

## ABSTRACT

The results of Fama and French's research (1992) which stated that beta doesn't affect the cross section return mean while size and book to market equity ratio has strong effect to average stock return cross sectionally has induced many debates. Fisher Black (1993) believe that the result of Fama and French's research is data mining because Fama and French didn't give any reasons for the relationship between size and book to market value (BMV) ratio with expected return (there is no strong theoretical background).

Based on this phenomena, the objective of this research is to examine whether beta is the only factor for explaining returns or BMV and size can replace the role of beta or give additional explanation about average stock return. The observation period of this research is from December 2003 until December 2007. This research uses sample of stock in the form of individual stock and portfolio. Ten portfolios is formed based on rank of beta from low beta to high beta. Average stock return of individual stock and portfolio is used as dependent variable while beta, book to market value and size is used as independent variable.

By using t test and F test, this research found that beta affects stock return positively while book to market value and size affect stock return negatively. The value of coefficient of determination (Adjusted  $R^2$ ) shows that the addition of BMV factor and size into return estimation model can explain stock return better than Capital Asset Pricing Model (CAPM).

**Keywords:** Beta, book to market value ratio, size, cross sectional average return, adjusted  $R^2$ .