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# THE EFFECT OF HEURISTICS BEHAVIOR ON INVESTMENT PROPERTY INVESTMENT DECISIONS ON ISLAMIC INVESTORS: CONCEPTUAL PAPER

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## ABSTRACT

The purpose conceptual paper researcher wants to explore the psychological theory of Heuristics (Kahneman & Tversky, 1974), on a new field related to the right investment decisions in Islamic investors. The behavior of a Muslim investor should not be the same as conventional investor behavior, because Muslim investors invest their capital in property investment not only profit-oriented to be gained in the future but also pay attention to things that are not inadvertent. The problem to be studied by the researcher is a social and dynamic problem because it uses mixed research method (MMR) with sequential explanatory design strategy

**Keywords :** Investment, Heuristic theory and Mix method

## 1 INTRODUCTION

there has been a growing trend throughout the Muslim world to strive for the application of Islamic law (shariah) in every way of life, including investment. The behavior of a Muslim investor should not be the same as conventional investor behavior, as Muslim investors when investing in property investment are not only profit-oriented to be gained in the future but also pay attention to the element of ignorance. The Islamic principle of investment activity encompasses at least five aspects, namely: not seeking sustenance on the things that are haram, not tyranny and not destined, justice in the distribution of income, and no element of usury, maysir (gambling, speculation), and gharar (uncertainty)

Financial behavior is a relatively new field that combines behavioral and cognitive psychology with traditional finance to provide an explanation of why investors make irrational decisions (Ackert & Deaves, 2009; Baker & Nofsinger 2010; Hirshleifer, 2001; Pompian, 2011; Statman, 1999) . Although traditional finance assumes that individual investors make rational decisions, empirical

evidence suggests that deviations from traditional models are persistent and predictable (Ackert & Deaves, 2009; Fama, 1998; Shleifer, 2000). Researchers have concluded that the behavioral elements in decision-making tend to have more influence on individual investors than with large investors or institutional investors (Barberis & Thaler, 2003; Fama, 1998; Schleifer 2000; Shefrin, 2000; Thaler, 1999).

Tahir and Brimble (2011) examines the extent to which Muslim investors adhere to the requirements laid down in the Islamic investment principles. Tahir and Brimble find the existence for the influence of Islam on investment decision making among Muslims. Amin (2014) examines the factors affecting Malaysian bank customers against credit card options in sharia banks. He concludes that attitudes, subjective norms and financial costs are felt to significantly influence the intentions of choosing credit cards in sharia banks in Malaysia. Canepa and Ibbubbian (2014) investigated the influence of religious belief on stock price movements in Saudi Arabia Stock Market by using descriptive analysis and stochastic dominance analysis. findings show that religious teachings influence investor behavior towards their preferred investment portfolio. Wahyuni (2012) studied the factors influencing the behavior of Muslim community towards sharia banking services in Surakarta, Indonesia. findings show that attitudes and knowledge significantly influence Muslim society's behavior towards sharia banking services, while social influence is also found to be an important factor in the early stages of testing.

In this research the researchers tested the theory of Heuristic psychology (Kahneman & Tversky, 1974), on new areas related to investment decisions among Islamic investors and useful for informing Muslim investors in Indonesia about how they invest

## **2 INVESTING IN ISLAMIC PERCEPTIONS**

According to Huda and Nasution (2007), investment is one of the teachings of Islamic concepts that fulfill the process of tadrij (gradation) and trichotomy of knowledge (knowledge of instruments, intellectual knowledge and spiritual knowledge). It can be proved that the concept of investment other than as knowledge is also nuanced spiritual because it uses the norm of sharia, as well as the essence of science and charity, therefore investment is highly recommended for every

### **3 HEURISTIK FACTOR**

According to Poyla (1973) heuristic means "guide to find" In general, this heuristic is quite useful, especially in the decision-making process limited by time (Waweru et al., 2008, p.27) but because the decision-making process is very fast, irregularities (Kahneman & Tversky, 1974, p.1124; Ritter, 2003, p.431). Kahneman and Tversky were the first researchers to study the heuristic factors in the decision-making process undertaken by investors, and found three factors namely, representation, availability of bias, retention (Kahneman and Tversky, 1974). While Waweru et al. also introduces two factors in the heuristic theory of the error of gambler and over-confidence (Waweru et al., 2008) so that there are five cognitive deviations that can lead to heuristics ie, representation, availability bias, anchoring, gambling and overconfidence (Luong and Ha, 2011) waweru et al.2008)

