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THE INFLUENCE OF EMOTIONAL INTELLIGENCE ON INVESTING DECISION

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Abstract: This study has a goal to analyze the influence of emotional intelligence on investing decisions. Emotional intelligence covers 5 major parts namely motivation, self-awareness, handling feelings, social aptitude, and empathy. This study only focuses on 3 major parts based on pre-survey namely motivation, self-awareness, and handling feelings. This study uses a purposive quantitative method conducted on 97 investors that reside in Indonesia and analyzed using multiple regression. The finding of this research is there are simultaneous effects of emotional intelligence on investing decisions. This research also finds that motivation and self-awareness have no significant effect individually on investing decision.

Keywords: emotional intelligence, investing decision, motivation, self-awareness, handling feelings

INTRODUCTION

Data from OJK (2020) said that the transaction value of capital market is going up every year. In 2019, the value of transaction is on 1,884,587,57 (billion rupiah). In 2020 the number rose up to 2,229,233.29. According to Bareksa (2020) The number of investors going up dramatically in the last 5 years, and it has its peak on 2020. The increment from 2017 to 2020 is so high on 1,899,698 investors. In this increasing transaction value, there is also an increasing imposing risk of losses in the market. Data from Wijaya (2020) said that 90% of Indonesian investors fail at the investment market. This risk is occurred because of a lack of emotional intelligence.

Emotional intelligence is how people manage and evaluate their own or others' emotions. Emotional intelligence makes people understand their own feelings and can manage their own emotions (Mayer et al., 1997). When people had high emotional intelligence, they also have higher social interaction and aptitude on others, this makes them have a better social life (Mahdi & Nahid, 2017). People with high emotional intelligence also had a better understanding of situations and were more efficient in doing jobs assigned to them. Emotional intelligence also enhances the individual performance of a person (Mayer, 2000; Afolabi et al., 2010). This fact is gathered to know the effectiveness of emotional intelligence that enhances the decision-making of investors in the investment market.

Emotional traits and biases play a critical role in human life because emotions allow people to think and act differently. Different emotions and actions have an impact on an investor's calculated risk. Investors consider their analysis and other perspectives, but emotions always play a role in their decisions (Tanvir et al., 2016). Ability to delay gratification to ensure the achievement of the goal is called motivation

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(Goleman & Clark, 2020). Motivation has 4 major indicators namely achievement drive, commitment, initiatives, and optimism. Motivation is highly correlated to the success rate of the people in jobs they choose (Saloni & Babli, 2020). There is also a high correlation between the achievement percentage and motivation in the job market. Investing decision is the process to purchase an asset in an investment instrument (Maqsood, 2020).There are five major indicators in this research for investing decision namely neutral information, accounting information, self-image, advocate recommendation, and personal finance need. Emotional intelligence and investing decision are connected to each other. This can be proven with signaling theory. The signaling theory is developed by (Spence, 1973). Signaling theory tells about the information given by the sender and the receiver receive the information accordingly.

Signaling theory assumes that the investor can process and deduce information regarding the state of the firm and market in the future (Al-Najjar, 2010). Signaling Theory are connected to the Investing Decision of the investors. Investor that understand the signaling theory can make a better investment decision using any signals that they receive in the market. In the research by (Filatotchev & Bishop, 2002), that has been done on United Kingdom's IPO (Initial Public Offering) Firms, can be confirmed by adding a popular figure as the board director of the company as the main signal enable the stock price to go higher. This has happened because the receiver (investors) of the signal receives a positive signal from the signaler (firm and managers).

Another connected theory is from self-efficacy theory. Self-efficacy theory is developed by Bandura et al. (1999). Self-efficacy evolved from the theory of planned behavior (Ajzen, 1991). It is indicating the self-assessment of a person regarding their own skillset and efficacy to achieve the goal stated.

Self-efficacy theory is connected with the behavior of investors in the market. During the assessment of their own skillset, the result can influence the motivation, handling feeling, and self-awareness of the investors. People who has high self-efficacy and emotional intelligence perform better in the general activity, thus can make a better decision and result in the market (Salami, 2010).

Thus, the first hypothesis can be stated as:

H1: There is a significant effect of motivation on investing decisions.

Handling feelings is how people soothe their emotions in certain situations. Handling feelings is also very important in the achievement of goals (Goleman, 2009).The ability to think clearly in a certain situation is very important in the investing decision (Hani, 2016). There are 5 indicators that influence handling feelings namely: self-control, trustworthiness, conscientiousness, adaptability, and innovation. Thus, the second hypothesis can be stated as :

H2: There is a significant effect on handling feelings on investing decisions

Self-awareness is how a person becomes their true self and assesses their own individual traits (Duval & Wicklund, 1972). In this trait, one can imagine their own self and assess their own skill, emotion, and trait. There are three indicators of self-awareness (Goleman & Clark, 2020). Namely emotional awareness, accurate self-assessment, and self-confidence. Thus, this hypothesis can be stated as:

H3: There is a significant effect on self-awareness on investing decisions

METHOD

The researcher uses the purposive quantitative method in selecting the respondent. The researcher collects the data from the active trader that has minimum trading once in the last 6 months in the pandemic era. The researcher collects 145 respondents and 97 of them are actively trading in this pandemic era. Data was collected on an online questionnaire using Google form then distributed to Indonesian investors. The sampling size is taken from the Lemeshow formula with the error margin of 5% as follows:

$$n = (\frac{Z\alpha/2\sigma}{e})^2$$

$$n = (\frac{(1.96)(0.25)}{0.05})2$$

$$n = (\frac{0.49}{0.05})2$$

$$n = 96{,}04 \approx 97$$

Data analysis was performed with regression analysis. The F-test is conducted to know the simultaneous effect of independent variables and dependent variables. The t-test is conducted to know the influence of dependent individual variables on independent variables.

