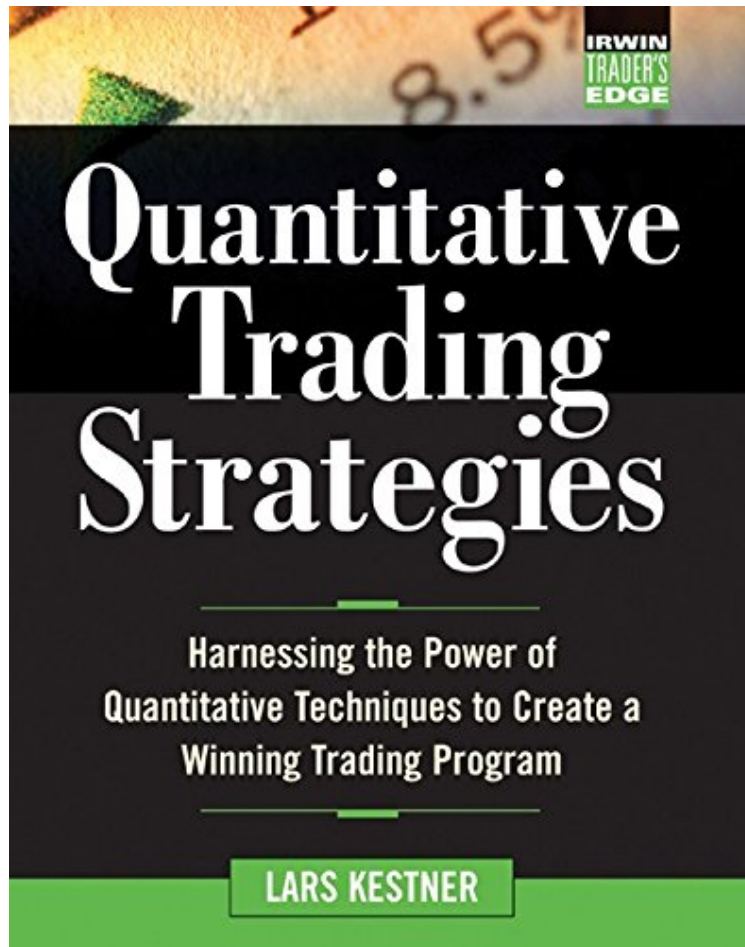


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Quantitative Trading Strategies: Harnessing the Power of Quantitative Techniques to Create a Winning Trading Program (McGraw-Hill Trader's Edge Series)

Lars Kestner

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Lars Kestner : Quantitative Trading Strategies: Harnessing the Power of Quantitative Techniques to Create a Winning Trading Program (McGraw-Hill Trader's Edge Series) before purchasing it in order to gage whether or not it would be worth my time, and all praised Quantitative Trading Strategies: Harnessing the Power of Quantitative Techniques to Create a Winning Trading Program (McGraw-Hill Trader's Edge Series):

1 of 1 people found the following review helpful. I've found it to be useful in comparing the relative linearity between securitiesBy Zen MasterI'm an active quant trader. I bought this book because I was impressed by the K-Ratio, described as a reward-to-risk ratio to complement the Sharpe Ratio (See Kestner's "(Re)Introducing the K-Ratio" available for download on SSRN). Briefly, the K-Ratio is obtained by taking the slope of cumulative returns over time,

from linear regression, divided by the sum of residual errors between the fitted line and the actual data, and adjusted for the number and frequency of observations. I've found it to be useful in comparing the relative linearity between securities. So I got this book to see what other ideas he had. The answer is, unfortunately, worse than none. The book is a rehash of decades-old systems based on familiar oscillators (MACD, %R, etc.), which have pretty much proved useless when backtested. The book itself provides many examples of such failures. More disturbing though is that much of what he says is just plain wrong. For example, he states that market returns fit normal or gaussian distributions, when in fact distributions of returns are skewed (e.g., the mean, median, and mode are not aligned) and exhibit kurtosis or fat tails. The latter in particular is hazardous to your portfolio because fat tails in the negative part of the distribution indicate higher levels of risk than indicated by the narrower normal distributions. Unless your trading system takes this into account, it's likely to be pretty much a loser. By way of demonstrating the concept of normal distributions, he presents an Excel spreadsheet obtained by sampling a normal distribution and then generates a plot that demonstrates this sample follows a normal distribution. To see what is really going on, take a large random sample of actual log-returns for the SP and construct a Q-Q Plot comparing the empirical distribution versus a normal distribution - there are many examples online. Notice that instead of being a 1:1 correspondence, the tails of the actual returns significantly deviate from linearity. To get a better understanding of representative distributions for stock returns, see Portfolio optimization for Student t and skewed t returns by Hu and Kercheval. Fair warning - it took me about 6 months of constant study to understand the math involved, much less how to apply it. I'm good at math and better at coding. Don't be daunted though. After publishing his paper on special relativity, Einstein spent several years learning new math before he could explain his concept of general relativity. There's a reason that big firms hire PhD physicists and mathematicians to figure this stuff out. I bought this book used and paid \$5.58 with S/H, and feel I've been cheated out of every penny. For a really good treatment of one style of quantitative trading, get Frank Sortino's "The Sortino Framework for Constructing Portfolios." The book is very accessible and presents the concept of the upside potential ratio which is demonstrably superior to the Sharpe or Sortino Ratio for evaluating portfolio performance. The optimization software Sortino uses as an advisor to large institutional funds is available for download on the publisher's website. 0 of 0 people found the following review helpful. My Favorite By Melanie S. Buy, Buy, Buy 17 of 21 people found the following review helpful. Nice introduction to quantitative trading By Bob Very easy reading. You will find this book quite useful if you are trading using a mechanized approach via a platform such as TradeStation. You will also find it useful if you are developing software like TradeStation that backtests trading strategies. This is why I read the book. In part one, he describes his testing methodology and discusses the building blocks that make up the strategies that he discusses later. For example, moving averages, channel breakouts, momentum, etc. are discussed under trend following techniques and relative strength index stochastics, and MACD under price oscillators. Most importantly, he describes how to use statistical measurements to analyze the performance of a strategy. In Part 2, he presents his results of testing the following strategies: Channel Breakout, Dual Moving Average Crossover, Momentum Volatility Breakout, Stochastics Relative Strength Index, MACD, followed by some of his ideas and innovations that improve upon them. He uses 12 years of daily price data (1990 - 2001) and each strategy tests 29 different futures contracts along with 34 different stocks. He also discusses money management, which is must reading. Although he does not provide any code (which I would have liked to have seen), he does give enough information so that you can implement any of these strategies in TradeStation or any other strategy back testing software, assuming that you have some knowledge of basic programming. I would have liked to have seen some strategies dealing with pure price patterns. Other than that, a very well organized and thought out book. My rating for this book is 4.5 stars.

