

CHAPTER I

INTRODUCTION

1.1 Research Object

This research is using stocks' monthly return from both U.S and Indonesian market as the analytical unit. These stocks will then be ranked based on the monthly return. The ranking will then create two portfolios, where top-ranked stocks will be in the 'winner' portfolio, and low-ranked stocks will be in 'loser' portfolio. With that being said, there will be 4 portfolios created in this research; 2 portfolios in U.S. market, and 2 portfolios in Indonesian market.

The U.S. market is represented by the New York Stock Exchange (which will then be referred as NYSE for the rest of the writing), meanwhile Indonesian market is represented by IDX Composite, or what's familiar with Indeks Harga Saham Gabungan (which will then be referred as IHSG for the rest of the writing). There are major differences between the two markets, mainly due to the fact that U.S is a developed market, which has deep and high liquidity, lower volatility, more diverse sectors, more dominant institutional investors, and relatively better regulations (Trading View, 2025). In contrast, Indonesia is an emerging market, with less liquid market, higher volatility, sector-concentrated, and is usually dominated with retail investors. It's a complete opposite of the U.S. market. With all of these characteristics, it indicates that developed markets have strong-form efficiency than any other market, including emerging market (Lee & Choi, 2023).

When a market is dominated by retail investors – just like Indonesia's – there are higher probabilities of irrational practices. This is because of the tendency to make sentiment-driven investment decisions. Therefore, market anomalies such as price reversals are more possible in emerging market compared to developed market. Hence, contrarian strategy is more common in emerging market like Indonesia, and less often in developed market such as U.S.

1.2 Research Background

Macroeconomic stability can give a solid foundation for economic growth (Dewi et al., 2024). However, the economic condition of the world is a dynamic thing, where it will consistently fluctuate. It is common for people to expect that the whole economic condition won't be well all the time, especially when there are plenty of factors contributing to it. Among those, one of the greatest factors is the political situation, whether they're stable or not. Political instability has intense significance towards how the economy works (Jannils, 2021). Unfortunately, according to (The Economist Intelligence Unit, 2024), with democracy index as proxy, the overall political situation of the world is slowly declining. In Figure 1.1 – where 10 indicates the best index score – it's obvious that there are more setbacks than advancement. Moreover, there has been multiple events affecting the world's political – and eventually – economic stability recently, such as geopolitical tensions (2022), trade war (2025), and some even see the potential of upcoming World War 3 (The Week UK, 2026).

