

Overview

The Bull/Bear Japanese Candlesticks Reversal System uses the Japanese Candlesticks to generate signals for potential trading opportunities. This is a reversal trading strategy which looks for signals that an instrument is possibly reversing direction, whether it's a rally might be coming to an end, or a correction might be bottoming and about to start rising again.

The signals are generated using the following logic:

Long Signal = After a bearish candle, a Bull Japanese candlestick forms (i.e. its Close price is higher than its Open price). You may choose the number of consecutive Bull candlesticks required to trigger this alert - the default is set to 1 so that a signal is generated at the first reversal candle generated. Increasing the number of candlesticks required to trigger the alert will result in far fewer signals being generated as the system waits to place the trade until the number of candles specified in your settings form.

Short Signal = a Bear Japanese candlestick forms (i.e. its Close price is lower than its Open price). You may choose the number of consecutive Bear candlesticks required to trigger this alert - the default is set to 1 so that a signal is generated at the first reversal candle generated.

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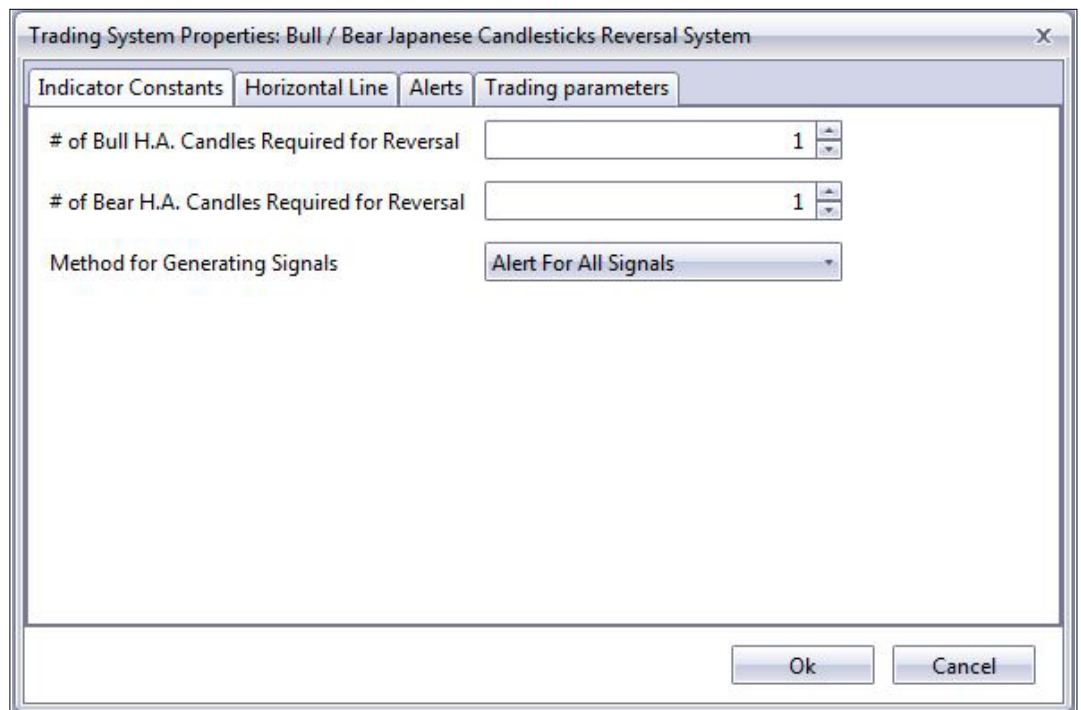


Fig. 1

You can choose to have the trading system generate all of its potential trading signals ('Alert For All Signals'), or to only generate signals to have only one position open at any one time ('Always in The Market') system (Fig. 1).

The Bull/Bear Japanese Candlesticks Reversal System can be a useful tool for highlighting a change in price action as a 'reversal' candle is generated when a price starts to reverse course. The number of signals and trade entry points will depend on how many candles you set in your Indicator Properties and whether you set it to 'Alert For All Signals' or 'Always In The Market'. The chart below shows the 'Alert For All Signals' setting with 1-candle reversal signals on a 1-hour timeframe as per the settings box above (Fig. 1).

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Fig. 2

The best trade signals were generated when another important indicator was considered in conjunction with the strategy signal – for example, in the chart above (Fig. 2), the moving averages in the centre of the Bollinger Bands proved a good supporting indicator to sell when a reversal candle was indicated, whereas the lower Bollinger Band provided good supporting evidence for the bull candle buy signals.

The Bull/Bear Japanese Candle Reversal Strategy is quite a simplistic strategy and is very easy to understand, so is a good strategy to start out with for a beginner. It simply indicates good entry and exit points based on a change in market direction so can help remove the emotion from making a decision.

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If you increase the number of candles required for the reversal signal, it will result in fewer trades but can highlight strong uptrends or downtrends which have formed after the initial reversal as you can see in the chart below (Fig. 3). In this example the number of consecutive bullish or bearish candles required to trigger a trade has been set to five. By doing this it can miss out on the early part of moves, but only gets you in to strong trending moves. It does require manual attention though to take maximum return from trade signals. You should look at other indicators and use your judgement to possibly close trades sooner – for example, closing the short trade instigated shortly after 12:00 on Dec 3rd on the second test of the lows at 12:00 on Dec 4th would have resulted in 200+ points profit.



Fig. 3

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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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