

THE EFFECT OF POLITICAL EVENT ON THE INDONESIAN STOCK MARKET: AN EVENT STUDY OF PRESIDENTIAL ELECTION ON LQ45 INDEX STOCKS

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ABSTRACT

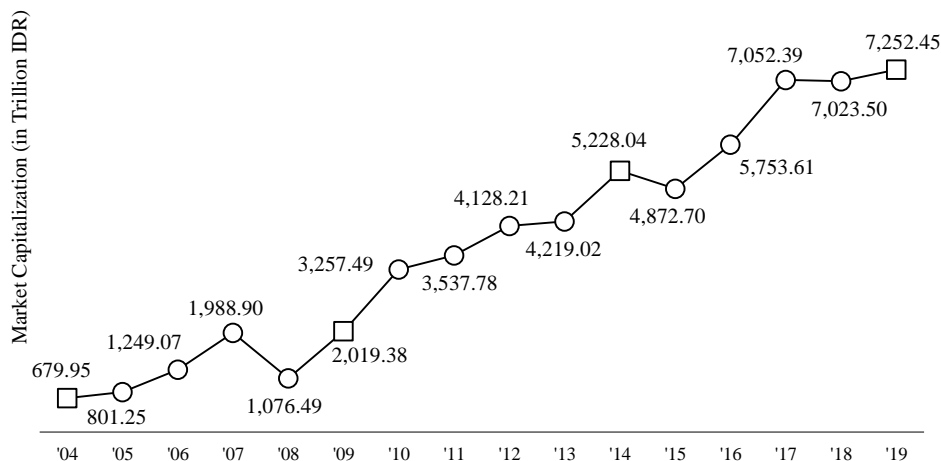
A political event has always been an attractive event for both domestic and foreign investors since it brings a significant impact to the country's stability and is to determine a new direction of the government for the following period. This research analyzes whether the Indonesian presidential election has an effect on the stock performance on Indonesia Stock Exchange. The variables used in the analysis include abnormal return and trading volume activity, which are collected from the IDX and annual reports. This research uses the event study approach, and includes all the direct presidential elections in Indonesia. The hypothesis testing includes non parametric tests of One-Sample Wilcoxon Signed Ranks and Two-Sample Wilcoxon Signed Ranks, with a 10-day event period before and after the event. The sample data is taken using the purposive sampling method from all public companies listed in IDX, of which resulted to the ones included in LQ45 Index during the event period. The findings identify that there are no abnormal returns around the presidential election period; this research also finds that there are no actual differences in the average abnormal return before and after most of the events. As of the trading volume, there are differences in the average trading volume activity before and after most of the events. Based on the findings, this research recommends investors to focus on the economic information, and take into account the trading volume around the period in deciding on investing in stock market around the presidential election.

Keywords: Political event, presidential election, stock performance, abnormal return, trading volume activity.

INTRODUCTION

A capital market is a term for a financial market in which long-term financial instruments, such as stocks, bonds, mutual funds, and derivative instruments are bought, sold, and issued to raise funds. The most common capital market includes the stock market where investors are allowed to trade stocks (also called shares) to acquire ownership of a company, and bond market for investors to provide a loan (also called credit) for a company. A capital market performs an essential function in exchanging funds from a party that has an excess in income to the one who lacks income (Ahmad et al., 2017). Accordingly, it encourages the creation of adequate funds allocation in which investors earn opportunities to invest.

Market Capitalization on Indonesia Stock Exchange



Source: Indonesia Stock Exchange

Figure 1: Market Capitalization on Indonesia Stock Exchange

Indonesia Stock Exchange (IDX) of which is known as the Indonesian stock market, has shown a very significant growth in the past few years. In terms of market capitalization, the market growth has reached 966.6% from 679.95 trillion Indonesian Rupiah in 2004 to 7,252.45 trillion Indonesian Rupiah as of July 2019 (Indonesia Stock Exchange, 2019). A flourishing stock market is an indicator of prosperous economic conditions of any country, and it attracts both domestic and foreign investors to invest in the country (Murtaza et al., 2015). However, aside from playing an important role in the country's economy, IDX also has a strong connection to the country's stability where it reflects the status of Indonesia as a country.

