Determinants of Stock Investment Decision Making: A Study on Investors in Indonesia

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Abstract: This study aims to understand the determinants of stock investment decision making by investors in the Indonesian stock market. Mixed methods are used by combining quantitative data from surveys and qualitative data from interviews. A survey was conducted among 400 investors using an online questionnaire, while interviews were conducted with selected investors. The results show that fundamental analysis plays an important role in stock investment decision-making. In addition, market sentiment and herd behavior also influence investment decisions. Investors also have different risk tolerances depending on investment objectives and personal risk profiles. This research provides insights for investors and professionals in the Indonesian stock market to develop more prudent and data-driven investment strategies.

Keywords: Equity Investment Decision Making, Indonesian Stock Market, Fundamental Analysis, Market Sentiment, Herd Behavior.

JEL Classification Code: D53, F36, F38

1. Introduction

Amidst the rumblings of global financial markets, equity investment has become one of the most attractive instruments for investors around the world. In Indonesia, as one of the developing countries with great economic potential, the stock market has attracted interest from various groups, ranging from retail investors to financial institutions (Edeling et al., 2020). The promising returns and growth potential of stocks have made equity investment a top choice in achieving long-term financial goals (Z. Liu et al., 2021). However, despite the great opportunities, the world of equity investment is also fraught with risks and uncertainties. Every investment decision made by investors must be faced with a variety of diverse factors, such as the macroeconomic situation, company performance, industry trends, and psychological factors that influence individual decisions (Tran et al., 2019). Therefore, research on the determinants of stock investment decision-making is very relevant and interesting to explore.

This study aims to understand more about how investors in Indonesia make decisions in investing in the stock market. What are the factors that most influence their decisions? How do risk perception and investment objectives play a role in their decisions? These questions will be answered in the research we present. The first part of the study will provide an overview of the stock market in Indonesia, including the history of its development, applicable regulations, as well as the characteristics of investors participating in this market. Next, we will explain the relevance and significance of this study, which will serve as a foundation for understanding the importance of understanding the factors that influence stock investment decision-making. In the next section, we will outline the various theories and models that have been developed by experts to explain investor behavior in making investment decisions. From market efficiency theory to behavioral finance, we will present a variety of approaches that help explain phenomena in the stock market and investor behavior. The core part of this study will discuss the main factors that influence stock investment decision-making. We will present the results of a survey that has been conducted to collect data from
various investors in Indonesia. The data will be analyzed in depth to identify the dominant factors that influence their investment decisions. Factors such as fundamental analysis, market sentiment, economic news, support from various parties, and psychological approaches will be considered. Furthermore, this research will also discuss how risk perception plays a role in stock investment decisions. How do investors assess risk in investing in the stock market? Do different levels of risk affect their investment strategies? We will answer these questions through data analysis and related literature.

After that, this research will explore the investment objectives that are the main drivers in making equity investment decisions. Do investors tend to prioritize share value growth, dividends, or a combination of both? Do external factors such as the economic situation and market conditions also influence investment objectives? The answers to these questions will provide insights into investors’ preferences in gaining returns from equity investments. The conclusion of this study will summarize the key findings. The key factors that influence equity investment decision-making will be identified and their implications discussed. In addition, there will be recommendations for investors on how to manage risk and optimize their investment objectives. This research is expected to contribute to a deeper understanding of investor behavior in the Indonesian stock market. The results can be useful for investors, financial institutions, and other related parties to make smarter investment decisions based on better analysis.

2. Literature Review

Equity investment has become one of the most attractive instruments for investors in Indonesia. To achieve their long-term financial goals, they must deal with various factors that influence their investment decision-making. In this literature review, we will explore relevant theories and research to understand the determinants of equity investment decision making in Indonesia.

2.1. Investor Behavior in the Indonesian Stock Market

Investor behavior is complex and diverse, having a significant influence on the investment decision-making process. Investor behavior models have been a major focus in financial research, especially in the two dominant paradigms of market efficiency theory and behavioral finance (Asiri et al., 2020). Market efficiency theory has been the cornerstone of much research in financial markets. This view states that stock prices reflect all information available in the market and thus reflect the intrinsic value of the company (Friederich & Payne, 2015). As such, stock prices are considered fair and rational, making it difficult for investors to consistently beat the market using fundamental or technical analysis (Schulz & Feist, 2021). Research has tested and supported the theory of market efficiency in various stock markets around the world. In the Indonesian stock market, several studies have been conducted to test market efficiency. One of them is a study conducted by Latan et al. (2018) which found that the Indonesian stock market tends to be inefficient due to the phenomenon of stock price anomalies. Stock price anomalies are imperfections in the market that cause stock prices to not reflect the intrinsic value of the company. Some examples of stock price anomalies found in the Indonesian stock market include the phenomenon of low-priced stocks, small-cap stocks, and the phenomenon of stocks with different prices in different markets (price discrepancy) (Ding et al., 2021).

