

Exploring the Factors Influencing Decision-Making in Stock Investments in Indonesia

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Abstrak

Penelitian ini bertujuan untuk menggali faktor-faktor yang mempengaruhi pengambilan keputusan dalam investasi saham di Indonesia. Motivasi di balik eksplorasi ini adalah isu umum bahwa investor baru sering kali membuat keputusan investasi yang tidak optimal. Untuk mengatasi masalah ini, metodologi penelitian kami adalah penelitian kualitatif yang melibatkan wawancara dengan lima ahli yang secara aktif terlibat dalam pasar saham Indonesia. Keahlian mereka memberikan kredibilitas yang tinggi dan memastikan pemahaman terkini tentang kondisi pasar saham yang bergejolak. Sebagai hasil dari investigasi kami, kami mengidentifikasi faktor-faktor yang paling berpengaruh terhadap pengambilan keputusan dalam investasi saham adalah hasil investasi dan keamanan saham. Temuan kami mengungkapkan bahwa di antara faktor-faktor ini, pengembalian investasi dan keamanan saham muncul sebagai pengaruh paling signifikan dalam proses pengambilan keputusan. Para investor, baik pemula maupun berpengalaman, memprioritaskan aspek-aspek ini ketika menavigasi medan pasar keuangan yang kompleks. Sebagai kesimpulan, faktor-faktor utama seperti pengembalian investasi, keterlibatan risiko, periode jatuh tempo, manfaat pajak, keamanan, volatilitas, likuiditas, dan tingkat inflasi diidentifikasi sebagai pertimbangan penting dalam membuat keputusan investasi yang tepat.

Kata Kunci: Investment; Indonesian stock market; Investment decision-making; Stocks

Abstract

This research has objective: to delve into the factors that impact decision-making in stock investments in Indonesia. The motivation behind this exploration is the prevalent issue of new investors frequently making suboptimal investment decisions. To address this concern, our research methodology is qualitative research involved conducting interviews with five experts actively engaged in the Indonesian stock market. Their expertise lends high credibility and ensures an up-to-date understanding of the volatile stock market conditions. As a result of our investigation, we identified the most influential factors affecting decision-making in stock investments as the return on investment and the safety of stocks. Our findings reveal that among these factors, return on investment and the safety of the stock emerged as the most significant influencers in the decision-making process. Investors, whether novice or seasoned, prioritize these aspects when navigating the complex terrain of financial markets. In conclusion, Key factors such as return on investment, risk involvement, maturity period, tax benefits, safety, volatility, liquidity, and inflation rate were identified as crucial considerations in making informed investment decisions.

Keywords: Referral system, Health Department of North Sulawesi Province, SWOT analysis, IFAS, EFAS

INTRODUCTION

An investment is an asset or item acquired with the goal of generating income or appreciation (Bakar, 2023). Appreciation refers to an increase in the value of an asset over time. When an individual purchases a good as an investment, the intent is not to consume the good but rather to use it in the future to create wealth. Investments commonly come in

the form of bonds, stocks, or real estate properties (Hayes, 2024) – this paper specifically discusses investments in stocks. In the 21st century, investing in stocks has become very common in society. In the New York Stock Exchange, only 6.5 million Americans owned stocks in 1952, but by 2007, more than four billion shares were traded (Anderson, 2021). However, the increase in investments in stocks has exposed more people to poor decision-making in investments. As Susannah Streeter of the retail investment platform Hargreaves Lansdown shared, “It’s always encouraging to see younger investors enter the market and gain valuable experience. But there is a concern that the collision between social media influencers, and the ease of use with which many people can use trading apps, is causing newbie investors to take short-term speculative decisions, rather than linking their investments to a long-term plan (Kale, 2021).

