ABSTRACT

The Indonesian capital market is characterized by the dominance of retail investors and the substantial role of investor behavior and trading dynamics in stock price formation. However, most previous studies have primarily focused on fundamental factors in explaining stock returns, while non-fundamental factors related to investor behavior and market dynamics have not been comprehensively examined. Therefore, this study aims to analyze the formation of stock returns among companies included in the LQ45 Index of the Indonesia Stock Exchange during the period 2020–2024 using a behavioral finance perspective.

This study employs a quantitative approach using secondary panel data of companies listed in the LQ45 Index with quarterly observations from 2020 to 2024. The research sample consists of 37 companies that meet the data completeness criteria. Panel data regression with a fixed effect model is applied as the main analytical method. Data processing and analysis are conducted using STATA software to obtain statistically consistent and robust estimation results.

The results indicate that investor sentiment, the Relative Strength Index (RSI), and analyst recommendations have a positive and significant effect on stock returns. In contrast, Net Foreign Flow does not have a significant effect on stock returns, suggesting that foreign investor capital flows tend to be passive and do not play a major role in driving stock price movements. Overall, the findings confirm that stock return formation in the Indonesian capital market is more strongly influenced by internal market factors and investor behavior than by foreign capital flows.

Keywords: Behavioral finance, investor sentiment, relative strength index, analyst recommendation, net foreign flow, stock return