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Impact of 2019 General Election on Abnormal Return in Indonesia

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ABSTRACT: An event both economic and non-economic event must have information that affect stock market. One of the event that allegedly have an impact on stock market is general election. This study aims to determine the impact of 2019 Indonesian General Election on abnormal return. This study uses event study method with sample consist of 93 companies that listed on Kompas100 index. The model used to calculate the expected return is mean adjusted model. The result of this study is 2019 General Election event cause negative but insignificant impact on abnormal return before and after the election took place. This indicate that investor has already expecting the result of the general election, and negatively perceived 2019 general election event due to fraud and scandalsthat surround the 2019 Indonesia General Election.
Keywords –*Event Study, General Election, Abnormal Return, Stock Market, Mean Adjusted Model*

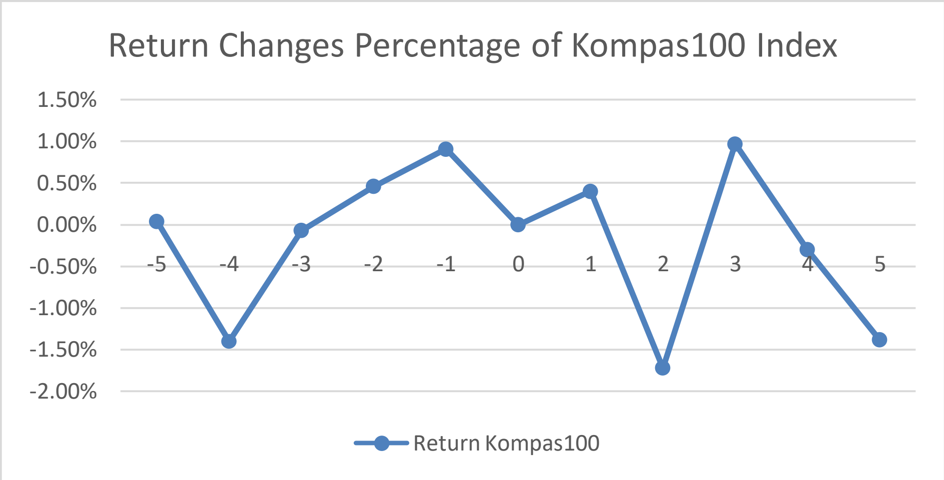
I. INTRODUCTION

Capital market is a bridge that connect party with abundant amount of funds with party that need funds through securities transaction (Tandelilin, 2010: 26). There are many long term financial instruments such as stock, bond, and other derivative instruments traded. One of the instruments that interesting is stock, because stock enables investor to gain return. Risk rate from investing with price fluctuation could give capital gain if stock prices increase or capital loss if share price decreasing (Saraswati & Mustanda, 2018).Investor when investing must be cautious, mainly in choosing on stock that they want to invest. The important thing that should be reckon is information because information could influence investor's decision in investing. An event that took place in stock market, both economic and non-economic contain information content that could influence stock market (Diniar & Kiriyanto, 2016).

Economic events divided by two which consist of micro economic and macroeconomic according to Altin (2015). Micro economic events that could affect stock market are financial statement announcement, corporate action such as stock split, dividend distribution, and right issue. Macroeconomic events that could affect stock market according to Nabila & Khairunnisa (2015) are fiscal and monetary policy, government regulation, etc. Non-economic events that could affect stock market are politic events such as president election, legislative election, war, turmoil, political unrest, and natural disaster. Poitical events can influence stock price movement in stock market, one such event is general election. Sihotang & Mekel (2015) suggest that general election could affect price stability in stock market. If general election in certain country on stable condition, then the economic condition will be stable and investors will give positive feedback to invest their capital. On the contrary, if political event in certain country in unstable condition, then it could threaten economic stability and tend to get negative feedback from investors.

Data obtained from Indonesia Stock Exchange (IDX) showed five days before the 2019 Indonesian General Electiontook place the return of the Kompas100 index tends to increase, while for five days after the general election took place Kompas 100 index experience fluctuation on the return, where the return of Kompas100 index during that period tends to decrease. This indicates that investors are processing information after the holding of 2019 Indonesia General Election. The graphic of return changes of Kompas100 index follows

Figure 1. Return Changes Percentage Graphic of Kompas100 Index. Source: Secondary Data, investing.com, 2019



Based on the phenomenon, it is known that 2019 Indonesian General Election affect the movement of share price. Political events in theory both direct or indirect according to Ardiansari & Saputra (2015) are affecting economic condition of a country. To find out if stock market quantitatively reacting to general election event, the method that can be use to analyze it is using event study method.

