ANALYSIS OF INVESTOR BEHAVIOUR TOWARDS STOCK INVESTMENT DECISION MAKING

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ABSTRACT

The purpose of this study was to analyse the effect of self-image/firm image, overconfidence, and self-monitoring on stock investment making in Medan City. This research design is a sequential explanatory mixed method, which is a design where researchers first start by exploring qualitative data such as journal articles and actual things that happen in Medan City related to the variables under study and using the findings in the quantitative phase. In this study, the sampling technique was purposive sampling method. The sample of this study was 50 investors in Medan City. Data collection techniques with questionnaires using Google Form and analysed using the SmartPLS application. Research findings Self Image and Self Monitoring have a positive and significant effect on decision making because the P Value is smaller than 0.05. while Overconfidance has a significant positive effect on decision making because the P Value is smaller than 0.05. research limitations only test three psychological variables due to time constraints. This study cannot explain the impact of behavioural factors on investment decision making (low R squared value) and small sample size. Based on the findings obtained, this research provides valuable insights for individual investors.

Keywords: *Decision Making, Self Image/Firm Image, Overconfidence, Self Monitoring*

1. INTRODUCTION

Capital markets tend to be controlled by market participants and do not reflect fair value. These private signals lead to investor sentiment. Investor sentiment is the desire of investors to trade based on accounting information (fundamentals) of the company. The result of investor sentiment is that investor funds flow into securities that do not provide maximum *return* at a certain level of risk. Investment decisions are not always made in a rational manner. Various previous studies have linked investor behavioural bias to investment decision making (Kimeu et al., 2016). T h e r e f o r e , this research continues to develop to determine the influence of investor behaviour factors in the decision-making process. In this study there are three variables that affect investor behaviour in decision making such as *Self Image / Firm Image*, *Overconfidence*, and *Self Monitoring*.

The investment decision-making process requires high capabilities for capital market participants related to individual investors' abilities related to cognitive, affective, and conation aspects manifested as financial and non-financial information processing, application of investment knowledge to fundamental analysis and technical analysis aspects, changes in the level of investor investment preferences, perceptions of *risk* and *return*, and the investment learning process (Akhter & Ahmed, 2013). It is important to understand the existence and nature of behavioural biases among individual investors in a country to improve their investment behaviour (Rahman & Gan, 2020). *Self-image / firm image* is information about the assessment of a company including company reputation, company position in the industry (*new comers, market followers, market leaders*), prediction of company goods and services, even company ethics, company stock value in the past. *Self-image / firm image* can be a consideration in making investment decisions to assess whether the company that will be the place of investment is feasible or not feasible (Christanti & Mahastanti, 2011). Overconfidence refers to a biased way of looking at situations, where one's belief in ability is greater than actual. Individuals who have *Overconfidence* will underestimate the margin of error they should make (Shiller, 1999). *Self Monitoring is* a person's ability to adjust their personal behaviour to fit the social environment (Biais et al., 2005). Investment decisions are significantly influenced by personality traits and psychological biases such as social influence (Kourtidis et al., 2011).

The purpose of this study was to analyse the effect of *Self-image / firm image, Overconfidence,* and *Self Monitoring* on Stock Investment Making in Medan City. The contribution of this research can help investors in making stock investment decisions, Investors can consider the company's reputation (market leader), and the target return on the investment made, and confidence in the investor's ability so that it can produce decisions to make the right investment. and minimise risk.

Based on the above background, it is necessary to conduct a special study on investment decision making. Therefore, the formulation of this research problem is:

1. *Self-image / firm image* has a positive effect on investment decision making in Medan City

2. *Overconfidence* has a negative effect on investment decision making in Medan City

3. *Self Monitoring* has a positive effect on investment decision making in Medan City

2. LITERATURE REVIEW

2.1. Decision Making

Decision making is making a judgement and making a choice. This decision is taken after several calculations and considerations of several alternatives. Investment decisions are often not only taken based on a review of the investment assets owned, but there is already psychological involvement in it (Shefrin, 2007) Investment decision is an action taken on two or more alternatives in investing with the hope of getting *profit* in the future (Budiarto & Susanti, 2017).

