ABSTRACT

An investor must understand how to determine the risk that is relevant to an asset and the relationship between the risk and the rate of return they expect from the asset. To solve the problem, a balancing model required, in this research Capital Asset Pricing Model (CAPM) and Arbitrage Pricing Theory (APT) is used. The purpose of this study is to find out which one is more accurate to find the expected stock return.

The type of this research is descriptive research, where the object in this study is a variable past, present, and the future. This study describes the variables that have been and are being studied. Using a longitudinal approach (panel data) which is a combination of time series and cross section research types.

Capital Asset Pricing Model (CAPM) is the relationship between expected return from risk portfolio which is the total amount of risk-free-rate and risk premium determined by β (beta). For the Arbitrage Pricing Theory (APT) the forming factor is numerous, so the principal components analysis is used to reduce the dimensions of the variables which are then using principal components regression to obtain β. The expected returns are the sum of the risk-free-rate and multiplication of β and the factors. The more accurate model is a model that obtains the expected return's value is closer to the actual return.

The implication of this research is that APT is more accurate in predicting stock returns with three out of five more accurate sample companies. This proves that the more forming factors used, the more accurate the prediction of stock returns can be calculated. For further research can be added more APT-forming factors for more accurate result.

Key Words *: Capital Asset Pricing Model (CAPM), Arbitrage Pricing Theory (APT), principal components analysis, return saham, principal components regression.*