CHAPTER I
INTRODUCTION

A. Research Background

Proposed by Fama (1970), the Efficient Market Hypothesis (EMH) assumes "Fair Game" condition, where stock price follow random walk or no consistent pattern in stock return, therefore the investor could not predict the future price by using previous price data since price changes are independent. The hypothesis also assume that market considered as efficient if the investors are rational and market absorbs all available information. The market price will fully and quickly adjust to new information because information is cheap and available for everyone at the market (Yalçın, 2010). Otherwise, the market will be considered as inefficient if stock prices need much time to adjust with new information.

The market anomalies show up as market movements that are conflicting with the Efficient Market Hypothesis (EMH). The evidence against this hypothesis is growing and many studies have found the predictability of the return. The investor rationality assumption is tested by the expanding number of studies examining the presence of anomaly (Wasiuzzaman & Al-Musehel, 2017). The predictable pattern in stock market can be seen in the form of calendar anomalies such as holiday effect, January effect, the day of the week effect (Drogalas & Athianos, 2007). One of the interest topic of calendar anomaly is holiday effect. One of the studies conducted by (Ariel, 1970) found the effect of holidays as evidenced by a higher return of up to nine to fourteen times on the value-weighted index. This can be evidence that holidays can affect the mood of investors, which makes investors not always behave rationally in making their decision, especially when investors are in a good mood (Wasiuzzaman & Al-Musehel, 2017).

In some cases, holiday effects can be found but may not always be present. The study conducted by (Shan, 2013) assume that there is no religious holiday effect in Malaysia stock market. Holiday effects were also not found in the nine economic sectors on the Johannesburg Stock Exchange (Rowjee, 2014). By using 50 Portuguese firm (Gama & Vieira, 2013) found no pre-holiday and post-holiday effect and there is not significantly different in means in any of the series studied. Otherwise, some studies have found the effect of the holidays. Many studies such as (Chiu, 2019), (Brockman & Michayluk, 2010), and (Surachai, Sattra, & Pongsutti, 2018) conclude that the holiday effect is exist. By focusing her research on tourism sector, Chiu (2019) using the restaurant firm that listed on United States market in the period of 14 holidays during 2011 until 2016. The result shows up that the abnormal on post-holiday is significantly higher than the pre-holiday and show the negative volatility. Followed by Surachai et. al (2018), by using the GARCH (1,1) model and EGARCH (1,1) model showed the result that there is significant higher return in the pre-holiday and post-holiday than the normal day on Thai stock market. Brockman & Michayluk (2010) also found the persistent holiday effect across time and size (price)-based portfolios.

There are also many studies that support anomalies around the time of religious / cultural holidays. For instance, a study of the Chinese Lunar New Year Holiday by (Yuan & Gupta, 2014) find that the pre-event has positive significant effect in China, Hongkong, Japan, Malaysia, South Korea, and Taiwan. Another study on Jewish religious holidays namely Rosh Hashana, Yom Kippur and St. Patrick's Day conducted by (Frieder & Subrahmanyam, 2004) found high returns on the two days before and on the day when the Rosh Hashanah was held but found a significantly lower return at the time of Yom Kippur and the day after. In this study it was also found that the trading volume was lower during this holiday. It believed that the sentiment and the mood of the investors before, during and after religious or cultural occasion is playing role in the condition of the stock market. It also supported by the study conducted by (Pantzalis & Ucar, 2014) that analysed the investors' mood and ability to react the firm news or information quickly during Easter week holiday and found that the investors are distracted during this religious holiday that led to delayed or incomplete information processing.

The discovery of the effects of the religious holidays does not only occur on certain religious holidays but also present on Islamic religious holidays. Many religious days are owned by Muslims around the world such as the Islamic New Year, the birthday of Prophet Muhammad (PBUH), the holy month of Ramadan and Eid al-Fitr. One of the holidays that are of concern is in the holy month of Ramadan especially in the Eid al-Fitr holidays. Many studies have raised the topic of stock performance during these occasions. One of them conducted by (McGowan & Jakob, 2010) that investigate Eid al-Fitr effect in Malaysia stock exchange especially in Syariah index and assume that the effect is insignificant. On the other hand, different result found by (Ali, Akhter, & Ashraf, 2017) when investigates Muslim Holyday in Asia stock market including Bahrain, Pakistan, Saudi Arabia, and Turkey. They found that return on Eid al-Fitr is higher than any other days and become the highest average among Muslim holy day. (Atala, 2015) also investigate about Eid al-Fitr in Nairobi Securities Exchange, there is high change of positive cumulative abnormal return in 2013 but decreasing on the pre-holiday and turn to be positive after the event period. Investor's behaviour and sentiment are also believed to have role in the occurrence of this effect.

