The Effect of Financial Architecture, Cash Holding, and Goodwill on Stock Return with the Approach Five-Factor Models

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Abstract- **This study examines the effect of financial architecture, cash holding and goodwill on stock returns using a 5-factor model approach. The financial architecture variables consist of corporate governance (Board of Commissioners, Board of Directors, and board process), capital structure, and ownership structures (managerial and institutional holdings). Testing was conducted using Weighted Least Square Method (WLS) in 25 companies from 2015-2018 selected in purposive sampling at the group of Compass 100 Index in Indonesia Stock Exchange. The calculation of the stock return in this study uses an abnormal return and as a comparison is also a test using models with expected return and actual return. The results of this study show the Board Process and the capital structure have a significant effect on stock return in the regression model with abnormal return. The results on the model with expected return show that managerial ownership has a significant effect and the model with actual return shows that only cash holding has a significant effect. In addition, the variables of the Board of Commissioners, the Board of Directors and institutional ownership in the comparison model show results that consistently do not have a significant effect on stock returns.**

Keywords: **Financial Architecture, Cash Holding, Goodwill, Stock Returns, Fama French 5-Factor Model**

I. INTRODUCTION

Investments made in the capital markets have a high risk, so every investor is expecting a maximum return (expected return) should pay attention and estimate all important factors that can affect return from investing. The company's performance is an internal factor of the company that has a big impact on stock returns. The company's performance is defined as a full view of the company's state over a period of time and is a result or achievement influenced by the company's operational activities in utilizing its resources (Srimindarti, 2004). Performance of a company can be seen from two aspects namely financial performance (Fahmi, 2012) and the characteristics of the company (Harianto & Siswanto, 1998). Financial performance provides an overview of the level of efficiency and productivity of the company while the characteristics describe the characteristics inherent to the company and can increase the trust of investors.

In financial performance, cash holding and goodwill variables that are routinely contained in financial statements are still rarely used as a reference by investors in decision making. Palazzo (2012), cash holding can be a reference for investors because companies that are willing to take high risks tend to have high cash holding. This implies that the cash holding will motivate a company to make growth, so it will produce a high expected return (Li et al, 2019, Li, 2011 and Ang et al, 2019).However, in the research of Oritz-Molina & Phillips (2014), there was no effect on stock returns. Goodwill, which is classified as an intangible asset that is formed when a company carries out an acquisition of another company in the Hidayanti & Sunyoto study, (2012), shows that there is a positive relationship to market value and an increase in market value will be reflected in high stock prices (Sujoko & Soebiantoro, 2007). However, Liu et al (2019) and He et al (2019) revealed a negative relationship between the value of goodwill and stock returns.

In addition to financial performance, the characteristics of companies such as how the company designs its capital structure, its ownership structure, and governance within its company can add investor confidence to the return generated by the company.The financial architecture is used in this study to explain the stock return of the company's characteristic aspects.In more detail, the study of the financial architecture consisting of ownership structures (managerial and institutional ownership) has a positive relationship to the return of shares (Kokoreva & Stepanova, 2013 and Jensen & Meckling, 1976). However, Haruman (2008) and Wardhani (2006) expressed a negative relationship due to opportunistic actions carried out by managerial shareholders to take personally beneficial actions. Rahma (2014) in his research revealed that majority ownership in institutional hands will make management prioritize their interests over the interests of other shareholders.

Corporate governance allows agency problems in the company to be minimized, which consists of the Board of Commissioners, the Board of Directors (KNKG, 2006), and the board process (Wang & Ong, 2005).Research conducted by Schwartz-Ziv & Weisback (2013), Vefeas (1999b), and Wang & Ong (2005) revealed a positive relationship between board process and stock returns, but Vefeas (1999a) and Petchsakulwong & Jansakul (2018) found that that the relationship due to limited time spent by the board of directors is not used for meaningful exchange of ideas and large amounts of board meeting time will increase management

