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Short Term Moving Memory in the Foreign Exchange Market

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Abstract

In this paper it is shown that price patterns are independent of the explanation that is given to understand them, making fundamental analysis useless to predict future performance. Still, spot prices are shown to be dependent between them when a technical pattern arises, therefore giving technical analysis a leading role in foreign exchange trading. We conduct an AR model using Schwarz Information Criterion to state the significant number of lags that explain the dependent variable. We base our calculations in the High-Low price spread and not in the volatility of market prices. The main contribution of this paper is the moving memory tail approach. Our findings lead us to conclude that markets have a short lived continuous moving memory that makes it possible to construct abnormal returns.