

How annualized wavelet trading beats the market

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Abstract. The market refers to the S&P 500 stock index SPY, which is an important benchmark of U.S. stock performances, and “beating” the market means earning a return greater than the market. The purpose of this paper is to showcase an annualized wavelet trading strategy (WT) that outperforms the market at a fast rate. The strategy is contained in the website AgateWavelet.com. No prediction of market prices is involved and using the website does not require any skills on the part of the trader. By trading the index SPY back and forth about 4 to 5 times a week for a year. The wavelet WT has an expected rate of return approximately 26% higher than the market. The Sharpe ratios are computed and they show that WT also has a higher expected risk-adjusted return than the market. The result is a surprise since SPY has long been considered to be a stock to buy and hold. In addition, proponents of the Efficient Market and Random Walk hypotheses claim that the market is “unbeatable” because market prices are unpredictable. Thus WT also provide a counterexample to this claim.