

**THE TRADING FACTORS, RISK BASED FACTOR AND FIRM
CHARACTERISTICS AS DETERMINANTS OF LQ45 FIRM STOCK
RETURNS LISTED IN INDONESIA STOCK EXCHANGE**



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DETERMINANTS OF LQ45 FIRM STOCK RETURNS LISTED IN INDONESIA STOCK
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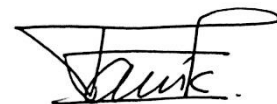
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Is true that original. There is no citation of other research which is not mentioned the sources in this research. I made this statement truly and if there is inconsistent statement later, I am willing to revoked the predicate of bachelor's degree.



PREFACE

Praise to Allah SWT because His mercy and blessing this thesis can be accomplished properly. This research entitled **The Trading Factors, Risk Based Factor and Firm Characteristics as Determinants of LQ45 Firm Stock Returns Listed in Indonesia Stock Exchange** as a requirement to achieve Bachelor Degree of economic in University of Sriwijaya is successfully done.

LQ45 is a blue chip stock that exist in Indonesia. They consist of 45 firms that fullfill several requirements to be chosen as blue chip stock. After the requirements fullfilled there will be eveluation each period. This evaluation of determining firms that included in LQ45 stock is conducted every six months, especially every February and August each year. LQ45 firms is somehow he most consistent firms in publishing their financial report with a good financial performance each year. LQ45 firms have higher capitalization than other firms outside LQ45 stock index. Therefore investors are get interested to invest in LQ45 firms. Resulted to consistent return gained by investors.

Investment will gain return for investors. Especially if they invest in liquid stock like LQ45, the return might be high. However there are several factors that may affect stock returns. Five of them are stock trading volume, bid-ask spread, beta stock, firm characteristics and market to book value. The research explains how these factors influence stock return in blue chip stock such LQ45. More than that, this research will measure which factors mostly influence stock return and

should be considered by investors before they decided an investment regardless short or long term investment they want to conduct.

In this research, the researcher analyze the factors using several references of investment concept. The data is supported by secondary data from IDX and yahoo finance website.

This thesis is still far from perfect but hopefully this thesis can give significant contribution to investment practical and reference for academic purpose in the future.

Finally writer say that you, hopefully this thesis will be usefull for all of us, especially academic life in University of Sriwijaya.

Inderalaya, 10 March 2018

Nandya Sarah Utami

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6. Prof. Dr. H. Taufiq Marwa, M.Si, Dean of economic faculty University of Sriwijaya.
7. Drs. Zakaria Wahab, M.B.A, Head of management department economic faculty University of Sriwijaya.
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who always behind me during college life until I can accomplish my thesis.

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Finally I give my highest gratitude to all of parties that I can't mention one by one. I do realize that this thesis is far from perfect, but regarding to all flaw I hope this thesis will be useful for society especially academic environment in University of Sriwijaya. May God always bless us with His mercy. Amin.

Inderalaya, February 2018

Nandya Sarah Utami

ABSTRACT

THE TRADING FACTORS, RISK BASED FACTOR AND FIRM CHARACTERISTICS AS DETERMINANTS OF LQ45 FIRM STOCK RETURNS LISTED IN INDONESIA STOCK EXCHANGE

By:

Nandya Sarah Utami

This research aims to analyze whether trading factors, risk based factor and firm characteristics influence LQ45 firm stock returns that are listed in Indonesia Stock Exchange. This research use sample of LQ45 firms in Indonesia Stock Exchange. The data chosen is time series from 2013-2016. The variable used in this research consist of dependent and independent variables. Dependent variable in this research is firm stock returns and the independent variables are trading volume, bid-ask spread, beta, firm size and market to book value (MBV). This research use multiple regression analysis using software SPSS 23 to analyze the relation of independent variables to dependent variable. As the result, out of 5 independent variables there are 4 independent variables that positively and significantly influence firm stock return. They are consist of trading volume, bid-ask spread, beta and market to book value (MBV). Meanwhile firm size doesn't influence firm stock returns significantly.

Keywords: stock return, trading volume, bid-ask spread, beta, firm size, mbv

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Education

University of Sriwijaya

September 2014- now

Majoring in management study, Financial management

- ✓ GPA 3.72 out of 4

Working Experience

Rhetorique Public Speaking Training

December 2017- now

Content Development

- ✓ Content development responsible for all materials and content of training or coaching clinic. Together with 3 members we work in a team to fulfil demand from each public speaking training

Sriwijaya Accounting and Business Conference (SEABC)

November 2017

Master of Ceremony

- ✓ SEABC is annual agenda in Sriwijaya University that is participated by international academic
- ✓ Master of Ceremony is required to speak fluently in english and practice technique of MC

Youth Revolution Fest

October 2017

Judge of speech competition

- ✓ This is participated by 35 universities and senior high schools students from South Sumatra Province
- ✓ Together with professional and lecturer I work in team to determine competencies of speech

