The objective of the research is to test the information content of the Legislative election on 9th April and the Presidential election of 9th July 2014. The presence or absence of information content of the event reflects the presence of market or investor reaction. The market reaction can be measured with the amount of profit, namely return and abnormal return. The research samples are taken using the method of purposive sampling, and there are 45 stock companies included in the LQ-45 index in 2014. The statistical test used by the research is T-test (Paired two Samples for Mean). The observation periods are divided into 5 and 10 days before the legislative and presidential election, and 5 and 10 days after the event.

The research results show that there is an increase in the profit level which is measured with stock return 10 days after the legislative election, while in the preiod of 5 days after the legislative election, stock return remains in the same point. However, when measurement is conducted using abnormal return, the result shows that no investor gains abnormal return both 5 days and 10 days after the election. Meanwhile, stock return during the period of 5 and 10 days after the presidential election experience a decrease and there is no investor gaining abnormal return on the same period.

Keywords: Legislative General Election, Presidential Election, Stock Return and Abnormal Return

1. Background

Capital markets have important role in the economic life of a country. In Indonesian, capital market has significantly strategic role in developing national economic level. The primary role of the capital market is to become an institution which is conducting capital accumulation and mobilization productively. Capital market as an alternative source of long-term funding has rapidly developed. The rise of the current capital market development is inseparable from the role of investors in the capital market transactions. As a result, the stock becomes one of the alternatives of revenue which are much in demand by investors for making profit from the investment in the form of capital gains and dividends.

The development of capital market activity rapidly has brought major changes to the demands of quality information. Disclosure of information is a key word in the capital market, so that the information related to the delivery and acceptance for the company and the community. Before making a rational decision, investor need a relevant information to identify the performance of the company. In other words, the investment decisions whic are made by investors is a reaction to the collected information.
According to Dyckman and Morse (1989), information used by investors includes accounting and non-accounting information. Accounting information is information that describes the company's assets, in the form of an annual income statement, cash flow statement and statement of changes in capital. While the non-accounting information are in the form of reported dividends, stock splits, rights issues, information macroeconomic and political conditions.

In the competitive market, the equilibrium price is determined by the offers available and aggregate demand. The equilibrium price will remain until new information change it into a new equilibrium price. So if the market reacts quickly and accurately to achieve a new balance that fully reflects the information available, the market is said to be efficient (Hartono, 2008).

This study is a study of the events on market reaction to an event when the information is published as an announcement. Studies of events can be used to test the information content of an announcement and can also be used to test the form of semi-strong market efficiency (Hartono, 2008).

2. Research Questions

Based on the background study elaborated in the previous section, the problems that will be addressed in the study are as follow:

1. Is there a difference in return and abnormal returns between stocks before and after the legislative election on 9 April 2014?
2. Is there a difference in return and abnormal returns between stocks before and after the presidential election on July 9, 2014?

3. Research Objectives

In accordance with the problems mentioned, the objectives of the research are designed as follow:

1. To determine differences in return and abnormal returns between before and after the legislative election on April 9, 2014.
2. To determine differences in return and abnormal returns between before and after the presidential election on July 9, 2014.

4. The Conceptual Framework of the Research

Based on the previous discussions as well as the formulation of the problem, the researchers wanted analyze the difference of return and abnormal stock returns before and after the April 9 legislative elections, 2014 and July 9, 2014 of the Presidential election period in LQ-45 companies listed in Indonesia Stock Exchange by using the following framework:
5. Population and Research Samples

The population of the research is companies whose shares are included in the LQ-45 index. The samples are determined using purposive sampling. In this sampling method, the population is selected based on special criteria set by the researcher. The criteria set by the researcher are as follow:

1. The company should have shares listed on the LQ-45 index during the observation period (5 days and 10 days) that covers the time before and after the legislative election on April 9 and Presidential election on July 9, 2014.

2. Companies’ shares are actively traded during the observation period. The availability of outstanding shares for each sample company during the observation period.

