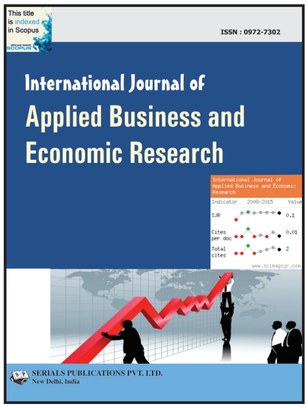
International Journal of Applied Business and Economic Research

Volume : No.15 (2017) **Issue No. :**18 (2017)

Published By : Serials Publications Pvt. Ltd.
Frequency : 24 Issues
ISSN : 0972-7302
Price : Click Here

Editorial Board

Articles



International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at http: www.serialsjournal.com

Volume 15 • Number 17 • 2017

Return Share, Trading Volume and Share Price Volatility Effect on the Bid Ask Spread of Companies Registered in LQ-45 Indeks in the Indonesia Stock Exchange

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ABSTRACT

This study aims to determine the factors that influence the Bid Ask Spread. The variables studied are independent variables consisting of Return Stocks, Trading Volume and Share Price Volatility, while the dependent variable is Bid Ask Spread. The subject of research is a company incorporated in the index 45 shares in the Indonesian Stock Exchange. The sample in this study was determined by Purposive Sampling. The data used is secondary data obtained from the Indonesian Stock Exchange in the observation period from October 2013 to April 2016. The Tests conducted are research data using classic assumption test. The analytical method used is regression, hypothesis testing, and the terminated test. The results showed that the stock return variables influence the Bid Ask Spread. While variable Trading Volume and stock price volatility does not affect the Bid Ask Spread. The stock Return were able to explain the Bid Ask Spread of 7.1 and the balance of 92.9% is explained by other variables e.g. interest rates by Bank Indonesia, the rupiah exchange rate against the dollar and the growth of assets.

Keywords: Return Stocks, Trading Volume Share Price Volatility, Bid Ask Spread.

1. FOREWORD

Financial markets are divided into two types, the money market and capital market. The money market trade short-term financial instruments, e.g.time deposits, while capital markets trade using long-term financial instruments (or securities), e.g. stocks and bonds. The capital market is a meeting place between those who have surplus funds with those who are in need of funds by way of trade in securities. Parties with surplus funds can be directly invest funds to a company by buying shares or bonds of companies listed on the Indonesia Stock Exchange. The capital market is said to have a financial function, as it gives the possibility and the opportunity to earn returns for the owners of the funds, according to the characteristics of the selected investments. The yield can be obtained by the shareholders in the form of capital gains and dividends, while bond holders receive in the form of interest income. Capital gains as shareholder returns will be gained in the short term, while the dividend obtained in the long term. Therefore short-term investors will be more interested in the acquisition of capital gains. Stock transactions in the capital market is a process of purchasing and selling of shares. The process of buying and selling shares is done by utilizing the services of a broker (brokered market). Broker will receive a fee from the transactions that occur between purchase and sale, hereinafter referred to as the cost of trade. Costs are explicitly can be a commission, while the implicit can be the difference between the bid price selling - buying. When investors want to buy the stock, the broker will submit his price (ask). Conversely bid price occurs when the broker provides the bid price (bid) when an investor wants to sell its shares. The difference between the highest price that the trader (shareholders) are willing to buy a stock with the lowest selling price that traders are willing to sell these shares is called the bid-ask spread. Information must be known by investors in making investment decisions. This investment decision is closely related to the selection of the most profitable investment with a certain level of risk. This information can reduce uncertainty in the capital markets. Information on stock returns and Trading Volumes is information that can be taken into consideration when investing. For investors who want to buy shares need to pay attention to the ask price, otherwise if you want to sell stock investors need to pay attention to the bid price. In other words, the bid-ask spread is a factor to consider the investor's decision whether to sell or hold the stock. Stock returns are always high and a large Trading Volume indicates that the stock is popular with investors, which means the shares are quickly traded. Fluctuating stock prices indicates that the stock investment risk faced by dealers will be great. Therefore, dealers cover any losses that may occur with a larger spread. Empirical studies of the behavior of the perpetrators and their stock market is always interesting and have been carried out by various parties with their respective goals. Stock prices that are constantly rising signifies that the return is given too high. This indicates that these stocks are favored by investors. As a result, traders do not need to hold these shares for too long, resulting in lower cost of ownership of these shares. Therefore, with reduced cost of ownership then the bid-ask spread narrowed. Ambarwati (2008) conducted an empirical study results indicate that the positive effect on the stock return Bid Ask Spread while Trading Volume has a negative effect on the Bid Ask Spread. Results of research on the effect of stock return to the Bid Ask Spread is similar to Napitupulu research and Syahyunan (2013). The volume of stock trading is used to see the market reaction to the information through the observation of changes in the volume of trade in the market. Market participants tend to be less fond of transactions in shares less liquid so that it will reduce the pressure on the spreads and it can be said that there is a negative correlation between the volume of trade with the Bid Ask Spread. Opinion Wahyuliantini and Suarjaya (2015) is different from the results of his own research that shows that Trading Volume did not affect the Bid Ask Spread. The results of this study differs from previous studies conducted by Shobriati, Darminto and Endang (2013) which showed that the volume of stock trading negative effect on the Bid Ask Spread. Stocks higher risk of causing a dealer trying to close it with a larger spread. Adisetia research results (2011) show that the stock price volatility affect the Bid Ask Spread. A different opinion is shown by the results of research and Syahyunan Napitupulu (2013) that the volatility of the stock price but not significant negative effect on the Bid Ask Spread. The discrepancy in the research results of this study is to be the main background push this issue serve as the main topic of this research. Based on the identification of the problem, we can formulate questions whether Stock Returns, Trading Volume, Volatility of Stock Price significantly influence the Bid Ask Spread on companies with share listed in LQ45 Index in the Indonesia Stock Exchange?

