

**THE INVERSE INDEX EFFECT OF MSCI INDEX REBALANCING: A
STUDY ON HERDING BEHAVIOR, INSTITUTIONAL INVESTOR
TRADING ACTIVITY, AND PRICE MOMENTUM IN INDONESIA**

By

Dylan Lee Teck Leong
12108060

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FACULTY OF BUSINESS AND COMMUNICATION



SWISS GERMAN UNIVERSITY
The Prominence Tower
Jalan Jalur Sutera Barat No. 15, Alam Sutera
Tangerang, Banten 15143 - Indonesia

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STATEMENT BY THE AUTHOR

I hereby declare that this submission is my own work and to the best of my knowledge, it contains no material previously published or written by another person, nor material which to a substantial extent has been accepted for the award of any other degree or diploma at any educational institution, except where due acknowledgement is made in the thesis.



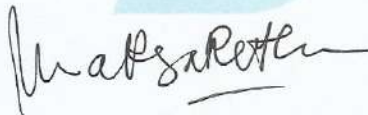
Dylan Lee Teck Leong

Student

15/7/25

Date

Approved by:



Margaretha T.P. Lingga, MM

Thesis Advisor

15/7/25

Date

(OPTIONAL)

Thesis Co-Advisor

Date



Dr. Nila Krisnawati Hidayat, SE., MM.

Dean

15/7/25

Date

Dylan Lee Teck Leong

ABSTRACT

THE INVERSE INDEX EFFECT OF MSCI INDEX REBALANCING: A STUDY ON HERDING BEHAVIOR, INSTITUTIONAL INVESTOR TRADING ACTIVITY, AND PRICE MOMENTUM IN INDONESIA

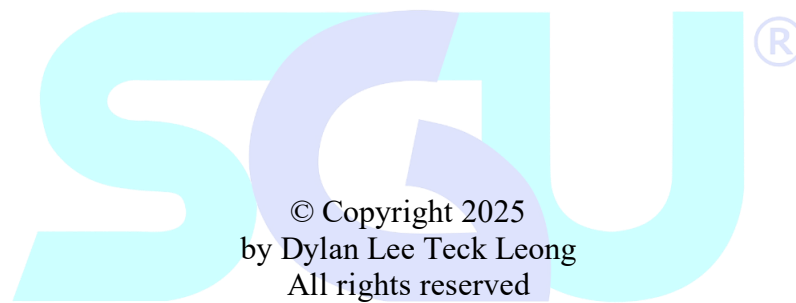
By

Dylan Lee Teck Leong
Margaretha T.P. Lingga, MM, Advisor

SWISS GERMAN UNIVERSITY

MSCI index rebalancing refers to the periodic adjustments of the MSCI indices, where certain stocks are added to or removed from based on certain eligibility criteria, often causing large trading volumes and price movements. This study examines the effect of herding behavior, institutional investor trading activity, and price momentum on abnormal stock returns around the MSCI index rebalancing announcements in the Indonesian stock market. Using an event study methodology, the study focuses on stocks that were added to or deleted from the MSCI Global Standard Index of MSCI Indonesia from 2012 to 2024. Multiple regression analysis is used to test the significance and direction of the relationship between these variables and cumulative abnormal return (CAR). The result shows that institutional investor trading activity has a significant but negative effect on CAR, while herding behavior and price momentum do not show significant effects. The study also finds an inverse index effect which is contrary to common findings in developed markets. The findings provide insight into how investor behave in Indonesia and shows that the impact of MSCI rebalancing can vary significantly across different market environments.

Herding Behavior, Institutional Investor Trading Activity, Price Momentum, Cumulative Abnormal Return (CAR), MSCI Index Rebalancing.



DEDICATION

This thesis is dedicated to my parents and my advisor for their unwavering support
and encouragement throughout the thesis journey



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