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3rd ImCoSS

THE THIRD INTERNATIONAL MULTIDISCIPLINARY
CONFERENCE ON SOCIAL SCIENCES

5 - 7 JUNE 2015

BANDAR LAMPUNG UNIVERSITY
INDONESIA

PROCEEDINGS

Hosted by :

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3rd IMCoSS 2015

**THE THIRD INTERNATIONAL MULTIDISCIPLINARY
CONFERENCE ON SOCIAL SCIENCES**

5, 6 June 2015
Bandar Lampung University (UBL)
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PREFACE

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the **The Third International Multidisciplinary Conference on Social Sciences (The 3rd IMCoSS) 2015** organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participants. It is noteworthy to point out that about 112 technical papers were received for this conference.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also grateful to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

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Table Of Content

Preface.....	ii
International Advisory Board	iii
Steering Committee.....	iv
Organizing Committee	vi
Table of Content	viii
Keynote Speaker :	
1. Cultural Tourism and Trade in Indigenous People's Art and Craft: A Gap Analysis of International Legal Treatise and National Legislation – Ida Madieha bt. Abdul Ghani Azmi	I-1
2. Contrasting Islamic Leadership Styles (An Empirical Study Of Muslim Majority And Minority Countries) - Khaliq Ahmad	I-10
Paper Presenter :	
ECONOMICS :	
1. An Analysis of The Influence of Aggregate Expenditure Regional Gross Domestic Product Growth In The Lampung Province – H.M.A. Subing	II-1
2. Effect on The Quality of Passenger Satisfaction (Study in Radin Inten II Airport South Lampung) – Ardansyah and Stefanny Ellena Rushlan	II-7
3. Factors That Affect Longevity Of Business Relationships – Margaretha Pink Berlianto and Innocentius Bernarto.....	II-12
4. Millennials Green Culture: The Opportunity And Challenge (A Case Study Of Higher Education Student) - Ika Suhartanti Darmo	II-21
5. Preferences Prospective Students In Choosing The Study Program (University X In Bandar Lampung) - Indriati Agustina Gultom and Wahyu Pamungkas	II-29
6. The Effect Of Growth, Profitability And Liquidity To Bond Rating Of The Banking Firms Listed On The Indonesian Stock Exchange (Period 2009- 2013) - Syamsu Rizal and Winda Sutanti	II-34
7. The Influences Of Investment On Regional Gross Domestic Product (RGDP) In Lampung - Habiburrahman	II-42
8. The Influences Of Bank Product Socialization And Electronic Payment System Quality On Intention To Use E-Money In Indonesia - Cynthia Jonathan, Rina Erlanda and Zainal Arifin Hidayat	II-46
9. The Influence Of Inflation, GDP Growth, Size, Leverage, And Profitability Towards Stock Price On Property And Real Estate Companies Listed In	

Indonesia Stock Exchange Period 2005-2013 - Herry Gunawan Soedarsa and Prita Rizky Arika	II-50
10. The Influence Of Investment Opportunity Set (IOS) And Profitability Towards Stock Return On Property And Real Estate Firms In Indonesia Stock Exchange - Grace Ruth Benedicta, Herlina Lusmeida	II-57
11. The Influence Of Prosperity And Finacial Performance With Respect To Equalization Funds Of The Government District/City In All Southern Sumatra Regions - Rosmiati Tarmizi, Khairudin and Felisya Fransisca	II-66
26. The Influence of The Financial Performance and Macroeconomic Factors To Stock Return - Angrita Denziana, Haninun, and Hepiana Patmarina.....	II-73
27. The Economical Analysis Of Mechanization In Land Preparation For Plantation - M.C. Tri Atmodjo	II-81
28. The Performance of Undiversified Portfolio In Indonesia Stock Exchange - Budi Frensidy	II-84
29. An Analysis of Fast Improvement Program of Human Resources for Employee Satisfaction of PT. PLN (Persero), Bandar Lampung Power Sector - Sapmaya Wulan and Kiki Keshia	II-89
30. Engineering Model of Economic Institution Insugarcane Agribusiness Partnership (Case Study on Sugar Cane Agribusiness Partnership between Farmers Cooperative and Sugar Factory in Way Kanan Regency of Lampung Province-Indonesia) – Syahril Daud and Adrina Yustitia	II-97

LAW :

