EFFECT OF EXCHANGE RATES, INTEREST RATES, PROFITABILITY, AND SOLVENCY ON STOCK PRICES MEDIATED BY DIVIDEND POLICY

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Abstract: The stock price of manufacturing companies listed on the Indonesia Stock Exchange fluctuates. It causes investors to experience difficulties in making investments in the stock market. A dividend policy is a policy in making decisions to distribute profits as dividends or withhold profits for business development. It is difficult for many company managers. This study examines and proves the effect of exchange rates, interest rates, profitability, and solvency on stock prices mediated by dividend policy. This study uses a quantitative approach with a sample of manufacturing companies listed on the Indonesia Stock Exchange. The number of observations was eight companies, with a research period of 4 years (2016-2019). Sampling using a purposive sampling method. Analysis of research data using multiple linear regression methods and path analysis. The results showed that solvency directly affects stock prices through dividend policy, while profitability only affects stock prices. The same test results also show that the exchange rate measured using exchange rate sensitivity and interest rates measured using interest rate sensitivity cannot influence the stock price of manufacturing companies. This study supports the signaling theory regarding the direct and indirect effects that lead to the company's stock price. Measuring financial ratios can help companies to decide on dividend policies. Company managers must manage the company's profitability and solvency appropriately to achieve the goals for shareholders' welfare.

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Keywords: Exchange Rate, Interest Rate, Profitability, Solvency, Stock Price, Dividend Payout Ratio

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Investment is one way that can be done to obtain several benefits by investing a certain amount of money or buying valuable assets. There are many instruments offered in the capital market. One of the instruments that investors are interested in is stocks. Investors can take a stock valuation approach that includes two analyzes. That analyzes are fundamental analysis and technical analysis. Many factors influence stock prices, both fundamental and macroeconomic. Apart from estimating the values of fundamental factors through financial ratios, investors generally also consider the company's dividend policy.

However, there are still differences in the results suggested by previous researchers. There are differences in the research results conducted by researchers. Simbolon and Purwanto (2018) state that the exchange rate has a significant positive relationship to changes in share prices. In contrast, Zamane (2018) stated that the exchange rate did not affect stock prices. Malau (2018) stated that interest rates have no relationship to stock prices. Different results obtained by Simbolon and Purwanto (2018) showed that interest rates positively affect stock prices. Junaidi et al. (2017) and Zamane (2018) stated that profitability did not affect stock prices. In contrast, Ulfah (2018) stated that profitability positively affects stock prices. Susanti (2016) and Ulfah (2018) stated that solvency did not affect stock prices. Islam et al. (2019) stated a positive but insignificant relationship between solvency and changes in stock prices. In contrast, Mehmood et al. (2019) stated that solvency negatively relates to changes in stock prices. Jabbouri (2016), Ulfah (2018), and Hadi and Rahayu (2019) stated that profitability has a positive effect on dividend policy. KaŸmierska-JóŸwiak (2015) stated that the profitability and dividend policies of companies listed on the Polish Stock Exchange have a negative and significant effect. KaŸmierska-JóŸwiak (2015) and Jabbouri (2016) found that solvency had a significant negative effect on dividend policy, different from Ulfah (2018) stated that solvency has a significant positive effect on dividend policy. Mehmood et al. (2019) stated that dividend policy positively affects stock prices, in contrast to Islam et al. (2019). They stated that there is a negative relationship between the two variables. Susanti (2016), Ariyani et al. (2018), and Ulfah (2018) stated that policy is not able to mediate the relationship between profitability and solvency to stock prices. Still, Junaidi et al. (2017) stated that policy could mediate the relationship between profitability and solvency in stock prices.

