

# Contrarian Return, and Return Momentum in The Indonesian Capital Market: Literature Review

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**Abstract :** Market information is needed by investors in making investment decisions. The decision to buy or sell shares depends on their characteristics and market beliefs. However, many studies have shown several market anomaly phenomena such as winner-loser when stocks with very positive abnormal returns (winners) or very negative abnormal returns (losers) experience a reversal. The price reversal phenomenon occurs when stocks that have a poor performance level (Loser) provide a high rate of abnormal return compared to stocks that have a good level of performance (Winner). This study is literature review research that focuses on the topic of contrarian strategy and momentum in the Indonesian capital market. The momentum strategy is by buying stocks that previously had good performance and selling stocks that previously had poor performance with the aim of getting returns above market returns. Meanwhile, contrarian is a strategy used by investors to expect a reversal of stock returns at a certain period, namely the return rate that is initially positive or negative is expected to experience a reversal within a certain period. The results of the study show that many capital market investors carry out the momentum strategy even though its implementation is still inconsistent. Likewise, for the contrarian, there was a reversal in the price of shares listed on the Indonesia Stock Exchange, but they were unable to generate significant returns for investors.

**Keywords:** Review literatur, Contrarian Return, Return Momentum, Capital Market

## I. INTRODUCTION

Return is a motivation for investors in investing. Return is paired with risk in the investment concept, high returns from investing in the capital market are inseparable from the high risks that must be borne, because returns and risks have a unidirectional relationship [1]. The greater the return obtained by investors, the greater the risk that must be willing to take. Therefore, investors need relevant information in making investment decisions. Relevant information regarding market conditions and direction will be easily obtained by investors in an efficient market.

Efficiency in the capital market introduced by [2] in his classic article on the Efficient Market Hypothesis (EMH), defines an efficient market as a market for securities whose prices reflect all available and relevant information. The implication is that market prices reflect all existing information and expectations. All new information will be absorbed by the market immediately without delay. Market speed in absorbing new information is informational efficiency while the ability to accurately reflect new information is market rationality [3]. A rational market is one in which the market price is an unbiased estimate of the fundamental value of financial assets. EMH rules out the possibility of a trading system or strategy that could generate abnormal returns, meaning that no investor can consistently beat the market. In an efficient capital market, the market reacts accordingly and immediately as new information comes in. Therefore, it is assumed that the market has the right price and does not occur undervalued or overvalued for all securities in the long term so that profits can be obtained from buying and selling transactions.

The validity of market efficiency in the mid-1980s was challenged by various parties and began to be questioned. Market efficiency theory has received serious criticism from the behavioral finance group. Several studies have challenged the efficient market hypothesis by showing some evidence that past prices can be used to predict future prices, so that investment strategies based on historical returns can create abnormal returns. This trading strategy is based on the idea that the market tends to overreact or underreact in the long, medium, or short term. The phenomenon of overreaction states that when individuals revise their market beliefs, they tend to give greater weight to the latest information and give less weight to previous information.

Market overreaction was first introduced by [4] through their research using stock data from the New York Stock Exchange (NYSE). Market overreaction occurs because investors are too excessive in evaluating the latest information that can change perceptions and expectations of a company, so they pay less attention to previous information. Overreaction is a manifestation of market inefficiency in the presence of asymmetric information, namely a condition that indicates when some investors have information that others do not. Market inefficiencies tend to overreact in response to new information, both good news and bad news. Market participants will set rates that are too high for information that is considered good (good news) and will charge rates that are too low for information that is considered not good (bad news). The phenomenon of overreaction shows that due to new information; investors overreacted in the early period, causing the price to deviate from its fundamental value and then correcting by bringing the price back to its fundamental value. Research on the existence of excessive market reactions uses stock data to be grouped into two, namely the winner portfolio stock group, which is a group of stocks that consistently experience large price increases, while the group of stocks called loser, is a group of stocks that consistently experience large price declines. The occurrence of winner-loser anomaly indicates a return reversal experienced by loser and winner stocks which gives rise to two investment strategies, namely the contrarian investment strategy and the momentum strategy.

Research by [4] using data from the United States capital market, they found that stocks that initially provided positive (winner) or negative (loser) returns would get price reversals in future periods. Investors who buy loser stocks and sell these stocks after becoming winners will earn significant abnormal returns of up to 25% per year for a time horizon of 3 to 5 years [5]. The occurrence of this reversal is indicated by stocks that were previously designated as winners to become losers, while stocks that are predicated

as losers will become winners. With the winners-losers anomaly in the capital market, it is possible for investors to gain profits through a contrarian strategy. Investors will sell winners' stocks and buy losers' stocks which are believed to provide more profits in the long run so that investors will get significant abnormal returns.

The momentum strategy is a strategy that is the opposite of the contrarian strategy. Momentum strategy is where investors generate positive returns by buying winners' stocks and selling losers' stocks [6]. This momentum strategy assumes that previously stocks with the title of winners will continue to be winners, while those with the title of losers will still be losers. Momentum strategy investors will estimate that if the current stock price rises then in the future the price will continue to rise. Therefore, momentum strategy investors will only buy winners' shares and sell losers' shares. Based on the characteristics of this strategy, observers often call the momentum investment strategy "buy high sell higher".

This paper will try to explain the contrarian return strategy, and the momentum return strategy in the Indonesian capital market. The setting of this paper begins with an introduction, the second part discusses reactions to market information, the third part discusses contrarian strategies, the fourth part discusses strategy momentum, and the final part of this paper is the closing containing an outline summary of the previous presentation.

## II. REACTIONS ON MARKET INFORMATION

The Efficient Market Hypothesis (EMH) introduced by Fama in 1970 said that in an efficient capital market, all information is reflected in prices, which will adjust quickly and precisely to new information. There are three forms of market efficiency put forward by Fama, first, the weak form of the efficient market hypothesis, in this form stock prices can be reflected from price history and market data. So, investors can detect price trends using charts of past prices to get abnormal returns. Second, the semi-strong form of the efficient market hypothesis, stock prices reflect all public information such as financial statements, mergers and acquisitions, and abnormal returns can still be obtained. Third, the strong form of the efficient market hypothesis, stock prices reflect all information whether it is public or private information. So that abnormal returns cannot be obtained. Each form of efficient market is closely related to the extent to which information is absorbed in the market. This theory is a conventional theory which later became a lot of discussion because many anomalies or irregularities were found in the capital market[7].

