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Profit Balance, Stock Trading Volume, Return On Investment And Stock Prices

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Stock Prices, Profit Balance, Stock Trading Volume Return On Investment (ROI).

ABSTRACT

The purpose of the research is to empirically test the profit balance of stock prices, stock trading volume and return on invested capital (ROI). This research method used quantitative linear regression analysis using SPSS IBM 20. The information comes from the quarterly financial reports listed in the Indonesian Stock Exchange for the years 2018-2020. The results of the F-test show that the earnings ratio, stock market trading volume and return on invested capital (ROI) have a significant impact on stock prices. At the same time, the t-test shows that profit balance, stock trading volume and return on invested capital (ROI) partially significantly affect stock prices.

INTRODUCTION

The stock price is a determinant of shareholder wealth and the valuation of the company. A rise in the stock price corresponds to an augmentation in the value of the company, thereby effecting a concurrent increase in the wealth of shareholders. The quantity of research on stock prices has varied; thus, it contributes to expanding corporate financial management knowledge. The internal factors that influence stock prices, with particular emphasis on the company's financial ratios. Financial ratios serve as a means of assessing the financial well-being of an organization. Furthermore, financial ratios play a crucial role in the computation of stock prices. As financial ratios, the profit balance ratio, and the return on investment (ROI) ratio are utilized in the valuation of stocks.

The profitability of a company may have an impact on its value (Hermuningsih S et al., 2022), whereas the return on investment (ROI) has the same effect (Sasmita, 2022). Another factor that can influence stock prices is the volume of stock trading, known as Stock Trading Volume, with the more stocks sold on the capital market, the higher the stock price. Additionally, stock liquidity improves as an increasing number of investors seek to acquire shares. According to Ananda (2017), Stock Trading Volume impacts stock returns. The higher the Stock Trading Volume, the higher the stock returns. Based on the significance of the factors influencing stock prices, this research aims to empirically test profit balance, Return On Investment, and Stock Trading Volume have impact on stock prices.

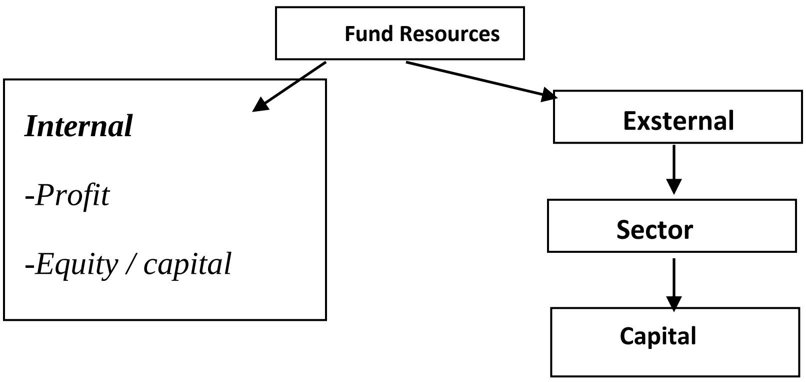
LITERATURE REVIEW

Indonesia Stock Exchange

The capital market can also be called the stock market. The stock market allows investors and management of firms to buy and sell shares in trading publicly. The Capital Markets are one of the most important areas of the market economy because they provide companies with access to capital and investors with a piece of ownership in the company and potential profits based on the firm's future performance.The capital markets are the first place most investors look when considering a potential investment. Implementation options vary in terms of variations and strategies, and a lot of information is available about these investments on the internet.

Fund Resources

Figure 1 Fund Resources



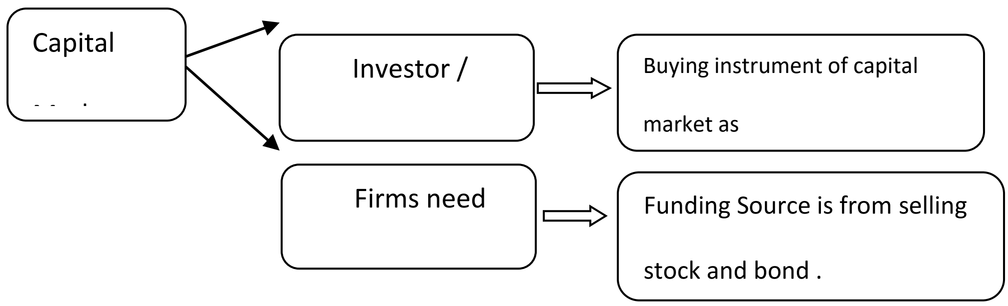
An understanding Capital Markets that the capital market known as a market to buy and sell stock shares and debt instruments. The Capital markets channel savings and investments between suppliers of capital such as retail investors and institutional investors, and users of capital such as businesses, governments and individuals. Capital markets are very important for the functioning of an economy, because capital is an important component for producing economic output.

