Proceeding of the International Conference on Economics, Accounting, and Taxation
Volume. 1, Nomor. 2 Tahun 2024
Pages 338-350
Available online at: https://prosiding.arimbi.or.id/index.php/ICMEB

The Manipulation of Retail Traders by Market Makers : An Empirical Case from Indonesia

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Abstract*. This paper aims to investigate who the market makers are and how they are manipulating retail traders in the Indonesian Stock Exchange. The method used is library research and field research. The approach to this research is a descriptive approach because it wants to describe the empirical reality behind the phenomenon in depth. Information data uses primary data, namely conducting interviews and secondary data which is data that is available through journals, books and other factual supporting sources. Apart from that, analysis of the information data used uses the Miles & Huberman Interactive Analysis Model starting from data collection, data reduction, data presentation and drawing conclusions. Stock observation observation method through the stockbit application, to see stock movements over the current 3 (three) year period. Fried stocks are one of the stocks that can provide fast returns in the blink of an eye. To transact in fried stocks, someone must have an aggressive risk profile and already have a lot of experience in the world of stocks. The share price had an extraordinary increase, this was caused by the Market Maker deliberately manipulating the share price.*

Keywords *Fried Stocks, Manipulation, Market Makers,*

1. INTRODUCTION

The stock market plays an important role in the economy. The stock market plays an important role in the country's economy for financing and investment activities. The capital market provides a means for investors to invest and brings together investors with securities issuers. The capital market is an easy, cheap, and fast source of financing for the business world and national development (Naik & Reddy, 2021). An investor invests in the stock market by investing funds for a certain period of time to get a return with a number of risks. The number of capital market investors continues to increase every year. Based on data from the Indonesian Central Securities Depository (KSEI) (2023), the number of investors in the stock market reached 10.48 million people in the January 2023 period. The number of investors increased by 1.65% from 10.31 million investors in December 2022 and 33.28% from 7.86 million investors in January 2022.

Stock liquidity is a measure of how often a stock is traded on the stock exchange. Trading volume or stock liquidity indicates the number of transactions that occur which indicates the level of investor demand for the stock: High transaction volume indicates that the stock is widely traded and in demand by investors (Naik & Reddy, 2021). Stock trading volume is influenced by fundamental factors, macroeconomics (Fama & French, 1992). An efficient market, namely stock prices are a full reflection of fundamental factors, both

Received: December 02, 2024; Revised: December 17, 2024; Accepted: December 31, 2024; Online Available: January 02, 2025

macroeconomics, industry and companies (Jabeen et al., 2022). In addition to fundamental factors, stock liquidity is also influenced by market maker factors (Aggarwal et al., 2006).

Market makers are parties responsible for maintaining the stability and liquidity of financial markets (Aggarwal et al., 2006). Market makers can be securities companies, or financial institutions appointed by capital market operators. The task of market makers is to maintain market stability and liquidity, ensure that there are always buy and sell offers in the market, move the market with large capital, provide convenience for investors as liquidity providers, and make buy-sell quotations according to those regulated by capital market operators. Market makers can also be stockbrokers who are a group of market players (Siddiqi, 2017). The target of manipulation is mainly on third layer stocks with low capitalization known as fried stocks (Sergi et al., 2024). The high volatility of these stocks is caused by being played by certain parties because of their low prices. Many people buy these third-tier stocks for trading purposes. Illiquid stocks are often used as a means to manipulate prices (Aggarwal et al., 2006; Ergün et al., 2020; Jonkarlo et al., 2022).

Capital markets operate almost entirely electronically, increasingly automated, and manage complex information (Complexity & Trading, 2020). Large flows of data and information are often beyond the ability of investors to manage information. The increase in automation lately is changing the landscape of algorithmic-based financial markets with unprecedented speed and complexity (Ali et al., 2023; Jain, 2023; Mukerji et al., 2019; Wang et al., 2021). Technological developments on the one hand can contribute to increased efficiency, on the other hand can provide risks, such as the misuse of technology for manipulative practices (Wang et al., 2021).These risks are especially for small-scale traders, novice investors (Li et al., 2023) (Kurnianingsih et al., 2022, 2024) who have limited access to information, potential information asymmetry, and limited access to financial infrastructure (Dodmane et al., 2023). Manipulators also often use periods of uncertainty (Charoenwong & Ding, 2022).