2.1.1 Self-image/ Firm image

Self Image / Firm Image can be interpreted as self-image / company image which is a view of oneself or the company. The term *Self Image / Firm Image* in behavioural motivation theory was first published by (Nagy & Obenberger, 1994). According to Nagy and Obenberger (1994) *Self Image / Firm Image* is information related to the assessment of the company's image which includes information about the company's reputation, the company's position in the industry, including market leaders and market followers or new comers, estimates of the company's products and services, knowing the company's ethics. (Mubarak & Elsheikh, 2017) Company image is a picture of the company as a whole that can be accepted by the perception of investors or potential investors such as reputation, feelings for the company's products or services produced, company status, market creation, company information and other perceptions. A good corporate image makes investors more confident and confident to invest in the company (Syngle et al., 2012).

H1: *Self-image / firm image* has a positive effect on investment decision making in Medan City

2.1.2 *Overconfidence*

Overconfidence refers to a biased way of perceiving a situation. It occurs when a person's subjective belief in their own ability is greater than their actual performance. De Bondt & Thaler, (1995) state that overconfidence significantly affects investors' judgement when making investment decisions. Ability, success and probability of information accuracy are overvalued by overconfident investors. This is supported by (Shiller, 1999) which states that individuals who have overconfidence will underestimate the margin of error that they should do. Overconfidence causes trading volume to increase and ultimately financial markets will be affected.

directly (Odean, 1998). This is because overconfident traders believe that more precise information indicates a result in which the weight of that information is highly significant. The impact of overconfidence bias on investment decisions specifically focuses on volatility and trading volume (Adel & Mariem, 2013). Profitable trades bring pride to investors and conversely, bring regret when losses occur. The more prone an investor is to exhibit overconfidence, the lower the accuracy of his investment decisions. (Dittrich et al., 2005).

H2: *Overconfidence* has a negative effect on investment decision making in Medan City

2.1.3 *Self Monitoring*

Self Monitoring is defined as a personality trait that indicates the extent to which people monitor their expressive behaviour and self-presentation. Biais et al. (2005) defined self-monitoring as a person's ability to adjust their personal behaviour to fit the social environment. Self-monitoring as how much people can modify and control their behaviour in different situations (Snyder, 1974). The self-monitoring scale developed by Snyder (1974) in this study was used to classify active market participants. Career mobility was significantly influenced by self-monitoring. Individuals with higher self-monitoring are more likely to take opportunities to change their careers and adapt their behaviour to new environments. In addition, individuals with higher self-monitoring seize more opportunities for promotion and individuals with lower self-monitoring tend to maintain consistency in existing jobs (Kilduff & Day, 1994). Investors who have lower self-monitoring are more likely to underestimate the extent to which other investors' trades are information-related (Eyster & Rabin, 2005). Kourtidis et al. (2011) state that investment decisions are significantly influenced by personality traits and psychological biases such as social influence, self-monitoring, and risk tolerance. People with lower levels of self-monitoring take a shorter time to make investment decisions compared to those with higher levels of self-monitoring. Therefore, we state.

H3: *Self Monitoring* has a positive effect on investment decision making in Medan City

3. METHODOLOGY

3.1. Research Design

This research design is a sequential explanatory mixed method, which is a design where the researcher first starts by exploring qualitative data such as journal articles and actual things that happen in Medan City related to the variables under study and uses the findings in the second quantitative phase. Like the explanatory sequential approach, the second database shapes the results of the initial database (Creswell, 2013). The reason for using this method is to be able to explain quantitative results with qualitative data with the expected end result being a deeper understanding of quantitative results (Creswell, 2013). to explain the relationship between variables by testing hypotheses.

