The Financial Performance, Stock Performance, Stock Risk and Their Influence on Index and Capital Gains of Shariah Stocks in Indonesia

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Abstract: This research aims at proving the influence of company's financial performance, stock performance and stock investment risk on Shariah stocks price index and capital gains in Indonesia. The hypothesis is stated that financial performance, stock performance, and stock risk influence the stock price index and have impact on capital gains of Shariah stocks in Indonesia. The research is designed as a quantitative, ex post facto, associative, and positivistic research by analyzing the differences among individual Shariah stocks index and capital gains. The financial performance, stock performance, and stock risk are set as exogenous variables, individual stock price index as mediator variable, and stock capital gains as endogenous variable. All variables are latent variables where their values are represented on their indicators respectively. There are eight indicators of financial performance, six indicators of stock performance, three indicators of stock risk, one indicator of stock price index, and one indicator of stock capital gains. The existing influences were studied simultaneously in one model, *Structural Equation Model* (SEM). Descriptive analysis, Coefficience of Determination, and Effect Size analysis were also used in this study. The conclusions are : First, financial performance, stock performance, stock risk, and stock index simultaneously have influence on Shariah stock capital gain. Second, stock performance and stock risk partially have influence on Shariah stock capital gain, but not with financial performance. Thirth, stock price index has not significant role as mediator to influence the stock capital gain. Fourth, not all indicators represent the financial performance, stock performance and stock risk of Shariah stocks.

Keywords: financial performance, stock performance, stock risk, stock index, and capital gains.

1. THE RESEARCH BACKGROUND

Investors of conventional stock and sharia stock mostly seeking the return from their investment. For short-term investment the return in the form of capital gains are preferred. Capital gains earned when prices or price index of stock held rose. Other than as source of capital gains the increase in stock price indexes also increase in the company's assets and the wealth of investors. But in the stock market there is

an interesting phenomena. The phenomena is: capital gain, stock price, stock index, financial performance, stock performance, and stock risk of sharia stocks at the same time is highly variating among the stocks and fluctuate from time to time.

The phenomena indicates an empirical gap in the sharia stock market, and raises the question: Why are capital gain, stock index, financial performance, stock performance, and stock risk differs among the shariah stocks and fluctuate over time? Are capital gain and price index differ among the shariah stocks and its fluctuations associated with difference in financial performance, stock performance and stock risk of the stocks? Are the financial performance, stock performance and stock risk influence the stock indexes and have impact on stock capital gain of shariah stocks?

2. RESEARCH PROBLEMS

The research problem is: "Do the financial performance, stocks performance, and stocks risk influence the stocks index, and have impact on capital gain of sharia stocks in Indonesia?" The research problem can be breakdown in detail as follows:

1. Do the financial performance, stock performance and stock risk influence the capital gains of Sharia stocks ?

2. Do the financial performance, stock performance and stock risk influence the indexes of Sharia stocks ?

3. Does the stock index play as a mediating role influencing the capital gains of Sharia stock ?

3. RESEARCH OBJECTIVES

In accordance with the research problem, the purpose of this research are:

1. To determine the influence of the financial performance, stock performance and stock risk on capital gain of Sharia stock.

2. To determine the influence of the financial performance, stock performance and stock risk on the index of Sharia stock.

3. To determine the role of the stock index as the influence mediator of the financial performance, stock performance and stock risk on capital gains of Sharia stock.

4. LITERATURE REVIEW

Investors' expectations in stock investments is to obtain a compensation commensurate with the investment risk that has been taken into account. According to Ross et al. (2008: 243) the stock investment return consists of two components, namely dividend yield and capital gain yield. Nearly all investors prefer capital gain than dividend (Susanto and Sabardi, 2002). Therefore, element of these return coming from the increase of the price/index is very important for investors. The index determines the returns, the company's value and investors' net worth that are embedded in the company.

The market price of stock is "the price at which stock sells in the market" (Weston and Brigham, 1993). Stock price index is the stock price that be expressed in index numbers (fayku.files.wordpress.com),

expressed in units of points, and calculated in a certain way. Individual stock price index (ISPI) is the stock price index of each company listed on the stock exchange (www.idx.co.id.), the ratio of the market price of each stock on the basic price, and published by the stock exchange (fayku.files.wordpress.com). There are two components in the calculation of index: market price and quantity of stock traded. Therefore, factors affecting the price and quantity of the stock market will have an impact on ISPI. These factors generally are the factors on which the selection of stocks are based : the financial performance of the company (fundamental factor), stock performance (technical factor), and stock risks (risk factor).

