Abstract

This paper examines the behavior of the Taiwan stock market after a large price change during a single trading day and finds that the Taiwan stock market appears to underreact to good news and overreact to bad news. Though the January and February effects, and the difference in risk can partially explain the profits of losers and winners, the over- or underreaction effects cannot be completely subsumed under them. Market's underreaction to good news tends to better characterize the return continuation and market's overreaction to bad news is a proper explanation for the reversal pattern, a result consistent with the uncertain information hypothesis proposed by Brown, Harlow, and Tinic (1988).

Key Words: overreaction, underreaction, size effect, January effect, and February effect