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[Model wyceny aktywów kapitałowych w warunkach nadmiernej reakcji rynku: Przypadek giełdy papierów wartościowych w indonezji]

Sembiring, F.M.[a], Rahman, S.[b], Effendi, N.[b], Sudarsono, R.[b]

[a]Jenderal Achmad Yani University, Indonesia
[b]Padjadjaran University, Indonesia

Abstract

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Market overreaction is a phenomenon in stock markets characterized by a return reversal on the stocks which resulted winners into a losers, vice versa, losers into a winners. While the CAPM is the model of asset pricing which puts the market risk factor as the sole determinant of return. The purpose of this study is testing whether market overreaction occurred in Indonesia stock market and whether Capital Asset Pricing Model (CAPM) can explain the portfolio return of the winners and the losers. This study uses the stocks of non-financial sector companies in Indonesia Stock Exchange during the period July 2005-December 2015. Abnormal returns for each stock obtained by using a market model and the portfolio formed by using the method of 6-6 observation period. The results of this study are: (1) Market overreaction occurs in the Indonesia stock market characterized by a return reversal of the winners and the losers, and (2) CAPM which only considers the market risk factors in the model tend to be able to explain the portfolio return.

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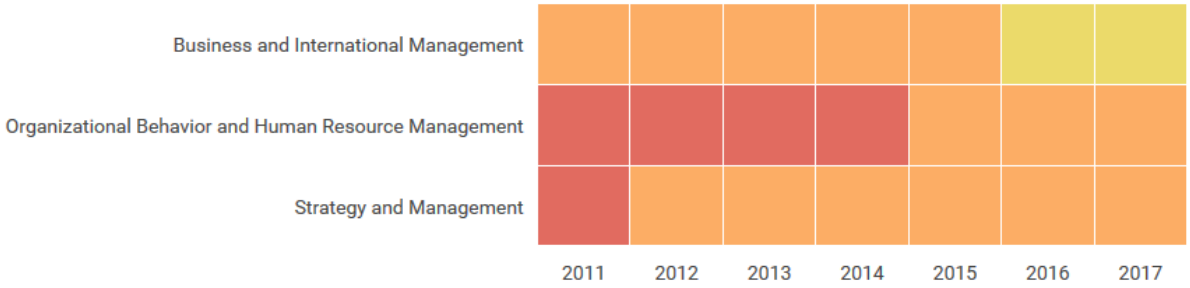

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CAPITAL ASSET PRICING MODEL IN MARKET OVERREACTION CONDITIONS: EVIDENCE FROM INDONESIA STOCK EXCHANGE

Sembiring F.M., Rahman S., Effendi N., Sudarsono R.*

Abstract: Market overreaction is a phenomenon in stock markets characterized by a return reversal on the stocks which resulted winners into a losers, vice versa, losers into a winners. While the CAPM is the model of asset pricing which puts the market risk factor as the sole determinant of return. The purpose of this study is testing whether market overreaction occurred in Indonesia stock market and whether Capital Asset Pricing Model (CAPM) can explain the portfolio return of the winners and the losers. This study uses the stocks of non-financial sector companies in Indonesia Stock Exchange during the period July 2005-December 2015. Abnormal returns for each stock obtained by using a market model and the portfolio formed by using the method of 6-6 observation period. The results of this study are: (1) Market overreaction occurs in the Indonesia stock market characterized by a return reversal of the winners and the losers, and (2) CAPM which only considers the market risk factors in the model tend to be able to explain the portfolio return.

Key words: beta, CAPM, contrarian strategy, market overreaction, returns reversal

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Introduction

Capital Asset Pricing Model (CAPM) is the asset pricing model stated that the market risk or systematic risk is the sole determining return factor in market equilibrium condition, in which the investor has no chance anymore to get abnormal return. However, some empirical findings provide evidence that the capital market tends to be efficient in weak form, which occurs in capital markets of developing countries, investors are still likely earn abnormal returns, for example of the market overreaction phenomenon that mentioning an anomaly of winner-loser. This anomaly is characterized by a return reversal of winners and losers. De Bondt and Thaler (1985) are the first researchers who found a return reversal in US stock markets. In these conditions, De Bondt and Thaler proposes the contrarian investment strategy that is the strategy of buying stocks loser and selling winner stocks, which for a certain period there will be a return reversal in these stocks. Several subsequent studies conducted by other researchers and produces the same findings, that a return reversal occurred in the stock market some countries, like in Europe (Chopra et al., 1992; Lakonishok et al., 1994;

* **Ferikawita M. Sembiring**, Jenderal Achmad Yani University, **Sulaeman Rahman, Nury Effendi, Rachmat Sudarsono**, Padjadjaran University
✉ Corresponding author: ferikawita@yahoo.com
✉ sulaeman.rahman@unpad.ac.id, nury.effendi@fe.unpad.ac.id, asfar_jati@yahoo.com