2010

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EuroJournals Publishing

Journal of Money, Investment and Banking
ISSN 1450-288X Issue 13 (2010)

http://www.eurojournals.com/JMIB.htm

Profits from Technical Trading Rules: The Case of Cyprus Stock Exchange

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Abstract

We examine the performance of various types of technical trading rules in the emerging Cyprus Stock Market (CSE). Furthermore, we examine the predictability of daily returns for the CSE with respect to the extent that the technical analysis method of moving averages can win the buy-and-hold policy. Also, we further our analysis via the bootstrap methodology under the model of EGARCH. This study becomes necessary given the important changes, which Cyprus is going through since joining the European Union on May 1 May 2004 and as it is preparing for the adoption of the Euro as its currency.

Keywords: EGARCH, moving averages, bootstrap, Eurozone.[1] Hellenic Open University, 2 Knossou Street, 17564, Palaio Faliro, Greece
JEL Classification Codes: G120,G140

1. Introduction

During the last fifteen years there has been a growing interest among portfolio managers for the emerging capital markets as they provide opportunities for higher asset returns compared to those of the developed markets. In the present paper we conducted an analysis of the stock market of Cyprus as an emerging market. This study becomes necessary given the important changes, which Cyprus is going through since joining the European Union on May 1st 2004 and as it is preparing for the adoption of the Euro as its currency (1 January 2008). Besides, Greek and Cypriot shares are trading on a common trading platform. The basic intention of the present study is to investigate the performance of various technical trading rules in the Cyprus Stock Market (CSE).

Technical analysis, which uses past price movements to predict future price movements, is diametrically opposed to market efficiency (Fama, 1970). In theory, technical analysis has no value if prices are weak-form efficient. Otherwise, technical analysis tests historical data attempting to establish specific rules for buying and selling securities with the objective of maximising profits and minimising risk of loss. Early studies of technical analysis by Fama and Blume (1966) and Jensen and Bennington (1970) find that technical rules are unable to reliably predict future returns. However, several more recent studies find the opposite. Brock et al. (1992) demonstrate that a relatively simple set of technical