This study was conducted in order to determine the effect of stock returns, Trading Volume, volatility of stock price to the bid-ask spread on companies with shares listed in LQ45 index in the Indonesia Stock Exchange.

2. THEORITICAL REVIEW

***Return* Share:** Components of stock returns that allow investors to benefit are dividends, bonus shares, and capital gains (Jogiyanto, 2013).

Stock return is formulated as follows:

$$\text{Return Share} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Keterangan:

P_t : Current stock price

P_{t-1} : Stock price from previous period

(Boodie, Kane, Marcus : 2014).

Trade volume: The Trading Volume is defined as the number of shares traded on a particular day (Halim, 2015). The Trading Volume will lower the cost of ownership of shares resulting in lower spreads. Thus the more active trading of a stock or the greater the Trading Volume of a stock, the lower the cost of ownership of these shares, which means it will narrow bid-ask spread of these shares (Boodie, Kane, Marcus, 2014).

Stock Price Volatility: Share Price Volatility in this case represents the risk that stocks are often associated with irregularities or deviation accepted with the outcome expected. Beta is a measure of a security's return volatility.

To measure the Share Price Volatility it can be seen as follows:

Information:

σ : Standard Deviation

P_i : Probability share *i*,

R_i : *Return* share *i*

$E(R_i)$: *Expected return* saham *i*

(Reilly & Brown : 2012).

Bid-Ask Spread: Dealers and brokers can be considered as an intermediary for securities trading by individuals indirectly. Brokers will conduct transactions on behalf of investors and earn commission. While dealers will carry out the transaction for his own benefit. The market makers are compensated for buying activity carried out during the purchase price (bid price) with price lower than the true price and sell shares at the time of the sale price (the ask price) is higher than the true price. The difference in price is called the bid-ask spread. The bid-ask spread is the difference between the highest purchase price the dealer is willing to buy shares against the lowest selling price the dealer is willing to sell. To calculate the bid-ask spread is the ask price minus the bid price divided by the average ask price plus the bid price, which is formulated as follows:

Bid-ask spread =

(Bodie, Kane, Marcus: 2014).

Hypothesis: The share price is the price formed on the stock market. Stock prices that are constantly rising signifies that the return is given is too high. This indicates that these stocks are favored by investors. As a result, traders do not need to hold these shares for too long, resulting in lower cost of ownership of these shares. Therefore, with reduced cost of ownership then the bid-ask spread narrowed. Napitupulu and Syahnunani (2013), Santosa and Linawati (2014) conducted empirical studies on the effect of variable return stock to Bid Ask Spread. The result shows that stock returns has an affect on the bid-ask spread. Based on the theory and the research results the first hypothesis in this study can be formulated as follows:

H1: Return Stocks significantly influence the bid-ask spread.