Mohammad Faisal, Research Director of the Center of Reform on Economics (Core) Indonesia, stated that manufacturing investment in fluctuating conditions was influenced by two things, namely seasonal or seasonal and fundamentals. This seasonal factor, investment realization, generally experienced a slowdown in the year leading up to the presidential election and when the presidential election took places, such as in 2014, 2009, and 2004. The manufacturing sector is also a part that is influenced by seasonal factors. However, with the condition of the decline in investment realization that occurred two years before the presidential election, he stated that this was due to fundamental factors, namely the business climate of the manufacturing industry. Researchers chose manufacturing companies as a sample of companies because manufacturing companies experience fluctuations in stock prices and dividend distribution but tend to pay dividends with high nominal values.

The difference between this study and previous research is that this study adds a mediating variable, namely dividend policy. The reason for choosing a dividend policy is that changes in the stock price of a company are largely determined by the activity of investors in trading these shares in the capital market. Dividends are stock returns that investors prefer. A company's dividend policy becomes an important point in making investors' decisions to invest or reinvest, which is this investor's decision that will decrease and increase the company's share price in the capital market. This study will analyze the effect of exchange rates, interest rates, profitability, and solvency on stock prices in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX). This study will analyze the effect of profitability and solvency on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange (IDX). This study will analyze the effect of profitability and solvency on stock prices with dividend policy as a mediating variable in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX). The results of this study are expected to be useful in developing insights into financial management, especially on the factors that affect stock prices concerning the influence of macroeconomic factors and fundamental factors with dividend policy as a mediating variable. The results of this study can be used as a basis for consideration and evaluation of the company on the role of dividend policy taken by the company to increase the purchasing power of investors toward company shares. The results of this study are also expected to be the basis for making investment decisions in the capital market to obtain maximum returns and additional insight for potential investors to decide whether to invest or reinvest.

LITERATURE REVIEW

Previous studies have shown that several variables influence stock prices. That variables are exchange rates, interest rates, solvency, profitability, and dividend policy. Analysis of the relationship between variables found that the dividend policy can mediate the relationship between the independent variables: exchange rates and interest rates, solvency, and profitability to the dependent variable stock price. Junaidi et al. (2017), Susanti (2016), Ariyani et al. (2018) and Ulfah (2018). Dividend policy is often the main determinant that affects stock prices. In this case, dividend policy is an intervening variable that aims to mediate the relationship between the fundamental variables, namely profitability and solvency. However, in macroeconomic variables, the relationship of the independent variables to the dependent variable cannot be mediated by dividend policy.

Exchange Rate

The exchange rate is the ratio of the value between two currencies. The impact of changes in exchange rates on a business is seen from the strengthening or weakening of a currency and considering whether the country is a net exporter or net importer. The exchange rate is represented by exchange rate sensitivity.

Interest Rate

Interest rate is the value, level, price, or profit provided to investors from investment funds based on calculating economic value. In this study, interest rates are represented by interest rate sensitivity.

Profitability

Suselo et al. (2015) stated that the ratio of the company's ability to earn profits depends on which profits and capital are considered. Company profit has various levels ranging from gross profit, operating profit, before interest and tax, taxable profit, and company net profit. ROE is a ratio that measures the company's ability to provide net returns for every dollar/ rupiah of shareholder capital. ROE can be calculated using the following formula Suselo et al. (2015).

$$Return\ on\ Equity\ (ROE) = \frac{Earning\ After\ Tax}{Equity}$$

Source: Suselo et al. (2015)

Solvency

Suselo et al. (2015) define solvency as the level of use of debt as a source of corporate costs. Solvency is a measure of how much the company is financed by the debt element and how much is the company's ability from the results of the company's operations to pay off the interest or principal payments of the loan. According to Suselo et al. (2015), the formula for calculating the debt-to-equity ratio.

