Abstract

This paper presents an empirical analysis on the profitability of technical analysis in the stock market during the 1970s and 1980s. Its purpose is to test whether the market for equities is weakly efficient, i.e., can excess profits be made using only the information contained in past prices? The study finds that: 1) stock price movements do possess systematic price runs and that past prices do contain information relevant for predicting future price movements; 2) although this price information most likely cannot be exploited in the cash market for stock, it can be exploited in the futures market for stock, i.e., there are unexploited profit opportunities available in stock index futures; and 3) the stock market, in the broader sense, is therefore inefficient. The analysis differs in several respects with those of earlier studies. Specifically, the existing literature on trading rule profits in the stock market neglects the futures markets for stock, uses daily and lower frequency data and examines only one trading rule – the filter rule. This study, on the other hand, examines the profitability of trading stock in both the cash and futures market, uses hourly data for the most recent experience of the 1970s and the 1980s and tests the profitability of a number of widely used technical rules. One of the major results of this study is that all of the technical rules examined are considerably more profitable with hourly data than they are with daily data.