SYNTHETIC INDICES

DEMYSTIFIED

The Ultimate Starter Guide to Synthetic Indices

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Synthetic Indices Demystified

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Dedication

Proverbs 21:5 (NIV)

The plans of the diligent lead to profit as surely as haste leads to poverty.

NOTE FROM THE AUTHOR

Welcome to Synthetic Indices Demystified—a guide crafted to unveil the secrets of the fast-paced, exhilarating world of synthetic trading.

This book is not just about understanding the charts; it’s about unlocking potential, mastering precision, and seizing opportunities 24/7. Whether you're a seasoned trader or a curious beginner, I’ve distilled years of experience into actionable insights, strategies, and tools to help you thrive.
Your success is my mission. As you turn these pages, prepare to embark on a journey of clarity and confidence in synthetic indices. Let’s transform knowledge into profit—one trade at a time.

“The more you learn, the more you earn.”

-Anonymous

WHAT ARE SYNTHETIC INDICES?

Synthetic indices are financial instruments designed to mimic the behavior of real-world markets while operating independently of actual market events. They are typically used in trading environments and are offered by specific brokers, particularly in the realm of contract-for-difference (CFD) and binary options trading.

in this book, am going to focus on CFDs. There are a few brokers who offer synthetic indices but the most popular synthetic indices broker is **DERIV.** Other brokers may, provide synthetic indices but they will always be different from those offered by Deriv. In most cases traders refer synthetic indices to “deriv indices” since deriv is the most popular broker for synthetic indices

Synthetic indices shouldn’t be confused with indices. While synthetic indices are computer generated instruments that mimic real market behavior, indices on the other hand, (plural of "index") are a way to measure and track the performance of a group of assets, typically stocks, in a financial market. Indices are widely used as benchmarks to assess the health of a particular market, sector, or economy, and they provide insights into overall trends and investment performance. Examples of the most common indices include S &P 500, NASDAQ, DAX 40 etc.

In this book, we are going to focus on only synthetic indices. We are going to keep referring them to as “indices”.

DIFFERENCE BETWEEN INDICES AND FOREX

Much as synthetic indices are designed to mimic financial markets like forex, they have very many differences that make them stand out. Here are some of these differences:

A) MARKET INDEPENDENCE

Market independence is one of the defining characteristics of synthetic indices, distinguishing them from traditional financial instruments like stocks, commodities, or forex pairs. This independence is what makes synthetic indices unique and appealing to traders looking for a controlled and consistent trading environment.

Synthetic indices are not influenced by external factors that typically impact traditional financial markets. These factors include:

Economic Events:
Real-world indices and assets are often affected by economic indicators like GDP growth, inflation rates, employment data, and central bank policies. Synthetic indices, however, are completely detached from these influences.

Geopolitical Events:
Events like wars, trade agreements, elections, or political instability can cause significant fluctuations in traditional markets. Synthetic indices remain unaffected by such events.

Market Sentiment:
Market sentiment, driven by investor behavior, news, or speculation, can lead to unpredictable price movements in real markets. Synthetic indices operate independently of investor emotions or market psychology.

Market Hours:
Traditional markets have fixed trading hours and are closed on weekends or public holidays, which can lead to gaps or irregularities. Synthetic indices, on the other hand, are available for trading 24/7, ensuring constant market availability.

How Market Independence is Achieved

Algorithm-Based Design:
Synthetic indices are generated by computer algorithms that simulate market behaviors. These algorithms create price movements that replicate real-market volatility and trends without being tied to any underlying asset or external event.

Random Number Generators (RNGs):
A key feature of synthetic indices is the use of RNGs to ensure that price movements are random yet mathematically sound.

RNGs are typically audited to guarantee fairness and transparency.

Broker Control:
Synthetic indices are offered exclusively by specific brokers, meaning the brokers control the parameters and behavior of the indices. This allows them to ensure consistency and independence from real-world markets.

Benefits of Market Independence
Reduced Unpredictability:
Synthetic indices are not subject to sudden shocks caused by news events or economic reports, providing a more stable trading environment.

Constant Availability:
Traders can access synthetic indices 24/7, without worrying about market closures, holidays, or after-hours trading restrictions.

Focused Risk Management:
Since synthetic indices are independent of external factors, traders can focus purely on technical analysis and strategies without needing to account for fundamental analysis.

