RISK AND RETURN EVALUATION OF GLAMOR AND VALUE STOCK PERFORMANCE ON INDONESIAN CAPITAL MARKET

(Study from KOMPAS100 Stock in Indonesian Capital Market Period 2012 – 2016)

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Abstract

This research aims to determine whether the Value stock portfolio perform better result than the Glamor stock portfolio and also to analyze the risk adjusted performance between Value stock portfolio and Glamor stock portfolio. The sample of this study using the stock listed in KOMPAS100 in the period of 2012-2016. The formation of the portfolio was taken by the theory of consistent earner strategy by analyzing the Price to Earnings Ratios, Dividend Yield, and Return On Equity on each stock category. Thus developing the portfolio Value and Glamor stock. The calculation of return using the closing price each stock, risk by using the Sharpe ratio, and ANOVA analyze to validate the data and the adjusted risk and return. The result of this study showed that the Value stock outperform the Glamor stock in term of return and adjusted risk performance in period of 2012-2016 for the stock that listed in KOMPAS100.

Keywords: *Value stock, Glamor stock, Return, Risk adjusted performance, Portfolio*

RESEARCH BACKGROUND

Stocks are one of the instruments in capital market that is very interesting to be analyzed. There are so many characteristics about the stocks and one of them are to differentiate between the value stock and glamor or growth stocks. The value stocks have a stock market value lower than the book value, while the growth stocks have a stock market value higher than the book value. The difference of the value and growth stock exchanges all over the world.

Fama and French (1998) conducted research on the value strategy in 13 stock exchanges in the world. They arrived at the conclusion that the portfolio of value stock return is higher than that of the glamor stocks return in 12 out of 13 stock exchanges that were observed during the period of 1975-1995.

In Indonesia, Sukarsono (2008) studied the performance of investments in the value stocks portfolio at the Indonesia Stocks Exchange. He determines the value and glamor stocks by using the Price to Book Value approach in 100 stocks and diving them into 5 Desile. The conclusion of his research supported previous research, namely investing in value stocks yields greater returns than investing in glamor stocks, although the difference is significant only when applied to large-size companies.

The analysis of previous research, especially in Indonesia as well as in the world, divided the glamor and value stocks by using the Price to Book Value approach. The present study, however, attempts to investigate the glamor and value stocks by using the Price Earnings Ratio (PER). The PER approach can be used to determine the value and glamor stocks, given that the value stocks that have a market to book value ratio (P/B) or price to earnings (PER) are lower compared to the glamor stocks that have high P/B ratio or PER.

PROBLEM FORMULATION

One study that states stocks that can provide a higher return than the market return is the research conducted by Elze (2010). Elze examine whether there are differences between stock returns are categorized as value stocks with stocks that are classified as glamor stocks in European Stocks Market. This study found the phenomenon that stocks are categorized as value stocks able to outperform from glamor stocks. Therefore, the present study seeks the answers to the following questions:

a. Can investment on value stock portfolio at the stock exchanges in Indonesia yield higher return than investment on the glamor stock portfolio by using the PER approach?
b. To what extent is the risk adjusted performance of the value stocks portfolio higher than the glamor stocks?

RESEARCH OBJECTIVES

Based on the background and problem formulation above, then the purpose to be achieved in this research are:

a. To determine whether investing on value stocks provides higher return that investing on glamour stocks;
b. To determine whether the value stock portfolios have risk adjusted performance better than the glamour stock portfolio.

LITERATURE REVIEW

According to Fama and French (1998), the level of average returns of value stocks reflects compensation of a higher risk than value strategies. Lakonishok, Shleifer, and Vishny (1994) propose an alternative explanation based on the calculation of hypothesis, where investors make calculation to the past performance of stocks. La Porta (1996) suggested investors to sell stocks with high earnings growth and buy stocks with low projected earnings growth with excess returns.

According to Elze (2010), The analyst believes, the causes of value stock strategy can generate high returns are due as compensation for the risks faced by the value investor. Value investors apply a contrarian strategy or "naïve strategy" for this strategy foresees revenue growth of a company in the past into the future. This strategy aims to assume the trend in share prices in the future and find a good company that is not reflected by the company's stock price

Damodaran (2006) classified glamour stocks with the opposite characteristics of the stock value. Glamour stock has price to earnings, price to book value, price to cash flow, and size that are high. In the stock market there are several characteristics of Value stock shares and Glamour stock. Characteristics of these stocks can be seen through analysis fundamental approach to Price Earnings Ratio (PER) or Price to Book Value (PBV).

