

# CHAPTER I

## PREFACE

### 1.1 Overview of Research Object

The definition of a capital market is where companies can search for long haul venture capital. The conduct of capital markets over the globe reacts to the investment populations that they serve and the companies for whom they are building markets (Divanna, 2012).

In Indonesia, the capital market is the Indonesia Stock Exchange (IDX). There are more than 500 Public Listed Companies (PLC) in the Indonesia Stock Exchange (Nurazi et al., 2015). Currently, the Indonesia Stock Exchange has 22 kinds of stock indices. Stock Indices are a statistical measure of progress in value developments of a collection of shares selected based on certain criteria and used as a means of investment purposes (IDX, 2018).

According to (Karya & Susilawati, 2012), The LQ 45 index is a stock index indicator on the IDX (Indonesia Stock Exchange) comprising of 45 of the most effectively exchanged or high liquidity stocks. The list of LQ-45 will be different in every period, and it depends on the value of stock trades. These are LQ-45 Index Constituents for the period February – July 2019;

Table 1. 1 Company listed on the LQ-45 index in Indonesia Stock Exchange

No.	Stock Name	Code	No.	Stock Name	Code
1.	Adhi Karya (Persero) Tbk.	ADHI	7.	Bank Negara Indonesia (Persero) Tbk.	BBNI
2.	Adaro Energy Tbk.	ADRO	8.	Bank Rakyat Indonesia (Persero) Tbk.	BBRI
3.	AKR Corporindo Tbk.	AKRA	9.	Bank Tabungan Negara (Persero) Tbk.	BBTN
4.	Aneka Tambang Tbk.	ANTM	10.	Bank Mandiri (Persero) Tbk.	BMRI
5.	Astra International Tbk.	ASII	11.	Barito Pacific Tbk.	BRPT

6.	Bank Central Asia Tbk.	BBCA	12.	Bumi Serpong Damai Tbk.	BSDE
13.	Charoen Pokphand Indonesia Tbk.	BBNI	30.	Media Nusantara Citra Tbk.	MNCN
14.	Elnusa Tbk.	BBRI	31.	Perusahaan Gas Negara (Persero) Tbk.	PGAS
15.	Erajaya Swasembada Tbk.	BBTN	32.	Bukit Asam Tbk.	PTBA
16.	XL Axiata Tbk.	BMRI	33.	PP (Persero) Tbk.	PTPP
17.	Gudang Garam Tbk.	BRPT	34.	Pakuwon Jati Tbk.	PWON
18.	H.M. Sampoerna Tbk.	BSDE	35.	Surya Citra Media Tbk.	SCMA
19.	Indofood CBP Sukses Makmur Tbk.	ICBP	36.	Semen Indonesia (Persero) Tbk.	SMGR
20.	Vale Indonesia Tbk.	INCO	37.	Sri Rejeki Isman Tbk.	SRIL
21.	Indofood Sukses Makmur Tbk.	INDF	38.	Pabrik Kertas Tjiwi Kimia Tbk.	TKIM
22.	Indika Energy Tbk.	INDY	39.	Telekomunikasi Indonesia (Persero) Tbk.	TLKM
23.	Indah Kiat Pulp & Paper Tbk.	INKP	40.	Chandra Asri Petrochemical Tbk.	TPIA
24.	Indocement Tunggal Prakarsa Tbk.	INTP	41.	United Tractors Tbk.	UNTR
25.	Indo Tambangraya Megah Tbk.	ITMG	42.	Unilever Indonesia Tbk.	UNVR
26.	Jasa Marga (Persero) Tbk.	JSMR	43.	Wijaya Karya (Persero) Tbk.	WIKA
27.	Kalbe Farma Tbk.	KLBF	44.	Waskita Beton Precast Tbk.	WSBP
28.	Matahari Department Store Tbk.	LPPF	45.	Waskita Karya (Persero) Tbk.	WSKT
29.	Medco Energi Internasional Tbk.	MEDC			

Source: [idx.co.id](http://idx.co.id)

## 1.2 Research Background

As an economy instrument, Capital Market cannot be separated with any environmental effects, especially economy and politics. With the capital market, investors can diversify investments by forming a portfolio following expected returns

and risks willing to take. The efficient investment is an investment that gives certain risk with maximum profit or gives a certain profit with minimal risk (Hartono, 2016).

