

**DEDHY SULISTIAWAN**

University of Surabaya, Indonesia

**FELIZIA ARNI RUDIAWARNI**

University of Surabaya, Indonesia

## **IS PRICE TO EARNINGS RATIO (STILL) USEFUL FOR TRADING STRATEGY?**

### **Abstract:**

Overreaction phenomena stimulate assets mispricing and return reversals. Investors should build a trading strategy to receive benefits from the anomaly. Developing the classic idea of overreaction hypothesis from DeBondt and Thaler (1985 and 1990), we build stock portfolios based on sentiment and risk to produce higher future stock return. Using Indonesian data, we use financial information from public information to test weak-form efficiency. We believe that investors are not always rational and other groups of investors can use public information to generate excess return. This article finds that lower PER tend to produce higher future return, especially if lower PER accompanied by lower risk. Practically, our study contributes to the use of fundamental analysis in emerging markets. Theoretically, this study supports the idea of behavioral finance theory and reject weak-form efficient market hypothesis in Indonesia Stock Exchange.

### **Keywords:**

Price Earnings Ratio (PER), Price to Book Value (PBV), stock risk, future return, trading strategy

**JEL Classification:** G11, G14