

Examination of the Trend Analysis Parameter Choices Made in this Paper:

Profitability of Momentum Strategies: An Evaluation of Alternative Explanations

By Narasiman Jegadeesh and Sheridan Titman

Link to paper: <http://sumgrowth.com/downloads/Profitability-of-Momentum-Strategies.pdf>

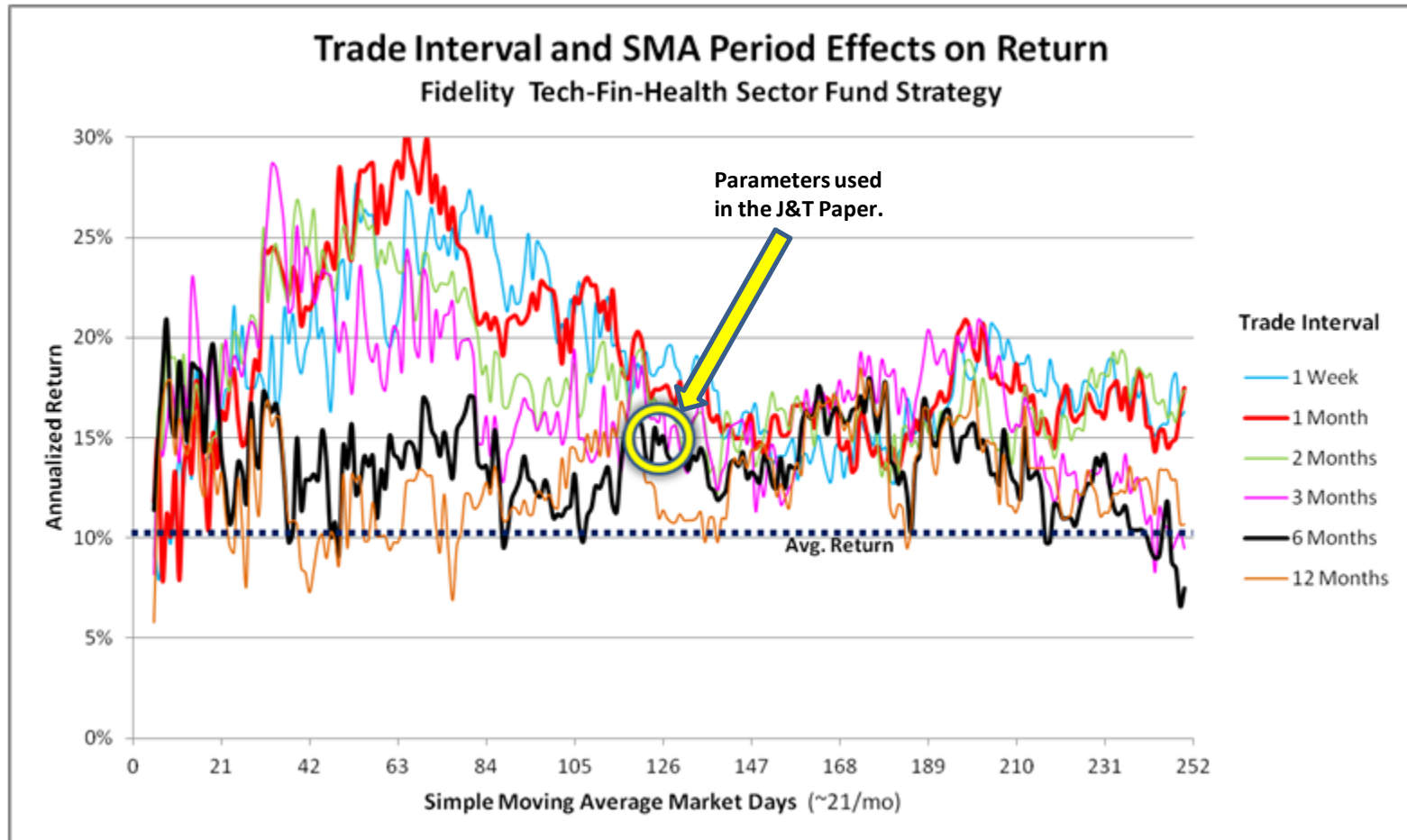
Following Jegadeesh and Titman (1993), at the end of each month we rank the stocks in our sample based on their past six-month returns (Month -5 to Month 0) and then group the stocks into 10 equally weighted portfolios based on these ranks. Each portfolio is held for six months (Month 1 to Month 6) following the ranking month.

