Analysis of Factors Affecting Stocks Holding Period based on Financial Performance

Trisni Suryarini[1], Badingatus Solikhah[2], Wijang Sakitri[3]
{trisnisuryarini@mail.unnes.ac.id[1]}

Universitas Negeri Semarang, Indonesia[1, 2, 3]

Abstract. This research aims to obtain empirical evidence regarding financial performance's role in disseminating components that affect the stock holding period. Companies listed in the LQ-45 index from the 2013 to 2017 period on the Indonesia Stock Exchange were the study samples. The sample selection technique was the purposive sampling method with 12 companies for five-year observation. This study used descriptive analysis methods and multiple linear regression analysis. The results show that the market value and dividend payout ratio significantly positively impact the stock holding period. In contrast, earnings per share do not affect the stock holding period. This study concludes that accounting numbers are still relevant for investors to decide when holding shares.

Keywords: Stocks Holding Period, Market Value, Earnings Per Share, Dividend Payout Ratio

1 Introduction

Investment in the global era nowadays becomes society choices to benefit their exceeding own fund. The investment aims at getting a return in the future [1]. Investors can achieve that goal by analyzing stocks accurately. In analyzing investment activities, an important consideration related to the share ownership period is necessary. The decision of the share ownership period on selling, buying and holding the shares is called the stock holding period.

The holding period is the length of time an investor holds their funds in particular securities [2]. Investors use it to maximize returns and minimize investment risks. The stocks' characteristic is high-risk, high returns that can encourage investors to decide the length of time to hold shares. It aims to obtain a return from the funds invested. Investors will continue to hold shares held in large-cap companies. It is because large-cap companies have good company prospects in the future and have stable financial conditions.

Companies with a large market capitalization are the investors' target to invest. The company's shares will be beneficial for long-term investment, have minimal risk and show the company's growth potential. However, the fact says that companies with large capitalizations are not always safe for investors to invest in, they still have low risk. Unfortunately, many investors are trapped in manipulated stocks price. It means that investing in the top 45 companies on the Indonesia Stock Exchange can also have a loss risk.

Investment losses experienced by investors in conducting investment activities occur because many investors only focus on the returns that investors will get, regardless of the risks they face. Then, investors suffer losses without obtaining a return equivalent fund invested.

ICE-BEES 2021, July 27-28, Semarang, Indonesia

DOI 10.4108/eai.27-7-2021.2316862

Investors in minimizing these losses should know how long investors have to hold their share ownership to get the maximum profit as expected. Often investors are less careful in conducting stock analysis so that they experience losses. Many stocks in Indonesia are indicated as high-risk stocks if investors do not take the right decision to invest. Therefore, investors need to know the right time to hold their stock purchases.

Previous research on the stock holding period has been widely carried out, but the study results still show a weak influence between the independent and dependent variables. Investigations that explore the market value effect on a stock holding period are researches conducted by Ningrum and Asandimitra [3], Sari and Abundanti [4], and Arma [5]. They found that the market value has a weak impact on the stock holding period. The effect of Earnings per share on the share's holding period is still weak. It is supported by Sari's and Abundanti's [4], Margareta's and Diantini' [6] researches. The effect of dividend payout ratio on stock holding period indicates weak results, including a study conducted by Ernawati et al. [7], Wijanarko and Margasari [8] and Maulina and Triyuwono [9].

This study aims to analyze the effect of market value, earning per share, and dividend payout ratio on the stock holding period. The remainder of this paper is structured as follows: Section 2 develops the literature review. Section 3 explains the research methodology. Section 4 describes the empirical results. Section 5 discusses results and Section 6 summarizes the paper and presents conclusion.

2 Literature Review

Signaling theory and bird in the hand theory can explain the effect of the independent variables in this study on the stock holding period variable. Signalling Theory describes how the company's management provides a positive signal to investors. Further, the signal can influence the assessment of the company's external parties on its value. Then, it will motivate to invest in a company. According to Fahmi and Hadi [10], investors will react in various ways to respond to these signals, such as selling or buying shares.

Bird in the Hand Theory is a theory that explains dividend policy. This theory was developed by Gordon [11] and Lintner [12]. They state that there is a relationship between firm value and dividend policy. The firm's capital cost will rise if the dividend payout ratio is low. Investors prefer receiving dividends to having a capital gain. It is because dividend yields are more specific and safe. Investors consider dividends distributed now have less risk. In addition to investment risk, there is also uncertainty about the company's cash flows in the future.

