



The Effect of Political Contestation on Investor Reaction: Evidence from Indonesia Sharia Stock

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Abstract

Political events can cause uncertainty in the business environment and affect stock returns. This study aims to examine the reaction of sharia stock investor to political events in 2019. Some previous studies found that the influence of political events in Indonesia on investors' reactions is not yet conclusive. Therefore, this research utilized five political events during the general election they are: candidates inauguration, candidates' final debate, quick count announcement, Election Commission (KPU) announcement, Constitutional Court (MK) announcement. This research used cumulative average abnormal return (CAAR) and average abnormal return (AAR) values as indicators in detecting investor reactions and used actively traded stocks listed on the Indonesian Sharia Stock Index (ISSI) from 2017 to 2019. The results of this study indicate that there is a negative reaction on t-1 before the debate of candidates. Furthermore, the opposite results occurred during the announcement of the presidential election results conducted by the Election Commission (KPU). This result indicates that investors quickly get information about political uncertainty. The implication is that political events are one of the relevant event studies to determine sharia stock prices to investors.

Keyword: Sharia Stock, Abnormal Return, Political Event

Abstrak

Peristiwa politik dapat menyebabkan ketidakpastian dalam lingkungan bisnis serta mempengaruhi return saham. Penelitian ini bertujuan untuk mengkaji reaksi investor saham syariah terhadap peristiwa politik tahun 2019. Beberapa penelitian sebelumnya menemukan bahwa pengaruh peristiwa politik di Indonesia terhadap reaksi investor belum konklusif. Penelitian ini menggunakan pengujian *event studies* dengan memfokuskan terhadap lima peristiwa politik, yaitu pelantikan pasangan calon presiden dan wakil presiden, debat final calon, pengumuman *quick count*, keputusan KPU, dan keputusan Mahkamah Konstitusi. Penelitian ini menggunakan metode penilaian *Cumulatif Average Abnormal Return* (CAAR) dan *Average Abnormal Return* (AAR) sebagai indikator dalam mendeteksi reaksi investor, dengan sampel saham yang terdaftar pada Indeks Saham Syariah Indonesia (ISSI) yang aktif diperdagangkan hingga tahun 2019. Hasil penelitian menunjukkan adanya reaksi negatif pada t-1 menjelang debat Capres dan Cawapres. Namun, hasil sebaliknya terjadi pada saat pengumuman hasil pemilihan presiden yang dilakukan oleh Komisi Pemilihan Umum. Hasil ini menunjukkan adanya variasi reaksi investor pada setiap peristiwa politik di Indonesia. Hal ini menunjukkan bahwa investor dengan cepat mendapatkan informasi mengenai ketidakpastian politik. Implikasinya, peristiwa politik merupakan salah satu *event studies* yang relevan untuk menentukan harga saham syariah yang bisa dimanfaatkan investor.

Kata Kunci: Saham syariah, Abnormal Return, Peristiwa Politik

1. Introduction

The existence of information that is relevant to the fundamental condition of the stock can encourage investor reactions that affect the stock price. Bodie et al., (2014) argues that in the theory of the efficient market hypothesis (EMH), stock prices can describe the company's cash flow in the future because of the information. Furthermore, the value of stock returns which are the result of stock price movements can be used as a measure of company performance in the future and can be used to anticipate future events.



To invest in capital market, investor should be not only concern in firm-specific factors but also political issues, socio-economic soundness and law enforcement. Several previous studies revealed that political issues and contestations determine stock market performance (Huber & Kirchler, 2013; Pham et al., 2018; Shen et al., 2017). The presence of risk emerged by political event affects micro and macro economy since it is related to public policy (Ramesh & Rajumesh, 2015).

We documented previous researches using event study in which associate investor reaction to corporate and competitor action, government policies and political events (Elad & Bongbee, 2017; Pham et al., 2018; Shen et al., 2017; Sorescu et al., 2017). Specifically, on political events, a president or prime minister has strong control on government expenditures, political priorities and industrial regulation. The issues are closely related to competition in business sectors, investment decision in capital market and then asset pricing. For instance, Huber & Kirchler (2013) explained that the winning candidates give positive impact on share affiliated with them. However, Berkman & Galpothhage (2016) found that the company's value is not influenced by political events in Sri Lanka. This shows that not all political events affect the stock or the value of the connected company.