Overreaction is an efficient market anomaly. The concept of market overreaction originally came from experimental psychology conducted by [8]. The study stated that "humans often predict the results that best reflect their inputs". The development of the current capital market is inseparable from the behavior of investors, therefore changes in stock prices in the future are due to continuous pressure to buy shares which results in stock prices continuing to rise, as well as in the opposite condition a continuous decline in stock prices because investors continue to sell the shares. That is, information that conveys positive or negative sentiment can cause investors to misjudge, resulting in stock prices being above or below their fundamental value.

A major challenge for behavioral finance is to find a direct relationship between the behavior of individual investors and the dynamics of asset prices. Several studies have shown that most investors are irrational and prone to heuristic behavior that leads to suboptimal investment choices. One of the most striking patterns of irrational investors in financial markets is the tendency of some investors to sell winners too early and hold on to losers too long. [4], revealed that due to the correlation of stock returns, investors tend to underreact in the short term and overreact in the medium/long term to good/bad news. Then, [9], explained that investors tend to be overconfident and suffer from self-attribution bias. Their behavior generates overreaction. This model shows short-term momentum and long-term reversal. [10] argue that the representative heuristic can cause investors to forecast current earnings growth well into the future. At the same time, investor bias conservatism leads to underreaction to public information.

Among the behavior-based explanations for the phenomenon, underreaction and overreaction are the most common [10], and [11]. The underreaction of stock prices due to news on the market can lead to momentum, because the slow diffusion of information between investors can trend the stock's true value longer than expected. But over a longer period, overreaction of stock prices can occur due to extrapolation from a series of good or bad news, especially if investors tend to be overconfident. According to [11], investors can use only part of the information about the economy because of communication friction, which causes underreaction in the short run. Investors who believe in the momentum strategy can profit from the momentum trend, but cause overreaction on a long-time horizon.

Investors can take advantage of market overreaction situations by implementing contrarian strategies to take advantage when market overreaction occurs. This method provides advice for investors to buy stocks that have performed poorly in the past and sell these shares after making stocks that perform well (winners) resulting in significant positive abnormal returns [12]. This statement is because in the long term, the stock will give a profit or profit which can be more than the stock that previously passed the winner title. Then, the statement is made into an effect through a negative relationship between winner and loser securities. The loser can later become the winner and the winner can become the losing stock, thus selling the loser's securities will get an abnormal positive return[13].

Overreaction research on the Indonesia Stock Exchange shows varying results. [14] conducted research on the Indonesian capital market, the results indicated that there was an indication of overreaction which was indicated by the loser portfolio outperforming the winner portfolio. Then, [15] found that winner-loser portfolios produce performance that is not significantly different based on the momentum investment strategy and the abnormal returns of the winner portfolio in the formation period with the testing period tend to be negative and significant, while the abnormal returns of the loser portfolio in the formation period with the testing period tend to be negative. positive and significant for various stock portfolio groups. Research [16] found that there was a tendency for winner-loser anomalies in manufacturing industry stocks in the Indonesian capital market. They found that at first it gave a positive return or a negative return experienced a reversal at the end of the test period. Likewise, research by [17] conducted market overreaction research with a sample of stocks that are members of the Kompas 100 index. The results of their research show that market overreaction only occurs in loser stocks and is positively associated with company size.

Recent research by [12] concluded that there was an overreaction to the shares of manufacturing companies listed on the IDX for the 2015-2017 period. The results of this study indicate that there is no overreaction to the Average Cumulative Abnormal

Return (ACAR) of the winner portfolio in all observation periods, winner stocks still generate positive returns, there is no overreaction to the Average Cumulative Abnormal Return (ACAR) of loser portfolios in all observation periods, stocks the loser still produces a negative return (loss), there is no overreaction to the difference in the Average Cumulative Abnormal Return (ACAR) of the loser's portfolio and the winner's portfolio. This means that the performance of the loser's portfolio does not outperform the performance of the winner's portfolio during the study period. Then, [18] examine market overreaction at IDX 30 (research period 2016-2019), the results of the study show that portfolio winners or losers appear to experience symptoms of price reversal several times on stocks listed on the IDX30 Index on the Indonesia Stock Exchange during the study period 2016-2019. However, it is not statistically significant, which means that there is no overreaction in the Indonesian capital market. The results of this study are consistent with the theory of the efficient market hypothesis where event studies are used to test market overreaction in the form of a semi-strong market, so that the Indonesian capital market is in a semi-strong condition. The Indonesian capital market has shown an efficient market in a weak or semi-strong form. Investors cannot take advantage of historical data information to gain abnormal profits. Indonesian investors must be active in investing and analyzing existing information in a sophisticated and precise manner to make the right investment decisions to make a profit. Likewise, research by [19] regarding the Role of Overreaction in the Consumer Goods, Cosmetics and Household Needs Industry Sector on the Indonesia Stock Exchange, the conclusion of this study is that overreaction affects stock prices in companies in the consumer goods industry, cosmetics & home needs on the Indonesian stock exchange in January 2019 - February 2022. This shows that the phenomenon of overreaction both before, during and after the pandemic is still a big problem for investors and companies. Overreaction became a very significant influence during the pandemic and several problems that occurred, so that it became a big problem for companies in the cosmetics and home industry subsectors for the 2019-2022 period.

### III. RETRUN CONTRARIAN STRATEGIES

The contrarian investment strategy is a strategy used by investors to expect a reversal of stock returns at a certain period, namely the return rate that is initially positive or negative is expected to experience a reversal within a certain period (reversal return). This strategy was popularized by [4] from a study he conducted on the US capital market. They found that investors only take partial information and react to the emergence of new information so that stocks that initially provide positive (winner) or negative (loser) returns will experience a reversal in the following period.

The contrarian strategy is an active investment strategy which is an active investor action in selecting and buying and selling stocks, looking for information, following the time and movement of stock prices and various other active actions to get abnormal returns. As the name implies, the contrarian strategy takes advantage of the mistakes of many novice investors due to herd behavior by taking a position against the market. That is, investors who use this strategy buy shares when the market is experiencing a decline (the price is felt to be cheap) and when other investors are happy to sell and sell shares when the market is experiencing an increase, while other investors are trying to buy shares [20]. This strategy is based on the overreaction hypothesis, ranking stocks based on their past performance and recommending buying loser stocks and selling past winners [21]. Reversal returns are generated from the overreaction shown by investor behavior. Investors overreact to new news, and if this news is positive, investors will be overoptimistic and make the stock price overvalued, while if the new news is negative, investors will be too pessimistic so that the stock price will be undervalued. The phenomenon of overreaction can relate to the representational bias of [22], this bias causes mispricing, and is followed by a correction of the mispricing which causes a reversal.

