CHAPTER 1

INTRODUCTION

1.1. Research Background

The Indonesia Stock Exchange is the Self Regulatory Organization (SRO) who acts as a facilitator in the development of the capital market Indonesia. According to Undang – Undang Pasar Modal number 8 (1995) the capital market is an activity concerned with the general offer a nd securities trading, public related company with the securities that listed, and the institutions and professions that related to securities. In the capital market, the securities are traded and have fluctuation everyday. The movement which is increasing or decreasing the stock price can be seen by the charting for every single of stock. But, if want to analyze more about the movement or fluctuation for the set of stock, one of the way is monitoring the index which is in Indonesia called as Composite Index or Index Harga Saham Gabungan (IHSG).

According to Sunariyah (2003), Index Harga saham Gabungan (IHSG) or Composite Index is a series of historical information about the movement of the composite stock price on a certain date and reflects a value that showed as a measure of the performance of all the stock in the stock exchange. The Composite index itself also shows the performance of all traded stocks, and also the trading volume that occurs in one day.

Information is a key requirement of investors in the capital market. From relevant information, investors can assess the performance of issuers so that investors have an overview of the risk and expected return on the fund has or will be invested. The information that investor needed can derived from the internal and external conditions of the market. In the capital market, the market will react quickly to all relevant information. In general this is indicated by changes in stock prices exceeding normal condition that causing abnormal return. According to Ariani in Hartono (2015) the return is the result obtained from the investment and the return can be the actual return or also known as the realized return that has occurred expected in the future, while the abnormal return is differences between actual return and expected return.

All event can happen in capital market everyday, from that event can be obtained that event can produce financial and non financial information. Financial information is data such as credit card numbers, credit ratings, account balances, and other monetary facts about person or organization that are used in billing,credit assessment, loan transactions, and other financial activities. Financial information must be processed in order for business to be conducted, but it must also be carefully handled by businesses in order to ensure security for customers and to avoid the litigation and improper use.

Financial information that can be get from capital market is financial statement for every single of company, the open price of stock, the closed price of stock, corporate action such us stock split, delisting, and others.

While non financial information is the information that has no relationship with the company or economic as a whole that can give effect the investment decision to the investor.

In the August until September 2017, there was an event that quite attract the attention from all over the world especially in capital market. There was a tension between North Korea and United States of America which had a conflict about a war planning that conduct by this two country. This tension is not also grab quite attention from all over the world, but also give impact to the capital market in ASIA and give the " Domino Effect " to Indonesia which is effect the fluctuation of Composite Index and also the Trading Volume Activity. In range of August until September 2017, some investor speculate that this event will effect the stock price become decrease. The " Domino Effect " commonly happen when the event in global scope or in certain country give impact to the other country or nearest country and also this tension is also happen because our capital market has orientation to the United States of America market

The existence of fluctuations in stock prices, it can trigger the occurrence of abnormal return, where abnormal return is the return obtained by investors that are not in accordance with the expected return so that it can trigger a market reaction. The market reaction that occurs can be measured by distinguishing the abnormal return before and after an event or event day. Market reaction can also be measured by trading volume acticity, where trading volume activity is a tool used to see how the market reacts to information in the capital market by seeing the movement of trading activity. Trading volume activity is where prices reflect the rate of change

of information. A securities that has a high trading volume, it will generate a high stock return (Chordia, 2000)

In order to prove the differentiation between Abnormal Return and Trading Volume Activity before and after United States of America and North Korea Tension, the researcher is interest to doing research and do more anlalyze on it.

This study was conducted on LQ45 stock index listed because this stock index are active stocks so that those stocks are more sensitive to detect market reaction to any information, whether financial information or non-financial information and LQ45 shares represent all stock sectors in Indonesia Stock Exchange (IDX).

The observation period in this study is for 30 trading days, which consists of 15 days before the tension happen, 1 day of the tension happen, and 15 days after the tension happen. This period is considered appropriate, because this is a global event that gives effect to the Indonesia's market and in order to analyze whether there is no other event except this event in Indonesia, so it should take a long observation period which is 30 days of trading. A period that is too short may cause undetectable market reactions and will give effect to the result of this observation.

1.2. Problem Definition

Based on the background above, the problems of the study are :

1. Is there any differences of abnormal return before and after North Korea and United States of America tension ?

2. Is there any differences of trading volume activity before and after North Korea and United States of America Tension ?

1.3. Research Objectives

In accordance with the problem formulation above, the objectives to be achieved in this research are :

1. To know the significancy of average abnormal return before and after North Korea and United States of America Tension on August 11th 2017

2. To know the significancy of trading volume activity before and after North Korea and United States of America Tension on August 11th 2017

1.4. Research Benefit

This research is expected to give some benefits which are :

1. For researcher, this research is to know the differentiation between Abnormal Return and Trading Volume Activity before and after United States of America and North Korea tension.

2. For investor, this research is to know for the next event, the investor can choose the decision whether buy, hold, or sell their stock and also is to know how non economic or non financial information can influence the abnornal return and trading volume activity

3. For reader and other, as reference materials and sources information in conducting forward similar research

1.5. Writing Systematic

Writing this research will divided into 5 chapters, they will be prepared as following :

1. Chapter I

   Introduction, discuss about general description that become research basic. Consist of background, problem definition, research objective, rsearch benefit, and writing systematic

2. Chapter II

   Literature Review, discuss about theory that has relation with research problem. This is helpful as think base to solve the problem. Beside that, this chapter also looks previous research that related with this research

3. Chapter III

   Research Methodology, provide overview of plan in doing the research. Along with theories from literature review, this chapter will encompass the research. This chapter includes type of research, research limitation, types and sources data, and analysis method

4. Chapter IV

   Analysis and Discussion, contain data processing result based on research methodology.
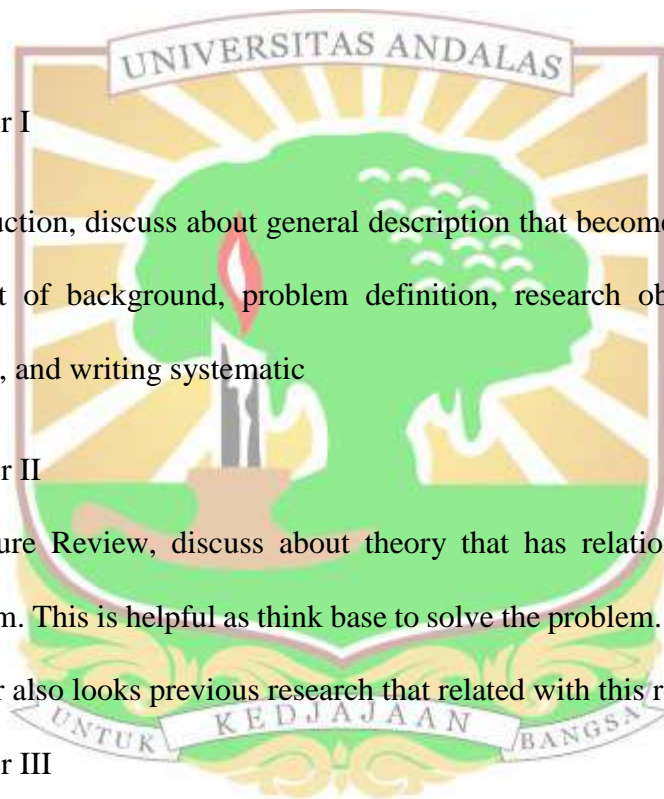
5. Chapter V

   Conclusion and suggestion, contains conclusion about research result. It
   also contain suggestions for the next research