

CHAPTER I

INTRODUCTION

A. BACKGROUND

Investment today becomes very popular among the people in the world, including Indonesia. The aim is to get the future value of the fund in form of interest, coupon, profit sharing, dividen, or capital gain. Different investment instruments provide different compensation the investors will reach.

Investment is one of Islamic teching concept. Islam teaches human to think about the future and prepare it well. Investment is not only the way to reach better future in here, but also in hereafter. Therefore, investment is really suggested for every moslem as explained in Al-Qur'an:

يٰۤاَيُّهَا الَّذِيْنَ ءَامَنُوْا اتَّقُوا اللّٰهَ وَتَنْظُرُوْا نَفْسَكُمْ مَّا قَدَّمْتُمْ لِغَدٍ وَاتَّقُوا اللّٰهَ ۚ اِنَّ اللّٰهَ خَبِيْرٌ
بِمَا تَعْمَلُوْنَ ﴿١٨﴾

Meaning: *O you who have believed, fear Allah . And let every soul look to what it has put forth for tomorrow - and fear Allah . Indeed, Allah is Acquainted with what you do (Al-Hashr: 18)*

That verse tells that human should prepare their future in here and hereafter, so for all of both should be balance. Beside seeking for *ridho* of Allah, human also should manage their life through investment in order to anticipate of all uncertainty that can occur in the future life.

Majority of investors in Indonesia invest their money in the Bank on the deposit account as their investment instrument. Banks offer interest rate of saving deposit from 5.25% to 9,13% per year (*Suku Bunga Deposito*, 2014). Even in both conventional bank and sharia bank, the yield will not significantly different (Firman, 2013). In bank deposit, people only can wait and stay until the date of maturity, they cannot join to interfere the business and manage their portfolio. People cannot minimize the risk of the portfolio and cannot enjoy the profit more than the interest rate (4% up to 7,5%) even when the company get very high income. So, there is other choice of investment instrument which allows people to manage their investment, manage the risk, manage the portfolio, and join general assembly of the company (Rapat Umum Pemegang Saham) where dividends are declared.

Stock market becomes the other alternative of investment instrument which provides more flexibility and intervention of the investor. Stock market is an intersection between saving surplus unit with the saving deficit unit through securities trade. Stock market (under Indonesia Stock Exchange) allows the people from all over the world to join investing in Indonesian companies which are listed in IDX. Stock market

allows the people to choose the stock which they want to hold. There is no regulation which prohibits investor to invest in certain stock, and there is no a regulation which will force investor to invest in certain stock. Until today, there are more than 450 companies which are listed in IDX.

Since Indonesia Stock Exchange was established in 1912, it already has had a big role and important part in Indonesia. At that time, the fund which has been collected were used by Netherland companies to expand their business. But today, IDX is already functioned to help the companies which is very important toward Indonesia economic condition and welfare.

Capital market consist of stocks, bonds, and mutual funds. The goal of all is same: to collect fund from the society and utilize it for business activites of the companies. Every company which is listed in IDX will get a chance to get fund from people by the help of underwriter and investment banking during Initial Public Offering (IPO). So, it is expected that companies performance can help the country in case of society welfare. The listed companies are grouped based on their sector, such as: agriculture, mining, finance, consumers good, miscelanous industry, etc.

To see the development of stock market in Indonesia, people will use indicator of stock market in Indonesia that is Jakarta Composite Index (JCI) or *Indeks Harga Saham Gabungan (IHSG)*. This indicator will move in the same line with the other economic indicators. Because the

macroeconomic indicators are not stagnant but fluctuate, results of the indicator of stock market will also fluctuate. Stock market is one of the economic movers in a country, because stock market is the instrument to make a capital and accumulation of long term fund for improving people participation in circulating fund to finance national development (Novianto, 2011, p.3).

At first, Indonesia Stock Exchange (IDX) only had one kind of composite index namely Jakarta Composite Index (JCI) or *Indeks Harga Saham Gabungan (IHSG)*, which was established on April 1st 1983 as the indicator of all stock. At that time, the listed stocks were 13 stocks. As the development of stock market, the amount of stocks which were listed experienced the development also. This condition motivated the occurrence of other index to ease the investor in their analysis of the stock traded in Indonesia Stock Exchange (IDX). With this development, there are more indices in Indonesia Stock Exchange (IDX) such as Jakarta Composite Index (JCI) or *Indeks Harga Saham Gabungan (IHSG)*, Individual Index, Sectoral Index, LQ45 Index, Jakarta Islamic Index (JII), Primary Stock, and Development Index.