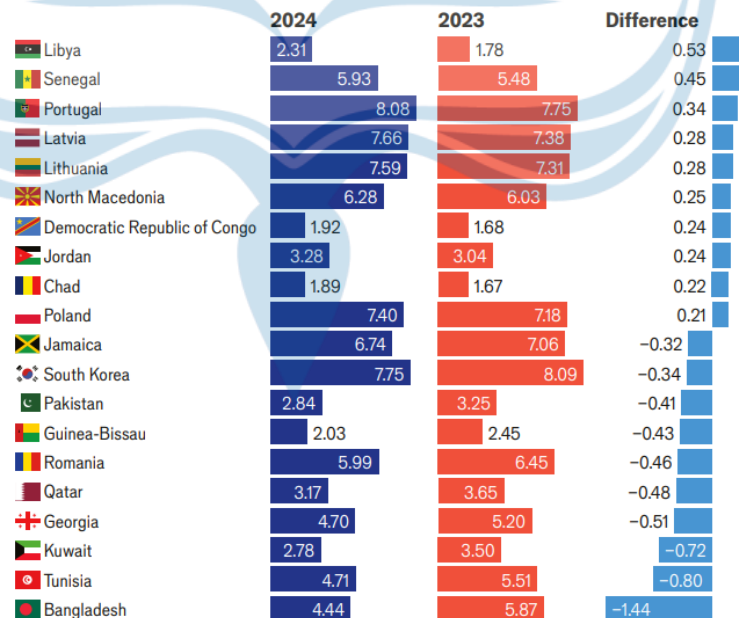


Figure 1.1 Top Ten Democracy Index Upgrades & Downgrades

Source: Democracy Index 2024 by Economist Intelligence Unit

As one of the largest indicators for economy, inflation will definitely be influenced by this political uncertainty. In Middle East & North Africa, it is proven that political instability significantly increases inflation volatility (Afnan et al., 2023). Besides, it is also confirmed that geopolitical risks increase inflation (Caldara et al., 2026). This is why holding cash is no longer sufficient for long-term sustainability. People are shifting into investment to protect their asset value. Investment is the activity of allocating money or capital in a certain company or a project, with the purpose of making profit. With investing, investors both individual and institution are able to increase their earnings to increase their economy (Haris Roba'in, 2022). One of the most popular investment instruments is stock, the form of security that represents ownership of the owner on the issuing company (Investopedia.com, 2024). People who buy stocks are called shareholders, and they're expecting to receive profits either through dividends or price increase from the purchase price. This is why stocks can beat inflation; the returns investors get might exceed the inflation rate, and company's earnings and dividends often rise with inflation, unlike cash which loses value.

Nowadays, investing in stock market is no longer an uncommon occurrence, because it is necessary to mitigate risk from economic shocks and volatility. Other than protecting assets' value, investing in stock can also increase wealth in the long run. In addition to that, the rise of financial technology, robo-advisor, blockchain, cryptocurrency, and other technology-enabled innovations collectively lower barriers to entry, show transparency, while encourage investors to participate in the stock market (He et al., 2025). Therefore, it is no surprise that the number of investments keeps on rising. Figure 1.2 shows that the number of U.S. investors has increased 74% since 1989 up to 2022.

Nonetheless, the rapid growth of investors also comes with some behavioral patterns in the market, which generally is irrational practices. For instance, herding behavior, it is an action when investor follows others' investment decisions instead of having an independent decision (Sibarani & Suparno, 2024). Another great example is FOMO (Fear of Missing Out). FOMO is when investors make rushed

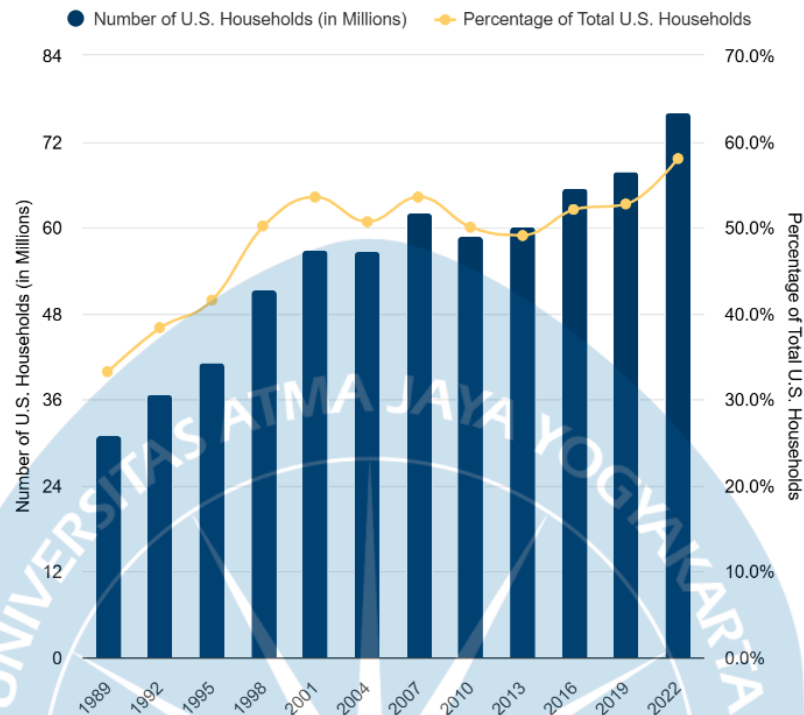


Figure 1.2 U.S. Households' Participation in Capital Markets: Number and Percentage (1989 - 2022)

Source: U.S. Securities and Exchange Commission

and uninformed decisions impulsively, just because the perception of missing out on potential gain (Idris, 2024). Apart of that, another bias actions in investment such as overconfidence (overestimation of investor's knowledge, ability, and control over market), Loss aversion (tendency of avoiding losses rather than acquiring equivalent gains), and Recency bias (act of trusting recent news or information over past facts) will also appear (Chandna, 2024; Rose & Armansyah, 2022). If many investors are conducting these practices, it will generate anomalies in the market. The collective action from overreacted investors will push the prices above their fundamental value (mispricing), which is risky because when the hype fades or bad news appears, the prices will experience a sharp decline. These bias behaviors – overreaction and mispricing – are then what became fundamental for contrarian investment strategy, because it fosters return reversals.

