Indonesian Capital Market Investor Response Toward The Simultaneous Regional Elections In 2018 (Study On Lq45 Stocks February Until July 2018)

Suroto*, Ch. Asta Nugraha**
Faculty of Economics and Business, University of 17 Agustus 1945 Semarang, Indonesia
Corresponding Author: Suroto*

Abstract: This study aims to find the empirical evidence of the reaction of Indonesian capital market investors toward the simultaneous regional elections in Indonesia 2018. The population in this study is the consistent stocks listed in LQ 45 during this study period. The data used is secondary data in the form of stock price and daily LQ-45 index five days before and after the election. The statistical tests used to test the hypothesis are One sample t-test and Paired samples t-test.

The results of One sample t-test showed that there is a significant negative abnormal return around the date of the election. It means that the investors responded to this simultaneous regional election as bad news. The results of Paired samples t-test showed that there is no significant positive difference of average abnormal return at the moment of the election and before the election, there is no significant positive difference of average abnormal return at the moment of the election and after the election and also there is no significant positive difference of average abnormal return before and after the election.

Keywords: Capital Markets, Event Study, Abnormal Return, Investor reaction

I. Introduction

The capital market is one of the economic instruments which really affected by many kinds of events that have information for the investors. An event will be important for the investors in capital market if the event has information. The investors in capital market will be able to rate the performance emiten from the information that is relevant. Therefore the investors have the outlook of the risks and expected return toward the fund that has been invested or will be invested (Zaqi, 2006).

The more important of the role of capital market in economic site of a country, the more sensitive the capital market toward the surrounded event, whether it is directly related or not with economic and non economic events (Suryawijaya&Setiawan, 1998). Harymami&Alkaff (2010) said that political event is one of the parts from non economic environment which can affect the condition of the capital market, because the politic situation basically is related to economic stability in a country.

Whardani and Djazuli (2012), explained that economic stability followed by the economic stabilization condition, it will make the investors feel safe to invest their fund in capital market. Therefore, generally the investors place their expectation toward every political event that is happening and their expectations will appear in costfluctuation or the volume activities of stocks trade in stock exchange.

Some event studies that has been done to analyze the investors’ responseson Indonesian capital market toward political events in domestic area proved that capital market can respond positively and negatively. Lamasigi (2002), showed that the exchange of the president of Indonesian in July 23rd 2001 on the third day of the trade found there was abnormal return which was positive and significant. On the contrary, Suryawijaya and Setiawan (1998), showed that the invasion of DPP PDI office in July 27th 1996 found therewasabnormal return which was negative and significant on the day of the event. It shows that the capital market in Indonesia is getting sensitive toward non economic events and responding toward political events that are showed by the significant difference on abnormal return on the date around the events.

The result of the study above proved that related to the investors’ responses there were some factorsaffected. The factors are the exchange of the president of Indonesia and the invasion of DPP PDI office. However, some empirical studies presented the different result of the main component that influenced the investors’ responses. The research gap is the main reasons for the researcher to study more about the simultaneous regional elections in Indonesia in June 27th 2018 that influenced the investors’ responses. Therefore, the problem statement of this research is there is a different research result at the past which is related to political event that influenced the investors’ responses.
Taking the setting of the stocks exchange in Indonesia, in order to test empirically the political event that influenced the investors’ responses to the capital market in Indonesia, so that the research problem in this research is how is the impact of the simultaneous regional elections in June 27th 2018 toward the investors of capital market in Indonesia.

Theory And Hypothesis

Capital market is a market to meet the party who has more funds with the party who needs the fund through buying and selling securities (Octafilia, 2016). The capital market concept that is efficient will press the information aspect where the relationship between the securities cost with the information is the main key to measure the efficient market (Wardhani and jazuli, 2012). Hartono (2016) explained if the market responds fast and accurately to reach the new balance cost fully reflect the availability of the information, so this condition called as efficient market. Fama, (1970) in Tandelilin (2010), stated that market can be called efficient if the availability of securities cost reflect the availability of information fully. In this case, the available information included the information at the past (e.g. company profit last year), today’s information (e.g. dividend rise this year), and also the information in the form of rational opinion circulate in the market that can influence the cost exchanged.

