

Package ‘DriftBurstHypothesis’

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Type Package

Title Calculates the Test-Statistic for the Drift Burst Hypothesis

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Author Emil Sjoerup

Maintainer Emil Sjoerup <emilsjoerup@live.dk>

Description Calculates the T-Statistic for the drift burst hypothesis from the working paper Christensen, Oomen and Reno (2018) <DOI:10.2139/ssrn.2842535>. The authors' MATLAB code is available upon request, see: <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2842535>.

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BugReports <https://github.com/emilsjoerup/DriftBurstHypothesis/issues>

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Depends R (>= 3.5.0)

Imports Rcpp (>= 0.12.18), xts, zoo,

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 DriftBurstHypothesis-package

Calculates the Test-Statistic for the Drift Burst Hypothesis

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Details

The DESCRIPTION file:

```

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```

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                                Burst Hypothesis
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```

Author(s)

Emil Sjoerup

Maintainer: Emil Sjoerup <emilsjoerup@live.dk>

References

Christensen, Oomen and Reno (2018) <DOI:10.2139/ssrn.2842535>.

driftBursts	<i>Drift Bursts</i>
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Description

Calculates the Test-Statistic for the Drift Burst Hypothesis.

Usage

```
driftBursts(timestamps = NULL, logPrices, testTimes = seq(34260, 57600, 60),
            preAverage = 5, ACLag = -1L, meanBandwidth = 300L,
            varianceBandwidth = 900L, parallelize = FALSE,
            nCores = NA, warnings = TRUE)
```

Arguments

timestamps	Either: A numeric of timestamps for the trades in seconds after midnight. Or: NULL, when the time argument is NULL, the logprices argument must be an xts object.
logPrices	A numeric or xts object containing the log-prices.
testTimes	A numeric containing the times at which to calculate the tests. The standard of seq(34260, 57600, 60) denotes calculating the test-statistic once per minute, i.e. 390 times for a typical 6.5 hour trading day from 9:31:00 to 16:00:00. See details.
preAverage	An integer denoting the length of pre-averaging estimates of the log-prices.
ACLag	A positive integer greater than 1 denoting how many lags are to be used for the HAC estimator of the variance - the standard of -1 denotes using an automatic lag selection algorithm for each iteration.
meanBandwidth	An integer denoting the bandwidth for the left-sided exponential kernel for the mean.
varianceBandwidth	An integer denoting the bandwidth for the left-sided exponential kernel for the variance.
parallelize	A Boolean to determine whether to parallelize the underlying C++ code. (Using OpenMP)
nCores	An integer denoting the number of cores to use for calculating the code when parallellized. If this argument is not provided, sequential evaluation will be used even though bParallelize is TRUE
warnings	A logical denoting whether warnings should be shown.

Details

If the `testTimes` vector contains instructions to test before the first trade, or more than 15 minutes after the last trade, these entries will be deleted, as not doing so may cause crashes.

The test statistic is unstable before $\max(\text{meanBandwidth}, \text{varianceBandwidth})$ seconds has passed.

If `timestamps` is provided and `logPrices` is an `xts` object, the indices of `logPrices` will be used regardless.

Note that using an `xts logPrices` argument is slower than using a numeric due to the creation of the timestamps from the index of the input. When using `xts` objects, be careful to use the correct time zones. For example, if I as a dane use the "America/New_York" time zone for my `xts` objects, I have to add 14400 to my testing times. Same correction will have to be made to the `startTime` and `endTime` arguments in the plotting methods.

The lags from the Newey-West algorithm is increased by $2 * (\text{preAverage} - 1)$ due to the pre-averaging we know atleast this many lags should be corrected for. The maximum of 20 lags is also increased by this same factor for the same reason.

The methods `getMu(DBH)` and `getSigma(DBH)` have ad-hoc adjustments made to the output that are based on simulations. These adjustments give a slight down-ward bias in the value of the drift and sigma if the `preAverage` argument is VERY high, i.e. 10 or 20 for a noise-less price series of e.g. 23400 trades. If you find any better adjustments, please contact me.

To get the unadjusted series, use `DBH$mu` or `DBH$sigma` for the drift, and volatility respectively.

Value

An object of class `DBH` and `list` containing the series of the drift burst hypothesis test-statistic as well as the estimated spot drift and variance series. The list also contains some information such as the variance and mean bandwidths along with the pre-averaging setting and the amount of observations. Additionally, the list will contain information on whether testing happened for all `testTimes` entries.

warning

When using `getMu(DBH)`, beware that the series may be padded with zeros (a warning will be shown when running the `driftBursts` in this case). This will for example happen when using `testTimes` for an entire trading day but the data is from a half trading day. Therefore, methods for calculating the mean and variance of the series that take this into account are provided and documented [here](#).

Author(s)

Emil Sjoerup

References

Christensen, Oomen and Reno (2018) <DOI:10.2139/ssrn.2842535>.

See Also

The `DBH` methods for the `DBH` class are documented [here](#).

Examples

