

ABSTRACT

Nowadays, technical analysis is widely used by traders and financial professionals in practice. The stock and foreign exchange markets are very common due to the high return potential, although there are high risks existing. In this study, we will investigate whether or not the control chart technique would be a useful analysis tool for technical trading in stock or foreign exchange investment.

We will apply CUSUM or EWMA trading strategy to stock markets in Hong Kong, China and USA and foreign exchange rates, these include AUD/USD, EUR/USD and YEN/USD in order to examine the applicability of the above two models. It is found that trading strategy incorporating control chart technique can outperform buy and hold strategy for the three stock markets and two of the above foreign exchange rates under our test.