ABSTRACT

Stock Portfolio Performance Based on Momentum Investment Strategy in Indonesian Capital Market

This research analyzes stock portfolio performance based on momentum investment strategy in Indonesian capital market. The sample consists of public companies listed in the Jakarta Stock Exchange that were actively traded between the periods of December 1997 until December 2004. Sampling method used in this research is multiphase sampling method which is analyzed by using several stock portfolio performance measurement tools (abnormal return and risk adjusted return); means difference statistical test; Pearson Product Moment correlation statistical test; coefficient of determination test; financial performance measure; and factor confirmatory and path analysis with latent variables model.

The results of the analysis show that momentum investment strategy can not be used by investors and investment managers to form stock portfolio. Even though this strategy is useful in forming winner-loser individual and industrial stock portfolio that are well diversified (as indicated by the value of R^2), it can not produce a positive and significant difference in the performance of winner and loser portfolio; the performance of individual and industrial stock based on momentum investment strategy is determined more by nonfundamental factors such as market psychology and investors emotion instability which cause overreaction to information. The finding is consistent with Hameed and Kusnadi's finding (2002), but inconsistent with the findings of Jagadeesh and Titman (1993), Rouwenhorst (1998), Hurn and Pavlov (2003), and Moskowitz and Grinblatt (1999).

Based on these findings, some recommendations proposed are as follows: stock market participant can use contrarian investment strategy, which is the opposite of momentum investment strategy, to form stock portfolio in Indonesian capital market, because this research indicates that stocks that initially were giving very positive return (winner) and very negative return (loser) eventually reverse in the end of test period; capital market agents can implement Teynor Index to measure winner-loser portfolio performance based on individual stock momentum investment strategy and industrial stock, because it is a consistent measure of risk-adjusted return; stock market participants are expected to be more sensitive to various activities or events that affect the stock price fluctuation but directly and indirectly. They are also expected to be careful in considering the relevance of certain event to stock price movement. This activity is needed because the finding of this study indicates the existence of overreaction phenomenon in the Indonesian capital market

Key words: momentum investment strategy, fundamental factors, stock portfolio performance, individual stock, industrial stock.