



# MODULE 1 UNIT 4

## Infographic Transcript

## The four rules

### The four-rules guide to building an algo model

1. Money can be made from:
  - Better execution
  - Better forecasting the markets
  - An advantage in managing risk
2. Identify and quantify the opportunity: Can you explain it?
3. Test and verify: Use a meaningful out-of-sample and be disciplined and honest.
4. Build: Connect and retest the model with real-life data feed. Watch out for slippage and other unforeseen costs.

### The four-rules guide to evaluating an algo model

1. If it is too good to be true, then it is probably not true.
2. Can they explain what their model does using basic economics?
3. Did they overfit the data? Overly complex models tend to do that. Was the model tested on a meaningful out-of-sample data set?
4. Was the model tested in different market conditions? How did it perform in bad times (relative to the underlying asset class it is trading)?