Event study presents a technique research that is possible for the researcher to assess the effects from a certain event toward the company stocks cost (Manurung, 2014). Hartono (2016) defines the event study as a study that learn market’s responses toward an event which the information published as an announcement, while Mav Kinley (1997) defines the event study as one of the research methods used the finance market’s date to measure the impact on a specific event toward company value. It usually reflects from the stock cost and transaction volume. The purpose of the event study is to test the content of the information from an announcement. If the announcement contains the information so it is expected the market will respond when the announcement accepted by the market (Hartono, 2016).

Return is the result obtained from investmen. Return can be in the form of actual return which has been happened or expected return that has not been happened but it is expected in the future (Hartono, 2016). Expected reason is the return that is expected and will be gained by the investor in the future. It is different from the actual return attribute which has been happened, expected return attribute has been not happened. Expected return is the return used to take the investment decision. This return is important compare to historical return, because the expected return is the return that is expected from the investment done (Lestari, 2014).

Abnormal return is the deviation between the level of the actual return which is happened with the level of the return that is expected by the investors (Hartono, 2016). Brown and Warner (1985) in Hartono (2016) stated that expected return can be counted by these following three methods.

1. Mean adjusted Model
   Mean adjusted model stated that the expected return is constant, the value is the same as return real average before during the estimate period.

2. Market Model
   Market model or Single index model is a model that is based on the result of the observation that the cost from a security fluctuate one line with the market index. Mostly, the stocks tend to have the increased cost if the stocks cost index merge raised and vice verse.

3. Market adjusted Model
   Market adjusted model stated that the best speculation to estimate the return of a security is the return from the market index on that time. By using this model, it doesn’t need to use the estimate period to form the estimate model, because the securities return that is estimated is same as the market index return.

Capital market can respond positively or negatively toward a political event. The positive response of capital market toward political event proved by Lamasigi (2002) who examined the market response toward the exchange of president of Indonesia in July 23rd 2001 and the result showed that on the third day of the trade, there was abnormal return which had positive and significant value. Rahayu (2007) also examined the capital market responded toward the reshuffle governmental cabinet of Indonesia in 2005 and it proved that the market at that time responded positively toward the event, it indicated by the average abnormal return which appeared with positive and significant value around the date of the reshuffle announcement. Otherwise, the negative market responded toward the political event proved by Suryawijaya and Setiawan (1998) who examined the invasion of DPP PDI office in July 27th 1996 and the result showed there was abnormal return with negative and significant value on the day when the event happened. The research results of Suryawijaya and Setiawan (1998), Meidawati and Harimawan (2004), Harjanto (2008) stated that there was no significant difference on the average of abnormal return before and after the political event. Wibowo and Darmanto (2017) also found no significance empirical evidence of the reaction of Indonesian capital market investors toward the implementation of tax amnesty.
The results from those researches can be stated that the capital market in Indonesia is getting sensitive toward the non economic events and it can respond toward the political event which was showed by the significant difference on the stocks abnormal return around the date of the event. Therefore, the hypotheses in this research are:

$H_{a1}$: There is positive significant abnormal return around the date of the simultaneous regional elections in Indonesia in June 27th 2018.

$H_{a2}$: There is the difference on the average stocks abnormal return before and at the moment of simultaneous regional elections in Indonesia in June 27th 2018.

$H_{a3}$: There is the difference on the average stocks abnormal return at the moment and after of simultaneous regional elections in Indonesia in June 27th 2018.

$H_{a4}$: There is the difference on the average stocks abnormal return before and after of simultaneous regional elections in Indonesia in June 27th 2018.

Based on the theory and the previous research, the research model can be seen at the Figure 1 below.

**Figure 1**: The framework of theoretical thought the investors responses of capital market in Indonesia toward the simultaneous regional elections in Indonesia in 2018.

