

Guglielmo Maria Caporale, Luis Gil-Alana & Alex Plastun

Long-term price overreactions: are markets inefficient?

#### Abstract

This paper examines long-term price overreactions in various financial markets (commodities, US stock market and FOREX). First, a number of statistical tests are carried out for overreactions as a statistical phenomenon. Second, a trading robot approach is applied to test the profitability of two alternative strategies, one based on the classical overreaction anomaly, the other on a so-called "inertia anomaly". Both weekly and monthly data are used. Evidence of anomalies is found predominantly in the case of weekly data. In the majority of cases strategies based on overreaction anomalies are not profitable, and therefore the latter cannot be seen as inconsistent with the EMH.

Keywords: Efficient market hypothesis, Anomaly, Overreaction hypothesis, Abnormal returns, Contrarian strategy, Trading strategy, Trading robot, Inertia anomaly