

**BUKTI KORESPONDENSI**

**ARTIKEL JURNAL NASIONAL TERAKREDITASI SINTA 3**

Judul Artikel : **Profitable Dividend Yield Investment Strategy Empirical Evidence From Indonesian Stock Exchange**

Jurnal : **Akuntansi - Jurnal Akuntansi Integratif (JAI), 2026, Volume 12 No.1, 65-82**

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No	Perihal	Tanggal
1	Bukti Konfirmasi Submit Artikel	3 Juli 2025
2	Bukti Konfirmasi Tahapan Progress	15 Januari 2026
3	Bukti Konfirmasi revisi pertama	17 Februari 2026
4	Bukti Konfirmasi submit revisi dan hasil revisi pertama	18 Februari 2026
5	Bukti Konfirmasi revisi kedua	9 April 2026
6	Bukti Konfirmasi submit revisi dan hasil revisi kedua	11 April 2026
7	Bukti Konfirmasi accepted artikel ilmiah	19 April 2026
8	Bukti Publikasi artikel ilmiah	24 April 2026

**Workflow** **Publication**

**Submission** **Review** **Copyediting** **Production**

### Submission Files

6128 aditya-pdy-eng.docx July 3, 2025 Article Text

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## PROFITABLE DIVIDEND YIELD INVESTMENT STRATEGY: EMPIRICAL EVIDENCE FROM INDONESIAN STOCK EXCHANGE

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### Abstract

**Introduction/Main Objective** : This study aims to test the effectiveness of Profitable Dividend Yield (PDY) investment strategy in the Indonesian stock market. **Background Problem** : Price fluctuations lead to irrational actions, stock valuation assessment is necessary, **Novelty**: Studies novelty lies focus on Indonesian Sharia Stock Index (ISSI) period 2014-2023. **Research Methods** : A quantitative approach was used, analyzing secondary financial data. Portfolios were formed based on Gross Profitability to Assets and Dividend Yield quintile classifications, then evaluated using risk-adjusted and geometric mean return metrics. **Findings/Results** : The PDY strategy consistently showed superior portfolio performance against the Jakarta Composite Index (JCI) and fixed income assets. The constructed portfolio provided potential for capital appreciation and stable dividend income, with better risk profiles, proving a useful guide for investor decisions. **Conclusion**: This study empirically validates the application of bird-in-hand theory and signaling theory. Limitations include focus on the ISSI index, time period, and specific portfolio formation methodology.

**Keywords** : Profitable Dividend Yield; Gross Profit Assets; Dividend Yield; Value Investing; Fundamental Analysis;

### Introduction

Rapid changes in stock prices can affect the psychology of investing, in addition, information circulating in the market can very quickly affect stock prices. The increase and decrease in stock prices cause stock price fluctuations. Stock price fluctuations that occur in the stock market have an impact on irrational actions for investors. Stock price fluctuations that occur are contrary to signaling theory which states that investors and managers have information related to the company's future prospects, this makes information symmetrical, but in reality information in the market tends to be asymmetric, making investors rely more on information provided by the company. (Rakim, 2018).

The fluctuation in stock price movements is reflected in the movement of the Jakarta Stock Exchange Composite

Index (JCI) during the pandemic in 2020. The movement of the JCI index contracted by -4.55% compared to last year. The fluctuation in stock price movements is also reflected in the movement of sharia stocks, recorded in the movement of the Indonesian Sharia Stock Index (ISSI) in 2020. The movement of the ISSI index contracted by -9.21% compared to last year. This is exacerbated by the increasing number of investors switching to investment instruments that have a moderate and aggressive risk profile. Throughout 2020, the number of stock market investors was 3,880,753, while throughout 2021 the number of capital market investors was 7,849,337 or an increase of 92.99% (KSEI, 2023).

The performance of the IDX High Dividend 20 index also contributed to significant volatility movements throughout 2020-2024. After a sharp

decline in 2020 (-7.90%), the index jumped in 2021 (26.10%), but was corrected again in 2022 (-5.50%), and showed a moderate recovery in 2023 (4.78%) and 2024 (0.08%) (IDX, 2025). This fluctuation confirms that relying solely on high dividends by observing the performance of index movements is not enough to make the right investment decisions. Investors need to implement a comprehensive investment strategy to minimize risk and optimize returns. The stability of a company's strong cash flow, as evidenced by ratios such as Gross Profit to Asset, as well as consistent dividend yield stability, are more important fundamental indicators than just the amount of momentary dividends.

Long-term financial planning is a solid foundation in building financial resilience. Investments in the equity market, although susceptible to stock price fluctuations, offer the potential for significant asset growth through the compounding effect, where profits earned are reinvested to generate further profits on an ongoing basis. In order to optimize growth potential, portfolio diversification is a crucial step. However, over time, the performance of each asset in the portfolio will vary, causing the initial asset allocation to become unbalanced. Periodic *rebalancing* aims to return the asset allocation to the predetermined proportions, ensuring that the portfolio remains in line with investment objectives and risk tolerance. In addition, the aspect of inflation gradually erodes the purchasing power of money. Irrational investors often underestimate the impact of inflation, but wise investors will choose assets that can provide returns that exceed the inflation rate. Thus, through a combination of diversification, rebalancing, and the right asset selection, investors can build a portfolio that is more resistant to market fluctuations and inflation, and is able to achieve long-term financial goals.

The concept of *value investing* is an investment strategy built on the basis of fundamental analysis to estimate the intrinsic value of a stock, so that it has a

basic principle that the stock purchased has a lower price compared to its intrinsic value. The concept of value investing was introduced by (Benjamin Graham, 1934). Intrinsic value is the true value of a stock determined by several fundamental factors of the company (Eliza, 2013).

The concept of Profitability Dividend Yield (PDY) offers an interesting perspective in the investment world, where not only capital growth is the main focus. Through this approach, the stock portfolio that is composed not only excels in terms of average returns but also price resilience. In particular, strategies that invest in firms with high gross profit to assets (GPA) ratios and high dividend yields have historically shaped market indices and shown good downside risk protection in bad times (periods of negative market excesses). Dividend-paying stocks offer a special attraction for investors. Regular dividend income can provide a stable cash flow, reducing dependence on profits from rising stock prices. The combination of high profitability as a stock selection criterion into a dividend yield strategy helps reduce concerns that firms with high dividend yields are more vulnerable to distress risk or are mostly mature firms with low future earnings prospects (Fama & French, 2012); (Fama & French, 2006a). In addition, firms with high efficiency in generating profits tend to provide returns that are comparable to their fundamental value, even though they have a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013).

Previous studies have also found that firms with high GPA are less susceptible to stress, and have longer cash flow duration and lower leverage than firms that do not generate profits. Firms with high GPA tend to remain profitable for many years to come as shown by (Novy-Marx, 2013) and (Asness et al., 2014b). Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller and Goldstein, 2011). The returns of portfolios composed of firms with high

GPA are typical of low beta stocks ( (Baker et al., 2011) ; (Fong & Koh, 2015) ).

*PDY* strategy in developed countries has obtained quite good returns. Studies on the application of the *PDY concept* on a national scale have not been widely studied. Studies ( (Samudra et al., 2024; Sulistyana, 2023; Taruna et al., nd) ) show that a portfolio formed through *Asset Portfolio Optimization* with periodic *rebalancing* every six months produces a high dividend return rate, stable potential dividend income from issuers, and the lowest risk exposure. This approach consistently provides superior profitability while maintaining the effectiveness of risk management, becoming a cushion in formulating a wiser dividend-based investment strategy. Portfolios formed through *the Fund Allocation and Penultimate Profit Prospect asset allocation strategies* by focusing on stocks that provide high dividends have outperformed the index by offering an appropriate investment approach, an efficient and optimal portfolio, and have the potential to be profitable for individuals who are relatively late in joining the stock market or approaching retirement and adding depth to existing knowledge about dividend-based investment strategies in emerging markets ( (Ferdiana, 2023; Retha & Budiarti, 2023; Syahfrina, nd; Yuda & Prasetyanta, 2019) ). This study aims to determine the stock market of developing countries such as Indonesia regarding the application of *the value investing concept* using the *PDY strategy*, whether it is able to generate returns above the market average in the long term, and corporations that are consistently profitable tend to have a solid financial foundation, sustainable cash flow, and controlled debt burdens, and consistently return value to shareholders through dividend distribution ( (Novy-Marx, 2013) ; (Asness et al., 2014b) ; and (Fuller & Goldstein, 2011) ). This study is expected to help investors to make the right investment decisions, so that it will

minimize the potential risk of an investment decision taken by investors. Based on the background description above, this study is expected to be a reference on how to compile an investment portfolio using *the Profitable Dividend Yield (PDY) strategy* whether it can beat the market in the Indonesian capital market.

## Research Method

The research approach in this research uses a quantitative research approach. It is a scientific method whose data is in the form of numbers or figures that can be processed and analyzed using mathematical or statistical calculations (Sekaran & Bougie, 2017) .

The data of this study is sourced from secondary data in the form of financial reports of firms that have been listed on the IDX. The population of this study is firms included in the Indonesian Sharia Stock Index (ISSI). The firms used as research samples provide annual report data from 2008 to 2023. Firms that have negative growth calculated using the *CAGR (Compound Annual Growth Rate) method*, as well as firms included in the financial sector are eliminated. The company has complete information so that the data used in the test is available in this study. The number of research samples per year is 116 firms, with a research period of 15 years from 2008-2023, so that the total number of samples is 1740 firms observed during the research period.

The data collection method of this study uses the content analysis method adopting the *PDY* investment strategy technique by calculating the *GPA* and *DY* ratios. The *GPA* ratio is a financial ratio that focuses on selecting firms that have high and consistent gross profit margins. Firms with high gross profit margins indicate operational efficiency. Firms with high efficiency in generating profits tend to provide returns that are comparable to their fundamental value, even though they have

a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013). The DY ratio is a financial ratio that focuses on the combination of selecting high profitability firms as stock selection criteria into investment strategies. Regular dividend income can provide stable cash flow, reducing dependence on profits from rising stock prices. Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011).

The data validity technique in this study uses the triangulation method. The research data is sourced from secondary data in the form of financial reports on firms that have been listed on the IDX, and the data obtained will be tested using the stages in compiling the PDY investment strategy.

The data analysis method in this study was carried out by compiling a portfolio using the PDY investment strategy which is expected to produce better returns than the market. The stages in compiling a portfolio using the PDY investment strategy in this study are: (1) eliminating financial company stocks because they have a different capital structure from other firms so that it will have an impact on the portfolio compilation analysis; (2) the sample is divided into five groups based on GPA and Dividend Yield, with G1 and D1 representing the lowest quintile, and G5 and D5 representing the highest quintile; (3) evaluating the performance of the stock portfolio formed based on the GPA and DY rankings of the previous fiscal year, by forming a portfolio data quintile every June; (4) accumulating stocks in the G5D5 quintile to be used as a portfolio, this study

accumulates company stocks when the company has reported its latest annual report and has distributed dividends; rebalancing the portfolio formed after a year by making sales approaching the dividend cum-date; (5) compiling a table of PDY investment strategy results using the *equally weighted portfolio method*; (6) comparing PDY annual returns with *benchmarks*; (7) draw conclusions.

## Results and Discussion

The PDY investment strategy carried out by this study on firms listed on the Indonesian Sharia Stock Index (ISSI) includes 116 firms used as observations during the 10-year research period from 2014-2023. The collection of research data uses the content analysis method adopted by (Fong, 2016) by calculating the quintile of the *Dividend Yield (DY)* and *Gross Profitability (GPA)* ratios.

The GPA ratio is a financial ratio that focuses on selecting firms that have high and consistent gross profit margins. Firms with high gross profit margins indicate operational efficiency. The DY ratio is a financial ratio that focuses on the combination of selecting high profitability firms as stock selection criteria into an investment strategy. Regular dividend income can provide stable cash flow, reducing dependence on profits from rising stock prices. Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011).

Table 1: Characteristics of GPA and DY Quintile Firms

Panel A	G1 (Low)	G2	G3	G4	G5 (High)
Company	131	242	497	302	56
GPA	-0.2348	0.0741	0.0846	0.3572	0.9125
DY	0.0160	0.0123	0.0261	0.0126	0.0448
Price	525	1,025.36	2,766.64	3,755.52	12,524.26
Market Cap. (millions)	2,540	4.110	12.110	104,590	41,950
Book Market	0.75	0.82	0.72	1.02	1.54

<b>Panel B</b>	D1 (Low)	D2	D3	D4	D5 (High)
Company	600	53	200	60	18
GPA	0.3074	0.33154	0.5028	0.1413	0.1765
DY	0.0293	0.1190	0.0769	0.1213	0.3852
Price	1,585.40	3,530.00	3,154.35	0	3,190.00
Market Cap. (millions)	11,580	14,700	52,290	0	3190
Book Market	0.41	0.80	1.82	0	0.84

*Source: Processed data (2025)*

*Note: This study reports descriptive statistics of portfolios formed by sorting stocks by gross profit to assets (GPA) and dividend yield (DY) over the sample period from June 2015 to April 2025. Each month, eligible stocks are sorted by their previous fiscal year GPA and 12-month trailing dividend yield, then grouped into quintiles based on the ISSI index and rebalanced annually. All portfolios are value-weighted. Quintile G1 (G5) represents firms with the lowest (highest) GPA, while quintile D1 (D5) represents firms with the lowest (highest) dividend yield. Portfolio G5D5 is a combination of stocks that fall within the highest quintile for both dividend yield and GPA. Panel A (B) presents the time-series averages of the number of firms and firm characteristics for the average firm in each GPA (DY) quintile.*

#### Company Characteristics Based on Quintiles.

Table 1 illustrates the average characteristic profile of firms classified into *Dividend Yield* (DY) and *Gross Profitability* (GPA) quintiles. The statistics presented include *time-series data*. In this context, company price is measured through stock price, while company size is represented by equity market capitalization value. The calculation of market beta adopts the methodology developed by (Asness et al., 2014a), which is based on a rolling regression over a five-year period with daily data frequency.

Panel A shows that firms with the highest dividend payouts and gross profits are concentrated in the G5 group, which also has the highest book-to-market ratio. This phenomenon is relevant to several financial theories, where high dividend yields can attract investors who prioritize fixed income according to the bird-in-hand theory. Furthermore, large dividend payments, supported by strong profitability, can serve as a positive signal about the health and future prospects of the company,

as explained by signaling theory. Meanwhile, high book-to-market ratios in the G5 group can attract value investors who are looking for firms with potential asset undervaluation.

The data in Panel B show an interesting contrast between firms with the highest dividend yields but low profitability (D5) and firms with the lowest dividend yields but high profitability (D1), which has significant implications for signaling theory. High dividend payments by firms with low profitability in D5 may send a questionable signal about their financial health and prospects for continued growth, in contrast to firms in D1 whose high profitability may indicate potential for future value appreciation despite small dividends. Investors seeking firms with potential for long-term value appreciation may be more interested in firms in D1 with high profitability, while those focused on current cash returns will look to D5. However, a thorough analysis of the fundamentals of firms in both categories remains crucial to identifying attractive and sustainable investment opportunities.

