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Authors

Herry Ramadhani¹; Dian Masyita²; Aldrin Herwany²; Yudi Ahmad Faisal²

¹ Department of Economics and Business, Mulawarman University, Samarinda, Indonesia

² Department of Economics and Business, Padjadjaran University, Bandung, Indonesia

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Abstract

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Keywords

Keywords: Herding ; Heuristic ; Islamic Investor ; Market Factors ; Prospects. JEL Classification: G11 ; G40 ; G41



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Herry Ramadhani^{a,*}, Dian Masyita^b, Aldrin Herwany^c, Yudi Ahmad Faisal^d

a. Department of Economics and Business, Mulawarman University, Samarinda, Indonesia (Corresponding author email: herry.ramadhani@feb.unmul.ac.id)

b, c, d. Department of Economics and Business, Padjadjaran University, Bandung, Indonesia

Abstract

The study examined the influence of investment decision behavior on individual Islamic investors in the real and financial sectors because there are few studies on Muslim groups who invest in the real and financial sectors. Most of the research on investment decisions focuses on the capital market. This research tests psychological theories: heuristics prospects, market, and herding effect. The methodology used in this study is the structural equation method and uses primary data of 303 Islamic investors in East Kalimantan Province. The results show Individual Islamic investors' investment decision behavior in the real and financial sectors was significantly influenced by heuristics, prospects, and market factors. In contrast, the herding had no significant influence on Individual Islamic investors' investment decision behavior in the real and financial sectors. The theory of heuristic, prospect, and market factor can describe the behavior of individual Muslim investors in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely conducted in financial markets. In contrast, the herding theory cannot describe individual Muslim investors' behavior in making investment decisions in the real and financial sectors in East Kalimantan Province.

Keywords: Herding, Heuristic, Islamic Investor, Market Factors, Prospects

JEL Classification : G11, G40, G41

Introduction

In Indonesia, the phenomenon of hijrah and halal lifestyle influences Muslim behavior. Halal is no longer limited to food and beverages; it has spread to all aspects of life, including investment (Yuswohady,2018). Furthermore, until 2040, the Indonesian economy is expected to be dominated by the growth of middle-income people, most of whom will be Muslims. The financial and real sectors are intertwined in an Islamic economy. According to Choudhury (1986), monetary policy is only one aspect of the real sector. In Islamic economics, however, the financial sector represents the real sector because Islam forbids economic speculation and money is used as a commodity. Indonesia requires a robust economy in both the real and financial sectors, as these two sectors drive economic growth in Indonesia's regional regions (Kalla, 2018). East Kalimantan has the potential for economic development and sharia finance, as evidenced by a significant financial contribution of 21.08 percent to the East Indonesia region's

economy and 4.02 percent to the national economy, which is supported by demography, as 85.38 percent of East Kalimantan's population is Muslim (Statistics Indonesia, 2012).

As a form of worship to Allah SWT, Muslim investors must follow investment rules (Islamic principles) in the financial and real sectors (Salleh, 2012). In contrast, conventional investors invest for profit maximization (Farooq, 2011). In other words, Muslim investors must support Sharia by prioritizing the principle of benefit, which includes the prohibition of usury, gharar, and speculation, rather than investing solely for profit. Investment decision-making is a dynamic and complex phenomenon that encompasses all aspects of life, including various dimensions and methods of selecting from the different available options. Conventional finance assumes that investors are rational and want to make a profit on their investments. In contrast, behavioral finance assumes that investors are irrational and want to make a profit on their investments. However, behavioral finance recognizes how psychological factors influence investment decisions (Kumar & Goyal, 2015). (Kourtidis et al., 2011). Muslim investors make economic decisions such as working, saving, increasing the value of their assets, and consuming.

Many studies on the behavior of investment decisions have been published. A recent study (Matos et al., 2022) used quantitative methods and discovered no evidence of the availability heuristic's effect on significant stock price changes on the London Stock Exchange. Teeramungcalanon and Rattanaprichavej (2021) found no difference in the influence of psychological bias and social interactions on direct and indirect real estate investment using a quantitative method to survey individual investors in Bangkok. Sabri et al., (2021) surveyed 578 Malaysian households and discovered that financial literacy positively influenced financial behavior. Al-Mansour (2020) used a quantitative method to investigate 112 individual investors in the United Arab Emirates (UAE). His research discovered that variable herding, prospect, and heuristic significantly impact investor decisions in the cryptocurrency market.

Ogunlusi and Obademi (2019) discovered that heuristics and prospects influence investment decisions in Nigerian banks by using quantitative methods to survey 200 bank customers in Nigeria. Khan et al. (2017) used the mixing method to conduct a study with anchoring, availability, and representativeness variables on 300 investors in Malaysia and Pakistan stock markets. They discovered that the variables anchoring, availability, and representativeness significantly influenced investors' investment decisions in both countries. Waweru et al. (2008) surveyed 40 institutional investors and discovered that heuristics, prospects, herding, and market factors influence the investment decisions of institutional investors at the Nairobi Stock Exchange. Ngoc (2013) conducted a quantitative survey of 188 individual investors on the Ho Chi Minh Stock Exchange and discovered that the variables prospects, herding, market, overconfidence, Gambler's fallacy, and anchoring inf

A study with Muslim respondents examined investment decisions from the standpoint of Islamic financial behavior. Yusuff et al. (2017) discovered through a quantitative survey of 200 Muslim respondents at University Utara Malaysia, Kedah, that financial literacy, information sources, investment risk, religiosity, and product knowledge all influence investment decisions. A quantitative study by Mahdzan et al. (2017) discovered that the religiosity variable, in general, had no significant influence on the allocation of portfolio

assets. In contrast, individuals with high-risk tolerance, income, and education levels tended to allocate risky investments into the portfolio. Amin (2013) used the quantitative method to survey 257 respondents in Labuan, Malaysia. The study's findings indicate that attitudes, subjective norms, and perceived financial costs all influence the decision to use a sharia credit card. Warsame and Ileri (2016) used a questionnaire and the quantitative structural equation model to survey 553 individual investors in Doha and Qatar. According to the study's findings, attitudes and perceived behavioral control influenced the intention to invest in Sukuk. At the same time, subjective norms had no significant impact on investors' intent to invest in Sukuk. It was discovered that religiosity does not affect the decision to invest in Sukuk.

Because there are few studies on Muslim groups that invest in the real and financial sectors, this study focuses on individual Islamic investors. The majority of research on investment decisions is concentrated in the financial market, specifically on testing psychological theories such as heuristics (Tversky & Kahneman, 1974), prospects (Kahneman & Tversky, 1979), market (Bondt & Thaler, 1985), and herding effect (Devenow & Welch, 1996).

Literature Review

Behavior Finance and Investment Decision

According to Ritter (2003), financial behavior refers to an investor's investment decision-making process influenced by some cognitive illusions (cognitive deviations). Shefrin (2000) defines behavior finance as the study of how psychological factors influence financial behavior, while Nofsinger (2001) defines financial behavior as the study of how humans behave in a financial situation, focusing on how psychology influences financial decisions. The approach that describes how humans make financial investments affected by psychological factors is defined by the concept that explains financial behavior.

From a human standpoint, the investment decision process is very long and complicated. Investment behavior explains how investors decide, gather information, define, understand, and examine investments (Slovic, 1972). Investors need accurate data or information to make sound investment decisions. Create a decision-making model using investment assessment criteria based on available data so investors can select the best investment product from various options. Every investment decision, whether buying, selling, or holding, is based on his investment. As defined by Gitman et al. (2011), investment is a method of investing money to generate a positive return and maintain or increase the value of the investment.

Prospect

Psychologists Kahneman and Tversky pioneered prospect theory (1979). Prospect theory, also known as the loss aversion theory, contends that humans make irrational decisions. It also claims that losses have a more significant emotional impact than gains, despite the outcome being the same. For example, most people prefer the pain of losing one million dollars to the pleasure of winning one million dollars. According to Kahneman and Tversky (1979), the emotional impact of loss is double that of gain.

Researchers always assume that decision-makers in finance, accounting, and economics are rational decision-makers who can digest all information well and make the best choices. However, researchers have discovered a new phenomenon in which the concept of rationality is frequently violated. The decision-making framework is one of the factors that contribute to it. To clarify this point, Tversky and Kahneman introduced the prospect theory, an alternative model that incorporates risk into decision-making. This theory proposes several characteristics of risk-averse investors, such as risk aversion and loss aversion.

According to Kahneman (2003), when risky games are played multiple times rather than once, each individual suffers more losses. The theory focuses on how investor confidence in decision-making affects investor subjectivity (Luong & Ha, 2011). Prospect theory demonstrates that people are irrational and prefer to risk profits over losses. Prospect theory explains several statements that influence a person's decision-making process. This prospect theory's indicators are regret aversion, loss aversion, and mental accounting (Waweru et al., 2008).