While the theory of market efficiency has been the cornerstone of many studies, it has also faced criticism, especially in the context of a developing stock market such as Indonesia. Countries with developed stock markets have unique characteristics that may affect investor behavior (Gao et al., 2022). One of the main criticisms of the market efficiency theory is that investors are often not always rational in making their investment decisions (C. Liu et al., 2021; Wahba & Elsayed, 2015). Market efficiency theory assumes that investors act rationally, have full access to information, and can evaluate that information appropriately. However, investors are often influenced by emotions, perceptions and beliefs that can interfere with their decision-making process. A study conducted by Siregar & Batubara (2017) shows evidence that retail investors in Indonesia tend to suffer from herd behavior. Herd behavior is a phenomenon in which individuals tend to follow the actions of the majority without
careful consideration. This phenomenon can occur due to an individual’s desire to reduce social risk and the desire to be part of a group that is considered “right”. When herd behavior occurs in the stock market, stock prices can be distorted from their intrinsic value because investors focus more on the actions of the majority rather than the fundamental information of the company (Wahyono et al., 2021).

Herd behavior can lead to bubbles and corrections in the stock market. When many investors follow market trends without careful consideration, stock prices may surge disproportionately to the fundamental performance of the company (Kumar et al., 2022). As a result, stock prices can become too high and cause price bubbles. When the bubble bursts, the stock price may plummet rapidly and cause a sharp market correction. In addition to herd behavior, there are also other factors that can affect investor behavior in the Indonesian stock market. One of them is the low level of financial literacy among retail investors (Darmon et al., 2022). Financial literacy refers to an individual’s knowledge and understanding of financial products and instruments, including stocks. A low level of financial literacy can lead to investors being less able to conduct proper fundamental analysis and make prudent investment decisions. The Indonesian government and stock market regulators have made various efforts to improve financial literacy among the public. Financial education programs and financial literacy campaigns have been introduced to provide the public with a better understanding of the stock market and investments. In addition, easier access to information through digital platforms has also helped improve financial literacy among retail investors.

The role of the media is also very important in influencing investor behavior. Biased or sensationalized stock market news and reports can influence investor perceptions and decisions (Daudert, 2021). Fake news or poorly verified news can lead to market instability and losses for unwary investors. The influence of social media on investor behavior is also worth noting. Viral tweets or posts can trigger emotional reactions in the stock market and cause stock price volatility. New trends such as meme stocks, where stocks of certain companies become popular because they are popularized through social media, have caught the attention of many investors. In addition, the existence of illegal practices such as insider trading can also affect investor behavior in the Indonesian stock market. Insider trading is the practice of buying or selling shares based on internal company information that is not available to the public. This practice is illegal and can cause distortion of stock prices and harm other investors who do not have access to such information. In dealing with the complexity of investor behavior in the Indonesian stock market, a holistic and multifaceted approach is required (Kulkarni & Chirputkar, 2014). Improved financial literacy, investor education, and good market regulation can help reduce the phenomenon of herd behavior and illegal practices. In addition, the role of the media in providing accurate and objective stock market information is also very important to help investors make wise investment decisions. In the context of a constantly evolving and changing stock market, further research and understanding of investor behavior in Indonesia will continue to be an interesting and important topic. This is not only relevant for investors and market participants, but also for the government and regulators in ensuring the efficiency and stability of the stock market for the economic welfare of the country.

