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Identifying Noise Traders: The Head-and-Shoulders Pattern in U.S. Equities

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Abstract

This paper identifies a specific set of agents as noise traders in U.S. equity markets, and examines their effects on returns. These agents, who speculate using the "head-and-shoulders" chart pattern, are shown to qualify as noise traders because (1) trading volume is exceptionally high when they are active, and (2) their trading is unprofitable. Head-and-shoulders sales lower prices and vice versa, effects that disappear within two weeks.

JEL Classification: G12, G14

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