Stock Liquidity and Market Capitalization: Investment Challenges in Indonesian Capital Markets

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Abstract

The capital market is one of the key drivers of national economic growth. The higher investment activity in the capital market is identical to the development of the capital market. To be able to realize this, it is necessary to make an effort to attract investors to invest in the Indonesian capital market. The attractiveness of the capital market among investors lies in the value of stock liquidity and market capitalization which are strongly influenced by the stability of Indonesia's socio-political environment. This study aims to: 1) Assess the challenges of investment in the Indonesian capital market; and 2) Formulating strategies that can be applied to increase stock liquidity and encourage market capitalization growth.

The type of this research is descriptive with qualitative approach. Research data in the form of stock liquidity value and market capitalization are obtained from weekly capital market statistics reports issued by the Financial Services Authority (OJK). The data was then analyzed using qualitative descriptive methods.

The results of this study indicate that the challenges faced by investors to invest in the Indonesian capital market include: 1) Low estimated stock returns to be obtained; and 2) The high risk of stock investment. Both challenges can be interpreted as negative signals that hinder investment decisions. Therefore, it is necessary to apply a strategy to increase stock prices in order to encourage increased share liquidity and market capitalization to attract investors to invest in the Indonesian capital market. The strategy can be in the form of strategies for improving internal performance of companies that are listed in the capital market and strategies for creating appropriate public policies to build social, political and economic environmental conducities in order to sustainably grow and develop capital markets in Indonesia.

Keywords: *Capital Market, Stock Liquidity, Market Capitalization, Investment*

I. INTRODUCTION

The Indonesian capital market was formed long before Indonesia's independence. However, the development of the Indonesian capital market did not run rapidly due to several inhibiting factors, such as Indonesia's colonized conditions at the beginning of the formation of capital markets, the occurrence of World Wars 1 and 2, as well as various other internal events affecting the investment climate (Www.idx.co.id, 2018b). The capital market is a place that facilitates economic activities in the form of asset transactions between sellers and buyers (Singh, 2014). Based on its position, the capital market become one of the important keys that its development need to be supported in order to encourage overall economic growth in Indonesia (Arora, 2015).

Capital market growth is based on increased activity inside it, whether in the form of buying or selling assets by parties involved in asset transactions. In this case, the big attraction that can drive an increase in transactions in the capital market is the value of market capitalization and the liquidity of shares circulating inside the market (Silviyani, Sujana, & Adiputra, 2014; Wira, 2012).

Stock liquidity can be interpreted as stock mobility, namely the frequency of stock trading that occurs during a trading period. Stock liquidity can also be seen as a reflection of the company's performance, that high stock transactions indicate high investor interest in investing on the basis of an assessment of company’s good performance (Wira, 2012). According to signaling theory, investors who have information about the company's performance will have high trust in the management of the company because of the low inequality of information between the two, which encourages investors to make investment decisions. (Kretarto, 2001). The higher the liquidity of shares in the capital market will attract investors to make transactions because of the estimation of certain stock profits and the small investment risk (Shammakhi & Mehrabi, 2016).

In addition to considering stock liquidity, investors are also interested in investing in capital markets that have growing market capitalization. Market capitalization is the value of the total shares outstanding in the capital market in accordance with the closing price of the stock (Silviyani et al., 2014). The greater the market capitalization will give a positive signal that the price of the outstanding stock is also high, so that it has the potential to provide high returns to investors (Menaje, 2012).

The problem that arises is related to the strong influence of socio-political conditions on the capital market (Soejoto, 2002). Indonesia is currently in a critical political condition, where some parties consider that the government is having some fundamental problems and are unable to build economic stability in Indonesia, thus triggering demonstrations, both directly and through the digital world. It is undeniable that this is part of the political constellation ahead of the upcoming Indonesian presidential election in 2019. However, this condition can have a significant influence on the development of the capital market because investors can interpret it as a negative signal, thus making a decision not to invest in the Indonesian capital market.

Based on the explanation above, the problems examined in this study are: 1) What are the challenges of investing in the Indonesian capital market ?; and 2) What strategies can be applied to increase stock liquidity and encourage the growth of market capitalization? In accordance with the research problem, the purpose of this research are to: 1) Assess the investment challenges in the Indonesian capital market; and 2) Formulating strategies that can be applied to increase stock liquidity and encourage market capitalization growth.

