Abstract

Objectives The primary objective of this research is to determine statistically the existence of lead-lag effects in stock returns of Indonesia equity portfolios. The companies utilized in this study are differentiated based on their market capitalization and industry classifications. Additionally, it provides comparison with previous studies from developed and developing or emerging capital markets.

Method The sample used in this research is taken from the 58 companies that previously selected through industrial classification and selection criteria of leader and follower stocks. The returns from those firms are collected from year 2008 – 2010 that consist of daily and weekly returns. One hypothesis is developed in this research. The data is analyzed using Vector Auto Regression method to extrapolate and investigate the existence of lead-lag effects in Indonesian capital market.

Results This study finds that returns to stocks with relatively high market capitalizations lead returns to stocks with relatively low market capitalizations in Indonesian industry portfolios. However, out of ten industries examined, there are only six who contribute significant result. These lead–lag patterns or positive cross-correlations are found in both daily and weekly returns and continue to hold even after the market factor is removed.

Conclusion This research concludes that lead-lag effects do exist in certain industries and it may assist investors in managing the trading strategy. Indonesian capital market is not efficient since lead-lag effects is one of the phenomenon, which againsts the EMH. Furthermore, this research provides Indonesian evidence regarding the phenomenon that support the tested hypothesis and it may cotrIBUTE trading strategies in the capital market.

Key words
Industries, Lead-lag effects, Cross-correlation, IDX