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Leader Effect and Return Stock Market

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Abstract: The purpose of this study is to examine whether the election of Jokowi as the country's leader (president) can affect the stock price return of the Jakarta Composite Index (JCI). The data used in this research is secondary data. Data comes from historical JCI. The data taken is daily data for 12 months before and after Jokowi was appointed president. The data analysis technique used is one t-test sample used to test the first hypothesis and the paired samples t test was used to test the second hypothesis in this study. The results in testing the paired sample there is no difference in the return of stock prices in the era before and after Jokowi became president.

Keywords: leader effect; return stock; JCI

Introduction

Health and economic growth of a country can be illustrated through the increase of its stock market (Nainggolan, 2010). If the investors see the policies issued by the government well, then usually the stock market will immediately respond positively with the marked increase in the value of the composite stock price index of a country, and vice versa. The real example came from the good news of US President Barack Obama in August 2008. By the time Obama announced that he would continue to use Bernard as a fed chairman, this policy was favored by investors and gave hope for a better future, on an increased in DJIA (Dow Jon Industrial Average), S & P 500 and Nasdaq (US market stock, August 24, 2009).

The number of factors that affect the movement of the stock market makes the stock market more interesting to observed and researched so that investors can gain profits and avoid risks that can lead to losses. In addition to financial factors, non-financial factors affect many movements in the stock market. Events affecting stock price movements have been studied by many previous researchers such as the impact of the economic crisis [Daly (2003), Ibrahim (2005), Majid and Aziz (2009)], disaster events [Yamamori and Kobayashi

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(1999), Worthington and Valadkhani 2005), Worthington (2008)] economic cooperation events [Auzairy and Ahmad (2009)] and political events [Jianping (1999), Ismail and Suhardjo (2001), Bialkowski et al (2006)].

Political events and stock trading transactions are inseparable. Manurung and Prathama (2004) stated that political events not directly affect the capital market but political events are informations that investors can consider in making investment decisions. Pantzalis et al (2000) stated several reasons for the importance of political events that can affect economic welfare, among others, to determine long-term policies, information directly obtained because many media cover and hope of the investors for elected candidates can increase return. Tirta and Silvia (2013) stated to move the capital market required an information that can affect the demand and sale of stocks in the capital market. In the concept of efficiency capital market where the movement of the capital market reflects the information which known generally. Scoot (2009) stated that the efficient capital market is divided into three types of information, namely history information, information in general and privacy information. The information published will get a quicker response from investors as it reflects the current events.

Based on the research conducted by Jianping (1999) on the influence of political uncertainty (change of government) on the economic conditions of a country suggested that eight of the nine financial crisis, occurred during the turn and change of government. In addition, from the research can also be concluded that political uncertainty caused by the change of government tends to cause volatility in stock prices during the period of the change.

This research will focus on political events caused by the change of government in Indonesia in 2014. In that year, the elected president is Ir. H. Joko Widodo. When the newly appointed presidential candidate on March 14, 2014, a positive response has been shown by the public is no exception investors. This is reflected in the movement of the JCI gained 152, 47 points. Jokowi Effect's term reflected the stock market that responds well and some media such as Bloomberg.co.id and news like Kompas also respond similarly to the event.

Jokowi elected as president of the Republic of Indonesia is said to be Jokowi Effect responded positively by the market with a marked strengthening JCI. Previous studies have compared stock returns in the pre- and post-Jokowi nominations to the presidency (Yuniarti and Sujana, 2016) resulting in no difference in stock returns in both eras. This makes the reason researchers to examine the Jokowi effect on the stock price returns are shown by the abnormal return at the time before and after Jokowi became president. The hypothesis is that there is a difference in stock price returns in the era before and after Jokowi became President.

Data and Methodology

Data used in this research is secondary data. The data comes from the history of Indonesia Joint Stock Price Index or JCI. The data taken is daily data for 12 months before Jokowi inaugurated as president on October 20, 2013 to October 19, 2014, and 12 months after Jokowi inaugurated on October 20, 2014 to October 19, 2015. Because this research uses event period, then the period used for at least 12 months (Auzairy and Ahmad, 2009). The data obtained are abnormal return data. The data analysis technique used the different test of two paired samples (paired samplest t test) is used to test the hypothesis in this research.

The criteria in decision making that is if the value of t-count > of t-Table then H_0 is accepted, or if t-count value ≤ of t-Table then H_0 is rejected.