De Bondt & Thaler (1985) are also consistent with this statement. They stated that market truly overreacts more on recent news rather than valuing more

on long-term potential gain. They found out that ‘loser’ or current underperforming stocks surpass the market by an average of 19.6%. Meanwhile ‘winner’ or current high-valued stocks earned 5% less than the market. Through this research, public is now aware that winner stocks won’t stay winning forever, and loser stocks won’t stay losing forever. Instead, loser stocks could absolutely outperform winner stocks. Hence, people are starting to invest in loser stocks with a hope that there will be a reversal in the upcoming future, or what’s so called as contrarian investment strategy.

Contrarian investment strategy is strategically potent during nowadays period of multidimensional polarization in the market. This contradicts the Efficient Market Hypothesis by Fama (1970), where prices are supposed to indicate all information. But instead, many researchers found return anomalies such as contrarian. Research by Kowalke (2023) has proven that contrarian strategy is effective, since the ‘loser’ portfolio exceeded the rate of return of ‘winner’ portfolio in the US REIT market specifically. Not only that, but contrarian strategy is also profitable for both long- and short-term investment in Sao Paulo stock market (Merbouh & Sonmezer, 2023). Moreover, Brouwer et al. (1996) confirm that return reversal does happen in Europe area, specifically in France, Germany, The Netherlands, and United Kingdom. Even in the scope of Asia, in Indonesia, research by Kusmayadi et al. (2024) proved the efficiency of this strategy, as the winner and loser stocks truly experience a reversal. Thus, even though all of these researches came from greatly different areas and markets, the contrarian strategy still manages to consistently exist significantly.

However, it is crucial to take into account that every investor has their own behavior when it comes to making investment decisions, and it may vary according to their own beliefs, risk perception, risk tolerance, and many other aspects. These behavioral differences are usually formed naturally based on geographic factors. People who live in the same area tend to think the same way. Thus, investors in every country would also have different behavior in their investments. For instance, research by Budiarso et al. (2020) states that during COVID-19 pandemic, Indonesian investors perceived higher risks as a sign of potential higher returns. In

short, Indonesian investors were pretty optimistic. Meanwhile research by (Naseem et al., 2021) stated that U.S investors were pessimistic during the COVID-19 era when they withdrew their financial investments. This obviously shows that there are some differences in Indonesia and U.S markets behavior, and the chance for contrarian strategy will also differ between U.S. market and Indonesian market. The effectivity of contrarian strategy will rely heavily on market context, time horizon, and macroeconomy situation.

The argument that the result for contrarian strategy differences in U.S. and Indonesian market due to disparity in market context, time horizon, and macroeconomy situation is supported by several previous studies. For instance, Kusmayadi et al. (2024) recognized the existence of return reversal in Indonesian market. Munir et al. (2022) also confirm that contrarian effect does exist in South Asian emerging stock market (in this case are Bangladesh, India, and Pakistan). These findings combined construct an assumption that contrarian strategy is more common in emerging and weak-efficient market. On the other hand, there are couple of studies in developed markets that show no sign of contrarian. For example, in Latin American market, investors are unable to profit from return reversal (Berggrun et al., 2025). According to (Laly, 2025), there are actually short-term opportunities for contrarian strategy in U.S. stocks (especially blue chips), but investors couldn't gain any profits due to transaction cost. Just like previous assumption, one of the reasons contrarian doesn't exist in this market, is because U.S. is a developed and more effective market.

Zhang et al. (2023) comparison on U.S. and China's stocks resulted the same argument; contrarian strategy is more suitable in emerging market (such as China), and instead of contrarian, momentum strategy is more suitable in developed market (like U.S.). Yet, there isn't much research like Zhang et al. did. Research that directly compare the contrarian strategy effectivity between developed market (U.S.) and emerging market – specifically Indonesia – with the same design and period. This creates a gap that this research aims to fill, whether contrarian strategy truly effective in both U.S. and Indonesian market.

