

ANALYSIS OF ABNORMAL RETURN AND TRADING VOLUME ACTIVITY DIFFERENCE BEFORE AND AFTER QUICK COUNT OF GENERAL ELECTION EVENT 2019

(Study on LQ-45 in the Indonesia Stock Exchange)

Wigardi Maswiguno¹, Irni Yunita²

^{1,2} Prodi S1 International ICT Business, Fakultas Ekonomi dan Bisnis, Universitas Telkom

¹maswigunowigardi@gmail.com, ²irniyunita@telkomuniversity.ac.id

Abstract

Political event becomes an event that always be an attention and cannot be predicted, especially Indonesia. The quick count of Indonesia general election in 2019 become one of the most awaited political event. The event is affecting the LQ-45 index in IDX stock after the quick is considered as Semistrong-Form of Efficient Market Hypothesis. Semistrong-Form of Efficient Market Hypothesis occurs when current stock market's price is already reflected historical information including all of the published information such as earning, dividend, stock split announcement, and another published event that affect future company's cash flow. Therefore, the purpose of this research was to measure the announcement effect by conducting an event study.

Average abnormal return and trading volume activity was used to measure and compare data before and after the quick count of Indonesia general election in 2019. Market-adjusted model has been used for this research with 11 days event window. Data that used are secondary, and the data sample is forty-three companies that listed on LQ-45 index in IDX. Data analysis technique is using normality test on Shapiro-Wilk. While, Paired Sample Test were used for Hypothesis testing to know whether it has a significant difference.

The result on Shapiro-Wilk test shown that average abnormal return and trading volume activity data is normally distributed. By Paired Sample T-Test, the result of average abnormal return shows that the phenomena are not significantly impact because there is no significant difference on average abnormal return before and after the quick count of Indonesia general election in 2019. Furthermore, the result of trading volume activity using Paired Sample Test shows that the phenomena are not significantly impact because there is no significant difference in trading volume activity before and after the quick count of Indonesia general election in 2019.

Keywords: event study, quick count, Indonesia election, abnormal return, average abnormal return, trading volume activity, market-adjusted model

1. Introduction

As an economy instrument, Capital Market cannot be separated with any environmental effects, especially economy and politics. The efficient investment is an investment that gives certain risk with maximum profit or gives a certain profit with minimal risk [1].

Fundamental things like economic growth, inflation rates, currency exchanges rate, and financial policies affect the growth of the capital market in Indonesia. Similarly, political condition like political unrest, war, legislative elections, presidential and vice-presidential elections, cabinet announcements also affect the economic stability in a country [2]. 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 [3]

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 [4]. 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 [5].

The development of the 2019 Presidential Election quick count results at 3:40 a.m. on 18th 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 [6]. 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 18th, 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:

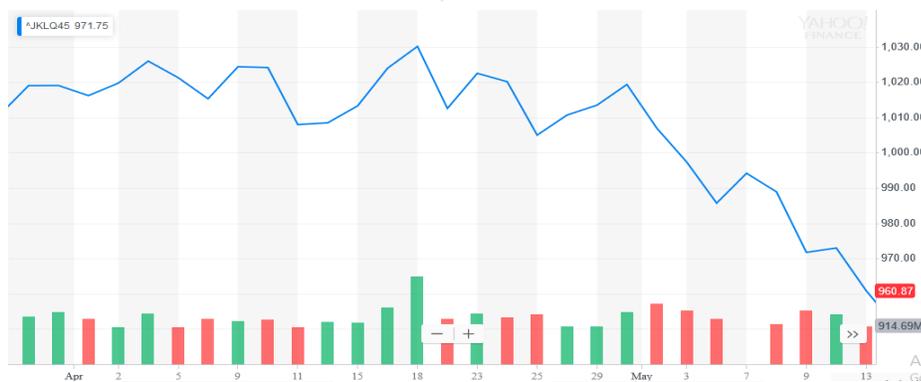


Figure 1.1 Index Share Price Graph

Source [7]

The focus of this study is to determine the abnormal return and trading volume activity before and after the quick count of general election 2019 on company listed in LQ-45 index.

