**Measuring trading strategies:**

1. **Volatility**

**Definition:** a measure of how much something tends to move. How often do numbers alternate between high and low? **Standard deviation is the statistical measure of volatility**

**How to calculate w/ a trading strategy:**

* Calculate the standard deviation. High std means higher volatility.

<https://www.investopedia.com/articles/basics/09/simplified-measuring-interpreting-volatility.asp>

1. **Rolling returns**

**Definition:** cumulative return of the strategy over a specific window of time. This can be used to track underperformance, if there is any.

**How to calculate w/ a trading strategy:**

<https://www.sapling.com/6657340/calculate-rolling-returns>

1. **Drawdown**

**Definition:** how low did profits go relative to the maximum historical profit and how long did the profit take to recover?

**Example:** if strategy A yielded a max profit of 30%, and its all-time low profit is -15% within a given time span, how long did it take for strategy A to “recover” and close the profit gap?

1. **Sharpe Ratio**

**Definition:** returns generated per unit of risk taken.

**How to calculate w/ a trading strategy:**

**Average % return of a strategy** – **returns of a risk-free investment (reference government bonds to get this number)**

**Standard deviation**

A **higher** sharpe ratio means the strategy is taking less risk for either the same or more returns.