Long-Short Strategies involving Oil Futures and Shares of Firms that depend on Oil

(To be confirmed)

In this study you will examine the extent to which publicly available information about future prices of oil is impounded in equity prices of firms that depend on oil as an input or ouput. For that purpose you will come up with a model that forecasts the spread in returns between oil futures and oil stocks over some period; Return(oil futures) minus Return(oil stocks) over the next week, for example. If you forecast this spread to be positive, then you would long the futures and short a basket of oil stocks in some proportion based on some objective function (Maximum Sharpe Ratio or Maximum return for some target level of risk). Rebalance this every week based on the output of your forecasting model, for example.