

CHAPTER I

INTRODUCTION

1.1 Research Background

The world is currently facing a new virus that is infecting the world, that virus's name is Coronavirus. The international health organization, World Health Organization states that Coronavirus infect the respiratory tract in humans. This virus has the scientific name COVID-19 that can have effects ranging from mild flu to very serious ones that are equivalent to or even more severe than MERS-CoV and SARS-CoV (Kirigia and Muthuri, 2020). The outbreak of a virus called coronavirus disease 2019 or commonly called COVID 19 which originated in Wuhan, China, the cases quickly spread to Japan, South Korea, Europe, and the United States to reach global proportions. (Gopinath, 2020).

In Indonesia, the first case of COVID-19 was announced on March 2nd, 2020 by the president of republic of Indonesia, Ir. H. Joko Widodo on the president official website <http://www.presidentri.go.id/>. Meanwhile, in the same month on March 11th, 2020 the World Health Organization (WHO) officially announced that Coronavirus disease 2019 (COVID-19) was a global pandemic. Then followed by *Keputusan Presiden* (KEPRES) number 11 of 2020 concerning the determination of public health emergencies for corona virus disease 2019 (COVID-19) and *Keputusan Presiden* (KEPRES) number 12 of 2020 concerning to the determination of non-natural disasters for the spread of

coronavirus disease 2019 (COVID-19) as a National disaster on April 13, 2020. Since the announcement, there have been major impacts on various sectors of life, especially in the economic, financial, and capital markets . The economic shocks caused by this pandemic are still very burdensome. Government policies oscillate, and the killer virus permeates the entire country, affecting production, disrupting supply chains and unsettling financial markets (Bachman et al. 2020)

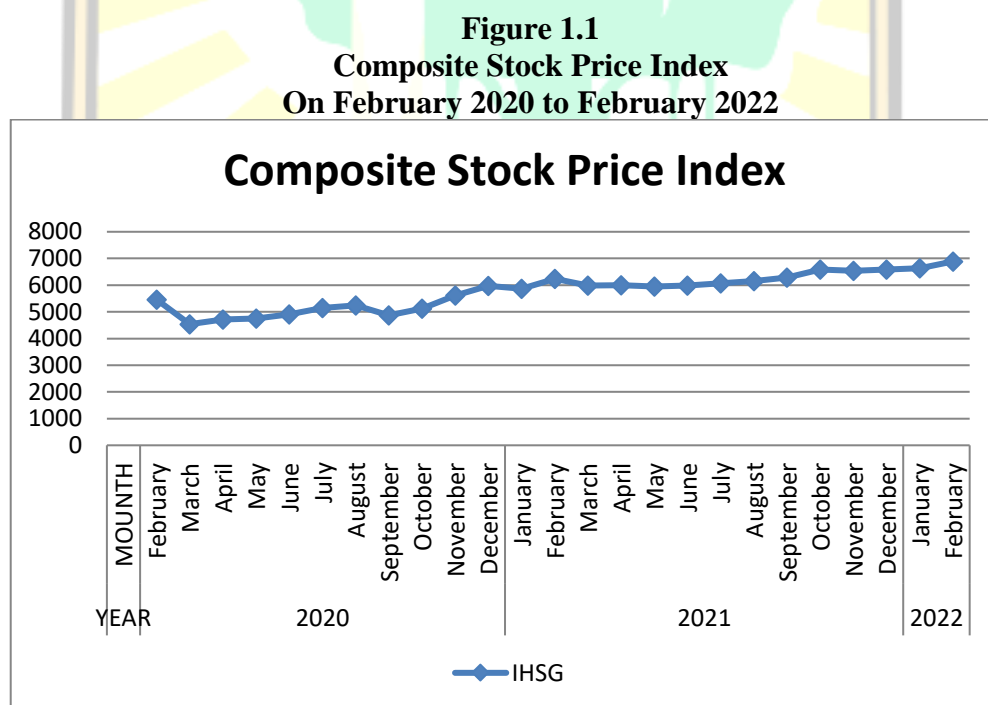
The COVID-19 pandemic has indirectly affected activities in the capital market. With the pandemic conditions, investors tend to be careful in investing because they assess the risk that is very high due to economic instability. Whereas, capital market has an important factor in the development of the Indonesian economy. This can be seen from the tax payments received by the government from the capital market and because the capital market carries out two functions at once, namely the economic function and the financial function, the capital market has an economic function because the market that provides facilities brings together 2 interests, it's those who have excess funds (investors) and those who need funds (issuers). With the capital market, the party who has the funds can invest the funds in the hope of getting a return, while the issuer, in this case the company, can use the funds for investment purposes without having to wait for the availability of funds from the operations of the capital market company. because the capital market provides the possibility and opportunity to get a return for the owner of the funds, in accordance with the characteristics of the chosen investment.

