
STOCK MARKET REACTION TOWARDS THE ANNOUNCEMENT OF INDONESIAN PRESIDENTIAL ELECTION RESULTS

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Abstract

There are several factors influence stock market reactions, namely political events. This paper uses event study methodology to study the stock price reaction to political events, particularly the official announcements of Indonesian Presidential Election results of 2004, 2009, and 2014 by General Election Commission. The event window was twenty-nine days (fourteen days before the event, during the event, and fourteen days after the event). By using stocks of the LQ45 category, we analyzed stock market reactions and average abnormal return around the official announcement of 2004, 2009, and 2014 Presidential Election. Other factor, i.e. quick count, is also discussed in this study as it influenced to the stock market reactions.

Keywords: *political event, Presidential Election, stock market reaction, average abnormal return*

1. INTRODUCTION

It is important to consider political risks and its effects when we invest on the stock market. The political event may raise uncertainty on the macroeconomic policies in the future, giving rise to concerns on market participants to make investment decisions. Economic policy needs political support from various parties. It allows a wide range of economic policy and the investment conditions change because of political pressure from various parties, including the opposition and some people who have power in parliament. After all, stock returns can be affected by government policies and political connections during the presidential election process (Imai & Shelton 2011; Lin et al. 2015).

Political uncertainty results in different impact on exchange rate in four developed countries: Australia, United Kingdom and United States yet Germany due

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to political constraints (Hays et.al, 2003). Developing countries have higher political fluctuation rate than developed countries. Political uncertainty emphasizes that when investors invest on developing countries, they need to keep an eye on current and future political events.

The presidential election in 2004 undergone major changes because the president and vice president elected directly by the people. Previously, president and vice president are voted by the Congress. Presidential elections held three times from 2004 to 2014, i.e. in 2004, 2009, and 2014. Before the real count is announced by General Election Commissions, various unofficial institutions (Indonesia Research Center, Indonesian Survey Institute, Indonesian Political Indicator, National Survey Institute) conducted quick count. Real count conducted by General Election Commissions usually takes many days to complete while the result of quick count takes approximately one day to finish.

Does quick count contain any information, so that investors may use the information to make decisions on their portfolio or they may use the information derived from real count by General Election Commission? If investors know what may happen during political events occur, and comprehend the effect of it towards stock market, they will make a decision on their portfolios carefully. Understanding about stock market reaction towards an event can be used as a benchmark for investors whether they will sell, buy, or hold stocks.

Based on the discussion above, the purpose of this research are: (1) to determine whether there are significant stock market reactions around the announcement of Presidential Election results in 2004, 2009, and 2014 and (2) determine whether there are differences in average abnormal returns before and after the announcement of Presidential Election results in 2004, 2009, and 2014.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

An ideal market mentioned by Fama (1970) is whereby investors can choose among the securities that represent ownership of firm's activities, security prices at any time "fully reflect" all available information. An efficient occurs wherein it reflect all available information. The efficient market from the point of information only called informationally efficient market. Fama (1970) divided informationally efficient market into three forms, i.e. weak form, semi-strong form, and strong form.

A market is said to be semi-strong form if security prices fully reflect all publicly available information, including information on financial statements. If the market is efficiently semi-strong form, neither investor nor group of investors using the public information can get an abnormal return in the long term.

Nezerwe (2013) studied the reaction between two Presidential elections and stock returns in Egypt, and the results showed that they both affected positively towards stock returns caused by the revolution that occurred in the Egyptian government. Taimur & Khan (2015) studied the impact of political and catastrophic events on stock returns of KSE-100 Index. The results suggested that average returns before and after political events were different on 5 days window while catastrophic events showed no impact on stock returns using 1 day, 5 days, and 10 days event windows, but it was observed in 15 days event window.

Based on the explanation mentioned above, several hypotheses can be drawn for this study following:

- H_1a : There are significant stock market reactions around the announcement date of 1st 2004 Presidential Election results.
- H_1b : There are significant stock market reactions around the announcement date of 2nd 2004 Presidential Election results.
- H_1c : There are significant stock market reactions around the announcement date of 2009 Presidential Election results.
- H_1d : There are significant stock market reactions around the announcement date of 2014 Presidential Election results.
- H_2a : There is a difference of average abnormal return before and after 1st 2004 Presidential Election result.
- H_2b : There is a difference of average abnormal return before and after 2nd 2004 Presidential Election result.
- H_2c : There is a difference of average abnormal return before and after 2009 Presidential Election result.
- H_2d : There is a difference of average abnormal return before and after 2014 Presidential Election result.

