

ABSTRACT

The main objective of this study is to evaluate the information content of earnings and operating cash flows in explaining stock returns in the manufacturing companies listed in Indonesian Stock Exchange. Moreover, the present study investigates the loss effect on the information content of earnings and operating cash flows.

Using secondary data obtained from companies' financial reports and companies' stock price index during the years 2009-2012, information content of earnings and operating cash flows are analyzed using regression analysis in relation to explaining stock returns.

The results of this study indicate that the earnings have more relative and incremental information content than operating cash flows in explaining stock returns. In addition, earnings model is better in explaining stock returns than operating cash flows model. Also, results show that loss affects the information content of earnings and operating cash flows in explaining stock returns.

Keywords : relative information content, incremental information content, earnings, operating cash flows, stock returns