

# CHAPTER 1

## 1.1. Introduction and Background

The emergence of the covid-19 pandemic in Indonesia took place, it has been a tragedy and many lives were lost. The spread was very quick and lethal. However, it did not only affect people's health, the economy was also heavily impacted. In order to slow down and prevent the spread of the covid-19, Indonesia has implemented PSBB (*Pembatasan Sosial Berskala Besar*) that acts as the new normal that everyone has to get used to. The procedure of PSBB whose purpose is to prevent the spread of covid-19 includes physical distancing, wearing a mask, online classes for school students and universities, and etc.

The world has undergone a significant shift in the way we live and work since the Covid-19 pandemic took place. As countries' economies around the world have been vastly affected, many retail investors have utilized the 2020 market crash for maximum return on the stock market. As a result, there has been an influx of retail investors who are now interested in technical indicators and fundamental metrics to maximize their returns.

Ever since the covid-19 pandemic hit, countries' economies around the world have been vastly affected, specifically Indonesia's economy. Millions lost their jobs as the major sectors of the economy slowed down. As it has been stated by (BPS, 2021), Indonesia's GDP in quarter 4-2020 compared to quarter 4-2019 experienced a growth contraction by 2.19% year-on-year.

Investing in the capital market in Indonesia offers various instruments such as bonds, mutual funds, term deposits, and other derivative markets. These options provide investors with alternative methods and strategies to invest in the capital market. However, the Covid-19 pandemic severely impacted the economy and almost every aspect of the capital market, including the stock market. As a result, many new retail investors entered the market seeking to take advantage of discounted stock prices.

The influx of new investors has led to concerns about the reliability and accuracy of the information they receive. Many of these investors rely solely on social media for investment information, which may not always be reliable or accurate. The rise of social media has played a significant role in shaping investment decisions. Social media provides a platform for people to share and access information about the stock market. However, not all information on social

media is reliable or accurate, which can lead to uninformed decisions and potential losses. (Liew & Puah, 2017)

Therefore, it is crucial for investors to verify information through reputable sources and conduct their research and analysis before making any investment decisions. While there are many opportunities for investors in the capital market, it is important to approach investments with caution and a well-informed perspective. Investors should be aware that investing in the stock market carries risks and should be approached with proper research and analysis to mitigate potential losses. (Al-Awadhi et al., 2020)



Fig. 1.1 - IHSG Chart Data  
(Source: TradingView, 2020)

Based on the chart data stated above, according to BEI (Bursa Efek Indonesia, 2020), its value has hit the lowest point at approximately losing 30% of its value ever since the covid-19 virus emerged and affected Indonesia.

According to Al-Awadhi et al. (2020), the COVID-19 pandemic has had a profound impact on Indonesia's economy, resulting in unprecedented job losses and a contraction in GDP. The pandemic has also highlighted the importance of reliable and accurate information for making informed investment decisions. Despite the challenges posed by the pandemic, the stock market has presented an opportunity for retail investors to invest in large, well-performing companies.

As a result of the market crash and relatively discounted stock prices, the number of stock investors in Indonesia has increased by 103,6% since the end of 2020 until the end of 2021. (KSEI, 2022).

To mitigate risks and make informed investment decisions, investors must verify information through reputable sources and conduct their research and analysis. In the context of stock investing, two of the most common methods used to analyze a typical stock are fundamental analysis and technical analysis (Liew & Pua, 2017). Technical analysis is more commonly used by short-term to mid-term traders that focus on historical chart movements to maximize return. In contrast, fundamental analysis is more commonly used by long-term investors that focus on companies' performance for long-term benefits.

The LQ45 index is a stock market benchmark that is widely used as a proxy for the overall health of the Indonesian economy. It is composed of the top 45 companies listed in the Indonesia Stock Exchange (IDX) that have relatively high liquidity, market capitalization, and trading frequency. The companies included in the LQ45 index are carefully selected to represent the performance of the Indonesian stock market in terms of market capitalization and liquidity. The LQ45 index is considered as one of the most important benchmarks in the Indonesian stock market and is closely monitored by investors, traders, and analysts alike.

The LQ45 index is a capitalization-weighted index, meaning that the companies with the largest market capitalization have the most significant impact on the index's performance. The index is reconstituted annually, and the companies included in the index may change depending on their liquidity, market capitalization, and trading frequency. The LQ45 index is widely used as a benchmark for mutual funds, exchange-traded funds (ETFs), and other investment products that are focused on the Indonesian stock market.

Investors and traders closely monitor the LQ45 index to gain insight into the overall performance of the Indonesian stock market. The index is often used as a gauge of investor sentiment and economic health. A rising LQ45 index is generally considered a positive sign for the Indonesian economy and may lead to increased foreign investment. On the other hand, a declining LQ45 index may indicate a weaker economy and may lead to decreased foreign investment.