Research on the influence of politics on the performance and returns of issuers in Indonesia is interesting, because several findings have found political events that can affect business activities in that country (Joni et al., 2020). In case in Indonesia, the effects of political events on stock market remain inconclusive. The recent discourses concerned on whether the events affect asset pricing and how investors react. The sample used in those studies refer to stocks in Jakarta Composite Index (JCI) as conventional stock market. Trisnawati (2011) found mean difference of abnormal return between pre and post presidential election in 2009 but did not find in 2004. Moreover, the results of the study also found a negative reaction from investors in the 2009 presidential election. Political risk in Indonesia has a negative impact on company performance which has a negative impact on the company's stock price (Amtiran & Indiasuti, 2017).

Meanwhile, Hatmanti & Sudiby (2017) examined how investors respond to forming and reshuffle the government cabinet. The result mentioned that there is positive abnormal return from the day to 3 days events so as investors rate those as good news. Nurlita & Naomi (2019) also found that strictly political events cause uncertainty on government policy and conflict of interest so as those induced high volatile stock price. Therefore, it needs to investigate how politic process affect asset pricing in Indonesia stock market.

Due to high market demand, stock exchange authority launched the second generation of Islamic index that is Indonesia Sharia Stock Index (ISSI) in 2011. This research focuses on stocks listed in ISSI for several reasons. First, there are 399 stocks in ISSI so as it has more listed shares than JII, which represent more than 40 percent of the shares listed on the Indonesia Stock Exchange. Second, Lusiana & Sherif (2017) found that the performance of ISSI stocks that were not listed on JII resulted in positive abnormal returns. To constitute ISSI, stock exchange authority classifies sharia-compliance stock based on business characteristics and financial ratios. Selected stocks are prohibited to producing, distributing and selling non-halal product, gambling, trading risk, and bribing. Also, they must have ratio of interest-based debt to total asset less than 45% and ratio of interest and non-halal revenue to total revenue less than 10%. Consequently, a portfolio of Islamic index has different return and risk profile from conventional counterpart (Abbes & Trichilli, 2015) especially the effect political risk in Islamic equity market (Ahmed, 2018; Chau et al., 2014).

To the best of our knowledge, it is still lack of studies investigating how Islamic portfolio reacts to multiple political events, especially in Indonesia. This study aims to examine the reaction of Islamic stock portfolio to five political events from 2018 to 2019. We select the periods because the General Election 2019 has several differences from the three previous elections in 2004, 2009 and 2014. In the past, voting for Senators and Parliaments and President and Vice President is held in different time. However, in 2019, those are voted in the same time.

The contribution to this research is found in several ways. First, this research involves five political events that occurred in the 2018-2019 periods. In 2019, political events in Indonesia were a little



different, where in that year the Indonesian people entered the digital era 4.0 so that information, both valid and invalid, was easily spread in cyberspace. This condition is the reason this research is important to do to find out in detail the reactions of investors during the political events in the 2019 general election. Second, this study focuses on ethically based stocks, namely Islamic stocks are proven to have better performance than conventional ones (Abbes & Trichilli, 2015; Lusyana & Sherif, 2017).

In addition, the 2019 general election was the second nomination of President Joko Widodo as a candidate. The incumbent has and advantages to elected in the second time, and has a significant rule in controlling the stock market. Based on research by Hasyim & El Mosallamy (2020) shows that presidential elections in Egypt and USA have no significant impact on stock market volatility in stock markets. Furthermore, we list five events: the inauguration for the candidate of the president and vice president; the candidates' debate; quick count announcement; the decision of plenary session by General Elections Commission and; the constitutional court's judgment.

