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Peculiarities of Trading Strategies: Its Implementation and Offers for Improvement of Effectiveness

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Abstract— There are many trading strategies in the modern economy. When a company needs to use some strategy, it is not simple to choose the right direction. This paper helps to understand the most effective strategies in the market for traders and companies, its advantages and disadvantages, prepares to be ready for different consequences of existing strategies, to define the most appropriate strategy for the specific company and offers the ways to improve its effectiveness.

Index terms: Trading Strategies, Business-Strategies, Standard Strategies

I. INTRODUCTION

Commodity producers and traders, at the moment, do not have sufficient mechanisms to influence market pricing processes. After all, many fundamental factors, such as changing the structure of production, consumer income, strengthening or weakening the economy, have a significant influence on the formation of demand and supply, in particular on the processes of market pricing. That is why the relevance of the topic of research is because the failure to influence the external environment requires searching methods of improving market strategies that help to adapt to existing market conditions.

Choosing a trading strategy is a complicated process because it must take into account any changes and peculiarities of the entity that will follow this strategy. The subjective thinking of each individual gives "life" to many kinds of trading strategies. However, the emotional component can have a negative influence on the process of its implementation. That is why we must clearly define ourselves as a participant of market relations and choose the best strategy for further activity.

The totality of objective rules which define the conditions that must fulfil for entering the market is trading strategies. Trading strategies include trading account specifications, including trading filters and triggers, as well as rules for trading outs, money management, time limits, types of orders and other relevant information. The trading strategy, if it was based on quantitative specifications, can be analyzed based on historical data for future project indicators.

The trading strategy outlines the specifications for bidding, including rules for entering trading, trading outs and money management. With proper research and execution, the trading strategy can provide a mathematical expectation of the rules, which helps traders and investors define if the trading idea is potentially profitable. Investors, as a rule, consider the implementation of a systematic trading strategy but should understand its numerous limitations. Trading strategies are not a guarantee of success, but it can be useful for increasing risk-adjusted profit.

II. PECULIARITIES OF TRADING STRATEGIES

Strategies are a way to prevent behavioural finance and provide consistent results over time. For example, traders with a particular set of rules which regulate time out of trade are less likely to be exposed to a disposition. It forces investors to save shares which have lost value and sell those that raise its value. Trading strategies can also be tested on a variety of market conditions to provide consistency.

The disadvantage is that profitable trading strategies are difficult to develop, and it is easy to become overly dependent on a strategy. For example, the trading strategy may be plausible to specific test data, which may lead to false trust. There is no guarantee that a strategy based on a large amount of historical data will work with the implementation of real market data, because conditions may be different.

The concept of "trading strategy" has many different definitions, but in the article, we will consider it as a generalizing model of actions that necessary to achieve the long-term goals which are used in certain market conditions by coordinating and allocating resources, analysis tools and rules.

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In the process of scientific cognition, an important role belongs to strategies, that is, a set of actions, rules of the researcher's behaviour concerning the researched system with the help of which the experiment had conducted. The strategy aimed a pre-formalized algorithm for action on the market, the result of which defined for any scenario what is happening. In this definition of strategy, its three main peculiar features are noted, which is worth commenting additionally:

Intentional Actions. The strategy should be intentional (written, thought out) in advance. That is what gives it thoughtfulness, consciousness. Trader's responsibility for the result arises with intentional actions. Intentional action also represents the internal practice of the trader over himself.

Formalization of Actions. Actions during the strategy should be formalized (clearly defined) for any scenario of market developments. We need to know what we have to do in one or another case. Remember that our actions will define our result. The lack of formalized actions for one or another scenario will contribute to the "hang-up" element in your actions.

Definiteness of The result. As a consequence of intentional action for a scenario, there is the intention of the obtained by the trader result. The trader needs to know all the possible consequences of the experiment precisely, take responsibility for his actions. Besides, any strategy can be without established terms or with some established terms. For example, if a strategy has defined for one year, then it means that the trader is acting on the strategy for one year, then analyzes the results, then either leaves to follow the strategy or modifies it.