Market makers manipulate stock prices by, among other things, making stock prices move volatile in a short time, playing with the psychology of retail investors and using accumulation, participation, and distribution strategies. Several cases of retail stock manipulation by corruption of investment management funds of PT Asabri (Persero) and PT Asuransi Jiwasraya (Persero), involving Benny Tjokrosaputro (Bentjok) and Heru Hidayat, this case is the largest part of stock trading manipulation practices in Indonesia. Asabri's total loss is estimated to reach IDR 23 trillion, while Jiwasraya's loss is estimated to reach IDR 16.8 trillion . Another example is the Adani Group stock manipulation scandal, a company owned by Gautam Adani, an Indian conglomerate (https://www.cnbcindonesia.com). Small capital stock manipulation cases do not only occur in the developing country market of Indonesia. In the capital markets of developed countries such as the United States, where the market structure is relatively efficient, cases of stock price manipulation like this can still occur, such as Wall Street (1987), Other's People Money (1991), Boiler Room (2000), Enron: The Smartest Guys in the Room (2005), Wall Street Money Never Sleeps (2010), and The Wolf of Wall Street (2013) (Naik & Reddy, 2021).

This article aims to describe the phenomenon of manipulation of retail traders by market makers. The study was conducted by taking cases from the Indonesian capital market. The discussion in this article consists of five main topics. The first is the introduction. The second topic is a literature review. The third part is the study method. The fourth topic is results and discussion. The last part is the conclusion.

2. LITERATURE REVIEW

Stock market is a collection of buyers and sellers of a stock investment product . Every stock market transaction involves an exchange, so it involves two sides, demand and supply. Supply and demand are the forces that make stock market liquidity work. Stock liquidity is influenced by the demand and supply of stocks (Naik & Reddy, 2021). Demand refers to how much quantity of a product or service is desired by buyers, where the quantity demanded is the amount of product that will be purchased at a certain price. Stock trading volume influenced by fundamental factors, namely the price of x (*Px*), alternative prices of substitute shares (*Py*), industry (*ind*), macroeconomics (*macro*) and other alternative variables that can influence demand (*H*) such as the role of market makers and speculation, so that the demand function is written as follows (Naik & Reddy, 2021):

$$Qdx = f(Px, Py, ind , macro , H) \quad (1)$$

When retail investors and traders want to buy or sell stocks, currencies, bonds or other financial products, they need a marketplace where traders meet, called an exchange. It is clear that the price of a product depends on the supply and demand for it. The price at which retail investors can trade is determined by the current supply and demand for the product, which is reflected as the bid (buy price) and ask (sell price) spread (Menkveld, 2013). For financial products, the bid represents the demand and the ask represents the supply. The bid-ask spread is the difference between the willingness of a buyer to buy a financial product at the highest price and the willingness of a seller to sell it at the lowest price (Menkveld, 2013; Santa-alvarado, 2024). If there are fewer sellers for a buyer or fewer buyers for a seller, transactions will be much more difficult and time-consuming. Therefore, this market is considered illiquid. In order to increase liquidity and speed of order execution, there is a need for market makers to provide a bid-ask spread to the market, and that is defined as market making.

According to Aggarwal et al. (2006), stock manipulation by market makers can be done by buying large amounts of shares. Furthermore, the trader sells the shares to gain profit from the price increase. Market makers can also provide false information or rumors in Internet chat rooms. Other ways can be done by insiders who influence stock prices (e.g., accounting and earnings manipulation). These activities are widely carried out in developing markets, especially in small capital stocks, illiquid stocks, underperforming, and less volatile to manipulate (Ergün et al., 2020). Liquidity, returns, and stock volatility increase during the manipulation period and decrease in the post-manipulation period (Ergün et al., 2020; Huseynov, 2022; Menkveld, 2013; Santa-alvarado, 2024; Siddiqi, 2017).