The results of this study found that investors reacted positively to the announcement of the winning president in the 2019 general election. Furthermore, after determining the results of the dispute conducted by the Constitutional Court, this study found that there was a positive AAR value at $t + 1$ and a positive difference in the CAAR value. at $t [-5.5]$. This study is consistent with Zhao et al. (2004) suggesting that there was a positive reaction in the selection of the two incumbent candidates. The robustness test also consistent with the finding in our study. This reaction caused investors to believe in the incumbent president's performance.

2. Literature Review and Hypothesis

Economic health indicators in a country can be seen from its financial market conditions (Nazir et al., 2014). One of the instruments in the financial market that attracts investors is stocks. Efficient Market Hypothesis (EMH) explains that stock prices reflect all relevant information (Bodie et al., 2014). Markovitch & Golder (2008) argues that if based on EMH theory, stock prices can describe the company's future cash flows because of this information. Furthermore, the stock return value which is the result of stock price movements can be used as a measure of the company's future performance and can be used to anticipate future events.

The existence of information that is relevant to a stock, encourages investors to react which affects the stock price. However, not all stock markets are efficient, but they can be weak or semi-efficient (Fama, 1970; Nazir et al., 2014). In a weak market, share prices reflect information that is in the past trading data. In addition, in the semi-strong form, the price formed reflects the overall public information such as past prices, company products, business lines, patents, and financial position reports (Fama, 1970; Ftiti & Hadhri, 2019).

Information obtained by investors can affect investors' reactions which are usually indicated by abnormal returns or volatility in stock prices. This research is usually called an event study. The event study method is used to find the effect of an event on a certain dependent variable (Elad & Bongbee, 2017). Many studies have conducted event studies to examine the effect of various information, such as earnings announcements, macroeconomic news, and political news, on asset prices (Zach, 2003). Furthermore, the event study method is often used to assess the impact of events on firm value based on stock price data (Val et al., 2018).

Non-economic events, namely political or geostrategic factors, can have an impact on company value (Obradović & Tomić, 2017). Moreover, political events are often associated with movements in the market share price of a country. Political risk is a risk that usually comes from government policies that have an impact on the profitability of companies and capital markets (Ramesh & Rajumesh, 2015). Huber & Kirchler (2013) explain the presidential election to be interesting because the president and other executive departments have strong and direct control over budget spending and political prioritization. Political priorities that occur can be related to several sectors, for example the agricultural or industrial sectors seeking protection from foreign competition, the defense industry benefiting from weapons and war programs, or the existence of special interest groups seeking special privileges.



In several studies involving the influence of certain events, they usually use abnormal returns as an indicator (Santosa & Santoso, 2019). Research by Lin et al. (2016) used the abnormal return indicator in testing stock returns during the Taiwan presidential election in 2008. The results indicate that companies that have a relationship with the winning presidential candidate show that investors react positively to the event (Lin et al., 2016). This reaction shows that in determining investment options, investors pay attention to political movements in the country.

Huber & Kirchler (2013) found that companies that made a large contribution to the elected presidential candidates had positive abnormal returns. Zhao et al. (2004) explain that an elected presidential candidate can determine the direction of a country's policies, often affecting the share price of companies affiliated to the candidate. Nurlita & Naomi (2019) found that the presidential election in 2014 had a positive effect on the volatility of stocks.

Shen et al. (2017) found that companies connected to the winning president's side can get higher abnormal returns than other companies in the Taiwan presidential election 2008. Other studies Zhao et al. (2004) found that persistently higher investment returns for stocks were found during the second presidential term. This positive reaction can be attributed to the fiscal and administrative policies issued by the incumbent president which could increase the liquidity of US households before the election.

Based on the explanation above, this research hypothesis was developed as following:

- H₁: There are differences in abnormal returns before and after the event candidates' inauguration for the presidential election in Indonesia
 H₂: There are differences in abnormal returns before and after the event candidates' final debate for the presidential election in Indonesia
 H₃: There are differences in abnormal returns before and after the event quick count announcement for the presidential election in Indonesia
 H₄: There are differences in abnormal returns before and after the event Election Commission (KPU) announcement for the presidential election in Indonesia
 H₅: There are differences in abnormal returns before and after the event Constitutional Court (MK) announcement for the presidential election in Indonesia

3. Data and Method

This study uses daily data and purposive sampling, in which we select actively traded stocks listed on Indonesia Shariah Stock Index (ISSI) from 2017 to 2019. Based on the methods, we have 80 stocks. In this research, there are five political events of Indonesia in 2019:

1. The inauguration for the candidate of the president and vice president (September 20, 2018).
2. The final candidates' debate (April 14, 2019).
3. The quick count announcement (April 17, 2019).
4. The decision of plenary session by General Elections Commission (May 21, 2019).
5. The constitutional court's judgment (June 27, 2019).

