The Effect of Inflation And Debt To Equity Ratio (Der) On Sharia Return Stock Registered in Jakarta Islamic Index

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Abstract. This research aims to analyze the influence of Inflation and Company Fundamental Ratio that will be represented by Debt To Equity Ratio (DER) to return Sharia shares. Data are obtained from IDX Monthly Statistic and official website of Bank Indonesia period of January 2015-December 2017. The technique of statistical analysis used is multiple linear regression analysis to obtain a comprehensive illustration of the relationship between r variables. The result shows that the Inflation and Debt to Equity Ratio (DER) variables do not have an effect on Sharia stock return either partially or simultaneously. The calculation results show that the effect of DER on stock return is -0.335 and Inflation influence to return of 0.137 and simultaneous influence of 0.1% so that 99% of stock return is influenced by other factors. These results indicate that Inflation and Debt to Equity Ratio (DER) cannot be used as a reference in determining investors' investment strategies in investing in the capital market.

Keyword: Inflation, Debt To Equity Ratio (DER), Sharia Return Stock.

Introduction

Stock is one of the investment instruments that until now still become a magnet for investors to invest. Investors are hoping that every share bought can generate returns. Return is the result obtained from the investment (Jogiyanto, 2003). The expected investment from Sharia stock is the type of long-term investment that has a good return, halal, resilient, and continuity.

In Islam, business and investment activities are highly recommended, of course, by investing in accordance with the principles of sharia; business ethics must remain based on the norms and morality prevailing in the Islamic economic system that comes from the Qur'an and as-Sunnah (Hidayat, 2011). Islam does not prohibit individual ownership, but a concentrated income in the hands of a few must be avoided as mentioned in the Qur'an:

كَيۡ لَا يَكُونَ دُولَةَۢ بَيۡنَ ٱلۡأَغۡنِيَآءِ مِنكُمۡ.....

"....That (wealth) does not accumulate in the hands of those among you ... "Q.S al-Hasyr: 50

Changes in the macro climate greatly affect investors to invest in Indonesian capital market. There are three sets of factors that are grouped into the macroeconomy as an indication of aggregate economic activity (GNP, Exchange rate, and aggregate Sales), inflation rate, and interest rate (Sharpe, Alexander, & Bailey, 1995).

The current stock price tends to be influenced by the psychological pressure of the buyer or the seller of the stock itself, causing many speculators to buy stocks by the "chance" method. It could be that investors who apply the method of getting profit as much as possible can also experience big losses. To prevent that, this research is conducted to examine factors that affect the return of sharia stocks, especially sharia shares listed in the Jakarta Islamic Index (JII) as reference material for investors in creating an investment strategy.

This study will further examine the effect of other Sharia stock returns by using Inflation Influence, and test the effect of financial leverage as measured by Debt to Equity Ratio (DER) of Sharia hares in Consumer Goods Industry Company listed in Jakarta Islamic Index (JII).

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There are several studies attempt to test the influence of stock index and stock returns associated with macroeconomic variables and corporate fundamentals both regionally and globally. The research conducted by (Ibrahim & Yusoff, 2001), (Majid & Yusof, 2009), (Beik & Wardhana, 2011), (Syukma, 2011), (Savasa, 2010), (Hamzah, 2004), (Beik & Fatmawati, 2014) are studies that examine the effect of stock price index and stock return on macroeconomic and fundamental variables.

In these studies, the macroeconomic variables used were the Industrial Production Index (IPI) which proved to have a positive relationship with stock prices (Hamzah, 2004). This is in accordance with the research of (Syukma, 2011) and (Savasa, 2010). The conclusion of their research is that IPI will affect stock prices that have an impact on corporate profits.

Furthermore, the relationship between the amount of money in circulation and the stock price can have a positive or negative effect. (Majid & Yusof, 2009) and (Hamzah, 2004) conclude that when there is an increase in the amount of money in circulation, interest rates will decrease. Then at that time, investors will invest funds in the capital market. It means when there is an increase in investment in the capital market, then the demand for shares will increase as well as stock prices. However, according to (Ibrahim & Yusoff, 2001) and (Syukma, 2011), the relationship between the two variables is negative or opposite from previous research. This happens because when the rupiah exchange rate decreases, investors will divert their funds abroad resulting in the capital outflow. The flow of funds abroad led to a decrease in domestic investment. This will affect the decline of investment in the domestic market stocks so that stock prices will also decline.

