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ABSTRACT

Junjungan Edi Sudrajat Sitorus Pane (0904100234), *A Testing of Short-Term Price Reversal On Large Stock-Price Decreases (Empirical Study Of Stocks Listed On LQ 45 Period 2001-2007),xiv*+106 pages+ 20 tables+6 graphs+4 pictures +11 addition +31 bibliography (1973-2006)

The Overreaction Hypothesis suggests that extreme movements in stock prices are followed by price movements in the opposite direction as investors realize that they have overreacted, and the greater the initial price movements, the greater the subsequent reversal. One way in which the overreaction hypothesis has been studied is by analyzing the behavior of stock returns following large stock price declines. While there is a preponderance research finding evidence of reversal in short-term after large declines, many of them argued that overreaction effect may be attributed to illiquidity, ex. Bremer & Sweeney (1991) and Cox & Peterson (1994). This research examines short-term overreaction in the sample that consist of stocks listed on LQ 45, which is classified the most liquid market in Indonesia.

The stock returns of every firm listed in the LQ 45 covering the period 2001 to 2007 were compared to specific trigger value, consistent with the prior research, -10%. If on any single day the return was equal to or less than the trigger value, the return was define as an event. For each stock, daily return are then examined both previous and following the event date (t-5 up to t+20), and compared with the stock's expected return, that estimated by mean-adjusted returns model. The objectives of this study is to investigate security return behavior in the three-day period and also subsequent to three-day period immediately following large declines to determine whether the reversal process persists. The second objective is to investigate whether industry classification plays a different role on the reversal process.

The Results of the research tend to support the overreaction hypothesis. The results from the analysis reveal that, three-day period following the day of the large price declines, the liquid stocks earn positive and statistically significant abnormal returns. These positive and statistically significant abnormal return indicate that much of initial change in the price of these stocks was short-term overreaction. Furthermore, in the longer-term the analysis find that, beginning four days after the drop, securities tend to enter prolonged of relatively poor performance. The results from the analysis of the reversal patterns across industries reveal that magnitude and trend of the observed reversal do not differ substantially among industries.