

THE FINANCIAL PERFORMANCE AND MACROECONOMIC FACTORS IN FORMING STOCK RETURN

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ABSTRACT

This research focuses on fundamental and macroeconomic conditions in the formation of stock returns as an empirical test on signaling theory, capital structure theory and prospect theory. The research sample is companies listed on the BEI property sector with a total of 17 companies that meet the criteria of purposive sampling. The analysis technique uses panel data regression with random effects. The results showed simultaneously that financial performance and macroeconomic factors affect stock returns. Partial test shows that profitability and capital structure do not affect stock returns, while PBV and macroeconomic factors have a positive effect on stock returns. In addition, GDP is the dominant factor affecting stock returns. The implications of this study refer to investors in determining investment strategies, for management in managing companies and for regulators in making economic policy decisions.

Penelitian ini terfokus pada kondisi fundamental dan makro ekonomi dalam pembentukan pengembalian saham sebagai pengujian empiris pada teori signaling, struktur modal dan teori prospek. Sampel penelitian merupakan perusahaan yang terdaftar di BEI sektor property dengan jumlah 17 perusahaan yang memenuhi kriteria *purposive sampling*. Teknik analisis menggunakan regresi data panel dengan *random effects*. Hasil penelitian menunjukkan secara simultan inerja keuangan dan faktor ekonomi makro mempengaruhi return saham. Uji parsial menunjukkan bahwa Profitabilitas dan struktur modal tidak mempengaruhi pengembalian saham, sedangkan PBV dan faktor ekonomi makro berpengaruh positif terhadap pengembalian saham. Selain itu, PDB merupakan faktor dominan yang mempengaruhi pengembalian saham. Implikasi penelitian ini mengacu pada investor dalam menentukan strategi investasi, untuk manajemen dalam mengelola perusahaan dan untuk regulator dalam membuat keputusan kebijakan ekonomi

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1. Introduction

Investors are faced with a selection of investment instruments. There are various the performance of instruments for years 2016. An instrument invest in stocks have a yield highest compared with an instrument other investments. The performance reflected in composite stock price index that generate a level of attractive yields of 15.32 percent. Even, the composite stock price index along 2016 is the fifth highest in the world and exchanges between the second highest of markets in Asia Pacific region. See that opportunity, investment on an instrument becomes an alternative of shares can be a profitable investment. Based on graph 1, the property have growth sector level of 54 percent for three years and sector with the highest growth compared to other sectors. This indicates that there is no certainty about return to be obtained investor. Thus, investors need to know factors influencing the return the shares thus capable of attractive yields on the levels of optimal to invest.