The influence of the financial performance is to be mentioned in the fundamental analysis of stocks. The analysis said that the stock market price and quantity are influenced by the prospect of stock in giving return, and return prospects reflected in the company's financial performance (Tandelillin, 2010). The merits of financial performance reflected in the financial ratios (Yuwono, Sukarno and Ichsan, 2003). In other words, the financial ratios are indicators of the company performance, particularly financial performance. Financial ratios which may be used by investors and the information is available publicly are the Earning Per Share (EPS), Price-Earning Ratio (PER), Book Value (BV), Price-Book Value Ratio (PBV), Debt-Equity Ratio (DER), Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Operating Profit Margin (OPM) of the companies.

The influence of stock performance is to be expressed in technical analysis. Technical analysis is essentially a search for patterns in stock prices and stock returns that can be predicted (Bodie et al., 2008). Stock performance indicated by fluctuations in stock index and capital gains over the years. The expected return is the compensation to be received by investors for investment in the future (Suad Husnan, 2005), which is calculated based on the return in the past. The stock price and returns to expect based on the estimates made in a certain way (Brown and Warner, 1985). The company's stock is attractive to investors if it has high expected value of return or price. Stock performance rated from Last Index (LI), Average Index (AI), Trend of Index (TI), Last Return (LR), Average Return (AR), Trend of Return, (TR), Last Return Percentage (LR%) , Average Percentage Return (AR%), and Trend Percentage of Return (TR%) of the shares.

The influence of stock risk is stated in one of financial management axioms: "risk-return trade-off". The axiom noted that investors are rationally consider the risks and returns of investing. Palepu et al. (2006) says that one of the stages in the formation of the security analysis is the expectation of the returns and risks of individual securities. With the analysis of risk and returns investors tried to determine the company's stocks have a risk worth the returns expected. Investors will buy stocks that in their perception there is conformity (equivalent) between risk and return is expected.

From some definitions stated by the experts (Van Horn, Bodie, Brigham etc.) it can be concluded that the investment risk is (1) the possibility of obtaining actual investment returns that is not in accordance with the expected returns, (2) the possibility of not reaching returns expected. There are three kinds of stock investment risk: total risk, systematic risk and specific risk.

Investors are more concerned with total risk and systematic risk, because the specific risks can be minimized and controlled (controllable) by diversifying and picking stocks of companies that perform well, while the total risk and systematic risk can not be minimized in that way and are beyond the control of investors (uncontrollable). The total risk is measured by the standard deviation (ó) and coefficient of variation in return, while the systematic risk measured by beta coefficient (â) of stock.

5. PREVIOUS RELATED RESEARCH

Studies related to the stock price, return, and index in general has a lot to do. But as well as the theory, researches relating to these factors generally indicate a research gaps as follows (Figure 1) :

1. The effect of these factors was examined separately, partially, on their own. The effect of financial performance was researched and analyzed by fundamental stock analysis, the effect of stock performance was analyzed by technical stock analysis; the effect of stock risk was analyzed by investment risks analysis. Study evaluating these three factors simultaneously within a single model for stock Sharia is undiscovered.

2. The effect of financial performance was approximated by examining the influence of the financial ratios (which is only actually indicators of financial performance) by regression analysis. The effect stock performance was approximated by examining the stock price, index, and returns (which is only actually indicators of stock performance) by trend analysis. The effect of stock risk was approximated by examining the systematic risk, specific risk and the total risk of stock (which is only actually indicators of stock risk).

3. Using a regression or trend model that involves only the independent variables and dependent variable without a mediator variable, the analysis just found the direct effect (no indirect influence was found).

4. The indicators of financial performance, as well as indicators of stock performance and stock risk were regarded and positioned as independent variables in the analysis model, not as indicators, because the model do not recognize the latent variables that must be measured by indicators.

6. THIS RESEARCH

Compared to previous studies, this study has the following differences (Figure 2) :