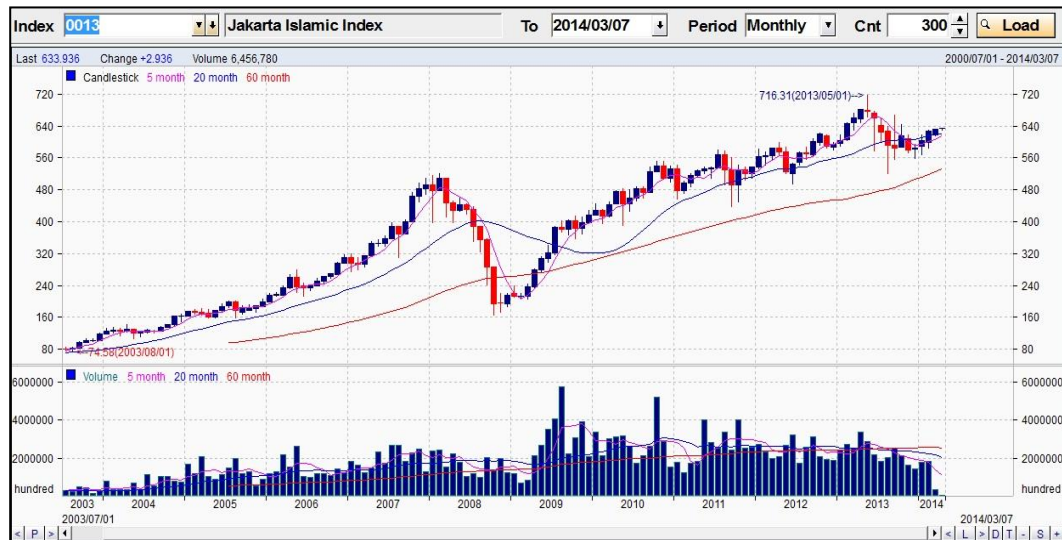
There are so many sectors (agriculture, mining, finance, consumers good, miscelanous industry, etc) in the stock market, but they can be classified into two general categories: conventional and sharia. Conventional and sharia were decided and issued by *Majelis Ulama*

Indonesia on July 3rd 2000. Both conventional and sharia stock market are compiled based on the rule of sharia.

Jakarta Composite Index (JCI) or *Indeks Harga Saham Gabungan (IHSG)* consist of all stocks which are listed in Indonesia Stock Exchange (IDX), either conventional and sharia stock of company. But the study in this research focusses on sharia stock market only. This research tries to see which factors that can impact the movement of Islamic stock index.

Jakarta Islamic Index (JII) is the most important component of IHSG which becomes the index of sharia company stock. This index shows the development of sharia companies which are listed in IDX. Through Jakarta Islamic Index (JII) which is already issued by MUI of Indonesia Stock Exchange, people can contribute to the country by giving fund to the saving deficit unit without any worry about the *halal* or *haram* transaction inside it. Because of the existence of JII, people can manage the investment, portfolio, and the company without losing sharia aspect. So, the investor still can get benefit of holding stock such dividen, capital gain, and the right to join the meeting with the other stockholders.

Figure 1.1
Long Term Jakarta Islamic Index



Source: HOTS KDB Daewoo Securities

Based on the graph above, Jakarta Islamic Index is responded positively by market and still in its uptrend up to now. Islamic stock market becomes the important choice for the investors in stock market. It is same with the existance of Islamic Bank. It becomes the need of people especially in this country. Islamic stock market with its index (Jakarta Islamic Index) becomes the indicator which influences the economic condition in Indonesia, it consists of the stocks list of companies which are determined by MUI.

Jakarta Islamic Index is an important component of *Indeks Harga Saham Gabungan (IHSG)* which consists of whole companies stocks. The stocks which are listed in this index (JII) become the choice for moslem

investor, so the investment will not only become the field of income, but it also can become the field of seeking grant of Allah.

In this research, the writer will analyze what factors which influence Jakarta Islamic Index that should be considered before investing. It is expected by this research that investor can get maximum profit both deviden and capital gain through Islamic Capital Market. The variables are Jakarta Islamic Index as the dependent variable while Dow Jones Islamic Market, world gold price and inflation as the independent variables from January 2008 up to September 2013. Those factors will be discussed deeply in this paper. Therefore, the title for this research is **“THE INFLUENCE OF DOW JONES ISLAMIC MARKET, WORLD GOLD PRICE, AND INFLATION ON JAKARTA ISLAMIC INDEX FROM JANUARY 2008 to SEPTEMBER 2013”**

B. LIMITATION OF THE STUDY

This study is limited to these following aspects:

1. Three independent variables are limited to Dow Jones Islamic Market, world gold price and inflation.
2. The study uses monthly data from January 2008 to September 2013

C. PROBLEM FORMULATION OF THE STUDY

Based on the background of the analysis above, the problems of the study are formulated as follow:

1. Do variables such as Dow Jones Islamic Market and world gold price have positive influence on Jakarta Islamic Index in Indonesia Stock Exchange (IDX) from January 2008 to September 2013 in long run and short run?
2. Does inflation have negative influence on Jakarta Islamic Index in Indonesia Stock Exchange (IDX) from January 2008 to September 2013 in long run and short run?

D. PURPOSES OF THE STUDY

The purposes of this study are:

1. To analyze how the effects of the Dow Jones Islamic Market to the Jakarta Islamic Index in Indonesia Stock Exchange (IDX) from January 2008 to September 2013 in long run and short run are.
2. To analyze how the effects of the inflation to the Jakarta Islamic Index in Indonesia Stock Exchange (IDX) from January 2008 to September 2013 in long run and short run are.
3. To analyze how the effects of the world gold price to the Jakarta Islamic Index in Indonesia Stock Exchange (IDX)

from January 2008 to September 2013 in long run and short run are.

E. BENEFITS OF STUDY

The result of the study is expected to benefit all parties and readers, especially for:

1. Investors

It is expected that this study can give the reference, judgment, opinion and consideration of investment planning in Jakarta Islamic Index. It can be stock selection, time to entry and time to sell. So, it can maximize the profit of them both deviden and capital gain.

2. Scholars

It is expected that this study can also provide additional infomation for further research.