Heuristic

Heuristics or *rules of thumb* relating to attitudes help people make better decisions, especially in complex, uncertain, and biased situations. It can be done by calculating probabilities and guessing the value of investments to derive complex, uncertain, and personal factors (Ritter, 2003). According to Poyla (1973), heuristics means "guide to find" in general. A heuristic is helpful, especially in a time-bound decision-making process (Waweru et al., 2008). However, as the decision-making process is speedy, bias or deviation can occur (Kahneman & Tversky, 1974; Ritter, 2003). A heuristic is a complex or complicated investment decision-making process because it involves investors' individual cognition based on their information.

Baker and Nofsinger (2010) state that heuristics simplify complex decision-making because it involves individual cognition, while each individual's ability is limited to measure the obtained results. Kahneman and Tversky (1974) were the first researchers to study heuristic factors in the decision-making process carried out by the investors and found three factors, namely, representativeness, availability bias, and anchoring, while Waweru et al. (2008) introduced two elements in the heuristic theory: overconfidence and Gambler's fallacy. The indicators of cognitive bias or deviation that heuristics can cause, namely, representativeness, availability bias, anchoring, overconfidence, and Gambler's fallacy (Luong & Ha, 2011) and Waweru et al., (2008).

Market Factors

According to Bondt and Thaler (1995), investor behavior can influence financial markets. If the behavioral viewpoint is correct, and investors are thought to be very reactive or otherwise unresponsive to changes, extrapolation of previous trends into the future; investors' attention to fundamental factors is very weak, and investors only focus on high-value investments and observe a price. Investors who see momentum may prefer stocks with good current performance, whereas rational investors tend to sell losing stocks. On the other hand, irrational investors choose to sell stocks with historically profitable data because they can delay feeling regret related to losses they can expect as a result of their

investment decisions. According to Luu and Yu (2012), market efficiency is defined as the market price reflecting the fundamental market characteristics as well as the long-term average rate of return.

According to academic research, traditional financial theories cannot explain market anomalies such as abnormal price movements associated with IPOs, mergers, stock splits, and spin-offs. Statistical anomalies continued to emerge throughout the 1980s and 1990s, implying that existing standard financial models could not account for these anomalies. According to Odean (1998), investors typically choose stocks that interest them; investor preferences also influence stock selection. Before making an investment decision, investors usually use technical analysis methods to analyze the previous stock trend. Market factors influence investment behavior and rational investors in various ways; therefore, market factors include behavior factors considered when making investment decisions. Waweru et al., (2008) identify market indicators that influence investors' decision-making, such as price changes, market information, past investment trends, and fundamentals of an underlying investment.

Herding Theory

Herding is defined in the financial market as the tendency of investor activity to mimic the behavior of other investors (Luong & Ha, 2011). From a behavioral standpoint, herding can cause emotional distortion. Investors prefer herding because they believe it can help them find valuable and trustworthy information. Herding can produce both difficult to explain and appealing phenomena, particularly when determining asset prices/share prices influenced by specific sentiments (Devenow & Welch, 1996).

According to Tan et al. (2008), the effect of herding is also being studied because its impact on changes in stock prices can affect the risk and return model attributes, which impact the asset pricing theory's perspective. According to Caparrelli et al. (2004), the impact of herding on investors is similar to that of primitive humans who congregate in groups and help one another due to limited knowledge and information about their environment. The herding effect can cause emotional biases such as conformity, congruity, cognitive conflict, house bias, and gossip. Investors can use the herding impact if they are confident it will help them filter valuable and reliable information. Herding has four indicators: buying and selling decisions of other investors, investment to trade choice of other investors, the volume of investment to trade by other investors, and herding speed (Waweru et al., 2008).

Hypotheses Development

Heuristics is one of the behavioral factors that influence investment decisions; it is quite useful, especially in time-bound decision-making processes (Waweru et al., 2008); however, because the decision-making process is very fast, bias/deviation can occur (Kahneman & Tversky, 1974; Ritter, 2003). Many studies show a significant influence of heuristic variables on investment decision behavior and are supported by recent research that strengthens these results. As a result, the following hypotheses are advanced in this study:

H1: Heuristic variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.

Prospect theory concerns investor confidence in the decision-making process and how it influences investor subjectivity (Luong & Ha, 2011). Prospect theory asserts that people are irrational and would rather risk profits than losses. Many studies show that heuristic variables significantly influence investment decision behavior, which is supported by new research. As a result, the following hypotheses are advanced in this study:

H2: Prospect variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.

According to Bondt and Thaler (1995), investor behavior can influence financial markets. Market factors influence rational investors and investment behavior in various ways. Many studies show that market factors significantly influence investment decision behavior, which is supported by new research. As a result, the following hypotheses are advanced in this study:

H3: Market factors variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.

Herding can cause an inexplicable and exciting phenomenon, especially in asset pricing/stock prices influenced by particular sentiments (Devenow & Welch, 1996). Herding can cause emotional distortion from a behavioral point of view. Investors favor herding because they believe it can help them obtain valuable and reliable information. Many studies show a significant influence of herding on investment decision behavior, supported by recent research that strengthens these results. Therefore, this study also hypothesized as follows:

H4: Herding variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.

Research Methodology

Population and Sample

This study's population comprises Islamic investors in East Kalimantan Province who have already invested in the real and financial sectors. The investors were randomly sampled using the accidental sampling technique. A total of 303 investors provided samples, and all models met the criteria for analyzing the variables that influenced investment decision behavior in the real and financial sectors. Heuristics, prospects, market factors, and the herding effect were among the variables considered.

Research Instruments

There are two sections to the questionnaire. First, it determines the respondents' identities and requires demographic information such as age, gender, occupation, monthly income,

education, and marital status. Second, a questionnaire that detects all research variables is classified as independent, dependent, or moderate. Previous studies were used to measure these variables. The specifics are as follows: heuristics [8], the prospect [6], market factors [4], herding [4], and investment decision behavior [4]. The items used to measure all the variables listed above are expressed as respondents' subjective perceptions. Choose one of the five proposed Likert scales to express your thoughts. This scale displays statements ranging from * 1 * (strongly disagree) to * 5 * (strongly agree).

Data Analysis Techniques

Data analysis using Path Analysis through Structural Equation Modeling (SEM), with Amos software and a significant level of 0.05 or 5%.

Results And Discussion

Table 1. Demographic Characteristics of Respondents

Demographic Characteristics	Items	Frequency	%
Age (y.o.)	17-25	101	33
	26-30	57	19
	31-35	34	11
	35-40	65	22
	Above 40	46	15
Gender	Male	132	44
	Female	171	56
Occupation	Government Employees/Army/Police	60	20
	Private sector employees	82	27
	Entrepreneur	72	24
	Student	72	24
	Others	17	5
Income/Month (IDR)	1.000.000 to 5.000.000	127	42
	6.000.000 to 10.000.000	89	29
	11.000.000 to 15.000.000	48	16
	16.000.000 to 20.000.000	16	5
	Above 20.000.000	23	8
Education	High School	121	40
	Diploma	19	6
	Bachelor	137	45
	Postgraduate	17	6
	Doctoral	9	3
Marital Status	Married	167	55
	Single	136	45

Source: Research finding

Table 1 depicts the demographic variables in this study, which include age, gender, occupation, monthly income, education, and marital status. There are 303 total investors, with 132 male investors having a percentage of 44 and 171 female investors having a

56%. The age distribution shows that most respondents (33%) are between the ages of 17 and 25. The majority of respondents (82 with a percentage of 27) work in the private sector. Concerning income/month data, the majority of IDR 1,000,000 to 5,000,000 is reported by 127 respondents with a percentage of 42, 137 respondents report education with a percentage of 45, and marital status is reported by 167 respondents with a percentage of 55.

Table 2. SEM Estimation

Variables	Estimate	Coefficient Regression	p-value*	Description
Heuristic Investment Decision Behavior	.480	3.820	.000	Significant
Prospect Investment Decision Behavior	.232	2.342	.019	Significant
Market Factors Investment Decision Behavior	.355	5.427	.000	Significant
Herding Investment Decision Behavior	.021	.914	.361	Not Significant

Note: * indicates significance at a 5% level of significance based on t-statistics

Source: Research finding

Table 2 depicts SEM estimation in which the heuristic, prospect, and market factors variables significantly influence individual Islamic investors' investment decisions in East Kalimantan Province in the real and financial sectors. Still, the herding variable has no significant impact on the investment decisions of individual Islamic investors in East Kalimantan Province.

The study's findings indicate that heuristic variables have a significant influence on the investment decisions of individual Islamic investors in East Kalimantan Province in the real and financial sectors, implying that individual Islamic investors in East Kalimantan Province perform cognitive processes based on the information held by these investors before making investment decisions in the real and financial sectors. The study's findings are similar to those of Raut et al. (2020), who discovered that investors in the Indian stock market are influenced by representativeness and overconfidence, as well as research conducted by (Islam, 2012; Babajide & Adetilo, 2012; Kuo & Lin, 2013; Onsomu, 2014; Broihanne et al., 2014; Ikram, 2016), who discovered the influence of overconfidence and representative bias on investment decisions in the capital market.

