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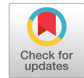
The use of technical analysis, source of information and emotion and its influence on investment decisions



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1. Introduction

Traditional finance assumes that financial agents act rationally by creating predictions about market outcomes and firms behaviors. Using all available information, they make rational choices based on rational economic expectations. These individuals follow the principle of maximization reflected by their acts that underpin self-interest (Jain et al., 2015). This situation keeps the capital markets rational and efficient. As a consequence, the market participants are capable of predicting the trends in securities tradings.

However, this traditional view of finance has its weaknesses since it is not able to explain the questions: why market players do not always act and achieve gains as expected? Why do the markets experience crises? Why are there market players who are just following other individuals? These questions lead scholars in finance developing the concept of behavioral finance and suggest that aspects of psychology and the behaviors of individuals are contributing to decision taking in the field of finance.

Pak and Mahmood (2015) mentioned that financial decision-makers often do not act rationally or logically but tend to take opportunistic decisions because the decision-making process frequently occurs within time and information constraints. Therefore, market players rely on the cognitive abilities that come from individuals, such as internal customs (habits), values and beliefs (value and beliefs), knowledge (knowledge) and the external environmental factors outside of individuals. The involvement of these factors allows the decision-making process to become complicated and complex and does not follow the simple rules of a bounded rational process. Psychological and environmental factors become important instruments that affect the condition and whereabouts of the resources for the decision-making process. The explanation clarifies that rational economic behavior is not always the case in the real world.

Behavioral finance has developed since the early 1980s when academics from economics and engineering found a lack of modern financial theories that explained the black box of financial decision making. Scholars apply behavioral finance as an approach to understand decision-making processes, not as a way of generating instant returns. Observing the investment decision process under behavioral finance is noteworthy since individuals' personal beliefs are relevant in finance. Rational reasoning does not always determine decision making in finance. The framework requires scholars to revisit "*homo economicus*" idea (DeBondt et al., 2010).

This current article explores whether Technical Analysis, Emotion, and the Source of Information on investment decision making in Indonesia. Since the Indonesian capital markets have been rising profoundly in recent years, it is fruitful to discern whether investors' mental frames and behavioral aspects affect investment choices. In 2016, the Jakarta Composite Index (JCI) grew outstandingly beating major indices in Asia such as South Korea's Kospi and Japan's Nikkei (www.gbgindonesia.com). Since investment activities data in Indonesia level is not available, the authors gathered data from investment activities in three big cities in East Java Province. It covers 38 securities companies and 3773 active investors as the population.

The following section explains why individual investors trade. In the third and fourth section describes the research method and the results of the hypothesis testing and its discussion, including robustness tests to clarify the findings. Finally, the last section outlines the concluding remarks.

2. Literature review

The standard or traditional finance relies on wise investment to explain how market players act toward and consider the causal effects of yields and returns (Baker and Nofsinger, 2010). Theories developed under this assumption are varied. The first theory is Markowitz's *market portfolio principles* that explain portfolio allocation based on expected returns and risk. The second is *risk-based asset pricing model* describes asset valuation methods such

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