The Handbook of Trading

Strategies for Navigating and Profiting from Currency, Bond, and Stock Markets

Greg N. Gregoriou
Editor
CONTENTS

EDITOR xvii
CONTRIBUTORS xix
ACKNOWLEDGMENTS xxxiii

PART I EXECUTION AND MOMENTUM TRADING 1

CHAPTER 1 PERFORMANCE LEAKAGE AND VALUE DISCOUNTS ON THE TORONTO STOCK EXCHANGE 3

Lawrence Kryzanowski and Skander Lazrak
Abstract 3
Introduction 4
Sample and Data 5
Measures of Performance Leakage and Value Discounts 5
Empirical Estimates for the TSX 7
Conclusion 18
Acknowledgments 18
References 19
Notes 20

CHAPTER 2 INFORMED TRADING IN PARALLEL AUCTION AND DEALER MARKETS: THE CASE OF THE LONDON STOCK EXCHANGE 23

Pankaj K. Jain, Christine Jiang, Thomas H. McInish, and Nareerat Taechapiroontong
Abstract 23
Introduction 23
Trading Systems and Venues 24
Institutional Background, Data, and Methodology 27
CHAPTER 6 ORDER PLACEMENT STRATEGIES IN DIFFERENT MARKET STRUCTURES: A PRIMER

Giovanni Petrella

Abstract 83
Introduction 83
Costs and Benefits of Limit Order Trading 84
Trading in a Continuous Order-Driven Market 86
Trading in a Call Auction 89
Conclusion 91
References 92

CHAPTER 7 PROFITABILITY OF TECHNICAL TRADING RULES IN AN EMERGING MARKET

Dimitris Kenourgios and Spyros Papathanasiou

Abstract 97
Introduction 98
Methodology 100
Data and Empirical Results 103
Conclusion 108
References 109
Notes 111

CHAPTER 8 TESTING TECHNICAL TRADING RULES AS PORTFOLIO SELECTION STRATEGIES

Vlad Pavlov and Stan Hurn

Introduction 113
CONTENTS

Data 115
Portfolio Formation 116
Bootstrap Experiment 122
Conclusion 124
Acknowledgments 126
References 126
Notes 127

CHAPTER 9 DO TECHNICAL TRADING RULES INCREASE THE PROBABILITY OF WINNING? EMPIRICAL EVIDENCE FROM THE FOREIGN EXCHANGE MARKET 129

Alexandre Repkine
Abstract 129
Introduction 130
Empirical Methodology 131
Empirical Results 135
Conclusion 139
References 140

CHAPTER 10 TECHNICAL ANALYSIS IN TURBULENT FINANCIAL MARKETS: DOES NONLINEARITY ASSIST? 141

Mohamed El Hedi Arouri, Fredj Jawadi, and Duc Khuong Nguyen
Abstract 141
Introduction 142
Nonlinear Modeling for Technical Analysis 143
Data and Empirical Results 147
Conclusion 150
References 150
Notes 153

CHAPTER 11 PROFITING FROM THE DUAL-MOVING AVERAGE CROSSOVER WITH EXPONENTIAL SMOOTHING 155

Camillo Lento
Abstract 155
CHAPTER 14 ON THE IMPACT OF EXCHANGE-TRADED FUNDS OVER NOISE TRADING: EVIDENCE FROM EUROPEAN STOCK EXCHANGES

Vasileios Kallinterakis and Sarvinjit Kaur

Abstract 199
Introduction 199
Data 201
Methodology 201
Descriptive Statistics 204
Results; Conclusion 204
References 211
Notes 211

CHAPTER 15 PENETRATING FIXED-INCOME EXCHANGE-TRADED FUNDS

Gerasimos G. Rompotis

Abstract 213
Introduction 213
Methodology 215
Data and Statistics 217
Empirical Results 220
Conclusion 229
References 231

CHAPTER 16 SMOOTH TRANSITION AUTOREGRESSIVE MODELS FOR THE DAY-OF-THE-WEEK EFFECT: AN APPLICATION TO THE S&P 500 INDEX

Eleftherios Giovanis

Abstract 233
Introduction 233
Literature Review 234
Methodology 235
Data 238
Empirical Results 239
Conclusion 249
References 250
PART IV FOREIGN EXCHANGE MARKETS, ALGORITHMIC TRADING, AND RISK 253