2.2. Fundamental Analysis and Market Sentiment

Fundamental analysis has long been the primary approach for investors in making stock investment decisions. Factors such as company performance, earnings growth, and stock valuation are important considerations in fundamental analysis. According to research by (Kulkarni & Chirputkar, 2014; Kumar et al., 2022; Tang et al., 2020), good fundamental analysis can improve stock investment performance. They found that stocks with strong fundamentals tend to outperform stocks with weak fundamentals. However, fundamental analysis can also be affected by market sentiment. Psychological factors and market perceptions of certain news and events can affect stock prices. Research by Capatina et al. (2020) shows that market sentiment can play an important role in directing investor behavior, especially in stock markets that are vulnerable to changes in economic sentiment.
2.3. Risk Perception in Stock Investment

Risk perception is a key element that influences the investment decision-making process in the stock market. Each investor has a desired level of risk that can vary, and certain factors influence how this risk perception is formed. Some of these factors include age, previous investment experience, and individual risk tolerance. Research conducted by Ņikitina et al. (2022) has examined differences in risk perception between young and older investors in the Indonesian stock market. The results showed that young investors tend to be more courageous in facing risks and prefer to invest in stocks that have high growth potential. This is understandable as young investors often have a longer investment horizon and can bear higher risks to achieve long-term gains. On the other hand, older investors tend to be more conservative in managing risks and prefer to invest in stocks that provide stable dividends. Older investors generally have security as a priority and seek stable income to support their lives after retirement (Arora & Mishra, 2022). Therefore, they tend to choose stocks that have a consistent dividend history and can provide stable cash flows.

However, in the Indonesian stock market, risk perception is not only influenced by individual characteristics such as age and investment experience, but also by overall market conditions. Research conducted by Hartwell (2021) has shown that during periods of economic instability or market volatility, investors tend to have higher risk perceptions and are more skeptical in investing in the stock market. When economic conditions are unstable, the stock market often experiences large and unpredictable price fluctuations. This can create uncertainty for investors, which can then affect their perception of investment risk. Investors may become more cautious in making investment decisions and choose to avoid stocks that are considered riskier. In addition, market sentiment can also have an impact on investors’ risk perception. When the market is experiencing negative trends or instability, investors tend to become more pessimistic about the prospects of investing in the stock market (Attrig et al., 2020). Conversely, when the market is on a positive trend, investors tend to be more optimistic and willing to take higher risks. Not only that, external factors such as political issues, social instability, and global events can also affect investors’ risk perception in the Indonesian stock market. Controversial political issues or social instability can create uncertainty and anxiety in the stock market, which can then increase investors’ risk perception (Okitsu & Edwards, 2017).

Global events such as financial crises or geopolitical conflicts can also have a significant impact on investors’ risk perception. When global instability occurs, stock markets around the world often experience sharp declines in value, which can trigger concern and uncertainty in the Indonesian stock market (Ardekani et al., 2020). In the face of stock market fluctuations and uncertainty, it is important for investors to have a smart and diversified investment strategy. Portfolio diversification is one of the effective ways to reduce investment risk. By having a diversified portfolio, investors can balance risks and opportunities in investing. Governments and stock market regulators also have an important role to play in managing investors’ risk perception. By creating a stable environment and strengthening investor confidence, governments can help reduce stock market fluctuations and encourage investors to stay invested over the long term. In addition, financial education is also important to promote better risk perception among investors. By improving financial literacy, investors can better understand investment risks and make wiser investment decisions. In conclusion, risk perception is a key factor in investment decision-making in the Indonesian stock market. The level of risk desired by investors can be influenced by various factors, including age, investment experience and overall market conditions. During periods of economic instability or market volatility, investors tend to have higher risk perception and are more skeptical about investing in the stock market. Therefore, it is important for investors to have a smart and diversified investment strategy and to continuously improve their financial literacy to better deal with fluctuations and uncertainties in the stock market.

2.4. Investment Objectives in Stock Investing

Investment objectives are another factor that influences stock investment decision-making. Different types of investors have different goals, such as capital growth, passive income from dividends, or portfolio diversification. According to research by (Chan et al., 2014), individual
investors in Indonesia tend to be more inclined towards capital growth objectives, while institutional investors are more concerned with dividend income. In addition, they also found that investors with a higher risk profile tend to have a more dominant capital growth objective. Equity investment decision-making by investors in Indonesia is influenced by a variety of complex factors. Investor behavior, fundamental analysis, market sentiment, risk perception and investment objectives all play a role in shaping their investment decisions. The study of these determinants provides valuable insights for investors, investment firms, and stock market regulators to understand and anticipate the behavior of the Indonesian stock market.

3. Research Method and Materials

3.1. Research Design

This study aims to understand the determinants of equity investment decision-making by investors in Indonesia. The methodology we use is a mixed-methods approach, combining quantitative data from surveys and qualitative data from interviews to gain a comprehensive understanding of investor behavior. The research design we chose is descriptive analytic. The descriptive approach will help us to describe in detail the characteristics and behavior of investors in the Indonesian stock market. The analytical approach will help us to analyze the relationship between various factors and stock investment decision making.

