

## Indonesia's Capital Market Reaction Election Events

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**Abstrak.** Penelitian ini bertujuan untuk mengetahui apakah terdapat peningkatan/penurunan aktivitas pasar modal sebelum pengumuman hasil Pemilihan Umum Presiden 2019, apakah terdapat peningkatan/penurunan aktivitas pasar modal setelah Pemilihan Umum Presiden 2019 dan sebelum pengumuman hasil Pemilihan Umum Presiden 2019, dan apakah terdapat peningkatan/penurunan aktivitas pasar modal setelah pengumuman hasil Pemilihan Umum Presiden 2019. Data yang digunakan dalam penelitian ini adalah data sekunder. Dari analisis yang dilakukan pada 45 perusahaan yang tergabung dalam LQ45 yang dimulai dari 15 Maret sampai dengan 21 Juni 2019. Alat analisis yang digunakan adalah uji statistik parametrik Repeated ANOVA. Hasil penelitian menunjukkan bahwa pengumuman hasil pemilu 2019 tidak memberikan pengaruh yang kuat terhadap pergerakan aktivitas pasar modal pada sebelum, saat dan sesudah hasil pemilu diumumkan, ini dibuktikan dari nilai Abnormal Return dan Trading Volume Activity dengan signifikansi sebesar 0,173 dan 0,520 yang lebih besar dari nilai  $\alpha$  sebesar 0,05, sehingga dapat dikatakan bahwa tidak terdapat perbedaan yang signifikan Abnormal Return dan Trading Volume Activity pada kondisi sebelum, saat dan sesudah pengumuman hasil pemilu. Berdasarkan hasil tersebut, maka pengumuman hasil pemilu tidak memberikan pengaruh yang kuat terhadap pergerakan aktivitas pasar modal di bursa efek Indonesia. Para investor merasa yakin bahwa siapapun presiden yang terpilih akan memberikan dampak yang positif bagi negara.

**Kata kunci:** Reaksi Pasar Modal, Pemilu, *Abnormal Return*, *Trading Volume Activity*

**Abstract.** This study aims to Determine Whether there is an Increase / Decrease in capital market activity before the announcement of the results of the 2019 Presidential Election from, whether there is an Increase / Decrease in capital market activity after the 2019 Presidential Election and before the announcement of the results of the 2019 Presidential Election, and Whether there is an Increase / Decrease in capital markets activity after the announcement of the results of the 2019 Presidential Election. The Data used in this study are secondary data. From the analysis conducted on 45 companies incorporated in LQ45 starting from March 15 until June 21, 2019. The analytical tool used was the Repeated ANOVA parametric statistical tests. Results showed that the announcement of the 2019 election results did not have a strong influence on the movement of capital market activities before, when and after the election results were announced, this was evidenced from the Abnormal Return and Trading Volume Activity with a significance of 0173 and 0520 which was greater than the  $\alpha$  value of 0:05, so it can be said that there is no significant difference Abnormal Return and Trading Volume Activity in conditions before, during and after the announcement of election results. Based on Reviews These results, the announcement of election results did not have a strong influence on the movement of capital market activities on the Indonesian stock exchange. Investors feel confident that whoever is Elected will have a positive impact on the country.

**Keywords:** Capital Market Reaction, Election, *Abnormal Return*, *Trading Volume Activity*

### Introduction

The development of the capital market is increasing with the proven number of companies going public. The capital market has a strategic role in terms of national development Because The capital market is one of the sources of financing that has an important role for businesses and the investment community land. As an investor, it is very important to pay attention to information that will affect the rise and fall of stock prices.

Information will Affect the changes in the stock price index, both economic and non-

economic. When the stock market has an important role in economic activity, the stock market will be more sensitive to something that happens both related and not directly related to economic events. Political uncertainty is a widespread phenomenon that is inherent in the political process (Mattozzi, 2008). Economic events and political events are things that are part of the non-economic activities that will affect the conditions of the capital markets. Because investor behaviour when Determining investment-related decisions is not only based on fundamental and technical analysis, but also the political situation.

