

The empirical relationship between stock return and trading volume based on stock market cycles / Amanda Melissa Christiana, Eva Septiana, Mamduch

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Deskripsi Lengkap: <https://lib.ui.ac.id/detail?id=20443657&lokasi=lokal>

Abstrak

In this paper, we analyze the empirical relationship between stock return and trading volume based on stock market cycles. Using daily data for Jakarta Composite Index (JCI) closing price and trading volume from 2010 to 2014, we identify the bull and bear phases, then we analyze the return–volume relationship in both contemporaneous and dynamic context. We find that (1) there is a positive contemporaneous return–volume relationship in both bull and bear markets, which is only significant in bull markets; (2) no evidence of asymmetry in contemporaneous relationship is found; and (3) there exists a positive unidirectional causality from stock return to trading volume. Our research has two implications. First, in the bull market, overconfidence may grow with long-lasting past success and there is also momentum or positive feedback trading. Second, stock return is able to forecast trading volume. In addition, our findings are robust for different sample period and data frequency.