Some previous studies use the event study and event window on testing the influence of politics on stocks (Kenourgios et al., 2020; Nazir et al., 2014). To measure market reaction around events, we calculate abnormal return used by Bash & Alsaifi (2019), Elad & Bongbee (2017) and Obradović & Tomić (2017). In this study, using the market and risk adjusted return to measure abnormal return because this model explains the additional information that affects stock returns (Brown & Warner, 1980).

$$AR_{it} = R_{it} - \bar{R}_{it} \quad (1)$$

where R_{it} is the daily rate of return (in percent) that can be obtained as follow:

$$R_{it} = \frac{P_t - P_{t-1}}{P_{t-1}} \quad (2)$$

where P_t is the price of a share in the day t , and P_{t-1} is the one-lagged price of a share in the day t . \bar{R}_{it} is the expected rate of return estimated by market-adjusted model modeled as follow:

$$\bar{R}_{it} = \alpha_i + \beta_i R_{Mt} \quad (3)$$

where R_{Mt} is the rate of the daily return of market index represented by the Indonesia Composite index. α_i and β_i are estimated by the ordinary least square (OLS) (Brown & Warner, 1985).

There is no general prescription on how many days it takes to estimate the parameters. Therefore, we use 300-days before until 6-days before events, which can be denoted [-300, -6], to estimate the regression parameters. Then event windows for this study are [-5, -1] for before event and [1, 10] for after the event. After that, we calculate abnormal return (AR) by the following equation:

$$AR_{it} = R_{it} - \bar{R}_{it} \quad (4)$$

To test the presence of abnormal return caused by a specific event is based on average abnormal return (AAR) during 5-day before and 10-day after [-5, 10] as follow:

$$AAR_t = \frac{1}{n} \sum_{i=1}^n AR_{it} \quad (5)$$

where n is the number of stock in a portfolio, and t refers to date during window event [-5, 10]. Then, the significance of ARR on each date is tested by a parametric approach, a one-sample t-test. The null hypothesis for the test is that ARR is equal to zero ($H_0: AAR=0$). The final step is to investigate the stock market reaction to political events on overall event windows. We use cumulative abnormal return (CAR) and cumulative average abnormal return (CAAR) by the following equation (Repousis, 2016):

$$CAR_{i,[t1,t2]} = \sum_{t=1}^{t2} AR_{it} \quad (6)$$

In equation (6), t1 and t2 consist of t-days periods before and t-days after events. As a note, CAR measures market reaction of stock i , whereas to examine market reaction for portfolio, we use CAAR as follow:

$$CAAR_{(t1,t2)} = \frac{1}{n} \sum_{i=1}^n CAR_{it} \quad (7)$$

According to the patterns of CAAR movement during windows events, those indicate whether the stock market reacts to a specific event. If there is a structural break in the time approaching or after certain events, the portfolio reacts to the events. Moreover, the patterns can capture either a positive or negative reaction determined by upward or downward movement. To bring out doubtless conclusions, we test the mean difference between before and after the event by mean-comparison t-test and Wilcoxon-Mann-Whitney test. Time spans of testing are : [-1, 1]; [-3, 3]; [-5, 5]; [-5, 5]; [-7, 7]; [-10, 10]; [-10, 11]; [-10; 13]; [10, 15]; dan [-10, 20] (Bash & Alsaifi, 2019; Khanal & Mishra, 2017). If the mean difference of CAAR between pre-event and post-event is significant, it means that the stock market reacts to specific events. The level of significance is based on t-statistic and z-statistic. If the mean of post-event is higher than the mean of the pre-event, then the stock market reacts positively and vice versa.