1. Analysis Of Convict's Rights In Judicial Review Of Narcotics Criminal Case - Yulianto	III-1
2. Comparison Of Authority Of The Conditional Court In India And Thailand In Judicial Review – Indah Satria	III-4
3. Criminal Law Policy As An Effort Of Overcoming Crime Towards Protected Animals - Benny Karya Limantara and Bambang Hartono	III-9
4. Decentralization Evaluation in Indonesia : The Dynamics of Relation Central Government and Local Government - Dewi Nurhalimah	III-15
5. Denial Of Labor Rights By Liberal Legal Regime In The Outsourcing System - Cornelius C.G, Desi Rohayati and Ricco Andreas	III-20
6. Design Of The Special / Special For Inclusion In The System Of The Republic Of Indonesia By Constitution Of The Republic Of Indonesia 1945 - Baharudin.....	III-22
7. Dilemma of State Sovereignty Protecting the Homeland Indonesia (Studies Agrarian Constitution) - FX. Sumarja	III-27
8. From State Sovereignty To People Sovereignty: The Development of State Control Doctrine in Indonesia Constitutional Court Decision - Utia Meylina	III-32

9. Law Function As Instrument To Build a Stability of Moral Economy in Globalization Era - Hieronymus Soerjatisnanta and M Farid Al-Rianto III-36
10. The Analysis Of Criminal Liability For Crimes Perpetrators Of The Crime Of Human Trafficking – Dharma Saputra III-45
11. The Death Penalty: Pancasila, With Efforts To Eradicated Drugs - Anggun Ariena R. and Ade Oktariatas Ky III-48
12. The Existence of Government Regulation in Liew of Law or Peraturan Pemerintah Pengganti Undang-Undang (Perppu) in Legal Systems of the Republic of Indonesia - Rifandy Ritonga III-53
13. The Fulfilment Of The Right To Health Services Through Control Of Ombudsman Functions In The Region - Agus Triono III-57
14. The Tort Of Multimodal TransportatioAgreement - Dio Adewastia Fajaranu III-64
15. Uprising Of Village Democracy: Challenge And Opportunities For Village - James Reinaldo Rumpia III-70
16. Comparative Law of Cartels between Indonesia and Japan (Review of Act No. 5 of 1999 concerning Prohibition of Monopolistic Practices and Unfair Business Competition and the Act Concerning Prohibition of Private Monopoly and Maintenance of Fair Trade" (Act No. 54 of 14 April 1947)) - Recca Ayu Hapsari III-77
17. The Role Of Adat Community As The Part Of Normative Systems In Paser - Melisa Safitri III-83

SOCIAL SCIENCE :

1. An Using E-CRM To Improve Market Value Companies (Research Study at EF Bandar Lampung) - Ruri Koesliandana, Arnes Y. Vandika, and Dina Ika Wahyuningsih IV-1
2. Analysis Of The Quality Of Public Health Field – Siti Masitoh IV-4
3. Charges Of Indonesia Labor / Workers Against Proper Living Needs That Can Meet The Minimum Wage – Agustuti HandayaniIV-13
4. Community Response On Changes Regional Head Election System (Study On Environmental Public Housing Way Kandis Bandar Lampung) - Wawan Hernawan and Mutia Ravenska.....IV-16
5. Compensation Policy Implementation Of Fuel Oil, In The District Konawe, Southeast Sulawesi Province (Study on Implementation of Direct Cash Assistance) – Malik and Noning VerawatiIV-21
6. Crowd Funding, Social Entrepreneurship and Sustainable Development - Hery Wibowo.....IV-29
7. Euphoria and Social Media Related to Organizational Effectiveness, Based on Gangnam Style Case - Astadi Pangarso and Cut Irna SetiawatiIV-32

8. Financial Management In Public And Private Junior High Schools -
Suwandi and SoewitoIV-40
9. Gender Mainstreaming In Glasses of Public Administration at Banten
Province - Ipah Ema JumiatiIV-47
10. Impact From Social Media To Social Life -
Eka Imama N, Ade Kurniawan, Yoga Dwi Goesty D.S, and Arnes Y. VandikaIV-56
11. Implementation of Public Private Partnership in The Management Market
RAU (Rau Trade Center) In Serang City - RahmawatiIV-59
12. The Values Of Democracy In The Implementation Local Political Agenda
In Kendari - Jamal BakeIV-67
13. Evaluation Of Health Services Regional Public Hospital Besemah in Pagar
Alam City of South Sumatra -
Yuslainiwati, Budiman Rusli, Josy Adiwisastra, and Sinta NingrumIV-77
14. The Impact Of It Social Network Path In The Students Of Community -
Arnes Yuli VandikaIV-82
15. The Development of Women's Participation in Political Life -
Azima DimiyatiIV-86

