ABSTRACT

International diversification will be more attractive to foreign investors when the rate of profit between countries have low correlation coefficients. In Indonesia, up to December 2007 based on data from the Indonesian Central Securities Depository (KSEI), Indonesia Stock Exchange is dominated by foreign investors with a stake of up to 66% of the total value of shares on the Stock Exchange, although then at the end of 2013 there was a slight decrease to 63%. Decrease the dominance of foreign ownership is not necessarily able to eliminate the influence of foreign investment. In fact, foreign investors are still too strong to be underestimated and they are still the driving force in the market movements. Therefore, the purpose of this study was to look back at how the influence of foreign investment in Indonesia capital market to market return.

The study was conducted using data from the monthly stock index return and the value of share ownership by foreign investors in the Stock Exchange in the period from January 2008 to December 2013. This study also involves some exogenous variables involved studied its effect on foreign investment and the return JCI which are variable of capital market's return proxied with return MSCIW, changes in the value of the Rupiah against the US Dollar and country risk proxied by changes in the value of EMBI +. The analytical method used was Vector Autoregression backed by Granger causality analysis, analysis of Impulse Response and Variance Decomposition analysis

The results of the study showed that foreign investment is only affected by foreign investment earlier period. Between foreign investment and return of JCI does not happen relationships mutual influence. From the data structure of share ownership by foreign investors during the period of this study, it turns out value is not too volatile or stable enough. This stability can be interpreted high investor confidence in the ability of the Indonesian government and the positive perception of foreign investors in Indonesia capital market that is still very profitable for their investment. MSCIW return variable, changes in the value of the Rupiah against the US Dollar and the change in value EMBI +, three did not have a significant effect on foreign investment, but all three have a significant impact on the return of JCI. It is proved that the return of the world's capital markets, changes in currency exchange rates and country risk have a role in the formation of the stock market return in the IDX.

Keywords : *foreign investment, return of JCI, vector autoregression*