RESEARCH ARTICLE

# INVESTMENT DECISION MAKING METHODS ON STOCK MARKET

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***Abstract*****—**The objective of this library research is to analysis decision making methods on stock. There are a lot methods to making decision on stock. Sometimes investor need information to make decision making, sometimes the investor do not need information they just used intuitive. Others used according to their behaviour.

Making decision on stock price need feeling or calculation time to sell or buy. If investor can sell with right time may the investor will get gain.Making the right and right decisions on stock investments in the capital market requires the ability to do careful analysis. The ability to read the market and the factors that influence the market are needed to make decisions on the right stock investment in the market. Investor decisions are inseparable from financial behavior. behavior is now a worldwide phenomenon today. Prudent decision on stock market needs a good skill to analysis when buy or sales stock. Financial

The right decisions on stock investments in the capital market requires the ability to do careful analysis. Financial behavior is now a worldwide phenomenon today. Prudent decision on stock market need a good skill to analysis when buy or sales stock.

Decision making by irrational investors is increasing. But they need to be accompanied by reliable fiduciaries. The increasing number of social media users and peer groups that can produce quality information can increase investor confidence to make decisions that do not make them disappointed.

***Keywords:*** Decision making, prudent, fiduciaries, financial behaviour**.**

**JEL Classifications: M2, M4, O3**

## I. INTRODUCTION

A lot theory of investment used to making decision on stock. Regret Theory is a theory stating that many investors consider the possibility that they will regret their investment decisions. The spectra of regret may have different effects on different persons. Prospect theorists argue that the valuation of profits and losses is different from each other. The results of the assessment tend to be perceived benefits rather than perceived losses. For that reason, one is faced with the same two choices that are presented differently (one in terms of possible profits and one in terms of possible losses) that tends to choose those that show profits, even if two choices produce the same final result.

The most comprehensive investment theory in the world is Behavioral finance, compared to traditional financial theory. Behavioral finance discusses psychological influences, biases, stereotypes and cognitive errors, and cognitive errors that are claimed to be the most comprehensive investment theories compared to traditional financial models, studying psychological influences, biases, stereotypes and cognitive and emotional errors in the investment decision making process.

Ian Harvey, (2018), suggests that there are several decision-making methods used, including Informed, Uninformed, and Intuitive. Methods of Information is related to financial statements and other figures that can be analyzed such as technical analysis and fundamental analysis. Methods of Uniformed is not related to the political or state situation, as well as prices and exchange rates of money and others. While Intuitive is related to the current world phenomena such as financial behavior .

Strategies that are used to help investors to decide to sell shares include: Valuation-Sell levels, Opportunity-cost Sell, Deferred-Fundamentals Sell, Down-from-Cost and Up-From-Cost sell, and Target-Price sell. The core of the strategy that is every investment must have experienced a loss and we must accept it as a learning process that we don't always find luck. Investor success of ten relates to the ability to sell stocks at the right time.

Barayandema, Jonas, Barayandema, (2018), The most influential determinants of investment decision making are economics with the highest numbers, then psychological factors, then social factors and the last ranking are demographic factors. The five most influential factors are two economic factors (estimated company income and ownership structure) and three psychological factors (irrational thinking, fast-rich and cognitive bias). The five factors that have the least influence are four demographic factors (income, education, age and sex) and one psychological factor (overreaction). Therefore, it is recommended that the Rwanda Stock Exchange authorities have to reshape the stock exchange by focusing on influential determinants of investment decisions with more emphasis on economic and psychological factors and less emphasis on social and demographic.

Saleema,Sana, Muhammad Usmanb, Muhammad Anwar ul Haqc, Mirza Ashfaq Ahmedc , (2018), It is found that irrational behaviours arise in searching information and evaluating alternatives. Age and experience have negative and significant relationship with herding and illusion of control biases.

Anastasios Konstantinidis, Konstantinos Spinthiropoulos, Ioannis Mallidis, (2018),Mengenali dampak psikologi pada proses investasi pada dasarnya berarti menyetujui teori perilaku. Asalkan asumsi ini dibuat oleh penasihat investasi berpengetahuan, berpengalaman dan berpengaruh, signifikansi teori perilaku ditingkatkan dalam menafsirkan perilaku investasi irasional dan, secara keseluruhan, proses investasi.

Syed Zulfiqar Ali Shah, Maqsood Ahmad, Faisal Mahmood, (2018), The findings of his research are that this study opens the eyes of the empirical view into the heuristic bias, investment decisions and market efficiency. The results show that heuristic bias (overconfidence, representativeness, availability and restraint) has a real negative impact on investment decisions made by individual investors who actively trade on the Pakistan Stock Exchange and on perceived market efficiency.