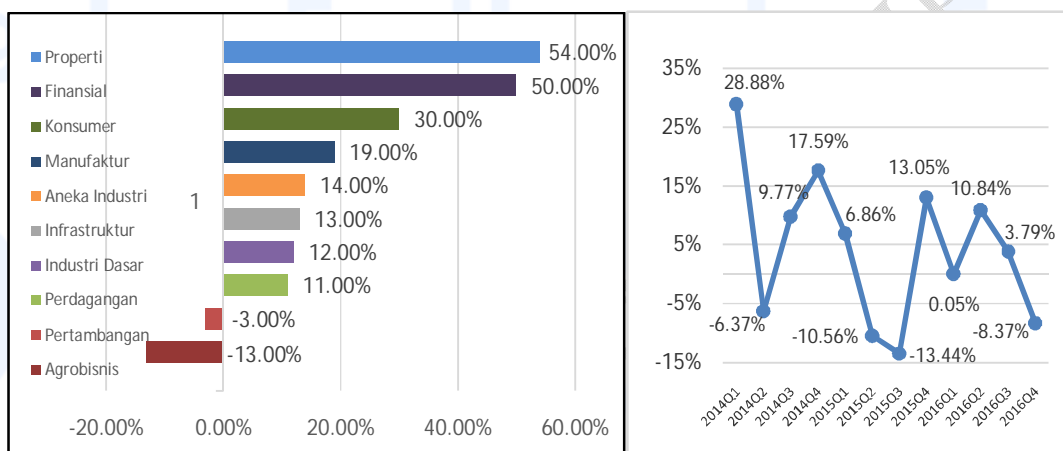


Figure 1. The Phenomenon Return of Stock in property Sector for year 2014-2016

Tandelilin (2017) said there were two approaches used to analyze securities analysis that is fundamental and technical analysis. In the fundamental analysis, investors can analysis based on the company performance. An analysis of technical measuring changes in stock prices in periods of time. Price movements is affected by market conditions and macro economy that affects the markets. Gitman and Zutter (2015) also declared that a stock price influenced by factors of economics, political and financial. But, information about factors influencing the return stocks are still less consistent between one with other study. PBV indicate quality and performance of the fundamental issuers. Anugrah & Muhamad (2017); Beslyder (2017); Satryo, Nur & Pepie (2016) said that PBV have positive impact on stock return. This shows that increasing PBV then stock return also increase. In contrast to the research Dita and Isrochmani (2014) stated that pbv can negative effects on stock return from company shares in the food industry. Meanwhile Ika & Listiorini (2017); Susiani (2016) stated that there is no influence PBV to stock of return.

The funding reflected through debt to equity ratio Anugrah & Muhamad (2017); Beslyder (2017); Ika & Listiorini (2017); Susiani (2016); Dita dan Isrochmani (2014) said that DER have positive impact on stock return. This shows that increasing DER then stock return also increase. In contrast to the research Utami, Sri & Tubagus (2015) stated that DER can negative effects on stock return from company shares in construction sector. Meanwhile Herdt, Lukytawati & Bunasor (2017); Djibran, Sri & Hendro (2016); Satryo, Nur & Pepie (2016); Astutik, Surachman & Atim (2014) stated that there is no influence DER to stock of return.

ROE measures the company in generate profit for the owners during a given period. Astutik, Surachman & Atim (2014) said that ROE have positive impact on stock return from company

shares in manufacturing industry. In contrast to the research Herdt, Lukytawati & Bunasor (2017); Bararoh (2015) stated that ROE can negative effects on stock return. Wiradharma & Luh (2016); Djibran, Sri & Hendro (2016); Susiani (2016); Lukisto dan Njo (2014); stated that there is no influence ROE to stock of return.

Inflation will affect purchasing power of the community. Herdt, Lukytawati & Bunasor (2017); Mulyani (2014) prove that inflation had a positive impact on stock return. Suyati (2015); Utami, Sri & Tubagus (2015) show inflation have negative influence on stock return. Wiradharma & Luh (2016); Djibran, Sri & Hendro (2016); Susiani (2016); Lukisto dan Njo (2014); stated that there is no influence Inflation to stock of return.

One of indicators economic strength of a country can be shown at the exchange rate. Exchange rate which is strengthened can be a signal of the conditions that are conducive to investors in making an investment decision. Suyati (2015); Utami, Sri & Tubagus (2015); Astutik, Surachman & Atim (2014); Lukisto dan Njo (2014) prove that Rupiah Exchange Rate had positive impact on stock return. In contrast to the research Herdt, Lukytawati & Bunasor (2017); Bararoh (2015); Mulyani (2014) have negative influence on stock return. Djibran, Sri & Hendro (2016); Wiradharma dan Luh (2016) stated that there is no influence Rupiah Exchange Rate to stock of return. GDP also an indicator economic power. Mulyani (2014) prove that GDP had positive impact on stock return. In contrast to the research Wiradharma dan Luh (2016) have negative influence on stock return. Meanwhile Lukisto dan Njo (2014) stated that there is no influence GDP to stock of return.

The research was conducted because there have been instances phenomena in return stake in its subsidiary carrying the growth of the property sector as well as encourage and the existence of the research gap noted on the variables of in question. As a result of this, needs to be done advanced research so as to produce information that is relevant to investors. This study attempts to detect factors that which influences stock prices in property industry. Thus this research can inform investors what is necessary will invest in property sector.

