ABSTRACT

This research is intended to applied Joel Greenblatt’s formula to constructed portfolio in Indonesian market whether or not the portfolio return higher than Indonesian market return. This research uses Indonesia stock market for period from 1998 - 2008. The samples are the stocks that having maximum number of transaction in the year and their financial statement can be found in BEJ. We use simple average and Markowitz to weight the stocks composition in the portfolio. The return is calculated using weekly holding period and yearly holding period.

Joel Greenblatt’s formula uses only two factors to rank stocks. The first factor identifies a good business as one that produces a high return on capital and the second factor identifies businesses selling at bargain prices by examining earnings yield. His formula is rank the return on capital, rank the earnings yield, and pick about 30 stocks that have best combination from these two factors.

The research result shows that portfolio return constructed using Joel Greenblatt’s formula with weekly holding period investment is not significantly beat Indonesian market return, either using simple average weighted or Markowitz weighted. But with yearly holding period and using confidence level 90%, few portfolio beats Indonesian market return, either using simple average weighted or Markowitz weighted.

Key words: Joel Greenblatt’s formula, return on capital (ROC), earnings yields, simple average weighted, Markowitz weighted, weekly holding period, yearly holding period, Indonesian market return.