Two factors that affect the performance of IDX are: economic and non-economic. The economic factors can be either in the level of macro economy or micro economy. From the level of macro economy, there are variables such as interest rates, inflation,

foreign currency rates, economic growth, unemployment rate, and changes in policy, while variables from microeconomic level are company performances, management strategy, dividends, stock splits, rights issues, and annual report publications. On the one hand, the non-economic factors include various political events, issues concerning the environment, human rights, natural disasters, accidents, and war.

Despite having an indirect relationship with stock performance, a non-economic factor is still accountable. As an example, the world's deadliest tsunami in December 2004 destructed almost 11 economies of the world (Nazir et al., 2014). Similarly, political events such as general election, new legislation, change of government, and war also do not have a direct relationship with a stock market but are still considered one of the factors that bring significant impact onto that. According to Beaulieu et al. (2006) and Aktas and Oncu (2006), political events had a substantial effect on the performance of a stock market. Thus, political stability is very critical because it brings a huge impact both on the level of macroeconomic and microeconomic of the country, and it may either encourages or discourages the interest of investors that in turn affect the overall stock market performance.

In any presidential country, the presidential election is considered one of the political events that affect the stability of the country as it can determine the new direction of a country's government for the following period. Hence, the presidential election always earns widespread attention across the world, especially for investors to foster a sense of security in what invested. A sound presidential election creates a conducive environment to drive economic activity since the country risk is considered very low, of which it increases trusts from investors to invest in the country. An event that has relevant information content either positive or negative and manages to change investors' perceptions can lead to an increase or decrease in stock prices in the stock market (Beaver, 1968; Morse, 1980).

An event study on the effect of presidential election against stock market performance is interesting because there are contradictive results among previous studies. Some recent studies on Indonesia's presidential election in 2014 have found no differences in average abnormal return before and after the election (Pamungkas et al., 2015), while previous studies on Indonesia's presidential elections in 2009 and 2004 found differences in average abnormal return before and after the election (Sinaga, 2005); (Sudrajat, 2010). Based on that explanation, the research objectives are: (1) To identify the existence of abnormal return around election period; (2) To examine differences in average abnormal return and average trading volume activity before and after the election period on LQ45 index stocks on IDX.

LITERATURE REVIEW

Efficient Market Hypothesis

An economist, Fama (1970) defines an efficient market as one condition where the current stock price of a stock market reflects all the available information. Later, the theory is known as the Efficient Market Hypothesis (EMH). Theoretically, no investors can generate a consistent excess return (also called abnormal return) in an efficient market despite the risk and strategy used to gain profit because the current stock price already accounted all the available information. The only possible way for an investor to outperform the market is if there is inside information that nobody else knows, which the stock price has not yet incorporated with the information. Moreover, this theory is consistent with the random walk theory, which is a financial term to represent a price fluctuation where changes in stock prices have a similar distribution and are independent of each other.

The EMH theory classified market efficiency into three forms based on the type of information, as follows (Bodie et al., 2018):

1. Weak form efficiency is a market condition where the current stock price reflects past information or data, such as historical stock prices and trading volumes. Accordingly, this form is consistent with the random walk theory, whereas stock prices evolve randomly.
2. Semi-strong efficiency happens when the current stock price in a stock market is not only accounting past information but also publicly available information that is relevant to the company, such as company's fundamental data, management quality, balance sheet composition, patents held, expected earnings, and accounting practices.
3. Strong efficiency is a market condition where the current stock price adjusts with all the relevant information, including past information, publicly available information, and also the private-known information. The private information is usually limited to company insiders only and is confidential for strategy purposes. In this form of market efficiency, no one, including investors and insiders, can outperform the market.

Stock Return

Stock return is a term to refer to a gain or loss received by investors from an investment. At the same time, it also can be defined as a reward for the courage of investors to bear the risk of investments made (Tandelilin, 2013). The income may be in the form of profits earned from stocks trading, or the dividends received periodically; may be quarterly, semi-annually, and annually. Return is expressed nominally as the change in currency value of an investment over a period. Besides, it represented as a percentage inferred from the ratio of profit to investment. According to Hartono (2017), there are two types of return, as follows:

1. Actual return is a return amount that occurred in the capital market and is significant to determine the company's stock performance and to determine the expected return and risk in the future.
2. Expected return is a return that an investor expects from a stock investment to earn in return over some time. There are three estimation models for expected return, including Mean-Adjusted Model, Market Model, and Market-Adjusted Model (Brown & Warner, 1985).