The findings show that prospect variables significantly influence the investment decisions of individual Islamic investors in East Kalimantan Province and that there is a positive relationship between prospect behavior making irrational decisions and personal investment decisions of Islamic investors in the real and financial sectors in East Kalimantan Province. The findings of this study are consistent with the findings of Waweru et al. (2008), who discovered that prospect factors, such as loss aversion, regret aversion, and mental accounting, influence the investment decisions of Nairobi stock

exchange investors, as well as the findings of Ngoc (2013), who discovered that prospects (loss aversion, regret aversion, and mental accounting) influence the investment decisions of individual investors on the Ho Chi Minh City stock exchange (2019) In Surabaya, regret aversion does not affect the investment decisions of young investors.

The findings indicate that market factors significantly influence individual Islamic investors' investment decisions in East Kalimantan Province. That market information plays a critical role in individual Islamic investors' investment decisions in the real and financial sectors in East Kalimantan Province. The findings of this study are supported by the results of Waweru et al., (2008), who concluded that market factors influence investors' investment decisions on the Nairobi Stock Exchange, as well as Ngoc (2013), who found that market factors influence individual investors' investment decisions in Indonesia. Ghalandari and Ghahremanpour (2013) discovered that market factors influence individual investors' decisions to invest in the Tehran stock exchange. Study Individual investors in Khulna City, Bangladesh, according to Khan et al. (2015), look at market factors such as share price, financial indicators, historical data, expected dividends, financial statements, and firm rank in the industry when making investment decisions. According to Beenish Ameer (2017)'s research, market factors impact individual investors' investment decisions in the Pakistan Stock Exchange.

The findings show that the herding variable has no significant influence on the investment decisions of individual Islamic investors in East Kalimantan Province, implying that when individual Islamic investors make investment decisions in the real and financial sectors in East Kalimantan Province, they are not influenced by the decisions of others and make their own. The findings of this study are consistent with the findings of Alqurran et al. (2016). They concluded that the herding variable does not influence investment decisions in the Saudi Stock Exchange. Kengatharan and Kengatharan (2014) researched individual investors on the Colombo stock exchange, and the findings revealed that herding bias impacted their investment decisions. In their study, Bashir et al. (2013) demonstrate that herding impacts financial markets. (Shusha & Touny, 2016; Beenish Ameer, 2017) discovered that herding affects individual investors' investment decisions, but Bakar and Yi (2015) found that herding has no impact on investment decisions in Malaysia, and they obtained different results.

Conclusion And Recommendation

Several stages of the analysis revealed that the influence of heuristic variables on investment decisions has a significant impact, implying that individual Islamic investors in East Kalimantan Province perform cognitive processes based on the information possessed in investment decisions in the real and financial sectors. The prospect variable significantly influences investment decisions, implying a positive relationship between prospect behavior or making irrational decisions on individual investment decisions of Islamic investors in the real and financial sectors in East Kalimantan Province. The market factor variable significantly influences investment decisions, which means that market information is critical in investment decisions made by individual Islamic investors in East Kalimantan Province's real and financial sectors. Because the herding variable has no significant influence on individual Islamic investors' investment decisions

in East Kalimantan Province, it can be concluded that herding behavior does not occur when individual Islamic investors make investment decisions in the real and financial sectors.

This study confirms that the heuristic, prospect, and market factor theories can describe individual Muslim investors' behavior in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely used and conducted in financial markets. In contrast, the herding theory is incapable of describing the behavior of individual Muslim investors in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely conducted in financial markets. The recommendation for future research is to broaden the sample to include a more diverse group of people and other regions. This means that the sample is more widely spread across Indonesia and has non-Muslims because they also make investments. Another suggestion is to conduct a more in-depth study of neurofinance theory, which adds to the growing biases in the field of behavioral finance.

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Faculty of Economics
University of Tehran

29 August 2022

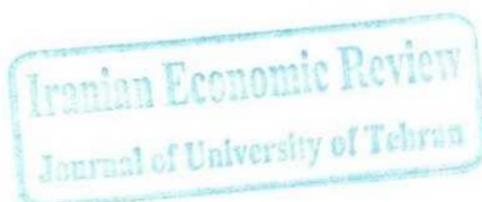
Dear Mr. Herry Ramadhani (Corresponding Author)

The editorial board of the Iranian Economic Review (IER) journal is pleased to inform you that your manuscript (IER-202204-1007425), entitled **“Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia”** will be published in the next issues of the IER journal, according to the publishing priorities.

Regards,

Hossein Abbasinejad

Iranian Economic Review (IER) Journal



Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia

by Herry Ramadhani

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Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia

Herry Ramadhani^{a,*}, Dian Masyita^b, Aldrin Herwany^c, Yudi Ahmad Faisal^d

a. Department of Economics and Business, Mulawarman University, Samarinda, Indonesia (Corresponding author email: herry.ramadhani@feb.unmul.ac.id)

b, c, d. Department of Economics and Business, Padjadjaran University, Bandung, Indonesia

Abstract

The study examined the influence of investment decision behavior on individual Islamic investors in the real and financial sectors because there are few studies on Muslim groups who invest in the real and financial sectors. Most of the research on investment decisions focuses on the capital market. This research tests psychological theories: heuristics prospects, market, and herding effect. The methodology used in this study is the structural equation method and uses primary data of 303 Islamic investors in East Kalimantan Province. The results show Individual Islamic investors' investment decision behavior in the real and financial sectors was significantly influenced by heuristics, prospects, and market factors. In contrast, the herding had no significant influence on Individual Islamic investors' investment decision behavior in the real and financial sectors. The theory of heuristic, prospect, and market factor can describe the behavior of individual Muslim investors in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely conducted in financial markets. In contrast, the herding theory cannot describe individual Muslim investors' behavior in making investment decisions in the real and financial sectors in East Kalimantan Province.

Keywords: Herding, Heuristic, Islamic Investor, Market Factors, Prospects

JEL Classification : G11, G40, G41

Introduction

In Indonesia, the phenomenon of hijrah and halal lifestyle influences Muslim behavior. Halal is no longer limited to food and beverages; it has spread to all aspects of life, including investment (Yuswohady,2018). Furthermore, until 2040, the Indonesian economy is expected to be dominated by the growth of middle-income people, most of whom will be Muslims. The financial and real sectors are intertwined in an Islamic economy. According to Choudhury (1986), monetary policy is only one aspect of the real sector. In Islamic economics, however, the financial sector represents the real sector because Islam forbids economic speculation and money is used as a commodity. Indonesia requires a robust economy in both the real and financial sectors, as these two sectors drive economic growth in Indonesia's regional regions (Kalla, 2018). East Kalimantan has the potential for economic development and sharia finance, as evidenced by a significant financial contribution of 21.08 percent to the East Indonesia region's

economy and 4.02 percent to the national economy, which is supported by demography, as 85.38 percent of East Kalimantan's population is Muslim (Statistics Indonesia, 2012).

As a form of worship to Allah SWT, Muslim investors must follow investment rules (Islamic principles) in the financial and real sectors (Salleh, 2012). In contrast, conventional investors invest for profit maximization (Farooq, 2011). In other words, Muslim investors must support Sharia by prioritizing the principle of benefit, which includes the prohibition of usury, gharar, and speculation, rather than investing solely for profit. Investment decision-making is a dynamic and complex phenomenon that encompasses all aspects of life, including various dimensions and methods of selecting from the different available options. Conventional finance assumes that investors are rational and want to make a profit on their investments. In contrast, behavioral finance assumes that investors are irrational and want to make a profit on their investments. However, behavioral finance recognizes how psychological factors influence investment decisions (Kumar & Goyal, 2015). (Kourtidis et al., 2011). Muslim investors make economic decisions such as working, saving, increasing the value of their assets, and consuming.

Many studies on the behavior of investment decisions have been published. A recent study (Matos et al., 2022) used quantitative methods and discovered no evidence of the availability heuristic's effect on significant stock price changes on the London Stock Exchange. Teeramongcalanon and Rattanaprichavej (2021) found no difference in the influence of psychological bias and social interactions on direct and indirect real estate investment using a quantitative method to survey individual investors in Bangkok. Sabri et al., (2021) surveyed 578 Malaysian households and discovered that financial literacy positively influenced financial behavior. Al-Mansour (2020) used a quantitative method to investigate 112 individual investors in the United Arab Emirates (UAE). His research discovered that variable herding, prospect, and heuristic significantly impact investor decisions in the cryptocurrency market.

