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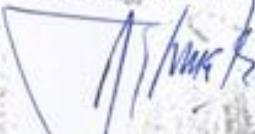
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# MARKET REACTION ON EVENTS RELATED TO INDONESIA'S 2019 PRESIDENTIAL ELECTION

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## ABSTRACT

Presidential election is a big politic event which is able to influences stock's performances. This research aims to examine the impacts of Indonesia's presidential election and official announcement of Komisi Pemilihan Umum (KPU) as presidential election organizer toward stock prices on Indonesia Stock Exchange (IDX). Samples used were the companies included in LQ-45 within range of April and May 2019. The statistical methods used in this study are paired sample t-test and Wilcoxon signed rank test. The result shows that there are no significant differences before and after the event for abnormal return. There is a significant differences for trading volume activity in presidential election, but not in official announcement by KPU.

**Keywords** : abnormal return, trading volume activity, event study

## INTRODUCTION

Investment is a one important economy activity that must be well maintained in a country. The definition itself is a commitment for a certain amount of funds or resources at this time with one goal, to obtain benefits in the future. An investor buys a number of shares with aim to obtain profits by the shares' price differences or dividends in the future based on time and calculated risks (Hartono, 2008).

Capital market is important for investors. The capital market is a concept that is narrower than the financial market, where the capital market only trades long-term financial instruments (or securities) that can be traded both in the form of debt and own capital, whether issued by gov-ernments, public authorities, or private com-panies (Husnan & Pudjiastuti, 2015). The role of the capital market is important for the country's economy as a means of bring-ing together excess funds and those who need funds.

Generally, the capital market in a country is sensitive to various events that

happen around it. The capital market as an economic instrument cannot be separated from various influences in the microeconomic and macroecenomic (Hutami & Ardiyanto, 2015). Additionally, changes in macroeconomic environment that occur such as changes in interest rates, inflation, as well as various economic regulations and deregulation issued by the government can affect price fluctuations and trading volumes in capital market (Hartono, 2008).

Investors will use events that are currently occurring or ongoing which is considered as relevant information in conducting investment activities. (Zaqi, 2006). Generally, informations can be obtained from internal and external conditions of the company (issuer). Investors have information that can change in the form of fluctuations in daily transaction volume and frequency of transactions (Jauhari & Wibowo, 2004).

According to Hartono (2008), testing content of the information is intended to see reaction of investors on the announcement. An announcement that contains relevant

information indicated by changes in prices of the securities concerned, which is caused by the reaction of the investors. This reaction can be measured by using abnormal return. Conversely, if it is not possible to provide abnormal returns then it cannot be considered as an announcement that contains relevant information (Hartono, 2008).

Additionally to abnormal return, trading volume activity as a parameter can be used to determine capital market reactions to information. Changes in trading volume activity are the result of investor's trading decisions that are affected by events that contain relevant information. Shares with high trading volume will give high returns (Chordia & Swaminathan, 2000).

2019 is a political year for Indonesia. This year, Indonesia is filled with extraordinary political events. There are presidential, vice presidential, and legislative election held in 17 April 2019. There were two pairs of presidential and vice presidential candidates before the presidential and vice presidential elections were held. The first pair is Joko Widodo and Ma'aruf Amin, while the second pair is Prabowo Subianto and Sandiaga Uno.

Long before the election was held, an international event that had a significant impact on the investment in Indonesia had taken place, even continuing until June. The event was Chinese-American Trade war, which made investment flows declined in the first quarter of 2019, as explained by the Governor of Bank Indonesia (Laucereno, 2019). The event contributes in creating uncertainty for investors, especially investors in Indonesia.

Political events generally create uncertainty and most investors are not good with it. Many research that has been done still shows the presence and absence of impacts caused by political events on stock trading, specifically the price and frequency of stock trading. Research conducted by Hutami & Ardiyanto (2015) concluded that a significant change occurred in trading volume activity post-event, but not in abnormal return. The result from the research conducted by Hutami

& Ardiyanto (2015) is different from the results of research conducted by Chandra (2015) which states that there is no significant differences in both abnormal returns and trading volume activity before and after the Indonesian presidential election in 2014.

According to Hartono (2008), research on the impact of legislative elections on abnormal returns and trading volume activity is carried out through the event studies to observe the movement of stock prices in the capital market when an event occurs and to find out the unusual investment roundtrips received by investors due to the event. The level of sensitivity of capital market dynamics is influenced by macro factors, both economic and non-economic factors.

