RELATIONSHIP BETWEEN POLITICAL STABILITY WITH THE MARKET PERFORMANCE (CASE STUDY ON JAKARTA COMPOSITE INDEX)

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Abstract- Capital markets have an very important role for the economy of a country. The more important and substantial contribution of capital markets for a country, the level of sensitivity of the events which happen around it would be higher. In Indonesia, one of the events that can potentially cause a reaction in the capital market is the Presidential Election period of 2014-2019. It is expected to affect the political stability of Indonesia, which then could result in economy stability. This study analyzed the relationship between the condition of political stability with the performance of the market, as measured by the rate of return of JCI (Jakarta Composite Index). The sample data used in this study is the rate of return of JCI 70 days before and 70 days after the Presidential Election. A statistical tool that is used as a method in this study is the different test paired sample t-test. The conclusion from this study is there is no relationship between the political stability of a country with the market performance. This is in line with the previous study which examines how the Indonesian Presidential Election period of 2004-2009 affect the average abnormal return and average of trading volume activity on LQ-45's index.

Index Terms— Political Issues, JCI.

I. INTRODUCTION

Capital market is a market which bring together investors who want to invest savings with companies or government who need capital to expand or to finance budget deficit (Frank K Reilly and Keith C Brown, 2003: 18). The capital market is also one who driving the economy of a country and can be used as a benchmark for the country's economy. The proceeds from the capital market can be used for various purposes, such as business development, working capital, and even to improve its financial structure. In terms of finance, the capital markets provide the possibility and the opportunity to obtain a return to the investors.

For the most citizens in Indonesia, the capital market was quite unfamiliar. This is reflected in the capital market penetration rate which is still weak. Meanwhile, actually the capital market in Indonesia has almost one millenniumold. It is undeniable that government's role is very big in developing the capital market industry in Indonesia, even the initiative of developing the capital market comes from the government. This is slightly different from the other countries, where are the initiative generally comes from the businesses, while then the government support and encourage their development. Therefore, the Indonesian government participated in supporting the capital market by issuing the laws, which is called with Undang-undang No. 8, 1995, which contain: The capital markets have a strategic role in the national development, as a source of the business financing and investment vehicle for the community. The Structure of capital market in Indonesia, as the top level of the highest position is the Menteri Keuangan (Finance Minister) who serves as the institution that sets the general policy in the field of capital market. Next after that is Bapepam-LK with duty to foster, organize, and supervise every capital market participant. Next is the Bursa Efek Indonesia (Indonesia Stock Exchange) as the party that organizes and provides a system and/or a means to bring together the offer of buy-and-sell securities the other parties with the aim of trade effects between them. In Indonesia, there are two institutions that have a position parallel to the Indonesian Stock Exchange, there are the Clearing and Guaranty (Indonesian Clearing and Guarantee Corporation/Kliring Penjaminan Efek Indonesia) and the Central Custody and Settlement (Indonesian Central Securities Depository/Kustodian Sentral Efek Indonesia). Among the capital market, the securities company is the most important function as an intermediate, putting between institutions in need of funds to investor who want to earn the income from the funds they managed. Climate investment on the capital market in Indonesia is similar to the other developing countries, although it has the consequence of small market capitalization, but it continuously improved, so that many foreign investors are interested to invest in markets in developing countries arguing that developing countries have appeal of high economic growth and automatically accompanied by high return anyway. The entries of foreign investors into developing countries are able to encourage business development in the country is growing at a faster rate compared to only mobilize domestic resources alone. And with it, of course it is being the catalyst for local investors to invest in their own country.

According to Rustamadji (2001), Indonesian capital market on its development has shown the majority of economic instruments, which indicated that it generates much driven by researchers and

practitioners in seeing the picture of the Indonesian economy. As an instrument of the economy, the capital markets could not be separated from the influence thrive in the environment, both micro and macro environments. Factors in the micro-environment that affect capital market, among others are financing management, management board of director announcements, investment announcements, etc. While the factors in the macro-environment are inflation, regulatory and deregulation economic by the government, insider trading, stock trading volume or price, stock exchange, and the political turmoil throughout the country.

