RAFGO
Review of Accounting, Finance and Governance

Journal homepage: https://akuntansi.pnp.ac.id/rafgo

The Influence of Herding Behavior and Experienced Regret on Investment Decisions

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ARTICLE INFO

Keywords:
Behavioral finance theory, herding behavior, experienced regret, investment decisions, stocks

Received : 3 Mar 2022
Accepted : 17 Mar 2022
Published : 1 Aug 2022

ABSTRACT

This study aims to determine the effect of herding behavior and experienced regret on investment decisions. The theory used in this research is Behavioral Finance Theory within the variable of herding behavior and experienced regret as independent variables, and investment decision as dependent variables. This study used quantitative methods with data collection techniques using questionnaires distributed to investors with a sample of 100 stock investors respondents domiciled in Padang and are over 17 years old. The questionnaire was distributed to respondents online through social media. SPSS V25 is used to analyze data. Multiple linear regression analysis is used as a method of analysis. The results of this study indicate that herding behavior and experienced regret positively influence the decision making of stock investors in Padang.

Introduction

Every human being always has a life goal to be achieved, so sometimes humans have a sense of dissatisfaction with the results that have been obtained. Most people want a happy life, happy in this case can be interpreted when someone has succeeded in achieving what is his goal and getting satisfactory results. According to Putri and Rahyuda (2017) signs of a person's success are usually measured by various things, such as the career path achieved, the level of education that has been passed, the assets that have been collected, and contributions to other lives. Especially in the financial field, a person is said to have succeeded in achieving his happiness, if he has achieved financial freedom, everyone is required to have sufficient ability and knowledge to be able to manage their financial resources and wealth. According to Lestari (2020) financial management or often referred to as finance management which can be interpreted as a study of the use of resources by individuals and families to achieve financial success including various activities regarding management, spending, saving, protection, and investing. From these finance management activities, the most beneficial in the future is investment.

Of the several types of investment, stocks are one of the most well-known instruments among the public as well as the most popular instrument among investors, even though stocks are classified as high-risk assets. Shares are proof of ownership of part of the company (Hartono, 2016). In investing in stocks, investors are always faced with three situations, namely selling shares, buying shares, or holding shares they own. That's where the role of investor decisions in investing success. According to Wulandari and Iramani (2014) investment decision is a decision or policy taken to invest in one or more assets to generate profits in the future. Investment decisions taken by investors cannot be separated from the individual behavior of investors themselves. In making investment decisions, an investor must understand the basic investment concepts that form the basis for making decisions.

The basic thing is understanding the relationship between the expected return and the risk of an investment. According to Mardhiyah (2017) there are several things that must be considered in making investment decisions, namely regarding the risk (risk) and the expected rate of return (return). The relationship pattern of the expected risk and return of an investment is a unidirectional and linear relationship. That is, the greater the risk of an investment, the greater the level of return expected from the investment and vice versa. When investors face risky situations, there are some objectivity, emotion, and other psychological factors that usually influence their decision making.

Theories concerning the bias of human psychology and in general these theories are grouped in the study of BehavioralFinance Theory. According to Fridana & Asandimitra (2020) Behavioral Finance Theory explains a person's psychological factors underlie the actions taken, where rational attitudes are not always the basis for their actions but also the irrational attitudes they have. These forms of irrational investors are expressed in behavioral biases. In the research of Setiawan et al., (2018) it was found that behavioral bias is a tendency for prediction errors.

Behavioral bias consists of cognitive and emotional factors of each individual that can influence investment decisions. In decision making, sometimes investors often follow the actions of other investors in making decisions, this event is known as herding behavior. This is stated by Kengatharan and Kengatharan, (2014) that herding is the behavior of investors who have a tendency to follow the actions of others.