3. RESEARCH METHOD

This research uses event study, Jogiyanto (2014: 585) says that event study is used to test the reaction of stock market towards an event or announcement. The data used are secondary data namely: daily stock prices of LQ45 Index and listed companies on LQ45. The sampling criteria was any company which did not conduct any corporate actions during window period. After eliminating those companies, the sample can be viewed in Table 1.

Table 1. Population and Sample

The Events	Population	Sample
Announcement of 1 st 2004 Presidential Election result	45	35
Announcement of 2 nd 2004 Presidential Election result	45	42
Announcement of 2009 Presidential Election result	45	37
Announcement of 2014 Presidential Election result	45	45

Documentation method was used in this research. Daily stock price was obtained from finance.yahoo.com. this research used event study method. Generally, the steps of event study mentioned by Jogiyanto (2015: 30) were as follows:

- Determine the tested event
- Identify the event and the date of the event
- Determine the length of window period

The length of window period in this research was 29 days. (14 days before the event, the event, and 14 days after the event). The pre-event aimed to know whether investors might use the information derived from quick count and the post-event period aimed to know if investors might use the information from real count announced by General Election Commissions.

- Eliminate the confounding effects

Confounding effects could cause bias result on the test, therefore they needed to be eliminated from listed companies. Confounding effects are mainly corporate actions undertaken by listed companies which can affect the shareholders, namely: repurchase, right issue, reverse stock split, stock split,

secondary public offering, go private, and announcement of dividend distribution.

- e) Determine the model to calculate the expected return
Market-adjusted model was chosen to calculate the expected return. Market-adjusted model considers that the best way to estimate the expected return is the market return when the event happens.
- f) Test hypothesis 1

Hypothesis 1 stated that there were significant market reactions around the announcement date Presidential Election results in 2004, 2009, and 2014. The first hypothesis tested by determining if there were significant abnormal returns in the event period, from $t - 14$ to $t + 14$. Some stages to test the hypothesis 1 with the following stages:

- a. Calculate the realized return.

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

$R_{i,t}$ = return of stock i period t

$P_{i,t}$ = closing price period t

$P_{i,t-1}$ = closing price period $t-1$

- b. Calculate expected return

$$E(R_{i,t}) = R_{m,t}$$

$E(R_{i,t})$ = expected return of stock i period t

$R_{m,t}$ = market return period t which could be calculated with the pattern: $R_{m,t} = (LQ45_t - LQ45_{t-1}) / LQ45_{t-1}$, $LQ45_t$ was $LQ45$ period t .

- c. Calculate abnormal return

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

$AR_{i,t}$ = abnormal return i period t

$R_{i,t}$ = realized return i period t

$E(R_{i,t})$ = expected return i period t

- d. Calculate average abnormal return

$$AAR_t = \frac{\sum_{i=1}^N AR_{i,t}}{N}$$

AAR_t = average abnormal return period t

$AR_{i,t}$ = abnormal return i period t

N = samples

- e. Calculate t-statistic each date on window period with the pattern:

$$SD_t = \sqrt{\frac{\sum_{i=1}^N (AR_{i,t} - AAR_t)^2}{N-1}} \cdot \frac{1}{\sqrt{N}}$$

and

$$t_t = \frac{AAR_t}{SD_t}$$

t_t = t-statistic i period t

SD_t = standard deviation i period t

$AR_{i,t}$ = abnormal return i period t

AAR_t = average abnormal return i period t .

N = samples

- g) Compare t-statistic or t_{value} to t_{table} by taking decision if $t_{value} < t_{table}$ H_0 accepted, but if jika $t_{value} > t_{table}$ H_0 rejected.