CHAPTER 17 DISPARITY OF USD INTERBANK INTEREST RATES IN HONG KONG AND SINGAPORE: IS THERE ANY ARBITRAGE OPPORTUNITY? 255

Michael C. S. Wong and Wilson F. Chan

Abstract 255
Introduction 255
HIBOR and SIBOR 256
Data And Findings 257
Explanations for the HIBOR-SIBOR Disparity 259
Conclusion 260
References 261

CHAPTER 18 FOREX TRADING OPPORTUNITIES THROUGH PRICES UNDER CLIMATE CHANGE 263

Jack Penm and R. D. Terrell

Abstract 263
Introduction 263
Methodology 267
Data and Empirical Application 271
Conclusion 274
References 274

CHAPTER 19 THE IMPACT OF ALGORITHMIC TRADING MODELS ON THE STOCK MARKET 275

Ohannes G. Paskelian

Abstract 275
Introduction 276
The Impact of Algorithmic Trading on the Market 277
Algorithmic Strategies 279
Algorithmic Trading Advantages 281
Algorithmic Trading Beyond Stock Markets 282
PART V TRADING VOLUME AND BEHAVIOR

CHAPTER 20 TRADING IN RISK DIMENSIONS

Lester Ingber

Abstract
Introduction
Data
Exponential Marginal Distribution Models
Copula Transformation
Portfolio Distribution
Risk Management
Sampling Multivariate Normal Distribution
Conclusion
References

CHAPTER 21 DEVELOPMENT OF A RISK-MONITORING TOOL DEDICATED TO COMMODITY TRADING

Emmanuel Fragnière, Helen O’Gorman, and Laura Whitney

Abstract
Introduction
Literature Review
Methodology
Conclusion
Resources

CHAPTER 22 SECURITIES TRADING, ASYMMETRIC INFORMATION, AND MARKET TRANSPARENCY

Mark D. Flood, Kees G. Koedijk, Matbijs A. van Dijk, and Irma W. van Leeuwen

Abstract
Introduction
<table>
<thead>
<tr>
<th>CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experimental Design and Terminology</td>
</tr>
<tr>
<td>Data</td>
</tr>
<tr>
<td>Results</td>
</tr>
<tr>
<td>Conclusion</td>
</tr>
<tr>
<td>Acknowledgments</td>
</tr>
<tr>
<td>References</td>
</tr>
<tr>
<td>Notes</td>
</tr>
</tbody>
</table>

**CHAPTER 23 ARBITRAGE RISK AND THE HIGH-VOLUME RETURN PREMIUM**

G. Geoffrey Booth and Umit G. Gurun

Abstract | 343 |
Introduction | 343 |
Data and Method | 344 |
Tests | 346 |
Conclusion | 348 |
References | 349 |

**CHAPTER 24 THE IMPACT OF HARD VERSUS SOFT INFORMATION ON TRADING VOLUME: EVIDENCE FROM MANAGEMENT EARNINGS FORECASTS**

Paul Brockman and James Cicon

Abstract | 351 |
Introduction | 352 |
Data and Methodology | 353 |
Empirical Results | 356 |
Conclusion | 361 |
References | 362 |

**CHAPTER 25 MODELING BUBBLES AND ANTI-BUBBLES IN BEAR MARKETS: A MEDIUM-TERM TRADING ANALYSIS**

Dean Fantazzini

Abstract | 365 |
Introduction | 365 |
CONTENTS

Log-Periodic Models: A Review 367
Empirical Analysis with World Stock Market Indexes 372
Out-of-Sample Empirical Analysis 381
Conclusion 387
References 387

CHAPTER 26 STRATEGIC FINANCIAL INTERMEDIARIES WITH BROKERAGE ACTIVITIES 389

Laurent Germain, Fabrice Rousseau, and Anne Vanhems
Abstract 389
Introduction 390
The Benchmark Model: No Noise Is Observed 392
The General Model: When Some Noise Is Observed 394
Conclusion 398
References 398
Appendix 399

CHAPTER 27 FINANCIAL MARKETS, INVESTMENT ANALYSIS, AND TRADING IN PRIMARY AND SECONDARY MARKETS 403

André F. Gygax
Abstract 403
Introduction 404
Investment Analysis and Types of Trading 404
Composition of Trading Volume and Trading 406
Trading in Primary Versus Secondary Markets 407
Conclusion 412
References 412

CHAPTER 28 TRADING AND OVERCONFIDENCE 417

Ryan Garvey and Fei Wu
Abstract 417
Introduction 417
Data 418