

## **Overreaction Hypothesis in Emerging Balkan Stock Markets**

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This paper examines overreaction hypothesis in four emerging Balkan stock markets (Bulgaria, Romania, Croatia, Turkey), using average returns of four developed markets (US, UK, Germany and Greece), during the period 2000-2007. The hypothesis tested is that developed market movements create overreaction to Balkan ones. We apply the Dimson's (1979) aggregated coefficients method upon the conventional market model and an asymmetric non-linear smooth-transition generalized autoregressive conditional heteroskedasticity (ANST –GARCH) model. The findings provide evidence on accepting the overreaction hypothesis in Balkan markets and on excess volatility with asymmetric mean reversion patterns. The findings also support that a “momentum” portfolio strategy is the most appropriate for exceptional returns in emerging Balkan markets.

In [Emerging Markets: Performance, Analysis and Innovations](#), G. N. Gregoriou (ed.), Chapman Hall/ Taylor and Francis London, UK, 2009, pp. 185-202.