

The contrarians: Are they really the winner?

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ABSTRACT

Several new global issues information (including the COVID-19 pandemic) tends to have an impact on the capital market in Indonesia but big-cap stocks show good performance compared to small-cap stocks. Employing 766 listed firms as sample with 246 market days, this study examines whether the contrarians are really the winner. This study finds that the contrarians succeed to beat the market by violating the efficient market hypothesis. However, the success of the contrarian strategy does not seem to indicate that they are the real winners as they are only thin-winning.

Keywords: returns; contrarian; big; small; efficient

JEL Classification: G11; G12; G14

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1. Introduction

Ideally, returns are the main target of every investor. As the returns become the main target, investors can be influenced by fundamental considerations or vice versa by psychological ones. This causes the perspectives of investors to be classified as rational or irrational. According to Thaler (1999), a condition where decision-making tends to be influenced by psychology is called mental accounting. Consistent with Thaler (1999), Budiarmo et al. (2020), and Armansyah (2021) also confirm that mental accounting is a behaviour that considers benefits and consequences or tends to avoid risks. Additionally, some investors tend to chase value so they tend to choose an uncommon strategy so they are often referred to as contrarians (Chan, 1988; Lakonishok et al., 1994).

According to Berk (1997), Hidayat et al. (2019), and Wahyuni (2019), big-cap

stocks do not absolutely have optimal performance in terms of outperforming small-cap stocks. Figure 1 shows the trend of returns for big-cap and small-cap stocks for 2022. The trend pattern shows that the returns for big-cap stocks outperform the returns for small-cap stocks. During 2022, information about global issues including the COVID-19 pandemic enters to Indonesian capital market and tends to have various impacts on stock price movements. This study suspects that there is the involvement of investors who apply a contrarian strategy in obtaining optimum returns, especially on big-cap stocks. Therefore, the purpose of this study is to examine whether there is a tendency to apply contrarian strategies in the Indonesian capital market.

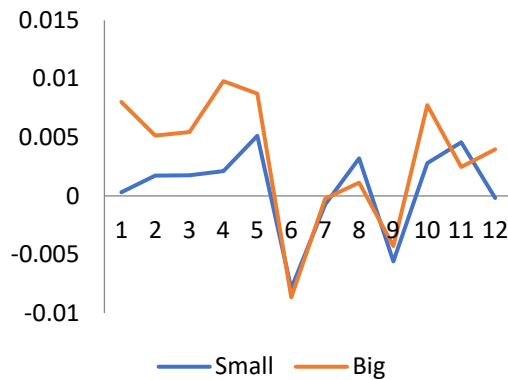


Figure 1. The returns of big and small

2. Literature review

The efficient market hypothesis underlines that stock prices fully reflect the current information so prices will be independent of past prices (Fama, 1970; Malkiel, 2003). As the market is efficient then investors are not able to create extraordinary returns or in other words, no one can beat the market (Fama, 1970; Malkiel, 2003). Chan (1988) explains that a contrarian strategy does not consistently follow the weak form of the efficient market hypothesis. Chan (1988) also finds that the strategy of the contrarians only produces small abnormal returns or even is not economically significant.

Warninda and Asri Sw (1998) find that the contrarian strategy cannot be applied in conditions where losers' stocks cannot provide positive abnormal returns. Warninda and Asri Sw (1998) suggest that investors cannot use indicators that small-cap stocks will be the losers and conversely big-cap stocks will always be the winners. Consistently, Yani et al. (2014) confirm that there is no difference in returns between big-cap stocks and small-cap stocks, especially in the period 2007 to 2012. But, Japlani (2015) also confirms that big-cap stocks tend to have greater monthly returns than small-cap stocks in the period 2010 to 2014. Recently, Putra et al. (2022) also find that small-cap stocks tend to have higher abnormal returns than big-cap stocks in the

period 2019 to 2021. This condition is most likely caused because big-cap stocks tend to be influenced by various new information in the market such as reported by Syafitri and Suryani (2022), and Putra and Mahyuni (2023).

H1: The contrarians are the winner

3. Research method

This study selects 766 listed firms during the period January until December 2022 (or 246 market days) as the sample. In terms of hypothesis testing, this study takes several steps. First, determine stock returns and market returns which are calculated as the difference between current and previous prices divided by the previous price. Second, determine market capitalization for each firm which is calculated as listed shares multiplied by closing prices. Third, determine big-cap stocks (Big) and small-cap stocks (Small) based on the median of market capitalizations. Fourth, estimate the abnormal returns based on the capital asset pricing model (CAPM) by following Chan (1988) with formula as follows.

$$R_{it} - RF_t = \alpha_{it} + \beta_{it}(RM_t - RF_t) + \varepsilon_{it} \quad (1)$$

R_{it} is the stock returns of firm i at time t , RF_t is the risk-free rate of Central Bank of Indonesia at time t , and RM_t is the market returns at time t . Fifth, conduct the runs test with formula as follows.

$$z = \frac{U - \left(\sqrt{\frac{2np \cdot n}{n}} + 1 \right)}{\sqrt{\frac{2np \cdot n(2np \cdot n - n)}{n^2 \cdot (n-1)}}} \quad (2)$$

The final step, this study checks the normal distribution of data and running the mean difference test between big-cap stocks and small-cap stocks. The significance level for this study is 1%, 5%, and 10%.