Capital markets include the primary market, where new stock and bond issues are sold to investors, and the secondary market, where existing securities are traded. The Capital markets are a broad category of markets facilitating the buying and selling of financial instruments. Specifically, there are two categories of capital financial instruments in which markets are involved.

These are equity securities, often known as shares, and debt securities, often known as bonds. Capital markets involve the issuance of shares and bonds for medium-term and long-term time periods, generally terms of one year or more.

The Capital Market functions to bring together fund owners and fund users**.**

Figure 2 capital market



The benefits of the existence of the Capital Market include providing a source of financing (long term) for the business world while enabling optimal allocation of funding sources, providing investment opportunities for investors while enabling diversification efforts, spreading company ownership to the middle class, providing the opportunity to own a healthy company and has prospects, openness and professionalism, creates a healthy business climate., creates attractive jobs/professions. Stock shares are firm ownership shares. Stock shares are a claim on a firm's assets and profits. When you get more stock shares, your stock ownership in the firms becomes larger. A firm shareholder means the owners or shareholders of a firm who has a claim, even a very small percentage, to everything the firm owns. A share is represented by a share certificate which is proof of ownership.

Methods For Selecting Shares

Top Down Method means Looking at industry prospects, namely selecting shares in the industry concerned using a fundamental analysis approach method. This method involves in-depth research activities, because investors will look at industry prospects first and then select existing shares. Top Down – Fundamental Approach divided by two method those are qualitative method and quantitative method.

Stock Price

The discussion on stock prices includes several theories that can be considered, including asymmetry theory and signaling theory. The theory of asymmetry was discovered by Myer and Majluf (1977). There is a phenomenon that stock prices tend to fall when issuing new shares. There is an information asymmetry between shareholders and company managers. The theory of information asymmetry explains the pecking order theory, the theory that companies choose to use internal funds and issue new shares as a last resort. Signaling theory was discovered by Ross (1977). The capital structure (use of debt) is a signal managers convey to the market. The use of debt is a good signal for the company's future development prospects.

Stock Trading Volume

(Supriati & Wiagustini, 2019) found that stock trading volume has an effect on stock price volatility. (Yuniartini & Sedana, 2020) found a difference in the trading volume of shares and the price of shares during a stock split.

Profit Balance

Profit balance is the difference in profit that is not given to shareholders. Profit balance has an impact on the company's stock price. (D. R. Sari, 2018) found that profit balance provides information on stock returns. (Hermuningsih S et al., 2022) states that profit balance affects firm value in terms of market prices to book value.

Return On Investment

Return on Investment (ROI) is the profit return that comes from investment. The greater the ROI, the greater the possibility of investors responding positively so that the stock price rises. The amount of ROI can have an impact on the stock price. (T. W. Sari et al., 2017) ROI affects stock prices.

Stock Trading Volume and Stock Price

Stock trading volume indicates the activity of shares in the capital market for trading. Stock trading volume also reflects investors' interest in buying or selling shares. The greater the stock trading volume, the more the company's stock price rises because investors respond well. (Chan et al., 2017) found that high stock prices inform a larger stock trading volume, and companies that carry out stock splits tend to increase stock trading volume, affecting stock prices. (Han et al., 2022) Return expectations have a positive effect on the trading volume of undervalued stocks, but return expectations have a negative effect on overvalued stocks. Stock trading volume has an impact on stock mispricing. Therefore, the research hypothesis is: H1: Stock trading volume has a significant positive impact on stock prices.

Profit Balance and Share Price

Future-usable profits are reflected in the profit balance. Generally, investors are favorable toward profit balance. As per the dividend policy theory, investors' interest tends to diminish in profit balances or profit balances that are increasing in size. Seventh et al. (2017) An elevated value of stocks signifies a scarcity of price information pertaining to forthcoming earnings. An average of 2% of the invested capital is gained when investors purchase shares during cum-dividends and sell shares during ex-dividends, according to research (Rantapuska, 2008).Based on this, the research hypothesis is: H2: profit balance has a significant positive impact on stock prices

Return On Investment and Stock Prices

Return on Investment (ROI) is the amount of return from invested capital investment. Investors respond positively to the amount of ROI which tends to be high. (Chan et al., 2017). High stock prices indicate that investment sensitivity to prices is also lower. Thus, the hypothesis is: H3: Return on Investment has a significant positive impact on stock prices.

METHODS

This research used a quantitative method, which used numerical data and was tested statistically. The research sample was a manufacturing company for the quarterly period 2018 to 2020.