Event Study

Event study, also known as the residual analysis is a statistical method to assess the impact of a particular event or published information on a stock market. The purpose is to analyze the market responses towards the content of information from a

particular event and to examine the semi-strong form efficiency (Hartono, 2017). If an event contains valuable information, the market is expected to show some response on the day of the information received by the market. In this matter, the market response is reflected in the changes in stock prices or stock returns, and the existence of abnormal return. Aside from abnormal return, the event study also use the financial market data of trading volumes (MacKinlay, 1997).

According to (Johnston, 2007), there are five key steps to conduct an event study, as follows:

1. Identification of event of interest
2. Definition of event criteria
3. Calculation of normal and abnormal returns
4. Estimation of normal performance model
5. Statistical calculation and hypothesis testing

Research Hypotheses

There are numbers of previous studies that examine the relationship between a new publicly available information with the variable of either abnormal return or trading volume activity. However, most of the studies focus on the information of an economic event rather than a non-economic event. The first group of study analyzes the effect of the presidential election on abnormal return. Sinaga (2005) investigates the existences of abnormal return around the period. The findings determine that there are no abnormal returns found around the presidential election in 2004 for both rounds. Another researcher, Katti (2018), through the study on a similar analysis, found that there are abnormal returns around the period of the presidential election in 2014. Therefore, the following hypothesis based on the arguments is, as follows:

H1: There is an abnormal return around the presidential election period

The second group of study examines the differences in average abnormal return before and after the presidential election. A study conducted by Pamungkas et al. (2015) found that there are no differences in average abnormal return before and after the presidential election in 2014. However, Kurniawati et al. (2015) determine that there are differences in average abnormal return before and after a similar event. Also, there are no differences found on the series of the presidential election, such as the announcement of final candidates, the event of presidential debates, and the declaration of election results by the General Election Commission. Therefore, the following hypothesis based on the arguments is, as follows:

H2: There is a difference in average abnormal return before and after the presidential election

The third group of study observes the effect of a presidential election on trading volume activity. Sudrajat (2010) analyzes differences in average trading volume activity before and after the event period, and the findings identify that there are differences in average trading volume activity before and after both the legislative election and presidential election in 2009. Contradict with the previous one, the study conducted by Fajar (2017) describes that there are no differences in average trading volume activity before and after the 2014 presidential election. Therefore, the following hypothesis based on the arguments is, as follows:

H3: There is a difference in average trading volume activity before and after the presidential election

METHODOLOGY

Research Design

This study is classified as quantitative research, which refers to a method to quantify data in number or percentage using statistical model, and generalizes results from a sample to the population of interest (Kowalczyk, 2016). The research design in this study is comparative analysis and using an event study approach. According to Pickvance (2005), a comparative analysis is mainly conducted to explain the causal processes involved in an event by bringing together variations in the variables. Meanwhile, the purpose of event study is to observe the market response on a particular event of interest towards new publicly available information (Hartono, 2017).

Event Identification

The event to analyze in this research is the political event of general election consisting legislative election, presidential election, and local election. This study focuses on the impact of a presidential election event in Indonesia held directly at a national level, in which the people of Indonesia are eligible to vote. These presidential elections are held in 2004, 2009, 2014, and 2019. All of the presidential elections have one round of election except for the one in 2004 that has two rounds of election.

Table 1: Research Event Identification

Event	Name	Date
1	2004 Presidential Election, Round 1	July 5, 2004
2	2004 Presidential Election, Round 2	September 20, 2004
3	2009 Presidential Election	July 8, 2009
4	2014 Presidential Election	July 9, 2014
5	2019 Presidential Election	April 17, 2019

Observation Period

Peterson (1989) suggest that an observation period is around 21 days to 121 days for daily data usage. However, Sinaga (2005) argued that the event period could be shortened up to 10 days to reduce the interferences from other surrounding events. Hence, the observation period is a 10-day event period, which consists of five trading days on the pre-event period and five trading days on the post-event period.

