

The Efficient Market Hypothesis and Co-movement Between Stock Market and REIT

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ABSTRACT

The purpose of this study is to investigate the stock and REIT markets in the US and Taiwan from an efficient market perspective, taking into consideration the co-movement among them in both long-run and short-run relationships. It is also a goal to investigate the lead-lag relationship among these variables. To examine those relationships, this study used the Unit Root test, the VAR model, the Cointegration Test, the VECM test on stock and REIT prices in the US and Taiwan. Results show that the US stock market and the Taiwan stock market are efficient, consistent with the conclusion of Burton (2003) on the efficiency of the US stock market. Results also agree with Queensly's (2010) finding that the Taiwan stock market is weak-form efficient. In particular, the data show that the stock market led the REIT market in the US. Especially, the Taiwan stock market led the US stock market. These findings can be useful for investors in that they need only focus on the changes of lead variables in the right market to make their investment decisions. The results of the Co-integration test suggest that there are long-run relationships between stock and REIT markets in the US as well as between the US and Taiwan. Those results are consistent with the findings of Rafiquel et al (2008) who concluded that the performance of the S&P500 index influences the performance of the REIT index. Moreover, investors in both the US and Taiwan can use information about the historical value of US stocks to make predictions about the US REIT market, and the Taiwan stock and REIT markets.

Keywords : The EMH、 Co-movement、 VAR model、 Cointegration Test、 VECM Test

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