Descriptive Statistics Test

Descriptive statistics discusses ways of presenting data with ordinary tables and graphical distributions. Descriptive statistical analysis explains circumstances or characteristics of collected data without providing valid conclusions that can be generalized. This analysis is applicable in sample research in which sample data are described but do not lead to any conclusions that are relevant to the population from which the samples were drawn.

Classic Assumption Test

The classical assumption test strives for good precision of the regression model. The sample size must be free from bias to avoid any errors in this test (Ghozali, 2012). Therefore, the data used in the regression analysis were first tested for normality, heteroscedasticity, multicollinearity, and autocorrelation.

Multiple Linear Regression Analysis

Multiple linear regression (MLR) is employed to analyse changes in the association between several independent variables and one dependent variable. To confirm the impacts of the independent variables on stock returns, a multiple linear regression technique was used, which included the independent and dependent variables in the regression model equation model, as follows:

Y = a + b PB + b2 ROI + b3 STV + e

Information:

Y = Stock Price Variable
a = Constant or Intercept (Y value if X1, X2,....Xn = 0)
= Regression coefficient number
X1 = profit balance Variable (PB)
X2 = Variable Return on Investment (ROI)
X3 = Variable Stock Trading Volume (STV)
e = Standard Error

F Test (Simultaneous Test)

The F Test is accepted if the probability value is smaller than 0.05 or 5%, meaning that the independent variable significantly affects the dependent variable.

T-Test (Partial Test)

According to Ghozali (2012), this partial or t-test aims to confirm that each independent variable affects the dependent variable if the probability value is smaller than 0.05 or 5%.

Coefficient of Determination (R^2)

The R^2 value shows the extent to which the model can account for the variability of the independent variables. 40 intervals separate zero and one for the coefficient of determination ($0 \leq R^2 \leq 1$). A smaller adjusted R^2 value indicates the limited ability of the independent variable to describe the dependent variable. Conversely, a value approaching one means that the independent variable is able to furnish information for predicting the dependent variable.

RESULTS

Table 1 Descriptive Statistics

	Mean	Std. Deviation	N
PRICE	7.5961	1.06352	45
PB	.2930	.18898	45
ROI	.0670	.09665	45
Stock Trading Volume	19.2619	1.42860	45

Table 1 describes the total sample data as much as 45 data, while the research variables used are stock prices (price), profit balance (PB), Return on Investment (ROI), and Stock Trading Volume.

Table 2 Correlations

		PRICE	PB	ROI	Stock Trading Volume
Pearson Correlation	PRICE	1.000	.231	-.232	.268
	PB	.231	1.000	.116	-.362
	ROI	-.232	.116	1.000	-.075
	Stock Trading Volume	.268	-.362	-.075	1.000
Sig. (1-tailed)	PRICE	.	.064	.063	.037
	PB	.064	.	.224	.007
	ROI	.063	.224	.	.313
	Stock Trading Volume	.037	.007	.313	.
N	PRICE	45	45	45	45
	PB	45	45	45	45
	ROI	45	45	45	45
	Stock Trading Volume	45	45	45	45

Figure 3 Normality Test

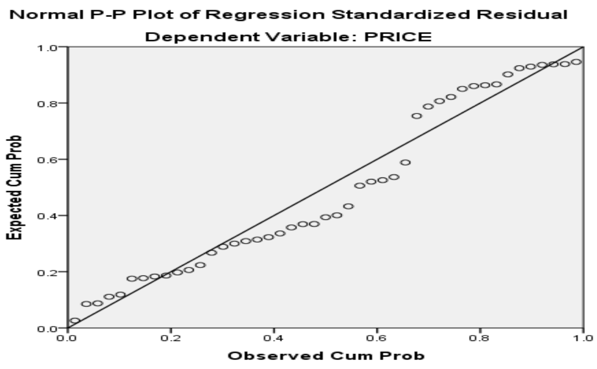


Figure 3 shows the normality picture that the scatterplot is along the line.

Figure 4 Heteroscedasticity Test

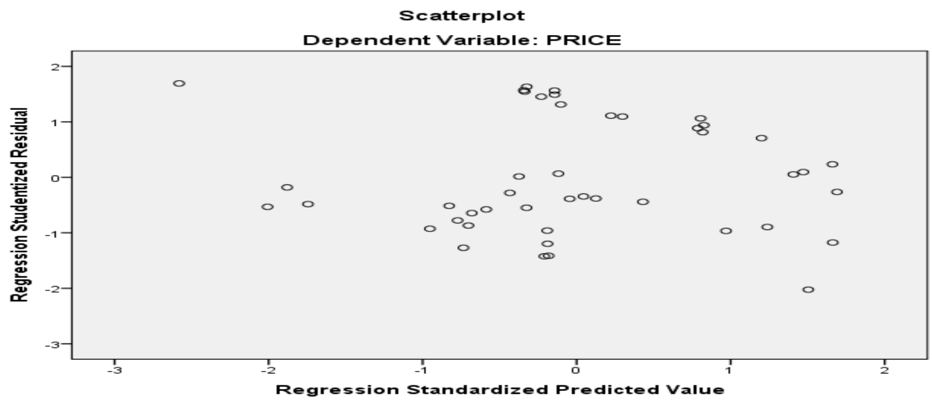


Figure 4 shows a scatterplot pattern that is more spread out, meaning it passes the heteroscedasticity test.