Overreaction, mispricing and reversal are used as sources of contrarian strategies in obtaining abnormal returns. So that in the contrarian strategy, portfolio formation is carried out by buying stocks that have experienced a decline in the past and selling stocks that have experienced an increase in the past. In order to get the wrong price stocks, and will experience a reversal of price direction. [23] examined momentum and contrarian strategies in Australia from 1992-2011. They find that the contrarians are evenly distributed for short-term investments while momentum dominates for the medium and long term. However, it is only contrarian that the short term performs better and is statistically significant.

[24] examines how the size of the momentum and contrarian investors in the market affect the balance of stock prices, and looks at the possible causes that affect returns for these two types of irrational investors. The researcher suspects that rational informed investors influence investors' irrational behavior. The researcher found that informed investors manipulate asset prices, and lead to momentum and reversal macro phenomena. When the number of momentum investors is relatively high, informed investors will try not to bring the price back to the fundamental price and cause the price to be overpriced. On the other hand, when there are relatively more contrarian investors in the market, due to fundamental risks, even when good news appears, informed investors will avoid overreaction to stock prices, resulting in underreaction phenomena.

[5] also investigated the profitability of momentum and contrarian strategies in the Chinese stock market for the period 1994-2013 using data from the Shanghai Stock Exchange and the Shenzhen Stock Exchange. This study examines the profitability of trading strategies based on the method used by [6], [25] and [26]. The results of this study show that the contrarian strategy based on the [6] method for weekly periods is more profitable than other strategies and methods. [27] tested the momentum and contrariness in the Chinese market in 2010, after the Chinese government reduced the rules on short-sale restrictions. The capital market in China differs from the capital market in the USA in several ways. *First*, the capital market in China is dominated by individual investors with the characteristics of contrarian traders. *Second*, investors tend to act as speculators, because market information is less transparent. *Third*, China's capital market is still lacking in transparency. This study used the winner-loser JT method. This study did not find a momentum strategy return in China as in the US market, but a return from a contrarian strategy was obtained.

[28] examined market overreaction on the Indonesia Stock Exchange from 2009 to 2013. The population used in this study were all stocks listed on the IDX. The sample of this research is 26 shares that are actively traded. The formation and observation periods in this study were 3, 6 and 12 months. Data analysis uses market overreaction indicators introduced by De Bondt and Thaler (1985). This study found that the market overreaction on the Indonesia Stock Exchange was not significant. Then, [29] regarding

momentum and contrarian portfolio returns in the financial industry concluded that the performance of the winner stock portfolio resulted in lower performance compared to the performance produced by the loser stock portfolio in the next ownership period. The results of this study indicate that investors or investment managers are advised to use a contrarian investment strategy rather than a momentum investment strategy. This shows that stocks that initially generate positive returns (winners) and negative returns (losers) experience a reversal at the end of the ownership period.[30] examined the profitability of the contrarian strategy on the Indonesian capital market during 2019. The results of this study show price reversals for stocks on the Indonesian Stock Exchange, and these results are quite strong with up to 4 weeks of testing, although this price reversal has not been able to obtain significant profits for investors.

The profitability of this contrarian investment strategy is largely because investors overreact to information. Under these conditions, capital market participants tend to set share prices too high as a reaction to news that is considered good. Otherwise, they will undervalue in reaction to bad news. Later, this phenomenon reversed when the market realized it had overreacted. This reversal is shown by the drastic fall in the price of stocks that were previously rated as winners and the increase in prices of stocks that were previously rated as losers. Profits will be obtained if the stocks which were losers in the previous period will perform well in the following period, while the stocks which were previously winners will afterwards have poor performance.

#### **IV. RETURN STRATEGY MOMENTUM**

The momentum strategy was first documented by [6], this strategy is carried out by buying stocks that previously had good performance and selling stocks that previously had poor performance with the aim of getting a return above the market return. The momentum strategy according to Dhankar & Maheshwari (2017) uses the characteristics of continuation of stock prices for the short term, where prices tend to move in the same direction for periods of 3 to 12 months.

The momentum investment strategy is one of the active portfolio strategies that investors and investment managers can use to improve stock portfolio performance. This strategy is carried out by buying stocks that previously had good performance and selling stocks that previously had poor performance [31]. In this strategy, investors will look for the right momentum or time, when price changes that occur can provide benefits for investors through selling or buying shares. Data that has occurred (ex-post data) is used to look for patterns of stock movements and look for causal relationships between one event and another. Momentum investors seek to buy stocks that have recently risen in price on the belief that the stock price will continue to rise in accordance with an upward shift in the demand curve. Conversely, stocks that have fallen in price significantly will be sold in the belief that their demand curve has shifted downward. Various techniques to find the right momentum in a stock portfolio, for a short-term time horizon (a few days to a few weeks) momentum indicators by buying stocks based on trend lines and high trading volume, then medium term momentum (a few months to a year) can be done by buy stocks that have moved up in the previous few months, while a long-term momentum strategy is to buy stocks whose sales are growing at a rational price [32].

Analysis of the fundamental factors that influence the performance of a stock portfolio is a more complex quantitative technique for determining the most appropriate time to buy or sell stocks. If these factors can be identified, then investors will be able to predict the performance of the stock portfolio in the future. Investors will invest their funds in certain stock portfolios if changes in these factors will improve the expected performance of the stock portfolio. And vice versa, if it is estimated that changes in these factors will reduce the performance of the stock portfolio, investors will move their investments from the stock portfolio to other investment alternatives. In connection with the formation of a stock portfolio based on a momentum investment strategy, [31] put forward the following steps:

- 1). Identification of shares listed on the capital market.
- 2). Determines the ranking based on the amount of return for the period that just ended, which is referred to as the portfolio formation period.
- 3). Enter stocks that have a high average return into the winner portfolio group and stocks that have a low average return into the loser portfolio group.
- 4). Determine the winner and loser stock portfolio returns for the period to be started, which is called the portfolio testing period.
- 5). Repeat the analysis from the beginning, starting with Step 1 but moving forward one step at a time. Stop after a few repetitions.
- 6). Determine the average abnormal return on the winner portfolio and the loser portfolio.