Ogunlusi and Obademi (2019) discovered that heuristics and prospects influence investment decisions in Nigerian banks by using quantitative methods to survey 200 bank customers in Nigeria. Khan et al. (2017) used the mixing method to conduct a study with anchoring, availability, and representativeness variables on 300 investors in Malaysia and Pakistan stock markets. They discovered that the variables anchoring, availability, and representativeness significantly influenced investors' investment decisions in both countries. Waweru et al. (2008) surveyed 40 institutional investors and discovered that heuristics, prospects, herding, and market factors influence the investment decisions of institutional investors at the Nairobi Stock Exchange. Ngoc (2013) conducted a quantitative survey of 188 individual investors on the Ho Chi Minh Stock Exchange and discovered that the variables prospects, herding, market, overconfidence, Gambler's fallacy, and anchoring inf

A study with Muslim respondents examined investment decisions from the standpoint of Islamic financial behavior. Yusuff et al. (2017) discovered through a quantitative survey of 200 Muslim respondents at University Utara Malaysia, Kedah, that financial literacy, information sources, investment risk, religiosity, and product knowledge all influence investment decisions. A quantitative study by Mahdzan et al. (2017) discovered that the religiosity variable, in general, had no significant influence on the allocation of portfolio

assets. In contrast, individuals with high-risk tolerance, income, and education levels tended to allocate risky investments into the portfolio. Amin (2013) used the quantitative method to survey 257 respondents in Labuan, Malaysia. The study's findings indicate that attitudes, subjective norms, and perceived financial costs all influence the decision to use a sharia credit card. Warsame and Ileri (2016) used a questionnaire and the quantitative structural equation model to survey 553 individual investors in Doha and Qatar. According to the study's findings, attitudes and perceived behavioral control influenced the intention to invest in Sukuk. At the same time, subjective norms had no significant impact on investors' intent to invest in Sukuk. It was discovered that religiosity does not affect the decision to invest in Sukuk.

Because there are few studies on Muslim groups that invest in the real and financial sectors, this study focuses on individual Islamic investors. The majority of research on investment decisions is concentrated in the financial market, specifically on testing psychological theories such as heuristics (Tversky & Kahneman, 1974), prospects (Kahneman & Tversky, 1979), market (Bondt & Thaler, 1985), and herding effect (Devenow & Welch, 1996).

Literature Review

Behavior Finance and Investment Decision

According to Ritter (2003), financial behavior refers to an investor's investment decision-making process influenced by some cognitive illusions (cognitive deviations). Shefrin (2000) defines behavior finance as the study of how psychological factors influence financial behavior, while Nofsinger (2001) defines financial behavior as the study of how humans behave in a financial situation, focusing on how psychology influences financial decisions. The approach that describes how humans make financial investments affected by psychological factors is defined by the concept that explains financial behavior.

From a human standpoint, the investment decision process is very long and complicated. Investment behavior explains how investors decide, gather information, define, understand, and examine investments (Slovic, 1972). Investors need accurate data or information to make sound investment decisions. Create a decision-making model using investment assessment criteria based on available data so investors can select the best investment product from various options. Every investment decision, whether buying, selling, or holding, is based on his investment. As defined by Gitman et al. (2011), investment is a method of investing money to generate a positive return and maintain or increase the value of the investment.

Prospect

Psychologists Kahneman and Tversky pioneered prospect theory (1979). Prospect theory, also known as the loss aversion theory, contends that humans make irrational decisions. It also claims that losses have a more significant emotional impact than gains, despite the outcome being the same. For example, most people prefer the pain of losing one million dollars to the pleasure of winning one million dollars. According to Kahneman and Tversky (1979), the emotional impact of loss is double that of gain.

Researchers always assume that decision-makers in finance, accounting, and economics are rational decision-makers who can digest all information well and make the best choices. However, researchers have discovered a new phenomenon in which the concept of rationality is frequently violated. The decision-making framework is one of the factors that contribute to it. To clarify this point, Tversky and Kahneman introduced the prospect theory, an alternative model that incorporates risk into decision-making. This theory proposes several characteristics of risk-averse investors, such as risk aversion and loss aversion.

According to Kahneman (2003), when risky games are played multiple times rather than once, each individual suffers more losses. The theory focuses on how investor confidence in decision-making affects investor subjectivity (Luong & Ha, 2011). Prospect theory demonstrates that people are irrational and prefer to risk profits over losses. Prospect theory explains several statements that influence a person's decision-making process. This prospect theory's indicators are **regret aversion, loss aversion, and mental accounting** (Waweru et al., 2008).

Heuristic

Heuristics or *rules of thumb* relating to attitudes help people make better decisions, especially in complex, uncertain, and biased situations. It can be done by calculating probabilities and guessing the value of investments to derive complex, uncertain, and personal factors (Ritter, 2003). According to Poyla (1973), heuristics means "guide to find" in general. A heuristic is helpful, especially in a time-bound decision-making process (Waweru et al., 2008). However, as the decision-making process is speedy, bias or deviation can occur (Kahneman & Tversky, 1974; Ritter, 2003). A heuristic is a complex or complicated investment decision-making process because it involves investors' individual cognition based on their information.

Baker and Nofsinger (2010) state that heuristics simplify complex decision-making because it involves individual cognition, while each individual's ability is limited to measure the obtained results. Kahneman and Tversky (1974) were the first researchers to study **heuristic factors in the decision-making process carried out by the investors and found three factors, namely, representativeness, availability bias, and anchoring**, while Waweru et al. (2008) introduced two elements in the heuristic theory: overconfidence and Gambler's fallacy. The indicators of cognitive bias or deviation that heuristics can cause, namely, representativeness, availability bias, anchoring, overconfidence, and Gambler's fallacy (Luong & Ha, 2011) and Waweru et al., (2008).

Market Factors

According to Bondt and Thaler (1995), investor behavior can influence financial markets. If the behavioral viewpoint is correct, and investors are thought to be very reactive or otherwise unresponsive to changes, **extrapolation of previous trends into the future**; investors' **attention to** fundamental factors is very weak, and investors only focus on high-value investments and observe a price. Investors who see momentum may prefer stocks with good current performance, whereas rational investors tend to sell losing stocks. On the other hand, irrational investors choose to sell stocks with historically profitable data because they can delay feeling regret related to losses they can expect as a result of their

investment decisions. According to Luu and Yu (2012), market efficiency is defined as the market price reflecting the fundamental market characteristics as well as the long-term average rate of return.

According to academic research, traditional financial theories cannot explain market anomalies such as abnormal price movements associated with IPOs, mergers, stock splits, and spin-offs. Statistical anomalies continued to emerge throughout the 1980s and 1990s, implying that existing standard financial models could not account for these anomalies. According to Odean (1998), investors typically choose stocks that interest them; investor preferences also influence stock selection. Before making an investment decision, investors usually use technical analysis methods to analyze the previous stock trend. Market factors influence investment behavior and rational investors in various ways; therefore, market factors include behavior factors considered when making investment decisions. Waweru et al., (2008) identify market indicators that influence investors' decision-making, such as price changes, market information, past investment trends, and fundamentals of an underlying investment.

Herding Theory

Herding is defined in the financial market as the tendency of investor activity to mimic the behavior of other investors (Luong & Ha, 2011). From a behavioral standpoint, herding can cause emotional distortion. Investors prefer herding because they believe it can help them find valuable and trustworthy information. Herding can produce both difficult to explain and appealing phenomena, particularly when determining asset prices/share prices influenced by specific sentiments (Devenow & Welch, 1996).

According to Tan et al. (2008), the effect of herding is also being studied because its impact on changes in stock prices can affect the risk and return model attributes, which impact the asset pricing theory's perspective. According to Caparrelli et al. (2004), the impact of herding on investors is similar to that of primitive humans who congregate in groups and help one another due to limited knowledge and information about their environment. The herding effect can cause emotional biases such as conformity, congruity, cognitive conflict, house bias, and gossip. Investors can use the herding impact if they are confident it will help them filter valuable and reliable information. Herding has four indicators: buying and selling decisions of other investors, investment to trade choice of other investors, the volume of investment to trade by other investors, and herding speed (Waweru et al., 2008).

Hypotheses Development

Heuristics is one of the behavioral factors that influence investment decisions; it is quite useful, especially in time-bound decision-making processes (Waweru et al., 2008); however, because the decision-making process is very fast, bias/deviation can occur (Kahneman & Tversky, 1974; Ritter, 2003). Many studies show a significant influence of heuristic variables on investment decision behavior and are supported by recent research that strengthens these results. As a result, the following hypotheses are advanced in this study:

***H1:** Heuristic variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.*

Prospect theory concerns investor confidence in the decision-making process and how it influences investor subjectivity (Luong & Ha, 2011). Prospect theory asserts that people are irrational and would rather risk profits than losses. Many studies show that heuristic variables significantly influence investment decision behavior, which is supported by new research. As a result, the following hypotheses are advanced in this study:

***H2:** Prospect variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.*

According to Bondt and Thaler (1995), investor behavior can influence financial markets. Market factors influence rational investors and investment behavior in various ways. Many studies show that market factors significantly influence investment decision behavior, which is supported by new research. As a result, the following hypotheses are advanced in this study:

***H3:** Market factors variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.*

Herding can cause an inexplicable and exciting phenomenon, especially in asset pricing/stock prices influenced by particular sentiments (Devenow & Welch, 1996). Herding can cause emotional distortion from a behavioral point of view. Investors favor herding because they believe it can help them obtain valuable and reliable information. Many studies show a significant influence of herding on investment decision behavior, supported by recent research that strengthens these results. Therefore, this study also hypothesized as follows:

***H4:** Herding variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.*

Research Methodology

Population and Sample

This study's population comprises Islamic investors in East Kalimantan Province who have already invested in the real and financial sectors. The investors were randomly sampled using the accidental sampling technique. A total of 303 investors provided samples, and all models met the criteria for analyzing the variables that influenced investment decision behavior in the real and financial sectors. Heuristics, prospects, market factors, and the herding effect were among the variables considered.