### II. Research Method

This research used deductive research which aims to test the hypothesis through the theory application test on the certain situation, the research result used as the basic to make the research conclusion. The type of this research is event study using the period during eleven days stocks trade with five days before the event, one day at the moment of the event and five days after the event. This period observation chosen in order to see when the investors started to respond the information about the simultaneous regional elections in all parts of Indonesia and also there was no other event during the observation period. The simultaneous regional elections happened in June 27th 2018. Therefore, the research period was from June 20th 2018 until July 4th 2018 because on Saturdays and Sundays the stocks exchange closed.

The population in this research was all the companies that the stocks have been listed consistently in index members LQ 45 and always active in the trade everyday during the research period. There were 45 companies as the research object. Stocks LQ 45 chosen as the research population were based on the stocks which was the most active in BEI trade, it is expected that the investors’ responses toward the simultaneous regional elections reflected through the stocks cost which included in LQ 45 index.

The data used in the research is secondary data collected from www.IDX.co.id, www.finance.yahoo.com and newspaper. These are the data collected:

1. The date of the simultaneous regional elections in 2018 gained from the newspaper.
2. The stocks which include in LQ 45 index during the research period taken from www.IDX.co.id.
3. The stocks closed cost that include in LQ 45 index and the closed cost LQ 45 index on eleven days before, at the moment and after the event taken from www.finance.yahoo.com.

The research variable is the investors’ responses which are measured by using abnormal return. Abnormal return is the deviation between the level of the actual return happened and the level of the return that is expected by investors (Hartono, 2016). Abnormal return can be formulated as below:

$$AR_{i,t} = R_{i,t} - E(R_i)$$

$AR_{i,t}$ = abnormal return of stocks i at day t.
The descriptive statistic calculation of stocks average abnormal return during this research period showed at the 1st table below

| Table 1: The average and the deviation standard of the abnormal return during the event period. |
|---|---|---|---|
| Period | Average/Abnormal Return | Deviation standard | Information |
| Five days before the event | -0.0041 | 0.0106 | No responses from investors |
| At the moment of the event | -0.0061 | 0.0188 | No responses from investors |
| Five days after the event | -0.0052 | 0.0105 | No responses from investors |

From the first table can be known that the average abnormal return before the event has negative symbol. It shows that there was no response from the investors toward the simultaneous regional elections in 2018. When the event happened, the average abnormal return is still negative and getting decreased -0.0020, there was no responses from the investors of capital market in Indonesia toward the simultaneous regional elections in 2018. After the event, the average abnormal return is still negative, but there was increased 0.0009.
It shows that there are investors’ responses toward the simultaneous regional elections in 2018. The normality test result used Z skewness and Z kurtosis can be seen at the second table as below.

**Table 2: The normality test result**

<table>
<thead>
<tr>
<th>Period</th>
<th>Z Skewness Abnormal Return</th>
<th>Z Kurtosis Abnormal Return</th>
<th>Critical value (α = 0.05)</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five days before the event</td>
<td>-0.003</td>
<td>-0.096</td>
<td>±1.96</td>
<td>Normal</td>
</tr>
<tr>
<td>At the moment of the event</td>
<td>-0.005</td>
<td>-0.237</td>
<td>±1.96</td>
<td>Normal</td>
</tr>
<tr>
<td>Five days after the event</td>
<td>-0.004</td>
<td>-0.327</td>
<td>±1.96</td>
<td>Normal</td>
</tr>
</tbody>
</table>

From the second table can be known that the average abnormal return data during the research period was five days before the event, at the moment and five days after the simultaneous regional elections in 2018 normal distributed. This result showed that the average abnormal return value has been met the analysis requirements that used parametric statistic paired sample t-test. The hypothesis test ($H_{01}$) found that there is significant positive abnormal return around the date when the simultaneous regional elections in 2018 happened. It presented by this third table below.