Classification of Trading Strategies

There are many different types of trading strategies for investors and traders that can divide into technical and fundamental trade strategies. The common thing between these two types of strategies is that they both depend on quantitative information that can be check for accuracy.

The most common division of trading strategies is the classification for:

1. Trading Pattern
- Manual trading
- Algorithmic trading

2. The mechanism of the trading strategy (the algorithmic component, according to which the positions have opened and closed, as well as the current situation of the assets is monitored);
- Fundamental analysis
- Technical analysis

3. Trading period
- Scalping
- Day-trading
- Swing-trading
- Positional trading (Fig. 1).

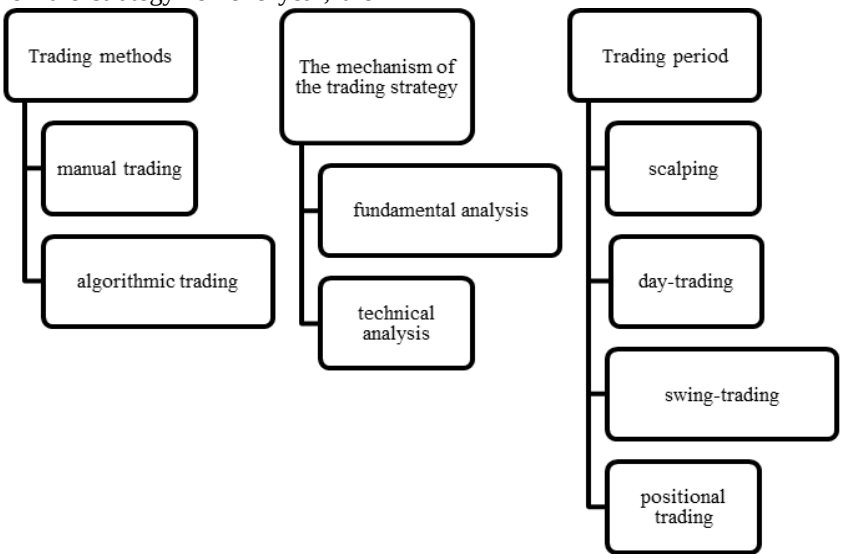

Fig. 1. Classification of Trading strategies

Manual Trading. We open and close deals, expose stop-loss and take-profit, make corrections. The financial speculator uses specialized software – a trading terminal to make calculations, to look after the current situation and analysis. However, manual trading will require a clear action plan and rules for opening or closing deals.

Manual trading attracts by control of the situation – sitting on the monitor, we can instantaneously react to any changes in the schedule and make corrections.

However, there are certain disadvantages. First of all, it is a tremendous psychological load. According to research, the loss of a trade deposit is due to excessive psychological stress. A person starts in a gust of emotions to randomly open deals, trying to overcome the disadvantages, which, of course, ends very sad. However, algorithmic trading is devoid of such a disadvantage as emotion.

Algorithmic trading has based on the programming of unique systems, which will automatically open and close transactions when specific combinations appear. Also, the presence of the trader at this time on the monitor is not necessary. However, any technical system will have its disadvantages which have connected with crashes at

work, and modern markets are very variable.

An algorithmic trading system that brings income today may turn out to be ineffective tomorrow. Therefore, regular monitoring and correction are required.

Focused on fundamental analysis trader builds his system based on micro and macro indicators, important economic and political news. He keeps track of reports and interviews

from major corporations. One of the subtypes of the first trade is news trading and IPO trading (Initial Public Offering). The trader waits for news, opens a short deal, takes a quick profit and then closes the position. However, there are quite high risks.

Technical trading strategies are based on technical indicators to generate trading signals. Traders of technical analysis believe that the movement of prices has strictly based on specific laws and the history of these movements is tendentious to recurrence.

Since there are many ways of technical trade's implementation, it was necessary to classify it into subgroups:

- Trading by indicators (stochastic oscillator, sliding averages);
- Trading by channels – channels and trend lines has taken as the basis;
- Trading by levels of support and resistance;
- Trading by figures (figures are defined, for example, head and shoulders, triangle);
- VSA trading (volume spread analysis) – volumes are a vital indicator.