2. Literature Review and Hypothesis

Signaling Theory

Information is a signal to the market (Jogiyanto, 2017). At the time it was announced, market players first analyze the information as a signal good or bad signal. Financial performance can be reflected through the information contained on financial report. If the information as a signal good for investors, then stock price will increase.

Capital Structure Theory

Capital structure theory explain how the influence of capital structure to value of firm, capital cost and stock prices company. The theory using several approach to explain that influence capital structure to firm value. Based on net profit approach, the more long-term debt that would be used in company spending, so value of enterprise would increase and having impact with the stock price (Sudana, 2015). Based on Modigliani-Miller approach, value of enterprise not affected by capital structure, but influenced by investment and the ability company to generate profit (Sudana, 2015). A company with the debt ratio which is relatively high had set the repayments were higher when the economy normal, but will experience the risk of losses when the economy entered a recession (Brigham and Houston, 2018).

Prospect Theory

The theory shows that the person having a tendency take unilateral decisions to irrational, would be more reluctant to risked advantage of licensing in order to accelerate. When a person in a profit position, he tends to avoid the risk or called risk aversion, and if a person in a loss position loss so

he tends to dare encounter risk or called risk seeking. In fact, the interaction of investors in the capital market is heavily influenced by psychology factor or animal spirit who follow the rules are not logical (Farmer, 2012).

Financial Performance

The company value through the information contained on a financial report. The financial report is important to know strength and weakness of a company (Sudana, 2015). The company performance can be seen through the ratio of liquidity, solvability, activity ratio, profitability and market valuation.

Relationship Between Value of Firm and Stock Return

Value of firm can be measured use Price to Book Value Ratio (PBV). The lower PBV then the better to invest long term. But, the low PBV can also indicate the decline in the quality and performance fundamental of issuers (Hery, 2015). Previous research also prove the existence of a positive effect of value of firm against stock return (Anugrah&Muhamad, 2017; Beslyder, 2017; Satryo, Nur&Pepie, 2016).

H₁: The increase in value of firm would have increased return of stock.

Relationship Between Debt Funding and Stock Return

Brigham and Houston (2018) prove that company which high debt funding have higher profit when the normal economic, but will experience loss when the economic recession. Previous studies prove the negative impact debt funding to return of stocks (Utami, Sri dan Tubagus, 2015).

H₂: The increase in debt funding would have decreased return of stock.

Relationship Between Return On Equity and Stock Return

The higher return on equity, the higher number of net funds resulting from any rupiah embedded in equity Hery (2015). The higher net profit obtained the company will be an attraction for investors to invest. Previous research prove that there is a positive influence roe on stock return.

H₃: The increase in Return on Equity would have increased return of stock.

Relationship Between Inflation and Stock Return

Murhadi (2013) shows rising inflation will reduce reduced purchasing power of buyers. With the declining purchasing power of consumers will be reduced corporate earnings so that resulted diminished in stock prices. High inflation also reduce the real income obtained investors from investment (Tandelilin, 2017). But, a very low inflation will result very slow economic growth and eventually stock prices also move slowly (Akerlof and Shiller, 2009). Previous research prove that increasing in inflation would have decreased stock return (Suyati, 2015; Utami, Sri dan Tubagus, 2015).

H₄: The increase in Inflation would have decreased return of stock.

Relationship Between Rupiah Exchange Rate and Stock Return

Some issuers have the negative impact and others have positive impact of Rupiah Exchange Rate (Tandelilin, 2017). Issuers who export oriented will receive positive impact if the rupiah weakened. But, weakening of the rupiah will have decline in profit on bond issuers who have received in the dollar while the product was sold locally. Thirty until forty percent components product companies in the property is imports so that the rupiah weakening would affect the performance of the company stock. Previous research prove a negative influence Rupiah Exchange Rate on stock return (Herdt, Lukytawati&Bunasor, 2017; Bararoh, 2015; Mulyani, 2014).

H₅: The increase in Rupiah Exchange Rate would have decreased return of stock.

