THE INFLUENCE OF TRADING DAY ON THE VALUES OF COMPANIES THROUGH RETURNS, ABNORMAL STOCK RETURNS IN THE INDONESIAN STOCK EXCHANGE

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Abstract: This study aims to identify and to analyze whether Trading day directly influences stock returns in the Indonesia Stock Exchange. Trading day directly influences abnormal stock returns in the Indonesia Stock Exchange. Trading day indirectly influences the value of companies through stock returns in the Indonesia Stock Exchange. Trading day indirectly influences the value of companies through abnormal stock returns in the Indonesia Stock Exchange. This study were conducted at 50 listed companies in 12 industry sectors recorded in the Indonesia Stock Exchange / IDX (Indonesia Stock Exchange / IDX), Jakarta and local individual investors listed on the Indonesian Central Securities Depository (KSEI) Jakarta. The timing of the study was planned in January 2014 to June 2014. The result show that Trading day had no direct negative impact on stock returns, but the positive effect was not significant. The positive influence of trading day on stock returns impacts on abnormal returns despite increasing market return in conditions of stagnant or rising. The increase in stock returns will become a positive effect on the value of companies. The influence of trading day on increasing abnormal returns and the values of companies but otherwise high abnormal returns actually reduced the values of companies.

Keywords: Trading Day, Value of Companies, Return, Abnormal Stock Return

1. INTRODUCTION

The capital market is one of the effective means of capital formation and allocation of funds directed to increase community’s participation in order to support national development and funding. In fact, the assumption of rationality of investors is difficult to meet because the investors in the capital market often behave irrationally (irrational behavior). The market may react quickly to information (as implied by the Efficient Market Hypothesis), but it is also possible that there are subjective elements, emotion and other psychological factors that are even more dominant in influencing the reaction.
The fall of stock prices in the market often occurs due to excessive mass hysteria, which cannot be explained by logic. The desire to invest would be motivated by a variety of information before making investment decisions. The phenomenon that occurs in the capital market of Indonesia (Indonesia Stock Exchange) until December 2013 shows that stock trading is still dominated by foreign investors with 62.94%, while they controlled 37.06%. The opinion of investors from 10 people who were observed in 2013 confirms that stock trading that well expected are generally preceded by foreign investors because they have an advantage in the control of “market information”. The tendency of negative returns on Monday is determined more by psychological factors, wherein the factors causing the lack of rational behaviors and decisions of investors will be more influenced by emotional factors, psychological behaviors, and desire (mood) of the investors. The fact shows that there are differences in returns on each trading day. Based on the background, the formulation of the problems is as follows: (1) Trading day directly influences stock returns in the Indonesia Stock Exchange? (2) Trading day directly influences abnormal stock returns in the Indonesia Stock Exchange? (3) Trading day directly influences the value of companies in the Indonesia Stock Exchange? (4) Trading day indirectly influences the value of companies through stock returns in the Indonesia Stock Exchange? (5) Trading day indirectly influences the value of companies through abnormal stock returns in the Indonesia Stock Exchange? This study aims to identify and to analyze whether Trading day directly influences stock returns in the Indonesia Stock Exchange. Trading day directly influences abnormal stock returns in the Indonesia Stock Exchange. Trading day directly influences the value of companies in the Indonesia Stock Exchange. Trading day indirectly influences the value of companies through stock returns in the Indonesia Stock Exchange. Trading day indirectly influences the value of companies through abnormal stock returns in the Indonesia Stock Exchange.

2. LITERATURE REVIEW

2.1. Theoretical and Conceptual Reviews

2.1.1. Efficient Market Hypothesis

The concept of efficient market by Fama (1970), in this context what is referred to the market is the capital market (capital market) and money market. A market is said to be efficient if no one, either individual investors or institutional investors, will be able to earn abnormal returns (abnormal return), after adjusting for risk, by using the existing trading strategies.

2.1.2. Investments

The definition of investments according to Tandelilin (2001: 3) is a commitment of a number of funds or other resources committed at a time, with the goal of obtaining
a number of advantages in the future. Halim (2005: 4) states that investments are essentially the placement of the funds at a time with the hope to make a profit in the future. It can be concluded that investments are commitments of the use of money for a given object with the aim that the value of the object during the investment period will increase, at least lasts and during that period also gives the results to investors.

2.1.3. **Stock Price Index**

Stock price index is an indicator that shows the movement of the stock price. The index serves as an indicator of market trends, meaning that the index movement portrays the market conditions at the time the market are active or lethargic. The most common index is the Composite Stock Price Index-CSPI (Composite Stock Price Index), meaning that the index reflects the movement of all shares listed on the exchange.

