ULTIMATE TRADING STRATEGIES FOR THE DAX, FTSE, DOW AND S&P500

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Stock markets have attracted traders for decades with the promise of higher potential returns than most other investments however, stock trading comes with its share of risks. In fact, share prices of companies are known to fluctuate significantly over a given period of time.

The global stock market is massive. Its capitalisation exceeded $80 trillion in 2018, representing more than 300% growth from $25 trillion in 2009. In 2017 alone, the global stock market cap surged almost 22%, buoyed by a strong recovery in corporate earnings in the US and Europe and favourable macroeconomic reforms.

Did You Know?

The US represents around 43% of the global stock market cap but makes up only 17% of the world's stocks.

Volatility of Stock Markets results from the fact that a company's share price is impacted by a plethora of factors, both internal and external. Investing in stocks requires traders to remain abreast of the individual company's financial health, new product developments, changes in management and other internal factors. As well as keeping tabs on a host of external factors including changes in the competitive landscape, developments in the sector, economic growth and the state of the labour market. Those who are new to trading and even some experienced traders do not have the time to delve into all the factors that impact the company they wish to invest in. So, how do they gain exposure to the potential offered by the stock market?

The answer is that they invest in stock market indices, like the DAX, FTSE, Dow and S&P500, rather than trading the shares of individual companies.

Did You Know?

Since 1926, US large cap stocks have returned on average 10% per annum. This performance has made stocks more attractive for long-term investors than Treasury bonds, which have returned on average 5.6% annually in this timeframe.

What are Stock Market Indices?

Stock market indices are essentially a group of selected stocks listed on a stock exchange. While there are global and national indices, the most common stock indices represent a specific section of the stock market.

The price of an index is calculated based on the stocks it represents. However, not all stocks may be treated equally. Mostly indices are market-capitalisation weighted, which means they assign weight based on the market cap (calculated by multiplying a company's share price with the outstanding shares) of the companies. Among the most popular market-cap weighted indices is the S&P500. Other indices may be price-weighted, in which the stocks are weighted in proportion to their respective share price. An example of this is the Dow Jones Industrial Average (DJIA), which assigns more weight to companies with higher share prices.

Advantages of Investing in Stock Market Indices

Stock market indices provide an easy way for investors to gain exposure to various stocks traded globally.

Benefits of trading stock market indices include:

- No need to research individual company statements.
- Offer more exposure for the same amount of funds invested.
- Trading in stock market indices is less volatile than trading in individual stocks. Despite this, there's adequate volatility for traders to adopt various strategies and seek attractive trading opportunities.
- Stock market indices offer a way to accomplish portfolio diversification without having to invest in different stocks.
- Using indices, traders can take advantage of opportunities in the global equities markets.
- Offer a way to hedge existing stock exposure and dampen the impact of volatility.
- Stock market indices have real-time pricing, as they are linked to actual stock market performance.
- Trading opportunities in both bullish and bearish markets, as traders can sell short or go long depending on the direction they expect the market to move.

By trading stock market indices with an experienced broker, traders can also expect to benefit from flexible leverage, depending on their risk appetite, as well as extremely tight spreads.

Get to Know the Four Major Stock Market Indices

The leading stock market indices are the DAX30, FTSE100, Dow and S&P500. To trade these indices, it's important to understand what they are comprised of, what factors cause their price to move and other trading details.

DAX30

The DAX30 tracks the value of the 30 most liquid companies listed on the Frankfurt Stock Exchange (FSE), which is the world's tenth largest stock exchange by market capitalisation.

What Moves the DAX30?

- Global macroeconomic factors
- Eurozone economic data released by the European Central Bank (ECB)
- Global and regional trade news, like tariffs on steel
- Economic dependencies between asset classes like oil and metals
- Currency wars affecting the bottom line of exporters, as Germany is predominantly a manufacturer and an exporter

Trading Hours	Priced in	Major Companies
09:00 to 17:45 GMT; Monday-Friday	Euro	Bayer, Daimler, Siemens, Allianz

FTSE100

The FTSE 100 is composed of the 100 largest blue-chip stocks listed on the London Stock Exchange (LSE), which had a market cap of around $33.8 trillion in October 2019.

Did You Know?

The FTSE gets its name from being an acronym for the Financial Times and the LSE, which were its original parent companies. Its common market slang is footsie.

What Moves the FTSE100?

- Global geo-political developments
- Monetary policies of the Bank of England (BoE)
- BoE quarterly inflation reports
- Performance of the British pound
- Commodity prices, especially oil and mining stocks

Trading Hours	Priced in	Major Companies
08:00 to 16:30 GMT; Monday-Friday	Pound sterling	HSBC Holdings, Royal Dutch Shell, BP

Dow Jones Industrial Average (DJIA)

The Dow Jones Industrial Average, or simply the Dow, consists of 30 largest publicly traded companies listed on the NYSE and the NASDAQ.

What Moves the Dow?

- US economic data releases by the Federal Reserve
- World events like natural disasters, political unrest, US presidential elections
- Trade-related uncertainties – The US is a net-importer and has bilateral trade relationships with many countries like Canada, China and Mexico.
- Major price movements in heavy-weighted stocks, particularly in sectors like tech, consumer goods, finance and healthcare.
- US Dollar Index

Did You Know?

