

Research Paper On A Study of Some Selected Papers on Technical Analysis

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Abstract

Stock Market is the batch of markets where buying and selling of the shares of public companies which are listed on stock exchange take place. Every investor wants to make investment decision rationally as stock prices changes every minute. For this they want to know the future price trends of the stocks. Technical tools make use of past prices and trading magnitude or both to for-see future prices. This study gives description about the broad range of techniques such as Stock charts, Simple moving average (SMA), Exponential moving average (EMA), Moving average convergence and Divergence (MACD) and Relative Strength

Index (RSI). This paper gives a run through of some technical apparatus for spotting the investment chance. The purpose of this paper is to advocate the importance of Technical Analysis in the investment decisions by Reviewing the Literatures. This paper supports that Technical analysis helps to study the market action by using the technique with which an investor is comfortable with.

Keywords: Technical Analysis, Stock Market, Investment decision, Market action

1. Introduction

Technical analysis is the primary tool for the study of the prices with charts. The Dow Theory helps in originating The Modern-day technical scanning. Charles Dow evolved this theory around 1900. His focal point is on the fundamentals of security price movement accord birth to a entirely new method of examining the markets.

Technical analysis is the procedure of inspecting a security's old prices in an effort to find out expected future prices. This is possible by making comparison of current price action with old price action to forecast a reasonable result. It is usual and known fact that present spot prices of traded assets give information about future spot prices only when market participants are heterogeneously aware. Technical analysis is a very productive instrument to determine the markets meaning there by that it helps in determining the levels both entry and target along with the stop losses. Technical analysis also considers each and every aspect having influence on the prices along with basic reasons, news related to stocks, other events having impact on the stocks of the same sector, and political affairs and so on. Technical analysis is a very important part of financial exercise for so many years but this subject has not been accepted similar to other academic disciplines related to finance and other traditional approaches like fundamental or basic analysis. Now analysts are using both techniques fundamental as well as

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technical analysis to formulate new indicators as computers are now being used more widely due to its power to give better results. Technical Analysis depends

Technical investigation depends literally on Charts, data and statistics to bare an investment's strengths or possible weaknesses and to foresee movements or trends in order to assist the analysts and investors determine if a security is workable or not, and for what work. Focal point of fundamental analysis is on the intrinsic value of security's based on the financial statements of the company, the overall economy and the conditions of the market. On the other hand technical analysis pays attention on the price movements and volume of the security.

Technical Analysis Tools for the Stock Market

Following are some most widely used techniques for determining the best investment opportunities.

1. Stock Chart

With the help of stock chart it is easy for a person to make standard financial charts considering some tramp. On website it is also possible for users to lay by the charts. It thus helps to access the chart on any gadget or appliance. The distinguish scale of the charting tools help the investor to find the solution of what he wants to be aware. With this an individual can monitor his/her portfolio in a better manner.

2. Simple Moving Average (SMA)

Among various forms of technical analysis, moving averages are very much influential technique for different time periods considering number of days. In Simple moving average, daily average is considered as a base for the number of days get hold of. This technique is applied for the data related to smooth price and technical indicators. For better results it is said that moving averages must show the longer period. In order to activate the trading signals, the

price crossing simple moving average is taken into consideration. Simple moving average is also helpful in knowing the direction of the trend. There is same relation between Simple moving average and its trend. Both run in the same direction.

3. Moving Average Convergence and Divergence (MACD)

When we have to speck the new trend, Moving Average Convergence and Divergence plays an important role. New trend is related to bullish or bearish. Reckoning of Moving Average Convergence and Divergence are different from Simple moving average but a bit similar to simple moving average in other manner. Overbought and oversold conditions can be easily predictable with Moving Average Convergence and Divergence. For plotting of Moving Average Convergence and Divergence on the chart equilibrium is taken at zero. On the chart divergence between main and trigger line is also plotted. When period is following a strong trend, divergence will take place between the two lines. On the other hand when there is sideways solidify convergence will take place then both lines come nearer. Bullish here means when Moving Average Convergence and Divergence rood above zero and when it is below zero, known as bearish.

4. Relative Strength Index (RSI)

In order to appraise the conditions of overbought and oversold for the share price, the Relative Strength Index is a technical indicator to estimate the changes in the price or analyzing the financial markets. Relative Strength Index ranges between 0 to 100. If level is showing below 30 it indicates oversold and when any level of Relative Strength Index is showing over 70, it recommend that the shares are overbought. Relative Strength Index also predicts the general trend.

5. Exponential Moving Average (EMA)

Exponential Moving Average (EMA) is very much alike to Simple Moving Average(SMA) which measures the trend rule. Exponential Moving Average places more weight to recent price changes and gives equal weight to all observations in the period. It is helpful in producing buy and sell signals and traders often used different lengths of EMA i.e. 10- day, 50- day, 100- day and 200- day moving averages. Like all moving average indicators, EMAs are much better suited for trending markets.

Literature Review

Horne & Parker (1968) has analysed and investigated thirty Industrial stocks in the stock exchange of New York by using weighted moving average in order to find out the behaviour of stock prices. He conducted the study on these stock prices considering daily data. His study revealed that it is not possible to predict the stock prices on the basis of weighted moving average and stock prices has random pattern and it is not possible to predict them in advance.