1. The effect of the financial performance, stock performance and stock risk are researched and analyzed in an integrated single model (Structural Equation Model).
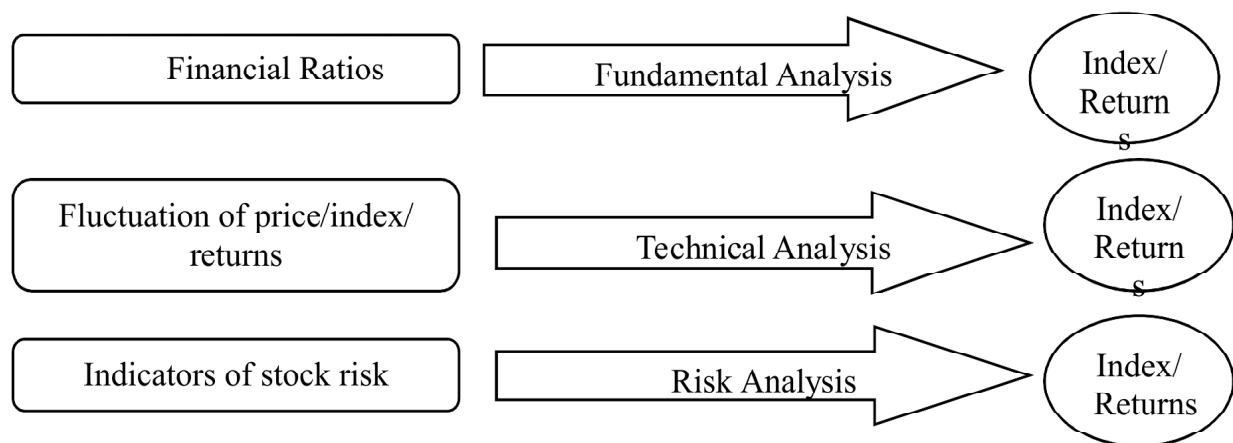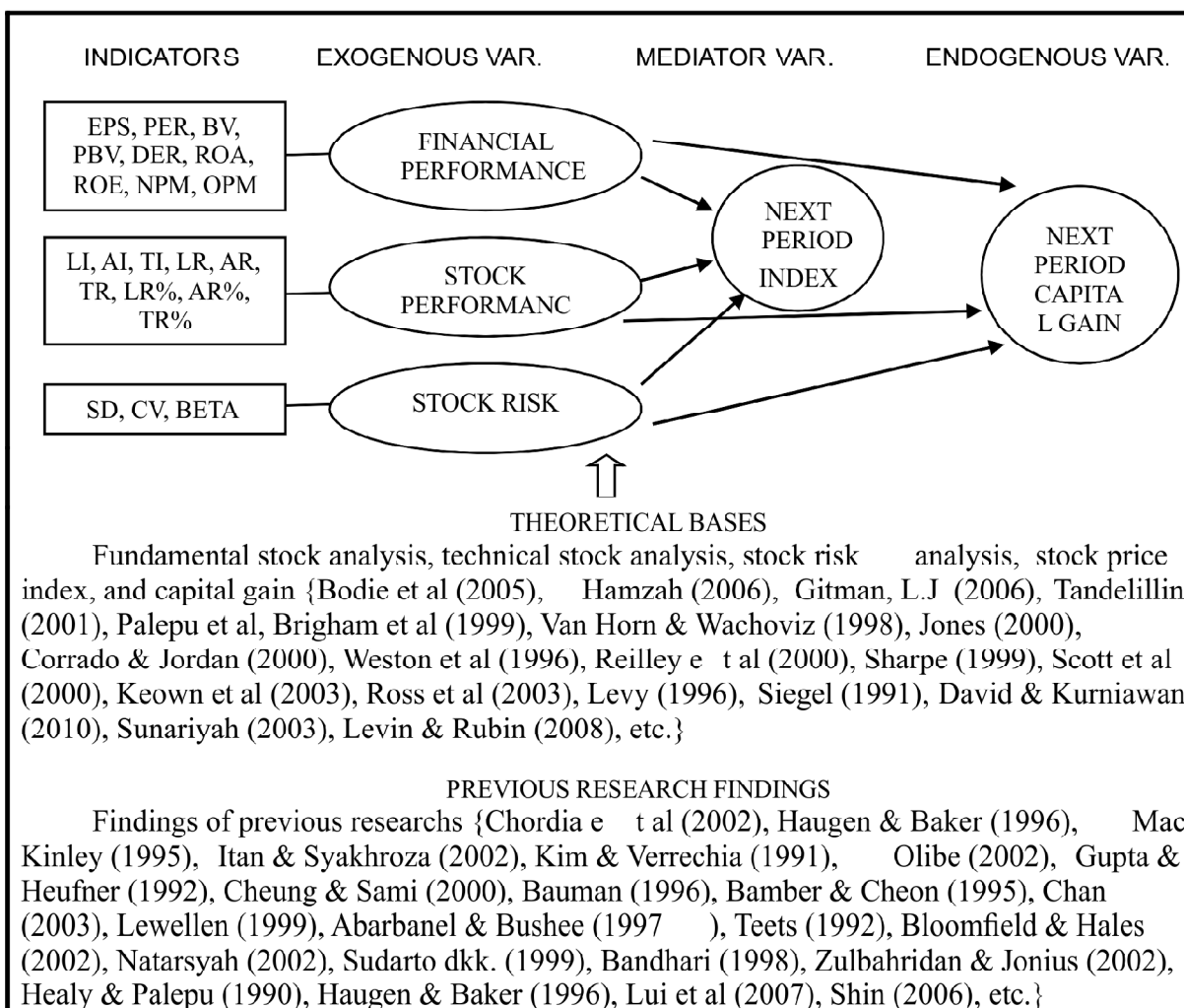

Figure 1

Figure 1

2. Positioning the financial performance, stock performance and stock risk as exogenous, latent variables that must be measured by their indicators, and the indicators are positioned as indicators, not as independent variables.

