

## CHAPTER 1 INTRODUCTION

### 1.1 Object Overview

Jakarta Islamic Index is one of the stock price index based on sharia. It was first launched by Indonesia Stock Exchange (IDX) cooperate with PT. Danareksa Investment Management on July 3<sup>rd</sup> 2000. JII contain 30 companies that chosen by IDX, which every six months per period doing review that adjusted by publication of *Daftar Efek Saham* (DES) from Financial Services Authority (OJK). After OJK finished selection stage using DES, IDX proceed to advance selection process using business performance from the listed companies. If there are any companies who do not met the criteria, then the listed stocks can be issued and replaced by other stocks that met the criteria. Index of JII are traded and published on stock exchange hours. Stocks in JII are chosen based on sharia principal which have large capitalization and high liquidity.

**Table 1.1 List of Consecutive Registered Companies in JII Year 2014-2018**

Number	Code	Company	Number	Code	Company
1	ADRO	Adaro Energy Tbk.	11	PGAS	Perusahaan Gas Negara (Persero) Tbk.
2	AKRA	AKR Corporindo Tbk.	12	SMGR	Semen Indonesia (Persero) Tbk.
3	ASII	Astra International Tbk.	13	TLKM	Telekomunikasi Indonesia (Persero) Tbk.
4	BRPT	Barito Pacific Tbk.	14	TPIA	Chandra Asri Petrochemical Tbk.
5	BSDE	Bumi Serpong Damai Tbk.	15	UNTR	United Tractors Tbk.
6	ICBP	Indofood CBP Sukses Makmur Tbk.	16	UNVR	Unilever Indonesia Tbk.

7	INDF	Indofood Sukses Makmur Tbk.	17	WIKA	Wijaya Karya (Persero) Tbk.
8	KLBF	Kalbe Farma Tbk.	18	WSBP	Waskita Beton Precast Tbk.
9	LPKR	Lippo Karawaci Tbk.	19	WSKT	Waskita Karya (Persero) Tbk.
10	LPPF	Matahari Department Store Tbk.			

Source: IDX Announcement of JII

(Processed by Author)

## 1.2 Research Background

An investment is an asset or item that is purchased with the hope that it will generate income or will appreciate in the future (Shukla, 2014). Investing can be done with two ways; real assets or financial assets. Real assets can be done by buying gold, land or house but for financial assets can be done by investing fund in deposits, stocks or obligations. One of places to invest those funds is in capital market.

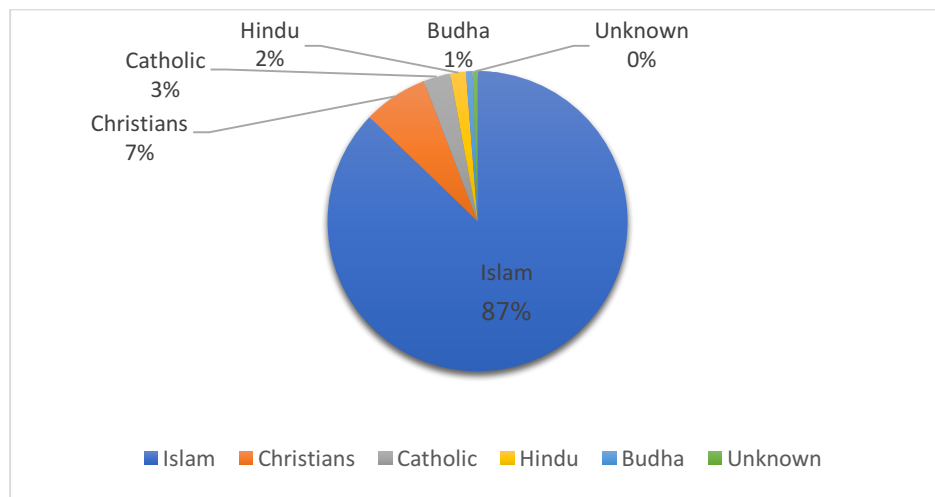
Capital markets of any country plays a vital role in elaborating the economic condition of that country. It facilitates company to get fund easily then boost national economy to be better, create more jobs opportunity, and increase tax income for government. But, capitalist economic system that accused as a trigger of global crisis which marked by decreasing in stock price value around the world make some people switch to implement sharia economic system includes in banking and capital market. Sharia capital market can be interpreted as a capital market that implementing sharia principal in economic transaction activity and detached from things which forbidden such as: usury, gambling, speculation and etc.

