Financial Behavior Bias in Investment Decisions of The Millennial Generation

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Abstract. Investment is not free from risk. There is no guarantee that the investment will always bring profits. Although risk cannot be eliminated, millennial investors can carry out effective risk management in their investments to minimize the possibility of losses they will suffer. This research uses an exploratory survey method, a research method that uses a population. The data used is a population sample so that descriptions and relationships between variables are found. This method is limited to a sample survey, which aims to test the hypothesis formulated using a questionnaire containing questions about the variables studied. The findings are that investors do not always behave rationally, do not deviate, and can be modeled quantitatively. The evidence that has been identified is related to behavior-based research, which tries to reveal the decision-making process in the corridors of psychology, showing that humans are rational creatures who prioritize aspects of rationality, even though the process leads to These aspects can vary.

Keywords: Financial Behavior Bias, Millennial Generation, Herding, Over Confidence, Mental Accounting

1 Introduction

Stock investment is increasingly popular in Indonesia, especially among the millennial generation. BEI is also trying to instill the need to invest in shares so that Indonesian society moves from a saving society to an investing society. The dominance of the millennial generation shows that the millennial generation is starting to become aware of investing. Investing in wealth management is a good behavior to start early. By investing early, investors can achieve financial goals. The millennial generation, who is very close to technology, can easily gain knowledge via the internet [1].

Although risk cannot be eliminated, millennial investors can carry out effective risk management in their investments to minimize the possibility of losses they will suffer. In behavioral finance, risk-taking in investment selection is vital for investors and investment advisors. By knowing risk-taking, each individual can gain a competitive advantage, according to cognitive psychology, which plays a role in selecting investment assets.

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Investor attitudes concerning risk preferences can be grouped into three categories: risk averse, risk neutral, and risk seeker. If an investor considers risk more than profit, then the investor is classified as a risk seeker. If an investor is indifferent to risks and profits, the investor is categorized as risk-neutral. This risk-taking will differ for each investor because many factors influence this behavior [2].

Classical financial theory explains that every investor will act rationally and can process the information received by the investor. Rational investors will carry out analysis before carrying out investment activities, including when carrying out risk-taking behavior. The analysis carried out includes studying financial reports and information, as well as evaluating business performance. The goal is for the investment to provide optimal benefits. An investor who is too confident will have the perception that the decisions or actions they take are less risky [2].

Psychological bias is also an important factor in risk-taking. Psychological bias occurs because the information contained in the capital market is complex. In heuristic theory, excessive information can cause someone to make bad decisions. This heuristic process will cause behavioral biases, one of which is overconfidence. The heuristic process itself is a condition where someone makes decisions with the influence of past performance so that we are faced with making decisions in uncertainty and are required to make decisions quickly so they will use their past performance to predict future decisions [3].

Millennial investors show high self-confidence and a greater tendency to participate in the stock market. This causes them to trade more frequently and more diversely. Millennial investors, as a generation that is very close to technology, are sometimes overwhelmed by the amount of information available along with advances in information and the internet, causing them to experience overconfidence. Someone who is overconfident unconsciously increases prediction errors and increases risk-taking. Investors feel confident about getting large profits in a short time but tend to forget the negative impacts of these decisions [4].

Investment is expenditure on goods that are not currently consumed, where, based on the period, investment is divided into three: short-term, medium-term, and long-term. Investment is a commitment of a certain amount of funds in a period to obtain expected income in the future as a unit of compensation [5].

Behavioral finance is a theory that explains several financial phenomena that cannot be understood using models due to the irrationality of agents [6]. Investment decisions are one of the functions of financial management concerning the allocation of funds, both sourced from individuals, in various forms of investment decisions to obtain profits greater than the cost of funds in the future [7].

Risk-taking behavior is a variety of activities that can lead someone to something new or dangerous enough to cause anxiety in most people. Another opinion says risk-taking behavior is how individuals behave in risky situations with high uncertainty and the possibility of loss [8]. Herding behavior is one approach used to determine investor behavior. Herding behavior is influenced by psychological factors that lead investors to take less logical actions, especially during a crisis in the capital market [9].

Overconfidence is a factor related to excessive self-confidence in making transactions on the stock exchange [10]. Mental Accounting is an economic behavior where a

person classifies financial income and output based on items, as in the accounting system [11]. Loss aversion is a behavioral finance tendency regarding the influence of psychology on the behavior of investors or financial practitioners [12]. Status quo bias is a condition where an investor maintains their current or past investment decisions in disproportionate circumstances and still does nothing in the event of an ongoing possibility. Investors with status quo bias tend to feel comfortable with their decisions regardless of the circumstances. Actual market, thereby unknowingly maintaining a portfolio with inappropriate risk characteristics [13].

According to the generational grouping in The Millennial Generation Research Review conducted by the National Chamber Foundation, millennials were born between 1980 and 1999 [14].

2 Methods

This research uses an exploratory survey method, a research method that uses a population. The data used is a population sample so that descriptions and relationships between variables are found. This method is limited to a sample survey, which aims to test the hypothesis formulated using a questionnaire containing questions about the variables studied.

3 Results and Discussion

3.1 Results

Investors do not always behave rationally and do not deviate; they can be modeled quantitatively [15], [16]. The evidence identified concerning behavior-based research that tries to reveal the decision-making process in the corridors of psychology shows that humans are rational creatures who prioritize aspects of rationality. However, the processes leading to these aspects can vary [15], [16].

Many human errors in the decision-making process are not random or depend on the individual, as humans make errors systematically and specifically regarding the judgments made [7]. Investors will get share prices by observing and following the actions of other investors because not all participants in the market get complete information [9]. An investor with higher herding behavior will often follow other investors or a larger group of investors in making investment decisions [9].

Herding has a significant positive effect on investment decisions. Herding behavior is irrational because investors base their investment decisions not on looking at the economic fundamentals of a risky asset but on the actions of other investors in the same situation or following market consensus [9].

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Mental Accounting will ultimately influence individuals in making investment decisions, and mental Accounting can be used as a self-control device, namely preventing the use of funds for consumptive purposes or overspending because the funds have been grouped into certain accounts such as savings and investments so that the funds are not easy to use. for other purposes [11].

3.2 Discussion

Investment is a function of income and interest rates. An increase in income will encourage greater investment, whereas a higher interest rate will reduce interest in investing as it will be more expensive than borrowing money [5], [17]. How people behave in arranging their finances; apart from that, emotions and cognitive biases will influence financial, corporate, and financial market decision-making.

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The investment decision process is a continuous decision process (going process), which includes five stages: determining investment objectives, determining investment policy, portfolio strategy selection, asset selection, and portfolio formation, as well as measuring and evaluating portfolio performance.

4 Conclusion

In general, two assumptions apply to a person's investment decision-making behavior, namely rational and irrational. Rational behavior is carried out based on future predictions based on analysis of the information obtained, while irrational behavior tends to be carried out based on psychological factors.

Investor strategies today are no longer just fundamental analysis and technical analysis. Investors tend to be irrational in their investment behavior, which is the opposite. Many millennial investors do not have scientific considerations when investing in shares. Decisions are taken based on feelings, rumors that are developing, following what investors are doing or developing, or following what large investors or securities are doing, and so on.

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