According to Tandelilin (2010) investment is a commitment to a number of funds or other resources carried out at this time, with the aim of obtaining profits in the future. Investment activities are divided into two forms, namely investment in Real Assets and Financial Assets. Real investment is investment activity in the form of tangible physical assets which can be done by buying land, houses, gold, and other tangible assets while financial investment is investment in the form of securities whose activities are carried out in the capital market in the form of shares, warrants, bonds, option, mutual funds, futures and others that can be done through the capital market and money market. (Hidayat, 2011:2). Investment is the purchase of one or more assets with the hope of getting a profit in the future (Bodie et al. 2011). Things that must be considered in investing are return and risks. Investors need to diversify in investing, where investors need to form a portfolio through the selection of a number of assets so that risk can be minimized without reducing the expected return and it cannot be avoided that there are unexpected risks in investing, one of which is the COVID-19 pandemic that is being faced in every country.

One of the most popular instruments sold in the capital market is stocks, which are a sign of a person or party's capital participation (business entity) in a company or limited liability company. Stocks are evidence that a party has the right to ownership or participation in a company. From their ownership of a share, the shareholders will get benefits that are divided into two types: (1) dividends, namely the distribution of profits generated by the company / issuer whose amount is determined by the shareholders at the GMS, and (2) capital

gains, which is a positive difference. between the purchase price and the selling price created in stock trading activities in the secondary market. In addition to the profits, shareholders also have the threat of loss which is divided into two types: (1) capital loss, which is a condition opposite to capital gains where investors sell shares at a lower price than the purchase price, and (2) the risk of liquidation where the company issuing the shares experiences bankruptcy or is dissolved. In this case, the shareholders will be the last priority after the company can pay off all its obligations. (Otoritas Jasa Keuangan, 2022).

Following of Composite Stock Price Index from February 2020 to February 2022:



Source : <https://finance.yahoo.com> (processed by researcher,2022)

Based on figure 1.1 during the period March 2020 to February 2022 tends to fluctuate at the level of Rp4500 – Rp6900, where at the end of the first quarter of 2020 there was a very significant decline, it can be seen that the Composite Stock Price Index decreased at the beginning of the pandemic because investors were worried that their stocks would fall and making investors sell their stocks on a large scale. However, in the next few months, the Composite Stock Price Index will begin to strengthen as it is supported by increases in stock indexes.

In investing in stocks, there are three things that need to be considered, namely the expected rate of return, the level of risk and the last is the availability of the amount of funds. Risk can be said to be a deviation from the desired result with the actual result. While return is the rate of return or profit on the investment itself. (Halim, 2015)

Return and risk are trade offs that are considered in investment. Increasing returns or profits from investments made, the higher the risk. Low risk, low profit; high risk, high return. Risk can be minimized by investing in a number of stocks or other investment products or commonly called diversification (Albaity & Ahmad, 2011). However, diversification can only reduce unsystematic risks such as interest rate risk, liquidity risk and business risk.

