



Predictive Relationship: Aroon

Contents

1	Trading Strategy Description	2
2	How to Trade	2
3	Rule Parameters	2
4	Equation	2
5	Glossary	3

1 Trading Strategy Description

The aroon indicator developed by Tushar Chande in 1995, is a technical indicator used to identify trend changes. It can also reveal the start of a new trend, its strength and can help identify sideways trends. It consists of two indicators, the Aroon up and the Aroon Down. The Aroon up reflects the number of days since the most recent 25-day high. The Aroon down indicator shows the number of days since the most recent 25-day low. These two are also called bullish Aroon and bearish Aroon.

2 How to Trade

In order to trade with the rules InferTrade provides, we calculate allocations for each day. We then allocate that fraction of our total portfolio value (cash and securities) to the market we are trading - to do this we buy or sell securities to reach the target allocation.

How Allocation Determines Trade Size

The allocation is the fractional amount of the portfolio's value used to determine the size of the trading position. For example, if the allocation for Microsoft (MSFT) shares is 50%, and we have \$100, we invest \$50 so that the value of held stock is the same as the value of held cash.

Rule Specific Trading Details

The strategy is to identify trend shifts or reversals. Bullish Reversal - when Aroon up crossover above the Aroon down. Bearish Reversal - when Aroon up crossover below the Aroon down.

3 Rule Parameters

Below is a table summarizing the parameters specific to this trading rule.

Parameter Name	Default Value	Description	Symbol
High Periods	25	Periods Since n period High	P_h
Low Periods	25	Periods Since n period Low	P_l

4 Equation

Below are the equations which govern how this specific trading rule calculates a trading position.

$$A_u = \frac{25 - P_h}{25} \times 100 \quad (1)$$

$$A_d = \frac{25 - P_l}{25} \times 100 \quad (2)$$

with:

A_u : is the AROON Up.

A_d : is the AROON Down.

P_h : Periods Since 25 period High.

P_u : Periods Since 25 period Low.

5 Glossary

- **Bullish:** Positive outlook on the market. Expectation of positive returns.
- **Bearish:** Negative outlook on the market. Expectation of negative returns.
- **Allocation:** The allocation is the fractional amount of the portfolios value used to determine the size of the trading position.
- **Parameter:** Value used by the trading rule in the calculation for trading position
- **Trading Rule:** Strategy to determine when to buy, hold or sell a position.

Further Links

1. InferTrade: <https://www.infertrade.com>
2. Privacy Policy/Legal notice: <https://www.infertrade.com/privacy-policy>
3. InferStat Ltd: <https://www.inferstat.com>