



InferTrade
PREDICTIVE RESEARCH TOOLS

Predictive Relationship: Percentage Volume Oscillator

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1 Trading Strategy Description

The percentage volume oscillator (PVO) is a momentum indicator that measures the difference between two moving averages as a percentage of the larger moving average. The fast moving average uses a lower period, and is thus more reactive to changes in volume. The slow moving average uses a faster period and is therefore less reactive. The PVO is positive when the shorter volume EMA is above the longer volume EMA and negative when the shorter volume EMA is below. This indicator can be used to define the ups and downs for volume, which can then be used to confirm or refute other signals. A bullish reversal of an asset is identify when the PVO cross above zero line. And a bearish reversal when the PVO cross below the zero line.

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 Bullish and Bearish Reversal. Bullish Reversal - when PVO is above zero & Bearish Reversal - when PVO is below zero.

3 Rule Parameters

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

Parameter Name	Default Value	Description	Symbol
Short term look back Length	12	Short term look back length used to compute EMA.	L_s
Long term look back Length	26	Long term look back length used to compute EMA.	L_l
Signal look back Length	9	Look back length used to generate Signal line.	S_l

4 Equation

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

$$PVO = \frac{EMA(L_s) - EMA(L_l)}{EMA(L_l)} \times 100 \quad (1)$$

$$Signal = EMA(S_l) \quad (2)$$

$$PVO_{hist} = PVO - Signal \quad (3)$$

where:

$EMA(L_s)$: is the short term exponentially weighted volume average.

$EMA(L_l)$: is the long term exponentially weighted volume average.

$EMA(S_l)$: is the exponentially weighted volume average computed to generate signal line.

PVO_{hist} : is the Percentage Volume Oscillator histogram.

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>