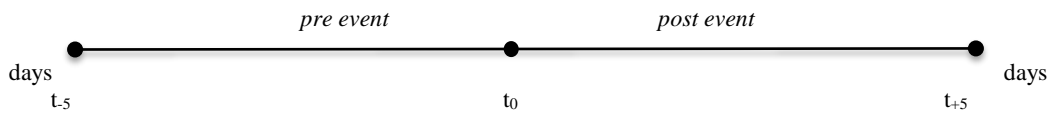


Figure 2: Observation Period

Measurement of Variables

There are two types of variable in this study, which are independent and dependent variables. Independent variable is the variable that influences the other (dependent) variables, which is the event of presidential elections in 2004, 2009, 2014, and 2019. On the one hand, the dependent variable is the primary variable that lends itself for observation as a viable factor (Sekaran and Bougie, 2010). The dependent variables are abnormal return and trading volume activity of stocks listed in LQ45 index during each of the observation periods.

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

Source: Chandra, 2013

Equation 1: Abnormal Return Equation

- AR_{i,t} : Abnormal return of stock i at period t
- R_{i,t} : Actual return of stock i at period t
- E(R_{i,t}) : Expected return of stock i at period t

$$TVA_{i,t} = \frac{\text{Number of stock i traded at period t}}{\text{Number of stock i circulated at period t}}$$

Source: Chandra, 2013

Equation 2: Trading Volume Activity Equation

Data Collection

This study uses secondary data collected from various sources, including the Indonesia Stock Exchange, *Dunia Investasi*, and annual report of the company. Aside from that, another data also collected from several readings on numbers of source, such as books, journals, news, and website articles. Furthermore, the research sample is the LQ45 index stocks, of which taken from all stocks listed on the Indonesia Stock Exchange with a purposive sampling technique. The LQ45 index consisting the most liquidity stocks and have a high market capitalization coming out from various sectors. The sample criteria to fulfill are: (1) the stock must be listed in LQ45 index; (2) is actively traded; (3) is not experiencing any corporate action (e.g., stock splits) during the observation period. Therefore, there are 45 companies taken as the research sample for all events except for Event 2 that consist of 43 companies.

Table 2: Research Samples Based on Sector

No.	Sector	Total Company				
		1	2	3	4	5
1	Agriculture	1	1	6	2	0
2	Mining	6	5	10	4	8
3	Basic Industry and Chemicals	7	6	6	4	8
4	Miscellaneous Industry	3	3	1	1	2
5	Consumer Goods Industry	10	8	3	5	6
6	Property, Real Estate and Building Construction	1	4	3	12	6
7	Infrastructures, Utilities, and Transportation	3	2	6	6	4
8	Finance	5	7	8	5	5
9	Trade, Service, and Investment	9	7	2	6	6
Total		45	43	45	45	45

Data Analysis Technique

In order to analyze the variable data in this research, a series of test including descriptive statistics, classical assumptions test, and hypothesis test are conducted using the software of IBM SPSS 22 for Windows. The purpose of descriptive statistics is to obtain a statistical overview from a data set, which resulted from the analysis of table, graph, and diagram. Descriptive statistics include central tendency measurement of mean and median, along with a variability measurement of standard deviation, minimum, and maximum value of variable data. Further, for the classical assumption analysis, a normality test of One-Sample Kolmogorov Smirnov is conducted to identify whether the distribution of a variable data is normal or not (Ainiyah et al., 2016).

The criteria for making analysis decision are:

1. If the p-value > 0.05, it implies that the distribution of data is normal.
2. If the p-value < 0.05, it indicates that the distribution of data is abnormal.

On the one hand, the inferential test aims to conclude a population of variable data based on the analysis and observation. The analysis uses either a parametric or non-parametric test, which is determined by the result of the normality test. If the variable data is found to have a normal distribution, then a parametric test of One-Sample t-Test is conducted for H1, on the confidence level of 95% ($\alpha = 0.05$). However, a non-parametric test of One-Sample Wilcoxon Signed Ranks Test is conducted as an alternative if the variable data is found to have a not normal distribution. Meanwhile, a parametric test of Two-Sample t-Test is used to test H2 and H3 with normal distribution data. If the variable data has found to have a not normal distribution, then a non-parametric test of Two-Sample Wilcoxon Signed Ranks Test is tested as the alternative (Pamungkas et al., 2015).