The results of research by Ramdani (2018), Mutawally and Haryono (2019), and Qasim et al., 2019 found that theherding factor has a positive influence on investment decisions. Meanwhile, the results of research conducted by Gozalie and Anastasia (2015) and Setiawan et al., (2018) found that herding had no significant effect on investment decisions. These results indicate that investors tend to be rational because they do not always rely on cognitive and are not influenced by other investors in making decisions. In addition to herding behavior, there are other behavioral factors that can influence investment decision making, namely experienced regret. According to (Pujiyanto & Mahastanti, 2017) experienced regret is a feeling that is felt by someone from the experience that has been done which causes the person to feel disappointed and regretful of the decisions that have been made on investment which will affect decisions in the future.

The results of research conducted by Hikmah et al., (2020) and Rinandiyana et al., (2020) found that the experienced regret variable had a significant positive effect on investment decision making. This shows that the more a person has investment experience, the person will also experience losses in investing and tend to know the risks and benefits of alternative types of investment. Thus, it can be said that people who have high experienced regrets will choose the type of investment that has a higher risk. This is different from the research conducted by Wardani and Lutfi, (2016) which shows that experienced regret has no effect on investment decisions for families in Bali in 2016. This means that even though investors have a high level of tolerance for risk, it does not make investors take investment decisions that have high levels of risk. high risk as in the capital market.

Literature Review

Behavioral Finance Theory

Behavioral finance is one of the sciences in finance that has been recognized and researched by various scientists. Where some of his research results state that behavioral finance is very important in influencing the decision-making process of an investor in business and the capital market. (Wiryaningtyas, 2016). According toAlquraan et al., (2016) Behavioral Finance Theory is a theory about the influence of psychology on the behavior of financial actors and has a subsequent influence on the market.

Herding Behavior

According toKengatharan and Kengatharan (2014) Herding is the behavior of investors who have a tendency to follow the actions of others. As well as statedVirigineni and Rao, (2017) that an investor classified as herding behavior does not base his investment decisions on available information or the company's fundamental value but on the actions of other investors.

Experienced Regret

*Experienced regret*is a feeling that is felt by someone from the experience that has been done which causes the person to feel disappointed and regretful of the decisions that have been made on investments which will affect decisions in the future. (Pujiyanto and Mahastanti, 2017). According toWulandari and Iramani (2014), experienced regret is owned when someone keeps investing for years but the investment returns are not as expected.

Investment decision

Investment is an activity of placing capital into a particular business with the aim of obtaining additional income or profits, while investment decision is a decision or policy taken to invest in one or more assets to generate profits in the future. (Wulandari and Iramani, 2014). Two attitudes in rational and irrational decision making, investors are irrational caused by some bias or uncertainty.

Methods

This type of research is quantitative using a questionnaire as a research instrument. The independent variables of this study are herding behavior and experienced regret, while the dependent variable is investment decisions. The sample used is 100 respondents stock investors with the sampling technique is using purposive sampling technique. This study used multiple linear regression analysis for hypothesis testing which was analyzed using the SPSS V25 computer program.

Results

This research instrument has met the reality and profitability tests, and the processed data has met the classical assumption test. The following are the results of the research obtained.

Coefficient of Determination (R2)

The coefficient of determination (R2) is used to determine the contribution of the independent variable (independent variable) to the dependent variable (dependent variable). The following are the results of the Coefficient of Determination (R2) test.

Table 8. Coefficient of Determination Test Results (R2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.465a	.217	.201	1,799
a. Predictors: (Constant), Experienced regret, Herding behavior				

(Source: Data processed, 2022)

Based on the table above, it can be seen that the value of R square is 0.217, which means that 21.7% of investment decisions can be explained by herding behavior and experienced regret variables, while the remaining 78.3% is explained by other variables not included in the research model.

Hypothesis Test

The t-test was used to determine whether the independent variables partially had a significant effect on the dependent variable. If the value of tcount > t table then the dependent variable (X) affects the Independent variable (Y) and vice versa.

Table 9. T . Test Results

Variable	t	Sig
(Constant)	2,760	.007
Herding behavior	2,305	.012
Experienced Regret	4.302	.000

(Source: Data processed, 2022)

Based on the table above, it can be explained as follows:

1. The herding behavior variable has a tcount of 2.305 which is greater than ttable of 1.984 with a significance of 0.007 which is smaller than 0.05. This shows that herding behavior has a positive effect on investment decisions.

