

How Rewarding is Technical Analysis? Evidence from Athens Stock Exchange

Dimitrios Vasiliou^a, Nikolaos Eriotis^b and Spyros Papathanasiou^a

^a Hellenic Open University, 16 Sahtouri Street & Ag. Andreou Street, GR – 262 22, Patra, Greece

^b National and Kapodistrian University of Athens, 5 Stadiou Street, GR – 105 62, Athens, Greece

Abstract

The purpose of this paper is to investigate the performance of various technical trading rules in the Athens Stock Market. We test two of the simplest and most popular trading rules- Moving Averages and MACD Indicator. We evaluate how these simple forms of technical analysis can predict stock price movements in the Athens Stock Exchange. This study will investigate these effects for the most important index of the Athens market, the Athens General Index. Our study covers the period from 1/1/1990 to 31/12/2004. The methodologies employed include standard tests and bootstrap. Overall, our results provide strong support for the examined technical strategies.

Keywords: moving average, technical trading rules, bootstrap

1. Introduction

Technical Analysis is the study of prices with charts being the primary tool to make better investments. 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. Basic idea of technical analysis is to forecast the equity prices examining past prices. The roots of modern-day technical analysis stem from the Dow Theory, developed around 1900 by Charles Dow. These roots include such principles as the trending nature of prices, prices discounting all known information, confirmation and divergence, volume mirroring changes in price, and support/resistance.

Basic aim of this paper is to investigate the performance of various technical trading rules in the Athens Stock Market. We test two of the simplest and most popular trading rules- Moving Averages and MACD indicator. We evaluate how these simple forms of technical analysis can predict stock price movements in the Athens Stock Exchange.