II. LITERATURE REVIEW

A. Signalling Theory

Study of various matters relating to investment and shares cannot be separated from the scope of the Signing Theory. This theory was first developed by Spence (1973) and Ross (1977) which was later popularized by several experts, such as Bhattacharya (1979), John and Williams (1985), and Miller and Rock (1985). Signaling Theory states that a company can have a positive signal if there are some important things in the company, such as an increase in dividends or repurchase of shares by investors. This signal indicates that the company has positive growth and development prospects and can provide increased profits for investors (Wronska & Bukalska, 2014).

Signaling Theory makes use of investors' needs for accurate information about the condition of the company as a basis for making investment decisions. This information can be related to the company's track record in the past, a description of the current state of the company, or the company's prospects in the future. Companies that have positive signals will make investors feel confident to invest in the company. Conversely, if investors capture negative signals from the company, investors will tend to reconsider their investment decisions. Signals owned by the company can ultimately have an impact on changes in stock trading volume (Hartono, 2013).

Signals originating from companies can also be interpreted as a guide for investors to assess how the management performs in developing and achieving the company's strategic goals, as well as meeting the interests of shareholders. Therefore, positive signals can also be seen as good corporate management performance, on the contrary, negative signals indicate a lack of management performance that needs to be improved further (Brigham & Houston, 2006).

As mentioned earlier, the signal from the company is able to cause changes in stock trading volume as a form of market reaction. The company creates a signal through an announcement that contains information about the condition of the company. If the company is in a positive condition, giving an announcement to the market will be an important requirement for the company. On the other hand, companies will feel burdened when they have to make an announcement when the company is in an unstable position because it will create a negative signal. However, the company still needs to convey information that is available to the public to minimize information inequality between internal parties and external companies. Although the signals that appear to be negative, but at least the public, or especially shareholders, will be able to understand the condition of the company and the dominant factors influencing it. The lower the existing information inequality will encourage more public trust and shareholders to the company, which in turn will encourage an increase in the value of the company (Arifin, 2005).

Signaling Theory is closely related to the availability of information, both for companies and the public or investors. The availability of information on the company is used as the basis for making financial statements that determine the characteristics of the company's signal, while the availability of information to the public or investors becomes the basis for investment decisions based on the interpretation of the company's financial statements. Overall, the availability of information is very important to reduce information inequality between internal and external parties (Kretarto, 2001).

Information inequality arises if there are differences between parties involved in economic activities, which can be broadly classified into parties who know information (informed investors) and those who do not know the information (uninformed investors). The existence of information inequality encourages uniformed investors to take a cautious stance by reducing their willingness to pay high value shares or raise the price of shares to be sold. This attitude underlies the growing difference between supply and demand for shares, which is generally referred to as the bid-ask spread (Rodrigues & Galdi, 2017).

Bid-ask spread is defined as the difference between the highest bid price purchase offer and the lowest stock price offer. This difference can affect the liquidity of stock trading on the stock market. Therefore, it can be seen that Signaling Theory explains the relationship between the company's signal and the availability of information and the occurrence of stock liquidity (Rodrigues & Galdi, 2017).

B. *Agency Theory*

Agency Theory is a theory that examines problems that occur between parties that give authority (principals), namely investors or shareholders, and those who are authorized (agent), namely company managers, who are bound in a cooperation contract. The assumption that underlies this theory is that there is a separation between company ownership and control, a tendency to fulfill their respective interests, and efforts to avoid risk are the causes of agency conflicts between principals and agents. (Jensen & Meckling, 1976).

Another important problem that caused the emergence of agency problems was due to information inequality between principals and agents, where principals as parties who did not participate in managing the company directly had far less information than agents. This encourages the decline of principal trust to agents and provides an opportunity for agents to commit fraud in the management of the company in order to fulfill personal interests. Agents who are supposed to carry out their duties of managing the company with the aim of fulfilling the interests of the principals are instead abusing the authority given (Richardson, 1998). It can be said that agency theory relies the agency problems on the dominant individual characteristics that create differences of opinion and interests between principals and agents.

C. *Investment*

Investment can have several different meanings according to the context of the discussion. In the financial sphere, investment means spending money in order to gain profits in the future. This activity is based on a thorough analysis of the most likely benefits that will be obtained as well as the period of acquisition of these profits. Financial investment is not classified as speculative or gambling, which is generally carried out without a thorough analysis. Investment in the economic sphere is defined as an activity of capital formation that can be used to produce products, both in the form of goods and services (Geetha & Ramesh, 2012).