The difference in results obtained from the researches that have been mentioned regarding the impact of political events (presidential election) on abnormal returns and trading volume activity motivates the writer to reconduct the research in order to find out the differences between abnormal returns and trading volume activity before and after the presidential and legislative elections, as well as the official announcement by Komisi Pemilihan Umum (KPU).

## **LITERATURE REVIEW AND HYPOTHESES**

### **Market Efficiency**

Broadbent & Kendall in Brealey et al. (2008) stated that stock price movements will always be random, and this concept has become known as random walk theory. The theory states that future stock price movements cannot be predicted with past data. According to Fama (1970), the market is said to be efficient if there are no investors who can obtain abnormal returns in the long run by using existing trading mechanisms. The purpose of the statement is that the share price is reflected in the information available in the market. The market reacts quickly based on available information and will adjust to obtain new equilibrium prices. This

type of market can be said to be efficient. Fama in Hartono (2008) states that there are three main forms of market efficiency, namely weak form, semi-strong form, and strong form..

### Signalling Theory

According to Hartono (2008), signaling theory is an information that is published as an announcement that gives signal, or signals to investor in making investment decisions from companies that intentionally give signals to the market. Investors will first analyze the information whether the signal is a good signal or a bad signal once the information is received. The results of determining signals will influence demand and supply in the capital market. Changes in the number of requests and offers resulting from the signal causes the volatility of stock prices which impact company's value.

### Market Overreaction Hypothesis

Market overreaction can occur if investors involve emotions, experiences, and intuition in making their investment decision. Investors expect profits in the form of abnormal returns based on the desired news or to reduce conflicting results from unwanted news. Investors must react quickly to new information. In general, investors tend to overreact to extraordinary events and new information.

### Return and the Measurement

According to Hartono (2008), returns are the results obtained from an investment. Return is one factor that keeps investors motivated to continue investing and at the same time as a reward for all the courage in investing and taking risks. The relationship between expected returns and risk is a directional or linear relationship, which means the higher the risk, the higher the return that could be obtained, and vice versa. There is a certain investment asset that has a fixed and risk-free return, even though it tends to be small. This point is called the risk-free point..

Sources of returns on investment consist of two main components, namely yield and capital gain/loss. Yield is a component of return that reflects the cash flow or income obtained by an investment periodically. As for the capital gain/loss, it is the increase or decrease in the value of a security which can be negative, zero, or positive. Return can be realized return (actual return), which is returns that have already occurred, and expected returns, which is have not occurred yet but expected to occur in the future. Realized return is returns that has occurred and is calculated based on historical data and can be used as a measure of the performance of the company, and as a basis for determining expected returns and risk in the future (Hartono, 2008). The realized returns can be calculated with following formula:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

Notes :

$R_{i,t}$  = daily stock's returns of security  $i$  at  $t$ .

$P_{i,t}$  = daily stock's price of security  $i$  at  $t$ .

$P_{i,t-1}$  = daily stock's price of security  $i$  at  $t-1$ .

Expected return is returns that is used for investment decision making. Brown and Warner in Hartono (2008) stated, there are three models that can be used to estimate the expected return, namely mean-adjusted model, market-adjusted model, dan market model.

Research conducted calculates expected returns using the market-adjusted model, because the model estimates the returns of securities at the size of its market index return, so there is no need to use period estimation. This model is used to convince that the reaction that occurs is a result of the observed event, and not else (Hartono, 2008). The samples used were stocks that are listed in index LQ-45. Market return is calculated with the following formula:

$$RM_t = \frac{\text{index LQ45}_t - \text{index LQ45}_{t-1}}{\text{index LQ45}_{t-1}}$$

Notes :

$RM_t$  = market return at  $t$ .  
 Index LQ45 $_t$  = LQ-45 index at  $t$ .  
 Indeks LQ45 $_{t-1}$  = LQ-45 index at  $t-1$ .

Hartono (2008) stated that abnormal returns is excess return of realized return. The return differences will be positive if the realized returns is greater than the expected return, and vice versa. Abnormal return may occur after the announcement of an event. It can be concluded that abnormal returns occurs, triggered by certain events such as political events, extraordinary events, national holidays, and so on. Abnormal return can be calculated with following formula :

$$AR_{i,t} = R_{i,t} - E[R_{i,t}]$$

Notes :

$AR_{i,t}$  = abnormal returns of security  $i$  at  $t$ .  
 $R_{i,t}$  = realized returns of security  $i$  at  $t$ .  
 $E[R_{i,t}]$  = expected returns of security  $i$  at  $t$ .