EDUCATION :

1. An Analysis of Students' Gramatical Error in Using Passive Voice at Grade
Ten of SMA Persada Bandar Lampung 2014 - Ildhias Pratiwi Putri..... V-1
2. An Error Analysis of Speaking Present Tense on English Conversation on
Program of PRO 2 Radio Bandar Lampung – Maryana Pandawa V-5
3. Developing Students' Writing Skill by Diary Writing Habit -
Fatima A. Putri, Bery Salatar, and Susanto..... V-8
4. Discourse Analysis Of Gettysburg Address -Yanuaris Yanu Darmawan V-11
5. Error Analysis of SMA Pangudi Luhur Bandar Lampung Students'
Translation in Using Meaning-Based Translation. – Kefas Ajie Bhekti V-18
6. Improving Students Affective Domain Through Asian Parliamentary
Debate Technique – Purwanto V-24
7. Online Authentic Materials For Learning English - AgniaMuti, Ezra
Setiawan, and Ida Oktaviani V-36
8. Politeness Strategies As Persuasive Tool In Magazine Advertisements
Circulated In Lombok Tourism Spots – Lalu Abdul Khalik and Diah
Supatmiwat V-39
9. Simple Past Tense Of The First Grade Students Of SMP Negeri 1 Seputih
Banyak In Academic Year Of 2014/2015 - Qory Fahrnis Firdaus V-47
10. Supporting Learners' Autonomy Through Distance Language Learning -
Dameria Magdalena S V-51

11. Teaching Poetry in ELT Classrooms: Some Challenges and Solutions - Bastian Sugandi and Husnaini	V-54
12. Teaching Vocabulary By Using Hypnoteaching To Second Semester Students Of Bandar Lampung University - Fransiska Anggun Arumsari	V-58
13. The Application Of Brainstorming To Improve Student's Writing Skill - Ita Brasilia Nurhasanah, Ria Martin, and Rizky Amalia	V-65
14. The Application Of Using Letter Land Technique Towards Students Vocabulary Mastery - Budianto, Elis Munawaroh, Fitri Anggraini, and Yuni Arifah	V-68
15. The Application of Quiz Team Technique to Improve Students' Understanding on Simple Present Tense at Grade Seven at SMPN 26 Bandar Lampung – Rosdawati	V-71
16. The Art Of Seduction Of Giacomo Casanova An Analysis Of “The Story Of My Life” - Helta Anggia	V-75
17. The Effect Of The Application Of The News Presentation Towards Students' Speaking Ability Of Grade Eleven At SMK Negeri 1 Seputih Agung - Risdiana Yusuf	V-78
18. The Effect Of The Teacher's Feedback Approach Towards Students' Descrptive Writing Skill At Grade Tenth Of SMK Bhakti Utama Bandar Lampung - Nila Kurnijanti	V-83
19. The Improvement Of Students' Vocabulary Achievement By Using Direct Method Of SMP Wiyatama Bandar Lampung - Putri Nurhayani	V-85
20. The Influence Of Lampungnese Ethnicity Accent On Dialect A To Lampungnese Students' Pronunciation Ability At English Education Study Program - Anggi Okta Dinata	V-88
21. The Influence of Using Scrambled Pictures to Improve Students' Ability in Writing Narrative Text of Eleventh Grade Students of SMK Bhakti Utama Bandar Lampung - Novita Uswatun Khasanah	V-91
22. The Use of Letterland Method in Teaching Reading at Early Year Level to Pre-School Students in an Informal Education in Bandar Lampung - Alfiana Rochmah	V-94
23. TheInfluence of Using Short Video Towards the Students' Speaking Skill at Grade VII of SMPN 22 Bandar Lampung - Dita Oktapiana	V-101