In the context of interstate capital markets, studies conducted by (Beik & Wardhana, 2011) show there is no long-term relationship between Indonesia's capital market with Malaysia and the United States. The Jakarta Islamic Index is the most stable one compared to stock indices in Malaysia and the United States. For the capital market, it is useful as promotional material for investors in investing funds in the Indonesia capital market.

The difference between previous studies and this research is that this study will test the effect of Inflation as a macroeconomic factor and Debt To Equity Ratio as a fundamental factor of the company to the Return of Sharia Shares in the Jakarta Islamic Index.

The stock price of a company is determined by the PBV or the book value of the shares (Halim, 2015). Investors are required to see the value of the share book in buying or reselling stock and comparing it with the offered stock price (Halim, 2015). The book value per share of common stock is the value of net economic wealth divided by the number of ordinary sheets outstanding. Meanwhile, the market price is the price formed in the stock sale and purchase market. Then the intrinsic value is the value of the stock that should occur (Halim, 2015).

Generally, the stock price is influenced by the bookkeeping value of a company. The information obtained from the bookkeeping will affect the stock price of the company. However, many open companies that have been listed in the Indonesia Stock Exchange (BEI) provide little information about their bookkeeping. As a result, stock prices tend to be influenced by the psychological pressure of buyers or sellers (speculators). To prevent this, this study is conducted to analyze factors that are considered to affect the stock return.

Return of stock is the result obtained from investment activity. Return is divided into two: first, the return which have occurred is calculated based on historical data: second, the return expected to be obtained by investor in the future (Halim, 2015).

Not only the internal factor, the external factor such as macroeconomic can also affect the return of Sharia shares. (Fama, 1981) mentions that macroeconomic factor movements can be used to predict stock movements. Many researchers believe that several macroeconomic variables such as inflation rate, growth rate, and inflation towards US dollar have an impact on Sharia stock returns. Inflation is a process of increasing prices of goods in general. A high inflation rate will drive up raw material prices and increase operating costs which cause the increase of selling price.

Debt to Equity Ratio (DER) is the ratio of total debt to total shareholder equity owned by the company. Total debt here represents total short-term and total long-term debt. While shareholder equity is the total capital itself (total paid-up capital and retained earnings) owned by the company (Ang, 1997). It is

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interesting to investigate further about the effect of Debt to Equity Ratio (DER) on Sharia share return, and how Inflation and Debt to Equity Ratio (DER) influence simultaneously affect the return of Sharia shares listed in Jakarta Islamic Index (JII).

Based on the above framework, a hypothesis can be determined by developing a frame of thought which presents in figure 1.

Based on the model in the figure 1, it can be explained that: (1) Inflation as an independent variable of macroeconomic factor will be tested its influence to Sharia stock return variable of finance sector; (2) Debt to equity ratio variable as a risk test of company will be tested its effect to Sharia stock return variable of financial sector; (3) variable of inflation and debt to equity ratio of finance will be tested their influences either partially or jointly towards the return of Sharia stock of company in consumer goods industry registered in Jakarta Islamic Index.

Those factors are the assumption that predict and influence the return of Sharia stock. This assumption based on the recent research where the factors are very large and the model is quite complex. In this article, the author tries to simplify Beik and Wardhana's model (Beik & Wardhana, 2011).

Research Methodology

The data used in this research is secondary data, that is time series and cross section data for stock return variable as well as data about company's financial performance registered in JII with samples in the form of Inflation data and Debt To Equity Ratio (DER) during the period of 2014- 2016. Data were obtained from Indonesia Stock Exchange (IDX) Monthly Statistic and annual report on consumer goods industry company listed in Jakarta Islamic Index (JII). The period of data taken was per month from January 2014 - December 2016. Since the data used is a combination of time series and cross section data, the researcher uses data panel regression method with the classical assumption test first for data measurement along with analysis software e-views version 8.

Generally, there are three criterion of model election in panel data regression: Model of Pool Least Square (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM). Chow test is used to select the best model between PLS and FEM, while Hausman test is used to select the best model between FEM and REM model, and LM test is used to select PLS and REM model. This is what distinguishes regression model test panels from others. By using panel data testing, one can choose the best equation model to be analyzed in the research. Stages of analysis performed are as follows:

Classical Assumption Testing

The analytical tool used is multiple linear regression analysis; research data used is secondary data. To meet the requirements specified, the use of multiple linear regression model needs to be tested by some classical assumptions, which are normality test, multicorrelation, heteroscedasticity, and autocorrelation that will described below.

