

ABSTRACT

This research is replicated from Homsud, et al's research (2009) and has modified by researcher. This research concern with the issue of Fama and French Three Factor Model validity to predict stock return in Indonesian Stock Exchange better than Capital Asset Pricing Model. Data of this research are taken from LQ-45 listed companies in Indonesian Stock Exchange for the period July – August 2010. This research is important because there was just a few research that prove Fama and French Three Factor Model can be used to predict stock return volatility in the future better than Capital Asset Pricing Model. This research shows than Fama and French Three Factor Model gives better estimation in predict stock return better than Capital Asset Pricing Model.

Keyword: stock return, Fama and French, CAPM