4. RESULT AND ANALYSIS

Hypothesis H_{1a} stated that “there were significant stock market reaction around the announcement date of 1st 2004 Presidential Election result”. Table 2 show that there are statistically significant abnormal return with a significance level of 0.05 during the window period, namely on days -13, -9, and +14. It is based on t_{value} days -13 (2.286), -9 (-2.966), and +14 (-2.372) bigger than t_{table} (2.032). the results suggest that stock market react to the announcement of 1st 2004 Presidential Election result. Therefore, H₀ was rejected and H_{1a} was accepted, so it can be concluded that the announcement of 1st 2004 Presidential Election result contain information.

The investors reacted on day -13, it could be said that they used the information derived from quick count. The quick count result was responded as good news. Investors wanted to know who would win the election, so they could invest their stocks with certainty. Investors believed that quick count result which was done by institution viz. Research Institute of Educational Application of Economic and Social were accurate enough based on their quick count results on previous years. On day -9 there was negative significant abnormal return because of news related to deception occurred during the election. On day 0, General Election Commissions announced the result of real count, investors did not react to it because they had used the information derived from quick count. Therefore the real count result was not a surprise anymore. The negative abnormal return on day +14 was caused by the anticipation towards the 2nd Presidential Election, investors tended to sell their stocks and waited for the election campaigns.

Table 2. Results of AAR Significance Test on the Announcement of 1st 2004 Presidential Election

Day	AAR	t-value	Result
-14	-0.0092	-1.858	Non-Significant
-13	0.0138	2.286	Significant
-12	0.0016	0.596	Non-Significant
-11	0.0026	0.523	Non-Significant
-10	0.0090	2.008	Non-Significant
-9	-0.0110	-2.966	Significant
-8	0.0039	0.665	Non-Significant
-7	-0.0003	0.393	Non-Significant
-6	-0.0068	-1.575	Non-Significant
-5	0.0039	0.384	Non-Significant
-4	0.0001	0.208	Non-Significant
-3	-0.0009	-0.353	Non-Significant
-2	0.0023	0.556	Non-Significant
-1	0.0120	1.695	Non-Significant
0	-0.0050	-1.350	Non-Significant
1	0.0065	1.240	Non-Significant
2	0.0012	0.859	Non-Significant
3	-0.0025	-0.755	Non-Significant
4	0.0032	0.673	Non-Significant

5	-0.0033	-0.868	Non-Significant
6	0.0061	1.384	Non-Significant
7	-0.0011	-0.232	Non-Significant
8	0.0153	1.727	Non-Significant
9	-0.0032	-0.201	Non-Significant
10	-0.0011	-0.272	Non-Significant
11	-0.0011	-0.323	Non-Significant
12	0.0116	1.651	Non-Significant
13	-0.0035	-0.801	Non-Significant
14	-0.0066	-2.372	Significant

Hypothesis H_{1b} stated that “there were significant stock market reaction around the announcement date of 2nd 2004 Presidential Election result”. Table 3 show that there are statistically significant abnormal return with a significance level of 0.05 during the window period, namely on days -13, -7, -5, +2, +3, +9, and +11. It is based on *t*-value on days -13 (-2.558), -7 (-2.900), -5 (-2.216), +2 (3.053), +3 (2.099), +9 (-2.543), and +11 (-2.584) bigger than *t*-table (2.020). The results suggest that stock market react to the announcement of 2nd 2004 Presidential Election result. Therefore, H₀ was rejected and H_{1a} was accepted, so it can be concluded that the announcement of 2nd 2004 Presidential Election result contain information.

The significant positive abnormal return on day -7 indicated that investors reacted to the quick count results which showed that Susilo Bambang Yudhoyono won the 2nd 2004 Presidential Election. It is supported by how accurate the previous quick count were. Compared to real count by General Election Commissions, quick count did not show huge differences. The result of quick count was considered as good news by the investors. Investors believed the quick count which was undertaken by Research Institute of Educational Application of Economic and Social.

The significant negative abnormal return on day -13 was an anticipation of investors to face uncertainties ahead of Presidential Election. While the abnormal return on day -5 caused by news that said Megawati would sue the General Election Commission due to fraudulences occurred during the election. Those information were regarded as bad news for investors.