Normality Test

Normality test aims to test whether in the residual data contained in the regression model has a normal distribution or not in order to make a nice regression. The test will be

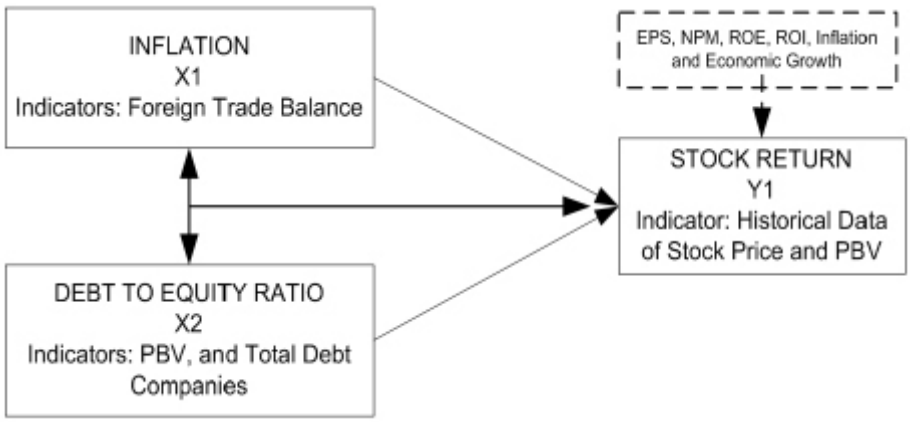

Figure 1
Research Thinking Framework

viewed from the distribution of data on the diagonal axis or graph. If the data spread is following the diagonal line direction, then the regression model meets the assumption of normal distribution (Ghozali, 2005).

Multicollinearity Test

This test aims to test whether there is a correlation between independent variables in the regression model. In the regression model, there should be no correlation between independent variables. To test the presence or absence of Multicollinearity in regression model, it can be seen from tolerance value or variance inflation factor (VIF) (Ghozali, 2005). Multicollinearity presence or absence in the regeneration model can be detected from: (1) The value of R^2 is very high, but individually, because many independent variables do not significantly affect the dependent variable; (2) Analyze the correlation matrix between independent variables. If there is a correlation between high independent variables (more than 0.9), this is an indication of Multicollinearity; (3) Judging from the VIF and tolerance values of cutoff Tolerance less than 0.10 and VIF more than 10 (meaning there is Multicollinearity) (Ghozali, 2005).

Autocorrelation Test

This test aims to determine whether there is a correlation between errors in period t and error period t-1 (previous period) in linear regression model. If there is a correlation, then it called the problem of autocorrelation. Autocorrelation can be detected through tested statistics by Durbin-Watson test (DW Test) (Ghozali, 2005), which means: (1) If the DW value is between the upper bound (du) and (4-du), then the autocorrelation coefficient equal to 0, meaning there is no autocorrelation, (2) If the DW value is lower than the lower bound (dl), then the autocorrelation coefficient more than 0, meaning there is a positive autocorrelation, (3) If the DW value is greater than (4-dl), then the autocorrelation coefficient less than 0, meaning there is a negative autocorrelation, (4) If the DW value lies between du and dl or DW lies between (4-du) and (4-dl), then the result cannot be inferred (Ghozali, 2005).

Heteroscedasticity Test

This test aims to test whether in linear regression model there is a correlation of variance inequality of one observation residual to another observation. Linear regression model is required to avoid heteroscedasticity. The presence of heteroscedasticity can be detected by using Glesjer test (Damodar, 2004): (1) If the beta parameter coefficients of the regression equation are statistically significant, then empirical data are estimated to be heteroscedasticity; (2) If the probability of a test score is not statistically significant, then the empirical data estimated there is no heteroscedasticity.