The Dow is the most quoted market indicator in the world and is considered as a benchmark for gauging the performance of portfolios and individual investments. If a portfolio consistently outperforms the Dow, it is believed to be backed by a sound investment strategy.

Trading Hours	Priced in	Major Companies
09:30 to 16:00 EST; Monday-Friday	US dollar	3M, American Express, Apple, Pfizer, Boeing

S&P 500

The Standard and Poor's (S&P) 500 is a market-cap weighted index of the 500 largest companies listed on the NYSE and NASDAQ. It is the best performance indicator of large cap US equities.

What Moves the S&P500?

The factors affecting the S&P500 are pretty much the same as those that move the Dow. Apart from these, the S&P500 is impacted by some other factors, since it is a much broader index (spanning 500 companies versus Dow's 30). These factors are:

- US bond market (impact on mortgage interest rates)
- Performance of emerging markets, like China and India
- Performance of IT, banking, healthcare and energy sectors
- Interest rate announcements by the Federal Reserve - interest rate hikes make investments in bonds more attractive, resulting in a decline in equities and S&P500

Trading Hours	Priced in	Major Companies
09:30 to 16:00 EST; Monday-Friday	US dollar	Berkshire Hathaway, Facebook, Apple, Amazon, JPMorgan Chase

Best Trading Strategies for Stock Market Indices

Trading strategies for the DAX30, FTSE100, Dow and S&P500 are similar to trading any financial instrument. You need to start by studying charts that show historical price movements, as this will help you decide entry levels, exit points and stop loss.

Then you select a timeframe for a trade, which could be one hour, one day or even several weeks. You can place a long or short trade, depending on how you expect the market to move.

Using an EMA Crossover Strategy

EMA (exponential moving average) is an indicator that's available for free on the ADSS MetaTrader 4 platform.

Here's a simple day trading strategy that new traders can use to begin their journey with DAX, FTSE, Dow or S&P500. Set the timeframe on your chart at 30 minutes and use the 10 and 25 exponential moving averages.

Look for when the 10-EMA crosses the 25-EMA and then wait for the price to reach the 25-EMA for placing the trade. How to determine whether to go long or short? If the 10-EMA is trending below the 25-EMA and then rises and crosses the 25-EMA, then consider setting up a long position. In case the 10-EMA is above the 25-EMA and then declines and crosses the 25-EMA, the indication is to go short.

Tip

Rigorously test your strategy using a demo account before you trade any of these indices.

Using Support and Resistance Levels

Place four horizontal lines for support and resistance on the five-minute chart. These are the four most important levels of the previous trading session and comprise of the previous day's open price, close price, high and low achieved during the day.
Note whether the market was trending upwards or downwards or if it was in a trading range on the five-minute chart in the last trading session.

As the market opens, keep an eye on the current momentum. The first trade of the day typically takes place within the first few minutes of market open and it is usually quite large. Notice whether it is bullish or bearish. Notice whether there is a reversal or if the previous day's trend is continuing.

Tip

Entering trades before major data releases can be risky. New traders may want to avoid trading until the dust settles.

Take note of the candlestick patterns as they form as the trading day progresses. Look for how candlesticks are reacting to the support and resistance lines on your chart. This will help predict the next price movements. If the candlestick patterns are confirming the resistance level, you might consider going short. If they are confluence with the support level, it's an
indication to buy.

Using Moving Averages

Here, the 200-day moving average is used on daily charts to measure trends. Traders are bullish when prices rise above the 200-MA and bearish when prices fall below this level. This is used for short-term trading setups.

Trading Strategies for Specific Indices

Scalping Strategy for trading the DAX30

The DAX30 is among the most popular indices for short-term trading and traders often use scalping with DAX CFDs. Scalping is an intra-day trading strategy where traders enter and exit positions several times in a day, with the aim to leverage small price changes.

- **Timeframe** : 5 minutes to 15 minutes
- **Indicators** : MACD (12, 26, 1), 4-period EMA, Stochastic Oscillator (14, 3, 3) with level-50
- **Signal to buy** : When MACD > 0, Stochastic > 50, 4-EMA > - Smoothed Moving Average (SMMA)
- **Signal to sell** : When MACD < 0, Stochastic < 50, 4-EMA< 6 SMMA
- **Exit** : At predetermined profit levels or at pivot levels

Did You Know?

DAX scalping can be highly volatile and requires very fast decision-making. So, it is used by experienced traders and with disciplined placement of stop loss orders.

Swing Trading Strategy for the S&P500

Swing traders take advantage of market retracements to find better entries and profitable trades. It can help maximise potential gains while minimising risks. While traders place fewer trades, they choose the ones with high risk-reward ratios. For trading the S&P500, traders use daily charts.

- **Indicators** : RSI, MACD, Stochastic Oscillator
- **Buy Signals** : In an uptrend, buy at support levels or when RSI < 30
- **Sell Signal** : In a downtrend, sell at resistance levels or when RSI > 70

Ready to trade

Trading indices can be exciting and enjoyable. While it may seem challenging to new traders, indices offer excellent trading opportunities and a chance to speculate on the performance of market benchmarks. Stock market indices are also a great tool for portfolio diversification and hedging against risk.

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