JASF | Journal of Accounting and Strategic Finance
Vol.3 No.1 June 2020, pp. 71-87.

ISSN 2614-6649 (online)
http://jasf.upnjatim.ac.id

MARKET REACTION ON THE ANNOUNCEMENT OF ELECTED PRESIDENT (The 2019 Presidential Election in Indonesia)

Fidiana Fidiana[1]

Department of Accounting, Sekolah Tinggi Ilmu Ekonomi Indonesia Surabaya, Jl. Menur Pumpungan No.30, Menur Pumpungan, Kec. Sukolilo, Kota Surabaya, Jawa Timur 60118, Indonesia

DOI : https://doi.org/10.33005/jasf.v3i1.77

***Received**: February 08, 2020. **Revised:** April 05, 2020. **Accepted:** April 27,2020*

Abstract

Investors tend to respond to political events information because they are considered to be supporting or risking the stability of the capital market, so they must immediately make investment decisions quickly. Unlike the election process in other countries, this five-yearly election in Indonesia is not just a regularity of changing authorities but also carries an ideological gamble. The 2019 election as a necessary test for Indonesia related to the issue of communist phobia: between secular and conservative. Different from previous research on political events that focus on the electoral period, this study aims to prove the information content of the presidential announcement in 2019 by using a window period of eleven days, which is five days before and five days after the announcements. Tests were conducted on 45 companies registered as LQ-45 companies in 2019. Different samples of paired tests were done using a paired t sample tool by comparing abnormal returns and the level of stock trading activity. By using various tests, this study proves the existence of significant differences in abnormal returns and trading activities in the period before and after the 2019 presidential announcement. So, it was concluded that the 2019 presidential announcement had information content that had an impact on obtaining abnormal returns for investors. This study also proves that investors respond to information and political events as part of their investment decisions. So that daily transaction fluctuations are indicated by a trend of increasing and decreasing selling and buying actions on a spot time.

***Keywords:** abnormal return, event study, political event, trading liquidity.*

How to cite (APA 6th style)
Fidiana, F. (2020). Market Reaction on the Announcement of Elected President (The 2019 Presidential Election in Indonesia). *Journal of Accounting and Strategic Finance*, 3 (1), 71-87.

INTRODUCTION

The stock market price does not only reflect past information but is also sensitive to public information and even susceptible to a country's political rumors. Studies related to takeover rumors of stock price stability in America have been pioneered since 2002 (Pound & Zeckhauser, 2002). Rumors were obtained from the Wall Street Journal in the "Heard on the Street" column. The result

[1] Fidiana
Email: fidiana@stiesia.ac.id

proved that the market reacts efficiently for a month before rumors are published. Means, rumors stimulate excessive speculation of shareholders, causing changes in stock trading activities. Investigation during four days of observation on the Istanbul Stock Exchange obtained evidence of abnormal returns during this period based on 355 favorite rumors published in the "Economic Trend" column (Zhang & Hao-Jia, 2001). Observations on the Shenzhen and Shanghai Stock Exchange obtained evidence of stock cumulative abnormal returns for 5 (five) days before up to 10 (ten) days after 188 rumors were published through the media websites eastmoney.com and 10jqka.com.en (Zhang & Chen, 2016). Stock volatility also occurred in Greece in political election events (Koulakiotis, Papapanagos, & Papasyriopoulos, 2016). It means that the stock market also responds to current information and even future information, including political events.

The study of market reactions is often associated with the efficient market theory. The efficient market theory reveals that the price of securities reflects all information that enters the market, be it past, current, as well as private information. The efficient capital market will evaluate as quickly as possible every important information absorbed by the market so that the price of the security will form a random walk pattern. This mechanism means, stock prices will change quickly in line with important information received by the market. The market is said to be efficient if it adheres to the open nature of information, and the market freely fluctuates to form a market balance (Rodoni and Yong, 2002). This explanation underlines that stock prices are susceptible to any critical information to create price volatility. Thus, stock prices reflect every piece of information that occurs in their environment and are used by investors to make investment decisions

Indonesia is celebrating the presidential election (democratic party) in 2019. Some observers say that Indonesia's democratic party is fragile, mainly because of the issue of religious sectarianism (Varagur, 2019), which is a kind of ideological competition in Indonesia. This fragility is supported by information on the death of more than 440 Polling Station Working Committee 17 days after the election.

Several studies confirm that stock prices can be influenced and shaped by public information such as economic, non-economic, and political events. Many macroeconomic factors, such as interest rates, inflation, and fiscal policies, confirmed affect stock prices (Nazir, Younus, Kaleem, & Anwar, 2014). Non-economic events such as acts of terrorism, earthquakes, tsunamis, airplane crash, or aviation disaster also had an impact on stock price stability (Bosch, Eckard, & Singal, 1998; Kaplanski & Levy, 2010). Political events also affect stock prices (Beaulieu, Cosset, & Essaddam, 2006; Bittlingmayer, 1998; Diniar & Kiryanto, 2018; Katti, 2018; Li & Born, 2006; Martínez & Santiso, 2003; Suwaryo, 2008; Vuchelen, 2003).

Political events are global phenomena but can affect the performance of the stock market. It is understood that investors tend to respond to political events information because they are considered to be supporting or risking the stability of the capital market, so they must immediately make investment decisions quickly. Political events such as elections do not have a direct impact on capital markets (Nazir et al., 2014). Still, political instability will increase investment risk and investment climate uncertainty and disrupt macroeconomic performance (Bechtel, 2009). Political events also proved successful in interrupting stock market transactions on the New York Stock Exchange (Jorion & Goetzmann, 1999). Political developments in North Korea (Chiu, Chen, & Tang, 2005) and Greece (Koulakiotis et al., 2016) have also been proven to change investor behavior in financial markets.

Studies of changes in stock prices caused by public information have been studied since the 1970s (Fama, 1970). Presidential elections are public information that is considered to have an impact on stock market performance. Stock volatility occurred during the political shock of the First World War in Germany (Bittlingmayer, 1998), which affected stock performance. *The Brussels Stock Market* (Vuchelen, 2003) investigated the stock price performance during the election period in Belgium, resulting in that the election would determine the ideological composition in the government so that it has an impact on stock price movements. A study of the Wall Street reaction during the 2002 presidential election in Brazil (Martínez & Santiso, 2003) caused political uncertainty causing financial markets in Brazil to become very volatile.