4. Results

Investors' decisions on the formation of portfolios when political events occur can be influenced by abnormal returns (Kenourgios et al., 2020). Hillier & Loncan (2019) explain that political events can produce positive or negative responses. If government policy tends to improve the economy, it will produce a positive effect on the market. However, if the government is wrong in making policies and many interests related to politics, it can have a negative impact.

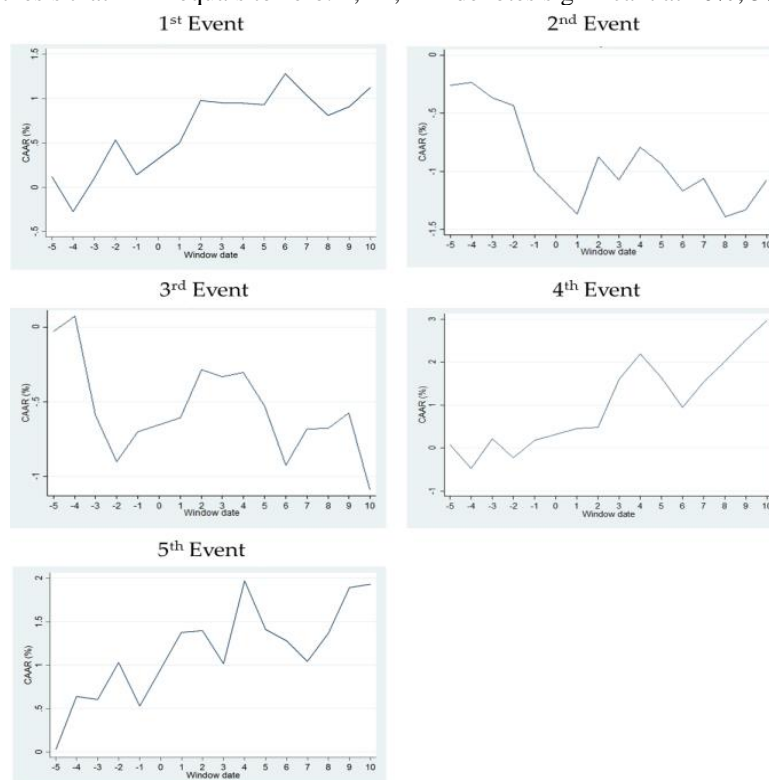
Table 1 reports the test of average abnormal return for five days before and ten days after events. There are five political events of Indonesia in 2018-2019: the inauguration for the candidates (1st event); the candidates' debate (2nd event); quick count announcement (3rd event); the announcement General Elections Commission (KPU) (4th event); the constitutional court's (MK) judgment announcement (5th event). The results show that AARs are significantly different from zero on second and fifth events, especially between one-day pre and post events.

In the first political event, namely the inauguration of candidates, there was no significant average abnormal return (AAR) value. Furthermore, after the announcement from the Election Commission (4th event) and the Constitutional Court (5th event) showed a positive and significant AAR value respectively at $t + 3$ and $t + 1$. Announcement of the results of the 2019 presidential election dispute ended at the decision of the Constitutional Court. The results of this study indicate that sharia stock investors in Indonesia reacted positively to the announcement of the election of President Joko Widodo and Vice President K.H. Ma'ruf Amin.

Table 1. The result of one-sample t test for the average abnormal return

Event Window	1 st event	2 nd event	3 rd event	4 th event	5 th event
-5	0.02	-0.26	-0.03	0.08	0.03
-4	-0.43	0.03	0.10	-0.56	0.61
-3	0.40	-0.13	-0.66*	0.69	-0.04
-2	0.44	-0.09	-0.31	-0.45	0.42
-1	-0.43	-0.57**	0.20	0.41	-0.50
1	-0.43	-0.37	0.09	0.28	0.84***
2	0.48	0.49	0.32	0.02	0.02
3	-0.02	-0.20	-0.04	1.12***	-0.38
4	0.01	0.28	0.02	0.59	0.95
5	-0.04	-0.14	-0.22	-0.55	-0.56
6	0.37	-0.24	-0.40	-0.69**	-0.13
7	-0.27	0.11	0.24	0.59	-0.24
8	-0.15	-0.33	0.01	0.47	0.33
9	0.08	0.06	0.10	0.50	0.52*
10	0.25	0.26	-0.52**	0.46	0.04