Event study according to Tandelilin (2010: 565) is a method used to measure market reaction on an events that information is publicly available. Event study can be used to test market efficiency in strong form, semistrong form, and weak form. The intended use of event study is to test information content from an already announced information, by looking at the existence of abnormal return. Testing market reaction is closely related to market efficiency. Efficient Market Hypothesis (EMH) stated by Fama (1970) in Hartono (2017: 605) implies that market is efficient if market quickly react on all relevant information, whereas market is inefficient if market slowly react on all relevant information or market is experiencing lag, so that investor can exploit the lag situation to obtain capital gain (Tandelilin, 2010: 221).

Several studies have been conducted to determine the impact of general election on capital market. Savita & Ramesh (2015) found that positively react after the holding of 2014 India General Election. Repousis (2016) found that market negatively react after the holding of Greek General Election in 2000 and 2004, buat positively react after the holding of 2007 Greek General Election. Wagner et al. (2018) and Kusumayanti & Suarjaya (2018) investigating 2016 USA Presidential Election found that market reacting on Donald Trump winning the presidential election. Gatumo (2017) found that market positively react on 2017 Kenya General Election. Wong & Hooy (2016) found that “there is significant difference of Cumulative Average Abnormal Return (CAAR) on state banking and private banking sector before and after general election in Indonesia, Malaysia, and Thailand within period of 2000 – 2013.” Liew & Rowland (2016) conclude that market reacting before and after the 1995 – 2013 Malaysia General Election. Imelda et al. (2015) found that there are significant difference on abnormal return before and after the 2004 – 2014 Indonesian Presidential Election.

Lehrer (2018) found that there is no market reaction on 2015 General Election in Israel. Robinson & Bangwayo-Skeete (2017) found that there is no significant difference of abnormal return before and after the general election in Eastern Caribbean and Guyana when the general election took place on both countries. Chandra (2015) founds that there is no significant difference of abnormal return before and after 2014 Indonesian Presidential Election. Hutami & Ardiyanto (2015) found that there is no significant difference of Average Abnormal Return (AAR) before and after the holding of 2014 Indonesian Presidential Election. Hartawan et al. (2015), Mahaputra & Purbawangsa, and Santoso & Sri Artini founds that there is no market reaction before and after the holding of 2014 Legislative Election in Indonesia. Pamungkas et al. (2015) investigating 2014 Presidential Election in Indonesia found that there is no reaction before and after the events took place. The inconsistencies in the results of previous studies and because in 2019 Indonesia held the executive and legislative elections for the first time simultaneously made researchers interested in conducting a similar study under the title "Impact of 2019 General Election on Abnormal Return in Indonesia". Here is a hypothesis formed based on efficient market theory and previous studies

H_1: 2019 General Election event has significant impact toward abnormal return on 2019 IndonesianGeneral Election.

II. LITERATURE REVIEW

1. Efficient Market Hypothesis

Based on Jones (2013: 320), "Efficient market is a market in which prices of securitiesquickly and fully reflect every available information, which are past information, current information as well as events that have been announced but still forthcoming." Hartono (2017: 607) presents three types of efficient market, which are"(1) weak form where the price of securities fully reflect past information, (2) semistrong form where the price of securities reflect all publicly available information, (3) strong form where the price of securities reflect all information, both public and private."

2. Event Study

According to Hartono (2017: 643) "event study is a method used to calculate market reaction to a certain events that information publicly available. Event study used to study information content on every events. If an events contain information, then it should be expected that market will react by the time the announcement received by market." Information content can be good news or bad news. According to Tandelilin (2010, 566) events that becomes research focus are conventional events, cluster events, unexpected events, and events that occur are relevant and consecutive.

3. Abnormal Return

Abnormal return is securities return where the resulting return is higher than normal. Abnormal return resulted from the difference between actual return and expected return. According on Hartono (2017: 667), "If the value of abnormal return is positive, that means the actual return is higher than the expected return. If the value of abnormal return is negative, that means the actual return is lower than the expected return." There are three calculation model used to calculate expected return before calculate abnormal return (Hartono, 2017: 667) such as mean adjusted model, market adjusted model, and market model.