costs.Furthermore, the board of commissioners in research Yuniarti (2014), Fuenzalida, et al. (2013), Maryanah (2011), Rani et al (2013), Chen et al (2004), and Jauhar (2014) revealed that there is a positive relationship to increased supervision so that performance increases the company gets better. However, it is different from the findings of Yermack (1996), Sundgren et al (1998), Jensen (1993), Connelly et al (2012) and Suhadak et al (2019) that the number of commissioners will have a negative impact on company performance because of inefficient communication and coordination.The board of directors in the research of Erkens et al. (2012), Gil & Obradovich (2012), Connelly et al (2012) and Suhadak, et al (2019) stated that a negative relationship. However, research from Fuenzalida et al, (2013), and Sukandar & Rahardja (2014) found a positive relationship between the number of boards of directors and the company's financial performance because of the large number of boards of directors will facilitate decision making.In addition, the capital structure is included in the financial architecture in the research of Mudjijah et al. (2019) shows a positive effect on stock returns. However, Kadek (2013) and Wahyuni (2013) obtained the opposite result because companies that use more debt for funding can have an effect on the decline in firm value.

Stock return in this study is measured using abnormal return, which is the difference between the actual return and the expected return. In the expected return, the Fama-French five-factor model approach is used, which is a new approach in explaining the asset pricing model. Previously, the asset pricing model was introduced by Sharpe (1964) and Lintner (1966) which was known as the Capital Asset Pricing Model (CAPM).This model states that stock returns are influenced by market risk, but Fama and French in 1992 found that market risk is not the only factor that can affect stock returns but also company size and "book to market equity" known as the Three-factor model. Furthermore, in 2015, Fama and French again introduced the asset pricing model, which is a development from the previous model (three-factor model) by adding the profitability and investment factors into their three-factor model equation.

II. LITERARUTE REVIEW

A. Financial Architecture

The firm's financial architecture is a combination of different dimensions of financial structure, which consists of ownership structure, capital structure, and corporate control through corporate governance and board processes (Myers, 1999).

1) Corporate Governance

Agency theory is the basis used in understanding the issue of corporate governance, namely the conflict of interest between company management and shareholders. KKNG (2006) stipulates that Good Corporate Governance (GCG) can be achieved if it focuses on the functions and responsibilities of corporate organs, namely the General Meeting of Shareholders (GMS), the board of commissioners and the board of directors. The GMS in this study is not used in disclosing the relationship between company management and stock returns because the GMS is an obligation that has been stipulated by Indonesian government law and cannot explain the performance of a company.The Board of Commissioners and the Board of Directors have a big responsibility towards the company, therefore the composition of both must be right so that the supervisory function to achieve GCG can be achieved. Furthermore, Wang & Ong (2005) add that board processes related to board performance can affect corporate governance, so in this study, the board process is used in expressing good corporate governance.

The board process is defined as the Board's ability to perform its role effectively and transparently to the public.Wang &Ong (2005) mengidentifikasi 3 dimensi dalam mempelajari proses dewan yaitu *Effort nomrs, Conflict,* dan *Presence and use of various skills*. Wang & Ong (2005) identified 3 dimensions in studying the board process, namely Effort norms, Conflict, and Presence as well as the use of various skills. Strengthening business norms will make directors more aware and willing to contribute to the performance of the directors and one measure that shows business norms is the intensity of board meetings. Conflict tends to make the director play a better role and the presence and use of various skills on the board will create a suitable service and strategy design outcome.

2) Ownership Structure

The ownership structure is also an important mechanism in reducing the conflict between management and shareholders (Yuniati et al, 2016). The ownership structure is a shareholding structure, which is a comparison of the number of shares owned by institutional and management. Kokoreva & Stepanova (2013) reveals that the ownership structure has a positive effect on the company's value and has an impact on the size of stock returns. This is because managerial ownership will encourage management to improve their performance because they are involved in owning the company. Therefore, the greater the ownership of managerial shares then managerial will work more proactive in realizing the interests of shareholders and increase the value of the company.

Institutional ownership acts as a monitoring agent that performs optimal oversight of the management's behavior in carrying out its role. Jensen & Meckling (1976) stated that institutional ownership is one that can be used to reduce agency conflict. In other words, the higher the institutional ownership, the stronger the level of control done by the external authorities to the company so that the agency conflict that occurs within the company will be reduced and the value of the company will be increased.

