ABSTRACT

Rational investor will invest their funds in efficient stock which provides high expected return with minimum risk. This research covers securities which have liquid in terms of trading frequency and give dividend yield for three years. The main purposes of this research are to ascertain the optimal portfolio and the differences of return and risk portfolio candidates with non-candidates.

This research results showed that there were fourteen stocks of portfolio candidates from thirty-three stocks researched with the cut-off-rate (C) of 0.0165. And three of fourteen stocks which have the biggest excess return to beta (ERB) make up the optimum portfolio: Astra International Inc. (AALI) and Perusahaan Gas Negara (PGAS) with excess return to beta (ERB) of 0,86% and 0,37% respectively. The optimum portfolio comprises 48, 54% far AALI and 51,46% for PGAS stock with a return portfolio of 0,072%, portfolio risk of 0,196% and excess return to beta portfolio of 0,61%.*

In conclusion, rational investors will invest their funds in optimum portfolio comprises AALI and PGAS stocks because that stocks become a portfolio candidates in different period for consistently. Empirical evidence indicates a significant difference in return of fourteen stocks as portfolio candidates with nineteen stocks as portfolio non-candidates. The fourteen stocks candidates have higher mean of return (24,43) *than the nineteen stocks non-candidates* (11,53).

Keywords: Single Index Model, portfolio candidates, optimal portfolio, expected return, excess return to beta, cut-off-rate.