Scalping is a trade of high intensity, which creates a muscular psychological tension for many people. Corporate peculiarities; numerous deals; a small retention period for each of them; minimum limit on loss and profit. Experienced scalper sometimes holds hundreds of deals throughout the day. With a competent approach, the result can be spectacular. Mainly, scalping involves attempts to profit on the most insignificant market moves. However, the disadvantages of such trade are apparent: high load on a person; need a tremendous amount of time; the need for a precise concentration and an instant reaction; high-risk level. The original timelines for scalper are the 1- and 5-minute timeframes.

Intraday-trading, day-trading; These types of trading involve the opening and closing of transactions within one trading day. At the same time, the number of transactions will be small, about 3-5 for the session. The control condition is closing all transactions by the end of the day. Intraday-trading can avoid excessive scalping voltage; more clearly detect movement of the schedules. As a result, the level of psychological stress is lower.

Swing-Trading. Fans of this category are interested in large fluctuations of prices, starting from a period of several days to several weeks. As a rule, swing traders are limited by several deals per month, focusing on daily and weekly schedules. There are many advantages to swing-trading. There is no need respond to entire news stream (except for large-scale events, a referendum on the UK on the withdrawal from the EU or the election of Donald Trump by the President of the United States). We can carefully prepare for the opening of another transaction. At the disposal of the speculator, there is plenty of time to analyze the situation on the market. Day-trading does not involve healthy psychological stresses.

Moreover, with significant price movements and the correct analysis, we can get a good profit. On an excellent swing-trading, we will need a large deposit, if compared with scalping or intraday trading. Sometimes it is necessary to cross-over several days in the loss-making positions, but with the proper approach, losses in swing-trading have quickly covered.

Positional Trading. Keeping positions may take several months; it may take up to a year or more. This approach can already compare with investment activity. The deposit will be required even more than in the swing-term trading. It is also necessary to navigate well in the fundamental analysis, have a great deal of will and endurance. In general, the pros and cons of positional trading are similar to swing-trading. According to statistics, large deposit holders prefer this kind of trading. After all, with the right approach and significant capital, the result will be spectacular, but to use that, we need to use a quality analyst.

III.CLASSIFICATION OF BUSINESS-STRATEGIES & RESULTS

At enterprises, the concept of trading strategy can be consistent with strategies that have formed at one of the levels of management of the organization. The number of levels of management changes depending on the size of the organization. Consider organizational strategies with four levels of management activity (Fig. 2).

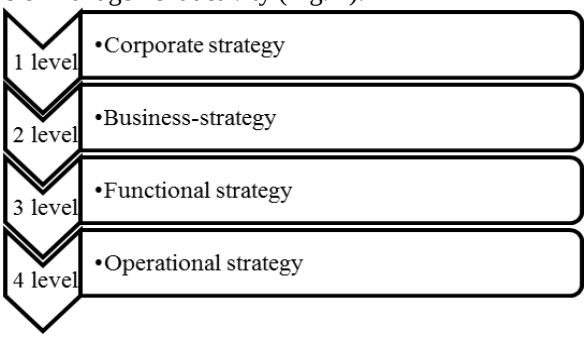

Fig. 2. Standardized Levels of Management by a Large Organization

A corporate strategy is a general plan of management by a diversified company that describes actions to achieve certain positions in different branches and approaches to management by separate types of activities (Fig. 3)

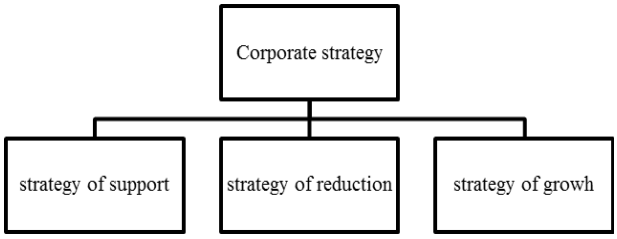

Fig. 3. The Main Types of corporate Strategies

The strategy of support has directed to keeping stability when the company does not surrender its positions but does not improve. Such a

strategy is called «strategy of limited growth», which is typical for mature industries, where the speed of innovation and technology is low.

