West Science Business and Management
Vol. 2, No. 02, June 2024, pp. 459~466

Analysis of Factors Affecting The Performance of Stock Investment Portfolios in Indonesia

Thomas Nadeak[1], Ikaputera Waspada[2], Maya Sari[3]
[1,2,3]Universitas Pendidikan Indonesia

Article Info

Article history:

Received June, 2024
Revised June, 2024
Accepted June, 2024

Keywords:

Stock investment portfolio performance factors Indonesia systematic literature review (SLR)

ABSTRACT

Indonesia's capital market is experiencing rapid growth, attracting investors to invest in stocks. The performance of a stock investment portfolio is influenced by a variety of internal and external factors. Understanding these factors is important for investors in making informed investment decisions. This study aims to analyze the factors that affect the performance of stock investment portfolios in Indonesia using the literature review method. The literature review method allows for a systematic review of relevant literature and produces comprehensive findings. The results of this study are expected to provide a clear picture of the factors affecting the performance of stock investment portfolios in Indonesia and become a reference for investors in making more informed and measurable investment decisions.

Corresponding Author:

Name: Thomas Nadeak
Institution Address: Universitas Pendidikan Indonesia
e-mail: thomasnadeak@ubpkarawang.ac.id

1. INTRODUCTION

Indonesia's capital market has experienced rapid growth in the last 5 years, marked by a surge in the number of investors and transaction value. This reflects the increasing public interest in stock investment. Stock investment offers attractive profit potential for investors, but it also comes with risks that need to be managed.

Year	Number of Investors (millions)	Transaction Value (trillion Rp)	Growth
2019	4,1	1.566	-
2020	6,9	6.619	323%
2021	9,1	14.142	112%
2022	10,3	18.141	28%
2023 (Feb)	12,16	12.161	-33% (from 2022)

Source: OJK and IDX, 2024

OJK and IDX data show that the number of investors increased drastically from 4.1 million in 2019 to 12.16 million in 2023, showing great enthusiasm for stock investment. The transaction value also showed a positive trend, jumping from IDR 1,566 trillion in 2019 to IDR 18,141 trillion in 2022. Although there was a slight decline in 2023, the transaction value until February 2024 showed a fairly high figure, namely IDR 12,161 trillion.

Despite experiencing a slight slowdown in 2023, the overall outlook for Indonesia's capital market is still positive. The increase in the number of investors and the value of transactions shows that public interest in stock investment continues to increase. With better financial literacy and government support, Indonesia's capital market is predicted to continue to grow in the future.

In investing in stocks, there are various factors that can affect portfolio performance. These factors can be divided into two categories, namely internal and external factors. Internal factors are related to the condition of the company in question, while external factors are related to macroeconomic conditions and the capital market as a whole.

Several previous studies have been conducted to analyze the factors that affect the performance of stock investment portfolios in Indonesia. Research by Safitri [17] found that *investment opportunity set* (IOS) is the main factor that determines stock price movements. This is supported by the results of research by Puteri [16] who found that *IOS and industry opportunity set* (IOS) have a positive effect on stock returns.

Another study by Fadlillah, et al. [8] analyzed the performance of stock portfolios using the Sharpe, Treynor, and Jensen methods. The results of the study show that stock diversification can help reduce portfolio risk and increase returns.

Although much research has been conducted, there are still research gaps that need to be filled. This study aims to analyze the factors that affect the performance of stock investment portfolios in Indonesia in more depth, by considering internal and external factors, and using a more comprehensive analysis method, namely using the *literature review* method. The *literature review* method makes it possible to conduct a systematic review of relevant literature and produce comprehensive findings.

2. METHODS

This study uses a literature review approach to analyze the factors that affect the performance of stock investment portfolios in Indonesia. Literature review is a systematic and structured research method to identify, evaluate, and synthesize literature relevant to a research topic.

