The Value And Glamor Stocks Performance At The Indonesia Stocks Exchange Using The Price Earning Ratio Approach

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ABSTRACT

This study aims to evaluate the portfolio of value stocks and glamor stocks returns by Price Earning Ratio (PER) at the Indonesia Stocks Exchange during the period of 2003-2007 and to test the risk adjusted performance of the two types of stocks. Results of the study reveal that the portfolio of value stocks return is not higher than the portfolio of the glamor stocks return. The study also indicates that the risk adjusted performance of value stocks is smaller than that of glamor stocks. The implication of this research is that the investment in the portfolio of glamor stocks may yield highest returns as well as highest investment risks. The analysis of the coeeficient of variation show that the portfolio of value stocks has a lower risk (1.42) compared to that of glamors stocks (3.48). Therefore, rational investors may choose to invest in value stocks.

Keywords: value stocks, glamor stocks, risk adjusted performance, price earning ratio, portfolio returns

BACKGROUND

Stocks are one of the instruments of investment products in the capital market and have a lot of interesting aspects to observe. One of them is the difference between the value stocks and the glamor (or growth) stocks. In the literature, the superiority of the value stocks over the glamor stocks has been widely recognized. The value stocks have a stock market value lower than the book value, while the growth stocks have a stock market value higher than the book value. The difference of the value and growth stocks returns is known as the value premium (Athanassakos, 2005), which is a general phenomenon that occurs in the stock exchanges all over the world.

Fama and French (1998) conducted research on the value strategy in 13 stock exchanges in the world.

They arrived at the conclusion that the portfolio of value stocks return is higher than that of the glamor stocks return in 12 out of 13 stock exchanges that were observed during the period of 1975-1995. Results of another investigation by Saleh (2005), who used the Stock Exchange data during the period of 1980-2000, indicate that the strategy value - glamor stocks with the book value approach - does not show the value premium although the profits of small-capitalization stocks (small stocks) return is higher than that of big capitalization stocks return.

In addition, The Brandes Institutes issued the Value - Glamor Investing Update in 2007 based on the observation data in the period of 1968-2006 from the United States Stock Exchange (NYSE and NASDAQ). The report used the the Price to Book Value (PBV) approach in 10 groups (Desile), where Desile 10 (the lowest PBV) was given to the value stocks, while Desile 1 (the highest PBV) was given to the glamor stocks. The results remain consistent with previous research, namely the value stocks return is superior over the glamor stocks return.

In Indonesia, Sukarsono (2008) studied the performance of investments in the value stocks portfolio at the Indonesia Stocks Exchange. He determined the value and glamor stocks by using the Price to Book Value approach in 100 stocks and dividing them into 5 Desile. The conclusion of his research supported previous research, namely investing in value stocks yields greater returns than investing in glamor stocks, although the difference is significant

only when applied to large-size companies. When applied to small-size companies, however, the superiority of value stocks is not significant.

Previous research, in Indonesia as well as in the world, divided the glamor and value stocks by using the Price to Book Value approach. The present study, however, attempts to investigate the glamor and value stocks by using the Price Earning Ratio (PER). The PER approach can be used to determine the value and glamor stocks, given that the value stocks that have a market to book value ratio (P/B) or price to earnings (PER) are lower compared to the glamor stocks that have high P/B ratio or PER.

PROBLEM FORMULATION

There has been much research conducted on the value and glamor stocks in the world, but few research has been conducted in the Indonesian capital market. Studies on the value stocks portfolio need to be replicated in the Indonesian Stocks Exchange. Therefore, the present study seeks the answers to the following questions:

a. Can investment on value stock portfolio at the stock exchanges in Indonesia yield higher returns than investment on the glamor stock portfolio by using the PER approach?
b. To what extent is the risk adjusted performance of the value stocks portfolio higher than the glamor stocks portfolio?