Transparency and Fairness:
Audited RNGs ensure that the price movements are fair and random, creating a level playing field for all traders.

Who Benefits from Market Independence?
Traders Seeking Stability:
Those who prefer a controlled and predictable environment.
Technical Analysts:
Traders who rely on chart patterns, indicators, and algorithms without considering news or events.
Night and Weekend Traders:
Traders looking to trade outside traditional market hours.

B) CONTINOUS TRADING OF INDICES

One of the most attractive features of synthetic indices is their ability to be traded continuously, 24 hours a day, 7 days a week. This distinguishes them from traditional financial markets, which have specific opening and closing hours and are affected by weekends and public holidays. Continuous trading makes synthetic indices highly flexible for traders worldwide, especially those in different time zones or with varied schedules.

Key Aspects of Continuous Trading for Synthetic Indices

Uninterrupted Market Access

Synthetic indices are designed to be available for trading every second of the day, without breaks for weekends, holidays, or market closures.

This accessibility ensures that traders can execute trades whenever it suits them, regardless of global market hours.

Flexibility for Global Traders
Traders in different time zones can engage with synthetic indices without worrying about missing opportunities due to market closures.

This is particularly beneficial for part-time traders who may not be able to trade during the hours of traditional markets.

Practice and Skill Development
Beginners benefit from continuous trading by having the freedom to practice trading strategies at any time.

Many brokers offer demo accounts with synthetic indices, enabling traders to refine their skills without time constraints.

Benefits of Continuous Trading in Synthetic Indices

Round-the-Clock Opportunities:
Traders can enter or exit positions at any time, seizing opportunities that may arise outside of traditional market hours.

Reduced Gap Risk:
In traditional markets, gaps in price often occur due to overnight or weekend news affecting markets when they reopen.
With synthetic indices, there are no market closures, so price gaps are virtually nonexistent, providing smoother price action.

More Control for Traders:
Continuous trading allows traders to manage their positions without being constrained by market hours. They can respond instantly to any changes in their trading plan.

Scalability of Strategies:
Strategies like scalping and day trading thrive in the environment of continuous trading. Traders can capitalize on short-term price movements at any time.

Who Benefits Most from Continuous Trading?
Full-Time Traders:
- Those who want to trade consistently throughout the day can maximize their screen time.

Part-Time Traders:
- Individuals with day jobs or other commitments can trade during their free time, even outside regular market hours.

Beginner Traders:
- Continuous trading offers an unrestricted practice environment, which is ideal for learning and experimenting with strategies.

Volatility control in synthetic indices

This refers to the mechanism that determines the rate and magnitude of price movements in these indices. Synthetic indices are designed to simulate market-like conditions, and their volatility control ensures traders can choose a trading environment that aligns with their risk tolerance and strategy.

What is Volatility in Trading?

- Volatility is the degree of price variation over time in a financial instrument.
- High volatility indicates rapid and large price changes.
- Low volatility implies slower and smaller price movements.

Synthetic indices use controlled levels of volatility to simulate different trading conditions, offering a range of indices tailored to various risk appetites.

How Volatility Control Works in Synthetic Indices:

Preset Volatility Levels:
Synthetic indices are categorized by specific volatility levels, such as Volatility 10, 25, 50, 75, and 100.

Fixed Behavior Across Levels:
Unlike real markets, synthetic indices maintain consistent volatility behavior, unaffected by external events like news or market sentiment.

This predictability allows traders to better manage risk and tailor strategies.

Why Volatility Control is Important:

Customizable Risk Levels:

Traders can select indices with volatility levels that suit their risk tolerance.

For example:

- Conservative traders may prefer Volatility 10 for reduced risk.
- Aggressive traders might opt for Volatility 75 or 100 for higher risk and reward potential.

Scalability of Strategies:

Different trading strategies perform better in specific volatility environments.

Trend-following strategies may thrive in higher volatility indices.

Scalping and range-bound strategies may perform better in lower volatility indices.

MYTHS ABOUT SYNTHETIC INDICES

There are several myths and misconceptions about synthetic indices, often stemming from their unique nature compared to traditional financial markets. Here’s a detailed breakdown of these myths and the facts that debunk them:

Myth: Synthetic indices are a scam.
Reality:
Synthetic indices are legitimate trading instruments offered by regulated brokers.