Here are the steps taken in this study:

1. Determination of Research Topic: The research topic is set as "Analysis of Factors Affecting the Performance of Stock Investment Portfolios in Indonesia".
2. Keyword Determination: Keywords relevant to the research topic are determined, such as "portfolio performance", "stock investment", "internal factors", "external factors", "Indonesia", and "Literature Review".
3. Literature Search: Relevant literature is searched through various academic databases, such as Google Scholar, Scopus, and Web of Science. Predefined keywords are used to search for relevant literature.
4. Literature Selection: The literature found is evaluated based on predetermined criteria, such as relevance to the research topic, quality of research methodology, and author's credibility.
5. Data Extraction: Data from selected literature is extracted and recorded in a structured format. The extracted data includes factors that affect portfolio performance, analysis methods used, and research results.
6. Data Analysis: The data that has been extracted is analyzed using the appropriate methods. In this study, the analysis method used can be in

the form of descriptive analysis, comparative analysis, or statistical analysis.

7. Synthesis of Research Results: Research results from selected literature are synthesized to obtain a comprehensive picture of the factors affecting the performance of stock investment portfolios in Indonesia.

3. RESULTS AND DISCUSSION

This study uses a *literature review* approach to analyze factors that affect the performance of stock investment portfolios in Indonesia. The results of the study show that there are several factors that significantly affect portfolio performance, both internal and external factors.

3.1 Internal Factors

Internal factors that affect portfolio performance include:

3.1.1 Company Profitability

Companies that have good profitability tend to have better stock performance. This is supported by the research of Safitri [17] which found that company profitability has a positive influence on stock returns.

A company's profitability is one of the most significant internal factors affecting the performance of a stock investment portfolio. Companies that have good profitability tend to have better stock performance as well. This is because profitability reflects a company's ability to generate profits, which indicates its financial health and future growth prospects.

Here are some commonly used profitability ratios to measure a company's financial performance:

- *Return on Assets* (ROA): Measures a company's ability to generate profits from its assets. A high ROA indicates that a company can efficiently utilize its assets to generate profits.
- *Return on Equity* (ROE): Measures a company's ability to generate a return on capital invested by shareholders. A high ROE indicates that the company can provide good profits to its shareholders.
- *Net Profit Margin* (NPM): Measures the percentage of net profit from a company's total revenue. A high NPM indicates that a company can retain most of its revenue as a profit.

3.1.2 Company Growth

Companies that have good growth tend to have better stock performance. This is supported by the research of Puteri, et al. [16] who found that *investment opportunity sets* (IOS) and *industry opportunity sets* (IOS) which show the company's growth prospects, have a positive effect on the return of the company. Companies that have good growth tend to have better stock performance as well. This is because the company's growth shows bright prospects in the future, thus attracting investors to buy its shares. The growth of a company can be measured by several indicators, such as:

- Revenue Growth: An increase in a company's revenue indicates that the company is able to increase sales of its products or services.
- Profit Growth: An increase in a company's profits indicates that the company is able to manage costs and generate greater profits.
- Equity Growth: An increase in equity indicates that a company is able to increase its capital through retained earnings or the issuance of new shares.
- Business Expansion: Business expansion, such as opening a new branch or launching a new product, indicates that the company has bright prospects for the future.

The growth of a company can affects the performance of a stock investment portfolio in several ways, namely:

- Increasing Stock Prices: Investors tend to buy shares of companies that have good growth prospects, thus encouraging stock price increases.
- Increasing Dividends: Companies that have good growth are generally able to increase the dividends distributed to shareholders.

3.1.3 Leverage

Companies with high leverage rates (high debt-to-equity ratios) tend to have higher risk and more volatile stock performance. This is supported by the research of Fadlillah, et al. [8] who found that the debt ratio does not have a significant influence on investment decisions.

Leverage is one of the internal factors that can affect the performance of a stock investment portfolio. *Leverage* refers to the use of debt to finance a company's activities. Companies with high levels of *leverage* (high debt-to-equity ratios) have higher risk and more volatile stock performance. Leverage can affect the performance of a stock investment portfolio in several ways, namely:

- Increase *Return*

On the one hand, *leverage* can increase a company's stock return if used efficiently. The use of debt to finance profitable investments can increase the profitability of the company, which can ultimately increase stock returns.

- Increasing Risk

On the other hand, leverage also increases the company's risk. Companies with high levels of leverage are more vulnerable to changes in economic conditions, such as interest rate hikes. If economic conditions deteriorate, companies with high levels of leverage will have difficulty paying their debts, which can result in bankruptcy. This can lead to a decline in the stock price and losses for investors.

