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Research Article

Behavioral Finance Theory in Investment Decision

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Abstract

Investment is a sacrifice made by investor in the present days to obtain good return in the future after taking into account the risk that they possibly confront with. Return and Risk have unidirectional relationship. For example, high return is only achievable with high risk. Low return comes with low risk. In such condition, investors must choose the best investment among many options available to them, such as buying, selling or keeping stocks. Any investment can deliver the expected return, but the return in the form of capital gain or dividend yield is only achieved through stock investment. Based on the opinion given, return on investment is an indicator used by investors to increase their welfare. Investors expect that they would get capital gain and dividend yield as high as possible at certain risk rate. This expectation motivates investors to take into consideration any information and also psychological factor in order to produce optimum investment decision.

Keywords: behavioral finance theory, investment decision, earning per share value, stock investment, investor

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1. Introduction

The current research is analyzing the investments at capital market through financial and psychological sciences. Two bases of theory are used by this research, namely Behavioral Finance Theory and Heuristics Psychology Theory [1]. Behavioral Finance Theory was developed by Daniel Kahneman and Richad H. Thaler, the winners of Nobel Prize in Economics in 2002. The illustration of Behavioral Finance Theory is given as following:

Figure 1. Behavioral Finance Concept

Figure 1 shows that behavioral finance is a discipline of science that contains the interaction of various disciplines of science (interdisciplinary), which include sociology, finance, economic, accounting, investment, and psychology [2]. Behavioral Finance Theory declared that normal behavior of investors in their investment decision is always determined by rational factor (finance) and irrational factor (psychology) [3].

Investors can behave rationally if they evaluate financial information as the optimum base of investment decision. Information regarding earning per share (EPS) value is a financial information that shows the rate of net earnings that investors possibly get from every sheet of the stock [4]. This information is then used by investors as the indicator to determine their investment decision.

Meanwhile, investors with irrational behavior often use psychological factor when they make investment decision [5]. The condition of capital market in the last few decades had indicated that investors were not always rational, and market was not always efficient [6]. In fact, in average, investors base their investment decision on irrational factor. Investors' irrational behavior can force stock price to go unstable although there is no fundamental change in economic indicators [7]. Psychological pressure often compels irrational investors to act uncontrollably due to fear, greedy, and panicking.

Besides Behavioral Finance Theory, Heuristics Psychology Theory is also used as theoretical base in this research. But, it must be noted that heuristics psychology theory is precisely a theoretical frame that underlines behavioral finance theory [8]. Heuristics psychology theory explains that investors often make systematic mistake in their way of thought (cognitive capacity), including too confident with their skill and capacity, too much relying on self experience, and others. Investors were too easily experiencing biased trust when they are under uncertainty and risk in the environment characterized by a great deal of activities, dynamics, and complexities like capital market [9]. There are many kinds of biased trust experienced by investors during uncertainty condition, and one of them is biased herding.

herding is a biased psychology that drives investors to imitate the decision of others rather than to follow their own belief or information. herding is usually done by investors without thinking about fundamental guidelines of their own company, and this behavior makes the market becoming difficult to be efficient [10]. Herding is an expression used to describe institution or individual that takes the same behavior as the other (acting like a herd). Moreover, herding is not independent behavior because investors tend to follow the decision made by the market. herding behavior can be measured by ensuring whether an investor has made stock transaction and other investors follow this transaction. This condition may increase or decrease the same stock ownership level at certain period.

2. The Social Effect of Established Investors

Human is a social creature that is not really isolated from the impact of other human, and consequently, the conduct of one human in climate is constantly influenced by other human in environmental factors [11]. Prior to settling on their own choice, a few people will in general impersonate the conduct of others. Alluding to, a conduct received by an individual is a conduct brought about by the social impact. In addition, the social impact was characterized as social brain science space that examines how people are influenced by the weight of people or other gathering of people as their work to change demeanor, discernment, or conduct of those people [12]. Social impact happens when a few speculators collaborate with different financial specialists, and this cooperation makes a cycle of affecting each other that can change both demeanor and conduct powerfully.

