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► Volume 47, Issue 30 ► Can technical oscillators outperform the ....

Original Articles

Can technical oscillators outperform the buy and hold strategy?

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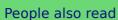
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Abstract

This study compares returns from the traditional buy and hold (B&H) strategy to well-known technical oscillators applied to diverse indices leading the global market (DJI, FTSE, NK225 and TA100) during the period 2007–2012. Our aim was to establish whether technical tools can consistently achieve returns exceeding those of the B&H strategy across various financial markets. We found the relative strength index (RSI) to be the best oscillator, outperforming the DJIA, the FTSE100 and the NK225 for five of the six years examined. The only index that did better than the RSI was TA100, which outperformed all the examined oscillators. In second place was the moving average convergence/divergence (MACD) oscillator, which outperformed the NK225 B&H strategy and came in second for TA100. The results show that during bear markets the RSI and MACD generally produce better gains than the indices, while the opposite occurs during bull markets.

Notes

[1] See, for example, Malkiel ([2003](#)).

[2] These technical tools formulations will be described later in this article.

[3] This oscillator was developed by Gerald Appel in the 1960s. In 1973, Appel found a giant corporation to manage investments of clients' funds. He developed the MACD oscillator and wrote more than 15 books and dozens of articles on the topic of investment strategies, systems for trading on the capital market and others.

[4] The stochastic oscillator was developed by George Lane in the 1960s.

[5] The RSI was developed by J. Welles Wilder in 1978.

[6] For each day that the change was upward, that is, that the closing rate was higher than on the previous day.

[7] The PSAR was developed by J. Welles Wilder in the late 1970s.

[8] Japanese candlesticks are thought to have been developed in the seventeenth century by Japanese traders for trading on the rice market. The Japanese candlestick chart is a type of bar and line graph that reflects price oscillations during a certain period. Each unit of time is assigned a candlestick comprising a body and a wick. This type of graph includes four important variables: opening rate, closing rate, highest traded price and lowest traded price. Japanese candlesticks usually include the body of the candle, which is red for a lower closing and green for a higher closing.

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