1.3 Research Questions

Normally, people tend to fear the situation of being different than majority of others. But it is interesting how going against majority market overreaction behavior can benefit instead. Compared to other investment strategies, contrarian strategy stands out for its contrast appeal: buying ‘loser’ stocks and sell overperforming ‘winner’ stocks as an anticipation of return reversals. This strategy came from an empirical observation in international market, specifically U.S. Through the study, De Bondt & Thaler (1985) documented significant return reversals in US market over 1-5 years. This pattern definitely challenges the efficient market theory by Fama (1970), where stock prices always reflect all information, and such things as reversal wouldn’t exist. Contrarian strategy on the other hand implies that it is possible to outperform the market through analysis and strategy. In other words, contrarian strategy verify that market is not fully efficient.

Yet, the universality of previous research findings remains open questions, especially in emerging markets, where they tend to be more volatile, has some liquidity constraints, and more sensitive to local economic state. For instance, Indonesian market perceived riskier compared to international benchmarks due to its high volatility (Hamonangan et al., 2024). Furthermore, Indonesia’s high market volatility resulted in the declining in market liquidity (Muktiyanto, 2015). This raises critical question of how contrarian strategy exists among these contexts.

These dynamics create the foundation for the following research questions:

1. Does contrarian strategy significantly generate abnormal return in U.S. stock market?
2. Does contrarian strategy significantly generate abnormal return in Indonesian stock market?
3. Are there any differences between effectivity of contrarian strategy in U.S. market and Indonesian market?

1.4 Research Objective

Many researches have been conducted in order to evaluate whether the contrarian strategy is valid and thrive in their respective market. This research however, isn't only going to focus on that part. This research is arranged to achieve several objectives, namely:

1. To analyze whether the contrarian strategy can significantly generate abnormal return in U.S. stock market.
2. To analyze whether the contrarian strategy can significantly generate abnormal return in Indonesian stock market.
3. To analyze whether there are any differences between effectivity of contrarian strategy in U.S. market and Indonesian market or not.

1.5 Research Scope

This research focuses on the comparison of market behavior in Indonesian and U.S. stocks. Moreover, this study will emphasize whether there is any reversal in the prices of winner and loser stocks and is the contrarian investment strategy effective in giving the investors a significantly higher capital gain (profit). Therefore the “effectiveness” in this research is referred to the abnormal return investors get after risk adjustment and transaction cost.

The research scope is limited to the companies with their stocks recorded in Indonesia Stock Exchange (Bursa Efek Indonesia), specifically those in IDX Composite (IHSG). Those stocks will then be compared with stocks listed in New York Stock Exchange (NYSE), which is one of the biggest United States markets. This comparison of these markets is using the time horizon of 12/12 months from the past 7 years (2019 – 2025). This time horizon is selected in order to capture the situation before, during, and after Covid-19 pandemic, which will have such high volatility in it.

The United States, which represented by NYSE, was selected as the international benchmark since it is the world's largest stock market. Table 1.1 consists of data showing that NYSE is number one largest stock market with 2,126

listed issues and market capitalization of \$31.7 trillion (Yahoo Finance, 2025). Besides that, NYSE also has average annual volatility below 20 (World Bank, 2024), which reflects deep liquidity that facilitates contrarian strategy execution without significant transaction cost. This scale provides a proxy for mature and developed market efficiency, where institutional investors dominate the U.S. market.

Indonesia's IHSG was also chosen to represent an emerging market with rapid growth with unique behavioral dynamics, positioning it as one of Asia's largest markets by trading volume and investor participation. According to Indonesia Stock Exchange (2025), there are now 954 listed companies on the IHSG. The stock market capitalization also reached a record of IDR 14,315 trillion, approximately \$845.06 billion. Along with that, the total transaction volume increased 404% compared to the end of 2024, which hit 9,214 contracts. This growth indicates positive and optimistic signs from the public. However, as emerging market, it is no surprise that Indonesian market has a relatively high

Table 1.1 The World's 10 Largest Stock Exchanges

Exchange	Market Capitalization	Listed Issues
New York Stock Exchange	\$31.7 trillion	2,126
Nasdaq	\$29.9 trillion	3,285
Shanghai Stock Exchange	\$7.3 trillion	2,284
Japan Exchange Group	\$6.9 trillion	3,958
Euronext	\$6.0 trillion	1,808
London Stock Exchange	\$5.9 trillion	1,025
Hong Kong Exchanges and Clearing	\$5.2 trillion	2,633
National Stock Exchange of India	\$5.2 trillion	2,735
Shenzhen Stock Exchange	\$4.6 trillion	2,872
TMX Group	\$3.8 trillion	3,581

Source: Yahoo Finance (2025)

volatility. In contrast with NYSE, IHSG is reported to have great volatility, especially when there's negative news such as world war or – previously – Covid-19 pandemic (Tanjung et al., 2025). As an addition to that, Ariani & Kristianto (2024) proved that there are significant differences in abnormal return in IHSG before and after one round election. These characteristics make IHSG a compelling area for contrarian strategy to arise from the tendencies of overreactions.

