CHAPTER V

CONCLUSION

5.1 Conclusion

Based on the results of research and discussion conducted on banking industry stocks incorporated in the Jakarta Composite Index, supported by the underlying theory, testing for herding behavior is done by looking at the non-linear relationship between Cross Sectional Absolute Deviation (CSAD) and market return (rmt2) which implies the coefficient value of market return (rmt2) which shows a negative and statistically significant value. So that the following conclusions can be drawn:

Prior to the announcement, investors in the banking industry did not show a tendency to follow the majority decision, indicating that they already had clear expectations of changes in interest rates and had adjusted their investment strategies in advance. Factors such as increased financial literacy and greater access to information contribute to more rational and independent decision-making.

After the announcement, the results also showed that investors still did not exhibit herding behavior, indicating that investment decisions were based on individual analysis rather than following the majority. The clarity of domestic monetary policy direction, market stability, and investor anticipation of the Fed's decision are the main factors that reduce the possibility of herding behavior.

5.2 Implication

The result of this research is expected to be useful and can be implicated by interest parties. The following are the implication of this research

1. Theoritical Implications

   This research makes a significant theoretical contribution to the field of behavioral finance, particularly in relation to understanding herding behavior in emerging markets. Herding behavior, which is the tendency of investors to mimic the decisions of the market majority without conducting independent analysis, is often associated with periods of uncertainty or market tension. However, the findings of this study suggest that not all periods prior to monetary policy announcements such as FFR lead to herding behavior, especially when the market already has strong expectations and sufficient information about the outcome of the announcement.

   This finding reinforces the assumption that the Indonesian capital market has started to exhibit information efficiency characteristics, particularly in the form of semi-strong form efficiency. In this form of efficiency, stock prices quickly reflect all available public information, including market expectations of macroeconomic policies. When information about the possible direction of the Fed's interest rate policy has been widely disseminated and considered by market participants before the official announcement, investors no longer react irrationally when the announcement is released. This indicates a higher level of maturity from investors in the Indonesian capital market.

In addition, another theoretical contribution is the validation of the event study approach that uses a relatively short observation time window (±15 days), which is proven to be able to accurately capture the dynamics of market reactions without being disturbed by other external events. It also shows that market efficiency can not only be measured through direct stock price changes, but also through market psychological conditions, such as the herding tendency of investors in responding to an important economic event.

2. Practical Implication

a. For investors

From a practical perspective, this study has a positive impact on investors, especially those operating in the Indonesian capital market. The finding that there is no herding behavior ahead of the FFR announcement gives investors confidence that the market shows psychological stability and is not affected by collective irrationality. Therefore, investors are advised to make decisions based on careful fundamental analysis, rather than following the market flow or unfounded speculation.

In addition, independence in investment decision-making is an important point that can be encouraged through this result. With evidence that the market does not exhibit herding behavior, investors -

especially retailers - can be more confident in developing long-term investment strategies, without worrying about market fluctuations driven by overreactions from other players. In the long run, independent and rational decision-making will help create portfolios that are more stable and resilient to external shocks.

b. For regulators

The practical implications are also highly relevant for regulators such as the Financial Services Authority (OJK) and Bank Indonesia (BI). The results of this study underscore the importance of transparency and consistency in the delivery of monetary policy. When policy communication is open, structured, and easily understood by market participants, the potential for uncertainty and overreaction can be reduced.

In addition, these results provide justification for regulators to improve financial literacy and market education, especially in building investors' understanding of the macroeconomy and global monetary policy. This effort is important so that investors do not panic easily and are able to interpret economic information rationally. On the other hand, regulators can also develop a market psychological monitoring system to detect potential imbalances in collective behavior that can disrupt capital market stability.

c. For issuers in the banking sector

For issuers, especially in the banking sector which is the focus of this study, the results of this study show that investors are increasingly prioritizing fundamental aspects in the investment decision-making process. This indicates that company credibility, transparency of financial statements, and stability of performance are the main factors considered by investors, not just momentary market sentiment or trends. Companies need to respond to this by strengthening good corporate governance practices, accelerating the financial reporting process, and improving the quality of corporate communications to shareholders and the public. This strategy will not only strengthen the company's position in the eyes of investors, but will also increase the company's competitiveness in the capital market in the long run. By providing relevant and accurate information, issuers can create healthy and sustainable relationships with investors, while increasing the stability of the company's share price.

5.3 Limitation

This study has limitations that can be considered in further research:

1. This study only uses a 30-day observation period, consisting of 15 days before and 15 days after the Fed Fund Rate announcement in September 2024. While this approach helps capture specific market reactions, a longer timeframe may be needed to understand the broader impact on investor behavior.

2. This study only examines herding behavior in banking industry stocks listed on the Jakarta Composite Index. The banking sector was chosen because of its sensitivity to interest rate changes, but it may not represent the entire dynamics of the capital market. Research in other sectors such as property or technology may provide more comprehensive insights.
3. This study only focuses on one Fed Fund Rate announcement event in September 2024. A broader analysis covering multiple announcements in different years may provide a deeper understanding of herding behavior in the long run.
4. This study only uses market return as the main independent variable. Other factors such as volatility, inflation, or global economic conditions may also affect investor behavior and should be included in future research.

5.4 Suggestion

Based on the limitations that have been identified, here are some suggestions for future research:

1. Future research can expand the observation period to several months before and after the Fed Fund Rate announcement.
2. To get a more comprehensive understanding, future research can include other sectors outside the banking industry, such as manufacturing, energy, or technology. These sectors may have different sensitivities to changes in monetary policy.

3. Conducting analysis on multiple Fed Fund Rate announcements over a longer time span may help identify whether herding behavior is consistent or only occurs under market conditions.
4. Future research could include additional macroeconomic variables other than market returns.