III. RESEARCH METHOD

This study used event study method to investigate the impact of 2019 Indonesian General Election on abnormal return during the 2019 General Election in Indonesia. The location of this research was conducted at Indonesia Stock Exchange (IDX) which can be accessed throughIndonesia stock exchange website and yahoo finance website. The data used in this study is the daily closing price of shares from November 2018 to April 2019 for companies that listed on Kompas100 Index. Because this research uses mean adjusted model, there must be estimation period in order to calculate every sharesexpected return, where the estimation period in this research is 100 days start from t-105 to t-6 the general election took places. The window period from this research is 11 days start from t-5 to t+5 the general election took place. There are steps that have to be taken in order to test the abnormal return, such as calculating daily return from each shares, expected returns, abnormal returns, and cumulative abnormal returns.

The formula to calculate actual return as follows:

$$R_{it} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

where:

R_{it} = Individual stock return at time t
P_t = Closing price of stock at time t
P_{t-1} = Closing price of stock at time t-1

The formula to calculate expected returns as follows:

$$E[R_{it}] = \frac{\sum_{j=-6}^{-105} R_{i-j}}{T}$$

where:

$E[R_{it}]$ = Expected return of I-securitiesin thet-event period
R_{i-j} = Actual return of i-securitiesat j-estimation period
T = The length of estimation period, which arefromt-105 tot-6

The formula to calculate abnormal return as follows:

$$AR_{it} = R_{it} - E(R_{it})$$

where:

ARit = Abnormal return for i-securitieson t-window period
Rit = Individual actual returni-securitieson t-window period
E(Rit) = Expected returnsecuritieson t-window period

The formula to calculate cumulative abnormal return as follows

$$CAR_{i,t} = \sum_{t=1}^{t} AR_{it}$$

where:

$CAR_{i,t}$ = Cumulative abnormal return fori-securities on t-day, which are accumulated by abnormal return of i-securities started from start of the period until t-day

AR_{it} = Abnormal return i-securitieson t-window period

IV. RESULT AND DISCUSSION

1. Description of Research Result

To find about the characteristic of the samples, and type of reaction that market experienced.Descriptive analysis of each sample was performed.

Table 1. Descriptive Statistics Analysis Result

Samples	Minimum	Maximum	Mean	Std. Deviation
CAR Before General Election	-0,107256	0,091279	-0,009290	0,038142
CAR After General Election	-0,174794	0,118567	-0,013609	0,051923

Based on table 1, cumulative abnormal return (CAR) value before the general election takes place shows an average of -0,009290 with the standard deviation of 0,038142. The lowest CAR value before the general election took place is -0,107256, and the highest CAR value before the general election took place is 0,091279.The Cumulative Abnormal Return (CAR) value after the general election took place shows an average of -0,013609 with the standard deviation of 0,051923. The lowest CAR value before the general election took place is -0,107256, and the highest CAR value before the general election took place is 0,091279. The negative value from both of the CAR before and after the general election means that 2019 Indonesian General Election contain negative information for the market which is characterized by negative tendency by investors in purchasing company shares.

2. Wilcoxon Signed Rank Test

To find whether there is difference in abnormal returns prior 2019 Indonesia General Election and after 2019 General Election, Wilcoxon signed rank test was performed.

Table 2. Wilcoxon Signed Rank Test Result

Variable	Amount	z-value	Sig (*2-Tailed*)	Criteria	Description
CAR Before-After	93	-0,726	0,468	0,05	Not significance

Based on table 2, the value of cumulative abnormal return before and after 2019 IndonesianGeneral Election shows z-value of -0,726with significance value of 0,468. Significance value above 0,05 shows that there is no significant difference on abnormal return before and after the 2019 Indonesian General Election take places.This means that 2019 General Election in Indonesia has insignificant impact on abnormal return before and after the event take places, and information content that contained in 2019 General Election is not strong enough to cause significant reaction on General Election event in Indonesia. This result is supported by several studies which also found the insignificance of abnormal return as in the research of Chandra (2015), Hartawan et al. (2015), Hutami & Ardiyanto (2015), Pratama et al. (2015) Mahaputra & Purbawangsa (2015) and Santoso & Sri Artini (2015).

V. CONCLUSION

The conclusion for of this research is the 2019 Indonesian General Election cause negative but not significant impact on abnormal return for the companies that listed on Kompas 100 index. The reaction that occurred in the 2019 election event was negative which indicated investor mistrust in investing their capital in the Indonesian stock market. From the results of this study investors must realize that it is not only economic events that can affect the capital market but non-economic events, especially political events, also have an impact on the capital market. Investors must be able to manage and process all the information that is around them to measure the risk and return of expectations that they will face carefully. Future studies could re-examine using the same variables in this study with different years to strengthen this study. Future researchers can use different model to calculate expected return, lengthening the estimation period, and also conduct similar studies using indexes based on each sector.

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