THE EFFECT OF FINANCIAL INFORMATION ON INVESTMENT DECISIONS OF INDIVIDUAL INVESTORS IN INDONESIA STOCK EXCHANGE

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ABSTRACT

This research aims to determine the effect of financial information on the investment decisions of individual investors in Indonesia stock exchange Medan, Indonesia. To achieve the objective of the research, the quantitative research method was applied. Then, 44 investors of the Indonesia Stock Exchange Medan were selected as sample of the research. Based on the results, it is found that the correlation between the variable of financial Information (X) and the variable of investment decision (Y) obtains Y = 2.572 + 1.386 X, which means that if financial information is reached by one unit, the investment decision will be higher by 1.386 or 138.6%. The results of hypothesis stated that Ha is accepted which means that there is a significant effect between financial information (X) on investment decisions (Y) of individual investors.

Keywords: *Financial Information, Investment Decisions, Investors*
JEL Classification: G29, G41, O44

I. Introduction

Between 2016 and the beginning of 2017, the real fact showed that the trading on the Indonesia Stock Exchange experienced significant growth. At that time, Indonesia Composite Index kept increasing, so it had successfully reached the highest record from February to March 2017. This great moment became a critical purpose in trading activities on the stock exchange to gain the profit carried out by the actors of the capital market who were particularly individual investors.

Then, another significant changing was on March 1, 2017. This moment showed that Indonesia Composite Index increased to the highest record from 0.03 per cent or 17,805 points to 5,368,887 points. On April 3, 2017, Indonesia Stock Exchange completely gained 5,600 level. At that time, Indonesia Stock Exchange was closed at the level of 5,606.78. Whereas, at the end of 2018, it dramatically declined after minus of 2.54% a year. Then, on May 17 2019, the data indicated that Indonesia Composite Index sharply weakened in the moving prediction from 1.42 per cent or 85.15 points to 5,895.74. Pintor stated that the number of investors keeps increasing driven by the youth of 18-25 years of age. This number is growing that it could be reached to 6,528 investors.

Before carrying out the investment, the investors need to find out the various information about the condition of the company, such as its financial performance because it affects the profits of the investors. Every investor who wants to gain profit will be interested in the investment providing a higher expected return than other investment opportunities. Moreover, Indarwati (2012: 25) said that every investor who wants to decide to invest in the capital market certainly requires a variety of information relating with the condition of the company that is generally shown in financial statements that is commonly used to predict stock prices or returns. To get higher stock returns, the investors must be able to assess which company has higher profits so that stock returns will level up as well.

Furthermore, the capital market and stock exchange are seen as a vehicle for the financial sector outside the banking sector provides funds for businesses through the sale of shares, obligation, and derivatives. Surely, it has the attractiveness, namely; rising funds quickly and cheaply, getting diversification of the portfolio, increasing the securities trading liquidity, and repositioning of investment securities.

Ten factors are affecting the security investment in the capital market namely: information, risk, politics, security, issues, rumours, policies, global markets, news, and consideration of market players' confidence in making an intention to invest. The intention in investing shows the value of the firm reflected in the stock price. If the share becomes higher, the issuer will be considered having good performance and prospect. Therefore, it can be implied that the investors will get the capital if some conditions are fulfilled, such as; the share is sold, the share is kept to get dividends, and the share is experienced both (Arrozi, 2011: 90).

Based on the data of financial statement of the company, the users of the financial statements can find out the company's capability to obtain a net profit yet the valuation has not entirely been carried out because the risk element of the investment made has not been included. In order to carry out investment activities, the investors need to make investment decisions which include the decision to buy, the decision to sell and the effort to maintain share ownership. Then, the concept of rational individual investors in decision-making theory means that the action chosen in making decisions is the kind of action that will produce the highest expected utility.

In general, in the investment decision- making process, the investors also consider the factors of financial information. It is known that financial information is predicted to have relevant value because it is statistically related to the market value. The relevance of the value of financial information is defined as the explanatory power that delineates the value of a company based on financial information. Then, value relevance is directed to investigate the empirical relationship between stock market values and various numbers of financial information intended to assess the benefits of these numbers in the company's fundamental valuation.