The general difference between conventional capital market with sharia capital market can be seen from instrument and transaction mechanism, where stocks in sharia capital market must from companies that moves in particular sectors which

meets in sharia principal and avoid various speculation or gamble practices in transaction activity (Dewan Syariah Nasional - Majelis Ulama Indonesia, 2011)

Sharia capital market is developed in order to fulfill Muslims needs in investing capital market products according to basic sharia principal. Various products and facilitation will help lots of people to choose investment alternatives which suit to him/her, besides common investment and developed in banking sector such as deposit and etc.

In Indonesia, stocks are traded through stock exchange called Indonesia Stock Exchange (IDX). Besides stocks, IDX serves another transaction such as obligations, warrant, options and others. IDX also provide indicator number which functions as average price of listed stocks. Stock indices that provided by IDX have several categories, where the total is 21 stocks indices, such as Jakarta Islamic Index (JII), *Indeks Harga Saham Gabungan* (IHSG), Liquidity 45 (LQ45), Kompas100, Indonesia Sharia Stock Index (ISSI), and others.



**Figure 1.1 Religion Percentage in Indonesia (in percent)**

Source: *Badan Pusat Statistik 2010* (processed by Author)

In picture 1.1 showed that Muslims is the most held religion in Indonesia over total population of Indonesia reaching 237 million (Badan Pusat Statistik, 2010), which is why IDX made three sharia indices, the first one is Jakarta Islamic Index (JII), *Indeks Saham Syariah Indonesia (ISSI)* and the latest one is Jakarta Islamic Index 70 (JII70). All three indices become a reference of stocks price of sharia. *ISSI* is a stock index that reflect the whole of listed stocks of sharia in IDX, while JII consists of 30 sharia stocks which are the most liquid and have big market

capitalization and JII70 consist of 70 sharia stocks that selected from the biggest market capitalization and the highest daily transaction average value point of view.

IDX determined and selected the Islamic shares on JII constituents. The liquidity criteria used in selected 30 Islamic shares on JII constituents are follows:

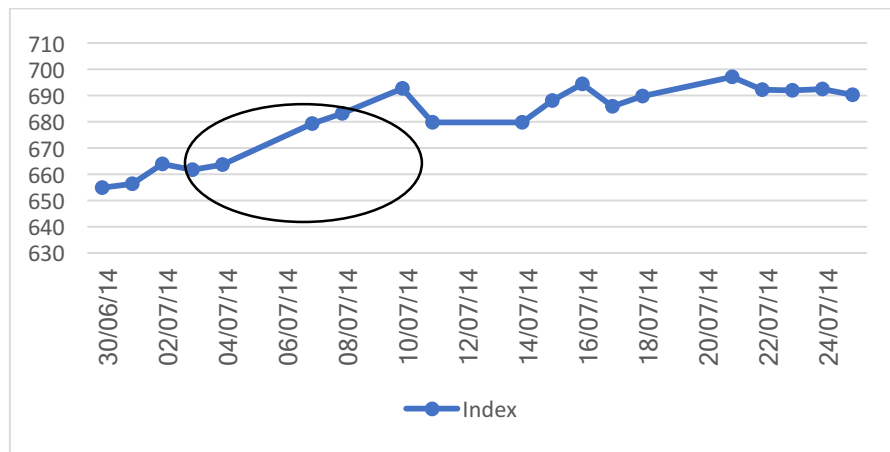
1. Sharia stocks that are included in the constituents of Indonesia Sharia Stocks Index (ISSI) that have been recorded for the last 6 months
2. Selected 60 stocks based on the highest average order of market capitalization during the past 1 year
3. Of the 60 stocks, then selected 30 stocks based on the highest average daily transaction value in the regular market.
4. 30 stocks remaining are the selected stocks. (Islamic Stock Index, 2018)

Efficient market is a market that all price of securities can be quickly and precisely reflecting available information (Charles, 2004). Those meaning reflecting the following matters: first, stock price reflects any information that have been know, even from the past, present and event that will be inform. Second, stock price includes other information which is considered to be related. As for an example, if there is any information or news about the increasing of interest rate in the near future, then the stock price will reflect investor trusts against the news even the event still not occur yet. (Fama, 1970) is already classify three categories of market efficiency, which are weak form efficiency, semi strong form efficiency and strong form efficiency.