A broker known as a Market Maker, participates in the capital market with the aim of maintaining the liquidity of outstanding issuers and providing a market for retail investors who want to sell and buy shares. However, along with the development and ease of access to information and technology, a broker can use the resources he has to manipulate the stock price of a company (Siddiqi, 2017). These resources include spreading positive sentiment towards a broker company, people will easily buy its shares in the hope of making a profit (Siddiqi, 2017).

One indication of the role of market makers in stock liquidity can be seen from the rapid increase in stock prices (Ergün et al., 2020; Huseynov, 2022; Menkveld, 2013; Santa-alvarado, 2024; Siddiqi, 2017). A stock can experience ARA (Auto Reject Above) many times. In this case, the stock can experience an increase of more than one hundred percent within one week, or five working days on the stock exchange. Conversely, the stock price can fall rapidly (Menkveld, 2013; Santa-alvarado, 2024).

The stock market in Indonesia consists of three levels. First tier stocks, high market capitalization, low volatility, which are generally included in the LQ45 index and are also known as Blue Chip stocks. Second tier stocks have medium market capitalization and medium volatility. Third layer stocks (third layer stocks-small cap) with low capitalization fried and high volatility are known as fried stocks. The high volatility of these third-tier stocks is caused by certain parties playing with them because of their low prices. Many people buy these third-tier stocks for trading purposes.

3. METHODS

This study analyzes stocks of companies listed on the Indonesia Stock Exchange (IDX) precisely from 2020 to 2023. The observation and investigation period through the stockbit application, to see the movement of stock prices over a period of 3 (three) years. Researchers use qualitative research methods with a descriptive approach study to find and collect information about the research conducted. to collect data on fried stocks from various books, journals, articles, and websites.

The primary data collected for this study was by conducting interviews with Investors and Traders who bought fried shares. Researchers conducted in-depth interviews with informants who were directly involved in the field in January 2024 to produce research results. Researchers collected data by creating a list of questions which were then analyzed to find out how the information was provided by the informants. The study carried out several stages, including interviews focused on factors that influence fried shares, such as returns and market makers. Researchers interviewed four informants who worked as Investors and Traders in Surakarta.

4. RESULTS AND DISCUSSION

The influence of market makers on fried shares

The results of interviews with traders and Investors regarding the influence of Market Makers on fried shares can be found to be often found in stock trading activities. Manipulators choose stocks that are illiquid, underperforming, and less volatile.

"Market Maker is a group or individual who has a lot of funds and is often found in tier 3 stocks or better known as fried because they are not liquid so they are fried so that Investors and Traders buy the shares and the shares become busy." (Rahmad Novianto , 01/04/2024)

The companies targeted by market maker manipulation are not large capitalization companies but instead third -tier companies or small cap companies , or fried stocks . Fried stocks usually come from companies with a smaller market capitalization value, usually less than IDR 500 billion. As is known, companies with a smaller market capitalization value do not require large capital, which makes it easy for individuals known as stock dealers to change their prices.

"Shares with small market caps are often targeted by market makers or stockbrokers to manipulate the shares, we can tell whether there is a stockbroker or not. On the offer, the price is maintained by the dealer, but when the offer is more than the bid, the Market Maker takes profit." (Rahmad Novianto , 01/04/2024)

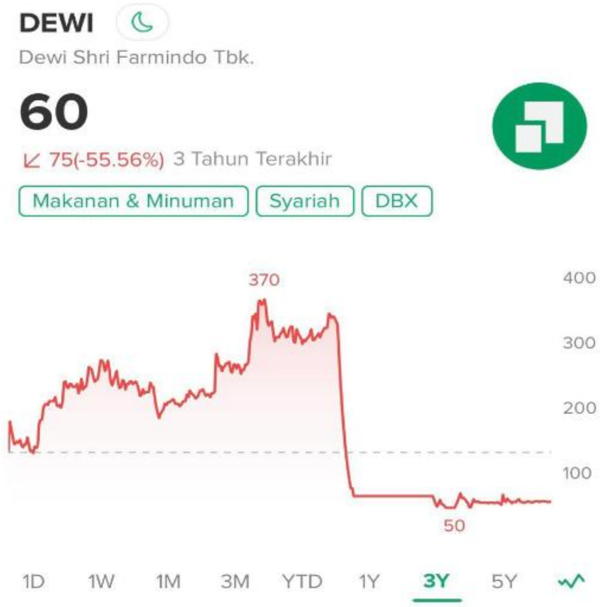

Figure 1. Sample Case of Stock Manipulation at PT Dewi Shri Farmindo Tbk.

