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THE SMART INVESTOR: USING BENJAMIN GRAHAM SELECTION CRITERIA ON STOCK RETURN

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Abstract

Value investing strategies date back to the studies of Benjamin Graham and David Dodd (1934), premised on the idea of investing in undervalued but profitable shares. In this Article, The purpose of this study will be to measure the effect of Dividend Yield on Stock Return using the stock that was selected by Graham Criteria. This research is quantitative research, The stocks are From Wirawan's Article which was selected 14 Valuable Stock from 2012-2020 using graham Criteria which will be analyzed by Regression. The result shows that Dividen Yield has a regression coefficient of 2.935 , a calculated t value of ,1,782 with a significant value of 0,012 which is greather than 0.05. That's mean Deviden Yield has significant effect on stock return using Graham Criteria. The selection criteria forthe Benjamin Graham method show that the more criteria that are met by a firm's shares, the more shares can be used as a recommendation to make a purchase. This paper has several limitations. The limitations of this study include the scope of research data. The research data used in this paper covers the companies included in the consumer goods sectoral index. Future studies are expected to develop different research objects so that they are expected to provide a broader description of the implementation of this strategy.

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1. Introduction

Indonesia's gross domestic product growth in the consumer goods sector is engaged in the movement of a sectoral index, especially the Consumer Goods sectoral index. In recent years, the consumer goods sectoral indexes decreased an average of - 9.20% (Indonesia Stock Exchange, 2022). Increases and decreases in sectoral indices cause share price fluctuations. Shares price fluctuations that occur in the shares market have an impact on irrational actions for investors. Shares price fluctuations are contrary to investment theory which states that investors and management have information related to the firm's future prospects. This makes the information symmetrical. However the information in the market tends to be asymmetrical making investors rely more on the information provided by the firms (Rakim, 2018). Prices can affect the psychology of investing; the information circulating in the market can quickly affect share prices. The trend that investors often do in the market is to buy sharess when the index is low and sell sharess when the index is high, but the conditions for these movements cannot be predicted with certainty. Husnan (2015) suggests that in the market there is also a mispriced shares condition (the shares price is wrong, too high or too low). Assessment of the feasibility of investing in shares is necessary in the face of fluctuations in movement to reduce the risk of investing. Wira (2014) explains that there are two analytical techniques commonly used to determine whether a shares is worth buying at a certain time or not, namely fundamental analysis and technical analysis.

Value investing strategies date back to the studies of Benjamin Graham and David Dodd (1934), premised on the idea of investing into undervalued but profitable shares. They proposed a clear definition of investment that is distinguished from what they deemed as speculation; "An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative". Klarman (1991) describes value investing as the investment strategy with a priority to deploy capital into undervalued stocks and to retain them until they reach intrinsic value, and the key point of the strategy is to invest into bargain and overlooked shares.

Applying the stock analysis method to the concept of value investing assists in determining a stock's real value at the time of purchase of the stock whose current share price is below its genuine value or worth. The theory is applicable to various markets and periods, though the market realization remains highly controversial. Contrary to the basic notion of Efficient Market Theory which posits that the price of a share reflects all the available information about the intrinsic value of the share; it can be proven that a premium margin exists between the trading value and the intrinsic value. The focus of behavioural finance studies weighs heavily on the application of theories to reveal this disparity. (Saydar, 2021).

Graham and Dodd (1934) invest is like manage a company following principles of the business economy. This strategy involves a concept of "margin safety", the differences of the investment amount, and the intrinsic value of a stock (Graham, as cited in Battisti et al., 2019). To ensure enough margin safety of investing, investing value stocks – stocks with the low price to book value ratio, price to earnings ratios, price to cash flow ratio, or the high dividend to price ratio, are the choices of high returns rather than those "glamour stocks".

Announcement of dividend distribution by a company, is a signal to shareholders. Basically between the manager and the holder Stocks have different information, where Managers are more fully informed rather than shareholders. Shareholders will intervening in the increase in dividend payments by the company, as a signal that the party Management has high cash flow prediction in the future (Black, 1976). Instead in dividend payments is interstated in anticipation of managers to limited flows cash in the future. Lintner (1956) expressed the view that the company increases dividend payments only when the manager Convinced that high dividend payments it can be maintained in the future that will come. This research was continued by Fama & Babiak (1968) shows support for model developed by Lintner. Bhattacharya (1979) and Miller & Rock (1985) predicted that the announcement of dividend payments contains information about cash flow conditions that is in the company both for the present and the is coming (Allen and Michaely, 2002).

This research is a continuation of Wirawan (2012's) research, while this study only focuses on the use of Graham criteria in determining stock return which is still very limited The author who wrote and implemented Graham criteria to determine profitable stocks.

2. Theoritical Review

2.1. Signaling Theory

Signaling theory assumes investors and managers have information related to the firm's prospects, which makes the information symmetrical. However the information in the market tends to be asymmetrical making investors rely more on the information provided by the firms (Rakim, 2018). Signaling theory arises when a firm gives a signal to investors by disclosing information causing fluctuations in share price changes, thus indicating to investors that the firm has promising prospects in the future or signaling a bad signal for the information provided.

