



Heuristic Bias In Investment Decision Making

Latifah Wulandari Binti Asbaruna¹

¹Department of Bisnis Digital, Universitas Ma'soem, Indonesia

ARTICLE INFO

Article history:

Received Nov 17, 2023

Revised Des 09, 2023

Accepted Des 21, 2023

Keywords:

First Heuristic Bias;
Second Decision-Making;
Third Investment.

ABSTRACT

The field of Behavioral Finance offers an explanation for the illogical financial decisions made by investors. This demonstrates how investors' decisions about investments are influenced by their feelings and cognitive errors. Heuristic bias is one of the many factors that contribute to behavioral finance. Essentially, the behavioral finance approach looks into the patterns of behavior exhibited by investors and attempts to determine how these patterns influence the decisions made about investments. Behavioral finance furnishes an array of valuable perspectives for investment experts, thereby furnishing investors with a structure to assess investment approaches. Analyzing how heuristic bias affects investment choices is the goal of the study. Students, who make up the target population for this study, comprise the population. According to the findings, heuristic bias significantly influences investors' decisions to make investments.

This is an open access article under the [CC BY-NC](https://creativecommons.org/licenses/by-nc/4.0/) license.



Corresponding Author:

Latifah Wulandari Binti Asbaruna,
Department of Bisnis Digital,
Universitas Ma'soem,

Jl. Raya Cipacing No.22, Cipacing, Kec. Jatinangor, Kabupaten Sumedang, Jawa Barat 45363, Indonesia

Email: latifahwulandariasbaruna@gmail.com

1. INTRODUCTION

When people invest big sums of money in the economy in hopes of making profits, investments become more complicated. The majority of investors maximize their utility and have reasonable expectations. Behavioral economists contend, however, that people do not make logical decisions to maximize profits and that markets are inefficient, particularly in the short run, based on their research. Humans are prone to a variety of abnormal behaviors that go against the wealth maximization principle and result in illogical behavior (Rosnani Said, 2020; Suhardi et al., 2022; Wibowo, 2023). This study investigates the significance and meaning of behavioral finance, specifically bias heuristics and how they are used in investing decisions.

The foundation of traditional investment theory is the idea that investors consistently behave in a way that maximizes profits (Alteza & Harsono, 2021). Studies reveal that investors aren't always so logical, though. When uncertainty surrounds investment decisions, one becomes confused. Both people and markets are not always logical or effective. Behavioral finance provides an explanation for why markets behave in unexpected ways and why people don't always make the decisions that are expected of them (Karmila, 2022; Linting, 2021). According to recent research, the majority of investors sell low in a panicked environment and base their decisions primarily on emotion rather than reason (Asri et al., 2023). According to psychological research, the anguish of losing money on investments is actually three times bigger than the joy of making money. Fear and greed are two emotions that frequently play an (Griffith et al., 2020; Setyani, 2023)

There is a plethora of research on behavioral finance. Previous studies and a substantial corpus of psychological literature have discovered that people frequently exhibit excessive optimism and confidence (Gavín-Chocano et al., 2023; Scheier et al., 2021). According to the study, biased managers tend to start more businesses and new projects, overinvest cash flows

from their companies, initiate too many mergers, and stick with unproductive investment strategies for longer periods of time. 'Specific investment strategies' can be targeted in order to control investors' "mental errors" over an extended period of time. Investors who buy particular stocks for their portfolios should maintain thorough records of those purchases. In order to make quick decisions about what to buy, sell, or hold, investors must also choose certain criteria (Aigbovo & Ilaboya, 2019; Dong et al., 2022; Ingale & Paluri, 2022).

Heuristic theory states that in uncertain situations, decision makers employ heuristics to reduce the likelihood of losing. Heuristics are guidelines that decision-makers use to make decisions more quickly in complex and uncertain situations (Kurdoglu et al., 2023; Luan et al., 2019). They do this by breaking down the difficult task of estimating values and measuring probabilities into more straightforward conclusions (Hendrycks et al., 2021). Using heuristics expedites decision-making for humans as opposed to logically analyzing the information at hand. Though it can occasionally result in bias, this heuristic is generally helpful and helpful when time is limited (Ceschi et al., 2019). (Giblin & Stefaniak (2021) claim that all heuristics are methods of reducing effort, utilizing one or more of the following strategies: examining a small number of hints, incorporating less data,

Investors employ heuristic biases such as representativeness, availability, overconfidence, anchoring, and adjustment to lower their risk of loss in uncertain circumstances. Heuristics help individual investors make decisions with less mental strain, but they also increase the risk of judgment errors and poor investment choices, which can lead to inefficient markets. Numerous scholars in the field of financial economics contend that these heuristics can affect how financial decisions are made, how financial variables, like income or material profits, are forecasted, and how financial markets behave (Jain et al., 2020; Kirera & Mburugu, 2019; Pradeepkumar, 2021; Siraji, 2019).

