

CHAPTER V

CONCLUSION

A. Conclusion

This study started by descriptive statistics examination and then followed by the Augmented Dickey Fuller - Unit Root testing and continued further with the cointegration and causality testing. This study occupied *Vector Autoregressive Model* estimation. It continued by the Impulse Response and Variance Decomposition Analysis and the forecasting are conducted.

The descriptive statistics examination defines that all variables of the study exhibit positive mean. It defines that RJII10 and Oil price is negatively skewed while BIR, CPI and Trading Volume are positively skewed. Before conducting the ADF unit root test the lag length is determined in lag 5 based on the comparison result of SIC, AIC and Automatic *Eviews7* lag length determination. It is derived lag 5 as the most appropriate lag to continue this study.

The ADF test in lag 5 confirms the stationary of all variables at the first difference. The further Johansen-Juselius Cointegration test defines the long term relationship between JII10 stock returns and the selected macroeconomic variables in 5% significant level ($\alpha = 0.05$). The Granger Causality test defines the causal

relationship among JII10 stock returns and CPI, BIR and Oil, while trading volume is excluded from the model because it had no causal relationship.

In long term relationship the *Vector Autoregressive Model Estimation* concludes negative influence of Bank Indonesia Interest rate and Brent International Oil price to JII10 stock returns. Meanwhile it defines positive influence of Costumer Price Index to JII10 stock returns. It contradicts study hypothesis of negative relationship between CPI and stock returns; however, this contradiction might be caused of Indonesia national economic growth that lead to the increasing in Indonesia purchasing power. Therefore the higher price index implies the higher demand of the 10 companies' product and so increased their sales. The increasing in sales leads to direct increasing in their profit.

The Impulse Response and Variance Decomposition analysis defines that CPI is the most capable variable in influencing JII10 stock returns rather than BIR and Oil. CPI able to explain 45.13% of JII10 stock returns, while BIR and Oil are capable to explain 14.73% and 4.57% of JII10 stock returns respectively.

Eventually, the *VAR (5)* forecasting predicts negative stock returns potential in 2013. It might be caused by the continuous decreasing of Bank Indonesia interest rate and the fluctuating international oil price. Bank Indonesia interest rate as the Indonesia national benchmark of commercial bank contributes major role to

determine their investment portfolio. This study accept the other variables such as foreign direct investment, national economic stability, international economic condition and traders speculative behavior as the determinant variable that caused into negative sentiment in JII10 2013 stock returns.

B. Recommendations

Researcher recommends to stock market investors to be aware of the latest condition and phenomena occurred in the market. It is important to observe Bank Indonesia interest rate, costumer price index and oil price before any decision to expand investment portfolio.

The negative forecasting value of JII10 stock returns reflects the negative sentiment in the stock market. The researcher recommends long term investor to take this as a golden time to buy and collect the stocks and enrich their stock portfolio. In particular for domestic investor it becomes the rare occasion to enter and add their capacity over the foreign investor. When Indonesia stock market is dominated by domestic investor, it will minimize capital outflow effect that always occurred from time to time.

The researcher also recommends that Bank Indonesia and Financial Services Authority (OJK) to be consistent in maintaining and produce the prudent monetary regulations in order to prevent toxic asset from financial engineering. The prudent regulation in capital market aims to protect national financial and real economy from

international negative domino effects such as exchange rate risk, market risk, default risk, arbitrage risk and hot money effect. In particular, researcher recommends Bank Indonesia to maintain it floating interest rate system regarding to international and domestic economic condition. Bank Indonesia must continue to consider the inflation, international economic activities and international-domestic economic condition to determine domestic interest rates' benchmark. To maintain stock market stability in 2013, Bank Indonesia must decrease it interest rates' benchmark. It supposed to stimulate fund movement from saving or deposit account to capital market.

The researcher recommends fiscal authority to reduce tax on stock income or eliminate it. It supposed to stimulate community antusiasms in stock market investment. The current income on stocks tax 10% becomes relatively burden for the retail investors. Lastly, the researcher recommends to the future research to be conducted in particular to other capital market income (dividend) and up size the number of observed companies.

C. DISCLAIMER ON

This research is conducted on the basis of academic purpose with no intention

to harm or defame any person, company, and institution mentioned in this study.