Downtrend Algorithm and Hedging Strategy in Futures Market

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Abstract:

The paper investigates downtrend algorithm and trading strategy based on chart pattern recognition and technical analysis in futures market. The proposed chart formation is a pattern with the lowest low in the middle and one higher low on each side. The contribution of this paper lies in the reinforcement of statements about the profitability of momentum trend trading strategies. Practical benefit of the research is a trading algorithm in falling markets and back-test analysis in futures markets. When based on daily data, the algorithm has generated positive results, especially when the market had downtrend period. Downtrend algorithm can be applied as a hedge strategy against possible sudden market crashes. The proposed strategy can be interesting for futures traders, hedge funds or scientific researchers performing technical or algorithmic market analysis based on momentum trend trading.

Keywords: hedging, trading algorithm, chart pattern, downtrend trading, futures market

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References:


Hedge strategy is almost unlimited as the wide variety of underlying assets and a large number of different expiration times gives an endless ratio of combinations. Before entering the market, imagine a trader has a strong prediction that EUR/USD should keep the downtrend as the single European currency is extremely weak amid fundamentals and economic reports in the region. However, the U.S. dollar might be vulnerable to sell-offs due to geopolitical or monetary policy risks, which appear from time to time. Tip to Use the Hedging Strategy for Options Trading: You don't always have to hedge with the same amount. Hedging example. The technical analysis pointed to a strong support level for the S&P 500 benchmark on the daily chart below. The paper investigates downtrend algorithm and trading strategy based on chart pattern recognition and technical analysis in futures market. The proposed chart formation is a pattern with the lowest low in the middle and one higher low on each side. The contribution of this paper lies in the reinforcement of statements about the profitability of momentum trend trading strategies. Downtrend algorithm can be applied as a hedge strategy against possible sudden market crashes. The proposed strategy can be interesting for futures traders, hedge funds or scientific researchers performing technical or algorithmic market analysis based on momentum trend trading. Discover the world's research. 17+ million members. Downtrend Algorithm and Hedging Strategy in Futures Market. International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering, 6(10), 2549-2554. Menkveld, A. (2011). Energy and agricultural commodities revealed through hedging characteristics: Evidence from developing and mature markets. Journal of Commodity Markets, 9, 1-20. Thompson, M. (2016). The hedging strategies are designed to minimize the risk of adverse price movement against an open trade. If you fear a stock market crash is coming or you just want to protect one of your trades from the market uncertainty, you can use one of the many types of hedging strategies to gain peace of mind. If this is your first time on our website, our team at Trading Strategy Guides welcomes you. Make sure you hit the subscribe button, so you get your Free Trading Strategy every week sent right to your inbox. You probably have heard that in times of distress investors are buying puts to protected. Futures contracts are one of the most common derivatives used to hedge risk. Learn how futures contracts can be used to limit risk exposure. When an investor uses futures contracts as part of their hedging strategy, their goal is to reduce the likelihood that they will experience a loss due to an unfavorable change in the market value of the underlying asset, usually a security or another financial instrument. If the security or the financial instrument typically experiences a lot of volatility, an investor may be more likely to purchase a futures contract.