Relationship Between Gross Domestic Product (GDP) and Stock Return

Growth of The Gross Domestic Product (GDP) is an image of the rapid economic growth (Tandelilin, 2017). When growth economy increase so domestic consumption and government spending on infrastructure will increase. In addition, economic growth rate could increases speed up the amount of company in the middle class and spur demand for company product. Previous research prove the existence of a positive influence Gross Domestic Product (GDP) to stock return.

H₆. The increase in GDP would have increased return of stock.

Based on the description above, so research model that are formed as follows:

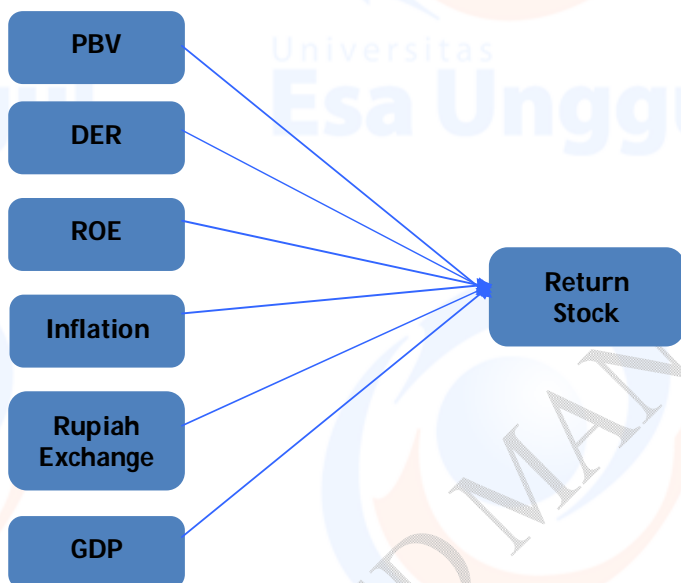


Figure 2. Research Model

3. Methods

Research Design

Design research used is associative causality with the quantitative approach. This research use secondary data obtained from Indonesia Stock Exchange (idx.co.id), Bank of Indonesia (bi.go.id), Biro Pusat Statistik (bps.go.id) and portal of global financial (investing.com).

Sampling Procedures

The population studies is that companies in the property are listing on Indonesia Stock Exchange in the period 2014-2016, which is total 63 companies. By using a method of purposive sampling, obtained chosen samples from 17 companies consisting of 204 data.

Measurements

The data return in this research is considering the time lag. The time lag on this research as return generated from changes in the stock price reflects the outcome of an investment decision investors based on information financial reports and macroeconomics that rises in the period concerned (t).

Stock Return (Y)

Value of Firm reflects the value of a business at particular date. The stock price of this research is used on the closing price per day. In the analysis, return of data obtained from the closing price

changes daily every quarter. Stock Return (Y) measured by scale of ratio, and the measurement method is:

$$r_{i,t} = \frac{(p_{t+1} - p_t)}{p_t} \times 100\%$$

Price to book value (X₁)

The book value of the firm is its value as reflected in its 'books' or financial statements. It is the difference between the assets and liabilities of a firm as per its balance sheet. This is the true worth of business when its liabilities are netted off from its assets. Companies use the price to book ratio to compare a firm's market to book value by dividing the price per share by book value per share.

Price to book value (X₁) measured by scale of ratio, and the measurement method is:

$$PBV = \frac{\text{Price Market per Share}}{\text{Book Value per Share}}$$

Book Value per Share

Debt to Equity Ratio (X₂)

Debt to Equity Ratio (X₂) is used to evaluate a company's financial leverage. DER is an important metric used in corporate finance. It is a measure of the degree to which a company is financing its operations through debt versus wholly-owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn. Debt to Equity Ratio (X₂) measured by scale of ratio, and the measurement method is:

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Total Equity

Return on Equity (X₃)

Return on Equity (ROE) is considered a measure of how effectively management is using a company's assets to create profits. ROE (X₃) measured by scale of ratio, and the measurement method is:

$$ROE = \frac{\text{Net Profit After Tax}}{\text{Total Equity}} \times 100$$

Total Equity

Rate of Inflation (X₄)

