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Dynamic relations between order imbalance, volatility and return of top gainers

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Abstra

Investor ... s studies suggest ... ctional stock return. I ... ce, volatility and stoc ... d trading strate ... Auto ... e intraday dynamic ... tive relation between ... e effect propose ... order imbalan ... eous order imbalan ... gnificantly negative ... market maker explain this phenomenon. Finally, we develop a profitable order imbalance based

trading strategy. To explore the profitability of our trading strategy, we examine the causal relationship between return and order imbalance. We find that order imbalance is a good indicator for price discovery. Moreover, order imbalance is a better indicator for predicting returns in large firm size quartile.

Notes

[1] Small firm effect means that those companies with a smaller market capitalization outperform larger companies. This market anomaly is a factor used to explain superior returns in the three factor model by Fama and French (1992). The three factors are the market return, companies with high book-to-market values and small stock capitalization.

[2] VIX, VXN represent the implied volatility of options on S&P100, NASDAQ100, respectively. According to Arak and Mijid (2006), the value of VXN is always larger than that of VIX from 1995 to 2002.

[3] Lee et al. (2001) use 6-minute intervals with each interval containing nearly 12 trades

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