If the momentum investment strategy works well, then the winning stock portfolio should generate a positive average abnormal return and the loser stock portfolio will have a negative average abnormal return. Momentum that provides a positive return implies that stocks that perform above the average stock in the previous period will exceed the average stock performance in the following period. Empirically, many researches on momentum investment strategies have focused on buying and selling investments in various decile combinations, with equal weight on stocks in buy and sell positions. Equal weighting is used because changes in returns as a result of funding strategies are easier to interpret. It is also possible to focus on self-financing portfolios where the weight of their momentum is measured by a linear function (past returns).

Empirical evidence regarding momentum investment strategies has been documented in the United States, such as: [6], [33] [34], and [35]. [6] studied individual stock returns for stocks traded on the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), finding that a momentum investment strategy cost zero from buying shares of winners and selling shares of losers. (losers) generate significant abnormal returns over a medium-term horizon of 3 to 12 months. According to their research, the profitability of individual stock momentum investment strategies in the US stock market does not result from systematic risk or the slowness of stock price reaction to changes in the factors commonly known to affect stock prices, but is due to past sales of stock losers, particularly fewer liquid stocks. Furthermore, this study also found that some of the abnormal returns generated in the first year after portfolio formation disappeared in the second year, and there was the same return pattern around the date of the past winner and past loser earnings announcement.

[34] confirm the research results of [6] using a longer-term historical perspective, finding that a momentum investment strategy has been profitable in the United States since the 1920s. [35] shows that momentum occurs in portfolios sorted by size and book to market equity variables. The formation of the portfolio in this study can be considered quite well diversified, because it reflects systematic risk (risk that cannot be eliminated by diversification). The results of this study also reveal an alternative view of the behavioral explanation in returns for momentum and the lead-lag correlation among stocks is stronger than autocorrelation.

[33] intensively studied industrial stock momentum investment strategies. Their research shows that individual momentum stock investment strategies are significantly less profitable after controlling for industrial stock momentum. Meanwhile, the investment strategy for industrial stock momentum, namely buying shares of past industry winners and selling shares of past industry losers, appears to be very profitable. The return component of industrial stock momentum continues to generate significant profits that can be a driver of the profitability of individual stock momentum investment strategies. The profitability of the industry stock momentum investment strategy along the medium time horizon was mainly due to long positions. It was also found that stock portfolios formed based on the momentum investment strategy were not well diversified, because winners and losers tended to form the same industry. Stocks in one industry tend to be more correlated than stocks from different industries. Furthermore, [33] state that both investment theory and its application in investment management are highly dependent on field understanding of existing stock return anomalies. Determining whether this anomaly is rooted in behaviour that can be exploited by more rational investors at lower risk has implications for market efficiency and optimal investment policy. The ability to execute a buy and hold strategy of buying past winners and selling past losers, which is commonly called the "individual stock momentum investing strategy" is still one of the most puzzling about this anomaly (Up and down movement of up to 12 percent abnormal return per dollar purchased on a self-financing strategy per year). Investing under individual stock momentum investment strategies appears to be a poor strategy when using historically short timeframes for portfolio formation (especially those of less than one month); this strategy is very profitable in the medium term (up to 24 months, although the strongest is in the range of 6 to 12 months); and again, this strategy is also bad over long periods of time. Specifically, there is strong evidence that the industry stock return component consistently generates significant returns.

[33] in their research conclusions present the following evidence: (1) the industry portfolio shows significant momentum, even after controlling for variable size, book-to-market equity, individual stock momentum, cross-sectional distribution in the average return, and potential microstructural influences; (2) when returns are adjusted for industry effects, the momentum returns from individual stocks are significantly weaker and some are not statistically significant; (3) the momentum investment strategy for industrial stocks is more profitable than the investment strategy for individual stock momentum; (4) the momentum investment strategy for industrial stocks generates higher returns compared to the most liquid and largest stocks; (5) the profitability of the industry stock momentum investment strategy over the medium time horizon is mainly due to long positions; and (6) unlike individual stock momentum investment strategies, industrial stock momentum investment strategies are strongest in the short term (one month) and beyond, whereas individual stock momentum investment strategies tend to disappear after 12 months and will slowly reverse over time. long. Thus, the short-term (less than one month) performance signs of industrial stocks and individual stocks momentum investment strategies are markedly opposite, but the mid- and long-term performance signs are the same. Return on industry share momentum can also be an indication of the importance of the industry in understanding financial markets. Several research results have shown relatively little impact from the industry on asset prices, both in domestic and international markets. This fact is at odds with the corporate finance literature, which recognizes the importance of the industry in explaining merger and acquisition activity, as well as other financial and investment policy decisions. The phenomenon of momentum is the continuous trend of past returns, namely past winners will continue to beat past losers. A market in which irrational investors and rational investors invest together will have a negative slope, positive excess kurtosis, and greater volatility than a rational regime.

Research on the momentum return strategy in the Indonesian capital market, among others, by [29] found that there was a significant difference between the winner-loser portfolios of manufacturing industry shares in the Indonesian capital market for 4 years, with an average abnormal return of the winner portfolio of seven observations of the test period which show that only a small portion shows a return that remains positive and most of the winner stock portfolios experience a reversal of returns to the negative.[36] tried to test the effectiveness of the momentum investment strategy in generating abnormal returns on the stock market. Empirical results show that the use of a momentum investment strategy in the Indonesian stock market is ineffective in providing significant positive abnormal returns for investors. Research [37] regarding the proof of return momentum and contrarian on Islamic stocks in the Indonesian capital market found that there is a return momentum in the formation period of 3 and 12 months for portfolios with equal-weighted weighting and for portfolios with the value-weighted method of weighting returns momentum found at 12 months formation. But statistically there is no significant return momentum.

## V. CONCLUSION

This study examines and describes the contrarian and momentum strategy phenomena that occur in various Indonesian capital markets. Based on the description of the literature described above, contrarian returns and momentum returns occur in the Indonesian capital market. This literature review shows that in the Indonesian capital market, both contrarian returns and momentum returns occur. The occurrence of such momentum strategies varies widely but mostly occurs in the short term during at least a twelve-month observation and testing period.