RESEARCH OBJECTIVES

The objectives of this research are:

c. to determine whether investing on value stocks provides higher returns than investing on glamor stocks;
d. to determine whether the value stock portfolios have risk adjusted performance better than the glamor stock portfolios.

LITERATURE REVIEW

The value stocks are basically stocks traded lower than the book value, or relatively low compared with the other stock (in one group) which represents the benchmark. The value stocks are usually defined as the stocks that have market-to-book value (PBV) or whose price-to-earnings (PER) are low compared to the glamor stocks.

Piotroski (2000) described some of the characteristics of value stocks. First, the value stocks tend to be ignored by most investors (neglected). The value stocks are relatively less covered by analysts and therefore are also less demanded by institutional investors. Second, the value stocks of the companies are not easily accessed by investors or analysts. The information about these stocks are frequently less reliable as a credible source. Third, value stocks tend to be those that are experiencing financial distress.

The stocks are called glamor stocks when they attract a large number of investors because of the significant price increase on a sustained period of time (Financial Dictionary, 2005). The price increase occurs because the income growth is higher than the industry average, which is why the glamor stocks are also referred to as growth stocks.

Value Investing is a part of the fundamental analysis that stocks valuation based on the fundamental condition, introduced by Benjamin Graham in 1930. Value Investing is a strategic investment made by investors who invest their funds in the stock value. The conventional definition of Value Investor (Aswath Damodaran) is that the investors who invest in the stocks that has lowest ratio of price to book value or lowest price earning ratio. The value investors refer to those who pay a lower share than the asset value of the company.

Capaul, Rowley and Sharpe (1993) demonstrated that the value strategies produce better performance than the growth strategies on the Stock Exchange in the United States, Japan and Europe during the period 1981-1992. Similar results were found by Bauman, Conover and Miller (1998) in 21 countries during the period 1985-1996.

According to Fama and French (1998), the level of average returns of value stocks reflect compensation of a higher risk than value strategies. Lakonishok, Shleifer and Vishny (1994) propose an alternative explanation based on the extrapolation hypothesis, where investors make extrapolation to the past performance of stocks.

Doukas, Kimb, and Pantzalisc (2000) analyzed the earnings forecasts as a proxy for market's expectation of future earnings based on investigations and extrapolation hypothesis. The results show that forecast errors and downward forecast revisions are more frequently done on value stocks portfolios. This is still consistent with Fama and French's (1998) argument, which states that the disparity forecasts made by analysts and forecast inaccuracy have contributed to the high profit level in value stock portfolios. On the other hand, Arshanapalli, Coggin and Doukas (1998) show that the value performance outperforms growth in the international market and the value strategies are not riskier than growth strategies.

La Porta (1996) advised investors to sell stocks with high forecast earnings growth and buy stocks with low projected earnings growth with excess returns. His research results provide empirical evidence of the influence of earnings growth introduced through the price-to-earnings growth (PEG) ratio, or adjusted P / E ratio by growth, which is a valuation tool that is widely used by the analysts. Peters (1991) calculated the PEG-sorted portfolios and found that low PEG quarterly rebalanced portfolios produce better results than high PEG quarterly rebalanced portfolios during 1982-1989 in the American market.

Value investors seek the stocks classified as the neglected stock or undesirable stock. Neglected stocks generally are stocks that institutional investors avoid because they have small size or they miss the analysis from the analysts. Undesirable stocks are those that have lowest P/E or PBV low, which means that the stocks have low growth and bad future performances, suffer financial distress, or are owned by shareholders who have problems in the past (Athanassakos, 2005).

HYPOTHESES

Based on the explanation from the background, the theoretical frameworks, and empirical results of studies on the various capital market of the world, the folowwing hypothetes are formulated:

H_1: Portfolio Value stocks provide higher profit than the portfolio glamor stocks.
H_2: Portfolio value stocks carry higher risk adjusted performance than the portfolio glamor stocks.