Investment can be categorized into two, namely: 1) fixed income investment, for example investment in the form of deposits, purchase of securities, or shares; and 2) variable income investment, for example investment in the form of assets or business ownership. Investments can also be distinguished based on the investment period, namely: 1) Short-term investments that have an investment period between 1 and 3 years; and 2) Long-term investments that have an investment period of more than 3 years (Geetha & Ramesh, 2012).

Investment can be done by the government or the private sector. Investment by the government is . not oriented to profit, while investment by the private sector is oriented towards earning profits. Based on its orientation, private investment is strongly influenced by market uncertainty and public policy. Private investment desperately needs a safe economic environment to grow and develop (Rahmani, 2017).

Investment decisions basically refer to the results of an analysis of the comparison between investment risks and returns. If the estimated risk exceeds the expected profit, investors will tend to choose not to invest or invest in a safe way, for example by trying to buy shares at the lowest price. Conversely, if the investment risk is estimated to be smaller than the expected profit, then investors tend to invest, for example by increasing the amount of their investment or by repurchasing shares. (Soegiono, Pranoto, & Haryani, 2011).

D. *Stock Liquidity*

Stock liquidity is defined as the level of ease in buying and selling shares. Factors that are directly related to stock liquidity can be in the form of the daily number of companies or stock traders, the number of shares traded every day, the value of shares traded every day, the number of buyers, the number of shares repurchased, and the overall transaction value. compared to market value. Liquidity has three criteria, namely: 1) Pasteur criteria based on the inverse relationship between flow of order and price uncertainty; 2) Criteria for market reaction, namely profits derived from changes in bargaining prices for selling and buying; and 3) The absolute value of stock returns (Shammakhi & Mehrabi, 2016).

Stock liquidity refers to stock mobility, namely the frequency of stock trading that occurs during a trading period. That is, the more frequent stock trading, where investors have the convenience to buy and sell shares, then the stock can be said to have liquidity. Therefore, stock liquidity is in line with the number and size of transactions made on shares (Wira, 2012).

Stock liquidity can also be seen as a reflection of the company's performance. This is based on the motivation of investors to buy shares which refers to information that investors have about the company's performance. If the analysis shows that the company has a good performance and continues to increase, then investors will assume that the company has a positive prospect and is able to provide large profits to investors. Thus, the frequency of stock purchases is in line with the state of the company's performance, as well as having an influence on stock liquidity (Wira, 2012).

Liquid stocks are stocks that are often traded by investors. Investors assume that these stocks need to be bought because they have more definite profit prospects than illiquid stocks. However, there is actually an inverse relationship between the level of liquidity and the size of the profit, where the lower the liquidity of the stock correlates with the greater the profit that might be gained. Shares with low liquidity have a higher risk compared to more liquid stocks, while the higher the risk of shares is identical to the greater the profit (Shammakhi & Mehrabi, 2016).

Stock liquidity can be measured using several methods, among others by referring to the frequency of trading, trading volume, and bid-ask spreads. The trading frequency method measures stock liquidity by dividing the number of days the stock is traded with the number of stock days. The trading volume method measures stock liquidity by dividing the volume of transactions with the total volume of shares. The bid-ask spread method measures stock liquidity by reducing the Ask Price by the Bid Price and dividing it by Ask Price (Mulyana, 2011).

E. Market Capitalization

Market capitalization is the value of all shares outstanding on the stock exchange in accordance with the closing price of the stock. The amount of market capitalization depends on the number of shares outstanding and the high value of shares at closing. The greater the market capitalization, the more investors are interested in buying or to retain shares that have been owned because of the large estimated profits to be gained (Silviyani et al., 2014).

Based on this understanding, several elements of market capitalization can be drawn, namely stock prices and the number of shares outstanding. The first element, namely the stock price is the price of each share that the company shares. Stock prices of companies that have been publicly traded depend on market demand and supply, so that prices are volatile on an irregular basis, where expectations of buyers and sellers play a major role in determining stock prices. Stock prices in a period tend to change, therefore, the stock price used as data in a study generally uses the stock price at the time of closing or is called the closing price (Menaje, 2012).

Changes in stock prices can be influenced by various factors. According to Sharif, Purohit, & Pillai (2015), stock prices may vary due to the influence of variables includes of return on equity, book value per share, dividend per share, dividend yield, price earnings, and firm size. All of these factors need to be reviewed in advance by investors to be able to make optimal and low risk investment decisions. Stock prices can also be influenced by other variables as research findings by Qaisi, Tahtamouni, & Al-Qudah (2016) which states that the stock price in the capital market is significantly influenced by return of assets, debt ratio, and age of the company.

