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This conference indexed by:



The Moral Values of Psychological Stability, Successful Key of Investment

(Study of the Indonesian Stock Exchange Investor Behaviors)

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Abstract—Psychological stability is needed to achieve success in investing especially for short-term investors. The moral values in behavior are believed to foster the psychological stability and this term can come from many factors. This study aims to explore the determinants of investment success in terms of deontological moral ethics, based on meaning of investment perception for investors and explore the meaning of significance implementation toward investor behavior. This study was used a qualitative interpretive paradigm and phenomenology deontology methods and attempted to explore the internalized values from investor's perception to uncover the moral ethics role for psychological tranquility within investment. The results showed that: The investor's perception and belief of investment and values, the reasons and motives of stock trading, and investors who had attention about the importance of similarity subjective and objective interests would have a high tranquility in investments. The conclusion of this research showed that the success investor was who appreciated the values, moral ethics, and cares with others in the case of make decision of investment. The implication of this research is, it is necessary to be an investor with a better perception about stock trading and a better cares with others to become a successful investor.

Keywords—component; interpretive, qualitative, individual investor behavior, phenomenology.

I. INTRODUCTION

This research was inspired by the idea stated that economics are a science of behavior, ethics, and morals that not be separated from other disciplines. Economics provides lessons on values that must be considered by people in economic interaction. Therefore, economic activity not be separated from social values, culture, politics, environment and sustainability for future generations.

Human beings are faced with limited resources to fulfill unlimited desire. Therefore, economics taught us to emphasize the more urgent and important needs at first. Everyone has to set the priorities among the various needs. As a *mukmin* (Islam believers), we are commanded to achieve the happiness in this world and hereafter. Happiness can be achieved if we make every effort to conform to Islamic law.

Wealth is a mandate from God and Islam recognizes the possession of man as an individual. Consequently, he has right

to manage and develop properties in accordance with Islamic thoughts. Therefore, they must have knowledge in order to make the wealth will be useful for themselves, others, and general society.

Wealth as ownership property might be transferred through selling and purchasing, as long as done by consent correctly. Trading is part of *muamalah* in order that people meet their needs effectively and efficiently. Therefore, people are allowed to make a profit in selling and purchasing they are as a return for employee benefits, distribution costs, storage costs, and courage to take risks. Trading is also a means for mutual helps among people.

Transactions of the stock exchange are assets exchange for other assets (securities with money) where there are goods transfer from seller to buyer along with ownership transfer. Normally, transactions are carried out with purchase contract, consent, an agreed price, and the medium of exchange is money. Therefore, the securities transactions are complied with the Islam jurisprudence requirements. Trade transactions conducted through intermediaries (securities brokerage) would not be a violation of *fiqh* (Islam law) [1].

Stock trading in the stock exchange is one form of economic activity. Theoretically, the aim of investor in stock buying is to get dividen, but the research found that variance return was the most influenced against investor stock buying decicion making but not dividen. It was indicated that IDX investor prefer short time investment more than long time investment [2]. Some capital market activities are also often made by capital market participants in opposition to Islamic law that are contrary to the Islamic ethics, such as short selling, index trading, margin trading, supply and demand reengineering, insider trading, and so on [3]. Ethically, these trading activities can also wound the others and even the stock market in general.

Based on the phenomenon described above, the aims of this research was to understand more closely the meaning and investors behavior to invest the stocks based on observations from moral deontology point of view

II. THEORETICAL FRAMEWORK

Covert behavior is often studied from a feeling, knowing, understanding and motivation point of view. There

is another aspect that rarely examined in terms of experience. Humans are creatures who live in their neighborhood, who are affected and influenced by the environment around them. Experience is called as vegetative aspect of human life because life experience is an unconscious [4].

Phenomenology presents phenomenon as noesis (meaning based on them), not based on physical features on them (noema). Through the presence of harmony among both of noema and noesis, it can be found the actual essence of phenomenon.