2. Dasar Teori dan Metodologi

2.1 Investment

Investment is a term with some definition which is related to finance and economy. It is about a collection of capital with an expectation to get benefit in the future [8].

2.2 Capital Market

The capital market is an activity concerned with public offering and securities trading, public companies related to securities issued, and professional institutions related to securities [9].

2.3 Stock

Stock is the notion of shares that shares are a sign of participation or ownership of a person or entity in a company, while definitive shares are proof of ownership of a limited liability company that gives dividends and other rights according to the small amount of paid-up capital.

2.4 Stock Return

Return is one of the variables that persuade investors to invest and a reward for the fortitude of investors to endure risk on its investments [10].

2.5 Trading Volume Activity

Trading Volume Activity is the total number of shares of the commodity traded at a certain time. A sharp increase in volume is a sign of a sharp increase or decrease in prices because it reflects the increasing investor interest in a stock [11]. Trading volume formula for the calculation of Trading Volume Activity is carried out by comparing the number of company shares traded in a given period with the total number of outstanding shares of the company in the same period as follows (Halim & Hanafi, 1997:76):

$$TVA_{it} = \frac{(\sum \text{The shares of the } i\text{-company are traded at the } t\text{-time})}{(\sum \text{The shares of the } i\text{-company outstanding at the time of } t\text{-time})}$$

2.6 Abnormal Return

Abnormal returns are the difference between actual returns and expected returns. The real return is the return that occurs at t time which is the difference in current prices relative to the previous stock price while the expected return is a return that must be estimated [12].

The market adjusted model assumes to estimate a securities' expected return is using the market index return as the expected return itself. Because of the securities return that will be estimated is same as the market index return, there is no need to use an estimated period to form estimated model (Hartono, 2016). This model is formulated as follows

$$ARI_{i,t} = R_{i,t} - R_{m,t}$$

$ARI_{i,t}$: abnormal return for security (i) on (t) period

$R_{i,t}$: actual return (i) on the (t) period event

$R_{m,t}$: expected return of market index (m) on (t) period

2.7 Average Abnormal Return

Average abnormal return is the average abnormal return of all types of shares that are being analyzed daily. ARR can show the strongest reaction, both positive and negative, of all types of stocks on certain days during the window period [13].

2.8 Efficient Market Hypothesis

In the concept of efficient markets, changes in the price of a stock's securities in the past cannot be used in estimating future price changes. Changes in stock prices in the market efficiently follow a random walk pattern, where the valuation of stock prices cannot be done by looking at the historical prices of these shares, but rather based on all available information and emerging in the market. Information that enters the market and deals with a stock's security will result in the possibility of a new balance price shift. If the market reacts quickly and accurately to information that enters and immediately forms a new equilibrium price, then this market condition is called the efficient market [14].

the semi-strong form assumes that financial assets' prices reflect, at any moment, all the information existent on the market, including historical prices and other historical information (which means this form also incorporates the weak form of EMH), and, additionally, the prices change rapidly and without biases to incorporate any other new public information released on the market.

2.9 Event Study

The event study method is used to analyze the stock market reactions on the quick count of the election date. An event study is a study of market reaction to an event that information is published as an announcement. The event study methodology seeks to determine whether there is an abnormal stock price effect associated with an event. From this, the researcher can infer the significance of the event.