Table 2: Annual Return Summary Portfolio

Period	Yield		
	G5	D5	G5D5
June 2015 – May 2016	17.31%	0.00%	0.00%
June 2016 – May 2017	-1.65%	30.60%	0.00%
June 2017 – May 2018	-18.39%	-12.50%	0.00%
June 2018 – May 2019	-10.81%	-7.77%	0.00%
June 2019 – May 2020	15.34%	-31.29%	0.00%
June 2020 – May 2021	45.65%	24.12%	0.00%
June 2021 – May 2022	22.02%	50.79%	920.00%
June 2022 – May 2023	-4.55%	0.00%	22.76%
June 2023 – May 2024	-35.65%	19.83%	0.00%
June 2024 – April 2025	55.77%	-41.80%	0.00%
<b>Total</b>	<b>85.04%</b>	<b>31.98%</b>	<b>942.76%</b>
<b>Arithmetic Mean</b>	<b>8.50%</b>	<b>3.20%</b>	<b>94.28%</b>
<b>Average 10-year</b>	<b>6.92%</b>	<b>6.92%</b>	<b>6.92%</b>
<b>Government Bond</b>			
<b>Interest Rate</b>			
<b>Average 10-year AAA</b>	<b>7.42%</b>	<b>7.42%</b>	<b>7.42%</b>
<b>Corporate Bond</b>			
<b>Average Interest Rate</b>	<b>2.97%</b>	<b>2.97%</b>	<b>2.97%</b>
<b>BI 7 Day Repo Interest</b>	<b>3.75%</b>	<b>3.75%</b>	<b>3.75%</b>
<b>Rate Average</b>			
<b>JCI Index Average</b>	<b>5.52%</b>	<b>5.52%</b>	<b>5.52%</b>
<b>Golden Average</b>	<b>10.60%</b>	<b>10.60%</b>	<b>10.60%</b>
<b>Minimum</b>	<b>-106.95%</b>	<b>-62.57%</b>	<b>0.00%</b>
<b>Maximum</b>	<b>396.42%</b>	<b>253.93%</b>	<b>920.00%</b>

Source: Processed data (2025)

#### Portfolio Performance Comparison

Table 2 presents a comparison of the total return performance of portfolios for categories G5, D5, and G5D5 during the period from June 2015 to April 2025. The application of the PDY (Profitable Dividend Yield) strategy in forming portfolios resulted in varying total returns between categories. The portfolio formed based on the G5 category recorded an accumulated return of 85.04% during the observation period. Meanwhile, the D5 portfolio showed a lower accumulated return, which was 31.98% for the same period. Significantly, the G5D5 portfolio recorded the highest accumulated return, reaching 942.76% during the study period.

To evaluate the performance of the PDY strategy, several relevant benchmarks are considered. The Jakarta Composite Index (JCI) as a representation of the general stock market performance, recorded an average annual return of 5.52%. In addition, the performance of 10-year government

bonds as risk-free assets has an average interest rate of 6.92% per year. The third benchmark is a 10-year AAA-rated corporate bond, which offers an average interest rate of 7.42% per year. Based on the average annual return, the PDY strategy implemented in the G5D5 portfolio substantially exceeds the average return performance of the JCI and also the yields of government and corporate bonds during the period June 2015 to April 2025.

The findings of this study indicate that the formation of an equal-weight portfolio using the Profitable Dividend Yield strategy consistently produces superior performance compared to the market benchmark (IHSG) and fixed income asset classes (government bonds and AAA corporate bonds) during the observation period. These results support several premises in financial theory. High dividend yields can attract investors who are oriented towards regular income, in accordance with the bird-in-hand theory. Furthermore,

significant dividend payments, supported by solid company profitability, can be interpreted as a positive signal regarding the company's financial condition and future growth prospects (signaling theory). The consistency of dividend policies in firms with high profitability further strengthens the attractiveness of investing in these high-quality assets, as supported by previous research showing resilience, long-

term cash flows, and low leverage in firms with high GPA ( (Asness et al., 2014b; Novy-Marx, 2013) ), as well as the relationship between high GPA portfolios with low-beta characteristics ( (Baker et al., 2011; Fong, 2016) and strong fundamentals in dividend-paying firms ( (Fuller & Goldstein, 2011) ).

Table 3 : Firms Characteristics and Performance

	G5	D5	G5D5
<b>Panel A</b>			
Company	56	18	3
GPA	0.9125	0.1765	0.3733
DY	0.0448	0.3852	0.2356
Beta Portfolio	0.5421	0.7745	0.0892
<b>Panel B</b>			
Excess Return	47.00	13.67	87.02
Std Deviation	0.2836	0.2854	0.0290
Sharpe Ratio	2,754	0.878	322.70
Omega Ratio	2,197	0.873	∞
<b>Panel C</b>			
Terminal Wealth Nominal (IDR)	185,040	131,980	1,042,760
Real Terminal Wealth (IDR)	129,874	92,630	731,808
Geometric Mean (%)	5.12	0.64	28.57

*Source: Processed data (2025)*

*Note: Panel A reports the time series averages of the number of firms and firm characteristics for the average firm in the following portfolios: G5, D5, and G5D5. G5 is the quintile with the highest CPI firms, D5 is the quintile with the highest dividend yield firms, and G5D5 is the intersection of G5 and D5. The sample period is June 2015 to April 2025. Panel B reports the following performance statistics: annual cumulative return (above the government bond rate), annual standard deviation, Sharpe ratio, Omega ratio. Panel C reports the investment value at the end of observation year 2025 of IDR100,000 in June 2015. The real terminal value is calculated based on an inflation rate of 3.6% per year. The last row shows the geometric mean annual returns implied by the nominal terminal value.*

#### Firms Characteristics and Return Statistics.

Table 3 reports the company characteristics and return statistics. The portfolio composed of the G5D5 category, which is a combination of G5 and D5, shows a very small number of firms (3) but inherits several competitive advantages from D5, most notably a relatively high dividend yield (0.2356) and most notably, a very low portfolio beta (0.0892). The low beta of the G5D5 category indicates that

this portfolio has lower volatility and risk than the G5 and D5 portfolios individually, making it an attractive choice for risk-averse investors.

*risk-adjusted return* performance metrics for portfolios G5, D5, and G5D5. Cumulative *excess returns*, calculated as the difference between the portfolio's *accumulated returns* and a *benchmark* (by implication the *risk-free rate* or market index), show that portfolio G5 recorded the

highest *excess return* at 47.00%, followed by G5D5 at 87.02%, and D5 at 13.67%. However, when considering risk, as measured by standard deviation, portfolio G5D5 exhibits significantly lower volatility (0.0290) compared to G5 (0.2836) and D5 (0.2854). This is reflected significantly in the *Sharpe Ratio*, which measures *excess return* per unit of risk. Portfolio G5D5 generates an exceptionally high *Sharpe Ratio* of 322.70, far surpassing G5 (2.754) and D5 (0.878), indicating superior risk-adjusted return efficiency. Furthermore, the *Omega Ratio*, which evaluates the probability of gains relative to losses by setting a *threshold return* (implicitly zero in this case), shows a value of infinity ( $\infty$ ) for G5D5. This infinity value implies that there were no observations of *returns* below the zero target for the G5D5 portfolio during the evaluation period, indicating a very consistent return potential relative to its risk. This finding underscores the potential synergy in combining the characteristics of G5 and D5, resulting in a very attractive risk and *return profile* for the G5D5 portfolio.

Panel C presents the analysis of terminal wealth and geometric mean return to evaluate the long-term investment performance of portfolios G5, D5, and G5D5. Assuming an initial investment of one unit of currency (in this context, Rupiah), the "Nominal Terminal Wealth (IDR)" row reflects the accumulated investment value at the end of the observation period without inflation adjustment. It can be seen that portfolio G5D5 generates the highest nominal terminal wealth, reaching IDR 1,042,760, significantly surpassing G5 (IDR 185,040) and D5 (IDR 131,980). To provide a perspective of real purchasing power, the "Real Terminal Wealth (IDR)" row presents the inflation-adjusted terminal wealth value (the specific inflation rate is not mentioned in the table, so interpretation is based on the given value). The results are consistent, where the real terminal wealth of portfolio G5D5 (IDR 731,808) is much

larger than G5 (IDR 129,874) and D5 (IDR 92,630). Furthermore, the "Geometric Mean (%)" row presents the compounded annual growth rate based on nominal wealth. The G5D5 portfolio recorded the highest geometric mean of 28.57% per annum, outperforming G5 (5.12%) and D5 (0.64%). This finding indicates that the G5D5 portfolio construction strategy generated substantial long-term wealth growth and superior annual compound returns compared to the G5 and D5 portfolios individually over the study period.

Figure 1: IDR100,000 Value Invested since 2015 and 2025



Source: Processed data (2025)

The graph in Figure 1 visualizes the growth in the initial investment value (assuming the same initial value) in four different assets from January 2015 to April 2025: the Jakarta Composite Index (JCI), the G5 portfolio, the D5 portfolio, and the G5D5 portfolio.

## Conclusion

The results of this study provide empirical validation of the relevance of financial theories such as bird-in-hand theory and signaling theory in the specific context of the Indonesian capital market. The PDY strategy focuses on selecting firms with solid profitability and

consistency in dividend policy. The G5D5 portfolio shows significant competitive advantages, especially its very low beta (0.0892) indicating lower volatility and risk. Performance analysis also shows that G5D5 has a high cumulative excess return (87.02%) with very low volatility (0.0290), producing an extraordinary Sharpe Ratio (322.70) and an infinite Omega Ratio, indicating superior risk-adjusted return efficiency. In addition, G5D5 provides the highest nominal (IDR 1,042,760) and real (IDR 731,808) terminal wealth, as well as an annual geometric mean of 28.57%, far surpassing the G5 and D5 portfolios individually. These findings confirm that the combination of G5 and D5 characteristics creates a very attractive risk and return profile for investors. The findings of this study indicate that the formation of an equal-weight portfolio using the PDY strategy consistently produces superior performance compared to the market benchmark (IHSG) and fixed-income asset classes (government bonds and AAA corporations) during the observation period. The consistency of dividend policies in firms with high profitability further strengthens the attractiveness of investing in high-quality assets. In practice, these findings present important implications for investors in the investment decision-making process, especially in terms of identifying stocks that not only offer the potential for capital appreciation but also generate a stable and predictable dividend income stream. Future studies can deepen the investigation to understand the nuances of the effectiveness of the PDY strategy in various market conditions and issuer characteristics, thereby providing more comprehensive and applicable insights.

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## PROFITABLE DIVIDEND YIELD INVESTMENT STRATEGY: EMPIRICAL EVIDENCE FROM INDONESIAN STOCK EXCHANGE

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### Abstract

*This study aims to test the effectiveness of Profitable Dividend Yield (PDY) investment strategy in the Indonesian stock market. Background Problem : Price fluctuations lead to irrational actions, stock valuation assessment is necessary, Novelty: Studies novelty lies focus on Indonesian Sharia Stock Index (ISSI) period 2014-2023. Research Methods : A quantitative approach was used, analyzing secondary financial data. Portfolios were formed based on Gross Profitability to Assets and Dividend Yield quintile classifications, then evaluated using risk-adjusted and geometric mean return metrics. Findings/Results : The PDY strategy consistently showed superior portfolio performance against the Jakarta Composite Index (JCI) and fixed income assets. The constructed portfolio provided potential for capital appreciation and stable dividend income, with better risk profiles, proving a useful guide for investor decisions. Conclusion: This study empirically validates the application of bird-in-hand theory and signaling theory. Limitations include focus on the ISSI index, time period, and specific portfolio formation methodology.*

### Keywords:

Profitable Dividend Yield; Gross Profit Assets; Dividend Yield; Value Investing; Fundamental Analysis;

### For citation:

Rakim, Aditya Achmad. (2026). Profitable Dividend Yield Investment Strategy: Empirical Evidence From Indonesian Stock Exchange. *Akuntansi: Jurnal Akuntansi Integratif*, x (x), xx-xx.

### DOI:

<https://doi.org/10.29080/jai.vXXiX.xxx>

### Declaration of conflict of interest:

**Received:** Month Date, Year

**Accepted:** Month Date, Year

**Published:** Month Date, Year



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## INTRODUCTION

Rapid changes in stock prices can affect the psychology of investing, in addition, information circulating in the market can very quickly affect stock prices. The increase and decrease in stock prices cause stock price fluctuations. Stock price fluctuations that occur in the stock market have an impact on irrational actions for investors . Stock price fluctuations that occur are contrary to signaling theory which states that investors and managers have information related to the company's future prospects, this makes information symmetrical, but in reality information in the market tends to be asymmetric, making investors rely more on information provided by the company. (Rakim, 2018) .

The fluctuation in stock price movements is reflected in the movement of the Jakarta Stock Exchange Composite Index (JCI) during the pandemic in 2020. The movement of the JCI index contracted by -4.55% compared to last year. The fluctuation in stock price movements is also reflected in the movement of sharia stocks, recorded in the movement of the Indonesian Sharia Stock Index (ISSI) in 2020. The movement of the ISSI index contracted by -9.21% compared to last year. This is exacerbated by the increasing number of investors switching to investment instruments that have a moderate and aggressive risk profile. Throughout 2020, the number of stock market investors was 3,880,753, while throughout 2021 the number of capital market investors was 7,849,337 or an increase of 92.99% (KSEI, 2023) .

The performance of the IDX High Dividend 20 index also contributed to significant volatility movements throughout 2020-2024. After a sharp decline in 2020 (-7.90%), the index jumped in 2021 (26.10%), but was corrected again in 2022 (-5.50%), and showed a moderate recovery in 2023 (4.78%) and 2024 (0.08%) (IDX, 2025) . This fluctuation confirms that relying solely on high dividends by observing the performance of index movements is not enough to make the right investment decisions. Investors need to implement a comprehensive investment strategy to minimize risk and optimize returns. The stability of a company's strong cash flow, as evidenced by ratios such as Gross Profit to Asset, as well as consistent dividend yield stability, are more important fundamental indicators than just the amount of momentary dividends.

Long-term financial planning is a solid foundation in building financial resilience. Investments in the equity market, although susceptible to stock price fluctuations, offer the potential for significant asset growth through the compounding effect, where profits earned are reinvested to generate further profits on an ongoing basis. In order to optimize growth potential, portfolio diversification is a crucial step. However, over time, the performance of each asset in the portfolio will vary, causing the initial asset allocation to become unbalanced. Periodic rebalancing aims to return the asset allocation to the predetermined proportions, ensuring that the portfolio remains in line with

investment objectives and risk tolerance. In addition, the aspect of inflation gradually erodes the purchasing power of money. Irrational investors often underestimate the impact of inflation, but wise investors will choose assets that can provide returns that exceed the inflation rate. Thus, through a combination of diversification, rebalancing, and the right asset selection, investors can build a portfolio that is more resistant to market fluctuations and inflation, and is able to achieve long-term financial goals.

The concept of value investing is an investment strategy built on the basis of fundamental analysis to estimate the intrinsic value of a stock, so that it has a basic principle that the stock purchased has a lower price compared to its intrinsic value. The concept of value investing was introduced by (Benjamin Graham, 1934) . Intrinsic value is the true value of a stock determined by several fundamental factors of the company (Eliza, 2013) .

The concept of Profitability Dividend Yield (PDY) offers an interesting perspective in the investment world, where not only capital growth is the main focus. Through this approach, the stock portfolio that is composed not only excels in terms of average returns but also price resilience. In particular, strategies that invest in firms with high gross profit to assets (GPA) ratios and high dividend yields have historically shaped market indices and shown good downside risk protection in bad times (periods of negative market excesses). Dividend-paying stocks offer a special attraction for investors. Regular dividend income can provide a stable cash flow, reducing dependence on profits from rising stock prices. The combination of high profitability as a stock selection criterion into a dividend yield strategy helps reduce concerns that firms with high dividend yields are more vulnerable to distress risk or are mostly mature firms with low future earnings prospects (Fama & French, 2012) ; (Fama & French, 2006a) . In addition, firms with high efficiency in generating profits tend to provide returns that are comparable to their fundamental value, even though they have a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013) .