6. Data Analysis Methods

To analyze the impact of political events on some of the indicators and to observe the action of market as reflected by changes in returns and abnormal returns, the researcher uses Paired Sample T-Test as analysis tool to test whether returns and abnormal returns before and after an event differ significantly, with an assumption if the data is formally distributed. However, if the data is not normally as distributed so the researcher will use Wilcoxon Signed Rank Test.

7. Data Normality Test

Data normality test is conducted to reveal that the sample of data is coming from normally distributed population. Whether data sample is normally distributed can be understood using Kolmogorov-Smirnov Test. Data will be decided as normally distributed if significance value from Kolmogorov-Smirnov Test is > 0.05. By this value, data distribution is normal. Result of data normality test is shown in Table 4.1.
### Table 1
Normality Test Result

<table>
<thead>
<tr>
<th>Event</th>
<th>Period</th>
<th>Variable</th>
<th>Asymp.Sig (2-Tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative Election</td>
<td>10 Days</td>
<td>Return</td>
<td>0.819</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AR</td>
<td>0.994</td>
</tr>
<tr>
<td></td>
<td>20 Days</td>
<td>Return</td>
<td>0.564</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AR</td>
<td>0.476</td>
</tr>
<tr>
<td>President Election</td>
<td>10 Days</td>
<td>Return</td>
<td>0.819</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AR</td>
<td>0.819</td>
</tr>
<tr>
<td></td>
<td>20 Days</td>
<td>Return</td>
<td>0.136</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AR</td>
<td>0.648</td>
</tr>
</tbody>
</table>

Source: Data Processed

Based on Table 4.1, it is concluded that data sample is following normal distribution scatter because Asymp. Sig. (2-tailed) is valued to > 0.05.

### 8. Statistical Analysis Results

Analyzing the impact of legislative and presidential general election, the study event method is utilized to find out the reaction of stock return and abnormal stock return in the stock market.

#### 8.1 The Analysis of Return Stock and Abnormal Stock Return on Ten Days and Twenty Days before and after Legislative Election.

The average of stock return and abnormal stock return of the companies sample on the observation period on five days before and five days after the legislative election is as follow:

Table 2. Result of statistical count on the average of stocks return and stocks abnormal return on five days before and five days after the legislative election.

<table>
<thead>
<tr>
<th>Period</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return Before:</td>
<td>0.00536</td>
<td>0.00824</td>
</tr>
<tr>
<td>Return After:</td>
<td>-0.00011</td>
<td>0.00585</td>
</tr>
<tr>
<td>AR Before:</td>
<td>-0.00046</td>
<td>0.00117</td>
</tr>
<tr>
<td>AR After:</td>
<td>-0.00047</td>
<td>0.00104</td>
</tr>
</tbody>
</table>

Source: BEI (analyzed data) appendix 9

The above table shows that the average numbers of return stock on five days before after the legislative election is 0.00536, while five days after the legislative election is -0.00011. These results illustrate that the average number of stock return on five days after the legislative election is decline. From this phenomena, it can be interpreted the legislative election in which the society choose their representative to sit in the parliament cause concern to the investors. Many of these investors feel uneasy about the fluctuation in the grass root of the society and at the home base of the candidates’ supporters. This condition influences the stock issuers to sell their stocks before the election and causes the decrease of the stock value on the market. This decrease automatically impacts the amount of return from the stock itself after the Election Day.
Furthermore, the average number of abnormal return on five days after the legislative general election is \(-0.00047\). This result shows that there is a slight increase of abnormal return percentage after the Election Day. Although the increase is evident, however, the abnormal return obtained both on the days before and after the Election Day is negative. Therefore, it can be assumed in the five days before and five days after the legislative general election, investors in the capital market do not gain abnormal stock return. From the absence of the abnormal stock return gained by investor phenomena, it can be said that this legislative general election poses a negative signal, which make the investors not responding on the event.

