Abstract

Objective  The main purpose of this empirical research is to identify whether integration analysis for stock returns has higher predictive power compared to technical analysis and fundamental analysis alone based on research conducted in Indonesia.

Method  To fulfil the objective, “blue chip” Indonesian companies are chosen. The research data period is 2007 – 2011 and taken quarterly. Technical analysis uses previous quarter return to predict current quarter returns. Fundamental analysis uses operating cash flow and price-to-book ratio. Integrated analysis combines these three variables to test the combined predictive power over current quarter stock returns. The results are compared using multiple regression analysis.

Result  Change in price-to-book ratio is significant and can help predict stock returns while previous quarter returns do not have predictive power of the next quarter returns, possibly due to the volatility in Indonesian market. Operating cash flow, while important, does not have predictive power over stock returns, possibly due to it not being an important factor in making investment decisions in Indonesia.

Conclusion  Potential investors should understand Price-to-Book ratio and use it in any analysis concerning stock returns. They should also be prudent not to make investment decisions based on historical stock returns. Operating cash flow-generating ability is not one of the indicators the market watches out for. Integrated analysis outperforms a purely technical analysis, but not a purely fundamental analysis.

Key words  Technical Fundamental Integrated Analysis Stock Return PB Momentum