



Unveiling the Power of Fundamental Analysis: Exploring the Influence of Representative Bias on Stock Investment Decisions

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ABSTRACT

This study aims to investigate the contribution of representative bias on stock investment decisions. It also focuses on examining the role of fundamental analysis performed by investors in making stock investment decisions. The study adopts a quantitative approach and employs a survey design. The population of this study consists of stock investors in Bengkulu Province, with a sample size of 395 stock investors. Purposive sampling technique is used to select the sample. The data collected for this research is primary data obtained through an online questionnaire. The data analysis method used is moderating regression analysis (MRA). The results of this study indicate that representative bias has a significant impact on stock investment decisions. Furthermore, the study reveals that the fundamental analysis conducted by investors weakens the influence of representative bias on stock investment decisions.

Keywords: *Fundamental Analysis, Representative Bias, Stock Investment Decision*

1. INTRODUCTION

The capital market is a place where various parties, especially companies, sell stocks and bonds with the aim of using the proceeds as additional funds or to strengthen the company's capital [1]. A broader statement is that the capital market is a means for companies to meet their long-term needs by selling shares or issuing bonds [2]. Kasmir [3] stated that sellers in the capital market are companies in need of capital (issuers), so they attempt to sell securities in the capital market, while buyers (investors) are parties interested in buying capital in companies they consider profitable. The instruments traded in the capital market are in the form of tradable securities, whether ownership or debt instruments, and one of the capital market instruments is stocks.

Darmadji & Fakhruddin [4] define stocks as a representation of ownership or participation of an individual or entity in a company or limited liability corporation. Stocks are ownership securities, and the larger the number of shares one owns, the greater their influence in the company [3]. By buying and owning

stocks, investors can gain several benefits as a form of obligation, including capital gains (the difference between the purchase price and the selling price), dividends (profits distributed by the company from its earnings), and voting rights for common shareholders [1]. Stocks are a form of investment that can provide returns for investors.

Investment, in essence, is the allocation of funds in the present with the expectation of gaining profits in the future [5]. This is echoed by Jones [6] and Tandelilin [7], who state that investment is a commitment of a certain amount of funds or other resources made in the present with the goal of obtaining profits in the future. Investment decisions start with the identification of investment opportunities, often referred to as capital investment projects [8]. Subash [9] explains that investment decisions can be seen as the process of choosing a specific alternative from various available options. Brealey [8] states that there are two aspects inherent in an investment: the expected return and the risk of not achieving that return.

In investment activities, there are many factors that influence investment decisions, one of which is psychological factors that lead to irrational investment decisions, giving rise to the field of behavioral finance. Behavioral finance is the notion that investment decisions made by an investor are not always based solely on rational considerations but also involve irrational aspects related to an individual's psyche [10]. Irrational behavior resulting from behavioral biases can lead investors to make decisions that harm their investments, often resulting in losses [11]. Bias is categorized into four types: (1) overconfidence, (2) excessive self-assurance, (3) confirmation bias, and (4) illusion of control [12].

This study focuses on the representative bias. Representative bias is a reliance on stereotypes, analogies, or limited samples to form opinions about an entire entity or group [13]. This definition aligns with the research by Javed et al [14], which states that representative bias is a tendency to pay more attention to investments with good performance than stocks with poor performance. It also suggests that this bias is related to the stereotyping effect commonly observed among investors in stock market transactions.

2. LITERATURE REVIEW

2.1. Behavioral Finance

Behavioral finance is generally defined as the application of psychology to the determination of costs and has become a highly discussed topic, leading to new insights with the proliferation of stock investments [15]. This view is in line with Sewell [16], who states that behavioral finance is the study of the psychological factors influencing financial behavior and their impact on the market. In line with this, Sumtoro and Anastasia [17] state that behavioral finance is the science that examines how individuals behave in financial decisions.

Behavioral finance, in contrast, studies how individuals deviate from their ideal decisions and how markets under certain conditions are inefficient [18]. Behavioral finance explains the relationship between individuals who invest and finance, influenced by psychological factors [17]. Behavioral finance also assumes that irrational investment decisions are caused by information imperfections, individual rationality, anomalies, behavioral biases, and investor psychology [19].