Previous studies have also found that firms with high GPA are less susceptible to stress, and have longer cash flow duration and lower leverage than firms that do not generate profits. Firms with high GPA tend to remain profitable for many years to come as shown by (Novy-Marx, 2013) and (Asness et al., 2014b) . Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller and Goldstein, 2011). The returns of portfolios composed of firms with high GPA are typical of low beta stocks ( (Baker et al., 2011) ; (Fong & Koh, 2015) ).

PDY strategy in developed countries has obtained quite good returns. Studies on the application of the PDY concept on a national scale have not been widely studied. Studies ( (Samudra et al., 2024; Sulistyana, 2023; Taruna et al., nd) ) show that a portfolio formed through Asset Portfolio Optimization with periodic rebalancing every six months produces a high dividend return rate, stable potential dividend income from issuers, and the lowest risk exposure. This approach

consistently provides superior profitability while maintaining the effectiveness of risk management, becoming a cushion in formulating a wiser dividend-based investment strategy. Portfolios formed through the Fund Allocation and Penultimate Profit Prospect asset allocation strategies by focusing on stocks that provide high dividends have outperformed the index by offering an appropriate investment approach, an efficient and optimal portfolio, and have the potential to be profitable for individuals who are relatively late in joining the stock market or approaching retirement and adding depth to existing knowledge about dividend-based investment strategies in emerging markets ( (Ferdiana, 2023; Retha & Budiarti, 2023; Syahfrina, nd; Yuda & Prasetyanta, 2019) . This study aims to determine the stock market of developing countries such as Indonesia regarding the application of the value investing concept using the PDY strategy, whether it is able to generate returns above the market average in the long term, and corporations that are consistently profitable tend to have a solid financial foundation, sustainable cash flow, and controlled debt burdens, and consistently return value to shareholders through dividend distribution ( (Novy-Marx, 2013) ; (Asness et al., 2014b) ; and (Fuller & Goldstein, 2011) ) . This study is expected to help investors to make the right investment decisions, so that it will minimize the potential risk of an investment decision taken by investors. Based on the background description above, this study is expected to be a reference on how to compile an investment portfolio using the Profitable Dividend Yield (PDY) strategy whether it can beat the market in the Indonesian capital market.

## **METHOD**

The research approach in this research uses a quantitative research approach. It is a scientific method whose data is in the form of numbers or figures that can be processed and analyzed using mathematical or statistical calculations (Sekaran & Bougie, 2017) .

The data of this study is sourced from secondary data in the form of financial reports of firms that have been listed on the IDX. The population of this study is firms included in the Indonesian Sharia Stock Index (ISSI). The firms used as research samples provide annual report data from 2008 to 2023. Firms that have negative growth calculated using the CAGR (Compound Annual Growth Rate) method, as well as firms included in the financial sector are eliminated. The company has complete information so that the data used in the test is available in this study. The number of research samples per year is 116 firms, with a research period of 15 years from 2008-2023, so that the total number of samples is 1740 firms observed during the research period.

The data collection method of this study uses the content analysis method adopting the PDY investment strategy technique by calculating the GPA and DY ratios. The GPA ratio is a financial ratio that focuses on selecting firms that have high and consistent gross profit margins. Firms with

high gross profit margins indicate operational efficiency. Firms with high efficiency in generating profits tend to provide returns that are comparable to their fundamental value, even though they have a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013) . The DY ratio is a financial ratio that focuses on the combination of selecting high profitability firms as stock selection criteria into investment strategies. Regular dividend income can provide stable cash flow, reducing dependence on profits from rising stock prices. Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011) .

The data validity technique in this study uses the triangulation method. The research data is sourced from secondary data in the form of financial reports on firms that have been listed on the IDX, and the data obtained will be tested using the stages in compiling the PDY investment strategy.

The data analysis method in this study was carried out by compiling a portfolio using the PDY investment strategy which is expected to produce better returns than the market. The stages in compiling a portfolio using the PDY investment strategy in this study are: (1) eliminating financial company stocks because they have a different capital structure from other firms so that it will have an impact on the portfolio compilation analysis; (2) the sample is divided into five groups based on GPA and Dividend Yield, with G1 and D1 representing the lowest quintile, and G5 and D5 representing the highest quintile; (3) evaluating the performance of the stock portfolio formed based on the GPA and DY rankings of the previous fiscal year, by forming a portfolio data quintile every June; (4) accumulating stocks in the G5D5 quintile to be used as a portfolio, this study accumulates company stocks when the company has reported its latest annual report and has distributed dividends; rebalancing the portfolio formed after a year by making sales approaching the dividend cum-date ; (5) compiling a table of PDY investment strategy results using the equally weighted portfolio method ; (6) comparing PDY annual returns with benchmarks ; (7) draw conclusions.

## **RESULTS AND DISCUSSION**

The PDY investment strategy carried out by this study on firms listed on the Indonesian Sharia Stock Index (ISSI) includes 116 firms used as observations during the 10-year research period from 2014-2023. The collection of research data uses the content analysis method adopted by (Fong, 2016) by calculating the quintile of the Dividend Yield (DY) and Gross Profitability (GPA) ratios.

The GPA ratio is a financial ratio that focuses on selecting firms that have high and consistent gross profit margins. Firms with high gross profit margins indicate operational efficiency. The DY ratio is a financial ratio that focuses on the combination of selecting high profitability firms as stock

selection criteria into an investment strategy. Regular dividend income can provide stable cash flow, reducing dependence on profits from rising stock prices. Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011) .

	G1	G2	G3	G4	G5
<b>Panel A</b>	(Low)				(High)
Company	131	242	497	302	56
GPA	-0.2348	0.0741	0.0846	0.3572	0.9125
DY	0.0160	0.0123	0.0261	0.0126	0.0448
Price	525	1,025.36	2,766.64	3,755.52	12,524.26
Market Cap. (millions)	2,540	4.110	12.110	104,590	41,950
Book Market	0.75	0.82	0.72	1.02	1.54
<b>Panel B</b>	D1	D2	D3	D4	D5
	(Low)				(High)
Company	600	53	200	60	18
GPA	0.3074	0.33154	0.5028	0.1413	0.1765
DY	0.0293	0.1190	0.0769	0.1213	0.3852
Price	1,585.40	3,530.00	3,154.35	0	3,190.00
Market Cap. (millions)	11,580	14,700	52,290	0	3190
Book Market	0.41	0.80	1.82	0	0.84

Source: Processed data (2025)

Note: This study reports descriptive statistics of portfolios formed by sorting stocks by gross profit to assets (GPA) and dividend yield (DY) over the sample period from June 2015 to April 2025. Each month, eligible stocks are sorted by their previous fiscal year GPA and 12-month trailing dividend yield, then grouped into quintiles based on the ISSI index and rebalanced annually. All portfolios are value-weighted. Quintile G1 (G5) represents firms with the lowest (highest) GPA, while quintile D1 (D5) represents firms with the lowest (highest) dividend yield. Portfolio G5D5 is a combination of stocks that fall within the highest quintile for both dividend yield and GPA. Panel A (B) presents the time-series averages of the number of firms and firm characteristics for the average firm in each GPA (DY) quintile.

#### Company Characteristics Based on Quintiles.

Table 1 illustrates the average characteristic profile of firms classified into Dividend Yield (DY) and Gross Profitability (GPA) quintiles. The statistics presented include time-series data . In this context, company price is measured through stock price, while company size is represented by equity market capitalization value. The calculation of market beta adopts the methodology developed by (Asness et al., 2014a) , which is based on a rolling regression over a five-year period with daily data frequency.

Panel A shows that firms with the highest dividend payouts and gross profits are concentrated in the G5 group, which also has the highest book-to-market ratio. This phenomenon is relevant to several financial theories, where high dividend yields can attract investors who prioritize fixed income according to the bird-in-hand theory. Furthermore, large dividend payments, supported by

strong profitability, can serve as a positive signal about the health and future prospects of the company, as explained by signaling theory. Meanwhile, high book-to-market ratios in the G5 group can attract value investors who are looking for firms with potential asset undervaluation.

The data in Panel B show an interesting contrast between firms with the highest dividend yields but low profitability (D5) and firms with the lowest dividend yields but high profitability (D1), which has significant implications for signaling theory. High dividend payments by firms with low profitability in D5 may send a questionable signal about their financial health and prospects for continued growth, in contrast to firms in D1 whose high profitability may indicate potential for future value appreciation despite small dividends. Investors seeking firms with potential for long-term value appreciation may be more interested in firms in D1 with high profitability, while those focused on current cash returns will look to D5. However, a thorough analysis of the fundamentals of firms in both categories remains crucial to identifying attractive and sustainable investment opportunities.

Table 2: Annual Return Summary Portfolio

Period	Yield		
	G5	D5	G5D5
June 2015 – May 2016	17.31%	0.00%	0.00%
June 2016 – May 2017	-1.65%	30.60%	0.00%
June 2017 – May 2018	-18.39%	-12.50%	0.00%
June 2018 – May 2019	-10.81%	-7.77%	0.00%
June 2019 – May 2020	15.34%	-31.29%	0.00%
June 2020 – May 2021	45.65%	24.12%	0.00%
June 2021 – May 2022	22.02%	50.79%	920.00%
June 2022 – May 2023	-4.55%	0.00%	22.76%
June 2023 – May 2024	-35.65%	19.83%	0.00%
June 2024 – April 2025	55.77%	-41.80%	0.00%
<b>Total</b>	<b>85.04%</b>	<b>31.98%</b>	<b>942.76%</b>
<b>Arithmetic Mean</b>	<b>8.50%</b>	<b>3.20%</b>	<b>94.28%</b>
<b>Average 10-year</b>	<b>6.92%</b>	<b>6.92%</b>	<b>6.92%</b>
<b>Government Bond</b>			
<b>Interest Rate</b>			
<b>Average 10-year AAA</b>	<b>7.42%</b>	<b>7.42%</b>	<b>7.42%</b>
<b>Corporate Bond</b>			
<b>Average Interest Rate</b>	<b>2.97%</b>	<b>2.97%</b>	<b>2.97%</b>
<b>BI 7 Day Repo Interest</b>	<b>3.75%</b>	<b>3.75%</b>	<b>3.75%</b>
<b>Rate Average</b>			
<b>JCI Index Average</b>	<b>5.52%</b>	<b>5.52%</b>	<b>5.52%</b>
<b>Golden Average</b>	<b>10.60%</b>	<b>10.60%</b>	<b>10.60%</b>
<b>Minimum</b>	<b>-106.95%</b>	<b>-62.57%</b>	<b>0.00%</b>
<b>Maximum</b>	<b>396.42%</b>	<b>253.93%</b>	<b>920.00%</b>

Source: Processed data (2025)

#### Portfolio Performance Comparison

Table 2 presents a comparison of the total return performance of portfolios for categories G5,

D5, and G5D5 during the period from June 2015 to April 2025. The application of the PDY (Profitable Dividend Yield) strategy in forming portfolios resulted in varying total returns between categories. The portfolio formed based on the G5 category recorded an accumulated return of 85.04% during the observation period. Meanwhile, the D5 portfolio showed a lower accumulated return, which was 31.98% for the same period. Significantly, the G5D5 portfolio recorded the highest accumulated return, reaching 942.76% during the study period.

To evaluate the performance of the PDY strategy, several relevant benchmarks are considered. The Jakarta Composite Index (JCI) as a representation of the general stock market performance, recorded an average annual return of 5.52%. In addition, the performance of 10-year government bonds as risk-free assets has an average interest rate of 6.92% per year. The third benchmark is a 10-year AAA-rated corporate bond, which offers an average interest rate of 7.42% per year. Based on the average annual return, the PDY strategy implemented in the G5D5 portfolio substantially exceeds the average return performance of the JCI and also the yields of government and corporate bonds during the period June 2015 to April 2025.

The findings of this study indicate that the formation of an equal-weight portfolio using the Profitable Dividend Yield strategy consistently produces superior performance compared to the market benchmark (IHSG) and fixed income asset classes (government bonds and AAA corporate bonds) during the observation period. These results support several premises in financial theory. High dividend yields can attract investors who are oriented towards regular income, in accordance with the bird-in-hand theory. Furthermore, significant dividend payments, supported by solid company profitability, can be interpreted as a positive signal regarding the company's financial condition and future growth prospects (signaling theory). The consistency of dividend policies in firms with high profitability further strengthens the attractiveness of investing in these high-quality assets, as supported by previous research showing resilience, long-term cash flows, and low leverage in firms with high GPA ( (Asness et al., 2014b; Novy-Marx, 2013) ), as well as the relationship between high GPA portfolios with low-beta characteristics ( (Baker et al., 2011; Fong, 2016) and strong fundamentals in dividend-paying firms ( (Fuller & Goldstein, 2011) ).

Table 3 : Firms Characteristics and Performance

	G5	D5	G5D5
<b>Panel A</b>			
Company	56	18	3
GPA	0.9125	0.1765	0.3733
DY	0.0448	0.3852	0.2356
Beta Portfolio	0.5421	0.7745	0.0892
<b>Panel B</b>			
Excess Return	47.00	13.67	87.02
Std Deviation	0.2836	0.2854	0.0290

Sharpe Ratio	2,754	0.878	322.70
Omega Ratio	2,197	0.873	$\infty$
<b>Panel C</b>			
Terminal Wealth Nominal (IDR)	185,040	131,980	1,042,760
Real Terminal Wealth (IDR)	129,874	92,630	731,808
Geometric Mean (%)	5.12	0.64	28.57

Source: Processed data (2025)

Note: Panel A reports the time series averages of the number of firms and firm characteristics for the average firm in the following portfolios: G5, D5, and G5D5. G5 is the quintile with the highest CPI firms, D5 is the quintile with the highest dividend yield firms, and G5D5 is the intersection of G5 and D5. The sample period is June 2015 to April 2025. Panel B reports the following performance statistics: annual cumulative return (above the government bond rate), annual standard deviation, Sharpe ratio, Omega ratio. Panel C reports the investment value at the end of observation year 2025 of IDR100,000 in June 2015. The real terminal value is calculated based on an inflation rate of 3.6% per year. The last row shows the geometric mean annual returns implied by the nominal terminal value.

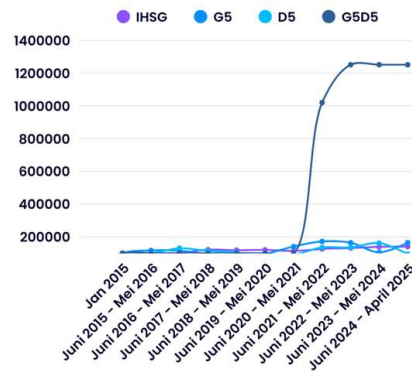
#### Firms Characteristics and Return Statistics.

Table 3 reports the company characteristics and return statistics. The portfolio composed of the G5D5 category, which is a combination of G5 and D5, shows a very small number of firms (3) but inherits several competitive advantages from D5, most notably a relatively high dividend yield (0.2356) and most notably, a very low portfolio beta (0.0892). The low beta of the G5D5 category indicates that this portfolio has lower volatility and risk than the G5 and D5 portfolios individually, making it an attractive choice for risk-averse investors.

risk-adjusted return performance metrics for portfolios G5, D5, and G5D5. Cumulative excess returns, calculated as the difference between the portfolio's accumulated returns and a benchmark (by implication the risk-free rate or market index), show that portfolio G5 recorded the highest excess return at 47.00%, followed by G5D5 at 87.02%, and D5 at 13.67%. However, when considering risk, as measured by standard deviation, portfolio G5D5 exhibits significantly lower volatility (0.0290) compared to G5 (0.2836) and D5 (0.2854). This is reflected significantly in the Sharpe Ratio, which measures excess return per unit of risk. Portfolio G5D5 generates an exceptionally high Sharpe Ratio of 322.70, far surpassing G5 (2.754) and D5 (0.878), indicating superior risk-adjusted return efficiency. Furthermore, the Omega Ratio, which evaluates the probability of gains relative to losses by setting a threshold return (implicitly zero in this case), shows a value of infinity ( $\infty$ ) for G5D5. This infinity value implies that there were no observations of returns below the zero target for the G5D5 portfolio during the evaluation period, indicating a very consistent return potential relative to its risk. This finding underscores the potential synergy in combining the characteristics of G5 and D5, resulting in a very attractive risk and return profile for the G5D5 portfolio.

