

ABSTRACT

Stock market is recently being a good destination for those investors who had some surplus of wealth, and also a perfect option for companies to find some lending sources, instead of proposing credits from banks. From the side of surplus unit, which is often referred as investors, stock market unpredictability of return can be decreased by using diversification. Diversification of risks can be reduced to its minimum level by combining several numbers of stock or, in other words, by forming a portfolio of securities. The aim of this study is to find the decent composition of an optimum portfolio using the Single-Index Model and Constant Correlation Model.

The data used in this research is the daily closing price of stocks that are issuing their Initial Public Offering in between January 2008 until December 2011. There are 80 companies that is listed in Jakarta Stock Exchange during those period. The daily closing prices that are used in this research are the prices of a-hundred-twenty-five weekdays from January to June 2012. These daily closing prices are used to find the expected returns, variance, standard deviation, correlation coefficient, beta, alpha and unsystematic variance of the stocks.

The result of this study is finding the composition of the portfolios using each Single Index and Constant Correlation Model. From the Single Index Model, we generate a portfolio which contains 22 stocks with the rate 0,415% of return and 0,0046% of risk. And from the Constant Correlation Model, we discover a portfolio that contains 17 stocks with the rate 0,5271% of return and 0,0075% of risk.

Keywords: *stock market, diversification, optimum portfolio, Single-Index Model, Constant Correlation Model, Initial Public Offering*