From the results of various studies, it was found that market efficiency concept often suffer deviation, which called market anomalies. Causative factor of these anomalies is difficult to explain exactly, even with various research that have been done. In the event of market anomalies found things that should not be happen when market efficient is truly exist. This means, an event can be used for investors to gain abnormal return. Empirical evidence exists in capital market emerge in all form of efficient market, although most of anomalies found in semi-strong efficiency (Gumanti & Utami, 2002). In financial theory, also known at least four kind of

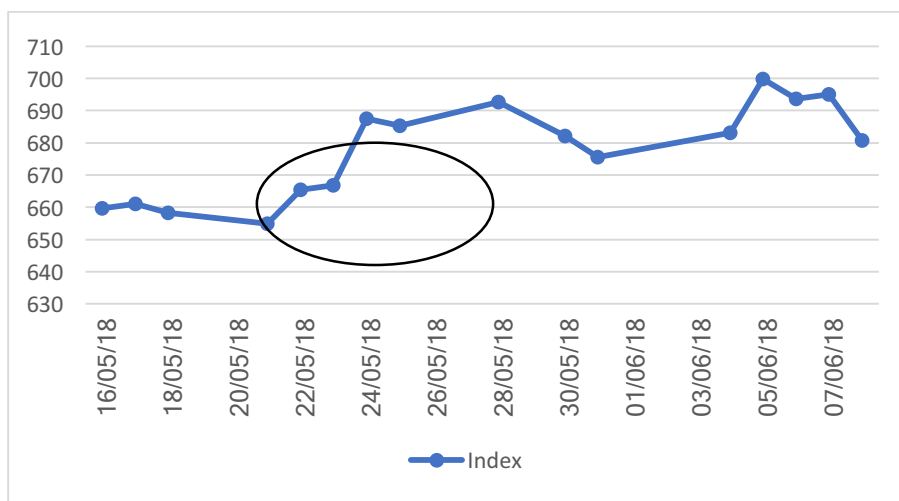
market anomalies, which are: firm anomalies, seasonal anomalies, event anomalies, and accounting anomalies (Gumanti, 2011).

Ramadan Effect is one type of market anomaly which is seasonal anomaly that quite interesting because company's stock price with high seasonal sales tend to rise during the month of Ramadan than usual trading day. Ramadan is the occasion of pursuing the temper and judgment of the believers. Throughout Ramadan for about one month, Muslim are engaging to search for a closer affiliation by Allah and chase a place of approved principles of behavior proposed to formulate them turn into improved Muslims and further accountable component of society, which can develop their way of thinking of self-esteem (Ali, 2015).



**Figure 1.2 JII Stocks Movement when Ramadan occur in 2014**

Source: finance.yahoo.com (processed by Author)



**Figure 1.3 JII Stocks Movement When Ramadan occur in 2018**

Source: finance.yahoo.com (processed by Author)

Picture 1.2 and picture 1.3 are the price index of JII when Ramadan occur in 2014 and 2018. Picture 1.2 shows JII stocks movement increase gradually start from June 30<sup>th</sup> until July 24<sup>th</sup>, 2014 but the significant increase happened after seven days of the beginning of Ramadan. Picture 1.3 shows different things, when Ramadan occur in 2018 between May 16<sup>th</sup> and June 14<sup>th</sup>, the chart showed increasing price of stocks in JII but it is fluctuated, the significant increase happened in May 24<sup>th</sup> but then drop prominently in the next few days.

When market anomalies occur, it is possible for investors to get additional profit due to inefficient market which affect actual return may have significant difference with expected return. There are several models can be used to count abnormal return of stocks, such as mean-adjusted model, market model, and market-adjusted model.

Event study according to (Tandelilin, 2010) is a technique that usually used in financial sector to know how much an event can influence stock prices of companies. Specifically, event study is investigating market response against announcement or information about some event. Event study is used to test information content of an event. Event period in this research is daily observation of Ramadan period. Begin with seven days before, at the moment, and seven days after Ramadan.