A previous study tried to relate the events of the presidential election in America with changes in stock returns for three months. Still, it was not strong enough to confirm political events against the market reaction (Li & Born, 2006). The same study was carried out to the short-term effects of the stock price volatility of 102 companies in Canada on the referendum event in Quebec (Beaulieu et al., 2006). This research successfully supports the hypothesis that political uncertainty during the referendum can affect stock price stability. The same test of political events on stock prices in the Nepal Stock Exchange Limited and obtained evidence that the market reacted for two to three days to political issues (Dangol, 2008).

Many studies have been conducted on political issues in Indonesia. Over the past four years, for example, several studies have linked political events to the stock price reactions (Budiman, 2015; Diniar & Kiryanto, 2018; Katti, 2018; Mansur & Jumaili, 2014; Mentayani, Rusmanto, & Ridhani, 2016; Nabila & Khairunnisa, 2015; Prameswari & Wirakusuma, 2018). The results of these studies have been successful in proving the influence of political events on stock prices. Some are not successful. Inconsistency of previous empirical evidence encourages to expansion the research related to political issues on the performance of the stock market in Indonesia due to feasibility to be carried out on an ongoing basis.

The 2019 election was the biggest since the first democratic party in 1998. Unlike the election process in other countries, this five-yearly election in Indonesia is not just a regularity of changing authorities but also carries an ideological gamble. The 2019 election as a necessary test for Indonesia related to the issue of communist phobia; between secular and conservative (Budianta, 2019).

This test concerns public trust in the holding of neutral and quality elections, which are currently so sharply polarized (Anggraini, 2019). The failure of the election can lead to a non-democratic government like the United States (Harususilo, 2019). It can trigger a political coup or lead to the discourse of people's power, as reported by many groups. These discourses indeed disturb the majority of Indonesian people, including those who have economic interests and stock investment.

The 2019 political events issue motivated researchers to empirically examine their impact on the companies value of LQ 45 on the Indonesia Stock Exchange. Political events in 2019, namely the announcement of the elected president, were followed by several unusual circumstances such as the death of Polling Station Working Committee, the issue of people power, and the issue of sending down the president. This discourse or rumor is thought to affect the performance of the stock market in Indonesia.

The capital market is predicted to react to public information so that it has an impact on investment decision making. Some political events have proven to encourage investors to sell or hold their stocks. This activity makes it possible to obtain abnormal returns during the information

period as occurred in Indonesia (Budiman, 2015; Diniar & Kiryanto, 2018; Imelda, Siregar, & Anggraeni, 2015; Katti, 2018; Mansur & Jumaili, 2014; Mentayani et al., 2016; Nabila & Khairunnisa, 2015; Prabandari, 2015; Prameswari & Wirakusuma, 2018), Korea (Chiu et al., 2005), Germany (Döpke & Pierdzioch, 2006), United States (Li & Born, 2006), Belgium (Vuchelen, 2003), Canada (Beaulieu et al., 2006), Turkey (Günay, 2016), Pakistan (Nazir et al., 2014), Egypt (Ahmed, 2017), Israel (Zach, 2003), Greece (Koulakiotis et al., 2016), and India (Datta & Ganguli, 2014). The study implies that there are differences in abnormal returns around the 2019 presidential election. The first hypothesis is:

H_1: There are differences in abnormal returns before and after the announcement of President 2019.

Stock liquidity reflects the speed with which it is traded (Pramana & Mawardi, 2012). In other words, security is called liquid if the trading frequency is fast. Securities liquidity is often reviewed through the level of trading activity or known as the trading volume activity (TVA). The more liquid a security, the trading volume is higher than the stock volume listed. The securities trading volume activity is also often interpreted to indicate the level of securities liquidity. This level of the stock transaction can also be used to state that a stock reacts through a buy and sell transaction. The increase in buying and selling transactions will occur if investors can capture information that is divergent from previous expectations, and the decline in transactions will occur because of market costs (Karpoff, 1986; Syamni, 2011).

Some research has related the level or volume of stock transactions based on information entering the market (Beaulieu et al., 2006; Budiman, 2015; Diniar & Kiryanto, 2018; Imelda et al., 2015; Katti, 2018; Mansur & Jumaili, 2014; Mentayani et al., 2016; Nabila & Khairunnisa, 2015; Vuchelen, 2003; Zach, 2003). Trading volume activity is the sum of all securities buying and selling transactions by market participants. It is asserted that the process of accumulation of this amount reflects information asymmetry among investors about the market value of securities (Beaver, 1968). Therefore this study suspects that there are differences in liquidity before and after the announcement of the President 2019. The second hypothesis is:

H_2: There are differences in liquidity before and after the announcement of President 2019.

Different from previous research on political events that focus on the electoral period, this research focuses on stock price movements after the election until the announcement of the 2019 presidential election. This period was chosen. After all, it contains many political events that can influence investment decisions because it relates to economic stability in Indonesia. Referring to the formulation of the problems that have been submitted, this research intends to examine the information content of 2019 political events on the company's value. Investor's reaction to political events in the 2019 presidential announcement at the same time represents that investors also care about the political agenda in a country or, in other words, investors consider political events as one of the investment decision-making tools.

This research is expected to be useful, theoretically, practically, and politically. Theoretically, this research is expected to enrich investment decision-making models that are based on political information. In general, studies of investor responsiveness are often highlighted using market efficiency theories (Fama, 1970). This theory, at least, reveals that the securities price reflects all information entering the market, be it past information, current information, and private

information, is no exception. The efficient capital market will evaluate as quickly as possible every important information absorbed by the market so that the security price will form a random walk pattern. This market means, stock prices will change quickly in line with important information received by the market. The market is called to be efficient if it is open to information and freely fluctuates to form a market balance (Rodoni & Yong, 2002). This explanation underlines that stock prices are susceptible to any critical information to create price volatility. Thus, stock prices reflect every information that occurs in their environment and is used by investors to make investment decisions. Based on its character, some experts classify the Indonesian capital market as an efficient capital market with a semi-strong form (Latifah & Khanifah, 2014; Tandelilin, 2010). The semi-strong way represents that the security price reflects historical (past) information. Information that can bring an impact on stock prices is published information and non-published information.