Behavioral finance studies how an investor makes an investment decision by disregarding real data and analysis, instead prioritizing thought and emotion. Therefore, there is a difference between standard financial theory (in general) and behavioral finance, where in standard financial theory, investment decisions are determined by the rationality of analytical results,

whereas behavioral finance assumes that the market conditions are not always favorable and are difficult to conquer [20]. The understanding of behavioral finance becomes clearer with the perspective provided by Vijaya [21], who states that behavioral finance closely relates to integrating individual behavior, market phenomena, and knowledge drawn from two fields: psychology and financial theory.

2.2. Representative Bias

According to Pompian [15], to make sense of life experiences, individuals develop a tendency to classify objects and thoughts. When they encounter new phenomena that are inconsistent with their classifications, they rely on their own classifications and use the most appropriate estimate to determine which category to choose, forming the basis for their understanding of new discoveries. Investors who exhibit representative bias tend to give too much weight to new experiences and disregard long-term returns [21].

Representative bias is often used in evaluating investments because it is based on past experiences, thus creating a new perspective on investment assessments. According to Azhari & Damingun [22], representative bias occurs when investors make transaction decisions based on their past experiences and what aligns with their mental image. The presence of representative bias introduces a psychological perspective due to the behavior of investors who believe that when a company's condition and the price trend of a security are favorable, the investment will also be good [23]. The impact of representative bias often leads to incorrect investment decisions, resulting in a significant risk of investment failure.

Azhari & Damingun [22], and Seto [24] states that representative bias significantly influences investment decision-making. Javed [14] also reveals that representative bias has a positive effect on investment decision-making. Meanwhile, Irjayanti [25] found that representative bias has a positive but not significant influence on investment decisions.

H1: Representative bias influences stock investment decisions.

2.3. Fundamental Analysis

The fluctuation of stock prices at any given time cannot be predicted unless investors, especially companies, conduct an analysis. The analysis most suitable for stock prices is fundamental analysis [26]. With the presence of fundamental analysis, it is hoped that it can reduce the behavioral finance experienced by investors, as the higher the level of behavioral finance in an investor, the

greater the risk of investment failure. Therefore, fundamental analysis can be used as a tool for investors to not overlook current and more accurate data and information rather than relying on their behavioral finance.

This research discusses the influence of representative bias on stock investment decisions with fundamental analysis as a moderating variable. This study aims to prove that with the presence of fundamental analysis, investors can reduce the negative impact that can be caused by representative bias behavior when deciding on desired stock investments.

Choosing investments is not an easy task, as there are many factors and considerations that influence it, including behavioral finance. Behavioral finance, which assesses a stock based on stereotypes and analogies from the past, is referred to as representative bias. To ensure that investment decisions made by investors are not wrong, it is necessary to first evaluate the stocks to be selected and then determine whether the stocks will provide the expected level of returns [27].

Fundamental analysis is a suitable method for analyzing a stock. Anung et al [28] indirectly reinforce the findings of Syakur & Haryono [27], which suggest that to avoid investment failures, fundamental analysis must be performed. Zakky [29] in his research suggests using fundamental analysis as a moderating variable and selecting other variables (investment decisions) as independent variables.

H2: Fundamental analysis moderates the influence of representative bias on stock investment decisions.

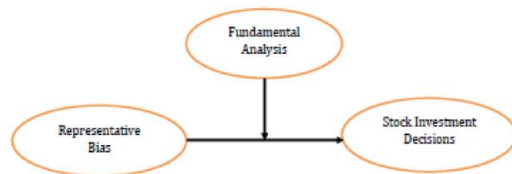


Figure 1. Research Model

3. RESEARCH METHODS

This research employs a quantitative approach using a survey design. The population for this study consists of stock investors in the Bengkulu Province, with a sample size of 395 stock investors. The sampling technique used in this study is purposive sampling. The data type for this research is primary data collected through an online questionnaire. The distribution of the questionnaire is done by sharing a Google Forms link through various social media platforms such as Facebook and WhatsApp. The questionnaire in this study utilizes an interval scale,

specifically the Likert scale. The data analysis method used is multiple linear regression analysis with a moderating regression analysis approach.