2.1.4. **Stock Returns**

Stock returns are the benefits of owning a stock by investors on their investments, which consist of dividends and capital gains / losses. To obtain a specific return or profit, an investor must also consider the risks to be borne if he wants to obtain a certain return. Risk is the possibility of differences between actual returns received from the expected return.

2.1.5. **Stock Abnormal Returns**

Abnormal returns are the returns obtained by investors which are not in accordance with expectations. Abnormal returns are the difference between the expected returns with the returns obtained. The difference will be positive if the returns obtained are greater than the expected returns or the calculated returns. While the returns will be negative if the returns obtained are smaller than the expected return or the calculated returns.

2.1.6. **Expected Return**

Expected stock returns are the level of profit expected by investors on their investments.

2.1.7. **The Values of Companies**

Husnan (2000), defines that the values of companies are the price that a potential buyer is willing to pay if the company is to be sold. Keown (2004), states that the value of companies is the market value of debt and equity securities circulated by the company. The value of companies is investors’ perception of the level of success of the company often associated with the investment.
2.2. Empirical Review

Several studies have been conducted to test the influence of trading day, the psychology to daily returns, abnormal returns, and the value of companies in the capital market. The results of previous study by Cross (1973), it is found that there are negative returns on Monday, supported by Gibbons and Hess (1981), Rogalski (1984). Wang et al. (1997) found supports for the results of the previous studies, but there is uniqueness, that the effect of the weekend has shifted from the characteristics of the active trading on Monday became the characteristics of a non trading over the weekend. Brument and Kiymaz (2001) argue that the highest returns happen on Wednesday and the lowest returns occur on Monday. Meanwhile in the Indonesian stock market, it was found the results of various studies including Tandelilin and Algifari (1998) who state there is day of the week effect on the Jakarta Stock Exchange by mentioning that the highest returns occur on Wednesday and the lowest on Mondays. Further testing on different daily stocks return shows that different daily stock returns occur on Tuesday and Wednesday. Furthermore, they add that significant abnormal returns occur on Tuesday and Wednesday. Manurung (2001), based on annual analysis finds that whether the rate of returns negative or positive is not significant in the study period. Positive returns on Monday do not only occur in bullish markets but also during bearish.

3. RESEARCH METHOD

![Figure 1: Conceptual Framework Model of the Study](image)

The system model of the conceptual framework in this study is shown in Figure 2:

The hypothesis testing:
H1: Trading Day has negative impact to return
H2: Trading Day has negative impact to abnormal return
H3: Trading Day has positive impact to value company
H4: Trading Day has positive indirect impact to value company with return’s mediation
H5: Trading Day has positive indirect impact to value company with abnormal return’s mediation

This study were conducted at 50 listed companies in 12 industry sectors recorded in the Indonesia Stock Exchange / IDX (Indonesia Stock Exchange / IDX), Jakarta and local individual investors listed on the Indonesian Central Securities Depository (KSEI) Jakarta. The timing of the study was planned in January 2014 to June 2014. The types of data in this research were quantitative data. The data source of this research was secondary data that would be obtained from the Indonesian Capital Market Electronic Library (Indonesian CAMEL). The data collection methods in this study were: secondary data (trade data, returns, abnormal returns and the values of companies), acquired through the study of documentation on various reports both the Indonesia Stock Exchange (BEI) and the Capital Market Electronic Library (Indonesian CAMEL). In this study, there were three sections of variables grouping, namely: (1) there were two variables that explained, namely: trading day called exogenous variables or independent variables because these variables were not influenced by antecedent variables; (2) there were three variables that were described as follows: returns, abnormal returns and the values of companies, called endogenous or dependent variables because it was influenced by antecedent variables; (3) there were two endogenous variables that had the antecedent and consequent variables namely return and abnormal return variables called the mediating variables.

(1) Trading Day Monday to Friday. The days on which stock trading is conducted. Using a variable dummy DSen = 1 for Monday and other days 0, and so on. (2) Investor’s Psychology The decision of investors in trading. Information, desire (mood), emotion, overconfidence. (3) Stock Returns. The level of profits enjoyed on investments in shares. (4) Abnormal Stock Returns. The differences in
expected returns with actual returns. (5) The values of Companies. Enterprise’s values are defined as the market values. The data analysis techniques used were descriptive statistical analysis and inferential statistical analysis.