In policy terms, this research is expected to be useful for the government in considering the impact of political decisions and actions on economic stability, especially on the market value performance of stock price on the Indonesia Stock Exchange. This research is also expected to be an enrichment for investment decision-making practices based on political rumors in Indonesia.

RESEARCH METHOD

This research was approached quantitatively, which is research that collects quantitative data in the capital market, in the form of security price and trading volume activity. This study is event study research (Jogiyanto, 2017), which will assess the market's reaction to the publication of certain information. The intended analysis of events is the publication of the elected president on May 22, 2019, whether it causes abnormal returns and movement of stock activity on the capital market.

An event study is illustrated as research examining how the market reacts to the event contains information that affects market performance (Jogiyanto, 2017; Tandelilin, 2010). The event study is an instrument to test the information content of the stock price as well as to classify the level of market efficiency, whether the format is weak, semi-strong, and strong. Stock return is defined as the degree of profit achieved on stock transactions on the capital market. Investors concerning stock transactions want a significant return. Every expectation of return is always followed by risk. This return and risk mean that return is always associated with uncertainty. Therefore it is more commonly known as expected return. Abnormal returns or excess returns will be obtained by investors who get an excess of the actual return on normal returns.

Testing the information content can be done by obtaining abnormal returns. An event that contains essential information will send an abnormal return to investors. Abnormal returns will ideally be received around events. However, abnormal anomaly returns can be obtained shortly after and before the event. This condition relates to (1) the release of valuable information and entering the market before the event, (2) the leak of information, (3) the delay in the vital information entering the market because the market was closed at the time the information was released, (4) the price of the security need time to adjust to the information entered.

Different from previous research on political events that focus on the electoral period, this research focuses on stock price movements after the election until the announcement. This time-

span was chosen. After all, it contains many political events that can influence investment decisions because it relates to economic stability in Indonesia.

The study population is LQ-45. The determination of the population classification of LQ-45 companies is based on the fact that the Indonesian capital market clustered as a developing market so that stock trading activities do not occur in all issuers whose stocks are listed on the stock exchange. Some stocks that are actively traded on the market are known as LQ-45 because they reflect the liquid shares. The sample is determined by purposive sampling with the criteria that the company whose shares are listed on the most active shares on the Indonesia Stock Exchange or commonly known as LQ-45 shares on event day (during a political event). There are 45 companies used as the sample of this study.

This study uses the cumulative abnormal stock returns and the level of daily trading volume as an independent variable. The data are thus non-metric data with two categories, namely before and after the 2019 political event. Cumulative abnormal returns are obtained by summing the abnormal excess calculated at the beginning of the window period to the end of the window period for LQ-45 companies listed on the Indonesia Capital Exchange. Abnormal cumulative return (CAR) can be obtained by:

$$CAR_{i.t} = \sum_{t=7}^{t} AR_{i.t} \quad \text{.....} \quad 1$$

$CAR_{i,t}$ = Cumulative abnormal return stock i on day t
$AR_{i,t}$ = abnormal return stock i on day t

Cumulative trading volume is calculated by comparing the stock volume transactions in a specific window with the securities circulating volume on the stock market as follows (Foster, 1978).

$$CTVA = \frac{\text{Trading activity stock i on day t}}{\text{The cumulative trading stock i on day t}} \quad \text{.....} \quad 2$$

The method of calculating the securities return is using abnormal returns then tested using SPSS Version 20. The stages of testing event studies using abnormal returns following the first procedure are to determine the research sample. Second, determine the event day, before and after the event. The day before is determined using 5 (five) days before it was announced. Days after being determined using 5 (five) days after the determination of the 2019 President and Vice President. The period of 5 days before and five days-after is chosen to show the accuracy of data absorbed by the market. A period that is too long can cause bias. Investors are assumed to consider this political information as the basis for investment decisions. This study uses an estimated period of 100 days. Third, the calculation of the actual return around the date of the president's announcement with the formula (Jogiyanto, 2017):

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \quad \text{.....} \quad 3$$

$\boldsymbol{R_{it}}$ = actual return of LQ-45 i on day t
$\boldsymbol{P_{it}}$ = stock price i on day t
$\boldsymbol{P_{it-1}}$ = stock price i on day t-1

Fourth, determine the day market return during the observation period with the formula:

$$R_{mt} = \frac{ICI_t - ICI_{t-1}}{ICI_{t-1}} \quad \ldots\ldots 4$$

Rmt = market return day t
ICI_t = LQ45 indices i on day t
ICI_{t-1} = LQ45 indices i on day t-1

Fifth, calculate expected returns based on market-adjusted models. This method is used on the assumption of a stock index return is considered as the best estimator in estimating returns,

$$\boldsymbol{E(R_{it}) = R_{mt}} \quad \ldots\ldots 5$$

$\boldsymbol{E(R_{it})}$ = expectation of stock return i on day t
$\boldsymbol{R_{mt}}$ = market return on day t

Sixth, calculate abnormal returns in the event window. Abnormal returns are obtained from the excess of actual returns on expectation returns,

$$\boldsymbol{AR_{it} = R_{it} - E(R_{it})} \quad \ldots\ldots 6$$

$\boldsymbol{AR_{it}}$ = abnormal return of stock i on day t
$\boldsymbol{R_{it}}$ = actual return of stock i on day t
$\boldsymbol{E(R_{it})}$ = expectation return of stock i on day t

Seventh, determine the cumulative CAR or abnormal return that is the sum of abnormal returns in the window period to identify whether there is a daily market response during the event. Eighth, partial testing using t-test (two-point difference test). Significant criteria are if the significance of the calculation results < of the value of the degree of relevance (α=0,05), then it is declared statistically significant. The value of the degree of significance (α=0,05) has been determined by looking at t-table for the two-party test with free degrees calculated from the formula: n minus k minus 1, where k represents the number of independents, and n on this problem is the total sample of observations. Whereas for the simultaneous test, the F test is used. If the probability value is higher than the level of significant (α=0,05), df (degree of freedom) is calculated from the formula: n minus k minus 1, where k represents the number of independents, and n on this problem is the total sample of observations, then it is declared statistically significant.