### Trading Volume Activity

Trading volume activity is a part of technical analysis. High volume trading activities on an exchange will interpreted as a sign that the market either will be good or will be bad. The volume of stock trading can be used by investors to see whether the shares that are bought are shares that actively traded have a large volume and stocks with large volumes will produce high stock returns (Luhur, 2010).

According to Husnan & Pudjiastuti (2015), measuring trading volume activity is used to see whether individual investors value informative financial reports in the sense of whether the information makes trading decisions above normal trading decisions, while Meidawati & Harimawan (2004) stated that the change of trading volume activity in capital market reflects investors' investment decision. Stock trading volume is an instrument that can be used to observe capital market reactions on the information through the parameters of changes in trading volume activity (Fatmawati & Asri, 1999).

Judging from its function, the calculation of trading volume activity reflects the comparison between the traded shares with outstanding shares in a given period. Husnan & Pudjiastuti (2015) stated that trading volume activity can be calculated with the following formula :

$$TVA = \frac{\sum \text{traded shares of security } i \text{ at } t}{\sum \text{outstanding shares of security } i \text{ at } t}$$

### Event Study

Event study is a study that studies the market reaction to an event whose information is published as an announcement (Hartono, 2008). Market is expected to react to the announcement that contains information. The reaction is shown by the change in price of the relevant security by using an abnormal returns measurement, so it can be said that the announcements that contain information will provide abnormal returns to the market and vice versa (Sant and Ferris in Hartono, 2008).

Previous studies explain that the event study was developed to analyze market reactions to an event whose information was published. These events include economic and non-economic events to find out whether there are abnormal returns obtained by shareholders. Event studies can also be used to test the information content of an event or announcement.

### Relevancy of the Event on Abnormal Return

Signaling theory means that every action contains information. Based on the context of event studies, observation of stock prices in the capital market is done to find out whether there are abnormal returns obtained by shareholders as a result of a particular event. Signaling theory provides an explanation that each event is believed to contain information that will affect the market (Białkowski et al., 2008).

Legislative election as an event allegedly has information content that can affect market reactions. The market reaction is indicated by changes in the company's

stock price as measured by abnormal returns. It can be said that an announcement has information if the announcement provides an abnormal return to the market. Conversely, the event that does not contain information does not provide an abnormal return to the market (Hutami & Ardiyanto, 2015).

Study conducted by Yuliana & Sudana (2015) stated that there are significant differences in abnormal returns between before and after the event, but the result is not the same as the result from study that was conducted by Luhur (2010), Hutami & Ardiyanto (2015), and Chandra (2015) which stated that there is no significant differences between before and after the event

Hypothesis 1 : There are significant differences in abnormal returns of stocks listed in Index LQ-45 before and after the event (presidential and legislative election).

Hypothesis 2 : There are significant differences in abnormal returns of stocks listed in Index LQ-45 before and after the event (official announcement by KPU).

### **Relevancy of the Event on Trading Volume Activity**

Trading volume activity is a part of technical analysis. High volume trading activities on an exchange will be interpreted as a sign that the market either will be good or will be bad. An increase in the stock trading volume with an increase in prices is a symptom of improving stock value, which will soon reach a bullish condition (Meidawati & Harimawan, 2004). Trading volume activity is one indicator that signals the market reaction to an event (Wardhani & Djazuli, 2012).

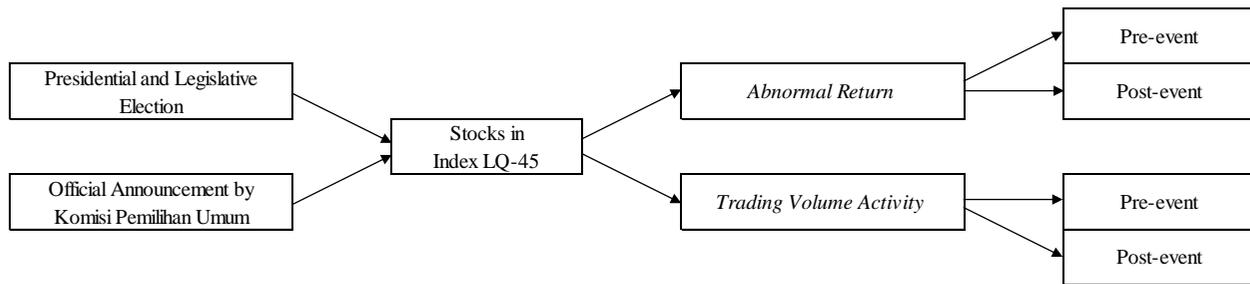
Market reaction is not only indicated by changes in stock prices that are reflected in abnormal returns, but is also indicated by changes in trading activities that are reflected in the trading volume of the company's shares. Trading volume can be measured by trading volume activity. Trading volume activity can be used to see whether investors individually assess information from an election as a positive or negative signal to make investment decisions. Investors will interpret it as a positive signal for the information if the demand for shares gets higher than the listed shares so that the trading volume will increase.