In economics, inflation is a sustained increase in the general price level of goods and services in an economy over a period of time. The common measure of inflation is the inflation rate, the annualized percentage change in a general price index, usually the consumer price index. Rate of Inflation (X₄) measured by scale of ratio, and the measurement method is:

$$\text{Rate of Inflation} = \frac{\text{Consumer Price Index}_t - \text{Consumer Price Index}_{t-1}}{\text{Consumer Price Index}_{t-1}} \times 100\%$$

Consumer Price Index_{t-1}

Rupiah Exchange Rate (X₅)

An exchange rate is the value of one nation's currency versus the currency of another nation or economic zone. Rupiah Exchange Rate (X₅) measured by scale of ratio, and the measurement method is:

$$\text{Rupiah Exchange Rate} = \frac{\text{Rate of Rupiah}_t - \text{Rate of Rupiah}_{t-1}}{\text{Rate of Rupiah}_{t-1}} \times 100\%$$

Rate of Rupiah_{t-1}

Gross Domestic Product (X₆)

GDP measures the monetary value of final goods and service. The Rate of GDP (X₆) measured by scale of ratio, and the measurement method is:

$$\text{Rate of GDP} = \frac{\text{GDP}_t - \text{GDP}_{t-1}}{\text{GDP}_{t-1}} \times 100\%$$

Technique Analysis

Data analysis technique that is used is regression panel data. On this research, to capture the difference in a characteristic that occur among the company then model common effect ignored so that only the election model fixed effect and random effect. According to Nury dan Maman (2014), to choose fixed effect model or random effect model use Hausman test.

4. Result And Discussion

Descriptive statistics

Based on table 1, it can be seen that the average value of the variable PBV , DER , ROE , the rate of GDP and the rate of Inflation is greater than standard deviation of each variable. It means the data in the variable has good qualities and the average score is favorable representation of a whole data. In addition the average return of stocks and the rupiah smaller than standard deviation of each variable. It indicates that the variable has high fluctuations during the period of research.

Table 1. Descriptive Statistics

Variable	Max	Min	Mean	SD
Stock Return	0,4115	-0,3394	0,0229	0,1445
PBV	7,3978	0,4852	1,9886	1,1983
DER	6,3209	0,2750	1,5841	1,1778
ROE	0,3160	0,0021	0,0801	0,0589
T_Inflation	0,0836	0,0302	0,0539	0,0186
P_Rupiah	0,0994	-0,0644	0,0092	0,0462
L_GDP	0,0518	0,0474	0,0497	0,0014

source: data processed

The outcome of an election model

Based on table 2, the results showed a model random effect more precisely than fixed effect model. This outcome will also to be supported by econometrics research who has proven mathematically, that if the data panel that owned have the amount of time (t) was less than the number of research object (n) so it is suggested to use the model random effect (Gujarati, 2011). As a result of this, in research random effect more precisely than fixed effect model.

Table 2. Hausman Test

Test Summary	Cross-section random
Chi-Sq. Statistic	4,17637
Chi-Sq.d.f	6
Prob.	0,6528

Source: data processed

The results of Classical Test show that the normality, autocorellation, heteroscedastisity, and multicolinierity testing, the model formed fulfilled assumption of BLUE (Best Linear Unbias Estimator) requirement.

Table 3. The Results of Classical Test

Testing	Result	Description
Normality Testing (Jarque-Bera)	p value (0,22) > 0,05	Normal Distribution Data
Autocorrelation Testing (LM test)	p value (0,85) > 0,05	There is no problem with autocorrelation
Heterocedasticity Testing (White test)	p value (0,35) > 0,05	There is no problem with heteroscedastisity
Multicolinearity Testing (Korelasi berpasangan)	Correlation variable < 0,85	There is no problem with multicolinierity

Source: data processed

Discussion

Table 4, prove the first hypothesis on the research is accepted. The independent variable having influence simultaneously to dependent variable, so model formed worthy to interpret the influence of each independent variable to dependent variable. Next, the results of value adjusted r-squared of 38,26 % indicates the influence of all independent variable to return stock, while the remaining 61,74 % influenced by other factors outside of model.