3)   Capital Structure

Capital structure is the composition of funding sources between debt (external) and equity (internal). If the value of the capital structure is high, the company has utilized more external funds than internal funds for operational activities. Mudjijah et al (2019), Hermuningsih (2013) and Andawasatya et al (2017) reveal that capital structure has a positive effect on firm value because companies are more flexible in carrying out their operational activities, can save taxes, and other costs that are greater when compared to interest costs from debt..

A. Cash Holding

Gill and Shah (2012) define cash holding as cash readily available to be invested in physical assets and distributed to investors. Cash holding is important for companies based on the liability preference theory because it is based on 3 motives, namely Transaction Motives, Precautionary Motives, and Speculative Motives. Samuel (2010) and Li, Li, Wang, & Yu (2019) document that companies with high cash have a high expected return because of high cash holding as an indication that the company is developing for the future. One form of development for the future is when companies focus on spending on Research and Development (R&D).

B.   Goodwill

Assets are divided into current assets, fixed assets, and intangible assets. Goodwill is an asset that reflects the future economic benefits arising from other assets obtained in a business combination that cannot be identified and recognized separately. So goodwill arises because one company acquires another company and is calculated as the difference in the purchase price of the acquired company against the fair market value of the identifiable net value of the assets. Xin Liu et al (2019) and He et al (2019) studied important forms of intangible assets arising from past mergers and acquisitions in the application of asset prices and found that goodwill has a strong negative relationship to stock returns. This is because goodwill does not react to the stock market.

C.   Stock Return Balance Model: Five-Factor Model

Stock return is the rate of increase enjoyed by investors (investors) on a stock investment made. The rate received by investors (actual return) is sometimes different from the expected rate (expected return), so it is known that each investor cannot be seen with certainty how much the return will be received. This situation shows that there is a risk of investing. For this reason, investors need a calculation model that can help minimize this uncertainty by measuring the risk of an asset and at the same time seeing its expected return. The Five-Factor Model is a model refined by Fama and French (2015) to complement the previous Three-Factor Model in minimizing return uncertainty. The five factors can be formulated as follows:

$$E(R_{i,t}) = \alpha_i + \beta_i\left(R_{m_t} - R_{f_t}\right) + s_iSMB_t + h_iHML_t + r_iRMW_t + c_iCMA_t + e_{i,t}$$

Where

R_i = The expected return on stock i period t

R_{f_t} = Risk-free return on assets for period t

α = *Intercept*

β_i = Market beta or regression coefficient

R_{m_t} = Market return or the level of market profit period t

SMB = Small Minus Big (Firm Size)

HML = High Minus Low (Book-To-Market Ratio)

RMW= Robust Minus Weak (Profitabilitas)

CMA= Conservative Minus Aggressive (Investment)

III.   METHODOLOGY

This research is a quantitative study using panel data on 25 companies for the 2015-2018 period selected by purposive sampling on the companies of the Kompas 100 Index group on the Indonesia Stock Exchange. Sources of data are obtained from the annual reports of each company and financial reports are taken from www.idx.co.id.

Data analysis techniques using classical assumption test (multicollinearity test and heteroscedasticity test), and hypothesis testing.Furthermore, if the WLS model is chosen, the classic assumption that must be fulfilled is that the non-multicollinearity of WLS has accommodated the problems of heteroscedasticity and autocorrelation (Gujarati and Porter, 2009). The steps in forming a model with an abnormal return are to form a regression equation from the expected return of the 5 model factors first, then from this equation, we will get the expected return value in the 5-factor model which can be operated with the actual return so that the abnormal return value is obtained.