4. RESULT AND DISCUSSION

Structural Model of the Study

This structural model was to examine the influence of the variables according to the model built. Structural testing between trading day, stock returns, abnormal returns and the values of companies variables. The testing Results of the structural model can be seen in Figure 3. below.

In the above structural model, the chi-square value of 20.94, df of 15, the p-value of 0.138 and RMSEA of 0.040. the chi-square value obtained was already low and the p-value 0.138 was higher than 0.05, because the p-value of 0.138> 0.05 then the model was acceptable because the empirical data and the model developed were not different or the sample correlation matrix was the same as the model. To
evaluate the model fit, other fit indices tests were conducted. It can be seen in Table 2. below.

Based on Table 2, the Goodness of fit test values are shown, where the chi-square value of 20.94, the p-value obtained of 0.138, as well as CMIN / df value that is the ratio between the chi-square value with the degrees of freedom (df) amounted to 1,396 in conformity with the criteria of model fit that is smaller (<2)

![Figure 3: Structural Model](source)

**Table 2**

<table>
<thead>
<tr>
<th>GOF Size</th>
<th>Estimates</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>20.94</td>
<td>Low</td>
</tr>
<tr>
<td>Nilai P-value</td>
<td>0.138</td>
<td>Fit</td>
</tr>
<tr>
<td>CMIN/df</td>
<td>1.396</td>
<td>Fit</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.040</td>
<td>Fit</td>
</tr>
<tr>
<td>GFI</td>
<td>0.951</td>
<td>Fit</td>
</tr>
<tr>
<td>AGFI</td>
<td>0.907</td>
<td>Fit</td>
</tr>
<tr>
<td>NFI</td>
<td>0.978</td>
<td>Fit</td>
</tr>
<tr>
<td>IFI</td>
<td>0.993</td>
<td>Fit</td>
</tr>
<tr>
<td>CFI</td>
<td>0.993</td>
<td>Fit</td>
</tr>
</tbody>
</table>

**Indicator**

<table>
<thead>
<tr>
<th>Standard Loading</th>
<th>t-value</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>0.85</td>
<td>-</td>
</tr>
<tr>
<td>X2</td>
<td>0.65</td>
<td>9.71</td>
</tr>
<tr>
<td>X3</td>
<td>0.62</td>
<td>9.28</td>
</tr>
<tr>
<td>X4</td>
<td>0.57</td>
<td>11.26</td>
</tr>
<tr>
<td>X5</td>
<td>0.70</td>
<td>10.48</td>
</tr>
</tbody>
</table>

*Source: Data Processed (2014)*
The Value of Root Means Error of Approximation (RMSEA) is a measure of the most informative models that measure the deviation parameter values in a model with covariance matrix and a population of this size and does not depend on the number of samples. The (RMSEA) obtained was 0.040 and this value was <0.08 that indicated a fit model. The Goodness Fit Index (GFI), the size of the accuracy of the model in generating the covariance matrix of observation. The GFI value obtained was 0.979 and higher than the criteria (<0.90). In addition to the size of the GFI, AGFI was also in the same size but had to adjust the influence of the degree of freedom (df) in the model. Fit model is a model that has AGFI> 0.90. the AGFI value obtained was 0.951 and also higher than the limits of the fit criteria of> 0.90.

Normed Fit Index (NFI) is an alternative to determine the model fit, where the value of the NFI obtained was 0.958 and greater than the criteria (> 0.90), then the model can be said to fit. The NFI value has a tendency to patronize small fit sample, because it used the value of Comparative Fit Index that compares the hypothesized model and the independence models. The CFI value obtained was 0.978 and higher than the cut-off criteria, so that the model was fit. Value Incremental Fit Index (IFI) is used to overcome the problem of parsimony and sample size. The IFI value obtained was 0.993 and higher than the cut-off limit (> 0.90) then the model was fit. Overall, the Goodness of Fit test showed the model could be accepted and fit with the observation data.

Standard value of the latent variable loading indicators of trading day, the lowest standard loading value on X4 indicators was 0.57, the highest was on X1 indicator of 0.85. While X3 loading value was 0.62, X4 of 0.57 and X5 indicator of 0.70. Each t-value of those five indicators was bigger (1.960). This suggests that these indicators were significant and valid as a forming of the latent variable of trading day.