Fundamental things such as economic growth, inflation rates, currency exchanges rate, and financial policies affect the growth of the capital market in Indonesia. Similarly, political condition such as political unrest, war, legislative elections, presidential and vice-presidential elections, cabinet announcements also affect the economic stability in a country (Meidawati & Harimawan, 2004). Political unrest, war, legislative elections, presidential and vice-presidential elections, cabinet announcements are classified as a political event. A political event is very impactful toward Capital Market. Because political events or other fundamental things contain a sort of information which can be used by investors or traders (Luhur, 2010)

The fundamental theory and opinion occurred in mid-April 2014, there is some information regarding the events of the presidential election and Vice President of July 9, 2014, which affects stock prices as they are quoted from the antaranews.com and tribunews.com news sites at the time it informed that the Governor of DKI Jakarta at that time, Ir. Joko Widodo received a mandate from the general chairman of the PDI-P party Megawati Sukarno Putri to run as a Republican presidential candidate Indonesia. On April 14, 2014, the Composite Stock Price Index (CSPI) on the Indonesia Stock Exchange (IDX) increased by 3.84 percent or worth 152.48 points reached the value of 4,878.64.

Forty-five leading stock indexes (LQ-45) also increased by 4.37 percent or 36.26 points, reaching a value of 4,830.67. Even the JCI has risen highest in history since 2009 when the momentum of declaring Ir. Joko Widodo as a presidential candidate on April 14, 2014 (Atmoko, 2019).

On April 17, 2019, Indonesia held a general election simultaneously in every region. The election determines both executive and legislative officials on the same day (<https://www.kpu.go.id/>, 2018). In 2014, The election held the legislative and executive election in a different period. The executive and legislative election are held

17 April and 9 July 2018. Refers to Constitutional Court (MK) lawsuit number 14/PUU-XI/2013, Effendi Ghozali sued that holding general election simultaneously can economize budget, and save time.

In Article 10 of Act Number 3 of 1999 concerning General Elections, KPU has the task of authority to plan and prepare for the implementation of the General Election. In its duty, KPU determines 40 quick count institutions (<https://www.kpu.go.id/>, 2018). “The institutions have a role to show that General Election works fairly by using sampling voter’s data. From that, the institutions become a control tool for the General Election itself.” said CEO of *Indikator Politik*, Burhanuddin Muhtadi to TVOne.

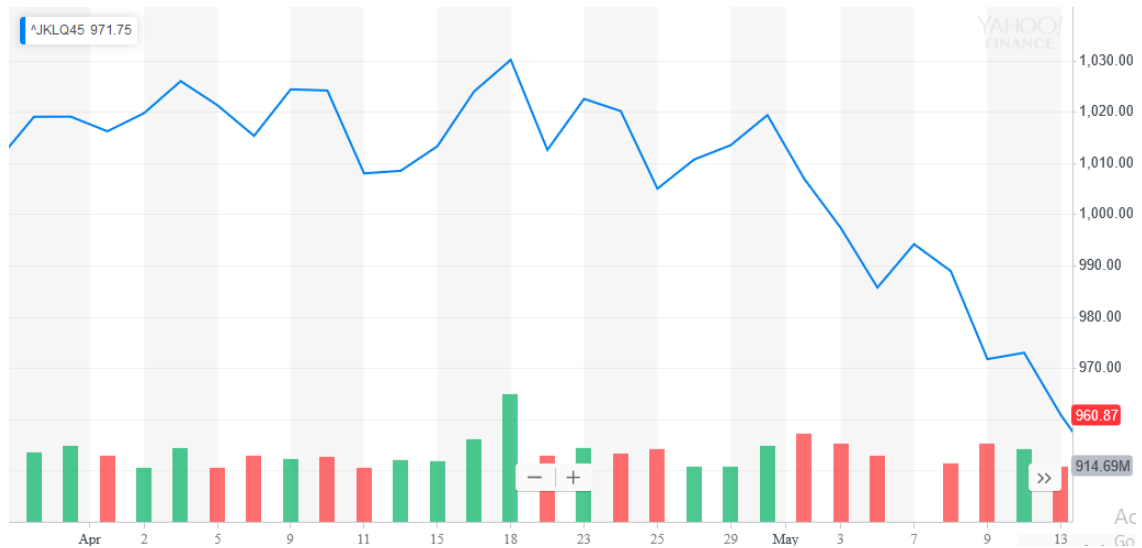
The quick count is a popular method by calculating the percentage of election results in polling stations that are sampled. The election results can be known on the same day when the election is held. However, the Constitutional Court on Tuesday (04/16/2019) has decided that the results of the new quick count may be announced starting at 3:00 p.m. This is following the Election Law. The decision was taken because there were fears that quick counts could influence voters who had not voted.

