

ABSTRACT

Research related to the bubble condition on the stock market is quite a rare research. Liquidity has a role in bubble formation in a market but another thing to note is the risk factor. A bubble stock market can provide benefits but can also provide risks such as losses. The state of bubble that is difficult to predict makes researchers should conduct more extensive research. The purpose of this research is to analyze the influence of market liquidity and market risk upon stock return during bubble period by doing deeper research related to decomposition factors in 2007 until 2016.

The population in this study are companies that have a bubble or overvalued condition that is sorted by using the price earning ratio approach. Number of population that experienced bubble condition in 2007 until 2016 is as many as 125 companies. The method used in taking population amount was cross section.

The result of research on the decomposed market liquidity finds that illiquidity amihud, stock turnover and bid-ask spreads have a negative and insignificant effects on stock return in the bubble period. While the result of research on the decomposed market risk finds the fact that delta correlation and delta stock variation have a positive and insignificant effects on stock return in the bubble period. However, market risk decomposed into the delta market variation gives a significant and positive influences on the stock return in the bubble period.

Keywords: illiquidity amihud, stock turnover, bid-ask spread, beta decomposition, delta correlation, delta stock variation, and delta market variation