Before the hypothesis test (t-test with related samples) is carried out, it is necessary to do a data normality test and a homogeneity test. Data normality test is intended to test whether the data is normally distributed or not. Data with abnormal distribution (the degree of significance is less than 0.05), then the model is declared not worthy of testing. The homogeneity test is a requirement to test the variance of two categories between abnormal returns and trading activities. If two categories are declared to have similar or equal variant values (degrees F higher than 0.05) then the categories are eligible to be compared

This research aims to prove the differences in stock trading activities before and after the presidential election announcement in 2019. The right test for the dependent variable (two categories) and one independent variable is the t-test with a sample associated (paired sample). The two stages of hypothesis testing include first, calculating the transaction volume (TVA) activity in the following:

$$TVA = \frac{\text{The number of stock i traded on day t}}{\text{The number of stock circulated}} \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad 7$$

Second, calculate the activity volume of the entire sample transaction volume in the event window. Third, calculate the statistical description of transaction volume before and after the event. Fourth, conduct the Kolmogorov-Smirnov test to determine the normality of data on transaction volumes during the window period. If the Kolmogorov-Smirnov test value > 0.05, the data are normally distributed. Conversely, if the Kolmogorov-Smirnov test value < 0.05, otherwise the data distribution is not normal. Fifth, determine the appropriate statistical test with the criteria if the distribution of abnormal return data is normal, then the statistical method used is the paired sample t-test. Conversely, if the abnormal return data is abnormal, then use the Wilcoxson signed-rank test statistical method. Sixth, testing the differences before and after using SPSS 23 statistics with a significant level (α) = 0.05. If the significance value < 0.05, the hypothesis is accepted.

RESULT AND DISCUSSION

Results

The LQ-45 degree is attached to 45 selected securities with the best market capitalization and liquidity. LQ-45 shares are chosen based on two stages of selection. Firstly, the company with the highest value of 95% of the total average annual transaction. Secondly, second shares with the highest trading frequency representing each industry sector in the Indonesian capital market. The LQ-45 issuer classification is reviewed every 6-month cycle (February and August) to determine its relevance based on established conditions.

Descriptive statistical test results are presented to illustrate the research variables related to the minimum, maximum, average, and the degree of deviation. The results of descriptive statistical tests during the observation period are shown in the following table.

Table 1. Descriptive Statistics during the Event Period

	Minimum	Maximum	Mean	Deviation
Car – before	-.057	,081	,00844	,033393
Car – after	-.814	,391	,11880	,152197
TVA – before	-.783	8,778	,53826	1,376895
TVA – after	-1.566	7,348	1,97147	1,604901

Source: Data processed 2019.

The statistical calculation results in Table 1 of the average abnormal return period after the president's announcement increased compared to the period before the announcement, namely from 0.00844 to 0.11880, which shows that investors can achieve more abnormal returns in the

period after the announcement of the 2019 elected president. This return means that investors get more investment certainty after the elected president is announced than before the announcement. Meanwhile, the negative return pattern shows the willingness of investors to sell their shares in a loss position. This pattern can be understood as the emergence of concerns about several political conditions before and after the presidential announcement including among them the differences in the results of the vote count based on quick counts and real counts, demonstrations of frauds during elections, and the implementation of presidential announcements a day earlier than time predefined. Government security forces assigned to secure state stability during the announcement process were able to suppress political instability in various ways, including restrictions on access to social media since May 22, 2019. This political situation, including limited access to public information, caused the political temperature to heat up, leading to adverse investor reactions of investment stability in Indonesia, mainly related to investment in companies affiliated with political parties supporting the losing president. The defeat of the president, backed by investors, caused a market sentiment that they withdrew their shares in companies affiliated with opposing political parties (Datta & Ganguli, 2014; Diniar & Kiryanto, 2018; Günay, 2016).

A description of the average trade activity data in the events before the 2019 presidential announcement obtained a minimum value of -0.783. It also depicts a maximum value of 8,778, and a mean of 0.53826, and a deviation of 1.376895. Whereas in the time- span after the event, a minimum trading activity value of -1.566 was obtained. Also, a maximum of 7,348, a mean of 1.97147, and a deviation value of 1.604901.

The statistical calculation results of the average trading activity of the period after the president's announcement show an increasing trend compared to the period before the announcement, namely from 0.53826 to 1.97147, which shows that investors carry out more trading activities in the period after the announcement of the 2019 elected president. It is understood that every investment decision will be related to the probability of profit that might be obtained. Investors will be calm to trade in a stable market. When a country's capital market is unstable due to several political events, investors will also hold back their transactions. Based on signaling theory, the Indonesian capital market, where investors are dominant by foreign investors, will tend to wait until the political situation is conducive as a positive signal to invest.

Data normality test is carried out to state the level of data distribution in normal and not. This test is carried out as a condition and assumption that only normally distributed data can be tested with the different criteria in the two sample groups that are the same (in pairs). The Data normality test tool for testing differences for the same sample group (in pairs) is the KS test (Kolmogorov-Smirnov). Conclusions are normally distributed or not based on significance. If the importance or probability is greater than 5%, then the data is declared normally distributed. Conversely, if the significance or probability is less than 5%, then the data are reported not normally distributed.

Data with abnormal distribution must be statistically tested using non-parametric Wilcoxon ranking tests. The abnormal return normality test results are presented in table 3 by looking at the Z value for each abnormal return. The Z for abnormal returns in the period before the president's announcement was 0.398, with a significance level of 0.997. Value 0.997 > 0.05 so that the data distribution shows a normal pattern. The Z for abnormal returns in the period after the president's announcement indicates a value of 1,637 with a significance level of 0.099. Value of 0.099 > 0.05 so that the data distribution shows a normal pattern.

The Z value or Z-value of trading activity in the period before the president's announcement shows a value of 1,821 with a significance level of 0.063. Value 0.063 > 0.05 so that the data distribution shows a normal pattern. The Z value or Z-value of trading activity in the period after the president's announcement shows the value of 1,133 with a significance level of 0.153. Value 0.153 > 0.005 so that the data distribution shows a normal pattern. Thus the results of the Z-test with Kolmogorov-Smirnov show that trading activities before and after the president's announcement were normal.

