The Econometrics of Predictability
Group Assignment

May 13, 2014

This assignment asks you to assess the usefulness of technical trading rules for Corn, Crude Oil, Gold and the Pound/Dollar exchange rate. The corn and crude oil data are from futures prices. The other data are spot. The assignment has a 10 page limit so it is necessary to practice being succinct. It is *not* necessary to submit code.

1. Download data from the course website. The data is proprietary and so please use the password provided in email when opening the excel file.
2. For each of the series, assess the evidence of predictability using technical indicators using DM tests (e.g. not controlling for snooping). Discuss how the number of tests affects the maximum value you see.
3. In periods where you found predictability using DM-type tests, repeat the exercise for both the RC and the SPA. Comment on any differences between the two.
4. Dramatically expand the universe of technical indicators and determine if any of these outperform the benchmark buy-and-hold strategy. You can expand the set of rules by:
   (a) Adding more parameterizations of the rule (e.g. changing speeds)
   (b) Coming up with combinations of rules
5. Using both the StepM and FDR, repeat your analysis. Discuss any choices you make in implementing these procedures.
6. Using the original set of rules, determine which enter the model confidence set.
7. Can volatility timing be used to improve the performance of the rules?