- They are based on algorithms that simulate market conditions.
- The brokers providing synthetic indices often undergo independent audits of their systems, ensuring fairness and transparency (e.g., RNG certifications).
- However, as with any financial instrument, traders should verify the broker’s credentials and regulatory status.

Myth: Synthetic indices are manipulated by brokers.

Reality:

- Synthetic indices rely on Random Number Generators (RNGs) that are often tested and certified for fairness by third-party auditors.
- Reputable brokers implement strict controls to prevent tampering with price movements.
- However, traders should avoid unregulated brokers, as they might not adhere to transparency standards.

In my opinion, Deriv is the best broker for synthetic indices. they have made 25 years as synthetic indices providers as of December 2024.

Myth: Synthetic indices are the same as traditional indices.
Reality:

- Synthetic indices are not tied to real-world assets like stock indices (e.g., S&P 500, FTSE 100). Instead, they are computer-generated simulations of market-like behavior.
- They are unaffected by external economic events or geopolitical news, which makes them predictable in certain ways compared to traditional indices.

Myth: Synthetic indices are too risky to trade.
Reality:

- Synthetic indices offer a range of volatility levels (e.g., Volatility 10, 25, 50, 100), allowing traders to choose a risk level that suits their comfort and strategy.

While high-volatility indices like Volatility 100 carry significant risk, low-volatility options like Volatility 10 are relatively stable and suitable for risk-averse traders.

Myth: Synthetic indices are only for experienced traders.
Reality:

- Synthetic indices cater to traders of all skill levels. Beginners can start with lower-volatility indices to practice and develop their skills.
- Many brokers also provide demo accounts, enabling traders to learn without risking real money.

Myth: You can’t make money trading synthetic indices.

Reality:

- Like any trading instrument, profits depend on the trader’s strategy, risk management, and market understanding.
- Synthetic indices provide consistent trading conditions (24/7 availability, controlled volatility), which can be advantageous for disciplined traders.

Myth: Synthetic indices are illegal.
Reality:

  - Synthetic indices are entirely legal when offered by regulated brokers.
  - However, legality may vary depending on local financial regulations in certain countries. Always check if the broker is authorized to operate in your jurisdiction.

Myth: Synthetic indices are not transparent.
Reality:

- Trusted brokers like Deriv ensure transparency by:
  - Publishing information about the algorithms and RNGs used.
  - Providing clear terms and conditions for trading.
  - Offering platforms with detailed price histories and technical analysis tools.

Myth: Synthetic indices are easier to trade than real markets.
Reality:

- Synthetic indices are not inherently easier to trade; they simply provide controlled and consistent conditions.

Success still requires a solid understanding of trading strategies, risk management, and market analysis.

Myth: Synthetic indices are just for gambling.
Reality:

  - While synthetic indices involve speculative trading, they are not "gambling" when approached with strategy and discipline.
  - Many traders use technical analysis and risk management strategies to trade synthetic indices effectively, similar to traditional financial markets.

Myth: Synthetic indices always favor the broker.
Reality:

- Synthetic indices are designed to simulate fair, random market behavior.

- Brokers make profits from spreads, commissions, or trader losses, not from manipulating price movements in regulated environments. Deriv offers very tight spreads on all indices.
- Transparent brokers align their success with providing reliable trading platforms.

Myth: Synthetic indices are too volatile to predict.
Reality:

- While some indices (like Volatility 25s) have high price swings, others are designed to mimic lower-volatility markets, providing stability.
- Technical analysis tools (e.g., trend lines, moving averages) can help traders anticipate price movements effectively.

Myth: You need a lot of capital to trade synthetic indices.

Reality:

- Most brokers offering synthetic indices like Deriv allow trading with small amounts of capital. The minimum deposit on Deriv is 5usd, and you can trade with as little as 0.1usd (small margin).
- Leverage enables traders to control larger positions with relatively low investment, but it requires careful risk management

Myth: Synthetic indices are only for short-term trading.

Reality:

- Synthetic indices can be traded using various strategies, including scalping, day trading, and swing trading.
- Some traders hold positions longer, especially in lower-volatility indices.

Myth: There are no resources to learn synthetic indices trading.