.

Discussion

Test results on abnormal return differences before and after political issues events

The results of the average test obtained different abnormal returns before and after the presidential announcement. The difference value of -4.729 with a significance level of 0,000. This significant number is less than 5 percent. Thus, it can be stated that abnormal returns differ significantly in the stock of LQ45 listed companies before and after the presidential announcement, or it can be noted that the 2019 presidential announcement contains relevant information so that it impacts on the acquisition of abnormal returns for investors.

Table 2. Result of Differences Test

No	Test	t	Significance	Conclusion
1	Abnormal Return	-4,729	,000	Accepted
2	Liquidity	-4,014	,000	Accepted

Source: Data processed 2019

Investors take advantage of political events in the form of elections to presidential announcements as essential things that affect their investment decisions. The announcement and appointment of the 2019 elected president is a political event that can affect macroeconomic activities that have positive and negative changes. The negative sign reflects that the majority of investors get negative abnormal returns, which means that most of the shares are relinquished with a loss amid the instability of the political situation of the election until decree. Rumors of the differences between quick-count and real-count colored the political events throughout the 2019 elections. People discussed the acceleration of the public announcement. Demonstrations on the elected presidents were debated. Lawsuits of the president and vice president candidates who lost in the 2019 elections were also enlivened politics in Indonesia. This event has become an important public issue for investors, so that encourages them to respond that is realized by the acquisition of negative abnormal returns that means the investor chooses to release their stocks.

Figure 1 informs the fluctuation of abnormal returns before and after the president's announcement. Abnormal returns on the time window before the president's announcement appear to increase up to two days before the president's announcement and then drop right on the day of the announcement. This random walk pattern confirms the characteristics of a semi-strong efficient market where market prices are formed not only by the strength of its fundament but also by significant events and have economic value. The increase in the acquisition of abnormal returns two days before the announcement shows that investors consider the political events of this presidential announcement important, which are assumed to have an impact on their investment.

This increase in abnormal returns marks that the 2019 political event has essential and valuable information content for the market.

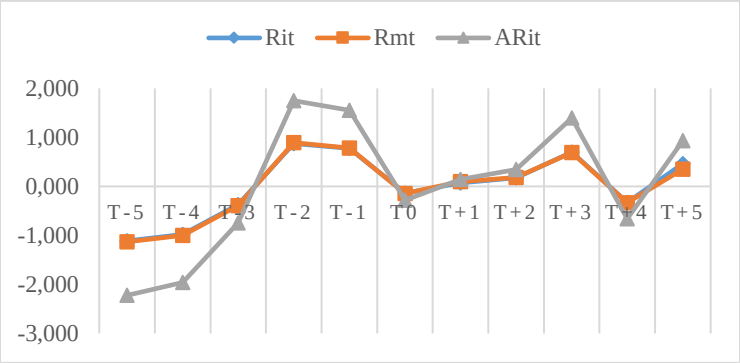

Figure 1. The fluctuation of abnormal return

On the day of the announcement, and afterward, it appears that investors are unable to achieve a positive return. The decrease in the acquisition of abnormal returns appears to have been the impact of an accelerated announcement event by the General Election Commission, which was initially scheduled for May 22, 2019, which was announced on May 21, 2019. The acceleration of this announcement triggered a negative response in the form of public distrust and fraudulent claims against incumbents. This information was not anticipated before by the market so that no single trader was able to achieve a positive abnormal return. At this event, the Indonesian capital market was classified as a strong format market, where none of the investors received an abnormal return. Any information that comes in, both known and unknown to the public, is immediately responded by investors and used as an analytical tool to decide on the appropriate transaction. The positive abnormal return on figure 1 illustrates the U-pattern at a glance and only applies to the 1st day-before and the 2nd day-after the announcement. It seems that investors tend to transfer risk no more than two days to other investors (Brock & Kleidon, 1992).

In the time window after the president's announcement, investors appear to be able to obtain abnormal returns on the spot day and the fifth day after the announcement. Fluctuations in the acquisition of abnormal returns where the trend is increasing and decreasing abnormal returns occur every day until the fifth day. The positive trend followed by this negative trend (random walk pattern) shows that the political events surrounding the 2019 elections are considered to have relevant and valuable content (containing information) to be able to move the capital market.

For signaling theory, this negative market response shows that the president's announcement information is a signal for the market to make investment decisions. The market sentiment with negative sentiment marks the market unsure of the stability of the economy after the 2019 presidential announcement. This sentiment was more or less triggered by a demonstration on several allegations of fraud in the vote-counting process and the appointment of an elected president. The market is still in a position to wait for more certain conditions in terms of state security.

If it is analyzed from the efficient market theory that the efficient market is half strong, the market price reflects all the information that occurs at the time window of the president's announcement. Based on Figure 1, it can be summarized that indeed abnormal returns are only

achieved by investors around the announcement/publication window (one to two-time spots) presidential announcements.

The results of this study are in line with previous studies (Ahmad, Khan, Usman, Ahmad, & Khalil, 2017; Ahmed, 2017; Dangol, 2008; Diniar & Kiryanto, 2018; Katti, 2018; Zhang & Chen, 2016) who succeeded in testing the content of political information. The information content of this political event is supported by the emergence of markedly abnormal Average Returns at the time of the announcement, before and after political events. Besides, the results of the study also showed fluctuations in abnormal returns (AR), which showed the market participants' anxiety about the events around the president's announcement.

Test results on liquidity differences before and after political issues events

The average trade liquidity test before-and-after the announcement of the president produces a t-value of -4,014 with a significance level of 0,000. This significance level is < 5 percent so that there are significant differences in trading liquidity of LQ45 listed companies before and after the president's announcement.

The following figure presents fluctuations in trade activity that occurred during political issues (2019 presidential announcement). During the 2019 presidential announcement events, stock trading activity showed variations around the 2019 presidential announcement days (event date). Instability and fluctuations in the level of stock trading reflect market turmoil in responding to the political conditions that occur in Indonesia around the 2019 presidential announcement. This result means that the psychological market players are very disturbed by the 2019 political party in Indonesia.