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity}$$

Source: Suselo et al. (2015)

Dividend Policy

The dividend is part of the net income distributed to shareholders. The optimal dividend policy balances current dividends with future growth (Singh and Tandon, 2019). The formula used to calculate the Dividend Payout Ratio (DPR) is Singh and Tandon (2019).

$$Dividend\ Payout\ Ratio = \frac{Dividend}{Net\ Profit}$$

Source: Singh and Tandon (2019)

Stock Price

Camilleri et al. (2019) stated that stock was the letter valuable as proof of ownership or possession of individuals and institutions in the company. Stocks are a type of high-risk investment even though they promise relatively large returns. An accurate stock valuation and a lot of information related to stock prices will help an investor decide which company to choose, then help investors make a profit.

HYPOTHESIS DEVELOPMENT

The Effect of Exchange Rates on Stock Prices

The exchange rate compares the value of one country's currency with another country's currency. Exchange rate depreciation negatively affects the national economy, which ultimately reduces the performance of shares in the capital market. So that it impacts investors who are reluctant to invest their funds in stocks, then it will cause the share price to decline. The most significant impact can be seen in the company's sales volume. When the exchange rate depreciates, it will decrease sales of goods made by the company, resulting in the volume of profits that the company receives. The logical basis of thinking this way, this study uses the sensitivity of company sales to changes in exchange rates. Simbolon and Purwanto (2018) stated that the exchange rate variable significantly negatively affects stock prices.

H 1: The higher exchange rate would lower the price of the stock

Effect of Interest Rates on Stock Prices

The decrease in net orders will result in lower share prices. In other words, interest rates have a negative effect on the company's stock price. In this research, interest rates are represented by interest-rate sensitivity, which is measured using the company's sales volume size. Simbolon and Purwanto (2018) stated that the interest rate variable significantly negatively relates to stock prices.

H2: The higher the interest rate, the lower the stock price

Effect of Profitability on Stock Prices

This study uses return on equity (ROE) to measure profitability. ROE is a measurement ratio that shows the company's ability to manage capital from investors to get net profit. The higher the ROE means, the better the company's performance to achieve the company's success, in this case, the success of obtaining operating profits. If the company's profit is high, the possibility of investors getting a profit is also higher. In companies that provide a high level of profit for shareholders, the higher the willingness of investors to buy shares from the company, the ROE has a positive effect on stock prices. Lyman (2017) stated that profitability has a significant positive effect on stock prices.

H3: The higher profitability of the company will increase the price of the stock

Effect of Solvency on Stock Prices

The solvency ratio in this study is measured using the Debt to Equity Ratio (DER), DER, which is the ratio between total debt and total equity in the company. The higher the DER value, means the proportion of debt owed by the company is high. That will result in a higher interest expense borne by the company. Thus, the profit generated by the company will decrease. It will affect investors' decision-making and then will change the share price of a company. The high DER value will result in a decrease in the company's share price. Mehmood et al. (2019) stated that solvency negatively relates to changes in stock prices.

H4: The higher the solvency of the company will lower the price of the Shares

Effect of Profitability on Dividend Policy

This study uses return on equity (ROE) to measure profitability. Return on Equity (ROE) is the amount of return on net income on equity and is expressed in percentage terms. ROE is used to measure the ability of a company to generate profits with the equity that shareholders have invested. The higher the ratio owned by the company, the better. If the profits obtained by the company are higher, investors will assume that the dividends to be received are greater. It will have an impact on decision-making in investing in a company. Hadi and Rahayu (2019) stated that the results of their research show that profitability has a positive effect on dividend policy.

H5: The higher the profitability will increase the company's dividend policy

Effect of Solvency on Dividend Policy

DER is a ratio that compares the amount of debt a company owes to the equity owned by the company. Analysts and investors often use this ratio to see how much a company's debt is compared to the company's or shareholders' equity. The higher the DER number, it is assumed that the company has a higher risk of corporate liquidity. If the DER value is high, the interest expense borne by the company will also increase. It will reduce the company's profit and affect the dividend payout ratio. Solvency on dividend policy has a significant negative effect Jabbouri (2016).