State that the General Election (Election) of the President will provide an outcome that can have an impact on the entire economic sectors and companies, both positively or negatively (Oehler, A., Walker, T. J., & Wendt, 2013). Because this will affect the policies that will be made by the government, Including monetary policy, taxation policy, environmental policy, trade policy, and security and defence. Although companies do not have political preferences in this view, political involvement needs to be linked to company performance. Because It can Affect company performance and returns is because of the policies made by the government (Aggarwal, R. K., Meschke, F., & Wang, 2012). States that the event of replacing the President has an influence on the economy as a result of changing political policies (Chen, 2013).

General Elections (Elections) for the President are routinely Carried out for five years in Indonesia. Reviews These provisions are contained in the Constitution of the Republic of Indonesia in Article 7 the which reads "The President and Vice President hold office for five years, and afterwards maybe re-Elected in the same office, only for one term of office". RI elections will be held on 17 April 2019 with number 1 pair candidate Joko Widodo and Ma'ruf Amin and candidate Prabowo pair number 2 and Sandiaga Uno.

Political events regarding elections are chosen with an assumption Because they have a broad impact besides providing hope of a return on investment. Besides, the 2019 Presidential election has a unique thing because it is different from the Presidential election in the previous year. This year's general election coincides with the election of the legislative councils of other items, namely the General Elections of Members of the People's Legislative Assembly, the Regional People's Representative Council, the 2019 Regional Representative Council (commonly abbreviated as the 2019 Legislative Elections). It can be said that this year's election is a massive political event.

This is expected to be a concern for capital market investors, given that this year's Legislative Election was held in conjunction with the 2019 Indonesian Presidential Election. The event is predicted to steal the attention of the market of participants, bearing in mind that this year's general election will coincide with other legislative council elections items, namely the Member of General Election House of Representatives, the Regional House of Representatives, the Regional Representative Council, 2019. A large number of listed companies and securities companies in Indonesia will feel the impact of new policies that will be made by the new government will soon be formed. Thus, political issues that occur will be highlighted by the

market of participants. This policy decision can materially influence the expected future cash flows through reducing regulatory barriers, lighter taxes, preferential access to government subsidies, awarding government contracts (Shon, 2010). The possibility of the outcome of the new policy makes the market made of participants to set expectations, especially related to the progress of the Indonesian economy.

Based on Reviews These arguments, the 2019 Presidential Election event is Considered to have the potential to cause a reaction from the market of participants in the stock exchange, both in the form of changes in trading volume, prices, and stock returns, especially for leading liquid stocks, in this case, LQ45 shares and has high market capitalization. Capital market reaction to the information contained in an event can be measured by using the return as the value of price changes or by using abnormal return of the which is the difference between the actual return and the return expected by the investor (Jogiyanto, 2003).

In addition to using abnormal returns, market reaction to information can also be seen through trading volume activity in the market parameters (Trading Volume Activity). An increase in trading volume in the capital market as a form of capital market reaction to an event can have two meanings. If the Increased trading volume is the caused by an increase of in-demand, it indicates that the event is good news for the market of participants, whereas if the increase is in trading volume is a result of increased sales, it can be interpreted that the event is bad news.

The objectives in this study are as follows: 1) Knowing the increase / decrease in capital market activities before the announcement of the results of the 2019 Presidential Election. 2) Knowing the increase / decrease in capital market activities after the 2019 Presidential Election and before the announcement of the results of the 2019 Presidential Election. 3) Knowing the increase / decrease in capital market activities after the announcement of the results of the 2019 Presidential Election.

## **Metode Penelitian**

### **Signalling Theory**

Signalling Theory is a theory about which sees signs that conditions can describe a company (Fahmi, Irham & Hadi, 2009). Information which, when published as an announcement, will give a signal to investors who can be used to make investment decisions (Jogiyanto, 2000). If the announcement turns out to Contain a positive value, then the investor has hope that there will be a market reaction when the market accepts the announcement. In this research, it is explained that the signal is information that Might Be taken by investors in the General Election of the President and Also that the signal can lead to companies in the Construction, Infrastructure and utility sectors.

### **Capital Market**

The Capital Market is a place where various long-term financial instruments such as debt,

derivative instruments, equity and other instruments can be traded. It is also a means of conducting funding for a company or other institution and can be used as a means for investing activities. In other words, the capital markets Provide facilities in a variety of facilities and infrastructure for buying and selling activities and related activities (Darmadji, Tjiptono & Fakhruddin, 2011).