On day 0, there was no significant abnormal return, because the investors had already reacted on quick count results few days earlier. On days +2 and +3, there were positive abnormal returns. The investors reacted to Megawati had congratulated Susilo Bambang yudhoyono for his winning on the Election. Therefore investors assumed that megawati accepted the result of real count and would not sue the General Election Commissions, which was regarded as good news for them. Significant negative abnormal returns on day +9 and +11 caused by uncertainties related to who would be chosen by President for the cabinet.

Tabel 3. Results of AAR Significance Test on the Announcement of 2nd 2004 Presidential Election

Day	AAR	t-value	Results
-14	0.0038	0.943	Non-Significant
-13	-0.0145	-2.558	Significant
-12	0.0002	0.054	Non-Significant
-11	-0.0046	-1.243	Non-Significant
-10	-0.0010	-0.324	Non-Significant
-9	-0.0024	-0.451	Non-Significant
-8	0.0088	0.869	Non-Significant
-7	0.0193	2.900	Significant
-6	0.0003	0.860	Non-Significant
-5	-0.0083	-2.126	Significant
-4	0.0047	1.126	Non-Significant
-3	-0.0033	-0.726	Non-Significant
-2	-0.0019	-0.376	Non-Significant
-1	0.0056	0.937	Non-Significant
0	-0.0062	-1.233	Non-Significant
1	-0.0033	-0.567	Non-Significant
2	0.0160	3.053	Significant
3	0.0149	2.099	Significant
4	0.0060	1.464	Non-Significant
5	0.0031	0.355	Non-Significant
6	0.0052	1.154	Non-Significant
7	-0.0013	-0.315	Non-Significant
8	0.0051	1.421	Non-Significant
9	-0.0044	-2.543	Significant
10	-0.0024	-0.625	Non-Significant
11	-0.0071	-2.584	Significant
12	-0.0057	-1.950	Non-Significant
13	-0.0027	-0.646	Non-Significant
14	0.0010	0.204	Non-Significant

Hypothesis H_{1c} stated that “there were significant stock market reaction around the announcement date 2009 Presidential Election result”. Table 4 show that there are statistically significant abnormal return with a significance level of 0.05 during the window period, namely on days -13, -5, -1 and +13. Its supported by t_{value} on days -13 (-2.217), -5 (-2.164), +2 (-3.053), and +13 (2.121) bigger than t_{table} (2.028). The results emphasize that stock market react to the announcement of 2009 Presidential Election result. Therefore, H₀ was rejected and H_{1a} was accepted, so it can be concluded that the announcement of 2009 Presidential Election result contain information.

On the window period of 2009, the real count announced by General Election Commission on Saturday (July 25th). It is the day when Indonesian Stock Exchange is off, so we did not calculate day 0 in the significance test. The significant negative abnormal return on day -13 was the anticipation due to 2009 Presidential Election, where investors anticipated the uncertainty that might occur during the election, investors chose to sell their stocks and unwilling to buy stocks. At the time of quick count results released, it turned out that the market did not react as shown by non-

significant abnormal return after the Presidential Election (day -9). The non-significant abnormal return indicated that investors had already expected that Susilo Bambang Yudhoyono would come out as winner on General Election, thus investors did not react as the quick count results were not surprising for them. Investors still believed the quick count results because it had never shown any significant differences since 2004.

Significant negative abnormal return on day -1 caused by statement told by Megawati campaign parties that said Megawati would not attend on the announcement of Presidential Election result. Investors considered the statement as bad news that would lead into to political uncertainty.

After the real count result had been announced, investors did not react to it. It could be said that investors had already known the result of the Presidential Election and waited for the court decision related to rigged Presidential Election so the investors took a wait and see attitude. Kalla-Wiranto And Megwati-Prabowo campaign parties raised disagreement to the real count result to the Constitutional Court. On day +13, the Court decided to reject their lawsuit, hence the decision was a good news for investors as indicated by significant abnormal return on that day.