Panel C presents the analysis of terminal wealth and geometric mean return to evaluate the long-term investment performance of portfolios G5, D5, and G5D5. Assuming an initial investment of one unit of currency (in this context, Rupiah), the "Nominal Terminal Wealth (IDR)" row reflects the accumulated investment value at the end of the observation period without inflation adjustment. It can be seen that portfolio G5D5 generates the highest nominal terminal wealth, reaching IDR 1,042,760, significantly surpassing G5 (IDR 185,040) and D5 (IDR 131,980). To provide a perspective of real purchasing power, the "Real Terminal Wealth (IDR)" row presents the inflation-adjusted terminal wealth value (the specific inflation rate is not mentioned in the table, so interpretation is based on the given value). The results are consistent, where the real terminal wealth of portfolio G5D5 (IDR 731,808) is much larger than G5 (IDR 129,874) and D5 (IDR 92,630). Furthermore, the "Geometric Mean (%)" row presents the compounded annual growth rate based on nominal wealth. The G5D5 portfolio recorded the highest geometric mean of 28.57% per annum, outperforming G5 (5.12%) and D5 (0.64%). This finding indicates that the G5D5 portfolio construction strategy generated substantial long-term wealth growth and superior annual compound returns compared to the G5 and D5 portfolios individually over the study period.

Figure 1: IDR100,000 Value Invested since 2015 and 2025



Source: Processed data (2025)

The graph in Figure 1 visualizes the growth in the initial investment value (assuming the same initial value) in four different assets from January 2015 to April 2025: the Jakarta Composite Index (JCI), the G5 portfolio, the D5 portfolio, and the G5D5 portfolio.

### CONCLUSION, IMPLICATION AND LIMITATION

The results of this study provide empirical validation of the relevance of financial theories such as

bird-in-hand theory and signaling theory in the specific context of the Indonesian capital market. The PDY strategy focuses on selecting firms with solid profitability and consistency in dividend policy. The G5D5 portfolio shows significant competitive advantages, especially its very low beta (0.0892) indicating lower volatility and risk. Performance analysis also shows that G5D5 has a high cumulative excess return (87.02%) with very low volatility (0.0290), producing an extraordinary Sharpe Ratio (322.70) and an infinite Omega Ratio, indicating superior risk-adjusted return efficiency. In addition, G5D5 provides the highest nominal (IDR 1,042,760) and real (IDR 731,808) terminal wealth, as well as an annual geometric mean of 28.57%, far surpassing the G5 and D5 portfolios individually. These findings confirm that the combination of G5 and D5 characteristics creates a very attractive risk and return profile for investors. The findings of this study indicate that the formation of an equal-weight portfolio using the PDY strategy consistently produces superior performance compared to the market benchmark (IHSG) and fixed-income asset classes (government bonds and AAA corporations) during the observation period. The consistency of dividend policies in firms with high profitability further strengthens the attractiveness of investing in high-quality assets. In practice, these findings present important implications for investors in the investment decision-making process, especially in terms of identifying stocks that not only offer the potential for capital appreciation but also generate a stable and predictable dividend income stream. Future studies can deepen the investigation to understand the nuances of the effectiveness of the PDY strategy in various market conditions and issuer characteristics. Focus on a comparative analysis to measure the robustness of the performance between the Profitable Dividend Yield (PDY) strategy and other alternative investment methodologies, such as Joel Greenblatt's Magic Formula or the Growth Investing strategy. Furthermore, further studies should integrate real-world factors in the capital market, such as market frictions: trading costs and dividend tax burdens, which directly impact investors' terminal wealth accumulation. This study is expected to provide more comprehensive, precise, and applicable insights into investment strategies in actual portfolio management practices. Thus, investment decisions can be based on a deeper understanding of the security and consistency of issuers' long-term financial performance.

Dikomentari [A1]: Comment [U2] t

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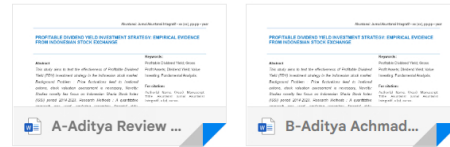
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

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## PROFITABLE DIVIDEND YIELD INVESTMENT STRATEGY: EMPIRICAL EVIDENCE FROM INDOONESIAN STOCK EXCHANGE

### Abstract

*Stock price volatility often triggers irrational investor behavior and asymmetric information, rendering traditional index-based investing insufficient for risk mitigation. This study aims to test the effectiveness of Profitable Dividend Yield (PDY) investment strategy in the Indonesian stock market. Background Problem : Price fluctuations lead to irrational actions, stock valuation assessment is necessary, Novelty: Studies novelty lies focus on Indonesian Sharia Stock Index (ISSI) period 2014-2023. Research Methods : A quantitative approach was used, analyzing secondary financial data. Portfolios were formed based on Gross Profitability to Assets and Dividend Yield quintile classifications, then evaluated using risk-adjusted and geometric mean return metrics. Findings/Results : The PDY strategy consistently showed superior portfolio performance against the Jakarta Composite Index (JCI) and fixed income assets. The constructed portfolio provided potential for capital appreciation and stable dividend income, with better risk profiles, proving a useful guide for investor decisions. Conclusion: This study empirically validates the application of bird-in-hand theory and signaling theory. Limitations include focus on the ISSI index, time period, and specific portfolio formation methodology.*

### Keywords:

Profitable Dividend Yield; Gross Profit Assets; Dividend Yield; Value Investing; Fundamental Analysis;

### For citation:

Author(s) Name. (Year). Manuscript Tittle. Akuntansi: Jurnal Akuntansi Integratif, x (x), xx-xx.

### DOI:

<https://doi.org/10.29080/jai.vXXiX.xxx>

### Declaration of conflict of interest:

**Received:** Month Date, Year

**Accepted:** Month Date, Year

**Published:** Month Date, Year



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## INTRODUCTION

Rapid changes in stock prices can affect the psychology of investing, in addition, information circulating in the market can very quickly affect stock prices. The increase and decrease in stock prices cause stock price fluctuations. Stock price fluctuations that occur in the stock market have an impact on irrational actions for investors. In the context of financial theory, these fluctuations are closely linked to signaling theory and bird-in-the-hand theory, both of which provide a framework for understanding investor preferences for dividends. Signaling theory suggests which states that investors and managers have information related to the firms's future prospects, this makes information symmetrical, but in reality information in the market tends to be asymmetric, making investors rely more on information provided by the firms. (Rakim, 2018) . In this view, dividend payments serve as a credible "signal" of financial health and future earnings potential, as only truly profitable firms can afford to distribute cash consistently. Conversely, bird-in-the-hand theory argues that investors prefer the certainty of dividend payments today over the uncertain prospect of future capital gains. This preference becomes critical during periods of high volatility, the fluctuation in stock price movements is reflected in the movement of the Jakarta Composite Index (JCI) during the pandemic in 2020. The movement of the JCI index contracted by -4.55% compared to last year. The fluctuation in stock price movements is also reflected in the movement of sharia stocks, recorded in the movement of the Indonesian Sharia Stock Index (ISSI) in 2020. The movement of the ISSI index contracted by -9.21% compared to last year. This is exacerbated by the increasing number of investors switching to investment instruments that have a moderate and aggressive risk profile. Throughout 2020, the number of stock market investors was 3,880,753, while throughout 2021 the number of capital market investors was 7,849,337 or an increase of 92.99% (KSEI, 2023) .

The performance of the IDX High Dividend 20 index also contributed to significant volatility movements throughout 2020-2024. After a sharp decline in 2020 (-7.90%), the index jumped in 2021 (26.10%), but was corrected again in 2022 (-5.50%), and showed a moderate recovery in 2023 (4.78%) and 2024 (0.08%) (IDX, 2025) . This fluctuation confirms that relying solely on high dividends by observing the performance of index movements is not enough to make the right investment decisions. Investors need to implement a comprehensive investment strategy to minimize risk and optimize returns. The stability of a firms's strong cash flow, as evidenced by ratios such as Gross Profit to Asset, as well as consistent dividend yield stability, are more important fundamental indicators than just the amount of momentary dividends.

Long-term financial planning is a solid foundation in building financial resilience. Investments in the equity market, although susceptible to stock price fluctuations, offer the potential for significant

**Dikomentari [A1]:** The introduction phenomena in general. However, it does shortcomings of previous research.

**Dikomentari [aa1R2]:** Telah dileng

asset growth through the compounding effect, where profits earned are reinvested to generate further profits on an ongoing basis. In order to optimize growth potential, portfolio diversification is a crucial step. However, over time, the performance of each asset in the portfolio will vary, causing the initial asset allocation to become unbalanced. Periodic rebalancing aims to return the asset allocation to the predetermined proportions, ensuring that the portfolio remains in line with investment objectives and risk tolerance. In addition, the aspect of inflation gradually erodes the purchasing power of money. Irrational investors often underestimate the impact of inflation, but wise investors will choose assets that can provide returns that exceed the inflation rate. Thus, through a combination of diversification, rebalancing, and the right asset selection, investors can build a portfolio that is more resistant to market fluctuations and inflation, and is able to achieve long-term financial goals.

The concept of value investing is an investment strategy built on the basis of fundamental analysis to estimate the intrinsic value of a stock, so that it has a basic principle that the stock purchased has a lower price compared to its intrinsic value. The concept of value investing was introduced by (Benjamin Graham, 1934) . Intrinsic value is the true value of a stock determined by several fundamental factors of the firms (Eliza, 2013) .

The concept of Profitability Dividend Yield (PDY) offers an interesting perspective in the investment world, where not only capital growth is the main focus. Through this approach, the stock portfolio that is composed not only excels in terms of average returns but also price resilience. In particular, strategies that invest in firms with high gross profit to assets (GPA) ratios and high dividend yields have historically shaped market indices and shown good downside risk protection in bad times (periods of negative market excesses). Dividend-paying stocks offer a special attraction for investors. Regular dividend income can provide a stable cash flow, reducing dependence on profits from rising stock prices. The combination of high profitability as a stock selection criterion into a dividend yield strategy helps reduce concerns that firms with high dividend yields are more vulnerable to distress risk or are mostly mature firms with low future earnings prospects (Fama & French, 2012) ; (Fama & French, 2006a) . In addition, firms with high efficiency in generating profits tend to provide returns that are comparable to their fundamental value, even though they have a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013) .

Previous studies have also found that firms with high GPA are less susceptible to stress, and have longer cash flow duration and lower leverage than firms that do not generate profits. Firms with high GPA tend to remain profitable for many years to come as shown by (Novy-Marx, 2013) and (Asness et al., 2014b) . Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller and Goldstein, 2011). The returns of portfolios composed of firms with high GPA are typical of low beta stocks ( (Baker et al., 2011) ; (Fong & Koh, 2015) ).

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**Dikomentari [aa2R2]:** Telah dileng

Gross profitability is also a measure of firms quality when constructing a portfolio based on profitability and momentum, as well as combined performance. This combined strategy produces superior performance. It generates returns 2.75 times greater than the momentum strategy and approximately four times higher than the profitability strategy. This strategy also has a significantly higher Sharpe ratio. Momentum strategies can experience rare and sustained negative returns. These momentum declines are partly predictable. They occur during panic conditions, after market downturns and during times of high market volatility, and coincide with market recoveries (Bermejo, 2021; Bhootra, 2018; Daniel, 2016).

Stocks with a high Gross Profitability to Assets (GPA) ratio tend to exhibit low beta characteristics, confirming that low-risk anomalies can be evaluated as strategic investment factors to generate superior and more stable returns across asset classes compared to market fluctuations (Kothe, 2021; Traut, 2023; Brooks, 2018; Novy-Marx, 2015).

Most traditional dividend strategies simply look for high yields, often leading to a "dividend trap" or firms that are no longer growing (Fuller and Goldstein, 2011). This study integrates the Gross Profitability (GPA) factor as a quality filter to ensure firms not only generously distribute dividends but also demonstrate superior operational efficiency. This study is expected to demonstrate that the PDY strategy in the sharia market is capable of mitigating the risk of distress typically associated with high-dividend stocks.

Although the PDY strategy has proven effective asset pricing literature in developed markets, integrating operational profitability (GPA) and dividend yield within a sharia-compliant stock investment framework, particularly the ISSI index in Indonesia, is still very limited. More studies focus solely on dividend yield without comprehensively considering the firms's fundamental quality. This makes these strategies vulnerable to the risk of financial distress. This research gap is the primary focus of this study. Studies ( Samudra et al., 2024; Sulistyana, 2023; Taruna et al., nd ) show that a portfolio formed through Asset Portfolio Optimization with periodic rebalancing every six months produces a high dividend return rate, stable potential dividend income from issuers, and the lowest risk exposure. This approach consistently provides superior profitability while maintaining the effectiveness of risk management, becoming a cushion in formulating a wiser dividend-based investment strategy. Portfolios formed through the Fund Allocation and Penultimate Profit Prospect asset allocation strategies by focusing on stocks that provide high dividends have outperformed the index by offering an appropriate investment approach, an efficient and optimal portfolio, and have the potential to be profitable for individuals who are relatively late in joining the stock market or approaching retirement and adding depth to existing knowledge about dividend-based investment strategies in emerging markets ( Ferdiana, 2023; Retha & Budiarti, 2023; Syahfrina, nd; Yuda & Prasetyanta, 2019) . This study aims to determine

the stock market of developing countries such as Indonesia regarding the application of the value investing concept using the PDY strategy, whether it is able to generate returns above the market average in the long term, and corporations that are consistently profitable tend to have a solid financial foundation, sustainable cash flow, and controlled debt burdens, and consistently return value to shareholders through dividend distribution ( (Novy-Marx, 2013) ; (Asness et al., 2014b) ; and (Fuller & Goldstein, 2011) ). This study aims to test the effectiveness of the Profitable Dividend Yield (PDY) strategy on the Jakarta Composite Index (JCI) to empirically validate the relevance of signaling theory and bird-in-hand theory, while also providing practical guidance for investors in optimizing asset selection that is resistant to market shocks.

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## METHOD

The research approach in this research uses a quantitative research approach. It is a scientific method whose data is in the form of numbers or figures that can be processed and analyzed using mathematical or statistical calculations (Sekaran & Bougie, 2017) .

The data of this study is sourced from secondary data in the form of financial reports of firms that have been listed on the IDX. The population of this study is firms included in the Indonesian Sharia Stock Index (ISSI). The firms used as research samples provide annual report data from 2008 to 2023. Firms that have negative growth as well as firms included in the financial sector are eliminated. The firms has complete information so that the data used in the test is available in this study. The number of research samples per year is 116 firms, with a research period of 15 years from 2008-2023, so that the total number of samples is 1740 firms observed during the research period.