A.   *Dependent Variable: Abnormal Return*

$$AR = r_i - E(R_i)$$

Where:

AR= Abnormal Return

r_i= *Actual Return*

$E(R_i)$= *Expected Return five-factor model*

B.   *Independent Variable*

1)   *Board process* (BP)

$$BP = \sum board\ meeting$$

2)   *Board of Commissioners*(UK)

$$UK = \sum Board\ of\ Commissioners$$

3)   *Board of Directors* (UD)

$$UD = \sum \text{Board of Directors}$$

4) *Capital Structure*

$$DER = \frac{Total\ Debt}{Equity}$$

5) *Managerial Ownership*(KM)

$$KM = \frac{shares\ owned\ by\ management}{outstanding\ shares}$$

6) *Institutional Ownership* (KI)

$$KM = \frac{Shares\ owned\ by\ institutional}{outstanding\ shares}$$

7) *Cash holding* (CH)

$$CH = \frac{Cash\ +\ Cash\ Equivalents}{Total\ assets}$$

8) *Goodwill* (GW)

$$GW = Goodwill_t$$

Analysis of statistical tests using Eviews 10 software. This research uses the equation of regression model with Abnormal return and as a comparison model is conducted also testing using models with expectations return and return Aktul as follows:

$$AR = \alpha + \beta_1 BP + \beta_2 UK + \beta_3 UD + \beta_4 CS + \beta_5 KM + \beta_6 KI + \beta_7 CH + \beta_8 GW + e$$

$$E(R) = \alpha + \beta_1 BP + \beta_2 UK + \beta_3 UD + \beta_4 CS + \beta_5 KM + \beta_6 KI + \beta_7 CH + \beta_8 GW + e$$

$$R = \alpha + \beta_1 BP + \beta_2 UK + \beta_3 UD + \beta_4 CS + \beta_5 KM + \beta_6 KI + \beta_7 CH + \beta_8 GW + e$$

Where:

AR = Abnormal return

$E(R)$ = Expected return 5-factor model

R =Actual Return

Figure 1 shows the conceptual framework of the study, the hypotheses of this study are:

H1a: *The Board Process has a positive effect on Stock Returns*

H1b: *The Board of Commissioners has a positive effect on Stock Returns*

H1c: *The Board of Directors has a negative effect on Stock Returns*

H2a: *Managerial Ownership has a positive effect on Stock Returns*

H2b:*Institutional Ownership has a positive effect on Stock Returns*

H3:*Capital Structure has a positive effect on Stock Returns*

H4: *Cash Holding has a positive effect on Stock Returns*
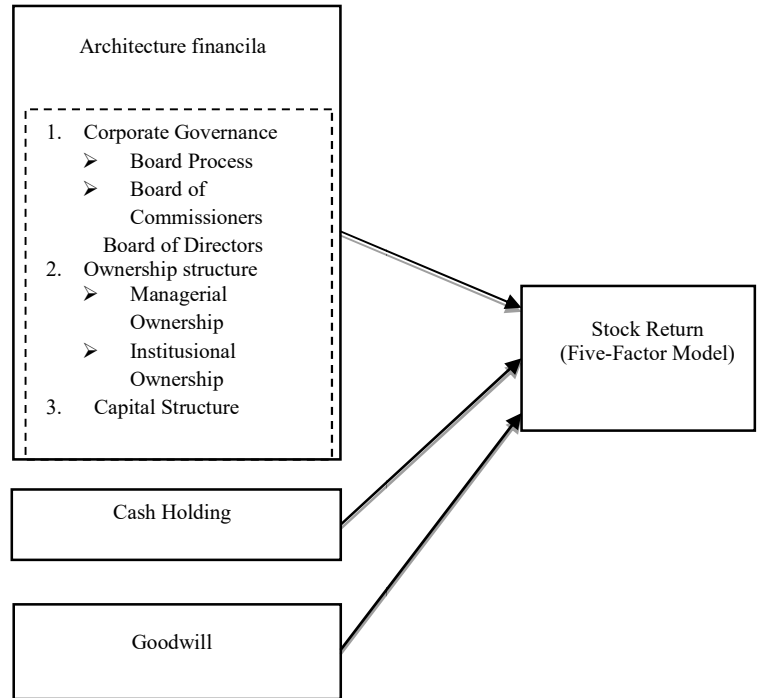
H5:*Goodwill has a negative effect on Stock Returns*