3.2. Sample

In this study, the sampling technique was purposive sampling method where the technique in this sampling had considerations that had been determined to the respondents. In determining the number of samples used Sugiyono, (2017: 91) A decent sample size in research is between 30 and 500. Therefore in this study the sample used was 50 investor respondents in Medan City.

3.3. Data Collection

1. Instrument

The instrument used in this study uses questionnaire data. This data will be analysed with a quantitative approach using statistical analysis. While the measurement technique used is the Likert Scale technique (Sugiyono, 2016). Data collection through questionnaires made online with google form and distributed to investors in Medan City by sending questionnaire links through social media applications, namely *Whatssapp*. The questionnaire distributed was measured on a Likert scale to make it easier for respondents to understand scoring from highest to lowest (Hair J et al., 2014). There are 5 rating scales as follows: Strongly disagree, weighted 1, Disagree, weighted 2, Moderately, weighted 3, Agree, weighted 4, Strongly Agree, weighted 5. To get the correct data so that the conclusions match the actual situation, a valid instrument is needed and is consistent and precise in providing reliable research data. There are two concepts used to measure the quality of research instruments, namely reliability and validity (Erlina, 2011).

2. Documentation Study,

Documentation study is data collection by studying scientific journals and books as well as internet searches related to the problem under study.

3.4. Data Analysis

Data analysis in this study used the *SmartPLS* application. Evaluation of the PLS model is done by evaluating the *outer model* and *inner model*. The *outer model* is a measurement model to predict the relationship between the estimated indicators or parameters and their latent variables, while the *inner* model is a structural model to predict the causality relationship between latent variables.

4. RESULTS AND DISCUSSION

4.1. Results

1. *Outer model*

Outer model is conducted to assess the validity and reliability of the model. Outer models with reflective indicators are evaluated through convergent and discriminant validity of latent construct forming indicators and composite reliability and Cronbach alpha for the indicator block. The test performed on the outer model is *Convergent Validity*. The convergent validity value is the factor loading value on the latent variable with its indicators, the expected value is> 0.7. *Discriminant Validity* is the cross loading factor value, namely Average Variance Extracted *(AVE). The expected AVE value is> 0.5 and* Composite Reliability. *Data that has composite reliability >0.7* has high reliability. Cronbach Alpha, namely the *reliability test* is strengthened by *Cronbach Alpha.* The expected value is >0.6 for all variables.

Figure 1. Outer Model Evaluation
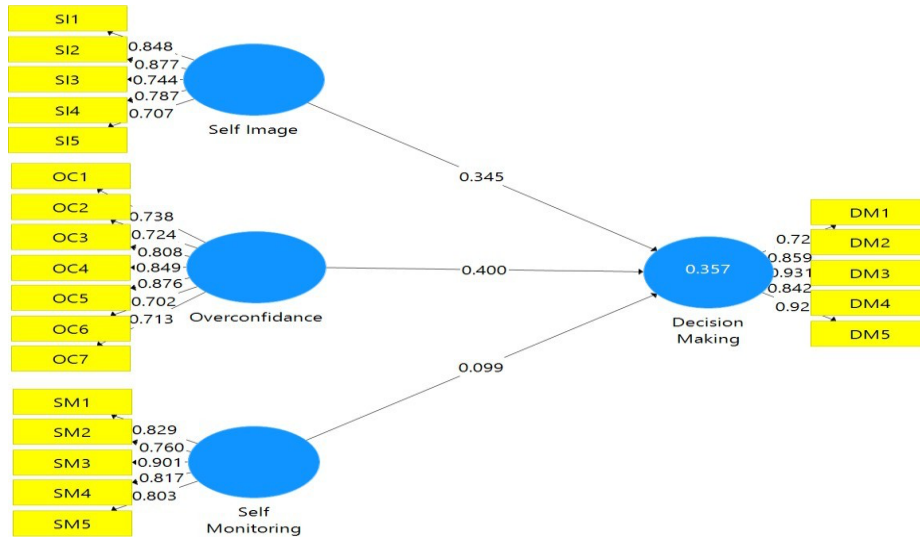
Source of data processing 2024