RESULTS

Table 1 is showing the F test result and t test result. The result of F test can be seen that there are simultaneous effect of emotional intelligence on investing decisions because the significance value is 0.000, and it is below 0.05. So, it can be concluded that there are simultaneous effect of variables. Also, there is a significant effect of handling feelings on investing decision. Motivation and self-awareness do not have a significant effect on investing decisions.

DISCUSSION

The goal of this study is to find out how Emotional Intelligence (Motivation, Self Awareness, and Feelings Handling) affects investment decisions. The respondent's criteria in this study is minimum 17-year-old Indonesian with a job as an entrepreneur, trader, college student, or other jobs with passive/active income and the ability to invest. The sampling number is 97 respondents. All of the data has already been processed and validated. All of the variables in this study, such as motivation, self-awareness, and handling feelings, are reliable, as evidenced by a Cronbach alpha reliability test. With Cronbach alpha greater than 0.60, all variables passed the reliability test.

There is a significant effect simultaneously from independent variables and the dependent variable, on the other hand, there is only one variable that has a significant effect on investing decision namely handling feelings. Motivation

Table 1 F Test and t Test Result

Model	Sum of Squares	Constant	Mean Square	F	Significance
Regression	151.702	3	50.567	10.812	0.000
Residual	434.958	93	4.677		
Total	586.660	96			
Model			**t**		**Significance**
(Constant)			4.399		0.000
Motivation (X_1)			-0.058		0.954
Self-Awareness (X_2)			1.935		0.056
Handling Feelings (X_3)			3.317		0.001

has a low negative significance effect on investing decision. The negative effect can be seen in Table 1 in the t-test result. This proves that motivation is not solely enough to make the decision making a better decision (Lyons et al., 2005). Thus the first hypothesis is rejected. Self-awareness has only a low positive significance influence toward investing decision. This is supported by the previous journal research by (Jivet et al., 2017). In the research, it is said that self-awareness is not enough to help analyze and make a better decision. Thus, the second hypothesis is also rejected. Handling Feelings has a strong significant effect on investing decision this is supported by the previous research conducted by (Saloni & Babli, 2020). It is stated that people who can handle their emotions well will excel at decision making and make a better decision in the end. Thus, the second hypothesis is accepted.

Based on the t-test result that can be seen on Table 1, motivation has a t-value of -0.058, this can be concluded that motivation has a low negative influence on investment decision. Moreover, the regression analysis state that motivation has a negative value in the equation. Therefore, motivation doesn't have a significant effect on investment decision. Based on the t-test that can be seen in Table 1, self-awareness has 1.935 t-value, and 0.056 significance can be concluded of did not have a significant effect on investment decision, on the multiple regression analysis, self-awareness has a low positive influence on the indicator, but not significance. Thus, self-awareness does not have a significant effect on investment decisions. Handling feeling has a strong significance in the t-test which can be shown in Table 1. The handling feeling variable has a 3.317 t-value and 0.001 significance level. This is supported by the multiple regression analysis equations that handling feeling has the highest multiplier in the equation. Thus, handling feelings have a significant effect on investment decisions.

Before the research, the motivation is used only for achieving end goal. The researcher did not do the technical nor fundamental analysis on investment decision making. This research implicates that motivation is not solely the main point of investment decision making. Motivation solely without the ability to forecast the market is futile. Reading company's performance, industry analysis, and financial statement as fundamental analysis. There is also technical indicators to be analyzed before investing in the market to know whether the price is high or low. By having the ability to analyze fundamentally and technically, it will reduce the risk of losing capital in the market. Further, before the research the researcher did not set the targeted expected return and the percentage of the cut loss threshold of the investment decision making. Through this research, it indicates that self-awareness is not enough to reducing the risk of losing capital in the investment market. Traders need to set their own expected return and the threshold for their cut loss percentage in order to sustain the capital gain and reduce the losses in investment market. Furthermore, the researcher did not have a tool to handle the feeling in the investing market, such as target profit, cut loss percentage, and technical analysis to know when to sell/buy a stock. The traders need to set the indicators and tool in order to help them in the investment market such as setting expected return, cut loss percentage, and technical analysis in order to know when to sell and buy an investment object. Using the tool will enable a better handling feeling, thus will decrease the risk of losing capital in the market.

Based on the research's results, there are several suggestions that can be made. For the readers, this research can be used to know the importance of emotional intelligence in the investment process and decision-making. The research can also add insight to the readers which point must be prioritized to enable optimal results in investment decisions. This research also can provide a better understanding of the influence of motivation, self-awareness, and handling feelings on investment decisions. By knowing the concept of emotional intelligence, the readers can minimize the risk of losing capital in the investment market. It is also important to stay focused on fundamental and technical analysis, to complement emotional intelligence in order to maximize the result of the investment process.

For future researchers, there is still more to be discovered regarding Financial Emotional Intelligence. This is shown by the coefficient of determination of 23.5%. that can be concluded that 76,5% is unknown variables such as behavioral biases, neurotransmitters (Ahmad, 2018). and other financial and emotional intelligence matter. When conducting future research, it is recommended to a collaborate with the psychologist to enable the usage of a more precise tool in identifying the influence of emotional intelligence on investing decision. Future studies can also develop the research by examining the rest of the unknown variables.

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