Research Instruments

There are two sections to the questionnaire. First, it determines the respondents' identities and requires demographic information such as age, gender, occupation, monthly income,

education, and marital status. Second, a questionnaire that detects all research variables is classified as independent, dependent, or moderate. Previous studies were used to measure these variables. The specifics are as follows: heuristics [8], the prospect [6], market factors [4], herding [4], and investment decision behavior [4]. The items used to measure all the variables listed above are expressed as respondents' subjective perceptions. Choose one of the five proposed Likert scales to express your thoughts. This scale displays statements ranging from * 1 * (strongly disagree) to * 5 * (strongly agree).

Data Analysis Techniques

Data analysis using Path Analysis through Structural Equation Modeling (SEM), with Amos software and a significant level of 0.05 or 5%.

Results And Discussion

Table 1. Demographic Characteristics of Respondents

Demographic Characteristics	Items	Frequency	%
Age (y.o.)	17-25	101	33
	26-30	57	19
	31-35	34	11
	35-40	65	22
	Above 40	46	15
Gender	Male	132	44
	Female	171	56
Occupation	Government Employees/Army/Police	60	20
	Private sector employees	82	27
	Entrepreneur	72	24
	Student	72	24
	Others	17	5
Income/Month (IDR)	1.000.000 to 5.000.000	127	42
	6.000.000 to 10.000.000	89	29
	11.000.000 to 15.000.000	48	16
	16.000.000 to 20.000.000	16	5
	Above 20.000.000	23	8
Education	High School	121	40
	Diploma	19	6
	Bachelor	137	45
	Postgraduate	17	6
	Doctoral	9	3
Marital Status	Married	167	55
	Single	136	45

Source: Research finding

Table 1 depicts the demographic variables in this study, which include age, gender, occupation, monthly income, education, and marital status. There are 303 total investors, with 132 male investors having a percentage of 44 and 171 female investors having a

56%. The age distribution shows that most respondents (33%) are between the ages of 17 and 25. The majority of respondents (82 with a percentage of 27) work in the private sector. Concerning income/month data, the majority of IDR 1,000,000 to 5,000,000 is reported by 127 respondents with a percentage of 42, 137 respondents report education with a percentage of 45, and marital status is reported by 167 respondents with a percentage of 55.

Table 2. SEM Estimation

Variables	Estimate	Coefficient Regression	p-value*	Description
Heuristic <input type="checkbox"/> Investment Decision Behavior	.480	3.820	.000	Significant
Prospect <input type="checkbox"/> Investment Decision Behavior	.232	2.342	.019	Significant
Market Factors <input type="checkbox"/> Investment Decision Behavior	.355	5.427	.000	Significant
Herding <input type="checkbox"/> Investment Decision Behavior	.021	.914	.361	Not Significant

Note: * indicates significance at a 5% level of significance based on t-statistics

Source: Research finding

Table 2 depicts SEM estimation in which the heuristic, prospect, and market factors variables significantly influence individual Islamic investors' investment decisions in East Kalimantan Province in the real and financial sectors. Still, the herding variable has no significant impact on the investment decisions of individual Islamic investors in East Kalimantan Province.

The study's findings indicate that heuristic variables have a significant influence on the investment decisions of individual Islamic investors in East Kalimantan Province in the real and financial sectors, implying that individual Islamic investors in East Kalimantan Province perform cognitive processes based on the information held by these investors before making investment decisions in the real and financial sectors. The study's findings are similar to those of Raut et al. (2020), who discovered that investors in the Indian stock market are influenced by representativeness and overconfidence, as well as research conducted by (Islam, 2012; Babajide & Adetilo, 2012; Kuo & Lin, 2013; Onsomu, 2014; Broihanne et al., 2014; Ikram, 2016), who discovered the influence of overconfidence and representative bias on investment decisions in the capital market.

The findings show that prospect variables significantly influence the investment decisions of individual Islamic investors in East Kalimantan Province and that there is a positive relationship between prospect behavior making irrational decisions and personal investment decisions of Islamic investors in the real and financial sectors in East Kalimantan Province. The findings of this study are consistent with the findings of Waweru et al. (2008), who discovered that prospect factors, such as loss aversion, regret aversion, and mental accounting, influence the investment decisions of Nairobi stock

exchange investors, as well as the findings of Ngoc (2013), who discovered that prospects (loss aversion, regret aversion, and mental accounting) influence the investment decisions of individual investors on the Ho Chi Minh City stock exchange (2019) In Surabaya, regret aversion does not affect the investment decisions of young investors.

The findings indicate that market factors significantly influence individual Islamic investors' investment decisions in East Kalimantan Province. That market information plays a critical role in individual Islamic investors' investment decisions in the real and financial sectors in East Kalimantan Province. The findings of this study are supported by the results of Waweru et al., (2008), who concluded that market factors influence investors' investment decisions on the Nairobi Stock Exchange, as well as Ngoc (2013), who found that market factors influence individual investors' investment decisions in Indonesia. Ghalandari and Ghahremanpour (2013) discovered that market factors influence individual investors' decisions to invest in the Tehran stock exchange. Study Individual investors in Khulna City, Bangladesh, according to Khan et al. (2015), look at market factors such as share price, financial indicators, historical data, expected dividends, financial statements, and firm rank in the industry when making investment decisions. According to Beenish Ameer (2017)'s research, market factors impact individual investors' investment decisions in the Pakistan Stock Exchange.

The findings show that the herding variable has no significant influence on the investment decisions of individual Islamic investors in East Kalimantan Province, implying that when individual Islamic investors make investment decisions in the real and financial sectors in East Kalimantan Province, they are not influenced by the decisions of others and make their own. The findings of this study are consistent with the findings of Alqurran et al. (2016). They concluded that the herding variable does not influence investment decisions in the Saudi Stock Exchange. Kengatharan and Kengatharan (2014) researched individual investors on the Colombo stock exchange, and the findings revealed that herding bias impacted their investment decisions. In their study, Bashir et al. (2013) demonstrate that herding impacts financial markets. (Shusha & Touny, 2016; Beenish Ameer, 2017) discovered that herding affects individual investors' investment decisions, but Bakar and Yi (2015) found that herding has no impact on investment decisions in Malaysia, and they obtained different results.

Conclusion And Recommendation

Several stages of the analysis revealed that the influence of heuristic variables on investment decisions has a significant impact, implying that individual Islamic investors in East Kalimantan Province perform cognitive processes based on the information possessed in investment decisions in the real and financial sectors. The prospect variable significantly influences investment decisions, implying a positive relationship between prospect behavior or making irrational decisions on individual investment decisions of Islamic investors in the real and financial sectors in East Kalimantan Province. The market factor variable significantly influences investment decisions, which means that market information is critical in investment decisions made by individual Islamic investors in East Kalimantan Province's real and financial sectors. Because the herding variable has no significant influence on individual Islamic investors' investment decisions

in East Kalimantan Province, it can be concluded that herding behavior does not occur when individual Islamic investors make investment decisions in the real and financial sectors.

This study confirms that the heuristic, prospect, and market factor theories can describe individual Muslim investors' behavior in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely used and conducted in financial markets. In contrast, the herding theory is incapable of describing the behavior of individual Muslim investors in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely conducted in financial markets. The recommendation for future research is to broaden the sample to include a more diverse group of people and other regions. This means that the sample is more widely spread across Indonesia and has non-Muslims because they also make investments. Another suggestion is to conduct a more in-depth study of neurofinance theory, which adds to the growing biases in the field of behavioral finance.

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Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia

Herry Ramadhani^{a,*}, Dian Masyita^b, Aldrin Herwany^c, Yudi Ahmad Faisal^d

a. Department of Economics and Business, Mulawarman University, Samarinda, Indonesia (Corresponding author email: herry.ramadhani@feb.unmul.ac.id)

b, c, d. Department of Economics and Business, Padjadjaran University, Bandung, Indonesia

Abstract

The study examined the influence of investment decision behavior on individual Islamic investors in the real and financial sectors because there are few studies on Muslim groups who invest in the real and financial sectors. Most of the research on investment decisions focuses on the capital market. This research tests psychological theories: heuristics prospects, market, and herding effect. The methodology used in this study is the structural equation method and uses primary data of 303 Islamic investors in East Kalimantan Province. The results show Individual Islamic investors' investment decision behavior in the real and financial sectors was significantly influenced by heuristics, prospects, and market factors. In contrast, the herding had no significant influence on Individual Islamic investors' investment decision behavior in the real and financial sectors. The theory of heuristic, prospect, and market factor can describe the behavior of individual Muslim investors in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely conducted in financial markets. In contrast, the herding theory cannot describe individual Muslim investors' behavior in making investment decisions in the real and financial sectors in East Kalimantan Province.

