



Letter to the Editor

February 17, 2009

The following is in response to our article, [Can Andrew Lo Legitimize Technical Analysis?](#), which appeared on January 27, 2009.

With respectful regard to Robert Huebscher's article on the January 27, 2009, "Can Andrew Lo Legitimize Technical Analysis?" there is a glaring flaw in his assessment. Any "rational scientist" is surely to be disappointed when he makes the statement "Technical analysis rests on the conviction that observing patterns in historical data can produce reliable indicators of when to buy and sell securities — that the past can predict the future. It claims you can profit by identifying patterns such as head-and-shoulders or double bottoms, or by utilizing Kondratiev waves or Fibonacci series." It is no wonder he was underwhelmed.

Although technical analysis does have significant statistical and quantitative aspects, one of the more important elements is the interpretation of the charts and data. It is this qualitative feature that can be considered an art form. Yet this is the very reason why nearly all "black boxes" do not work: The ever-changing conditions and variables are limited to what is programmed--that is, there is no artist. Furthermore, to Hasanhodzic's point, it is how the technician adapts and uses different approaches that allows for the entire understanding and application of technical analysis.

Simply put, he may as well be trying to reproduce a Rembrandt with paint-by-numbers.

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