Investor's behavior in field of making decision of stock investment is specific behavior, based on their experience, perceptions, and understandings of the investor that are unique. Observed behavior is a symptom (noema) of the perceptions and motivations of the individual which is influenced by psychological factors. Furthermore, they can do transaction via online everywhere and do not depend on the account opening institution in where they were recorded. Making decision of investment is a struggle of investors, cognitively and psychologically. The psychological condition of investors is abstract. However, the real world is how the behavior appear. Therefore, to understand and examine the behavior deeply, the nature (essence) of a phenomenon must be revealed. This study will reveal what the investment means for the investors, how they perceive the meaning of an investment, and the reasons why investors invest in stocks. As a result, it reveals the motives of the investor. Furthermore, it will reveal the ethical significance underlying the investment motives.

Studying the human influence to the economy has been done since a long time ago. Adam Smith in the 18th century divided the natural behavior of human into two parts, fear and greed [5]. When greed dominates behavior, the economy will run rapidly, and might be swell and burst. Fast motion economy is driven by speculation and a rise of greedy behavior. When fear dominates the behavior, the economy will slow down. The same thing also occurs in capital markets as an accelerator of the trend movement of stock indices from both behaviors. The investor's investment success in the stock market depends on three main pillars of trading [6]:

A. Money management / cash flow management)

The success of all investors, long term, medium term or short term investors, highly depend on their ability to manage money. Money management skill is very important to get the maximum gain [7] :1) only using the idle money, (2) no debt to get invest, (3) do not put all the money into one stock, (4) divided the purchases into several stages, (5) if it possible, provide a reserve fund when stock market is crashing. Money management makes someone to forethought the invest and do not emotionally trade. The capital market is not the world of gambling, rather the world which promising the excessive profit for someone with curiosity analytic and rational with controlled risk.

B. Fundamental and technical analysis.

There are two analysis techniques that are often used by the investors when buying the stocks at a particular moment and determine whether it is worth or not:

- a. Fundamental analysis. Fundamental analysis concerns to the factors such as the company's performance, competition analysis, industry analysis, economic analysis and macro and micro market [8]. From this analysis can be seen whether a company is safe or not. Fundamental analysis is used to determine stock valuation, whether a stock is overvalued (expensive) or undervalued (cheap).
- b. Technical analysis. Technical analysis is a technique to analyze the stock prices fluctuations over time. From the of fluctuations it will show a pattern that could be used as the basis for buying and selling [9].. Basically, technical analysis is used to determine whether a stock is overbought or oversold.

a. Mindset / Psychology Trading

Mindset is a way of thinking about stock trading for someone who intends to invest in stock market. The wrong mindset will cause failure to the investors to get the optimal profit in a capital market. The investors struggle in capital markets are more than 60% carried out psychologically than fundamentally or technically. The biggest problem is not the market traders and investors, but the skilled personal emotions management of trader. A trader / investor will lose if they can not manage emotion to face the market traders and other investors [10].

Emotional stability in field of trading of stocks investors can be managed with well-preparations [6]: (a) determining the compatible positions between become investor or trader, (b) determining the correct trading purposes, (c) understanding the major enemy of trading, i.e: excessive fear and greed, (d) avoiding common mistakes that often made by trader / investor, such as does not make a trading plan and take disobediendly of it, past trauma of failure, and (e) too much confident.

Confidence and wrong perception of stock trading, (such as believing that stock trading is forbidden gambling, dangerous, and nobody will get rich from stock trading) will hinder the profit-taking investors from stock trading and cause the tendency to act hesitantly because of resistance of the subconscious mind of the investors / traders [6].

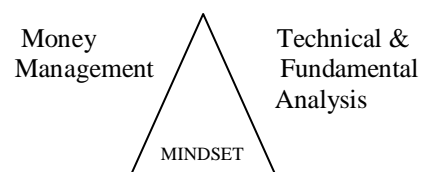


Fig. 1. The three main pillars of trading

III. RESEARCH METHODS

This study used a qualitative interpretive paradigm by Schutz's phenomenological method and deontological ethics morals to see the moral aspects of investor behavior. Informants were determined by *conditio sine qua non* and snowball method. The research informants were an individual investors in Surabaya, Indonesia. Data was collected using in-depth interviews method, participant observation, and documentation. Afterwards, data was analyzed used the phenomenology of Moestakas [11]. The criteria that was used to test the validity and reliability of qualitative data was [12];[13] credibility / trustworthiness, using triangulation, member checking, and external audit. The Authenticity / Confirmability check had been done with bracket and epoche.

