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Minimum Price Limit: Too Big To Delist?

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Abstract: This paper studies the stock's price behavior in IDX from 2007-2015 periods, yearly based. In 14 June 2007 the regulator announced that IDR 50.00 (< US\$ 0.005)² was the minimum price limit of stocks listed. Surprisingly, IDX needs more than five years to maintain the level of new price minimum limit. The transaction data in this study classified into five levels of prices and showed that more than 90% of price stocks are more IDR 100.00. Stocks with price less than IDR 100 as a penny stocks exhibit high return, more volatile and more negative abnormal return than the other levels. The finding result is confirmative to previous research that related to this issue. From this study we recommend to the regulator should be evaluate the rule of the price minimum limit of stocks listed.

Keywords: IDX; Penny Stocks; Minimum Price Limit; Volatility; Abnormal Return

A. INTRODUCTION

On June 14, 2007 Jakarta Stock Exchange (now Indonesia Stock Exchange or IDX) has setting the minimum price limit on the trading price of the stock by the amount of IDR 50.00. This rule was determine based on the evaluation of trading activities since yearly where more than 99% of the price listed stocks has been at prices above IDR 50.00. This determination is done by regulator to improve the performance of listed companies. Of course, credibility of the capital market can be seen from the trading activity of shares listed on the Stock Exchange. One of the important in the field of market mechanism is to study the stock price behavior on the Exchange.

Credibility of the capital markets can also be done by bordering the minimum stock price as has been done in many other international capital markets. NASDAQ has set a limit of US \$ 1.00 as the minimum stock prices since August 1991 to maintain liquidity and credibility of Capital Markets. Stock in the price period of transaction is under US \$ 1.00 will be excluded from the list (delisting). Until now still apply and some experts said the policy was appropriate and effective.

A minimum stock price also performed at the Hong Kong Stock Exchange with restrictions minimum price of HK \$ 0.5 although it turned out a failure. To that end, the Hong Kong Stock Exchange needs to review and revise the implementation of minimum stock price.

In Indonesia Stock Exchange has the same pattern in time to time. The stocks have a low price, relatively less actively traded. In other word, is a group of sleeping stocks (some said as a “penny stocks”). Contrarily, the stocks that have relatively high prices, relatively more active traded (Kholisoh & Hermawati, 2010 and Kholisoh, 2013). It seems investors are less keen to invest in stocks relatively low price. Of course, the Stock Exchange is becoming less attractive and necessary incredible, which becomes a problem in increasing the credibility of the market. If necessary, delist the stock that has low price under the minimum stock price or making new rule to meet the minimum stock price. Should IDX set a new limit of minimum stock price?. How stock price behavior for stock price below the minimum limit relatively to the stock price above the minimum price limit? This research questions will be answered in this study as an important issues related to the stock price behavior.

The result from this paper is confirmed to the related study in the issue of minimum stock price. The stock price under IDR 100.00 is more volatile than stocks price IDR 100.00 and above. Stocks below IDR 50.00 is has high negative abnormal return.

This paper is organized as follows: Section 2 provides a literature review including review of related studies; Section 3 describes a research method. Result, discussion and conclusion can be found in the last section.

B. LITERATURE REVIEW

Liquidity and credibility of capital markets could not be separated from the firm listed itself. Research on the liquidity and volatility in the Indonesian Stock Exchange has done by Tandelilin (2002), Kholisoh (2005), and Kholisoh, (2010). The results show the same evidence that the Indonesian capital markets are illiquid. However, the important regarding whether or not to set the limits on the minimum stock price of a stock market is an interesting issue to be studied and still in debated. Two international capital markets has did this policy are Hong Kong Stock Exchange and NASDAQ.

Hong Kong Stock Exchange has failed in setting the minimum price limit (With the term of penny stocks) of HK \$ 0.5. It was happened after the introduction, stocks became bankrupt with a market capitalization decreased up to HK \$ 10 billion (Rhee and Wu, 2010). Hong Kong Stock Exchange revised their study.

Contradict to Hong Kong Stock Exchange, NASDAQ are experiencing success in increasing liquidity and the credibility of the capital market. The limit of a minimum share price on NASDAQ was set by \$ 1 (which is called: one-dollar rule) since August 1991. The main objective imposed minimum price limit is to maintain the credibility of the market capital itself and to be more transparent and trusted by investors. Evaluation of the delimitation of the minimum share price on NASDAQ was effective and necessary do. Rhee and Wu (2010) for 15 years before and after imposed the minimum share price limit found evidence that the differences in the extreme value index. The extreme value is higher on stocks prices below \$ 1. This approach is also done by Mc Neil (1999).

In theory, stocks that have low price value have high in risk and decreasing in high extreme value. Rhee and Zhang (2013) explain that the shares as a penny stocks has characteristics with a high return, high beta, high ratio BM, high volatility and low liquidity.