In line with the signaling theory, it emphasizes that information or the 2019 presidential announcement can be a signal to investors regarding investment certainty in a country. Political Group of 01 is believed by the majority of foreign investors in Indonesia as an investment certainty for foreigners. Foreign investors are somewhat worried about their investment if it turns out the victory was obtained in the Political Group of 02, which led to the nationalist economy. When Political Group 01 was announced to have won, the good news for foreigners was received and responded by the market. The transaction volume on the market was increased or decreased.

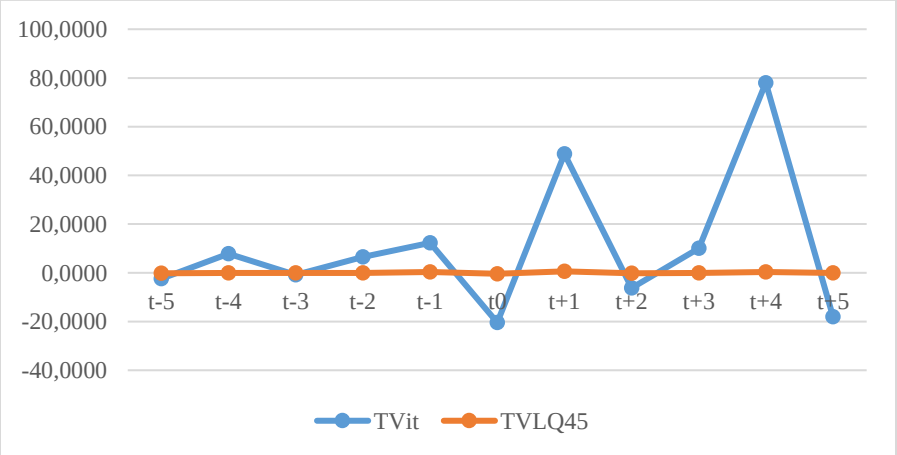

Figure 2. The fluctuation of stock liquidity

In figure 2, when the market receives the announcement, the market with a strong half classification will respond to the announcement in the form of a sell or buy action so that there appear to be trade fluctuations. Empirical facts show that there are real differences in the level of stock trading both before and after the announcement of the 2019 elected president. It can be stated that market participants consider the events surrounding the announcement of this president to have valuable information content for investment decision making.

By using the market efficiency theory to evaluate the fluctuation, an efficient market will absorb all the information that enters the market. The market absorbs the 2019 presidential announcement information, and even investors make some adjustments and await the development of information and subsequent events related to the impact of the 2019 presidential announcement. These pauses and waiting periods cause the market to be less aggressive, and trade becomes less enthusiastic, so investors wait and see positions until the conditions and political upheaval becomes more stable and safer for investors.

The results of this study are in line with (Junaedi, 2005; Mansur & Jumaili, 2014; Pramana & Mawardi, 2012; Prameswari & Wirakusuma, 2018) which proves the existence of information-content in the 2019 presidential election event. This result is indicated by the real difference between the trading levels before-and-after the announcement of the 2019 presidential announcement.

CONCLUSION

This research aims to examine the information contained in the 2019 presidential announcement event. This study can be tested by examining whether there are real differences between abnormal returns and trading activities before and after the 2019 presidential announcement. Based on the results of tests with different tests in the relevant sample groups, then it can be stated that there are real differences in abnormal returns in the window of events before and after political issues (the announcement of the president 2019). The announcement and appointment of the 2019 elected president is a political event that can affect macroeconomic activity that impacts both positive and negative changes. Statistics on the results of the first hypothesis test can be accepted that there is a real difference in abnormal returns before-and-after the announcement of the elected president in 2019. Thus, it is concluded that the presidential announcement in 2019 contains important information that has an impact on obtaining abnormal returns for investors.

Differences in trading levels on events before and after political issues (the announcement of the president of 2019) were successfully supported statistically. When the market receives the announcement, the market with a half strong classification will respond to the announcement in the form of a sell or buy action so that there appear to be trade fluctuations. Empirical facts prove that there are real differences in the level of securities trading both before and after the announcement of the 2019 president-elected event. These differences show that investors respond to political information by reacting to presidential announcements, including national events at the event date.

This study recognizes several limitations, namely the inability to explain day-to-day fluctuations in the acquisition of returns and trading rates. Second, the 11-day period for this presidential announcement event is too short, while the events that follow this announcement are more than the 11-day-period. Future studies should be able to adjust the observation window range

to the length of the event. This study also uses market return based return expectations. Furthermore, other researchers can also use market methods to determine abnormal returns. The object of research can also be extended to all companies listed on the market to avoid bias in stock liquidity. Researchers can use the Fowler and Rorke 4-lead and 4-lag methods to adjust the thin market conditions.

ACKNOWLEDGMENTS

Acknowledgments should be given to several parties who support this publication, namely to the foundation's president of Perpendiknas, the Dean of STIESIA Surabaya, and LPPM STIESIA Surabaya team.

REFERENCES

Ahmad, W., Khan, N., Usman, A., Ahmad, F., & Khalil, Y. (2017). Stock Market Reaction to Political Event "Sit-In" (Evidence from Pakistan). *Journal of Managerial Sciences*, *XI*(1), 23–37. Retrieved from http://www.qurtuba.edu.pk/jms/default_files/JMS/11_1/JMS_January_June2017_23-37.pdf

Ahmed, W. M. A. (2017). The impact of political regime changes on stock prices: the case of Egypt. *International Journal of Emerging Markets*, *12*(3), 508–531. https://doi.org/10.1108/IJoEM-12-2015-0258

Anggraini, T. (2019, April 11). Pengamat: Pemilu 2019 Ujian Terberat Bagi Penyelenggara. *Beritasatu.Com*, pp. 1–3. Retrieved from https://www.beritasatu.com/politik/548167/pengamat-pemilu-2019-ujian-terberat-bagi-penyelenggara

Beaulieu, M.-C., Cosset, J.-C., & Essaddam, N. (2006). Political Uncertainty and Stock Market Returns Evidence from the 1995 Quebec Referendum. *Canadian Journal of Economics*, *39*(2), 621–642. https://doi.org/10.1111/j.0008-4085.2006.00363.x

