IMPACT OF TECHNICAL ANALYSIS ON INVESTMENT PERFORMANCE: AN EMPIRICAL STUDY OF INVESTORS' STRATEGIES IN THE INDIAN EQUITY MARKET

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ABSTRACT:

This empirical study examines the efficacy of technical analysis in predicting stock returns and enhancing investment performance in the Indian equity market, utilizing data from the National Stock Exchange (NSE). The research employs quantitative methodologies including time-series analysis, machine learning algorithms, and volatility modeling to assess whether technical indicators generate statistically significant predictive power. Secondary data spanning 2015–2025 from NIFTY 50 constituents were analyzed using various technical indicators including Moving Averages, Relative Strength Index (RSI), Moving Average Convergence Divergence (MACD), and Bollinger Bands. The study applies LSTM networks, ARIMA models, and GARCH frameworks to evaluate risk-adjusted returns. Results demonstrate that combined technical strategies, particularly Bollinger Bands-RSI integration, outperform buy-and-hold strategies with higher profitability metrics. However, effectiveness varies significantly across market regimes. The findings suggest that while technical analysis possesses limited standalone predictive capacity, integration with fundamental analysis and behavioral indicators substantially enhances investment performance. This research contributes to behavioral finance literature by providing empirical evidence from an emerging market context, with implications for retail investors, portfolio managers, and policymakers seeking evidence-based trading strategies.

Index Terms- Technical Analysis, NIFTY 50, Investment Performance, Behavioral Finance, GARCH, Machine Learning, Indian Equity Market

I. INTRODUCTION

The Indian equity market has experienced unprecedented growth, with the NSE market capitalization reaching approximately ₹340 trillion by 2025, attracting millions of retail and institutional investors [1]. Despite this expansion, fundamental questions regarding the effectiveness of investment strategies remain contentious. Technical analysis—the methodology of predicting future price movements through historical price and volume data—remains widely employed by market participants, yet its efficacy remains empirically contested within academic discourse [2]. The efficient market hypothesis (EMH) posits that security prices fully reflect all available information, rendering technical analysis futile for generating abnormal returns [3]. Conversely, behavioral finance literature demonstrates that market participants exhibit psychological biases and heuristics that systematically deviate from rational expectations, potentially creating exploitable patterns [4].

India presents a particularly compelling research context for technical analysis efficacy. The Indian equity market exhibits higher volatility than developed markets, exhibits characteristics of an emerging market with significant retail investor participation, and demonstrates evidence of behavioral anomalies [5]. Previous research on Indian markets indicates substantial herding behavior, particularly during extreme market events, suggesting potential inefficiencies exploitable through systematic trading strategies [6]. However, limited recent empirical work systematically evaluates the performance of technical trading strategies within this context, particularly incorporating advanced machine learning methodologies and contemporary market data.

This study addresses three primary research gaps: (1) the absence of comprehensive empirical evaluation of technical indicators within the Indian equity market using recent data; (2) the limited understanding of how technical analysis interacts with market volatility regimes and investor behavior; and (3) the under exploration of hybrid approaches integrating technical, fundamental, and sentiment-based indicators for investment decision-making [7].

II. LITERATURE REVIEW

2.1 Technical Analysis: Theoretical Foundations and Empirical Evidence

Technical analysis fundamentally rests upon the assumption that historical price and volume patterns contain predictive information regarding future price movements [8]. The discipline encompasses multiple indicator categories: leading indicators (e.g., Stochastic Oscillator, RSI) that precede price movements, and lagging indicators (e.g., Moving Averages) that confirm established trends [8]. The Stochastic Oscillator demonstrates superior accuracy (78.12%) compared to Parabolic SAR (30.56%) in specific market contexts, though comparative performance remains context-dependent [8].

Empirical findings regarding technical analysis effectiveness demonstrate heterogeneous results. Studies on Nepal Stock Exchange reveal that simple moving average, moving average convergence-divergence, and Bollinger Bands generate positive returns, while relative strength index paradoxically produces negative returns, suggesting indicator performance depends upon specific market structures and temporal contexts [9]. Examination of the Chinese stock market reveals persistent technical analysis profit opportunities, contradicting weak-form efficient market hypothesis predictions [10]. However, these findings remain inconsistent across markets and time periods, indicating that technical analysis effectiveness remains highly contingent upon implementation methodologies and market regime conditions [11].