THE INFLUENCE OF THE FINANCIAL PERFORMANCE AND MACROECONOMIC FACTORS TO STOCK RETURN

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ABSTRACT - The aims of the study are to determine the effect of the company's financial performance with Return on Asset (ROA) and Return on Equity (ROE) indicators. The macroeconomic factors with the indicators of Indonesia interest rate (SBI) and exchange rate on stock returns of non-financial companies listed in IDX. The results of this study indicate that the variable of ROA has negative effect on stock returns, ROE has a positive effect on stock returns, and the variable interest rate and exchange rate of SBI has positive effect on stock returns. From the analysis data by using regression model, independent variables ROA, ROE, SBI interest rate and the exchange rate very significant (p value < 0.01). Thus, the above all variable can be used as the basis for investment decision making for investment in Indonesia Stock Exchange (IDX) mainly for shares in the non-financial companies.

keywords: ROA, ROE, Interest Rate, Exchange Rate, Stock Return

1. BACKGROUND

The financial performance is one of the factors seen by potential investors to determine stock investment. For a company, maintaining and enhancing financial performance is a must so that the shares still exist and attractive for investors. Investments can be interpreted simply as an attempt to gain profit. The investments can be taken place through a variety of media, such as money markets, capital markets, mutual funds, and the other investments.

The capital market is the long-term various financial instruments (securities) that can be traded, either in the form of debt (bonds) or equity (shares) issued by the government and the private companies. *Bapepam* (Stock Exchange) is formed with the purpose of establishing the Indonesian capital markets is to allow the efficient allocation of funds from the investors to those who lack the funds (the issuer).

The financial performance in the capital market can be affected by many factors, especially economic factors and economic variables. The research found a phenomenon that the changes in security prices always occur prior to changes in economic indicators variables. This is based on two main reasons. First, the formed of stock price reflects investors' expectations on earnings, dividends and interest rate that will happen. The estimation results of the investor against these three variables will determine the appropriate share price. Secondly, the performance of the capital markets will react to the changes in macro economic variables. Thus, securities prices are a reflection of investors' expectations on future economic conditions rather than a reflection of the current economic conditions.

The investment obtained return. If there is a high return, the level of risk is high. The market risk is closely related to changes in the stock price of certain types or groups caused by the changes in the expected rate of return. The company's return influenced by the

internal conditions and the macro-economic factors, which is as an indicator of the stability of a country. The macro economic factors have a direct relationship with the development of capital markets are: national income, economic growth, interest rate, inflation rate, foreign exchange rate, and so forth. The macro economic policies are related to efficiencies in the production sector, the performance of the employees, especially the performance of directors.

Indonesian stock exchange has a significant experienced recovery from the financial crisis in the late 1990s. The projection of economic growth in the next few years seems to be more promising with a GDP growth of at least 6.0 percent. Since 1999, Indonesia Stock Exchange (IDX) as a primer indicator of the performance of the financial markets. In 2010 IDX has the best performance index in the Asia Pacific Region with an enhancement of 44 percent.

2. REVIEW OF LITERATURE

2.1 THE THEORY OF FINANCIAL PERFORMANCE

The financial performance is a picture of the financial condition of a company, which can be used to know the financial company that reflects the performance in a particular period. The financial performance can be interpreted as accomplishments of an optimal work (task), which are in the form of report of income statement, balance sheet and statement of changes in capital at a given period (Darmadji, 2001). Financial performance assessment is a one of ways that can be done by the management in order to meet its obligations to investor and also to achieve the goals set by the company.

2.1.1. Financial Statement Analysis

The financial statements issued have the benefit for making a decision. According to Fahmi (2011: 1) the investors need to have a comparative process, evaluation, and analysis that can help the investors to

predict what will happen in the future. Results from financial statements, which have been analyzed implicitly explain the financial condition of a company. The goal is to improve the company performance.

2.1.2. Financial Ratio Analysis

The financial ratios is important for investors to know the condition of the company in determining which companies can pay dividends, and the results of the financial ratios analysis can be used as a reference in analyzing the performance in the short or long term (Fahmi, 2011:107).

Fahmi (2011:108) said that: "Financial ratio analysis is an instrument of change of achievement analysis that describes the company's achievements that describes various relationships and financial indicators, which is intended to reveal the changes in the financial condition or operations of the past achievements and helps illustrate the trend of the pattern of these changes, and then show the risks and opportunities inherent in the companies. Sutrisno (2009: 214) state that: "Financial ratio analysis is linking elements which are in the financial report.

2.1.3. Macroeconomic Factors

The economic analysis is one of the analyze that need to be taken by investors in their investment in decision making (Tandelilin, 2010:339). This stage is important because of the tendency of a strong connection between what happens on the macro-economic environment and the performance of a capital market. A capital market reflects what is happening in the macro economy because the value of the investment is determined by the expected cash flow and required rate of return on that investment, and both factors are highly influenced by the macroeconomic environment.