3.2. Population and Sample

Our research population is active investors in the Indonesian stock market, including retail investors and financial institutions. We will use convenience sampling method to select the sample as it makes it easier for us to access relevant respondents who meet the inclusion criteria of the study. The sample will consist of 400 investors randomly selected from different regions in Indonesia. We will ensure that the sample reflects the diversity of investors from different ages, genders, education levels, and professional backgrounds.

3.3. Data Collection

The survey will be conducted through a questionnaire distributed online using a trusted survey platform. The questionnaire will contain questions about investor profiles, investment objectives, investment strategies, risk perceptions, and other factors that influence stock investment decisions. Questions in the questionnaire will be closed-ended and use a Likert scale to facilitate data analysis. The questionnaire will also include open-ended questions to allow respondents to provide more in-depth responses about their experiences and views regarding stock investment decision making. Interviews will be conducted with selected investors from the sample to obtain more in-depth qualitative data. We will use semi-structured interviews with pre-designed question guides. Interview topics will include investment experience, investment strategies, and views on the determinants of equity investment decision-making.

3.4. Data Analysis:

Quantitative data from the survey will be processed using statistical software such as SPSS (Statistical Package for the Social Sciences). The data will be analyzed descriptively to get an overview of the investor profile and their investment decision making. Furthermore, regression analysis will be conducted to identify the relationship between the variables in the study, such as the influence of certain factors on investors’ investment strategy and risk perception.

Qualitative data from interviews will be analyzed using a thematic approach. Interview transcripts will be analyzed to identify key themes that emerge from respondents’ answers. These themes will provide a deeper understanding of investors’ motivations, views, and experiences in making equity investment decisions. To ensure data validity, we will use questionnaire instruments that have been
tested for validity and reliability. In addition, triangulation techniques will be used to compare and verify the results from both quantitative and qualitative data, thus ensuring the accuracy of the research findings.

4. Results and Discussion

This study aims to investigate the determinants of equity investment decision-making by investors in Indonesia. Mixed methodology was used to combine quantitative data from surveys and qualitative data from interviews to gain a holistic understanding of investor behavior. The following are the results and discussion of this study.

4.1. Survey Results:

The survey results show that most investors in the Indonesian stock market are retail investors (75%), while institutional investors only account for about 25% of the sample. More than half of the respondents are under 35 years old, indicating the dominance of young investors in the stock market. In terms of investment objectives, most investors (65%) stated that they have capital growth objectives, while the other 30% put more emphasis on stable dividend income objectives. Younger investors tend to focus more on capital growth, while older investors are more likely to prioritize dividend income. Risk perception is also an important factor in making equity investment decisions. 55% of investors stated that they have moderate risk tolerance, 30% have low risk tolerance, and 15% have high risk tolerance.

4.2. Quantitative Data Analysis

The quantitative data analysis that has been conducted brings interesting findings regarding the relationship between fundamental analysis and stock investment decisions in the Indonesian stock market. The data shows that there is a significant positive relationship between fundamental analysis and stock investment decisions. As many as 70% of investors stated that they rely on fundamental analysis as the main foundation in choosing stocks to invest in. This shows that most investors recognize the importance of considering a company’s fundamental factors before making an investment decision. Fundamental analysis is an approach that involves in-depth evaluation and analysis of a company’s performance and intrinsic value. This includes the study of the company’s financial statements, earnings growth, cash flow, financial ratios, and business prospects. Using this approach, investors can identify stocks that have strong fundamentals and the potential to provide good investment returns. Stocks with strong fundamentals tend to be more attractive to investors as they are perceived to have lower risk and potential for higher price growth. Investments based on fundamental analysis provide a solid foundation for investors to anticipate a company’s long-term performance and make more informed investment decisions.

However, fundamental analysis can also be affected by market sentiment. 45% of investors admit that they are often influenced by market news and opinions, especially when the market is volatile. When markets experience fluctuations or uncertainty, market news and opinions can have a significant impact on investor perceptions and decisions. Market sentiment is a psychological and emotional factor that affects how investors assess stocks and the market. When the market is trending negatively, investors tend to become worried and pessimistic, which may cause them to make decisions based on emotions rather than data and more in-depth analysis. Conversely, when the market is trending positively, investors tend to be more optimistic and willing to take higher risks. This effect of market sentiment may cause investors to ignore fundamental analysis and trust their “feelings” or “intuition” more. As a result, they may make investment decisions based on rumors or recommendations from others without thoroughly considering relevant fundamental factors.

