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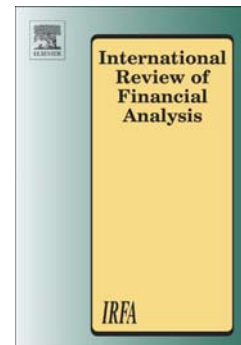
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Are chartists artists? The determinants and profitability of recommendations based on technical analysis¹

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Abstract

The value of technical analysis (TA) has been debated for decades; however, limited evidence exists on the profitability of investment recommendations issued by technical analysts. These ‘chartists’ sometimes claim that TA is an art rather than a science. We evaluated more than 5000 TA-based buy and sell recommendations for stocks and a market index in the Netherlands issued during the period 2004 – 2010. The sign of a recommendation was generally in line with trading signals resulting from technical trading rules. While recommendation levels were positively associated with price trends prior to the recommendation, we did not find evidence of (abnormal) stock returns after the publication of these recommendations. In addition, stop-loss levels did not contain informational value as no meaningful returns were detected after these trigger levels were met. Given that technical recommendations follow well-known trading rules and that these recommendations are not associated with future abnormal returns, we conclude that technical analysts do not exhibit ‘artistic’ skills.

JEL classification: G02; G14; G24

Keywords: Technical Analysis, Security Analysts, Recommendations, Stop-loss Levels

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