Changing stock prices are generally influenced by the number of requests and stock offers. If the demand for shares increases, the stock price will rise. Conversely, if the demand for shares is lower, then the stock price will decrease. An increase in stock prices causes the creation of profits or called capital gains, while a decrease in stock prices will create losses or called capital losses. Factors affecting stock prices can also be categorized into internal factors and external factors. Internal factors relate to the characteristics and performance of companies that issue shares and the types of the company's business fields, while external factors relate to market conditions, social and political conditions, and public policies related to the capital market (Soejoto, 2002).

The second element that must be understood to understand the concept of market capitalization is the volume or number of shares outstanding. Shares outstanding are shares of companies that have been issued and have been purchased by investors. The higher the number of shares circulating means the higher the frequency of stock trading, where this encourages the higher stock liquidity (Mulyana, 2011). Liquid shares are in great demand by investors because of lower risk and more definite profit prospects, which in turn encourages an increase in stock prices and market capitalization (Silviyani et al., 2014).

F. Capital Market

The capital market is a place where buyers and sellers meet, or demand and supply, to conduct transactions on assets that can be in the form of securities, debt, shares and derivatives. As the economic concept applies in traditional markets, the role of demand and supply is very dominant in determining the prevailing prices in the capital market. If demand exceeds supply, prices will increase. Conversely, if the offer is too much and exceed the demand, the price will decrease (Singh, 2014).

Broadly speaking, the purpose of transactions in the capital market is related to the creation of long-term capital. Therefore, the capital market is a reference for economic actors, both from the private sector and the government, to raise capital or invest funds owned, so it can be said that the capital market is the key to creating economic growth in a region (Arora, 2015).

III. RESEARCH METHODS

This research is descriptive type with a qualitative approach. Descriptive research is research carried out with the aim to gain an understanding of the phenomena studied through analysis of data in the form of words and languages (Moleong, 2012). Findings from descriptive research are broad and detailed which explain the focus of the problem along with the factors that have connectedness (Gulo, 2010). The approach used is qualitative approach, which is an approach that seeks to understand the phenomenon that is examined thoroughly to get a deep understanding based on the data collected and analyzed with reference to theoretical exposure. (Creswell, 2014).

Data sources in qualitative research are in the form of written data that is reviewed and interpreted by the author to get an understanding that explains the phenomenon of research (Siyoto & Sodik, 2015). This research data is in the form of secondary data, namely data that has been collected by other parties, so that the author does not need to go directly to the field to find data (Bungin, 2017). The data was collected using documentation methods, namely by looking for data relating to the focus of research from internet sources. Research data in the form of stock liquidity value and market capitalization obtained from weekly capital market statistics reports issued by the Financial Services Authority (OJK). The data was then analyzed using qualitative descriptive methods.

IV. RESULT OF THE STUDY AND DISCUSSION

A. Result of The Study

1) Capital Market in Indonesia

The capital market is a place where transactions between sellers and asset buyers are facilitated. It can also be said that the capital market is a meeting place for demand and supply of assets (Singh, 2014). Definition of Capital Market in Indonesia refers to the contents of Article 1 clause 13 of Law Number 8 of 1995 concerning Capital Market (hereinafter referred to as UUPM) which states that "Capital Market is an activity concerned with Public Offering and trading of Securities, Public Companies related to Securities that has been published, as well as institutions and professions related to Securities ".

The position of the capital market is considered very important as stated in the consideration of the UUPM, that "Capital Market has a strategic role in national development as a source of financing for the business world and a mode for investment for the community". Furthermore Article 1 also mentions parties involved in the capital market, including:

