

» *Optimization Methods in Momentum Strategies*

Following the seminal paper of Jegadeesh/Titman (1993), Momentum strategies have received a lot of attention in the academic literature and in the investment community. Momentum strategies take long positions in assets which depict positive (absolute or relative) and short positions in assets with negative (absolute or relative) past returns, expecting this outperformance to persist for a certain period of time in the future. The capital allocation for a given asset depends on the trend signal and is typically inversely proportional to its volatility.

We will present a trend following strategy where the capital allocation is formulated as a conic optimization problem and discuss the many issues and difficulties which have to be tackled in the practical implementation. Numerical results will emphasize the practicability of the approach.