

Discussion – Capturing the order imbalance with Hidden Markov Model: A case of SET50 and KOSPI50

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Summary

Econometric Application:

- Hidden Markov Model (HMM) to forecast stock price movements
- Trading strategy based on HMM forecasts
- Two markets: Stock Exchange of Thailand (Illiquid) and Korea Exchange (Liquid)

Summary

Results:

- Findings confirm market efficiency hypothesis
- Adaption process is not instantaneous
- Price movements can be predicted by HMM
- Prediction power decreases, if time horizon and liquidity increases

Thanks to the authors
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