a) Member of the Securities Exchange, namely Broker Dealer who has obtained a business license from Bapepam and has the right to use the Securities Exchange system and / or facilities in accordance with the regulations of the Stock Exchange.
b) The Securities Administration Agency is a Contracting Party with an Issuer carrying out Securities ownership records and distribution of rights relating to Securities.
c) Securities Exchange is a Party that organizes and provides a system and/or means to bring together offers of sale and purchase of Securities of other Parties with the aim of trading Securities between them.
d) Issuers are Parties who make a Public Offering.
e) Custodian is a Party that provides safekeeping services for Securities and other assets related to Securities and other services, including receiving dividends, interest and other rights, completing Securities transactions, and representing account holders who are their customers.
f) The Clearing and Guarantee Institution is the Party that carries out clearing services and guarantees of Exchange Transaction settlement.
g) Depository and Settlement Institution is a Party that organizes central Custodian activities for Custodian Banks, Securities Companies, and other Parties.
h) Investment Manager is a Party whose business activities are to manage Securities Portfolios for customers or manage collective investment portfolios for a group of customers, except insurance companies, pension funds, and banks that conduct their own business activities based on the prevailing laws and regulations.
i) The Minister is the Minister of Finance of the Republic of Indonesia.
j) Investment Advisor is a Person who advises other Parties regarding the sale or purchase of Securities by obtaining compensation for services.
k) An Underwriter is a Person who makes a contract with an Issuer to make a Public Offering for the benefit of an Issuer with or without an obligation to buy unsold Securities remaining.
l) Broker Dealer is a Person who conducts business activities in buying and selling Securities for the benefit of his own or another Party.
m) Securities Company is a those who conducts business activities as an Underwriter, Broker Dealer, and or Investment Manager.
n) Public Company is a Company whose shares have been owned by at least 300 (three hundred) shareholders and have paid up capital of at least Rp. 3,000,000,000.00 (three billion rupiahs) or a number of shareholders and paid up capital as stipulated in the Government Regulation.
o) Trustee is a Party that represents the interests of debt securities holders.
p) The Capital Market in Indonesia has a long history, which even began before.

Indonesia became independent. The first capital market was established more or less in 1912 when Indonesia was still colonized by the Dutch. However, due to conditions that were not conducive due to colonization and the occurrence of World Wars 1 and 2, the capital market could not develop rapidly. The Indonesian capital market can develop sustainably after Indonesia's independence and the government took the initiative to reactivate it in 1977. The history of the Indonesian capital market can be seen in the picture below (Www.idx.co.id, 2018b):

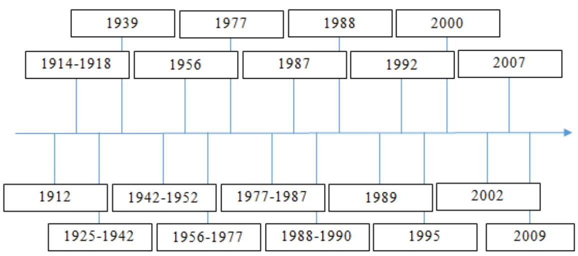

Fig 1: The history of the Indonesian capital market

a) December 1912: The first stock exchange in Indonesia was formed in Batavia by the Dutch East Indies government
b) 1914-1918: Stock exchanges in Batavia were closed during World War I

c) 1925-1942: The Stock Exchange in Jakarta was reopened together with the Stock Exchange in Semarang and Surabaya
d) Early 1939: Caused by political issues (World War II), the Stock Exchange in Semarang and Surabaya were closed
e) 1942-1952: Stock exchanges in Jakarta were closed again during World War II
f) 1956: Nationalization program of Dutch companies. Stock exchanges are increasingly inactive
g) 1956-1977: Trading on the Stock Exchange was vacuum
h) August 10, 1977: The Stock Exchange was inaugurated by President Soeharto. The JSX is run under BAPEPAM (Capital Market Executing Agency). The reactivation of the capital market was also marked by the entry of PT Semen Cibinong as the first issuer
i) 1977 - 1987: Trading on the Stock Exchange is very sluggish. The number of issuers until 1987 had only reached 24. People prefer banking instruments compared to capital market instruments
j) 1987: Marked by the presence of the December 1987 Package (PAKDES 87) which makes it easy for companies to make a Public Offering and foreign investors invest in Indonesia
k) 1988 - 1990: Deregulation package in the Banking and Capital Market sectors was launched. The JSE door is open to foreigners. Stock activity appears to increase
l) June 2, 1988: Indonesian Parallel Exchange (BPI) starts operating and is managed by the Money and Securities Trade Association (PPUE), while the organization consists of brokers and dealers
m) December 1988: The Government issues the December 88 Package (PAKDES 88) which provides convenience for companies to go public and several other positive policies for capital market growth
n) June 16, 1989: Surabaya Stock Exchange (BES) began operations and was managed by a privately owned Limited Liability Company, namely the Surabaya Stock Exchange
o) July 13, 1992: JSX Privatization. BAPEPAM changed to the Capital Market Supervisory Agency. This date is commemorated as the JSE Anniversary
p) May 1995: The trade automation system on the JSX is carried out with the JATS (Jakarta Automated Trading Systems) computer system
q) November 10, 1995: The Government issues Law No. 8 of 1995 concerning the Capital Market. This Act came into effect starting in January 1996
r) 1995: Indonesian Parallel Exchange merges with the Surabaya Stock Exchange
s) 2000: Scripless trading began to be applied in the Indonesian capital market
t) 2002: JSE starts to apply remote trading systems
u) 2007: Merger of the Surabaya Stock Exchange (BES) to the Jakarta Stock Exchange (JSX) and changed its name to the Indonesia Stock Exchange (IDX)
v) March 02, 2009: Launch of the New Indonesian Trading System PT Indonesia Stock Exchange: JATS-NextG

