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# Overreaction and Trading Strategies in European iShares

David P. Simon, Joel S. Sternberg

The Journal of Alternative Investments Summer 2005, 8 ( 1 ) 29 - 41

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## Abstract

This article examines the forecasting power of German, U.K. and French iShares for the next day returns of the underlying Morgan Stanley country equity indexes and assesses whether European iShares overreact to developments after the close of European trading. The findings indicate that although deviations of European iShare prices from net asset values (NAVs) at the close of U.S. trading have significant forecast power for next day NAV returns, they overpredict. Deviations of closing iShare prices from their NAVs also lead to next day iShare price reversals that average roughly 3/8 of the size of the deviations. Finally, the article demonstrates the profitability of trading rules that exploit the tendency of European iShares to overreact to late day U.S. trading activity.

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