RESEARCH METHODOLOGY AND DATA

This study employed the quantitative approach based on the data that can be counted to get the best quantitative assessment. Data used in this research represent secondary data published by the Jakarta Stock Exchange and the trade transaction data. The data include the annual stock price, monthly Central Bank Interest Rate (SBI), Price Earning ratio. Price Earnings Ratio data are obtained from the financial reports of the companies released by the Jakarta Stock Exchange and PRPM.

The population of the research includes all stocks listed at the JSX. There are 313 stocks listed in 2003. Using the purposive sampling method, 125 stocks were selected as samples. The sample criteria are based on market capitalization and liquidity in the stock market.

The author conducted this research during the period of observation in 2003 (December 2003) until 2007. During the observation period 2003 to 2007, the Indonesian Stocks Exchange became bullish and the composite index tend to increase in the long term.

STATISTICAL ANALYSIS AND DISCUSSION

The present study investigates 125 stocks as samples, based on market capitalization and level of liquidity (active trading) in the stock exchange. The data, which was available during the observation, is expected to represent eligible investment shares, especially for long-term investments.

Results of the calculation on the value and glamor stocks returns are presented in Table 1 and Table 2. The concept of value investments refers to long-term investments and, therefore, short-term price fluctuation does not affect the "value investors". The two tables show fluctuations of the value and glamor stocks. To obtain the expected returns, investors need to distribute assets in a portfolio. As seen in Table 1 and Table 2, the glamor as well as the value stocks returns in the period of 2003 to 2007 show fluctuation.

Table 1. Return Value - Glamor

Investment Period	Return /pa (%)		Long Term Return Portfolio	
	Value	Glamor	Value (%)	Glamor(%)
2003	121	219		
2003-2004	122	154		
2003-2005	75,67	102,67	737	4.286
2003-2006	112,50	93,25		
2003-2007	171,44	867,2		

The table above shows the difference between the average return on the value stock portfolio and glamor stock portfolio. On average, the annual glamor stocks returns are higher than that of value stocks returns, as shown by the long-term portfolio returns 4,286% > 737%.

Table 2. Daily Return Value-Glamor Stocks

Year	Daily Average Return		Daily Average Return 5 Year	
	Value	Glamor	Value	Glamor
2003	0.24173	0.23246		
2004	0.11532	0.11492		
2005	0.21645	0.17794	0.127234	0.11826
2006	-0.03187	-0.02612		
2007	0.09454	0.0921		

When investors invest for a short-term period, the daily average returns of value stocks are slightly higher than that of glamor stocks, namely 12.72% vs. 11.83%. The results, however, may be different for the long-term investments because the stock prices fluctuated daily throughout the research period. Changes in prices for long-term investments (5 years) occurred during the period of the research. Investors only pay attention the final price of investment at the end of five years by comparing it with the price at the initial investment (January 2003).

Results of the Sharpe ratio calculation are shown in the table below:

Table 3. Sharpe Ratio

	Average Return	Standard Deviation Return	The Indonesian Bank Interest Rate	Sharpe Ratio
Value	115.73	51.81	9.19	2.06
Glamor	285.22	647.25		0.43

As seen in the above table, the Sharpe Ratio of value stocks is 2.06. This indicates that each unit of risk is compensated with the return of 2.06 units. The Sharpe Ratio of glamor stocks is 0.43, which indicates that each unit of risk compensated with the return of 0.43 units. Thus, H02 can be accepted because the value stocks portfolio has higher risk adjusted performance than the glamor stocks portfolio.

According to the Sharpe Ratio, the value stocks portfolio is higher than the glamor stocks one. This shows that the value stocks portfolio gave profits at the low level and high risks adjusted performance. The returns of the glamor stocks portfolio with PER approach in the Indonesian stock exchange are high and low risks adjusted performance.

