Behavioral Bias And Beginning Investor Decision Making In Share Investment In The Covid-19 Pandemic

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ABSTRACT

This study aims to determine whether the confirmation bias, self-attribution bias, overconfidence bias, cognitive dissonance bias, and herding bias have an effect on making stock investment decisions for novice investors during the Covid-19 pandemic. In this study, the sample used was beginner investors from March to December 2020. The technique used for sampling was purposive sampling and selected 161 respondents. The results of data analysis show that self-attribution bias and overconfidence bias are proven to have a significant positive effect on stock investment decision making during the Covid-19 pandemic, while confirmation bias, cognitive dissonance bias, and herding bias have no significant effect on stock investment decision making during the pandemic covid-19. The results of this study are in accordance with the behavioral finance theory, that there is the influence of psychological factors in a person's financial behavior that causes investors to act irrationally in the midst of uncertainty.

Keywords: Stock investment decisions; Confirmation bias, Self-attribution bias; Overconfidence bias; Cognitive dissonance bias.

1. INTRODUCTION

The Covid-19 pandemic which was detected in Indonesia in March 2020 has had an impact on the country's economy and has also forced us to survive amid uncertainty (Tambunan, 2020). This uncertain situation was marked by the composite stock price index touching its lowest level of 3,937.63 at the closing session of trading on March 24 2020. This figure decreased by 37.49% compared to the position at the end of last year. This became the second deepest composite stock price index correction in history after being minus 50.6% during the 2008 global financial crisis due to the Subprime Mortgage case in the United States (Sidik, 2020).

Information in the midst of the fluctuating composite stock price index trend was captured as an opportunity and attracted novice investors to invest. This is because sentimental factors play an important role. This is also supported by Town's (2020) statement that investing or buying shares during the covid-19 pandemic is the right choice because stock prices are very cheap. What is interesting is that of the 9 stock sectors in the capital market, not all sectors were corrected due to the COVID-19 pandemic. This means that this can be an opportunity for investors to get the expected return when there is a national economic recovery.

The Efficient Market Hypothesis (EMH) theory is used by researchers in traditional finance. The Efficient Market Hypothesis theory assumes that if an individual investor has the goal of maximizing returns in investing with decisions that are not influenced by psychological or emotional factors, then he can be called a rational investor (Fama, 1991). However, researchers cannot fully accept this theory. The phenomenon of individuals who behave irrationally is more often found today (Handoyo et al., 2019).

Irrational behavior is called behavioral bias which causes lost opportunities to get the expected return on investment. This can lead to an inefficient stock market (Seto, 2017). Behavioral bias consists of cognitive factors and emotional factors. Pompian (2006) explains that cognitive bias is a deviation from the process of understanding, processing, and making decisions on information or facts. There are four types of cognitive biases, namely confirmation bias, self-attribution bias, overconfidence bias, and cognitive dissonance bias. In addition to cognitive factors and emotional factors, social factors are also considered to be able to influence investment decisions, namely herding bias (Fityani & Arfinto, 2015).

This research is a development of Afriani & Halmawati's (2019) research. Afriani & Halmawati's research (2019) only uses 3 independent variables, namely cognitive dissonance bias, overconfidence bias, and herding bias. The author adds confirmation bias and self-attribution bias variables because both behavioral biases are related to overconfidence bias. Therefore this study aims to determine whether the confirmation bias, self-attribution bias, overconfidence bias, cognitive dissonance bias, and herding bias have an effect on making stock investment decisions for novice investors during the Covid-19 pandemic.

2. LITERATURE REVIEW AND HYPOTHESES

Confirmation bias in a person raises a tendency to pay attention and prefer information that supports their opinion but will ignore information that contradicts their opinion. This can give rise to indications of poor investment decision making because investors do not have complete information for investment decision making (Verma, 2016). Mahina & Bashaija's research (2018) concludes that confirmation bias plays a positive and significant role in the frequency of trading in the stock market.

H1: Confirmation bias has a positive effect on beginner investor decision making in stock investment during the covid-19 pandemic

Self-attribution bias is a type of cognitive bias behavior that considers investment success purely due to his ability, intelligence, and sharpness as an investor in predicting and analyzing, and making investors think that they have good abilities and knowledge (Hirschey & Nofsinger, 2008). The research of Mahina et al. (2018) stated that self-attribution is a significant cause that makes people perceive their success as an internal strength of themselves and their failure in stock investment is caused by external forces.