The decision rules of this hypothesis test are:

1. If the p-value > 0.05, then do not reject H0.
2. If the p-value < 0.05, then reject H0.

Research Framework

Based on the literature review and methodology, the research framework is as follows:

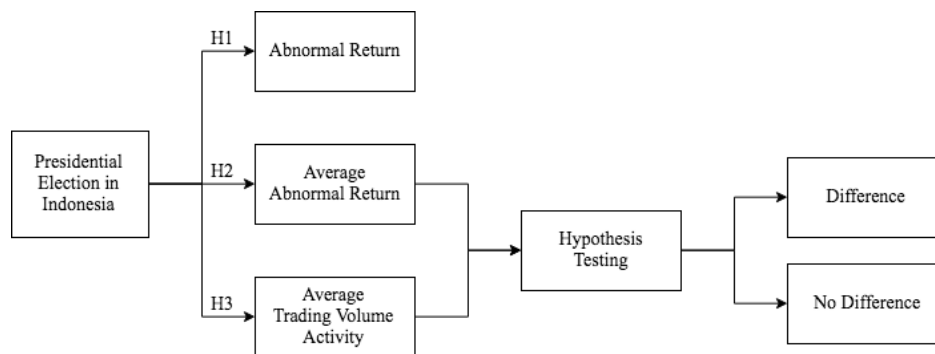


Figure 3: Research Framework

FINDINGS, ANALYSIS, AND DISCUSSIONS

Descriptive Statistics

Table 3: Descriptive Statistics on Abnormal Return

Period	N	Mean	Median	Std. Deviation	Minimum	Maximum
1 Before	45	0.0051	0.0048	0.0122	-0.0285	0.0383
1 After	45	0.0030	0.0006	0.0106	-0.0146	0.0256
2 Before	43	-0.0007	-0.0010	0.0114	-0.0259	0.0296
2 After	43	0.0026	-0.0040	0.0204	-0.0151	0.1114
3 Before	45	-0.0021	-0.0028	0.0091	-0.0233	0.0213
3 After	45	-0.0025	-0.0039	0.0125	-0.0315	0.0401
4 Before	45	0.0052	0.0029	0.0126	-0.0133	0.0492
4 After	45	0.0011	0.0034	0.0104	-0.0402	0.0198
5 Before	45	0.0007	-0.0004	0.0091	-0.0192	0.0184
5 After	45	0.0014	0.0015	0.0101	-0.0299	0.0279

Source: Secondary data, processed (2019)

As shown in Table 3, the mean of average abnormal return (AAR) does indicate positive returns in most of the event periods. A positive return occurs on both period before and after Event 1, Event 4, and Event 5. The highest positive return of 0.0052 belongs to the period before Event 4, followed by a positive return of 0.0051 on the period before Event 1. This value indicates that most of the stock return experience an increase on these election periods. Meanwhile, the remaining election periods, including Event 2 and Event 3, have a negative return on either one period. The lowest return occurs on the period after Event 3 with a negative return of -0.0025. A negative return implies that most of the stock return declining on the election period.

Despite having a negative return, abnormal return on the period before Event 3 shows the lowest standard deviation of 0.0091. This value means that this election period has the lowest risk among all periods. In contrast, abnormal return on the period after Event 2 found to have the highest standard deviation of 0.0204, indicating this election period to have the highest risk among all presidential election periods.

Table 4: Descriptive Statistics on Trading Volume Activity

Period	N	Mean	Median	Std. Deviation	Minimum	Maximum
1 Before	45	0.0131	0.0016	0.0459	0.0000	0.2502
1 After	45	0.0164	0.0023	0.0553	0.0000	0.3318
2 Before	43	0.0186	0.0031	0.0391	0.0001	0.1588
2 After	43	0.0134	0.0040	0.0268	0.0003	0.1589
3 Before	45	0.0074	0.0019	0.0145	0.0001	0.0819
3 After	45	0.0129	0.0025	0.0339	0.0001	0.2196
4 Before	45	0.0034	0.0013	0.0068	0.0001	0.0357
4 After	45	0.0047	0.0021	0.0096	0.0002	0.0480
5 Before	45	0.0018	0.0010	0.0021	0.0002	0.0110
5 After	45	0.0024	0.0012	0.0030	0.0002	0.0147

Source: Secondary data, processed (2019)

Table 4 shows the descriptive analysis results on average trading volume activity (ATVA). The highest volume occurs on the period before Event 2 with a value of 0.0186, meaning most of the stocks are traded massively on that election period. On the contrary, the lowest volume has found on the period before Event 5 with a value of 0.0018. This value means that most of the stocks are traded less extensive compared to the other presidential election periods.

