Jurnal Ilmiah, Manajemen Sumber Daya Manusia
JENIUS
p-ISSN: 2581-2769
e-ISSN: 2598-9502

The Impact of Overconfidence and Regret on Investment Decision

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(Received: December 2022; Reviewed: December 2022; Accepted: December 2022; Available online: January 2023; Published: Januari 2023)

ABSTRACT

Over the last three years, there has been an increase in Single Investor Identification in the Indonesian capital market. This demonstrates that investor interest and awareness are increasing. To avoid the risk of loss, investment decisions must be made carefully. The purpose of this research is to determine the impact of overconfidence, experienced regret, and investment decisions. This study's sample was drawn using a non-probability sampling method with a purposive sampling technique, and it included 79 investors with Jakarta addresses as respondents. Techniques for collecting data include distributing questionnaires in the form of a Google form. According to the findings of this study, overconfidence has a significant positive effect on investment decisions. Regret has a significant positive impact on investment decisions.

Keywords: Overconfidence, Experienced Regret, Investment Decision

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INTRODUCTION

Along with the development of the era, from the sophistication of technology, information, culture, to fashion, it increases a person's need to fulfill her life needs. This, of course, causes the cost of living to rise from time to time. The future is unpredictable and difficult to forecast. Someone must work and earn money to meet their immediate needs. Working alone, however, is insufficient; one must also have the knowledge and ability to manage their finances in order to meet current and future needs.

These future needs may take the form of requirements when a person enters retirement and is no longer able to work to earn a living. Poor financial knowledge leads to difficulties in managing one's finances, which leads to failure or difficulty in achieving financial prosperity. One way a person can manage is through investment. The sophistication of technology, information, culture, and fashion with the development of the era increases a person's need to fulfill his life's needs. This, of course, causes the cost of living to rise from time to time. The future is unpredictable and difficult to forecast.

Someone must work and earn money to meet their immediate needs. Working alone, however, is insufficient; one must also have the knowledge and ability to manage their finances in order to meet current and future needs. These future needs may take the form of requirements when a person enters retirement and is no longer able to work to earn a living. Poor financial knowledge leads to difficulties in managing one's finances, which leads to failure or difficulty in achieving financial prosperity. One way to manage one's finances is through investment. According to the Financial Services Authority, investment is a type of investment activity that is typically completed in a short period of time to acquire complete assets or purchase shares and other securities in order to profit.

Investment activity is fraught with uncertainty. The presence of this uncertainty introduces risk into investment activities. Risk is a consequence of uncertainty that manifests itself as a loss. A plan is required to anticipate and avoid the risk of uncertainty. Careful planning combined with sound financial knowledge will yield the best investment decisions, minimizing investment losses. Inadequate financial knowledge will result in poor financial planning (Pritazahara & Sriwidodo, 2015). Investment decisions are decisions made by investors about how much money to put into a specific type of investment in order to earn higher returns in the future. Investment decisions are influenced by two types of investor attitudes: rational attitudes and irrational attitudes. Irrational behavior indicates that investors' decisions are not based on common sense. Meanwhile, a rational attitude implies that a person makes decisions that are sound and can be accepted by others (Hikmah et al., 2020).

Overconfidence and experienced regret bias are the biases in this study. Overconfidence is defined as a person's feeling of being overconfident in his investment abilities and knowledge. Someone

with a high level of overconfidence will be more courageous in making investments, whereas someone with a low level of overconfidence will be more cautious in making investment decisions. An overconfident investor will exaggerate their ability to evaluate a company as a potential investment (Pompian, 2006). Under these conditions, investors are hesitant to accept negative information because they should not buy shares. An investor with more experience who believes that investment is a comfortable place to allocate funds will be more likely to make other investments in the future (Wulandari & Irmani, 2014).

The findings of multiple researchers' research show that there are differences in results or research gaps in several variables that influence investment decisions. According to Putri and Hamidi (2019), financial literacy has a significant positive effect on investment decisions. Meanwhile, according to Budiarto and Susanti (2017), financial literacy has no effect on investor decisions. Fridana and Assandimitra (2020) discovered that risk tolerance has a significant and positive impact on investment decisions. Meanwhile, Yulianis and Sulistyowati's (2021) research indicates that risk tolerance has no effect on investment decisions.

