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Why do investors choose a mutual fund?

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Abstract
The purpose of this research is to identify the factors that support mutual funds investment decisions through overconfidence, risk perception, loss aversion, availability, and herding variables on the investment decisions of the residents of Batam City. Data were collected through questionnaires and processed using multiple linear regression. The results of testing and processing research data show that overconfidence, loss aversion, and herding significantly positively affect investment decisions, while risk perception and availability do not affect investment decisions.

Keywords: Investor; mutual fund; investment decision

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Introduction

According to Bakar and Yi (2016), investment decision-making in the stock market is indicated by the trade-off between risk-return and exploitation value. Individuals should enter all available information according to the efficient and impartial market hypothesis in analyzing securities. Investment decisions are not only influenced by general knowledge and information, but risk perception, overconfidence, and loss aversion also influence investment decision-making.

An investor with a high level of risk perception tends to choose investments with a low level of risk. Then individuals with high overconfidence and loss aversion tend to underestimate risk and feel confident that they can avoid losses and make profits. So that individuals with high levels of overconfidence and loss aversion sometimes make poor investment decisions (Nur Aini & Lutfi, 2019). Research also found that less volatility tends to a long-term investment perspective (Zuhroh et al., 2021). So, an investment portfolio such as a mutual fund is suitable for investors who want less risk.

Massive growth in the number of mutual fund investors has happened in Batam, Indonesia. In 2017-2018 it soared by 59.91%, 2018-2019 with 78.25%, and 2019-2020 with 52.20% investors year-on-year. But much of the research focuses on the stock market and the lack of focus on mutual fund investors, especially factors that influence investment decisions (Malik, 2021).

We adopt the research of Nur Aini and Lutfi (2019) and add Herding and Availability variables to the research model; Herding represents the irrational actions of investors related to investment decisions, while availability means investment decision-making based solely on investment decisions on convenience and availability which ultimately becomes an investment decision.

Method

This study takes Overconfidence, Risk Perception, Loss Aversion, Availability, and Herding as an exogenous variables of mutual fund investment decisions. The sample of this research is citizens in Batam City who invest in mutual funds, and we use google forms to distribute the questionnaire. This research was conducted with 300 respondents and used multiple linear regression as data analysis.

Empirical Result

The result shows that Overconfidence significantly affects an Investment Decision. The results of this study are consistent with the results of research by Nur Aini and Lutfi (2019), Tanusdjaja (2018), Alquraan et al. (2016), Firah (2017).

Risk Perception does not significantly affect Investment. The results of this study are in line with the results of research by Mallik et al. (2017) and

Novianggie and Asandimitra (2019); this indicates that respondents in this study tend to take risks in investing. Because most of the research respondents are from the young age group, they are more likely to take risks than investors from the older age group. However, the results of this study show different outcomes from previous research conducted by Nur Aini and Lutfi (2019).

Table 1. Result results

Variable	T-Test		F-Test	Description
	B	Sig	Sig	
Overconfidence	0.276	0.032		H_1: Significant positive
Risk Perception	-0.244	0.112		H_2: Not significant
Loss Aversion	-0.037	0.023	0.00	H_3: Significant positive
Availability	-0.113	0.083		H_4: Not significant
Herding	0.078	0.042		H_5: Significant positive
R-square	0.703			

Loss Aversion significantly affects Investment decisions. The results of this study are consistent with the research results of Nalurita et al. (2020) and Alquraan et al. (2016). So, loss aversion affects the people of Batam City in making investment decisions. Loss aversion is a person's tendency to avoid loss more than gain. That's why potential investors need to pay attention to the loss aversion factor before investing. But the results of this study show different outcomes from previous research conducted by Nur Aini and Lutfi (2019), which shows that loss aversion does not affect someone's investment decision.

Availability does not significantly affect Investment decisions. The results of this study are consistent with the results of Jain et al. (2020) and Ady (2018). Availability does not affect the investment decisions of the people of Batam City. Availability itself is a person's tendency to assess the frequency or probability of an event; this shows that in making investment decisions, research respondents tend not to pay attention to this; they do not weigh their assessments against the available information.

Herding significantly affects Investment decisions. The results of this study are consistent with the results of research by Qasim et al. (2019) and Madaan and Singh (2019). Herding is an individual who behaves irrationally, that is, always imitates the decisions of others; this usually happens to individuals in the young group age, which is the majority of respondents in this study. Therefore, it is essential for investors to always be rational before making an investment decision, not just copying or following others research and can be used for further analysis.

Conclusions

The results show that overconfidence, loss aversion, and herding significantly positively affect investment decisions, while risk perception and availability do not affect investment decisions. We argue that this result is theoretically unfavourable, at least from the point of view of perceived risk, which should be significant but shows insignificance. In addition, Overconfidence, which is also significantly positive, leads those investors tend to invest in mutual funds because it is only a factor of confidence and lack of understanding of the risk profile.

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