H6: the higher the solvency of the company will reduce the company's dividend policy

Effect of Dividend Policy on Stock Prices

The signaling theory states that dividend announcements positively impact stock prices. The amount of dividends that will be distributed to shareholders depends on the net profit earned by the company. If the company has a good performance, the net profit earned by the company will increase, and the dividends that will be distributed to shareholders will also increase and vice versa. The dividend policy in this study is measured using the *Dividend Payout Ratio* (DPR). A high DPR will give a good signal to investors because investors think that when the DPR is high, investors will get high returns from these shares. High dividends will be able to attract investors to invest in the company. The more demand for a company's shares, the more it will be able to increase the share price in that company. Mehmood et al. (2019) showed positive results between dividend policies on stock prices.

H7: The higher the dividend policy will increase the stock price

The Effect of Profitability on Stock Prices is mediated by Dividend Policy

The profitability of the company shows the company's ability to generate profits. Suselo et al. (2015) stated that ROE reflects the influence of all other ratios and is the best single performance measure from an accounting point of view. Investors like high ROE and high ROE positively correlate with high dividend payments and high dividend payments. High will attract investors to buy shares in the company, which will result in an increase in share prices in the capital market. Junaidi et al. (2017) stated that the results of their research show a positive direction with the results of a significant mediation coefficient, meaning that there is a mediating effect between ROE on stock prices through dividend policy.

H8: Improved profitability mediated by dividend policy will increase stock prices

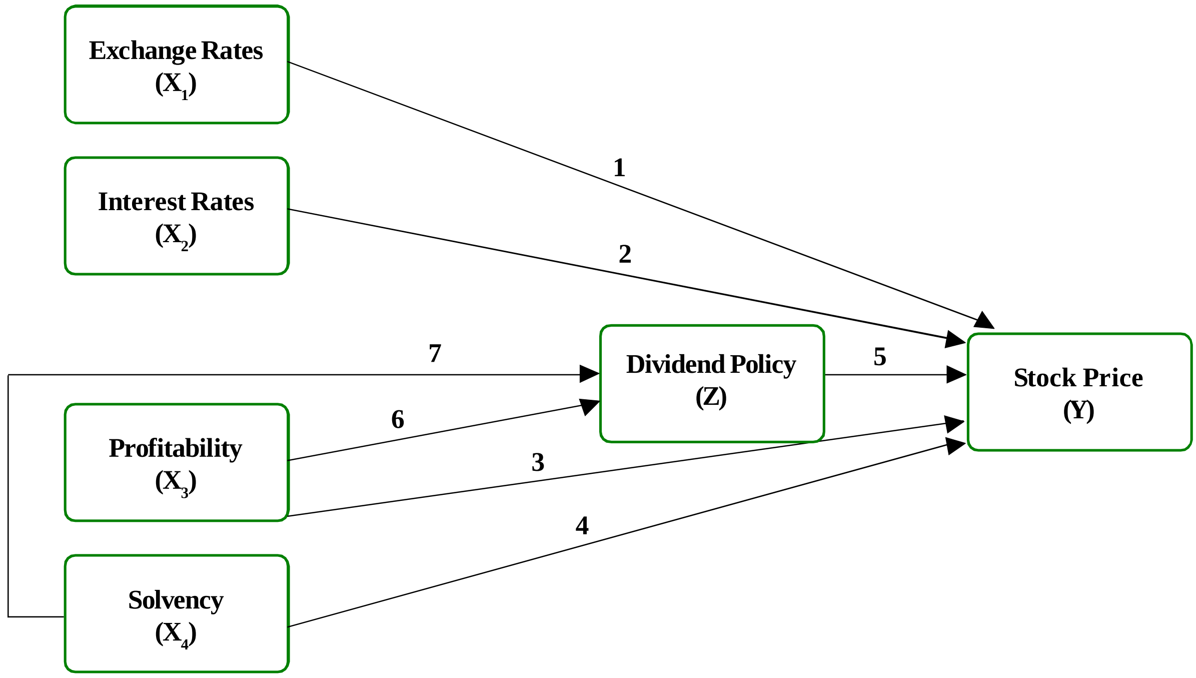
The Effect of Solvency on Stock Prices is mediated by Dividend Policy