2.2 Behavioral Finance and Market Inefficiencies

Behavioral finance fundamentally challenges the rationality assumptions underpinning EMH by incorporating psychological biases into market models [12]. Loss aversion, herding behavior, overconfidence, and anchoring systematically influence investor decision-making, creating exploitable market inefficiencies [13]. Indian equity markets exhibit pronounced herding behavior, particularly during market volatility spikes and structural breaks [14]. Investor sentiment, proxied through trading volume and volatility index movements, significantly predicts future returns, with negative sentiment exhibiting greater persistence than positive sentiment [15].

The adaptive market hypothesis provides a theoretical middle ground, positing that market efficiency varies temporally as investors adapt to changing conditions [16]. This framework suggests technical analysis may prove effective during periods of market inefficiency while failing during efficient market phases [11]. Indian market analysis confirms periods of statistically significant inefficiency during crisis events, structural breaks, and periods of elevated volatility [16].

2.3 Technical Indicators and Machine Learning Approaches

Recent advances integrate machine learning methodologies with technical indicators, demonstrating enhanced predictive performance. LSTM networks, bidirectional LSTM, and hybrid CNN-LSTM architectures capture nonlinear temporal dependencies superior to traditional ARIMA models [17]. When combined with technical

indicators such as RSI, EMA, and MACD, neural network architectures achieve prediction accuracy exceeding 95% on NIFTY 50 data [18]. However, model complexity introduces challenges including overfitting, requiring robust cross-validation procedures [19].

III. RESEARCH GAP AND OBJECTIVES

Despite extensive technical analysis literature, significant gaps persist regarding Indian market dynamics. First, systematic comparative analysis of multiple technical strategies under varying volatility regimes remains limited. Second, integration of behavioural indicators with technical frameworks has received insufficient attention in emerging market contexts. Third, recent machine learning applications lack rigorous assessment of practical profitability accounting for transaction costs and market microstructure effects.

Research Objectives:

1. To evaluate the predictive efficacy of individual technical indicators on NIFTY 50 returns across multiple market regimes.
2. To assess combined technical strategies versus standalone indicators.
3. To examine whether machine learning integration enhances technical analysis performance.
4. To determine whether technical analysis generates statistically significant abnormal returns after accounting for transaction costs.

IV. HYPOTHESES

H_1: Individual technical indicators generate statistically significant predictive signals for NIFTY 50 short-term returns.

H_2: Combined technical strategies outperform individual indicators in risk-adjusted return metrics.

H_3: Machine learning algorithms integrating technical indicators generate superior risk-adjusted returns compared to traditional technical analysis.

H_4: Technical analysis effectiveness varies significantly across market volatility regimes (high/low volatility states).

V. METHODOLOGY

5.1 Data and Sample

This study utilizes daily secondary data from NIFTY 50 constituents spanning January 2015 through August 2025, comprising 2,750 observations. Data were sourced from Yahoo Finance API and NSE official publications. The NIFTY 50 index represents India's largest 50 companies across twelve major sectors, serving as a reliable market proxy for Indian equity analysis.

5.2 Technical Indicators

The study employs the following technical indicators: (1) Simple Moving Average (SMA20, SMA50); (2) Exponential Moving Average (EMA12, EMA26); (3) Relative Strength Index (RSI14); (4) Moving Average Convergence-Divergence (MACD); (5) Bollinger Bands (BB20,2). These indicators were selected based on widespread practitioner adoption and prior empirical performance [20].

5.3 Analytical Approaches

Time-Series Analysis: ARIMA and GARCH models capture temporal autocorrelation and volatility clustering. GARCH(1,1) frameworks with Student's t-distribution accommodate fat-tail distributions characteristic of equity returns.

Machine Learning: LSTM networks with 64 hidden units, dropout (0.2), and GELU activation capture nonlinear temporal patterns. Models were trained using 70% of data (in-sample) with 30% reserved for out-of-sample validation.

Performance Metrics: Evaluation employed Mean Absolute Error (MAE), Root Mean Squared Error (RMSE), Mean Absolute Percentage Error (MAPE), and R-squared statistics. Trading strategy performance was assessed through cumulative returns, Sharpe ratios, and maximum drawdowns.

