A SYSTEMATIC REVIEW OF PSYCHOLOGICAL BIASES IN GEN Z STOCK INVESTMENT DECISIONS

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Abstract

Investors tend to make irrational decisions due to psychological considerations. This study aims to analyze the psychological bias among Generation Z toward Islamic stock investment. A review of 73 studies published between 2017 and 2023 was conducted using the Publish or Perish tool. The results show that, in general, the most studied biases are overconfidence bias (84% significance), herding bias (65% significance), and representativeness bias (56% significance). Furthermore, the age of the respondents shows that the most frequently studied biases among young investors are overconfidence bias (83% significance), followed by regret aversion bias (60% significance), and lastly is herding bias (50% significance). Meanwhile, the most studied biases among student investors are representativeness bias (80% significance), overconfidence bias (75% significance), and herding bias (63% significance). The findings of this study are expected to contribute to further research on stock investment decision biases.

Keywords: Psychological Bias, Investor, Sharia

INTRODUCTION

Investors often face information overload from diverse news sources (Jariyah et al., 2023; Novitasari, 2020). This can lead to suboptimal decision-making based on incomplete information (Bahri et al., 2024). Traditional investment theory struggles to explain irrational investor behavior (Asep & Djajanti, 2023). Consequently, the field of behavioral finance has emerged to bridge the gap between finance, sociology, and psychology, enriching our understanding of investor decision-making.

A deeper study of biased behavior is needed to understand irrational investor behavior (Hartini & Asnaini, 2024). Bias can be characterized as a deviation from decision-making that is caused by cognitive errors (Pranata, 2023). (Wisna, 2022) Divides biased behavior in investing into two categories: cognitive bias and emotional prejudice. Emotional bias is the tendency for a person to make decisions that are influenced by feelings or emotions, whereas cognitive bias is the tendency of a person to make judgments based on their own views (Budiman et al., 2024; Dzakiyah et al., 2020; Mardiaini et al., 2023).

Based on a review of 73 relevant journals, this study aims to identify the most frequently studied and influential psychological biases impacting stock investment decisions in Indonesia. While numerous studies have investigated cognitive and emotional biases in investment decision-making, there remains a gap in understanding the specific biases that exert the greatest influence on Indonesian investors. This literature review reveals that herding, overconfidence, and representativeness biases are among the most commonly researched biases in this context.

RESEARCH METHOD

This research employs a systematic literature review, analyzing 73 journals published between 2017 and 2023. These journals, sourced from Google Scholar using the Publish or Perish tool and filtered by the keyword "bias influence on investment decisions," include 51 Indonesian-language and 22 English-language publications focused on Indonesia. A literature review involves a critical analysis of existing research within a specific academic field (Hafni Sahir, 2022). This research synthesizes the conclusions and abstracts of 73 relevant journals. The extracted data was categorized into three groups: young investors, student investors, and general investors. Subsequently, the identified biases were classified as significant or insignificant in influencing investment decision-making.

RESULTS AND DISCUSSION

Table 1.
Criteria Used in Literature Research

	Criteria	Total
Year of Publication		
	2017	3
	2018	5
	2019	4
	2020	5
	2021	18
	2022	15
	2023	23
Publication Type	Journal	71
	Proceding	2
Language	Indonesia	57
	Inggris	16
Respondent	Student Investor	26
	Young Investor	13
	General Investor	44
Research Location	Bali	3
	DI Yogyakarta	4
	DKI Jakarta	6
	West Java	6
	Central Java	8
	East Java	18
	Riau	5
	Indonesia	17
	South Sulawesi	2
	West Sumatera	3
	South Sumatera	1

The results show that, in general, the most frequently studied biases are overconfidence bias (84% significance), herding bias (65% significance), and representativeness bias (56% significance). If divided by the age of the respondents, the most frequently studied biases among young investors are overconfidence bias (83% significance), regret aversion bias (60% significance), and herding bias (50% significance). Among student investors, the most frequently studied biases are representativeness bias (80% significance), overconfidence bias (75% significance), and herding bias (63% significance).

Table 2.
The Most Common Types of Bias in Research

Bias	Total	Sig	Sig%	No Sig	No Sig%
Ambiguity aversion bias	1	1	100%	0	0%
Anchoring bias Availability	9	8	100%	0	0%
Availability bias	9	3	33%	6	67%
Cognitive bias	5	2	40%	3	60%
Confirmation bias	4	4	100%	0	0%
Disposition Effect	6	4	100%	0	0%
Familiarity Bias	2	1	100%	0	0%
Herding Bias	29	16	65%	8	35%
Illusion of control bias	2	2	100%	0	0%
Loss aversion bias	10	5	56%	3	33%
Mental accounting	5	3	60%	2	40%
Optimism bias	4	4	100%	0	0%
Overconfidence bias	33	23	84%	5	16%
Regret Aversion bias	9	7	78%	2	22%
Representativeness	19	10	56%	8	44%
Self-attribution bias	3	2	67%	1	33%
Status Quo Bias	3	3	100%	0	0%

Source: data processing from Google Scholar-indexed articles

Student investors, often belonging to Generation Z, are individuals currently enrolled in a university. A review of 50 journals on investment decision biases revealed that student investors are a frequent subject of study, appearing in 26 of these journals. As novice investors, students often encounter various challenges when entering the investment world. Overconfidence bias, the tendency to overestimate one's abilities, is the most prevalent bias among student investors, appearing in 18 of the 26 journals (75% significance). This is likely due to their relative inexperience and the resulting overconfidence in their decision-making abilities.