The profitability of this contrarian investment strategy is largely due to the fact that investors overreact to information. Under these conditions, capital market participants tend to set share prices too high as a reaction to news that is considered good. Otherwise, they will undervalue in reaction to bad news. Meanwhile, investors who use the momentum strategy are indicated by the behavior of buying stock portfolios that are performing well in the hope that their performance will continue to be good. Thus, they get a positive and significant abnormal return

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# Contrarian Return, and Return Momentum in The Indonesian Capital Market: Literature Review

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**Submission date:** 11-May-2023 03:20PM (UTC+0700)

**Submission ID:** 2090245832

**File name:** IJSDR2212164.pdf (213.81K)

**Word count:** 6734

**Character count:** 36925



# Contrarian Return, and Return Momentum in The Indonesian Capital Market: Literature Review

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**Abstract :** Market information is needed by investors in making investment decisions. The decision to buy or sell shares depends on their characteristics and market beliefs. However, many studies have shown several market anomaly phenomena such as winner-loser when stocks with very positive abnormal returns (winners) or very negative abnormal returns (losers) experience a reversal. The price reversal phenomenon occurs when stocks that have a poor performance level (Loser) provide a high rate of abnormal return compared to stocks that have a good level of performance (Winner). This study is literature review research that focuses on the topic of contrarian strategy and momentum in the Indonesian capital market. The momentum strategy is by buying stocks that previously had good performance and selling stocks that previously had poor performance with the aim of getting returns above market returns. Meanwhile, contrarian is a strategy used by investors to expect a reversal of stock returns at a certain period, namely the return rate that is initially positive or negative is expected to experience a reversal within a certain period. The results of the study show that many capital market investors carry out the momentum strategy even though its implementation is still inconsistent. Likewise, for the contrarian, there was a reversal in the price of shares listed on the Indonesia Stock Exchange, but they were unable to generate significant returns for investors.

**Keywords:** Review literatur, Contrarian Return, Return Momentum, Capital Market

## I. INTRODUCTION

Return is a motivation for investors in investing. Return is paired with risk in the investment concept, high returns from investing in the capital market are inseparable from the high risks that must be borne, because returns and risks have a unidirectional relationship [1]. The greater the return obtained by investors, the greater the risk that must be willing to take. Therefore, investors need relevant information in making investment decisions. Relevant information regarding market conditions and direction will be easily obtained by investors in an efficient market.

Efficiency in the capital market introduced by [2] in his classic article on the Efficient Market Hypothesis (EMH), defines an efficient market as a market for securities whose prices reflect all available and relevant information. The implication is that market prices reflect all existing information and expectations. All new information will be absorbed by the market immediately without delay. Market speed in absorbing new information is informational efficiency while the ability to accurately reflect new information is market rationality [3]. A rational market is one in which the market price is an unbiased estimate of the fundamental value of financial assets. EMH rules out the possibility of a trading system or strategy that could generate abnormal returns, meaning that no investor can consistently beat the market. In an efficient capital market, the market reacts accordingly and immediately as new information comes in. Therefore, it is assumed that the market has the right price and does not occur undervalued or overvalued for all securities in the long term so that profits can be obtained from buying and selling transactions.

The validity of market efficiency in the mid-1980s was challenged by various parties and began to be questioned. Market efficiency theory has received serious criticism from the behavioral finance group. Several studies have challenged the efficient market hypothesis by showing some evidence that past prices can be used to predict future prices, so that investment strategies based on historical returns can create abnormal returns. This trading strategy is based on the idea that the market tends to overreact or underreact in the long, medium, or short term. The phenomenon of overreaction states that when individuals revise their market beliefs, they tend to give greater weight to the latest information and give less weight to previous information.

Market overreaction was first introduced by [4] through their research using stock data from the New York Stock Exchange (NYSE). Market overreaction occurs because investors are too excessive in evaluating the latest information that can change perceptions and expectations of a company, so they pay less attention to previous information. Overreaction is a manifestation of market inefficiency in the presence of asymmetric information, namely a condition that indicates when some investors have information that others do not. Market inefficiencies tend to overreact in response to new information, both good news and bad news. Market participants will set rates that are too high for information that is considered good (good news) and will charge rates that are too low for information that is considered not good (bad news). The phenomenon of overreaction shows that due to new information; investors overreacted in the early period, causing the price to deviate from its fundamental value and then correcting by bringing the price back to its fundamental value. Research on the existence of excessive market reactions uses stock data to be grouped into two, namely the winner portfolio stock group, which is a group of stocks that consistently experience large price increases, while the group of stocks called looser, is a group of stocks that consistently experience large price declines. The occurrence of winner-loser anomaly indicates a return reversal experienced by loser and winner stocks which gives rise to two investment strategies, namely the contrarian investment strategy and the momentum strategy.

Research by [4] using data from the United States capital market, they found that stocks that initially provided positive (winner) or negative (loser) returns would get price reversals in future periods. Investors who buy loser stocks and sell these stocks after becoming winners will earn significant abnormal returns of up to 25% per year for a time horizon of 3 to 5 years [5]. The occurrence of this reversal is indicated by stocks that were previously designated as winners to become losers, while stocks that are predicated

as losers will become winners. With the winners-losers anomaly in the capital market, it is possible for investors to gain profits through a contrarian strategy. Investors will sell winners' stocks and buy losers' stocks which are believed to provide more profits in the long run so that investors will get significant abnormal returns.

The momentum strategy is a strategy that is the opposite of the contrarian strategy. Momentum strategy is where investors generate positive returns by buying winners' stocks and selling losers' stocks [6]. This momentum strategy assumes that previously stocks with the title of winners will continue to be winners, while those with the title of losers will still be losers. Momentum strategy investors will estimate that if the current stock price rises then in the future the price will continue to rise. Therefore, momentum strategy investors will only buy winners' shares and sell losers' shares. Based on the characteristics of this strategy, observers often call the momentum investment strategy "buy high sell higher".

This paper will try to explain the contrarian return strategy, and the momentum return strategy in the Indonesian capital market. The setting of this paper begins with an introduction, the second part discusses reactions to market information, the third part discusses contrarian strategies, the fourth part discusses strategy momentum, and the final part of this paper is the closing containing an outline summary of the previous presentation.

## II. REACTIONS ON MARKET INFORMATION

The Efficient Market Hypothesis (EMH) introduced by Fama in 1970 said that in an efficient capital market, all information is reflected in prices, which will adjust quickly and precisely to new information. There are three forms of market efficiency put forward by Fama, first, the weak form of the efficient market hypothesis, in this form stock prices can be reflected from price history and market data. So, investors can detect price trends using charts of past prices to get abnormal returns. Second, the semi-strong form of the efficient market hypothesis, stock prices reflect all public information such as financial statements, mergers and acquisitions, and abnormal returns can still be obtained. Third, the strong form of the efficient market hypothesis, stock prices reflect all information whether it is public or private information. So that abnormal returns cannot be obtained. Each form of efficient market is closely related to the extent to which information is absorbed in the market. This theory is a conventional theory which later became a lot of discussion because many anomalies or irregularities were found in the capital market[7].