For the average number of stocks return and stocks abnormal return of the sample companies on the observed ten days before and ten days after the legislative election is as follow:

<table>
<thead>
<tr>
<th>Table 3. Result of statistical count on the average of stocks return and stocks abnormal return on ten days before and ten days after the legislative election.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Period</strong></td>
</tr>
<tr>
<td>Return Before:</td>
</tr>
<tr>
<td>Return After:</td>
</tr>
<tr>
<td>AR Before:</td>
</tr>
<tr>
<td>AR After:</td>
</tr>
</tbody>
</table>

Source: BEI (analyzed data), appendix 10

Form the previous table, it is shown that the average number of stocks return on the ten days before the legislative election is \(-0.00054\). While the average number of stocks return on the ten days after the legislative election is 0.00357. This finding demonstrates that by extending the observation period by ten days after the Election Days results in a significant increase of the average number. This phenomenon might occur due to situational stability after the Election Days which shows no unwanted effect. This fact triggers the market enthusiasm and raises the investors’ stock return.

The average number of abnormal stock return on the ten days before the legislative election is 0.00024; while average number on the ten days after the legislative election is \(-0.00064\). This result displays that during the ten days after the Election days, investors do not gain any abnormal return. This absence of abnormal return may be caused by a negative signals received by investors which make the market capital not responding towards the event.

8.2 The Analysis of Stock Return and Stocks Abnormal Return on Ten Days and Twenty Days about the Presidential Election.

The average number of stock return and abnormal Stock return on the sample companies on the five days before and five days after the presidential election is as follow:

| Table 4 | Statistical Results on the Average Number of Stock Return and Abnormal Stock Return on Five Days before and Five Days after the Presidential Election. |
| --- |
| **Period** | **Mean** | **Standard Deviation** |
| Return Before: | 0.00536 | 0.00825 |
| Return After: | \(-0.00011\) | 0.03921 |
| AR Before: | 0.00170 | 0.00821 |
| AR After: | \(-0.00580\) | 0.03922 |

Source: BEI (analyzed data), appendix 11
Based on the table above, it is shown that the average number of stock returns on the 5 days before the presidential election by 0.00536 and undergoes a decrease on the five days after the presidential election by -0.00011. This decline is probably caused by the prediction of security instability after the presidential election considering the amount of society’s enthusiasm over this election. The investors’ doubt on this predicted political chaos might pose economic turmoil. This phenomenon triggers the stock holders to sell their share and results in the decrease of stock value and stock return after the presidential Election Day.

The average number of abnormal Stock return on five days before the presidential election is -0.00170, however the number of the average number on five days after the Election Days is -0.00580. This results indicates that on the observed period of presidential election shows no investors obtaining abnormal return. The absence of abnormal return in this period of political event might be caused by the negative signal received by the investors. This signal triggered the capital market to be idle during this event.

Regarding the average number of stock return and abnormal Stock return of the sample companies on the ten days before and ten after the Election Days is presented as follow:

Table 5  Statistical Results on the Average Number of Stock Return and Abnormal Stock on Ten Days Before and Ten Days after the Presidential Election.

<table>
<thead>
<tr>
<th>Period</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return Before:</td>
<td>0.00195</td>
<td>0.00622</td>
</tr>
<tr>
<td>Return After:</td>
<td>0.00010</td>
<td>0.02028</td>
</tr>
<tr>
<td>AR Before:</td>
<td>0.00055</td>
<td>0.00622</td>
</tr>
<tr>
<td>AR After:</td>
<td>-0.00321</td>
<td>0.02028</td>
</tr>
</tbody>
</table>

Source: BEI (analized data), appendix 12

Based on the table above, it is found that by extending the observation period by ten days after and ten days after the Election Day the average number of the abnormal return is decline. The data illustrates that the average number is noted at 0.00195 on the ten days before the election and 0.00010. The decline might be caused by the investors’ anticipation upon the socio-economic stability after the Election Day. Many of them are worried if there will be turmoil spread on the society due to this political events. This concern make the stock holder sell their share. This stock trade before the Election Days causes the stock value decline and stock return after the presidential election.