## II. RESEARCH METHOD

This study uses library research methodology. Research related to decision making on shares is collected for later analysis. Research results taken from international journals written and published approximately one year ago are 2018 and 2017. The selected journal is written by a professor or doctor at least a candidate doctor. The main concern of this part of the research work is the abstract and conclusions that contain the things found. Then a thorough analysis of the results of their research related to stock decision making was carried out.

## III. DISCUSSION

### 3.1 *OBSTACLES MAKING DECISION ON STOCK*

**Obstacle Making Decision On Stock**

The decision to sell or buy shares involves time. To determine when to buy or sell shares is a difficult task. This decision is very difficult because this cannot be separated from investor behavior. There are rational and rational investors. There is also a decision to sell or buy shares based on investor emotions. The form of emotion that affects selling or buying stocks is greed and fear of regret. Investors who are able to manage these emotions are the key to being a successful trader (behavioral finance). Behavioral finance or behavior that is associated with stock-related decision making is a revolution in financial theory.Antony, Anu, Ansted Iype Joseph, (2017),Based on the priority factor, it was found that the investors of Kerala were highly influenced with overconfidence bias and regret aversion. Herd behaviour had less effect on their decision-making.

Joseph Nguyen, (2018), The consequence making decision on stock is create risks. In international stock market there are biggest risks that international investor face : Higher transaction cost (Likely the biggest barrier to investing in international markets), Currency volatility (When investing directly in a foreign market (and not through ADRs), you have to exchange your domestic currency (USD for U.S. investors) into a foreign currency at the current exchange rate in order to purchase the foreign stock.), Liquidity Risks (Liquidity risk is the risk of not being able to sell your stock quickly enough once a sell order is entered).

One of the investment theory is Behavioral finance, compared to traditional financial theory more deep analysis. Behavioral finance discusses psychological influences, biases, stereotypes and cognitive errors, and cognitive errors that are claimed to be the most comprehensive investment theories compared to traditional financial models, studying psychological influences, biases, stereotypes and cognitive and emotional errors in the investment decision making process. But in fact traditional financial theory is still used, this can be seen from the research of Ashok Kumar Panigrahi, Raksha Sharma, Himani Dhande, (2018), not a few people use fundamental analysis for selection and technical analysis to make buying and selling decisions. This is related to examining the intrinsic value of a company to find out whether the current market price is fair or not, whether the price is too expensive or below.

**Making Decision on Stock Go To International Market**

Decision making on the right stock to get high yields is by doing in order to diversify the portfolio so investing in international stocks is more prudent. But for investors with average capabilities, conducting international market studies and analysis becomes a difficult task that can be met with many challenges. Sufficient knowledge of the main risks and obstacles faced in the international market, investors can minimize risk. Investors should know more than three constraints such as Higher transactions, Currency volatility, Liquidity Risks to invest in international stock markets, knowing these three things mean investors have a strong footing.

**Investor Need Education and Training to Make Good Decision On Stock.**

Imran Umer Chhapra & Muhammad Kashif & Raja Rehan & Ashow Bai, (2018), independent variables include overconfidence, over thinking, herding, cognitive bias, and hindsight effects have a positive and significant influence on investment decisions. Changes to investment decisions are due to behavioral bias. These results will help financial advisors to provide better advice to their clients. Efforts to reduce this bias can be done through investor education and training. The contribution of the research and the Originality of this study is that financial decision making is inseparable from investment decisions on shares dominated by financial behavior and this is a phenomenon that is developing throughout the world. Previous researchers have found that Asian investors are more susceptible to behavioral bias compared to western investors. Therefore, in order to develop trust in the market, and maintain investment stability, this research provides an effective basis to overcome the lack of investor discipline and to safeguard the market from anomalous behavior of investors, especially in Pakistan.Saleema,Sana, Muhammad Usmanb, Muhammad Anwar ul Haqc, Mirza Ashfaq Ahmedc , (2018), It is found that irrational behaviours arise in searching information and evaluating alternatives. Age and experience have negative and significant relationship with herding and illusion of control biases.

Meghna Dangi, Bindya Kohli, (2018),The result is the research came up with archetypes of investors based on heuristics and biases they exhibited. The archetypes were thus named by us as : The Stereotypical Investor, The Nervous Investor, The Imitator, The Naïve Investor, The Cautious Investor, and The Passive Investor.