Investors assume that the higher the solvency ratio, the more difficult it will be for the company to earn a profit. The company has to pay debts and interest as its obligations. The profit earned by the company minus debt and debt interest will result in decreased profits. A small profit will reduce the number of dividends distributed to investors. Thus, the profits that investors will obtain will also decrease. Investors do not like small dividends. That makes investors dislike the company's shares and will make a decision to sell the shares. The more investors who release/sell shares in the capital market will decrease the company's share price. Junaidi et al. (2017) stated that the results of their research show a negative direction with the results of a significant mediation coefficient, which means that there is a mediation effect between DER on stock prices through dividend policy.

H9: Improved solvency that is mediated by dividend policy will increase stock prices

Research Conceptual Framework

Based on the background, objectives, research benefits, literature review, and previous research from this research, the researcher can form a conceptual research framework described in Figure 1 as follows:



Source: Researcher (2020)

Figure 1. Research Conceptual Framework

Dividend policy is often the main determinant that affects stock prices. In this case, dividend policy is a mediating variable that aims to mediate the relationship between the fundamental variables, namely profitability and solvency. However, in macroeconomic variables, the relationship of the independent variables to the dependent variable cannot be mediated by dividend policy.

METHOD

This type of research is a quantitative research using explanatory research methods. The research location is in the Indonesia Stock Exchange (BEI) through the BEI FEB UB Corner. The consideration in selecting the research location is to facilitate the collection of the necessary data. The research period is 2016-2019. The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2019 period. In this study, the non-probability sampling technique used is purposive sampling because certain criteria are tailored to the study's objectives. The sampling criteria in this study are Manufacturing companies listed on the Indonesia Stock Exchange consecutively from 2016 to 2019. Manufacturing companies that report annual financial reports on the Indonesia Stock Exchange in a row for 2016-2019, Manufacturing companies distributing dividends every year consecutively in 2016-2019, and Companies that positively impact Indonesian society. The number that meets the criteria is eight companies, so the number of observations in this study is 32. The data source used in this research is secondary data.

RESULTS

Direct Effect Test Results

The relationship of a variable is said to be significant if the significance value is smaller than 0.05. The results of the test analysis can be seen immediately in Tables 1 and 2:

Table 1. Summary of the Result of the Significance of Stock Price Variables

No	Variable	Beta	Sig.	Information
1	Exchange Rates	-0.017	0.912	Not significant
2	Interest Rates	-0.030	0.856	Not significant
3	Profitability	-0.132	0.389	Not significant
4	Solvency	0.473	0.012	Significant (positive)
5	Dividend Policy	-0.392	0.029	Significant (negative)

Source: processed data, 2020

The exchange rate path coefficient is -0.017 with a significance of 0.912, which means no influence on stock prices. The interest rate path coefficient is -0.030 with a significance of 0.856, which means no influence on stock prices. The profitability path coefficient is -0.132 with a significance of 0.389, which means no influence on stock prices. The solvency path coefficient of 0.473 with a significance of 0.012 indicates a positive influence, meaning that the higher the solvency value, the higher the stock price. The dividend policy path coefficient of -0.392 with a significance of 0.029 indicates a negative influence, meaning that the higher the value of the dividend policy, the lower the stock price.

Table 2. Summary of the Result of the Significance of Dividend Policy Variables

No	Variable	Beta	Sig.	Information
1	Profitability	0.401	0.006	Significant (positive)
2	Solvency	-0.589	0.000	Significant (negative)

Source: processed data, 2020

The profitability path coefficient of 0.401 indicates a positive influence on dividend policy, meaning that the higher the value of profitability, the higher the value of the dividend policy. The solvency path coefficient of -0.589 indicates a negative influence on dividend policy, meaning that the higher the solvency value, the lower the dividend policy value.