Seespa English Olympic

October 2017

Judge of Newscasting Competition

- ✓ This is participated by 30 universities and senior high schools students from South Sumatra Province
- ✓ Together with professional and lecturer I work in team to determine competencies of newscasting

Organizational Experience

UKM Bahasa University of Sriwijaya

February 2016- 2017

Vice President

- ✓ I lead around 50 members of UKM Bahasa in 13 programs regarding competitions and coaching clinics of 5 divisions which consist of debate, speech, story telling, newscasting and scrabble divisions

Ikatan Mahasiswa Manajemen (IKAMMA) Economic Faculty March 2016-2017

Secretary

- ✓ I responsible to mantain all documents and administration letters of around 10 programs and events
- ✓ I have to cooperate with university administration for each proposals and responsibility reports

Awards

Duta Bahasa Nasional

August 2017

Favorite Best National Costume

- ✓ I and my partner represent South Sumatra Province to compete with 32 provinces from all around Indonesia and achieve a title as Favorite Best National Costume then deserve free ticket to Bali

Duta Bahasa Sumatra Selatan

May 2017

Winner

- ✓ I compete with 150 participants through selection of administration, UKBI, UKBA, scientific writing, presentation, interview and quarantine process before finally chosen as Duta Bahasa Sumsel 2017

Idea Debate Competition of Sumatra Level

November 2017

4th Best Speaker

- ✓ I work in team and compete with 30 teams through 5 debate rounds with 5 various topics during preliminary till semifinal round and achieve 4th Best Speaker from total 60 participants

Lampung Overland Varsity English Debate

October 2017

3rd Runner Up

- ✓ I work in team and compete with 32 teams from universities around Sumatra through 6 debate rounds with 6 various topics during preliminary till final round and achieve 3rd Runner Up winner

XL Future Leaders Batch 5

November 2016-now

Awardee

- ✓ I become one of 150 youths chosen from all around Indonesia after passing competition from 12.436 participants through tight selection of administration, TOEFL, GMAT, FGD and interview.

Sumatra Overland Varsity English Debate (SOVED)

June 2016

3rd Best Speaker

- ✓ I work in team and compete with 30 teams through 5 debate rounds with 5 various topics during preliminary till semifinal round and achieve 3rd Best Speaker from total 64 participants

Outstanding Student of Economic Faculty

March 2016

3rd Winner

- ✓ I presented scientific writing about small micro enterprise and answer questions from 3 judges. As the result I get the 3rd winner out of 20 participants from 3 majors in economic faculty

Bujang Gadis Kampus (BGK)

October 2016

Semifinalist

- ✓ I am chosen as 1 of 30 semifinalist out of 200 people from south sumatra. The selection included administration, general knowledge, culture awareness, psychological test, english test, and interview

Debat Bahasa Indonesia

August 2015

Winner

- ✓ I and my partner competed with around 30 teams from universities in South Sumatra. I got the first winner and represented South Sumatra to Sumatra level of Pekan Bahasa 2015 placed in Medan

National University Debating Championship (NUDC)

June 2015

3rd winner

- ✓ I and my partner competed with 32 teams from all universities in Kopertis II region. I got the 3rd winner and represented Kopertis II to the national level of NUDC 2015 placed in Pontianak

National University Debating Championship (NUDC)

August 2015

6th best speaker

- ✓ After 7 rounds of debate until semifinalist level I got an award as 6th best speaker from around 64 participants of novice category out of 32 provinces from all around Indonesia.

Sec-lonaire English Debate Competition

April 2015

Winner

- ✓ I got the winner out of 32 teams from universities in Sumatra. The selection started from preliminary until final round which consist of 6 different topics of debate by using british parliamentary system

Asian English Olympic (AEO)

February 2015

Semifinalist

- ✓ I struggle till semifinalist level of novice category out of 100 teams from universities all around Asia.
- ✓ The selection started from preliminary round till semifinal and consist of 6 different debate topics

Outstanding Scholarship CIMB Niaga

September 2014-now

Awardee

- ✓ I become one of 30 students selected out of hundreds participant from universities from all around Indonesia. The selection were TOEFL, calculation test, psychological, and interview test

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CHAPTER I

INTRODUCTION

1.1 Background

The capital assets pricing model (CAPM) proposed by Sharpe (1964), Lintner (1965) and Black (1972) argues that the market portfolio is the only factor underlying security returns. However, the arbitrage pricing theory (APT) originated by Ross (1976) challenges that a multi-factor generating process determines the stock return. Ross (1976) does not define the factors underlying stock returns. Recently, Fama and French (1993, 1995, 1996a, 1996b, 1997) argued that a three-factor model is enough to explain stock return behaviors. The three factors are the market portfolio, the size-related factor and the book-to-market- related factor. Basically, CAPM, APT and the Fama-French three-factor model show that stock returns are determined by certain common factors. Crosssectional stock returns are determined by the risk premium of the common factors. Fama and French (1993) shows that the documented anomalies in stock returns would disappear once the market, size-related and book-to-market-related factors are considered the common factors for security returns. With the Fama-French three factor model, common factors rather than firm characteristics determine the stock returns.