According to popular estimates, as much as 90% of people lose money in stock markets, including both new and seasoned investors (Rajput, Gulammustufa, Vidani, 2024). One example of this is Noor, a young designer who was intrigued by the gains of the trading market. The November 2020 US presidential election was the start of her investment journey, where she managed to win over £18,000 quickly in a span of weeks. This superficial success brought her into a loop of investment addiction where she had to constantly check her phone. Nevertheless, it rapidly backfired when the market crashed, losing over £22,000. Noor was not an experienced investor, thus, she lacked the knowledge on investment; rather, she purchased stocks based on internet hype (Chettiar, 2022). Another case is Bill Hwang. Since 2013, Bill Hwang earned more than \$200 million from stocks. However, in two days, his \$20 billion net worth was gone. Because he was using borrowed money and leveraging up his bets fivefold, Hwang’s collapse left a trail of destruction. (Cadman & Wells, 2021); (Morgan, 2021) Banks dumped his holdings, savaging stock prices. Credit Suisse Group AG, one of Hwang’s lenders, lost \$4.7 billion (Nakamichi, Chan, & Natarajan, 2021); several top executives, including the head of investment banking, have been forced out. Nomura Holdings Inc. (Bloomberg.com, 2023) faces a loss of about \$2 billion.” (Schatzker, Natarajan, & Burton, 2022). These case studies highlight the prevalent issue of new and young investors making poor decisions; as a result, this research paper aims to explore the factors influencing decision-making in investments to act as a reference for new investors in their decision-making process for smart investments. Factors influencing decision-making in investments include the return on investment, return frequency, risk involvement, maturity period or investment tenure, tax benefit, safety, volatility, liquidity, and inflation rate of a stock. (Cuandra & Tan, 2021) Regarding the return on investment, investors prioritize positive returns to ensure that they invest in a profitable asset. There are four main types of return frequencies: monthly, quarterly, semi-annual, and annual returns – the number of returns an investor receives is crucial based on their financial management, and thus should be considered when investing in a stock. The risk involved in investing in a company is a significant factor considered when investing, thus every investment requires a risk analysis which looks into the potential risks and sees how they can be avoided (Hayes, 2024).

The maturity period and payback period determine how long it takes to ensure there is no loss in the investment and only profit is made (Mukhopadhyay, 2023); this influences investor decisions as investors might look for stocks that have a quicker payback period depending on their financial situation and reduce the risk of loss. The tax benefit or liability of a stock is another influential factor, “investors tend to avoid investment opportunities that are taxed heavily (Choiriyah et al., 2020). The safety of a stock analyzed through a company’s regulatory framework and the transparency of its financial disclosure are also significant when deciding whether or not to invest in a stock. An investor would want to invest in a company that they consider safe Government supported companies are often

considered secure. According to Haugen, Talmor, & Torous, (1991) The volatility and market fluctuations affiliated with the stock cannot be overlooked as they impact investment returns. The liquidity of a stock is essential for investors. Depending on their financial management, they might want to be able to withdraw their investments quickly for emergency funds. Specific points investors look for include withdrawal restrictions and penalties (Kagan, 2024). The inflation rate of the economy also affects an investor's decision as they would look for investments where the returns are more than the nation's inflation rate. Specifically in Indonesia, the most prevalent factors, highlighted by a research paper published by Hidayat & Hartono (2022) the affecting investment decisions are financial literacy, (PICEEBA, 2018) then according to, (Budiarto 2017) regret aversion bias, additionally Mutawally & Haryono (2019) risk tolerance. An individual's financial literacy leads to rational and favorable investment decisions as they are able to manage their financial resources more effectively. Herding alludes to the idea of imitating someone's past behaviors and lastly, financial risk tolerance is how much an investor is able to tolerate risk; the higher the financial risk tolerance the higher the risk in investment decisions will be taken (Budiarto & Susanti, 2017). A review of secondary sources Sapkota, & Chalise, (2023) proven that the reputation and public perception of the firm factor in an investor's decision to invest. An additional factor influencing investment decisions lies in word of mouth, where brokers, family or friends may recommend different stocks based on their knowledge. Due to the prevalent issue of investors making poor decisions and secondary resources portraying a vast ray of factors, this research aims to investigate the main factors that influence investor's decisions. In particular, to help new investors understand the basic characteristics to consider before investing.

METHOD

This study employs a qualitative research methodology, drawing inspiration from Denzin, Lincoln, & Giardina (2011) conceptualization, specifically aimed at unraveling the decision-making processes of experts in stock investment. Qualitative research, known for its interpretive and naturalistic approach, involves an exploration of phenomena within their authentic contexts. Researchers aim to comprehend and interpret these occurrences by unraveling the meanings attributed to them by individuals. To align with our research objective, we conducted open-ended interviews as the primary method of data collection. Five professionals and experts specializing in the Indonesian stock market actively participated in these interviews, offering valuable insights into the intricate decision-making strategies they employ for their stock investments.

RESULT AND DISCUSION

Decision-making strategies for stock investments.