LITERATURE REVIEW

1. Investment decision

Investment is the activity of putting money or capital into an asset in order to profit from it. Investment activities can be conducted in two types of assets: real assets and financial assets. Real assets are investments with visible physical assets, such as buildings, land, and gold. Meanwhile, non-physical assets such as mutual funds, stocks, bonds, and so on can be classified as financial assets. Investments in financial assets can be made on both the money and capital markets. In the capital market, one of the investment activities is possible (Budiarto & Susanti, 2017). Investment decisions are quandaries that people face when deciding how to invest their money in various types of investments in order to earn higher returns in the future (Wulandari & Irmani, 2014). According to Budiarto and Susanti (2017), investment decisions are policies adopted by investors in order to profit in the future after considering various options. Investment decisions must be considered because they have a long-term time dimension (Mandagie et al., 2020). Furthermore, investment activities are risky, which means that they do not always result in profits, but investors may suffer losses, so investment decisions must be made with greater care and caution.

2. Overconfidence

Investors have an excessive sense of self-confidence. Overconfidence is a bias toward situations in which a person believes and assumes that their abilities exceed their actual abilities (Rahman & Gan, 2018). Overconfidence is an individual's overestimation of the accuracy of decisions and knowledge (Dittrich et al., 2005). Overconfidence is

defined by Budiarto and Susanti (2017) as an individual's unreasonable belief in intuitive reasoning, judgment, and cognitive ability. Overconfidence among investors leads to overestimation of their abilities and underestimation of predictions (Wulandari & Irmani, 2014). Furthermore, overconfidence can lead to investors taking more risks and ignoring these risks.

3. **Experienced Regret**

Wulandari and Irmani (2014) define experienced regret as regret caused by previous investor mistakes that influenced future investment decisions. According to Yohnson (2008), experienced regret is a bad experience that causes someone to feel regret or disappointment when making investment decisions or even accepting risk as a result of previous investment decisions. Investors with a high level of experienced regret are interpreted as having a lot of investment experience and having been in the investment world for a long time so that they can learn from past experiences to make better investments in the present and be more cautious, thereby classifying them as risk averse investors. Someone who has felt regret will be more cautious when investing in investments with high returns but high risks, and they will consider the risks associated with the investment they choose (Ayudiastuti, 2021).

Hypothesis development

Relation between Overconfidence on Investment Decisions

Overconfidence is a cognitive bias that influences investment decisions (Pradikasari & Isbanah, 2018). Overconfidence is characterized by an excessive belief in one's ability to estimate stock prices, resulting in an underestimation of risk. Investors who are overconfident perceive low risk in investment, whereas investors who are not overconfident perceive high risk in investment (Wulandari & Irmani, 2014). According to Budiarto and Susanti (2017), investors with a low level of overconfidence are more cautious when making investment decisions, whereas investors with a high level of overconfidence are more courageous. Based on this explanation, the following hypothesis is proposed :

H1: Overconfidence has an effect on Investment Decisions

Relation between Experienced Regret on investment decisions

According to Pompian (2006), some psychological literature suggests that feelings of regret influence decision making in situations of uncertainty. According to Wulandari and Irmani (2014), someone has experienced regret if they have invested for years but the results are not as expected, causing a person to be cautious when making investment decisions. According to Wardani and Lutfi (2019), someone who has had a bad investing experience is more cautious in choosing investments and prefers low-risk investments. Someone with positive investing experience, on the other hand, will prefer investments with a high risk and a fixed rate of return. Wulandari and Irmani (2014) discovered that experienced regret has no effect on the investment

decisions of economics lecturers. Based on this explanation, the following hypothesis is proposed :

H2: Experienced Regret has an effect on Investment Decisions.

RESEARCH METHODS

This study's population consists of investors over the age of 17 who live in Jakarta. In this study, the sample was collected using a non-probability sampling method with a purposive sampling technique. The following criteria were used to select the sample for this study: the respondent has or is currently investing in the capital market, the respondent is at least 17 years old, the respondent has an income, and the respondent lives or is domiciled in Jakarta or Bekasi. In this study, primary data were collected by distributing questionnaires containing questions and statements via Google form. The questionnaire technique was used to collect data in this study. A questionnaire is a data collection technique in which respondents are asked to answer questions or statements. The independent and dependent variables were measured using a Likert scale in this study. The measured variables will be translated into variable indicators using a Likert scale, and these indicators will then be used as a reference in compiling instrument items in the form of statements. The Smart PLS assistance program is used in data processing.