This Table shows the average abnormal return (AAR) of selected-ISSI stocks for five days before and ten days after events. There are five political events of Indonesia in 2019 namely: i) the inauguration for the candidate of the president and vice president (1st event); ii) the candidates' debate (2nd event); iii) quick count announcement (3rd event); iv) the decision of plenary session by General Elections Commission (4th event); and v) the constitutional court's judgment (5th event). A one-sample t-test tests the presence of abnormal return with the null hypothesis that AAR equals to zero. *, **, *** denotes significant at 10%, 5%, and 1%.



Graph 1. Cumulative Average Abnormal Return (CAAR)

Furthermore, the market reacts negatively one day before the candidates' debate. Meanwhile, the General Election Commission reacts otherwise on the third day after the decision of the plenary session and the first day after the constitutional court's judgment. Graph 1 illustrates the cumulative average abnormal return (CAAR) for each event. Based on the CAAR pattern, we can describe how the market responds to a specific event. If there is a significant structural break after an event, then the market reacts to it such in figure 4th dan 5th event. However, in looking at the effect of events on investor reaction it is also necessary to look at the mean-difference test of CAAR between pre and post events (table 2).

Table 2. The result of mean-difference test between post and pre events

Events		[-1, 1]	[-3, 3]	[-5, 5]	[-5, 7]	[-5, 10]
The inauguration for the candidate of the president and vice president	Δ CAAR	0.356	0.400	0.736	0.820	0.821
	t-stat	0.377	0.574	1.523	1.765	1.939*
	z-stat	0.134	0.328	0.761	-0.982	-1.056
The candidates' debate	Δ CAAR	-0.366	-0.403	-0.549	-0.580	-0.648
	t-stat	-0.256	-0.401	-0.837	-0.943	-1.138
	z-stat	-0.421	-0.715	-1.162	-0.638	-0.377
Quick count announcement	Δ CAAR	0.092	0.355	0.017	0.095	0.173
	t-stat	0.087	0.467	0.030	0.181	0.358
	z-stat	0.094	0.269	0.954	1.074	0.968
The decision of the plenary session by the General Elections Commission	Δ CAAR	0.279	0.788	1.316	1.309	1.679
	t-stat	0.272	1.161	2.539**	2.750***	3.827***
	z-stat	0.128	0.585	1.529	1.354	2.445**
The constitutional court's judgment	Δ CAAR	0.845	0.541	0.867	0.788	0.901
	t-stat	0.973	0.953	1.713*	1.694*	2.115**
	z-stat	0.847	0.625	0.878	0.555	0.644

This table report means a difference test of cumulative average abnormal return (Δ CAAR) between pre and post-political events in 2018 – 2019. Δ CAAR equals to CAAR(post) minus CAAR(pre). We use parametric and non-parametric approaches to examine mean difference tests, namely Satterthwaite–Welch (t-test) and Wilcoxon–Mann–Whitney (z-stat). *, ** and; *** denote significant at 10, 5%, and 1% respectively.

Based on Table 2, t-statistic (t-stat.) and z-statistic (z-stat.) of first, second, and third events are not significant so that there is no significant difference of CAAR (Δ CAAR) between pre and post the events. In other words, the market does not respond either positively or negatively to the inauguration for the candidate of the president and vice president, the candidates' debate, and the quick count announcement. Nevertheless, test results in the 4th event notify that t-stat for [-5, 5] and [-5, 7] testing periods are significant at 5%, and [-5, -10] is significant at 1%. In contrast, the result in the 5th event confirms that [-5, 10] is significant at 5%. A non-parametric approach, Wilcoxon-Mann-Whitney test, report that it is just the 5th event for [-5, 10], which is significant at 5%. After that, both the 4th and fifth events have positively significant Δ CAAR. On account of the test results, the market reacts positively to at 4th and 5th events. The existence of good and bad political news can give different reactions to investors and depend also on the time variations of events (Karime & Sayilir, 2019).