Our main form of primary data comes from the open-ended interview with five experts, all of whom are heavily involved in the Indonesian stock market: Christian Suatan, David Alusinsing, Donny Leslie, Lesly Lolutung, and Rosani Bahtiar.

Christian Suatan – Senior Relationship Manager at HSBC Bank

Christian Suatan, a Senior Relationship Manager at HSBC Bank, has a decade of experience in the realm of stock investment. His most significant achievement has been the realization of passive income through his investment endeavours. His approach to stock selection revolves around meticulous considerations, with market timing being a pivotal

factor. For Christian Suatan, discerning between a good and bad stock hinges on a thorough analysis of the financial report. Among the factors influencing stock investments, Christian Suatan prioritizes risk involvement as the most crucial. He emphasizes the need for investors to carefully evaluate and balance risks against potential rewards. Following closely, he ranks return on investment as the second most important aspect. Additionally, liquidity holds the third position in his considerations, given its significance in gauging the ease with which investors can retrieve their funds when needed.

As of November 2023, Christian Suatan has identified three promising investment opportunities. His choices include BBCA, one of Indonesia's largest banks with a robust reputation for weathering financial crises as it remained profitable and established. Next is TLKM, which he perceives as a secure investment within the defensive sector, particularly due to its promising future in 5G technology development. Lastly, he sees potential in NVIDIA, recognizing its leadership in the global trend of advancing AI technology. Reflecting on his investment journey, Christian Suatan expresses regret about not starting earlier. His advice to beginners underscores the importance of learning the process, emphasizing that experience remains an unparalleled teacher. He firmly believes that there are no shortcuts to reaping valuable rewards in the world of investment (C. Suatan, 2023).

David Alusinsing — Head of Corporate Finance at Surya Fajar Sekuritas and Associate Vice President for Investment Banking at PT Valbury Asia

David Alusinsinghas has more than 20 years of experience in stock investing, with his experience starting from his work at PT Valbury Asia Securities as an associate Vice President, PT Danatama Makmur Sekuritas as a Senior Associate and PT Surya Fajar Sekuritas as a Head of Corporate of Finance; he sees stock investing as appealing and interesting. His journey started without a proper purpose, he purely saw investments as a source of making profit, however, it soon became clear to him that apart from profit, investments were a way to secure his long-term goals. He believes that his greatest gains happen when receiving the expected calculated capital gains from a purchased stock.

David's experience has taught him that stock investments are dependent on the company's fundamentals. Hence, prior to decision-making, he will analyse a company's ratios, including Price Earning Ratio (PER) and Earning Per Share (EPS), as well as other fundamentals seen in financial reports which are considered depending on the market's liquidity. Among the factors influencing stock investments, David regards investment returns, return frequency and liquidity as his precedence. Currently, David would recommend investing in United Tractor, Indo Tambang Megah Raya and Bank Central Asia. He concludes the mining and heavy equipment industry to be at a top position for the last 2 years, likewise, the banking industry, especially BCA, has fundamentals and also provides stable returns. David warns beginner investors to not repeat their mistakes: investing in overpriced stocks (also known as 'saham gorengan') which resulted in the unlisting or suspension of the company's shares. One tip David wishes to share with beginner investors is to identify well shares with good fundamentals (D. Alusinsing, 2023).

Donny Leslie – Business Branch Manager at the Darmo Park Branch

Donny Leslie, the Business Branch Manager at the Darmo Park Branch, embarked on his investment journey in 2020 and has since realized profits. His primary motivation for venturing into stock investments was to diversify his portfolio, driven by a particular interest in the dividends offered by certain stock companies. Donny Leslie's investment decisions are guided by a preference for blue-chip stocks characterized by strong fundamentals.

Through his experience, Donny Leslie has identified the key factor that works best for him: prioritizing the liquidity of a stock. His investment strategy revolves around focusing on blue-chip stocks, known for their high liquidity, a quality that aligns with his goal of obtaining passive income through dividend payouts. This liquidity factor enables him to easily retrieve his profits when needed. As of November 2023, Donny Leslie's top three investment choices centre around the banking sector, specifically BCA, Mandiri, and BNI. These selections likely reflect his confidence in the stability and performance of these major players in the banking industry. For beginner investors, Donny Leslie emphasizes the importance of creating a financial plan as a foundational step. Setting clear financial goals and outlining the steps to achieve them provides a structured approach to navigating the complexities of the investment landscape. This strategic advice underscores the significance of thoughtful planning in achieving long-term financial success (D. Leslie, 2023).