The data collection method of this study uses the content analysis method adopting the PDY investment strategy technique by calculating the GPA and DY ratios. The GPA ratio is a financial ratio that focuses on selecting firms that have high and consistent gross profit margins. Firms with high gross profit margins indicate operational efficiency. Firms with high efficiency in generating profits tend to provide returns that are comparable to their fundamental value, even though they have a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013)

$$GPA = \frac{\text{gross profit}}{\text{total assets}}$$

with:

GPA : Gross Profit to Assets  
Gross profit : total gross profit t-0  
Total assets : total assets t-0

The DY ratio is a financial ratio that focuses on the combination of selecting high profitability firms as stock selection criteria into investment strategies. Regular dividend income can provide

stable cash flow, reducing dependence on profits from rising stock prices. Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011) .

$$DY = \frac{\text{Dividend Per Share}}{\text{Price}}$$

with:  
DY : Dividend Yield  
DPS : total Dividend Per Share t-0  
Price : market price t-0

Data validity technique in this study used source triangulation. The implementation of this technique is carried out by verifying the consistency of financial report data obtained from the Indonesia Stock Exchange (IDX) database with the official annual reports published by each sample firms on their website. Data obtained will be tested using the stages in compiling the PDY investment strategy.

The data analysis method in this study was carried out by compiling a portfolio using the PDY investment strategy which is expected to produce better returns than the market. The stages in compiling a portfolio using the PDY investment strategy in this study are: (1) determining the ISSI index stock sample: eliminating financial firms stocks because they have different capital structures than other firms, which would impact the portfolio construction analysis and the availability of complete financial reports; (2) dividing the sample into five groups based on GPA and Dividend Yield, with G1 and D1 representing the lowest quantile, and G5 and D5 representing the highest quantile; (3) evaluating the performance of the stock portfolio formed based on the previous fiscal year's GPA and DY rankings by forming quintiles of the portfolio data every June; (4) accumulating stocks in the G5, D5, G5D5 quintiles to be used as a portfolio, this study accumulates firms stocks when the firms has reported its latest annual report and has distributed dividends; rebalancing the portfolio formed after one year by making sales close to the cumulative dividend date; (5) compiling a table of PDY investment strategy results using the portfolio method with equal weights; (6) conducting a Robustness Test: comparing PDY's annual returns with benchmarks (JCI, Government bonds, AAA-rated bonds); (7) conducting a risk-adjusted performance metrics test (Sharpe Ratio and Omega Ratio); 8) drawing conclusions.

## RESULTS AND DISCUSSION

The PDY investment strategy carried out by this study on firms listed on the Indonesian Sharia Stock Index (ISSI) includes 116 firms used as observations during the 10-year research period from 2014-2023. The collection of research data uses the content analysis method adopted by (Fong, 2016) by calculating the quintile of the Dividend Yield (DY) and Gross Profitability (GPA) ratios.

The GPA ratio is a financial ratio that focuses on selecting firms that have high and consistent

**Dikomentari [A4]:** The research method in explaining the quantile classification and performance is evaluated using risk-adjusted methodological explanation lacks detail, selecting ISSI stocks, which have not been added, the measurement of portfolio performance fact, there is still no robustness test.

**Dikomentari [aa4R2]:** Telah dileng

**Dikomentari [A5]:** The results need statistics, strategy comparisons, and send the discussion needs to delve deeper into emerging markets, the characteristics of implications for asset pricing theory.

**Dikomentari [aa5R2]:** Telah dileng

gross profit margins. Firms with high gross profit margins indicate operational efficiency. The DY ratio is a financial ratio that focuses on the combination of selecting high profitability firms as stock selection criteria into an investment strategy. Regular dividend income can provide stable cash flow, reducing dependence on profits from rising stock prices. Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011) .

Panel A	G1 (Low)	G2	G3	G4	G5 (High)
Firms	131	242	497	302	56
GPA	-0.2348	0.0741	0.0846	0.3572	0.9125
DY	0.0160	0.0123	0.0261	0.0126	0.0448
Price	525	1,025.36	2,766.64	3,755.52	12,524.26
Market Cap. (millions)	2,540	4.110	12.110	104,590	41,950
Book Market	0.75	0.82	0.72	1.02	1.54
Panel B	D1 (Low)	D2	D3	D4	D5 (High)
Firms	600	53	200	60	18
GPA	0.3074	0.33154	0.5028	0.1413	0.1765
DY	0.0293	0.1190	0.0769	0.1213	0.3852
Price	1,585.40	3,530.00	3,154.35	0	3,190.00
Market Cap. (millions)	11,580	14,700	52,290	0	3190
Book Market	0.41	0.80	1.82	0	0.84

Source: Processed data (2025)

Note: This study reports descriptive statistics of portfolios formed by sorting stocks by gross profit to assets (GPA) and dividend yield (DY) over the sample period from June 2015 to April 2025. Each month, eligible stocks are sorted by their previous fiscal year GPA and 12-month trailing dividend yield, then grouped into quintiles based on the ISSI index and rebalanced annually. All portfolios are value-weighted. Quintile G1 (G5) represents firms with the lowest (highest) GPA, while quintile D1 (D5) represents firms with the lowest (highest) dividend yield. Portfolio G5D5 is a combination of stocks that fall within the highest quintile for both dividend yield and GPA. Panel A (B) presents the time-series averages of the number of firms and firm characteristics for the average firm in each GPA (DY) quintile.

#### *Firms Characteristics Based on Quintiles.*

Table 1 illustrates the average characteristic profile of firms classified into Dividend Yield (DY) and Gross Profitability (GPA) quintiles. The statistics presented include time-series data . In this context, firms price is measured through stock price, while firms size is represented by equity market capitalization value. The calculation of market beta adopts the methodology developed by (Asness et al., 2014a) , which is based on a rolling regression over a five-year period with daily data frequency, explained phenomenon is relevant to several financial theories: Bird-in-the-Hand Theory and Signaling Theory.

The concentration of high dividend payouts in the G5 group (Panel A) aligns with the Bird-in-the-

Hand Theory, which posits that investors prefer the certainty of dividend payments over the "uncertain" future capital gains. In the Indonesian context, the high book-to-market ratio in this group suggests that these firms are perceived as "value" stocks, where tangible cash returns through dividends act as a safety net, reducing the risk premium demanded by investors during market fluctuations.

The superior performance of the G5 group provides empirical support for Signaling Theory. This theory suggests that a firm's decision to pay high dividends is not merely a distribution of cash, but a "signal" from management about the firm's robust future prospects and financial health. Because these payments are backed by high Gross Profit to Assets (GPA), the signal becomes credible; only truly profitable firms can sustain high dividends without jeopardizing their operational stability.

A critical contrast appears in Panel B between the D5 (high yield, low profitability) and D1 (low yield, high profitability) quintiles. The Negative Signal (D5): High dividends in firms with low profitability (D5) may send a "distress signal" rather than a positive one, suggesting that the firm lacks internal investment opportunities or is over-distributing cash to maintain stock price despite weak fundamentals. The Growth Signal (D1): Conversely, firms in D1 demonstrate that high profitability without high dividends signals a focus on reinvestment for future value appreciation, attracting long-term growth-oriented investors. This distinction confirms that the Profitable Dividend Yield (PDY) strategy is effective because it filters out "dividend traps" (D5) by ensuring that the dividend signal is backed by real operational efficiency (G5).

Table 2: Annual Return Summary Portfolio

Period	Yield		
	G5	D5	G5D5
June 2015 – May 2016	17.31%	0.00%	0.00%
June 2016 – May 2017	-1.65%	30.60%	0.00%
June 2017 – May 2018	-18.39%	-12.50%	0.00%
June 2018 – May 2019	-10.81%	-7.77%	0.00%
June 2019 – May 2020	15.34%	-31.29%	0.00%
June 2020 – May 2021	45.65%	24.12%	0.00%
June 2021 – May 2022	22.02%	50.79%	920.00%
June 2022 – May 2023	-4.55%	0.00%	22.76%
June 2023 – May 2024	-35.65%	19.83%	0.00%
June 2024 – April 2025	55.77%	-41.80%	0.00%
<b>Total</b>	<b>85.04%</b>	<b>31.98%</b>	<b>942.76%</b>
<b>Arithmetic Mean</b>	<b>8.50%</b>	<b>3.20%</b>	<b>94.28%</b>
<b>Average 10-year Government Bond Interest Rate</b>	<b>6.92%</b>	<b>6.92%</b>	<b>6.92%</b>
<b>Average 10-year AAA Corporate Bond Interest Rate</b>	<b>7.42%</b>	<b>7.42%</b>	<b>7.42%</b>
<b>Average Interest Rate BI 7 Day Repo Interest Rate Average</b>	<b>2.97%</b>	<b>2.97%</b>	<b>2.97%</b>
<b>JCI Index Average</b>	<b>5.52%</b>	<b>5.52%</b>	<b>5.52%</b>
<b>Golden Average</b>	<b>10.60%</b>	<b>10.60%</b>	<b>10.60%</b>
<b>Minimum</b>	<b>-106.95%</b>	<b>-62.57%</b>	<b>0.00%</b>
<b>Maximum</b>	<b>396.42%</b>	<b>253.93%</b>	<b>920.00%</b>

Source: Processed data (2025)

### Portfolio Performance Comparison

Table 2 presents a comparison of the total return performance of portfolios for categories G5, D5, and G5D5 during the period from June 2015 to April 2025. The application of the PDY (Profitable Dividend Yield) strategy in forming portfolios resulted in varying total returns between categories. The portfolio formed based on the G5 category recorded an accumulated return of 85.04% during the observation period. Meanwhile, the D5 portfolio showed a lower accumulated return, which was 31.98% for the same period. Significantly, the G5D5 portfolio recorded the highest accumulated return, reaching 942.76% during the study period.

To evaluate the performance of the PDY strategy, several relevant benchmarks are considered. The Jakarta Composite Index (JCI) as a representation of the general stock market performance, recorded an average annual return of 5.52% (BEI, 2025). In addition, the performance of 10-year government bonds as risk-free assets has an average interest rate of 6.92% per year. The third benchmark is a 10-year AAA-rated corporate bond, which offers an average interest rate of 7.42% per year (KSEI, 2023). Based on the average annual return, the PDY strategy implemented in the G5D5 portfolio substantially exceeds the average return performance of the JCI and also the yields of government and corporate bonds during the period June 2015 to April 2025.

The findings of this study indicate that forming an equally weighted portfolio using the Profitable Dividend Yield (PDY) strategy consistently outperforms the market benchmark (JCI) and fixed-income asset classes—particularly government bonds and AAA corporate bonds—over the observation period. These results provide empirical support for several fundamental premises in financial theory. First, the high dividend yield (Table 3) observed in the G5D5 portfolio (0.2356) attracts regular income-oriented investors, validating the Bird-in-the-Hand Theory. This theory suggests that investors prefer the certainty of dividend payments over the uncertainty of future capital gains, especially in volatile markets such as the ISSI (Samudra et al., 2024; Sulistyana, 2023; Taruna et al., n.d.; Fuller and Goldstein, 2011). Second, portfolio construction in this study emphasizes that dividends must be "driven" by profitability to be effective and generate the superior performance and substantial final wealth of the PDY portfolio (IDR 1,042,760) reinforce the Signaling Theory. Consistent and significant dividend payments, when supported by a high Gross Profitability to Assets (GPA) of 0.3733, act as a credible 'signal' from management regarding the firms's operational efficiency and future growth prospects. This alignment between profitability and dividend payments reduces information asymmetry, as firms with weak fundamentals would struggle to maintain such high dividends without compromising their financial health. The portfolio's low beta of 0.0892 further strengthens this argument, indicating that high-quality, profitable firms

are less susceptible to market pressures and consistently deliver shareholder value (Bermejo, 2021; Bhootra, 2018; Daniel, 2016).

Table 3 : Firms Characteristics and Performance

	G5	D5	G5D5
<b>Panel A</b>			
Firms	56	18	3
GPA	0.9125	0.1765	0.3733
DY	0.0448	0.3852	0.2356
Beta Portfolio	0.5421	0.7745	0.0892
<b>Panel B</b>			
Excess Return	47.00	13.67	87.02
Std Deviation	0.2836	0.2854	0.0290
Sharpe Ratio	2,754	0.878	322.70
Omega Ratio	2,197	0.873	$\infty$
<b>Panel C</b>			
Terminal Wealth Nominal (IDR)	185,040	131,980	1,042,760
Real Terminal Wealth (IDR)	129,874	92,630	731,808
Geometric Mean (%)	5.12	0.64	28.57

Source: Processed data (2025)

Note: Panel A reports the time series averages of the number of firms and firm characteristics for the average firm in the following portfolios: G5, D5, and G5D5. G5 is the quintile with the highest CPI firms, D5 is the quintile with the highest dividend yield firms, and G5D5 is the intersection of G5 and D5. The sample period is June 2015 to April 2025. Panel B reports the following performance statistics: annual cumulative return (above the government bond rate), annual standard deviation, Sharpe ratio, Omega ratio. Panel C reports the investment value at the end of observation year 2025 of IDR100,000 in June 2015. The real terminal value is calculated based on an inflation rate of 3.6% per year. The last row shows the geometric mean annual returns implied by the nominal terminal value.

#### *Firms Characteristics and Return Statistics.*

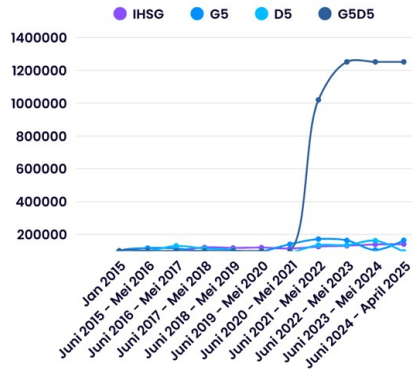
Table 3 reports the firms characteristics and return statistics. The portfolio composed of the G5D5 category, which is a combination of G5 and D5, shows a very small number of firms (3) but inherits several competitive advantages from D5, most notably a relatively high dividend yield (0.2356) and most notably, a very low portfolio beta (0.0892). The low beta of the G5D5 category indicates that this portfolio has lower volatility and risk than the G5 and D5 portfolios individually, making it an attractive choice for risk-averse investors. The G5D5 category signals that management is confident in future cash flows. Without strong profitability (GPA), high dividends are viewed with suspicion (a negative signal), as evidenced by the lower performance of D5 compared to G5D5. The G5D5 category demonstrates a combination of stable Gross Profitability (GPA) that maintains fundamentals, while dividends act as a price floor, drastically minimizing downside risk compared to other strategies.

risk-adjusted return performance metrics for portfolios G5, D5, and G5D5. Cumulative excess

returns, calculated as the difference between the portfolio's accumulated returns and a benchmark (by implication the risk-free rate or market index), show that portfolio G5 recorded the highest excess return at 47.00%, followed by G5D5 at 87.02%, and D5 at 13.67%. However, when considering risk, as measured by standard deviation, portfolio G5D5 exhibits significantly lower volatility (0.0290) compared to G5 (0.2836) and D5 (0.2854). This is reflected significantly in the Sharpe Ratio, which measures excess return per unit of risk. Portfolio G5D5 generates an exceptionally high Sharpe Ratio of 322.70, far surpassing G5 (2.754) and D5 (0.878), indicating superior risk-adjusted return efficiency. Furthermore, the Omega Ratio, which evaluates the probability of gains relative to losses by setting a threshold return (implicitly zero in this case), shows a value of infinity ( $\infty$ ) for G5D5. This infinity value implies that there were no observations of returns below the zero target for the G5D5 portfolio during the evaluation period, indicating a very consistent return potential relative to its risk. This finding underscores the potential synergy in combining the characteristics of G5 and D5, resulting in a very attractive risk and return profile for the G5D5 portfolio (Fong, 2018).