The strategy of reduction is directed to gradually reducing production volumes. Such a strategy has often referred to as "the strategy of the last mean". The strategy of reduction has used when the company does not have any other way out: it is necessary to wait for the finish of an unstable period, cut costs, stop loss-making production and change activity.

The growth strategy has implemented by way of the significant annual increase in the level of target indicators above the level of the previous year.

Business-strategy – management is developing a management plan for one unit to achieve its optimal effectiveness. In single-member companies that deal only with one type of business, corporate and business-strategy coincide.

In other words, a business strategy is a set of all the measures and approaches (Fig. 4) that the management considers appropriate in this competitive situation, the current trends in the economy, the level of technology development, demographic composition and needs of consumers, the legislative framework and other external factors. Occasionally changes in the external environment greatly complicate the development of a proper strategy.

In a strong business-strategy, there is a sequence of actions that provide a stable competitive advantage, which allows a company to have profit above the average level and occupy a leading position in the industry.

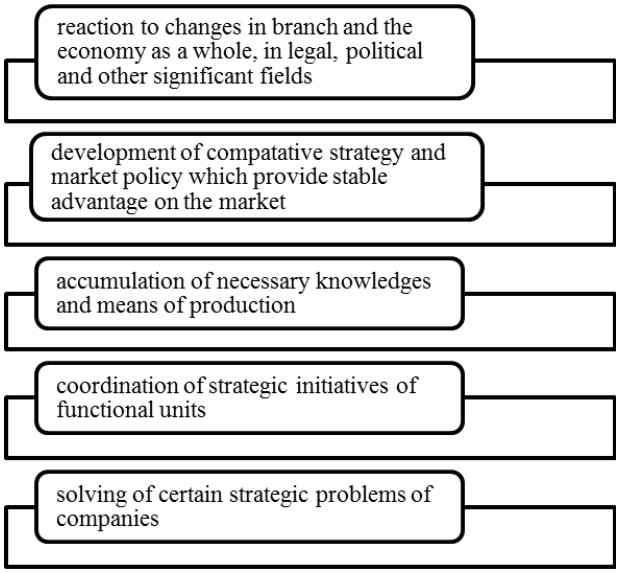

Fig. 4. Elements of Business-Strategy

The most popular business development strategies have usually referred to as necessary or standard. They reflect different approaches to enterprise growth and are associated with a change in the state of one or more of the following elements: product, market, branch, the position of the enterprise in the middle of the branch, technology. However, each of these five elements can be in one of two states: an existing state or a new one.

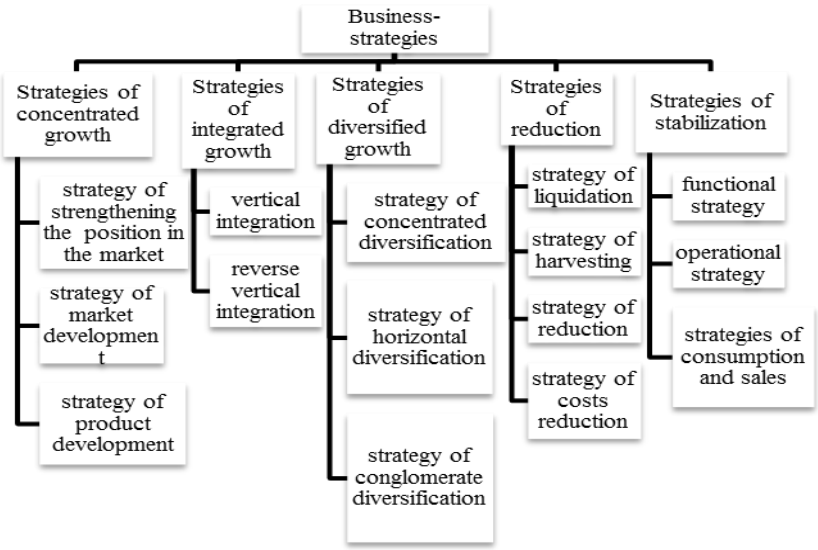

Fig. 5. Classification of Standard Business-Strategies

The first group of standard strategies is strategies of real growth. There are those strategies that are associated with product and market changes. Specific types of strategies for the first group are as follows:

The strategy of strengthening the position in

the market, in which the company does everything to get the best position with this product in this market;

The strategy of market development, which is to find new markets for the already finished product; The strategy of product development, which involves solving the problem of growth due to the production of a new product, which will implement on the already mastered market.