2.10 Research Framework

The framework in this research aimed at examining the difference between 5-day abnormal return and trading volume activity before and 5-day abnormal return and trading volume activity after the quick count of the 2019 election. After the calculation of abnormal return and trading volume activity, the result should be evaluated using the Paired Sample t-test to determine how noticeable the difference is. The framework of this research is displayed on the Figure as below:

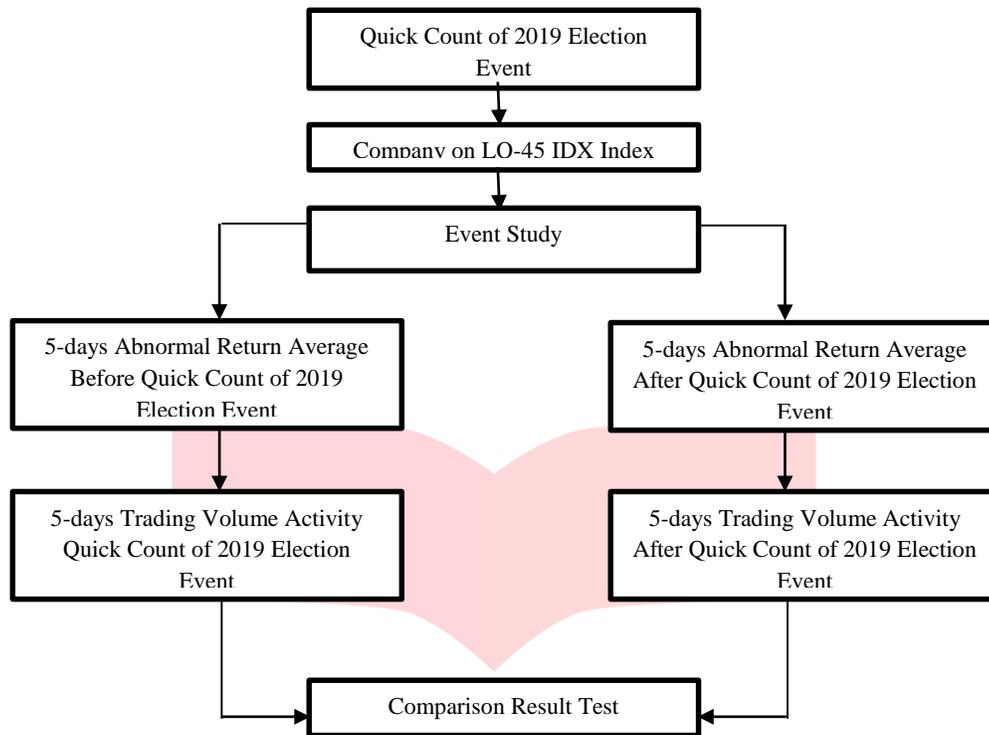


Figure 2.1 Research Framework

2.11 Research Methodology

No.	Research Characteristics	Type
1.	Based on Method Used	Quantitative
2.	Based on Purpose	Descriptive- Comparative
3.	Based on Investigation	Correlational
4.	Based on the Involvement of Researcher	Minimal Intervention
5.	Based on the Analysis Unit	Organization
6.	Based on Time Horizon	Longitudinal

Figure 2.2 Research Methodology

3. Results

Tabel 3.1 Average Abnormal Return Paired Sample T-Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Before - After	-.00043400	.00571003	.00255360	-.00752394	.00665594	-.170	4	.873

Sumber: olahan data kuesioner

From Table 3.1, hypothesis testing of average abnormal return shows that AAR_After and AAR_Before variable shown Sig. (2- tailed) more than significant level ($0.873 > 0.05$). It means that the quick count has no significant difference in the company that listed on the LQ-45 index during the event window.

Tabel 3.2 Trading Volume Activity Paired Sample T-Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 TVA_Before - TVA_After	-.00072600	.00100637	.00045006	-.00197557	.00052357	-1.613	4	.182

Sumber: olahan data kuesioner

From Table 3.2, hypothesis testing of trading volume activity shows that TVA_After and TVA_Before variable shown Sig. (2- tailed) more than significant level ($0.182 > 0.05$). It means that the quick count has no significant difference in a company that listed on the LQ-45 index during the event window.