Financial products traded in the Indonesian capital market, among others are (Www.idx.co.id, 2018a):

a) Stock, which is a sign of a person's equity or a party (business entity) in a company or limited liability company. By including the capital, the party has a claim on the company's revenue, claims on the company's assets, and has the right to attend the General Meeting of Shareholders (GMS).
b) Debt securities or bonds, which are transferable medium-term notes, which contain promises from the issuing party to pay compensation in the form of interest in a certain period and repay the principal at a predetermined time to the buyer of the bond. Bonds can be issued by Corporations and Countries.
c) Mutual funds, which is a container that is used to raise funds from the investor community for further investment in securities portfolios by investment managers
d) Exchange traded fund (ETF), which is an Investment Fund in the form of a Collective Investment Contract whose investment units are traded on the Stock Exchange.
e) Derivatives, namely a financial contract between 2 (two) or more parties to fulfill a promise to buy or sell assets / commodities that are used as objects that are traded at a time and price which is a mutual agreement between the seller and the buyer.

2) Stock Liquidity and Market Capitalization

Stock liquidity and market capitalization data in the Indonesian capital market can be seen from data published by the Financial Services Authority (OJK) contained in the weekly capital market statistics report.

a) Stock Liquidity

Stock liquidity in this study was measured based on trading volume, namely by dividing the total volume of transactions with the total volume of shares. Transaction volume and total stock volume data obtained from the OJK weekly capital market statistics report for August 2017 and August 2018 are as follows:

TABLE I
Transaction Volume And Total Stock Volume Data

Week	Volume of Transaction (Billion Shares)	
	2017	2018
1	2,844.85	1,563.65
2	2,844.85	1,600.13
3	2,844.85	1,632.71
4	2,844.85	1,678.68
Average	2,844.85	1,618.79

The data above shows that the transaction volume during August 2017 has a stable value, which is at 2,884.85 billion shares. Transaction volume during August 2018 showed a sustained increase, that is from 1,563.65 billion shares in the first week to 1,600.13 billion shares in the second week. This value was increasing again to 1,632.71 billion shares in the third week, and lastly increase to 1,678.68 billion shares in the fourth week. The average transaction volume in August 2018 was 1,618, 79 billion shares. Based on these data, it can be seen that the transaction volume in August 2018 showed a positive trend, which continued to increase on weekly basis. However, the transaction volume is still far below the transaction volume in August 2017.

TABLE III

Transaction Volume In August 2017

Week	Stock Volume (Million Shares)	
	2017	2018
1	12,240.53	13,675.21
2	12,240.53	13,554.15
3	12,240.53	13,414.50
4	12,240.53	13,283.69
Average	12,240.53	13,481.89

The data above shows that the stock volume during August 2017 has a stable value, which is at 12,240.53 million shares. Stock volume during August 2018 showed a sustained decline, namely from 13,675.21 million shares in the first week decline to 13,554.15 million shares in the second week, then declined again to 13,414.50 million shares in the third week, and lastly also decreased to 13,283.69 million shares in the fourth week. The average stock volume in August 2018 was 13,481.89 million shares. Based on these data, it can be seen that the volume of shares in August 2018 showed a negative trend, which continued to decline on weekly basis. In addition, the stock volume is also still far below the stock volume in August 2017.

Based on transaction volume and stock volume data described above, then the stock liquidity in August 2017 and 2018 can be calculated below:

TABLE IIIII

The Stock Liquidity In August 2017 And 2018

Week	Stock Liquidity	
	2017	2018
1	0.232412	0.114342
2	0.232412	0.118055
3	0.232412	0.121712
4	0.232412	0.126372
Average	0.232412	0.120120

The data above shows that stock liquidity during the month of August 2017 has a stable value, which is at 0.232412. Stock liquidity during August 2018 showed a sustained increase, from 0.114342 in the first week to 0.118055 in the second week, then increasing again to 0.121712 in the third week, and finally increasing to 0.126372 in the fourth week. The average stock liquidity in August 2018 is 0.120120. Based on these data, it can be seen that stock liquidity in August 2018 showed a positive trend, which continued to increase from on weekly basis. However, the stock liquidity is still far below the stock liquidity in August 2017.