Overreaction is an efficient market anomaly. The concept of market overreaction originally came from experimental psychology conducted by [8]. The study stated that "humans often predict the results that best reflect their inputs". The development of the current capital market is inseparable from the behavior of investors, therefore changes in stock prices in the future are due to continuous pressure to buy shares which results in stock prices continuing to rise, as well as in the opposite condition a continuous decline in stock prices because investors continue to sell the shares. That is, information that conveys positive or negative sentiment can cause investors to misjudge, resulting in stock prices being above or below their fundamental value.

A major challenge for behavioral finance is to find a direct relationship between the behavior of individual investors and the dynamics of asset prices. Several studies have shown that most investors are irrational and prone to heuristic behavior that leads to suboptimal investment choices. One of the most striking patterns of irrational investors in financial markets is the tendency of some investors to sell winners too early and hold on to losers too long. [4], revealed that due to the correlation of stock returns, investors tend to underreact in the short term and overreact in the medium/long term to good/bad news. Then, [9], explained that investors tend to be overconfident and suffer from self-attribution bias. Their behavior generates overreaction. This model shows short-term momentum and long-term reversal. [10] argue that the representative heuristic can cause investors to forecast current earnings growth well into the future. At the same time, investor bias conservatism leads to underreaction to public information.

Among the behavior-based explanations for the phenomenon, underreaction and overreaction are the most common [10], and [11]. The underreaction of stock prices due to news on the market can lead to momentum, because the slow diffusion of information between investors can trend the stock's true value longer than expected. But over a longer period, overreaction of stock prices can occur due to extrapolation from a series of good or bad news, especially if investors tend to be overconfident. According to [11], investors can use only part of the information about the economy because of communication friction, which causes underreaction in the short run. Investors who believe in the momentum strategy can profit from the momentum trend, but cause overreaction on a long-time horizon.

Investors can take advantage of market overreaction situations by implementing contrarian strategies to take advantage when market overreaction occurs. This method provides advice for investors to buy stocks that have performed poorly in the past and sell these shares after making stocks that perform well (winners) resulting in significant positive abnormal returns [12]. This statement is because in the long term, the stock will give a profit or profit which can be more than the stock that previously passed the winner title. Then, the statement is made into an effect through a negative relationship between winner and loser securities. The loser can later become the winner and the winner can become the losing stock, thus selling the loser's securities will get an abnormal positive return[13].

Overreaction research on the Indonesia Stock Exchange shows varying results. [14] conducted research on the Indonesian capital market, the results indicated that there was an indication of overreaction which was indicated by the loser portfolio outperforming the winner portfolio. Then, [15] found that winner-loser portfolios produce performance that is not significantly different based on the momentum investment strategy and the abnormal returns of the winner portfolio in the formation period with the testing period tend to be negative and significant, while the abnormal returns of the loser portfolio in the formation period with the testing period tend to be negative, positive and significant for various stock portfolio groups. Research [16] found that there was a tendency for winner-loser anomalies in manufacturing industry stocks in the Indonesian capital market. They found that at first it gave a positive return or a negative return experienced a reversal at the end of the test period. Likewise, research by [17] conducted market overreaction research with a sample of stocks that are members of the Kompas 100 index. The results of their research show that market overreaction only occurs in loser stocks and is positively associated with company size.

Recent research by [12] concluded that there was an overreaction to the shares of manufacturing companies listed on the IDX for the 2015-2017 period. The results of this study indicate that there is no overreaction to the Average Cumulative Abnormal

Return (ACAR) of the winner portfolio in all observation periods, winner stocks still generate positive returns, there is no overreaction to the Average Cumulative Abnormal Return (ACAR) of loser portfolios in all observation periods, stocks the loser still produces a negative return (loss), there is no overreaction to the difference in the Average Cumulative Abnormal Return (ACAR) of the loser's portfolio and the winner's portfolio. This means that the performance of the loser's portfolio does not outperform the performance of the winner's portfolio during the study period. Then, [18] examine market overreaction at IDX 30 (research period 2016-2019), the results of the study show that portfolio winners or losers appear to experience symptoms of price reversal several times on stocks listed on the IDX30 Index on the Indonesia Stock Exchange during the study period 2016-2019. However, it is not statistically significant, which means that there is no overreaction in the Indonesian capital market. The results of this study are consistent with the theory of the efficient market hypothesis where event studies are used to test market overreaction in the form of a semi-strong market, so that the Indonesian capital market is in a semi-strong condition. The Indonesian capital market has shown an efficient market in a weak or semi-strong form. Investors cannot take advantage of historical data information to gain abnormal profits. Indonesian investors must be active in investing and analyzing existing information in a sophisticated and precise manner to make the right investment decisions to make a profit. Likewise, research by [19] regarding the Role of Overreaction in the Consumer Goods, Cosmetics and Household Needs Industry Sector on the Indonesia Stock Exchange, the conclusion of this study is that overreaction affects stock prices in companies in the consumer goods industry, cosmetics & home needs on the Indonesian stock exchange in January 2019 - February 2022. This shows that the phenomenon of overreaction both before, during and after the pandemic is still a big problem for investors and companies. Overreaction became a very significant influence during the pandemic and several problems that occurred, so that it became a big problem for companies in the cosmetics and home industry subsectors for the 2019-2022 period.

### III. RETRUN CONTRARIAN STRATEGIES

The contrarian investment strategy is a strategy used by investors to expect a reversal of stock returns at a certain period, namely the return rate that is initially positive or negative is expected to experience a reversal within a certain period (reversal return). This strategy was popularized by [4] from a study he conducted on the US capital market. They found that investors only take partial information and react to the emergence of new information so that stocks that initially provide positive (winner) or negative (loser) returns will experience a reversal in the following period.

The contrarian strategy is an active investment strategy which is an active investor action in selecting and buying and selling stocks, looking for information, following the time and movement of stock prices and various other active actions to get abnormal returns. As the name implies, the contrarian strategy takes advantage of the mistakes of many novice investors due to herd behavior by taking a position against the market. That is, investors who use this strategy buy shares when the market is experiencing a decline (the price is felt to be cheap) and when other investors are happy to sell and sell shares when the market is experiencing an increase, while other investors are trying to buy shares [20]. This strategy is based on the overreaction hypothesis, ranking stocks based on their past performance and recommending buying loser stocks and selling past winners [21]. Reversal returns are generated from the overreaction shown by investor behavior. Investors overreact to new news, and if this news is positive, investors will be overoptimistic and make the stock price overvalued, while if the new news is negative, investors will be too pessimistic so that the stock price will be undervalued. The phenomenon of overreaction can relate to the representational bias of [22], this bias causes mispricing, and is followed by a correction of the mispricing which causes a reversal.