2. RESEARCH METHOD

The research method used in this research is normative juridical. The normative juridical approach is carried out by studying and interpreting theories related to principles, doctrine, conceptions and legal norms related to investment and heuristic bias. This research was also carried out through literature studies with different material related to investment and heuristic bias. The data collection technique in this research is direct literature study, relating to research objects and research titles, through books, print media and the internet. The aim of the research is to analyze the influence of heuristic bias on investment decisions. The population of this research is the target population, namely students who invest in shares. The sample taken was 384 respondents taken using random sampling technique. Data collection was carried out using a questionnaire instrument and the data analysis method used was structural equation analysis or Structural Equation Modeling (SEM) using AMOS.

3. RESULTS AND DISCUSSIONS

Research data was collected by distributing questionnaires directly to respondents who were found. Questionnaires were obtained by researchers meeting respondents directly and providing questionnaires to be filled out by respondents who were students who were investors. Descriptive analysis presents an analysis of respondents' answers to research variables.

Below are the presentation results in the form of respondents' explanations of the variables which will later be measured using the standard values in Table 1.

Tabel 1.Criteria for measuring respondents' answers

No	Mark	Measurement
1	1,00 – 1,79	Strongly Disagree
2	1,80 – 2,59	Disagree
3	2,60 – 3,39	Not Agree
4	3,40 – 4,19	Agree
5	4,20 – 5,00	Strongly Agree

Heuristic indicators are measured by stating how much the heuristic factor is a determinant in making investment decisions. Students gave an assessment of 4.15 in the good category. This shows that the majority of students chose the answer "Agree" as many as 219 people (56.9%), and

the answer "Strongly Agree" as many as 116 people (30.1%). These results explain that the majority of students admit that heuristics influence the investments they choose. However, from the distribution of respondents' answers, there were still 41 people (10.6%) who answered "Not Agree" and 8 people (2.1%) who answered "Disagree". This explains that there are still students who consider heuristics not to be a factor or dominant in determining which investment to choose. This data also explains that students do not have knowledge about heuristic bias.

Heuristics have a significant positive effect on investment decisions taken by students as stock investors. is actually able to strongly influence the form of financial decisions taken by students as investors. Having knowledge of heuristics and having good skills in managing finances and choosing good and appropriate investments will be able to help students choose the most appropriate investments to prepare for their future.

Discussion

The results of this study illustrate the data collection method conducted by distributing questionnaires directly to student stock investors, and descriptive analysis was conducted to evaluate their perceptions of the research variables using the measurement criteria in Table 1. Regarding the heuristics indicator, the majority of respondents agreed and strongly agreed that heuristic factors influence their investment decisions, while a small proportion still disagreed or disagreed. This reflects the variation in understanding among students regarding the influence of heuristics in investment decision-making.

In the context of these findings, it was found that students need to improve their understanding of heuristic bias, as reflected by the percentage of respondents who still disagree or disagree with the influence of heuristics in choosing investments. Therefore, suggestions for future research development can be focused on efforts to develop effective educational strategies to provide further information and a deeper understanding of heuristic factors in investment decision making. The implementation of this educational program can help student equity investors to improve their financial literacy and make more informed and planned investment decisions, along with a better understanding of the psychological aspects that can influence the financial decision-making process.

4. CONCLUSION

In Indonesia, investment is a major factor in employment and economic growth. Since students are seen as potential investors who can foster a favorable environment for Indonesia's investment market, it is hoped that the university will offer financial education and promote capital market investment products and services to encourage students to become logical investors. You can influence investing decisions in a way that is advantageous by comprehending the idea of behavioral bias.