Market Value is the stock price that occurs on the stock exchange at a particular time. It is determined by market participants [13]. Signal theory explains that market value provides a signal to external parties in the form of company value which is reflected in the company's stock price. Market conditions that tend to fluctuate affect stock price movements. Therefore, the company's management tries to increase the company value and provides a positive signal to investors. Then, they will be interested in investing in the company. According to Atkins and Dyl [14], high market value tends to attract more investors than companies with low market value. Arma [5], Margareta and Diantini [6], Sari and Abundanti [4] and Utami and Sedana [2] has explored a positive relationship between market value and stock holding period.

H_1: Market Value impacts stock holding period positively.

Earnings per share (EPS) is an indicator for investors to analyze and measure the company's success level and prospects in the future. The greater the EPS value of a company is, the greater the return received by investors [15]. The positive signal resulting from high EPS will make investors hold their shares longer. Investors use EPS as a tool for analyzing and assessing the amount of profit received by each share owned by investors in a period. Margareta and Diantini [6] and Sari and Abundanti [4] have found a positive relationship between earnings per share and the stock holding period.

H_2: Earnings per share impacts stock holding period positively.

The dividend payout ratio is an indicator used for investor analysis in determining how much profit is shared in dividends. Further, it is also retained earnings by the company. According to Septian and Lestari [16], companies with policies to distribute dividends routinely and stably can attract investors to invest and hold their shares for a long time. They are safer and less risky. Sari and Abundanti [4], Utami and Sedana [2], and Fathani and Oktaviana [17] argued that dividend payout ratio and stock holding period have a positive relationship.

H_3: Dividend payout ratio impacts stock holding period positively.

The theoretical framework of this study is presented in figure 1.

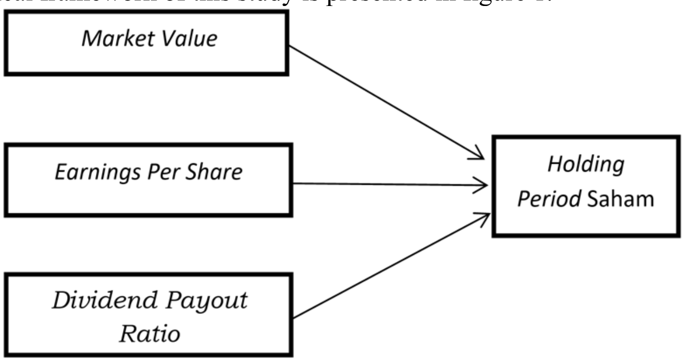

Fig. 1. Theoretical Framework

3 Method

This study used a quantitative approach with a hypothesis-testing study design. The samples were taken from companies listed in the LQ-45 index for the 2013-2017 period on the Indonesia Stock Exchange. The selection of LQ-45 companies is based on the premise that companies in the LQ-45 index have the highest transaction values, the highest market capitalization, and show high financial performance and prospects for growth in the last year. The duration of the research is 5 years to see the volatility of the data and the trend of stock holding behavior from investors. The sample selection used a purposive sampling method with a total of 12 companies for five-year observation. The criteria for selecting the sample in the study are illustrated in Table 1.

Table 1. Sampling Criteria

No	Sampling Criteria	Do not meet the criteria.	Total
			70
1	Companies that are consistently listed in the LQ45 index from 2013 to 2017	(42)	28
2	The company regularly publishes annual reports and financial reports as of December 31 during the research period.	(10)	18
3	Companies that do not provide the necessary data for research	(6)	12
	Year of Observation		5
	Total of unit analysis		60

Operational definitions of research variables and their measurement techniques are presented in Table 2.

Table 2. Operational Definition and Variable Measurement

No	Research Variables	Operational Definition	Measurement
1	Stock Holding period	The average length of time used by investors to keep or hold a security for a certain period.	$HP = \frac{Number\ of\ share\ outstanding}{\text{transaction Volume}}$ Atkins and Dyl [14]
2	Market value	The overall value that occurs in the stock market in a given period.	MV =Ln (Average share price x number of shares outstanding at the end of the period) Atkins and Dyl [14]
3	Earnings per share	The available net income for shareholders for a period is divided by the average number of ordinary shares outstanding.	$\text{EPS}= \frac{\text{Net profit after interest and taxes}}{\text{Number of share outstanding}}$ Tandelilin [1]
4	Dividend payout ratio	The dividends paid in the year which is divided by earnings per share at the end of the year.	$\text{DPR}= \frac{dividend\ per\ share}{earnings\ per\ share} \text{ x } 100\%$ Darmadji et al. [18]

In obtaining the data, documentation techniques was used. The data for this research was secondary data. They included financial statements, annual reports, and document descriptions in the Indonesian Capital Market Directory (ICMD) of companies listed on the Indonesia Stock Exchange LQ-45 index from 2013 to 2017. The data analysis techniques used were descriptive statistical analysis and multiple linear regression.