The concept of glamor stocks is similar to that of growth stocks. Growth stocks are the stocks from the company whose predicted earning growth is relatively above the average market return (Investopedia: A Digital Forbes Company, 2008). So, the growth stocks are stocks that have high value and yield, in this case, returns on equity. Companies that issue growth stocks do not always pay dividends each year. Such companies are more likely to reinvest the profits generated from profitable capital assets and projects.

The growth stocks in Indonesia have returns higher than the value stock because in general such stocks do not give routine dividends to their investors. However, investors of the growth stocks are assured that their nvestments will generate higher returns in the future. Thus, the prices of the growth stocks are always increasing and the growth stocks keep yielding high returns for the investors.

Boumen and Miller (1997) argue that the growth stocks are especially popular during the strong economic growth. When linked with the Indonesian economic growth during the research period, it seems that the growth stocks are also popular during the relatively high economic growth. According to the risk model (Fama & French, 1992,1993,1996), the risk factors that affect the value stock are higher compared with the glamor stocks. Therefore, the results of the present study are consistent with the Fama and French's theory.

The results of this research are also consistent with the Piotroski's (2000) opinion, who explains some of the characteristics of the value stocks. First, the value stocks tend to be ignored by most investors. That is, the value stocks are not favorable both to analysts and institutional investors. Second, the value stocks of the companies frequently cannot be accessed by investors or analysts. The available information is often unreliable. Third, the value stocks tend to consist of shares that are in financial distress condition.

The characteristics described by Piotroski above appear to apply to the investment condition at the Indonesia stock exchange. The growth stocks provide higher returns than value stocks because of several factors. First, the value stocks are less attractive investments in the Indonesian capital market. The analysts are more concerned with the short-term rather than the long-term investments. The value stock are thus less attractive and, consequently, the prices of the value stocks show a slow movement. Second, the fundamental analysis need an accurate fundamental data of the company. At the Indonesian capital market, the financial information and other related information are hard to obtain and the accuracy is low. In addition, there is asymmetry information in the Indonesian capital market and the trustworthy fundamental analysis is limited. According to Sembel (2005), the financial Shenanigan, namely the action or neglect, is committed intentionally to hide or obscure the actually performance of financial companies. Sembel's finding seems to apply to the Indonesian market because it is afflicted with the financial Shenanigan.

Based on the analysis of coefficient variations seen in Table 4, the value stocks portfolio provides lower returns than the glamor stocks portfolio, and therefore also provides lower risks than the glamor stocks portfolio. According to Gitman, (2006), to measure the relative dispersion of investment (or assets), it is necessary to compare the risk of assets with the variation coefficients. The higher the coefficient of variation of assets is, the higher the risk is. Based on the coefficient of variation, a rational investor will choose the investment with a lower coefficient of variation. Thus, although the results of research show that the glamor stocks portfolio returns are higher than the value stocks, the portfolio of value stocks remain more secure.

Table 4. Coefficient of Variation Value vs Glamor

	Average Return	Standard Deviation Return	Coefficient of Variations
Value	115.73	51.81	0.45
Glamor	285.22	647.25	2.27

CONCLUSIONS

Investors can invest in the value and glamor stocks. The risk-taking investors, however, can choose the portfolio of glamor stocks because such portfolio yields highest returns as well as highest risks. To avoid risks, investors may choose the portfolio of value stocks altough the returns of this portfolio are low. When investing,

investors should consider general economic conditions. In an economic condition with high growth, the glamor stocks portfolio can be selected, while in normal economic condition, the value stocks portfolio is safer.

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Sri Hasnawati earned her first degree from University of Lampung, Indonesia. In 1994, she completed her Master's degree, with Finance as her major, from the University of Indonesia. In 2005, she earned her doctoral degree – majoring in Finance – from the University of Padjadjaran. Hasnawati is now a lecturer at the Department of Management, University of Lampung and at the Management Program, Graduate School, Atma Jaya Catholic University. She has had a number of publications in Indonesian and International journals and has presented her papers at international seminars. Apart from teaching experience, she has had some experience as a stock analyst and investment advisor.

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