**Table 3: One sample t-test result toward the average abnormal return before, at that moment and after the event.**

<table>
<thead>
<tr>
<th>Period</th>
<th>Average Abnormal Return</th>
<th>Sig(2-tailed)</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before the event</td>
<td>-0.0041</td>
<td>0.012</td>
<td>$H_0$ refused</td>
</tr>
<tr>
<td>At the moment of the event</td>
<td>-0.0061</td>
<td>0.034</td>
<td>$H_0$ refused</td>
</tr>
<tr>
<td>After the event</td>
<td>-0.0052</td>
<td>0.002</td>
<td>$H_0$ refused</td>
</tr>
</tbody>
</table>

From the third table above can be known that during the simultaneous regional elections in 2018, there was negative symbol and significant. Nevertheless, if it is based on the average abnormal return significant result daily during the research period at the fourth table found that t-5, t-4, t-2, t-1, t+2, t+3, and t+5 the significant average abnormal return value > $\alpha = 0.05$, while t-3, t0 and t+1 the significant average abnormal return value < $\alpha = 0.05$ and it was negative. It can be concluded that there was no significant positive abnormal return around the date of the simultaneous regional elections in 2018 or $H_{11}$ rejected.

**Table 4: One sample t-test result toward the average abnormal return during the research period.**

<table>
<thead>
<tr>
<th>Period</th>
<th>AverageAbnormal Return</th>
<th>Sig(2-tailed)</th>
<th>Conclusion</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>t-5</td>
<td>-0.0059</td>
<td>0.162</td>
<td>$H_0$ Accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>t-4</td>
<td>-0.0020</td>
<td>0.592</td>
<td>$H_0$ Accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>t-3</td>
<td>-0.0082</td>
<td>0.029</td>
<td>$H_0$ Accepted</td>
<td>Significant</td>
</tr>
<tr>
<td>t-2</td>
<td>-0.0048</td>
<td>0.235</td>
<td>$H_0$ Accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>t-1</td>
<td>0.0004</td>
<td>0.901</td>
<td>$H_0$ Accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>t0</td>
<td>-0.0061</td>
<td>0.034</td>
<td>$H_0$ Accepted</td>
<td>Significant</td>
</tr>
<tr>
<td>t+1</td>
<td>-0.0064</td>
<td>0.002</td>
<td>$H_0$ Accepted</td>
<td>Significant</td>
</tr>
<tr>
<td>t+2</td>
<td>-0.0137</td>
<td>0.158</td>
<td>$H_0$ Accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>t+3</td>
<td>0.0062</td>
<td>0.237</td>
<td>$H_0$ Accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>t+4</td>
<td>-0.0081</td>
<td>0.054</td>
<td>$H_0$ Accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>t+5</td>
<td>-0.0065</td>
<td>0.120</td>
<td>$H_0$ Accepted</td>
<td>Not significant</td>
</tr>
</tbody>
</table>

The hypothesis result ($H_{12}$) showed that there was significant average abnormal return difference between at the moment and before the simultaneous regional elections in 2018. It presented as the fifth table below.

**Table 5: The paired sample t-test result**

<table>
<thead>
<tr>
<th>Pair</th>
<th>The difference ofAverageAbnormal Return</th>
<th>Deviation standard</th>
<th>Sig(2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1 Before – At the moment</td>
<td>0.0020</td>
<td>0.0200</td>
<td>0.505</td>
</tr>
</tbody>
</table>

From the fifth table can be known that before and at the moment of the simultaneous regional elections in 2018, there was no significant decreasing of abnormal return. It was 0.0020 so there was no significant different of the abnormal return before and at the moment of the simultaneous regional elections in 2018 or $H_{12}$ rejected. The hypothesis result ($H_{13}$) found that there was significant different between at the moment and after the simultaneous regional elections in 2018. It is presented as the sixth table below.
Investors don’t respond too much; the regional elections in 2018 caused the market did not respond significantly, because the event does not consist of the significant information so the investors don’t respond too much; the abnormal return in this event was not significant. The investors did not consider the simultaneous regional elections in 2018 as the event which will affect the stocks cost and stocks cost index in the exchange, therefore the investors acted wait and see the fix decision to be the new leader or incumbent. This action occurred because the investors did not want to take the risks by taking the decision from the external information gained. The hypothesis test (Hₐ₃) found that there was significant different of the average abnormal return after and before the simultaneous regional elections in 2018. It was presented as the 7th table below.

