Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 11, Issue 04, October 2020: 885-889

Research Article

The Relationship Between Aggregate-Market Behaviour And Accounting Variables (The Theory of Capital-Market Efficiency By Beaver)

Jeffry[1], Arsyadanal Haq Imanda[2], Iskandar Muda[3]

Abstract

This paper discusses and summarizes the efficient market hypotheses initially proposed by Fama (1970). According to the efficient market theory, the market is said to be efficient if 'security prices reflect all available information'. Fama (1970) contends that there are three types of market efficiency, namely weak form market efficiency, semi-strong form market efficiency, and strong form market efficiency. Over the last three decades, the efficient market theory has become the center of research interest and has attracted attention, which has contributed to the development of corporate finance theory. Other interesting aspect of the efficient market hypothesis is the strong evident of anomaly in the market, which appear to confront the efficient market hypothesis.

Keywords: efficient market hypothesis, weak form market efficiency, semi-strong form market efficiency

1. INTRODUCTION

One of the important breakthroughs in the development of the theory of corporate finance was put forward the efficient market hypothesis (Efficient Market Hypothesis) by Fama in 1970. Since being put forward in 1970, the efficient market theory seems to be become a magnet for financial researchers to continue to be tested for its validity. Miller (1999), as one of the recipients of the Nobel Prize in Economics in his article on financial history, argues that Fama also deserves a reward Nobel Prize for his theory. Miller (1999) and several experts corporate finance firm said that one of the important findings in the history of the development of financial theory is the theory of efficient markets and of many financial theories, the efficient market theory is the one that gets the most attention and tested empirically in almost all capital markets in the world. In one article entitled “The Theory of Corporate Finance: A Historical Overview”, Smith (1990) states that efficient market theory is a important milestone in the development of financial theory and called it a mistake a basic building block of finance. Same thing too presented by Megginson (1997) and Shanken and Smith (1996). So, market theory efficiency is an important part in our discussion of the theory of corporate finance. In response to some of the opinions mentioned above, it would not be an exaggeration to try to review again about efficient market theory. This article is intended for uncover efficient market theory by emphasizing empirical evidence that been found in connection with the testing of the theory. Presentation of this article hopefully refresh our memory about the importance of understanding the concept efficient market which is still an interesting topic in management finance.

[1,2,3] *Universitas Sumatera Utara, Medan, Indonesia*

2. LITERATURE REVIEW

The concept of an efficient market was first proposed and popularized by Fama (1970). In this context, what is meant by the market is the capital market. and the money market. A market is said to be efficient if no one, both investors and individual and institutional investors, will be able to obtain abnormal returns (abnormal return), after adjusting for risk, using the existing trade. That is, the prices formed in the market are a reflection of existing information or “share prices reflect all available information”. Another expression states that in an efficient market asset prices or securities in a timely manner and reflect available information about the asset or security.

In studying the concept of efficient markets, our attention will be directed to to what extent and how quickly the information can affect the market reflected in changes in security prices. In this case Haugen (2001) divides information groups into three, namely (1) past stock price information (information in past stock prices), (2) all public information (all public information), and (3) all available information including inside information (all available information including inside or private information). Each group This information reflects the extent to which the efficiency of a market.

Jones (1998) states that the current price of a stock (security) reflects two types of information, namely information that is already known and information that still requires guesswork. Known information includes There are two kinds, namely past information (eg earnings for the past year or quarter) and current information as well as events or events that has been announced but will still occur (eg a share split plan). An example for information that still requires guessing is if a lot investors believe that interest rates will fall soon, prices will reflects this belief before the real downturn occurs.

The definition of an efficient market can also be reviewed based on the distribution of information. Beaver (1986:130) tries to view the efficient market from a distribution point of view information by saying that “a security market is said to be efficient with respect to an information system if and only if the prices act as if everyone observes the signals from that information system”. According to this definition, price is mirror of the existence of a comprehensive understanding (universal) of an information, so that if the price has information content, then it is said that the price formed 'fully reflect' information systems. Regarding the definition according to Beaver (1986), the question that needs to be answered now is information what is said to be 'full reflection' earlier. There is no denying that the information believed to reflect the price will be in the spotlight of many interested parties in the capital market. parties These include, among others, policy makers (government, market capital or accounting policy-setting association), company management as financial statement maker, accountant (auditor) as the party providing certification, and information intermediaries, such as customers and competitors, and investors (Simanjuntak et al., 2018).

