# Mini Blog on Day & Night Strategy

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Nobody can predict the market 100% accurately, there is always a risk involved to it. Which is why it is necessary to talk & learn about different strategies, calculating risk/reward ratios which can hedge your portfolio. One such simple and yet an interesting strategy is 'Day & Night Strategy', which plays on the bias that the gains tend to accrue overnight as compared to during the trading hours.

What is Day & Night Strategy? Lets say a person named Nitesh Khandelwal, invests as soon as the market opens and sells at the end of trading hours, this will be day strategy. Whereas, when Nitesh invests just before the market is closing and sells shares at the opening of market, it will be night strategy.

Different types of investments products behave differently for Day & Night strategy, some might give more profitable returns in day and some might give you more profit overnight. But when we observe trend from historic prices of stocks and indices we see that the daytime returns are more volatile when compared with overnight returns. Below graphs contain daytime and overnight returns for Amazon & Apple, which clearly shows that Daytime returns are more volatile.

Overnight returns

Daytime returns
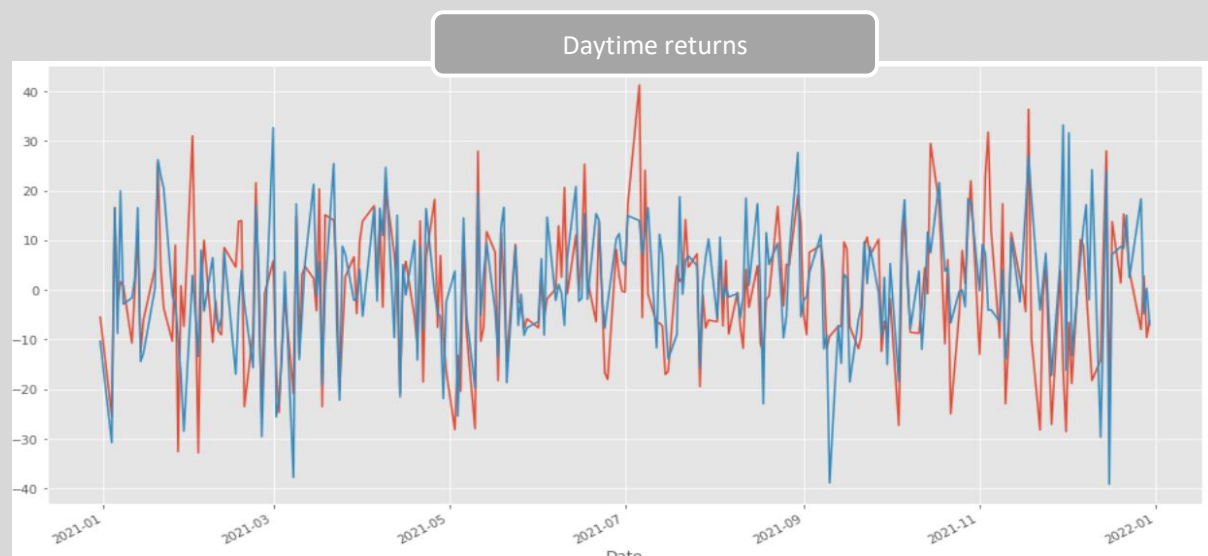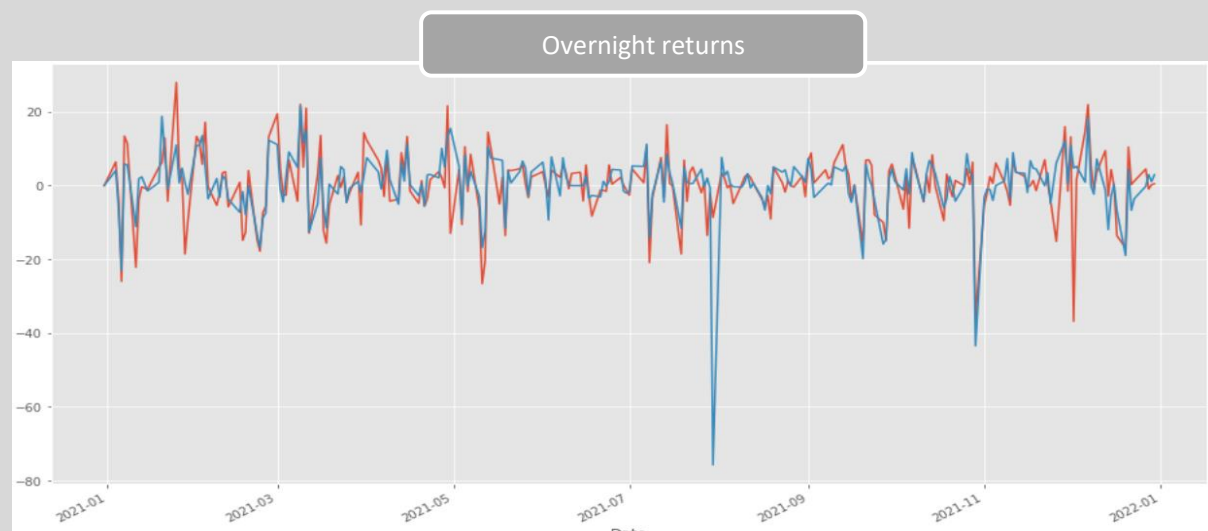
