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Technical Trading: Is it Still Beating the Foreign Exchange Market?

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Abstract: We carry out a large-scale investigation of technical trading rules in the foreign exchange market, using daily data over 45 years for 30 developed and emerging market currencies. Employing a stepwise test to counter data-snooping bias and examining over 21,000 technical rules, we find evidence of substantial predictability and excess profitability in both developed and emerging currencies, measured against a variety of performance metrics. We cross-validate our results using out-of-sample analysis. We find time-series and cross-sectional variation in sub-periods and cultural and/or geographic groups, respectively, suggesting that temporarily not-fully-rational behavior and market immaturity generate technical predictability and potential excess profitability.

JEL Classifications: F31, C53, G15

Keywords: Foreign exchange; technical analysis; trading rules; data-snooping bias.

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