Political flamings affect the economy and financial market in many different ways. Political uncertainty is a phenomenon whose could impact and spread to various aspects. Typically, political uncertainties arising from differences between two or more candidates, where each candidate has a different policy that will be applied when they were elected, in addition, the condition became more complicated when we do not know what is the result of the election. Change of the government will impact on macroeconomic policy, which then resulted in changes in capital market conditions. Increasingly important role of the stock market for a country in economic activity, it will make the exchange more sensitive to events happening around them. One of political event that will affect the stock market is the Presidential Election. In Indonesia, the Presidential Election is held every five years, and this election had a great influence in keeping the state stability. Presidential Elections always bring new hope of the Indonesian citizens to change the State condition better than the previous president. The Presidential Election did not intervene directly, but the incidents is one of the information circulated and used by actor capital markets in making decisions and predicting future economic conditions which determine the expected return. With regards to Indonesia's economic progress, political stability followed by economic stability, it will make investors feel safe to invest their money in the capital market. Therefore, general investors will put expectations on every political events that occurred, and their expectation will be reflected in fluctuations in price or trading volume of shares on the stock exchange.

Based on the above exposure, political events, especially the Presidential Election has an impact on the stock price fluctuations, which in turn affects the resulting return on investment in the capital market. Therefore, the authors wanted to do research on the link between changes in stock prices or the rate of return on Indonesia Stock Exchange with Presidential Elections held on July 9, 2014. Using Jakarta Composite Index as a sample, because JCI is an indicator of performance most major stock exchanges. JCI is the value that used to measure the performance of shares listed on a stock exchange, as well as describing a series of historical information about the joint-stock price movements of all shares, up to a certain date. Usually, stock price movements are served each day based on the stock's closing price on that day. The index is presented for a certain period. JCI changed every day because, (1) changes in market prices that occur every day, (2) the additional shares coming from new issuers or due to corporate actions such as stock splits, rights, warrants, stock dividends, bonus shares and stock conversion.

II. LITERATURE REVIEW

A. The Influences of Political Stability to Economic Conditions

Stock market in emerging economies are likely to be sensitive to factors such as changes in the level of economic activities, changes in the political and international economic environment and also related to the changes in other macroeconomic factors (Kumar and Puja, 2012). Political stability is very influential on capital market conditions, due to unstable political conditions are indicative of the economic and security conditions are stable as well. So these factors into consideration for the investor, both foreign and domestic investors to invest. Therefore, generally investors will put expectations on every political event that occurred, in which those expectations may be reflected in the stock price fluctuations. In addition, is there a potentially positive relationship between the Presidential Election and stock market reaction?

As in the research conducted by Kitchin (1923) in the USA 4-year Cycle (Kitchin Wave or the Presidential Election Cycle) indicate a strong impact on the stock market in 1868 and 1945 in the UK and USA. While Stoval (1992) also stated during the President serves a country there are different patterns of returns in the first two years of office and the last two years (in Wong & McAller, 2007).

Research related to political events, in particular, about the Presidential Election with the stock market has done. Smith (2012), which examines how the US Presidential Election years historically produce the booming stock market, the outcome of US Presidential Election has brought the stock gains industrial average Dow Jones and Standard & Poor's 500. Even so, the opposite happened in the Asian stock markets, according to the International Business Times (2012), Asian stock markets declined forward of the US Presidential Election despite encouraging economic reports from the US and China as investors opted for caution ahead of the US Presidential Election. The impact of the US Presidential Election also affected the stock markets of Canada and Mexico, it found that both the Canadian and Mexican stock markets negatively affected during the period of the delay in the results of the 2000 US Presidential Election (Nippani, Srinivas, and A. C. Arize, 2005).

Saigal (2013) which provides information on the growth in the stock market Nairobi In Kenya following the Presidential Election in March 2013, the research found
that the investment in the country slowed down during the period of the elections, but rose again after the election ended peacefully.

B. Measuring Economic Condition by JCI

JCI or Jakarta Composite Index is an index of all stocks which are listed and traded on the Indonesian Stock Exchange, and it is a series of historical information about the joint-stock price movements, up to a certain date and reflects a value that serves as a measure of performance of a joint-stock at the stock exchange. Factor that could affect the stock price movement is a projection of the earnings per share, when earned income, the risk level of the profit forecast, the proportion of the company's debt to equity, and dividend policy. Other factors that can influence the stock price movements are external constraints such as economic activity in general, and state tax stock exchanges. JCI could be a picture of the economy of a State, as the JCI movement is constantly influenced by various factors both internal and external, one of which is economical variables such as economic growth. In addition to the previously mentioned factors, political phenomenons, especially those that occurred in the country, could also affect the stock price movements.