Sitinjak, Elisabeth Lucky Maretha, Imam Ghozali, (2012), There is an effect of disposition before and after the treatment of accounting information, the tendency to release the winner's stock faster than the loser stock exists. The aspects of cognition tend to be risk takers and overconfidence after the accounting information for treatment is given. Interaction between the effects of disposition, aspects of cognition (level of risk and level of trust), and accounting information exists. This interaction gives rise to neuroselling behavior in individual investors.

Anastasios Konstantinidis, Konstantinos Spinthiropoulos, Ioannis Mallidis, (2018),Mengenali dampak psikologi pada proses investasi pada dasarnya berarti menyetujui teori perilaku. Asalkan asumsi ini dibuat oleh penasihat investasi berpengetahuan, berpengalaman dan berpengaruh, signifikansi teori perilaku ditingkatkan dalam menafsirkan perilaku investasi irasional dan, secara keseluruhan, proses investasi.

**Social Media and social Peer Controls Increasing Intention to Participate in the National and International Stock Markets Need to be done**

Boda, Jhansi Rani, G., Sunitha, (2018), This study aims to determine the relationship between investment decision making processes and investor behavior biases, as well as studying the impact of demographics on retail investors' investment decision making in the context of the potential for developing the stock market to develop the economy.The research finding is the structural path model in the study closely fits the sample data, indicating investors follow the Heuristics, Prospect factors and Herding factors in investment decisions to a significant level. Further research is the impact of the internet, social media and information quality in social peer networks that influence the control behavior of retail investors and their respective intentions to participate in the stock market. The results of the study also point to the incidence of cross-portfolio variations that require further analysis of changes in the financial environment in India. Cross-country comparisons can be included to emphasize and interpret the differences that guide decision-making across retail investors from a national perspective. Cross product comparisons can be analyzed as part of further analysis. Research or studies on the impact of the internet and social media and the quality of information in social peer controls that are concerned with the intention to participate in the national and international stock markets need to be done.

The most comprehensive investment theory in the world is Behavioral finance, compared to traditional financial theory. Behavioral finance discusses psychological influences, biases, stereotypes and cognitive errors, and cognitive errors that are claimed to be the most comprehensive investment theories compared to traditional financial models, studying psychological influences, biases, stereotypes and cognitive and emotional errors in the investment decision making process.

**Making Prudent Decision On Stock Need Fiduciary**

Recognizing the impact of psychology on the investment process basically means approving behavioral theory. Provided that this assumption is made by a knowledgeable, experienced and influential investment advisor, the significance of behavioral theory is enhanced in interpreting irrational investment behavior and, overall, the investment process.

l Zulfiqar Ali Shah, Maqsood Ahmad, Faisal Mahmood, (2018), The findings of his research are that this study opens the eyes of the empirical view into the heuristicbias, investment decisions and market efficiency. The results show that heuristic bias (overconfidence, representativeness, availability and restraint) has a real negative impact on investment decisions made by individual investors who actively trade on the Pakistan Stock Exchange and on perceived market efficiency.

According to the opinion of the researcher, the dominant factor that determines the decision making on stock investment is the economy then followed by psychology, and social factors and finally the demographic. Another opinion states that irrational behavior is likely to increase to reach and evaluate alternative investment decision-making on stocks. Another opinion states that Agreeing on behavioral theory but accompanied by fiduciaries who are knowledgeable, experienced and guided by Boda, Jhansi Rani, G.Sunitha, (2018),

James Fishman, (2014). Make conclusions in writing "What's wrong: Waqf Fund Management and Wise Endowment Investment Policy that universities don't learn much from the financial crisis and invest more in assets that are illiquid and not transparent than before the financial crisis. The recommendations presented were the establishment of a board-level risk management committee (fiduaciaries) to evaluate the endowment investment policy. Thus not all Institutions including higher education institutions are able to manage funds, especially endowments.

Boda, Jhansi Rani, G.Sunitha, (2018),Further areas of research could be the impact of internet, social media and information quality in social peer They say that another thing that is unknown is the role of social media quality information in peer networks will encourage demographic factors to be dominant in the presence of social media and peer networks. .

## IV. CONCLUSION

Making the accurately and right decisions on stock investments in the capital market requires the ability to do careful analysis. The ability to read the market and the factors that influence the market are needed to make decisions on the right stock investment in the market. Investor decisions are inseparable from financial behavior. Financial behavior is now a worldwide phenomenon today. Prudent decision on stock market need a good skill to analysis when buy or sales stock. This current time behavior be phenomena in the world to making decision.The decision to invest in shares is dominated by economic factors or factors of a country's economic growth, then followed by psychology and social factors. Decision making by irrational investors is increasing. But they need to be accompanied by reliable fiduciaries. The increasing number of social media users and peer groups that can produce quality information can increase investor confidence to make decisions that do not make them disappointed.

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