

CHAPTER I INTRODUCTION

1.1 Research Object

The primary subjects of this investigation comprise the four leading commercial banking institutions in Indonesia, categorized under Kelompok Bank berdasarkan Modal Inti 4 (KBMI 4). These entities are colloquially known as the "Big Four" and represent the cornerstone of the Indonesian financial ecosystem. Due to their immense market capitalization, high trading liquidity, and strong contribution to the national economy, these banks serve as the principal systemic drivers of the Jakarta Composite Index (JCI) and are often viewed as bellwethers for the nation's macroeconomic health. Their stock movements are also highly relevant for technical analysis because they are actively traded on the Indonesia Stock Exchange and often reflect broader market sentiment in the banking industry.

The specific stocks under analysis include:

- a. PT Bank Central Asia Tbk (BBCA)
- b. PT Bank Rakyat Indonesia (Persero) Tbk (BBRI)
- c. PT Bank Mandiri (Persero) Tbk (BMRI)
- d. PT Bank Negara Indonesia (Persero) Tbk (BBNI)

The scope of the data analyzed encompasses the temporal period from May 2024 to December 2024. The dataset includes longitudinal market variables such as daily adjusted closing prices, intraday volatility metrics (high-low price ranges), and aggregate trading volumes. By examining these parameters, the research aims to dissect the price action dynamics, liquidity patterns, and technical momentum of these tier-1 financial institutions during the specified fiscal year.

1.2 Background Research

Investment has long been recognized, encompassing various options for capital allocation. Today, fixed deposits have shifted from reliable savings vehicles to poor investments, as record-low returns fail to offset the eroding effects of high inflation. Thus, seeking for other investments options is needed in this case. One common avenue for investment is the capital market, where various financial instruments such as stocks and bonds are traded. Financial markets play a crucial role in the economy by connecting investors with those seeking capital, thereby facilitating economic growth. However, due to their broad exposure to systematic risk, these markets are often subject to strict regulations to ensure stability and investor protection. According to (Menaung et al., 2022), stocks are a popular capital market instrument because they offer the potential for profit and represent an individual's or entity's equity participation in a company. Similarly, Satriyo et al. (2017) define stocks as securities that signify ownership in a corporation, granting shareholders the right to receive dividends or other distributions.

Stock prices in financial markets are shaped by a multitude of factors, including the perceptions, expectations, and reactions of investors and traders. For most market participants, stock price data is the first and most immediate form of information available, serving as a crucial starting point for further analysis and decision-making.

One of the methods that investors and traders can use to make decisions and evaluate overall market movement is by using technical analysis. Rather than focusing on financial fundamentals, it relies on the study of historical price data and market behavior to predict and analyze future price movements. This approach

utilizes charts, patterns, and statistical indicators such as moving averages, trendlines, and trading volume to identify trends and make trading decisions. According to Soegoto (2022), technical analysis involves the application of mathematical and statistical techniques to examine past price behavior of financial instruments like stocks, currencies, or commodities, in order to anticipate future market trends.

In the Indonesian market landscape, retail investors are most likely to trade frequently with short holding periods, while institutional investors tend to use momentum strategies and trade less frequently with larger amounts and longer holding periods. Thus, many traders tend to favor short-term trading strategies to capitalize on price fluctuations rather than waiting for long-term fundamental value to materialize. This tendency especially when the Indonesia Stock Exchange (IDX) enforced several trading halts amid sharp market downturns, which stirred uncertainty and pushed many retail participants further toward short-term trading behavior.

A common belief among proponents of technical analysis is that "charts don't lie" that was a book authored by Ryan (2016), they reflect real-time investor or trader actions and cannot be manipulated in the same way that financial statements or forecasts might be. This belief is rooted in the idea that collective behavior and psychology are embedded in the price action itself, making it a more honest and immediate representation of market dynamics.

The limitations of long-term forecasting and reliance on economic predictions are often highlighted by referencing economist John Maynard Keynes'

famous statement (1923): “In the long run, we are all dead.” This quote emphasizes the importance of timing and short- to medium-term responsiveness in financial markets, aligning closely with the philosophy behind technical analysis. While fundamental analysis provides a broader view of value over time, technical analysis offers tools for navigating the present and near future where market movements happen and investment decisions are made.