Results shown from study conducted by Hutami & Ardiyanto (2015) stated that there is a significant difference in trading volume activity between before and after the event, but the result is not the same as the result from study conducted by Chandra (2015), and Luhur (2010) which stated that there is no significant difference in trading volume activity before and after the event.

Hypothesis 3 : There are significant differences in trading volume activity of stocks listed in Index LQ-45 before and after the event (presidential and legislative election).

Hypothesis 4 : There are significant differences in trading volume activity of stocks listed in Index LQ-45 before and after the event (official announcement by KPU).

Study conducted to see the impact of the events (presidential and legislative election and official announcement by KPU) on abnormal returns and trading volume activity, which is shown in figure 1 :



**Figure 1**  
**Research Framework**

## RESEARCH METHOD

### Sample Classification

The population in this study are all companies listed on the Indonesia Stock Exchange (IDX) in the LQ-45 index. Data collection techniques in study using purposive sampling with adjusted criteria to the research objective. The sample criteria used in this study are active shares included in the LQ-45 index calculation in April and May 2019, and did not take corporate action during the event window starting from April 10<sup>th</sup> to 24<sup>th</sup> for the presidential election and legislative (event one), and May 15<sup>th</sup> to 29<sup>th</sup> for the official announcement by KPU (event two).

### Operating Research Variables

### Research Data

The data used in this study are quantitative data sourced from secondary data. The type of data in this study is ratio data, because the data used have absolute zero values or po-ints with empirical meaning. Data collection methods used in research are by conducting documentation studies or by tracing data at time t-5 of event to t+5 of event in the form of secondary data. The data used is data that can be accessed thro-ugh the official website of IDX ([www.idx.co.id](http://www.idx.co.id)) and supporting websites such as [www.finance.yahoo.com](http://www.finance.yahoo.com).

### Research Variables

The study conducted to observe abnormal returns and trading volume activity.

**Table 1**  
**Variable Measurement**

Variables		Formula
Abnormal Return	Excess return of realized return.	$AR_{i,t} = R_{i,t} - E[R_{i,t}]$
Trading Volume Acitivity	Frequencies of stocks being traded.	$TVA = \frac{\text{traded shares volume at } t}{\text{outstanding shares volume at } t}$

### Analysis Tool

Hypothesis testing in study is determined based on the results of the data normality test. Test equipment used is adjusted to the results of the data normality test. The two different test models used in this study are *paired sample t-test* and *Wilcoxon signed rank test*. These two tools used to an-alyze

the research model before and after the event. This analysis is used to test the dif-ferences of the two related samples.

## RESULTS AND DISCUSSION

### Descriptive Analysis

Descriptive analysis is used to get an overview of processed data from the minimum value, maximum value, mean value, and standard deviation of the abnormal returns and trading volume activity. The minimum value is the lowest value of the whole

data, while the maximum value is the highest value of the whole data. The mean value is the average value of the whole data.

A larger mean value in abnormal returns means greater realized returns compared to expected return, while a larger mean value in trading volume activity means high frequency in trading shares.

