

# Herding and Overconfidence Bias in Retail Investors' Investment Decision Making From A Behavioral Finance Perspective

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**Abstract**—This study aims to explore the stock investment decision-making behavior of individual retail investors from a behavioral finance perspective, with a particular focus on herding bias and overconfidence bias. The research was conducted among individual retail investors in the Indonesian capital market who actively use digital investment platforms and participate in investment communities. A qualitative research approach was employed, utilizing in-depth interviews with ten respondents selected through purposive sampling. Data analysis was carried out systematically through the stages of data reduction, data display, and conclusion drawing. The findings reveal that retail investors' investment decision-making processes are not entirely based on rational considerations and comprehensive analysis. Herding bias emerges when investors tend to follow majority decisions, community recommendations, and market trends due to limited time and information, as well as social pressures such as fear of missing out (FOMO). In addition, overconfidence bias is reflected in investors' excessive confidence in their own analytical abilities, particularly after experiencing past investment gains, which leads them to underestimate or ignore the inherent risks associated with investment decisions. Importantly, the results indicate that these two biases interact dynamically: investors who engage in herding behavior and subsequently experience investment gains tend to attribute the success to their own market intuition or analytical skills, thereby reinforcing overconfidence. Conversely, overconfidence in one's perceived ability to identify "correct" market trends encourages investors to rely more heavily on crowd behavior, assuming that following popular trends confirms their personal judgment. This study provides empirical contributions to the behavioral finance literature and serves as a foundation for enhancing financial literacy and managing behavioral biases in stock investment decision-making.

**Keywords:** Behavioral Finance; Cognitive Bias; Investment Decision Bias; Investment Decision-Making; Investor Behavior

## 1. INTRODUCTION

The development of the Indonesian capital market over the past few years has demonstrated highly dynamic growth, particularly in terms of the increasing number of individual investors. Data released by the Indonesia Central Securities Depository (Kustodian Sentral Efek Indonesia [KSEI]) indicate that the number of individual investors, as measured by Single Investor Identification (SID), increased significantly from approximately 12.16 million at the end of 2023 to around 14.87 million by the end of 2024 (KSEI, 2024). This surge reflects growing public interest in capital market investment activities, including stocks, mutual funds, and government securities. Improved accessibility through digital investment platforms, advancements in financial technology, and the widespread dissemination of investment-related information via social media have become major driving factors behind the increasing participation of retail investors.

However, the rapid increase in the number of investors has not necessarily been accompanied by improvements in the quality of investment decision-making. The influx of new investors, particularly among younger demographic groups, presents challenges related to analytical capability, financial literacy, and risk management maturity. Data from the Financial Services Authority (Otoritas Jasa Keuangan [OJK]) and Statistics Indonesia (Badan Pusat Statistik [BPS]) Cited from KSEI (2025) show that Indonesia's financial literacy index in 2025 reached only approximately 66.46%, while the financial inclusion index stood at around 80.51%. This condition indicates a gap between access to financial products and the public's ability to understand and manage financial decisions rationally. In other words, although more individuals are participating in investment activities, not all investors possess sufficient knowledge, attitudes, and behaviors to make optimal investment decisions.

In practice, capital market investors often do not behave fully rationally, as assumed in conventional financial theories. Investment decisions are frequently influenced by psychological factors such as emotions, subjective perceptions, and social pressures, leading investors to disregard fundamental information and objective analysis. Behavioral finance offers an alternative perspective by explaining such phenomena through the recognition of bounded rationality in financial decision-making. Shefrin and Statman (1985), as cited in Prasetyo et al. (2024), argue that investor behavior often deviates from rational assumptions due to the influence of cognitive and emotional biases. These biases cause investors to make decisions that are not entirely based on rational risk-return considerations.

Several behavioral biases are particularly dominant in the investment context, including overconfidence bias and herding behavior. Overconfidence bias is reflected in investors' excessive confidence in their own abilities and knowledge, which leads them to underestimate risk and ignore relevant public information. Herding behavior refers to investors' tendency to follow the decisions of the majority or prevailing market trends without conducting independent evaluations. The presence of these biases contributes to suboptimal investment decisions and may result in material losses for investors.

