ABSTRACT

The decision regarding an investment as essentially predictive, because it involves expectations of future returns, and risks to be borne by the investors so that consideration of an investment is a trade-off between the two factors. Investors will want the additional rate of return in compensation for the risk premium to bear to invest in risky assets such as stocks. Therefore, the more risky an investment, then investors will want higher returns.

This study aimed to test the effect of the risk premium represented by the market factor (beta), firm size, the ratio of book-to-market equity and leverage on stock return. The hypothesis of this research are: (1) Market risk (beta) positive effect on stock return, (2) firm size negatively affect the stock return, (3)-book ratio of equity to the market a positive influence on stock return, and (4) leverage ratio of positive effect on stock returns. Stock return in this study are represented as the excess of the risk-free rate. This study uses a sample of 275 observations of non financial companies listed on the publicly traded Indonesian Stock Exchange from 2004 to 2009 period. The sample selection was purposive sampling method. Methods of analysis of this study using multiple linear regression with classical assumption as the feasibility test data.

Results showed that only firm size and variable-to-book ratio of equity market affect the stock return with a positive direction. While variable market risk (beta) and leverage has no effect on stock returns. Simultaneously, the variables of market risk (beta), firm size, the ratio of book-to-market equity, and the leverage effect on stock returns. The coefficient of determination equal to 0.346 indicates that 34.6 percent of stock return variation can be explained by the variables of this research.

Key words : risk, return, market risk (beta), company size, book-to-market equity ratio, leverage