Lesly Lolutung – Equity Sales Traders at Bahana Securities

Lesly Lolutung, a competent investor since 1999, works as an Equity Sales Trader at Bahana Securities. She believes the most important factor when starting to invest is having the proper mindset and goal to drive your investments. For her, she sees investments as a way of long-term saving whilst she increases her assets. Lesly recognises the importance of understanding the company profile, analysing the price of the share in ratio to their earnings, choosing the right securities company and strategic timing when determining her investments. These are some of the factors she strongly believes as significant: investment profitability, return frequency, how often investors receive investment returns, investment period and inflation rates. For her analysis, she uses a company fundamental analysis approach to buy shares with cheap valuations. Currently, if Lesly were to invest in 3 industries, it would be telecommunications, banking and consumer goods; with her reasoning that all of these play an important role in our daily life activities, hence these industries rarely experience crisis. Throughout her 24 years of experience, Lesly discerns her achievements when investing to be during the increase in share price/capital gains, getting dividends as well as the liquidity of shares. Lastly, a tip she wants to share with beginner investors is to always be patient, to choose a good securities company and to study the company deeply. She recommends to use cold cash when investing (L. Lolutung, 2023).

Rosani Bahtiar – Head of Sucor Securities Surabaya branch

Rosani Bahtiar, head of Sucor Securities Surabaya branch, has had 25 years of experience in stock investments. Her achievements are when the value of shares increases, as an increase in share prices would multiply her returns. When investing, Rosani highlights the importance of choosing shares with good fundamentals from good companies with good news published on them. Rosani views financial and technical reports or charts to differentiate a good stock from a bad stock. These are some of the factors Rosani views to play a vital role in decision-making: return on investment, risk involved and security. Return on investment because if you can make high profits, you'll be able to increase your capital. The risk involved is also important to be understood to prevent losses. Security is important because the stock must be monitored by the stock exchange and the Indonesian Financial Services Authority (OJK). Currently, Rosani would invest in BMRI, ISAT, TKIM, and BBKA as she sees their good fundamentals. In her 25 years of experience, Rosani believes her biggest regrets is following her selling of the stock, the price has risen, which means that she has missed out on profits. Lastly, one tip from Rosani

to beginner stock investors is to choose stocks with good fundamentals and to be aware of stock news (R. Bahtiar, 2023)

Discussion

From the sharing of these experts, it is evident that the main factor, influencing decision-making in stocks, is based on an individual's financial goals, thus defining their investment philosophy. Christian Suatan focuses on meticulous analysis and market timing, with a strong emphasis on financial reports. He prioritizes risk involvement as the most crucial factor in stock selection. On the other hand, David Alusinsing emphasizes the importance of company fundamentals, particularly ratios like the Price Earning Ratio (PER) and Earning Per Share (EPS). He regards investment returns, return frequency, and liquidity as top priorities. Donny Leslie prefers blue-chip stocks with strong fundamentals, especially signifying liquidity for passive income through dividends. Lesly Lolutung advocates for a proper mindset and goal-driven approach, employing fundamental analysis to identify shares with cheap valuations. She highlights the importance of investment profitability, return frequency, and strategic timing. Lastly, Rosani Bahtiar emphasizes the importance of good fundamentals from reputable companies, using financial and technical reports to differentiate between good and bad stocks. Considers return on investment, risk, and security as vital factors.

CONCLUSION

In conclusion, Key factors such as return on investment, risk involvement, maturity period, tax benefits, safety, volatility, liquidity, and inflation rate were identified as crucial considerations in making informed investment decisions. And the most significant factors influencing the decision-making process of stock investments are the returns on investment and the safety of the stock. In the specific context of Indonesia, additional factors like financial literacy, regret aversion bias, herding, and risk tolerance are highlighted, emphasizing the importance of psychological and behavioral aspects in investment choices.

The overarching goal of this research is to contribute to the knowledge base for investors, especially those navigating the complexities of stock investments in Indonesia. By understanding the factors influencing decision-making, investors can make more informed choices, mitigate risks, and align their investment strategies with long-term financial goals. In a world where stock investments are both a potential source of wealth and a realm of financial challenges, This research provides valuable suggestions for individuals seeking to navigate the path of investment.

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