



# Contrarian Reversal Strategy

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# Strategy overview

**Concept:** Identify stocks trading near historical lows with early momentum reversal signals to capture mean reversion bounces from oversold conditions.

## Key Components:

1. **Multi-Factor Scoring System:** Combines 6 technical indicators (support proximity, MACD momentum, RSI oversold, drawdown, volume surge, volatility) into composite signal scores of 0-15+ points
2. **Support Level Analysis:** Rolling minimums over 60-day periods with distance calculations to identify when prices are within 2-10% of historical lows
3. **Momentum Confirmation:** MACD slope and crossover detection to ensure rising momentum rather than catching "falling knives"
4. **Filtering Logic:** Three minimum requirements (near support + positive momentum + not overbought) to eliminate weak signals



# Purpose & Functionality

**Purpose:** Systematically capture contrarian reversals by buying quality stocks at or near bottoms with early signs of momentum turning positive.

**Generates signals based on the following:**

- **Buy:** Signal score  $> 4$  points + within 10% of 60-day support + positive MACD slope +  $RSI < 50$
- **Position Sizing:** Fixed \$100 per trade, maximum 3 positions simultaneously
- **Selection:** Takes top-scoring opportunities from daily scan
- **Exit:** Next-day execution with immediate return calculation (simplified 1-day holding)

# Results & Analysis

**Results:** 32.22% total return over test period with 391 trades, 27.1% success rate, Sharpe ratio 1.63, max drawdown 3.96%

## Analysis - Strengths:

- Effective for volatile/bear market periods (2022-2023) where frequent oversold bounces occur
- Benefits from high trade volume to capture infrequent but large reversal moves (13.44% max winner)
- Multi-factor approach reduces false signals compared to single-indicator strategies