When the market experiences extreme shocks—such as the contraction of the JCI and ISSI in 2020—investors tend to engage in irrational (KSEI, 2023). This causes high-quality stocks with strong profitability (G5) and high dividend yields (D5) to decline to very low prices. A G5D5 portfolio, capable of filtering these "best firms," then delivers exceptional excess returns when the market recovers, creating wealth accumulation that is far more resilient to inflation than fixed-income assets or the general market index. Panel C presents the analysis of terminal wealth and geometric mean return to evaluate the long-term investment performance of portfolios G5, D5, and G5D5. Assuming an initial investment of one unit of currency (in this context, Rupiah), the "Nominal Terminal Wealth (IDR)" row reflects the accumulated investment value at the end of the observation period without inflation adjustment. It can be seen that portfolio G5D5 generates the highest nominal terminal wealth, reaching IDR 1,042,760, significantly surpassing G5 (IDR 185,040) and D5 (IDR 131,980). To provide a perspective of real purchasing power, the "Real Terminal Wealth (IDR)" row presents the inflation-adjusted terminal wealth value (the specific inflation rate is not mentioned in the table, so interpretation is based on the given value). The results are consistent, where the real terminal wealth of portfolio G5D5 (IDR 731,808) is much larger than G5 (IDR 129,874) and D5 (IDR 92,630). Furthermore, the "Geometric Mean (%)" row presents the compounded annual growth rate based on nominal wealth. The G5D5 portfolio recorded the highest geometric mean of 28.57% per annum, outperforming G5 (5.12%) and D5 (0.64%). This finding indicates that the G5D5 portfolio construction strategy generated substantial long-term wealth growth and superior annual compound returns compared to the G5 and D5 portfolios individually over the study period (Fong, 2018).

Figure 1: IDR100,000 Value Invested since 2015 and 2025



Source: Processed data (2025)

The graph in Figure 1 visualizes the growth in the initial investment value (assuming the same initial value) in four different assets from January 2015 to April 2025: the Jakarta Composite Index (JCI), the G5 portfolio, the D5 portfolio, and the G5D5 portfolio.

#### *Performance Evaluation: Strategy Comparison and Market Resiliency*

The effectiveness of the Profitable Dividend Yield (PDY) strategy, particularly the G5D5 portfolio, demonstrates significant economic advantages compared to other market instruments. During the observation period, the G5D5 portfolio recorded an average annual return of 94.28%, far exceeding the G5 portfolio (8.50%), D5 (3.20%), and the average market return (JCI) of 5.52%.

In the context of strategy comparison, the effectiveness of the PDY strategy in this study demonstrates a more aggressive figure than the implementation of Joel Greenblatt's Magic Formula. Based on previous studies, the study by (Rakim, 2025) Magic Formula strategy generated an average return of 13.23% (2010-2022), while the study by (Jannah et al., 2019) recorded a return of 12.67% (2013-2018). While both strategies consistently outperform market returns, which range from 5.31% to 5.32%, the PDY strategy, through its combination of gross profitability and dividends, provides a competitive advantage in capturing market recovery momentum and providing stable cash income for investors in emerging markets.

The robustness of the G5D5 strategy is further strengthened by its superior risk-based performance metrics. The G5D5 portfolio's low beta of 0.0892 demonstrates exceptional defensive characteristics, enabling the portfolio not only to generate high returns but also to exhibit very low sensitivity to systemic market fluctuations. This stability demonstrates that the PDY strategy successfully mitigates downside risk more effectively than other conventional value strategies.

Theoretically, the consistent returns, exceeding those of fixed-income instruments and other stock categories, provide empirical evidence for the validity of signaling theory and the bird-in-hand theory on the Indonesian Sharia Stock Index (ISSI). This phenomenon indicates the existence of market inefficiencies where investors can exploit profitability and dividend anomalies to obtain long-term abnormal profits, the integration of fundamentals and sharia principles forms an optimal risk-return profile, for both conservative and aggressive investor characters.

## CONCLUSION, IMPLICATION AND LIMITATION

This study concludes that the Profitable Dividend Yield (PDY) strategy, particularly the G5D5 portfolio, provides superior risk-adjusted returns within the Indonesian capital market. The empirical results validate the bird-in-hand and signaling theories, as firms with high gross profitability (GPA) and consistent dividend yields (DY) exhibited exceptional resilience and performance. The G5D5 portfolio demonstrated a significant competitive advantage with a very low beta of 0.0892, high cumulative excess returns of 87.02%, and a Sharpe Ratio reaching 322.70. Furthermore, this strategy outperformed the Jakarta Composite Index (JCI) and fixed-income assets, generating the highest nominal and real terminal wealth with an annual geometric mean of 28.57%. These findings confirm that integrating high profitability as a selection criterion effectively mitigates the risks typically associated with high-yield stocks.

The practical implications of these findings suggest that investors can utilize the PDY strategy as a robust framework for identifying high-quality assets that offer both capital appreciation and stable income. By focusing on corporations with solid financial foundations and sustainable cash flows, investors can build portfolios that are more resistant to market fluctuations and inflation. This approach is particularly relevant for risk-averse individuals or those planning for long-term financial goals, as it emphasizes fundamental value over momentary market noise. Consequently, investment decisions rooted in the intersection of profitability and dividends provide a more predictable and secure wealth accumulation path in emerging markets like Indonesia.

Despite its performance, this study is subject to limitations regarding its specific index focus, time period, and the exclusion of real-world market frictions. The scope was limited to firms within the Indonesian Sharia Stock Index (ISSI) from 2014 to 2023, and future studies can deepen the investigation to understand the nuances of the PDY strategy's effectiveness under various conditions to measure the performance resilience between the Profitable Dividend Yield (PDY) strategy and other alternative investment methodologies, such as: market conditions, issuer characteristics, Greenblatt's Magic Formula investment strategy, growth investing investment strategy, market frictions: trading costs and dividend tax burdens, as well as similar cross-country

comparison studies. This study is expected to provide more comprehensive, precise, and applicable insights into investment strategies in actual portfolio management practices. Thus, investment decisions can be based on a deeper understanding of the security and consistency of issuers' long-term financial performance.

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Tabel Revisi (reviewer i)

No	Rekomendasi	Perbaikan
	The introduction discusses stock market phenomena in general. However, it does not explicitly point out the shortcomings of previous research.	Telah dilengkapi <a href="#">disini</a>
	This study does not sufficiently demonstrate its position in the global literature on, for example, dividend yield strategy, profitability factor, and asset pricing anomalies.	Telah dilengkapi <a href="#">disini</a>
	Novelty is only mentioned as the focus of ISSI. In fact, novelty should explain at least the integration of profitability and dividend yield and the testing of PDY strategies in emerging Islamic markets.	Kami sangat menghargai saran reviewer untuk memperluas cakupan ke negara berkembang Islam lainnya. Namun, fokus utama penelitian ini adalah memberikan analisis mendalam (in-depth analysis) pada ekosistem pasar modal syariah di Indonesia (ISSI) yang memiliki karakteristik unik dan pertumbuhan investor domestik yang signifikan. Penambahan data lintas negara akan mengubah fundamental metodologi dan cakupan riset ini secara drastis. Sebagai kompensasi, kami telah memperkuat bagian novelty <a href="#">disini</a> dan menyarankan perbandingan lintas negara tersebut sebagai agenda krusial untuk riset mendatang <a href="#">disini</a>
	The research method presented is quite good in explaining the quantile classification approach. Then, portfolio performance is evaluated using risk-adjusted return. However, the methodological explanation lacks detail, such as the criteria for selecting ISSI stocks, which have not been explained in detail. In addition, the measurement of portfolio performance is incomplete. In fact, there is still no robustness test.	Telah dilengkapi <a href="#">disini</a>
	The results need to be reinforced with testing statistics, strategy comparisons, and	Telah dilengkapi <a href="#">disini</a>

	<p>sensitivity analysis. In addition, the discussion needs to delve deeper into investor behavior in emerging markets, the characteristics of sharia stocks, and the implications for asset pricing theory.</p>	
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Tabel Revisi (reviewer ii)

No	Rekomendasi	Perbaikan
1	Give the research urgency before the aim	Telah dilengkapi <a href="#">disini</a>
	In this introduction, give the several financial theories	Telah dilengkapi <a href="#">disini</a>
	The research gap is not yet clear and is still general in nature. Suggestion: Clarify the gap, as there are no studies integrating profitability and dividend yield in Islamic stocks	Telah dilengkapi <a href="#">disini</a>
	After this statement, give the research objectives contributions (theoretical and practical)	Telah dilengkapi <a href="#">disini</a>
	In thia method, add variable formula	Telah dilengkapi <a href="#">disini</a>
	Explain which triangulation technique? And provide an explanation of the implementation technique. And provide references.	Telah dilengkapi <a href="#">disini</a>
	Still descriptive, not analytical. It's too quick to claim to "support the theory." Compare with previous research: are the results consistent or different? Explain: why is PDY effective in Indonesia? Add insight: is it due to	<p><i>Still descriptive, not analytical</i> telah dilengkapi <a href="#">disini</a></p> <p>Perbaikan pada <i>It's too quick to claim to "support the theory."</i> Telah dilengkapi <a href="#">disini</a></p> <p>Perbaikan pada <i>Compare with previous research: are the results consistent or different?</i> Telah dilengkapi <a href="#">disini</a></p> <p>Strategi investasi ini layak diterapkan pada pasar di Indonesia diharapkan dari saham yang tergolong terbaik dalam kategori G5D5 menunjukkan bahwa portofolio ini memiliki volatilitas dan risiko yang lebih rendah daripada portofolio G5 dan D5 secara individual, menjadikannya pilihan yang menarik bagi investor yang menghindari</p>

market inefficiencies or investor characteristics?	<p>risiko. Kategori G5D5 menandakan bahwa manajemen yakin akan arus kas di masa depan. Tanpa profitabilitas yang kuat (GPA), dividen yang tinggi dipandang dengan curiga (sinyal negatif), seperti yang dibuktikan oleh kinerja D5 yang lebih rendah dibandingkan dengan G5D5. Hal ini telah dijelaskan <a href="#">disini</a></p> <p><i>Add insight: is it due to market inefficiencies or investor characteristics?</i> Studi ini melihat market inefficiency, studi ini menawarkan strategi "memperbaiki" ketidakefisienan ini dengan hanya memilih yang profitabilitasnya nyata. Telah dilengkapi <a href="#">disini</a></p>
Explain the several financial theories	Telah dilengkapi <a href="#">disini</a>
Give reference	Telah dilengkapi <a href="#">disini</a>
Give reference	Telah dilengkapi <a href="#">disini</a>
Explain the financial theory	Telah dilengkapi <a href="#">disini</a>
Provide a more recent reference	Telah dilengkapi <a href="#">disini</a>
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# Profitable Dividend Yield Investment Strategy: Empirical Evidence from Indonesian Stock Exchange

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## Abstract

**Purpose:** This study seeks to address the challenges of the dividend trap phenomenon and irrational investor behavior amid extreme stock price fluctuations. Stock price volatility often triggers irrational investor behavior and asymmetric information, rendering traditional index-based investing insufficient for risk mitigation.

**Methodology:** A quantitative approach was used in analyzing the data. Portfolios were formed through quintile classification based on two main variables: Gross Profitability to Assets (GPA) and Dividend Yield (DY). Portfolio performance was then evaluated using risk-adjusted return (Sharpe Ratio) and geometric mean return metrics to compare the performance of the PDY strategy against the benchmark Jakarta Composite Index (JCI) and fixed-income assets.

**Findings:** The results show that the best quintile portfolio (G5D5) consistently provides superior returns compared to the market and fixed-income assets. This finding provides empirical confirmation of the application of signaling theory and bird-in-the-hand theory in emerging markets, where dividend payments accompanied by strong profitability serve as credible signals of a company's prospects.

**Practical Implication:** This study provides guidance for investors and investment managers in developing a defensive portfolio strategy that is still able to provide capital appreciation and stable dividend income, especially in an inefficient market.

**Originality:** The novelty of the study lies in the integration of gross profitability and dividend yield criteria with a specific focus on the Islamic stock index (ISSI), an area that is still rarely explored in depth in the asset pricing literature in Indonesia.

## Keywords:

Profitable Dividend Yield; Gross Profit Assets; Dividend Yield; Value Investing; Fundamental Analysis;

## For citation:

Rakim, A. A., (2026). Profitable Dividend Yield Investment Strategy: Empirical Evidence from Indonesian Stock Exchange. *Akuntansi: Jurnal Akuntansi Integratif*, 12(1), 65-82. 10.29080/jai.v12i1.2176

**DOI:** [10.29080/jai.v12i1.2176](https://doi.org/10.29080/jai.v12i1.2176)

**Declaration of conflict of interest:** The author declare no conflict of interest

**Received:** 17 February, 2026

**Accepted:** 11 April, 2026

**Published:** 24 April, 2026



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## INTRODUCTION

Rapid changes in stock prices can affect the psychology of investing, in addition, information circulating in the market can very quickly affect stock prices. The increase and decrease in stock prices cause stock price fluctuations. Stock price fluctuations that occur in the stock market have an impact on irrational actions for investors. In the context of financial theory, these fluctuations are closely linked to signaling theory and bird-in-the-hand theory, both of which provide a framework for understanding investor preferences for dividends. Signaling theory suggests which states that investors and managers have information related to the firms's future prospects, this makes information symmetrical, but in reality information in the market tends to be asymmetric, making investors rely more on information provided by the firms. (Rakim, 2018) . In this view, dividend payments serve as a credible "signal" of financial health and future earnings potential, as only truly profitable firms can afford to distribute cash consistently. Conversely, bird-in-the-hand theory argues that investors prefer the certainty of dividend payments today over the uncertain prospect of future capital gains. This preference becomes critical during periods of high volatility, the fluctuation in stock price movements is reflected in the movement of the Jakarta Composite Index (JCI) during the pandemic in 2020. The movement of the JCI index contracted by -4.55% compared to last year. The fluctuation in stock price movements is also reflected in the movement of sharia stocks, recorded in the movement of the Indonesian Sharia Stock Index (ISSI) in 2020. The movement of the ISSI index contracted by -9.21% compared to last year. This is exacerbated by the increasing number of investors switching to investment instruments that have a moderate and aggressive risk profile. Throughout 2020, the number of stock market investors was 3,880,753, while throughout 2021 the number of capital market investors was 7,849,337 or an increase of 92.99% (KSEI, 2023) .

The performance of the IDX High Dividend 20 index also contributed to significant volatility movements throughout 2020-2024. After a sharp decline in 2020 (-7.90%), the index jumped in 2021 (26.10%), but was corrected again in 2022 (-5.50%), and showed a moderate recovery in 2023 (4.78%) and 2024 (0.08%) (IDX, 2025). This fluctuation confirms that relying solely on high dividends by observing the performance of index movements is not enough to make the right investment decisions. Investors need to implement a comprehensive investment strategy to minimize risk and optimize returns. The stability of a firms's strong cash flow, as evidenced by ratios such as Gross Profit to Asset, as well as consistent dividend yield stability, are more important fundamental indicators than just the amount of momentary dividends.

Long-term financial planning is a solid foundation in building financial resilience. Investments in the equity market, although susceptible to stock price fluctuations, offer the potential for significant asset growth through the compounding effect, where profits earned are reinvested to generate further profits on an ongoing basis. In order to optimize growth potential, portfolio diversification is

a crucial step. However, over time, the performance of each asset in the portfolio will vary, causing the initial asset allocation to become unbalanced. Periodic rebalancing aims to return the asset allocation to the predetermined proportions, ensuring that the portfolio remains in line with investment objectives and risk tolerance. In addition, the aspect of inflation gradually erodes the purchasing power of money. Irrational investors often underestimate the impact of inflation, but wise investors will choose assets that can provide returns that exceed the inflation rate. Thus, through a combination of diversification, rebalancing, and the right asset selection, investors can build a portfolio that is more resistant to market fluctuations and inflation, and is able to achieve long-term financial goals.

