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The impact of Technical Analysis on stock returns in an Emerging Capital Markets (ECM's) country: Theoretical and empirical study

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Abstract

Technical analysis, even if deliberated by some as purely conjecture, is still generally acknowledged as additional information to main brokerage companies. There are existent two reasons for the achievement of technical analysis and why its success is still debated: (1) stock return predictability stems from efficient markets that can be analysed by time-varying equilibrium returns, and (2) stock return predictability forms from prices wandering apart from their fundamental valuations. Fundamentally, both explanations show some kind of overall market inefficiency where investors are capable of exploiting. Therefore, technical analysis derived its importance from its ability to train investors to take investment decision based on historical trends of securities prices. To help find answers to the issues raised and to structure the study, the following general research question is set: is it possible for technical analysis to achieve abnormal returns in an Emerging Capital Markets (ECM's) country, more specifically, the Egyptian Stock Exchange? If yes, hence it could be possibly used to help individual investors to take effective investment decision. By means of theoretical and empirical investigation, this study provides significant evidences that technical analysis achieved abnormal returns in inefficiency periods. This study suggests that simple trading rules, more specifically; the simple moving average beat the standard *buy-and-hold strategy* for the Egyptian stock exchange.

Keywords: Technical Analysis, Efficient market hypothesis (EMH), Emerging Capital Markets (ECM's), Behavioural theories, Simple moving average rules, Egyptian stock Exchange.