As for systematic risk, such as purchasing power risk and market risk, it cannot be avoided through diversification (Herni, 2016). Investors who decide to invest usually consider the return and risk that may be obtained.

In general, there are three methods that can be used to calculate the cost that will be returned to shareholders of a company, namely risk-free interest plus additional premium, dividend yield plus expected capital gain (Gordon model), and CAPM. Of these three methods, the CAPM model is the most popular. The Capital Asset Pricing Model is a tool to predict the expected return balance (ER) of a risky asset.

CAPM is a model based on portfolio theory by Markowitz. An investor is assumed to diversify portfolio and will choose the optimal one based on risk and expected return, an investor's choice is a portfolio that is along the lines of an efficient portfolio. To see the relationship between expected return and risk can be drawn in a line called the securities market line or Security Market Line . Security Market Line is used to assess a security individually when the market is in a balanced condition, namely assessing the expected return of individual securities at a certain level of risk (beta). Efficient securities have individual returns higher than expected returns ($R_i > E(R_i)$) and inefficient securities have individual returns lower than expected returns ($R_i < E(R_i)$). Efficient securities can also be said to be securities that undervalued, this can result in investment decisions to buy securities and inefficient securities are said to be overvalued securities, this can result in investment decisions to sell securities (Tandelilin, 2010).

An investor will be helped in understanding how to determine the relevant risk to the asset to be selected with the balance model. With the balance model, an investor can also find out the relationship between expected return and risk on

an asset when the market is in a balanced condition (Tandelilin, 2010). The CAPM balance model is a prediction of the balance between the rate of return on risky assets, this risky asset is commonly known as beta. (Bodie, Kane, & Marcus, 2014)

The assumption in the CAPM model consists of the number of investors and investors are price recipients, investors plan to hold assets in the same period, there are restrictions on investments made in financial assets such as stocks and bonds and risk-free loans, no income tax and transaction fees, investors using the same portfolio selection model, and the way investors analyze securities in the same way with an economic view. A well-managed company produces a high rate of return, so the stock price will rise. Stock prices can reflect the company's prospects, so that only risk should affect the rate of return, high return if an investor is willing to bear high risk as well. The rate of return and risk can be predicted using the CAPM model (Bodie, Kane, & Marcus, 2014).

Financial managers often use capital asset pricing model method. This model is an equation that equates the expected rate of return on shares. Although criticized, the capital asset pricing model is an intuitive approach to considering the desired return an investor wants on his investment, with systematic risk or market risk. (Arthur J Keown, 2008)

In the capital market consists of several stocks have been grouped based on certain criteria to form a stock market index. . The market index can be used as a reference for calculating a stock based on certain criteria such as a collection of Islamic stocks, large capitalized stocks, liquid stocks, stocks that are in the same sector and other criteria. This makes it easier for investors to choose stocks on which index to invest. The several index in capital market are the composite stock index, sectoral stock index, and stock index with special criteria. Composite index means an index consisting of all stocks on the Indonesia Stock Exchange, namely the IHSX or Composite Stock Price Index. A sectoral stock index is an index consisting of several stocks for a particular sector, for example the Infobank Index. The Infobank Index is an index consisting of stocks engaged in the banking sector. An index with special criteria, namely an index consisting of stocks with certain criteria, for example the LQ 45 index which consists of the 45 most liquid stocks and JII (Jakarta Islamic Index) which consists of stocks with sharia criteria (Abdalloh, 2018).

LQ45 index stocks are selected based on specific criteria in ensuring that the index only has shares of listed companies with high levels of liquidity and market capitalization with good company fundamentals, therefore the LQ45 index can used as a reference in assessing the performance of stock trading in the Indonesian capital market (Ratih & Candradewi, 2020). According to Putra & Dana (2020), “The shares of listed companies that are included in the LQ45 index are actively traded on the Indonesia Stock Exchange and their share prices fluctuate according to the intensity of their trading.” . The LQ45 index is a stock

market index from the Indonesia Stock Exchange which consists of 45 companies that meet the requirements : Included in the top 60 companies with the highest market capitalization in the last 12 months, have been listed on the Indonesia Stock Exchange for at least 3 months, Financial status, growth prospects and high transaction value, and free float also increased to 100% of the valuation share previously was 60%.

