

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

This research attempted to examine the existence of accrual anomaly in Indonesia Stock Exchange over period 2013-2015. The proxy to detect the accrual anomaly in this research is use cumulative abnormal return, which sorted, based on the high accrual firms and low accrual firms in the portfolio. The high accrual firm and low accrual firm portfolios are calculated using independent t-test for each year and cumulated three years of observation period (2013,2014,2015). The existence of accrual anomaly can be detected if there is the negative relation between accrual portfolio and abnormal return, which the low accrual firms are generated higher ACAR than do high accrual firms.

Hence, this research also included ACRR based accrual portfolio, to ensure that whether the accrual anomaly existence is also influence by the actual return not only the abnormal return. So, the research run the independent t-test of ACRR based accrual portfolio for each year and cumulated three years of observation period (2013,2014,2015) as robustness check.

Based on the analysis and the result of this research, it can be concluded that the existence of accrual anomaly is not detected during the three years observation (2013 – 2015) using the ACAR based accrual portfolio and ACRR based accrual portfolio in Indonesia Stock Exchange. It shows that the investors are not mispriced and given a proportional portion for accrual in predicting the future earnings.

The results of this research also support the findings of the previous study of accrual anomaly in Indonesia Stock Exchange but the result is in different observation of period. Aunilah and Ghofar (2014) unable to detect the existence of accrual anomaly in

Indonesia Stock Exchange during period 2002-2007 and Toha and Harahap (2012) cannot prove the existence of accrual anomaly in 2005 and 2006.

In addition, the result of this research is contrary with the result in U.S stock market where the accrual anomaly is detected consistent during thirty years (Lev & Nissim, 2005). This different result between Indonesia stock market and U.S stock market may cause by the different characteristics of both stock markets. Pincus et. al (2005) stated that the accrual anomaly is commonly detected in common law countries rather than code law countries. Shortly said that the accrual rate on common law countries (United States) higher than the code law countries (Indonesia).

As conclusion, the hypothesis testing of this research is not accepted. The existence of accrual anomaly is not detected and not proven significant during the observation period from 2013 – 2015 in Indonesia Stock Exchange. Thus, this research implied that the investors are not overpricing with stocks that have high accrual component and not underprice with stocks that have low accrual component, which investors cannot take advantage of accrual components to generate abnormal return. So that, the investment strategy proposed by Sloan (1996) to short (sell) high accrual stocks and long (buy) low accrual stocks are not suitable implemented by investors in Indonesia Stock Exchange. From the result above, the suitable investment strategy to be implemented for investors is to short (sell) low accruals stocks and long (buy) high accrual stocks in Indonesia Stock Exchange.

5.2. Research Limitations

Through the analysis and the findings of the research, there are several limitations in this research:

1. Observation period limitation, which this research only analyzes the three years observation.
2. The stock price is not adjusted to the corporate events because of the difficulty on identifying such events.
3. This research is not defining the accrual discretionary and non-discretionary, which have different characteristics.

5.3. Recommendations

Based on the analysis and the findings of this research, the researcher would like to give several recommendations. Hopefully that it can give advantage toward the improvement of investor's decision and future researcher.

1. For investor, this research recommends that having knowledge regarding the influence of accrual toward stock return in the future can help the investors to minimize the earning prediction error so that investors can make appropriate decision making. In addition, based on the result of this research, it's suggested for the investors to implement the investment strategy, which to short (sell) low accrual stocks and long (buy) high accrual stocks in Indonesia Stock Exchange and hope that the stock will gain higher return in the future.
2. For future research, the researcher recommends to use a longer observation period to prove the existence of the accrual anomaly. Hence, the corporate event also considered in choosing the stock price variables so that the abnormal return can be more accurate even more the research classified the accrual based on discretionary and non-discretionary. In addition, the future research not merely examines the existence of accrual anomaly but also analyze the trigger factor that lead to the anomaly.