3. Individual/company Stock Index are used as a mediator variable in the model, so that model will be able to see the direct and indirect influence of financial performance, stock performance and stock risk on Capital Gains.

7. RESEARCH METHOD

This study uses a causal research design which will measure the strength of influence among the studied variables either directly or indirectly. The exogenous variables (financial performance, stock performance, and stock risk) use 17 indicators, mediator variable (stock index) and endogenous variable (stock capital gain) each use one indicator. Overall, therefore, the study involved 19 indicators in the design of the early models like the frame work above.

This study uses secondary data of indicator values of the financial performance, stock performance, stock risk, stock indices, and stock capital gains. These indicators are EPS, PER, BV, PBV, DER, ROA, ROE, NPM, OPM, LI, AI, TI, LR, AR, TR, LR%, AR%, TR%, SD, CV, and Beta at the end of December 2015, as well as the stock index and capital gain at the end of January 2014 of 30 Sharia stocks. Samples were taken from a population of 350 sharia where the size is specified by the Slovin formula. Data partly obtained directly from Indonesia Stock Exchange publications, and most should be self-assessed. Required stock data contains last 14 months (December 2014 - January 2015).

The analysis was performed in the following order: Descriptive analysis, Structural Equations Model, Hypothesis Testing and make conclusions.

8. RESEARCH HYPOTHESES

Of the framework described above can be stated the hypotheses as follows:

H1: Financial performance influence on sharia stock indexes.

H2: Stock performance influence on sharia stock indexes.

H3: Stock risk influence on sharia stock indexes.

H4: Financial performance influence on sharia stock capital gains.

H5: Stock performance influence on sharia stock capital gains.

H6: Stock risk influence on sharia stock capital gains.

H7: Stock index influence on sharia stock capital gains.

9. RESEARCH RESULT

9.1. Path Diagram

The results were obtained through Partial Least Square analysis as follows:

1. Full diagram of all path (Run 1)

    The figure below illustrates the path diagram with the all indicators (19) of the variables. Exogenous variables consist of the Financial/Company Performance (CP), Stock Performance (SP) and Stock Risk (SR). Next Period Index (NPI) is a mediator variable, and Next Period Capital Gains is an endogenous variable.

2. Selection of indicators.

    Three exogenous latent variables initially using 17 indicators. Having tested the validity and reliability of several indicators fall and stay 8 indicators (NPM, ROA, ROE, AI, LI, IT, CV and Beta).