James (1968) in his article had tried to find out the efficiency of the techniques in generating the better returns. For this he analysed the 798 securities and has used moving average technique. The results showed that evidences available are not enough about the better returns for using moving averages. It is found that only some evidences are there proving that the EMA can generate better returns over the buy and hold strategy.

Malkiel (1989) has explored the market's efficiency with regard to efficient market hypothesis. His analysis found that EMH holds true in most of the cases. There are cases where EMH may not hold true but the numbers are not so much that we can doubt on EMH. If any such kind of inefficiency prevails in the market it will vanish at the very earliest time. He suspected that the stock market is remarkably efficient in its use of information.

Brock, Lakonishok & Lebaron (1992) has analysed the Standard Statistics by utilizing the Dow Jones Index from 1897 to 1986 and further extended his analysis through the use of bootstrap techniques. For this study he used two simplest and popular trading techniques namely moving average and trading range break. Results of the study provided strong support for the technical strategies. It is found that higher returns are generated through buy signals and are less eruptive.

Mills (1997) has used technical trading rules i.e moving average oscillator and bootstrap technology on London stock exchange for the period ranging from 1935 to 1994. The result of the study is showing strong support for technical rules for generating the extra return over the Normal buy and hold strategy. It is found that upto 1980 the role of technical analysis is very much in force but 1980 onwards buy and hold strategy is more active.

Achuthan & Anubhai (2005) has analysed the predicting power of technical rules in BSE Sensex Index. For this study he took the data from 1st Feb. 1991 to 5th March 2003 and has used both short term as well as long term moving average. It is found that short term moving is beneficial and has the power to predict. He also supported long-term moving average for prediction provided transaction cost is not more than 1%.

Mckenzie (2007) has analyzed seventeen emerging markets with the help of technical trading rules. For this study he used both moving averages fixed and variable along with a trade range breakout. It has been found that the returns in case of emerging markets are higher than the developed markets. Further the study concluded that buy signal are more than sell signal in pre currency crises and in case of post currency crises the ratio of buy and sell signal are same i.e 1:1.

Chong & Ng (2008) in his study has taken the data for 60 years of London Stock Exchange and used two technical rules i.e. Moving average convergence and divergence (MACD) and Relative Strength Index on this data. It is found that both these rules can easily outperform the buy and hold strategy. Further it is concluded that evidences are in favour of these rules claiming to generate better returns over the buy and hold strategy.

Krausz, Lee & Nam (2009) has investigated on Nine pacific basin countries stock markets. He conducted study on the data started from 1970 to 2007 on average basis of Austria, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, Thailand and Taiwan. His study resulted that the eight markets out of Nine can generate good return with trading rules. The only Korean stock market cannot be predicted.

Kung & Wong (2009) has conducted the study in the Singapore Market. He investigated three technical rules i.e. simple moving average, dual moving average and trade range breakout. The study has been done in two phases which were the Pre-Asian crises and Post Asian crises. Data collected from 1988 to 1996 for Pre crises and from 1999 to 2007 for post crises. It is found that Technical rules was very much significant during Pre-Asian Crises.

Marshall & Cahan (2010) in his article investigated the profitability of technical trading rules by Morgan Stanley Capital Index (MSCI) and analyzed 49 developed and emerging market indices by considering in excess of 5,000 trading rules. It is found that there are very less strong evidences in favour of technical rules and also stated that technical rules is not adding value to the results in all cases understudy.

Metghalchi, Gomez & Chang (2012) has investigated profitability and riskiness of Nine technical rules over buy and hold strategy. He conducted study on Taiwan stock Index. Data collected for the study from Nov. 15th 1990 to Aug. 16th 2010. He used 66 models on daily open, high, low, close and volume for the study. The study resulted that Trading rules has strong predicting power and Moving Average (MA 50) is the best model with Relative Strength Index (RSI 14) for finding out the results.

Rosilla, Fuentea & Brugos (2013) has analyzed the Spanish stock exchange by using most widely used technical rules which are RSI and MACD. Data is collected from 1986 to 2009. The result of the study showed that technical rules can generate better results in comparison to buy and hold strategy. Further the study also resulted that RSI is better and can be used in many markets.

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Nor & Wickermasinghe (2014) in this paper analyzed Australian stock market with the help of two technical apparatus namely Moving Average Convergence and Divergence (MACD) and Relative Strength Index (RSI). Data was collected for the period from 1996 to 2014. It was found that RSI was very much effective as compared to MACD for predicting the stock market.

Masry (2017) has investigated 46 companies' shares of Egyptian stock market using six rules of moving average. He conducted this study for the period from 1995 to 2015. It is found that technical rules can generate the better returns over the buy and hold strategy.

Almujamed, Fifield & Power (2018) has investigated 42 firms listed in Kuwait stock exchange. Data was collected from 1998 to 2011 for the study. Filter rules were applied on the data. It is found that these rules are not much effective in generating the results over the native buy and hold strategy.

Conclusion

Technical analysis focuses on volume and price which are market actions. For analyzing the stocks, Technical analysis is the only one approach. It is best to use that approach for considering the stocks to buy or sell, with which you are most comfortable. Every individual should use fair set and attributes of technical apparatus considering the type of analysis he ought to do. All the instruments which are mentioned in this paper in fusion are helpful in the framing of business or trading strategies. Framing business strategy and collecting stocks with the help of technical apparatus is also possible with an investment objectives ,risk tolerance, and financial situation that the investor intends to achieve.

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