Their Choices:

1. Evaluation Period: 6 Months
2. Evaluation Calculation: Simple Moving Average
3. Periodically Repeat: 6 Months

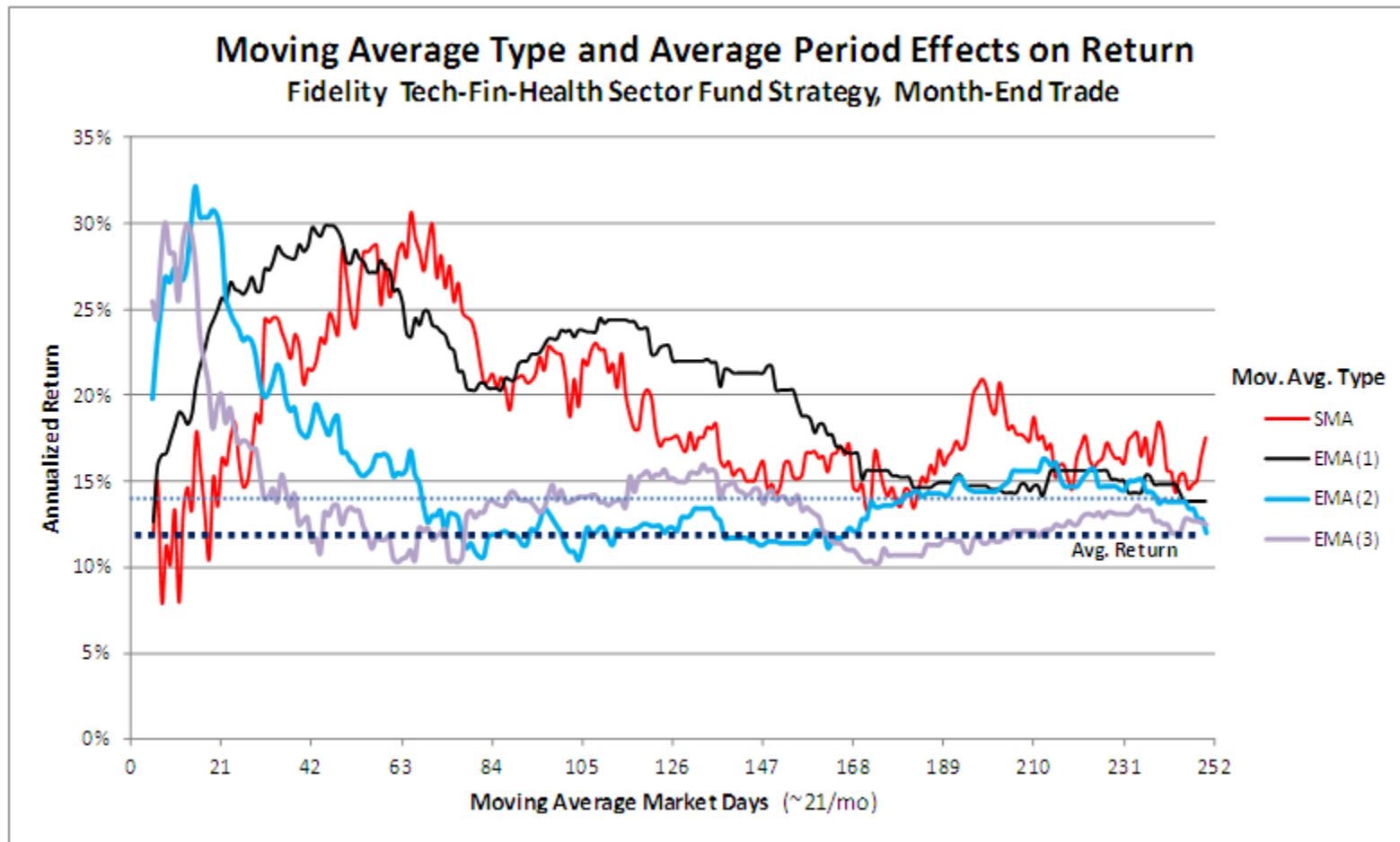
What Happens When We Turn the Knobs?

Notes: The data used in this chart includes the 12 Fidelity Sector funds of the Tech-Fin-Health Sector Fund Strategy. The parameters Jagadeesh and Titman used in their paper were: Simple Moving Average (SMA) with a 6-month (128 day) averaging period and trading only at 6-month intervals, and is shown on the chart as the circled portion of the black line. All other data on the chart represents what happens when we turn the knobs.



What Happens When We Turn the Knobs?