### **Stock**

Shares are a sign of ownership or participation of a person or entity in a company or limited liability company. The capital market there are two types of shares the which are most commonly known and understood by the public items, namely common stock and Preferred stock, shares have rules and meaning each (Fahmi, 2012).

### **Stock Returns**

Revealed that investment returns are returns that can be obtained from investment activities, the Tirrenus returns are returns that have occurred the which can be calculated on historical data(Herlianto, 2010). Realized returns has an important role in measuring company performance and as a basis for Determining future returns and risks. When carrying out investment activities, investors will be faced with the uncertainty that Might occur between the returns that will be Obtained and the possible risks that will be faced. The higher the expected return, the risk to be faced will be higher as well. So it can be said that the expected return has a positive relationship to risk. High risk is usually associated with the opportunity to get high returns. However, higher returns do not have to be Followed by a riskier investment.

### **Trading Volume Activity**

Revealed that the decision in technical analysis to make a sale or purchase shares some price was based on the data and the volume of stock trading activities in the past (Tandelilin, 2001). The volume of buying and selling of shares is the addition of the transactions that occur on the exchange in A Certain time based on certain shares. The volume of buying and selling is one of the factors giving an influence on stock movements. Trading volume can be interpreted as the whole shares traded on a particular day. The volume of trade with a large capacity shows that a stock that has active activity, which means currently favoured by investors. (Rumbia, 2010) argue that trading volume ( $V_t$ ) is a stock of the which is an indicator that can be used to carry out technical analysis in valuing a stock price and also an instrument used to determine the reaction of a capital market to the presence of information through a parameter in movement of activity and trading volume of shares in the market. Therefore, companies that have growth potential can be used as good information so that the market can react positively, besides the trading volume of a large number of shares indicates that a stock can be Actively traded.

### **Abnormal Return**

Jogiyanto argues that excess returns are abnormal returns that can occur against normal returns are expected returns of an investor (expected return) (Jogiyanto, 2013). Abnormal return



is the result of a reduction between actual returns and expected returns. Real returns are returns that occur during the t-time the which is the result of reducing the current stock price with previous shares and divided by previous shares. Expected returns are returns that must be calculated using estimates. There is an event study of the analysis of abnormal returns originating from securities may occur around the time of the announcement of an event. Abnormal returns or excess returns are the excess of the actual returns that occur against the normal returns.

### **Expected Return**

Expected return is some profits expected by investors in the future of the funds that have been invested (Fahmi, 2011). Certain An investor expects a return in the future but if the investment he has done is completed then an investor will get an actual return.

### **Types of research**

This type of research is deductive research, the which has the aim to test hypotheses by testing application theories of certain circumstances, where the results of Reviews These tests are used to conclude research, the which support or reject a hypothesis that can be developed in the theoretical study. This research is in the form of an event study research, the which is a study of market reaction to an event where the information is reported as an announcement (Jogiyanto, 2003).

### **Object of research**

The companies in this study are companies that have registered shares in the LQ45 members on the Indonesia Stock Exchange for a trading period of one month before the announcement of election results and one month after the announcement of election results, as many as 45 companies or issuers. LQ45 is one of the leading indexes on the Indonesia Stock Exchange Because The process of selecting 45 shares included in this index takes into account liquidity, market capitalization, fundamental performance, and the trading patterns of Reviews These shares. Thus, the selection of the LQ45 Index as an object in this study is expected to represent more accurate research results through the expansion of the research object. Determination of shares in the population to be studied is based on population criteria, the name must be Actively traded stocks every day during the study period. Based on Reviews These criteria, 40 companies were Obtained as research objects.

### **Research time**

Election events took place on April 17, 2019, and the announcement of election results was held on May 20, 2019, thus, the research period was May 20, 2019, until June 20, 2019, or for 60 exchange days. The 60-day observation period was chosen Because such a period was quite short the distance of the event window that was too long would cause two problems. First, it reduces the power of statistical tests and results in errors in drawing Conclusions about the significance of the event. Second, the longer the period, the more difficult, it is to isolate the event window

from the confounding effect. The type of data used in this study is the type of quantitative Data Obtained through secondary sources of data items, namely the official website of the Indonesia [www.idx.co.id](http://www.idx.co.id).