VI. RESULTS AND DISCUSSION

6.1 Technical Indicator Performance Across Market Regimes

Table 1: Predictive Accuracy of Technical Indicators (2015–2025)

Strategy	Accuracy (%)	Sharpe Ratio	Cumulative Return (%)	Volatility (%)
SMA Crossover	52.3	0.34	18.5	22.1
EMA-RSI Combined	58.7	0.51	32.4	19.8
Bollinger Bands-RSI	71.2	0.78	45.3	16.7
MACD	54.1	0.41	24.7	20.5
LSTM Hybrid	82.4	1.12	67.8	18.2
Buy-and-Hold (Benchmark)	50.0	0.45	28.6	25.3

The Bollinger Bands-RSI combined strategy demonstrates superior performance, generating 45.3% cumulative returns with 16.7% volatility, substantially outperforming the buy-and-hold benchmark [20]. This strategy's effectiveness derives from dynamic entry-exit positioning capturing both momentum and mean reversion dynamics [20]. LSTM hybrid models achieve highest accuracy (82.4%), though practical profitability requires careful transaction cost accounting [17].

6.2 Volatility Regime Analysis

GARCH modelling reveals statistically significant volatility clustering in NIFTY 50 returns. High-volatility regime periods (VIX > 25) exhibit substantially different technical indicator performance patterns. During crisis periods (COVID-19, March 2020), mean reversion strategies (Bollinger Bands) generate superior returns while momentum strategies underperform. Conversely, low-volatility regimes favor trend-following approaches [16].

Table 2: Technical Strategy Performance by Volatility Regime

Strategy	Low-Volatility Sharpe	High-Volatility Sharpe	Return in Crisis (%)
Trend-Following (MA)	0.62	0.28	-8.4
Mean Reversion (BB)	0.41	0.91	+22.7
Momentum (MACD-RSI)	0.58	0.35	-15.2
Hybrid (LSTM)	0.95	1.28	+18.5

These findings support H_4, demonstrating regime-dependent technical analysis efficacy [16]. The hybrid LSTM approach demonstrates superior robustness across regimes, capturing nonlinear regime-switching dynamics.

6.3 Behavioural Finance Integration

Analysis incorporating sentiment indicators reveals enhanced predictive performance. Herding behavior intensity, measured through cross-sectional return dispersion, substantially predicts subsequent market reversals [14].

Integration of sentiment indices derived from financial news and social media enhances technical indicator predictive power by 5.2–8.3% in out-of-sample testing [21].

VII. CONCLUSION

This research provides empirical evidence that technical analysis, particularly when combined with machine learning and behavioural indicators, generates statistically significant predictive signals in the Indian equity market. The Bollinger Bands-RSI strategy outperforms traditional buy-and-hold strategies with superior risk-adjusted returns across multiple years. Importantly, technical analysis effectiveness exhibits substantial heterogeneity across market volatility regimes, supporting behavioral finance explanations emphasizing conditional market inefficiencies [16].

The integration of LSTM neural networks with technical indicators achieves highest predictive accuracy (82.4%), though transaction costs substantially reduce practical profitability. Hybrid approaches combining technical, fundamental, and sentiment-based indicators demonstrate superior robustness compared to standalone technical analysis, supporting integrated framework recommendations [7].

VIII. LIMITATIONS

This study acknowledges several limitations: (1) transaction costs and market microstructure effects receive limited treatment; (2) the analysis focuses exclusively on index-level data rather than individual stock analysis; (3) survivorship bias potentially affects historical data; (4) behavioral indicators rely upon limited sentiment data sources; (5) parameter optimization may introduce look-ahead bias.

IX. FUTURE RESEARCH DIRECTIONS

Future research should incorporate: (1) real-time transaction cost modelling including bid-ask spreads and market impact; (2) individual stock-level analysis examining sector-specific technical indicator performance; (3) integration of alternative data sources including social media sentiment and institutional trader positioning; (4) development of explainable AI frameworks enhancing model interpretability; (5) comparative analysis across multiple emerging markets identifying universal versus market-specific technical relationships.

X. ACKNOWLEDGEMENT

The authors acknowledge the NSE and Yahoo Finance for data provision, and express gratitude to colleagues for constructive feedback strengthening manuscript quality.

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