According Fabozi (2003), portfolio theory that deal with choosing the portfolio that can maximized the expected return suitable with the risk portfolio taken. The portfolio can be developed with a quantitative approach and historical data to produce the expected portfolio return and measure the level of risk is acceptable.

In the establishment of a portfolio, investors are trying to maximize the expected return on investment with a particular risk is acceptable. In other words, investors are trying to minimize the risks facing specific to the target rate of return. Portfolio that goes accordingly as described above is called the efficient portfolio (Husnan, 1996).

According Tandelin (2001) Sharpe measurement method is a method of linking the level of total return with the risk level where the total risk is dominated by systematic risk. This method can be used on a portfolio in which no systematic risk can be eliminated by diversification.

RESEARCH HYPOTHESIS

Based on the explanation from the background, the theoretical frameworks, and empirical results of studies on the various capital market of the world, the following hypothesis are formulated:

H_1: Portfolio value stocks provide higher return that the portfolio of glamor stocks.
H_2: Portfolio value stocks carry higher risk adjusted performance than the portfolio of glamor stocks.

RESEARCH METHODOLOGY

The following are data used in this research study:

a. The company listed in the periodic year of 2012 until 2016 in Kompas100 and the financial report in the annual report that published in IDX.
b. **Daily Closing Price:** for calculating the expected return for each stock portfolio. The data taken from Yahoo Finance.
c. **Price Earnings Ratio (PER):** the ratio for valuing a company that measures its current share price relative to its per-share earnings. The data taken from financial report of the listed company that published in IDX.
d. **Return on Equity (ROE):** the amount of net income returned as a percentage of shareholder's equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The data taken from financial report of the listed company that published in IDX.
e. **Dividend Yield:** a dividend expressed as a percentage of a current share price. The data taken from financial report of the listed company that published in IDX

Library research applied in this study by reading some books, website, end journal of finance in order to acquired deeper knowledge about behavioral finance, risk adjustment and return of the glamor stock and value stock. Library research and theoretical background needed to explain hypothesis, helping the research and this discussing the results. Data of listed company in Kompas100 with the data of Price to Earnings Ratios, Return On Equity, and Dividend Yield from the annual report that published from years 2012 until 2016.

This research is taking sample from Kompas100. The data are the stock listed in the range of August 2012 until January 2016. The data of PER, ROE, and DY taken from annual report that published in IDX of each company listed from year 2012 until 2016. The data of PER, ROE, and DY are taken from annual report that published in

IDX of each company listed from year 2012 until 2016. The daily closing price are taken from Yahoo Finance.

Methods of data analysis used in this research is to use quantitative analysis. Analysis was conducted on the portfolio is formed by a combination of variables PER and ROE and then DY and ROE of stocks listed on KOMPAS100 were sorted into value and glamor stocks.

STATISTICAL ANALYSIS AND DISCUSSION

To group which one is glamor stock and which one is value stock, the researcher uses the consistent earner strategy that will help with the formation of portfolio in each group accordingly. Consistent earner strategy will have categorized on each kind of stock by analyzing the fundamental aspects on each stock performance.

Glamor and Value Stock Formation Using PER & ROE

	Stock Name					
Glamor Stock Formation	HMSP	TBIG	ADHI	SMSM	SMCB	MLBI
	TLKM	BMTR	AALI	BCAP	WSKT	MYOR
	UNVR	ACES	MAPI	RODA	TOWR	JKON
	KLBF	SILO	MLPL	LPPF	GEMS	BCIP
	SCMA	KREN	PBRX			
Value Stock Formation	GGRM	MNCN	ASII	SMGR	PTBA	JRPT
	INTP	PWON	ITMG	ICBP	SMRA	SSIA

Glamor and Value Stock Formation Using DY & ROE

	Stock Name			
Glamor Stock Formation	HMSP	ICBP	SCMA	TBIG
	TLKM	SMGR	CPIN	MNCN
	UNVR	KLBF	JSMR	PWON
	INTP	LPPF	BSDE	SMRA
	MYOR	PTPP	JRPT	
	WSKT	ACES	MLBI	
Value Stock Formation	GGRM	ITMG	TRIO	
	UNTR	MLPL		
	ASII	SSIA		

The result of the calculation on the Glamor and Value stock return are presented in the tables below. This result will be categorized based on the differentiation of Glamor and Value stock category that the researcher separated before, in term of PER & ROE, and DY & ROE category of Glamor and Value stock.