Data compiled from the Indonesia Stock Exchange (IDX) shows that in the months prior to the announcement of the first COVID-19 case in Indonesia, the LQ45 Index has increased as well as weakened. The announcement of the first case of COVID-19 in Indonesia affected stock price movements. An outbreak of an outbreak directly or indirectly affects the economic condition of a country. (Shafi et al., 2020)

Meanwhile, the Jakarta Islamic Index or commonly known as JII is one of the Indonesian stock indexes that calculates the average stock price index of various types of shares in accordance with the provisions of Sharia law. The purpose of establishing the Jakarta Islamic Index is to increase investor confidence in investing in shares based on sharia law provisions, and to provide income for investors to invest in stock exchanges that implement sharia. The Jakarta Islamic Index is also expected to support Indonesia's sharia-based stock transparency and accountability procedures. The Jakarta Islamic Index is the answer for investors who want to invest according to sharia. In other words, the Jakarta Islamic Index has become a guide for investors who want to invest their funds based on Sharia law without worrying about being mixed with elements that

contain usury. In addition, the Jakarta Islamic Index is a benchmark in the selection of performance (benchmarks) of a halal stock portfolio. But starting in 2020 there has been a very significant decline in the market capitalization of Jakarta Islamic Index on the Indonesia Stock Exchange because of the COVID-19 pandemic.

Several studies about Capital Asset Pricing Model have been carried out previously, including research conducted by Ahmad Musodik, et al (2021) using the Capital Asset Pricing Model method in predicting expected returns for investment decisions in automotive companies with the result that there are 4 companies. which has a positive rate of return with positive profitable and one company that has a low rate of return with negative stock. Nisa Vinodkumar and Gadeel Khalid Aljasser (2020) from the Kingdom of Saudi Arabia researched with the title Finalcial Evaluation of Tadawul All Share Index (TASI) Listed Stocks Using Capital Asset Pricing Model with the result that there were 22% of Tadawul All Share Index are undervalued and 78% o Tadawul All Share Index are overvalued. Mengyun Wu, et.all (2017) with a journal entitled Review and Validity of Capital Asset Pricing Model: Evidence from Pakistan Stock Exchange with the result is Capital Asset Pricing Model, single factor model is not valid for technical analysis in Pakistan's capital market. Research conducted by Andini Nurul Wulandari (2020) with the title Analysis of the relationship of risk and return using capital Asset Pricing model (CAPM) Method at Kompas 100 for the 2015 – 2019 Period which uses the CAPM method to find out the relationship between Beta and capital Asset Pricing model predicted return with the result

show that the Beta and capital Asset Pricing model predicted return has a significant strong positive relationship. A research entitled The Investing Decisions During The COVID -19 pandemic by Using capital asset pricing model (CAPM) Method in LQ 45 Index Companies there are 20 Undervalued companies and 25 Overvalued Stock Return and Risk Analysis Using the CAPM Method to Determine Investment Options in LQ45 shares on the Indonesia Stock Exchange During The COVID -19 pandemic researched by Elly Susanti, et.all (2021). Tolulope Latunde, Lukman Shina Akinola and Damilola Deborah Dare (2020) “ Analysis Of Capital Asset Pricing Model On Deutsche Bank Energy Commodity “. To analyse the market returns and the returns of the four common Deutsche Bank (DB) crude oil assets . Ifan Ryan Putra , Dito Rinaldo (2022) “ Analisis Perbandingan Saham – Saham Efisien dengan Metode Capital Asset Pricing Model Sesudah dan sebelum Pandemi Covid – 19 “ . To determine and comparison of efficient stocks in the sector of consumer goods industry before and after pandemic covid – 19 . P. Erry Sigit Pramono , Dudi Rudianto, Fernando Siboro , Muhamad Puad Abdul Baqi and Dwi Julianingsih (2022)“Analysis Investor Index Indonesia with Capital Asset Pricing Model (CAPM) “. To compare composition of the optimal portofolio of stock , calculate risk and return portofolio from Investor33 (INV33) index and Jakarta Islamic Index with the period of research on January 2016 – December 2018. Research with title Syifa Adhani Mulya , Alfida Aziz and Yul Tito Permadhy (2020) “Pembentukan Portofolio Optimal Dengan model Markowitz Sebagai Dasar Keputusan Investasi “. To know the stocks that can be formed as a combination of the optimal