4. Result and discussion

After calculating the stock returns, this study calculates market capitalizations and determines its median. The median of the market capitalizations is IDR 1,287,904,063,623.46 so the value below it is categorized as small-cap stocks and otherwise is big-cap stocks. Table 1 presents the descriptive statistics for returns of big-cap stocks and small-cap stocks. The mean of returns shows that big-cap stocks have better performance rather than small-cap stocks. The big-cap stocks also have high standard deviations which indicate that the returns of those stocks are more volatile than small-cap stocks. The returns of both stocks also show negative skewness which means the concentration of returns are still in a fair condition with the peaks of leptokurtic.

This study then runs a regression test based on the CAPM for each firm in determining abnormal returns. The results of the analysis show that the average abnormal return of the big-cap stocks is -0.0002 while the average abnormal return of the small-cap stocks is only -0.0003. The results indicate that the big-cap stocks have a better performance in minimizing the loss during 2022. On findings, this study is consistent with Japlani (2015) but inconsistent with Putra et al. (2022).

Table 1. Descriptive statistics

	Big	Small
<i>Stock returns</i>		
Mean	-0.0001	-0.0003
Std. deviation	0.00589	0.00439
Skewness	-0.634	-0.889
Kurtosis	0.583	1.641
<i>Abnormal return</i>		
Mean	-0.0002	-0.0003
Std. Deviation	0.00204	0.00216
Skewness	0.371	0.098
Kurtosis	1.599	1.685

To answer the hypothesis, this study uses the runs test to detect whether returns

move randomly according to efficient market hypothesis. Table 2 shows that returns from big-cap stocks tend to be more efficient than small-cap stocks. This finding indicates that the prices of the big-cap stocks fully reflect the information prevailing in the market at that time, so they are random. Consistent with Chan (1988), this study finds that the contrarians tend to be the winner as they beat the market in terms to get better returns.

Table 2. Runs test

	Big	Small
Test value (mean)	-0.0001	-0.0003
Cases < test value	108	110
Cases >= test value	138	136
Total cases	246	246
Number of runs	123	98
Z	0.108	-3.182
Sig.	0.914	0.001

In the final step, this study performs the mean difference tests to confirm whether the contrarians really the winner. Table 3 presents the normality test with the z-statistics of Kolmogorov-Smirnov (KS). The results show that the returns for big-cap stocks and small-cap stocks are normal while the abnormal returns are not normally distributed. Based on the results, this study performs the mean difference test where the paired sample test for stock returns is used while for abnormal returns the Mann-Whitney test is used.

Table 3. Normality test

	z-statistics	Sig.
<i>Stock returns</i>		
Big	1.090	0.185
Small	1.222	0.101
<i>Abnormal return</i>		
Big	1.628	0.010
Small	2.129	0.000

Table 4 presents the results of the mean difference test of stock returns and abnormal returns for big-cap stocks and

small-cap stocks. The paired sample test shows that the t-value is 0.726 and it is insignificant which means stock returns between big-cap stocks and small-cap stocks are not so different. The Mann-Whitney U test also shows similar results that the abnormal returns between both stocks are not so different. On those findings, this study is consistent with the findings of Yani et al. (2014). Consistent with Syafitri and Suryani (2022), and Putra and Mahyuni (2023), the findings of this study also imply that the big-cap stocks tend to be more volatile as new information arrives into the market. Consistent with Chan (1988), the findings of this study also imply that the contrarian strategy only produces insignificant total returns and abnormal returns during 2022.

Table 4. Mean difference test

	Big - Small
<i>Paired sample test (stock return)</i>	
t-test	0.726
Sig.	0.468
<i>Mann-Whitney U test (abnormal return)</i>	
z-statistics	-0.507
Sig.	0.612

5. Conclusion

There are several new information about global issues (including the COVID-19 pandemic) enter into the Indonesian market. But, the facts show that big-cap stocks smoothly outperform the small-cap stocks. This phenomenon indicates that the contrarians, through their strategy or called contrarian strategy, have contributed to the price movements of big-cap stocks. This study finds that stock returns and abnormal returns of big-cap stocks have a better value than small-cap stocks.

In addition, the market price movements of big-cap stocks tend to be more efficient than those of small-cap stocks, so this portrait indicates that the contrarians have been well-managed to beat the market. However, the results of

the analysis also show that both stock returns and abnormal returns obtained by big-cap stocks are not much different from those of small-cap stocks. The findings of this study imply that the contrarians are the winners but not really the winners as they are just thin-winning.

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