The Ramadhan month playing a huge role in the investor behaviour. During Ramadhan, many religious activities are conducted by Muslim in all over the world and one of them is fasting. (Sonjaya & Wahyudi, 2016) mention several factors caused by fasting during Ramadan month such as the investor health during fasting, hunger experience during fasting that leads to social empathy to the poor by investor, feeling happy and peaceful, investors' positive moods, and the encouragement to do good deeds and prevent evil deeds could support the existence of Ramadhan effect in the capital market. The month of Ramadan not only affecting the individual spiritual aspect but also affecting the investor activities and social interaction since it could affect the economic activity in the country (Wasiuzzaman & Al-Musehel, 2017). This also supported by several studies conducted by (Al-Hajieh, Redhead, & Rodgers, 2011), (Bialkowski, Etebari, & Wisniewski, 2012), (Gavriilidis, Vasileios, & Ioannis, 2015), (Al-Issis, 2015) has found that return during Ramadhan month is significantly higher rather than any other month in several predominantly Muslim countries. This evidence proof that the Ramadhan month has significant effect especially in the context of Islamic finance (Munusamy, 2019). It also believed that Ramadhan month is included as psychoreligious factor (Bialkowski, Etebari, & Wisniewski, 2012). This condition believed could affected the investors' behaviour during the Eid al-Fitr event.

The changes of trading volume pattern also can used to interpret market reaction or behaviour in facing an event. (Jatmiko, Manahov, & Oblosa, 2014) found there is no significant difference of AAR in both the 2008-2010 period and 2011-2013 periods, otherwise the average of average trading volume activity shows significant difference between the days before and after the event date in the 2011-2013 periods. The same result also occurred when investigating the month of Ramadhan. By applying GJR-GARCH (p,q) model, (Hassan & Kayser, 2019) found that there is no significant relationship of Ramadan month with return and volatility, but significant decrease of trading volume activity occurs during the Ramadhan month in the Dhaka Stock Market (DSE). (Seyyed, Abraham, & Al-Hajji, 2005) also found up there is significant reduction in volatility and trading volume activity but no significant impact of Ramadan month towards weekly return in Saudi stock market index and six sectors index.

Some of the above studies prove the existence of Eid al-Fitr holiday effect on the stock markets of countries with predominantly Muslim populations. Based on Worldatlas.com, Indonesia had a population of 227,226,404 Muslims in 2009. Thus, Indonesia became the most populous Muslim country in the world. This makes Indonesia the right object to evaluate the anomalous effects of Islamic holidays, especially the Eid al-Fitr Holiday. The celebration of Eid al-Fitr in Indonesia is celebrated with great enthusiasm. There are many traditions that exist during Eid al-Fitr such as *Mudik* or homecoming tradition and open house tradition that letting another family, relatives, to friends to visit their house and serves special dishes for Eid al-Fitr. The holiday bonus can also increase consumption around this holiday. This can be opportunity for the company to increase their profit during this occasion.

Based on all the above statements, writer aims to develop a research paper entitled "ANALYSIS OF THE EID AL-FITR HOLIDAY ANOMALY ON ABNORMAL RETURN AND TRADING VOLUME ACTIVITY: CASE STUDY OF JAKARTA ISLAMIC INDEX DURING 2017-2019". The Indonesian stock market itself was chosen to be the topic of this thesis because Indonesia has the largest Muslim population in the world since that Eid al-Fitr Holiday considered to be the biggest Religion holiday in that country. Jakarta Islamic Index also chosen since it is a sharia index in Indonesia which consist of thirty companies whose main business is in the sector that is halal or in accordance with sharia law. With this condition, companies that engaged in non-halal sector will be excluded.

B. Research Problem

Based on the background explanation above, the problem in this research can be defined as follow:

1. Does Eid Al-Fitr holiday create significant difference from the average abnormal return before and after Eid al-Fitr on the Jakarta Islamic Index in Indonesia Stock Exchange during the 2017-2019 period?
2. Does Eid Al-Fitr holiday create significant difference from the average trading volume activity before and after Eid al-Fitr on the Jakarta Islamic Index in Indonesia Stock Exchange during the 2017-2019 period?

C. Research Objective

Based on the background and research problem, the objectives of this research are:

1. To find out whether there is a significant difference of the average abnormal return on the Jakarta Islamic Index in the Indonesia stock exchange in 2017-2019 before and after the Eid al-Fitr holiday
2. To find out whether there is a significant difference of the average trading volume activity on the Jakarta Islamic Index in the Indonesia stock exchange in 2017-2019 before and after the Eid al-Fitr holiday

D. Research Benefit

The authors hope this research can give contribute many benefits to many parties. The benefit of this research that can be taken as follows:

1. Theoretically

   The author hopes that this paper can contribute by becoming a reference or empirical data for further research. This paper is also expected to broaden researchers' insights about the market permit hypothesis and its anomalies, particularly regarding religious anomalies, namely the effect of Eid al-Fitr Holiday. Given this matter, whether it will have a significant impact on the abnormal returns and trading volume activity in the market or sector studied, this can be a consideration and reference for the future.

2. Practically

a. For the author, this study could increase author knowledge about the existence of Islamic religious holiday anomaly especially Ramadhan effect in Indonesia.
b. For the company, this study is expected to be a reference material and information for companies on how investors react in responding to Ramadan effect.
c. For the investor, this study is expected to be a reference for information regarding the anomalies of the Ramadan in the Indonesian capital market conditions. This study is also expected to be able to assist investors in formulating strategies to maximize the profits they get.