So that H1 in this study is accepted. It can be concluded that the higher the herding behavior, the higher the desire of an investor to follow other investors in investment decisions.

These results indicate that investors tend to receive information but do not perform well in analyzing stocks to choose stocks and follow other investors. Respondents studied in this study are investors who have participated in stock investment for > 1 year, in this case the behavior of investors tends to follow other investors in making investment decisions. This shows that investors in making investment decisions are more likely to pay attention to information from other investors first in making their decisions.

This investor behavior can occur because of the availability of information that investors feel is sufficient as a basis for making investment decisions. So that the behavior of investors tends to just go along with it. The results of this study strengthen the results of the studyRamdani, (2018)andKhalisa et al., (2020)which states that the herding behavior variable has a positive or significant effect on investment decision making. From the decisions of other investors, investors react more quickly to changes in other investors' decisions to invest. In addition, i nvestors prefer to buy shares if the shares are in demand from the beginning of trading. Investors are influenced by herding behavior to protect themselves from losses. An investor will show herding behavior when he relies more on information validated by many people, not on his own judgment because of the perception that the investment choices or decisions taken by the majority cannot be wrong.

The results of this study support the behavioral finance theory which states that psychological factors can influence investors' irrational behavior when making decisions. The role of psychology in the herding variable is very visible where investors prefer to use psychology by trusting other trusted investors when making investment decisions without any logical basis and having an impact on their investment actions that ignore existing information and facts.

2. The experienced regret variable has a tcount of 4.302 which is greater than ttable of 1.984 with a significance of 0.012 which is smaller than 0.05. This shows that herding behavior has a positive effect on investment decisions. So that H2 in this study is accepted. It can be concluded that the higher the experienced regret, the higher the experience and feelings of regret to investors in investment decisions.

   This positive result was possible because the respondents in this study had bad experiences in investing in stocks andusing income for risky investments so that it can be said that respondents also have high risk characteristics. This can be seen from the criteria of the respondents studied in this study, namely investors who participated in stock investment for > 1 year, in this case it can be said that the respondents are not beginners in investing in stocks. The duration of this investment shows that the respondents already have various experiences including experiencing losses. Someone who has had a bad investment experience will tend to be more careful in making the next investment decision to get the desired return.

   The results of this study are consistent with research conducted by*Wisdom et al.*, (2020)andRinandiyana et al., (2020)which states that the experienced regret variable has a positive effect on investment decision making, this occurs due to the risk tolerance of each investor. Experienced regret behavior will make someone more daring to invest in the type of investment that has a higher risk, and will calculate the risks that will arise when that person will make an investment decision. So it can be said that people with high experienced regret will tend to choose the type of investment that has a higher risk, because someone who has experienced regret has had sufficient experience in making investment decisions.

   This is in line with behavioral finance theory which states that a person's actions are based on his psychology and affect future investment decisions to get a satisfactory return. The role of psychology in the experienced regret variable can be seen where investors use emotional feelings of regret and fear that bad experiences will happen again, where investors can learn from past experiences, so they are more careful in making decisions to get the desired return. .

Conclusions

This study aims to determine the effect of herding behavior and experienced regret on investment decisions of investors in Padang. Based on the results of data analysis obtained through the distribution of onl ine questionnaires to facilitate its distribution to respondents during the covid-19 pandemic, the following conclusions were obtained:

1. The herding behavior and experienced regret variables from the results of this study have a positive

effect on investors' investment decisions in Padang. Therefore, H1 and H2 in this study are acceptable.

2. The results of this study indicate that herding behavior has a positive effect on investment decision making for investors in Padang. So it can be said that investors in Padang have irrational behavior where investors follow the decisions of others, and react more quickly to changes in other people's decisions in investing than doing their own analysis.
3. The results show that experienced regret has a positive effect on investment decision making for investors in Padang. So it can be said that investors in Padang will tend to choose the type of investment that has a higher risk, because they already have sufficient experience in making investment decisions.

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