These calculations are based on the daily stock return on 5-years average from each of the stock included in each category of Glamor and Value stock. Some of the stocks are showing better performance in the current year and some of the stocks show a generous amount of downfall for the performance in the current year.

Glamor – Value Stock Return (PER & ROE)

Year	Stock Return(%)		Average Return(%)	
	Glamor	Value	5 Years	
2012	50	30		
2013	28	23		
2014	36	33	31.8	34
2015	8	21		
2016	37	63		

Glamor – Value Stock Return (DY & ROE)

Year	Stock Return(%)		Average Return(%)	
	Glamor	Value	5 Years	
2012	45	51		
2013	13	19		
2014	46	47	27.2	29.2
2015	-7	-9		
2016	39	38		

As seen on the table above, the return of value stock for PER & ROE approach show better result than the return of glamor stock, namely 34% > 31.8% on the average return of 5-years period. The return of value stock based on DY & ROE approach also show better result than the return of glamor stock, namely 29.2% > 27.2% on the average return of 5-years period. By comparing the PER & ROE approach with DY & ROE approach, the result of the calculation shows that Value stock return gives higher percentage which means the Value stock provide the higher return on daily stock return calculation.

Sharpe Ratio Glamor-Value Stock (PER & ROE)

	Average Return	Standard Deviation Return	BI Interest Rate	Sharpe Ratio
Glamor	31.38	15.47	7.25	1.59
Value	34	16.94		1.58

Sharpe Ratio Glamor – Value Stock (DY & ROE)

	Average Return	Standard Deviation Return	BI Interest Rate	Sharpe Ratio
Glamor	27.2	23.35	7.25	0.85
Value	29.2	24.66		0.89

According to the Sharpe Ratio, the Glamor Stocks portfolio for PER & ROE approach is slightly higher than the Value Stock portfolio. This shows that the Glamor Stocks gave high risks adjusted performance. The returns of the Glamor Stocks portfolio with PER and ROE approach in Indonesian Capital Market, in this case KOMPAS100 are low and have high risk adjusted performance.

Even though the Sharpe ratio of Glamor portfolio in PER & ROE approach shown a slightly higher output, the differences with the Value stock portfolio is not high. The differences are only 0.01 so this analysis can be ruled out because the differences and the other output for the DY & ROE approach shown Value stock is higher. So in contrast, all of the hypotheses are accepting Ho.

This analysis will be conducted by each year of period for each portfolio category from Glamor stock portfolio and Value stock portfolio. Using PER, DY, and ROE as the main indicators for the distribution test. By using the Saphiro-Wilk and Lilliefors, the data can be analyzed to normal distribution.

Normality Test Glamor stock (PER&ROE)

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
PER	.131	27	.200[*]	.953	27	.249
ROE	.134	27	.200[*]	.934	27	.087
Return	.116	27	.200[*]	.945	27	.161

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Normality Test Glamor stock (DY&ROE)

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
DY	.459	27	.052	.509	27	.080
ROE	.088	27	.200[*]	.963	27	.436
Return	.146	27	.146	.934	27	.084

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Normality Test Value stock (PER&ROE)

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
PER	.217	27	.050	.881	27	.061
ROE	.131	27	.200[*]	.964	27	.444
Return	.078	27	.200[*]	.968	27	.544

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Normality Test Value stock (DY&ROE)

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
DY	.215	7	.200[*]	.855	7	.137
ROE	.224	7	.200[*]	.887	7	.259
Return	.194	7	.200[*]	.970	7	.901

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

From the table above, the significance probability of Shapiro-Wilk column is all above 0.05, which means that all of the indicators are normally distributed.

Test of Homogeneity of Variances for PER&ROE Approach

Test of Homogeneity of Variances

Return

Levene Statistic	df1	df2	Sig.
3.277	1	193	.072

Test of Homogeneity of Variances for DY&ROE Approach

Test of Homogeneity of Variances

Return

Levene Statistic	df1	df2	Sig.
.047	1	143	.828

From Table Test of homogeneity of Variances seen that the test results showed that all Glamor and Value stock variant are all the same. P-Value for PER & ROE approach 0.072 and P-Value for DY & ROE approach 0.828. So, ANOVA analysis testing is valid to test this relationship.

