

ABSTRACT

The disposition effect means as Holding Losers to Long and Holding Winners to Short. This disposition effects' behavior is motivated by loss-aversion. This is proofed in the prospect theory by Daniel Kahneman and Amos Tversky (1797) that investor tends to be risk-averse in the domain of loss but risk-seeking in the domain of gain. Almost all of previous research about the disposition effect which was documented said that this behavioral bias of the disposition effect is happen among investors both young, old, men, women and amateur or professional. Nevertheless, are the dispositions effects of individual investors can be seen at aggregate market level? This research is designed to investigate IPO trading volume to looking for whether the disposition effect can be seen at aggregate market level. In IPO, almost all of investors have the same offer price relatively.

The samples of this research are 189 firms which have already done the IPO activity on period 2000 – 2010. The method of this research is statistical analysis by regression analysis divided by two steps. First, the model (7 independent variables) of each firms are regressed separately. Second, OLS pooled regression will be done with the residual of the first step regression as dependent variable. Three (3) dummy variables are added in this second step regression. The subsamples of this research are 80 firms.

The result shows that the disposition effect behavior can be seen at aggregate market level. Trading volume is lower when the stock traded below vs. above the offer price. Almost of all of t-values are negative when stock traded below the offer price and turn to positive once when stock traded above the offer price. For losers, shares' turnover also increases significantly once when stock crosses the offer price from below for the first time. For winners, it does not strong enough to support the disposition effect. Trading volume does not increase when the stock close to the offer price from above for the first time. Trading volume is increase when stock crosses level 1.15 and 1.20 of offer price.

Keyword: IPO, Trading Volume, Loss aversion, Disposition effect, Aggregate bias