“According to Investment Director of PT Bahana TCW Investment Management (BTIM), Budi Hikmat said that the impact of elections on the capital market in 2019 would not be as strong as the previous elections since the reform era.” [15]. There are several reasonable explanations regarding it, they are:

a. The end of the super commodity booming era that triggered the current account deficit over the past five years was a fundamental differentiating factor. In the previous elections, this era of super commodity booming sustained a current account surplus that strengthened people's purchasing power as reflected in the increase in M1 money supply. Sales of big-ticket items such as motor vehicles, property, and cement tend to increase which increases the issuer's profit. That's why IHSG soared up every election year. But this election was marked by the weakening of M1 growth in line with the current account deficit which risks limiting the IHSG increase.

b. There is no visible post-election euphoria after the wait and see action that occurred a few weeks before the election. IHSG performance was relatively consolidated throughout the beginning of this year. When the indices of other Asia Pacific countries accelerated, IHSG performance was almost in the last place, which is the second-lowest after Malaysia. A week after the election, IHSG still has not shown its fangs. Compared to the position on Tuesday (4/16/2019) or the last trading day before the election, the IHSG position fell by 0.05% as of Wednesday (4/24/2019) yesterday to the level of 6,444.89.

There is a reasonable explanation that will support this research. "According to Senior Analyst of CSA Research Institute, Reza Priyambada said that when the Presidential Election last week, investors seemed to welcome the running of a safe and conducive presidential election. The interim suitability of the quick count that won the incumbent also caused foreign capital inflow to flow up to Rp1.42 trillion into the country. However, upon entering this week, the index immediately fell sharply to 1.42% or the deepest decline in a month. The reason is, investors take the wait and see position because of domestic political developments until the KPU officially announces the president and deputy to lead Indonesia in the next five years."

The information that the result of the quick count gives is who will be the president. Whoever is selected would determine the rules and regulations of Indonesia government. Those pieces of information become a consideration for the investors both local and foreign. The candidates are Prabowo Subianto with Sandiaga Uno and Joko Widodo with Ma'ruf Amin. Joko Widodo as the incumbent with Ma'ruf Amin is selected as the winner based on the quick count. In reasonably condition, Joko Widodo as the incumbent is selected as the winner makes that there would not be significant rules and regulations that he brought on the last period. This condition makes there are not enough difference in capital market between abnormal return and trading volume activity.

Based on efficient market hypothesis, the market around the event period forms semi strong. Because investors do not get outstanding profit which harm the other investors. The other reason that abnormal return is absorbed too quickly.

4. Conclusion and Suggestion

This study is intended at analysing the average abnormal return difference and average trading volume activity to the LQ-45 index five days before and five days after the 2019 quick count of Indonesian election during the event window. The research sample is the company listed on the index LQ-45. Based on the study results, it can be concluded as follows:

1. The mean of average abnormal return increase from 0.0009200 before the quick count to 0.0013540 after the quick count. It shows that quick count has a positive effect on the samples of the company that listed the LQ-45 index.
2. The trading volume activity increases from (t-3) to (t-1) before the quick count. Around the event window, it reaches the peak on (t+1) with 0.00372 or 0.372%. The descriptive shows that the quick count affects the trading volume activity after the event happened.
3. Hypothesis test for average abnormal return using Paired Sample T-Test result shows that average abnormal return has no significant statistical difference before and after the quick count during the event window. Information that contained in the event gave no significant effect on the stock market based on average abnormal return.
4. Hypothesis test for trading volume activity using Paired Sample T-Test result shows that trading volume activity has no significant statistical difference before and after the quick count during the event window. Information that contained in the event gave no significant effect on the stock market based on trading volume activity.

The author suggests that other scientists use a different index with different types of political case and event window for further studies. Other variables can be used in this type of studies based on previous studies, such as stock price reaction, bid-ask spread, and stock volatility. This type of studies can be performed and compared with another model, such as the Market Model and Mean Adjusted Model, based on previous studies.

To the investor, consider quick count as it impacts the company listed on the LQ-45 index. The investor who has already invested in a company listed on the LQ-45 index should keep their stock after the case, or even consider purchasing more of the stock, for the investor who has no stock in a company that should purchase the stock from the index mentioned on the LQ-45 index.

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