The profitability of trading strategies based on historical prices and risk: evidence from Thailand

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Abstract

Historical trends in share prices can be used in trading strategies to generate profits. Two such strategies are the momentum and contrarian trading strategies. The contrarian trading strategy tends to generate profits on the Stock Exchange of Thailand (SET; Pokavattana et al., 2019). The existence of contrarian profits, especially for cyclical stocks, has been confirmed for the period 1st January 2016 to 31st December 2019. It is generally suggested that contrarian investors form portfolios based on average prices over the past 60 days and hold the stock for one day. The longer the holding period, the smaller the contrarian profits. Once Fama and French's (2015) five-factor model is used to control for risk, the contrarian profits disappear. Accordingly, contrarian profits are driven by risk. These findings provide SET investors with a refined strategy and also yield implications for the stock markets in the close-knit ASEAN network.

Keywords

trading strategies, contrarian profit, Fama and French's (2015) five-factor model, risk, cyclical stock