Below is the graph showing cumulative P&L for the day and night strategy applied to amazon's stock for the year 2021, clearly the night strategy has shown much better results. These results from realtime stock prices shows us that it is more than just a theory and if used appropriately can result in significant profits.
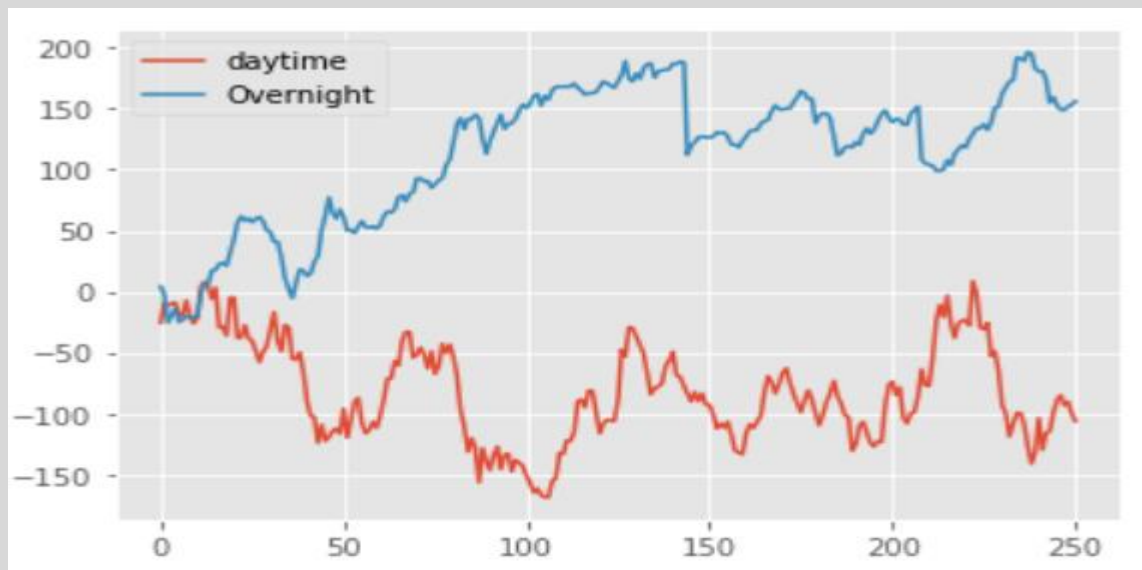
Other such strategies include end of day trading , news-trading strategy, Swing trading etc. Eg 'SBI-stocks' which are highly influenced by the news, so, one can follow news-trading analysis for SBI stocks. With the advancement for AI and NLP it is becoming easier and easier to keep a track of huge amount of data, eg, one can apply NLP or sentiment analysis on thousands of articles at once and shortlist stocks based on that for news-trading strategy.

Lets talk about the pros and cons,

Pros: The overnight returns are relatively stable and can result in more profits with time, reduced effect from the retail investors' activities, more liquidity in opening hours which means trades can happen easily.

Cons: Can be a risky investment if there are some major overnight changes in the news or the company, works better for indices than individual stocks.

The **strategy can be improved by** adding more factors which can predict the "best days" or "Not so good days" for using the strategy, as now it is established from the above discussion that day & night strategy works, but applying data science models for prediction will most certainly help in improving the strategy.