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Research Article

Non-linear prediction of security returns with moving average rules

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Abstract

Over the years, investors and the technical analysts have devised hundreds of technical market indicators in an effort to forecast the trend of a security market. Recent literature provides evidence that these rules may provide positive profits after accounting for transaction costs. This clearly contradicts the theory of the efficient market hypothesis which states that security prices cannot be forecasted from their past values or *other past* variables. This paper uses the daily Dow Jones Industrial Average Index from January 1963 to June 1988 to examine the linear and non-linear predictability of stock market returns with buy—sell signals generated from the moving average rules with a band between the short and the long averages. Strong evidence of non-linear predictability is found in the stock market returns by using the past buy and sell signals of these rules.

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Citing Literature

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