The behavioral finance approach provides a more comprehensive analytical framework by integrating psychological and social dimensions alongside economic rationality. Guzavicius et al. (2014), as cited in Suriani, (2022)

define behavioral finance as an interdisciplinary field that combines psychology and economics to explain seemingly irrational financial decisions. Suriani, (2022) further emphasizes that this approach extends beyond traditional economic analysis by incorporating emotional, perceptual, and social norms that influence financial decision-making in real-world contexts.

In line with the preceding discussion, as cited Bamba *et al.*, (2025), one of the psychological factors widely examined in behavioral finance is overconfidence, in which investors tend to overestimate their analytical skills and predictive abilities, leading them to underestimate risk and disregard relevant public information. Another equally important factor is herding behavior, which refers to investors' tendency to follow the decisions or actions of other market participants rather than conducting independent analysis. These behavioral tendencies further support the argument that investment decisions are not always driven by full rationality but are significantly influenced by psychological factors that may affect the quality of investment decision-making.

The relevance of behavioral finance is increasingly evident in the Indonesian capital market. The rapid growth of individual investors has not been matched by adequate levels of financial literacy and analytical capability, causing investors to rely heavily on market momentum, community recommendations, or emotional pressures such as fear of missing out (FOMO). This condition demonstrates that the rationality assumptions of traditional financial theories are not fully reflected in daily investment practices, as investor decisions are frequently shaped by behavioral biases rooted in psychological and social factors.

Beyond cognitive and emotional factors, investment decisions are also influenced by social dynamics within the capital market. Interactions among investors both direct and digital can trigger behavioral conformity known as herding bias. Fityani and Arfinto (2015), as cited in (Ikhfani *et al.*, 2025), explain that herding bias arises when investors adopt majority decisions without conducting independent analyses of available information. Keynes (1936), as cited in (Ikhfani *et al.*, 2025), argues that investors tend to follow the crowd because collective decisions are perceived as safer and less prone to individual error. Nevertheless, such behavior can distort asset prices, increase market volatility, and even contribute to the formation of speculative bubbles.

At the same time, overconfidence bias is particularly prominent among young investors who actively use digital investment platforms. Lichtenstein dan Fischhoff (1977), as cited in (Suriani, 2022), define overconfidence as an individual's tendency to overestimate personal knowledge and abilities while underestimating uncertainty and risk. Easy access to information, the presence of investment influencers, and social features such as copy trading and online stock forums further amplify the potential for this bias. Without sufficient financial literacy and analytical skills, investors become increasingly vulnerable to judgment errors and decisions driven by community pressure or excessive self-confidence.

Most previous studies on behavioral biases in the Indonesian capital market have predominantly employed quantitative approaches using Likert-scale surveys. While such studies are useful for measuring the degree of bias and its statistical relationship with investment performance, they often fail to capture the underlying cognitive processes, subjective experiences, and social contexts that shape investor decision-making. Therefore, qualitative research is essential to gain deeper insights into how herding bias and overconfidence bias are formed and how they influence retail investors' investment decisions in real-world settings.

Based on the foregoing discussion, this study aims to explore in depth the mechanisms underlying the formation of herding bias and overconfidence bias and their influence on the investment decision-making of individual retail investors in Indonesia through a qualitative approach using in-depth interviews. This research is expected to contribute theoretically to the development of a more contextual behavioral finance literature and to provide practical implications for investors, regulators, and capital market practitioners in designing more effective investor education and protection strategies.