Indirect Effect Test Results

Testing the indirect effect is one variable to another through an intermediary called the mediating variable. The results of the indirect effect test analysis are presented in Table 3.

The mediating role of dividend policy between profitability and stock prices are stated as perfect

Table 3. Summary of Test Results for Dividend Policy Mediation

No	Relationship Variable	Indirect Path Coefficient	*p-value*	t-statistics	Conclusion
1	Profitability → Dividend Policy → Stock Price	-1.805	0.081	-1.805	Full Mediating
2	Solvency → Dividend Policy → Stock Price	0.231	0.034	2.220	Partial Mediating

Source: Processed data, 2020

mediation because profitability on dividend policy has a significant coefficient value, and dividend policy on stock prices also has a significant coefficient value. Still, profitability on stock prices has an insignificant coefficient value. So, dividend policy is stated as perfect mediation. The mediation role of dividend policy between solvency and stock price is partially mediating because solvency against dividend policy has a significant coefficient value, and dividend policy on stock prices also has a significant coefficient value. Solvency on stock prices has a significant coefficient value. Still, the direct coefficient value between solvency and stock price is greater than the coefficient value between dividend policy and stock price. Thus dividend policy in this study is stated as partial mediation.

DISCUSSION

The Effect of Exchange Rates on Stock Prices

This study means that any increase or decrease in the exchange rate did not result in an increase or decrease in stock prices. It is due to differences in domestic and foreign investors' decision-making, which will result in changes in the research results on exchange rates on stock prices. Foreign investors tend not to pay attention to changes in exchange rates because the currency used is the dollar, so a weakening or strengthening rupiah did not affect the decision of foreign investors to invest in the stock market of manufacturing companies on the Indonesia Stock Exchange. In addition, there are differences in investment targets, namely choosing companies that rely on imports or exports. Long-term investors also assume that the impact of exchange rate fluctuations is only temporary so that it does not have a significant effect on stock prices. Indonesia adopted a controlled floating exchange rate policy during the research period. Bank Indonesia plays a role following its function in regulating the exchange rate in Indonesia, namely determining a controlled floating policy so that the prevailing exchange rate is relatively stable. It is the main reason the exchange rate did not affect stock prices. This study's results follow the results stated by Zamane (2018), which stated that the exchange rate did not affect stock prices. The study results do not follow Simbolon and Purwanto's (2018) results that the interest rate variable has a significant negative relationship to stock prices.

The Effect of Interest Rates on Stock Prices

The absence of an effect of interest rates on stock prices in this study means that any increase or decrease in interest rates did not increase or decrease stock prices. The increase or decrease in stock prices in the stock market is very dependent on the interest of investors in a company's shares. So, in this case, an increase or decrease in the interest rate policy set by the government cannot influence investors' decisions in investing in stocks. Indonesia adopted a controlled floating policy on Indonesian interest rates during the study period. Bank Indonesia plays a role following its function in regulating interest rates in Indonesia so that the prevailing interest rates are relatively stable. That is the main reason that interest rates do not affect stock prices. Malau (2018) stated that interest rates have no relationship to stock prices. This result did not follow the research results conducted by Mawardi et al. (2019), which show that interest rates significantly negatively affect stock prices.

The Effect of Profitability on Stock Prices

The statistical tests show that profitability did not affect the company's stock price. That indicates that some investors prefer capital gains. Investors who like capital gains are investors who invest in the short term. The decision of investors to invest in the short term is to follow the buying or selling trends that occur in the stock market. That results in the company's profitability not being considered by investors in making investment decisions. This study confirms the results of Junaidi et al. (2017) and Zamane (2018), who stated that profitability did not affect stock prices. The results of this study are also different from the results obtained by Ulfah (2018), which stated that profitability has a positive effect on stock prices.