In stock investing, two of the most common methods to analyze a typical stock are fundamental analysis and technical analysis. Usually, technical analysis is more commonly used by short-

term to mid-term traders that focus on historical chart movements to maximize return. While fundamental analysis is more commonly used by long-term investors that focus on companies' performance for long-term benefits.

Technical analysis is a method used by traders to make investment decisions by analyzing past market data to forecast future trends in the stock market. Technical indicators are the tools used to identify trends and patterns in the market. These indicators are useful for traders as they provide insight into market trends and help them make informed decisions.

Market volume, the number of shares traded within a specific time frame, is another critical component of technical analysis. It provides valuable insights into the intensity of trading activity and can be used to confirm the strength of market trends (Pring, 2014). High trading volume often indicates strong investor interest in a particular stock, which can lead to increased price movements, while low volume suggests a lack of investor interest, often resulting in limited price movements (Gervais, Kaniel, & Mingelgrin, 2001). Studies have shown that volume is positively correlated with stock price movements (Karpoff, 1987). In the context of this research on the LQ45 index, analyzing market volume can help to better understand how trading activity and investor sentiment may influence the price movements of these stocks.

Market trends are fundamental to technical analysis, which seeks to predict future price movements based on historical price and volume data (Murphy, 1999). Market trends can be classified into three categories: uptrends, downtrends, and sideways trends. Uptrends are characterized by a series of higher highs and higher lows, indicating a bullish market sentiment. Conversely, downtrends involve a series of lower highs and lower lows, signifying bearish market sentiment. Sideways trends occur when prices move within a range, with no clear direction (Park & Irwin, 2007). Understanding market trends is crucial for investors and traders, as they provide insights into potential opportunities and risks in the market. By recognizing the prevailing trend, investors can make more informed decisions regarding their positions in index LQ45 stocks and potentially capitalize on price movements (Neely, Weller, & Dittmar, 1996). In this research, trend is used as a technical indicator to identify the general direction of the movement of stock prices in the LQ45 index. Analyzing the trends of the stock prices in the LQ45 index could help traders make informed decisions on when to purchase or sell stocks. For instance, when the trend of a specific stock prices in the LQ45 index is up, it could indicate that prices are generally increasing, and traders may want to consider purchasing

stocks. On the other hand, if the trend of the stock prices in the LQ45 index is down, it could indicate that prices are generally decreasing, and traders may want to consider selling stocks.

Fundamental analysis is a widely used approach to evaluating securities, focusing on the intrinsic value of a company by examining its financial and economic factors (Graham & Dodd, 2009). This method involves the analysis of financial statements, industry trends, and macroeconomic indicators to determine a company's overall financial health and growth potential (Lev & Thiagarajan, 1993). Key metrics used in fundamental analysis include earnings per share (EPS), return on assets (ROA), net profit margin (NPM), and price-to-book value (PBV), which can provide insights into a company's profitability, efficiency, and valuation (Penman, 2013). In the context of this research on the LQ45 index, it is considered an essential benchmark in the Indonesian stock market, and investors, traders, and analysts closely monitor it to gain insight into the overall performance of the Indonesian stock market. A thorough understanding of fundamental analysis can help to assess how these metrics affect stock price movements and contribute to informed investment decisions.

Fundamental analysis is a critical tool used by investors to evaluate the intrinsic value of a company by examining its financial statements. It is a method of analyzing a company's financial health and performance by scrutinizing financial ratios such as earnings per share (EPS), return on assets (ROA), price-to-book value (PBV), and net profit margin (NPM). EPS is a measure of a company's profitability calculated by dividing its net income by its total number of outstanding shares. ROA, on the other hand, is a measure of a company's efficiency in using its assets to generate earnings. PBV is a measure of a company's market value compared to its book value, while NPM is a measure of a company's profitability calculated by dividing its net profit by total revenue.

The fundamental metrics of the companies included in the LQ45 index can be analyzed using fundamental analysis, which can help investors make informed decisions about purchasing or selling stocks. For instance, if the fundamental analysis of a company indicates that its current stock price is undervalued, investors may decide to purchase shares of the company in anticipation of a future price increase. Conversely, if the fundamental analysis of a company indicates that its current stock price is overvalued, investors may decide to sell their shares of the company.

In summary, the global market crash caused by the emergence of Covid-19 has had a profound impact on the financial landscape. Indonesia, like many countries, experienced a significant

contraction in its GDP during the early stages of the pandemic. This challenging economic climate has led to considerable volatility in stock markets, with stock prices becoming highly discounted in response to the crisis. As a result, there has been a remarkable influx of new investors entering the market, seeking opportunities to capitalize on these relatively discounted stock prices.