9. Hypothesis Testing Analysis

9.1 Analysis on the First and Second Hypothesis.

The analysis of the proposed hypothesis is as follow:

H1: There is a significant difference between stock returns before and after the legislative elections on 9 April.

H2: There is a significant difference between the abnormal stock returns before and after the legislative elections on 9 April.

Based on the hypothesis testing employing pair two sample means method, the average number of stock return and abnormal Stock return on five days before and after the Election Day is presented as follow:
Table 6  The Average number of Hypothesis Testing Results of Stock Return and Abnormal Stock Return on Five Days before and Five Days after the Legislative Election Day.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Period</th>
<th>T_count</th>
<th>T_table</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Before : After</td>
<td>0.878</td>
<td>± 1.68</td>
<td>Not Significant</td>
</tr>
<tr>
<td>H2</td>
<td>Before : After</td>
<td>0.007</td>
<td>± 1.68</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>

Source: BEI (anlalyzed data), appendix 9

From the table above the hypothesis testing 1a shows that \( t_{count} \) of the stock return on the observation period of five days before the legislative election day is 0.878 which is smaller compared to the \( t_{count} \) on the and five days after the Election Day that is \( t_{(0.05: 45)} \) ± 1.68. Based on this result, therefore, it can be concluded that H0 is accepted. In other words, this results illustrates that there is no significant difference on the average number of stock return on the observed period during the legislative election event. This political event in which people choose their representative in the parliament to direct the country’s economic development inclined to cause horizontal conflict among their political supporters. This fact seems to cause the shareholder to trade their stock resulting in no significant difference between stock return on the observed period before and after the Election Day.

Regarding the \( t_{count} \) of the abnormal Stock return on five days before and after the legislative election result on the hypothesis testing 1b is 0.007. This \( t_{count} \) value is smaller from the value of \( t_{table} \) noted at \( t_{(0.05: 45)} \) ± 1.68. This indicates that the result the H0 is accepted. It means that there is no significant difference on the average number of abnormal Stock return before and after the legislative Election Day. This results also indicates similar market expectation level on the abnormal Stock return. This akin market expectation might be caused by the akin information received by the investors resulted in similar expectation among them that there is great possibilities of politic turmoil risk caused by the legislative election, although, it might not as big as the impact of the presidential election. The prediction of having a stable national security during the political events results in the absence of abnormal return gained by the investors.

The analysis on the abnormal stock return on the ten days before and after the legislative Election Day is as follow:

Table 7  The Average number of Hypothesis Testing Results of Stock Return and Abnormal Stock Return on Ten Days before and Ten Days after the Legislative Election Day.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Period</th>
<th>T_count</th>
<th>T_table</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Before : After</td>
<td>-3.402</td>
<td>± 1.68</td>
<td>Significant</td>
</tr>
<tr>
<td>H2</td>
<td>Before : After</td>
<td>-0.735</td>
<td>± 1.68</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>

Source: BEI (anlalyzed data), appendix 10

From the data presented on the table above, the hypothesis testing of 1a result shows that \( t_{count} \) for the return on the ten days before and after the Election Day is -3.402 which is larger than \( t_{(0.05: 45)} \) ± 1.68. Then, it can be concluded that the H0 is rejected. This phenomenon indicates that by widening the observation period by ten days after the legislative election. The capital market starts to regain its’ spirit and the stock return also slowly increasing compared to the trend before the election. This is due to the absence of political and security instability as predicted the investors.

The number of abnormal stock return \( t_{count} \) before and after the legislative election based on the result of the hypothesis testing is -0.735. This number is smaller than \( t_{(0.05: 45)} \) ± 1.68. Therefore, the H0 is accepted. This results indicates that the lack information investors have to respond the legislative general election. For investors who do not have adequate information on the forthcoming
event cannot conduct any capital market activity. As they do not have any trusted information as their basic of conduct in expecting positive return on the days before or after the announcement. Therefore, there is no significant difference of abnormal stock return on the period of before and after the legislative Election Day.

