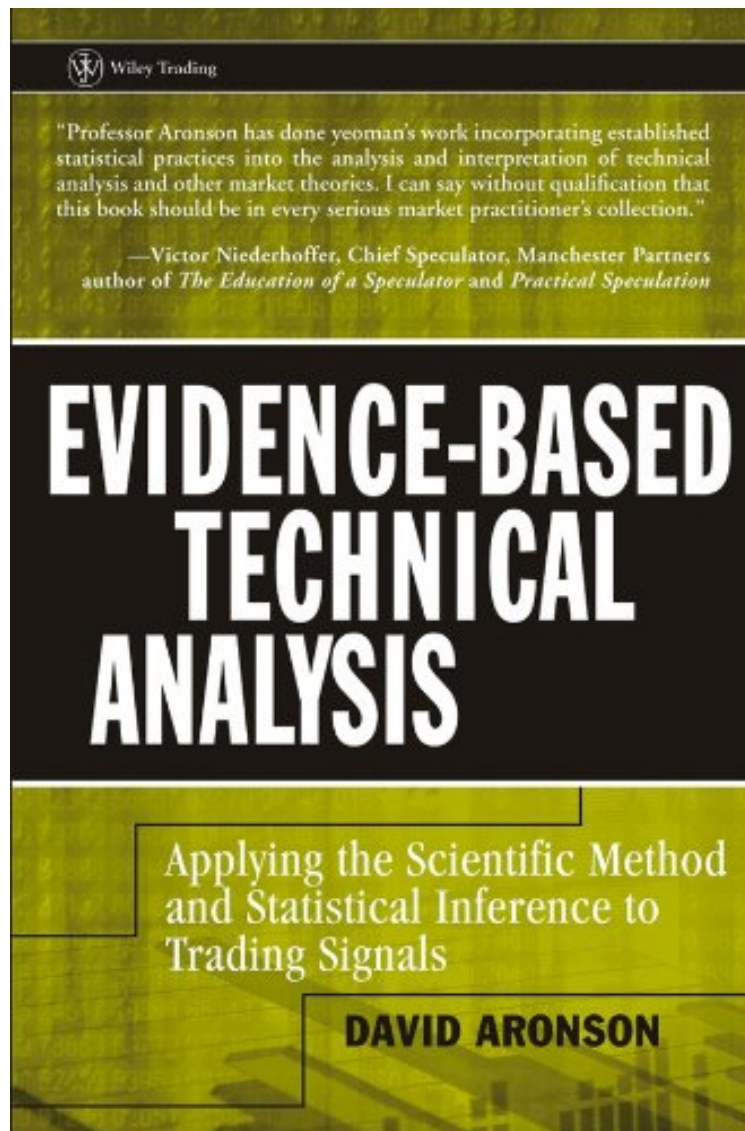


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Evidence-Based Technical Analysis: Applying the Scientific Method and Statistical Inference to Trading Signals (Wiley Trading)

David R. Aronson

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Evidence-Based Technical Analysis examines how you can apply the scientific method, and recently developed statistical tests, to determine the true effectiveness of technical trading signals. Throughout the book, expert David Aronson provides you with comprehensive coverage of this new methodology, which is specifically designed for evaluating the performance of rules/signals that are discovered by data mining.

"hellip;his book is well written and contains a great deal of information that is of valuehellip;." (The Technical Analyst, May/June 2007)From the Inside FlapAs an approach to research, technical analysis has suffered because it is a "discipline" practiced without discipline. In order for technical analysis to deliver useful knowledge that can be applied to trading, it must evolve into a rigorous observational science. Over the past two decades, numerous articles in respected academic journals have approached technical analysis in a scientifically rigorous and intellectually honest manner, and now, Evidence-Based Technical Analysis looks to continue down this path. Organized into two parts, this valuable resource first establishes the methodological, philosophical, and statistical foundations of evidenced-based technical analysis (EBTA), and then demonstrates this approachmdash;by using twenty-five years of historical data to test 6,400 binary buy/sell rules on the SP 500. Evidence-Based Technical Analysis examines how you can apply the scientific method, and recently developed statistical tests, to determine the true effectiveness of technical trading signals. Throughout these pages, expert David Aronson details this new type of technical analysis thatmdash;unlike traditional technical analysismdash;is restricted to objective rules, whose historical profitability can be quantified and scrutinized. Filled with in-depth insights and practical advice, Evidence-Based Technical Analysis provides you with comprehensive coverage of this new methodology, which is specifically designed for evaluating the performance of rules/signals that are discovered by data mining. Experimental results presented in the book will show you that data miningmdash;a process in which many rules are back-tested and the best performing rules are selectedmdash;is an effective procedure for discovering useful rules/signals. However, since the historical performance of the rules/signals discovered by data mining are upwardly biased, new statistical tests are required to make reasonable inferences about future profitability. Two such tests, one of which has never been discussed anywhere heretofore, are described and illustrated. If you want to use technical analysis to navigate today's markets, you must first abandon the subjective, interpretive methods traditionally associated with this discipline, and embrace an approach that is scientifically and statistically valid. Grounded in objective observation and statistical inference, EBTA is the approach to technical analysis you need to succeed in your trading endeavors.From the Back CoverPraise for EVIDENCE-BASED TECHNICAL ANALYSIS "In clear language, Aronson demonstrates the theoretical flaws in interpretative technical analysis methodologies, the flawed premises and conclusions of the Efficient Market Hypothesis, and the appropriate techniques for developing and testing technical analysis methods that do have validity. Readers will learn a lot from this book." mdash;Jack Schwager, author of Market Wizards and the Schwager on Futures book series "Aronson's explanation of data mining is a must-read for every analyst, and his overall discussion of statistical inference is critical to success. The book is filled with commonsense examples and provides a testing and validation process that saves time, frustration, and money." mdash;Perry Kaufman, author of New Trading Systems and Methods, Fourth Edition "This book debunks many of the myths of technical analysis. One should read this book before buying a technical system. The book is a good reference to the literature on the subject with extensive footnotes and bibliography." mdash;Sandor Straus, Managing Member, Merfin, LLC "You may not agree with everything David Aronson says in this controversial, but compelling new study. Still, every trader who wants to invest technical analysis with the dignity of a great science should read this discerning account." mdash;Nelson Freeburg, Editor, Formula Research "There are illusions of the mind that are every bit as real as optical illusions. Aronson's criticisms of popular forms of technical analysis are right on target." mdash;Fred Gehm, author of Quantitative Trading and Money Management