**Table 2**  
**Descriptive Statistic of Abnormal Return**

t	Minimum	Maximum	Mean
<b>Presidential and Legislative Election</b>			
t <sub>-5</sub>	-4.64%	4.46%	-0.32%
t <sub>-4</sub>	-4.13%	5.27%	0.81%
t <sub>-3</sub>	-5.66%	5.19%	-0.08%
t <sub>-2</sub>	-6.30%	5.26%	-0.07%
t <sub>-1</sub>	-3.76%	4.68%	0.04%
t <sub>+1</sub>	-4.64%	3.58%	-0.38%
t <sub>+2</sub>	-3.53%	6.10%	0.38%
t <sub>+3</sub>	-2.45%	5.04%	0.78%
t <sub>+4</sub>	-6.79%	5.53%	0.23%
t <sub>+5</sub>	-6.07%	7.07%	-0.13%
<b>Official Announcement by KPU</b>			
t <sub>-5</sub>	-9.04%	1.94%	-0.65%
t <sub>-4</sub>	-8.88%	3.23%	-0.31%
t <sub>-3</sub>	-3.04%	5.99%	0.84%
t <sub>-2</sub>	-5.21%	5.12%	0.05%
t <sub>-1</sub>	-4.64%	12.88%	0.86%
t <sub>0</sub>	-3.20%	4.29%	0.06%
t <sub>+1</sub>	-4.13%	6.01%	0.15%
t <sub>+2</sub>	-4.83%	7.64%	-0.18%
t <sub>+3</sub>	-2.03%	8.68%	0.52%
t <sub>+4</sub>	-4.83%	9.74%	0.76%
t <sub>+5</sub>	-8.60%	8.22%	-0.50%

Table 2 shows that the lowest minimum value of event one occurred at t<sub>+4</sub>, owned by PT. Charoen Pokhand Indonesia Tbk. with a value of -6.79% which means that the realized returns of the company is far below the expected return, while the highest maximum value occurs at t<sub>+5</sub>, owned by PT. Media Nusantara Citra Tbk. with a value of 7.07% which means that in the vicinity of

event one, the company (PT. Media Nusantara Citra Tbk. is running in the field of media entertainment) may obtain benefits that have an impact on company performance so it can obtain realized returns that exceed expected return.

As for event two, the lowest minimum value occurred in t<sub>-5</sub>, owned by PT. Pabrik Kertas Tjiwi Kimia Tbk. with a value of -

9.04%, while the highest maximum value occurred at t<sub>-1</sub> owned by the same company, PT. Pabrik Kertas Tjiwi Kimia Tbk. (TKIM) with a value of 12.28%. This indicates that

TKIM (a company that manufactures paper) obtained favorable benefits before event was held.

**Table 3**  
**Descriptive Statistic Of Trading Volume Activity**

t	Minimum	Maximum	Mean
<b>Presidential and Legislative Election</b>			
t <sub>-5</sub>	0.01%	2.06%	0.21%
t <sub>-4</sub>	0.01%	0.76%	0.13%
t <sub>-3</sub>	0.01%	0.72%	0.15%
t <sub>-2</sub>	0.02%	1.72%	0.19%
t <sub>-1</sub>	0.01%	1.48%	0.25%
t <sub>+1</sub>	0.02%	1.97%	0.37%
t <sub>+2</sub>	0.02%	1.63%	0.18%
t <sub>+3</sub>	0.02%	2.50%	0.24%
t <sub>+4</sub>	0.01%	3.06%	0.21%
t <sub>+5</sub>	0.02%	1.15%	0.20%
<b>Official Announcement by KPU</b>			
t <sub>-5</sub>	0.02%	1.15%	0.20%
t <sub>-4</sub>	0.01%	0.81%	0.16%
t <sub>-3</sub>	0.01%	1.60%	0.19%
t <sub>-2</sub>	0.01%	2.33%	0.20%
t <sub>-1</sub>	0.01%	1.81%	0.22%
t <sub>0</sub>	0.01%	0.33%	0.09%
t <sub>+1</sub>	0.01%	1.39%	0.18%
t <sub>+2</sub>	0.01%	1.12%	0.14%
t <sub>+3</sub>	0.01%	1.16%	0.15%
t <sub>+4</sub>	0.02%	1.85%	0.30%
t <sub>+5</sub>	0.01%	0.83%	0.15%