F Test

F test is used to test the significance of DER and Inflation influence on stock return simultaneously. The steps taken are (Damodar, 2004): (1) Formulating hypotheses (Ha). Ha accepted means there is a significant influence between independent variables on the dependent variable simultaneously, (2) Determine the level of significance that is equal to 0.05 (α = 0.05), (3) Compare F counts with F Tables. The value of F count can be searched with the following formula:

$$F_{test} = \frac{\frac{R^2}{(k-1)}}{\frac{1-R^2}{(N-k)}}$$

Description:

R^2 : Coefficient of determination
K : Number of regression coefficients
N : Number of observations

If F counts less than F Table, independent variables simultaneously have no effect on the dependent variable. PV result less than PV Researcher (α = 0.05), then Ho is rejected and Ha is accepted. If F count more than F table, independent variables simultaneously affect the dependent variable with PV Results more than PV Researcher (α = 0.05), then Ho is rejected and Ha is denied.

Coefficient of Determination Analysis

The coefficient of determination (R^2) is used to measure to what extent the ability of the linear regression model in explaining the dependent variable. The coefficient of determination can be searched by the formula of (Gujarati, 2011):

$$R^2 = \frac{ESS}{TSS} = 1 - \frac{\sum ei^2}{\sum Yi^2}$$

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The coefficient of determination described as probability. The small value of R2 means the ability of independent variables to explain the variation of the dependent variable is very limited. A value close to 1 means the independent variables provide almost all the information needed to predict the variation of the dependent variable.

Hypothesis Test (t test)

The T-test is a partial test of significance intended to see how far the influence of an independent variable individually in explaining the variation of the dependent variable. The test steps are as follows (Damodar, 2004): (1) Formulating hypotheses (Ha). Ha accepted means there is a significant influence of independent variables to the dependent variable partially, (2) Determining the level of significance (α = 0.05), (3) Compare t_test with t table, if t count more than t table then Ha is accepted. The calculated value is obtained using the following formula:

$$t_{test} = \frac{Regression\ Coefficient}{Standard\ Deviation}$$

If t count less than t table, then the independent variable individually does not affect the dependent variables. If t count more than t table, then independent variable individually influences on dependent variable.

Sample of Research

The population in this research is 30 companies listed in the List of Sharia Securities (DES) in 2015-2017. Sampling technique used is probabilistic sampling method, which t takes into account the opportunity aspect in the selection of sample members. Each member has the same opportunity to become a sample. The purpose of using this method is for samples to be obtained in accordance with the desired criteria as obtained representative data. Below is a data of the company that became the object of this research:

Based on Table 1 explained that this research uses regression test data panel with e-views. The initial stage of this data analysis is to make the model of PLS, FEM, and REM with the test result of three models as follows:

Pool Least Square (PLS) Analysis Model

Based on table 2, PLS model described that Debt to Equity Ratio and Inflation are not influenced significantly to return of sharia stock in JII because the result of probability

Table 1
Return Value of Stock for Several Companies

No	Company	Year	Stock Of Return	Independent Variable	
				DER	Inflation
1	AALI	2015	-3	0.57	6.42
	AALI	2016	-34	0.84	6.38
	AALI	2017	5	0.38	3.35
2	ADRO	2015	-4	0.97	6.42
	ADRO	2016	-50	0.78	6.38
	ADRO	2017	229	0.72	3.35
3	AKRA	2015	-5	1.48	6.42
	AKRA	2016	74	1.09	6.38
	AKRA	2017	-16	0.96	3.35
4	ASII	2015	9	0.96	6.42
	ASII	2016	-19	0.94	6.38
	ASII	2017	37	0.93	3.35
5	BSDE	2015	39	0.52	6.42
	BSDE	2016	-0.2	0.63	6.38
	BSDE	2017	-2.5	0.59	3.35

6	ICBP	2015	28	0.66	6.42
	ICBP	2016	2	0.62	6.38
	ICBP	2017	-36	0.58	3.35
7	INDF	2015	2	1.08	6.42
	INDF	2016	-23	1.13	6.38
	INDF	2017	53	1.06	3.35
8	INTP	2015	25	0.17	6.42
	INTP	2016	-11	0.16	6.38
	INTP	2017	-31	0.13	3.35
9	KLBF	2015	46	0.27	6.42
	KLBF	2016	-27	0.25	6.38
	KLBF	2017	14	0.24	3.35
10	LPKR	2015	12	1.14	6.42
	LPKR	2016	1.4	1.18	6.38
	LPKR	2017	-30	1.07	3.35
11	LSIP	2015	-2	0.2	6.42
	LSIP	2016	-30	0.21	6.38
	LSIP	2017	31	0.24	3.35
12	PGAS	2015	34	1.1	6.42
	PGAS	2016	-54	1.15	6.38
	PGAS	2017	-1	1.16	3.35
13	PTBA	2015	22	0.71	6.42
	PTBA	2016	-64	0.82	6.38
	PTBA	2017	176	0.8	3.35
14	SMGR	2015	14	0.37	6.42
	SMGR	2016	-29	0.39	6.38
	SMGR	2017	-19	0.45	3.35
15	TLKM	2015	33	0.64	6.42
	TLKM	2016	8	0.78	6.38
	TLKM	2017	28	0.7	3.35
16	UNTR	2015	-8	0.56	6.42
	UNTR	2016	-2	0.57	6.38
	UNTR	2017	25	0.5	3.35
17	UNVR	2015	24	2.11	6.42
	UNVR	2016	14	2.26	6.38
	UNVR	2017	4	2.56	3.35

