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Abstract

This paper provides new evidence for a causal effect of asset growth on stock returns by using decomposition method. The sample used in this research is non-financial manufacturing firms listed in Indonesia Stock Exchange (IDX) in the year of 2010 - 2015. The asset growth testing was done by conducting regression analysis. The paper results were indicated by using decomposition method for a causal effect of asset growth, book-to-market, and firm size on stock return. In addition, assets and liabilities decomposition known that the growth of fixed assets and retained earnings have a positive influence to return firms. The result by decomposition method asset growth has a positive effect on stock returns, or in other words, the higher the asset growth, the higher the stock return. Others, the cash growth negatively affect to stock returns at the time of the asset and operating liabilities have a negative significant effect on stock returns. The decomposition method asset growth has a positive effect on stock returns, in other words, the higher the asset growth, the higher the stock return. At last, the cash growth negatively affects to stock returns at the time of the asset and operating liabilities have a negative significant effect on stock returns.

Keywords: asset growth; decomposition method; return; size; book to market

JEL Classification: F36; G10; C12

Introduction

The value of the firms according to Fama *et al.* (2008) showed solely a function of investment opportunities in a perfectly competitive market while the presence of the growth firms in the future was indicated by the growth of opportunities. This can be seen by the opportunity to invest is owned and available for firms in the future. Badrinath and Wahal (2002) examined the variables asset growth with the firms' risk level. The firms with a high level of asset growth will increase the risk. The firms are considered to have a high risk, in case if it has a high uncertainty of the rate of return on assets (Prasetio 2010). The uncertainty return on the assets in the future will affect the accuracy of the firms to predict the revenue that will be received in the future.

Investors ensure the value of the company to determine its shares. The value of the company according to Fama *et al.* (1995) showed solely a function of investment opportunities in a perfectly competitive market while the presence of a growth company in the future is indicated by the growth of opportunities. This can be seen that the investment opportunities are owned and available to the company in the future. A number of investment opportunities in the future is reflected in the market value of the company in which, investment opportunity is a combination of assets in place and the present value of growth opportunities of the company.

Investors also make an assessment by looking at the fundamental aspects of asset growth of the firms invested. The growth of the firms' assets is expected to increase a number of assets where the firms' production will increase the production capability so that the results will increase one's corporate profits. With the increasing profitability of the firms and the effect on increasing the return, both are expected by investors (Laksana 2016).

The terms of firm funding involving decisions made in the firm compose funding sources are used by the firm to finance the production. There are several sources of funding that can be used by firms such as long-term debt, preferred stock, and common stock. Firm's funding decisions will be influenced by the trade off between timing and risk to be gained when it uses these funding sources. Internal funding sources such as retained earnings will strengthen the financial position of the firm in the future. And part undistributed profits to the owners will be used to back up to face the risk of losses in the future as well as to increase the firm's assets.

A research by Fairfield (1994) conducted a test about the effect of growth in operating assets by looking at the presence of mispricing at accrual earnings. The firms' growth may occur due to the firms' net assets is lower than the market value. Carlson *et al.* (2004) also conducted research focused on cash flow decomposition including fixed costs, income from assets, and the opportunity to grow the firms. Cooper *et al.* (2008) used annual reports from 1968 to 2003 examined the effect of asset growth on stock returns, using cross-sectional growth in assets of funding and investment. This paper is crucial especially for the asset growth evidence in emerging market such as Indonesia. Investors, currently, used the CAPM model (Capital Asset Pricing Model) in estimating the return of a security. Capital Asset Pricing was used to determine the return of an asset at equilibrium conditions.

Fama *et al.* (1992b) examined the relationship between the beta and the average cross-sectional in the period 1963 -1990 by taking samples NYSEX, AMEX and NASDAQ. The research included for the size, leverage, book-to-market equity and earnings price. When these factors are included, it found an empirical evidence that the cross-sectional variation in returns strongly associated with variable size and book-to-market equity. Fama and French with three-factor models asserted significantly that this model has a better ability than the single factor of CAPM. At last, this paper incorporates the asset growth as a risk factor that affects on stock returns by size, book to market and applies decomposition method.

Conclusion

The result of this study provides an empirical evidence and supports the theory proposed by Carlson *et al.* (2004), Pontiff *et al.* (2008) and Cooper *et al.* (2008) which stated that the growth of assets has an influence on stock returns. This research is expected to further clarification both the relationship between asset growth and stock returns using decomposition method, in which it can be used as a benchmark for investors and securities analysts in determining the risk in the investment decision. By decomposition method asset growth, it has a positive effect on stock returns, or in other words, the higher the asset growth, the higher the stock returns. A cash growth negatively affects to stock returns at the time of the asset and operating liabilities have a significant negative effect on stock returns.

This paper based on asset growth component in terms of funding and investment. Decomposition shows the components of a strong asset growth effects to stock returns. From decomposition, the fixed asset investment growth has a positive effect on stock returns in terms of funding and retained earnings growth and growth equity positive effect on stock returns. This paper uses secondary data and samples public company with manufacturing industry in Indonesia Stock Exchange in the year of 2010 - 2015, and the influence of the type of industry that may affect was not included in the models. The result of this study provides an empirical evidence and the theory supports an asset growth. The firm who is trusted by the market will achieve a higher rate of asset growth than the firm that shows the expected lower growth rate. It also found that the main factor that explains the difference between the asset growth of these firms is the expectation of profit growth and growth equity firm, according to the investors desire to the firm in the future.

The growth of the firm assets could be a special level values for investors. Some factors toward the accuracy of information and speed information will be reflected in the price of securities. Surely, the response of asset growth can not be directly reflected on the spot, but there is a gap between the receipt of information and price reaction in receiving and processing the information. Systematic risk factors will also be reflected in the growth of the firm assets. Then, a failure to grow and develop assets will increase the burden on the company. At last, the greater the risk of failure and load the c firm, investors will tend to release the shares, causing the stock price down.

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