

Our guide to ten popular Auto-Trading Strategies

No 9. MACD Fast Line / Signal Line
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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MACD Fast Line / Signal Line Cross System

Risk: Low to medium.

Strategy type: Reversal and Trend.

Recommended timeframes: Will work over most time frames but test thoroughly to ensure it is suitable to your strategy.

Attention required: Low to medium. This strategy is generally quite low risk but you can reduce the risk of volatile markets whipping you around by increasing the MA periods.

Overview

The MACD Fast Line/Signal Line Cross system (MACD FLSLCS) uses the Moving Average Convergence Divergence (MACD) indicator to generate trading signals. The MACD Indicator has been around since the 1970s and is one of the most well-known and popular indicators used by traders today. The MACD can be used to determine trend direction, momentum and potential reversal situations.

The MACD is made up of two lines: the MACD Fast line and the Signal line. The lines move together, but MACD moves faster as the Signal line is a moving average of the MACD line. The Signal Line Cross System is a good indicator of trend reversals and is a very popular method for generating timely trading signals. When MACD is above the zero line it helps confirm an uptrend; below zero it helps to confirm a downtrend.

Long Entry = MACD Fast Line crosses above MACD Signal Line

Long Exit = MACD Fast Line crosses below MACD Signal Line

Short Entry = MACD Fast Line crosses below MACD Signal Line

Short Exit = MACD Fast Line crosses above MACD Signal Line



Fig. 1

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The advantage of the Signal Line Cross System is that it doesn't wait for the MACD to cross the zero line so doesn't 'lag' the price action as much, so it can get you in to trends earlier. It works best in a market that reverses and then trends strongly in the opposite direction. It doesn't work as well though in choppy markets when the MACD cross back and forth in a short space of time, resulting in you getting stopped and reversed frequently. An example of this is just above the 16:00 mark on December 13th when the lines crossed twice in quick succession (Fig. 1).

You can reduce the chances of this happening by increasing the number of the 'MACD Signal MA Periods' from the default 9 to something higher (Fig. 2).

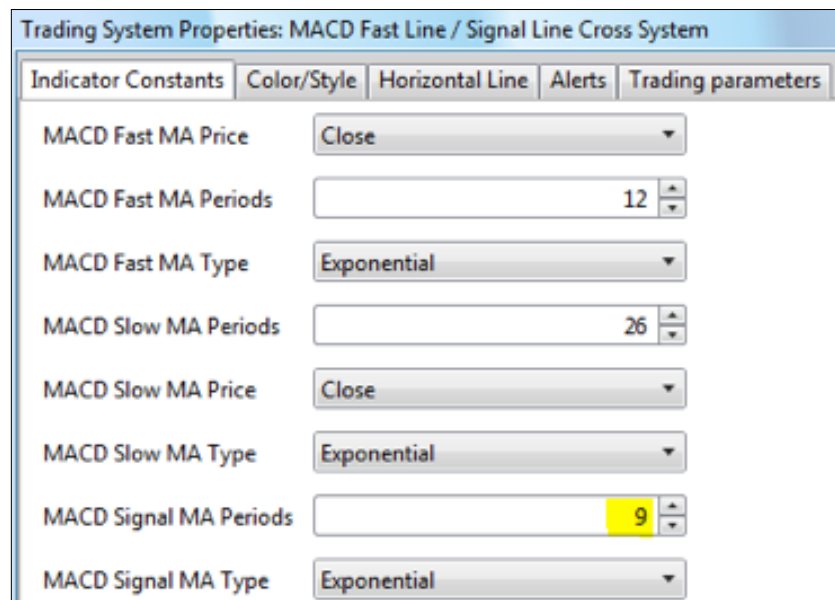


Fig. 2

See the example below of AUD/USD on a 1-Hour time frame (Fig. 3) – with the Signal MA Periods set to 9 you would have been closed out of the original short trade too soon and would have traded a losing position in the middle of the chart where the Signal line crossed twice in quick succession.

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On the chart on the right (Fig. 4), however, over the same time frame, but with the Signal MA Periods changed to 26, there is only one trade placed in that middle section where the price reversed quickly. You will need to try different time periods on different products to see which works best for your strategy.

There is no built in price target or stop loss on each trade placed, like all the Auto-Trading Strategies, the trade stays open until a reverse signal is generated by the strategy, when the trade is closed and another opened in the opposite direction. It is therefore an 'Always in the Market' strategy.



Fig. 3



Fig. 4

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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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