3.2 External Factors

External factors that affect portfolio performance include:

3.2.1 Macroeconomic Conditions

Macroeconomic conditions such as economic growth, inflation, and interest rates can affect the overall performance of the stock market. This is supported by Safitri's [17] research which found that increasing inflation and economic growth will significantly increase portfolio investment, while rising interest rates and exchange rates will significantly reduce portfolio investment in Indonesia.

Macroeconomic conditions are one of the most significant external factors affecting the performance of stock investment portfolios. Good macroeconomic conditions will generally encourage stock price increases and increase returns for investors. Conversely, poor macroeconomic conditions can lead to a decline in stock prices and losses for investors. Macroeconomic conditions can be measured by several indicators, such as:

- Economic Growth: High economic growth indicates that the economy is developing, which will generally increase the demand for goods and services. This can increase the company's profitability and encourage an increase in the stock price.
- Inflation: High inflation can reduce people's purchasing power and reduce consumption. This can negatively impact the company's profitability and lead to a decline in the stock price.
- Interest Rates: High interest rates can increase a company's cost of capital and reduce the attractiveness of stock investment. This can lead to a decline in the stock price.
- Exchange Rate: A stable exchange rate generally benefits foreign investors, which can drive up stock prices. Conversely, a weaker exchange rate can have a negative impact on companies that export and cause a decline in stock prices.

Macroeconomic conditions can affect the performance of a stock investment portfolio in several ways, namely:

- Affects Company Profitability: Good macroeconomic conditions will generally increase the company's profitability, which can ultimately increase stock returns.
- Affects Investor Sentiment: Poor macroeconomic conditions can cause investors to become worried and sell their shares, which can lead to a decline in stock prices.
- Affecting Foreign Capital Flows: Good macroeconomic conditions can attract foreign investors to invest in

the Indonesian stock market, which can drive stock prices up.

3.2.2 Government Policy

Government policies related to the capital market can affect the performance of the stock market. Government policy is one of the external factors that can affect the performance of a stock investment portfolio. Government policies that impact the economy, such as fiscal, monetary, and trade policies, can affect the attractiveness of stock investment and overall market performance. Government policies that can affect the stock market include:

- Fiscal Policy

Fiscal policy is a policy that deals with government revenues and expenditures. Examples of fiscal policies that can affect the stock market are changes in taxes, subsidies, and government spending.

- Monetary Policy

Monetary policy is a policy related to the management of money and credit by a central bank. Examples of monetary policies that can affect the stock market are changes in interest rates, mandatory bank reserves, and open market operations.

- Trading Policy

Trade policy is a policy related to the trade of goods and services between countries. Examples of trade policies that can affect the stock market are import tariffs, exports, and free trade agreements.

Government policies can affect the performance of a stock investment portfolio in several ways, namely:

- Affects the Attractiveness of Stock Investment: Government policies that increase the attractiveness of stock investment, such as income tax cuts on dividends, can encourage investors to buy stocks and increase stock prices.
- Affecting Investment Risk: Government policies that increase investment risk, such as economic crises or political instability, can make investors worry and sell their shares, which can lead to a decline in stock prices.
- Affecting Capital Flows: Government policies that encourage foreign capital flows to Indonesia can increase demand for stocks and encourage stock price increases.

Here are some examples of government policies and their impact on the stock market:

- Lower interest rates: Lower interest rates can make investing in stocks more attractive compared to bank deposits, thus encouraging investors to buy stocks and increase stock prices.
- Increased government spending: Increased government spending can drive economic growth, which can ultimately increase company profitability and drive stock price increases.
- Free trade agreements: Free trade agreements can increase the exports of Indonesian companies, which can ultimately increase the profitability of companies and encourage stock price increases.

3.2.3 Political and Social Events

Significant political and social events can affect market sentiment and stock performance. Political and social events are one of the external factors that can affect the performance of a stock investment portfolio. Significant political and social events, such as elections, demonstrations, and natural disasters, can lead to uncertainty and volatility in the stock market, which can ultimately affect stock investment returns. Political and social events that can affect the stock market include:

- Elections: Elections can lead to political uncertainty, as investors are unsure of the economic policies that the new government will take.
- Demonstrations: Demonstrations can cause riots and disrupt economic activity, which can ultimately negatively impact a company's profitability and stock price.
- Natural Disasters: Natural disasters can cause damage to infrastructure and disrupt economic activity, which

can ultimately negatively impact a company's profitability and stock price.