IV. RESULTS AND DISCUSSION

This result was based on the data research toward five (four men and one woman)-informant investors attained the age between 21-55 years, who have different education and employment field. Table 1 shows demographics data of informant in this research.

Table 1. Demographics Data of Informants

No.	Name	Age	Ethnic	M/F	Education	Marital
1	I-1	48	Java	M	Post graduate	M
2	I-2	37	Java	M	Post graduate	M
3	I-3	55	Java	M	Bachelor	M
4	I-4	21	Java		MHigh school	S
5	I-5	43	Java		F High school	M

The results showed that the investors' values in their perceptions of investment would affected their behavior, and include: (1) kosher-forbidden (*halal/haram*) of stock transactions, (2) reasons and motives of their stock transactions, (3) investment risks, (4) subjective and objective interests, (5) the meaning of sharing with other (6) the meaning of happiness (7) gratitude the God for everything.

I. Kosher-forbidden of Stock Transaction.

The investors who considered the purchase and sale of shares as lawful mechanisms, would likely accept them and decide to invest in stocks. Contrary, the investors who considered stock transaction as something unlawful, would prevent them from making profit from stock, even though they invested in stocks. This situation would encouraged the psychological stress that affected toward hesitant behaviors. All of the informants in this research was thought that stock transaction as lawful mechanisms, and these consideration was based on MUI's (*Majelis Ulama Indonesia* / Indonesian Ulema Council) statement, because stock trading was the same with another general trading, it means that there was something/goods to trade and contract/agreement by mutual

consent. But there was some differences of perception between the informants about the time horizon:

- Investor who considered that short term stock trading was *haram* (unlawful) (minute or day trading) because the aims of stock trading was not really to investment but just speculation. This type of investor tend to avoid short term trading and became a longer investor, although he had been traded under a year.
- Investor who considered that fried stock was *haram* (unlawful), they tend to buy LQ-45' stock or blue chip stock with longer time horizon rather than buy the fried stock. Otherwise, investor who considered that fried stock was *halal* (lawful) they tend to become a short term investor by bought fried stock as an interesting and return potential stock.
- Investors who cared about syariah's product, tend to choose syariah's product and avoid bank' stock, cigaret' stock, etc because they considered the stocks only make small profit.

II. Reasons to invest in stocks

The reason why the investors invest in stocks will determine the motives. There are three motives found in this study, i.e. (1) "because" motive, investors who invest for the past reasons,; (2) "therefore" motive, today-oriented investors,; and (3) "in order to" motive, future-oriented investors. Various motives will create categories and identities that becoming investor's characteristic to analyze purchase and sale of their shares, especially in shaping the time horizons [14];[15].

Time horizon selection would determine the amount of psychological stress that was experienced. The shorter stock transaction time, the greater psychological stress would experienced, because stock analysis decisions were adjacent to decisions of share purchase. Time horizon selection related to the aims or the reason of investor decision to make invest. Investors who aimed to get large money as profit immediately, were tend to became short-term investor and tried to make money/profit with all manner. It would lead to take decision emotionally without proper accurate analysis, that would cause big loss eventually as a consequent. Contrary, long-term investor always learnt, analyzed, updated the related news, and learnt from the experience in order to be success investor

The capital market was a place to take long-term investment which more applied fundamental analysis, not just short-term speculation arena with gambler. If the speculation was bigger, consequently the stock price would have not stable and would not indicate the fundamental condition of the firm and make capital market condition in danger overall.

III. Investment Risk.

Investment risk was the all the economic risks the investor willing to bear. To minimize the risk, investors were applied target profits and maximum losses for each stock. In addition, to minimize psychological pressure, the investors should prepared themselves before entering the capital markets by these following ways: (1) did not use money debt, (2) did not use short term/daily need fund, (3) did not put all the money, (4) be possessed of confidence and good

references, (5) did not enter into a honed goods / penny stocks (6) learnt capital markets science, and (7) updated the market information frequently. The investors was called these way as a money management and it was important to always make a trading plan to minimize the risk.

