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Currency Exchange Rate, Stock Return and Return on Equity in Indonesia

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Abstract: ***This research aims to 1. How Currency Exchange Rates, Stock Returns on the Indonesia Stock Exchange. 2. How to invest with Return on Equity on investment products in Indonesia. Research has been conducted and the results found that there is a negative influence between changes in the exchange rate of the rupiah to stock prices. There is a negative relationship between changes in exchange rates with stock prices, which later changes in stock prices will also affect stock returns. The exchange rate turned out to have a positive influence on the stock price. A stronger exchange rate will increase stock returns.***

Keywords: Currency Exchange Rate, Stock Return And Return On Equity

1. Introduction

The capital market has an important role for the issuer to obtain sources of funds while for the capital market investors is a place to invest funds. If the capital market runs efficiently, the capital market will provide *return of* the desired or expected the investors. All investors would expect to get *return* a high but are eager to minimize the risk obtained, even though the theory (Tandelilin) states that investments that have or have high returns will certainly have a high risk as well.

In this case investors must be observant in analyzing stocks. Looking at the shares of companies which offer returns and risks that are appropriate for investors, one example of the influence of investors being able to judge a good company is performance, the good company performance, the better the *returns* that will be given to shareholders.

Another factor that influences the price of stock returns or the stock market is the increase in the exchange rate of each country, my focus now is the rupiah exchange rate that has increased against the dollar, which causes companies to experience *foregin exchange exposure*.

Changes in currency rates that are unpredictable or unpredictable are the background of this study. Research conducted wants to find out how the effect of changes in currency exchange rates can affect *returns* stock. Because *returns* stockitself will make a company considered good or bad performance by investors who will invest in a company. In this research I also want to see what if the condition of *returns* stockin the event of a stronger rupiah against the dollar or if the dollar strengthens against the rupiah.

2. Research Objectives

This study aims to:
1) How Exchange Rates, Stock Returns on the Indonesia Stock Exchange
2) How to invest with Return on Equity in investment products in Indonesia.

No	Currency Exchange Rate	Returnshare	Analysis
	Exchange Haryanto in his book he argues that exposure to exchange rate fluctuations will have a major impact on corporate value. This is because changes in exchange rates will result in changes in company revenues and expenses so that it will affect the amount of the company's profit and loss. In addition to revenues and expenditures, changes in exchange rates will also change the amount of foreign debt, the size of which will affect the company's profit and loss. There are several studies that have been conducted, including finding that changes in exchange rates will have a positive effect on stock returns. With this strengthening of the exchange rate, the acceptance *return* company'swill also increase	**Stock Return** According Jogiyanto (2010: 205), stock returns are the value obtained as a result of investment activities. Expected return in the form of dividends for stock investments and interest income for investments in debt securities. Return is the main goal of investors to get the results of investments made by investors. With a high enough stock return, it will attract investors to buy the stock.	According to Yulianty Usman (2004), the return component consists of two types, namely current income (current income), and Capital Gain (price difference advantage). Current income is the benefit obtained through periodic payments such as deposit interest payments, bond interest, dividends and so on. Current income is referred to as current income, because the profits received are usually in the form of cash, so they can be cashed quickly, such as interest or demand deposits, and cash dividends, can also be in the form of cash equivalents such as bonuses or stock dividends, i.e. dividends paid in shares and can be converted intocash
		Return On Equity (ROE). According to*Sartono*, Understanding ROE is a ratio to measure a	**ROE (*Return On Equity)*** ROE is one of the considerations underlying

		company's ability to get available profits for shareholders. This ratio is influenced by the amount of company debt, which is if the amount of debt owned by all parties is large, this ratio will be large. In addition, ROE is used to determine the productivity of company funds used, According to Mardiyanto, the greater the value of ROE, the better the company's performance because the rate of return is also very large. The main purpose of ROE is to assess how much net income after tax with capital that is spent alone, then measure the productivity of all funds belonging to the company used in the production process. ROE is obtained by net income (*net income)* divided by equity. Or in other words Return on Equity = Net Income / Equity, in general this formula is used only for ordinary shareholders or commonly referred to *(Common Stakeholders).*	prospective stock investors or investors to contribute in a company. Return on Equity Ratio which is usually abbreviated as ROE is a profitability ratio that measures a company's ability to generate profits from shareholders' investment in the company. Therefore, this ROE can show how much profit a company can make from every one rupiah invested by shareholders. ROE is usually expressed as a percentage. ROE with a ratio of 100% means that every 1 rupiah of shareholders' equity can generate 1 rupiah of net profit. Return on Equity or ROE is an important measurement for potential investors because it can find out how efficiently a company will use the money they invest to generate net income. ROE can also be used as an indicator to assess the effectiveness of a company's management in using equity financing to fund operations and grow the company. The Return on Equity (ROE) ratio can be calculated or sought by dividing net income with shareholder equity. Or in other words ROE = net profit after tax / shareholder equity

3. Methodology

This research uses descriptive analysis.