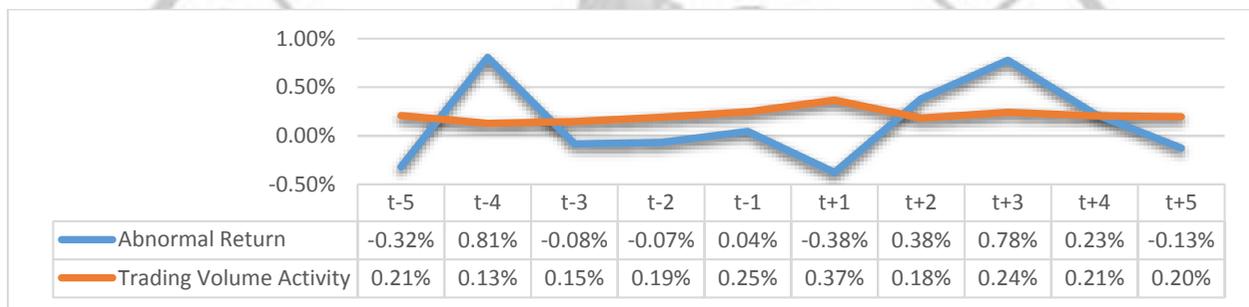
Table 3 shows that the lowest mean value occurred at t<sub>-5</sub> (PT. Handala Manjaya Sampoerna Tbk.), t<sub>-4</sub> (PT. Unilever Indonesia Tbk.), t<sub>-3</sub> (PT. Handala Manjaya Sampoerna Tbk.), t<sub>-1</sub> (PT. Pabrik Kertas Tjiwi Kimia Tbk.), and t<sub>+4</sub> (PT. Chandra Asri Petrochemical Tbk.) with a value of 0.01%. All mentioned company which has the lowest mean value are all manufacturing co-mpany. Low trading volume activity could be caused by investors are holding their sha-res of mentioned companies during the event window, knowing that abnormal re-turns won't happen/there is no possible ca-pital

gain during event one. Highest mean value occurred at t<sub>+4</sub> owned by PT. Erajaya Swasembada Tbk. (ERAA) which is a re-tailer and distributor of electronic devices with the value of 3.06%. High trading vol-ume activity of ERAA could be caused by high demand of product (electronic devices) during the event, with that investors think that they will be able to get capital gain from it.

Lowest mean value in event two occurred at t<sub>-4</sub> (PT. Bank Tabungan Negara Tbk.), t<sub>-3</sub> (PT. Bank Tabungan Negara Tbk.), t<sub>-2</sub> (PT. Bank Tabungan Negara Tbk.), t<sub>-1</sub> (PT.

Bank Tabungan Negara Tbk.),  $t_0$  (PT. Bumi Serpong Damai Tbk., PT. Hanjaya Mandala Sampoerna Tbk., PT. Chandra Asri Petrochemical Tbk., and PT. Unilever Indonesia Tbk.),  $TVA_{+1}$  (PT. Bank Tabungan Negara Tbk.),  $TVA_{+2}$  (PT. Bank Tabungan Negara Tbk.),  $TVA_{+3}$  (PT. Bank Tabungan Negara Tbk. and PT. Indofood Sukses Makmur Tbk.), and  $TVA_{+5}$  (PT. Indofood Sukses Makmur Tbk.) with the value of 0.01%, while the highest mean value occurred at  $t_{-2}$  which is owned by PT. Elnusa Tbk. (ELSA) with the value of 2.33%. Almost every day during the event, PT. Bank Ta-

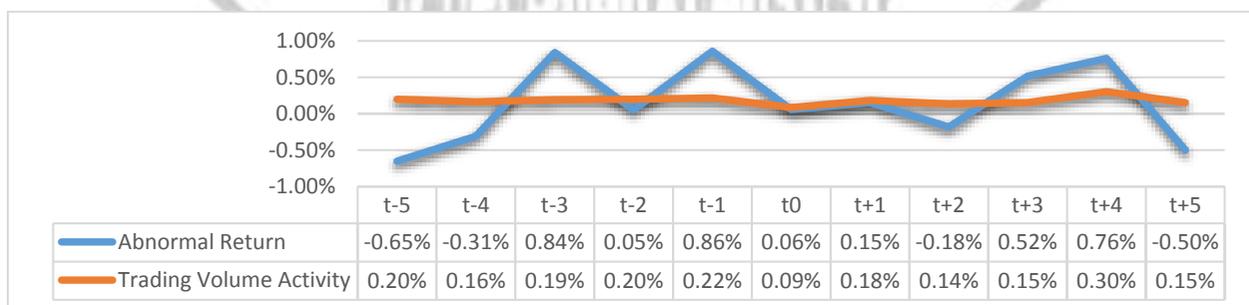
ungan Negara Tbk. (BBTN) has the lowest mean value. It indicates that investors did not think that BBTN possible to give capital gain during the event, which means that BBTN are stable during the event. Same goes to the other companies that has the lowest mean value. ELSA on the other hand, has the highest mean value during the event. ELSA is a company that runs in oil and gas services, and the field is not much related with event two. It indicates that there are several events happened aside from event two that makes ELSA has the highest mean value of trading volume activity during the event window.