In terms of standard deviation, the volume on the period after Event 1 has found to have the highest standard deviation of 0.0553, meaning it has the highest risk out of all election periods. Meanwhile, the lowest standard deviation occurs in the period before Event 5, indicating the lowest risk compared to the remaining presidential election periods.

Normality Test

Table 5: Normality Test (One-Sample Kolmogorov Smirnov Test)

Period	N	Abnormal Return			Trading Volume Activity		
		D	Sig.	Distribution	D	Sig.	Distribution
1 Before	45	0.076	0.200	Normal	0.410	0.000	Not normal
1 After	45	0.134	0.041	Not normal	0.404	0.000	Not normal
2 Before	43	0.097	0.200	Normal	0.324	0.000	Not normal
2 After	43	0.206	0.000	Not normal	0.312	0.000	Not normal
3 Before	45	0.085	0.200	Normal	0.306	0.000	Not normal
3 After	45	0.148	0.014	Not normal	0.353	0.000	Not normal
4 Before	45	0.143	0.021	Not normal	0.338	0.000	Not normal
4 After	45	0.097	0.200	Normal	0.327	0.000	Not normal
5 Before	45	0.116	0.151	Normal	0.274	0.000	Not normal
5 After	45	0.181	0.001	Not normal	0.305	0.000	Not normal

Source: Secondary data, processed (2019)

Based on Table 5, there is a variety of distribution among abnormal return data either before and after the election period. Therefore, it defines that none of the events has a normal distribution data. As a result, a non-parametric test of One-Sample Wilcoxon Signed Ranks Test is conducting for H1, and the H2 tested using a Two-Sample Wilcoxon Signed Ranks Test. On the one hand, the result shows that average trading volume activity of every period has a similar value of 0.000, indicating a lower p-value than 0.05. Accordingly, it clearly defines the data distribution of average trading volume activity is not normal. Hence, the hypothesis test for H3 is using a non-parametric test of Two-Sample Wilcoxon Signed Ranks Test.

First Hypothesis (H1)

Table 6: Hypothesis Testing 1 on Abnormal Return (One-Sample Wilcoxon Signed Ranks Test)

Event	N	Decision (✓ = Reject H0)									
		-5	-4	-3	-2	-1	+1	+2	+3	+4	+5
1	45	X	X	X	✓	X	X	✓	X	X	X
2	43	X	X	X	X	X	X	X	X	X	X
3	45	X	✓	X	X	X	✓	X	X	X	X
4	45	X	✓	X	✓	X	X	X	X	X	X
5	45	X	X	X	X	X	X	X	✓	X	X
6	223	X	X	X	X	X	✓	X	X	X	X

Source: Secondary data, processed (2019)

Table 6 presents the decision of the hypothesis testing for H1 of each event. In general, the findings show that there are abnormal returns on particular days on the observation period, of which the most frequent ones with two days of abnormal return shown on Event 1, Event 3, and Event 4. In Event 1, the abnormal returns are found on the day minus two (-2) and on the day plus two (+2). In contrast, there are no abnormal returns found on the following event (Event 2). Meanwhile, for Event 3 and Event 4, the abnormal returns are found on two days on the observation period, of which on the day minus four (-4) and on the day plus one (+1) for Event 3, and on the day minus four (-4) and on the day minus two (-2) for Event 4. However, on Event 4, the abnormal

returns are found only on the period before the event. Next, for Event 5 and Event 6, the abnormal returns around found on one day out of 10-day observation period, of which on the day plus three (+3) and on the day plus one (+1) respectively.

In conclusion, this study finds that the political uncertainty during the event of the presidential election in Indonesia has made the stock price fluctuate, but in general, it is not to create abnormal returns around the period before and after the event. These findings are correspondents with the previous research conducted by Sinaga (2005), Umaeroh (2014), and, Nabila et al. (2015).