Previous studies, Al-Khazali et al (2017) said the general positive mood of the population in Arab countries that exists throughout the period of Ramadan has a positive impact on stock returns per unit of risk. Jędrzej Białkowski (2012) observe that the Ramadan Effect is particularly strong in Turkey and that the performance of funds is substantially higher during Ramadan. Other research, Sonjaya (2016) found Ramadan effect is persistently present in only three Muslim-majority countries. But in Shah (2014) papers failed to find the effect for the Karachi Stock Exchange when Ramadan occurred. Same as Rusmayanti (2016), the research statistic test shows no significant return between Ramadan and other months.

With differences from previous research, so it needs further research about the impact of Ramadan on abnormal return. With phenomenon that found in Jakarta

Islamic Index, so this research discusses about impact “**THE IMPACT OF RAMADAN ON ABNORMAL RETURNS TOWARD INDONESIA STOCK EXCHANGE (IDX) (Case Study on Jakarta Islamic Index Year 2014-2018)**”.

### **1.3 Problem Statements**

The development of capital market that continues to increase each year makes the activity of buying and selling shares also increased in Indonesia. The Jakarta Islamic Index are considered for research because it is more likely Muslim investing based on sharia principal, so this circumstance is suit to do research on abnormal return when Ramadan occur.

Recently there have been few researches done in the capital market which focus on abnormal returns that happen when Ramadan occurs in Indonesia. In capital market, which lot of people try to earn money on it using some technical and fundamental analysis. Therefore, it is important to find out that there any differences abnormal return in Indonesia’s sharia capital which is Jakarta Islamic Index when Ramadan occur.

### **1.4 Research Questions**

Based on the explanation given in the background, below are the research questions:

1. How is the condition of average abnormal return of companies that listed on JII before, at the moment, and after Ramadan year 2014-2018?
2. Is there any significance difference of average abnormal returns on companies that listed on JII before, at the moment and, after Ramadan year 2014-2018?
3. Is there any significance difference of cumulative average abnormal returns on companies that listed on JII when Ramadan occurred in 2014-2018?

### **1.5 Research Purposes**

Based on the research questions, the purposes of this research are:

1. To know the condition of average abnormal return of companies that listed on JII before, at the moment, and after Ramadan year 2014-2018.
2. To examine whether there was a significance difference of average abnormal return on companies that listed on JII before, at the moment and after Ramadan year 2014-2018.

3. To examine whether there was a significance difference of cumulative average abnormal return on companies that listed on JII when Ramadan occurred in 2014-2018.

### **1.6 Significance of Research**

Theoretically, this research contributes to improve the knowledge in finance especially in the financial market using stocks instruments and also as a reference for further research in the field of abnormal return at seasonal anomaly. Practically, the result of this research is expected to be one of decision-making references in stocks purchase for related parties such as investor, stock broker, stock analyst and investment manager.

### **1.7 Scope of Research**

This research use sample on stocks in Jakarta Islamic Index. Using JII because the index is only containing 30 companies that have been selected through systematic assessment. The period of this research is 2014 until 2018. Time period of this research are seven days before Ramadan, during Ramadan, and seven days after Ramadan.

### **1.8 Writing Systematic**

The writing structure is arranged to provide a general overview and about research performed with the following structure are:

#### **CHAPTER I INTRODUCTION**

This chapter contains an overview of the research objects, research background, problem statement research questions, purpose of research, research significance and scope of research.

#### **CHAPTER II THEORIES AND FRAMEWORK**

This chapter describes the theories that will support this research. This part also contained the Research Framework of this paper.

#### **CHAPTER III RESEARCH METHODOLOGY**

In this chapter, the subject matters are research methods, approaches, and analysis techniques to explain and answer the problem.

#### **CHAPTER IV ANALYSIS AND RESULT**



This chapter contains discussion and explanation regarding this research based on the analysis that done in this project, and elaborates the theories that already stated in Chapter II.

#### **CHAPTER V CONCLUSION AND SUGGESTIONS**

Consists of restatement of the problem, brief description and procedure, principal findings and conclusions, and recommendations for further research.