REFERENCES

- Aigbovo, O., & Ilaboya, O. J. (2019). Does behavioural biases influences individual investment decisions. *Management Science Review*, 10(1), 68–89.
- Alteza, M., & Harsono, M. (2021). Keuangan Keberilakuan: Telaah Atas Evolusi Teori Dan Studi Empiris. *Jurnal Ilmu Manajemen*, 18(1), 1–19.
- Asri, M., Wulandari, K., Kahuripan, Y. M., & Beda, B. E. (2023). *INVESTASI DALAM TURBULENSI*. Penerbit Andi.
- Ceschi, A., Costantini, A., Sartori, R., Weller, J., & Di Fabio, A. (2019). Dimensions of decision-making: An evidence-based classification of heuristics and biases. *Personality and Individual Differences*, 146, 188–200.
- Dong, W., Zhao, G., Yüksel, S., Dinçer, H., & Ubay, G. G. (2022). A novel hybrid decision making approach for the strategic selection of wind energy projects. *Renewable Energy*, 185, 321–337.
- Gavín-Chocano, Ó., García-Martínez, I., Pérez-Navío, E., & Molero, D. (2023). Resilience as a mediating variable between emotional intelligence and optimism-pessimism among university students in Spanish universities. *Journal of Further and Higher Education*, 47(3), 407–420.
- Giblin, J., & Stefaniak, J. (2021). Examining decision-making processes and heuristics in academic help-seeking and instructional environments. *TechTrends*, 65(1), 101–110.
- Griffith, J., Najand, M., & Shen, J. (2020). Emotions in the stock market. *Journal of Behavioral Finance*, 21(1),

- 42–56.
- Hendrycks, D., Burns, C., Kadavath, S., Arora, A., Basart, S., Tang, E., Song, D., & Steinhardt, J. (2021). Measuring mathematical problem solving with the math dataset. *ArXiv Preprint ArXiv:2103.03874*.
- Ingale, K. K., & Paluri, R. A. (2022). Financial literacy and financial behaviour: A bibliometric analysis. *Review of Behavioral Finance*, 14(1), 130–154.
- Jain, J., Walia, N., & Gupta, S. (2020). Evaluation of behavioral biases affecting investment decision making of individual equity investors by fuzzy analytic hierarchy process. *Review of Behavioral Finance*, 12(3), 297–314.
- Karmila, N. (2022). *Perilaku Keuangan Dan Literasi Keuangan Generasi Millennial Di Kota Makassar Dalam Berinvestasi*. Universitas Hasanuddin.
- Kirera, F. K., & Mburugu, B. M. (2019). IMPACT OF HEURISTIC BIASES ON INDIVIDUAL INVESTOR DECISION MAKING PROCESS AT NAIROBI SECURITIES EXCHANGE: A SURVEY OF INDIVIDUAL INVESTORS IN MERU COUNTY. *Journal of Environmental Sustainability Advancement Research*, 5.
- Kurdoglu, R. S., Ates, N. Y., & Lerner, D. A. (2023). Decision-making under extreme uncertainty: eristic rather than heuristic. *International Journal of Entrepreneurial Behavior & Research*, 29(3), 763–782.
- Linting, V. A. C. (2021). *Pengaruh Pengetahuan Keuangan, Sikap Keuangan, Dan Kepribadian Terhadap Perilaku Manajemen Keuangan Pada Pelaku Umkm Kerajinan Tenun Di Toraja*. UNIVERSITAS HASANUDDIN.
- Luan, S., Reb, J., & Gigerenzer, G. (2019). Ecological rationality: Fast-and-frugal heuristics for managerial decision making under uncertainty. *Academy of Management Journal*, 62(6), 1735–1759.
- Pradeepkumar, S. (2021). The influence of heuristics on the investment decisions of investors. *IUP Journal of Financial Risk Management*, 18(2), 18–38.
- Rosnani Said, R. S. (2020). *Analisis Perilaku Investor Makassar Terhadap Pengambilan Keputusan di Pasar Saham*. Universitas Hasanuddin.
- Scheier, M. F., Swanson, J. D., Barlow, M. A., Greenhouse, J. B., Wrosch, C., & Tindle, H. A. (2021). Optimism versus pessimism as predictors of physical health: A comprehensive reanalysis of dispositional optimism research. *American Psychologist*, 76(3), 529.
- Setyani, M. (2023). *Pasar Valuta Asing: Pentingnya Psikologi dalam Investasi dan Trading*. PT Elex Media Komputindo.
- Siraji, M. (2019). Heuristics bias and investment performance: does age matter? evidence from Colombo stock exchange. *Asian Journal of Economics, Business and Accounting*, 12(4), 1–14.
- Suhardi, S. E., Ca, Ms. A., Yusup, A., Afrizal, M. M., Iskandar Zulkarnain, S. E., Sutono, S. A., M Pd I, M. E., Tentiyo Suharto, M. H., Ak, M. D. D. S. E. M. S., & Rilyane Suzan Rasita Sembiring, S. (2022). *Manajemen Investasi*. Cendikia Mulia Mandiri.
- Wibowo, A. (2023). *Manajemen Keuangan Bisnis*. Penerbit Yayasan Prima Agus Teknik, 1–433.