```

#Simulate a price series containing both a flash crash and a flash-rally
flashCrashSim = function(iT, dSigma, dPhi, dMu){
  vSim = numeric(iT)
  vEps = rnorm(iT , sd =dSigma)
  vEpsy = rnorm(iT)
  vEps[30001:32000] = rnorm(2000 ,sd =seq(from = dSigma ,
                                         to = 2*dSigma , length.out = 2000))
  vEps[32001:34000] = rnorm(2000 ,sd =seq(from = 2*dSigma ,
                                         to = dSigma , length.out = 2000))
  vEpsy[30001:32000] = -rnorm(2000 ,mean =seq(from = 0,
                                             to = 0.3 , length.out = 2000))
  vEpsy[32001:34000] = -rnorm(2000 ,mean =seq(from = 0.3,
                                             to = 0 , length.out = 2000))

  vEps[60001:63000] = rnorm(3000,sd = seq(from = dSigma ,
                                          to = 2*dSigma , length.out = 3000))
  vEps[63001:66000] = rnorm(3000, sd = seq(from = 2*dSigma ,
                                          to = dSigma, length.out = 3000))

  vEpsy[60001:63000] = rnorm(3000 ,mean =seq(from = 0,
                                             to = 0.2 , length.out = 3000))
  vEpsy[63001:66000] = rnorm(3000 ,mean =seq(from = 0.2,
                                             to = 0 , length.out = 3000))
  vSim[1] = dMu + dPhi *rnorm(1 , mean = dMu , sd = dSigma /sqrt(1-dPhi^2))
  for (i in 2:iT) {
    vSim[i] = dMu + dPhi * (vSim[(i-1)] - dMu) + vEps[i]
  }
  vY = exp(vSim/2) * vEpsy
  return(vY)
}
#Set parameter values of the simulation
iT = 66500; dSigma = 0.3; dPhi = 0.98; dMu = -10;
#set seed for reproducibility
set.seed(123)
#Simulate the series
y = 500+cumsum(flashCrashSim(iT, dSigma, dPhi, dMu))

#insert an outlier to illustrate robustness.
y[50000] = 500

#Here, the observations are equidistant, but the code can handle unevenly spaced observations.
timestamps = seq(34200 , 57600 , length.out = iT)
testTimes = seq(34260, 57600, 60)
logPrices = log(y)

library("DriftBurstHypothesis")

#calculating drift burst test statistic

DBH = driftBursts(timestamps, logPrices,

```

```

        testTimes, preAverage = 5, ACLag = -1L,
        meanBandwidth = 300L, varianceBandwidth = 900L,
        parallelize = FALSE)

#plot test statistic
plot(DBH)
#plot both test statistic and price
plot(DBH, price = y, timestamps = timestamps)
#Plot the mu series
plot(DBH, which = "Mu")
#plot the sigma series
plot(DBH, which = "Sigma")
#plot both
plot(DBH, which = c("Mu", "Sigma"))

#Means of the tstat, sigma, and mu series.
mean(getDB(DBH))
mean(getSigma(DBH))
mean(getMu(DBH))

## Not run:
##### same example with xts object:
library("xts")
#Set parameter values of the simulation
iT = 66500; dSigma = 0.3; dPhi = 0.98; dMu = -10;
#set seed for reproducibility
set.seed(123)
#Simulate the series
y = 500+cumsum(flashCrashSim(iT, dSigma, dPhi, dMu))

#insert an outlier to illustrate robustness.
y[50000] = 500

#Here, the observations are equidistant, but the code can handle unevenly spaced observations.
timestamps = seq(34200 , 57600 , length.out = iT)
startTime = strptime("1970-01-01 00:00:00.0000", "%Y-%m-%d %H:%M:%OS", tz = "GMT")
testTimes = seq(34260, 57600, 60)

price = xts(vY, startTime + timestamps)

DBHxts = driftBursts(timestamps = NULL, log(price),
                    testTimes, preAverage = 5, ACLag = -1L,
                    meanBandwidth = 300L, varianceBandwidth = 900L,
                    parallelize = FALSE)

#check for equality
all.equal(as.numeric(getDB(DBH)), as.numeric(getDB(DBHxts)))

```

```
## End(Not run)
```

```
methods for DBH objects
```

```
Methods for the DBH class
```

Description

These are the methods for the class DBH which are currently implemented.

Usage

