TECHNICAL VS FUNDAMENTAL. WHO WINS?

By Mark Hulbert

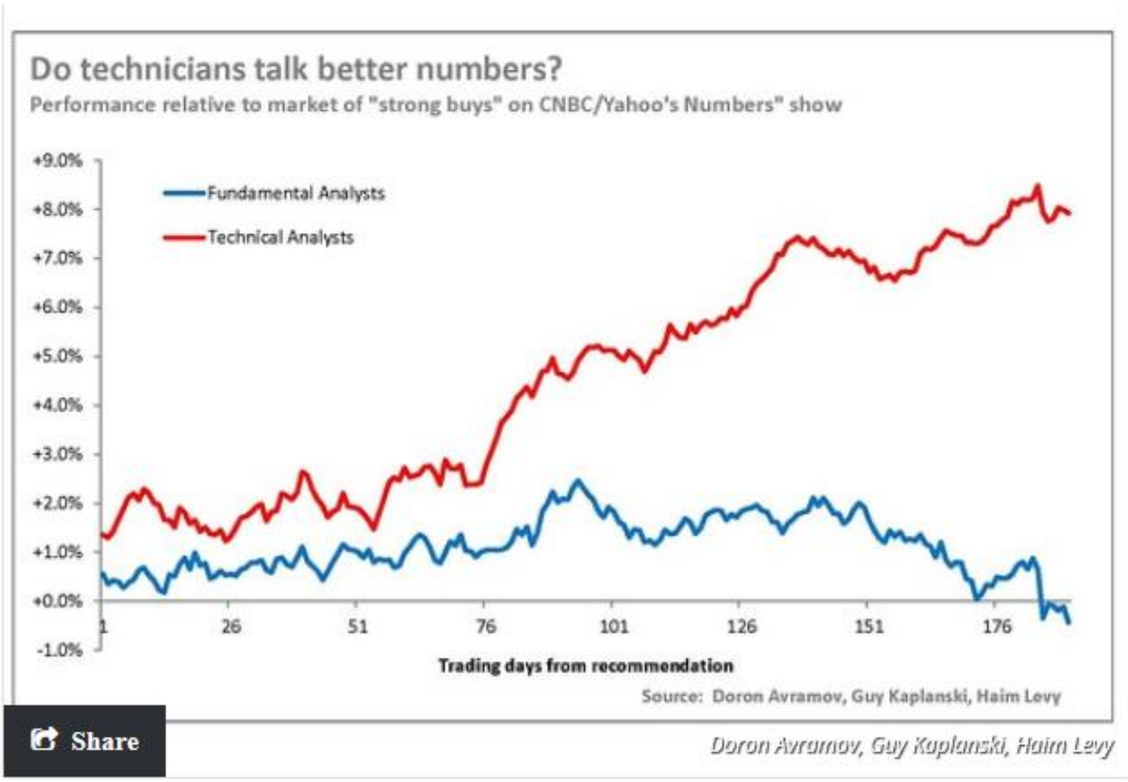
The age-old debate between technicians and fundamental analysts appears to be on the verge of being answered. Over investment horizons ranging from one month to one year, top technicians come out well ahead of leading analysts.

In fact, according to the academic study that reached this conclusion, it's not even close: While the average buy recommendation from well-known technicians outperforms the broad stock market by 8% over the subsequent nine months, the average stock recommended by leading fundamental analysts underperforms the market.

This ground breaking study, which just began circulating in academic circles, was conducted by Doron Avramov and Haim Levy, finance professors at the Hebrew University of Jerusalem; and Guy Kaplanksi, a finance professor at Bar-Ilan University. The focus of their study were a thousand pairs of recommendations made between November 2011 and December 2014 on the TV show "Talking Numbers," which is jointly broadcast by CNBC and Yahoo. The first half of each pair was a recommendation from a top technician about a stock in the news; the second half was a recommendation about that same stock from a leading fundamental analyst.

In retrospect, Professor Avramov told me in an interview, it's curious that no one before bothered to analyse these recommendations, since the show provides an ideal laboratory for comparing the relative worth of the two investment approaches.

The researchers measured the performance of each recommendation beginning with its closing price on the day the show first aired. That's a crucial methodological detail, since that means the researchers are excluding the price impact of the recommendations in the first minutes after the show airs.



Consider first the stocks that the technical analysts identified as strong buys. They on average proceeded to outperform the overall stock market by 7.9% over the subsequent nine months, while the stocks they recommended as strong sells underperformed by 8.9%.

That spread of 16.8 percentage points is highly significant from a statistical point of view. As the professors put it in their study, it means that "technicians display rather impressive stock-picking skills."

Contrast that with the performance of the fundamental analysts. The researchers found that their strong buys proceeded on average to underperform the market over the nine months following recommendation — though not by enough to conclude at the 95% confidence level that these analysts were actually worse than random. Even worse, the stocks that these analysts rated as strong sells did not perform appreciably differently than those they considered strong buys.

It won't be easy for fundamental analysts to wriggle out from underneath the weight of these results. Since the TV show creates a head-to-head comparison on the same stocks over similar time horizons, the usual escape valves have been closed off.

One could argue, of course, that the value of fundamental analysis only shows up over the longer term of more than a year. That is entirely plausible, though — if so — fundamental analysts upon reading this new academic study might decide not to even engage in the Talking Numbers TV show's shorter-term forecasting contest.

By the way, technical analysts don't emerge completely unscathed from this new study. The professors found that, when it comes to broader asset classes such as stock-market industries and sectors, bonds, and commodities, the forecasts of both technicians as well as analysts are no better than random.

Still, when it comes to forecasting the direction of individual stocks over the next several months, this new study definitely shows that top technicians deserve our attention more than leading analysts.