Keywords: Herding, Heuristic, Islamic Investor, Market Factors, Prospects

JEL Classification : G11, G40, G41

Introduction

In Indonesia, the phenomenon of hijrah and halal lifestyle influences Muslim behavior. Halal is no longer limited to food and beverages; it has spread to all aspects of life, including investment (Yuswohady,2018). Furthermore, until 2040, the Indonesian economy is expected to be dominated by the growth of middle-income people, most of whom will be Muslims. The financial and real sectors are intertwined in an Islamic economy. According to Choudhury (1986), monetary policy is only one aspect of the real sector. In Islamic economics, however, the financial sector represents the real sector because Islam forbids economic speculation and money is used as a commodity. Indonesia requires a robust economy in both the real and financial sectors, as these two sectors drive economic growth in Indonesia's regional regions (Kalla, 2018). East Kalimantan has the potential for economic development and sharia finance, as evidenced by a significant financial contribution of 21.08 percent to the East Indonesia region's

economy and 4.02 percent to the national economy, which is supported by demography, as 85.38 percent of East Kalimantan's population is Muslim (Statistics Indonesia, 2012).

As a form of worship to Allah SWT, Muslim investors must follow investment rules (Islamic principles) in the financial and real sectors (Salleh, 2012). In contrast, conventional investors invest for profit maximization (Farooq, 2011). In other words, Muslim investors must support Sharia by prioritizing the principle of benefit, which includes the prohibition of usury, gharar, and speculation, rather than investing solely for profit. Investment decision-making is a dynamic and complex phenomenon that encompasses all aspects of life, including various dimensions and methods of selecting from the different available options. Conventional finance assumes that investors are rational and want to make a profit on their investments. In contrast, behavioral finance assumes that investors are irrational and want to make a profit on their investments. However, behavioral finance recognizes how psychological factors influence investment decisions (Kumar & Goyal, 2015). (Kourtidis et al., 2011). Muslim investors make economic decisions such as working, saving, increasing the value of their assets, and consuming.

Many studies on the behavior of investment decisions have been published. A recent study (Matos et al., 2022) used quantitative methods and discovered no evidence of the availability heuristic's effect on significant stock price changes on the London Stock Exchange. Teeramungcalanon and Rattanaprichavej (2021) found no difference in the influence of psychological bias and social interactions on direct and indirect real estate investment using a quantitative method to survey individual investors in Bangkok. Sabri et al., (2021) surveyed 578 Malaysian households and discovered that financial literacy positively influenced financial behavior. Al-Mansour (2020) used a quantitative method to investigate 112 individual investors in the United Arab Emirates (UAE). His research discovered that variable herding, prospect, and heuristic significantly impact investor decisions in the cryptocurrency market.

Ogunlusi and Obademi (2019) discovered that heuristics and prospects influence investment decisions in Nigerian banks by using quantitative methods to survey 200 bank customers in Nigeria. Khan et al. (2017) used the mixing method to conduct a study with anchoring, availability, and representativeness variables on 300 investors in Malaysia and Pakistan stock markets. They discovered that the variables anchoring, availability, and representativeness significantly influenced investors' investment decisions in both countries. Waweru et al. (2008) surveyed 40 institutional investors and discovered that heuristics, prospects, herding, and market factors influence the investment decisions of institutional investors at the Nairobi Stock Exchange. Ngoc (2013) conducted a quantitative survey of 188 individual investors on the Ho Chi Minh Stock Exchange and discovered that the variables prospects, herding, market, overconfidence, Gambler's fallacy, and anchoring inf

A study with Muslim respondents examined investment decisions from the standpoint of Islamic financial behavior. Yusuff et al. (2017) discovered through a quantitative survey of 200 Muslim respondents at University Utara Malaysia, Kedah, that financial literacy, information sources, investment risk, religiosity, and product knowledge all influence investment decisions. A quantitative study by Mahdzan et al. (2017) discovered that the religiosity variable, in general, had no significant influence on the allocation of portfolio

assets. In contrast, individuals with high-risk tolerance, income, and education levels tended to allocate risky investments into the portfolio. Amin (2013) used the quantitative method to survey 257 respondents in Labuan, Malaysia. The study's findings indicate that attitudes, subjective norms, and perceived financial costs all influence the decision to use a sharia credit card. Warsame and Ileri (2016) used a questionnaire and the quantitative structural equation model to survey 553 individual investors in Doha and Qatar. According to the study's findings, attitudes and perceived behavioral control influenced the intention to invest in Sukuk. At the same time, subjective norms had no significant impact on investors' intent to invest in Sukuk. It was discovered that religiosity does not affect the decision to invest in Sukuk.

Because there are few studies on Muslim groups that invest in the real and financial sectors, this study focuses on individual Islamic investors. The majority of research on investment decisions is concentrated in the financial market, specifically on testing psychological theories such as heuristics (Tversky & Kahneman, 1974), prospects (Kahneman & Tversky, 1979), market (Bondt & Thaler, 1985), and herding effect (Devenow & Welch, 1996).

Literature Review

Behavior Finance and Investment Decision

According to Ritter (2003), financial behavior refers to an investor's investment decision-making process influenced by some cognitive illusions (cognitive deviations). Shefrin (2000) defines behavior finance as the study of how psychological factors influence financial behavior, while Nofsinger (2001) defines financial behavior as the study of how humans behave in a financial situation, focusing on how psychology influences financial decisions. The approach that describes how humans make financial investments affected by psychological factors is defined by the concept that explains financial behavior.

From a human standpoint, the investment decision process is very long and complicated. Investment behavior explains how investors decide, gather information, define, understand, and examine investments (Slovic, 1972). Investors need accurate data or information to make sound investment decisions. Create a decision-making model using investment assessment criteria based on available data so investors can select the best investment product from various options. Every investment decision, whether buying, selling, or holding, is based on his investment. As defined by Gitman et al. (2011), investment is a method of investing money to generate a positive return and maintain or increase the value of the investment.

Prospect

Psychologists Kahneman and Tversky pioneered prospect theory (1979). Prospect theory, also known as the loss aversion theory, contends that humans make irrational decisions. It also claims that losses have a more significant emotional impact than gains, despite the outcome being the same. For example, most people prefer the pain of losing one million dollars to the pleasure of winning one million dollars. According to Kahneman and Tversky (1979), the emotional impact of loss is double that of gain.

Researchers always assume that decision-makers in finance, accounting, and economics are rational decision-makers who can digest all information well and make the best choices. However, researchers have discovered a new phenomenon in which the concept of rationality is frequently violated. The decision-making framework is one of the factors that contribute to it. To clarify this point, Tversky and Kahneman introduced the prospect theory, an alternative model that incorporates risk into decision-making. This theory proposes several characteristics of risk-averse investors, such as risk aversion and loss aversion.

According to Kahneman (2003), when risky games are played multiple times rather than once, each individual suffers more losses. The theory focuses on how investor confidence in decision-making affects investor subjectivity (Luong & Ha, 2011). Prospect theory demonstrates that people are irrational and prefer to risk profits over losses. Prospect theory explains several statements that influence a person's decision-making process. This prospect theory's indicators are **regret aversion, loss aversion, and mental accounting** (Waweru et al., 2008).

Heuristic

Heuristics or *rules of thumb* relating to attitudes help people make better decisions, especially in complex, uncertain, and biased situations. It can be done by calculating probabilities and guessing the value of investments to derive complex, uncertain, and personal factors (Ritter, 2003). According to Poyla (1973), heuristics means "guide to find" in general. A heuristic is helpful, especially in a time-bound decision-making process (Waweru et al., 2008). However, as the decision-making process is speedy, bias or deviation can occur (Kahneman & Tversky, 1974; Ritter, 2003). A heuristic is a complex or complicated investment decision-making process because it involves investors' individual cognition based on their information.

Baker and Nofsinger (2010) state that heuristics simplify complex decision-making because it involves individual cognition, while each individual's ability is limited to measure the obtained results. Kahneman and Tversky (1974) were the first researchers to study **heuristic factors in the decision-making process carried out by the investors and found three factors, namely, representativeness, availability bias, and anchoring**, while Waweru et al. (2008) introduced two elements in the heuristic theory: overconfidence and Gambler's fallacy. The indicators of cognitive bias or deviation that heuristics can cause, namely, representativeness, availability bias, anchoring, overconfidence, and Gambler's fallacy (Luong & Ha, 2011) and Waweru et al., (2008).