H2: Self-attribution bias has a positive effect on the decision making of novice investors in stock investment during the covid-19 pandemic.

Overconfidence bias is a type of cognitive bias behavior in which investors have a tendency to underestimate risk, overestimate their knowledge and ability in terms of control over what happens, such as predictions and information they have in making decisions (Utami & Kartini, 2016). Investors who are indicated to be overconfident will admit that their abilities and knowledge are better than other investors, even though this is not necessarily true. Even according to (Sieck & Arkes, 2005), investors with overconfidence bias also have a tendency to ignore information that may be useful that can increase the level of prediction of their investment.

H3: Overconfidence bias has a positive effect on beginner investor decision making in stock investment during the covid-19 pandemic

Cognitive dissonance bias is a situation in which people are uncomfortable with the new information they get, which raises doubts about their previously received understanding (Pompian, 2006). Because of this tendency, cognitive dissonance bias in investment decisions causes irrational investor decision making (Setiawan et al., 2018). According to Pompian (2006) the occurrence of cognitive dissonance is an effort to reduce discomfort by convincing oneself because of the new information received.

H4: Cognitive dissonance bias has a positive effect on beginner investor decision making in stock investment during the covid-19 pandemic pandemic.

Herding bias is a social variable that affects investment decisions found in research (Fityani & Arfinto 2015). Herding in a financial context occurs when an investor in a financial market imitates the behavior of another investor or a larger group of investors. Research by Novianggie & Asandimitra (2019) shows that the herding bias variable has a positive effect on investment decisions because most respondents tend to consider the advice given by their friends or brokers in deciding to invest and get profits in the future.

H5: Herding bias has a positive effect on beginner investor decision making in stock investment during the covid-19 pandemic.

3. RESEARCH METHODS

The population of this study is novice stock investors who registered themselves as investors during the covid-19 pandemic between March-December 2020. The selection of the month was based on the consideration that the COVID-19 pandemic was first discovered in Indonesia in early March 2020 and considerations for December. because as the closing month of the year. Based on that time period, there were 471,077 thousand registered novice stock investors. By using purposive sampling method, 161 respondents were selected as research samples.

The data of this study are primary data collected by using a questionnaire. The analysis used to test the research hypothesis is multiple linear regression with the following formula:

$$DEC = \beta 0 + \beta 1\ CONF + \beta 2\ SELF + \beta 3\ OVER + \beta 4\ COGN + \beta 5\ HERD + e$$

Note: DEC: Decision Making on Stock Investment; CONF: Confirmation Bias; SELF: Self-attribution Bias; OVER: Overconfidence Bias; COGN: Cognitive Dissonance Bias; HERD: Herding Bias; β0: Constant; β1-β5 : Regression Coefficient; dan e: error term.

4. RESULTS AND DISCUSSION

The results of hypothesis testing using multiple linear regression analysis are presented in table 2 below:

Table 1. Hypothesis Test Results

Model	Predictions	Coefficient	T statistic	Sig.
(Constant)		3,660	11,773	,000
CONF	+	-,002	-,062	,950
SELF	+	,363	5,492	,000*
OVER	+	,131	2,772	,006*
COGN	+	-,065	-1,221	,224
HERD	+	-,042	-,864	,389

Sources: Processed research data, 2021

4.1 Confirmation Bias and Novice Investor Decision Making

The results of hypothesis testing show that confirmation bias has not proven to have a significant effect on stock investment decision making for novice investors during the COVID-19 pandemic. This study is not in accordance with the research Mahina & Bashaija (2018), and Cho & Chalid (2020) who concluded that confirmation bias plays a positive and significant role in trading frequency in the stock market. Confirmation bias limits investors from making sound decisions based on reality which can sometimes result in over- or under-trading. Therefore, investors should note this bias and consult widely before making investment decisions.

However, the results of this study are in accordance with the research of Babajide & Adetiloye (2012) and Gupta (2016). This finding indicates that novice investors in stock investment during the Covid-19 pandemic need complete information before making stock investment decisions. The results of this study support the research of Sembiring (2005) which states that accurate, timely and complete information can make investors make rational decisions so that the returns obtained will be as expected.