b) Market Capitalization

Market capitalization is the value of all shares outstanding on the stock exchange in accordance with the closing price of the stock. Market capitalization data is presented directly in the OJK weekly capital market statistics report, so there is no need to calculate based on stock volume and stock closing price. Data on market capitalization values in August 2017 and 2018 are as follows:

TABLE IVV

Data On Market Capitalization Values In August 2017 And 2018

Week	Market Capitalization (Trillion Rupiah)	
	2017	2018
1	7,052.39	6,850.68
2	7,052.39	6,519.92
3	7,052.39	6,729.79
4	7,052.39	6,783.26
Average	7,052.39	6,720.91

The data above shows that market capitalization during August 2017 has a stable value, namely at IDR 7.052.39 trillion. Market capitalization during August 2018 had a fluctuating value, that is decreasing significantly from IDR 6,850.68 trillion in the first week to IDR 6.519.92 trillion in the second week, then increasing to IDR 6.729.79 trillion in the third week and lastly increasing to IDR 6.783.26 trillion in the fourth week. The average market capitalization in August 2018 was IDR 6,720.91 trillion. Based on these data, it can be seen that the market capitalization in August 2018 has a fluctuating value, which had experienced a significant decline from week I to week II, but subsequently continued to increase until week IV. However, the market capitalization value is still far below the market capitalization value in August 2017.

B. Discussion

A. Challenges for Investing in the Indonesian Capital Market

The main objective of investment is to generate profits in the future. Investments made in the capital market can be in the form of purchasing securities or shares (Geetha & Ramesh, 2012). The decision to invest in shares is based on an analysis to find out whether the benefits to be gained from investing in shares exceed the risk. If the results of the analysis show that the profits to be gained from investments outweigh the risks, then investors tend to invest. Conversely, if the risk factor is greater than the estimated profit to be gained, then investors tend not to invest (Soegiono et al., 2011).

Stock risk is related to stock liquidity, where liquid shares have lower risk than stocks with lower liquidity. Stock liquidity refers to stock mobility, namely the frequency of stock trading that occurs during a trading period (Wira, 2012). Liquid stocks are stocks that are often traded by investors (Shammakhi & Mehrabi, 2016). Therefore, in determining investment decisions, it is necessary to consider stock liquidity. Based on the stock liquidity data obtained, it is known that the liquidity of shares in the Indonesian capital market in August 2018 shows a continuous increase from week to week. However, the stock liquidity is still far below the stock liquidity in August 2017.

According to the results of the study by Shammakhi & Mehrabi (2016) and Gharaibeh (2014), it is known that stock liquidity has a positive and significant influence on stock returns. That is, the higher the liquidity of the stock will encourage the higher stock returns. Thus, by referring to the increasing liquidity, it can be seen that the estimated stock returns in the Indonesian capital market in August 2018 have a positive trend, which continues to show improvement from week to week. Although it continues to increase, the stock return value in August 2018 is still far below the stock return in August 2017. Based on this, the first challenge that will be faced by investors in the Indonesian capital market in 2018 is related to the low estimated stock return that will be obtained if compared to stock returns in 2017. This can be due to Indonesia's current economic climate which is less conducive due to political contestation ahead of the presidential election in 2019. In addition, the depreciation of the rupiah against the US dollar which triggered the demonstration made the Indonesian economy even more unstable.

An increase in the value of stock liquidity from week to week in August 2018 does indicate a positive signal. However, this also shows that there is a high variation in stock liquidity. According to Akbas, Armstrong, & Petkova (2010), the higher the variation of the value of stock liquidity has a significant relationship with stock returns. That is, changes in the value of equity liquidity can drive changes in stock returns. Such changes can be seen as an increase in stock liquidity in line with an increase in stock returns. However, on the other hand, these changes imply a higher risk, that stocks that have a positive liquidity trend can suddenly become less liquid, which in turn will encourage a decrease in stock returns. Based on this, the second challenge faced by investors in investing in the Indonesian capital market is related to the high risk of stock investment. Stock liquidity, which in August 2018 continues to increase has a high probability of experiencing a decline in liquidity in the next period.