4 Findings and Discussion

Table 3 presents descriptive variable statistics of the stock holding period, market value, earnings per share, and dividend payout ratio.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Dev.
Stock Holding Periode (SHP)	60	1	10	4.18	2.23
Market Value (MV)	60	28.93	33.75	31.60	1.19
Earnings Per Share (EPS)	60	3.76	7.42	5.88	1.05
Dividend Payout Ratio (DPR)	60	0.13	1.86	0.43	0.28

The regression equation has met the classical assumptions to obtain the BLUE (Best Linear Unbiased) Estimator results. The classical assumption test is applied to achieve an unbiased estimator. The test comprises the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. The normality test with the Kolmogorov-Smirnov shows that the research data's residual is normally distributed. The result of the autocorrelation test, which was tested using the Durbin Watson (d), is 1.924. The result means that du < d < 4-du. It reflects that this study is free from autocorrelation symptoms. The white test's heteroscedasticity test shows that the result of the c2 count is 0 < c2 table, 79.08194. It means that this study free from heteroscedasticity symptoms. The multicollinearity test shows a tolerance value is ≥ 0.10 and a VIF value is ≤ 10. It can be concluded that this study is free from the assumption of multicollinearity.

The regression equation model obtained from this study is written as follow:

SHP = -25.182 + 0.796MV + 0.331EPS + 2.182DPR + e

Table 4. Summary of Hypothesis Test Result

Hypothesis	Remarks	Regression Coefficient	Sig.	t-stat	Results
H1	The market value impacts the stock holding period positively	0.796	0.000	4.042	Accepted
H2	Earnings per share impacts stock holding period positively	0.331	0.130	1.536	Rejected
H3	Dividend payout ratio impacts stock holding period positively	2.182	0.006	2.872	Accepted

The determination coefficient of the multiple linear regression equation illustrates that the Adjusted R Square value is 0.461. It means that variations of the market value can explain the variation in the stock holding period variable, earnings per share and dividend payout ratio variables is 46.1%, and other variables outside the research model explain the remaining 53.9%.

5 Discussion

5.1 The Impact of Market Value on Stock Holding Period

The testing result of the first hypothesis from the regression equation model 2 illustrates that the market value variable has a positive and significant effect on the stock's holding period. The results of this study are in line with research conducted by Ernawati et al. [7] which states that the larger the market value of a company, the longer investors hold their share ownership. Because market participants still assume that the company's prospects in the future will be better and less risky. Besides that, investors also believe that large companies are usually more stable in their financial condition. They can produce reliable reports because competent analysts support them. Then, they can have reliable financial statements and information to reduce information asymmetry between investors and company management.

5.2 The Impact of Earnings per Share on the Stock holding period

The results depict that earnings per share do not have any effect on the stock's holding period. The results of this study are in line with research conducted by Margareta and Diantini [6]. They propose that investor preference has a role that causes earnings per share does not impact the stock holding period. Investor preferences regarding stock returns are only limited to dividends and capital gains. The return is based on securities selection. It should have superior stock categories, good performance, stable profitability and high liquidity. The results of this study do not support the signaling theory which states that management gives a positive signal to investors by increase earnings per share, because the higher the earnings per share of a company, the longer the holding period. The rejection of the second hypothesis provides empirical evidence that companies that have high profits are not necessarily more attractive to investors. Because in reality there are many other financial ratios that investors must pay attention before investing.

5.3 The Impact of Dividend Payout Ratio on the Stock holding period

The finding says that the dividend payout ratio positively and significantly affects the stock's holding period. It is in line with the research conducted by Sari and Abundanti [4]. They viewed that the greater the company's dividend payout ratio, the longer investors hold their share ownership. The provision of an adequate dividend payout ratio will be one of the considerations for investors to buy, sell, or keep their shares. It is in line with the opinion of Baker and Wurgler [19]. The results of this study are also following the bird in the hand theory, which explains that investors want to have high dividend payments from company profits. It is in line with the investor's goal of investing their shares in getting dividends. Investors are not interested in investing in companies if dividends are not received regularly and shared over a long time.

