



Predictive Relationship: Rate of Change

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1 Trading Strategy Description

The Rate of Change indicator, is a technical indicator which is mostly used by traders to Identify the momentum of an asset. It measures the percentage change in price between the current price and the price a certain number of periods ago. The ROC indicator is plotted against zero, with the indicator moving upwards into positive territory if price changes are to the upside, and moving into negative territory if price changes are to the downside. An asset is considered bullish when the roc is above zero and considered bearish when the roc is below zero. It can also be used to identify divergences.

2 How to Trade

In order to trade with the rules InferTrade provides, we calculate allocations for each day. We then allocate that fraction of our total portfolio value (cash and securities) to the market we are trading - to do this we buy or sell securities to reach the target allocation.

How Allocation Determines Trade Size

The allocation is the fractional amount of the portfolios value used to determine the size of the trading position. For example, if the allocation for Microsoft (MSFT) shares is 50%, and we have \$100, we invest \$50 so that the value of held stock is the same as the value of held cash.

Rule Specific Trading Details

The strategy is to identify asset's price cycles.

Bullish Reversal: when ROC is above zero.

Bearish Reversal: when ROC is below zero

3 Rule Parameters

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

Parameter Name	Default Value	Description	Symbol
Number of periods	1	Number of periods to look back for previous price.	n

4 Equation

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

$$ROC = \frac{P_t - P_{t-n}}{P_{t-n}} \times 100 \quad (1)$$

with:

P_t : as price at time t .

5 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>