9.2 Analysis on the Third and Fourth Hypothesis.

\textbf{H}_3:\ There is a significant difference between stock returns before and after the July 9, 2014 Presidential Election.

\textbf{H}_4:\ There is a significant difference between the abnormal stock returns before and after the July 9, 2014 Presidential Election.

Based on the results of the hypothesis testing employing pair two sample for means the average number of return stock and abnormal return stock on the five days before and after the presidential election is presented as follow:

Table 8 The Average number of Hypothesis Testing Results of Stock Return and Abnormal Stock Return on Five Days before and five Days after the Presidential Election Day.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Period</th>
<th>T\textsubscript{count}</th>
<th>T\textsubscript{table}</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>H3</td>
<td>Before : After</td>
<td>0.878 ± 1.68</td>
<td>Not Significant</td>
<td></td>
</tr>
<tr>
<td>H4</td>
<td>Before : After</td>
<td>1.206 ± 1.68</td>
<td>Not Significant</td>
<td></td>
</tr>
</tbody>
</table>

Source: BEJ (analyzed data), appendix 11

The table above displays the result of statistical analysis on the hypothesis 2\textsubscript{a}. The table shows that t\textsubscript{count} of the observation period that is five days before and five days after the election is 0.878. This results is smaller from t\textsubscript{(0.05: 45)} ± 1.68. Therefore, it can be concluded that the H0 is accepted. Furthermore, it also indicates that there is no significant difference on the average number of stock return on the observed period. It shows that this political event does not pose any valuable information for the investors and makes them take no action on the capital market.

The amount of t\textsubscript{count} of the abnormal stock return five days before and after the Election Day on the hypothesis testing point 2\textsubscript{b} is 1.206. This results is smaller than t\textsubscript{(0.05: 45)} ± 1.68. Therefore, this hypothesis 0 is accepted. This indicates that there is no significant difference on the average of stock return and abnormal stock return before and after the presidential Election Day. The absence of this abnormal stock return on the observed period shows that there is no investor who has information on the condition. This makes the investors unable to utilize the condition to gain abnormal return both on the days before and after the presidential election. There is possibility that many of the investors predict social conflict among the president candidates after the election. Having this prediction, there is another possibility that the investor do not have information regarding the condition. This assumption makes the investor unable to gain abnormal stock return both before and after the presidential election.

Regarding return stock and abnormal return stock on the ten days after and after the Presidential election is as follow:

Table 9 The Average number of Hypothesis Testing Results of Stock Return and Abnormal Stock Return on Ten Days before and Ten Days after the Presidential Election Day.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Period</th>
<th>T\textsubscript{count}</th>
<th>T\textsubscript{table}</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>H3</td>
<td>Before : After</td>
<td>0.567 ± 1.68</td>
<td>Not Significant</td>
<td></td>
</tr>
<tr>
<td>H4</td>
<td>Before : After</td>
<td>1.159 ± 1.68</td>
<td>Not Significant</td>
<td></td>
</tr>
</tbody>
</table>

Source: BEJ (Analyzed Data), Appendix 12
From the table above the hypothesis testing on \( t \) displays that the amount of \( t \text{count} \) of the stock return on the ten days before and after the election days is noted at 0.567. This number is smaller than \( t \) \((0.05; 45) \) \( \pm 1.68 \). Therefore, the hypothesis 0 is accepted. It indicates that there is no significant different of stock return on the ten days before and after the election days. It seems that there is no investor who obtain more information to get abnormal stock return.

10. Discussion

The event study has attracted meaning researchers for years. This test initially is more focus on the corporate event. However, this study has evolved and used to analyze macro-economic and even on political and environmental issues (Asri and Setiawan, 1998).