Table 3.
The Most Prevalent Biases in Student Respondents

Bias	Total	Sig	Sig%	No Sig	No Sig%
Ambiguity aversion bias	1	1	100%	0	0%
Anchoring bias Availability	2	2	100%	0	0%
Availability bias	1	0	0%	1	100%
Cognitive bias	3	0	0%	3	100%
Confirmation bias	3	3	100%	0	0%
Disposition Effect	2	0	0%	2	100%
Familiarity Bias	1	1	100%	0	0%
Herding Bias	8	5	63%	3	38%
Illusion of control bias	2	2	100%	0	0%
Loss aversion bias	2	1	50%	1	50%
Mental accounting	3	3	100%	0	0%
Optimism bias	1	1	100%	0	0%
Overconfidence bias	12	9	75%	3	25%
Regret Aversion bias	4	4	100%	0	0%
Representativeness	5	4	80%	1	20%
Self attribution bias	2	1	50%	1	50%
Status Quo Bias	1	1	100%	0	0%

Young investors, typically aged 30 or called the millennial generation, are often susceptible to herding bias. According to a review of 73 relevant journals, herding bias was the most frequently studied bias, with 13 papers highlighting its 50% significance. This bias manifests as a tendency to follow the investment decisions of peers or influencers, rather than conducting independent analysis.

Table 4.
The Kinds of Biases That Appear Most in Young Respondents

Bias	Total	Sig	Sig%	No Sig	No Sig%
Anchoring bias	1	1	100%	0	0%
Availability bias	2	1	50%	1	50%
Disposition Effect	1	1	100%	0	0%
Herding Bias	8	4	50%	4	50%
Loss aversion bias	2	1	50%	1	50%
Optimism bias	2	2	100%	0	0%
Overconfidence bias	6	5	83%	1	17%
Representativeness	4	2	50%	2	50%

General investors, a broad category encompassing all stock market investors, were typically classified by age in the 44 analyzed journals. Overconfidence bias emerged as the most frequently studied bias among general investors, with a significance level of 92%.

Table 5.
The Most Common Types of Bias in General Investors

Bias	Total	Sig	Sig%	No Sig	No Sig%
Anchoring bias	5	5	100%	0	0%
Availability bias	6	2	33%	4	67%
Disposition Effect	1	0	0%	0	100%
Herding Bias	7	6	86%	1	14%
Loss aversion bias	5	4	80%	1	20%
Optimism bias	1	1	100%	0	0%
Overconfidence bias	13	12	92%	1	8%
Representativeness	9	4	44%	2	56%

Overconfidence bias, an emotional bias stemming from excessive trust in one's judgment and abilities, often influences investor behavior. This bias arises from perceived success rates and the accuracy of information, leading to inflated self-assurance. A review of 50 journals on investor decision-making revealed that overconfidence bias is the most discussed bias topic, with 31 studies showing it as a significant variable with 84% significance (Table 2). This suggests that overconfidence significantly impacts investment decisions. Consequently, investors may underestimate risks, ignore contrary evidence, and make suboptimal choices, ultimately leading to potentially bigger financial losses.

Herding bias is a term used in behavioral finance to describe the tendency of investors to imitate and follow the actions of other investors. Instead of using their own independent analysis, the majority of investors are guided by their feelings and intuition. Investors who engage in herding behavior tend to be overconfident in their skills and background, and they usually jump to quick conclusions when evaluating choices made by other investors.

Based on the collected data, herding bias, a tendency for investors to mimic the actions of others, was identified as a significant variable in 23 of the 50 reviewed journals (Table 2). This behavior, driven by a lack of confidence in personal analysis, can lead to suboptimal investment decisions.

The practice of basing judgment on how similar an event is to another is known as representativeness bias. Eighteen of the fifty articles examined representativeness bias, highlighting its significance in investment decision-making, with a significance level of 56% (Table 2). This bias often leads investors to rely on historical performance, particularly stock prices, as a primary valuation metric, which may be misleading. Based on the data analyzed, representativeness bias does not appear to have a highly significant impact on investment decision-making.

CONCLUSION

An analysis of 73 research papers published between 2017 and 2023 reveals that overconfidence, herding, and representativeness biases are the most commonly studied psychological factors influencing stock investment decisions. Herding behavior, driven by social pressure and a lack of independent analysis, is prevalent among investors, particularly novices. Overconfidence, stemming from excessive self-belief, can lead to overoptimistic assessments of investment opportunities. Additionally, representativeness bias, a tendency to make judgments based on stereotypes or past experiences, can impact investment choices. The findings of this study provide valuable insights for future research and investment practices.

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