

Technical analysis vs order flow analysis in forex

Vincent Kleinbrod

PhD Candidate in Finance

Massey University

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Abstract: This essay investigates the profitability of technical trading rules in the foreign exchange market. We uniquely propose and evaluate a fuzzy decision making approach incorporating order flow based return and volatility forecasts to evaluate the benefits of order flow in technical trading. The use of market microstructure variables is motivated by the forecasting power of pure and cross order flows on future exchange rate movements and exchange rate volatility, as outlined in the extant market microstructure literature.

In addition to this soft computing approach, we further investigate standard technical trading rules that use information regarding pure order flow and cross order flow imbalances directly as a trade indicator. Lastly, this essay evaluates the performance of several combined signal approaches, combining traditional strategies with order flow based technical trading rules.

The aim of this paper is to evaluate the performance of a combined fuzzy logic approach relative to order flow and price based indicators in forex technical trading.