The concept of value investing is an investment strategy built on the basis of fundamental analysis to estimate the intrinsic value of a stock, so that it has a basic principle that the stock purchased has a lower price compared to its intrinsic value. The concept of value investing was introduced by (Benjamin Graham, 1934) . Intrinsic value is the true value of a stock determined by several fundamental factors of the firms (Eliza, 2013) .

The concept of Profitability Dividend Yield (PDY) offers an interesting perspective in the investment world, where not only capital growth is the main focus. Through this approach, the stock portfolio that is composed not only excels in terms of average returns but also price resilience. In particular, strategies that invest in firms with high gross profit to assets (GPA) ratios and high dividend yields have historically shaped market indices and shown good downside risk protection in bad times (periods of negative market excesses). Dividend-paying stocks offer a special attraction for investors. Regular dividend income can provide a stable cash flow, reducing dependence on profits from rising stock prices. The combination of high profitability as a stock selection criterion into a dividend yield strategy helps reduce concerns that firms with high dividend yields are more vulnerable to distress risk or are mostly mature firms with low future earnings prospects (Fama & French, 2012) ; (Fama & French, 2006a) . In addition, firms with high efficiency in generating profits tend to provide returns that are comparable to their fundamental value, even though they have a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013) .

Previous studies have also found that firms with high GPA are less susceptible to stress, and have longer cash flow duration and lower leverage than firms that do not generate profits. Firms with high GPA tend to remain profitable for many years to come as shown by (Novy-Marx, 2013) and (Asness et al., 2014b) . Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller and Gold-stein, 2011). The returns of portfolios composed of firms with high GPA are typical of low beta stocks ( (Baker et al., 2011) ; (Fong & Koh, 2015) ).

Gross profitability is also a measure of firms quality when constructing a portfolio based on profitability and momentum, as well as combined performance. This combined strategy produces

superior performance. It generates returns 2.75 times greater than the momentum strategy and approximately four times higher than the profitability strategy. This strategy also has a significantly higher Sharpe ratio. Momentum strategies can experience rare and sustained negative returns. These momentum declines are partly predictable. They occur during panic conditions, after market downturns and during times of high market volatility, and coincide with market recoveries (Bermejo, 2021; Bhootra, 2018; Daniel, 2016).

Stocks with a high Gross Profitability to Assets (GPA) ratio tend to exhibit low beta characteristics, confirming that low-risk anomalies can be evaluated as strategic investment factors to generate superior and more stable returns across asset classes compared to market fluctuations (Kothe, 2021; Traut, 2023; Brooks, 2018; Novy-Marx, 2015).

Most traditional dividend strategies simply look for high yields, often leading to a "dividend trap" or firms that are no longer growing (Fuller and Goldstein, 2011). This study integrates the Gross Profitability (GPA) factor as a quality filter to ensure firms not only generously distribute dividends but also demonstrate superior operational efficiency. This study is expected to demonstrate that the PDY strategy in the sharia market is capable of mitigating the risk of distress typically associated with high-dividend stocks.

Although the PDY strategy has proven effective asset pricing literature in developed markets, integrating operational profitability (GPA) and dividend yield within a sharia-compliant stock investment framework, particularly the ISSI index in Indonesia, is still very limited. More studies focus solely on dividend yield without comprehensively considering the firms's fundamental quality. This makes these strategies vulnerable to the risk of financial distress. This research gap is the primary focus of this study. Studies ( Samudra et al., 2024; Sulistyana, 2023; Taruna et al., nd ) show that a portfolio formed through Asset Portfolio Optimization with periodic rebalancing every six months produces a high dividend return rate, stable potential dividend income from issuers, and the lowest risk exposure. This approach consistently provides superior profitability while maintaining the effectiveness of risk management, becoming a cushion in formulating a wiser dividend-based investment strategy. Portfolios formed through the Fund Allocation and Penultimate Profit Prospect asset allocation strategies by focusing on stocks that provide high dividends have outperformed the index by offering an appropriate investment approach, an efficient and optimal portfolio, and have the potential to be profitable for individuals who are relatively late in joining the stock market or approaching retirement and adding depth to existing knowledge about dividend-based investment strategies in emerging markets ( Ferdiana, 2023; Retha & Budiarti, 2023; Syahfrina, nd; Yuda & Prasetyanta, 2019 ). This study aims to determine the stock market of developing countries such as Indonesia regarding the application of the value investing concept using the PDY strategy, whether it is able to generate returns above the market average in the long term, and corporations

that are consistently profitable tend to have a solid financial foundation, sustainable cash flow, and controlled debt burdens, and consistently return value to shareholders through dividend distribution ( (Novy-Marx, 2013) ; (Asness et al., 2014b) ; and (Fuller & Goldstein, 2011) ). This study aims to test the effectiveness of the Profitable Dividend Yield (PDY) strategy on the Jakarta Composite Index (JCI) to empirically validate the relevance of signaling theory and bird-in-hand theory, while also providing practical guidance for investors in optimizing asset selection that is resistant to market shocks.

## LITERATURE REVIEW

### Signaling Theory

Signaling theory is theory that assumes investors and managers own related information with prospects firms going forward, things This make symmetrical information but in fact information in the market tends to assymetry make investors more depend on information provided firms (Rakim et al., 2022). Signaling theory emerged when firms give signals to investors in the form of openness information cause fluctuations change price shares, so that indicated by investors that firms own promising prospects in the future or signify signal bad on information provided. Development draft signaling theory at the moment this , including : i ) as marker signal finance and performance firms so that can make signal for holder share in determine decision investment by shareholders shares ; ii) as marker non-financial and behavioral signals firms in determination decisions and prospects firms by management ; iii) as marker digital era signals data accessibility in determination decision investment Good holder share and management , iv) combination signal financial and non- financial used in taking decision investment on action corporations faced.

### Intrinsic Value

Intrinsic value is the true value of a stock, determined by several fundamental factors within the firms (Eliza, 2013) . Assessing investment viability is essential to address fluctuating stock prices and reduce investment risk. Intrinsic value can serve as a benchmark for making investment decisions. There are several methods for assessing intrinsic value (Rakim et al., 2022), including:

#### Earnings-Based Approach

Testing mark intrinsic share for know stock market value moment This with discount all flow cash inflows and outflows that will accepted in the future come (Tandelilin, 2010); (Wijayanti et al., 2020). Analysis method mark intrinsic Earning Based Approach, including: 1) Dividend Discount Model No Growth, 2) Dividend Discount Model: Gordon Model, 3) Dividend Discount Model: Holding Periods, 4) Discount Cash Flow: Free Cash Flow to Firm, 5) Discount Cash Flow: Free Cash Flow to Equity.

#### Relative Valuation Models

Testing mark intrinsic share for know stock market value moment This proxied with performance finance, as well as compare with sector industry similar. Analysis method mark intrinsic Price Multiple Model, including: 1) Price-Earning Method, 2) Price-Sales Method, 3) Price-Book Valued Method, 4) Price-Cashflow Method.

#### Asset-Based Models

Testing the intrinsic value of a stock to determine its current market value is proxied by financial performance. Intrinsic value analysis methods using the Asset Based Model include: 1) Net Asset Value Method, 2) Fair Market Value Method, 3) Value Investing Method.

#### Profitable Dividend Yield (PDY) Investment Strategy

The Profitability Dividend Yield (PDY) concept offers an interesting perspective in the investment world, where capital growth is not the primary focus. Through this approach, a constructed stock portfolio excels not only in terms of average returns but also in price resilience. Specifically, strategies that invest in firms with high gross profit-to-asset (GPA) ratios and high dividend yields have historically shaped market indices and demonstrated good downside risk protection during periods of negative market volatility. Dividend-paying stocks offer a unique appeal to investors. Regular dividend income can provide a stable cash flow, reducing dependence on gains from rising stock prices. The incorporation of high profitability as a stock selection criterion into a PDY investment strategy helps mitigate concerns that high-dividend-yielding firms are more vulnerable to distress or are predominantly mature firms with poor future earnings prospects ((Fama & French, 2012); (Fama & French, 2006a, 2006b)). Furthermore, firms with high profit-generating efficiency tend to deliver returns commensurate with their fundamental value, despite having a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013).

Previous studies have also found that firms with high GPA are less susceptible to stress, have longer cash flow durations, and have lower leverage than firms that do not generate profits. Firms with high GPA tend to remain profitable for many years to come, as demonstrated by oleh (Novy-Marx, 2013) dan (Asness et al., 2014b). Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011). The returns of portfolios composed of firms with high GPA are characteristic of low-beta stocks ((Baker et al., 2011); (Fong & Koh, 2015)).

#### METHOD

The research approach in this research uses a quantitative research approach. It is a scientific method whose data is in the form of numbers or figures that can be processed and analyzed using mathematical or statistical calculations (Sekaran & Bougie, 2017) .

The data of this study is sourced from secondary data in the form of financial reports of firms that have been listed on the IDX. The population of this study is firms included in the Indonesian Sharia Stock Index (ISSI). The firms used as research samples provide annual report data from 2008 to 2023. Firms that have negative growth as well as firms included in the financial sector are eliminated. The firms has complete information so that the data used in the test is available in this study. The number of research samples per year is 116 firms, with a research period of 15 years from 2008-2023, so that the total number of samples is 1740 firms observed during the research period.

The data collection method of this study uses the content analysis method adopting the PDY investment strategy technique by calculating the GPA and DY ratios. The GPA ratio is a financial ratio that focuses on selecting firms that have high and consistent gross profit margins. Firms with high gross profit margins indicate operational efficiency. Firms with high efficiency in generating profits tend to provide returns that are comparable to their fundamental value, even though they have a lower book-to-market ratio than firms with low GPA (Novy-Marx, 2013)

$$GPA = \frac{\text{gross profit}}{\text{total assets}}$$

with:

GPA : Gross Profit to Assets  
 Gross profit : total gross profit t-0  
 Total assets : total assets t-0

The DY ratio is a financial ratio that focuses on the combination of selecting high profitability firms as stock selection criteria into investment strategies. Regular dividend income can provide stable cash flow, reducing dependence on profits from rising stock prices. Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011) .

$$DY = \frac{\text{Dividend Per Share}}{\text{Price}}$$

with:

DY : Dividend Yield  
 DPS : total Dividend Per Share t-0  
 Price : market price t-0

Data validity technique in this study used source triangulation. The implementation of this technique is carried out by verifying the consistency of financial report data obtained from the Indonesia Stock Exchange (IDX) database with the official annual reports published by each sample firms on their website. Data obtained will be tested using the stages in compiling the PDY investment strategy.

The data analysis method in this study was carried out by compiling a portfolio using the PDY investment strategy which is expected to produce better returns than the market. The stages in compiling a portfolio using the PDY investment strategy in this study are: (1) determining the ISSI index stock sample: eliminating financial firms stocks because they have different capital structures

than other firms, which would impact the portfolio construction analysis and the availability of complete financial reports; (2) dividing the sample into five groups based on GPA and Dividend Yield, with G1 and D1 representing the lowest quantile, and G5 and D5 representing the highest quantile; (3) evaluating the performance of the stock portfolio formed based on the previous fiscal year's GPA and DY rankings by forming quintiles of the portfolio data every June; (4) accumulating stocks in the G5, D5, G5D5 quintiles to be used as a portfolio, this study accumulates firms stocks when the firms has reported its latest annual report and has distributed dividends; rebalancing the portfolio formed after one year by making sales close to the cumulative dividend date; (5) compiling a table of PDY investment strategy results using the portfolio method with equal weights; (6) conducting a Robustness Test: comparing PDY's annual returns with benchmarks (JCI, Government bonds, AAA-rated bonds); (7) conducting a risk-adjusted performance metrics test (Sharpe Ratio and Omega Ratio); 8) drawing conclusions.

## RESULTS AND DISCUSSION

The PDY investment strategy carried out by this study on firms listed on the Indonesian Sharia Stock Index (ISSI) includes 116 firms used as observations during the 10-year research period from 2014-2023. The collection of research data uses the content analysis method adopted by (Fong, 2016) by calculating the quintile of the Dividend Yield (DY) and Gross Profitability (GPA) ratios.

The GPA ratio is a financial ratio that focuses on selecting firms that have high and consistent gross profit margins. Firms with high gross profit margins indicate operational efficiency. The DY ratio is a financial ratio that focuses on the combination of selecting high profitability firms as stock selection criteria into an investment strategy. Regular dividend income can provide stable cash flow, reducing dependence on profits from rising stock prices. Research also shows that firms that consistently pay dividends often have stronger fundamentals (Fuller & Goldstein, 2011) .

Table 1: Quintile Firms Character GPA and DY Ratio

	G1 (Low)	G2	G3	G4	G5 (High)
<b>Panel A</b>					
Firms	131	242	497	302	56
GPA	-0.2348	0.0741	0.0846	0.3572	0.9125
DY	0.0160	0.0123	0.0261	0.0126	0.0448
Price	525	1,025.36	2,766.64	3,755.52	12,524.26
Market Cap. (millions)	2,540	4.110	12.110	104,590	41,950
Book Market	0.75	0.82	0.72	1.02	1.54
	D1 (Low)	D2	D3	D4	D5 (High)
<b>Panel B</b>					
Firms	600	53	200	60	18
GPA	0.3074	0.33154	0.5028	0.1413	0.1765
DY	0.0293	0.1190	0.0769	0.1213	0.3852
Price	1,585.40	3,530.00	3,154.35	0	3,190.00
Market Cap. (millions)	11,580	14,700	52,290	0	3190
Book Market	0.41	0.80	1.82	0	0.84

*Source: Processed data (2025)*

Note: This study reports descriptive statistics of portfolios formed by sorting stocks by gross profit to assets (GPA) and dividend yield (DY) over the sample period from June 2015 to April 2025. Each month, eligible stocks are sorted by their previous fiscal year GPA and 12-month trailing dividend yield, then grouped into quintiles based on the ISSI index and rebalanced annually. All portfolios are value-weighted. Quintile G1 (G5) represents firms with the lowest (highest) GPA, while quintile D1 (D5) represents firms with the lowest (highest) dividend yield. Portfolio G5D5 is a combination of stocks that fall within the highest quintile for both dividend yield and GPA. Panel A (B) presents the time-series averages of the number of firms and firm characteristics for the average firm in each GPA (DY) quintile.

### *Firms Characteristics Based on Quintiles.*

Table 1 illustrates the average characteristic profile of firms classified into Dividend Yield (DY) and Gross Profitability (GPA) quintiles. The statistics presented include time-series data. In this context, firms price is measured through stock price, while firms size is represented by equity market capitalization value. The calculation of market beta adopts the methodology developed by (Asness et al., 2014), which is based on a rolling regression over a five-year period with daily data frequency, explained phenomenon is relevant to several financial theories: Bird-in-the-Hand Theory and Signaling Theory.

The concentration of high dividend payouts in the G5 group (Panel A) aligns with the Bird-in-the-Hand Theory, which posits that investors prefer the certainty of dividend payments over the "uncertain" future capital gains. In the Indonesian context, the high book-to-market ratio in this group suggests that these firms are perceived as "value" stocks, where tangible cash returns through dividends act as a safety net, reducing the risk premium demanded by investors during market fluctuations.

The superior performance of the G5 group provides empirical support for Signaling Theory. This theory suggests that a firm's decision to pay high dividends is not merely a distribution of cash, but a "signal" from management about the firm's robust future prospects and financial health. Because these payments are backed by high Gross Profit to Assets (GPA), the signal becomes credible; only truly profitable firms can sustain high dividends without jeopardizing their operational stability.