Overreaction, mispricing and reversal are used as sources of contrarian strategies in obtaining abnormal returns. So that in the contrarian strategy, portfolio formation is carried out by buying stocks that have experienced a decline in the past and selling stocks that have experienced an increase in the past. In order to get the wrong price stocks, and will experience a reversal of price direction. [23] examined momentum and contrarian strategies in Australia from 1992-2011. They find that the contrarians are evenly distributed for short-term investments while momentum dominates for the medium and long term. However, it is only contrarian that the short term performs better and is statistically significant.

[24] examines how the size of the momentum and contrarian investors in the market affect the balance of stock prices, and looks at the possible causes that affect returns for these two types of irrational investors. The researcher suspects that rational informed investors influence investors' irrational behavior. The researcher found that informed investors manipulate asset prices, and lead to momentum and reversal macro phenomena. When the number of momentum investors is relatively high, informed investors will try not to bring the price back to the fundamental price and cause the price to be overpriced. On the other hand, when there are relatively more contrarian investors in the market, due to fundamental risks, even when good news appears, informed investors will avoid overreaction to stock prices, resulting in underreaction phenomena.

[5] also investigated the profitability of momentum and contrarian strategies in the Chinese stock market for the period 1994-2013 using data from the Shanghai Stock Exchange and the Shenzhen Stock Exchange. This study examines the profitability of trading strategies based on the method used by [6], [25] and [26]. The results of this study show that the contrarian strategy based on the [6] method for weekly periods is more profitable than other strategies and methods. [27] tested the momentum and contrariness in the Chinese market in 2010, after the Chinese government reduced the rules on short-sale restrictions. The capital market in China differs from the capital market in the USA in several ways. *First*, the capital market in China is dominated by individual investors with the characteristics of contrarian traders. *Second*, investors tend to act as speculators, because market information is less transparent. *Third*, China's capital market is still lacking in transparency. This study used the winner-loser JT method. This study did not find a momentum strategy return in China as in the US market, but a return from a contrarian strategy was obtained.

[28] examined market overreaction on the Indonesia Stock Exchange from 2009 to 2013. The population used in this study were all stocks listed on the IDX. The sample of this research is 26 shares that are actively traded. The formation and observation periods in this study were 3, 6 and 12 months. Data analysis uses market overreaction indicators introduced by De Bondt and Thaler (1985). This study found that the market overreaction on the Indonesia Stock Exchange was not significant. Then, [29] regarding

momentum and contrarian portfolio returns in the financial industry concluded that the performance of the winner stock portfolio resulted in lower performance compared to the performance produced by the loser stock portfolio in the next ownership period. The results of this study indicate that investors or investment managers are advised to use a contrarian investment strategy rather than a momentum investment strategy. This shows that stocks that initially generate positive returns (winners) and negative returns (losers) experience a reversal at the end of the ownership period.[30] examined the profitability of the contrarian strategy on the Indonesian capital market during 2019. The results of this study show price reversals for stocks on the Indonesian Stock Exchange, and these results are quite strong with up to 4 weeks of testing, although this price reversal has not been able to obtain significant profits for investors.

The profitability of this contrarian investment strategy is largely because investors overreact to information. Under these conditions, capital market participants tend to set share prices too high as a reaction to news that is considered good. Otherwise, they will undervalue in reaction to bad news. Later, this phenomenon reversed when the market realized it had overreacted. This reversal is shown by the drastic fall in the price of stocks that were previously rated as winners and the increase in prices of stocks that were previously rated as losers. Profits will be obtained if the stocks which were losers in the previous period will perform well in the following period, while the stocks which were previously winners will afterwards have poor performance.

#### IV. RETURN STRATEGY MOMENTUM

The momentum strategy was first documented by [6], this strategy is carried out by buying stocks that previously had good performance and selling stocks that previously had poor performance with the aim of getting a return above the market return. The momentum strategy according to Dhankar & Maheshwari (2017) uses the characteristics of continuation of stock prices for the short term, where prices tend to move in the same direction for periods of 3 to 12 months.

The momentum investment strategy is one of the active portfolio strategies that investors and investment managers can use to improve stock portfolio performance. This strategy is carried out by buying stocks that previously had good performance and selling stocks that previously had poor performance [31]. In this strategy, investors will look for the right momentum or time, when price changes that occur can provide benefits for investors through selling or buying shares. Data that has occurred (ex-post data) is used to look for patterns of stock movements and look for causal relationships between one event and another. Momentum investors seek to buy stocks that have recently risen in price on the belief that the stock price will continue to rise in accordance with an upward shift in the demand curve. Conversely, stocks that have fallen in price significantly will be sold in the belief that their demand curve has shifted downward. Various techniques to find the right momentum in a stock portfolio, for a short-term time horizon (a few days to a few weeks) momentum indicators by buying stocks based on trend lines and high trading volume, then medium term momentum (a few months to a year) can be done by buy stocks that have moved up in the previous few months, while a long-term momentum strategy is to buy stocks whose sales are growing at a rational price [32].

Analysis of the fundamental factors that influence the performance of a stock portfolio is a more complex quantitative technique for determining the most appropriate time to buy or sell stocks. If these factors can be identified, then investors will be able to predict the performance of the stock portfolio in the future. Investors will invest their funds in certain stock portfolios if changes in these factors will improve the expected performance of the stock portfolio. And vice versa, if it is estimated that changes in these factors will reduce the performance of the stock portfolio, investors will move their investments from the stock portfolio to other investment alternatives. In connection with the formation of a stock portfolio based on a momentum investment strategy, [31] put forward the following steps:

- 1). Identification of shares listed on the capital market.
- 2). Determines the ranking based on the amount of return for the period that just ended, which is referred to as the portfolio formation period.
- 3). Enter stocks that have a high average return into the winner portfolio group and stocks that have a low average return into the loser portfolio group.
- 4). Determine the winner and loser stock portfolio returns for the period to be started, which is called the portfolio testing period.
- 5). Repeat the analysis from the beginning, starting with Step 1 but moving forward one step at a time. Stop after a few repetitions.
- 6). Determine the average abnormal return on the winner portfolio and the loser portfolio.