2.1.4. Stock Return

The advantage is something that is expected by investors. The advantage can be a reward for courage investors bear the risk (Tandelilin, 2010:102). Stock return is the income received by shareholders in the form of dividends paid by the company, and the capital gain is the difference between the sale price and the purchase price of the stock.

2.2 RESEARCH HYPOTHESIS

Putra (2012) in his study by using multiple linear regression analysis explain there is a relationship between the independent variables: LTDtER, ITO, NPM, EPS, and PER, and dependent variable of the stock return. Adystya (2013) in his study by using multiple linear regression analysis explain the relationship between the independent variables: PER, ROE, and EPS, and dependent variable is the stock return. The result of this study shows that there is a significant effect of PER, ROE, and EPS to the stock

returns. The partial test shows the only variable ROE has a significant effect on stock returns and while the other variables do not significantly effect on stock returns.

In a similar study conducted by Prasetyo (2012) in his study by using multiple linear regression analysis explain the relationship between the independent variables inflation, ROA, DER, and CR jointly have significant effect on return stock.

While the hypotheses in this study areas follows:

H1: There is the influence of the financial performance of companies with stock returns.

H2: There is the influence of macroeconomic factors with stock returns.

3. RESEARCH METHOD

3.1 SAMPLE SELECTION

The sampling techniques is *purposive sampling* where the sample is selected used specific criteria in conducting the sampling on a population with a view to achieve the representative sample. The following criteria were used in determining the sample.

1. The companies listed in Indonesia Stock Exchange;
2. The company does not in the category of financial institutions and the banking industry;
3. The company published the audited financial statements in the period of 2010-2012 on the official website of Indonesia Stock Exchange;
4. The Companies that conduct an IPO of at least 3 years;
5. The company does not in cur a loss during the sampling period.

Data used in this study were secondary data. The data obtained through the internet, journals, textbooks, or a variety of media supply without the need to ask directly to the companies which were selected in the sampling. In this study, secondary data were taken as financial reports, companies' profiles, as well as a variety of information related to this research.

3.2 MODEL AND STATISTICAL ANALYSIS

Before we analyze the data, first we check the normality and multicollinearity, Heteroscedasticity and autocorrelation.

In this study the model is

$$SR_i = \beta_0 + \beta_1 ROA_i + \beta_2 ROE_i + \beta_3 IR_i + \beta_4 ER_i + \varepsilon_i$$

Where:

- SR : Stock Return
 ROA : Return of Asset
 ROE : Return of Earning
 IR : Interest Rate
 ER : Exchange Rate

4. RESULT AND DISCUSSION

4.1 DESCRIPTION ANALYSIS

The Description of the data is given below:

Table 1: Descriptive statistics

Descriptive Statistics					
Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	399	.00030	.65630	.10516	.09851
ROE	399	.00050	1.84100	.22603	.21929
Interest Rate	399	4.80000	6.26000	5.36667	.64004
Exchange Rate	399	8823.42683	9427.21951	9126.89018	246.81678
Stock Return	399	-.40000	.99300	.04845	.11491
Dividen		0.83	11.000.00	6.950.00	10.500.00
Capital Gain	399	50	740.000	359.000	840.291

From the Table above, the minimum value for the stock return is -0.0004, maximum is 0.993, the average is 0.04845 and the standard deviation is 0.11491. The company with the highest stock returns is PT.Kimia Farma in 2012 and the value is 0.993 while the lowest stock return is PT. Sampoerna Agro in 2011 with the value is -0.0004.

The financial performance variables are measured using ROA and ROE. The ROA has a minimum value is 0.0003, maximum value is 0.6563, average value is 0.105, and the standard deviation is 0.0985. The highest value of ROA is PT. Natural Resource Indonesia Company in 2011 the value is 65.63% while

the lowest value is PT.METRODATA Electronics in 2012 the value is 0.03%.

The ROE the minimum value is 0.0005, maximum value is 1,841, average value is 0.2260, and standard deviation is 0.2193. The highest value of ROE is PT. Multi Bintang Indonesia in 2012 the value is 184.1% while the lowest value is PT.Suryamas Duta Makmur Tbk in 2012 the value is 0.05%. Variable of macroeconomic factors can be measured using SBI rate, and exchange rate. The minimum interest rate is 4.8, the maximum is 6.26, average value is 5.37, and standard deviation is 0.64, the highest interest rate took place in 2010.