Tabel 4. Results of AAR Significance Test on the Announcement of 2009 Presidential Election

Day	AAR	t-value	Result
-14	-0.0047	-1.190	Non-Significant
-13	-0.0072	-2.217	Significant
-12	0.0067	1.937	Non-Significant
-11	-0.0061	-1.172	Non-Significant
-10	0.0001	0.018	Non-Significant
-9	-0.0047	-1.313	Non-Significant
-8	0.0010	0.283	Non-Significant
-7	-0.0025	-0.501	Non-Significant
-6	0.0021	0.535	Non-Significant
-5	-0.0055	-2.164	Significant
-4	0.0084	1.605	Non-Significant
-3	0.0046	1.362	Non-Significant
-2	0.0055	1.355	Non-Significant
-1	-0.0088	-3.054	Significant
1	0.0012	0.274	Non-Significant
2	0.0041	1.078	Non-Significant
3	-0.0018	-0.497	Non-Significant
4	-0.0052	-1.416	Non-Significant
5	-0.0036	1.353	Non-Significant
6	0.0052	0.717	Non-Significant
7	-0.0036	-1.013	Non-Significant
8	0.0023	0.560	Non-Significant
9	-0.0050	-1.389	Non-Significant
10	-0.0041	-1.170	Non-Significant
11	0.0008	0.171	Non-Significant
12	0.0050	0.909	Non-Significant
13	0.0078	2.121	Significant
14	0.0032	0.684	Non-Significant

Hypothesis H_{1d} stated that “there were significant stock market reaction around the announcement date 2009 Presidential Election result”. Table 4 show that there are statistically significant abnormal return with a significance level of 0.05 during the window period, namely on days -12, -9, -4, -3, and +5. It’s based on t_value on days -12 (-4.310), -9 (-2.588), -4 (2.435), -3 (-2.903), and +5 (3.036) are bigger than t_table (2.015). The results show that stock market react to the announcement of 2014 Presidential Election result. Therefore, H₀ was rejected dan H_{1a} was accepted, so it could be concluded that the announcement of 2014 Presidential Election result contained information.

The significant negative abnormal return on days -12 and -9 due to the anticiapation of Presidential Election, so investors chose to sell their stocks. After the Presidential Election had been held, there were market reactions on days -4 and -3. Investors reaction on day -4 caused by the majority of quick count showed Jokowi winning the Election. But the positive reaction did not last long, because the confusion between investors regarding the different quick count results that showed up Prabowo winning the Election. Investors assumed the differences were caused by institutions and mass media’s skewness to one of the candidates, hence, they manipulated the results. Contrary to previous Presidential Elections, the differences between quick count results had never happended before. Therefore, investors chose to sell their stocks during the political uncertainty and waited for the real count to be announced by General Election Commissions.

Investors did not react on day 0. Not only they had already known the result but also feared that Prabowo’s disagreement towards the real count would lead to another political uncertainty. The confusion made investors to take a wait and see attitude. The significant abnormal return on day +5 indicated investors reaction the day prior to the court related to rigged election result. It could be said that investors were convinced that the court decision would not affect and change the General Election Commissions’ decision for winning Jokowi. Similar case occurred on previous Presidential Election, the lawsuit led to the court but it did not change the real count result.

Tabel 5. Results of AAR Significance Test on the Announcement of 2014 Presidential Election

Day	AAR	t-value	Result
-14	-0.0044	-1.700	Non-Significant
-13	0.0014	0.610	Non-Significant
-12	0.0097	4.310	Significant
-11	0.0041	1.179	Non-Significant
-10	0.0048	0.913	Non-Significant
-9	-0.0060	-2.588	Significant
-8	-0.0022	-0.465	Non-Significant
-7	-0.0016	-0.539	Non-Significant
-6	-0.0012	-0.529	Non-Significant
-5	0.0004	0.138	Non-Significant
-4	0.0068	2.435	Significant
-3	-0.0062	-2.903	Significant
-2	0.0003	0.133	Non-Significant
-1	0.0056	1.748	Non-Significant
0	-0.0032	-1.404	Non-Significant

1	0.0053	1.796	Non-Significant
2	-0.0001	-0.024	Non-Significant
3	-0.0008	-0.147	Non-Significant
4	0.0021	0.460	Non-Significant
5	0.0079	3.036	Significant
6	0.0028	1.490	Non-Significant
7	-0.0014	-0.626	Non-Significant
8	0.0000	-0.023	Non-Significant
9	-0.0012	-0.502	Non-Significant
10	0.0032	1.535	Non-Significant
11	0.0051	1.831	Non-Significant
12	-0.001	-0.461	Non-Significant
13	0.0026	0.708	Non-Significant
14	0.0019	0.789	Non-Significant

Waiting for the announcement of real counts by General Election Commission took long time. Investors wanted to get certainty immediately to take decisions regarding their portfolios. Hence, investors used information derived from quick count results, so abnormal return occurred. Investors thought that quick count results were accurate, because unofficial institutions continued to maintain their credibility by releasing accurate quick counts. And those quick counts did not show any huge differences with the real counts.

