INDONESIA INVESTIGATING THE EXISTENCE OF JANUARY EFFECT IN
INDONESIAN STOCK MARKET

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Abstract

Objective The main purpose of this research is to investigate empirically whether January effects exist in Indonesian stock market, especially in the small capitalization stocks.

Method To capture the small size effect in January, this study used value weighted index, equal weighted index, and size sorted portfolios from all the company listed in Indonesian stock exchange for period 2000 to 2009. The data used in this paper are assumed to be normally distributed and thus, parametric test of paired t-test and simple OLS regression analysis are used. To identify the size effect, the author compared the significant value between value weighted index and equal weighted index and re-examine the comparison among size sorted portfolios.

Result The hypothesis testing presented in this paper found that there is no January effect in Indonesian stock market, even in the small capitalization stocks.

Conclusion January effect was not found in Indonesia, one plausible factor is because there is no capital gain tax for selling shares, thus there is no tax loss selling contribution to January effect in Indonesia. Furthermore, based on the results presented in this paper, the strongest January return was found in the middle-low capitalization stocks.

Key words
January effect, Small size effect, no capital gain tax