## 2. RESEARCH METHODS

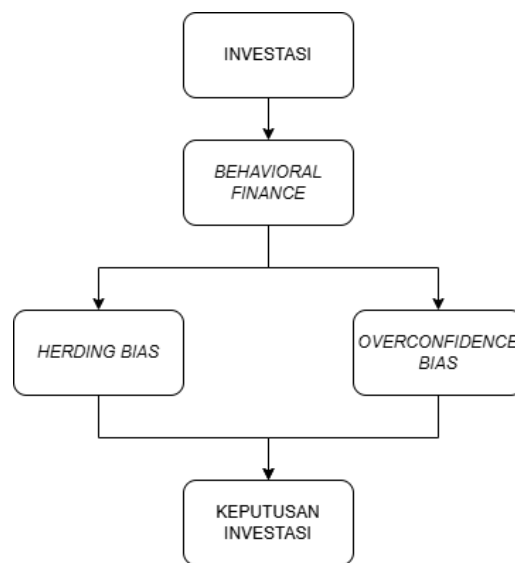
### 2.1 Research Design

This study employs a descriptive qualitative approach with a phenomenological perspective. The qualitative approach is chosen because the study aims to obtain an in-depth understanding of the psychological and social processes underlying retail investors' stock investment decision-making behavior, particularly in relation to herding bias and overconfidence bias. Qualitative methods allow researchers to explore subjective experiences, perceptions, and meanings constructed by individuals within specific social contexts (Bado, 2021; Haryoko *et al.*, 2020).

The phenomenological approach is used to capture how retail investors interpret their investment experiences and how behavioral biases are formed, experienced, and perceived in real-world investment practices. In phenomenological research, the primary focus is on understanding individuals' lived experiences as consciously perceived and described by the research participants (Haryoko *et al.*, 2020) Individual investors' decision-making processes are not entirely grounded in rational considerations, but are also shaped by emotional and psychological factors embedded in their subjective experiences (Sadeli *et al.*, 2021)

In qualitative research, the researcher serves as the key instrument and plays a central role throughout the entire research process. The researcher is responsible for determining the research focus, selecting informants, collecting data through direct interaction with participants, assessing data credibility, analyzing and interpreting findings, and drawing

conclusions based on empirical evidence from the field. This active involvement is essential because research problems, data sources, and expected outcomes are not fully predetermined and evolve dynamically during the research process (Sugiyono, 2023)



**Figure 1.** Conceptual Framework

## 2.2 Research Object and Subject

The object of this study is stock investment decision-making behavior influenced by behavioral biases, specifically herding bias and overconfidence bias. The research focuses on the process through which these biases are formed, how they are interpreted by investors, and their impact on investment decisions.

The subjects of this study are individual retail investors who actively invest in stocks through digital investment platforms. Retail investors were selected because they, particularly novice investors, tend to be more vulnerable to psychological and social influences in investment decision-making. This focus is also relevant to the current condition of the Indonesian capital market, which is dominated by young individual investors (Kustodian Sentral Efek Indonesia [KSEI], 2024).

Informants were selected using purposive sampling, a technique based on specific criteria aligned with the research objectives (Sugiyono, 2023) The selection criteria included: (1) actively investing in stocks, (2) being directly involved in making independent investment decisions, and (3) having relevant investment experience. A total of ten informants participated in this study. The number of informants was determined based on the principle of data saturation, whereby additional data no longer yield new information or themes (Haryoko et al., 2020).

## 2.3 Data Type and Data Collection Techniques

The data used in this study are qualitative in nature, consisting of narratives, experiences, and subjective views of the informants regarding investment activities and behavioral bias tendencies. The data are primary data obtained directly from informants through in-depth interviews (Haryoko et al., 2020)

Data collection was conducted using semi-structured interviews, which are consistent with the phenomenological perspective adopted in this study. Semi-structured interviews allow the researcher to use an interview guide derived from behavioral finance theory particularly related to herding bias and overconfidence bias while maintaining flexibility to explore participants' unique experiences, perceptions, and meanings as they emerge during the interview process (Sugiyono, 2023), structured interviews allow researchers to obtain systematic and comparable data, as all informants are asked the same set of questions.

This approach enables the researcher not only to ask predetermined questions but also to probe deeper into participants' responses, thereby capturing the complexity of investors' lived experiences more comprehensively. Interviews were conducted either face-to-face or online, depending on the informants' availability and circumstances, with each interview lasting approximately 10-20 minutes. All interviews were audio-recorded with the informants' consent to ensure accurate transcription and data analysis.