The Effect of Solvency on Stock Prices

High solvency means that the company is increasingly capable of meeting its long-term obligations. That makes investors interested and trusting in investing in the company, which results in great demand for shares, which will increase the company's stock price. Low solvency indicates the company's low ability to meet long-term obligations. Investors tend to avoid companies with low solvency, which will cause the company's stock price to decline. The statistical tests show a significant positive effect between solvency and stock prices in manufacturing companies for the 2016-2019 period. It means that the higher the solvency value will increase stock prices and vice versa. It is evidenced by the solvency and stock price charts that have the same direction of movement.

Islam et al. (2019) also found that solvency positively influences companies listed on the Pakistan Stock Exchange. In contrast to the results obtained from research conducted by Mehmood et al. (2019) that solvency harms stock prices in cement industry companies listed on the Pakistan Stock Exchange and is different from the results obtained by Susanti (2016) and Ulfah (2018), which stated that solvency did not affect stock prices.

The Effect of Profitability on Dividend Policy

Return on Equity (ROE) represents profitability in this study. ROE is a measurement to measure how capable a company is of obtaining operating profit from its equity. The higher the ROE value, the more capable the company is of achieving operating profit. High operating profit will increase the company's chances of paying bigger dividends. The higher the company's operating profit, the higher the chance that profits will be distributed as dividends. Good profitability means that the company can manage its finances and operations, including its dividend policy. Based on the results of the path analysis, it is concluded that profitability has a significant positive effect on the company's dividend policy. It is in line with previous research, namely by Jabbouri (2016), Ulfah (2018), and Hadi and Rahayu (2019). However, the results of this study are not in line with KaŸmierska-JóŸwiak (2015), who stated that the profitability and dividend policies of companies listed on the Polish Stock Exchange have a negative and significant effect.

The Effect of Solvency on Dividend Policy

The increase in solvency resulted in a decrease in the dividend policy of a company, as evidenced by the increase in the level of solvency, which resulted in the company's dividend policy being unable to increase optimally. Then when the sample company has a decreased average solvency, the company can maintain dividend distribution, and the company can maintain the value of the company's dividend policy ratio. Based on the results of the path analysis, it can be concluded that solvency has a significant negative effect on the company's dividend policy. It is in line with previous research, namely by KaŸmierska-JóŸwiak (2015) and Jabbouri (2016). However, the results of this study are not in line with Ulfah (2018), who stated that solvency has a significant positive effect on dividend policy.

The Effect of Dividend Policy on Stock Prices

Dividend policy negatively affects stock prices, meaning that any increase in dividend policy will be able to reduce stock prices in the stock market. In this study, the average movement of dividend policy and stock prices did not show a negative growth direction for each other. Due to the influence of buying and selling activities on the stock market, some investors expect capital gains in investing. The same thing was confirmed by Islam et al. (2019), who researched companies on the Pakistan Stock Exchange. This research is not in line with Mehmood et al. (2019). His research found that dividend policy positively affects stock prices in industrial cement companies listed on the Pakistan Stock Exchange. The results of this study did not follow the research results by Ulfah (2018) that dividend Policy has no significant negative effect on the stock price.

The Effect of Profitability on Share Prices through Dividend Policy

Based on the results of data analysis conducted in this study, it was found that dividend policy has a mediating role in the effect of profitability on stock prices. The role of dividend policy in mediating the relationship between profitability and stock prices is full mediating, where dividend policy can become a full mediator when profitability cannot directly influence stock prices. Still, when mediated by dividend policy in this study, it can affect stock prices. These results follow research conducted by Junaidi et al. (2017). The results of this study are different from the results obtained by Susanti (2016), Ariyani et al. (2018), and Ulfah (2018), which stated that policy is not able to mediate the relationship between profitability and stock prices.

The Effect of Solvency on Share Prices through Dividend Policy

Based on the results of data analysis carried out in this study, it was found that dividend policy has a mediating role in the relationship of solvency influence on stock prices. Dividend policy is said to mediate the effect of solvency on stock prices because solvency can affect stock prices without being mediated by dividend policies, and solvency also affects stock prices through dividend policy. These results follow research conducted by Junaidi et al. (2017). The results of this study are different from the results obtained by Ariyani et al. (2018) and Ulfah (2018), which stated that policy could not mediate the relationship between solvency and stock prices.

