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Can the Leading Us Energy Stock Prices Be Predicted Using Ichimoku Clouds?

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Abstract

The aim of this study is to investigate if Ichimoku Cloud can serve as a technical analysis indicator to improve stock price prediction for leading US energy companies. The methodology centers on the application of the Ichimoku Cloud as a trading system. The daily stock prices of the top ten constituents of the S&P Composite 1500 Energy Index - spanning the period from 12th April, 2012 to 31st July, 2019 - were sourced for experimentation. The performance of the Ichimoku Cloud is measured using both the Sharpe and Sortino ratios to adjust for total and downside risks. The analysis is split into pre and post oil crisis to account for the drop in energy stock prices during the July 2014 - December 2015. The model is also benchmarked against the naïve buy-and-hold strategy. The capacity of the Ichimoku indicator to provide signals during strengthening trends is analyzed. Despite the drop in energy stock prices, number of trades continued to increase along with profit opportunities. The PSX stock ranked first, with the highest Sharpe ratio, Sortino ratio, and Sharpe per number of trade. As expected, a number of buying signals occurred during strengthening bullish periods. Surprisingly,various sell signals also occurred during similar strengthening bullish trends. Most of the buy and sell signals under the Ichimoku indicator occurred outside of strengthening of bullish or bearish trends. The overall findings suggest that speculators can benefit from the use of the Ichimoku Cloud in analyzing energy stock price movements. In addition, it has the potential to reduce susceptibility to changes in energy prices. Last, the strength of the trend in place needs to be captured as it served as an additional layer of information which can improve the decision making process of the trader.

Keywords: Energy stocks, Price Forecasts, Ichimoku Clouds, Performance

JEL Classification: Q40, G15, G17

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