II. Literature review

Financial Information

Generally, information is known as fact, data, observation, perception, or something else which level up the knowledge. Information is needed by a human being to reduce uncertainty in decision making. According to Mc Leod cited in Yakub (2012: 8), "Information is the data that was processed that become more useful and meaningful for those who receive it." Meanwhile, according to Rangkuti (2016: 8), information is the data that has been classified, processed or interpreted and will be used in the process of decision making".

According to Ridwan and Inge (2011:12) "Finance is science and art of managing money that affects the lives of everyone and every organization. Finance deals with the processes, institutions, markets and instruments involved in the transfer of money between individuals and between business and government. It can be concluded that financial information is the process of completing the financial data to produce financial information that is used to improve decision making based on the information in decision making.

Profit

According to Rismaya (2017: 30) "Profit is the difference between the money received from customers for goods or services produced and the costs incurred of the input used to produce goods or services". Profit is an increase in economic benefits during an accounting period (for example, an increase in assets or a decrease in liabilities) which results in a decline in equity, in addition to those involving transactions with shareholders (Rismaya, 2017: 30).

According to Martani, et al. (2012:115) "the term profit with benefits is an increase of net assets originating from incidental transactions outside the company's revenue-producing transactions". Rudianto (2012: 18), states that "Profit is a positive difference between total revenue and total operating expenses for the period".

Based on the theories above, it can be inferred that profit is the difference between total revenue and total operating expenses or compensation of the company's efforts to produce goods or services. It means that profits represent excess income above costs (total costs inherent in production activities and delivery of goods/service).

Types of Profit

One of the success standards of a company is looking for profit since it is only a measure of the efficiency of a company. According to Kasmir (2011:303) there are two kinds of profit, namely; gross profit, and net profit;

a. Gross Profit - means the profit obtained before deducting costs borne by the company. It means that the total profit of the company at the first time become the profit

b. Net profit (Net Profit) is the profit that has been reduced costs burden of the company in a certain period, including taxes.

Stock

According to Fahmi (2015: 94) "Stocks defined as proof of capital ownership or fund owned by the company in which the numbers of value, the name of the company, the right and the obligation of investors comprehensively described to both investors and stocks that will be ready to be sold". Meanwhile, according to Tandelilin (2010:81) "Shares are proof of companies' assets ownership that issued its share. With company asset ownership, investors will have the right toward both income and wealth of the company, after it was deducted with the requiring payment of company". Based on the above explanation, it is inferred that share is kind of ownership proof against the company's capital and fund that can provide benefits in terms of income and wealth of the company.

Basic Investment Decisions

According to Tandelilin (2010: 10), there are five stages of the investment process, namely: Determining the investment objectives of the first phase made in which the investment objectives of each investor may vary depending on the investor who makes the decision:

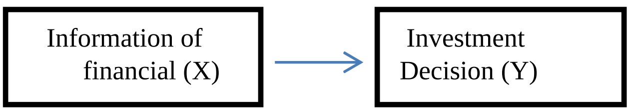
1) *Determining the investment policy*. It is the stage of determining the policy to meet the stated investment objectives. At this stage, it is started by the decision of asset allocation decision.
2) *Choosing the portfolio strategy* that must be consistent with the two previous stages. There are two portfolio strategies chosen, namely; active portfolio strategy, and passive portfolio strategy. Active portfolio strategy includes the information utilization activities and forecasting to get a better portfolio combination. While, passive portfolio strategy consists of investment activities that are in accordance with the market index performance (Sartono, 2010).
3) *Selecting the assets* that require evaluating each security to be included in the portfolio. The aim is to find out the efficient portfolio combination, i.e. portfolios that offer high expected returns with certain risks.
4) *Measuring and evaluating the portfolio performance* is the last stage even tough the stage will never be ending since the investment process is a continuous process that keeps running during the investment been carried out.