6 Conclusion

To sum up, the market value and dividend payout ratio significantly positively affect the stock holding period. Therefore, the results of this study might help investors as their consideration in the decision to hold shares or release shares. In contrast, earnings per share do not have any impact on the stock holding period. Adjusted R2 values that show the number of predictors in this research model tends to be at a low position. Further, for future research, researchers can add other independent variables that are expected to affect the holding period of stocks, such as variance returns, risk of return, spreads.

Reference

[1] E. Tandelilin, *Portofolio dan Investasi: Teori dan Aplikasi*. Yogyakarta: Kanisius, 2010.

[2] N. L. A. Y. Utami and I. B. P. Sedana, "Pengaruh Spread, Market Value, Variance Return dan Dividend Payout Ratio terhadap Holding Period Saham," *Sumber*, vol. 506, pp. 1–327, 2014.

[3] U. N. Ningrum and N. Asandimitra, "Pengaruh Kinerja Keuangan, Struktur Modal Dan Ukuran Perusahaan Terhadap Nilai Perusahaan Dengan Gcg Dan Csr Sebagai Variabel Moderating Pada Perusahaan Peringkat Pertama Ara, Isra Dan Peringkat Emas Proper Yang Listing Di Bei Periode 2011-2015," *J. Ilmu Manaj.*, vol. 5, no. 3, pp. 1–14, 2017.

[4] E. W. Sari and N. Abundanti, "Determinan Penentu Holding Period Pada Indeks LQ45." Udayana University, 2015.

[5] V. Y. Arma, "Faktor Penentu Holding Period Saham LQ-45 di Bursa Efek Indonesia," *J. Bus. Bank.*, vol. 3, no. 2, pp. 201–212, 2013.

[6] K. A. Margareta and N. N. A. Diantini, "Variabel-Variabel Penentu Holding Period Saham," *Sumber*, vol. 1, no. 76, pp. 1–342, 2014.

[7] E. Ernawati, P. V. Lestari, and N. Abundanti, "Analisis Faktor-Faktor yang Mempengaruhi Holding Period pada Indeks Saham Lq45 Di Bursa Efek Indonesia." Udayana University, 2016.

[8] A. N. Wijanarko and N. Margasari, "Analisis Faktor Yang Mempengaruhi Holding Period Saham Pada Perusahaan Go Public Yang Tercatat Di Indeks LQ-45," *J. Fak. Ekon.*, 2018.

[9] V. Maulina and I. Triyuwono, "Analisis faktor yang mempengaruhi holding period saham biasa pada perusahaan go public yang tercatat dalam index LQ45," *J. WACANA*, vol. 13, no. 3, p. 39950, 2010.

[10] I. Fahmi and Y. L. Hadi, "Teori portofolio dan analisis investasi," *Bandung Alf.*, 2009.

[11] M. J. Gordon, "Dividends, earnings, and stock prices," *Rev. Econ. Stat.*, pp. 99–105, 1959.

[12] J. Lintner, "Distribution of Incomes of Corporations among Dividends, Retained Earnings, and Taxes," *Am. Econ. Assoc.*, vol. 2, no. 46, p. . 97-113, 1956.

[13] H. Jogiyanto, "Teori portofolio dan analisis investasi (edisi kedelapan)," *Yogyakarta BPFE*, 2013.

[14] A. B. Atkins and E. A. Dyl, "Transactions Costs and Holding Periods for Common Stocks," *J. Finance*, 1997, doi: 10.2307/2329565.

[15] R. S. Sundjaja and I. Barlian, "Manajemen Keuangan II," *Ed. Keempat. Jakarta. Lit. Lintas Media*, 2003.

[16] R. Septian and H. S. Lestari, "Faktor Yang Mempengaruhi Dividend Policy Pada Perusahaan Non-financial Yang Terdaftar Di Bursa Efek Indonesia," in *Prosiding Seminar Nasional Cendekiawan*, 2016, pp. 30–31.

[17] N. F. Fathani and U. K. Oktaviana, "Determinan holding period Jakarta Islamic Index," *El Dinar*, vol. 6, no. 2, pp. 101–111, 2018.

[18] T. Darmadji, M. Hendy, and Fakhruddin, *Pasar Modal di Indonesia*, Kedua. Jakarta: Salemba Empat, 2012.

[19] M. Baker and J. Wurgler, "A catering theory of dividends," *J. Finance*, vol. 59, no. 3, pp. 1125–1165, 2004.