Beaver, W. H. (1968). The Information Content of Annual Earnings Announcements. *Journal of Accounting Research*, *6*, 67. https://doi.org/10.2307/2490070

Bechtel, M. M. (2009). The Political Sources of Systematic Investment Risk: Lessons from a Consensus Democracy. *The Journal of Politics*, *71*(2), 661–677. https://doi.org/10.1017/S0022381609090525

Bittlingmayer, G. (1998). Output, Stock Volatility, and Political Uncertainty in a Natural Experiment: Germany, 1880-1940. *The Journal of Finance*, *53*(6), 2243–2257. https://doi.org/10.1111/0022-1082.00090

Bosch, J.-C., Eckard, E. W., & Singal, V. (1998). The Competitive Impact of Air Crashes: Stock Market Evidence. *The Journal of Law and Economics*, *41*(2), 503–519. https://doi.org/10.1086/467399

Brock, W. A., & Kleidon, A. W. (1992). Periodic Market Closure and Trading Volume. *Journal of Economic Dynamics and Control*, *16*(3–4), 451–489. https://doi.org/10.1016/0165-1889(92)90045-G

Budianta, M. (2019). Pilpres 2019: Politik Identitas, Ujian bagi Demokrasi dan Pluralitas di

Indonesia. *Matamata Politik: Berita Politik Dunia*, pp. 1–3. Retrieved from https://www.matamatapolitik.com/opini-politik-identitas-ujian-bagi-demokrasi-dan-pluralitas-di-indonesia/

Budiman, A. (2015). *Analisis Perbandingan Average Abnormal Return dan Average Trading Volume Activity Sebelum dan Sesudah Peristiewa Pemilu 2009 dan 2014*. Universitas Negeri Semarang.

Chiu, C.-L., Chen, C.-D., & Tang, W.-W. (2005). Political elections and foreign investor trading in South Korea's financial markets. *Applied Economics Letters*, *12*(11), 673–677. https://doi.org/10.1080/13504850500190097

Dangol, J. (2008). Unanticipated Political Events and Stock Returns An Event Study. *NRB Economic Review*, *20*(2006), 86–110.

Datta, D., & Ganguli, S. K. (2014). Political connection and firm value: an Indian perspective. *South Asian Journal of Global Business Research*, *3*(2), 170–189. https://doi.org/10.1108/sajgbr-03-2013-0020

Diniar, A. H., & Kiryanto, K. (2018). Analisis Dampak Pemilu Presiden Jokowi Terhadap Return Saham (Studi Kasus Saham LQ-45 di Bursa Efek Indonesia). *Jurnal Akuntansi Indonesia*, *4*(2), 97. https://doi.org/10.30659/jai.4.2.97-108

Döpke, J., & Pierdzioch, C. (2006). Politics and the stock market: Evidence from Germany. *European Journal of Political Economy*, *22*(4), 925–943. https://doi.org/10.1016/j.ejpoleco.2005.11.004

Fama, E. F. (1970). Efficient Capital Markets: A Review of Theory and Empirical Work. *The Journal of Finance*, *25*(2), 383. https://doi.org/10.2307/2325486

Foster, G. (1978). *Financial Statement Analysis*. Englewood Cliffs: Prentice-Hall.

Günay, S. (2016). Is political risk still an issue for the Turkish stock market? *Borsa Istanbul Review*. https://doi.org/10.1016/j.bir.2016.01.003

Imelda, I., Siregar, H., & Anggraeni, L. (2015). Abnormal Returns and Trading Volume in the Indonesian Stock Market in Relation to the Presidential Elections in 2004, 2009, and 2014. *Bisnis & Birokrasi Journal*, *21*(2). https://doi.org/10.20476/jbb.v21i2.4319

Jogiyanto, H. (2017). *Teori Portofolio dan Analisis Investasi* (11th ed.). Yogyakarta: BPFE.

Jorion, P., & Goetzmann, W. N. (1999). Global Stock Markets in the Twentieth Century. *The Journal of Finance*, *54*(3), 953–980. https://doi.org/10.1111/0022-1082.00133

Junaedi, D. (2005). Dampak Tingkat Pengungkapan Informasi Perusahaan terhadap Volume Perdagangan dan Return Saham: Penelitian Empiris terhadap Perusahaan-Perusahaan yang Tercatat di Bursa Efek Jakarta. *Jurnal Akuntansi Dan Keuangan Indonesia*, *2*(2), 1–28. https://doi.org/10.21002/jaki.2005.08

Kaplanski, G., & Levy, H. (2010). Sentiment and stock prices: The case of aviation disasters. *Journal of Financial Economics*, *95*(2), 174–201. https://doi.org/10.1016/j.jfineco.2009.10.002

Karpoff, J. M. (1986). A Theory of Trading Volume. *The Journal of Finance*, *41*(5), 1069–1087. https://doi.org/10.1111/j.1540-6261.1986.tb02531.x

Katti, S. W. B. (2018). Pengaruh Peristiwa Politik (Pemilu Presiden dan Pengumuman Susunan Kabinet) Terhadap Saham Sektor Industri Di Bursa Efek Indonesia. *Capital*, *1*(2), 125–134.

Koulakiotis, A., Papapanagos, H., & Papasyriopoulos, N. (2016). Political elections, abnormal returns, and stock price volatility: the case of Greece. *Investment Management and Financial Innovations*, *13*(1), 161–169. https://doi.org/10.21511/imfi.13(1-1).2016.03

Latifah, N., & Khanifah, K. (2014). The Capital Market Efficiency "Semi Strong Form Test" with the Announcement of a Dividend in the Indonesia Stock Exchange (Idx). *Jurnal Analisis Bisnis Ekonomi*, *12*(1), 29–41.

Li, J., & Born, J. A. (2006). Presidential Election Uncertainty and Common Stock Returns in the United States. *Journal of Financial Research*, *29*(4), 609–622. https://doi.org/10.1111/j.1475-6803.2006.00197.x

Mansur, F., & Jumaili, S. (2014). Reaksi Pasar Modal Terhadap Peristiwa Pemilihan Umum Tahun 2014 pada Perusahaan Terdaftar di Bursa Efek Indonesia. *Jurnal Penelitian Universitas Jambi Seri Humaniora*, *16*(2), 561–565.

