

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/approach: *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., Wijayani, D. I. L., & Misra, I. (2026). Profitable Dividend Yield Investment Strategy: Empirical Evidence from Indonesian Stock Exchange. *Akuntansi: Jurnal Akuntansi Integratif*, 12 (1), 63–79. 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: 27 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' 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' 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 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).

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' 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; 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 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

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., 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 firms' decision to pay high dividends is not merely a distribution of cash, but a "signal" from management about the firms' 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 firms 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%
Total	85.04%	31.98%	942.76%
Arithmetic Mean	8.50%	3.20%	94.28%
Average 10-year Government Bond Interest Rate	6.92%	6.92%	6.92%
Average 10-year AAA Corporate Bond	7.42%	7.42%	7.42%
Average Interest Rate	2.97%	2.97%	2.97%
BI 7 Day Repo Interest Rate Average	3.75%	3.75%	3.75%
JCI Index Average	5.52%	5.52%	5.52%
Golden Average	10.60%	10.60%	10.60%
Minimum	-106.95%	-62.57%	0.00%
Maximum	396.42%	253.93%	920.00%

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
Panel A			
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
Panel 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	∞
Panel C			
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.

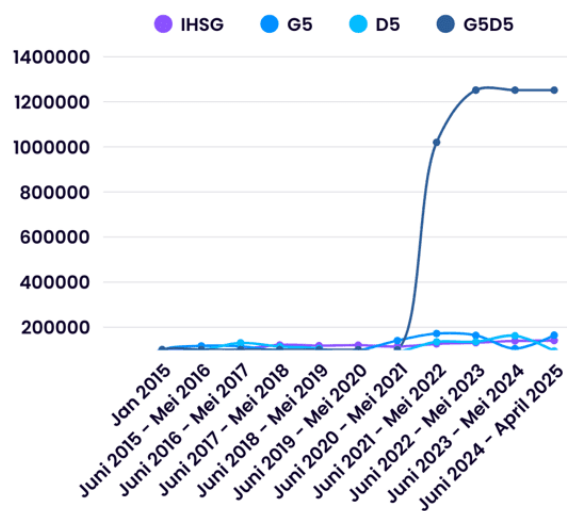
risk-adjusted return performance metrics for portfolios G5, D5, and G5D5. Cumulative excess returns, calculated as the difference between the portfolio's accumulated returns and a benchmark (by implication the risk-free rate or market index), show that portfolio G5 recorded the highest excess return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