Market Factors

According to Bondt and Thaler (1995), investor behavior can influence financial markets. If the behavioral viewpoint is correct, and investors are thought to be very reactive or otherwise unresponsive to changes, **extrapolation of previous trends into the future**; investors' **attention to** fundamental factors is very weak, and investors only focus on high-value investments and observe a price. Investors who see momentum may prefer stocks with good current performance, whereas rational investors tend to sell losing stocks. On the other hand, irrational investors choose to sell stocks with historically profitable data because they can delay feeling regret related to losses they can expect as a result of their

investment decisions. According to Luu and Yu (2012), market efficiency is defined as the market price reflecting the fundamental market characteristics as well as the long-term average rate of return.

According to academic research, traditional financial theories cannot explain market anomalies such as abnormal price movements associated with IPOs, mergers, stock splits, and spin-offs. Statistical anomalies continued to emerge throughout the 1980s and 1990s, implying that existing standard financial models could not account for these anomalies. According to Odean (1998), investors typically choose stocks that interest them; investor preferences also influence stock selection. Before making an investment decision, investors usually use technical analysis methods to analyze the previous stock trend. Market factors influence investment behavior and rational investors in various ways; therefore, market factors include behavior factors considered when making investment decisions. Waweru et al., (2008) identify market indicators that influence investors' decision-making, such as price changes, market information, past investment trends, and fundamentals of an underlying investment.

Herding Theory

Herding is defined in the financial market as the tendency of investor activity to mimic the behavior of other investors (Luong & Ha, 2011). From a behavioral standpoint, herding can cause emotional distortion. Investors prefer herding because they believe it can help them find valuable and trustworthy information. Herding can produce both difficult to explain and appealing phenomena, particularly when determining asset prices/share prices influenced by specific sentiments (Devenow & Welch, 1996).

According to Tan et al. (2008), the effect of herding is also being studied because its impact on changes in stock prices can affect the risk and return model attributes, which impact the asset pricing theory's perspective. According to Caparrelli et al. (2004), the impact of herding on investors is similar to that of primitive humans who congregate in groups and help one another due to limited knowledge and information about their environment. The herding effect can cause emotional biases such as conformity, congruity, cognitive conflict, house bias, and gossip. Investors can use the herding impact if they are confident it will help them filter valuable and reliable information. Herding has four indicators: buying and selling decisions of other investors, investment to trade choice of other investors, the volume of investment to trade by other investors, and herding speed (Waweru et al., 2008).

Hypotheses Development

Heuristics is one of the behavioral factors that influence investment decisions; it is quite useful, especially in time-bound decision-making processes (Waweru et al., 2008); however, because the decision-making process is very fast, bias/deviation can occur (Kahneman & Tversky, 1974; Ritter, 2003). Many studies show a significant influence of heuristic variables on investment decision behavior and are supported by recent research that strengthens these results. As a result, the following hypotheses are advanced in this study:

***H1:** Heuristic variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.*

Prospect theory concerns investor confidence in the decision-making process and how it influences investor subjectivity (Luong & Ha, 2011). Prospect theory asserts that people are irrational and would rather risk profits than losses. Many studies show that heuristic variables significantly influence investment decision behavior, which is supported by new research. As a result, the following hypotheses are advanced in this study:

***H2:** Prospect variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.*

According to Bondt and Thaler (1995), investor behavior can influence financial markets. Market factors influence rational investors and investment behavior in various ways. Many studies show that market factors significantly influence investment decision behavior, which is supported by new research. As a result, the following hypotheses are advanced in this study:

***H3:** Market factors variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.*

Herding can cause an inexplicable and exciting phenomenon, especially in asset pricing/stock prices influenced by particular sentiments (Devenow & Welch, 1996). Herding can cause emotional distortion from a behavioral point of view. Investors favor herding because they believe it can help them obtain valuable and reliable information. Many studies show a significant influence of herding on investment decision behavior, supported by recent research that strengthens these results. Therefore, this study also hypothesized as follows:

***H4:** Herding variables positively influence the investment decision behavior of individual Islamic investors in East Kalimantan Province in the real and financial sectors.*

Research Methodology

Population and Sample

This study's population comprises Islamic investors in East Kalimantan Province who have already invested in the real and financial sectors. The investors were randomly sampled using the accidental sampling technique. A total of 303 investors provided samples, and all models met the criteria for analyzing the variables that influenced investment decision behavior in the real and financial sectors. Heuristics, prospects, market factors, and the herding effect were among the variables considered.

Research Instruments

There are two sections to the questionnaire. First, it determines the respondents' identities and requires demographic information such as age, gender, occupation, monthly income,

education, and marital status. Second, a questionnaire that detects all research variables is classified as independent, dependent, or moderate. Previous studies were used to measure these variables. The specifics are as follows: heuristics [8], the prospect [6], market factors [4], herding [4], and investment decision behavior [4]. The items used to measure all the variables listed above are expressed as respondents' subjective perceptions. Choose one of the five proposed Likert scales to express your thoughts. This scale displays statements ranging from * 1 * (strongly disagree) to * 5 * (strongly agree).

Data Analysis Techniques

Data analysis using Path Analysis through Structural Equation Modeling (SEM), with Amos software and a significant level of 0.05 or 5%.

Results And Discussion

Table 1. Demographic Characteristics of Respondents

Demographic Characteristics	Items	Frequency	%
Age (y.o.)	17-25	101	33
	26-30	57	19
	31-35	34	11
	35-40	65	22
	Above 40	46	15
Gender	Male	132	44
	Female	171	56
Occupation	Government Employees/Army/Police	60	20
	Private sector employees	82	27
	Entrepreneur	72	24
	Student	72	24
	Others	17	5
Income/Month (IDR)	1.000.000 to 5.000.000	127	42
	6.000.000 to 10.000.000	89	29
	11.000.000 to 15.000.000	48	16
	16.000.000 to 20.000.000	16	5
	Above 20.000.000	23	8
Education	High School	121	40
	Diploma	19	6
	Bachelor	137	45
	Postgraduate	17	6
	Doctoral	9	3
Marital Status	Married	167	55
	Single	136	45

Source: Research finding

Table 1 depicts the demographic variables in this study, which include age, gender, occupation, monthly income, education, and marital status. There are 303 total investors, with 132 male investors having a percentage of 44 and 171 female investors having a

56%. The age distribution shows that most respondents (33%) are between the ages of 17 and 25. The majority of respondents (82 with a percentage of 27) work in the private sector. Concerning income/month data, the majority of IDR 1,000,000 to 5,000,000 is reported by 127 respondents with a percentage of 42, 137 respondents report education with a percentage of 45, and marital status is reported by 167 respondents with a percentage of 55.

Table 2. SEM Estimation

Variables	Estimate	Coefficient Regression	p-value*	Description
Heuristic <input type="checkbox"/> Investment Decision Behavior	.480	3.820	.000	Significant
Prospect <input type="checkbox"/> Investment Decision Behavior	.232	2.342	.019	Significant
Market Factors <input type="checkbox"/> Investment Decision Behavior	.355	5.427	.000	Significant
Herding <input type="checkbox"/> Investment Decision Behavior	.021	.914	.361	Not Significant

Note: * indicates significance at a 5% level of significance based on t-statistics

Source: Research finding

Table 2 depicts SEM estimation in which the heuristic, prospect, and market factors variables significantly influence individual Islamic investors' investment decisions in East Kalimantan Province in the real and financial sectors. Still, the herding variable has no significant impact on the investment decisions of individual Islamic investors in East Kalimantan Province.

The study's findings indicate that heuristic variables have a significant influence on the investment decisions of individual Islamic investors in East Kalimantan Province in the real and financial sectors, implying that individual Islamic investors in East Kalimantan Province perform cognitive processes based on the information held by these investors before making investment decisions in the real and financial sectors. The study's findings are similar to those of Raut et al. (2020), who discovered that investors in the Indian stock market are influenced by representativeness and overconfidence, as well as research conducted by (Islam, 2012; Babajide & Adetilo, 2012; Kuo & Lin, 2013; Onsomu, 2014; Broihanne et al., 2014; Ikram, 2016), who discovered the influence of overconfidence and representative bias on investment decisions in the capital market.

The findings show that prospect variables significantly influence the investment decisions of individual Islamic investors in East Kalimantan Province and that there is a positive relationship between prospect behavior making irrational decisions and personal investment decisions of Islamic investors in the real and financial sectors in East Kalimantan Province. The findings of this study are consistent with the findings of Waweru et al. (2008), who discovered that prospect factors, such as loss aversion, regret aversion, and mental accounting, influence the investment decisions of Nairobi stock

exchange investors, as well as the findings of Ngoc (2013), who discovered that prospects (loss aversion, regret aversion, and mental accounting) influence the investment decisions of individual investors on the Ho Chi Minh City stock exchange (2019) In Surabaya, regret aversion does not affect the investment decisions of young investors.