Martínez, J., & Santiso, J. (2003). Financial Markets and Politics: The Confidence Game in Latin American Emerging Economies. *International Political Science Review*, *24*(3), 363–395. https://doi.org/10.1177/0192512103024003005

Mentayani, I., Rusmanto, & Ridhani, R. (2016). Analisis Perbedaan Harga Saham Sebelum dan Sesudah Pemilihan Umum Presiden 2014. *Dinamika Ekonomi-Jurnal Ekonomi Dan Bisnis*, *9*(1), 105–120.

Nabila, F., & Khairunnisa. (2015). Analisis Perbedaan Abnormal Return Sebelum Dan Sesudah Peristiwa Politik (Pemilihan Umum Presiden) Di Indonesia Dan Singapura (Studi Kasus Terhadap Perusahaan Kelompok Lq45 Di Bei Dan Strait Times Index Di Sgx). *E-Proceeding of Management*, *2*(2), 1640–1648.

Nazir, M. S., Younus, H., Kaleem, A., & Anwar, Z. (2014). Impact of Political Events on Stock Market Returns Empirical Evidence from Pakistan. *Journal of Economic and Administrative Sciences*, *30*(1), 60–78. https://doi.org/10.1108/JEAS-03-2013-0011

Pound, J., & Zeckhauser, R. (2002). Clearly Heard on the Street: The Effect of Takeover Rumors on Stock Prices. *The Journal of Business*. https://doi.org/10.1086/296508

Prabandari, M. (2015). *Dampak pengumuman kemenangan jokowi pada pemilihan umum presiden 2014 terhadap*. Universitas Negeri Yogyakarta.

Pramana, A., & Mawardi, W. (2012). Analisis Perbandingan Trading Volume Activity dan Abnormal Return Saham Sebelum dan Sesudah Pemecahan Saham. *Diponegoro Journal Management*, *1*(1), 1–9. Retrieved from http://eprints.undip.ac.id/35804/1/JURNAL_ANDI.pdf

Prameswari, I. A. N., & Wirakusuma, M. G. (2018). Analisis Reaksi Pasar Modal Pada Peristiwa Pemilihan Gubernur Dki Jakarta Tahun 2017. *E-Journal Akuntansi Universitas Udayana*, *22*(2), 944–975.

Rodoni, A., & Yong, O. (2002). *Analisis Investasi dan Teori Portofolio*. Jakarta: PT. Interpratama Offset.

Suwaryo, S. (2008). Dampak Pemili Presiden dan Wakil Presiden terhadap Abnormal Return. *Performance*, *7*(2), 1–19.

Syamni, G. (2011). Peran Order Investor dalam Menjelaskan Terbentuknya Pola Volume Perdagangan di Bursa Efek Indonesia. *Jurnal Akuntansi Dan Keuangan Indonesia*, *8*(1), 94–106. https://doi.org/10.21002/jaki.2011.06

Tandelilin, E. (2010). *Portofolio dan Investasi: Teori dan aplikasi*. Yogyakarta: Kanisius.

Varagur, K. (2019, April 25). Pilpres 2019: Rapuhnya Pesta Demokrasi di Indonesia. *Matamata Politik: Berita Politik Dunia*, pp. 1–3. Retrieved from https://www.matamatapolitik.com/in-depth-rapuhnya-pesta-demokrasi-di-indonesia/

Vuchelen, J. (2003). Electoral Systems and the Effects of Political Events on the Stock Market: The Belgian Case. *Economics and Politics*, *15*(1), 85–102. https://doi.org/10.1111/1468-0343.00116

Zach, T. (2003). Political Events and the Stock Market: Evidence from Israel. In *SSRN*. https://doi.org/10.2139/ssrn.420242

Zhang, Y., & Chen, H. (2016). The Effects of Rumors on Stock Prices: A Test in an Emerging Market. *International Conference on Advanced Education and Management Engineering (AEME 2016)*, 1–5. Retrieved from http://dpi-proceedings.com/index.php/dtssehs/issue/view/85

Zhang, Y., & Hao-Jia, C. (2001). The Effects of Stock Market Rumors on Stock Prices: Evidence from an Emerging Market. *Journal of Multinational Financial Management*, *11*(1), 105–115. https://doi.org/10.1016/S1042-444X(00)00045-1

Appendix

Table 1. LQ-45 Issuer During the Observation Period

Issuer	Code	Issuer	Code
Adhi Karya Persero	ADHI	Indocement Tunggal Prakarsa	INTP
Adaro Energy	ADRO	Indo Tambangraya Megah	ITMG
AKR Corporindo	AKRA	Jasa Marga	JSMR
Aneka Tambang	ANTM	Kalbe Farma	KLBF
Astra International	ASII	Matahari Department Store	LPPM
Bank Central Asia	BBCA	Medco Energi Internasional	MEDC
Bank Negara Indonesia	BBNI	Media Nusantara Citra	MNCN
Bank Rakyat Indonesia	BBRI	Perusahaan Gas Negara	PGAS
Bank Tabungan Negara	BBTN	Bukit Asam	PTBA
Bank Mandiri	BMRI	PP (Persero)	PTPP
Barito Pacific	BRPT	Pakuwon Jati	PWON
Bumi Serpong Damai	BSDE	Surya Citra Media	SCMA
Charoen Pokphand Indonesia	CPIN	Semen Indonesia	SMGR
Elnusa	ELSA	Sri Rejeki Isman	SRIL
Erajaya Swasembada	ERAA	Pabrik Kertas Tjiwi Kimia	TKIM
XL Axiata	EXCL	Telekomunikasi Indonesia	TLKM
Gudang Garam	GGRM	Chandra Asri Petrochemical	TPIA
HM Sampoerna	HMSP	United Tractors	UNTR
Indofood CBP Sukses Makmur	ICBP	Unilever Indonesia	UNVR
Vale Indonesia	INCO	Wijaya Karya	WIKA
Indofood Sukses Makmur	INDF	Waskita Beton	WSBP
Indika Energy	INDY	Waskita Karya	WSKT
Indah Kiat Pulp & Papaer	INKP		