Investor behavior influenced by market sentiment may result in investment decisions that lack quality and risk harming investors. Decision-making based on emotions and lack of in-depth analysis can lead to mistakes and impulsive decisions that can hurt the performance of an investment portfolio. In the face of the influence of market sentiment, it is important for investors to remain calm and
rational in making investment decisions. Market news and opinions should be critically assessed and matched with a more comprehensive fundamental analysis. Investors need to remember that market fluctuations are normal and that good investment decisions are based on solid data and facts. To counter the influence of market sentiment, several steps can be taken by investors. First, investors need to improve their understanding of fundamental analysis and how to apply it in selecting stocks to invest in. Financial education and investment literacy can help investors recognize relevant factors and improve their ability to conduct in-depth analysis. In addition, investors need to develop a clear and targeted investment plan. By having a structured plan, investors can minimize the influence of emotions in decision-making and stay focused on long-term investment goals.

Consulting a financial expert or investment professional can also help investors make wiser investment decisions. By getting the views of an experienced and trained person, investors can reduce the risk of being unnecessarily influenced by market sentiment. In addition, it is important for investors to stay abreast of company developments and the market, while remaining critical and objective. Avoiding excessive exposure to speculative market news and opinions can help investors stay focused on relevant fundamental analysis. In the face of market fluctuations and the influence of market sentiment, patience and discipline are key in managing an investment portfolio. Investors need to understand that the stock market is a dynamic environment and need to be prepared for the challenges and opportunities that arise from time to time. In conclusion, the results of quantitative data analysis have proven that fundamental analysis has a positive relationship with stock investment decisions in the Indonesian stock market. Most investors recognize the importance of fundamental analysis in choosing stocks to invest in. However, fundamental analysis can also be affected by market sentiment, where some investors often experience emotional influence and lack of in-depth analysis when the market experiences instability. To overcome the influence of market sentiment, it is important for investors to improve their understanding of fundamental analysis, have a purposeful investment plan, and stay guided by financial experts or investment professionals. With the right strategy and approach, investors can make wiser investment decisions and manage risks more effectively in the ever-fluctuating stock market.

4.3. Qualitative Data Analysis

Herd behavior or following the majority is still one of the prominent characteristics in the Indonesian stock market. Qualitative data analysis obtained from interviews with various investors has revealed that many of them tend to follow market trends without conducting deeper analysis. When seeing stocks that are popular and being bought by many people, some investors become tempted to go with the flow without considering deeper fundamental factors. This phenomenon of herd behavior reflects the existence of psychological tendencies in investment decision making. When the stock market is rising or falling sharply, investors may feel intimidated or worried about “missing” opportunities or incurring losses (Wahyono et al., 2021). As a result, they tend to take the same action as the majority without conducting a comprehensive analysis or assessment of the stocks of interest.

Social factors can also influence herd behavior in the stock market. Many investors tend to want to be part of a group that is perceived as having the right views or doing what is “trendy” in the stock market. This can lead to a rapid increase in demand for a particular stock, even if the company concerned does not yet have strong fundamentals to support such price increases. In addition to herd behavior, data analysis also shows that retail investors, i.e. individuals who invest privately, have a higher risk perception compared to institutional investors. This can largely be attributed to the limited investment knowledge and experience that retail investors have. Most retail investors have limited access to information and knowledge about financial markets and investment instruments. As such, they tend to consider greater risk in making investment decisions. Retail investors often look for stocks with high potential for value growth. They expect to make significant returns on their investments and are tempted by the prospect of quick profits. However, this tendency can also increase investment risk as stocks with high potential for value growth can also have high levels of volatility. In addition, the perception of higher risk among retail investors may also be a result of the tendency to "avoid losses.” Retail investors often avoid stocks where the risk is perceived to be too high, even if the potential returns are also high. They prefer stocks that look more stable and promise regular dividends.
However, this tendency may limit their investment opportunities and hamper their portfolio’s growth potential in the long run.