```
## S3 method for class 'DBH'
print(x, ...)
## S3 method for class 'DBH'
plot(x, ...)
## S3 method for class 'DBH'
getDB(x)
## S3 method for class 'DBH'
getMu(x, annualize = FALSE, nDays = 252)
## S3 method for class 'DBH'
getSigma(x, annualize = FALSE, nDays = 252)
## S3 method for class 'DBH'
getMean(x, which = 'all')
## S3 method for class 'DBH'
getVar(x, which = 'all', annualize = FALSE, nDays = 252)
```

Arguments

x	DBH object
...	Additional arguments for the plotting and printing routines. See details
annualize	logical determining whether or not to annualize the series.
nDays	numeric determining how many days to use for annualization. The standard of 252 reflects the average 252 trading days in a year.
which	character determining which series to retrieve the mean and variance of in getMean and getVar. This argument can also be used in the print and plot methods, see details for use in these methods.

Details

For the print method, the ... argument can be used to pass the following arguments:

- `criticalValue`: numeric determining the critical value to use when determining whether a drift burst is present in the data. If this critical value is omitted, a method to determine the critical value based on a interpolations of simulated data-set of critical values for different confidence levels and auto-correlations of the test statistic.

- `alpha`: numeric of length 1 which determines the significance level of the testing.

For the `plot` method, the `...` argument can be used to pass the following arguments:

- `which`: character Used for choosing which series to plot. Valid choices are: "DriftBursts", "DB", "Sigma", "Mu", and `c("Sigma", "Mu")`, the order of the latter is irrelevant. The case of the input does not matter. Default = "driftbursts"
- `price`: The price series which, if provided, will be overlaid in a red dotted line and the level will be shown at the right y-axis. (Only used if `which` is "DriftBursts"). Default = NULL
- `time`: Timestamps for the trades in seconds after midnight, which will be used for the x-axis of the plot if the price is overlaid. Default = NULL
- `startTime`: Start of the trading day in seconds after midnight. Default = 34200
- `endTime`: End of the trading day in seconds after midnight. Default = 57600
- `leg.x`: X-position of the legend in the case which is "DriftBursts" AND the price is overlaid. Default = "topleft". Usage is as in the base R engine.
- `leg.y`: Y-position of the legend in the case which is "DriftBursts" AND the price is overlaid. Default = NULL. Usage is as in the base R engine.
- `tz`: character denoting the time-zone. Default = "GMT"
- `annualize`: logical denoting whether to annualize in case which contains "mu", "sigma", or both. Default = FALSE
- `nDays`: numeric denoting how many to use for annualization if `annualize` is TRUE. Default = 252

Value

For `print` and `plot`, nothing is returned.

For `getDB`, `getMu`, and `getSigma`, vectors with the same length as `testTimes`, containing the test statistic, drift, or volatility respectively, is returned

For the methods `getMean` and `getVar`:

When the `which` argument is 'all', `getMean` and `getVar` returns lists containing the mean or variance of the test statistic, drift, and volatility respectively.

When the `which` argument is 'db' (or 'driftbursts'), 'mu', or 'sigma', doubles containing the mean or variance is returned.

Note that the reason for having the `getMean` and `getVar` methods is the possibility of testing being mandated while data is not present. This primarily happens when loading in tick data for an entire year in a loop, including for example Christmas Eve in the U.S. where the markets close early. In this case if the user reuses the same `testTimes`, a warning will be thrown in `driftBursts`, and no testing will be done, but the output series will be padded with zeros to keep the same size as `testTimes`.

Author(s)

Emil Sjoerup

Examples

```
library(DriftBurstHypothesis)
set.seed(1)
# Set mean and variance bandwidth parameters
meanBandwidth = 300L
varianceBandwidth = 900L

# Simulate noise-less price series with 23400 observations, denoting 1 trader per second
# and generate corresponding timestamps.
iT = 23399
r = rnorm(iT, mean = 0, sd = 1)/sqrt(iT)
p = c(0,cumsum(r))
timestamps = seq(34200, 57600, length.out = iT+1)

# Test every minute after the instability period is over.
testTimes = seq(34260 + varianceBandwidth, 57600, 60L)

# Calculate drift burst test statistic
DBH = driftBursts(timestamps, p, testTimes, preAverage = 1, ACLag = -1,
                  meanBandwidth = meanBandwidth, varianceBandwidth = varianceBandwidth)

print(DBH)
# Plots the test statistic with prices overlaid.
plot(DBH, timestamps = timestamps, price = p)

# Plots the annualized volatility
plot(DBH, which = 'sigma', annualize = TRUE)

# Plots the annualized drift and volatility
plot(DBH, which = c('sigma', 'mu'), annualize = TRUE)

# Calculate the mean of the test statistic, drift, and volatility
getMean(DBH, which = 'all')

# Calculate the variance of the test statistic
getVar(DBH, which = 'db')

# Extracts the annualized drift
annualizedDrift = getMu(DBH, annualize = TRUE)

# Extracts the annualized volatility
annualizedVolatility = getSigma(DBH, annualize = TRUE)
```

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