Table 4. Result of Regression with random effect model

F-Statistic	21.96853
Prob. F	0.0000
Adjusted R-squared	0.38262
R-squared	0.40087

Source: data processed

Table 5. Simultaneous Equation with random effect model

	C	PBV	DER	ROE	T-Inflation	P_Rupiah	L_GDP
Coefficient	-4.0169	0.0182	0.0094	0.0099	2.6410	0.9936	77.2524
t-Statistics	-9.1372	2.0019	1.0503	0.0651	5.4345	3.8541	8.8183
Prob.T	0.000*	0.0467*	0.2949	0.9482	0.0000*	0.0002*	0.0000*

*denote the significance level of 5% respectively

Source: data processed

The results in Table 5 further show the following simultaneous equation model is:

$$Y = -4.0169 + 0.0182PBV + 0.0094DER + 0.0099ROE + 2.6410T_Inflation + 0.9936 P_Rupiah + 77.2524 L_GDP$$

The testing of hypotheses of each independent variable shows that PBV, inflation rate, Rupiah Exchange Rate and GDP have had a positive impact to stock return. While DER and ROE have not been affecting the return of stock. In addition, GDP domestic product into dominant factors that influence stock return.

Relationship Between Value of Firm and Stock Return

During the period research, company sector of property having a value stock market greater than book value reflected in average of PBV 1,9886 and GDP had a positive impact to stock return. This indicates that the company sector of property having a good performance because it has will be an

attraction for investors impact on stock price. With rising stock prices led to stock return higher. The result of this research supported the Brigham and Houston (2018), a company that activity going well, generally having PBV above one, which showing that the stock market greater than book value (Brigham and Houston, 2018).

The result of this research support research of AnugrahdanMuhamad (2017), Beslyder (2017), Satryo, NurdanPepie (2016) stated that PBV have positive influence on stock return. But the result of this research does not support research conducted by Ika, Listiorini (2017) danSusiani (2016) who stated that PBV will not effect to stock return. The results of research also does not support Dita and Isrochmani (2014) who stating that PBV have negative influence on stock return.

Relationship Between Debt Funding and Stock Return

The results of this research were not enough evidence to support the signaling theory. Companies in the sector of property having the characteristics of a debt that is higher than equity. This indicates that amount of debt which used in spending the company do not affect the value of the firms. The result of this research support a theory of the structure capital with Modigliani-Miller approach. This approach said that the value of were not influenced by company capital structure, but influenced by investment of firm and the company capacity to generate profit (Sudana, 2015). The result of this research support previous studies which states that DER has not been affecting the stock return (Herdt, Lukytawati&Bunasor, 2017; Djibran, Sri & Hendro, 2016; Satryo, Nur & Pepie, 2016; Astutik, Surachman & Atim, 2014). But the result of this research does not support the results of previous studies which states that DER have had a positive impact on stock return (Anugrah&Muhamad (2017), Beslyder (2017), Ika & Listiorini (2017), Susiani (2016), Dita&Isrochmani (2014).

Relationship Between Return On Equity and Stock Return

The research results show that return on equity shares will not affect return. During the period, stock return of property had high fluctuations that indicates psychological factors in the decision-making investor invest. Thus, decision-making investors did not consider the return on equity but psychological factors that play a role. The result of this research supports the prospects theory. Based on that theory, someone more reluctant to their advantage of at a loss. When a person in a position winners so the person tending to avoid the risk, and if a person in a position losers so the person tending to courage to face risk. In fact, the stock market was much influenced by psychology or animal spirit that follows the rules who do not logical (Farmer, 2012). The result of this research support previous studies which states that ROE has not been affecting the stock return (Beslyder, 2017; Djibran, Sri & Hendro, 2016; Satryo, Nur&Pepie, 2016; Susiani, 2016; Utami, Sri & Tubagus, 2015). The results of this study did not support previous research stated that ROE have positive impact to stock return (Astutik, Surachman and Atim, 2014).