It is crystal how different both markets are: market representation, market capitalization, listed companies, and price volatility. However, previous studies have successfully proven that contrarian strategy is able to yield profits, in both U.S. and Indonesian market (Kowalke, 2023; Kusmayadi et al., 2024; Merbounh & Sonmezer, 2023). This leads to a question; can this strategy really function effectively in two vastly different markets.

1.6 Research Benefits

This research is expected to give theoretical benefit in the knowledge of understanding the effectiveness of contrarian investment strategy especially in different markets like NYSE and IHSG.

1.6.1 Benefits for Academist

- **Future Research Reference** – This study can be a reference for other future researchers in developing other theories and hypotheses regarding the strategy and the psychological behavior behind it. This research might also give a better and deeper view of how market functions and the patterns in it.
- **Literature Contribution** – This study can give contributions to literatures of cross-market comparison between market anomalies like momentum and contrarian, which are very limited in emerging market compared to developed market.

As for the practical benefits, hopefully it may help many aspects of society. The benefits are as follows:

1.6.2 Benefits for Investors

1. Improved Investment Decision-Making – This study will give investors insight into the contrarian investment strategy and its effectiveness. They might also gain significant profits by knowing which market – U.S. or Indonesian – is more suitable to conduct the contrarian strategy, and during which horizon. These investors can make more rational investment decisions in the future.
2. Better Understanding of Market Behavior – This study will help investors to have a better understanding about the behavior of winner and loser stocks in the market, which can lead to more strategic timing in buying and selling those stocks.
3. Risk Management - Investors can use the findings of this study to identify and mitigate risks associated with volatile market conditions, especially when employing a contrarian strategy.

1.6.3 Benefits for Businesses

1. Access to Investor Insights – Businesses can understand investor behavior better with this study, especially when they observe stock market trends and reversal patterns, allowing them to measure market sentiment and adapt their business strategies accordingly.
2. Attraction of Long-Term Investors – This study helps businesses to understand how contrarian strategies influence stock prices, so they can focus on long-term value creation, attracting investors who are looking for strategic gains rather than speculative profits.

1.6.4 Benefits for Government

1. Increased Economic Stability – With this study, there's an expectation that people will be more careful in allocating their funds for investment. With more rational investment decisions, the stock market may reduce its volatility, contributing to a more stable financial environment, which is beneficial for the broader economy.

2. Improved Regulatory Framework – This study could provide insights that assist government in crafting regulations that create a more solid, fair, and transparent stock market. This way many people will feel safe and secure investing their money in this market.
3. Foreign Investment Attraction – By comparing domestic and international markets, the research may provide the government with insights on how to improve the attractiveness of the stock market to foreign investors, driving more capital inflows into the country.

1.7 Originality of Writing

This research was written originally by the researcher. There has not been any same topic that has been discussed previously. This research is also the first one that compares the same contrarian strategy in two exceptionally different markets. All writing, assessment, analysis, figures, conclusions, and recommendations within this research are explored and learned by the researcher herself and supported by previous research that explores contrarian strategy in other markets or countries. Hence, this research is original and did not copy nor imitate other researches that already exist.

1.8 Writing Systematic Order

CHAPTER I INTRODUCTION

This chapter consists research background, research questions, research objectives, scope of the research, and potential benefits from the research.

CHAPTER II LITERATURE REVIEW

This chapter contains theoretical background and foundation of this research, and previous research about the strategy. Hypotheses are also formed in this chapter

CHAPTER III RESEARCH METHODOLOGY

This chapter explains the sampling approach, data collection, variables measurement, and the whole process of analysis methods.

CHAPTER IV DATA COLLECTION AND ANALYSIS

This chapter emphasizes the presentation of researched data, its assessment, analysis, along with the findings and result of the process.

CHAPTER V CONCLUSION AND RECOMMENDATION

This chapter is filled with conclusions, implications, limitations, and recommendations about this research.

