

## **Profitability of Technical Analysis vs. Buy and Hold Strategy: Evidence from Colombo Stock Exchange**

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This paper investigates the profitability of technical analysis in the Colombo Stock Exchange using fifteen companies listed in the S&P Sri Lanka 20 index. We tested the profitability of Variable-length Moving Average (VMA) technique against the buy and hold strategy by applying them to the prices of fifteen companies listed in the S & P Sri Lanka 20 index from 2000 to 2017. This study employs the Mann-Whitney U Statistic, a non-parametric test to evaluate the two strategies and identify whether the profitability of technical analysis is significantly different from buy and hold strategy. We find that, while delivering positive mean return to the investor, sell signals incorrectly predict the direction of share prices and majority of the spread is not statistically significant at least at 10% level to accept the predictability of VMA trading strategy. Thus, over the sample period from 2000 to 2017, no predictability of VMA trading technique is observed compared to the Buy and Hold Strategy. Further, it is not able to generate excess return after adjusting transaction costs under any of five trading rules. Hence, no profitability is observed compared to the Buy and Hold Strategy.

**Keywords:** *Technical Analysis, Variable length Moving Average, Random Walk Theory, Frontier Market, Predictability and Profitability*

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