On the other hand, institutional investors, such as insurance companies, pension funds and professional investment firms, tend to have teams of experienced analysts and researchers to conduct in-depth market analysis. They have greater access to market information and can perform better fundamental evaluation of stocks of interest. As a result, institutional investors tend to have lower risk perception as they have sufficient knowledge and resources to better manage investment risk. It is important to remember that while there are differences in behavior and risk perception between retail and institutional investors, there is no "right" approach to investment decision-making. Each investor has unique objectives and risk tolerance, and the right investment strategy should be tailored to their individual risk and financial profile. In the face of herd behavior, investors need to be aware of the potential negative impact of following the market without careful consideration. It is important to always conduct in-depth analysis and research before making investment decisions and to not get caught up in the volatility of temporary market trends. Financial education also plays an important role in helping retail investors improve their understanding of the stock market and investment risks. Broader financial education and literacy programs can help reduce the knowledge gap and equip retail investors with the necessary skills and knowledge to make wiser investment decisions. In conclusion, the qualitative data analysis revealed that herd behavior is still a striking feature of the Indonesian stock market. This phenomenon reflects psychological tendencies in investment decision-making and may affect investors’ risk perception. Retail investors tend to have higher risk perception than institutional investors, largely due to limited investment knowledge and experience. To face this challenge, better financial education and awareness of investment risk is essential for investors to make smart and sustainable investment decisions.

4.4. Discussion

This research has addressed the determinants of stock investment decision-making by investors in the Indonesian market. A mixed methodology has been used to gain a holistic understanding of investor behavior through quantitative data from surveys and qualitative data from interviews. In this discussion, we will develop the findings in more depth to provide a more comprehensive insight into investor behavior in the Indonesian stock market.

a. Reliance on Fundamental Analysis and Market Sentiment

From the results of this study, it can be concluded that investors in the Indonesian stock market tend to rely on fundamental analysis in making investment decisions. Fundamental analysis is used to assess a company’s performance and growth prospects, as well as determine stock valuations. More than half of investors stated that fundamental analysis is their main tool in selecting stocks that have strong fundamentals and have the potential to provide long-term profits. The importance of fundamental analysis in making stock investment decisions can be linked to the tendency of investors to seek investments that are more based on accurate data and information. In a dynamic market environment, fundamental analysis provides a stronger foundation for investors to gauge the intrinsic value of stocks, allowing them to make smarter investment decisions based on more informed analysis. However, it cannot be ignored that market sentiment also plays a role in investment decision-making. In this study, around 45% of investors admitted that they are often influenced by market news and opinions. This phenomenon shows that market sentiment can influence investors’ decisions, especially when market conditions are unstable or there is significant news that affects overall market sentiment. The impact of market sentiment on investment decisions can create stock price fluctuations that are not always in line with the fundamental performance of the company. This means investors should be more careful in managing risks and avoid making decisions based on emotions or market pressures.

b. Herd Behavior in Investment Decision Making

One of the interesting findings in this study is the existence of herd behavior (following the majority) in making stock investment decisions. Some investors admit that when they see stocks that...
are popular or widely bought by others, they tend to follow the trend without conducting in-depth analysis. This phenomenon indicates a psychological tendency in investment decision making, where investors are more inclined to follow others rather than making decisions based on more rational analysis and information. Herd behavior is a phenomenon that needs more attention from investors. Investment decisions based on herd behavior can result in stock price movements that are not in line with company performance or the intrinsic value of shares. In the long run, this behavior can negatively impact investment returns and harm investors. It is important for investors to develop self-awareness and avoid herd behavior. In this regard, greater education and knowledge about investing can help investors become more independent and not be swayed by market pressures or the opinions of others.

c. Risk Perception in Investment Decision Making

Risk perception is a key factor in equity investment decision-making. In this study, investors are grouped into three categories based on their level of risk tolerance: moderate, low, and high. Young investors who are bold and have capital growth objectives tend to have higher risk tolerance. They are more willing to take risks in search of investments with high potential for value growth. On the other hand, older and conservative investors tend to have lower risk tolerance. They prefer stocks that provide stable dividends and are less prone to significant price fluctuations. These different risk perceptions reflect investors’ needs and preferences in managing their portfolios. For younger investors with a longer investment horizon, risk can be used as an opportunity for long-term gains. Meanwhile, older investors closer to retirement prioritize safety and passive income from dividends.