C. RESEARCH METHOD

This study used data transaction on 14 June 2007 when price limit minimum set up as the base line and proceed with the transaction data in from 2008 to 2015. All shares are listed on the Exchange in each year be the object in this research. The data used is transaction data that contains the day's closing price previously, the opening price, highest price, lowest price and closing price. Data share price divided into 5 groups, namely: 1) under IDR 50.00; 2) IDR 50.00 to with under IDR 100.00; 3) IDR 100.00 to below IDR 1,000.00; 4) IDR 1,000.00 to with under IDR 10,000.00; and 5) above IDR 10,000.00. The measurement of volatility is measured with price volatility (Coefficient of Variation) and the volatility of return (return variance). In addition, this study also measured Abnormal Return on average for each group's share price.

D. RESULT AND DISCUSSION

During the observation period of June 14, 2007 until the beginning of 2015, the number of shares listed on the Stock Exchange is increasing in the numbers. It can be seen in Figure 1a with demonstrated by the declining number of stocks that have a price under IDR 50.00 in Figure 1b. Regulations limit the minimum price issued by the Stock Exchange dated 14 June 2007 provides an opportunity to the stocks listed to meet the price limit until the end of 2007. From the data shown in Figure 1b, there are still shares traded at prices under IDR 50.00 up to 2012. Surprisingly, after 5 years the minimum price limit was set up, at the beginning of 2013, all prices have already reached the minimum price of IDR 50.00 or more.

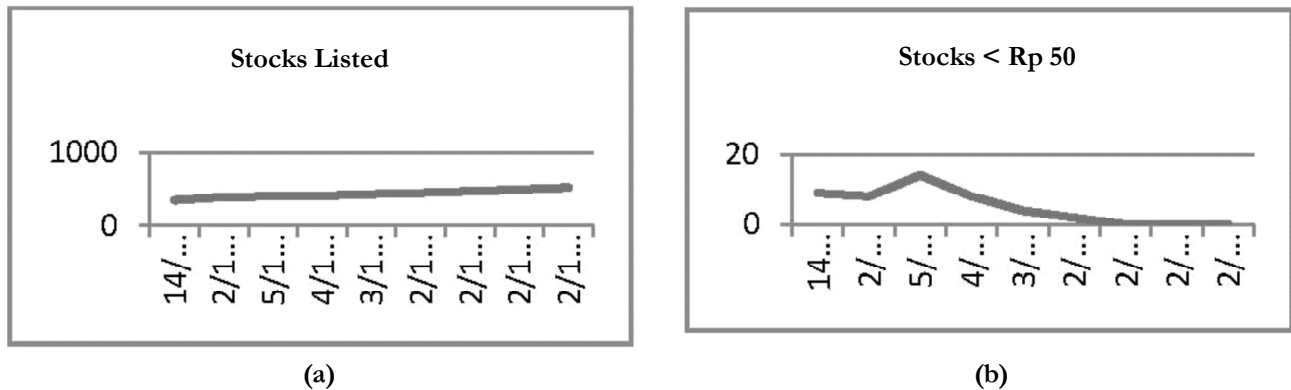


Figure 1: The number of shares listed on the Stock Exchange

During the observation period, the number of shares at a price of IDR 100.00 and less than IDR 1,000.00 take the largest portion, ie more than 60%, followed by a group of stocks with the price of IDR 1,000.00 to less than IDR 10,000.00 is less than 20%. As cumulatively, it can be said almost 90% of the shares listed on the Stock Exchange in 2015 was in the range prices above IDR 100.00. Data description of each group of prices and periods observations can be seen in Figure 2.