portfolio with the proportion of funds of each shares by using Markowitz Model.

Achmad Fadhoil Mz , Budi Wahono and Eris Dianawati (2020) "Analisa Penerapan Metode Capital Asset Pricing Modeling (CAPM) untuk Menentukan Pilihan Investasi Saham Efisien Dan Tidak Efisien Di Masa Pandemi Covid-19 (Studi pada Sub Sektor Perbankan di Bursa Efek Indonesia)". Yoyok Prasetyo (2018). Perbandingan Risiko Dan Return Investasi Pada Indeks LQ 45 Dengan Indeks Jakarta Islamic Index (JII). Where it to compare return and risk in Jakarta Islamic Index and LQ45 from 2008 – 2017 and the result show that the LQ 45 index return had no significant difference with the Jakarta Islami index and there is no significant difference in the risk of the LQ 45 index with the Jakarta Islamic index. it can be concluded that the risks and returns between the LQ 45 Index and the JII Index have no significant differences..Setiyo Rini,Abil Finda Farrukhy and Kharis Fadlullah Hana (2020). Komparasi Risk Dan Return Saham Dan Saham Syariah. To compare return and risk of regular And sharia stock listed on the Indonesia Stock Exchange in the consumer goods industry in the 2019 period. The result show that there is no significant difference between return and risk of regular stock and Sharia stock. Imron Mawardi and Ajeng Gama Rosyida (2015). Perbandingan Tingkat Pengembalian (Return), Risiko dan Koefisien Varians Pada Saham Syariah dan Saham Non Syariah di Bursa Efek Indonesia (BEI)Periode 2011-2013. To determine the differences of rate of return, risk and coefficient of variation on Islamic stock and non-Islamic stock in Indonesia Stock Exchange (IDX) 2011-2013. The results of this study showed that there was no significant differences of rate of return, risk and coefficient of variation on Islamic

stock and non-Islamic stock. Yosua P. J. Tendean, Ivonne S. Saerang and Joy E. Tulung (2019). Analisis Perbandingan Risiko Saham Jakarta Islamic Index Dan Indeks LQ45 Di Bursa Efek Indonesia. To determine the differences between the Jakarta Islamic Index and LQ45 Index risk. The results showed that there were no significant differences between the risks of the Jakarta Islamic Index and the LQ45 Index. Ruwi Cahyani and Muhammad Andryzal Fajar (2020) To determine The difference between returns and risk on Islamic stocks and conventional stocks on the Jakarta Islamic Index and Investor33 for the period December 2016-November 2019. The result show that there is return and risk on Islamic stocks and conventional stocks are no difference.

Based on the explanation of background research above , the researcher is interested in doing research with the title " comparison of capital assets pricing model in predicting the stock returns on sharia stock and conventional stock during COVID-19 pandemic period with study case at jakarta islamic index and LQ45".

1.2 Research Question

Based on the background of the research above, the question of research that will discussed in this research are :

1. Is there a difference in the risk of Sharia Stock in the Jakarta Islamic Index and Conventional Stock on the LQ45 using the Capital Asset Pricing Model on the during COVID-19 Pandemic ?

