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Original Articles

The profitability of daily stock market indices trades based on neural network predictions: case study for the S&P 500, the DAX, the TOPIX and the FTSE in the period 1965-1999

Teo Jasic & Douglas Wood

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out-of-sample prediction performance of neural networks is evaluated using RMSE, NMSE, MAE and sign and direction change statistics against a benchmark linear autoregressive model. Significant information advantage is confirmed by the Pesaran-Timmermann test. Finally, it is shown that buy and sell signals derived from neural network predictions are significantly different from unconditional one-day mean return and are likely to provide significant net profits for plausible decision rules and transaction cost assumptions.

Notes

§The results and interpretations in this article are the author's alone and do not necessarily reflect the position of Accenture.

Additional information

Notes on contributors

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