CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The research is conducted by the author to apply the model of Capital Asset Pricing Model towards the Indonesian Stock Exchange, particularly from the LQ-45 category. The author chooses the LQ-45 because of the better availability of data and proper declaration of closing prices of stocks. Besides, the LQ-45 perhaps becomes a good proxy for stock markets in Indonesia as they are the most liquid, big companies, and the most active in transactions.

From the results obtained from **Chapter 4: Findings and Discussions**, conclusion arrived that the CAPM model is not valid to be tested in the LQ-45. The correlation result from the expected return and actual return shows a positive but very weak relationship which is 0.044. In other words, although there is a very little linear movement between both returns, the relationship is not in accordance with the general theory of CAPM. Such condition may occur because of the high range of maximum and minimum value of closing prices of LQ-45, and a big difference between the previous weeks to the following week. Nevertheless, the beta had established itself as a good proxy for calculating the expected return, in which there were only two companies which have an insignificant beta out of 37 companies.

5.2 Limitations

Banz (1981) had since tested the CAPM whether a firm size really affect the expected return calculation. He conclude that smaller size firms have had higher risk adjusted returns, in which makes the average stock returns of these smaller firms higher than the average stock returns of larger firms. On the other hand, this research collect the data from LQ-45, in which 45 companies are categorized in the perspective of high liquidity, active in transaction, and big sized firms. These shows that LQ-45 perhaps are not really reliable in becoming the most appropriate data. But, the author's reason to keep the LQ-45 as the main proxy is because big and trusted firms provide a more accurate data and trustable records than others, and if the research data are compiled simply from the listed companies in the market (IHSG), there might be insufficient data and inefficiencies in collecting the data.

The author also found that the time frame of four months were considered as a limitation as the research. The other limitation may come from the sample size, in which the author narrow down the size to ensure the availability of data, while a longer time frame may give the author enough space to extend the sampe size; or the LQ-45 specifically.

The other limitation is the limited sources in terms of studies and literatures which conduct the same exact method as the author did in this research. Most of the literatures and journals focused on the portfolio regression of risk and returns, while the author aims to study the relationship between the return of stocks with the resulted expected returns from the CAPM method. Thus, the author can only

compare the findings of this research to few numbers of researches done by several researchers. The author also found that the results are varying with other research about CAPM theory done outside Indonesia, resulting in a conclusion that the research is only applicable in Indonesia.

5.3 Recommendations

This research perhaps provides useful information for other researchers regarding the test of CAPM, and can be a useful study to conduct further analysis of modifications regarding the CAPM testing. Secondly, it might also be useful for investors or stock analyst to predict stocks and make the right decision for buying and selling.

The author would recommend other researchers to find the better proxy for the entire definition of Indonesian Stock Exchange, as the LQ-45 which represents big companies, are considered not really supportive in predicting its asset returns as been said before, smaller companies have a higher stock returns than the bigger ones, although so far most researchers still use LQ-45 as the main proxy of CAPM. The author also recommends other researchers to expand the time frame of the research and perhaps with the new CAPM proxy, which hopefully give a better result to represent the research. Other recommendation includes the consideration of the effect of emerging and developed countries, in which emerging countries are more fluctuative and unpredictable than developed countries.