4. Discussion

ROE (*Return On Equity)* is one of the considerations underlying prospective stock investors or investors to contribute to a company. Return on Equity Ratio which is usually abbreviated as ROE is a profitability ratio that measures a company's ability to generate profits from shareholders' investment in the company. Therefore, this ROE can show how much profit a company can make from every one rupiah invested by shareholders. ROE is usually expressed as a percentage.

In general, this Return on Equity or ROE is calculated for common shareholders. In this case, preferred dividends are not included in the calculation because this type of dividend is not available to ordinary shareholders. Preferred dividends are usually excluded from the calculation of Net Income.

No	*Value For Exchange Of Currency*	*Return Of Stock*	*Analysis*
	There are many things that affect the company's performance, both factors from within the company called internal factors where the company is still able to control these factors so as to solve problems that occur in internal company. The second is a factor from outside the company or commonly called an external factor. The existence of external factors is very difficult to control or even cannot be controlled by the company so the company must accept the impact of changes in external factors. One external factor that influences is the exchange rate. The exchange rate in question is the price of a currency owned by one country in the value of another country, for example Indonesia values one US dollar as much as Rp. 13,900.00 or Indonesia assesses the price of one Hong Kong dollar of Rp. 1,800.00 and so on. The price in question is related to the amount of money that must be spent and the value of the currency can remain the same number or change to become more expensive or cheaper depending on the amount of demand and supply for that currency. There are two points of view regarding the relationship of changes in stock prices with changes in exchange rates. Those who support the "portfolio-balance" model assume that there is a negative influence between the stock price and the exchange rate. This negative effect makes when the stock price rises, the exchange rate weakens. In addition to the stock price, the amount of wealth owned by the company is also able to influence the exchange rate through a number of requests for money. Assume the stock price high will attract demand for money with high interest rates as well, the higher the interest rate offered to investors interested to invest and demand for the currency to rise resulting in an appreciation of the domestic currency.	Return is the result obtained from investment while shares are proof of ownership in a company in the form of a Limited Liability Company (PT), so Stock Return is a payment received because of its ownership rights, plus the price change in the market price, divided by the initial price (Van Horne, J C and Walker, JM, 2005). Return (return) is the level of profit enjoyed by investors for an investment made. Without the benefits that can be enjoyed from an investment, certainly investors do not invest (Robert Ang, 1997). Thus, every investment both short term and long term has the main goal of getting a profit called return, either directly or indirectly. In investing, national investors will consider two things, namely expected return and the risks contained in alternative investments made.	Stock returns are positively proportional to risk, meaning that the greater the risk borne by shareholders, the greater the return (profit) as well, and vice versa. Based on the explanation above, it can be concluded that stock returns are profits obtained by shareholders because of investing their funds, these benefits can be in the form of dividends (yields) and profits from the difference in current stock prices with the period before (capital gains). Return or rate of return is the difference between the amount received and the amount invested (Brigham and Houston, 2006: 215).

5. Conclusion

1) Several studies have been conducted and the results found that there is a negative influence between changes in the exchange rate of the rupiah to stock prices. Research conducted by Kewal in 2009 found that when the rupiah exchange rate strengthened against the dollar, there was an increase in demand for the rupiah so that there was an increase in share prices which would in turn affect the stock returns. Javed, Benish and Shehla in 2012 also conducted research and found similar results to those found by Kewal that there was a negative relationship between changes in exchange rates with stock prices, which later changes in stock prices will also affect stock returns.
2) Abraham's research (2008) also reinforces previous studies that support changes in the rupiah exchange rate will have a negative effect on stock prices. Research conducted by Puah and Jayaraman (2007) refutes previous research, Puah found that the exchange rate had a positive effect on its stock price. A stronger exchange rate will increase stock returns.

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