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ACCEPTED MANUSCRIPT

A LITERATURE REVIEW OF TECHNICAL ANALYSIS ON STOCK MARKETS

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Abstract

Several studies have been published in the last 55 years exploring technical analysis. However, there is a lack of research that consolidates the available knowledge concerning technical analysis. The main goal of this paper is, by classifying and coding published papers, to summarize and systematize the significant research that has contributed to the development of the field. Our paper contributes to the existing literature on technical analysis by presenting an overview of characteristics of the literature and potential knowledge gaps in this area, focusing on the analysis of stocks. The paper also discusses suggestions for future research in technical analysis.

Keywords: Technical analysis, Stock, Stock markets, Trading strategies.

1. Introduction

A considerable number of studies have inferred that predicting stock market returns is a difficult task (Zielonka, 2004; Teixeira and Oliveira, 2010). The nonlinear and nonstationary features of the stock market make it a complicated system (Bisoi and Dash, 2014, p. 41). There is also the fact that, as observed by Ticknor (2013, p. 5501), the complexity of the stock market is associated with a considerable number of factors such as political events, market news, quarterly earnings reports, international influence and conflicting trading behaviour. Vanstone and Finnie (2009, p. 6669) directed attention to the idea that some techniques were developed to predict future price returns, for instance, technical and fundamental analysis. According to Park and Irwin (2009), participants in different financial markets use technical analysis; however, academics do not give technical analysis substantial support (Brock et al., 1992, p. 1732; Menkhoff and Taylor, 2007, p. 938; Zhu and Zhou, 2009, p. 520; Menkhoff, 2010, p. 2573; Mitra, 2011, p. 135-136), even though it is easy to find in financial markets, as rightly highlighted by Schulmeister (2009, p. 190). This fact was notably highlighted by Lo et al. (2000, p. 1705) in their famous paper, "Foundations of Technical Analysis: Computational Algorithms, Statistical Inference, and Empirical Implementation", as quoted:

> *"It has been argued that the difference between fundamental analysis and technical analysis is not unlike the difference between astronomy and astrology. Among some circles, technical analysis is known as 'voodoo finance."'*

Fundamental analysis utilizes economic factors to estimate the intrinsic values of securities, whereas technical analysis relies on historical data on stock prices (Teixeira and Oliveira, 2010, p. 6885; Chavarnakul

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