

Prediction of profitable entry for high momentum stocks using machine learning

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November 20, 2020

Questions and Answers

- 1) How to identify momentum stocks?

Momentum stocks are stocks with high daily price fluctuations. For example, Amazon stock fluctuates between $\pm \$50$ and $\pm \$150$ daily. Some other examples are TESLA and SHOPIFY stocks.

- 2) What is the maximum and minimum range of stock prices for these stocks?

Companies with momentum stocks happen to be fundamentally strong companies. Their stock prices range from \$400 to \$3000. Some of the examples are GOOGL, AMAZON, SHOP, and TESLA

- 3) How much profit can be made per stock?

If the stocks are bought with a proper price, a profit in the range of \$5 to \$100 can be made per stock per day. Sometimes multiple purchases can be made in a day and be profitable. Again it depends on the entry price point.

- 4) How much loss can be made if the market turns south?

5) As shown in the diagrams, the losses for momentum stocks can be huge depending on the entry point, with up to \$200 per stock per day. However, if you hold on to these stocks for several days, the price fluctuations can turn positive and give profits.

6) What is quick-in and quick-out method?

As the name implies, the quick-in and quick-out method are used to quickly enter into the stock and get out as soon a minimum profit of \$5 or \$10 per stock is made. Since the price fluctuations are in both directions, it is important to exit as soon as some profits are made.

7) Does opening price affect the profit?

This project tries to predict the correlation between the opening price and the peak price of the day. The opening price of the stock is found to affect the profit. However, profit also depends on other factors.

8) What is the probability of making profits and losses?

Day trading requires proper pricing to make an entry to gain profits and avoid losses.

With huge price fluctuations, it is observed that by entering Shopify stock at the opening price, a minimum profit of \$5 can be made most of the days.

9) How many days that stock needs to be held to make profit?

With the quick-in and quick-out method, profits can be made on the same day. However, when the price goes down due to the effect of external factors, these momentum stocks tend to come back and make profits within a few days.