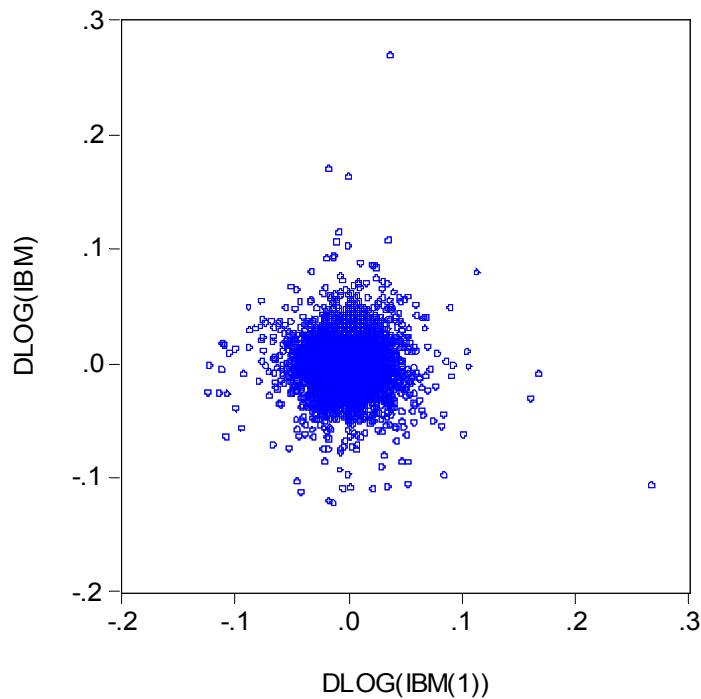
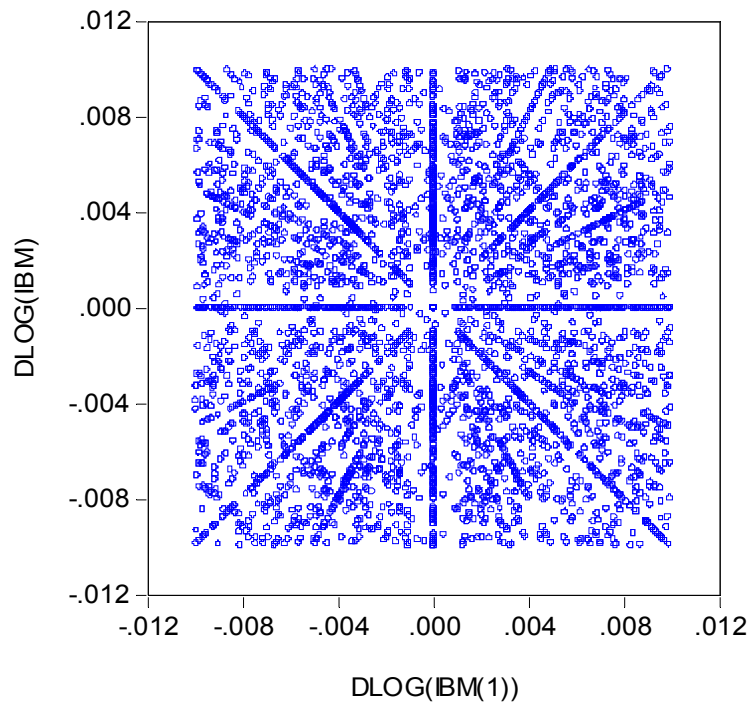


Compass Rose

Pattern that becomes observable when plotting R_t against R_{t-1} -but only if you look for it

Tufte, ER (1997) 'Visual Explanations' (Graphics Press, Connecticut)





General consensus that Compass Rose exists across many markets and needs certain factors for it to be seen

1. Discrete price changes over a small number of ticks
2. Prices varies over a wide range
3. Price changes are small relative to price level

So what do we have in this paper:

Compass Rose pattern also exists in option prices. This adds to the list of markets where pattern has been found. The pattern is most apparent in UHF data.

So what is new:

Evidence of return reversals pattern.

But how extensive is this finding?

Need to show greater evidence that the pattern is pervasive (should we see it in Fig 4 as well?)

A regression model tells me that reversals are related to several variables, e.g., price, trade size, time of the day etc.

But what does all this tell me?

Check for continuations?

After reading the paper, there is a feeling of what have I learned?

What is the contribution of the paper – this should be spelt out in the 1st para.

Discussion of data is unclear

-why only one year?

-how were the 28 selected?

-what is the one-trade per day selection criteria?

-P7 how construct hourly intervals – use 15-min?

What would I like to see (what would be a significant contribution)

Through the paper and indeed the (short) history of the compass rose research the question is – ok there's an interesting pattern – seems to be against market efficiency and sits more with the technical analysts – so how can I use this?

Tick Size changes

-has there been any in the sample?

-extend the sample to include them?