Social impact can be perceived as the difference in suspected, feeling, demeanor or conduct of any person subsequent to having connection with others or gathering of people who are viewed as handy in the addressed field, or with the individuals who have social force [13]. The viewpoint of social force bases sees social force as social impact. Network individuals who have extraordinary social force bases will in general have incredible occasion to get the social impact of others [14]. The bases that underline social force comprise of remuneration power, coercive force, genuine force, referent force, and master power.

The ebb and flow research is centered around the social impact that depends on master power. Master power is underlined by a conviction that specific people are considered as having power since they have information, expertise, and data required by others to tackle their shared issue [15]. The social impact that depends on master force can impact possible speculators to change their conduct in settling on venture choice [16]. Surely, potential financial specialists don't have other decision however change their conduct since they do have blemished data and lacking of capacity in venture examination. Accordingly, they take reference from different speculators who are now settled and have better aptitude and data.
Social impact is estimated by separating positive social impact from negative social impact. Both positive and negative social impacts are the markers that measure social impact. Both positive and negative social impacts were affecting grouping conduct of speculators in their venture choice. It very well may be said that grouping conduct is picked by the possible financial specialists because of social impact, and later, this social impact delivers an estimation among them that shows as over the top nonsensical conduct (brain research factor) when they settle on sentiments and choices with respect to venture. It is reliable with heuristics brain science hypothesis that clarifies that potential financial specialists frequently experience one-sided trust (one-sided brain science). Such one-sided condition influences the method of considered financial specialists in starting and settling on choice, particularly at the state of vulnerability including the climate that is consistently dynamic, dynamic, and complex like capital market. Compliant with the clarifications over, the principal theory is proposed as Investors who get positive social impact from set up financial specialists will in general pick the purchase choice in their venture choice than speculators who get negative social impact.

3. The Informative Effect of Information Regarding Earning Per Share Value

Financial specialists' choice at capital market is predominantly influenced by bookkeeping data. Two advantages are acquired from bookkeeping data, which separately are, that bookkeeping data has esteem significance, and that bookkeeping data can foresee value market esteem [17]. There are four ways to deal with the worth significance of bookkeeping data, which individually are: (1) crucial investigation approach, which says that bookkeeping data not exclusively can change the market cost of the stock yet additionally encourages the clients to identify stock value deviation; (2) expectation approach, which proclaims that bookkeeping data is helpful to anticipate the future possibility of organization execution; (3) epitome approach, which underlines that bookkeeping data can be utilized by speculators to decide stock cost; and (4) esteem importance estimation approach, which expresses that esteem pertinence is estimated from the ability of the incentive in catching or summing up the data of business and other movement [18].

The momentum research utilizes first methodology, which is, central examination approach. Speculators execute basic examination on bookkeeping data that they get, and afterward utilize this data as the base of thought in settling on venture choice [19]. Procuring Per Share (EPS) esteem is a data typically found in corporate fiscal summary, and this data shows the size of corporate net income that are fit to be disseminated by organization to all investors. Bookkeeping data in a type of EPS esteem is a data with esteem importance in light of the fact that in any event it can build speculators' premium to contribute their capital, despite the fact that financial specialists should in any case utilize other estimation pointer prior to receiving rewards from EPS esteem.

Procuring Per Share (EPS) esteem is estimated with two markers, in particular the expansion of EPS esteem and the lessening of EPS esteem. The expansion of EPS esteem gives sign that the organization has been effective in expanding corporate riches, and along these lines, speculators expect that they will get high pace of return. In the other hand, the diminishing of EPS esteem shows that the organization isn't effective in expanding corporate riches, and as an outcome, speculators discover trouble to expect exceptional yield rate. The two markers of EPS esteem become thought bases utilized by speculators to pick grouping conduct in their venture choice.

As recently depicted in social money hypothesis, financial specialists who experience one-sided crowding will in general direct essential investigation on bookkeeping data. The type of this bookkeeping data is EPS esteem, which can be found in fiscal report that is intermittently broadcasted. At the point when capital market isn't pushed, speculators will in general purchase the stock, particularly after the budget report shows the expansion of EPS esteem. In compatibility of all clarifications over, the subsequent speculation is composed as Investors who get data with respect to the expansion of EPS esteem will in general pick the purchase alternative in their venture choice than financial specialists who get data in regards to the reduction of EPS esteem.

