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Journal Name:	<u>British Journal of Economics, Management & Trade</u>
Manuscript Number:	2013_BJEMT_6937
Title of the Manuscript:	A Preliminary Study of Stock Picking in the Construction Industry of Taiwan: Efficient Market Hypothesis Revisited
Type of the Article	

General guideline for Peer Review process:

This journal's peer review policy states that **NO** manuscript should be rejected only on the basis of '**lack of Novelty**', provided the manuscript is scientifically robust and technically sound.

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SDI Review Form 1.6

PART 1: Review Comments

	Reviewer's comment	Author's comment (if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)
Compulsory REVISION comments	Comments on Abstract: i) Abstract well written but do not have recommendation. I hereby suggest that the major recommendation should be reflected in the abstract. Comments on Literature Review i) There is no in depth literature reviewed, as very important models associated with efficient market hypothesis such as <i>Fair Game, Sub Martingale and Random Walk models</i> were not properly reviewed. ii) The author did not consider recent literature as it has been observed in line 77, Li and Zu (2002) is the most recent literature reviewed in this paper. Comments on Methods i) The variables were not clearly defined. The author merely stated y_{1t}, y_{2t} and y_{3t} as the variables used but did not define what they represent in the study.	Comments on Abstract: One of the trading techniques that becomes popular among many traders is the technical analysis, which prospers through the first half of the 20th century. In recent years, this method is used less frequently and works only for less liquid securities. However, Aldridge (2009) finds that the technical analysis can still generate profitable trading signals based on intra-day data sampled at hourly intervals. In this study, we utilize VAR, Granger causality test and cointegration test to construct models with sound theoretic basis and take the sample at daily intervals. In addition, we adopt an experimental design to exam these models and find supporting evidence for the technical analysis. This study uses Highwealth Construction in the Taiwan stock market as a sample case to compare the program trading



SDI Review Form 1.6

	ii) This section (methods) lacks clear model specification. Comments on Results i) Tables were presented without much interpretation. For instance, line 272-274 stated: “As shown in Figure 5, the impulse response is positive. On the other hand, the impulse response of Highwealth Construction (B2542) from Huaku (B2548) is negative”. What is the implication of this result? Or what does the positive and negative stand for? Therefore, I suggest author should give an elaborated interpretation and implication of his tables and figures.	profits when foreign institutional investors’ (FINI) trading information is used and when domestic industrial information is used. The results show that cointegration exists for Highwealth Construction’s stock. At the first stage (2007.1.2-2010.8.2), the profit is \$29.3, which increases to \$35.5 at the second stage (2007.1.2-2013.2.1). In addition, we show that utilizing domestic information, specifically, the historical price of Taiwan 50 and Huaku, rather than the securities lending information of FINI, investors are able to make higher profits. Therefore, this study provides evidence that the construction industry in Taiwan during the period August 2010 and January 2013 does not support the weak-form market efficiency. Comments on Literature Review In 1900, French economist Bachelier (1900) pioneered the idea that asset prices fluctuate randomly. He argues that the expected returns of investors will have zero net present value in an efficient market; in other words, this speculation is a fair game. Samulson (1965) and Mandelbrot (1966) then prove that the principle of fair game also applies to the efficient market
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		hypothesis (EMH) with random walks theory. They find that if all the news is incorporated instantaneously in the price of a given security, the expected price of the security given the current information is always the current security price. This relationship is known as a martingale. Fama (1965, 1991) formally presented the efficient market hypothesis (EMH) in 1965. He suggests that the EMH is difficult to test (Fama, 1991). However, the martingale-based tests for market efficiencies do exist. Shiller (1989) adopts the S&P 500 data to exam the volatility of market prices which is much higher than the market price in theory. On the issue of market inefficiency and profit opportunities, Aldridge (2010) concludes that while the price changes of two or more securities may be random when securities are considered individually, the price changes of a combination of these securities may be predictable, and vice versa.---
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<u>Minor</u> REVISION comments	i) Line 51 should be “The efficient market hypothesis (EMH) proposed by Fama (1965, 1970) suggests that...” by is missing. iii) The statement on line 128 should be: The variance decomposition model used in this study is as follows:	We have revised the submission article in accordance with the reviewer’ s opinions.
<u>Optional/General</u> comments		