

ABSTRACT

The purpose of this paper is to test whether or not single index model and constant correlation model of portfolio selection offer better investment alternatives to investors. Sample taken for this research are 22 companies part of LQ45 Index listed in Indonesia Stock Exchange. Weekly prices of 22 sampled stocks for the time period of February 2010 to January 2015 are taken into consideration for the purpose of computing the weekly risk and return of each security, while JSX is taken as the market index.

After obtaining the optimal portfolios, the performance of each portfolio is evaluated and analyzed in terms of both their risk and expected return. The risk adjusted methods, which are Sharpe, Treynor and Jensen indexes are used when measuring stock portfolio performance.

Using single index model, it is observed that only 6 stocks out of 22 sampled stocks are allowed to be included in the optimal portfolio. While the optimal portfolio constructed by using constant correlation model consists of 8 stocks. Finally, findings shows that the portfolio optimal constructed by using single index model shows better performance. All three indexes –Sharpe Treynor and Jensen– give the same ranking performance, so it can be concluded that portfolios constructed are well diversified.

Keywords: Optimal Portfolio, Single Index Model, Constant Correlation Model, LQ45