Based on the results of the study has been presented previously, it is found that there is no significant difference on the number of average stock return from five days before and after the legislative election days. However, if the observation period is extended into ten days before and after the Election Day, it is found that there is significant difference on the number of average stock return. Therefore, it can be assumed that by extending the observation period may affect the result of the gained. The difference may also be influenced by the absence of turmoil as predicted and the national stability. This condition make the stock trade regain its excitement and results in the increase of the stock return compared to the period before the Election Day.

Regarding to the abnormal stock return gained during the observation period of five days before and after the legislative Election Day it noted to be similar. This result is parallel to the results of ten days before and after the legislative Election Day. This outcome shows that the basic ability to gain abnormal stock return on the observation period is equal. In other word there is similar information among the investors and cause identical expectation as well as the absence of abnormal stock return obtained by the investors. Another insight from this phenomenon is that the legislative election is failed to give a positive signal to the investors and affect the general capital market not to respond on the legislative election event signaled with the absence of abnormal stock return gain on the observation period. This results is consistent with Suryawijaya and Setiawan (1998), Ariane (2002) and Subagyo (2000) on the general council meeting of MPR.

This condition occurred because of “Jokowi’s Effect”. It happened because on Friday afternoon, around 14:45 pm, the Chairman of Indonesian Democratic Party Megawati Soekarnoputri, accompanied by the General Secretary of the Party Tjahjo Kumolo and her daughter Puan Maharani, announced a strategic move: to give a mandate to Joko Widodo, aka Jokowi, to be a candidate for 2014 President. The hand-written mandate of the Chairman emphasizes on originality and authenticity, and it was read by Puan Maharani.

The euphoria of Jokowi’s candidacy can turn reversed if political reality develops otherwise. Therefore, it is advisable to remain careful while waiting for what to come since anything might happen in politics. Jokowi might be victorious on the coming election, but he could also be tackled. There is every possibility that the euphoria would be back after the legislative election in April. The result might be positive of the opposite; it all depends on the winner of legislative election and the number of votes the candidate has. (http://koran.bisnis.com).

The implication of this study based on the empirical evident is that legislative election poses to the investors from the legislative election. But, the presidential election poses negative signal which triggers the stock issuers and investors to deeply consider any impending political events, if the political events might cause any security imbalance and give high risk to their business. If the signal shows any threatening aspect on the business, it is become a negative signals.
11. Conclusion

Based on the analysis of hypothesis testing and the analysis of results thoroughly discussed previously, this study concludes that:

a. There is an increase of the level of profit measured by return stock in the 10 days after legislative election. However, this increase does not occur on the in 5 days before the legislative election. Furthermore, there is no evidence of abnormal return in 5 days before and 10 days after the legislative election gained by the investor. Therefore, it can be concluded that legislative election does not pose any signal to the investors.

b. There is a decline of return stock in the 5 days before and 10 days after the election and, similarly, there is no investor gaining abnormal return in this period. Therefore, it can be concluded that presidential election does not offer positive signal to the investors, which is proved by the decline of profit after the vote.

12. Suggestion

a. Brokers and Investors

For investors planning to invest in Bursa Efek Indonesia especially on the stock of LQ-45 need to consider the impending and the current events which may pose uncertainty and instability, as they may not hold any valuable information. This fact may influence the absence of investor reaction

b. Future Research

1. This study only uses LQ-45 companies as the sample, therefore, it is expected that the future research use various kind of industry companies to elaborately analyze its differences.

2. The next study should consider the company performance before and after the presidential election to obtain better analysis results.

3. The subsequent research should use the event analysis on different occasion other than legislative and presidential election to obtain difference results.

c. Limitation of the Research

Despite the good intention of the research, it is limited in some ways as follow:

1. The research is conducted using observation period of one particular year, which does not thoroughly reflect the actual condition of capital market in Indonesia.

2. The research uses a relatively short period of observation, which is 5 and 10 days before an event. Therefore, return expectation from investors has not reflected the event monitored.

3. The research observes all the stock of companies listed in the LQ-45 index; thus, the character of each observed company is different.

13. References


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