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Jiali Fang, Ben Jacobsen, Yafeng Qin

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Abstract

Many return predictability anomalies disappear over time. One explanation is that investors arbitrage profits away. But investors have always used technical analysis, so this argument may not apply to technical analysis strategies. In this article, the authors study what happens when a new technical trading rule appears and becomes popular over time. Bollinger Bands, introduced in 1983, provide a natural experiment. Before their introduction, trading on Bollinger Bands was very profitable. However, since their introduction, their predictive power seems to have gradually decreased, and it has largely disappeared in most international markets since 2001, the year that Bollinger published his book on Bollinger Bands.

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