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Combining value averaging and Bollinger Band for an ETF trading strategy

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ABSTRACT

The decision-making of investors is highly influenced by their feelings. According to behavioural finance, investor greed and fear would form irrational behaviour and affect their portfolio allocation. Although well-known mechanical investment strategy of dollar cost averaging (DCA) and value averaging (VA) could eliminate the problems of when to purchase, there are still some disadvantages to consider. For example, using a DCA strategy may be able to decrease volatility in portfolio so as to not effect investment decision, but it gives no rule for selling and may increase the opportunity cost of time if investors start deducted at peak prices. On the other hand, VA gives more aggressive sell signals to control the value of the portfolio to the level desired, but the investor may not have enough money purchase of a large number of shares in sharp decline period. Therefore, we use VA as main strategy and Bollinger Band as assist indicator for

check for volatility for entry or exit. Through analysis and simulation, the new strategy we design does improve the performance during both bull and bear market periods.

KEYWORDS:

Value averaging

Bollinger Band

dollar cost averaging

JEL CLASSIFICATION:

G10

P45

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

1 The explanations of value averaging and Bollinger Band are from both Investopedia and Wikipedia website.

2 <http://www.onlinetradingconcepts.com/TechnicalAnalysis/BollingerBands.html>

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