Relationship Between Inflation and Stock Return

The results show that inflation have positive impact to stock return. Growth Consumer Price Index (IHK) during the period research shown increase. Increasing growth of IHK because purchasing power of the community which is seen from the upward trend in the rate of Gross Domestic Product (GDP). This indicates that inflation occurring during the period research caused by the demand pull inflation will encourage total economic growth. Thus, inflation occurring during the period research reflect economic growth better to improve raising investment interest in invest stock. During the period of research, inflation in Indonesia is still normal as the charges less than 10 % per year which is seen the average inflation rate 5,39 %. In addition, the trend in the inflation rate during the period of the study also has experienced decrease.

The result of this research supports previous studies conducted by Herdt, Lukytawati (2017) and said Bunasor (2014) said that the inflation rate have a positive impact on stock return. But research does not support the results of research conducted by Suyati (2015), Utami, Sri, Tubagus (2015) said that inflation have negative effects on stock return and the result of research conducted by Beslyder (2017), Djibran, Sri, Stable (2016), Satryo, Nur, Pepie (2016), Susiani (2016), Utami, Sri, Tubagus (2015) said that inflation will not affect on stock return.

Relationship Between Rupiah Exchange Rate and Stock Return

During the period of research, dollars to depreciate the rupiah is light. This indicates that the rupiah exchange rate is still quite stable so caused the price of building materials import are also more stable. With the stability of rupiah exchange rate making firm residential sector capable of producing a growth of the sale of that impact on the increase in the company performance. The more improved sales the company performance in producing it will attract investors to invest which have an impact on improving the company stock price. With the stability of rupiah exchange rate making property sector capable of producing a growth of the sale of that impact on the increase in the company performance. The more improved sales the company performance in producing it will attract investors to invest which have an impact on improving the company stock price. The result of this research supports previous studies stating that it has some positive effects on the rupiah.

The result of this research supports previous studies stating that it has some positive effects on the rupiah (Suyati, 2015; Utami, Sri dan Tubagus, 2015; Astutik, Surachmandan Atim, 2014; Lukistodan Njo, 2014). But this study does not support the results of research conducted by Herdt, Lukytawati (2017), Bararoh (2015) and Mulyani (2014) stating that the change rupiah exchange rate have negative influence on stock return. Similarly research conducted by Sri and Hendro (2016), Wiradharma and Luh (2016) stating that the rupiah exchange rate changes will not affect on stock return.

Relationship Between Gross Domestic Product (GDP) and Stock Return

During the period research trend GDP growth shown increase. Boosting economic growth indicates the increase in income which is seen from the growing public purchasing power. This might impact on increases in the purchasing power investors to invest on a stock. The high demand for the stock then stock prices the company is also will increase. Next, stock return also to increase. The result of this research also supports previous research prove the positive impact of the GDP shares (Mulyani, 2014). This study did not support the results of research conducted by Wiradharma and Luh (2016) that the country GDP have a negative influence on stock return, and Lukisto and Njo (2014) said that rate of GDP will not affect on stock return.

5. Limitation and future research

This research is only test fundamental factors and macroeconomic factors affecting stock price. To further research need to be tested of psychology that can influence behavior of investors in investing.

6. Conclusion

The research result indicates that simultaneously all independent variable influences return stock. However the proportion influence all independent variable to return a stake in in the model formed by 38,26 % the remaining influenced by other factors of out model. Partial variable in PBV, Inflation, Rupiah Exchange Rate, and Gross Domestic Product have positive impact on stock return. *The increase in* PBV, Inflation, Rupiah Exchange Rate, and Gross Domestic Product *would* have increased return of stock. While the Debt funding (DER) and Return On Equity will not affect stock

return. The result could be referred to investors in determining an investment strategy, for management in manage companies and for regulator in decision making economic policy.

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