The Trading Volume is defined as the number of shares traded on a particular day (Halim: 2015). Shares actively trading shows investors favored stocks so that the stocks are quickly traded. Dealers will modify its ownership position at the time the higher the stock trading, therefore the dealer does not need to hold stock in a large amount for too long. The faster the stock, the greater the volume of stock trading, the lower the cost of ownership, which means it will narrow bid-ask spread stock. Thus, there is the influence of the negative value of the Trading Volume of the bid-ask spread. Several previous studies that Ambarwati (2008), Shobriati, Darminto and Endang (2012) both indicate that the volume of stock trading has negative affect on the bid-ask spread. Based on the theory and the research results of the second hypothesis, this study can be formulated as follows:

H2: The volume of stock trading has significant effect on the bid-ask spread.

The share price fluctuation volatility is called the stock price. Stock price volatility in this case represents shares that allegedly risks can affect the size of the bid-ask spread stock. According Jogiyanto (2013) the greater the volatility of stock returns, the investment in the company was rated high. Stocks higher risk of causing a dealer trying to close it with a larger spread. Adisetia (2011) found evidence that the volatility of the stock price positive influence on the bid-ask spread. Based on the theory and the research results of the third hypothesis, this study can be formulated as follows:

H3: The volatility of the stock price significantly influence the bid-ask spread.

3. METHODOLOGY

The method used in this research is testing hypotheses. The sample used is a stock companies that was included in the LQ-45 index. Data of this study uses cross sectional studies within the period of 2013-2016.

The population of study are all companies listed in the LQ-45 group in Indonesia Stock Exchange (BEI). The sampling technique in this research is purposive sampling technique. The consideration specified in deciding the sample is: Companies whose shares are actively traded and included in the LQ-45 index for six consecutive semesters in the observation period of October 2013 - April 2016 and have complete data, and data on the variables studied during the period observation.

This study uses secondary data obtained from the Indonesian Stock Exchange (BEI). The data used is the stock price data, bid price, ask price, Trading Volume.

The variables in this study is the bid-ask spread as the dependent variable and stock returns, Trading Volume, volatility of stock price as the independent variable.

Data analysis techniques used in this research is multiple linear regression analysis. The test results in this study indicate that the data is normally distributed, no symptoms of multikolonearitas, did not occur heteroskedastisitas and no autocorrelation. Thus it can be stated that the regression model can be used in this study.

4. RESULT AND DISCUSSION

Hipothesis Testing

1. T-Test

Partial test to observe the effect of each independent variable against the dependent variable using the t test. In this test used the significance level of 0.05.

Hypothesis:

H1: Stock returns affect the Bid Ask Spread.

Based on Table 1, there is a significance of stock return variable of 0.018 is less than 0.05. Thus we can conclude that H0 is rejected and H1 accepted, so it can be stated that there is significant influence between stock returns to the Bid Ask Spread.

Table 1
***t*-Test Results with significant variables**

Model		*Unstandardized Coefficients*		*t*	*Sig.*
		B	*Std. Error*		
1	Constant	14.667	1.058	13.862	.000
	Return	–.088	.037	–2.409	.018

Source: Output SPSS

Hypothesis:

H2: Trading Volume affect the Bid Ask Spread.

According to the table 2 that there is significance of the variable in the volume of trade amounted to 0.798 greater than 0.05. Thus we can conclude that H0 is not successfully rejected, so that it can be stated that the volume of trade does not affect the Bid Ask Spread.

H3: Stock price volatility affect the Bid Ask Spread.

The significant value of the variable stock price volatility of 0.457 is greater than 0.05. Thus we can conclude that H0 is not successfully rejected, so that it can be stated that the volatility of the stock price does not affect the Bid Ask Spread.

Table 2
t-Test Variables with negative effect
Excluded Variables[a]

	Model	Beta In	t	Sig.	Partial Correlation
1	Volume	.029[b]	.257	.798	.030
	Volatility	–.084[b]	–.748	.457	–.086

[a]Dependent Variable: Bidask
[b]Predictors in the Model: (Constant), Return
Sumber: Output SPSS

2. F-test

F-test is used to test the feasibility of the significance of the regression model. In this test used the 0.05 significance level.

