Trading Strategies Guide

Varun Varanasi

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1 General Trading Strategies

High level overview of contributing factors to day trading decisions

1.1 Identifying Stocks

- Liquidity: Liquid stocks allow you to enter and exit the market easily; liquidity also assists in trading under conditions of low slippage (difference between expected and actual price) and tight spreads
- Volatility: A metric for variability of the stock
- Trading Volume: Trading volume gives you insight into demand for the stock

1.2 Entry Points

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1.3 Exit Points

- Scalping: Exiting your position as soon as it is profitable
- Fading: Shorting stocks after rapid movements upwards
- Daily Pivots: Using volatility predictions to buy low and sell high
- Momentum: Riding trends until they appear to reverse

Long term investing tends to be determined by fundamental analysis (capitalize on differences between an asset's price and intrinsic value)

1.4 Evaluating Trading Strategies

Profit Net Loss

Evaluate trading strategies based on the profits and net lose incurred over a pre-determined time period. While the most simple evaluation of a trading strategy, this method overlooks risk.

Sharpe Ratio

The Sharpe Ratio is used to evaluate an investment in terms of returns and risk.

$$Sharpe\ Ratio = \frac{R_p - R_f}{\sigma_p}$$

where R_p is the return of the portolio, R_f is rate of risk-free return, and σ_p is the standard deviation of the portfolio's excess return.

2 Algorithmic Trading Strategies