Second Hypothesis (H2)

Table 7: Hypothesis Testing 2 on AR Differences (Two-Sample Wilcoxon Signed Ranks Test)

Event	N	Δ Median	Z Stat.	Sig.	Decision
1	45	-0.0042	-1.089	0.276	Do Not Reject H0
2	43	-0.0030	-0.254	0.800	Do Not Reject H0
3	45	-0.0011	-1.022	0.307	Do Not Reject H0
4	45	0.0005	-2.173	0.030	Reject H0
5	45	0.0019	-0.186	0.852	Do Not Reject H0
6	223	-0.0007	-1.938	0.053	Do Not Reject H0

Source: Secondary data, processed (2019)

In this hypothesis, the dependent variable of average abnormal return tested to define differences in average abnormal return before and after the election period. Based on the findings in Table 7, the explanation for each presidential election period is, as follows:

1. A p-value of $0.276 > 0.05$ on Event 1, implying that the data does not support this hypothesis. As a result, there are no differences in average abnormal return on LQ45 index stocks before and after the election period. Further, compared to the other events, Event 1 has the lowest median differences of -0.0042. A negative median difference indicates that average abnormal return after the election period decreasing 0.42% from its value on the period before the presidential election period.
2. Event 2 has been found to have a p-value of $0.800 > 0.05$, meaning that the data does not support this hypothesis. Accordingly, there are no differences in the average abnormal return on LQ45 index stocks before and after the election period. Moreover, median differences on this event also show a negative value of -0.0030, meaning average abnormal return is declining 0.30% after the election period.
3. A p-value of $0.307 > 0.05$ on Event 3, meaning the data does not support this hypothesis, and there are no differences in average abnormal return on LQ45 index stocks found before and after the election period. Further, this event also found to have negative median differences of -0.0011, indicating average abnormal return after the election period to decrease 0.11% compared to the period before the election.
4. Based on the result, Event 4 has been found to have a p-value of $0.030 < 0.05$, meaning the data does support this hypothesis. As a result, there are differences in average abnormal return on LQ45 index stocks found before and after the election period. A positive median difference of 0.0005 also found on Event 4, implying that average abnormal return after the election period increasing 0.05% than before.
5. A p-value of $0.0852 > 0.05$ on Event 5 indicates that the data does not support this hypothesis, meaning there are no differences in average abnormal return on LQ45 index stocks before and after the election period. A positive median difference of 0.0019 on Event 5 also implies that average abnormal return after the election period increases 0.19% from the period before, and is the highest median difference among all events.
6. In Event 6, the analysis found the data do not support a p-value of $0.053 > 0.05$ that determines this hypothesis. Accordingly, there are no differences in the average abnormal return on LQ45 index stocks before and after the election period. Further, a negative median difference of -0.0007 defines that average abnormal return after the election period is declining 0.07% from before the election period.

In conclusion, this study finds that, in general, there are no differences in average abnormal returns before and after the event of the Indonesia presidential elections. These findings are consistent with the previous research conducted by Sinaga (2005), Kurniawati et al. (2015), Pamungkas et al. (2015), Chandra (2015), Aini (2015), Nabila et al. (2015), and Katti (2018).

Third Hypothesis (H3)

Table 8: Hypothesis Testing 3 on TVA Differences (Two-Sample Wilcoxon Signed Ranks Test)

Event	N	Δ Median	Z Stat.	Sig.	Decision
1	45	0.0007	-2.478	0.013	Reject H0
2	43	0.0009	-1.147	0.251	Do Not Reject H0
3	45	0.0006	-3.076	0.002	Reject H0
4	45	0.0008	-4.758	0.000	Reject H0
5	45	0.0002	-3.448	0.001	Reject H0
6	223	0.0004	-5.180	0.000	Reject H0

Source: Secondary data, processed (2019)

In this hypothesis, the dependent variable of average trading volume activity tested to define differences in average trading volume activity before and after the election period. As presented on Table 8, the explanation for each presidential election period is, as follows:

1. A p-value of $0.013 < 0.05$ on Event 1 defines the data does support this hypothesis, meaning there are differences in average trading volume activity on LQ45 index stocks before and after the election period. Further, a positive median difference of 0.0007 determines average trading volume activity after the election period increases by 0.07% compared to the period before.
2. A p-value of $0.251 > 0.05$ on Event 2 identifies the data do not support this hypothesis, implying there are no differences in average trading volume activity on LQ45 index stocks before and after the election period. However, the median difference of 0.0009 is the highest median difference among all events, indicating average trading volume activity after the election period is inclining 0.09% than before the election period.
3. A p-value of $0.002 < 0.05$ on Event 3 shows the data does support this hypothesis, indicating there are differences in average trading volume activity on LQ45 index stocks before and after the election period. Further, a median difference of 0.0006 defines average trading volume activity after the election period to increase by 0.06% compared to before.
4. A p-value of $0.000 < 0.05$ on Event 4, meaning the data does support this hypothesis and there are differences in average trading volume activity on LQ45 index stocks before and after the election period. A positive median difference of 0.0008 implies an increase of 0.08% in average trading volume activity after the election period.
5. A p-value of $0.001 < 0.05$ on Event 5, implying the data does support this hypothesis and there are differences in average trading volume activity on LQ45 index stocks found before and after the election period. The median difference of 0.0002 identifies an increase of 0.02% in average trading volume activity after the election compared to before, and indicate the lowest median difference among all events.
6. A p-value of $0.000 < 0.05$ on Event 6, defining this hypothesis is supported by the data and there are differences in average trading volume activity on LQ45 index stocks found before and after the election period. A median difference of 0.0004 implies an increase of 0.04% in average trading volume activity after the election than before.

In conclusion, this study finds that, in general, there are differences in average trading volume activity before and after the event of the Indonesia presidential elections. These findings are correspondents with the previous research conducted by Pamungkas et al. (2015) and Aini (2015).

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

1. The presidential election in Indonesia does not affect the performance of stock prices, in terms of abnormal returns, on the Indonesia Stock Exchange (IDX) around the election period. The findings identify that the abnormal returns only occurred on a specific day on the event period, which varies on each presidential election event.
2. There are no differences in average abnormal returns before and after the presidential election. The findings define that only the presidential election in 2014 that shows differences in the average abnormal returns before and after the event. In other words, the event does not affect the stock returns since the investors do not find the relevant information as something that influences the stock market significantly.
3. The presidential election does affect the trading volume activity, of which is contradictive to the abnormal returns. The findings determine that there are differences in average trading volume activity before and after the event except for Event 2. Besides, the differences seem to be positive, as the analysis shows an increase in average trading volume activity after the event period of every event. Thus, it concludes that the presidential election does positively affect the volume of stocks traded on the market around the event period.

Recommendations

For Investors

Based on the findings, there are some recommendations for investors in investing in stocks around the period of Indonesia's presidential election in the future, as follows:

- The investors should not worry about making investment decision around the presidential election as it does not affect the stock price fluctuation. However, do consider the stock liquidity since it is affected by the event.
- The investors are advised to take relevant information from the particular event, such as the presidential vision and mission, the upcoming projects, and the political stability into considerations before investing in the stock market ahead of the political event period. This advice is because the trading volume of stocks tends to increase around the event period.
- Compared to the political information, investors should pay more attention to financial and non-financial information such as company performance based on the annual report before making investment decisions in the stock market.
- Stock issuer companies are also encouraged to anticipate the policies and regulations of the new government in order to maintain the stability and competitiveness in the market.

For Further Research

On the one side, there are still rooms for improvement in this research in order to create a more thorough yet concise result. Here are some essential points to take as recommendations for further research.

- This research does not consider the possibility of other events during the observation period; in fact, the surrounding events may become the confounding effect that needs to consider.
- The sample taken in this research is all the stocks listed in LQ45 index during the event period, which the composition differs from one to another. Further research could take the sample with similar composition for a more concrete result.

- In order to strengthen the power of the test and to create a more accurate result, further research is recommended to take more stocks as the research sample or even all the stocks listed on the stock exchange.
- The observation period could also be lengthened in order to provide more evidence, as this research only analyzes the effect in the short run that is a ten-day event window.
- This research uses the market-adjusted model to determine the expected return in order to simplify the process, but, it is advisable to use other expected return models, e.g., market model or mean-adjusted model.
- A sample grouping based on the sector is recommended to be done in the further research to avoid an industry effect, as well as to observe the leading sector for the next five years of a presidential term.

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