Fig 1: Graph of Indonesian Inflation

Based on the above figure, Indonesia has experienced of highest inflation in 2011. The increment of the inflation in a country affected by the policies which are taken by government. This is in line with the Bank Central of Indonesia (BI) where if inflation increase the BI will take a policy to increase the interest rate. Based on the data, the highest interest rate took place

in 2010. But Indonesia has experienced the highest inflation in 2011.

Exchange rate as an indicator of macroeconomic have a minimum value is Rp. 8,823.42 maximum value is Rp 9,427.22, average value is Rp 9,126.89 and the standard deviation is Rp. 246.82. The highest value of rupiah took place in 2012, and the strength of rupiah supported by the economic growth of Indonesia.

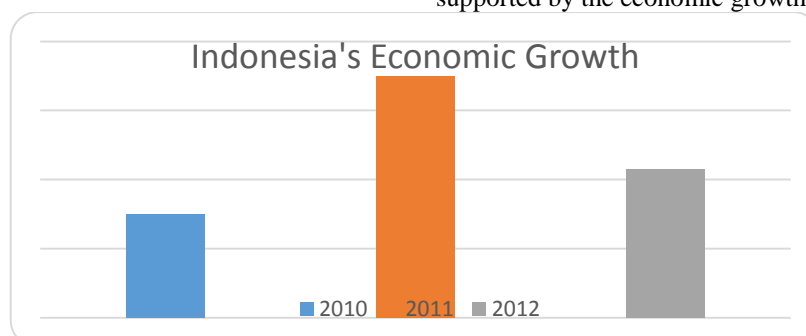


Fig 2: Graph of Indonesia's Economic Growth

Based on the above figure, Indonesia can be categorized as a stable country in its growth which has an effect on the strength of rupiah against the US dollar. Even though the economic growth of Indonesia decrease in 2012 compared to 2011, but the rupiah

strength against the US dollar in 2012. This is due to the economic crisis in Europe which has a direct effect to Asia which has improvement in 2011. The distribution of the data given below, from the graph it shows that the data normally distributed.

