II/ Learning To Build A Strategy

+ What is a trading strategy?

- We are going to define precise conditions to respect before opening or closing a position.
- To give an image we can take the example of a soccer player. He may be selected to play on the field based on his dribbling skills, speed or accuracy, the entry conditions of a trading strategy may be based on technical indicators such as the RSI, MACD or moving average to determine high potential investment opportunities.

+ Why is it important to build a strategy?

1. By having defined rules, we will have precise points for opening and closing positions.
2. These rules will eliminate sentimental decisions, such as: "here I am opening a position because I feel like it".
3. These rules will save you time on your learning cycle, and you will limit the real risk of loss.
4. Finally, the most important part is that by having a strategy we will have results to analyze, and will be able to know which ones are interesting and which ones are bad

Let's get to the heart of the matter!

There are 2 main types of strategies, the one that follows the trends and the one that returns to the average

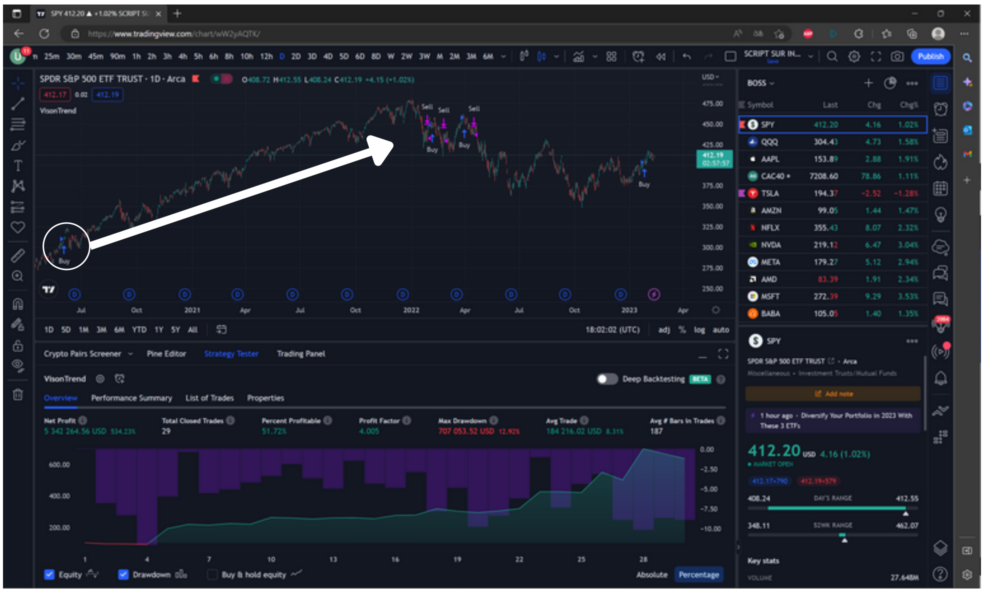
- Trend following is investing in a particular direction of the market, based on the idea that prices will continue to move in the same direction. For example, if the price of a stock has risen steadily over the past few months, a trend-following strategy would be to buy that stock based on the assumption that the price will continue to rise.

- Reverting to the mean, on the other hand, focuses on reverting to the mean of an asset's prices. This strategy assumes that price extremes are temporary and that, in the long run, they will return to a historical average. For example, if the price of a stock has risen sharply over the past, a mean reversion strategy would be to sell that stock on the assumption that prices will return to their long-term average level.

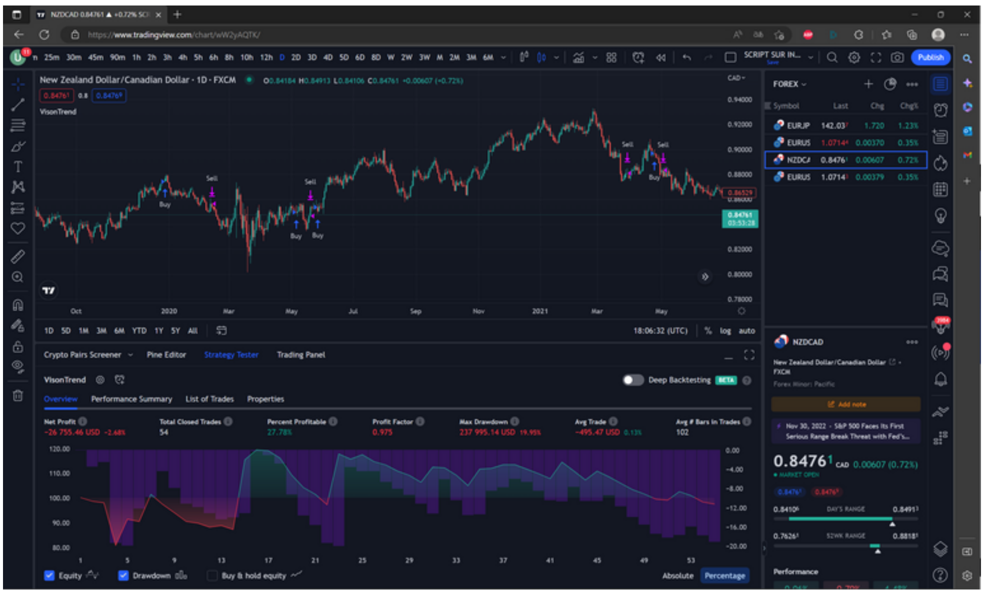
- If you're looking for which one is better, the answer is that there is no one better than the other. It all depends on the stock you're trading.
- There is no miracle strategy that can trade any asset on any timeframe.