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Table 2
Testing of PLS Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	53.43877	27.73612	1.926685	0.0600
DER	3.963864	13.32150	0.297554	0.7673
INFLASI	-8.729696	4.662940	-1.872144	0.0673
R-squared	0.069071	Mean dependent var		9.582353
Adjusted R-squared	0.030282	S.D. dependent var		48.59822
S.E. of regression	47.85673	Akaike info criterion		10.63132
Sum squared residual	109932.8	Schwarz criterion		10.74496
Log likelihood	-268.0987	Hannan-Quinn criter.		10.67475
F-statistic	1.780697	Durbin-Watson stat		2.521841
Prob(F-statistic)	0.179473			

Table 3
Testing of FEM Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	115.0771	66.16686	1.739195	0.0916
DER	-80.31850	81.44450	-0.986175	0.3314
INFLASI	-7.783535	5.251584	-1.482131	0.1481
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.235873	Mean dependent var		9.582353
Adjusted R-squared	-0.193949	S.D. dependent var		48.59822
S.E. of regression	53.10229	Akaike info criterion		11.06133
Sum squared residual	90235.31	Schwarz criterion		11.78103
Log likelihood	-263.0638	Hannan-Quinn criter.		11.33634
F-statistic	0.548768	Durbin-Watson stat		2.541006
Prob(F-statistic)	0.909707			

of DER and inflation are more than can be determined by Alpha.

Fixed Effect Model Analysis

Based on table 3, the model FEM described that Debt to Equity Ratio and Inflation are not influenced significantly to return of sharia stock in JII because the result of probability of DER and inflation are more than can be determined by Alpha.

Random Effect Model Analysis

Based on table 4 obtained that, The third result of the model test is that all models

Table 4
Testing of REM Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	53.43877	30.77627	1.736363	0.0889
DER	3.963864	14.78166	0.268161	0.7897
INFLASI	-8.729696	5.174043	-1.687210	0.0981
	Effects Specification			
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			53.10229	1.0000
	Weighted Statistics			
R-squared	0.069071		Mean dependent var	9.582353
Adjusted R-squared	0.030282		S.D. dependent var	48.59822
S.E. of regression	47.85673		Sum squared resid	109932.8
F-statistic	1.780697		Durbin-Watson stat	2.521841
Prob (F-statistic)	0.179473			
	Unweighted Statistics			
R-squared	0.069071		Mean dependent var	9.582353
Sum squared residual	109932.8		Durbin-Watson stat	2.521841

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Table 5
The Results of Chow Test

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.436581	(16,32)	0.9593
Cross-section Chi-square	10.069875	16	0.8630

Table 6
The Result of Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	2	1.0000

will be tested by Chow test and Hausman test to find out the best model in analyzing panel data regression estimation. Below are the results of Chow Test and Hausman Tes:

Based on table 5 obtained that, The results of Chow test and Hausman test show that prob. is insignificant or significant means the best test of the three models selected is model Random Effect Model (REM). By choosing REM model, it can be known that the equation of regression of panel data of this research is :

$$\hat{Y} = 53{,}43877 + 3.963864\,X_1 - 8.729696\,X_2$$

The result of analysis of e-views test show that statistic for DER equal to (0,27) which less than t Table (1,7) with H0 is accepted meaning no significance between DER and Return of Sharia Shares in JII. While t statistic of Inflation equal to -1,68; in the critical area t test H0 accepted means there is no significance between the Inflation and Return Sharia Stock. Prob (F Statistics) of 0.179473 more than α = 5% means that the two independent variables do not affect simultaneously equally to the return of Shariah stock. R2 of 0.069071 means independent variable is capable to explain its influence as much as 6.9% so that 93.1% is explained by other factors outside the model.