Fig.1 Conceptual Framework

IV. RESULT AND DISCUSSION

A. *Expected Returns Results with a 5-Factor Model*

Tabel 1Regression of Expected Return with 5-Factor Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.211440	3.773023	1.381237	0.1716
RISKPREM	0.664420	0.128762	5.160066	0.0000
SMB	-0.169050	0.119925	-1.409627	0.1631
HML	-0.058129	0.017300	-3.360074	0.0013
RMW	0.780693	0.361852	2.157494	0.0344
CMA	0.271692	0.167489	1.622148	0.1093

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.593552	Mean dependent var	-0.097050
Adjusted R-squared	0.425167	S.D. dependent var	0.799163
S.E. of regression	0.599773	Sum squared resid	25.18089
F-statistic	3.524959	Durbin-Watson stat	3.092933
Prob(F-statistic)	0.000009		

Unweighted Statistics

R-squared	0.307529	Mean dependent var	0.045218
Sum squared resid	26.47340	Durbin-Watson stat	2.962128

Source: Output Eviews 10, 2020

The regression model of the 5-factor expected return model is mathematically written as follows:

$$E(Ri) = 5,21144 + 0,66442(R_m - R_f) - 0,16905(SMB) - 0,058129(HML) + 0,780693(RMW) + 0,271692(CMA)$$

From the above equation, the value of each independent variable in the 5-factor model is then entered so that the value of the expected 5-factor return model is obtained.

B. Classic Assumption Test

In testing the classical assumptions, the data were free from multicollinearity symptoms, but there were symptoms of heteroscedasticity, so weighting was carried out using the WLS method.

C. Regression Results

The best regression model selected from the regression model with abnormal returns is the Fixed effect model (Table 2), and as a comparison, testing is also carried out using a model with expected returns (Table 3) and actual returns (Table 4) which are consecutively selected a regression model. best is the fixed effect model and the common effect model.

Table 2 Model with Abnormal Return

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.093361	3.711880	2.180394	0.0327
BP	-0.014038	0.003473	-4.042678	0.0001
UK	-0.008559	0.047801	-0.179062	0.8584
UD	-0.000145	0.051237	-0.002826	0.9978
CS	-0.057141	0.023573	-2.424045	0.0181
KM	-0.234331	1.573449	-0.148928	0.8821
KI	1.758966	1.938994	0.907154	0.3676
CH	-0.532848	0.480737	-1.108397	0.2717
GW	-0.283486	0.135535	-2.091601	0.0403

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.873790	Mean dependent var	-0.281580
Adjusted R-squared	0.813511	S.D. dependent var	1.334757
S.E. of regression	0.565173	Sum squared resid	21.40118
F-statistic	14.49571	Durbin-Watson stat	3.119466
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.425229	Mean dependent var	1.37E-05
Sum squared resid	25.43905	Durbin-Watson stat	3.013479

Source: Output Eviews 10, 2020

Table3 Model with Expected Return

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.846047	1.372966	0.616218	0.5398
BP	0.001018	0.002653	0.383640	0.7025
UK	0.006003	0.031206	0.192360	0.8480
UD	-0.011303	0.031479	-0.359065	0.7207
CS	-0.015755	0.027151	-0.580289	0.5637
KM	2.975177	0.824021	3.610560	0.0006
KI	0.824751	0.691786	1.192205	0.2374
CH	0.344481	0.280106	1.229824	0.2231
GW	-0.032432	0.049710	-0.652423	0.5164

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.870951	Mean dependent var	0.050936
Adjusted R-squared	0.809315	S.D. dependent var	0.368645
S.E. of regression	0.157535	Sum squared resid	1.662762
F-statistic	14.13066	Durbin-Watson stat	2.393672
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.839873	Mean dependent var	0.045205
Sum squared resid	1.865895	Durbin-Watson stat	2.219648

Source: Output Eviews 10, 2020

Table 4 Model with Return Aktual

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.148790	0.615894	0.241583	0.8096
BP	-0.002721	0.002363	-1.151407	0.2526
UK	-0.000249	0.018410	-0.013500	0.9893
UD	0.028210	0.020143	1.400502	0.1648
CS	-0.000117	0.015541	-0.007511	0.9940
KM	1.370097	1.021310	1.341509	0.1831
KI	1.127724	1.106909	1.018805	0.3110
CH	0.662721	0.390160	1.698588	0.0928
GW	-0.015017	0.024366	-0.616305	0.5392