3. The final path diagram consist of the rest significant path (Run 3).The values of path coefficients and t statistics shown in the path diagram below.
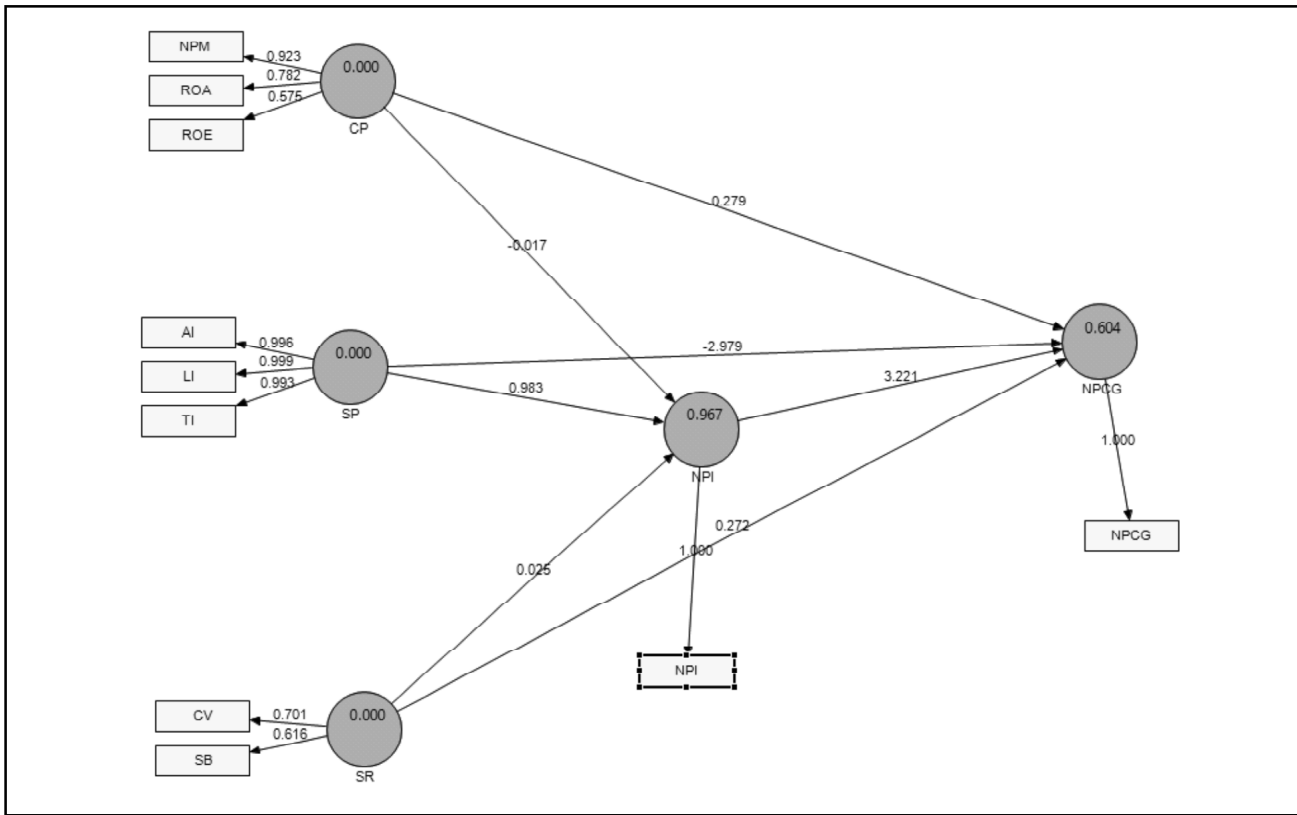
