ABSTRACT

This study examines the effect of investor sentiment on stock returns and volatility on the Indonesia Stock Exchange. The trading volume of IDX Composite is used as a proxy for investor sentiment. Furthermore, the trading volume must be tested with its effect on the IDX Composite index return and volatility.

The research uses Vector Auto Regression (VAR) analysis method with several stages. VAR estimation is used to get the interpretation of the equation in this examines. The first step before carrying out the VAR estimation model is to test stationary data using a unit root test or Augmented Dickey-Fuller (ADF). Furthermore, determine the optimal lag length for further construct VAR model. After obtaining optimal lag length the next process is the cointegration test through the Johansen method approach. Furthermore, to identify the effect of the past of other variables at present, the Granger Causality test is used. After all, tests are fulfilled, then a VAR estimation model can be carried out at the stationary level.

The results showed that (1) investor sentiment did not significantly influence return so H1 was rejected (2) while investor sentiment had a significant effect on volatility so H2 was accepted but at 10% significance. The results of this study support Chan and Fong's (2000) research that trading volume has a positive effect on volatility in prices, and Rosiana's (2017) research that produced sentiments formed in Indonesia is irrational sentiment which has an effect on volatility.

The limitation of this research is that the data used is market aggregate data (IDX Composite index) so that less specific is used for stock analysis in each sector. The findings of this study can help market participants to determine the right strategy on the trade with market sentiments that tend to be irrational. In addition, this research can be utilized by academics to add literature on behavioural finance.

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Keyword (s): Sentiment; Investor; return; volatility; VAR.