4. The Social Effect of Established Investors and The Informative Effect of Information Regarding Earning Per Share Value

It was at that point expressed in past segment that human is a social animal, and it is totally hard for human to be isolated from the impact of other human, either in day by day action or in choosing to contribute at capital market. Alluding to Borgers et al. (2015), social impact has huge effect on monetary dynamic in different settings. Social impact of set up financial specialists can impact the cooperation of expected speculators on piece of the overall industry.

Grouping conduct of speculators and the social impact of set up speculators on this crowding conduct are constantly found in monetary and affordable settings. crowding conduct in prudent setting and dynamic in monetary setting are two social learning measures, and these cycles are directed by passionate and mental ascribes of speculators.

As of now clarified in past segment, a review including interdisciplinary methodology had been directed. This review took thoughts from social and conduct sciences (financial, humanism, brain research, science and nerve science) [20]. Aftereffect of this overview demonstrated that grouping conduct and the social impact of set up speculators are two variables influenced by reason and feeling. Venture choice made by speculators at capital market is extraordinarily impacted by numerous data, including monetary data, for example, EPS esteem, and non-monetary data, for example, social impact. It compares with social account hypothesis that clarifies that speculator choice is frequently influenced by mental and monetary variables. Investors who get data with respect to the expansion of Earning Per Share (EPS) esteem and get positive social impact will in general follow the purchase alternative in their speculation choice as opposed to financial specialists who acquire data with respect to the decline of Earning Per Share (EPS) esteem and get negative social impact. Investors who get data with respect to the lessening of Earning Per Share (EPS) esteem yet get positive social impact will in general follow the purchase choice in their venture choice instead of speculators who acquire data with respect to the expansion of Earning Per Share (EPS) esteem however get negative social impact.

This examination proposes a far reaching model by alluding to conduct money hypothesis. Data with respect to EPS esteem is significant data utilized by speculators as the base of basic examination. Social impact of set up financial specialists has driven the speculators to show unreasonable conduct in their venture choice [21].

Exploration type is quantitative. The methodology is unadulterated investigation or randomized analysis. Alluding to, randomized trial ordinarily includes orchestrating the members haphazardly. Fundamental objective of test research is to comprehend the causal relationship (circumstances and logical results connection) between factors. Inside the setting of the momentum research, the social impact of set up financial specialists and the enlightening impact of data with respect to EPS esteem on grouping conduct in venture choice are examined.

5. Conclusion

Information were gathered by giving treatment or control to 100 financial specialists as the member (subject) of examination. This treatment accepting structure as a bunch of recreations. Members were separated into four gatherings. Each gathering comprised of 30 members, and the choice was done through randomization where members were arbitrarily chosen from the current populace. The reproduction was done through a workshop coordinated by RHB Security Company in Jakarta. Alluding to the information gave by Statistic Indonesia Stock Exchange (IDX), it was shown that the quantity of financial specialists in Indonesia was 1.7 millions speculators. Incredible number of speculators were regularly found in huge urban communities, including Jakarta, the capital of Indonesia. Thusly, research chose to utilize speculators from Jakarta city as the members since research anticipated that its example should be more delegate. Information gathered from explore (treatment) action were then broke down.

Information examination instrument was a measurement test called Univariate Two Ways Analysis of Variance. This instrument was utilized to evaluate essentialness level of the impact and the normal distinction across the gatherings. There are two autonomous (factors) considered in this examination, to be specific social impact of set up financial specialists and educational impact of data with respect to Earning Per Share (EPS) esteem. Every factor has two markers (levels). Social impact of set up speculators has two markers (levels), which separately are, positive and negative social impacts. Educational impact of data with respect to EPS esteem includes two pointers (levels), to be specific the expansion of EPS esteem and the reduction of

EPS esteem. Consequently, research configuration is 2x2 factorial test, and this plan is chosen by aim to inspect the impact of two elements, either mostly or at the same time, on grouping conduct in speculation choice.

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