Reality:

- Many brokers provide educational resources, including tutorials, webinars, and demo accounts. Deriv conducts webinars to keep traders up to date with their
- Online communities and forums also share strategies and insights for trading synthetic indices. Personally, I created free and subscription based online platforms to help traders understand synthetic indices.

CATEGORIES OF SYNTHETIC INDICES

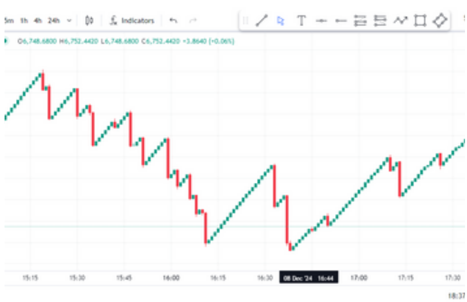
Deriv offers a wide variety of indices, each with its own unique characteristics. This gives traders an opportunity to make money in different ways on the Deriv platform.

Here are the categories of synthetic indices offered by Deriv;

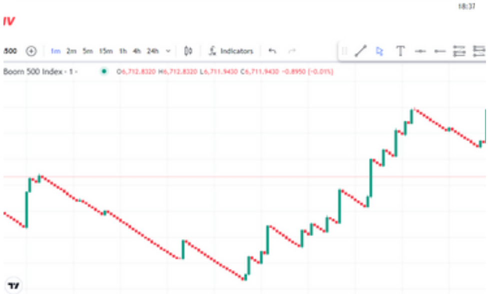
Boom and crash indices
These indices are characterized by price movements along with spikes. In my opinion, these spikes mimic sudden price movements/spikes during News release while trading forex.

Boom spikes upwards while crash spikes downwards. It is very easy to see these spikes on the 1 & 5 minute time frames. The market appears normal on higher time frames and can be analyzed just like any other markets.

In my opinion, boom and crash are the easiest indices to trade. You make more money buying boom in an uptrend and selling crash in a downtrend. You can also sell boom and buy crash if the market provides those opportunities.



crash



boom

Categories of boom and crash.

All indices are categorized by numbers at the end. However, this doesn’t mean that the numbers represent their levels of volatility.

BOOM INDEX	MINIMUM LOT	CRASH INDEX	MINIMUM LOT
boom 300	1	crash 300	0.5
boom 500	0.2	crash 500	0.2
boom 600	0.2	crash 600	0.2
boom 900	0.2	crash 900	0.2
boom 1000	0.2	crash 1000	0.5

Volatility Indices

These are the most popular synthetic indices on Deriv. This is because they were among the first indices to be introduced on the Deriv platform. They are categorized into different levels of constant volatility with a tick every 2 seconds like Volatility 10 Index, Volatility 25 Index etc. Most traders refer to them as the “***Vixes/ vix”.*** Instead of writing the full name, most traders simply abbreviate them as Vix 10, Vix 100, Vix 50.

There are also vixes with constant volatility with a tick every 1 second and these have 1s marked on them, for example Vix 10 1s, Vix 25 1s, Vix 150 1s. These are also sometimes written as Vix10s, Vix25s etc.

NOTE

Volatility indices are some times written with out abbreviations e.g Volatility Index 10, Volatility 25(1) index . They can also be abbreviated as Vix 10, Vix 25s. Either way, They can be abbreviated as V10, V25s. All these forms can be used interchangeably.

The numbers attached to these indices do not necessarily indicate their levels of volatility. For example V150s is less volatile than V100. You have to be extra careful while dealing with all vixes because a small mistake can blow your account.

In a similar way, Vixes with no “s” at the end are not the same as those without it regardless of whether they have the same vix number. For example V25s is extremely volatile compared to v25.

The easiest way to make money while trading vixes is by understanding that each vix is different. Some are very slow while some are very fast, some print small candles while others have huge candles (momentum), some vixes take a long time in consolidation while others breakout often

categories of volatility Indices

VIX	MIN LOT	**VIX(1S)**	MIN LOT
10	0.5	10s	0.5
25	0.5	25s	0.005
50	4	50s	0.005
75	0.001	75s	0.05
100	0.5	100s	0.2
		150s	0.01
		200s	0.02
		250s	0.005
		300s	1

The lot sizes of these indices do not reflect their level of volatility.