+ Example of trend strategy:

We notice that the strategy is made to take advantage of large trend movements.

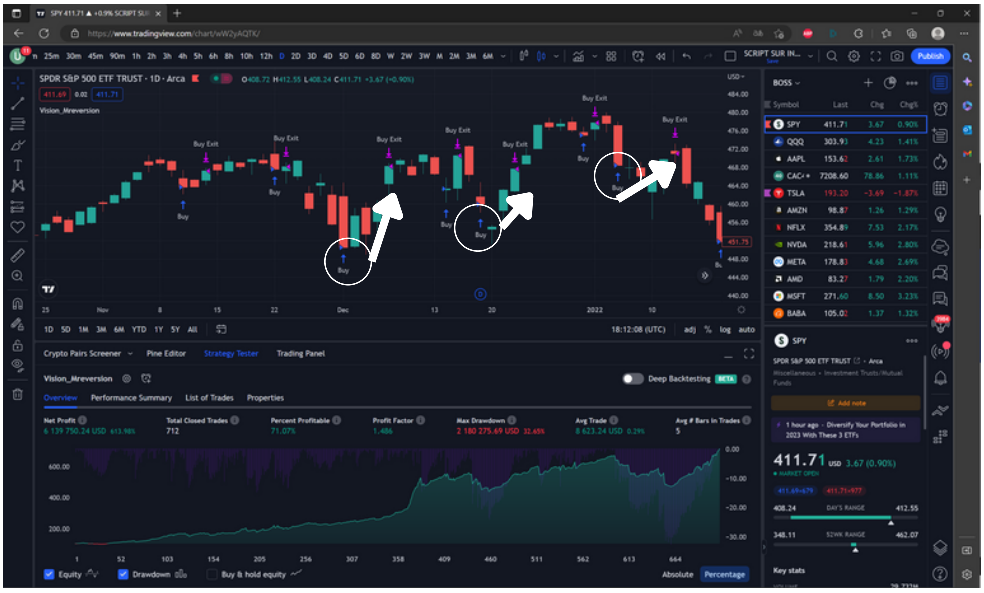


In another case, this strategy is much less effective when the price evolution does not indicate a clear trend:



+ Example of mean reversion strategy:

We notice the strategy is made to take advantage of small movements.



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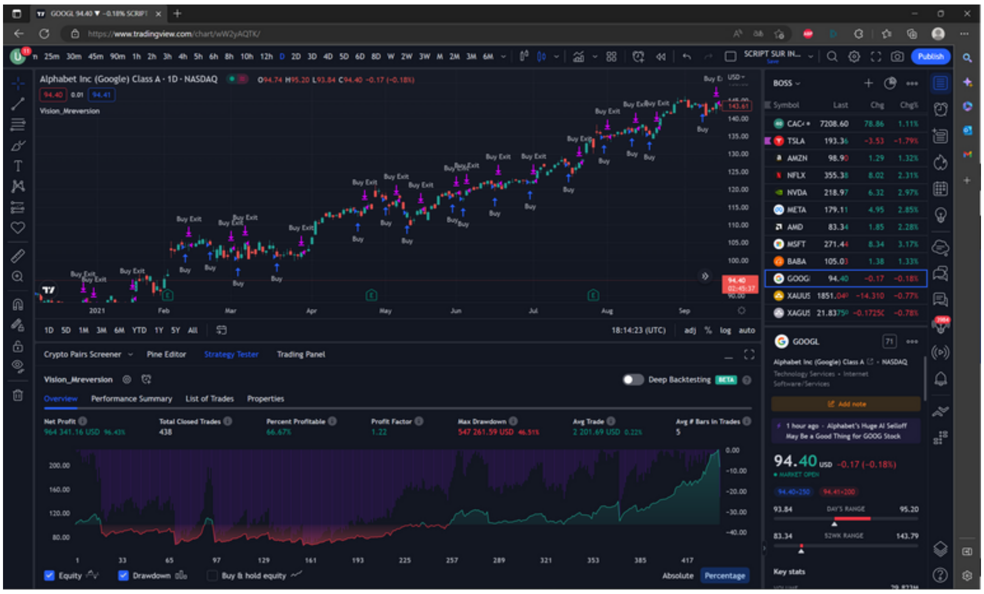

This is why there is no perfect algorithm that can trade any asset.