According to the model, it can be interpreted that Debt to equity Ratio and inflation are not influenced significantly to return of Sharia stock. That is why those factors can be ignored by the investors in

order to get the expected return.

Results And Discussion

The results of this research are obtained from sample data of 17 companies listed in the Jakarta Islamic Index (JII) collected during 3 years of observation from 2015-2017. The inflation rate has an average value of 5.89% during the observation with minimum level of 3.35% and maximum level of 6.42%. Based on the results of panel data regression, it is recognized that the significance of the influence of inflation and the Debt To Equity Ratio (DER) is only at 6.9%, which means that inflation and Debt To Equity Ratio (DER) do not significantly affect Sharia Stock Returns in Indonesia.

The results above are similar to the research conducted by (Kewal, 2012) and (Mok, 1993) who find that inflation does not significantly influence stock returns. Our results differ from the research conducted by (Hooker, 2004) who found that the inflation rate significantly affected the stock portfolio studied. It is due to different conditions in the observation period of inflation in Indonesia, where in the years of observation of 2007-2010 the inflation rate was strongly influenced by world oil prices which triggered an increase in goods' prices in Indonesia. This also triggered the heat of domestic political conditions, especially in many communities. The community and students went to the streets to protest the government and made the investors afraid to invest their money in Indonesia.

However, in the 2015-2017 observation period, there was stability in the world oil prices and the government could prevent public sentiment, especially the things related to fuel prices so that the political situation can be calmed down even though inflation occurred. In the end, it did not significantly influence Sharia stock returns.

The Debt to Equity (DER) has no significant effect; basically, the high DER ratio shows the composition of total debt (short-term debt and long-term debt). The greater the DER will have an impact on the greater the company's burden on external parties so that companies with high DER are not too attractive for the investors (Sugiarto, 2011)

However, in this study, the DER results show no significance due to the DER of the sample companies observed having a small DER average of 0.79. It ocurreds because the companies studied have good and healthy fundamental ratios, so that investors have no doubt in investing their funds in s=Sharia share companies incorporated in the Jakarta Islamic Index (JII)

One of the highlights is the profile of the Jakarta Islamic Index (JII) itself where companies incorporated I are the best companies of Islamic stocks listed in Indonesia Stock Exchange (IDX) based on the criteria issued by the OJK (Financial Services Authority). This psychological condition provides a sense of security and comfort for investors to invest in companies listed in the Jakarta Islamic Index (JII) so that this causes both factors, inflation and DER not significantly affect the level of Sharia stock return inJII.

Conclusion

Result of the calculation shows that influence of independent variable to the dependent variable is only equal to 1,78%. This shows that the influence of Inflation and Debt To Equity Ratio (DER) has an effect on the return of Sharia shares in the consumption material industry companies listed in Jakarta Islamic Index (JII) of 1.78%, while 98.3% are influenced by other factors which are not included in the regression models such as macro-state factors, market sentiment factors, as well as domestic political circumstances and other fundamental factors (Earning Per Share (EPS), Net Profit Margin (NPM), Price to Book Value (PBV), Return of Assets (ROA), and Return of Investment (ROI)). Viewing the very small influence of independent variables on dependent variable hence need the concern of researchers in making conclusions or generalize the results of this study.

Based on the results of the calculation through regression, it can be seen that the coefficient value of all research variables has no significant effect, either partially or simultaneously. These findings can be used as a reference for investors in determining investment strategy. Accordingly, the investors are able to recognize that Inflation and Debt To Equity Ratio (DER) does not significantly affect stock returns. They can consider other factors such as the companies'fundamental ratios, macroeconomic factors, and predictable political and market sentiment conditions which have significant influence on stock returns. The information obtained from this

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study is expected to get the investor's return in accordance with the risk facing faced, especially the problem of fluctuating inflation and the uncertainty of global economic conditions that cause inflation which is difficult to predict. If the global economic conditions are still not improving, they will have an impact on return of Sharia stock that are included in stock prices in the capital market.

Theoretically, this result found that inflation, which in theory can give influence to stock price of a company, did not affect the company's return of stock. For the future research, it is expected to examine other variables that affect the stock return which can be taken from the company's Fundamental Ratio and macroeconomic conditions such as inflation and economic growth.

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