In general, political events will indirectly intervene in the capital market, including the JCI. The concept of efficient capital markets is the basic concept that can help in understanding how the pricing mechanism in the market. The concept of efficient markets is often linked to the information aspects. A key element in measuring the efficient market is the relationship between the security price information. An efficient market generates categories of events that individually suggest that prices over-react to information. But in an efficient market, apparent underreaction will be about as frequent as overreaction. If anomalies split randomly between underreaction and overreaction, they are consistent with market efficiency. If the market reacts quickly and accurately to the information available, the market conditions as it is called by an efficient market. An information is informative, if the information is able to changes the beliefs of decision makers and the information published as an announcement would give a signal for investors in making investment decisions. If an announcement contains a positive value, it is expected that the market will react to the timing of the announcement is received by the market. In this study, the signal in question is information that can be taken by investors of the Presidential Election and signaling events that lead to the JCI indices.

Return is the results obtained from investments (Jogiyanto, 2014: 235). However, the rate of return is not independent of the risk. Risk is the uncertainty that an investment will earn its expecied rate of return (Reily and Brown, 2003: 10).

Meanwhile, the JCI return can be calculated using the following formula:

$$return\ of\ JCI = \left[JCI_t - JCI_{t-1}\right] / JCI_{t-1} \quad (1)$$

Where :

JCIt = JCI period t

JCIt-1 = JCI period t-1

he average return before and the average return after are measured by the follo ing formula

$$\bar{x} = \sum_{i=1}^{n} E(R_i)/n \quad (2)$$

Where :

$\bar{x}$ = The average of return

$E(R_i)$ = Expected return

n = The number of times the daily stock rate of return

III. SAMPLE DATA AND HYPOTHESIS

A. Sample Data

The sample used in this study is the Jakarta Composite Index. The data used in this research are secondary data. Secondary data used in this study a stock price that are downloaded via the site of JCI www.idx.co.id and www.yahoo.finance.co.id for 70 days before and 70 days after the implementation of the 2014 Presidential Election. Using data 70 days before and 70 days after the Indonesian Presidential Election in 2014 on the grounds that the larger the sample, then the chances of generalization error will be smaller. Beside this, we also have to look at each incident both economic and non-economic that may have an impact on stock prices.

B. Hypothesis

The data analysis technique used for this study is a Paired t-test. An effect can be determined by comparing the condition of the object of study before and after the treatment. Large of α in order to determine the level of significance of the results of the management set at 5% or 0.05, in the other words, the significance level is 95%.

H_0 $\bar{x}_1 = \bar{x}_2$

The market doesn't reacts to political issue

H_a $\bar{x}_1 \neq \bar{x}_2$

The market reacts to political issue

Criteria in the testing analysis, namely H0 is accepted if the significance level greater than 0.05. and conversely, H0 is rejected if the significance level of less than 0:05

IV. DESCRIPTIVE STATISTICS AND RESULTS

The data in the Table I. shows that the t-compute the average return period before vs. after the Presidential

Election in 2014 as a whole is 0.578 with probability 0.565. Therefore, 0.565 p> 0.05 then there is no significant relationship or in the other words, ther is no difference in the average return with no significant results in the period before and after the Presidential Election of 2014 or alternative hypothesis is rejected. That is the Presidential Election in 2014 had no impact on the average return of JCI.

In Table II. shows that there is a decline in abnormal return from 0.000928 before the event became 0.000169 after the event. The average differences indicates that the actual circumstances and conditions before and after the

Table I. Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Before The Presidential Election - After The Presidential Election	.0007595	.0109877	.0013133	-.0018604	.0033794	.578	69	.565

Source: Data were processed using SPSS 22, 20

Table II.
Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before The Presidential Election	.000928	70	.0084337	.0010080
	After The Presidential Election	.000169	70	.0075516	.0009026

Source: Data were processed using SPSS 22, 2015

Table III.
Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Before The Presidential Election & After The Presidential Election	70	.058	.632

Source: Data were processed using SPSS 22, 2015

reacts. But, back then, the result is not significant because the Sig. (2-tailed > α 0.05 . So, the hypothesis that states " he market reacts to political issue" as rejected Based on the Table III., the Indonesia Presidential Election 2014 has a very weak relationship with the market performance. Thus, it can be concluded that there is a relationship between the Indonesia's Presidential Election ith Market Performance, but the relationship is not significant. Because of its correlation, coefficient is positive, then the Indonesia's Presidential Election 2014 has a relationship with market performance, but the significance level still greater than 0.05.

V. SUMMARY AND CONCLUSION

This study analyzed the effect of the political issues, namely Presidential Election in 2014 against the average return of JCI. Specifically, it investigates whether the Indonesian Presidential Election in 2014 generates a positive market reaction. Our analyze clearly found that the average return does not reacts to the Indonesian Presidential Election of 0 4. Ho ever, the Indonesia's Presidential Election 2014 impact 5.8%. Amounted to 94.2%

market performance is influenced by several factors that are not described in this study.

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