

Table 1. Number of Technical Trading Studies, 1960–2004.^a

Year	Stock markets	Foreign exchange markets	Futures markets	Total	Relative frequency (%)
1960–1964	3	0	3	6	4.4
1965–1969	6	1	1	8	5.8
1970–1974	4	0	3	7	5.1
1975–1979	2	3	2	7	5.1
1980–1984	2	1	6	9	6.6
1985–1989	4	3	7	14	10.2
1990–1994	5	3	2	10	7.3
1995–1999	18	13	1	32	23.4
2000–2004 ^b	22	20	2	44	32.1
Total	66	44	27	137	100.0

^aStudies on equity (index) futures and options and foreign exchange futures are categorized into ‘stock markets’ and ‘foreign exchange markets’ studies, respectively. ‘Futures markets’ studies include studies on other individual futures markets or various groups of futures markets.

^bThrough August 2004.

and discuss the consistency and reliability of evidence on technical trading profits across markets and over time. Previous empirical studies are categorized into two groups, ‘early’ studies and ‘modern’ studies, based on an overall evaluation of each study in terms of the number of technical trading systems considered, treatment of transaction costs, risk, data snooping problems, parameter optimization, out-of-sample verification, and statistical tests adopted. Empirical studies surveyed include those that test technical trading systems, trading rules formulated by genetic algorithms or some statistical models (e.g. ARIMA), and chart patterns that can be represented algebraically. Special attention is paid to testing procedures used in empirical studies and identification of their salient features and weaknesses. This will improve understanding of the profitability of technical trading strategies and suggest directions for future research.

2. The Efficient Market Hypothesis

Before surveying the empirical literature on the profitability of technical trading, it is useful to briefly review the efficient market hypothesis, long the dominant paradigm in describing the behaviour of prices in speculative markets.⁴ Fama (1970, p. 383) provides the textbook definition of an efficient market: ‘A market in which prices always “fully reflect” available information is called *efficient*’. Jensen (1978, p. 96) developed a more detailed definition: ‘A market is efficient with respect to information set θ_t if it is impossible to make economic profits by trading on the basis of information set θ_t ’. Since the economic profits are risk-adjusted returns