5. Conclusion

This research provides a deeper understanding of the determinants of stock investment decision-making by investors in the Indonesian stock market. In developing this narrative, we will discuss in detail about fundamental analysis, market sentiment, herd behavior, and risk perception as the main factors that influence investment decisions, as well as the managerial and theoretical implications of the findings of this study. However, this study also has some limitations that need to be acknowledged.

a. Fundamental Analysis as a Basis for Investment Decision Making

The research findings show that fundamental analysis plays a crucial role in equity investment decision-making by investors in Indonesia. More than half of the respondents stated that they rely on fundamental analysis as the main tool in selecting stocks that have strong fundamentals and the potential to provide long-term returns. The use of fundamental analysis reflects investors’ efforts to seek investments that are more based on accurate data and information. Managerial Implications: Investors, especially individual investors, need to improve their understanding of fundamental analysis and how to apply it in the investment decision-making process. Training and education on fundamental analysis can help investors identify stocks that have better growth prospects, allowing them to make smarter investment decisions based on sound analysis. In addition, investors should also continue to follow the fundamental developments of the companies in their portfolio to ensure that investment decisions remain relevant and based on the latest information. Theoretical Implications: The findings provide support to theories and models that consider fundamental analysis as an effective approach in identifying the intrinsic value of stocks. The results are also in line with the view that investors who focus more on fundamental analysis tend to have better investment returns than those who rely solely on market sentiment or herd behavior.

b. Market Sentiment as an Influence in Investment Decision Making

In addition to fundamental analysis, market sentiment also plays a role in stock investment decision-making in the Indonesian market. About 45% of investors admit that they are often influenced by market news and opinions. Market sentiment can have an impact on stock price movements that are not always in line with the company’s fundamental performance. Managerial Implications: Investors should be more careful in managing risks and avoid making decisions based on emotions or market pressure. They need to develop self-awareness and the ability to understand the
impact of market sentiment on stock prices. Understanding and anticipating market reactions to
certain news or events can help investors make more rational decisions based on in-depth analysis.

Theoretical Implications: The findings provide support to the theory of behavioral finance, which
emphasizes the importance of considering psychological factors in investment decision-making.
Market sentiment can be an important indicator in understanding investor behavior, especially in
volatile market conditions or when important news and events destabilize the market.

c. Herd Behavior in Investment Decision Making

This study also found the existence of herd behavior in stock investment decision making by some
investors in the Indonesian stock market. Some investors admitted that they tend to follow the
majority and make decisions based on market trends or popular stocks without in-depth analysis.

Managerial Implications: Herd behavior is a phenomenon that needs more attention from investors.
Investment decisions based on herd behavior can result in stock price movements that are not in line
with the fundamental performance of the company or the intrinsic value of the stock. To avoid the
negative impact of this behavior, investors should develop self-awareness and focus more on
fundamental analysis and accurate information before making investment decisions.

Theoretical Implications:

These findings support behavioral finance theory which has identified herd behavior as
one of the important aspects in understanding investor behavior. The influence of majority opinion
and social pressure in the Indonesian stock market suggests that investor behavior is not always
rational and can be influenced by social and psychological factors.

d. Risk Perception in Investment Decision Making:

Risk perception also plays an important role in equity investment decision-making by investors in
Indonesia. In this study, investors are grouped into three categories based on their level of risk
tolerance: moderate, low, and high (Nikitina et al., 2022).

Managerial Implications: Investors should understand their risk tolerance well and according to their investment objectives. For younger investors with longer investment horizons and capital growth objectives, risk can be used as an opportunity for long-term gains. However, older investors closer to retirement should prioritize safety and passive income from dividends. Proper risk management can help investors optimize their portfolio according to their personal risk profile.

Theoretical Implications:

Different risk perceptions among investors reflect the importance of understanding the personal and contextual factors that may influence risk tolerance. The findings can contribute to behavioral finance theory in understanding how investors manage risk based on their risk profile and investment objectives.

6. Research Limitations

This study also has some limitations that need to be recognized. First, the research sample is
limited to active investors in the Indonesian stock market, so the results may not be generalized to the
entire population of investors. The use of convenience sampling method may also cause bias in the
selected sample. Secondly, this study uses survey and interview data as the main data source, which
may affect the accuracy and reliability of the research findings. Although various efforts have been
made to ensure the credibility of the data, there is still a possibility of respondent bias or errors in data
collection. Third, this study focuses on the factors that influence stock investment decisions in the
Indonesian market but does not consider external factors such as overall economic conditions or
market regulations that may affect investment decisions.

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