In this context, the urgency of understanding the factors affecting stock price movements becomes apparent. With a growing number of investors entering the market, many of whom may have limited experience in stock trading, it is crucial to provide valuable insights and guidance on the effect of technical indicators and fundamental metrics on stock price movements. This research is particularly relevant to the LQ45 Index Stocks, as they represent some of the most actively traded and liquid stocks on the Indonesian Stock Exchange (IDX).

By examining the relationship between technical indicators, fundamental metrics, and stock price movements, this study aims to equip investors with the knowledge and tools needed to make informed decisions in increasingly uncertain financial institutions, and other market participants in developing strategies to promote market stability and sustainable growth in the post-Covid-19 era.

The urgency of this research lies in its potential to contribute to a deeper understanding of stock price dynamics, particularly in the context of the recent market turmoil and influx of new investors. By providing insights into the factors influencing stock prices, this study aims to promote informed decision-making and support the resilience and recovery of the Indonesian financial market.

Based on everything that has been stated so far, this research will be utilizing 43 samples; which are the 43 stocks listed on the LQ45 index in 2021. The 45 stocks listed on the LQ45 Index in 2021 are as follows;

No.	Kode	Nama Saham
1	ACES	Ace Hardware Indonesia Tbk.
2	ADRO	Adaro Energy Tbk.
3	AKRA	AKR Corporindo Tbk.
4	ANTM	Aneka Tambang Tbk.

5	ASII	Astra International Tbk.
6	BBCA	Bank Central Asia Tbk.
7	BBNI	Bank Negara Indonesia (Persero) Tbk.
8	BBRI	Bank Rakyat Indonesia (Persero) Tbk.
9	BBTN	Bank Tabungan Negara (Persero) Tbk.
10	BMRI	Bank Mandiri (Persero) Tbk.
11	BRPT	Barito Pacific Tbk.
12	BSDE	Bumi Serpong Damai Tbk.
13	BUKA	Bukalapak.com Tbk.
14	CPIN	Charoen Pokphand Indonesia Tbk
15	ERAA	Erajaya Swasembada Tbk.
16	EXCL	XL Axiata Tbk.
17	GGRM	Gudang Garam Tbk.
18	HMSP	H.M. Sampoerna Tbk.
19	ICBP	Indofood CBP Sukses Makmur Tbk.
20	INCO	Vale Indonesia Tbk.
21	INDF	Indofood Sukses Makmur Tbk.
22	INKP	Indah Kiat Pulp & Paper Tbk.
23	INTP	Indocement Tunggul Prakarsa Tbk.
24	ITMG	Indo Tambangraya Megah Tbk.
25	JPFA	Japfa Comfeed Indonesia Tbk.
26	JSMR	Jasa Marga (Persero) Tbk.
27	KLBF	Kalbe Farma Tbk.
28	MDKA	Merdeka Copper Gold Tbk.
29	MEDC	Medco Energi Internasional Tbk.
30	MIKA	Mitra Keluarga Karyasehat Tbk.

31	MNCN	Media Nusantara Citra Tbk.
32	PGAS	Perusahaan Gas Negara Tbk.
33	PTBA	Bukit Asam Tbk.
34	PTPP	PP (Persero) Tbk.
35	PWON	Pakuwon Jati Tbk.
36	SMGR	Semen Indonesia (Persero) Tbk.
37	TBIG	Tower Bersama Infrastructure Tbk.
38	TINS	Timah Tbk.
39	TKIM	Pabrik Kertas Tjiwi Kimia Tbk.
40	TLKM	Telkom Indonesia (Persero) Tbk.
41	TOWR	Sarana Menara Nusantara Tbk.
42	TPIA	Chandra Asri Petrochemical Tbk.
43	UNTR	United Tractors Tbk.
44	UNVR	Unilever Indonesia Tbk.
45	WIKA	Wijaya Karya (Persero) Tbk.

*Table 1.1 - LQ45 Stocks*

<https://www.idx.co.id/id/data-pasar/data-saham/indeks-saham> (2021)

## 1.2. Problem Statement

Based on the introduction and background described above, the problem statement proposed in this research is as follows:

1. How do key fundamental metrics, such as earnings per share, return on asset, price-to-book ratio, and net profit margin affect the movement of stock prices in the LQ45 index?
2. How do technical indicators such as volume and trend affect the movement of stock prices in the LQ45 index?



### **1.3. Purpose of Research**

Having the problem statement described, thus the purpose of this research is:

1. To understand how the key fundamental metrics, such as earnings per share, return on asset, price-to-book ratio, and net profit margin affect the movement of stock prices in the LQ45 index.
2. To understand how the technical indicators such as volume and trend affect the movement of stock prices in the LQ45 index.

### **1.4. Research Beneficiary**

Having this research accomplished, the beneficiaries of this research may consist of;

1. Theoretically;  
The result of this research will benefit retail investors to maximize their earnings
2. Practically;  
The result of this research can be used as reference for retail investors to understand the effectiveness of fundamental analysis and technical analysis in the change of stock price.