

GB/GD 30303
Research Methodology for International Finance

Tutorial 2

Paper: Park, C.H. and Irwin, S.H. (2007) What do we know about the profitability of technical analysis? *Journal of Economic Surveys*, **21**(4), 786-826.

Questions:

1. *What is the specific research question that the literature review defines? Discuss all if there is more than one.*

The objective of this paper is to provide a systematic and comprehensive review of the empirical literature on technical analysis, with a specific focus on the consistency and reliability of evidence on technical trading profits across markets and over time.

2. *Does this paper justify why the literature review is important? Please elaborate.*

Table 1 of this article shows that there is an explosion in the number of technical trading studies over the last four decades. Despite the voluminous literature, **no study** has ever surveyed the literature systematically and comprehensively. This review is also important for improving the understanding of the profitability of technical trading strategies, since the focus is on the consistency and reliability of evidence on technical trading profits across markets and over time.

3. *What is the main source of literature for this article? Journal articles, books, chapter in books, working papers, dissertations?*

This article contains **170** references, with the majority coming from journal articles (about 86% of the total references). The breakdown is as follows:

Type	Number
Journal Article	146
Book	10
Chapter in Book	6
Working Paper	8
Total	170

4. *How is the literature being organized? Chronological, thematic, conceptual, methodological, or a combination? Does the classification of categories well justified?*

The empirical literature was organized chronologically, i.e. by breaking them into 2 groups, 'early' studies (1960-1987) and 'modern' studies (1988-2004). This classification is useful because most of the early studies exhibit several limitations in their testing procedures, and the modern studies generally have improved upon these deficiencies. Apart from that, the authors further divide those 'modern' studies based on methodologies, namely standard, model-based bootstrap, reality check, genetic programming, non-linear, chart patterns, others.

5. *Does the article provide the theoretical basis for the research question?*

Yes, the theoretical basis for this research question comes from the efficient market hypothesis of Fama (1970), which the authors discuss in section 2. These authors provide further theoretical explanations for the existence of technical trading profits in sub-section 4.1.

6. *Does the article critically analyze the literature or just describing/ summarizing one piece of literature after another?*

This article critically analyzes the literature using suitable categories, highlighting the strengths and weaknesses of each category.

7. *Does the literature review have the right amount of depth and breadth?*

There is no doubt that this article provides a deeper or richer understanding of the literature on technical analysis, with a broad coverage of (1) the theoretical bases; (2) methodologies; (3) empirical evidence; (3) explanations; (5) limitations; (6) recommendations for future studies.

8. *Does the article highlight the limitations/gaps in the existing body of knowledge?*

Yes, the authors highlight that most empirical studies are subject to various problems in their testing procedures, such as data snooping, *ex post* selection of trading rules or search technologies, and difficulties in estimation of risk and transaction costs.

9. *Does the article provide any recommendations for future studies?*

Given the above deficiencies in testing procedures, the authors argue that future research must address them in order to provide conclusive evidence on the profitability of technical trading strategies. Suggestions were given on how to address each of the above problems. This article also highlights the need for future studies to directly elicit and analyse the views and practices of technical traders in a broad cross-section of speculative markets.

10. *Finally, what can you conclude about this article? Is it up to date, relevant, appropriate and useful? Please elaborate.*

This is a well-written paper because the authors are able to cover (1) the theoretical bases; (2) methodologies; (3) empirical evidence; (3) explanations; (5) limitations; (6) recommendations. In particular, the limitations highlighted and recommendations given are useful for future studies.