Harnessing the Power of Quantitative Techniques to Create a Winning Trading Program Lars Kestner Quantitative Trading Strategies takes readers through the development and evaluation stages of today's most popular and market-proven technical trading strategies. Quantifying every subjective decision in the trading process, this analytical book evaluates the work of well-known "quants" from John Henry to Monroe Trout and introduces 12 all-new trading strategies. It debunks numerous popular misconceptions, and is certain to make waves--and change minds--in the world of technical analysis and trading.

From the Back Cover An In-Depth Look at Today's Top Technical Trading Strategies--And How You Can Incorporate Them into Your Personal Trading Program By combining historical market performance with modern-day technology, technical traders often exhibit uncanny, seemingly intuitive abilities to control money-draining losses while letting profits run. Quantitative Trading Strategies reviews today's most popular and effective methods, and explains how to incorporate their quantitative strengths into your own trading system to dramatically improve both your entry and exit timing and risk management. Exploring a wide range of systematic trading techniques and strategies for risk and money management, Quantitative Trading Strategies examines every vital aspect of today's technical trading arena to provide you with: Performance summaries of specific trading strategies All-new money management approaches based on optimal leverage Step-by-step directions for creating a system built around your own trading style For

decades, millions of successful traders have relied on technical analysis to not only improve the timing of their entries and exits but also to see and avoid dangerous trades and situations. Let *Quantitative Trading Strategies* introduce you to the best-of-the-best, and provide you with the knowledge and tools you need to create and implement a trading methodology designed to fit your trading strengths--and improve your performance in virtually any market environment. "First and foremost, this book explores the ability of quantitative trading strategies to time the markets. My goal in writing it is to set the record straight with time tested statistics--not untested theories and market lore passed down through the ages."--From the Prologue

Technical traders study--and build their trading programs around--aspects of market and investor behavior that lead to regularly occurring patterns in stock prices. These patterns can help traders dramatically improve the timing of when, and when not to, place buys and sells. And while there is never a guarantee whether a given trade will generate a profit or a loss, quantitative tools can show technicians how to identify, measure, and act upon opportunities for both reward and risk. *Quantitative Trading Strategies* examines today's most popular and proven technical trading strategies, explaining their pluses and minuses while providing the necessary data and research findings for determining which will work best for you. Drawing on current market research as well as strategies that are both statistically sound and rigorously backtested to determine their accuracy and effectiveness, this results-focused book features:

- 11 new techniques for trading stocks, futures, and the newly popular relative value markets
- Money management guidelines that can mean the difference between prospering--and going broke
- Methods for creating and implementing your own technical trading strategies

Technical traders know that what has occurred before is destined to occur again, and they use this knowledge to enhance their trading performance across the board. *Quantitative Trading Strategies* takes you through the development and evaluation stages of today's most popular technical trading techniques and--requiring nothing more than average market knowledge and math background--shows you how to accurately detect and exploit profitable patterns. From deciding which markets to trade to developing personalized trading strategies and money management plans, *Quantitative Trading Strategies* will give you the quantitative foundation you need to accurately buy and sell financial assets while controlling the risk associated with those assets. Along the way, it debunks numerous myths and misconceptions, and provides a clear understanding of the many profitable benefits quantitative analysis can provide traders and investors in today's technically driven marketplace.

About the Author
Lars Kestner is a founding partner of proprietary trading firm Sabre II LLC and the former vice president of equity derivatives trading at Salomon Smith Barney.