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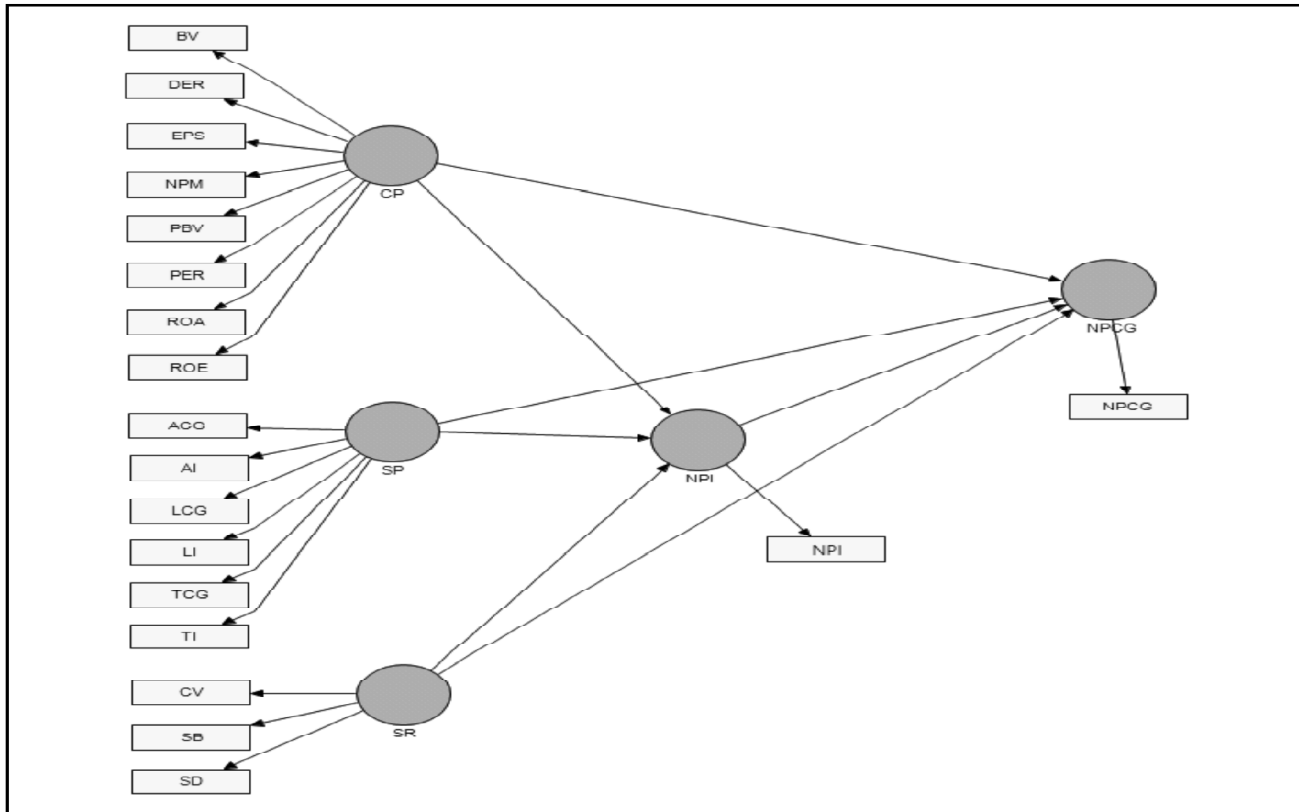
Run 3 Bootstrap
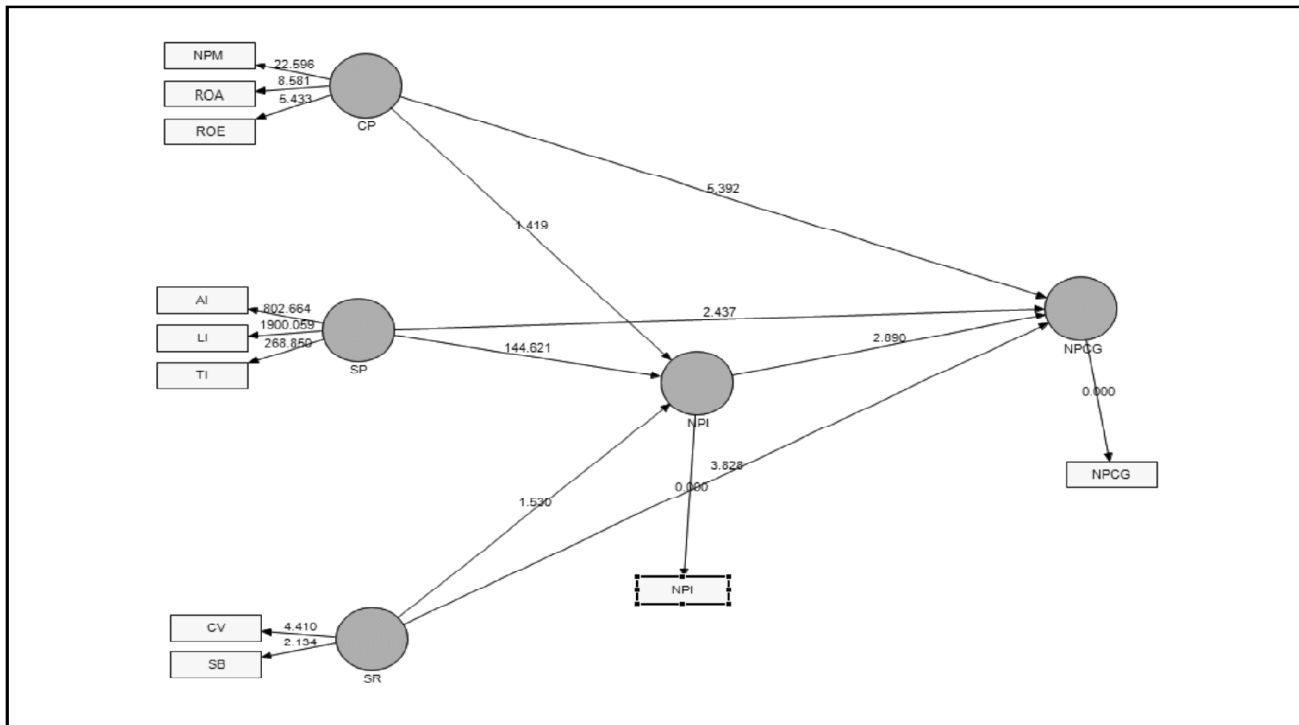
Run 3 Algorithm

