Strategy

Objective:

To create a 130/30 Long-Short strategy from a basket of 276 Equity stocks.

Idea:

To utilize rolling sharpe ratio as a ranking metric across all stocks, rank these ratios from highest to lowest, and assign weights accordingly.

We remove stocks which have many 0% returns, and we are then left with 203 stocks.

Weights are assigned as shown:

1. 15 lowest sharpe ratio rankings will have a -2% weight
2. 15 highest sharpe ratio rankings will have a 2% weight
3. The rest of the stocks will be assigned with 100/203 weight

Training data is from 14th Feb 2018 to 14th Feb 2022 (4 years).

We used the training data to get an optimized rolling sharpe ratio period of 37.

Test data is from 15th Feb 2022 to 27th February 2023 (1 year).

Results on testing data:

	130/30	Equally Weighted Long Only
Sharpe Ratio	-0.06	-0.24
Max Drawdown	-31.57%	-33.95%

We can see that the strategy performed better (orange line) throughout the testing period and ended up with -2.6% cumulative returns during the testing period while the equally weighted long only strategy ended with -9.4%. We also achieved a slightly lower max drawdown with the newer strategy as compared to the equally weighted long only strategy.

130/30 Equity Strategy: Testing Data Set