

## CHAPTER V

### CONCLUSION AND RECOMMENDATION

#### 5.1 Conclusion

In this research, an attempt is made to examine the effectiveness of contrarian and momentum strategies in generating abnormal returns with different formation and holding periods in Indonesian stock market. For this purpose, cumulative abnormal return is used as proxy to analyze the effectiveness of both contrarian and momentum strategies. Furthermore, to increase the power of the test, this research used two different methods namely market adjusted model approach and capital asset pricing model. The effectiveness of both contrarian and momentum strategies will only be accepted if both market adjusted model and capital assets pricing model are showing the significance results toward the hypothesis of this research. Based on the research findings and discussion, it can be concluded that the effectiveness of contrarian strategy in Indonesian stock market is sensitive toward the portfolio formation period and for how long the investors or traders hold their portfolio. Therefore, this study concluded that not all portfolio formation and holding periods were proven to be effective as well as significant in generating abnormal return in Indonesian stock market. Yet, a particular formation and holding periods are still proven to be effective and significant to generate abnormal return. This study documented that contrarian strategy is proven to be significant and effectively used only within the 6 month formation with the short-term 3 and 12 months holding periods. Meaning to say,

Investors may be able to use the contrarian strategy to generate abnormal return by constructing portfolios based on the past 6 month performance and hold their portfolios for short-term 3 and 12 months.

In the context of the momentum strategy, the results of the study was also similar to the contrarian strategies' where the effectiveness of momentum strategy is sensitive toward the formation of portfolio and for how long the portfolios were held. Therefore, in an attempt to answer the problem formulation of this research, this study concluded that not all formation and holding period for momentum strategy is effective to generate abnormal returns in Indonesian stock market. Although this study document that most portfolio formations captured the phenomenon of price continuation, but only 3 month formation with 3 month holding period is proven to be effective and significant in generating abnormal returns with market adjusted and capital asset pricing model. Thus, this study implied that investors may be able to use the momentum strategy to generate abnormal return by constructing portfolios based on the past 3 month performance and hold their portfolios for short-term 3 and 6 months.

## **5.2 Research Limitation**

Although this research has reached its objectives, there were some avoidable limitations. They are as follows:

1. This research only add capital asset pricing model to increase the power of the test where adding other models such as three factors by Fama and

French (1993) will make this research more robust in terms of methodology.

2. This research only focuses on the effectiveness of contrarian and momentum strategies in generating abnormal returns without concerning other events that might affect abnormal returns.

### **5.3 Recommendations**

Based on the study and findings regarding contrarian and momentum strategies, the researcher makes the following recommendations:

1. Investor or fund managers should be more concerned about when to hold their stocks and when to sell it. Furthermore, other supportive information to form the portfolio is also highly recommended.
2. The future researcher can add other approaches such as three factors, four factor model, overconfidence, anchoring, analyst recommendation, herding and so on and so forth to make the research more robust in terms of methodology
3. It is better for the future researcher to analyze all stocks listed in the market instead of analyzing a particular index as research samples.
4. The future researcher may broaden the scope by analyzing the effectiveness of contrarian and momentum strategies in different markets.
5. It is better to extend the periods of observation since the longer the period of observation, the more accurate the results will be.