In discussing efficient market testing, it must also discuss about any irregularities (anomalies) that exist associated with the market hypothesis efficient. The anomaly here is one form of the phenomenon that exists in the market. In the anomaly found things that should not exist if it is considered that efficient markets do exist. That is, an event (event) can be utilized to obtain abnormal returns. In other words an investor is possible to obtain abnormal returns by relying on a certain event. The existing anomaly is not only found in one type of efficient market, but found in other forms of efficient markets. That is, empirical evidence of the existence of anomalies in capital markets appear in all forms of efficient markets, although mostly found in the semi-strong efficient form (semi strong). Test based on the presence or absence of anomalies using a backward test approach model (back tested methods). In this approach model, the researcher conducts tests for answer the question how historical prices (historical price data) move (change) as a consequence of an event or observation. For strength a statement or evidence of a market anomaly, the need for adequate support not a little. That is, some studies must have close conclusions different each other. In financial theory, there are at least four kinds of market anomalies. Fourth These anomalies are firm anomalies, seasonal anomalies (seasonal anomalies), event anomalies or events (event anomalies), and anomalies accounting (accounting anomalies).

Table 1. The Anomalies

4	1 P/E	Stocks with low P/E ratios tend to have a higher return.
	2 Earnings Surprise	Stocks with higher earnings than which is estimated to tend to experience price increase.
	3 Price / Sales	If the ratio is low it tends to perform better.
	4 Price / Book	If the ratio is low it tends to perform better.
	5 Dividend Yield	If the yield is high it tends to perform more good
	6 Earnings Momentum	Shares of companies with growth rate its earnings increase tend to perform better.

3. METHODS

The descriptive approach was adopted in this study through a collection of previous literature on market efficiency and accounting variables. The aim of this paper is to understand market efficiency and accounting variables. A number of published articles have also been examined for the views of researchers in this field.

4. RESULT AND DISCUSSION

Discussing efficient markets, inevitably raises the question of why there should be a concept efficient markets and is it possible for efficient markets to exist in real life. To answer this question, the following conditions should ideally be met:

1. There are many rational and profit-maximizing oriented investors who actively participates in the market by analyzing, assessing and stock trading. These investors are price takers, meaning the perpetrators themselves will not be able to affect the price of a security.
2. No fee is required to get information and information is freely available for market participants at almost the same time (not much different).
3. Information is obtained in random form, in the sense that every announcement in the the market is free or unaffected by other announcements.
4. Investors react quickly and fully to new information that enter the market, which causes the stock price to immediately adjust.

Interpretation of evidence in the literature accrual anomalies have grown rapidly and give rise to multiple interpretations of it. A number of researchers accept the view that the profitability of the

accrual strategy is a manifestation of systematic error on the resulting pricing from over-weighting on information earnings and tend to underestimate the cash flow information. While the other party be hesitant to adopt an interpretation and perform some additional testing.From previous research which explore the topic of accrual anomalies, in part large stated that companies with high operating accruals result in an average lower average rate of return compared to operating accrual companies that low in the United States and several other countries. Conventional explanation for the influence is the higher average return for companies with accrual low is a form of compensation for risk systematic.
In the asset pricing model multifactor expected stock returns have increased based on multi-factor loading (not only market factors, like the CAPM). To explain the accrual anomaly in the model it requires the accrual level of the company associated with its return covariance with one or more aggregate risk factors.

Especially companies with low accruals will require a high loading rate in pricing systematic factors as justification their high stock returns Alternative explanation for the anomaly accruals is the assumption that the stock market does not efficient and hence naive investors fail to distinguish between predictive power differ in accrual and cash flow components future earnings of the company. Consequently, investors are too optimistic in companies with higher accrual rates high and too pessimistic about the company with a low accrual rate that has implications for increasing prices irrational on company shares with accruals high and vice versa decline in stock prices which is also irrational for company stocks with low accruals. Therefore, the company with high accruals earn low abnormal return, on the other hand companies with low accruals earn high abnormal returns.