If the momentum investment strategy works well, then the winning stock portfolio should generate a positive average abnormal return and the loser stock portfolio will have a negative average abnormal return. Momentum that provides a positive return implies that stocks that perform above the average stock in the previous period will exceed the average stock performance in the following period. Empirically, many researches on momentum investment strategies have focused on buying and selling investments in various decile combinations, with equal weight on stocks in buy and sell positions. Equal weighting is used because changes in returns as a result of funding strategies are easier to interpret. It is also possible to focus on self-financing portfolios where the weight of their momentum is measured by a linear function (past returns).

Empirical evidence regarding momentum investment strategies has been documented in the United States, such as: [6], [33] [34], and [35]. [6] studied individual stock returns for stocks traded on the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), finding that a momentum investment strategy cost zero from buying shares of winners and selling shares of losers. (losers) generate significant abnormal returns over a medium-term horizon of 3 to 12 months. According to their research, the profitability of individual stock momentum investment strategies in the US stock market does not result from systematic risk or the slowness of stock price reaction to changes in the factors commonly known to affect stock prices, but is due to past sales of stock losers, particularly fewer liquid stocks. Furthermore, this study also found that some of the abnormal returns generated in the first year after portfolio formation disappeared in the second year, and there was the same return pattern around the date of the past winner and past loser earnings announcement.

[34] confirm the research results of [6] using a longer-term historical perspective, finding that a momentum investment strategy has been profitable in the United States since the 1920s. [35] shows that momentum occurs in portfolios sorted by size and book to market equity variables. The formation of the portfolio in this study can be considered quite well diversified, because it reflects systematic risk (risk that cannot be eliminated by diversification). The results of this study also reveal an alternative view of the behavioral explanation in returns for momentum and the lead-lag correlation among stocks is stronger than autocorrelation.

[33] intensively studied industrial stock momentum investment strategies. Their research shows that individual momentum stock investment strategies are significantly less profitable after controlling for industrial stock momentum. Meanwhile, the investment strategy for industrial stock momentum, namely buying shares of past industry winners and selling shares of past industry losers, appears to be very profitable. The return component of industrial stock momentum continues to generate significant profits that can be a driver of the profitability of individual stock momentum investment strategies. The profitability of the industry stock momentum investment strategy along the medium time horizon was mainly due to long positions. It was also found that stock portfolios formed based on the momentum investment strategy were not well diversified, because winners and losers tended to form the same industry. Stocks in one industry tend to be more correlated than stocks from different industries. Furthermore, [33] state that both investment theory and its application in investment management are highly dependent on field understanding of existing stock return anomalies. Determining whether this anomaly is rooted in behaviour that can be exploited by more rational investors at lower risk has implications for market efficiency and optimal investment policy. The ability to execute a buy and hold strategy of buying past winners and selling past losers, which is commonly called the "individual stock momentum investing strategy" is still one of the most puzzling about this anomaly (Up and down movement of up to 12 percent abnormal return per dollar purchased on a self-financing strategy per year). Investing under individual stock momentum investment strategies appears to be a poor strategy when using historically short timeframes for portfolio formation (especially those of less than one month); this strategy is very profitable in the medium term (up to 24 months, although the strongest is in the range of 6 to 12 months); and again, this strategy is also bad over long periods of time. Specifically, there is strong evidence that the industry stock return component consistently generates significant returns.

[33] in their research conclusions present the following evidence: (1) the industry portfolio shows significant momentum, even after controlling for variable size, book-to-market equity, individual stock momentum, cross-sectional distribution in the average return, and potential microstructural influences; (2) when returns are adjusted for industry effects, the momentum returns from individual stocks are significantly weaker and some are not statistically significant; (3) the momentum investment strategy for industrial stocks is more profitable than the investment strategy for individual stock momentum; (4) the momentum investment strategy for industrial stocks generates higher returns compared to the most liquid and largest stocks; (5) the profitability of the industry stock momentum investment strategy over the medium time horizon is mainly due to long positions; and (6) unlike individual stock momentum investment strategies, industrial stock momentum investment strategies are strongest in the short term (one month) and beyond, whereas individual stock momentum investment strategies tend to disappear after 12 months and will slowly reverse over time. long. Thus, the short-term (less than one month) performance signs of industrial stocks and individual stocks momentum investment strategies are markedly opposite, but the mid- and long-term performance signs are the same. Return on industry share momentum can also be an indication of the importance of the industry in understanding financial markets. Several research results have shown relatively little impact from the industry on asset prices, both in domestic and international markets. This fact is at odds with the corporate finance literature, which recognizes the importance of the industry in explaining merger and acquisition activity, as well as other financial and investment policy decisions. The phenomenon of momentum is the continuous trend of past returns, namely past winners will continue to beat past losers. A market in which irrational investors and rational investors invest together will have a negative slope, positive excess kurtosis, and greater volatility than a rational regime.

Research on the momentum return strategy in the Indonesian capital market, among others, by [29] found that there was a significant difference between the winner-loser portfolios of manufacturing industry shares in the Indonesian capital market for 4 years, with an average abnormal return of the winner portfolio of seven observations of the test period which show that only a small portion shows a return that remains positive and most of the winner stock portfolios experience a reversal of returns to the negative.[36] tried to test the effectiveness of the momentum investment strategy in generating abnormal returns on the stock market. Empirical results show that the use of a momentum investment strategy in the Indonesian stock market is ineffective in providing significant positive abnormal returns for investors. Research [37] regarding the proof of return momentum and contrarian on Islamic stocks in the Indonesian capital market found that there is a return momentum in the formation period of 3 and 12 months for portfolios with equal-weighted weighting and for portfolios with the value-weighted method of weighting returns momentum found at 12 months formation. But statistically there is no significant return momentum.

## V. CONCLUSION

This study examines and describes the contrarian and momentum strategy phenomena that occur in various Indonesian capital markets. Based on the description of the literature described above, contrarian returns and momentum returns occur in the Indonesian capital market. This literature review shows that in the Indonesian capital market, both contrarian returns and momentum returns occur. The occurrence of such momentum strategies varies widely but mostly occurs in the short term during at least a twelve-month observation and testing period.

The profitability of this contrarian investment strategy is largely due to the fact that investors overreact to information. Under these conditions, capital market participants tend to set share prices too high as a reaction to news that is considered good. Otherwise, they will undervalue in reaction to bad news. Meanwhile, investors who use the momentum strategy are indicated by the behavior of buying stock portfolios that are performing well in the hope that their performance will continue to be good. Thus, they get a positive and significant abnormal return

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