ANOVA PER&ROE Approach

ANOVA

Return

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1558.247	1	1558.247	.808	.370
Within Groups	372351.086	193	1929.280		
Total	373909.333	194			

ANOVA DY&ROE Approach

ANOVA

Return

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	80.412	1	80.412	.042	.839
Within Groups	276199.616	143	1931.466		
Total	276280.028	144			

From the table, the significance level shown that the result of P-Value is 0.370 and 0.839 respectively. Based from the analysis in the real extent = 0.05, the result is accepting the null hypotheses (Ho). So that the conclusions obtained there was no significant difference in the average return based on all groups that portfolio.

Based from the Return analysis, the results showed that the Value stock from PER & ROE portfolio and DY & ROE portfolio provide higher return than the Glamor stock portfolio. The average of 5-years analysis for the Value stock portfolio are 34% and 29.2% for each portfolio. Even though the result of each individual year shown that the Glamor stock looks promising, but the total amount of return for long term period for Value stock give higher return.

This analysis can be related to the research based on Elze (2010) research. Using the capital returns variables which is the consistent earner strategy, the value stock performs better result and higher return than the Glamor stock performance.

From the analysis of Sharpe Ratio, to test the risk adjusted performance in each portfolio, the result showed that the Value stock portfolio gives higher risk adjusted performance. The result of the ratio showed the significance difference between each portfolio. The ratios are 1.59 > 1.58 for PER & ROE portfolio and 0.89 > 0. 85 for DY & ROE portfolio. So in contrast, the Ho is accepted.

Based from the analysis, the previous research believed that the cause of value stock strategy generate higher returns are due as the compensation for the risks faced by the value investor that apply the strategy to foresee the revenue growth of the company. The strategy based from the theory of previous research assume the trend in the stock price in future and the company performance that did not reflected by the company's stock price.

This result still the same as the previous research that is in line with the result from the Kargin (2002) research. It stated that the return of the investment can be measured by the risk of the investment. So, in contrast the theory of high risk high return still applied to the current system.

CONCLUSIONS

Based on analysis data in chapter IV, the researcher can conclude that from the Return analysis, the Value stock portfolio gives higher return than the Glamor stock portfolio. This analysis has the same result like the previous research done by the researcher for the topic of Glamor and Value stock performance.

From the Hypothesis analysis, both of the hypothesis are accepted. From the analysis of Value stock provide higher return than the Glamor stock in the first hypothesis and also from the analysis of Value stock provide higher risk adjusted performance than the Glamor stock showed that the data did not have significance difference, so that the return and risk analysis data are related.

From the Risk analysis by using the Sharpe Ratio analysis, the result Value stock provide higher risk adjusted performance than the Glamor stock. The differences are not slightly high, but still the Value stock is a high risk high return stock. For the investors who want to invest in this kind of stock must have a thorough research in fundamental aspect of analysis if the investors want to invest in this kind of stock.

From the statistic testing, the ANOVA result showed that the significance probability level in each portfolio is higher than the extent probability 0.05. So the data used in this research are valid to be tested and there is no significance difference on each of the data. So the return and risk for the stock list are both related to each other.

Value stock is considered riskier than a Glamor stock. This is because of the skeptical attitude the market has towards the value stock. For a Value stock to turn profitable, the market must alter its perception of the company, which is considered riskier than a growth entity developing. For this reason, a Value stock is typically more likely to have a higher long-term return than a Glamor stock because of the underlying risk. The investing duration must be taken into consideration a Value stock may need some time to emerge from its undervalued position. The true risk in investing in a Value stock is that this emergence may never materialize.

For the next research, the researcher must consider the condition of the country for the research and also the stability of the stock market for identifying the Glamor or Value stock. By doing so, the researcher has a reason that why the researcher can judge the general characteristic for Glamor or Value stock.

For the Glamor stock, there is still no valid understanding about the meaning. Some researcher said that Glamor stock is the same like Growth stock, and some say it is completely different. Furthermore, the thorough research for Glamor or Growth stock is needed for this kind of research.

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