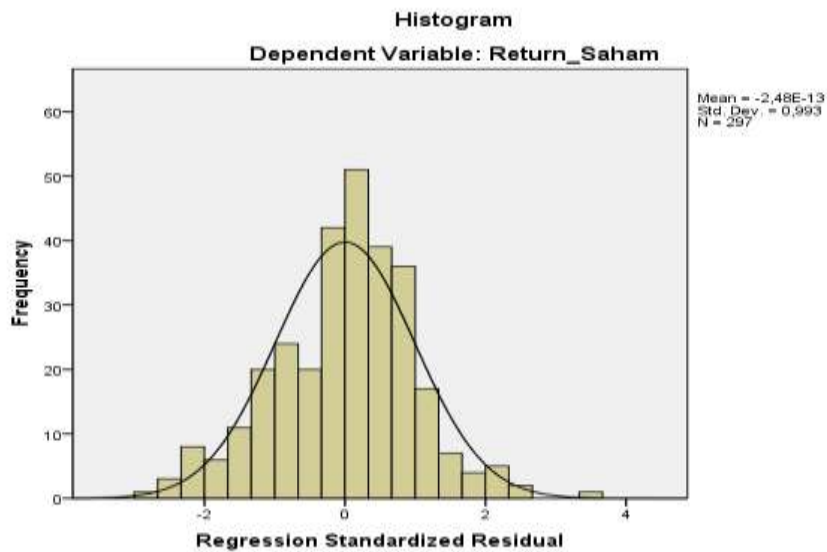


Fig 3: The distribution of data

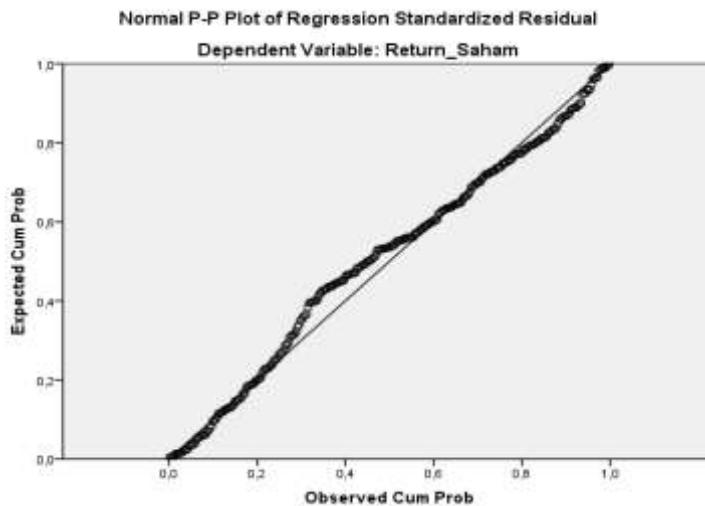


Fig 4: Graph of Normal Plot

Table 2. Statistic Analysis One-Sample Kolmogorov-Smirnov Test

		Return_Saham
N		399
Normal Parameters ^a	Mean	1,4455
	Std. Deviation	,59520
Most Extreme Differences	Absolute	,180
	Positive	,180
	Negative	-,080
Kolmogorov-Smirnov Z		1,385
Asymp. Sig. (2-tailed)		,063

Test distribution is Normal.

Based on the results in table 2, it indicates that the data are normally distributed. This is indicated by the Kolmogorov-Smirnov test value of 1.385 and

significance at 0.063 which is greater than 0.05. This means that the residuals data are normally distributed because the significance value is greater than 0.05.

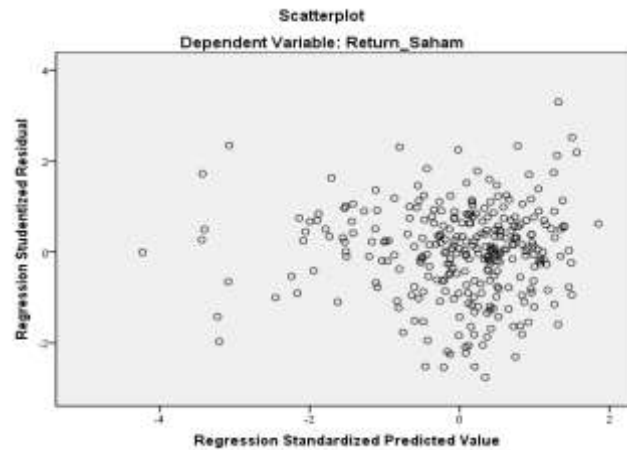


Fig 5: Heteroskedasticity Test

Table 3. The Result of Glejser Test

Unstandardized Residual	Correlation Coefficient	Sig.	Conclusion
ROA	-0.229	0.068	Heteroskidastity does not occur
ROE	0.327	0.080	Heteroskidastity does not occur
Interest Rate	0.140	0.094	Heteroskidastity does not occur
Exchange Rate	0.060	0.222	Heteroskidastity does not occur

Based on the Glejser analysis result that the regression model does not contain heteroscedasticity.

Table 4. The Result of Multicollinearity Test

Variable			Conclusion
	Tolerance	VIF	
ROA	0.326	3.068	Multicollinearity does not occur
ROE	0.325	3.081	Multicollinearity does not occur
Interest Rate	0.992	1.008	Multicollinearity does not occur
Exchange Rate	0.989	1.011	Multicollinearity does not occur

Based on the result of multicollinearity test the data does not contains multicollinearity.

Table 5. The Results of Autocorrelation Test Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-0.158	22.717		-0.007	0.994
ROA	0.025	1.195	0.002	0.021	0.983
ROE	-0.001	0.537	0.000	-0.002	0.999
Interest Rate	0.130	3.076	0.002	0.042	0.966
Exchange Rate	0.038	5.733	0.000	0.007	0.995
RES_2	-0.021	0.051	-0.021	-0.407	0.685

Dependent Variable: RES_1

Based on the result of the test above there is no autocorrelation.