B. Strategies to Increase Stock Liquidity and Encourage Market Capitalization Growth

Market capitalization is one of the main attractions of the capital market for investors. The greater the market capitalization is identical to the large growth potential of companies with relatively low risk and is able to provide large profits to investors (Tjipto & Fakhruddin, 2008). Therefore, market capitalization can be referred to as one of the indicators of capital market conditions and the performance of issuers, where greater market capitalization indicates that the capital market has a conducive situation and that issuers involved in trading in the capital market have good performance. (Soejoto, 2002).

Based on the results of the data analysis, it was found that the market capitalization value in the Indonesian capital market in August 2018 fluctuated, which experienced a significant decline from week I to week II and then continued to increase up to week IV. However, the increase in week IV is still below the market capitalization value in week I and is much smaller than the market capitalization in the same month in 2017. This situation shows two things, namely: 1) Capital market conditions are still not as good as last year ; and 2) Market capitalization is at a weak point because it cannot rise at the starting point of market capitalization in August 2018. According to signaling theory, these two things become negative information, or are called negative signals, which can be interpreted by investors as market risk, which in turn has the potential to hamper investment. Therefore, strategies that can increase market capitalization to attract investors to invest in the Indonesian capital market need to be formulated. However, this strategy must be in line with the aim to increase the liquidity of shares which also attract investors to invest.

The market capitalization value depends on the number of shares outstanding and the value of the shares at closing (Silviyani et al., 2014). That is, market capitalization can grow even more if the number of shares outstanding increases and stock prices increase. Stock liquidity refers to the frequency of stock transactions divided by the number of shares, so that the higher the frequency of transactions will encourage stocks to become more liquid, while the higher the number of shares without offset by the increase in transaction volume will reduce the liquidity of shares. Therefore, a strategy that can be applied appropriately to encourage stock liquidity and market capitalization increament is a strategy that is oriented towards increasing stock prices. Increasing stock prices will encourage an increase in market capitalization, which will attract investors to transact in the capital market. The greater the number of stock transactions that occur will encourage increased stock liquidity, which will also encourage investors to make decisions to invest in the capital market.

According to Soejoto (2002), factors that affect stock prices can be categorized into two, namely internal and external factors. Internal factors relate to the characteristics and performance of companies that issue shares and types of business fields of the company, while external factors relate to market conditions, social and political conditions, and public policies related to the capital market. Therefore, to be able to increase the stock price, those two factors must be evaluated and improved. Companies that are issuers in the capital market need to improve their performance, while on the other hand, the government needs to provide support by establishing policies that support the development of the capital market. In addition, the government also needs to strive to create a conducive socio-political environment through the creation and enforcement of public policies that are in line with the needs of the people. Socio-political conduciveness will ultimately encourage overall economic improvement, one of which is through the growth and development of the capital market in Indonesia.

V. CONCLUSION AND RECOMMENDATION

A. Conclusion

The capital market is one of the key elements to create economic growth. The capital market can have a good development if the activities conducted inside the market are running smoothly and shows sustainable increament. However, there are two major challenges that must be faced by investors in investing their capital in the Indonesian capital market, namely: 1) Low estimated stock returns to be obtained; and 2) The high risk of stock investment. Both challenges can be interpreted as negative signals that hinder investment decisions. Therefore, it is necessary to apply a strategy to increase stock prices in order to encourage share liquidity and market capitalization increament to attract investors to invest in the Indonesian capital market. The strategy can be in the form of strategies aimed to improve internal performance of companies that are listed in the capital market and strategies that are aimed to create appropriate public policies to build social, political and economic environmental conducicities in order to grow and develop capital markets in Indonesia in a sustainable manner.

B. Theoretical Implications

The results of this study contribute to the field of research relating to investment and capital markets, that stock prices become one of the important keys that can be driven to encourage increased investment and capital market growth. The increase in stock prices is a solution to encourage the increament of stock liquidity as well as market capitalization.

C. Managerial Implications

Companies that become issuers in the Indonesian capital market need to pay more attention to strategies to improve the company performance to be able to encourage an increase in their stock prices. Company performance that continues to increase can become a positive signal that investors consider to invest which encourages an increase in stock prices. This needs support from the government as the authority to establish public policies that are in line with the needs of the people in order to create a conducive socio-political and economic environment.

D. Suggestions

This research needs to be further developed by using analytical methods that are able to explain the relationship between stock prices, market capitalization, company performance, and stock prices more specifically based on more complete data. The recommended method to be used in future research is a quantitative method with research data taken over a longer period of time than this study, for example for 4 or 5 years in a row, to find out more accurate trends in capital market movements as a basis for more in-depth analysis.

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