5. CONCLUTION

From the discussion above, two important things can be concluded. First, question What arises with regard to efficient market theory is whether markets really been efficient. The answer to this question can be varied and possible no definite conclusion yet. So far the existence of an efficient market in the capital market still a matter of debate. Some opinions that can be considered are (Levy 1996:438):

1. In general, empirical evidence that supports the market hypothesis efficient strong enough. This support was delivered by Malkiel (1989).
2. Event studies are the best evidence available in In terms of efficiency, with a few exceptions, the evidence is quite supportive. This support was conveyed by Fama (1991).
3. Efficient markets do exist, because practitioners do not take into account the basic reasons as a benchmark for making decisions to buy and sell securities. This support was conveyed by Le Baron (1983).

Second, there are anomalies in the market which in many ways prove contradictory on the efficiency market hypothesis is both evidence and challenge that the efficient market hypothesis must continue to be tested. The discovery of anomalies in the market is not immediately invalidate the efficient market hypothesis, because the anomaly seems to be only related to the form of semi-strong efficient market. That is, an information that new entry into the market (becoming public) can affect the price of securities. In connection with this conclusion, there are two things that might be interesting to be thought of. First, given the inconsistency of the evidence support or reject the efficient market hypothesis, research can be carried out further so that further confirmation can be obtained. Second, some research has been done to test the level of efficiency of the capital market Indonesia where the results obtained still do not show the word agreed. It is an opportunity for financial and accounting researchers to try explore more about the Indonesian capital market. Testing on anomalies market remains an attractive reference for financial and accounting researchers to see how far the speed of price changes (speed of adjustment) for the entry new information to the market.

REFERENCE

1. Beaver, William, H. (1986), Financial Reporting: An Accounting Revolution. 2nd Edition, Prentice Hall, New Jersey.
2. Dyckman, Thomas, R. dan , Dale Morse (1986), Efficient Capital Markets and Accounting: A Critical Analysis, Prentice Hall, New Jersey.
3. Fabbozi, Frank E. dan Franco Modligiani (1996), Capital Markets, Institutions, and Instruments, 2nd Edition, Prentice Hall, New Jersey.
4. Fama, Eugene F. (May 1970), "Efficient market: A review of theory and empirical work", Journal of Finance, 25 (2): 383-417.
5. Fama, Eugene, F. (1991), "Efficient Capital Markets: II", Journal of Finance, 46 (4): 1575-1617.
6. Haugen, Rober A. (2001), Modern Portfolio Theory, 5th Edition, Prentice Hall, New Jersey.
7. Jones, Charles P. (1998), Investment: Analysis and Management, John Wiley and Son, California, 6th Edition.
8. Le Baron, Dean (1983), "Reflections on Market Inefficiency", Financial Analysts Journal, 39 (May/June): 16-23.
9. Levy, Haim S. (1996), Introduction to Investment. South Western Publishing. Malkiel, Burton (1989), "Efficient Market Hypothesis", dalam John Eatwell, Murray Milgate, dan Peter Newman, editor, The New Palgrave: Finance, New York, MacMillan Press Limited, hal. 131.
10. Megginson, William. L. (1997), Corporate Finance Theory, Addison Wesley, New York.
11. Miller, Merton (1999), "The History of Finance", Journal of Portfolio Management, 25 (4): 95-101.
12. Shanken, Jay dan Clifford W Smith (1996), "Implications of Capital Markets Research for Corporate Finance", Financial Management, 25 (1): 98-104.
13. Simanjuntak, A.; Purba, D.; & Ginting, S. (2018). Regulatory Approach to Formulate Accounting Theory: Literature Study of Developed Countries. Proceedings of the 1st Unimed International Conference on Economics Education and Social Science - Volume 1: UNICEES, p.1179-1184. DOI: 10.5220/0009508811791184. https://www.scitepress.org/PublicationsDetail.aspx?ID=elt85ocahjw=&t=1
14. Smith, Clifford, W. (1990), "The Theory of Corporate Finance: A Historical Overview", Dalam Smith, C.W. (Ed). The Modern Theory of Corporate Finance. North Holland Publishing Company, New York, hal. 3-27.
15. Tyler Lacoma (2017). Accounting What is an Aggregate Market.
16. West, Richard R. (1975), "Two Kinds of Market Efficient", Financial Analyst Journal, Nov-Des.: 30-34.