4.2 MULTIPLE LINEAR REGRESSION ANALYSIS ROA, ROE, SBI (interest rate), and the exchange rate
Linear regression test is performed on the variable on stock returns presented in the table below:

Table 6. The Result of Multiple Linear Regressions

Variabels	B	Sig
Constant	-30.325	0.182
ROA	-2.368	0.047
ROE	1.764	0.001
Interest Rate	12.128	0.000
Exchange Rate	7.569	0.187

Based on the analysis, the parameters estimate are the constant is -30.325, the ROA is -2.368, the ROE is 1.764, the interest rate is 12.128, and the exchange rate is 7.569. Thus, the linear regression model is the following:

$$\text{Stock Return} = -30.325 - 2.368\text{ROA} + 1.764\text{ROE} + 12.128\text{IR} + 7.569\text{ER} + et$$

4.2.1. ROA on Stock Return

The partial test, by using t-test, for ROA has the t-value = -1.992 with p-value = 0.047, then H_0 is rejected. Based on partial test it can be concluded that ROA negatively affects the stock return rate. The same conclusions as Tandelilin (2010) where the investor only needs to look at the performance of the company. A company that has a high level of ROA can be concluded that the company has good financial conditions. This is because the ROA measures how a company is able to generate profits from the assets owned.

The higher ROA it means that the company has effectively and efficiently manage its own assets to be profitable, so ROA significantly influences on a company's performance appraisal. But in the above it is described that ROA negatively affect stock returns because some investors no longer see ROA as an absolute indicator of performance evaluation. The economic crisis factor and the high level of corporate profitability followed by a high level of debt ratio makes many company's performances collapsed.

4.2.2. ROE on Stock Return

The partial test, by using t-test, for ROE has the t-value = 3.296 with p-value < 0.001, then H_0 is rejected. Based on partial test it can be concluded that the ROE has a positive effect on the level of stock returns. In addition to ROA, investors need only look at the ROE (Tandelilin, 2010). Due to the high level of ROE the company is able to choose or to benefit from investment activities conducted.

4.2.3. Interest Rate on Stock Return

The partial test, by using t-test, for Interest Rate (SBI) has the t-value = 3.961 with p-value < 0.0001, then H_0 is rejected. Based on partial test it can be concluded that the interest rates has a positive effect on the level

of stock returns. This is the indication that if there are more people to invest, it will have an impact on stock prices (Tandelilin, 2010:343). The role of the interest rate according to Sunariyah (2004:81) are: (a) as the appeal for savers who have more money to invest; (b) the interest rate can be used as a monetary tool in order to control the supply and demand of money circulating; (c) the government can take advantage of interest rates to control the money supply.

The interest rate is essentially acting as the main driver that investors are willing to invest. Total investment will be determined by the level of interest rates. The higher the interest rate, the higher the investors to invest.

4.2.4 Exchange Rate to Stock Return

The partial test, by using t-test, for Exchange rate has the t-value = 1.323 with p-value = 0.187, therefore H_0 is do not rejected. Based on partial test it can be said that the exchange rate has a positive influence but not has a significance on the level of stock returns.

It is also supported by study of Viva (2012) that the value of currency ore change rate can affect of trade balance. Export-import activities in Indonesia from year to year increase, particularly in the 2010 to 2011 where Indonesian exports increased significantly. It is also supported by the fact that in 2011 the value of the Indonesian rupiah strengthened in the level 8,823.427 against the US Dollar. Meanwhile, in 2012 Indonesia, when the exchange rate weakened in the level 9,427.22 against the US Dollar had a deficit due to the export activity lower than the import activity.

4.3. Coefficient of Determination

The test is conducted to determine the ability of the independent variables explain the variation of dependent variable and the result given below:

Table 7. Coefficient Determination Testing

Dependent Variable	R	R-Square	Adjusted R Square
Stock Returns	0.272	0.074	0.061

Based on tests performed the R-Square is 7.4%. This indicate that the independent variables (ROA, ROE, SBI, and Exchange Rate) explains 7.4% of the variation of the dependent variable (stock returns). Check in R square

5. CONCLUSIONS

Based on the analysis data, tests performed, there are several conclusions that:

1. Variables of financial performance with indicator ROA negatively influence stock returns because some investors are no longer seen ROA as an absolute indicator of performance assessment of a company whether the performance is good or not. The cause of ROA no longer be an absolute indicator of performance evaluation. The economics' crisis factor and the high level of corporate profitability followed by a high level of

debt ratio makes many company's performances collapsed. Meanwhile ROE has positively influence on stock returns. This condition occurs because the investors have noticed that the fundamental aspects influence the stock returns when they make investment decisions on Indonesia Stock Exchange.

2. The macro economic factors (SBI interest rate and the exchange rate) has positive effect on stock returns. This happens because SBI interest rates are in as table conditions. Meanwhile the exchange rate is in the less stable as a result of the rise and fall of the rupiah against the dollar. However, the exchange rate effect is quite large in export activity, and directly impact on the increment on the exports every year.

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