As financial markets continue to grow in complexity and speed, many investors now utilize technical analysis as a means of responding effectively to real-time market signals. This approach enables traders to act on price-driven cues rather than waiting for fundamental data updates that may arrive too late to support timely decisions.

Technical analysis naturally lends itself to quick decision-making, as investors can read price charts and indicators at a glance, while fundamental analysis demands a deep dive into financial statements and macroeconomic conditions that are rarely available on short notice or updated frequently enough to support time-sensitive trades.

Technical indicators widely used are diverse. Some indicators including, trendline, support & resistance, simple moving average, and stochastic oscillator.

A trendline is a straight line drawn along successive highs or lows on a price chart to identify the prevailing direction of price movement, such as uptrend, downtrend, or sideways. It is employed in this study because it provides a visual representation of market direction before any trade decision is made.

Support refers to a price level where buying interest is strong enough to prevent further decline, while resistance refers to a level where selling pressure prevents further upward movement. These levels are widely used in technical analysis because they reflect market psychology areas where participants have historically agreed on value. In this study, support and resistance are used to identify optimal entry and exit points, as price reactions at these levels tend to be statistically significant and recurring.

The Simple Moving Average is the most basic among technical analysis indicators. The SMA is incorporated in this study as a trend-following indicator to reduce market noise and provide clearer signals regarding upward or downward conditions. Crossover signals between different SMA periods are commonly used to generate buy or sell signals.

The Stochastic Oscillator is a momentum, producing a value between 0 and 100. Readings above 80 indicate overbought conditions, while readings below 20 suggest oversold conditions. It is used in this study to identify potential price reversals and entry or exit momentum, thereby reducing the likelihood of false signals when used in conjunction with the other three indicators.

Unlike prior studies that examine technical indicators in isolation or across mixed sectors, this study applies a multi-indicator framework, interpreting Trendline, Support and Resistance, Simple Moving Average, and Stochastic Oscillator, exclusively to Indonesia's four largest banking stocks (BBCA, BBRI, BMRI, and BBNI) over a concentrated eight-month window in 2024. The novelty of this research lies in its sector-specific focus and the deliberate integration of

divergence analysis within the Stochastic Oscillator to refine buy and sell signal accuracy. This combination has not been previously examined within the context of KBMI 4 banking stocks on the Indonesia Stock Exchange.

1.3 Problem Statement

In a certain situation, a trader may find it's difficult to determine entry and exit points in deciding whether it is the right time to buy or sell and is unable to determine the right timing for decision-making. A trader needs to use some right indicators to make buying or selling decisions on Four Big Banks stocks. Trader often relies on historical data and technical indicators without a clear understanding of how well these tools perform in different market conditions. This raises the question:

1. Can technical analysis help investor and trader determine short-term stock price trends in the Indonesian stock market?
2. When is the right time to buy and sell?
3. What patterns can be observed during the year and its impact?

1.4 Objective of Research

The primary purpose of this study is to help where the entry and exit point is for the "Big Four" banks (BBCA, BBRI, BMRI, and BBNI) on the Indonesia Stock Exchange (IDX). By utilizing a comprehensive set of technical indicators, this research seeks to provide a systematic framework for traders to navigate the Indonesian market.

Specifically, the objectives of this research are:

1. To Optimize Trade Timing: To identify the most effective entry (buy) and exit (sell) signals by synthesizing data from Trendlines, Support and Resistance levels, Simple Moving Average (SMA), and the Stochastic Oscillator.
2. To identify market trend: To observe and document recurring price patterns throughout May'24 – Dec'24 and analyze their subsequent impact on stock performance.
3. To Validate Indicator Reliability: To compare predictive movement against actual historical price movements to determine the reliability of the selected technical indicators in real-market conditions.

1.5 Scope of Research

This research employs a strategic combination of four primary technical indicators. These tools were selected not just because of their widespread adoption in professional trading, but also because they provide a balanced view of trend, potential reversal, and momentum. This multi-faceted approach aims to reduce "market noise" and increase the accuracy of trade signals.

1. Trendlines

Trendlines are utilized as the foundational tool for visualizing market sentiment and defining the prevailing direction of a stock, whether bullish, bearish, or sideways. The justification for their use is rooted in the classic principle that "the trend is your friend" (Zweig, 1986). By drawing these lines, the research can

effectively filter out minor market "noise" and focus on the primary trajectory, ensuring that price analysis remains aligned with the broader market cycle.