2.2. Intrinsic Value

Signaling theory is a theory that assumes investors and managers have information related to the firm's prospects, this makes the information symmetrical, but in fact, the information in the market tends to be asymmetrical making investors rely more on the information provided by the firms (Rakim, 2018). Signalling theory arises when a firms gives a signal to investors in the form of information disclosure, causing fluctuations in share price changes, thus indicating to investors that the firm has promising prospects in the future or signaling a bad signal for the information. Assessment of intrinsic value has several methods (TICMI, 2020), including an earning-based approach, relative valuation models, and assets-based models. Damodaran (2012) explain nine criteria of graham :

1. PE of the stock has to be less than the inverse of the yield on AAA Corporate Bonds:
2. PE of the stock has to less than 40% of the average PE over the last 5 years.
3. Dividend Yield > Two-thirds of the AAA Corporate Bond Yield
4. Price < Two-thirds of Book Value
5. Price < Two-thirds of Net Current Assets
6. Debt-Equity Ratio (Book Value) has to be less than one.
7. Current Assets > Twice Current Liabilities
8. Debt < Twice Net Current Assets
9. Historical Growth in EPS (over last 10 years) > 7%
10. No more than two years of negative earnings over the previous ten years.

2.3. Dividend Yield on Stock Return

There are conflicting opinions in finance regarding the relationship between dividend yields and stock returns. Although Gordon and Shapiro’s (1956) well-known “Gordon Growth Model” and Campbell and Shiller’s (1988) dividend-ratio models suggest that dividend yield is predictive of stock returns, empirical studies have found a variety of relationships between dividend yields and stock returns. In an aggregated level, Fama and French (1988), Hodrick (1992), Kothari and Shanken (1997), Naranjo et al. (1998), Lewellen (2004), Campbell and Yogo (2006), Chiquoine and Hjalmarsson (2009), Ferreira and SantaClara (2011) and Golez (2014) indicate that dividend yields have a strong positive relationship with expected returns on the market. On the other hand, Goetzmann and Jorion (1993), Wolf (2000), Lanne (2002) and Welch and Goyal (2008) find no significant evidence indicating that dividend yields can forecast stock market returns.In the research conducted by Dwinda (2021) Dividends per Share have no effect to the Share Price. Other Reseach by Dewi (2021) The data analysis technique used moderate regression analysis. The results showed that the DPR did not have a significant effect on stock returns while ROE had a positive and significant effect on stock returns. The results also show that inflation does not moderate the respective effects of DPR and ROE on stock returns.

3. Methodology

This research is a quantitative research, The stock are From Wirawan's Article which was selected 14 Valuable Stock from 2012-2020 using graham Criteria which will analyze by Regression. this article selects the financial data, stock data, and second-hand Internet data of 14 valuable stock from 2012 to 2020, which come from the IDX annual report . Ratio analysis and trend analysis are used for deskriptive analysis. The ratio analysis method is to get some static data from the balance sheet and income statement and then calculate the ratio to directly reflect the financial ability of the enterprise. Thus, financial analysis provides information concerning a fir m's operating performance and financial condition.

From Wirawan (2021) There are 14 valiable Stock from 2012-2020 that passed with Benjamin Graham selection criteria. In this research, stocks are equally weighted in forming portfolio. The data collection process is carried out through the Library Bisnis Indonesia JSX Watch and IDX Watch, Indonesia Stock Exchange Website, internet media and related literature. Thus, the effect of earnings per share (EPS) can be analyzed, stock returns on the Jakarta Composite Index (JCI) on the Indonesia Stock Exchange.

4. Discussion and Conclusion

From the Graham's stock criteria, there are 14 corporate that's selected :

Code	Corporate	Deviden Yield	Stock Return
ANTM	Aneka Tambang Tbk	1,88%	1,304
ARNA	Arwana Citra Putra Tbk	4,39%	0,560
ASRM	Asuransi Ramayana Tbk	3,37%	0,087
BBNI	Bank Negara Indonesia Tbk	1,50%	0,213
CTBN	Citra Tubundo Tbk	1,21%	0,022
GDYRN	PT. Goodyear Indonesia Tbk	0,91%	0,290
INCO	PT. Vale Indonesia	0,88%	0,401
GMTD	PT. Gowa Makassar Tourism Development	0,11%	0,122
LION	Lion Metal Works Tbk	0,23%	0,261
LMSH	PT. Lionmesh Prima Tbk	1,15%	0,118
LTLS	PT. Lautan Luas Tbk	6,76%	0,197
PANS	Panin Securitas Tbk	7,67%	0,098
SCCO	Supreme Cable Manufacturing	2,34%	0,144
TINS	Timah Tbk	4,92%	0,800

By using the Pooled Least Square Common effect method after going through the selection of the model using the Regression, then the regression equation obtained from the model :
SR = 0,896 + 0,543 DY

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.896	.792		1.131	.279
	DY	.543	.185	.631	2.935	.012

a. Dependent Variable: SR

Dividen Yield has a regression coefficient of 2.935 , a calculated t value of ,1,782 with a significant value of 0,012 which is greather than 0.05. This means Dividen Yield has effect on the stock return, it's confirm ther theori of Fama andFrench (1988), Hodrick (1992), Kothari and Shanken (1997), Naranjo et al. (1998), Lewellen (2004), Campbell and Yogo (2006), Chiquoine and Hjalmarsson (2009), Ferreira and SantaClara (2011) and Golez (2014) indicate that dividend yields have a strong positive relationship with expected returns on the market.

Benjamin Graham Formula is an investment strategy that compares the fair value of the shares with the shares price to help investors make investment decisions. The selection criteria for the Benjamin Graham method show that the more criteria that are met by a firm's shares, the more shares can be used as a recommendation to make a purchase. Divident yield is one of ten criteria that used by Graham. Aras & Yilmaz (2008) have an opinion that the dividend yield ratio can provide clues to investors regarding the condition of the company's stock price in the market. In Indonesia, DY has not been able to help investors understand the condition of a company's stock price in the market.

This paper has several limitations. The limitations of this study include the scope of research data. The research data used in this paper covers the companies included in the consumer goods sectoral index. Future studies are expected to develop different research objects so that they are expected to provide a broader description of the implementation of this strategy.

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