2. Is there a difference in the return of Sharia Stock in the Jakarta Islamic Index and Conventional Stock on the LQ45 using the Capital Asset Pricing Model on the during COVID-19 Pandemic ?
3. Is there a difference in the expected rate of return of Sharia Stock in the Jakarta Islamic Index and Conventional Stock on the LQ45 using the Capital Asset Pricing Model on the during COVID-19 Pandemic ?
4. What is the classification of companies stocks listed on the Sharia Stock in the Jakarta Islamic Index and Conventional Stock in the LQ45 and what is decisions must be made by investors during the COVID-19 Pandemic ?

1.3 Objectives Of The Research

1. To find out the difference in the risk between Sharia Stock in the Jakarta Islamic Index and Conventional Stock on the LQ45 using the Capital Asset Pricing Model on the during COVID-19 Pandemic.
2. To find out the difference in the return between Sharia Stock in the Jakarta Islamic Index and Conventional Stock on the LQ45 using the Capital Asset Pricing Model on the during COVID-19 Pandemic.
3. To find out the difference in the expected rate of return between Sharia Stock in the Jakarta Islamic Index and Conventional Stock on the LQ45 using the Capital Asset Pricing Model on the during COVID-19 Pandemic.
4. To find out the classification of companies stocks listed on the Sharia Stock in the Jakarta Islamic Index and Conventional Stock in the LQ45

and what is decisions must be made by investors during the COVID-19 Pandemic

1.4 Contribution Of The Research

1. For Author

The results of this study are expected for the author to know about the result of comparison capital assets pricing Model in predicting the stock returns on sharia stock and conventional stock during COVID-19 pandemic period with study case at Jakarta Islamic Index and LQ45

2. For Readers

With the result are expected the readers get more knowledge about the comprision of Capital Assets Pricing Model in predicting of stock returns on sharia stock and conventional stock during COVID-19 pandemic period with study case at Jakarta Islamic Index and LQ45 and can be used as input in making optimal investment decisions, especially for companies listed on the Jakarta Islamic Index and LQ45 for investors and potential investors.

3. For University

With this research, it is hoped that the students of Universitas Andalas can be used as additional reading material in the library that can provide input and insight into the result of comparison the Capital Assets Pricing Model in predicting of stock returns on the sharia stock and conventional stock during COVID-19 pandemic period with study case at Jakarta Islamic Index and LQ45 and they can continue research better than author.

1.5 Scope Of The Research

The research scope is the company on Jakarta Islamic Index and LQ45 during COVID-19 pandemic

1.6 Writing Systematic

The writing systematic thus research divides the discussion into three chapters, each chapter has a specific discussion on topic with following systematics:

CHAPTER I INTRODUCTION

In this chapter describes about research background , research question , research objectives, research contribution , scope of the research and writing systematic

CHAPTER II LITERATURE REVIEW

In this chapter describes the relevant theory which will be the basis for carrying out this research. This chapter also describes the previous research related to the studied and became the basis for developing this research.

CHAPTER III RESEARCH METHODOLOGY

In this chapter, the researcher provides an overview of the research conducted includes research type , population and sampling method, sources of the research ,data collection technique ,operational variables ,research population , data analysis technique.

CHAPTER IV RESULT AND DISCUSSION

In this chapter, the researcher explain the steps for application Capital Asset Pricing Model to find out the difference expected rate of return, risk and return using the Capital Asset Pricing Model on the sharia stock and conventional stock during COVID-19 pandemic period with event study case at Jakarta Islamic

Index and LQ45 and classified undervalued or overvalued from stock and decisions must be made by investors during COVID-19 Pandemic on the Jakarta Islamic Index and LQ45 and also compare about return , risk and expected return result between LQ45 and Jakarta Islamic Index

CHAPTER V CLOSING

In this chapter, the researcher make conclusions of the research , Implication of the Research , Limitation of the Research and suggestions of the Research