**Figure 2**  
**Mean Values Fluctuation in Event Presidential And Legislative Election**

Figure 2 shows that the lowest mean value in abnormal returns occurred at  $t_{+1}$  with value of -0.38%, while the highest mean value occurred at  $t_{-4}$  with a value of 0.81%. The lowest mean value in trading volume activity occurred at  $t_{-4}$  with value of 0.13%, while the highest mean value occurred at  $t_{+1}$  with a value of 0.37%.

The lowest are the day after  $t_0$  (the event day). It can be seen that the abnormal returns dropped to the lowest point at the day right after the event day followed with increased trading volume activity, and rising at the following day until  $t_{+3}$ . It indicates that the event contains information, but not too much since the differences between the values in event window are below 5%.



**Figure 3**  
**Mean Values Fluctuation In Event Official Announcement By KPU**

Figure 3 shows that the lowest mean value in abnormal returns occurred at  $t_{-5}$  with value of -0.65%, while the highest mean value occurred at  $t_{-1}$  with a value of 0.86%. The lowest mean value in trading volume activity occurred at  $t_0$  with value of 0.09%, while the highest mean value occurred at  $t_{+4}$  with a value of 0.30%.

Fluctuation occurred as spike before the event. Abnormal returns decreases at  $t_0$  from 0.86% to 0.06% when trading volume activity decreases by 0.13%. It could be that the decrease in abnormal returns is not due to

transactions on the stock exchange, but due to other events outside the official announcement by KPU, namely the riots that occurred on May 21-22 (Budi, 2019). Impact of event two is not much compared with event one despite the riot that hap-pened at night before the event day. Add-itionally, there is even a rumor that KPU will announce the result quietly, but was proven as a hoax (Hutabarat, 2019). The impact of event two on abnormal returns is even lower than event one.

## Results and Discussion

**Table 4**  
**Comparison Test Before and After for Each Event**

Variables	Event	z	Sig.
Abnormal Return	Presidential and Legislative Election	-0.021	0.983
	Official Announcement by KPU	-0.854	0.393
Trading Volume Activity	Presidential and Legislative Election	-3.128	0.002***
	Official Announcement by KPU	-0.367	0.714

Source : [www.idx.co.id](http://www.idx.co.id)

\* sig. value less than 10%  
\*\* sig. value less than 5%  
\*\*\* sig. value less than 1%

Tabel 3 shows that the result of the comparison test for abnormal returns before and after event one is not significant ( $0.983 > 0.05$ ) which shows no differences between abnormal returns before and after event one. Same goes to abnormal returns before and after event two, which is not

significant before and after the event two ( $0.393 > 0.05$ ).

Meanwhile, the result shows that there are significant differences in trading volume activity in event one ( $0.002 < 0.05$ ). Event two, however, does not show any significant differences in trading volume activity before and after the event ( $0.714 > 0.05$ ).

**Table 4**  
**Comparison Test Day-to-day for Each Event**

Variables	t/ z	Sig.
<b>Abnormal Return</b>		
<b>Presidential and Legislative Election</b>		
t <sub>1</sub>	1.132	0.264
t <sub>2</sub>	-1.202	0.229
t <sub>3</sub>	-2.006	0.051*
t <sub>4</sub>	-2.116	0.034**
t <sub>5</sub>	-0.467	0.643
<b>Official Announcement by KPU</b>		
t <sub>1</sub>	-1.541	0.123
t <sub>2</sub>	0.452	0.654
t <sub>3</sub>	-1.202	0.229
t <sub>4</sub>	-1.888	0.066*
t <sub>5</sub>	-0.254	0.800
<b>Trading Volume Activity</b>		
<b>Presidential and Legislative Election</b>		
t <sub>1</sub>	-4.758	0.000***
t <sub>2</sub>	-0.480	0.631
t <sub>3</sub>	-1.789	0.074*
t <sub>4</sub>	-0.073	0.942
t <sub>5</sub>	-0.209	0.835
<b>Official Announcement by KPU</b>		
t <sub>1</sub>	-0.988	0.323
t <sub>2</sub>	-2.116	0.034**
t <sub>3</sub>	-0.231	0.817
t <sub>4</sub>	-4.430	0.000***
t <sub>5</sub>	-1.981	0.048**

Source : [www.idx.co.id](http://www.idx.co.id)

\* sig. value less than 10%  
\*\* sig. value less than 5%  
\*\*\* sig. value less than 1%

Table 4 shows the result that in event one, there are no significant abnormal returns differences in t<sub>1</sub>, t<sub>2</sub>, and t<sub>5</sub>. Significant abnormal returns differences occur at t<sub>3</sub> and t<sub>4</sub>, which is shown by the sig. value. In event two, significant abnormal returns differences did not occur at t<sub>1</sub>, t<sub>2</sub>, t<sub>3</sub>, and t<sub>5</sub>, but the differences occur at t<sub>4</sub>.