9.2. Hypothesis Testing

From the path diagram above the hypothesis testing can be done, and the results are presented in the table below.

| H	Hypothesis	Path Coefficient	t Statistic	Decision	Significancy
H1$_a$	CP* influence on NPI	0,18	2,68	Accept H$_a$	Significant
H2$_a$	SP influence on NPI	0,23	2,16	Accept H$_a$	Significant
H3$_a$	SR influence on NPI	0,05	1,07	Reject H$_a$	Not significant
H4$_a$	CP influence on NPCG	0,09	1,05	Reject H$_a$	Not significant
H5$_a$	SP influence on NPCG	0,28	2,36	Accept H$_a$	Significant
H6$_a$	SR influence on NPCG	0,25	2,06	Accept H$_a$	Significant
H7$_a$	NPI influence on NPCG	0,10	0,97	Reject H$_a$	Not significant

Source : Analysis result

*) Company Performance (CP) or Financial Performance

9.3. Coefficient of Determination and Effect Size

The coefficient of determination (R^2) is used to determine the influence of exogenous variables (FP, SP and SR) on endogenous variable (NPCG) simultaneously. Effect size (f^2) is used to determine do or do not

the mediator variable (NPI) influence in the research model. Path diagram run 4 show the path diagram without mediator variable (NPI).
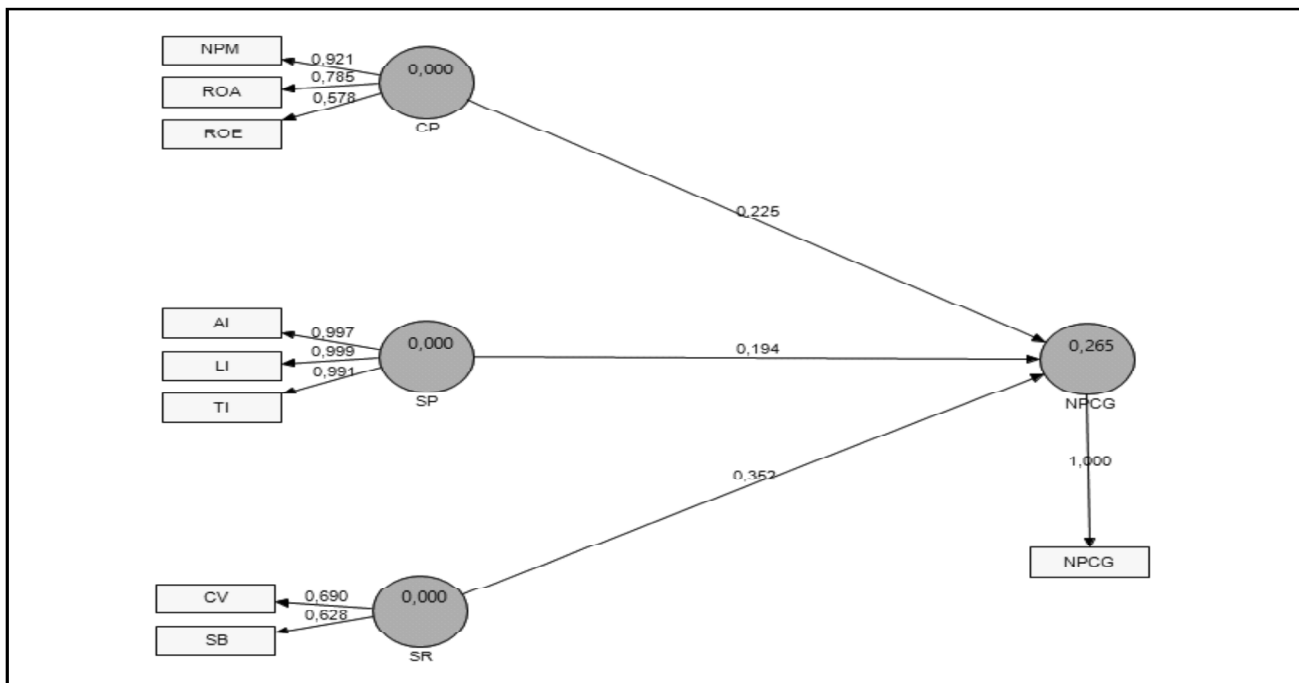
Run 4 Bootstrap
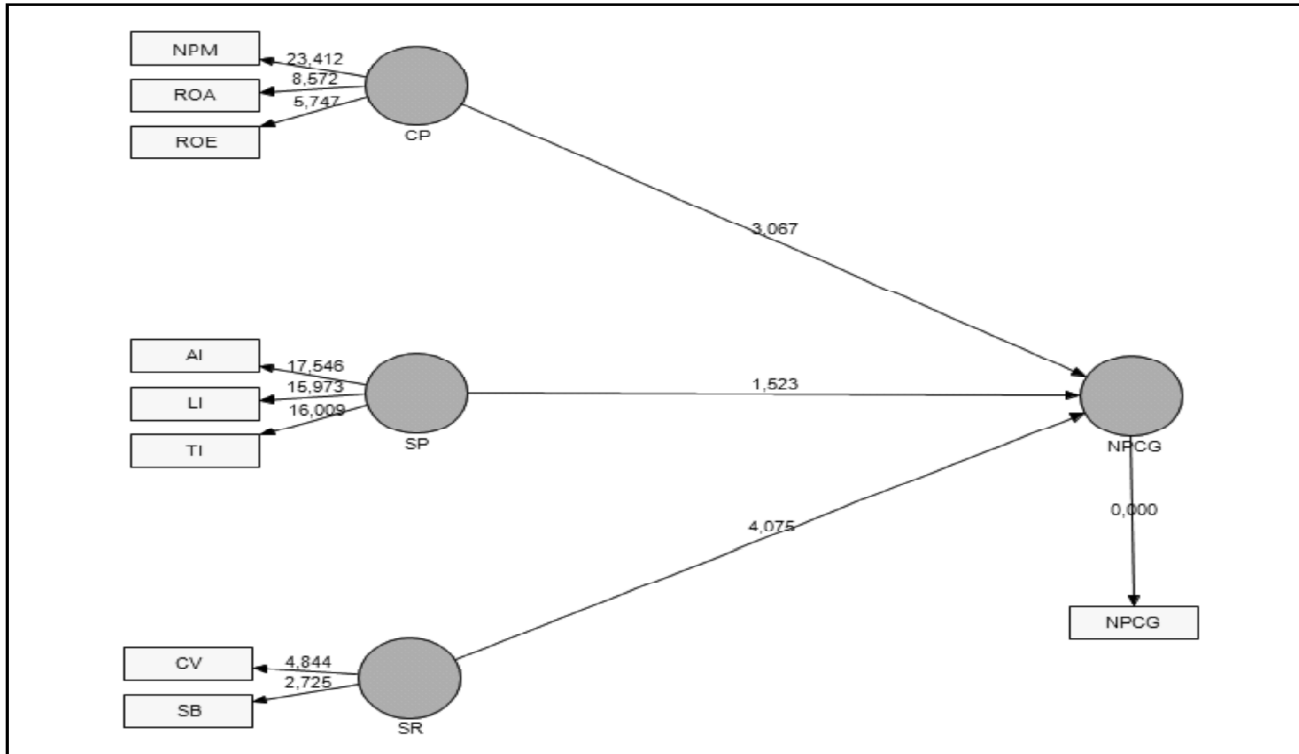
Run 4 Algorithm

