

Our guide to ten popular Auto-Trading Strategies

No 8. Aroon Oscillator 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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Aroon Oscillator Cross System

Risk: Medium.

Strategy type: Reversal and Trend.

Recommended timeframes: Longer timeframes generate better signals but can miss early parts of moves.

Attention required: Low to medium.

Overview

The Aroon Oscillator Cross System uses the Aroon Oscillator to generate signals for potential trading opportunities. The Aroon Oscillator can highlight the start of a new trend and gives an indication of trend strength. The Aroon Indicator consists of three lines: Aroon Up, Aroon Down and Aroon Oscillator, which reflects the difference between the two. The Aroon Oscillator Cross System does not plot these lines specifically, but plots a line bar type chart which reflects the difference between the Aroon Up and the Aroon Down to give an indication of the prevailing trend.

The Aroon Oscillator fluctuates between -100 and +100, with zero as the middle line. While the line bars are above the zero line, an uptrend bias is in place, whereas a downward trend bias is in place when the oscillator is negative.

The signals are generated using the following logic:

Long Entry = Aroon Oscillator crosses above zero

Long Exit = Aroon Oscillator crosses below zero

Short Entry = Aroon Oscillator crosses below zero

Short Exit = Aroon Oscillator crosses above zero

It is tempting to look for bullish and bearish divergences, but the indicator was not designed for traditional oscillator signals. As with all technical indicators, the Aroon Oscillator could be used in conjunction with other aspects of technical analysis, such as pattern analysis or momentum indicators.

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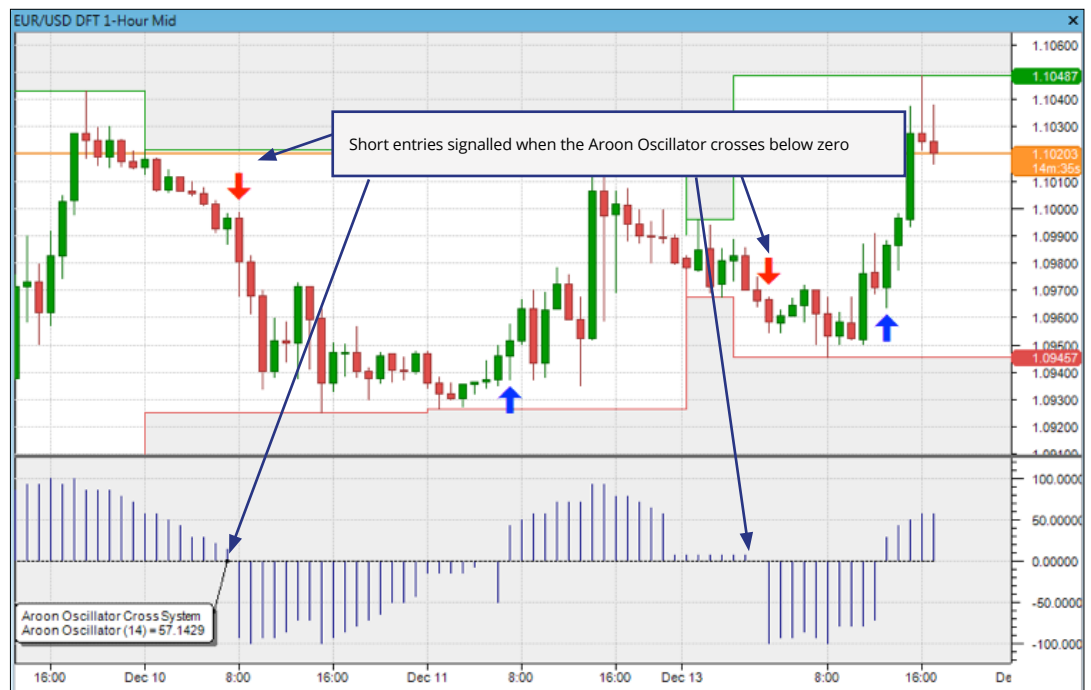


Fig. 1

The Aroon Oscillator System can be low or high risk depending on how volatile a market is, and on the parameters you set – setting a higher number of periods will result in more signals being generated. The default number of periods is set to 14, but you can customise it to whatever period you want.

The Aroon Oscillator is not immune to lag, as the oscillator tends to turn positive or negative after prices have already started moving. In the example above (Fig. 1), on EUR/USD on a one-hour time frame, the first sell signal (red arrow) is generated well in to the downtrend. The trend was strong though and continued well after the signal, not generating a closing signal until the next up blue arrow, after the trend had weakened and started rising again.

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That move would have generated a profit, but the two trades on the right of the chart would have resulted in a loss as the trade placed on the candle after the red 'sell' arrow was lower than where the 'buy' signal was generated at the blue arrow.

The longer the parameter setting, the more the lag. Do not expect to pick bottoms or tops with positive or negative crossovers. As more of a trend following indicator, the Aroon Oscillator identifies moves that may be strong enough to signal the start of a sustained trend, but always bear in mind that trends can change quickly.

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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