Investors often make estimates of investment strategies by gathering information that is publicly available (Repousis, 2016). The results of this study are the same as those of Liew & Rowland (2016) which states that Malaysian investors react positively after the incumbent is elected. The same thing happened in this study. A positive reaction indicates that Islamic stock investors believe in the policies that will be implemented for the next five years by the incumbent president.

Shen et al. (2017) explain that if a company's business philosophy is in accordance with government policies, this company can obtain the desired results. Conversely, if the policy does not support the company's business, it can damage the company's value. Therefore, investors usually tend to buy shares in companies whose businesses benefit from the policy. The same thing was also conveyed by Wong & Hooy (2020) related to the relationship between political events and corporate values connected with it. The results of the presidential election in 2019 had become a dispute among supporters of the candidate, so it must be resolved in the Constitutional Court. These conditions caused political uncertainty in Indonesia in 2019. However, after being determined by the General Election Commission and decided

by the Constitutional Court, the news was responded positively by sharia stock investors. These results are reversed with the results of Chau et al. (2014) which states the Islamic stock index is sensitive to political turmoil. Godil et al. (2020) found that under uncertainty conditions, Islamic stocks can be an appropriate diversification option for conventional stock investors in the long run because they can reduce risk. Moreover, Rejeb & Arfaoui (2019) shows that the Islamic stock index is more efficient compared to conventional. Therefore, the implications for research for investors that can be used as a reference for investor decision making in terms of portfolio diversification.

The positive response of the Islamic stock investor to the decision of the plenary session by the General Elections Commission and the constitutional court's judgment gives theoretical and practical implications. On the theoretical side, political events have an impact on the stock market in several countries (Lee et al., 2019; Pham et al., 2018). Besides, on the practical side, political events contain information for investors. Liew & Rowland (2016) argues that when before or after a political event investor will usually take advantage of abnormal returns that occur within a short time. During this time, investors need to pay attention to the influence of macroeconomic variables and political uncertainty on stock market returns.

The next step, we conduct robustness test to ensure consistent results. Some past studies utilized multifactor model, for example four-factors model, to estimate abnormal return (Lee et al., 2019; Pham et al., 2018). Basically, the four-factors model is initiated by Fama & French (1993) and (Carhart, 1997). They argued that not only can stock return be explained by market risk but size, value, and momentum as well. In order to create those additional factors, we adopt Fama & French (2012) work as follow:

Table 3. The four factors (Fama-French-Carhart) model's configuration

Factors	Definition and calculation
Market (MKT)	The value-weighted market portfolio's return. This study use daily return of Indonesian Composite Index.
Small Minus Big (SMB)	$SMB = (SH + SN + SL)/3 - (BH + BN + BL)/3$
High Minus Low (HML)	$HML = [(SH - SL) + (BH - BL)]/2$
Winner Minus Losser (WML)	$WML = [(SW - SL) + (BW - BL)]/2$

Notes: small-high (SH), small-neutral (SN), small-growth (SH), big-high (BH), big-neutral (BN), big-low (BL), small-losser (SL), small-winner (SW), big-losser (BL), big-winner (BW). In order to form SMB, HML, and WML, we refer to market capitalization, the ratio of book value of equity to market capitalization, and one-year past expected return at the end of the fiscal year. Cut-off percentile is used to classify small-big cap, high-low value, and winner-losser shares. More details, we use 30, 40, 70 percentile as cut-off point to create portfolios. Each portfolios' return are calculated by the value-weighted average.

After constructing the multifactor model, we predict abnormal return as the steps on the main analysis. Table 4 reports the result of mean-difference test if the abnormal return is estimated by four-factors model. In sum, we have the same results as our main findings. Even, the positive investor reactions on the fourth and fifth events are seen to be relatively stronger on the fourth and fifth events.