#### **3.1 Representativeness bias**

Shefrin (2007) states that the representation of bias is a decision-making based on stereotypical thinking or analogy, and will cause investors to make false financial decisions

#### **3.2 Availability bias**

(Waweru et al., 2008) Availability of bias is one form of cognitive bias that occurs when investors too often use information that is easily obtained. One example of availability bias is investors prefer to invest in the country because investors have more information in the country compared to information abroad.

#### **3.3 Anchoring bias**

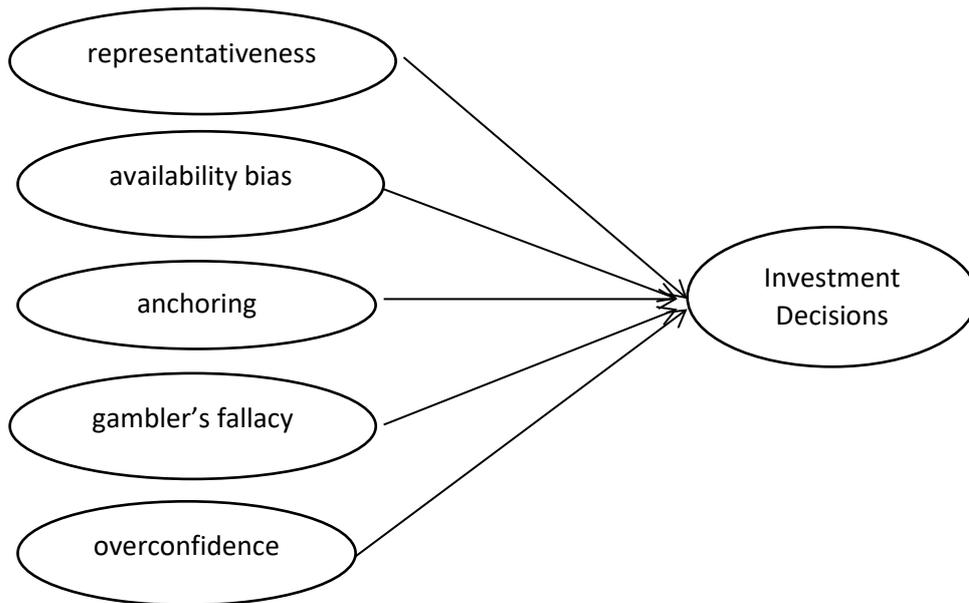
Anchoring is a cognitive bias that describes a situation when one uses an initial assessment to estimate, where this deviation leads to differences in estimate yield (Kahneman and Tversky, 1974). The concept of Anchoring is a psychological heuristic that can influence the investment decision process of an investor to follow his intuition (Pompian, 2006)

#### **3.4 Gambler's fallacy bias**

The belief that a small sample group can represent a population known as the "law of small numbers" (Rabin, 2002). Especially in the stock market, gamblers 'fallacy arises when investors' predictions are not accurate which is then compared with the return earned (Waweru et al. 2008).

### 3.5 Overconfidence bias

The concept of overconfidence comes from research through experiments and surveys where the subject is overestimated in estimating prediction accuracy through the information provided (pompian, 2006). (Nofsinger, 2005) Overconfidence also affects investors taking risks, rational investors trying to maximize profits while minimizing the amount of risk taken (Nofsinger, 2005).



**Figure 1 : Conceptual Framework**

## 4 RESEARCH METHODS

The problem to be studied by the researcher is a social and dynamic problem because it uses Mixed method research (MMR) with sequential explanatory design strategy, that is research method by combining quantitative and qualitative research method in sequence. Quantitative methods used in this study is a method that is verifikatif used to answer all research objectives, through data collection field and see the influence between variables in this study. Primary data was obtained by giving questionnaires to several investors in East Kalimantan Province, qualitative data collection was done through in depth interviews to informants ie investors in East Kalimantan Province.

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