



Predictive Relationship: DifferenceRegression

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1 Trading Strategy Description

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

2 Rule Parameters

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

Parameter Name	Default Value	Description	Symbol
Difference Coefficient	0.1	Multiplier for regression.	k_1
Constant Coefficient	0.1	Initial constant for regression.	k_2

3 Equation

Below is the equation which governs how this specific trading rule calculates a trading position.

$$z_t = k_1 * \left(\frac{R_t}{P_{t-1}} - 1 \right) + k_2 \quad (1)$$

where:

- z_t is the portfolio allocation at time t
- R_t : Research value at time t
- P_{t-1} : Price value at time $t - 1$
- k_1 : Difference coefficient
- k_2 : 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>