The second group of standard strategies includes such business-strategies when the company expands through the addition of new structures. These strategies are called strategies of integrated growth. An enterprise can implement integrated growth, either through the acquisition of property (real estate, securities) or through expansion from the inside. In both cases, there is a change in the position of the company in the middle of the branch.

There are following distinct types of strategies of integrated growth:

The strategy of vertical integration has directed to the growth of enterprise through the acquisition or strengthening of control over suppliers;

The strategy of backward vertical integration, which has expressed in the growth of the enterprise through the acquisition or strengthening of control over the structures that exist between the enterprise and the end-user, namely, systems of distribution and sale.

The third group of standard trading strategies of the organization is strategies of diversified growth. These strategies are implemented in the event when enterprises cannot further develop in this market with this product within the industry.

The main strategies of diversified growth are the following:

The strategy of real diversification based on search and use of additional opportunities for the production of new products, that is, the existing production remains in the centre of business, and the new has based on the opportunities embodied in the mastered market of the technology that used or in other strengths of the enterprise. Such possibilities, for example, maybe the possibility of a used specialized system of distribution;

The strategy of horizontal diversification suggests looking for growth opportunities in the existing market at the expense of new products, which requires a new technology, which is different from the one used. Under such a strategy, the company should focus on the production of technologically related products that would use the existing possibilities of the company, for example, in the field of supply. Since the new product should be oriented towards the consumer of the main product, then in its qualities it should be related to the already finished product. An essential condition for the implementation of this strategy is the preliminary assessment of the company's competence in the production of a new product;

The strategy of conglomerate diversification is that the company is expanding at the expense of production of new products that are technologically not related to the already produced and its implementation in new markets. It is one of the most difficult for implementation strategies of development since its successful implementation depends on many factors, in particular on the competence of existing staff, managers, seasonality in the life of the market, the availability of necessary amounts of money.

The fourth type of standard business development strategies is the strategies of reduction. The strategies implemented when a company needs re-group forces after long-period growth due to the need to improve efficiency and when recessions dramatic changes in the economy. In these cases, enterprises use of strategies for the targeted or planned reduction of production. Implementation of these strategies is often not painless for the enterprise. However, it is necessary to clearly understand that these are the same strategies for enterprise development, as well as considered strategies of growth, and in certain circumstances, they cannot avoid. Moreover, in certain circumstances, this for business recovery is the only possible strategies, since in most cases updates and general acceleration are mutually exclusive business processes.

There are four types of targeted business-strategies of reduction:

• The strategy of liquidation is an extreme case of a strategy of reduction and has carried out when the company cannot conduct further business;

• The strategy of harvesting needs refuses of a long-term view of the business in favour of maximizing income in the short term. This strategy has used concerning a profitable business, which cannot be sold profitable, but can generate income during the "harvest." This strategy needs reducing the cost of purchasing, the labour force and the maximum income from the sale of the existing product and continues to reduce production. The strategy of harvesting is designed to achieve a maximum total income during a period of reduction with a gradual reduction of this business to zero;

• The strategy of reduction is that the company closes or sells one of its divisions to make a long-term change in the business execution. Often, this strategy is implemented by diversified enterprises, when one of the productions has badly combined with others. This strategy has implemented when it is necessary to receive money for the development of more perspective directions or to start new directions that are consistent with the long-term goals of the enterprise. There may be other situations;

• The strategy of costs reduction is quite close to the strategy of reduction since its main idea is to find opportunities for reducing costs and carrying out appropriate measures. However, there are differences. It is more focused on eliminating preferably small sources of costs, as well as in the fact that its implementation is temporary or short-term. The implementation of this strategy has connected with a reduction of production costs, increasing productivity, a decrease of employment and even the dismissing of staff, the suspension of production of valuable goods and the closure of productive capacities. It can assume that the strategy of costs reduction begins when a unit or at a reasonably large volume of fixed assets has sold.

