January Effect on Stock in Jakarta Islamic Index (JII)

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Abstract:

January is the month in which investors expect to get an abnormal return because companies start new activities in another year, the company's reaction can create a reaction to the price of its shares. At the beginning of the year or in January investors are hoping to get a higher return. The purpose of this study was to determine the differences in abnormal returns before and after January in the Jakarta Islamic Index (JII) in the Indonesian Stock Exchange from 2013 to 2017. Samples were determined by purposive sampling technique, with criteria: (1) The company always active during the JII publication period, namely from January 2013 to December 2017, because if the data is not available then the results will be biased; (2) Companies that belong to the JII group from 2013 to 2017, which are always included in the consecutive research period; and (3) Having complete transaction data during the observation period is in accordance with the research variable. Based on these criteria, 14 samples were obtained. This study included an event study with a 5-year observation period. Testing the research hypothesis using analytical techniques Different tests (t-test). The test results showed that there were no differences in abnormal returns before and after January in the Jakarta Islamic Index (JII) on the Indonesia Stock Exchange, in other words the January effect was not proven in this study.

Keywords: stock returns, expected return of stock and abnormal returns of stock.

Introduction:

People today tend to invest more often, one reason is the increasing need for life and the need for guarantees in old age. Communities tend to be more selective in choosing the type of investment to be made. Arieyani (2012), said that investors in investing their funds certainly need special consideration, especially to take into account the risk and return they will receive.

Investors can determine the position of selling, buying or holding a stock in the capital market based on the information obtained. Companies on the one hand, as those who need funds can raise funds through the capital market by selling their shares to the public or issuing bonds. Investors as parties who have funds can use the capital market as an alternative investment to gain profits.
Information helps investors and as indicators in taking action in the capital market because information can influence the fluctuation of stock prices in the capital market. Information contained in the arrival of capital markets cannot be predicted, so the reactions that occur in the capital markets are also experiencing the same pattern, unpredictable, because the market will just move when information comes. The efficient capital market hypothesis says that markets are efficient at reacting quickly to relevant information. The faster the new information is reflected in the price of securities, the more efficient the capital market.

In an efficient market there is no possibility of obtaining abnormal levels of return, even though in practice there are things that are distorted, which are called anomalies. Some studies on stock exchanges in developed countries (United States) have several phenomena of irregularities (anomalies) that are not in line with the conditions of an efficient capital market. One of the market anomalies in theory is seasonal anomalies. Seasonal anomalies are divided into four, namely the January Effect, Week End Effect, Time of Day Effect and Holidays Effect.

Among these anomalies, the January effect is an anomaly that has a closer relationship with financial statements. The January effect was caused by companies that improved their financial statements at the end of the year. They released stocks with bad conditions in December, so that the company's investment presented in financial statements was investments with good value. This is certainly different from the weekend. The effect that the cycle is one week, its existence does not have a significant relationship with the financial statements. The January Effect is a phenomenon that relates to the existence of an annual company in December as the end of the tax year and January as the beginning of the tax year.

The high return in January was due to selling pressure that occurred in December. In January the community wanted to re-invest so that there was buying pressure which resulted in increased stock prices. January is the month in which investors expect to get an abnormal return because companies start new activities in another year, the company's reaction can create a reaction to the price of its shares. At the beginning of the year or in January investors are hoping to get a higher return. The increasing return on the capital market every year is always a phenomenon that occurs repeatedly in almost all countries, including Indonesia.

The occurrence of the January effect is evidenced by the abnormal returns obtained by investors. If an announcement contains information, the market is expected to react to the information. This reaction can be measured by abnormal return. If the size of the abnormal return is used, it can be concluded that announcements containing information can give abnormal returns to the market, or in other words if a January effect occurs, investors can enjoy abnormal returns.

**Literature Review and Preparation of Hypothesis:**

This research is based on various financial management theories, namely the Efficiency Market Hypothesis (EMH). West (1975) distinguishes efficient capital markets into 2 (two) forms, namely: internal efficiency and external efficiency. Internal efficiency is a well-organized capital market, where the prices of securities not only reflect the correct price level, but also provide various services needed by buyers and sellers with the lowest possible cost. External efficiency is a capital market that is in a balance, so stock trading decisions based on the information available on the market it cannot provide the expected rate of return.

Fama in Hartono (2000) defines 3 (three) forms of capital market efficiency based on the information used, namely market efficiency in the form of weakness, market efficiency in the form of a strong half and strong market efficiency. Levels of capital market efficiency are related to relevance. the type of information that is considered relevant by the market with price changes as a consequence of adjusting the appearance of that information.

Based on several studies it turns out that there is an irregularity detected in the capital market that is not in accordance with what is expected from the capital
market efficiency hypothesis. This irregularity continues and has a wide enough impact that it is referred to as a market anomalies (market anomalies). Anomalies are a form of a phenomenon that is on the market.

