

Mean Reversion in Stock Prices: Evidence from Karachi Stock Exchange

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Abstract : This study provides a complete examination of the stock prices behavior in the Karachi stock exchange. It examines that whether Karachi stock exchange can be described as mean reversion or not. For this purpose daily, weekly and monthly index data from Karachi stock exchange ranging from period July 1, 1997 to July 2, 2011 was taken. After employing the Multiple variance ratio and unit root tests it is concluded that stock market follow mean reversion behavior and hence have reverting trend which opens the door for the active invest management. Thus technical analysis may be help to identify the potential areas for value creation.

Keywords : mean reversion, random walk, technical analysis, Karachi stock exchange

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