Sri Lankan Journal of Management
Vol. 10, No. 1 & 2, January - June, 2005

Selling Winner Shares and Buying Loser Shares - A Profitable Contrarian Investment Strategy for Sri Lankan Investors

Abeyratna Gunasekarage

Abstract: This study examines hypothesis of stock market overreaction using monthly data for124 companies listed on the Colombo Stock Exchange over a 15-year period from January 1989 to December 2003. In agreement with the findings of previous research, the current study provides evidence for the existence of an overreaction effect in the market. *The loser (winner)* portfolio, which earned large negative (positive) abnormal returns the portfolio formation period, realized large positive (negative) abnormal returns in the portfolio test period. The differences in test period abnormal returns between *winner* and *loser* portfolios were statistically significant. The estimates of Jensen's alpha confirmed the above findings; even though this measure was negative for both portfolios, the performance of *loser* portfolio was, on average, much better than that of its *winner* counterpart.

Abeyratne Gunasekara is Senior Lecturer in Finance Department of Accountancy, Finance and Information System, University Canterbury, Christ Church , Newsealand