Strategies of stabilization have used in difficult times for the company, which require maximum efforts to maintain its position in the market. The

most popular are:

• Functional strategy – defines the strategic orientation of a specific functional subsystem of enterprise management, which provides achievement of its goals, and (in the presence of interconnected substantiated functional strategies) controllability of implementation processes of general strategies and the mission of the enterprise;

• Operational strategy is a narrower strategy for critical structural units such as a plant, department (internal-functional direction) and trade regional agency. Measures that are characterized for this strategy – solving of highly specialized problems for the achievement of the goals of a separate unit;

• Strategies of consumption and sales form the trading strategy of the industrial and commercial holding. The strategy is a detailed, comprehensive plan designed to provide the holding's mission and to achieve its goals.

4. PRACTICAL OFFERS

4.1 The Matrix of Choosing Business-Strategy

Choosing a trading strategy is a complicated process because it must take into account any changes and peculiarities of the entity that will follow this strategy. The subjectivity of thinking of each individual gives "life" to many kinds of trading strategies. However, the emotional component can have a negative influence on the process of its implementation. That is why we must clearly define ourselves as a participant of market relations and choose the best strategy for further activities (Table 1).

	Rate of market growth		
	High	Low	Decline
High market share	Strategies of diversified growth	The strategy of limited growth	Strategies of stabilization
Low market share	Strategies of integrated growth	Strategies of concentrated growth	Strategies of stabilization
		The strategy of limited growth	Strategies of reduction

Table 1 The matrix of choosing a business strategy

As the holding of the trading branch, as a rule, is a totality of economic entities operating in different spheres of the economy, it is right to structure the units of the trading holding according to the goals and tasks performed within its limits. Based on such division of functions, the development of a trading strategy has based on the totality trading functions of the divisions.

4.2 The Ways to Improve the Effectiveness

The variability of the market environment is the main reason for the need to control the use of trading strategies. A trading strategy developed several years ago can only be used with updated upgrades for the current state. The market participant should always make modelling the possible consequences of his actions in conditions of uncertainty and conflict, and also take into account the factors influencing the level of risk, evaluate them, and identify the possible losses.

The ways to improve the effectiveness of trading strategies include:

1 Improving the processes of assessing trading strategies.

To define the profitability of trading strategy, use the Sharpe or Sortino coefficient.

2 We are hedging as a component of a trading strategy.

The primary function of hedging is to provide hedgers with adequate insurance coverage in case of negative economic consequences caused by individual risks. Therefore, hedging plays a crucial role in providing social and economic protection and is essential for increasing overall economic stability.

3 Optimization of trading strategies.

After defining the problem in the trading strategy, the way to solve it will choose – optimization:

• To optimize or define the technical parameters for the trading strategy (replacement of indicators, means of market analysis);

• Add to the trading strategy additional filters for defining and controlling trend-flat;

• Analyze and revise the set of indicators following the basic concept of trading strategy.

V. CONCLUSION

In modern economic activity, it is impossible to avoid risks due to the objective-subjective nature. Risks have a significant influence on all areas of economic activity. Therefore, any market participant needs to use a specific trading strategy that will define a clear direction of action to avoid risks and generate profits. Especially important is to use trading strategies for those engaged in stock market activities that are characterized by higher risk in comparison with other types of economic activity. After the stock

market is considered to be an organized market for the accumulation of a large number of risks. The trader has to systematically (at least once per month) control his trading strategy and respond quickly to changes in the market in order to create the most active trading strategy in the market.

The developed classification will help to clearly define which trading strategy is more appropriate to use for a particular type of economic activity and to avoid or eliminate the risks arising from the increased instability of the market situation. The developed business strategy matrix helps in choosing a trading strategy that is most suitable for use at specific rates of growth and market share that are appropriate at this stage of the development of a business entity. The offered methods for increasing the effectiveness of trading strategies will help to achieve the desired level of profitability following the general market trends by the leading indicators.

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