



# Predictive Relationship: Relative Strength Index

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# 1 Trading Strategy Description

Gives a buy signal when RSI is below 30 and a sell signal when RSI is above 70.

## 2 Rule Parameters

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

Parameter Name	Default Value	Description	Symbol
Overbought	70	Overbought Condition	$O_b$
Oversold	30	Oversold Condition	$O_s$
Time Length	14 Days	Time frame on which the RSI is calculated	$L$

## 3 Equation

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

$$RSI = 100 - \frac{100}{(1 + RS)} \quad (1)$$

with:

$RSI$ : is the relative strength index at  $t$

$RS$ : is the relative strength which is calculated using below formula.

$$RS = \frac{AvgU}{AvgD} \quad (2)$$

with:

$AvgU$  : average of all upward movements in the last  $L$  price bars

$AvgD$  : average of all downward movements in the last  $L$  price bars  $L$  : Time Length

## 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>