One of the capital market anomalies is the January Effect. There are three causes for the January effect, namely Tax-loss selling, Window dressing and Small stock beta. The January Effect was first introduced by Wachtel (1942), but recently received public attention after a study by Rozeff and Kinney (1976). Rozeff and Kinney stated that the January effect was the tendency of the average stock return in January to be higher than in other months. People, especially investors in developed countries, in December needed funds for Christmas and New Year celebrations so that funds tended to be held even selling shares owned to obtain funds. Haugen and Jorion (1996) in Pratomo (2007), his research on shares on the NYSE from 1926 to 1993 found a January effect. Subekti (2006) who examined the January effect in the Indonesian capital market received positive results, namely Indonesian capital market players did have a tendency to overreact in the early weeks of January.

The same results were also obtained by Nagastara and Rahmi (2012) who stated that the January effect occurred in the banking sector in the Indonesian capital market. A securities company has conducted an analysis of JCI trading data from 2000 to 2011 and found several interesting things: 1) In the span of 11 years, there have been 8 times the price increase that supports the securities phenomenon in January. 2) Within the same range, there are 3 times the price decline. 3) The average JCI return on investment in that range reached 2.4%. 4) The probability of the effect of January in that range is approximately 78%.

This research was conducted in the Indonesian capital market, to see whether companies listed in the Jakarta Islamic Index (JII) experienced market anomalies, namely the January Effect or not. The January effect phenomenon was statistically explained to occur due to a recurring pattern almost every year. Utilize this pattern to formulate a strategy in gaining profits on the stock exchange. The reason for doing research on companies listed on JII is because JII is one of the indices on the Indonesia Stock Exchange. JII is one of the shares which at the moment began to be glimpsed by investors. The January effect is related to changes in the year when the end of December into the second semester period (two) of JII shares is issued and January is the first semester period when JII shares are republished. The transition from the second period to the first period (December to January) is related to the tax paid by the company, so the assumption is that not only IHSG and LQ-45 shares experience the January effect, but JII shares also experience January effects. The shares entered in JII have certain criteria and not all shares of companies listed on the IDX can be included in the JII stock criteria. Based on these reviews, the alternative hypothesis proposed is:

H1: There is a difference in abnormal return (January effect) in Jakarta Islamic Index shares on the Indonesia Stock Exchange.

Research Methods:

This research is included in the study. Data event research in this study is in the form of secondary data obtained from the Indonesia Stock Exchange (IDX) site, www.idx.co.id for the publication period (Jakarta Islamic Index) JII from 2013 to 2017. Considerations sampling of companies included in JII is the stock price that is actively traded on the IDX and guarantees the representation of (representative) shares listed on the Indonesia Stock Exchange. The first step is to calculate actual returns during the observation period using equation (Jogiyanto, 2003):

\[ R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \]

Where:

- \( R_{it} \) = Actual return,
- \( P_{it} \) = the stock price for the month calculated
- \( P_{it-1} \) = Share price in the previous month.
The next step is to calculate the expected return. Expectation returns are estimates that investors expect to receive during a future period of time (Jones, 2002). Expectant return is stock income which is in accordance with stock risk, here the expected return is calculated using the market adjusted model, according to Strong (1992) quoted by Wijayanto (2002) stating that the expected return for all securities is assumed to be equal (close to equivalent) with expected return market during that period, namely:

\[ E(R_i) = E(R_m) \]

Where:
- \( E(R_i) \) = Expected stock Return i
- \( E(R_m) \) = Market Expected Return

Market adjusted model assumes expected return stock value is equal to market return, then formula expected return is using market return formula that is as follows:

\[ R_{M,t} = \frac{\text{IHSG Index}_t - \text{IHSG Index}_{t-1}}{\text{JCI Index}_{t-1}} \]  

Where:
- \( R_{M,t} \) : Market return,
- \( \text{JCI Index}_t \) : Computed IHSG index for the month
- \( \text{JCI Index}_{t-1} \) : JCI Index of the previous month

The final step is calculating abnormal returns. Normal returns are the level of excess profits obtained by investors by developing guidelines (trading rules) based on information obtained by these investors. Calculating abnormal stock returns is calculated by the equation (Jogiyanto, 2003):

\[ AR_{it} = R_{it} - (E)R_{it} \]  

Where:
- \( AR_{it} \) = Abnormal Return
- \( R_{it} \) = Actual Return
- \( (E)R_{it} \) = Expected Return

The selection of samples in this study using purposive sampling technique, with the following criteria:

1) The company is always active during the JII publication period from January 2013 to December 2017, because if the data is not available then the results will be biased.

2) Companies that belong to the JII group during 2013-2017, which are always included in the consecutive research period.

3) Having complete transaction data during the observation period that is in accordance with the research variable.