2. Support and Resistance (S&R)

Support and Resistance levels identify the psychological price points where a stock has historically struggled to fall below (support) or rise above (resistance). These levels are critical to this study because they represent "supply and demand" zones where institutional activity typically clusters (Pring, 2002). Integrating S&R into the research allows for the identification of high-probability reversal points and "breakout" opportunities, providing a structural map of where price action is likely to stall or accelerate.

3. Simple Moving Average (SMA)

The Simple Moving Average (SMA) is a lagging indicator that smooths out price action by calculating the average closing price over a specific number of periods. Its inclusion is justified by its reliability in confirming trend reversals and identifying significant market signals, such as the "Golden Cross" or "Death Cross." As a staple in long-term institutional research (Brock et al., 1992), the SMA provides a smoothed data set that allows this study to validate the strength of a trend without being misled by short-term volatility.

4. Stochastic Oscillator

The Stochastic Oscillator serves as the primary momentum indicator, comparing a specific closing price of a security to its price range over a set period. While the SMA and Trendlines identify the "what" and "where" of a trend, the Stochastic Oscillator justifies the "when" by identifying overbought and oversold

conditions (Lane, 1984). This is essential for the "Trade Timing" objective of this research, as it provides early warning signals of trend exhaustion, offering more precise entry and exit points than trend-following indicators alone.

1.6 Research Benefits

This study provides several important benefits for both individual traders and institutional investors operating in emerging markets like Indonesia.

First, it offers practical insights into how technical indicators, namely Trendline, Support Resistance, Simple Moving Average (SMA), and Stochastic Oscillator (SO), perform when applied to the most liquid banking stocks on the Indonesia Stock Exchange. By evaluating the helpfulness of these tools, the research helps traders make more informed decisions, particularly when determining the optimal timing for buying or selling.

Second, the findings contribute to the broader financial literature by providing empirical evidence on the effectiveness of technical analysis in banking sector context. This can serve as a valuable reference for academics, analysts, and financial institutions seeking to better understand how market behavior in developing economies differs from that in more mature markets.

Third, for market participants who are still uncertain about the usefulness of technical analysis, this study can help build confidence by demonstrating whether these methods yield reliable signals in real-world trading conditions. Thus, investors and traders can reduce the risk of losses due to poor timing (unexpected event) and enhance the efficiency of their trading strategies.

Lastly, the results of this study may be applicable beyond the IDX. Thus, it may offer value to investors who operate in or are considering entering similar markets in Southeast Asia, Africa, or Latin America, making it a potentially useful tool for cross-market comparisons and strategy development.

1.7 Writing System

This thesis is systematically organized into five chapters in order to provide a clear and structured discussion regarding the application of technical analysis in determining buying and selling decisions on banking sector stocks listed on the Indonesia Stock Exchange.

Chapter I: Introduction

This chapter explains the general overview of the research, including the research background, problem statement, research objectives, scope of research, research benefits, and writing system. This chapter also introduces the research objects, namely the four largest banking companies listed on the Indonesia Stock Exchange.

Chapter II: Literature Review

This chapter discusses the theoretical foundation used in the study. The discussion includes investment theory, technical analysis, bullish and bearish concepts, trendline, support and resistance, Simple Moving Average (SMA), and Stochastic Oscillator. In addition, this chapter also reviews previous studies related to technical analysis and stock trading decisions.

Chapter III: Research Method

This chapter explains the research methodology used in conducting the study. It covers sample selection, data collection methods, research variables, data sources, and the technical analysis methods applied in evaluating stock price movements. The chapter also describes how the selected indicators are utilized to identify buy and sell signals.

Chapter IV: Result and Discussion

This chapter presents the results of the technical analysis conducted on BBKA, BBRI, BMRI, and BBNI stocks during the research period. The analysis includes interpretation of trendlines, support and resistance levels, Simple Moving Average crossovers, and Stochastic Oscillator signals. Furthermore, this chapter discusses the implications of the findings and evaluates the effectiveness of each technical indicator in generating trading decisions.

Chapter V: Conclusion and Suggestion

This chapter contains the conclusions derived from the research findings and provides suggestions for investors, traders, and future authors. It also discusses the limitations encountered during the study and recommendations for further research development related to technical analysis in financial markets.