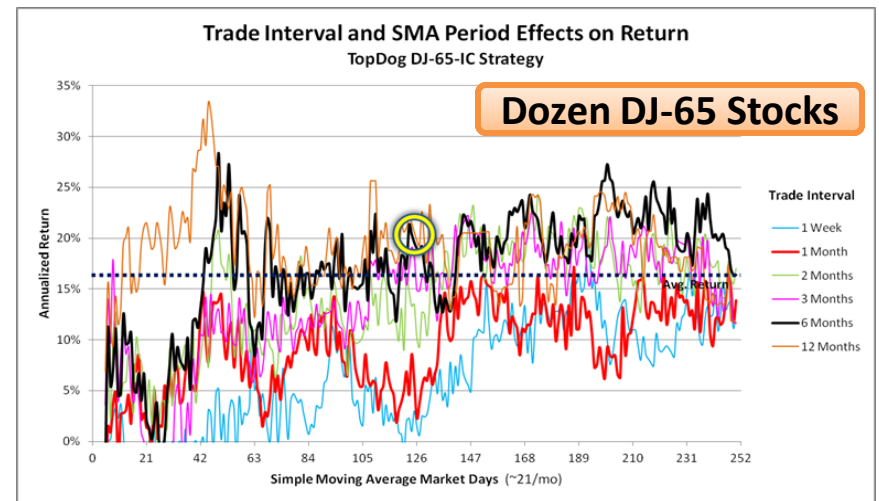
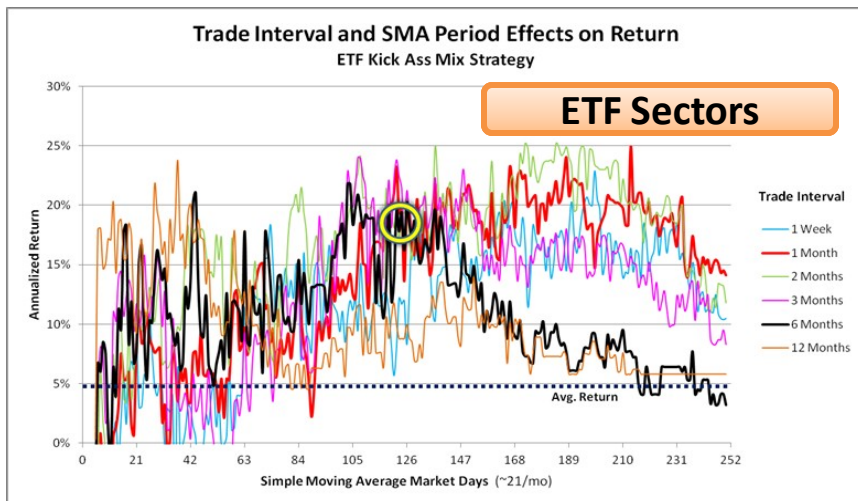
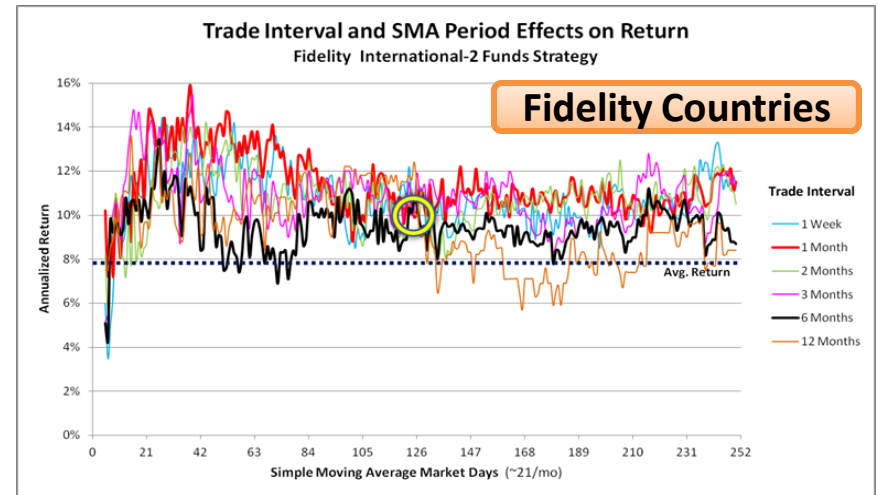
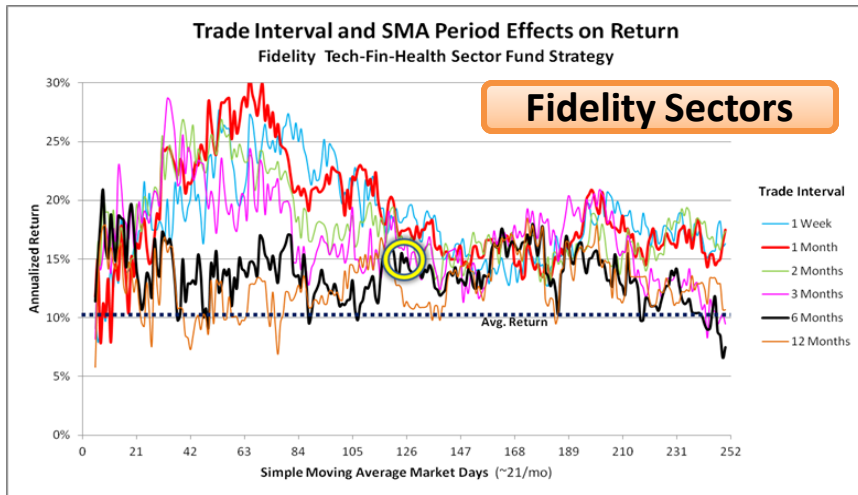
Notes: This chart takes the red 1-month performance line from the prior chart and then compares it against the performance of other types of moving averages. While different from one another, it would be hard to choose a definitively optimum one from the group.



What Happens When We Turn the Knobs?

Notes: Here we examine what happens if we use different kinds of equities. Note the lack of a common thread.

SMA: Simple Moving Average



What Happens When We Turn the Knobs?

Notes: Here is what happens when we use different kinds of moving averages. Note that while the peak performance is in different places for these different groups of equities, the blue and purple moving averages always form a peak some where while the other two do not. The reason for this lies in “Matched Filter Theory”

Month-End Trade for Various Moving Averages