Based on these criteria, the samples obtained are:

| No. | Criteria                                                                 | Number of Companies |
|-----|---------------------------------------------------------------------------|---------------------|
| 1   | List of companies listed in the JII publication period from 2013 to 2017. | 49                  |
| 2   | The number of companies that went out during the observation period       | (38)                |

Problems and testing of hypotheses in this study, then need to do statistical analysis of the data that has been obtained in order to answer these problems. The model used is a model of different tests (t-test). The variables used in this study are abnormal stock returns in January 2013 until 2017 while the average stock abnormal return from February to December 2013 until 2017 is a comparative variable.

The stages in analyzing the data are first by conducting descriptive statistical tests that are used to provide information on the characteristics of the research variables, namely regarding the mean value, minimum value, maximum value and standard deviation value. The next procedure is to do a different test, used to look for differences, both between two data samples or between several data samples. Different test t-test is used to determine whether two unrelated samples have different mean values. Different test t-test is done by comparing the differences between the two average values with the
standard error of the difference in the average of the two samples. The level of significance used is 5%. The conclusion that might be obtained is, if sig t-statistic <0.05 then Ho is rejected or if sig t-statistic> 0.05 then Ho is accepted.

Results and Discussion:
Results of Descriptive Statistics Analysis:
Table 2 Descriptive Test Results

|       | N  | Minimum | Maximum | Mean  | Std. Deviation |
|-------|----|---------|---------|-------|----------------|
| January | 7 0 | -0.18   | 0.23    | 0.0082| 0.07603        |
| Feb - Dec | 7 0 | -0.06   | 0.10    | -0.0017| 0.02392        |
| Valid N (listwise) | 7 0 |         |         |       |                |

Based on Table 2, it can be seen that the abnormal return in January on stocks listed in the Jakarta Islamic Index has an average value of 0.0082 or 0.82%. Abnormal return in January is the lowest (minimum) during the observation period, which is -0.18 or -18%, namely PP London Sumatra Indonesia Tbk (LSIP) in 2014. Abnormal January return is the highest (maximum) during the observation period of 0.23 or 23%, namely Bumi Serpong Damai Tbk (BSDE) in 2013.

Abnormal returns from February to December have an average value of -0.0017 or -0.17%. Abnormal returns from February to December the lowest (minimum) occurred in 2012, which was -0.06 or -6%, namely PT Perusahaan Gas Negara (Persero), Tbk. (PGAS) in 2017. Abnormal returns from February to December were highest (maximum) that is equal to 0.10 or 10% occurred in 2016, namely PT. Adaro Energy Tbk (ADRO).

Test Results t
Table 4. Test Results t

The results of the non-parametric t statistical test found in Table 4 show that the significant value is 0.265. The value of 0.265 is above the significant level of 0.05. Based on this calculation, it can be said that the hypothesis is rejected or there is no difference in the abnormal return (January effect) in the Jakarta Islamic Index stock on the Indonesia Stock Exchange.

Discussion of research result:
The results of this study prove that there is no difference in the abnormal return in January (January effect) in the Jakarta Islamic Index (JII) in 2013 until 2017. This means that in December from 2013 to 2017 investors tend not to release their shares just to get an abnormal return. Shares included in the Jakarta Islamic Index (JII) are not affected by the phenomenon of the January effect or investors tend to use the concept of capital market efficiency.

In Indonesia, the majority of the population are Muslims where the most celebrated events are Lebaran so that investors in Indonesia do not have the same behavior as investors in developed countries such as America, Japan and Hong Kong whose results indicate the phenomenon of the January effect. People, especially investors in developed countries, in December needed funds for Christmas and New Year celebrations so that funds tended to be held even selling shares owned to obtain funds. The majority of Indonesia's population
is Muslim, so the new year's culture in the West is not very influential in Indonesia.

Conclusions and Suggestions:

Conclusion:
The results showed that there was no difference in abnormal returns in January compared to the average abnormal returns outside of January (February to December) in the Jakarta Islamic Index on the Indonesian Stock Exchange in the period 2013 to 2017. This condition indicates that the January effect or market anomaly did not occur in the Jakarta Islamic Index on the Indonesian Stock Exchange in the period 2013 to 2017. This study shows that there is a semi-strong form of market efficiency, that is, securities prices fully reflect published information and investors will not be able to get abnormal returns using strategies that built based on information available in the public.

Suggestions for future researchers:

Further research when assessing the phenomenon of the January effect should use the Composite Stock Price Index (IHSG) so that the sample of companies is calculated more thoroughly, so that it can be seen whether the January effect remains or not, but if further research examines stock returns that occur in the Jakarta Islamic Index (JII) should use a phenomenon that is influenced by the existence of the Eid holiday, because the holiday is commemorated by the majority of the population in Indonesia, so that it can be seen which effects have more influence on stock returns in Indonesia, especially in the Jakarta Islamic Index (JII).

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