The development of the 2019 Presidential Election quick count results at 3:40 a.m. on 18<sup>th</sup> April, which recorded a victory for number 01 candidate pairs namely Joko Widodo and Ma'ruf Amin with a range of victories reaching 53% - 56% of Number 02 candidate pair Prabowo Subianto and Sandiaga Uno. The quick count results contain early sentiment information that can be used as a factor for investors. In the facts, Prime Minister of Singapore, Malaysia, and other ten head of state gave congratulations to Joko Widodo as the result of a quick count that has reached 70% calculation (<https://www.tribunnews.com>, 2019). It means that the result of the quick has enough accuracy that can be used by investors.

Quick count results of several survey institutions, candidate Jokowi-Ma'ruf, emerged as the winner. The Composite Stock Price Index (CSPI) on the IDX on Thursday (4/18/2019) moved positively. At the opening of the morning trade, the JCI opened up 1.34 percent to the level of 6,568 from the previous trade closing of 6,481.

At the close of the afternoon trading session, the JCI was up 0.61 percent to 6,521 from 6,481. Foreign investors also recorded quite a lot of entry into the stock market. "This is because of the results of the quick count yesterday, which were in line with market expectations. I predict JCI will move in the range of 6,450-6,550," said Analyst Panin Sekuritas William Hartanto to Tirto.

LQ-45 index also shows bullish movement on April 18<sup>th</sup>, which is the day when all the quick count institution has finished more than 80 percent of the quick count progress. The price opens in the morning on 1,045.21 and closes 1,030.12. The index reaches the highest price on 1,059.65, and also reach the highest of trading volume activity in that week, which states in Figure 1.1 below:



**Figure 1.1 LQ-45 Index Share Price Graphics**

*Source: Finance.yahoo.com*

This research is included in event study case that research observes the market response to the information content of an announcement or publication of certain events for investors referred to with event studies. (Jogiyanto, 2008) Argues that Event Study is a study which studies the market reaction to an event the information was published as an announcement. Then it can be concluded that the Event Study has the purpose of

knowing the effect of information announced, in this case, is an event, both from outside and internally a company, against the price of securities of the company.

The most common choice of event window length in a recent paper by Oler, Harrison, & Allen (2007) is 5 days, representing 76.3% of the reviewed studies. The time used in this research is five days before and five days after a quick count. This time range was chosen because of the period of five days before, and five days after being considered as a limit, investors will react actively to the company's stock price information. This period is also considered as the period where the level of investor reaction to the event is highest, and bias of result because of corporate action. Moreover, studies investigating the sensitivity of results (e.g., the predicted return on the event date) suggest that results are not sensitive to varying estimation window lengths as long as the window lengths exceed 100 days (Armitage, 1995, Park, 2004).

Efficient market conditions provide unbiased price conditions, while market conditions inefficient ones allow biased prices. Market efficiency tested by calculating abnormal returns that occur. The market is said to be not efficient if one or several market players can enjoy a return abnormal from the difference in stock prices over a long period. Returns that are equivalent with stock risk are called normal returns, while if the market is not effective, securities will deliver a more prominent return of the typical return, this is called abnormal return (Tandelilin, 2010).

With the positive signal received by investors, so investors interested in buying these shares, the number of transactions will increase shares after the stock split, which has an impact on the level of liquidity. The liquidity of a stock is the moderate pace of the stock can be exchanged. Fluid stocks imply that the offers are frequently exchanged. This liquidity can be seen through action Trading Volume Activity (TVA). If volume exchanging shares are more prominent than the volume of offers issued, the more fluid the stock is so Trading Volume Activity increments.

Based on the description above, the author takes the title "**ANALYSIS OF ABNORMAL RETURN AND TRADING VOLUME ACTIVITY: A**

## **COMPARATIVE STUDY BEFORE AND AFTER QUICK COUNT OF ELECTION 2019 (Study on LQ-45 in the Indonesia Stock Exchange)"**

### **1.3 Problem statement**

Elections do matter for the markets because politics can shape economic outcomes, affect asset prices, and change financial risk. Activities of governments continue to affect the performance of the stock market and the general performance of the economy. Election results may influence corporate performance by general changes in government spending and tax changes as some companies or sectors benefit or suffer from sector-specific governmental decisions. The economy is still a major factor in determining financial security or whether investments rise or fall in value at the stock exchange but the outcome of key elections are likely to have a bigger impact on money related issues for the rest of the year and beyond on a stock exchange.

