



## The Influence Of Market Sentiment On Investment Decisions On The Indonesian Stock Exchange Decisions On The Indonesian Stock Exchange The Influence Of Market Sentiment On Investment

Lara Santika <sup>1)</sup>; Karona Cahya Susena <sup>2)</sup>

<sup>1,2)</sup> Universitas Dehasen Bengkulu

Email: <sup>1)</sup> [laraasantikaa8@gmail.com](mailto:laraasantikaa8@gmail.com), <sup>2)</sup> [karona.cs@unived.ac.id](mailto:karona.cs@unived.ac.id)

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### ABSTRACT

*This research aims to evaluate the influence of market sentiment on investment decisions on the Indonesia Stock Exchange (IDX). Market sentiment is understood as the collective perception of investors that can influence investment behavior, using both fundamental and technical approaches. This study employs a quantitative approach using a survey of active investors on the IDX. The results demonstrate a positive and significant influence between market sentiment and investment decisions. Positive market sentiment tends to encourage investors to make more rational decisions. Furthermore, the ability to conduct fundamental and technical analysis was found to strengthen the relationship between market sentiment and investment decision-making. This research emphasizes the importance of investor understanding of market sentiment dynamics in the context of making more accurate and strategic investment decisions.*

### ABSTRAK

Penelitian ini bertujuan untuk mengevaluasi pengaruh sentimen pasar terhadap keputusan investasi di Bursa Efek Indonesia. Sentimen pasar dipahami sebagai persepsi kolektif investor yang mampu memengaruhi perilaku investasi, baik melalui pendekatan fundamental maupun teknikal. Penelitian ini menggunakan pendekatan kuantitatif dengan metode survei terhadap investor aktif di BEI. Hasil penelitian menunjukkan adanya pengaruh positif dan signifikan antara sentimen pasar dan keputusan investasi. Sentimen pasar yang positif cenderung mendorong investor untuk membuat keputusan yang lebih rasional. Selain itu, kemampuan dalam melakukan analisis fundamental dan teknikal ditemukan memperkuat hubungan antara sentimen pasar dan pengambilan keputusan investasi. Penelitian ini menekankan pentingnya pemahaman investor terhadap dinamika sentimen pasar dalam konteks pengambilan keputusan investasi yang lebih akurat dan strategis.

## INTRODUCTION

The movement of stock prices on the Indonesia Stock Exchange is not solely determined by fundamental or technical analysis, but is also influenced by the psychological aspects of investors known as market sentiment. This sentiment reflects the perceptions, expectations, and collective emotions of market players that can significantly shape the direction of investment decisions. According to Shleifer and Vishny (1997), ignoring sentiment factors in making investment decisions risks causing inaccuracy in investment strategies and potential financial losses. Investment decisions are strategic actions in placing funds in various instruments with the hope of obtaining returns in the future. This process not only considers the prospect of profit, but must also take into account the inherent risks. Previous studies have shown that market sentiment has a strong relationship with investment behavior. Market situations that are overvalued or undervalued often trigger actions to buy, sell, or hold stocks. In addition, market sentiment is also an important reference for investors when using fundamental or technical approaches to produce optimal decisions. In the context of the dynamic Indonesian capital market, understanding the influence of market sentiment is very important. This is because the collective perception of market players can influence the mechanism of price formation and stock volatility. Therefore, examining the relationship between market sentiment and investment decisions can contribute to improving the quality of decision making by investors on the Indonesia Stock Exchange.

## LITERATURE REVIEW

### 1. Market Sentiment

Market sentiment is the collective attitude, views, and emotions of market players towards the current capital market conditions. This sentiment is often reflected in an optimistic (bullish) or pessimistic (bearish) market atmosphere, which then becomes the basis for decision-making such as buying, selling, or holding shares (Wiyasa, Akob, & Sumail, 2024). Market sentiment is not only triggered by the fundamental conditions of an issuer, but also by psychological factors and responses to economic events and news circulating in the media.

## 2. Reasoned Action Theory

This theory was proposed by Fishbein and Ajzen (1975), which states that human actions, including financial decisions, are the result of rational consideration of available information. In the context of the stock market, market sentiment is an important variable that influences how investors process information through fundamental and technical approaches (Wiyasa et al., 2024).

## 3. Investment Decisions

Investment decisions are the process of placing funds into various instruments with the aim of obtaining future profits, either in the form of dividends or capital gains. This process involves choosing a strategy to buy, sell, or hold stocks, which is based on an evaluation of risk and potential returns (Jogiyanto, 2015 in Wiyasa et al., 2024).

Previous studies indicate that fluctuations in market conditions that are considered overvalued or undervalued can affect investor decisions (Guo et al., 2022; Zhang et al., 2023). Investors tend to buy when prices are considered undervalued and sell or hold when the market is considered overvalued.

