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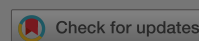
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Momentum in the Chinese Stock Market: Evidence from Stochastic Oscillator Indicators

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ABSTRACT

We explore the momentum in the Chinese stock market using stochastic oscillator indicators. The results show that the momentum trading strategy based on stochastic oscillator indicators can generate significant trading profits. The evidence suggests that the momentum trading strategy based on stochastic oscillator indicators is effective in the Chinese stock market.

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Notes

1. Stochastic oscillator indicators (SOI) such as K and D values will be explained in detail in a later section.
2. For SOI indicators, such as K and D values, the K values over eighty (below twenty) are regarded as overbought (oversold) zones in accordance with the SOI trading rule. The selling signals are emitted as SOI falls into the overbought zone; buying signals are emitted as the SOI falls into the oversold zone.
3. The overbought zone is set as K value > 80 in general. This study also sets stricter overbought zones such as $K > 85$ and $K > 90$. Similarly, the oversold zone is set as $K < 20$ in general. We also set sticker oversold zones, such as $K < 15$ and $K < 10$.
4. The nine-day K and D values often applied in the real world are employed (i.e., N is set as nine in this study). We would also treat $RSV = K$ for (4) when no prior K is available, and $K = D$ for (5) when no prior D is available.
5. The five-day MA is regarded as weekly MA whereas the twenty-day MA is deemed as monthly MA because a week is composed of five trading days and a month has about twenty trading days.
6. The holding period returns include the one-, two-, three-, four-, and five-day CARs defined as short-run holding period returns and the ten-, twenty-, thirty-, forty-, and fifty-day CARs defined as long-run holding period returns in this study.



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