Hypothesis testing. To test the hypothesis by observing t-count and t-table scores, if the t-count score > t-table (1.96) then the null hypothesis is rejected. The test results can be seen in Table 5.4. In Table 5.3 above, the value of regression coefficient and t-count of exogenous variables (independent) and exogenous variables (dependent). The more complete testing results are as follows:

Hypothesis 1. The coefficient of the influence of trading days to stock returns, the t-table was 0.031 and t-table of 0.387, because the t-count of 0.387 < t-table 1.960 then the null hypothesis which stated that there was no negative influence of trading day on stock returns was accepted.

Hypothesis 2. The coefficient of the influence of trading days to stock returns, the t-table was 0.014 and the t-count 0.178, because the t-count of 0.178 < t-table 1.960 then the null hypothesis which stated that there was no negative influence of trading day on stock returns was accepted.
Hypothesis 3. The coefficient of the influence of trading day to the values of companies was 0.334 and the t-count of 4.204, because the t-count 0.334 > the t-table of 1.960 then the null hypothesis that proved that there was a significant positive effect of trading day on the values of companies was rejected.

Hypothesis 4. The coefficient of the influence of stock returns on the values of companies, the t-table was 0.064 and the t-count of 0.241, because the t-count of 0.241 < the t-table of 1.960 it can be stated that there was no significant direct effect of stock returns on the values of companies. Due to the influence of trading day on stock returns did not directly and significantly affect stock returns, there were also no significant direct effects of stock returns to the values of companies. The null hypothesis which stated that there was an indirect effect of trading day on the values of companies through stock returns was accepted.

Hypothesis 5. The coefficient of the influence of abnormal returns on the values of companies, the t-table was -0.062 and the t-count of -0.235, because the t-count of -0.235 < the t-table of 1.960 it can be stated that there was no significant direct effect of abnormal returns on the values of companies. Due to the influence of trading day on abnormal returns did not significantly and directly affect and significant abnormal returns did also not directly influence to the values of companies. Then the null hypothesis that stated that there was an indirect effect of trading day on the values of companies through abnormal returns was accepted.

The Structural equations formed are as follows:

The values of companies = 0.064 * stock_returns - 0.062 * abnormal_returns + 0.33 * trading day. The value of R square (R2) 0.083 is a variable coefficient value of trading day, stock returns and abnormal returns on the value of companies. The variations on the variable of the values of companies can be explained by trading day, the stock returns and abnormal returns variables of 8.3% (0.083x100%) while the remaining 91.7% is explained by other variables outside the model.

The results show that trading day had no direct negative impact on stock returns, but the positive effects was not significant. The results of empirical study provides evidence that trading days of Monday and Friday are the trading days that give effects to the stock returns higher than on Tuesday, Wednesday and Thursday. The results show that trading day did not negatively influence abnormal returns, but the positive effect was not significant. The positive influence of trading day on stock return affected abnormal returns despite increasing market returns in conditions of stagnant or rising. This condition occurred because the stock returns earned on the trading day make investors very optimistic. The results showed that the positive effect of trading day was not significant to market returns. Meanwhile, trading day had significant positive effects on the values of companies. The results showed that trading day had no significant positive effects on abnormal returns, while abnormal returns had no negatively effect on the values of
companies. The influence of trading day on increasing abnormal returns and the value of companies but otherwise high abnormal returns actually reduced the values of companies.

5. CONCLUSIONS
Trading day had no direct negative impact on stock returns, but the positive effect was not significant. The positive influence of trading day on stock return impacts on abnormal returns despite increasing market return in conditions of stagnant or rising. The increase in stock returns will become a positive effect on the value of companies. The influence of trading day on increasing abnormal returns and the values of companies but otherwise high abnormal returns actually reduced the values of companies.

For stock investors in Indonesia, of the variables that influence the values of companies, only trading day variables which have significantly influence while stock returns and abnormal returns have no significant effect, for stock investors, they can do the following things: (1) The increase in stock returns, abnormal returns and the values of companies can occur on the first trading day (Monday) and the closing day (Friday) these events can be triggered by information obtained both negative and positive information on the day. This increase is only temporary because the effect of the reaction on the day of publication of information. So investors need to be rational in making decisions to buy or sell shares. (2) In addition to the information published, rising share prices on Monday and Friday may occur due to the effects of irrational investor mood. In order of implications for the development of the theory of the trading day, returns, abnormal stock returns, and the values of companies, the next studies are expected to: (1) Adding the variables that have not been included in this research model such as: investors’ psychological condition, prevalent opinions and investors’ predictions. (2) Researchers can then conduct research on their respective stock sectors as samples such as: agriculture, mining, basic industries and chemicals, other industrial, consumer goods, property, real estate and construction, transportation, infrastructure and utilities, finance and trade, services and investment.

References