RESULTS AND DISCUSSION

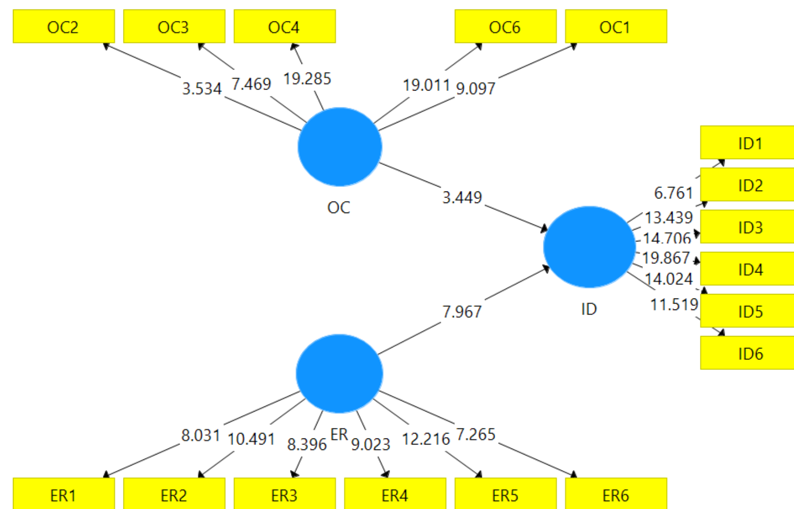

Figure 1. Boothstrapping

Table 1. path coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
ER -> ID	0,655	0,642	0,082	7,967	0,000
OC -> ID	0,296	0,307	0,086	3,449	0,001

DISCUSSION

Overconfidence on Investment Decision

These findings support the behavioral finance theory that psychological and sociological factors influence individual, group, and entity financial decisions. Investors with high levels of overconfidence are clearly distinct from those with low levels of overconfidence. Overconfidence gives them confidence and trust in their investment knowledge and skills, making them believe that their investment plans will be successful. They also believe that their information is superior and makes more sense than that of other investors. Investors who exhibit high levels of overconfidence take more risks because they perceive risk as being low (Wulandari & Irmani, 2014). As a result, overconfident investors will increase their investment decisions. However, overconfidence can be harmful to investors. This is because they are blind to the risks they face, despite the fact that risks are a part of financial planning, and they engage in excessive transactions (Gill et al., 2018). The findings of this study are consistent with the findings of Adielyani and Mawardi (2020), who found that overconfidence has a positive effect on stock investment decisions in millennial investors.

Experienced Regret on investment decisions

Investors always expect a higher return than the risk when investing. Investing activities are not always profitable for every investor, and they can also result in losses. These positive and negative experiences have an impact on investment decisions. According to Yohnson (2008), experienced regret is a negative experience that causes a person to feel regret or disappointment when making investment decisions or even accepting risk as a result of previous investment decisions. A bad experience occurs when an investor's investment activities result in losses, causing them to regret their decision to invest. This finding is consistent with Statman's (1995) theory of financial behavior, which states that financial decisions, which include risk assessment and how investors frame information, are influenced by investor behavior and psychology. A bad investment experience in the past will make investors think twice about investing and become more conservative. Because of their regrets, investors will be afraid to invest in the future. Investors who have a high level of regret are more cautious when making investment decisions, and they may even abandon their plans to invest again. Investors who have positive experiences, on the other hand, will be more willing to accept high risks and make better investment decisions. The findings of this study are consistent with those of Suprasta et al. (2020), who found that experienced regret has a negative impact on investment decisions. However, the findings of this study differ from those of Wulandari and Irmani (2014), who found that experienced regret had no significant effect on investment decisions.

CONCLUSION

Overconfidence influences investment decisions in a positive and

significant way. This demonstrates that investors who are confident in their skills and abilities and forecast successful investments will make better investment decisions. Experienced regret influences investment decisions in a positive and significant way. This means that bad investing experiences in the past make investors more cautious and think long and hard about investing, or they are not interested in investing at all. It is expected that future research will be able to conduct research on a broader range of respondents with a larger number of respondents. If possible, collect respondent data directly to reduce the possibility of respondents filling out questionnaire answers that are not in accordance with actual conditions, and the information obtained will provide better research.

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