<table>
<thead>
<tr>
<th>Event</th>
<th>The difference of Average Abnormal Return</th>
<th>Deviation standard</th>
<th>Sig(2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair-1 at the moment-After</td>
<td>-0.0009</td>
<td>0.0213</td>
<td>0.782</td>
</tr>
</tbody>
</table>

From the sixth table can be known that within at the moment and after the simultaneous regional elections in 2018 there was raised of average abnormal return but it was not significant. It was only -0.0009 so this can be concluded that there was no significant different of the average abnormal return at the moment and after the simultaneous regional elections in 2018 or Hₐ₃ rejected. The hypothesis result (Hₐ₄) proved that there was no abnormal return with significant positive value around the date of the event or on the other word there was no investors’ response toward the event. It means that the event does not consist of the significant information so the investors don’t respond too much; the abnormal return in this event was not significant. The investors faced many kind of information from the political expert, television media, and printed media. The information was different one from another. It means on that time span the abnormal return will stable move. However, the leakage of the information happened on t-1 caused abnormal return increased higher on that level which is not significant. Therefore there was different between the average abnormal return before and at the moment of the event.

<table>
<thead>
<tr>
<th>Event</th>
<th>The difference of Average Abnormal Return</th>
<th>Deviation standard</th>
<th>Sig(2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair-1 Before-After</td>
<td>0.0011</td>
<td>0.0139</td>
<td>0.589</td>
</tr>
</tbody>
</table>

From the seventh table can be known that within before and after the simultaneous regional elections in 2018 there was no significant decreased of the abnormal return. It was 0.0011 so this can be concluded that before and after the simultaneous regional elections in 2018 or Hₐ₄ rejected.

IV. Discussion

The hypothesis result (Hₐ₅) proved that there was no abnormal return with significant positive value around the date of the event or on the other word there was no investors’ response toward the event. It means that the event does not consist of the significant information so the investors don’t respond too much; the abnormal return in this event was not significant. The investors faced many kind of information from the political expert, television media, and printed media. The information was different one from another. It means on that time span the abnormal return will stable move. However, the leakage of the information happened on t-1 caused abnormal return increased higher on that level which is not significant. Therefore there was different between the average abnormal return before and at the moment of the event.

There was negative response from the investors of the capital market in Indonesia toward the simultaneous regional elections in 2018. It was proved by the refusing of Hₐ₅, there was no significant different between the average abnormal return within at the moment and after the simultaneous regional elections in 2018. The refusing of Hₐ₅ showed that there was no negative significant different between the average abnormal return before and after the simultaneous regional elections in 2018. This result showed that the longer period of the event did not contain strong information so the market did not respond anymore. It was proved by the average abnormal return value which was not significant difference of the average abnormal return within before and after the event. It also supported by the information at the fourth table in which before the event period, t+1 until t+5, the average abnormal return stocks mostly dominated by the value that is not significant.

V. Conclusion And Suggestion

Based on the analysis research result explained above, it can be concluded that the investors of capital market in Indonesia responded the information from simultaneous regional elections in 2018 as bad news. Therefore, they responded negatively. It was showed

1. The average abnormal return which is significant negative around the date of the event.
2. The difference between the average abnormal return positive which is not significant before and at the moment of the event.
3. The difference between the average abnormal return negative which is not significant at the moment and after the event.
4. The difference between the average abnormal return positive which is not significant before and after the event.

These are some suggestions for the next research.

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1. This research used market adjusted model to estimate the level of the return expected. Therefore, for the next research suggested to try using the mean adjusted model and market model or using those three types. After that, all the result from those three types can be compared to know the impact toward the research result.

2. This research used one market responded indicator called as abnormal return. Therefore, for the next research suggested developing the other market indicators. For example the trade stocks frequency, the trade volume and bid-ask spread stocks to enrich the research result.

Bibliography