Weighted Statistics

R-squared	0.108509	Mean dependent var	-0.019400
Adjusted R-squared	0.030136	S.D. dependent var	0.610378
S.E. of regression	0.601044	Sum squared resid	32.87412
F-statistic	1.384524	Durbin-Watson stat	2.472622
Prob(F-statistic)	0.213855		

Unweighted Statistics

R-squared	0.035736	Mean dependent var	0.045218
Sum squared resid	36.86414	Durbin-Watson stat	2.307761

Source: Output Eviews 10, 2020

D. Hypothesis test

1) T Test

Table 2 shows the probability that BP is 0.0001 <alpha 1%, CS is 0.0185 <αlpha 5%, and GW is 0.0403 <alpha 5% so it can be concluded that BP, CS, and GW have a significant effect on abnormal return with a significance level of 1%, 5%, and 5% respectively. The model with expected return (Table 3) shows the probability of Managerial Ownership of 0.0006

<alpha 1%, which means that only managerial ownership has a significant effect on return expectations, while the model with actual returns (Table 4) shows a probability of CH of 0.0928 <alpha 10%, which means that CH has a significant effect on actual return with a significance level of 10%, while other variables have no significant effect.

2) Coefficience of determination

Table 2 shows the R-squared value of 0.87379 (87%), this means that the effect of BP, UK, UD, CS, KM, KI, CH, and GW on AR is 87% and the rest is explained by other variables. Table 3 also shows the R-square value of 0.870951 (87%) which means that the influence of BP, UK, UD, CS, KM, KI, CH, and GW on the 5-factor model expected return is 87%. Table 4 shows the R-square value of 0.108509 (10%), which means that the effect of BP, UK, UD, CS, KM, KI, CH, and GW on Ri is 10% and the rest is influenced by other variables.

E. Discussion

1) Effect of Board Process on Stock Return

The board process has a significant negative effect on stock returns as measured by abnormal returns. This result is different from the hypothesis built because researchers tend to use the theory developed by Schwartz-Ziv & Weisbach (2013), and Wang & Ong (2015). However, this significant negative result is in accordance with the research of Vefeas (1999a) and Petchsakulwong & Jaannsakul (2018) that the negative relationship between the board process is caused by a lack of productivity in exchange of ideas at limited times during meetings and the high cost of board meetings in the form of managerial time, travel costs, refreshment, and the cost of the board of directors meeting which can increase management costs, thereby reducing the profitability ratio. The comparison of the regression model with the expected return and actual return shows that the process board does not have a significant effect. The comparison of the three models provides information that the Board process variable is not consistent with stock returns.

2) Effect of the Board of Commissioners on Stock Return

The test results of the board of commissioners on stock returns are negative and insignificant. This result can be interpreted that a large number of the board of directors will have an impact on reducing the abnormal return value even though it is not significant. Yermack (1996), Sundgren et al (1998), Jensen (1993), Connelly et al (2012), and Suhadak (2019) state that the more personnel who become the board of commissioners can result in the worse performance of the company. This is due to difficulties in carrying out roles, including difficulties in communication and coordination between members of the board of commissioners. The comparison between the model and the expected return and actual return shows that the board of commissioners does not have a significant effect. The comparison of these three models provides information that the board of commissioners

variable has consistent results on stock returns, which does not have a significant effect on both the actual return, the expected return, and the abnormal return.

3) Effect of the Board of Directors on Stock Return

The test results of the board of directors on stock returns show a negative value and are in line with the hypothesis in this study but not significant. This means that increasing the size of the board will have a negative impact or give a decrease in the abnormal return value, but the decrease in value is not significant. Erkens et al (2012), Gil and Obradovich (2012), Connelly et al (2012) and Suhadak, et al. (2019) reveal that the negative relationship between board size is caused by a large number of boards of directors that will prolong communication which results in the length of time making decisions on a problem. The results of the comparison of the regression model with the expected return and actual return indicate that the board of directors does not have a significant effect. The comparison of the three models provides information that the board of directors variable shows consistent results on stock returns, that is, it has no significant effect on both the actual return, the expected return, and the abnormal return.