**Statistical Analysis Techniques**

The statistical analysis technique used in this study uses Repeated-Measures ANOVA. Repeated-measures are used to test the differences between three or more samples that are interconnected or the same object of research but at different times. This research has three research periods (before the announcement of the results of the presidential election on May 20, 2019, when the announcement of the results of the presidential election on May 20, 2019, and after the announcement of the results of the presidential election on May 20, 2019) and the dependent variable tested more than one (Abnormal Return and Trading Volume Activity). Repeated-measures ANOVA produces an F-ratio that Compares the amount of systematic variance with the amount of variance that is not systematic:

$$F = \frac{MS_M}{MS_R} = \frac{\frac{SS_M}{df_M}}{\frac{SS_R}{df_R}} \dots\dots\dots 1)$$

Information :

- $MS_M$  : Variance systematic
- $MS_R$  : Variance Not Systematically
- $SS_M$  : Total Variance Model
- $df_M$  : Degrees Free Model
- $SS_R$  : Total Variance Residual
- $df_R$  : Non Residual degrees

Repeated ANOVA has some assumptions that must be met before to analyze and summarize the results of the research. Repeated ANOVA assumptions that must be met. Repeated ANOVA assumption is normality. Testing normality performed on both research data on the data Abnormal Return and Trading Volume Activity before, during and after the announcement of presidential election results. Testing normality did using Kolmogorov-Smirnov test for normality, if the data Abnormal Return and Trading Volume Activity before, during and after the announcement of presidential election results obtained spreads follow the normal distribution then Repeated ANOVA to do.

If the assumptions on repeated ANOVA is not met then the analysis will be used is replaced with a non-parametric analysis ANOVA repeated replacement is friedman test. Friedman test is a non-parametric analysis technique that is useful to examine the differences 3 or more samples are interconnected.

## Results And Discussion

### Normality Test and Friedman Test

Data Analysis and Stock Trading Volume Activity Abnormal Stock Return using parametric statistical tests Repeated ANOVA. In the calculation of the results of this study used a level of 95% ( $\alpha = 0.05$ ). Repeated ANOVA can be done if the data meet the assumptions of normality in the residuals estimated Repeated ANOVA therefore first tested the normality using the Kolmogorov - Smirnov test. This method is used to analyze whether the data has a normal distribution or not.

**Table 1 Normality Test Results**

Variables	Time	Significance	Information
<i>Trading Volume Activity</i>	Before Announcement of Election Results	0,001	Is not normal
	When Election Results Announcement	0,000	Is not normal
	After Announcement of Election Results	0,000	Is not normal
<i>Abnormal Return</i>	Before Announcement of Election Results	0.079	Normal distribution
	When Election Results Announcement	.200	Normal distribution
	After Announcement of Election Results	0,002	Is not normal

*Source: Processed data*

Normality Test Data Trading Volume Activity Abnormal Return Stocks and Shares can be seen in Table 1. The hypothesis of the data is determined by the significance value obtained, where  $H_0$  is the normal distribution of data.  $H_0$  is rejected if the significance value  $< \alpha$  (0.05). Based on the analysis results can be obtained that the data Abnormal Return on Equity before and during the announcement of presidential election results have a significance value of 0.079 and 0.200 meaningless because the significance value  $> \alpha$  (0.05), then  $H_0$  is accepted means of data Abnormal Return the stock before and during the announcement of presidential election results spread follow a normal distribution.

The results show that the difference between the rate of return happens to the expected rate of return investors are still at a normal level. Because of time before the time of the announcement of the election results held no new policies are emerging which could have an impact on all activities of both economic and other public activities.

While the results of the data Abnormal Return stocks after the announcement of the presidential election obtained significance value of 0.02 is smaller than  $\alpha$  (0.05), so it is stated that the data Abnormal Return spread stock does not follow a normal distribution. Time after posting a time when many people are waiting who will be the leaders of this country. The time also will cause mass assumptions about the impact that would be caused and policies to be defined by the elected president.

