Investment Strategy

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Strategy

Selling past winners and buying past losers.

Momentum Pattern

Price

- Sell if: Close price for each day is higher than the previous close price and minimum price for each day is higher than the previous minimum price (During 5 consecutive days)

- Buy if: Close price for each day is lower than the previous close price and maximum price for each day is lower than the previous maximum price (During 5 consecutive days)

Volume

The volume must be 0.75 standard deviations over the month average during 5 consecutive days.

Important Investment policies

- Liquid and high volume stocks.

- Stocks available to do shorts.

- Don't invest in companies with earnings announcements 11 days after the model signal.

- Invest in stocks with prices greater than 15 USD.

- Investment time frame: 10 days

Investment signals

$$Vol_m = Avg\,(Vol)_{30\ days} + 0.75 \times DesVest\,(Vol)_{30\ days}$$

$$Sell = If\,(CP_t > CP_{t-1}\ \&\ MinP_t > MinP_{t-1}\ \&\ Vol_t > Vol_m)_{5\ consecutive\ days}$$

$$Buy = If\,(CP_t < CP_{t-1}\ \&\ MaxP_t < MaxP_{t-1}\ \&\ Vol_t > Vol_m)_{5\ consecutive\ days}$$

Vol_m: Momentum Volume
Vol: Volume
CP: Close Price
$MinP$: Minimum Price
$MaxP$: Maximum Price

References

- De Bondt, Werner F.M. and Richard H. Thaler. "Does the Stock Market Overreact?" Journal of Finance 40, (1985): 793-805.

- Lee, C.M.C. and Swaminathan, B. "Price Momentum and Trading Volume". Journal of Finance, Vol. 55, No. 5 (2000), pp. 2017-2069