The fried stock case among others occurred in PT Dewi Shri Farmindo Tbk. (DEWI) shares. Stock prices increase during the manipulation period and fall afterwards. Fig. 1 illustrates how DEWI stocks experienced a rise during some manipulation periods and a significant fall afterwards.

Figure 2. Stock Manipulation Case Sample at PT. Sumber Mas Kontruksi. Tbk

The case of fried shares among others occurred in the shares of PT. Sumber Mas Kontruksi. Tbk (SMKM) which was played by Market Maker or dealer. Initially, the SMKM stock depicted above was not liquid and there were not many transactions, but then the volume spontaneously increased. The next day, SMKM rose rapidly to a price of 1010 per share. However, after that, the price continued to fall until it reached a price of 55 per share. This shows that this stock is only played by the dealer. With its highly volatile movements , fried stocks cannot be analyzed with technical science. However, these stocks have the potential to generate large profits and have high risks. Stock traders can use their illiquid movements.

Market makers pump or dump stocks to exploit investors. Market makers buy stocks at low prices in large quantities to manipulate investors, especially young people and beginners who are currently the target market. Market makers often manipulate bids and offers to attract investors to buy them. At some point, the market maker revokes its bid, and then after a while the price will experience a drastic decline.

“Market Makers often manipulate bids and offers to attract investors to buy them. Market Makers are often in the bid queue with a large number of lots, so that investors think that the stock has many enthusiasts, because there are more bids than asks, as a result, investors HAKA (right hand strike) and after they feel enough, the Market Makers withdraw their bids, and then after a while the price will experience a drastic drop so that many investors end up cutting their losses.”

(Yosi Desika Andini , 01/22/2024)

Market Maker controls the rise and fall of fried shares. The target of manipulators is mainly young investors, novice investors who are inexperienced. Some young people, novice investors who are not yet experienced choose aggressive stocks because they want a bigger return. The movement of fried stocks is fluctuating and tends to rise, making target investors interested in buying the fried stocks. Based on the explanation of the Informant above, it can be concluded that fried stocks are in demand because they can provide a short return. Stock prices move because of supply and demand. If there is a lot of demand, stock prices will rise quickly, while if there is little supply, stock prices will fall. Ellen argues that demand makers are individuals or market players who have large capital known as institutions.

"I often buy stocks because I am an aggressive type who wants a quick return at that time. Therefore, I choose fried or third-layer stocks that can provide maximum returns in minutes." (Rahmad Novianto , 01/04/2024)

"Fried foods are delicious but can cause cholesterol, the same goes for fried food stocks, the returns are indeed high but can result in a negative investor portfolio." (Rizal Awallul , 01/09/2024)

"Basically, the movement of fried stocks is fluctuating, making investors interested in buying fried stocks because basically both investors and traders want to buy stocks today and sell them today in a matter of minutes to get maximum returns." (Yosi Desika Andini , 01/22/2024)

A stockbroker can be an individual or group of people who agree to buy a large number of shares, who have sufficient funds to control the company's shares. Stock traders do two stages: accumulation and distribution. The trader starts collecting goods in an indefinite period of time in a phase called accumulation. During the accumulation phase, the stock price will fall so that the trader can collect goods at a low price. Meanwhile, during the distribution phase, the stock price continues to increase because the transactions carried out by the trader are carried out slowly so that the market is not suspicious of its movements. After that, the trader will sell his goods when the price goes up or when the trader takes profit.