Table below shows the results of the calculation R^2 and f^2 with Cohen's formula.

Structural Model	Mediator Variable	Coef. of Det. (R^2)	Effect Size (f^2)	Influence Magnitude*
FP, SP and SR $\rightarrow$ NPCG	-	0,78	-	-
FP, SP and SR $\rightarrow$ NPI $\rightarrow$ NPCG	NPI	0,87	0,11 < 0,15	Small influence

Source: Analysis result

*) Gefen & Straub, 2000

The table shows that without NPI as a mediator, the influence of FP, SP and SR work together on NPCG is 78%. By entering the NPI, the influence FP, SP and SR jointly to 87% and the effect size (f^2) is only 0.11. This suggests that the role of NPI as a mediator is very small.

9.4. Partial Influence

The direct influence of FP, SP and SR partially can be explained by the path coefficients respectively in the structural model that are summarized and presented in the table below.

Influence	Path Coefficient	Significancy
NPI $\rightarrow$ NPCG	0,10	Not significant
CP $\rightarrow$ NPCG	0,09	Not significant
SP $\rightarrow$ NPCG	0,28	Significant
SR $\rightarrow$ NPCG	0,25	Significant

*) Refers to path coeficient in strucutural model diagram.

Source: Analysis result

The path coefficients and the significance value shows the influence of FP, SP and SR as follows:

1. The influence of NPI to NPCG is 0.1 but it is not significant. So the indirect influence of FP, SP and SR on NPCG wholly insignificant.

2. Direct influence of FP on NPCG is 0,09 but it is not significant.

3. Direct influence of SP on NPCG is 0.28 and significant. This means that the increase in the value of SP 1 unit is expected to increase NPCG 0.28 units, ceteris paribus.

4. Direct influence of SR on NPCG is 0.25 and significant. This means that the increase in the value of SR 1 unit is expected to increase NPCG 0.25 units, ceteris paribus.

10. CONCLUSSIONS

From the analysis and discussion that has been described in previous chapters can be delivered the following conclusions:

1. Financial performance have no significant influence on next period capital gains of Sharia stock, neither directly or indirectly.

2. Stock performance directly influence on next period capital gains of Sharia stock.

3. Stock risk directly influence on next period capital gains of Sharia stock.

4. Stock index do not have a significant role as an influence mediator.

5. Three out of eight indicators of financial performance are fairly good, namely ROA, ROE, and NPM. Three out of the seven indicators of stock performance are quite good, namely Average Index, Latest Index and Index Trend. Two out of the three indicators of stock risk are fairly good, namely Coeficient of Variation and Beta.

11. SUGGESTION

11.1. Suggestion to Academic Interest

The parties who are interested in the development of science in relation to sharia stock investments need to pay attention to the following points:

a) Financial performance, stock performance and stock risk of Sharia stock influence on next period capital gains collectively, but individually only stock performance and stock investment risk do.

b) Not all of existing indicators are representative in measuring financial performance, stock performance, and stock risk. The main indicators to be considered are the NPM, LR and Beta.

11.2. Suggestion to Future Research

For those who are interested in doing research on stocks, this study would be developed further, for example in the following manner:

a) Add or change variables, indicators or stock sample.

b) Using different research methodologies.

c) Examines and compares the influence of financial performance, stock performance and stock risk of Sharia on capital gains among industrial sharia stocks (joint stock sharia of companies in the same industry).

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