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MODIFIED MOVING-AVERAGE CROSSOVER TRADING STRATEGY:

EVIDENCE IN MALAYSIA EQUITY MARKET

By:

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Thesis Submitted to

Othman Yeop Abdullah Graduates School of Business

Universiti Utara Malaysia

In Partial Fulfillment of the Requirement for the Master of Science (Finance)
DECLARATION

I declare that the substance of this project has never been submitted for any degree or postgraduate programs and qualifications.

I certify that all the supports and assistance received in preparing this research paper and all the sources abstracted have been acknowledge in this stated research paper.

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Sincerely,

Soh Chuen Yeaw
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<th>Description</th>
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<tr>
<td>CTA</td>
<td>Commodity Trading Advisors</td>
</tr>
<tr>
<td>FBMKLCI</td>
<td>FTSE Bursa Malaysia KLCI</td>
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<tr>
<td>MA</td>
<td>Moving-Average</td>
</tr>
<tr>
<td>MA&lt;sub&gt;short&lt;/sub&gt;</td>
<td>Short period moving-average</td>
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<td>MA&lt;sub&gt;long&lt;/sub&gt;</td>
<td>Long period moving-average</td>
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This study examine the profitability of technical analysis using the most renowned trend-following tool, the original moving-average (MA) crossover strategy, to compare with the conventional simple buy-and-hold strategy, using the evidence from Malaysia equity market the FBMKLCI Index from 2000 to 2014. Specifically, this study investigates the performance of the original moving-average strategy and a modified moving-average crossover strategy with additional trading rules such as entry rule, exit rule, holding rule, and stop-loss rule. The results in this study are consistent to past studies that strongly support moving-average crossover trading strategies. The result here suggests that all combinations of short-MA and long-MA periods of the original MA crossover strategy and majority combinations of short-MA and long-MA of the modified MA crossover strategy outperform market benchmark with higher risk-adjusted return. In addition, the 1-period short-MA demonstrates the best return in both original and modified moving-average crossover strategy; better still the modified strategy outperforms the original strategy with lower frequency of trades which could largely reduce transaction costs and with lower return distribution variability.

Keywords: technical analysis, moving-average crossover, trading strategies, stop-loss

**Keywords:** teknikal analisis, “moving-average crossover”, strategi berdagang, had-limit kerugian
CHAPTER ONE: INTRODUCTION

1.0 Introduction

Among many other technical trading strategies, the moving-average crossover trading strategy is commonly known as the most popular trend-following strategies and favorite tool among market practitioners, due to its simplicity in smoothing out market noise and able to identify changes in market trend. For many years, financial practitioners have been using moving-average crossover trading rules for market timing whether when to buy or to sell securities and attempt to profit from the financial market in earning above-average benchmark return and even outperform market benchmark.

Previous studies have found that investment and trading based on the strategies of moving-average crossover has been able to generate higher return than the conventional simple buy-and-hold strategy, when transaction cost is excluded. (Brock, Lakonishock, & LeBaron, 1992; Neely, 2002; Wilcox & Crittenden, 2009; Faber, 2007; Zhu & Zhou, 2009).

In this study, the performance of original moving-average crossover trading strategy for securities in Malaysia is examined. Furthermore, the modified moving-average crossover trading strategy, that has several extra trading rules (entry rule, exit rule, stop-loss rule, holding rule) are added into the original MA crossover trading strategy and is tested whether it produce better risk-adjusted return than the original MA crossover trading strategy and the conventional simple buy-and-hold strategy.
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REFERENCES


*Industrial Management Review, 6*, 41-49.