Table 3 Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.507[a]	.257	.203	.94973	2.950
a. Predictors: (Constant), Stock Trading Volume, ROI, PB					
b. Dependent Variable: PRICE					

As seen in Table 3, the adjusted R^2 value shows that the independent variables Stock Trading Volume, ROI, and profit balance (RE) can affect stock prices by 20.3% while other variables outside the research model influence 79.7%.

Table 4 ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.786	3	4.262	4.725	.006[b]
	Residual	36.982	41	.902		
	Total	49.768	44			
a. Dependent Variable: PRICE						
b. Predictors: (Constant), Stock Trading Volume, ROI, PB						

As presented in Table 4, the profit balance, ROI, and Stock Trading Volume exhibit concurrently significant positive effects on stock prices as independent variables. Profit balance, return on investment, and Stock Trading Volume all have p-values of 0.006, which are less than 0.05; therefore, these variables are significant in relation to the stock price (Price), which has an F value of 0.902. These findings are further supported by the results indicating that stock trading volume, return on investment, and profit balance are the determinants of stock prices.

Table 5 t test a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.443	2.178		.662	.511		
	PB	2.268	.816	.403	2.777	.008	.861	1.161
	ROI	-2.741	1.492	-.249	-1.837	.074	.985	1.015
	Stock Trading Volume	.294	.108	.396	2.737	.009	.868	1.152
a. Dependent Variable: PRICE								

The results are the following:

a. Profit balance (PB) significantly impacts stock prices with a p-value of 0.008, which is less than 0.05, a t-value of 2.777, and a standardized beta of 0.403. Profit balance significantly and positively influences stock prices; the larger the Profit Balance, the higher the price of the company's shares.

b. Return on Investment (ROI) has significantly positive influence on stock prices at level 10%, as indicated by a p-value of 0.074, which is less than 0.10. If a significant alpha of 5% is used, ROI is rejected as a factor that significantly affects stock prices.
c. Stock Trading Volume shows significant relationship with stock prices with a p-value of 0.009 (<0.05), meaning that it significantly influences stock prices at the 5% level, while the t-value is 2.737 and the standardize beta value is 0.396. The greater the Stock Trading Volume, the higher the stock prices.

DISCUSSION

Profit Balance Affects Stock Prices

Profit balance significantly impacts stock prices because the greater the profit balance, the more capable the company is of improving its operational and investment development, resulting in good news for investors and rising stock prices. This research confirms the research by Hermuningsih et al. (2022) which reported that profit balance has a substantial impact on the company's value.

Return on Investment Affects Stock Prices

ROI has a negligible impact on stock prices because the amount of ROI is not the primary factor influencing investor behaviour that causes stock prices to rise. ROI in the sample companies has not shown consistent trends in influencing stock prices. This result supports the finding of prior research by Sasmita (2022) that ROI has no significant effect on stock prices.

Stock Trading Volume Affects Stock Prices

Stock Trading Volume significantly affects stock prices. It represents the stocks that are most sought after by investors, making them the most liquid stocks in the capital market. If Stock Trading Volume rises, it indicates that the company's stock is performing well, and thus its value rises. These findings confirm the result of another research by Ananda (2017) that Stock Trading Volume significantly affects profitability and stock returns. Merthadiyanti Luh & Yasa (2019) also reported that Stock Trading Volume typically rises in tandem with low stock prices during stock splits.

CONCLUSION

Simultaneously, Profit Balance, ROI, and Stock Trading Volume significantly affect stock prices. Profit Balance and Stock Trading Volume partially affect stock prices significantly at the 5% level, while ROI significantly influences stock prices at the 0.074 or 10% level. Profit Balance has 0.008 significance value, while Stock Trading Volume has 0.009 significance value. When raising the company's stock prices, company management is suggested to consider profit balance and Stock Trading Volume. The establishment of a profit balance policy is imperative for the company to mould its future prospects, thereby fostering investor confidence and potentially driving up stock prices.

LIMITATION

The Study does not provide many sector firms in Indonesia stock exchange so that the study have limitation of samples. The study also can not provide several years so that the results only conduct in the limitation of time. Beside that, the study only conduct in three variables for determining the factors on stock prices so that for future the researchers can use the several variables for the large scope of research variables.

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