Table 1

Outer Loading Value

	Decion Making	Overconfidance	Self Image/Firm	Self Monitoring
DM1	0.728			
DM2	0.859			
DM3	0.931			
DM4	0.842			
DM5	0.92			
OC1		0.738		
OC2		0.724		
OC3		0.808		
OC4		0.849		
OC5		0.876		
OC6		0.702		
OC7		0.713		
SI1			0.848	
SI2			0.877	
SI3			0.744	
SI4			0.787	
SI5			0.707	
SM1				0.829
SM2				0.76
SM3				0.901
SM4				0.817
SM5				0.803

Source: Data processed by researchers 2024

Based on Table 1, the convergent validity value> 0.70 means that the latent variable and its indicators are valid.

Table 2. Construct Validity and Reliability

	Cronbach's Alpha	rho_A	Reliability Composite	Mean of Variance Extracted (AVE)
Decion Making	0.909	0.918	0.933	0.738
Overconfidance	0.890	0.903	0.913	0.602
Self Image/Firm Image	0.889	0.957	0.913	0.678
Self Monitoring	0.856	0.895	0.895	0.632

Source: Data processed by researchers 2024

Based on Table 2, the Cronbach's Alpha and Reliability Composite values are greater than 0.7 and the Mean of Variance Extracted (AVE) value is greater than 0.5, meaning that this research model is valid and reliable.

2. *Inner Model*

Inner Model to analyse the hypothesis with variable significance criteria If the Valus P value <0.05 and the t-statistic value is greater than 1.96, it is concluded that there is a significant effect. The results of the hypothesis analysis are shown in Figure 2 below:

Table 3

Bootsrapping Path Coefficient Value

	T Statistics	P Values
Self Image - Decision Making	2.674	0.006
Overconfidence - Decision Making	2.78	0.008
Self Monitoring - Decision Making	2.561	0.004

Source of data processing 2024

From Figure 3 above, it is known that *Self Image* and *Self Monitoring* have a positive and significant effect on decision making because the P value is smaller than 0.05. while *Overconfidence* has a significant positive effect on decision making because the P value is smaller than 0.05.

4.2. Discussion

Based on the results of the analysis above, it is known that *Self Image / Firm Image* has a positive and significant effect on investment decision making because the P Valus value is smaller than 0.05 and the t-statistic value is greater than 1.96, meaning that hypothesis H1 is accepted. This research is in line with the research of Akbar et al. (2016), namely that there is a significant positive relationship between self-image / company image and individual investor investment decision making. *Overconfidance* has a positive and significant effect on Decision Making because the P Value is smaller than 0.05, meaning that hypothesis H2 is rejected. But Overconfidance has a significant effect on Decision Making, this is in line with research conducted by Adel & Mariem (2013) that overconfidence will affect investment decisions, especially those related to volatility and trading volume. Self Monitoring has no significant effect on decision making because the P Value is greater than 0.05, meaning that hypothesis H3 is accepted. This research is in line with Kourtidis et al. (2011).

5. CONCLUSION

Implications Based on the findings of this study, the investment behaviour of an individual is related to their choice of stock purchases. It can be assumed that behavioural factors and information structure can influence investment decisions. Based on these findings, this study provides valuable insights for individual investors. Investors should check their own past investment records and find out whether behavioural factors have influenced their rational investment decisions that resulted in lower than expected investment returns. This research supports the *Theory of Planned Behavior*, which basically states that individual interest in carrying out actions, one of which is interest in investing, is influenced by behavioural attitudes, subjective norms and controlled behaviour. Interest in investing will have an impact on behaviour, namely investment decisions. According to Theory of Planned Behavior, controlled behaviour directly affects investment decision making.

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