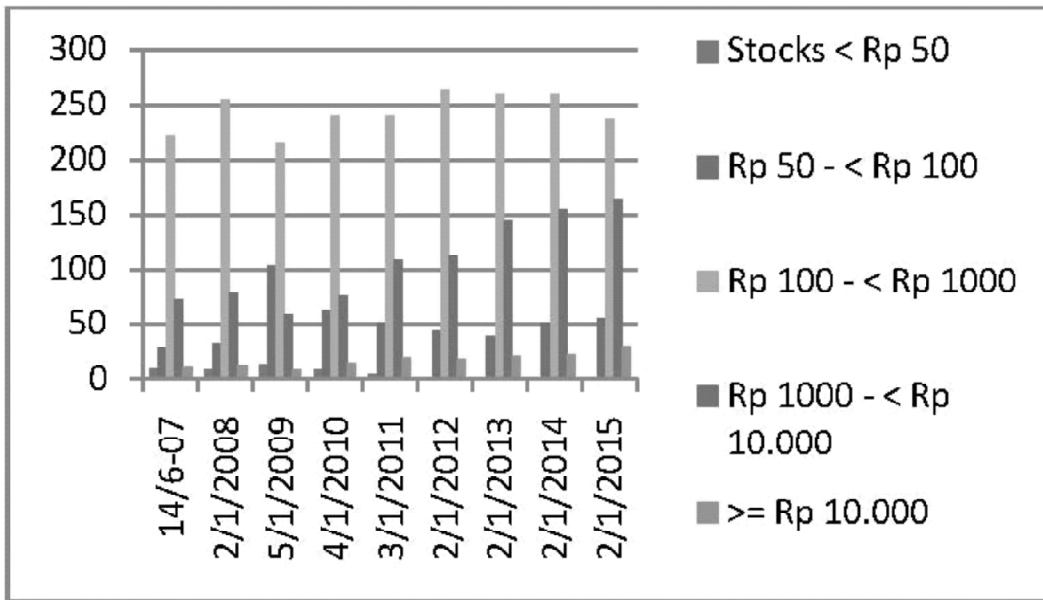


Figure 2: The number of shares for each price category in each period of observation

It is not easy to rule out stocks with relatively low prices, although as a percentage of the amount is very small. Given the determination of the minimum price restrictions requires study very carefully. To prove whether the low stock price is in the category of penny stock (in this case under IDR 100.00) has a same characteristic that was found by Liu, Rhee and Zang (2013), this study compares the volatility of returns, volatility prices and abnormal return of the group's share price.

In Figure 3, the results of this study indicate that return volatility of the stock at a price of under IDR 100.00 is higher than other price groups. Group of IDR 100.00 to under IDR 1,000.00 has the smallest return volatility. For the price volatility, which surprising that stock at a price of IDR 100.00 to under IDR

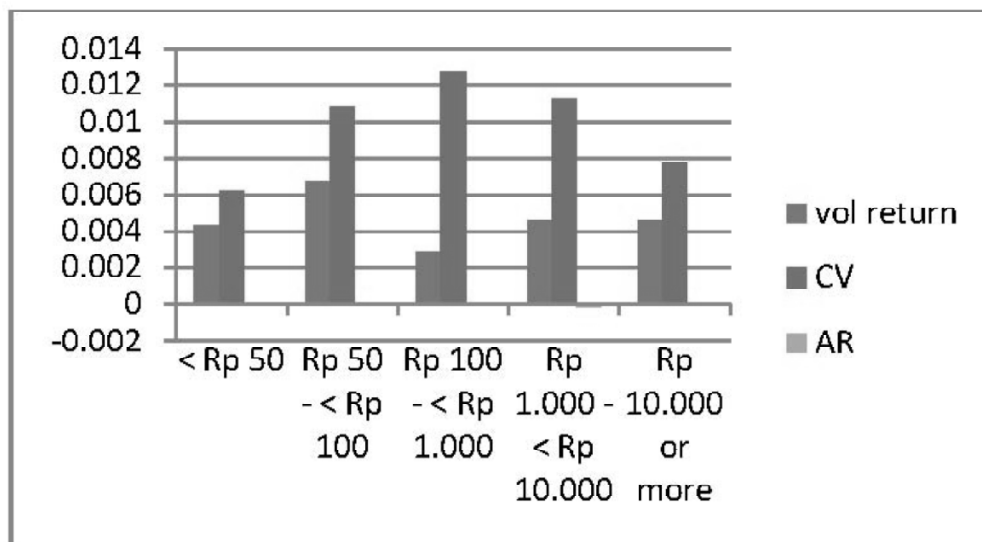


Figure 3. Comparison of price volatility, volatility of returns and abnormal return between groups share prices

1,000.00 more volatile compared to other price groups. In theory, a low stock price has high volatility than the high stock price. These results contradict to Liu, Rhee and Zang (2013), but the negative abnormal return occurred in shares at a price of under IDR 50.00.

The results of this research still unclearly reveal to the characteristics of stock at a low price (penny stock) consistently. There is still a gap to see the need of assessment of the minimum price limit in Exchange. It is not easy to rule out stocks with relatively low price, although the amount is very small percentages. In-depth study is needed to live out Hong Kong Stock Exchange experienced in the Indonesia Stock Exchange.

E. CONCLUSION

Although this research is descriptive analysis, but it was able to describe the behavior of prices of shares in IDX as well. During the observation period, it seems the price shares above IDR 100.00 on average are nearly 90%. This shows that the movement of share price from time to time has been increased. IDX should need reconsider the establishment of a minimum price limit that has been in effect since the year 2007, although still consider the existence of 10% of shares are still below IDR 100.00 or too large to be removed from the Exchange if it is associated with ownership or capitalization shares. However, the stock price above IDR 100.00 provides less return than price under IDR 100.00.

This is quite puzzling that price volatility as measured by the CV of stock at IDR 100.00 to under IDR 1,000.00 higher than shares in other categories. Need more accurate data than the annual data used in this study because these results contradict to the previous similar studies. However, stocks with prices above IDR 100.00 provide a smaller return volatility than stocks under IDR 100.00.

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