

Buy-and-Hold versus Alternative Strategies: A Comparison of Market-Timing Techniques

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Abstract : With the rise of virtually costless, mobile-based trading platforms, stock market trading activity has increased significantly over the past decade, particularly for the millennial generation. This increased stock market attention, combined with the recent market turmoil due to the economic upset caused by COVID-19, make the topics of market-timing and forecasting particularly relevant. While the overall stock market saw an unprecedented, historically-long bull market from March 2009 to February 2020, the end of that bull market reignited a search by investors for a way to reduce risk and increase return. Similar searches for outperformance occurred in the early, and late 2000's as the Dotcom bubble burst and the Great Recession led to years of negative returns for mean-variance, index investors. Extensive research has been conducted on fundamental analysis, technical analysis, macroeconomic indicators, microeconomic indicators, and other techniques—all using different methodologies and investment periods—in pursuit of higher returns with lower risk. The enormous variety of timeframes, data, and methodologies used by the diverse forecasting methods makes it difficult to compare the outcome of each method directly to other methods. This paper establishes a process to evaluate the market-timing methods in an apples-to-apples manner based on simplicity, performance, and feasibility. Preliminary findings show that certain technical analysis models provide a higher return with lower risk when compared to the buy-and-hold method and to other market-timing strategies. Furthermore, technical analysis models tend to be easier for individual investors both in terms of acquiring the data and in analyzing it, making technical analysis-based market-timing methods the preferred choice for retail investors.

Keywords : buy-and-hold, forecast, market-timing, probit, technical analysis

Conference Title : ICBESS 2020 : International Conference on Business, Economics and Social Sciences

Conference Location : San Francisco, United States

Conference Dates : September 24-25, 2020