The findings indicate that market factors significantly influence individual Islamic investors' investment decisions in East Kalimantan Province. That market information plays a critical role in individual Islamic investors' investment decisions in the real and financial sectors in East Kalimantan Province. The findings of this study are supported by the results of Waweru et al., (2008), who concluded that market factors influence investors' investment decisions on the Nairobi Stock Exchange, as well as Ngoc (2013), who found that market factors influence individual investors' investment decisions in Indonesia. Ghalandari and Ghahremanpour (2013) discovered that market factors influence individual investors' decisions to invest in the Tehran stock exchange. Study Individual investors in Khulna City, Bangladesh, according to Khan et al. (2015), look at market factors such as share price, financial indicators, historical data, expected dividends, financial statements, and firm rank in the industry when making investment decisions. According to Beenish Ameer (2017)'s research, market factors impact individual investors' investment decisions in the Pakistan Stock Exchange.

The findings show that the herding variable has no significant influence on the investment decisions of individual Islamic investors in East Kalimantan Province, implying that when individual Islamic investors make investment decisions in the real and financial sectors in East Kalimantan Province, they are not influenced by the decisions of others and make their own. The findings of this study are consistent with the findings of Alqurran et al. (2016). They concluded that the herding variable does not influence investment decisions in the Saudi Stock Exchange. Kengatharan and Kengatharan (2014) researched individual investors on the Colombo stock exchange, and the findings revealed that herding bias impacted their investment decisions. In their study, Bashir et al. (2013) demonstrate that herding impacts financial markets. (Shusha & Touny, 2016; Beenish Ameer, 2017) discovered that herding affects individual investors' investment decisions, but Bakar and Yi (2015) found that herding has no impact on investment decisions in Malaysia, and they obtained different results.

Conclusion And Recommendation

Several stages of the analysis revealed that the influence of heuristic variables on investment decisions has a significant impact, implying that individual Islamic investors in East Kalimantan Province perform cognitive processes based on the information possessed in investment decisions in the real and financial sectors. The prospect variable significantly influences investment decisions, implying a positive relationship between prospect behavior or making irrational decisions on individual investment decisions of Islamic investors in the real and financial sectors in East Kalimantan Province. The market factor variable significantly influences investment decisions, which means that market information is critical in investment decisions made by individual Islamic investors in East Kalimantan Province's real and financial sectors. Because the herding variable has no significant influence on individual Islamic investors' investment decisions

in East Kalimantan Province, it can be concluded that herding behavior does not occur when individual Islamic investors make investment decisions in the real and financial sectors.

This study confirms that the heuristic, prospect, and market factor theories can describe individual Muslim investors' behavior in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely used and conducted in financial markets. In contrast, the herding theory is incapable of describing the behavior of individual Muslim investors in making investment decisions in the real and financial sectors in East Kalimantan Province, where this behavioral theory research is widely conducted in financial markets. The recommendation for future research is to broaden the sample to include a more diverse group of people and other regions. This means that the sample is more widely spread across Indonesia and has non-Muslims because they also make investments. Another suggestion is to conduct a more in-depth study of neurofinance theory, which adds to the growing biases in the field of behavioral finance.

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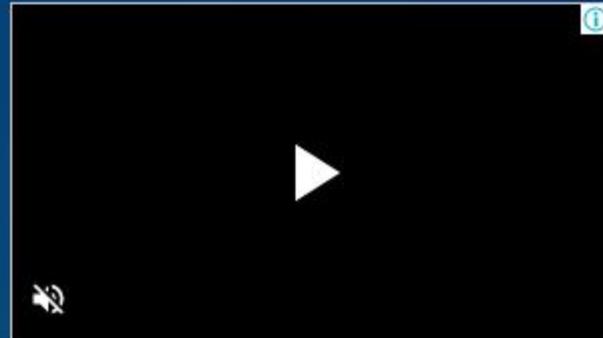
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major revision - IER-202204-1007425 Yahoo/Inbox

ier@ut.ac.ir To: herry_dcoe@yahoo.com

Sun, Jul 17, 2022 at 12:50 PM

Manuscript ID: IER-202204-1007425

Manuscript Title: Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia

Authors: Herry Ramadhani

Dear Mr. Herry Ramadhani

Your manuscript has been reviewed and obtained revisions. Please revise your paper, highlight the revised parts and resubmit it within 15 days. Then we send it to the final reviewer.

If it needs, please upload a "response to reviewers" file to answer the reviewers' questions. We will send your revisions to the final reviewer.

** It is important to choose the type "response to reviewer" on the webpage for your explanations to the reviewer. if not, the reviewer will not be able to see your file.

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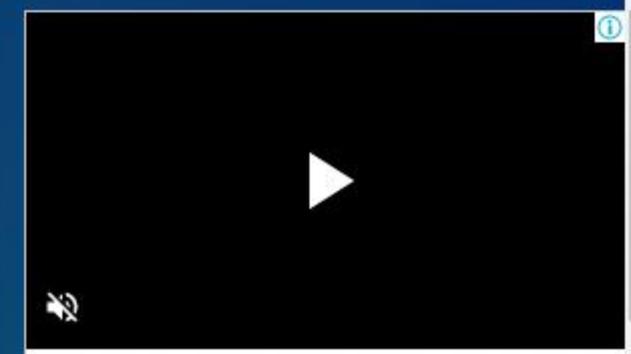
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"the paper is not professionally written. for example the article organization is not mentioned in the introduction or the last section should include a summary and conclusion."
The overview of the second reviewer (reject):
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Manuscript Evaluation Form

1. Is the title clear and is it adequate to the purpose of the study?	yes
2. Does the Abstract clearly present objects, methods and results?	it needs to revise
3. Are Research methods adequately used?	it needs to complete
4. Is Terminology adequate and to the point?	yes
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6. Are Results clearly presented?	it needs to revise
7. Are Conclusions logically derived from the data presented	it needs to revise
8. Are Keywords adequate?	yes
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- it needs to revise
- 7. Are Conclusions logically derived from the data presented
- it needs to revise
- 8. Are Keywords adequate?
- yes
- 9. Are JEL Classifications adequate?
- yes
- 10. Are Supplements (tables, charts, pictures and drawings) necessary, clear and with mentioning their sources?
- it needs to revise
- 11. Are References appropriate and updated (recent 12 years)?
- rather good
- 12. Does the paper have innovation?
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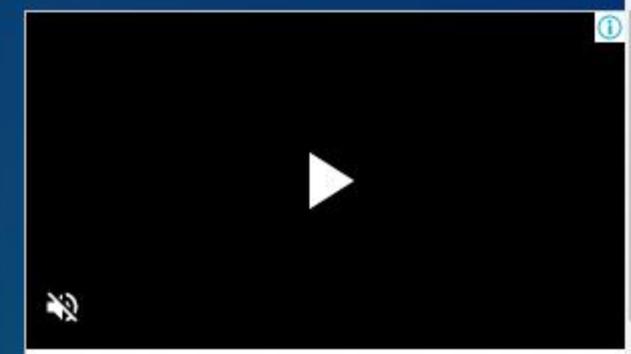
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Iranian Economic Review <ier@ut.ac.ir> Fri, Jul 29, 2022 at 9:50 PM

To: herry_dcoe@yahoo.com
Cc: ier@ut.ac.ir

Manuscript ID: IER-202204-1007425 (R1)

Manuscript Title: **Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia**

Authors: Herry Ramadhani

Date: 2022-04-21

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To: herry_dcoe@yahoo.com

Manuscript ID: IER-202204-1007425 (R1)

Manuscript Title: **Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia**

Authors: Herry Ramadhani

Dear **Mr. Herry Ramadhani**

I am pleased to inform you that your paper has been accepted to be published in the next volume(s) of the Iranian Economic Review (IER) journal. We are not sure about the precise date of publishing yet.

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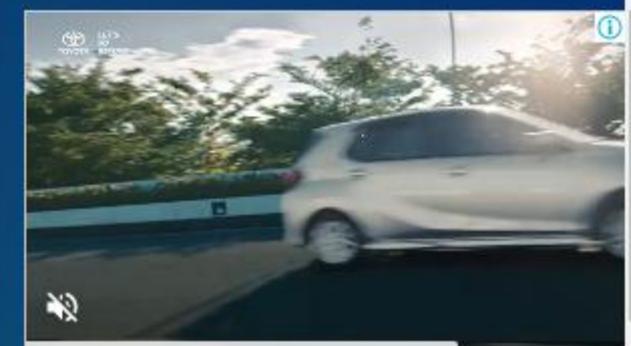
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Manuscript ID: IER-202204-1007425 (R2)

Manuscript Title: **Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia**

Authors: Herry Ramadhani

Date: 2022-04-21

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Date: 2022-04-21

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Mon, Aug 29, 2022 at 1:23 PM

Manuscript ID: IER-202204-1007425 (R2)

Manuscript Title: Individual Islamic Investors Behavior on Investment Decisions: An Empirical Study from East Kalimantan Province Indonesia

Authors: Herry Ramadhani

Dear Mr. Herry Ramadhani

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