Fama and French (1993) from Chen and Eva (2002) indicates that stock return patterns can be explained by the risk-based factors. The risk load underlying the risk-based factors is responsible for cross-sectional stock return

behaviors. Stock risk indicated by beta will influence the expected return since the term of investment is still valid which stated that high return high risk. Investor would more likely to demand higher return if the stock is risky. Firms also have to bargain more return to gain investors' attention to their stock.

However (Kent Daniel and Sheridan Titman, 1998) challenges that stock returns are related to the firm characteristics of book-to-market ratio and size. Moreover, they argue that firm size and book-to-market characteristics are still significant for stock returns eventhough the risk load for a size-mimicking portfolio and book-to-market-mimicking portfolio are controlled. Research from Chen and Eva (2002) indicates 2 kinds of factor affecting stock return in Taiwan, they are risk based and firm characteristic. They do not agree if each factor can stand alone affecting the stock return since the research indicates a significant intercept of risk based and firm characteristic to stock return in Taiwan. Furthermore they agree that factor of firm characteristic which in this case book to market ratio can't be significantly influence stock return without book to market related calculation of risk based factor. Firm characteristics in this research are gained from market to book value and firm size. Research from Merton [26] indicates that expected return is increasing in the asset systematic risk (beta), residual risk, and market value. Further he finds that market to book value is related to spread which shows illiquidity of a stock. This relation is supported by the result from Chui and Wei (1997) that state stocks with lower trading volume would experiences higher returns. Lower trading volume happen when investors don't get much public information about asset. This lower trading volume is

indicated by higher spread. If contradict situation happen, when more information is publicly available about asset, bid-ask spread decrease because the trading volume increase.

However research from Amihud and Mandelson (1989) indicates that beta, bid spread, residual risk and size affecting stock return. Furthermore they found that only beta and bid spread of stock trading have really significant influence to stock return. Beta is somehow the measurement of risk based factor and bid ask price is included in trading factor. Chui and Wei (1997) argue that trading volume may be significant for stock returns. Further in their research they found that stocks with lower trading volume would experiences higher returns. This shows the negative relationship that needs to be indicated why this phenomenon happen.

It emphasizes the researcher that somehow trade activity affects stock return as well showed by bid-ask spread. Then in this paper the researcher will combine those three factors to indicate the stock return. This research will indicate whether those three types of factors of trading, risk based and firm characteristic affect stock return in Indonesia. The research is conducted in LQ45 stocks since the LQ45 stock is the most consistent in financial performance. LQ45 stock is categorized as blue chip stock that has high capitalization and value. The LQ45 stock provides data that is needed in this research. The trend of financial performance in LQ45 stock is increasing from year 2013-2016 proven by consistent firms included in LQ45 stock during 2013-2016. More than that, LQ45 stock is owned by most investors in Indonesia, therefore the analysis would be more practical and visible impacted firms and investors in Indonesia. Furthermore

to measure the influence to stock return in LQ45 stock, the trading factor will be gained from bid-ask spread and volume of stock trading in certain period. The risk based factor will be measured by beta and firm characteristic will be indicated by firm size and market to book value (MBV). After all, trading factors, risk and firm characteristics affecting stock return in Indonesia are investigated using a detail empirical design.

1.2 Problem Formulation

Based on those reason, the problems that will be discussed in this research are:

1. How trading factors influence the stock return of firms listed in Indonesia Stock Exchange?
2. How risk based factor influence the stock return of firms listed in Indonesia Stock Exchange?
3. How firm characteristics influence the stock return of firms listed in Indonesia Stock Exchange?

1.3 Research Objective

This research is conducted to answer problem existed, therefore the objective are:

1. To investigate the influence of trading factors to stock return of firms listed in Indonesia Stock Exchange.

2. To investigate the influence of risk based factor to stock return of firms listed in Indonesia Stock Exchange.
3. To investigate the influence of firm characteristics to stock return of firms listed in Indonesia Stock Exchange.

1.4 Research Contribution

1.4.1 Practical Contribution

1. For Firms

Firms can do preventive action to mitigate factors that can influence their stock return in the future since the factors are already provided from several perspectives of trading, market risk, and firm characteristics. Firm can decide which factors have to be prioritized at the beginning than the others in order to gain maximum stock return for the firms.

2. For Investor

Investors will be able to determine their investment decision by considering the factors that may affect their expected return and mitigate the risk of their investment in a firm. Information about investment will be spread in public as references to motivate people doing investment.

1.4.2 Theoretical Contribution

1. For Investment Theory

This research supports signalling theory, Fama and French's Three Factor Model and efficient market hypothesis. Result of this research will strengthen these theories and proven several facts that happen recently in real world. Furthermore as the proven of the theories this research can be functioned as reference to simplify learning about return of investment.

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