Independent Study Title	LIQUIDITY EFFECT IN INDUSTRY PORTFOLIO MANAGEMENT
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ABSTRACT

The examination of liquidity effect on the required rate of returns at industry-level is important for international/domestic portfolio diversification since individual industry performance is significantly different than market-level aggregated performance. The major contributions to the industry-market performance differences may derive from aggregate liquidity drivers, market-level masking of heterogeneous industry performance, market-industry portfolio construction, the level of global industry integration, corporate globalization development, and exchange rate impact. Our study finds there is a significant relationship between industry-level liquidity proxy and their rate of returns in our sample stock markets, while simultaneously controlling for firm liquidity, market returns, firm size, and firm value. When sorted based on liquidity proxy level, within industries and markets with higher liquidity group, we find expected low rate of returns from high liquidity level and expected high rate of returns from low liquidity level. On the contrary, within lower liquidity industries and markets group, we find expected high return rate from high level of liquidity and expected low return rate from low level of liquidity. The negative relationship between liquidity and returns in higher liquidity industries is consistent with other findings similarly to developed or high liquidity markets as