The 2019 election in Indonesia was the first simultaneously both legislative and executive election. The first day of the quick count, LQ-45 index moves positively and reach the highest close price and highest volume of shares traded in a week which is explained in Figure 1.1. Quick count results of several survey institutions, candidate Jokowi-Ma'ruf, emerged as the winner.

A number of studies have been undertaken establishing the relationship between the performance of stock exchanges and political activities in various countries. For example, a study conducted by Diniar & Kiryanto (2014), which is focusing on abnormal return using market adjusted model and trading volume activity of the LQ-45 stock with 11 days event window. Mahaputra & Purbawangsa (2015) also conducted a research, which examines the influence of legislative election as a political event on the LQ-45 stock return using market adjusted model with 11 days event window. The author states that the event window is the limit of investors will react actively to the information. A research about presidential election effect on abnormal return and trading volume activity also conducted by Pamungkas et al. (2015), using market adjusted model on stock listed on Kompas100 with 11 days event window. The

author states a longer event window will make it more difficult for researchers because it is feared that the event under study will be mixed with other events so the events under study become biased. The result says there is no difference of abnormal return average after the election. Then, trading volume activity has a significant difference after the election. Other research that examined the influence of announcement date on U.S stock market using market model with 11 days event window. The result finds that the election made an upward trend (Adnan & Hossain, 2016)

From the above discussion, it can be seen that limited studies if any have been conducted on the effect of elections on stock returns and trading volume. This study therefore sought to fill this research gap by answering four research questions:

1. How are Abnormal Return before and after the quick count on LQ-45 index which is listed on the Indonesia Stock Exchange?
2. How are Trading Volume Activity before and after the quick count on LQ-45 index which is listed on the Indonesia Stock Exchange?
3. Are there significant differences in Average Abnormal Return between before and after the quick count on LQ-45 index which is listed on the Indonesia Stock Exchange?
4. Are there significant differences in Trading Volume Activity between before and after the quick count on LQ-45 index which is listed on the Indonesia Stock Exchange?

#### **1.4 Research Objectives**

The research objectives that can be concluded based on the problem statement that has been described previously are as follows:

1. To find out Abnormal Return between before and after the quick count on LQ-45 index which is listed on the Indonesia Stock Exchange
2. To find out Trading Volume Activity between before and after the quick count on LQ-45 index which is listed on the Indonesia Stock Exchange



3. To find out whether there are Average Abnormal Return differences in stock returns between before and after the quick count on LQ-45 index which is listed on the Indonesia Stock Exchange
4. To find out whether there are differences in Trading Volume Activity between before and after the quick count on LQ-45 index which is listed on the Indonesia Stock Exchange

## **1.5 Research Benefits**

### **1.5.1 Theoretical Aspects**

Academicians and Researchers can use this mini-thesis as a reference regarding the analysis of the impact of a political event on shareholder's value.

### **1.6.2 Practical Aspects**

Investors can find the impact of quick counts of General Election involved on the shareholders' value which is measured by the share prices and abnormal return after the announcement of the quick counts. Moreover, it can be used as a decision-making tool to invest in the firm involved.

## **1.6 Research Scope**

### **1.7.0 Research Location and Objects**

The object of this research is 45 companies which include LQ-45 index in Indonesia Stock Exchange, which has clear information about the information of shares price during the general election period.

### **1.7.1 Research Period**

The period of this research is approximately 15 days, which is from April 10<sup>th</sup> to April 25<sup>th</sup>, 2019

## **1.7 Systematic of Writing**

To be able to obtain an overview of this thesis, this thesis is divided into five chapters consisting of subchapters. With details or systematics as follows:

## **CHAPTER I INTRODUCTION**

Chapter I provides a general and concise description of the research, which includes research overview, research background, research questions, research objectives, research benefits, research period, and system of writing.

## **CHAPTER II THEORETICAL REVIEW AND RESEARCH SCOPE**

Chapter II summarize all valid and scientifically-tested theories, previous research regarding the problem, set reasoning used to describe the research problem that finally from conceptual framework leading to a conclusion and research hypothesis

## **CHAPTER III RESEARCH METHODOLOGY**

Chapter III underlines the approach, method, and technique used to collect and analyze and answer then explain a better solution for the research problem. It presents research characteristic, measurement scale, population and sample, data collection, analysis technique, and hypothesis testing.

## **CHAPTER IV RESULTS, RESEARCH, AND DISCUSSION**

Chapter IV the statistical testing and data interpretation are included in this chapter. Moreover, the resulting problem identification will be further examined

## **CHAPTER V CONCLUSIONS AND SUGGESTIONS**

Chapter V gives the result of the research findings. Additionally, suggestions are given for the next study related to this research.