Results and Discussion

Description Analysis

Descriptive statistical test aims to provide an overview or description of a data viewed from the sample size, minimum value, maximum value, mean value, and standard deviation of each variable in a research. The results of descriptive statistical analysis can be seen in Table 1 as follows:

Table 1. **Descriptive Statistics**

	N	Min	Max	Mean	Std. Deviation
JKSEBEFOREJ	245	-1.00	0.03	-0.0077	0.09066
JKSEAFTERJ	245	-1.00	0.05	-0.0044	0.06467
Valid N (listwise)	245				

From the table 1 above is known that the largest daily stock return in the period 2013-2015 is at the time Jokowi has become president of 0.05. And the average daily stock return is even greater at the time Jokowi has become president of -0.044. The standard deviation of market returns typically used to measure market risk is in the range 0.06467 up to 0.09066. The biggest standard deviation occurred in the era before Jokowi became president. These results suggest that the investment risk in before Jokowi became president, was greater than after Jokowi became president. This is because, the data was taken 12 months before Jokowi became president. Where in the 12 months were the last months of the previous presidential leadership, as well as the month of the general election, where in those months the economic and political uncertainty was still high. This is causing the risks posed higher.

Hypothesis Analysis

This hypothesis is answered by the analysis of paired samples statistics in table 2 below.

Table 2. **Paired Samples Statistics**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	JKSEBEFOREJ	-0.0077	245	0.09066	0.00579
	JKSEAFTERJ	-0.0044	245	0.06467	0.00413

The results in table 2 above show that, the average stock return on before and after Jokowi became president. Before became a president the average stock return reached -0.0077, while after Jokowi became president to -0.0044 or an increase of 57%. The results in table 2 above, supported by the strong correlation between the two variables that can be seen in table 3 below.

Table 3. **Paired Samples Correlations**

		N	Correlation	Sig
Pair 1	JKSEBEFOREJ & JKSEAFTERJ	245	0.696	0.000

Table 3 shows that the correlation between the two variables is 0.696 with a significant value of 0.000. This shows that the correlation between the two average stock returns before and after Jokowi became president was strong and significant. The hypothesis is that there is a difference in stock price returns in the era before and after Jokowi became a President. Different test two paired samples (paired samplest t test) were used to test the second hypothesis in this research. This test is conducted to determine whether there is a difference in stock return price before and after Jokowi become president of the Republic of Indonesia as measured from the abnormal return. Decision-making of this method is to look at the comparison of t Table and t count. If t count > from t Table then H1 is accepted, whereas if t count ≤ t Table then H1 is rejected. Based on Table 4 it can be seen the value of t count of -0.791 smaller than t Table of 1.971896 then H0 is accepted and H1 is rejected, it means that there is no difference in stock return prices before and after Jokowi became President.

Table 4. **Paired Samples Test**

		Paired Differences					t	Df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence of the Difference				
					Lower	Upper			
Pair 1	JKSEBEFOREJ - JKSEAFTERJ	-.00329	.06514	.00416	-.01149	.00491	-.791	244	.430

The information of Jokowi elected as a president can be anticipated because investors reflect on previous political events. The assumption that the strengthening of JCI triggered by Jokowi Effect is only one of the information that can cause JCI to strengthen. This is because the JCI looks contradictory to the movement of Asian regional stock index. However, it is also determined from how Jokowi carries out policies that can have a benefit for Indonesia in the future. So many people are waiting for the next step of Jokowi.

The results of this research are consistent with the research conducted by Trisnawati (2011) stated that there is no difference in average abnormal returns between before and after the 2004 presidential election. The results of this research are also in accordance with research conducted by Pratama and Dharmawan (2015) which stated there is no the difference of abnormal return significantly on the day before and after the inauguration of the president of the Republic of Indonesia to-7. The results of this research also supported by research conducted by Hartawan and Dharmawan (2015) stated there is no difference between the average abnormal retrun before and after the legislative election year 2014. Yuniarti and Sujana (2016) stated that there is no difference in the abnormal return the stock price at the time before and after the announcement of the nomination Jokowi became president.

The results of this study are different from the results of research conducted by Nainggolan (2010) to obtain the results that from the three political events in the era of the leadership of Suharto (President of Indonesia), Mahatir (prime minister of Malaysia) and Thaksin (Prime Minister of Thailand) had a significant influence on the capital market . According to him the test results indicate that the leadership effect has an influence on the volatility of stock prices because changes in government lead to changes in policies taken.

Conclusion

The conclusion obtained from the above research that there is a change in the stock price return in the era before and after jokowi became a president that is a positive change that can be seen from the increase of stock price return from before and after Jokowi become president and the risk is greater when before Jokowi became president because 12 months before Jokowi became president were election months with high uncertainty. While in the Suharto era, similar research had also been carried out and gave the result that there was an influence on stock prices.. However, in testing paired samples test there is no difference in stock price returns in the era before and after Jokowi became president. Based on the discussion of research then as for suggestions to be conveyed through the results of this research is that investors can be careful in making decisions during the occurrence of political events because of the investment risks faced by investors. For further research besides using abnormal return the researcher can use trade volume activity. Furthermore, this research should have been carried out in the era of B.J Habibie's leadership, K.H Abdurrahman Wahid, Megawati Soekarno Putri, and Susilo Bambang Yudhoyono in order to make further research provide deeper coverage.

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