Moving average rules, volume and the predictability of security returns with feedforward networks

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Abstract

This paper uses the daily Dow Jones Industrial Average Index from 1963 to 1988 to examine the linear and non-linear predictability of stock market returns with some simple technical trading rules. Some evidence of non-linear predictability in stock market returns is found by using the past buy and sell signals of the moving average rules. In addition, past information on volume improves the forecast accuracy of current returns. The technical trading rules used in this paper are very popular and very simple. The results here suggest that it is worth while to investigate more elaborate rules and the profitability of these rules after accounting for transaction costs and brokerage fees. Copyright © 1998 John Wiley & Sons, Ltd.

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