So time after the announcement occurs Abnormal Return of shares can be advantageous or disadvantageous to investors. If the difference between the rate of return happens to the rate of return that is expected to be negative then the investor will be losers. Conversely, if the difference between the rate of return happens with the expected rate of positive it will be profitable for investors.

While the data Shares Trading Volume Activity before, during and after the announcement of presidential election results have a significance value  $< \alpha$  (0.05), which means that the data is spread Shares Trading Volume Activity does not follow a normal distribution. This happens because the presidential election is an activity that can have an impact in general for a country. Because by the end of election activities that will lead to the inauguration of president-elect, then there will be new policies that will be created. The policy both directly and indirectly will result in the entire activities in the country.

Hence the normality assumption overall unmet research data then repeated measure ANOVA test was replaced by using Friedman test. Friedman test results performed on the data Abnormal Stock Return to demonstrate no or no difference between Abnormal Stock Return on conditions before, during and after the announcement of presidential election results May 20, 2019, Friedman assay results are shown in Table 2.

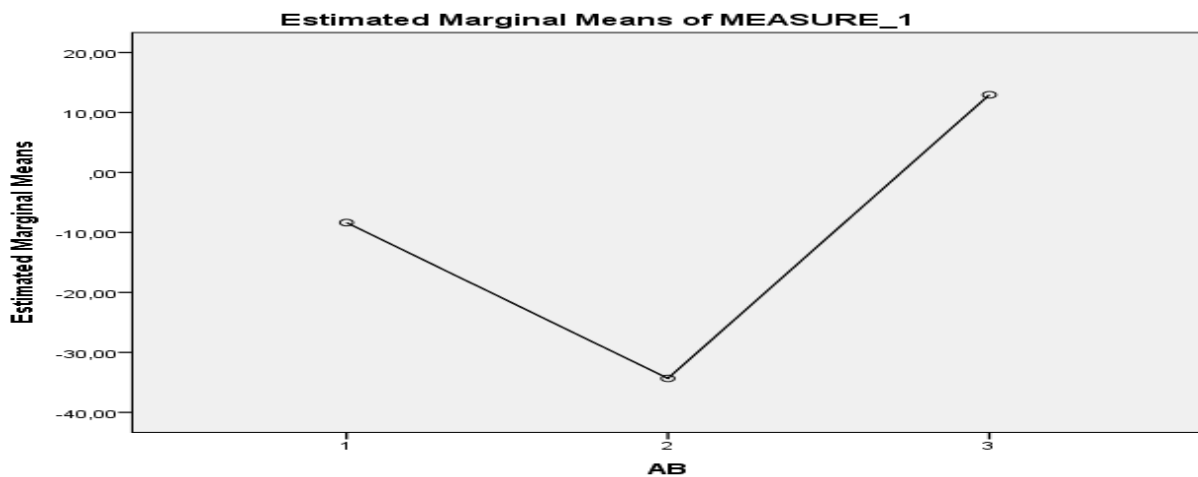
**Table 2 Abnormal Return On Equity Friedman Test Results**

<i>Abnormal Return</i>	<b>Average</b>	<b>Significance</b>	<b>Information</b>
Before the announcement of presidential election results	-8.356	0.173	Not Different Real
When the announcement of presidential election results	-34.333		
After the announcement of presidential election results	12.956		

*Source: Processed data*

Based on Table 2 obtained significance value of 0.173 which is greater than the value  $\alpha$  of 0.05, so it can be said that there is no significant difference between Abnormal Stock Return on conditions before, during and after the announcement of presidential election results May 20, 2019. Overview Abnormal conditions Shares return to the conditions before, during and after the announcement of presidential election results may 20, 2019 can be seen in Figure 1.





**Figure 1 Abnormal Condition Stock Return**

Information :

1 = Before the announcement of presidential election results May 20, 2019

2 = When the announcement of presidential election results May 20, 2019

3 = After the announcement of presidential election results May 20, 2019

In Figure 1 Abnormal Stock Return impairment at the time of the announcement before the presidential election results. While at the time until after the announcement of presidential election results Abnormal Stock Return increase. It can be concluded that the announcement of the presidential election was greeted with a positive reaction by the investors. As evidenced by the results of condition Abnormal Return of Shares initially showed a decrease and thereafter showed an increase. The condition shows that with the election of the current president, there will be a lot of good things are expected to be beneficial to the Indonesian economy in the future. Friedman test then performed on Trading Volume Activity Shares. This is done to show no or no difference between the Trading Volume Activity Shares at the time of the condition before, during and after the announcement of the results of the presidential elections on 20 May 2019. Friedman test results can be seen in Table 3.

