TREND-ANTICIPATING VERSUS TREND-FOLLOWING

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Please cite this article as: Article History:

Abstract: This paper evaluates the impact of trading timing on trend-following performance for equity market indices across: (1) an ideal framework where investors successfully anticipate one-day-ahead signals and (2) a realistic framework with delayed transaction prices and cautious investors. We show that trend-following profits reduce significantly under the realistic trading timing. This bias is persistent, holds when controlling for trading costs, interests, and risk, being more pronounced for the emerging markets. Indirectly, the finding suggests that trend-anticipating tends to outperform trend-following as a trading strategy.

Key words: technical analysis; trading timing; moving averages

JEL Classification: G11; G12; G14

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