4) The Effect of Capital Structure on Stock Returns

The results of testing the capital structure on stock returns show a negative and significant value. The results of this test are not in accordance with the hypothesis built in this study because researchers tend to use the basis of understanding and research that has been conducted by Mudjijah (2019), Hermuningsih (2013), and Andawasatya (2017). However, these results are in line with the research of Kadek (2013) and Wahyuni (2013) that the greater the company uses debt, the greater the interest expense so that it can reduce the firm's value because the interest expense is paid using operating profit. The results of the comparison of the regression model with the expected return and actual return show that the capital structure does not have a significant effect. The comparison of the three models provides information that the capital structure variable is not consistent with stock returns.

5) The Effect of Managerial Ownership on Stock Returns

The test results of managerial ownership on stock returns show a negative and insignificant value. This shows that an increase in managerial ownership will reduce the abnormal return, although it is not significant. These results are in line with research conducted by Haruman (2008) that the decline in stock returns is caused by opportunistic actions by managerial shareholders. Managerial ownership wants a high income compared to the investment growth of the company so that if managerial ownership is high, the market reacts negatively which causes the firm's value to fall. The results of the comparison of the regression model with the expected return show that managerial ownership has a significant effect on expected returns, but in models with actual returns,

managerial ownership has no significant effect. The comparison of the three models provides information that managerial ownership variables are not consistent with stock returns.

6)   The Effect of Institutional Ownership on Stock Returns

The results of testing institutional ownership on stock returns show a positive and insignificant value. Jensen & Meckling (1976) and Nuraina (2010) argue that the greater the institutional ownership, the greater the level of control exercised by external parties against the company so that agency conflicts that occur within the company will decrease and the firm's value will increase. The results of the comparison of the regression model with the expected return and actual return show that institutional ownership does not have a significant effect. The comparison of the three models provides information that the institutional ownership variable has consistent results on stock returns, that is, it has no significant effect on both the actual return, the expected return, and the abnormal return.

7)   The Effect of Cash Holding on Stock Returns

The results of the cash holding test on stock returns show a negative but insignificant value. This means that the greater the value of cash holding will be inversely proportional to the increase in the abnormal return value. This result is consistent with research conducted by Oritz-Molina and Phillips (2014) that companies with high cash are less risky because the amount of cash will provide greater liquidity, therefore the abnormal return for these companies is lower. The results of the comparison of the regression model with the expected return show that cash holding does not have a significant effect on the expected return, but different results are shown in the model with the actual return that cash holding has a significant effect on the actual return at a significance level of 10%. The comparison of the three models provides information that the cash holding variable is not consistent with stock returns.

8)   The Effect of Goodwill on Stock Returns

The results of testing goodwill on stock returns show conclusions in accordance with the hypothesis, namely negative and significant. This means that the value of goodwill does not have an additional effect on abnormal returns but rather a decrease in value on abnormal returns. The results of this test are in accordance with the research of Liu et al (2019) and He et al (2019) that the value of goodwill has no reaction on the stock market, besides that the value of goodwill cannot be observed and is difficult to evaluate. The results of the comparison of the regression model with the expected return and the actual return show that goodwill has no significant effect. The comparison of the three models provides information that the goodwill variable has inconsistent results on stock returns.

V.   CONCLUTION

Analysis of stock returns by expecting the excess return than the expected (abnormal return) using the 5-factor model shows that the institutional ownership variable is able to increase the abnormal return value, while the capital structure and goodwill will reduce the abnormal return value. In addition, it was found that the board of commissioners, the board of directors, and institutional ownership had consistent results on stock returns, which had no significant effect on abnormal returns, expected returns and actual returns. Another result found that analysis using the 5-factor model return expectations in the Indonesian capital market has not been fully able to provide a more accurate approach in determining the actual return.

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