Trading volume activity has significant differences in both event. Significant trading volume activity differences occur in event one at t<sub>1</sub> and t<sub>3</sub>, while in event two, the differences occur at t<sub>2</sub>, t<sub>4</sub>, and t<sub>5</sub>.

### **The Impact of Events on Abnormal Return**

Every test are done using Wilcoxon signed ranked test because the results obta-

ined from normality test by using one sample Kolmogorov-Smirnov test showing that every data in before and after respective event are not distributed normally. There are no significant abnormal returns differences in both event. The absence of significant differences in abnormal returns can be due to other events whose impact is more significant compared to the observed event, such as Rupiah exchange rate which tends to be depressed during April-May 2019 (Kompas Bisnis, 2019). An unstable rupiah exchange rate will cause the company's performance to decline which can affect stock prices. Investors whose risk averter nature (risk aversion) are likely to respond quickly to this kind of information so that the action taken is to sell shares before the price falls, and the

impact is a decrease in stock prices. One of the other reasons that could explain why is that Jokowi-Amin is strongly suspected to win through all quick count results that mention how Jokowi-Amin excel Pra-bowo-Sandiaga before the official announcement by KPU (Tribun News, 2019). During the previous period when Joko Widodo served as a president (2014-2019), most investors are familiar with the regulations, which make them to be less-uncertain in this political year. The abnormal returns is dropping at the day of the event respectively, which indicates that the information contains bad news to market. Like in event two, the trading volume activity

### **The Impact of Events on Trading Volume Activity**

The results shown from the test conducted are there are significant trading volume activity differences before and after event one, but no same result obtained in event two. There is no overreaction either in both events, looking from the graph that shows no value goes through 1%.

The significant trading volume activity differences in event one could be caused by how fast market react to the information related to presidential and legislative election. Movanita (2019) stated that there are new investors throughout early 2019, which suspected to contribute to the changes in trading volume activity. Figure 1 shows how trading volume increased at  $t_{+1}$ , but followed by declining trading volume activity. Again, since Jokowi-Amin is strongly suspected to win based on the quick counts, market does not overreact even in event window of official announcement by KPU, which is proven by no overreaction in trading volume activity throughout respective events.

The results obtained from this study in accordance with the research conducted by Luhur (2010), Chandra (2015), and Hutami & Ardiyanto (2015) which stated that there are no significant differences in abnormal returns before and after presidential election. However, the result of trading volume

activity is not in accordance with research conducted by Luhur (2010) and Chandra (2015) that stated no significant differences in trading volume activity before and after presidential election, yet in accordance with the research conducted by Hutami & Ardiyanto (2015).

### **CONCLUSION, RESEARCH LIMITATIONS, AND RECOMMENDATIONS**

The study conducted aims to examine whether there are differences in abnormal returns and trading volume activity before and after the presidential and legislative election events, as well as the official announcement by KPU in Indonesia in 2019. The observation period is five days before and after respective event.

Based on the data analysis that has been carried out on the hypotheses that are formulated, the conclusions of each hypothesis are: (1) hypothesis which states that there are significant differences in abnormal returns before and after presidential and legislative elections is rejected, (2) hypothesis which states that there are significant differences in trading volume activity before and after presidential and legislative elections is accepted, (3) hypothesis which states that there are significant differences in abnormal returns before and after official announcement by KPU is rejected, and (4) hypothesis which states that there are significant differences in trading volume activity before and after official announcement by KPU is rejected.

Recommendations for investors regarding the study are that presidential and legislative election, as well as the official announcement by KPU in Indonesia in 2019 does not affect LQ-45 index much. The information contained in respective event is relevant but not significant since there are no significant abnormal returns that could be obtained throughout the event.

This study only took 5 days before and after the event. The purpose of using this short amount of time was to minimize the

influence of other factors on the abnormal return. However, using a shorter time would be recommended, considering that there are many events happened around presidential and legislative election.

This research only assessed the impacts of presidential and legislative election on abnormal returns on stocks listed in LQ-45 index. It is recommended for the next research to add conduct research on other indexes listed on IDX such as Kompas 100, BISNIS-27, PEFINDO 25, SRI-KEHATI, Jakarta Islamic Indeks (JII) and so on.

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