Hybrid Indices

These indices are a blend of boom and crash and volatility indices. They move just like vixes while producing spikes. Examples of these include Vol over crash 400, vol over boom 550 etc

Categories of Hybrid indices

v/ crash	min lot	v/ boom	min lot
400	0.1	400	0.1
550	0.1	550	0.1
750	0.1	750	0.1

Step indices

These indices offer an equal probability of up or down movements and they move in fixed sizes called “steps”.

For example if you buy step 100 of 0.1 lot size, for every movement, you will either gain or lose 0.1 usd, if you sell step 200 worth 2 lots, you will gain or lose 2usd everytime the market moves.

It is therefore important to note that step indices are very volatile instruments. Poor analysis and carelessness can blow your account in seconds.

step index	**min lot**
step / step 100	0.1
step 200	0.1
step 500	0.1

Range Break Indices

These indices range for some time then break out after a given number of attempts.
They also spike like boom and crash indices.

Range break index	Min lot
100	0.01
200	0.01

Multi step indices

These indices are similar to step indices however, they move up / down with 2 different step sizes.

Multi step index	Min Lot
2	0.1
4	0.1

It is important to note that these indices are very volatile and should be traded with care.

Jump Indices

These indices have a percentage of volatility with an average of 3 jumps per hour. You may not see these jumps because these indices move just like the vixes.

Every jump index has its own level of volatility and minimum lot size.

Jump Index	Min Lot
10	0.01
25	0.01
75	0.01
100	0.01

It’s important to note that Jump 25 is the most volatile Jump index.

DEX Indices

These indices move while making small drops and major spikes every 10 to 25 minutes accordingly.

DEX DOWN	Min Lot	DEX UP	Min Lot
600	0.01	600	0.01
900	0.01	900	0.01
1500	0.01	1500	0.01

Drift switching Indices

These indices switch between regimes every 10,20 or 30 minutes. They move just like any other volatility indices.

Drift switch Index	**Min Lot**
10	0.01
20	0.01
30	0.01

Skew Step Indices
These indices offer 80% to 90% chances of gradual decline /gains with a 10% to 20% chance of sharp drops/ rise.
Their definition should not sound scary since they are traded just like any other vixes.

SKEW STEP UP	MIN LOT	SKEW STEP DOWN	MIN LOT
4	0.1	4	0.1
5	0.1	5	0.1

Tactical Indices
These are new indices courtesy of Deriv. They are also described as Silver RSI Rebound /Pullback/ Trend up or down Indices.
The beauty about them is that they respect the RSI 80% of the time. Knowledge about the RSI trading strategies can come in handy with these indices

Silver RSI pullback Index

This is a tactical index that enables traders to profit from price corrections.

Its minimum lot is 0.1

Silver RSI Rebound Index

For this index, trader profit from market rebounds.

Its minimum lot is 0.1

Silver RSI Trend up/down indices

This index enables traders to capture upward or downward momentum.

Their minimum lot is also 0.1 each

WHICH INDEX CAN YOU TRADE?

Those are the categories of synthetic indices provided by Deriv. Every index is unique and not every index can be traded with the same strategy. A trader has to back test their strategy with every index to find which one index suits it best.

High momentum indices like V25s are more profitable than low momentum indices such as V10.

Indices like v50 consolidate longer than others. However, some indices like v150s look like they are consolidating on higher timeframes yet there are huge trading opportunities on lower time frames.

There are indices like V50S that print a lot candles with long wicks. A trader could lose a lot of money while trading them.

In order to make be profitable in synthetic indices, a trader has to get at least 3 indices with different volatility levels **(specialization**)and understand their characteristics. Don’t try to trade every index you find.

Don’t forget that the market is dynamic, it keeps changing. Do not get so comfortable with an index as it will eventually change just like the real forex instruments. You may have to keep updating your strategies once in a while to keep up with the market dynamics.

Non Volatile indices can also blow your account just like very volatile indices. This can happen if you become reckless with your lot sizes.

Conclusion

Synthetic indices are the best instruments to trade for both beginners and seasoned traders.
All you need is proper knowledge about technical analysis, risk management and trading psychology.

To learn some of the strategies to trade, kindly visit my website www.dollarduchess.xyz

For one on one mentorship, feel free to reach out to my team through the contact form on my website.

Happy Trading!!!

“The market doesn’t owe you anything, but it rewards those who learn its language.”

-anonymous