CONCLUSIONS

The exchange rate did not affect share prices because the exchange rate is relatively stable, following the function of Bank Indonesia with a controlled floating policy. Interest rates do not affect stock prices. Indonesia's interest rates are relatively stable and follow Bank Indonesia's function with a controlled floating policy. Profitability did not affect the company's stock price. That indicates that some investors prefer capital gains. Investors who like capital gains are investors who invest in the short term. Investors' decisions in short-term investing tend to follow the buying and selling trends that occur in the stock market. Solvency shows that capital comes from debt.

The proportion of capital from debt will reduce the proportion of capital from investment, showing that the investment supply from a company decreases. The decrease in share offerings will increase demand for these shares. The increasing demand for shares in a company will increase the share price. Profitability shows the company's ability to achieve operating profit. High operating profit will increase the company's chances of paying bigger dividends. The higher the company's operating profit, the higher the chance of the proportion of profits distributed as dividends. Solvency shows the proportion of debt held to finance company operations. The use of debt as a funding source will cause the company to bear fixed costs in interest payments and loan principal. It results in a decrease in company profits. Decreasing company profits will result in a decrease in the policy of paying dividends to shareholders. Investors who invest in the short term expect a rate of return from the difference in selling and buying prices on the stock market. In addition, dividends tend to be taxed at a higher rate than capital gains, so investors prefer capital gains to dividend payout ratios. The role of dividend policy in mediating the relationship between profitability and stock prices is full mediating, where dividend policy can become a full mediator. Namely, making profitability affect stock prices indirectly or through dividend policy when profitability cannot directly affect stock prices. Dividend policy is a mediating variable with a partial mediating role between solvency and stock prices. Solvency can affect stock prices without being mediated by dividend policies, and solvency can also affect stock prices through dividend policy.

IMPLICATIONS

Theoretical Implications

This study supports the signaling theory regarding the direct and indirect effects that lead to the company's stock price. Perceptions of company information built by companies in the manufacturing sector regarding financial performance in financial reports published on the official website of the Indonesia Stock Exchange have not been optimally captured by external parties. This study supports the tax differential theory in the results of testing the seventh hypothesis with the dividend policy variable on stock prices. It was found that the results were negative and significant. It is something with the tax differential theory, where investors prefer capital gains over dividends. In contact with tax payments, the higher the dividends received by investors, the higher the taxes that must be paid.

Practical Implications

Measuring financial ratios can help companies to decide on dividend policies. Company managers must manage the company's profitability and solvency appropriately so that the goals for shareholders' welfare can be achieved. Many other investors will invest in the related company if the shareholders get their welfare. It will positively affect the company, one of which is the increasing number of investors who invest their funds. The company will have the capital to develop its business. Managers have to pay attention to the portion of retained earnings. It is aimed at the operation and development of the company. If the company makes the wrong decision between distributing dividends and retaining profits, the company will have difficulty financing the company operations. A good company is a company that can develop its business. Thus the company will get a good image and be seen by the community, including shareholders who must be prosperous.

LIMITATIONS

This study's mediation variable (dividend policy) is only related to two independent variables (profitability and solvency). In comparison, the other two independent variables (exchange rates and interest rates) have no relationship with the mediating variables of this study, thereby reducing the role of dividend policy as a mediating variable. This study did not divide the groups of domestic investors and foreign investors. It cannot be classified as decision-making made by foreign or domestic investors; in addition to those, foreign and domestic investors also have very different characteristics in making decisions.

RECOMMENDATIONS

Suggestions for further research can consider other variables not included in this study or add other proxy variables used. In addition, it can consider and classify foreign and domestic investors to see differences in investment decision-making.

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