The influence of diluted influenza on fried stocks

The results of interviews with Traders and Investors about how Influencers influence fried stocks can be seen that many influencers are also market makers . Several other market makers use an influencer to introduce or offer fried stocks to their followers, with the aim that their followers buy the fried stocks . The influencer offers fried stocks by giving the followers the hope of getting a certain amount of profit.

"Many Influencers are also Market Makers, for example Belvin Tanadi with the Instagram account @belvinvvip. Every day he always offers stocks that he will buy with the aim that his followers can buy the stocks too." (Rahmad Novianto , 01/04/2024)

"In introducing fried stocks, Market Makers usually need an Influencer to introduce or offer the stocks to their followers, with the aim that their followers buy the fried stocks." (Rizal Awallul , 01/09/2024)

Influencers are very close to Investors because they help make investment decisions. The shares of certain companies are promoted by social media Influencers . If the person providing this information is influential, such as an Influencer with a large following, then the information may be able to influence Investors or the Influencer's followers.

"I often see on Instagram about Influencers offering fried stocks with the lure of getting profit, and I follow everything that is suggested by the person in order to get maximum profit according to what the Influencer gets." (Yosi Desika Andini , 01/22/2024)

Based on the Informant's explanation above, it can be concluded that Influencers greatly influence followers to follow the Influencer's figure. In other words, a fried stock Influencer influences fried stocks. Social media is a type of media on the internet that allows people to communicate, collaborate, share, and connect with others virtually. Businesses in various industries often use endorsements to market their products by gaining influence from Influencers to reach a wider audience .

In general, stock pumping or stock hoisting is prohibited in the stock market; here are the rules governing stock market manipulation (Jonkarlo et al., 2022):

a. Article 91 and 92 of Law Number 8 of 1995 concerning the Capital Market in Indonesia state that everyone is prohibited from creating a misleading picture of trading activities, market conditions, or stock prices on the stock exchange. Article 92 also states that everyone is prohibited from causing stock prices on the stock exchange to stagnate, increase, or decrease with the intention of influencing other parties.
b. Rule 10b-5 of the Securities Exchange Act of 1934 prohibits market manipulation in the United States. It prohibits all forms of fraud and market manipulation.

Stock influencers can actually help people understand and comprehend the capital market. In order to help people know more about the prospects and benefits of stock investment in the future, stock investment in the capital market requires education and socialization. Influencers can increase public interest and understanding of stock investment in the capital market by providing easily accessible information for novice investors, especially millennials. Influencers, including celebrities, artists, celebrities, YouTubers, etc., usually have many fans, which makes them more effective in attracting public interest. Because followers usually believe and follow the actions and statements of their idols. Influencers can also help the Indonesia Stock Exchange in exploring and introducing the Capital Market to the public. However, the presence of Influencers can have a negative impact because information from Influencers that cannot be trusted can harm novice Investors, especially those who take the information without conducting technical and fundamental analysis. This is based on the fact that not all Influencers have the expertise needed to provide accurate education and information to their followers about stocks, so it is very possible that they provide incorrect information.

5. CONCLUSION

Stocks are high-risk stocks because of their rapid price fluctuations. To trade in fried stocks, one must have extensive stock experience and an aggressive risk profile. Although fried stocks have poor fundamentals, their prices rise rapidly because market makers intentionally manipulate prices to gain profits. Market makers will form opinions and then take profit-taking actions by selling all or part of their shares by spreading rumors so that retail investors buy shares.

The results of this study provide theoretical implications in describing the phenomenon of the manipulation of retail traders by market makers in the capital markets of developing countries, namely Indonesia. The results of this study provide practical implications that an investor or trader must be wise when choosing an issuer to avoid the risk of loss when transacting in the stock market. Before making a purchase, investors or traders, especially beginners , must first analyze and observe stock movements. To avoid losses, In addition, for beginner investors, it would be better to avoid stocks with high volatility and third-tier stocks to avoid unwanted risks.

LIMITATION

This study has limitations. This study was conducted through a qualitative descriptive approach to describe the phenomenon of the manipulation of retail traders by market makers in the Indonesian capital market. This study has not been supported by strong evidence such as statistical analysis of the influence of this behavior on stock prices, so this can be a recommendation for further studies.

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