According to Tables 2, 3, 4, and 5, it could be implied that investors react towards the information regarding the Presidential Election results quickly and do not absorb abnormal return slowly. Thus, it can be stressed that Indonesian Stock Market is in semi-strong form. Efficient market occurs when public information widely available to market participants. Not only available widely the information in the same time also cheap enough to afford. In general, investors receive information related to the Presidential Election results through mass media such as television, radio, internet sites, newspaper etc.

Hypothesis 2 stated that “there were differences of average abnormal return before and after 2004, 2009, and 2014 Presidential Election results”. Hypothesis 2 were tested by comparing average abnormal return 14 days before and 14 days after the event. Table 6 shows that the data distribution were normal, therefore we used Paired Sample T-Test. Referring to Table 7, each window periods show greater significance level greater than 0.05, hence, H_0 was accepted. Then it can be concluded that there are no differences between the average abnormal returns before and after the events.

There are several reasons that cause non-significant differences between before and after the announcement of the Presidential Election results in 2004, 2009, and 2014. Leaked information, in other words quick counts cause the non-significant differences. According to Table 2, 3, 4, and 5, in each window periods, investor react to quick counts and any Election-related events or information. Those leaked information caused significant abnormal returns, but they absorbed quickly, so market reactions occurred only in one or two days.

Table 6. Normality Test

Variabel	Significance	Result
AAR 2004 1st pre	0.750	Normal
AAR 2004 1st pos	0.429	Normal
AAR 2004 2nd pre	0.896	Normal
AAR 2004 2nd post	0.843	Normal
AAR 2009 pre	0.737	Normal
AAR 2009 post	0.944	Normal
AAR 2014 pre	0.998	Normal
AAR 2014 post	0.766	Normal

Table 7. Paired Sample T-Test

Variabel	Significance	Result
AAR 2004 1st pre – post	0.915	Non-Significant
AAR 2004 2nd pre – post	0.703	Non-Significant
AAR 2009 pre – post	0.287	Non-Significant
AAR 2014pre – post	0.455	Non-Significant

Fluctuation in average abnormal return during the window periods reflects the uncertainty and instability caused by many events or surprises, namely: anticipations of the Election, the disappointment with President regarding the delay to form cabinet, the lawsuits against the General Election Commissions, disagreement between the candidates towards the real count, the differences between quick count results, etc. affordable or free information regarding the Election results also cause abnormal return to be used quickly. Furthermore, investors also consider fundamental aspect on their portfolio.

5. CONCLUSION AND RECOMMENDATION

Several points can be concluded from this research are: (1) Investors tend to react towards quick count results. Investors want to know the results of Presidential Elections immediately. Therefore, investors do not react on real count results announced by General Election Commissions. Investors also react on any information related to the Election results namely: the disappointment with President regarding the delay to form cabinet, the lawsuits against the General Election Commissions, disagreement between the candidates towards the real counts, the differences between quick count results. (2) There are no differences in average abnormal return before and after the event, namely: a) quick count results, b) abnormal return absorbed quickly c) another events or information related to Presidential Election results also occur 4) investors also consider fundamental information on their portofolios.

Recommendations for investor. It is better for investor to get information that may affect stock market as much as possible such as information regarding political events, so they can be used to make decisions on their portofolios. Stocks not only have higher return but also higher risk, therefore, acquiring and understanding information related to stock market minimize the risk involved.

Future researcch implications. This research use the announcement of real count announced by General Election Commissions as the tested event (t_0). It's

recommended for next research to use the announcement of quick count as the tested event (t_0) to know whether there is differences between average abnormal returns before the event and after the event..

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