Bias Heuristics and Investment Decisions in Indonesian

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Abstract :
The purpose of this study is to investigate Bias Heuristics and Investment Decisions in Indonesian.we conducted a survey with questionnaires to 758 investors at various brokers by guaranteeing the confidentiality of their personal data on the Indonesian stock exchange.We use a questionnaire and a Likert scale for measurement and data collection with structural equation model (SEM) and confirmatory factor analysis (CFA).We found that risk tolerance has a significant positive effect on overconfidence. Financial knowledge is very important for investors in the stock market to avoid mistakes in making investment decisions. In Indonesia, financial literacy is still not rooted so it is negatively related to all variables.

Keywords: Stock Market, Bias Heuristics, Investment, Indonesia
JEL Classification Code : C01,C11,E10,E12

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Introduction

The stock market is a pool of money for companies to obtain capital to develop capital and for investors to invest in the real sector (Widarni & Bawono, 2021). The concept of the efficient market hypothesis assumes that investors are rational parties in investing and developing their wealth in the stock market (Parveen et al., 2020).

Humans base decisions in decision making and risk-taking based on past experience and the intuition they have (Mushinada, 2020) In addition, investors' decisions are also influenced by the information held by these investors and various experiences of the information obtained in the past including stock performance in the past (Shukla et al, 2020)

Decision making by investors is based on their perception of the investment instrument they choose and compares it with the level of profit when invested elsewhere (Ishfaq et al., 2020). Previous research has developed the effect of heuristic bias on investor decisions, such as research from Raheja and Dhiman (2020), The results of previous studies also varied regarding heuristic bias in different countries such as the research of Parveen et al. (2020). This study complements the results of previous studies by concentrating on the case of Indonesia as a multi-racial and cultural country.

Literature Review

Heuristic bias is the mental condition of investors in making decisions when faced with complex problems with incomplete or limited information (Ritter, 1988). Where financial literacy is an understanding of finance and investment and the realization of one's financial plans (Remund, 2010; Asad et al. 2018). Individual confidence in investing and taking financial risks is based on financial literacy and the prospects that are believed to be the investment instrument chosen (Parveen et al., 2020). Financial literacy is negatively related to behavioral bias so that the more you understand one's concepts and finances the more you avoid behavioral bias (Rasool and Ullah, 2019; Ahmad, 2020) .

Individual decisions depend on his experience Prospects and opportunities for issuers to develop in the future can increase individual confidence in choosing the issuer as an investment instrument (Awais et al, 2016), The increasing financial literacy in the community, the better the community in making financial and investment decisions (Ozen and Ersoy, 2019 ; Sasongko & Bawono, 2021).

Research Methods

In collecting data, we conducted a survey with questionnaires to 758 investors at various brokers by guaranteeing the confidentiality of their personal data on the Indonesian stock exchange using the following sample size formula:

$N=Z^2pq / e^2$

Where; p 5 sample proportion with 95% confidence level.

We use a questionnaire and a Likert scale for measurement and data collection with structural equation model (SEM) and confirmatory factor analysis (CFA).

Results and Discussion

Risk tolerance has a significant effect on the overconfidence factor with a coefficient of 5 0.089. Risk tolerance also has a significant effect on investment decisions with a coefficient value of 5 0.391. Irrational investment decision-making has an impact on increasing anchoring heuristics based on a lack of financial knowledge.

Independent variable	Dependent variable						
	Direct effects			Indirect effects		Collinearity statistics	
	Risk tolerance	Financial literacy	Investment decision	Via risk tolerance	Via financial literacy	Tolerance	VIF
Overconfidence	0.717***	-0.834	0.878***	0.089***	-0.079	0.518	1.482
Anchoring	0.159**	-0.049	0.252***	0.018***	-0.017	0.682	1.397
Representativeness	0.165***	-0.111	0.127***	0.019***	-0.017	0.775	1.220
Availability	0.279***	-0.001	0.069**	0.049**	-0.029	0.688	1.142
Financial literacy			-0.779			0.596	1.549
Risk tolerance		0.115***	0.391**		0.321	0.587	1.548

Note(s): ***p < 0.001; **p < 0.05

Irrational decision-making behavior in the stock market can also be influenced by opportunistic behavior to take as much profit as possible in turbulence in stock prices. In Indonesia, financial literacy is still not rooted so it is negatively related to all variables.

Conclusion

Risk tolerance has a significant positive effect on overconfidence. Financial knowledge is very important for investors in the stock market to avoid mistakes in making investment decisions. In Indonesia, financial literacy is still not rooted so it is negatively related to all variables.

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