This research employs indicators from Ullah [30] for measuring the investment decision variable, namely: (i) the stock market cannot be predicted, so not investing, (ii) investing a significant amount of money in stocks, (iii) market uncertainty is a reason not to buy stocks, (iv) preferring to save money rather than investing because of uncertainty about when it will be needed, (v) budgeting money wisely, (vi) always feeling more satisfied when saving money rather than investing it. Then, for the representative bias variable, this research uses indicators proposed by Pompian [15], as follows: (i) investors make investment decisions based on the potential success of the company, (ii) investors base their stock investment decisions on past events, (iii) investors view stock investments based on objectives, (iv) investors make quick and stereotypical decisions.

Fundamental analysis focuses on liquidity ratios and profitability ratios because these indicators can provide important information to an investor about a company's financial performance, especially regarding the company's ability to meet its obligations and the extent to which the company provides returns on investment. Thus, it can determine whether the company is liquid or not. Besides, investors can see the company's position and current stock prices. In this study, what we want to determine is whether an investor conducts fundamental analysis before making an investment decision and whether fundamental analysis is essential for an investor. Therefore, in this study, we use indicators such as: (i) investors analyze the current assets owned by the company, (ii) investors analyze short-term debts that the company must pay, (iii) investors analyze tax debts that the company must pay. As for profitability ratios, the indicators are: (i) investors analyze and evaluate how much profit or earnings the company generates, (ii) investors analyze how much profit or earnings the company provides to investors, (iii) investors analyze the efficiency of a business run by the company.

Based on Table 1, the results indicate that all statements are considered valid, as evidenced by the *r* statistic being greater than the critical *r* value. This means that the statements for the variables of stock investment decisions, representative bias, and fundamental analysis can effectively measure what is intended to be measured, and therefore, these statements can be used in this research.

Table 1. Validity

No	Statements	r stat	r table	result
Stock Investment Decisions				
1	the stock market cannot be predicted, so not investing	0,636	0,0980	valid
2	investing a significant amount of money in stocks	0,242	0,0980	valid
3	market uncertainty is a reason not to buy stocks	0,555	0,0980	valid
4	preferring to save money rather than investing because of uncertainty about when it will be needed	0,614	0,0980	valid
5	budgeting money wisely	0,176	0,0980	valid
6	always feeling more satisfied when saving money rather than investing it	0,564	0,0980	valid
Representative Bias				
1	investors make investment decisions based on the potential success of the company	0,301	0,0980	valid
2	investors base their stock investment decisions on past events	0,351	0,0980	valid
3	investors view stock investments based on objectives	0,325	0,0980	valid
4	investors make quick and stereotypical decisions	0,172	0,0980	valid
Fundamental Analysis				
1	investors analyze the current assets owned by the company	0,569	0,0980	valid
2	investors analyze short-term debts that the company must pay	0,674	0,0980	valid
3	investors analyze tax debts that the company must pay	0,592	0,0980	valid
4	investors analyze and evaluate how much profit or earnings the company generates	0,538	0,0980	valid
5	investors analyze how much profit or earnings the company provides to investors	0,300	0,0980	valid
6	investors analyze the efficiency of a business run by the company	0,468	0,0980	valid

The reliability test indicate that all variables (stock investment decisions, representative bias, and fundamental analysis) are considered reliable (Table 2).

Table 2. Reliability

No	Variable	cronbach's Alpha	Result
1	Stock Investment Decisions	0,786	Reliabel
2	Representative bias	0,747	Reliabel
3	Fundamental Analysis	0,722	Reliabel

4. RESULT AND DISCUSSION

The results of multiple regression analysis using the Moderating Regression Analysis (MRA) approach in SPSS are presented in Table 3. The F-test is used to determine whether the model used in the regression is appropriate or fits well. The results of the F-test in Table 4 indicate that model 1 has a probability value of 0.000, which is less than 0.05. This means that model 1 is a good fit. Similarly, for model 2, the probability value is also 0.000, which is less than 0.05, indicating that model 2 is also a good fit. Based on Table 4, the adjusted coefficient of determination (R²) for model 1 and model 2 is 0.235 and 0.264, respectively. This means that each model is able to explain the variance of the predicted variable by 23.5% (model 1) and 26.4% (model 2).