A critical contrast appears in Panel B between the D5 (high yield, low profitability) and D1 (low yield, high profitability) quintiles. The Negative Signal (D5): High dividends in firms with low profitability (D5) may send a "distress signal" rather than a positive one, suggesting that the firm lacks internal investment opportunities or is over-distributing cash to maintain stock price despite weak fundamentals. The Growth Signal (D1): Conversely, firms in D1 demonstrate that high profitability without high dividends signals a focus on reinvestment for future value appreciation, attracting long-term growth-oriented investors. This distinction confirms that the Profitable Dividend

Yield (PDY) strategy is effective because it filters out "dividend traps" (D5) by ensuring that the dividend signal is backed by real operational efficiency (G5).

Table 2: Annual Return Summary Portfolio

Period	Yield		
	G5	D5	G5D5
June 2015 – May 2016	17.31%	0.00%	0.00%
June 2016 – May 2017	-1.65%	30.60%	0.00%
June 2017 – May 2018	-18.39%	-12.50%	0.00%
June 2018 – May 2019	-10.81%	-7.77%	0.00%
June 2019 – May 2020	15.34%	-31.29%	0.00%
June 2020 – May 2021	45.65%	24.12%	0.00%
June 2021 – May 2022	22.02%	50.79%	920.00%
June 2022 – May 2023	-4.55%	0.00%	22.76%
June 2023 – May 2024	-35.65%	19.83%	0.00%
June 2024 – April 2025	55.77%	-41.80%	0.00%
<b>Total</b>	<b>85.04%</b>	<b>31.98%</b>	<b>942.76%</b>
<b>Arithmetic Mean</b>	<b>8.50%</b>	<b>3.20%</b>	<b>94.28%</b>
<b>Average 10-year Government Bond Interest Rate</b>	<b>6.92%</b>	<b>6.92%</b>	<b>6.92%</b>
<b>Average 10-year AAA Corporate Bond Interest Rate</b>	<b>7.42%</b>	<b>7.42%</b>	<b>7.42%</b>
<b>BI 7 Day Repo Interest Rate Average</b>	<b>2.97%</b>	<b>2.97%</b>	<b>2.97%</b>
<b>JCI Index Average</b>	<b>3.75%</b>	<b>3.75%</b>	<b>3.75%</b>
<b>Golden Average</b>	<b>5.52%</b>	<b>5.52%</b>	<b>5.52%</b>
<b>Minimum</b>	<b>10.60%</b>	<b>10.60%</b>	<b>10.60%</b>
<b>Maximum</b>	<b>-106.95%</b>	<b>-62.57%</b>	<b>0.00%</b>
	<b>396.42%</b>	<b>253.93%</b>	<b>920.00%</b>

Source: Processed data (2025)

*Portfolio Performance Comparison*

Table 2 presents a comparison of the total return performance of portfolios for categories G5, D5, and G5D5 during the period from June 2015 to April 2025. The application of the PDY (Profitable Dividend Yield) strategy in forming portfolios resulted in varying total returns between categories. The portfolio formed based on the G5 category recorded an accumulated return of 85.04% during the observation period. Meanwhile, the D5 portfolio showed a lower accumulated return, which was 31.98% for the same period. Significantly, the G5D5 portfolio recorded the highest accumulated return, reaching 942.76% during the study period.

To evaluate the performance of the PDY strategy, several relevant benchmarks are considered. The Jakarta Composite Index (JCI) as a representation of the general stock market performance, recorded an average annual return of 5.52% (BEI, 2025). In addition, the performance of 10-year government bonds as risk-free assets has an average interest rate of 6.92% per year. The third benchmark is a 10-year AAA-rated corporate bond, which offers an average interest rate of 7.42% per year (KSEI, 2023). Based on the average annual return, the PDY strategy implemented in the

G5D5 portfolio substantially exceeds the average return performance of the JCI and also the yields of government and corporate bonds during the period June 2015 to April 2025.

The findings of this study indicate that forming an equally weighted portfolio using the Profitable Dividend Yield (PDY) strategy consistently outperforms the market benchmark (JCI) and fixed-income asset classes—particularly government bonds and AAA corporate bonds—over the observation period. These results provide empirical support for several fundamental premises in financial theory. First, the high dividend yield (Table 3) observed in the G5D5 portfolio (0.2356) attracts regular income-oriented investors, validating the Bird-in-the-Hand Theory. This theory suggests that investors prefer the certainty of dividend payments over the uncertainty of future capital gains, especially in volatile markets such as the ISSI (Samudra et al., 2024; Sulistyana, 2023; Taruna et al., n.d.; Fuller and Goldstein, 2011). Second, portfolio construction in this study emphasizes that dividends must be "driven" by profitability to be effective and generate the superior performance and substantial final wealth of the PDY portfolio (IDR 1,042,760) reinforce the Signaling Theory. Consistent and significant dividend payments, when supported by a high Gross Profitability to Assets (GPA) of 0.3733, act as a credible 'signal' from management regarding the firms's operational efficiency and future growth prospects. This alignment between profitability and dividend payments reduces information asymmetry, as firms with weak fundamentals would struggle to maintain such high dividends without compromising their financial health. The portfolio's low beta of 0.0892 further strengthens this argument, indicating that high-quality, profitable firms are less susceptible to market pressures and consistently deliver shareholder value (Bermejo, 2021; Bhootra, 2018; Daniel, 2016).

Table 3 : Firms Characteristics and Performance

	G5	D5	G5D5
<b>Panel A</b>			
Firms	56	18	3
GPA	0.9125	0.1765	0.3733
DY	0.0448	0.3852	0.2356
Beta Portfolio	0.5421	0.7745	0.0892
<b>Panel B</b>			
Excess Return	47.00	13.67	87.02
Std Deviation	0.2836	0.2854	0.0290
Sharpe Ratio	2,754	0.878	322.70
Omega Ratio	2,197	0.873	∞
<b>Panel C</b>			
Terminal Wealth Nominal (IDR)	185,040	131,980	1,042,760
Real Terminal Wealth (IDR)	129,874	92,630	731,808
Geometric Mean (%)	5.12	0.64	28.57

Source: Processed data (2025)

Note: Panel A reports the time series averages of the number of firms and firm characteristics for the average firm in the following portfolios: G5, D5, and G5D5. G5 is the quintile with the highest CPI firms, D5 is the quintile with the highest dividend yield firms, and G5D5 is the intersection of G5 and D5. The

sample period is June 2015 to April 2025. Panel B reports the following performance statistics: annual cumulative return (above the government bond rate), annual standard deviation, Sharpe ratio, Omega ratio. Panel C reports the investment value at the end of observation year 2025 of IDR100,000 in June 2015. The real terminal value is calculated based on an inflation rate of 3.6% per year. The last row shows the geometric mean annual returns implied by the nominal terminal value.

### *Firms Characteristics and Return Statistics.*

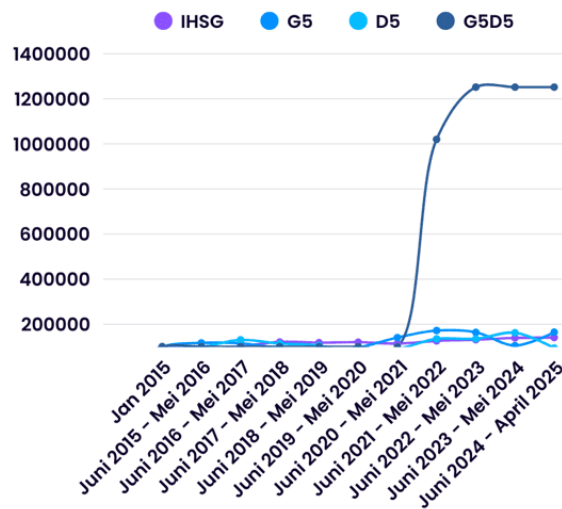
Table 3 reports the firms characteristics and return statistics. The portfolio composed of the G5D5 category, which is a combination of G5 and D5, shows a very small number of firms (3) but inherits several competitive advantages from D5, most notably a relatively high dividend yield (0.2356) and most notably, a very low portfolio beta (0.0892). The low beta of the G5D5 category indicates that this portfolio has lower volatility and risk than the G5 and D5 portfolios individually, making it an attractive choice for risk-averse investors. The G5D5 category signals that management is confident in future cash flows. Without strong profitability (GPA), high dividends are viewed with suspicion (a negative signal), as evidenced by the lower performance of D5 compared to G5D5. The G5D5 category demonstrates a combination of stable Gross Profitability (GPA) that maintains fundamentals, while dividends act as a price floor, drastically minimizing downside risk compared to other strategies.

risk-adjusted return performance metrics for portfolios G5, D5, and G5D5. Cumulative excess returns, calculated as the difference between the portfolio's accumulated returns and a benchmark (by implication the risk-free rate or market index), show that portfolio G5 recorded the highest excess return at 47.00%, followed by G5D5 at 87.02%, and D5 at 13.67%. However, when considering risk, as measured by standard deviation, portfolio G5D5 exhibits significantly lower volatility (0.0290) compared to G5 (0.2836) and D5 (0.2854). This is reflected significantly in the Sharpe Ratio, which measures excess return per unit of risk. Portfolio G5D5 generates an exceptionally high Sharpe Ratio of 322.70, far surpassing G5 (2.754) and D5 (0.878), indicating superior risk-adjusted return efficiency. Furthermore, the Omega Ratio, which evaluates the probability of gains relative to losses by setting a threshold return (implicitly zero in this case), shows a value of infinity ( $\infty$ ) for G5D5. This infinity value implies that there were no observations of returns below the zero target for the G5D5 portfolio during the evaluation period, indicating a very consistent return potential relative to its risk. This finding underscores the potential synergy in combining the characteristics of G5 and D5, resulting in a very attractive risk and return profile for the G5D5 portfolio (Fong, 2018).

When the market experiences extreme shocks—such as the contraction of the JCI and ISSI in 2020—investors tend to engage in irrational (KSEI, 2023). This causes high-quality stocks with strong profitability (G5) and high dividend yields (D5) to decline to very low prices. A G5D5 portfolio, capable of filtering these "best firms," then delivers exceptional excess returns when the market recovers, creating wealth accumulation that is far more resilient to inflation than fixed-income assets or the

general market index. Panel C presents the analysis of terminal wealth and geometric mean return to evaluate the long-term investment performance of portfolios G5, D5, and G5D5. Assuming an initial investment of one unit of currency (in this context, Rupiah), the "Nominal Terminal Wealth (IDR)" row reflects the accumulated investment value at the end of the observation period without inflation adjustment. It can be seen that portfolio G5D5 generates the highest nominal terminal wealth, reaching IDR 1,042,760, significantly surpassing G5 (IDR 185,040) and D5 (IDR 131,980). To provide a perspective of real purchasing power, the "Real Terminal Wealth (IDR)" row presents the inflation-adjusted terminal wealth value (the specific inflation rate is not mentioned in the table, so interpretation is based on the given value). The results are consistent, where the real terminal wealth of portfolio G5D5 (IDR 731,808) is much larger than G5 (IDR 129,874) and D5 (IDR 92,630). Furthermore, the "Geometric Mean (%)" row presents the compounded annual growth rate based on nominal wealth. The G5D5 portfolio recorded the highest geometric mean of 28.57% per annum, outperforming G5 (5.12%) and D5 (0.64%). This finding indicates that the G5D5 portfolio construction strategy generated substantial long-term wealth growth and superior annual compound returns compared to the G5 and D5 portfolios individually over the study period (Fong, 2018).

Figure 1: IDR100,000 Value Invested since 2015 and 2025



Source: Processed data (2025)

The graph in Figure 1 visualizes the growth in the initial investment value (assuming the same initial value) in four different assets from January 2015 to April 2025: the Jakarta Composite Index (JCI), the G5 portfolio, the D5 portfolio, and the G5D5 portfolio.

*Performance Evaluation: Strategy Comparison and Market Resiliency*

The effectiveness of the Profitable Dividend Yield (PDY) strategy, particularly the G5D5 portfolio, demonstrates significant economic advantages compared to other market instruments. During the observation period, the G5D5 portfolio recorded an average annual return of 94.28%, far exceeding the G5 portfolio (8.50%), D5 (3.20%), and the average market return (JCI) of 5.52%.

In the context of strategy comparison, the effectiveness of the PDY strategy in this study demonstrates a more aggressive figure than the implementation of Joel Greenblatt's Magic Formula. Based on previous studies, the study by (Rakim, 2025) Magic Formula strategy generated an average return of 13.23% (2010-2022), while the study by (Jannah et al., 2019) recorded a return of 12.67% (2013-2018). While both strategies consistently outperform market returns, which range from 5.31% to 5.32%, the PDY strategy, through its combination of gross profitability and dividends, provides a competitive advantage in capturing market recovery momentum and providing stable cash income for investors in emerging markets.

The robustness of the G5D5 strategy is further strengthened by its superior risk-based performance metrics. The G5D5 portfolio's low beta of 0.0892 demonstrates exceptional defensive characteristics, enabling the portfolio not only to generate high returns but also to exhibit very low sensitivity to systemic market fluctuations. This stability demonstrates that the PDY strategy successfully mitigates downside risk more effectively than other conventional value strategies.

Theoretically, the consistent returns, exceeding those of fixed-income instruments and other stock categories, provide empirical evidence for the validity of signaling theory and the bird-in-hand theory on the Indonesian Sharia Stock Index (ISSI). This phenomenon indicates the existence of market inefficiencies where investors can exploit profitability and dividend anomalies to obtain long-term abnormal profits, the integration of fundamentals and sharia principles forms an optimal risk-return profile, for both conservative and aggressive investor characters.

## CONCLUSION, IMPLICATION AND LIMITATION

This study concludes that the Profitable Dividend Yield (PDY) strategy, particularly the G5D5 portfolio, provides superior risk-adjusted returns within the Indonesian capital market. The empirical results validate the bird-in-hand and signaling theories, as firms with high gross profitability (GPA) and consistent dividend yields (DY) exhibited exceptional resilience and performance. The G5D5 portfolio demonstrated a significant competitive advantage with a very low beta of 0.0892, high cumulative excess returns of 87.02%, and a Sharpe Ratio reaching 322.70. Furthermore, this strategy outperformed the Jakarta Composite Index (JCI) and fixed-income assets, generating the highest nominal and real terminal wealth with an annual geometric mean of 28.57%. These findings confirm that integrating high profitability as a selection criterion effectively mitigates the risks typically associated with high-yield stocks.

The practical implications of these findings suggest that investors can utilize the PDY strategy as a robust framework for identifying high-quality assets that offer both capital appreciation and stable income. By focusing on corporations with solid financial foundations and sustainable cash flows, investors can build portfolios that are more resistant to market fluctuations and inflation. This

approach is particularly relevant for risk-averse individuals or those planning for long-term financial goals, as it emphasizes fundamental value over momentary market noise. Consequently, investment decisions rooted in the intersection of profitability and dividends provide a more predictable and secure wealth accumulation path in emerging markets like Indonesia.

Despite its performance, this study is subject to limitations regarding its specific index focus, time period, and the exclusion of real-world market frictions. The scope was limited to firms within the Indonesian Sharia Stock Index (ISSI) from 2014 to 2023, and future studies can deepen the investigation to understand the nuances of the PDY strategy's effectiveness under various conditions to measure the performance resilience between the Profitable Dividend Yield (PDY) strategy and other alternative investment methodologies, such as: market conditions, issuer characteristics, Greenblatt's Magic Formula investment strategy, growth investing investment strategy, market frictions: trading costs and dividend tax burdens, as well as similar cross-country comparison studies. This study is expected to provide more comprehensive, precise, and applicable insights into investment strategies in actual portfolio management practices. Thus, investment decisions can be based on a deeper understanding of the security and consistency of issuers' long-term financial performance.

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