Predictive Relationship: Level and Change Regression

Contents

1 Trading Strategy Description

This trading rules regresses the 1-day price changes seen historical against the prior day's % change of the research series and level of research series

2 Rule Parameters

Below is a table summarizing the parameters specific to this trading rule.

Parameter Name	Default Value	Description	Symbol
Level Coefficient	0.1	Multiplier for regression.	k_1
Change Coefficient	0.1	Multiplier for change in research values.	k_2
Constant Coefficient	0.1	Initial constant for regression.	k_3

3 Equation

Below are the equations which govern how this specific trading rule calculates a trading position.

$$z_t = k_1 * R_t + k_2 * (\frac{R_t}{R_{t-1}} - 1) + k_3 \tag{1}$$

where:
z_t: is the portfolio allocation at time t
R_t: Research value at time t
k_1: Level Coefficient
k_2: Change Coefficient
k_3: Constant Coefficient

4 Glossary

- **Bullish:** Positive outlook on the market. Expectation of positive returns.
- **Bearish:** Negative outlook on the market. Expectation of negative returns.
- **Allocation:** The allocation is the fractional amount of the portfolios value used to determine the size of the trading position.
- **Parameter:** Value used by the trading rule in the calculation for trading position
- **Trading Rule:** Strategy to determine when to buy, hold or sell a position.

Further Links

1. InferTrade: `https://www.infertrade.com`
2. Privacy Policy/Legal notice: `https://www.infertrade.com/privacy-policy`
3. InferStat Ltd: `https://www.inferstat.com`