Table 4. The result of mean-difference test between post and pre events (robustness)

Events		[-1, 1]	[-3, 3]	[-5, 5]	[-5, 7]	[-5, 10]
The inauguration for the candidate of the president and vice president	Δ CAAR	0.075	-0.174	0.336	0.534	0.821
	t-stat	0.075	-0.043	0.713	1.184	1.941**
	z-stat	0.086	-0.379	1.785	2.034***	2.676***
The candidates' debate	Δ CAAR	-0.625	-0.644	-0.510	-0.463	-0.484
	t-stat	-0.465	-0.673	-0.810	-0.785	-0.887
	z-stat	-0.854	-1.163	-1.184	-0.538	-0.180
Quick count announcement	Δ CAAR	-0.419	0.113	-0.229	-0.250	-0.246
	t-stat	-0.481	0.185	-0.520	-0.615	-0.648
	z-stat	-0.549	0.086	-0.323	-0.572	-0.931
The decision of the plenary session by the General Elections Commission	Δ CAAR	0.409	1.304	1.008	1.466	1.582
	t-stat	0.374	2.067**	2.154**	3.355***	3.861***
	z-stat	0.916	2.105**	2.120**	3.327***	3.586***



The constitutional court's judgment	Δ CAAR	-0.109	0.624	0.858	1.012	1.153
	t-stat	-0.1261	1.200	2.023*	2.571**	3.199***
	z-stat	-0.343	0.969	1.899*	2.641**	3.273***

This table report means a difference test of cumulative average abnormal return (Δ CAAR) between pre and post-political events in 2018 – 2019. Δ CAAR equals to CAAR (post) minus CAAR (pre). We use parametric and non-parametric approaches to examine mean difference tests, namely Satterthwaite–Welch (t-test) and Wilcoxon–Mann–Whitney (z-stat). *, ** and; *** denote significant at 10, 5%, and 1% respectively.

5. Discussion

Discussion is a crucial part of a scientific article where an in-depth interpretation of the results or findings of a study. The discussion should involve a dynamic process and comparison with some relevant previous studies based on specific scholarship. Discuss each finding carefully to produce representative conclusions and follow the objectives of the study. This part should explore the significance of the results of the work, not repeat them. A combined Results and Discussion section is often appropriate. Avoid extensive citations and discussion of published literature.

6. Conclusion

Several previous studies related to capital market reactions; political events often use as event variable for the research events. This is due to political events that will determine the direction of government policies that will impact on the country's economic conditions. This study aims to look at the influence of sharia stock investors on several political events in the 2019 presidential and vice president elections. The event consists of 5 events, i.e. the inauguration of the candidates; the candidates' debate; quick count announcement; General Elections Commission (KPU) announcement; and the constitutional court's judgment (KPU) announcement.

The results of this study indicate Islamic investors has negatively reaction before a presidential candidate debate occurs. Furthermore, the average value of positive abnormal returns occurs after t+3 the real count results of the presidential election announced by the General Election Commission (KPU). After that, a positive reaction also occurred after the final decision on the results of the presidential candidates' elections stipulated by the Constitutional Court. This reaction was also supported by the results of the CAAR test of different values before and after the announcement, which were determined by the General Election Commission and the Constitutional Court which were positive and significant at t [-5, 5]. Based on the results of this study, each event studies reflect different investor reactions. Furthermore, this condition is related to the Efficient Market Hypothesis Theory (EMH) which explains that the information available in the market can influence investors' decisions.

Recommendation (If any)

Political event consists of relevant information for asset pricing of sharia stock portfolio. The results of this study have implications for Islamic investors in making decisions when determining investment strategies during a series of national political events. However, this study does not further examine the impact of political events in various politically connected sectors or companies. Strong suggestion for future research is expected to examine the effects of these five political events on various economic sectors or to the companies' sector that has strong connection in term of political issue.

Limitations and avenue for future research

This research has a limitation regarding the stock volatility issue. This study does not further examine the volatility of stock prices during the 5 periods of the political event. Therefore, further research is expected to examine in more detail the influence of a series of political events in 2019 on stock price volatility and more focus on this limitation issue.



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