

## **CHAPTER I**

### **INTRODUCTION**

#### **1.1 Background**

Stocks are of the instruments of investment products in the capital market and have a lot of interesting aspects to observe. One of them is the difference between the value stocks and the stocks and the glamor (or growth) recognized. 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. Results of another investigation by Saleh (2005), who used the Stock Exchange data during the period 1980-2000, indicate that the strategy value – glamor stocks with the book value approach – does not show the value premium although the profit of small-capitalization stocks (small stocks) return is higher than of big capitalization stocks return.

In addition, The Brandes Institutes issued the Value - Glamor Investing update in 2007 based on the observation data in the period of 1968-2006 from the United State stock exchange (NYSE and NASDAQ). The report used the Price to Book Value (PBV) approach in 10 groups (Desile), where Desile 10 (the lowest PBV) was given to the value stocks, while Desile 1 (the highest PBV) was given to the glamor stocks. The result remains consistent with previous research, namely the value stocks return is superior over the glamor stocks return.

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. When applied to small-size companies, however, the superiority of value stocks is not significant.

Previous research, 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.

## **1.2 Problem Formulation**

There has been much research conducted on the value and glamor stocks in the world, but few research has been conducted in the Indonesia capital market. Studied on the value stocks portfolio need to be replicated in the Indonesia Stocks Exchange. 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?

## **1.3 Limitation of The Study**

This research has some limitation that the researcher considered, as it follows:

- a. The definition of value stock in this research refer from the consistent earner strategy that is the stock that has a low Price Earnings Ratio value and high Return On Equity and the portfolio has a high value of dividend yield and high value of Return On Equity.

- b. The definition of glamour stock used in this research is based from the consistent earner strategy that is the stock that has a high Price Earnings Ratio value and low Return On Equity and the portfolio has a value of dividend yield low and low Return On Equity.
- c. The period of KOMPAS100 used in this research are from year 2012-2016. The researcher also includes the stock that is only appear consistently in KOMPAS100 period each year, or so the researcher does not include the stock that appears only once in each period.
- d. The researcher excludes the bank and financial firm stock and also the company that have minus on the fundamental variables or the return on capital variables because those stocks do not match with the characteristics written as the value or glamour stock.

#### **1.4 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.

## **1.5 Benefits**

The benefits of this research are:

- a. For investor: to add additional information on the topic Value Stock and Glamor Stock, and as a guide in determining stock analysis and investment strategy.
- b. For academic: for further research that can be used as study materials and scope of the studies related to the expansion of Glamor stock and Value stock.
- c. For researcher: as a fulfillment of the required final thesis for the graduation requirement.

## **1.6 Systematical Writing**

In this study, the authors compile the systematic writing as follows:

### **CHAPTER I: INTRODUCTION**

This chapter provides background, the problem formulation, the purpose of the study, the benefits of the study and the systematic writing.

### **CHAPTER II: THEORETICAL FRAMEWORK**

This chapter provides the concepts and theories that are relevant and supporting research analysis includes theories on Stock Value and Glamour Stock, the influence of two

variables based on previous research, the framework and the research hypotheses.

### CHAPTER III: RESEARCH METHODOLOGY

This chapter describes the research methods consist of a form of research, population and sample, sampling methods, data collection methods, methods of measuring data, methods of analysis and hypotheses testing.

### CHAPTER IV: DATA ANALYSIS AND INTERPRETATION

This chapter describes the analysis of data to test hypotheses and discussion that explain the study results in accordance with the relevant theories.

### CHAPTER V: CONCLUSION

This chapter contains the conclusions from the analysis that has been done and suggestions to put forward for further research and for consideration in order to improve the next research with similar topic.