Table 3. Research Result

	Model 1		Model 2	
	Coefficient	Sig	Coefficient	Sig
Constant	7,253	0,000	27,7	0,000
RB	-0,326	0,000	-0,491	0,004
FA			0,924	0,002
RB*FA			0,089	0,000
F		0,000		0,000
R ²	0,235		0,264	

Dependent variable: SID

Table 3 provides an understanding that the regression results for model 1 show that the regression coefficient for representative bias (RB) is -0.326 with a significance value of 0.000, meaning that representative bias influences Stock Investment Decisions (SID). Furthermore, the regression results for model 2 show that the regression coefficient for representative bias is -0.491 with a significance value of 0.004, indicating that representative bias also influences Stock Investment Decisions. Subsequently, after including the Fundamental Analysis (FA) variable in the model, the regression coefficient for the interaction of representative bias and Fundamental Analysis (RB*FA) is 0.089 with a significance value of 0.000, signifying that Fundamental Analysis is able to moderate the influence of representative bias on Stock Investment Decisions.

4.1. Representative Bias and Stock Investment Decision

The results of the multiple linear regression test indicate that the variable representative bias has a significant influence on stock investment decisions. When investors encounter issues with their investments, they tend to believe that these issues can be quickly resolved without analyzing what mistakes need to be evaluated first. Representative bias also leads investors to make investment decisions based on irrelevant information, aligning with prospect theory, which suggests that investors make irrational investment decisions. Therefore, investors should assess the company's current situation before making stock investment decisions.

This study reveals that investors in the Bengkulu Province tend to experience representative bias. To mitigate this bias, it is essential to provide information obtained from the stock exchange, such as the Stock Exchange (IDX), or the Indonesian Central Securities Depository (KSEI), which illustrates the current trends in the stock market. The results of this research align with similar studies conducted by Subash [9] and Ekatama [31], which both indicate that representative bias influences stock investment decisions.

4.2. Moderating Role of Fundamental Analysis

The results of this study demonstrate that the fundamental analysis variable can moderate the influence of representative bias on stock investment decisions. In other words, the fundamental analysis variable weakens the impact on stock investment decisions. In simpler terms, when investors conduct fundamental analysis, they tend to minimize the influence caused by representative bias on their investment decisions.

Investors in the Bengkulu Province tend to assess the efficiency of a company's business operations before making investments. In other words, investors in the Bengkulu Province are more likely to consider the condition of the company they are investing in, leading to more informed investment decisions. Fundamental analysis is a tool that helps investors make precise investment decisions because it explains the financial condition of the company, its overall situation, and its current position. Therefore, fundamental analysis can reduce biases in investors' decision-making processes. Fundamental analysis directs a situation where investors prioritize rational behavior over irrational behavior. The results of this research are consistent with Zakky [29], and Syakur and Haryono [27].

5. CONCLUSION

The results of this study indicate that representative bias influences stock investment decisions. This implies that what investors experience is likely to have a less favorable impact on the stock investment decisions they make. To mitigate this, investors should always make rational decisions when investing. In other words, investors should assess company information and conditions in terms of quality, competitive maturity, and current success, rather than relying solely on stereotyping when trading in the stock market. It is advisable for investors not to place too much emphasis on new experiences and disregard long-term returns. Interestingly, this study reveals that fundamental analysis conducted by investors can moderate the influence of representative bias on stock investment decisions. This means that fundamental analysis plays a role in weakening the negative impact of representative bias on the stock investment decisions made by investors. In other words, when investors (who are detected to have representative bias) engage in fundamental analysis, it tends to reduce the negative influence caused by representative bias on stock investment decision.

AUTHORS' CONTRIBUTIONS

The roles of the four authors are delineated as follows: Chairil Afandy and Intan Zoraya were responsible for conceptualizing and translating research ideas into the

initial draft of the study. Ridwan Nurazi and Baihaqi played a crucial role in establishing the research goals, objectives, and outcome indicators. All authors collectively carried out the research activities. Chairil Afandy was primarily responsible for drafting the journal article, while all authors actively participated in disseminating the research findings at international conferences.

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