Political and social events can affect the performance of a stock investment portfolio in several ways, namely:

- Increasing Investment Risk

Significant political and social events can increase investment risk, as investors become concerned about political and economic stability. This can cause investors to sell their shares, which can ultimately lead to a decline in the stock price.

- Influencing Investor Sentiment

Negative political and social events can cause investor sentiment to become negative, so investors tend to avoid stock investments. This can lead to a decrease in demand for stocks and a decline in stock prices.

- Affects Capital Flow

Negative political and social events can cause foreign investors to withdraw their capital from Indonesia, which can ultimately lead to a decline in demand for stocks and a decline in stock prices.

Here are some examples of political and social events and their impact on the stock market:

- 2019 Elections: The 2019 elections in Indonesia caused political uncertainty, as investors were unsure of the economic policies that President Jokowi would take. This causes volatility in the stock market and a decline in stock prices.
- Protests in Hong Kong: Demonstrations in Hong Kong in 2019 caused unrest and disrupted economic activity in Asia. This caused foreign investors to withdraw their capital from the Indonesian stock market, which ultimately led to a decline in stock prices.
- COVID-19 Pandemic: The COVID-19 pandemic caused lockdowns in various countries and disrupted global economic activity.

DISCUSSION

This study aims to analyze the factors that affect the performance of stock investment portfolios in Indonesia. The results of the study show that the performance of stock investment portfolios in Indonesia is influenced by several factors, namely:

Macroeconomic Conditions: High economic growth, stable inflation, low interest rates, and stable exchange rates generally benefit stock investors and improve portfolio performance [17], [16], [18], [8].

Government Policies: Government policies that impact the macroeconomy, such as fiscal and monetary policies, can affect the attractiveness of stock investment and overall market performance [17], [16], [18], [8].

Political and Social Events: Significant political and social events, such as elections, demonstrations, and natural disasters, can lead to uncertainty and volatility in the stock market, which can ultimately affect stock investment returns [17], [16], [18], [8].

Stock Selection: Investors need to choose stocks that have good prospects to improve portfolio performance. Stock selection can be done by conducting fundamental analysis and technical analysis.

Asset Allocation: Investors need to allocate their assets appropriately to reduce risk. Asset allocation can be done by considering the investor's risk profile and investment objectives.

When to Buy and Sell Stocks: Investors need to determine the right time to buy and sell stocks. The timing of buying and selling shares can be affected by market conditions and the company's performance projections.

IMPLICATIONS

The study has several important implications for investors and policymakers.

a. Implications for Investors

1. The Importance of Diversification: Investors need to diversify their investment portfolios to reduce risk. Diversification can be done by investing in different types of assets, such as stocks, bonds, and property.
2. Importance of Fundamental Analysis: Investors need to do fundamental analysis before buying stocks. Fundamental analysis can help investors to find out the intrinsic

value of a stock and make more informed investment decisions.

3. The Importance of Risk Management: Investors need to implement good risk management to protect their portfolios from losses. Risk management can be done by setting stop-loss orders and hedging.

b. Recommendations for Policymakers

1. Strengthening Macroeconomic Stability: Policymakers need to strengthen macroeconomic stability to create a conducive climate for investment. This can be done by keeping inflation, interest rates, and exchange rates stable.
2. Creating Policies that Support the Capital Market: Policymakers need to create policies that support the development of the capital market. This can be done by providing incentives for investors and companies listed on the capital market.
3. Improving Financial Education: Policymakers need to increase financial education for the public. This can be done by holding seminars, workshops, and other educational programs.

By implementing the implications and recommendations above, it is hoped that the performance of the stock investment portfolio in Indonesia will be improved.

4. CONCLUSIONS

The performance of stock investment portfolios in Indonesia is influenced by various factors, both internal and external. Internal factors that affect the performance of a stock investment portfolio include stock selection, asset allocation, and the timing of buying and selling shares. External factors that affect the performance of a stock investment portfolio include macroeconomic conditions, government policies, and political and social events.

Investors need to consider all of these factors carefully before making any investment decisions. Investors also need to diversify their investment portfolios to reduce risk.

This research still has some limitations. Further research can be carried out using more comprehensive research methods, such as quantitative research with regression analysis. In addition, further research can focus on certain factors that have a significant impact on the performance of stock investment portfolios in Indonesia.

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