4.2 Self-Attribution Bias and Novice Investor Decision Making

The results of hypothesis testing prove that self-attribution bias has a significant positive effect on stock investment decision making for novice investors during the COVID-19 pandemic. The results of this study are in accordance with the research of Mahina et al. (2018) stated that self-attribution bias has a significant effect on investors' investment in the Rwan Stock Exchange because it was found that self-attribution bias is a significant cause that makes people perceive their success as an internal strength of themselves and their failure in stock investment. caused by external forces from themselves. This can affect the ability to estimate the true ability of him. Therefore, investors who have self-attribution biased behavior when their investment choices are successful, will believe that their success is due to their acumen as investors.

4.3 Overconfidence Bias and Novice Investor Decision Making

The results of hypothesis testing prove that overconfidence bias has proven to have a significant positive effect on stock investment decision making for novice investors during the COVID-19 pandemic. The results of this study are in accordance with the research of Novianggie & Asandimitra (2019) which found that there is a relationship between the overconfidence variable and investment decisions which can be seen from respondents who are too confident in their investments. The higher the overconfidence, the higher the investment decisions taken. This can make investors increase their ambition in investing.

The results of the research on the overconfidence bias variable are in accordance with the behavioral finance theory which explains that investors have a tendency or sometimes make mistakes in taking information related to investment decisions because of psychological factors. Psychological factors are even considered to cause the loss of self-control of an investor which is characterized by making himself pessimistic or even overconfident (Nofsinger, 2010).

4.4 Cognitive Dissonance Bias and Novice Investor Decision Making

The results of hypothesis testing indicate that H4 is not supported. This means that cognitive dissonance bias has not been proven to have a significant effect on stock investment decision making for novice investors during the COVID-19 pandemic. The results of this study are not in accordance with Seto's research (2017) stated that 95.24% of the 21 individual investors who have cognitive dissonance bias say that they have held investments that should have been sold. This means that cognitive dissonance can lead to irrational behavior in making investment decisions.

However, this study is in accordance with the research of Setiawan et al. (2018) which states that cognitive dissonance bias has no effect on investment decisions because investors' cognitive factors are not always the mainstay. In addition, investors also do not use the initial information received as the basis for making investment decisions, so there is no longer any doubt when getting new information from other parties. This makes investors will receive full and rational information that can be used as material for analysis if the return is not as expected. Beginner investors tend to have less intuition in investing, so their investment decisions tend to be rational.

4.5 Herding Bias and Novice Investor Decision Making

The results of hypothesis testing indicate that H4 is not supported. This means that herding bias has not been proven to have a significant effect on stock investment decision making for novice investors during the COVID-19 pandemic. The results of this study are not in accordance with the research ofNovianggie & Asandimitra (2019) which found that the herding bias variable has a positive effect on investment decisions. The findings of Novianggie & Asandimitra (2019) show that the more respondents follow the advice of their broker, friends, family, or group, the more likely they are to decide to invest.

However, the results of this study are in accordance with the research of Setiawan et al. (2018) which states that herding bias has no effect on investment decisions because the behavior of novice investors has a tendency to analyze, receive, and pay attention to fundamental information properly when buying shares. This is a sign that investors have behaved rationally because the noise in the market and the investment decisions of other investors do not affect their investment decisions.

CONCLUSION AND SUGGESTION

Based on the results of data analysis, it was concluded that self-attribution bias and overconfidence bias proved to have a significant positive effect on the decision making of novice investors in Stock Investment during the Covid-19 Pandemic Period. Meanwhile, confirmation bias, cognitive dissonance bias, and herding bias have no significant influence on the decision making of novice investors in stock investment during the COVID-19 pandemic.

The results of this study have contributed to investors that in conditions of uncertainty such as during the COVID-19 pandemic, there are still opportunities to invest in the stock market. The results of this study confirm the behavioral finance theory which states that there is an influence of psychological factors in a person's financial behavior that causes investors to act irrationally in the midst ofuncertainty. Further researchers are advised to examine other behavioral bias variables, such as representativeness bias, anchoring and adjustment bias, availability bias, or mental accounting bias so as to explain the effect of bias on stock investment decision making during the COVID-19 pandemic.

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