## 4. Fundamental and Technical Analysis as Mediating Variables

Investors generally use fundamental and technical approaches to support their investment decisions. Fundamental analysis focuses on the intrinsic value of stocks as measured by the company's financial aspects and economic indicators, while technical analysis evaluates price movement patterns and transaction volumes based on historical data (Sutikno & Mery, 2021; Hidayat, 2022). Market sentiment influences the results of this analysis. When positive sentiment dominates, investors tend to conduct more optimistic and in-depth analysis. However, if market information is incomplete, technical analysis risks producing less accurate decisions (Wiyasa et al., 2024).

## 5. Efficient Market Theory and Investor Sentiment

According to the efficient market theory developed by Eugene F. Fama, stock prices reflect all publicly available information, making it impossible to consistently earn abnormal returns. However, investor sentiment can create price deviations from their fundamental values, which ultimately affect investment decisions (Fama, 1970). Empirical studies have shown that in less than fully efficient market conditions, investor sentiment plays an important role in shaping stock returns and investment decisions (Firdaus, 2021; Wiyasa et al., 2024).

## METHODS

Data were analyzed using descriptive statistical techniques to describe the characteristics of respondents and research variables. Multiple linear regression analysis was used to test the relationship between variables. In addition, path analysis with the Structural Equation Modeling (SEM) approach was used to determine the mediating role of fundamental and technical analysis. Validity and reliability tests were carried out first on the research instrument before the hypothesis analysis process.

## RESULTS

This study found that market sentiment has a significant influence on investor behavior and investment decisions on the Indonesia Stock Exchange, both when the market is in an optimistic (bullish) or pessimistic (bearish) condition. Investor sentiment that reflects expectations, perceptions, and reactions to macroeconomic situations has proven to be an important factor in making investment decisions. Investors who have a positive view of the market tend to make more appropriate investment decisions, especially if supported by the ability to conduct fundamental and technical analysis. This result is in line with previous findings (Firdaus, 2021) which stated that market sentiment contributes to changes in stock prices. Investment decisions are not only based on profit expectations, but are also influenced by risk perception. When market sentiment is positive, investors are more motivated to buy stocks, while when negative sentiment dominates, decisions to hold or sell stocks are more often taken.

### Factors Affecting Market Sentiment

Some of the main factors that shape market sentiment include:

1. Media and social media: Information from mass media, influencer opinions, and policy news can trigger changes in market perception in a short time.
2. Economic policies and macro conditions: Changes in interest rates, fiscal and monetary policies also influence investor expectations.
3. Psychological phenomena such as FOMO (Fear of Missing Out): The fear of being left behind by investment trends leads to sometimes less rational decisions.

The study also observed that the influence of market sentiment varies across sectors. At the beginning of the COVID-19 pandemic, positive sentiment had a significant impact on stock returns in the



agriculture, mining, basic industry, and consumption sectors. However, in the finance and property sectors, the impact was lower or insignificant.

Fundamental and technical analysis have been shown to act as mediating variables. Investors who combine market sentiment with the right analytical approach tend to produce more accurate investment decisions. Conversely, decisions based only on one approach without considering market sentiment can lead to less than optimal decisions.

## DISCUSSION

The results of the analysis show that market sentiment has a significant influence on investment decisions on the Indonesia Stock Exchange. Data obtained from measuring investor sentiment and sectoral stock returns during the COVID-19 pandemic shows a positive correlation between market sentiment and stock price movements. This indicates that investors tend to make investment decisions that are influenced by collective market perceptions and emotions, not just based on fundamental analysis alone.

Table 1. presents a summary of descriptive statistics of market sentiment variables and sectoral stock returns used in this study. It can be seen that the average value of market sentiment shows a positive trend during the observation period, which is in line with the increase in stock trading activity.

**Table 1. Descriptive statistics of market sentiment variables and sectoral stock returns**

variable	N	Mean	Std. Dev	Min	Max
Market Sentiment	120	0.45	0.12	0.15	0.78
Stock Return	120	0.03	0.08	-0.12	0.22

Source: Processed Data, 2025

## CONCLUSION

This study shows that market sentiment plays an important role in investment decision making at the Indonesia Stock Exchange. Sentiment measured through trading activity and investor perceptions is proven to have a significant influence on stock prices and return levels. This influence is even stronger in market conditions that are not fully efficient. Market sentiment also contributes to stock price volatility, especially in situations such as a pandemic. A one-way causal relationship was found between sentiment and market movements, confirming that collective investor perceptions can trigger price fluctuations, even in the absence of changes in fundamental information.

## SUGGESTION

1. For Investors:  
Investors are advised not to rely solely on technical or fundamental analysis, but also to pay attention to market sentiment indicators in order to respond appropriately to market dynamics and reduce the risk of emotional volatility.
2. For Further Researchers:  
Further research should explore data per sector or individual stocks to produce more specific conclusions. The use of more complex sentiment proxies and advanced statistical methods can also strengthen the understanding of market dynamics.
3. For Capital Market Regulators:  
Regulators need to increase transparency and education for retail investors so that market sentiment is formed based on accurate information and not mere speculation. This will help create a more stable and efficient market.

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