Table 3
f-Test Result
ANOVA[a]

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	506.832	1	506.832	5.806	.018[b]
	Residual	6634.777	76	87.300		
	Total	7141.609	77			

[a]Dependent Variable: Bidask
[b]Predictors: (Constant), Return
Sumber: Output SPSS

Based on table3,it is shown that there is significant value of 0,018, less than 0,05 so we can state that the regression model can be used in this research.

3. Linear Regression Analysis Result

Based on Table 1, we can write the linear regression calculation as formulated below:

$$Y = 14{,}667 - 0{,}088\ X1$$

Information:

Y = Bid Ask Spread

X1 = Return Saham

Dari persamaan regresi linear tersebut dapat dijelaskan sebagai berikut:

1. The Constant value is 14.667. This suggests that if the stock returns, are considered constant or null the bid-ask spread is worth 14.667 units.
2. The value of stock returns regression coefficient of -0.088. It shows changes in stock returns negatively affect the bid-ask spread, meaning that if the stock returns increased by 1 unit of the Bid Ask Spread will decrease by 0.088 units. If the stock returns decreased by 1 unit of the Bid Ask Spread will increase by 0.088 units. Dealer compensation to purchase shares at a purchase price (Pb), which is generally lower than the actual price and sell at the sale price (Pj) above the actual price (Pt/true price). Spread obtained is used to cover costs that occur. Spread can be calculated by (Pj-Pb)/Pt. Thus the lower the spread when the stock price (return) high, or in other words return negative effect on spreads.

Research Result Interpretation

Effect of Stock Return on Bid Ask Spread: The results showed that stock returns have a negative impact on the Bid Ask Spread on a company whose shares are listed in LQ45 index in the Indonesia Stock Exchange. These negative effects because the dealer compensation to purchase shares at a purchase price (Pb), which is generally lower than the actual price and sell at the sale price (Pj) above the actual price (Pt/true price). Spread obtained is used to cover costs that occur. Spread can be calculated by (Pj-Pb)/Pt. Thus the lower the spread when the stock price (return) high, or in other words return negative effect on spreads.

Effect of Trade Volume on Bid Ask Spread: The results showed that the volume of trade does not affect the Bid Ask Spread. This is due to variations in the volume of stock trading that is not too large during the observation period. Allegedly investors pay less attention to the volume of trade because it considers the company whose shares are listed in LQ45 and actively traded stock in addition to the investor can obtain the desired benefits from the process of selling or buying shares.

Pengaruh Volatilitas Harga Saham terhadap *Bid Ask Spread:* Hasil penelitian menunjukkan bahwa volatilitas harga saham tidak berpengaruh terhadap *Bid Ask Spread*. Hal ini berarti volatilitas harga saham tidak mempengaruhi peningkatan atau penurunan Bid Ask Spread. Diduga risiko yang semakin tinggi di perusahaan yang sahamnya tercatat dalam LQ45 tidak membuat dealer menaikkan biaya kepemilikan sehingga menyebabkan Bid Ask Spread tidak berubah.

Effect of Stock Price Volatility on Bid Ask Spreads: The results showed that the volatility of the stock price does not affect the Bid Ask Spread. This means that the volatility of stock prices does not affect the increase or decrease the Bid Ask Spread. Allegedly higher risk in companies whose shares are listed in LQ45 not make dealers raise the cost of ownership resulting Bid Ask Spread is unchanged.

5. CLOSING

Based on the results of this study concluded that stock returns have a significant influence on the bid-ask spread while Trading Volume and stock price volatility does not affect the bid-ask spreads on the company whose shares are listed in the LQ45 index in the Indonesia Stock Exchange.

This study has limitations, among others, the subject of research are only on companies with shares listed in LQ 45 index in the Indonesia Stock Exchange and the observation period restricted from October 2014 - April 2016. Subsequent studies are better when the study subjects was expanded again in the company other than the shares listed in the index LQ 45 only and the observation period was extended so that the results are more varied. Besides the independent variables in the study need to be added again both on the internal and external factors.

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