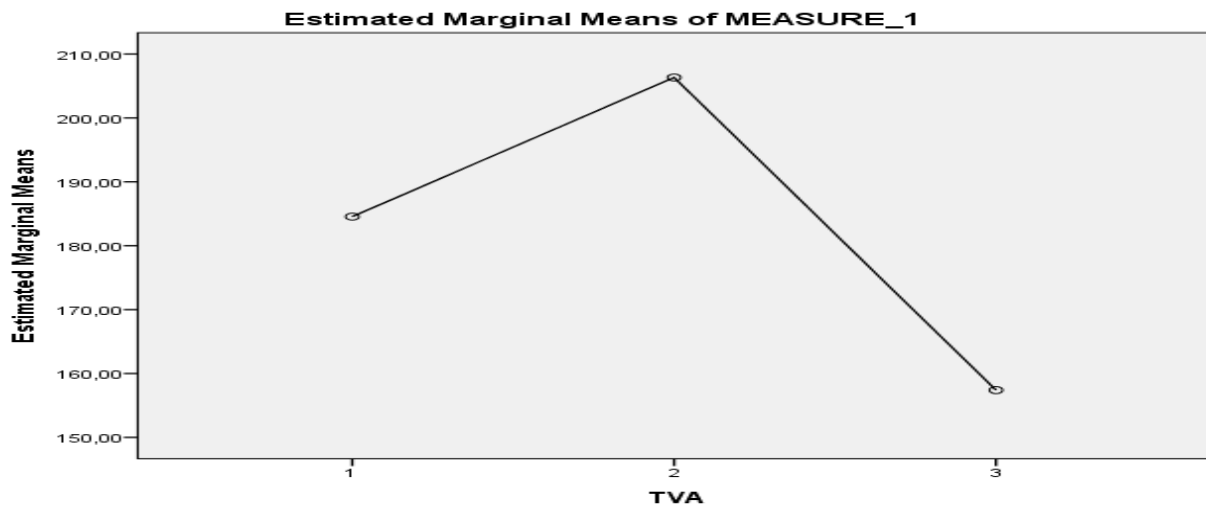
**Table 3 Friedman Test Results In Trading Volume Activity**

<i>Trading Volume Activity</i>	<b>Average</b>	<b>Significance</b>	<b>Information</b>
Before the announcement of presidential election results	184.556	.520	Not Different Real
When the announcement of presidential election results	206.333		
After the announcement of presidential election results	154.400		

*Source: Processed data*

Based on Table 3 obtained significance value of 0.520 which is greater than the value  $\alpha$  of 0.05, so it can be said that there is no significant difference between the Trading Volume Activity Shares on the conditions before, during and after the announcement of presidential

election results May 20, 2019. Description of the condition Stock Trading Volume Activity on the conditions before, during and after the announcement of presidential election results may 20, 2019 can be seen in Figure 2.



**Figure 2 Condition Stock Trading Volume Activity**

Information :

1 = Before the announcement of presidential election results May 20, 2019

2 = When the announcement of presidential election results May 20, 2019

3 = After the announcement of presidential election results May 20, 2019

Inversely proportional to the results of Abnormal Return of Shares initially fell and then rose. Stock Trading Volume Activity before until the time of the announcement of the presidential election Shares Trading Volume Activity increased whereas when the announcement of the presidential election Shares Trading Volume Activity decreased. The fall in trading activity that reflects how active and liquid stock is traded on the capital market may mean that investors respond to the election results with things that are less good.

## Conclusion

The conclusion that can be drawn from the research above is the announcement of the election results do not provide a strong influence on the movement of capital market activity in the stock exchanges of Indonesia. The investors feel confident that whomever the president-elect will have a positive impact on the country, they also responded well to the implementation of the legislative elections.

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