

1098-60-43

Michael Carlisle and **Olympia Hadjiliadis*** (ohadjiliadis@brooklyn.cuny.edu), 2900
Bedford ave, Brooklyn, NY 11210, and **Ioannis Stamos**. *Trends and trades*.

We present a trend following algorithm based on the sequential statistical rule known as the cumulative sum (CUSUM). We draw connections between these statistics and the problem of online statistical surveillance and quality control. We build a trading strategy based on the CUSUM stopping rule and apply it to high-frequency tick data from 5-year and 30-year US Treasury notes sold at auction. We analyze the performance of the proposed trend following strategy in detail. In particular, it is seen that the proposed trading rule is most profitable during times of market instability and long trends. We further calculate in closed form the expected value of the gain of the proposed strategy for a class of random walk models. Not surprisingly, it is seen that the suggested strategy is most profitable in biased random walks but is indifferent to the direction of the bias. We also examine the performance of the proposed strategy in simulated data from a variety of random walk models and analyze this behavior in relation to the analytical results and the results of the performance of the strategy on the actual data. We finally discuss other statistics of interest and the way in which they can help us improve the performance of our proposed algorithm. (Received December 25, 2013)