The investment risk was also influenced by personality. Adventure personality investors were prefer the risks and they tend to choose riskier stock with a big potential profit. Contrary, a conventional and analyzing personality investors were tend to choose less risky, a big quality stock like blue chip and LQ-45 stock.

IV. Subjective and Objective Interests

Objective interest is interest that can be understood by observing from the outside, whereas the subjective interests can be only understood by how individuals act [16]. Subjective investor was interested to get profit. A good investor / trader did not make speculative without analysis although it had a short time horizon. They made decision clearly, with a fairly complex analysis (fundamental, technical) and it was not based on merely speculation and justifies any means. Their analysis produced consistent profit, albeit small profit. It would accumulate in the long term, proving their actions were not gambling.

The capital market was an investment place that more considered to the fundamental factors than others. Fundamental consideration was a basis for the investors and traders to measure the value and growth of stock prices and all risk more reasonably. When investors avoided margin trading, short selling, insider trading, demand and supply reengineering in order to manipulate the price, it means they have made synchronization between subjective and objective interests by trying to stabilize the capital markets.

V. The Meaning of Sharing with Others.

Investing in stocks should be sought in order to minimize the psychological stress that could arise fear and greed. Gratitude actions could reduce the psychological stress, for examples: doing *infak* (Islamic alms), charity or sharing, and gratitude toward Gods' blessing whether large or small quantities for what was achieved. By being grateful, it would create peace and minimized the effect of psychological distress in stock trading.

Through charity, *infak* would create a balance between subjective and objective interests. Subjective interests as alms giver would return to the more quantity and better quality. If the charity was done by everyone simultaneously, it would cause tremendous synergies for an improved economy as an objective interests.

VI. The Meaning of Happiness.

Happiness was not always how much materials could be collected from the investment, but the happiness would be obtained when we kept the balance of life. Life must go on by keep the good balance between ourselves, family,

neighborhood, friends, nature, and the Creator of universe. If we gave the positive things, we also received positive things too in return. Contrary, if we could not keep the balance, it will lead us to misfortunes of life.

These belief of life balance affect to how investors analyze stock before making stock purchase and sale them. The investors who act respectfully to the values mentioned above will prefer trade their stock on a more rational basic since using fundamental and technical analysis is quite complicated. The investors are considered to avoid the speculative actions that potentially contradictive to moral ethics and norms of Islamic religion. Margin, short selling, insider trading, index trading, false demand and supply will manipulates the prices and so on, thus they will inflict the financial loss themselves and the community, especially the economic stability of capital market. They minimize irrational actions, and avoid making decisions emotionally to purchase stock due to psychological bias is dominated by fear and greed. Psychological and cognitive biases are did by investor who overconfidence, cognitive dissonance, loss aversion, representativeness bias, self-ability bias, familiarity, naive, etc. that elicits the behavior of overtrading, herding and noise trading ; [12];[13];[17]

Psychologist and cognitive bias above made the investors stock trading unstable, thus that had not gained the maximum profit. In order to enhance economic globalization, we need to hold down strategy from hitting economic globalization in all of field, including capital market investment. Capital market would be the economic future world for development countries that expected to become stock value that we could tackled the inflation.. Human resources that required, were not only intellectuality smart, but also emotionally and spiritually intelligent that would lead to better generation, who would gain the maximum profit and share the wealth to other people, whatever the field based on human personal abilities to applied local wisdom.

V. CONCLUSION

This study provided an understanding of how to deal with life in investment context. Happiness was not measured by how much materials that had been gathered, but how much benefit and our concern for others, because the best people was who gave the most benefit / useful to others. Therefore, whatever might it was done, investment was not only based on personal interests/ subjectively but also the importance of synchronization between subjective and objective interest (public interest).

The research was implied that in order to become a better investor, there was consideration to change the minds perception to invest in capital market. Because this research showed that the successful key of investors was gained psychological stability by how deep they respected the moral values they had in life.

The limitation in this research was the researcher could not find scalper investor, this type of investor who trading in a

very short term, for 15 minutes or an hour. So, this research would not be explore all of the type of investor.

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