III. Research Method

In order to achieve the objective of the research, quantitative research method was applied based on primary data. The technique of sampling was carried out by using Slovin formula, stated as follows:

Slovin formula :
$n = N/Ne^2+1$
$n = 41039/41039\ (0{,}15^2) + 1$
$n = 44{,}396$

The result above is fulfilled to 44 investors with e = 15%. Based on the criteria found, the number of the samples chosen in this research consists of 44 investors who invest in Indonesia Stick Exchange Medan. Therefore, the design of the research is clearly seen as the following:



The instrument of the research used in this research is the questionnaire that was distributed to 44 investors of Indonesia Stock Exchange Branch Medan. All the data found are analyzed by using SPSS 21.0, and the hypothesis is analyzed by applying linear regression formula as seen as follow:

Y = a+bx
Notes :
Y = The decision of investing by individual investors
X = Information financial a = a constant
b = coefficient

IV. Finding and Discussion

Based on the data found, all the data are comprehensively analyzed through four kinds of test, namely; validity, realibility, linier regression, and hypothesis testing.

a. Validity and Realibility
Validity test is used to measure whether each question of the questionnaire as the data of the research are valid through the criteria as follows;

- if robserved > rtable, validity of data is achieved

1) if robserved > rtable, the data are not validValidity Test
Validity test of financial information is visually shown in table 1.

Table 1 The Result of Validity Test of Financial Information (X)

No			Sig	Status
1	0,633	0,297	0,000	Valid
2	0,713	0,297	0,000	Valid
3	0,633	0,297	0,000	Valid
4	0,522	0,297	0,000	Valid
5	0,600	0,297	0,000	Valid
6	0,600	0,297	0,000	Valid
7	0,713	0,297	0,000	Valid

Source: The data analyzed by the researcher, 2019

➢ Validity Test of investment decision is clearly seen in table 2.

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Table 2 The Result of Validity Test of Decision of Investing

No.	$r_{observed}$	r_{table} (5%)	Sig.	Status
1	0,738	0,297	0,000	Valid
2	0,429	0,297	0,000	Valid
3	0,376	0,297	0,000	Valid
4	0,738	0,297	0,000	Valid
5	0,361	0,297	0,000	Valid
6	0,810	0,297	0,001	Valid
7	0,810	0,297	0,000	Valid
8	0,810	0,297	0,000	Valid

Source: The data analyzed by the researcher, 2019

2) Realibility

Realibility test is used to investigate whether the instrument of the research is reliable or not. The realibility test of each variable of the research is visualized in table 3.

Tabel 3 Realibility Test

No	Item	Cronbach's Alpha	Alpha	Status
1	Financial information	0,746	0,60 s/d 0,80	Reliabel
2	Decision of Investing	0,786	0,60 s.d 0,80	Reliabel

3) Linear Regression

Based on the results of data of financial information and investment decisions, it is stated that the significant is 0,000 (lower than 0.05) which means that financial information has a positive and significant effect on investment decisions. Then, it also shows that H0 is rejected and Ha is accepted. The data found also reveals that constant values obtain (a) 2.572, and (b) 1.386, thus, simple linear regression equation obtained is Y = 2.572 +1.386 X, which means that if financial Information sharply goes up by one unit, investment decisions will be increased by 1.386 or 138.6%.

4) Hypothesis Test

Based on the significance value of 0,000. < 0.05, the data stated that Ha is accepted, which means that there is a significant effect between Financial Information (X) on Investment Decisions (Y). Furthermore, based on the calculation, it shows that there is a comparison value of the $t_{observed}$ 5,439 > and t_{table} 1,671, it can be concluded that Ha is accepted which means that there is the effect between Financial Information (X) on Investment Decisions (Y). Then, the degree of freedom (df) = N-2 so that the degree of freedom to see t table is 42 with the probability level of 0.05 achieved to 1.671. Whereas the value of R Square is 0.414, which implies that the effect of Financial Information on Individual Investor Investment Decisions is 41.4%, while 58.6% of Investment Decisions are affected by other variables unexamined.

V. Conclusions

Based on the variables in this research that are used to investigate the effect of financial information on investment decisions of individual investors in Indonesia stock exchange, it is found that $t_{observed}$ 5.439 > t table of 1.671. It was concluded that Ha is accepted, which means there is an effect between Financial Information (X) on Investment Decisions (Y). Then, the degree of freedom (df) = N-2 so that the degree of freedom to see t table is 42 with a probability level of 0.05 reached to 1.671. Last, the value of R Square obtains 0.414, that implies that the effect of Financial Information on Investment Decisions of Individual Investor is 41.4% while 58.6% of Investment Decisions is affected by other variables unexamined.

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