## 2.4 Data Analysis Technique

Data analysis was conducted continuously from the data collection stage through to the conclusion-drawing phase. The analysis followed qualitative data analysis procedures consisting of data reduction, data display, and conclusion drawing and verification (Sugiyono, 2023).

Data reduction involved selecting, focusing, and summarizing data relevant to the research objectives, particularly indicators related to herding bias and overconfidence bias. Data were presented in the form of descriptive narratives and

categorization tables to facilitate the identification of behavioral patterns and emerging themes among investors. Conclusions were drawn gradually and continuously verified until data saturation was achieved, ensuring that the findings were credible and scientifically accountable (Haryoko et al., 2020).

To ensure data validity and trustworthiness, this study applied member checking and source triangulation techniques. Member checking was conducted by confirming interview results and the researcher’s interpretations with the informants to ensure that the meanings accurately reflected their lived experiences. Source triangulation was performed by comparing responses across informants to identify consistency and recurring thematic patterns (Sugiyono, 2023)

**Table 1.** List of Informants

No.	Initials	Age (Years)	Work Experience (Years)	Occupation
1	I.K.	24	2	Employee
2	I.T.	27	1	Tour Leader
3	A.A.	24	1	Employee
4	S.	28	2	Employee
5	Y.Y.	29	5	Self-Employed
6	A.R.	22	3	Student
7	M.F.M.	24	2	Employee
8	M.A.	23	1	Employee
9	K.A.	25	1	Employee
10	L.M.	23	1	Employee

### 3. RESULTS AND DISCUSSION

#### 3.1 Results

This section presents the research findings derived from empirical evidence obtained through in-depth interviews with ten individual retail investors who are actively engaged in stock trading activities in the Indonesian capital market. The presentation of the results is directed toward identifying and describing patterns of investor behavior in the investment decision-making process, as well as revealing the presence of behavioral biases that emerge in actual investment practices. The analysis focuses on two primary forms of behavioral bias namely herding bias and overconfidence bias in accordance with the objectives and research questions of this study.

The interview data were analyzed using qualitative data analysis stages, including data reduction, data display, and conclusion drawing. Through these stages, the collected data were systematically selected, categorized, and interpreted to produce a structured depiction of retail investors’ behavioral tendencies in stock investment decision-making. This process enabled the identification of recurring themes and behavioral patterns that reflect how psychological and social factors influence investors’ decisions.

The findings presented in this section are organized thematically based on the dominant behavioral biases identified during the analysis. Each theme is supported by representative statements from the informants to provide empirical grounding and to illustrate how these biases manifest in real investment contexts. The results serve as the foundation for the subsequent discussion, which connects the empirical findings with behavioral finance theories and relevant previous studies.

##### 3.1.1 Retail Investors’ Investment Decision-Making Process

The interview results indicate that the investment decision-making process of retail investors is not entirely based on in-depth and comprehensive rational analysis. Most respondents revealed that limitations in time, knowledge, and investment experience are the primary factors influencing how they process information before executing stock transactions. Retail investors who work full-time, for instance, tend to face constraints in conducting thorough analyses, leading them to make investment decisions within relatively short timeframes.

Under these conditions, retail investors rely more heavily on information sources that are easily accessible and practical, such as notifications from brokerage applications, recommendations obtained from investment communities or online forums, and observations of stock price movements that are currently trending in the market. Independent analysis conducted by these investors is generally limited to brief observations of price charts, trading volumes, or the popularity of certain stocks among other investors, without being accompanied by in-depth fundamental analysis.

In contrast, investors with longer investment experience demonstrate relatively more systematic and structured decision-making processes. This group tends to utilize both technical and fundamental analysis as the primary basis for stock transaction decisions. Nevertheless, the interview findings also suggest that even experienced investors continue to consider market sentiment and the behavior of other investors as additional factors in their decision-making, particularly during periods of high market volatility.

These findings indicate that retail investors’ investment decision-making processes are shaped by an interaction between rational and non-rational considerations. Individual limitations in terms of time, information, and analytical

capability create space for psychological and social influences, which ultimately contribute to the emergence of various forms of behavioral bias in stock investment activities.

### 3.1.2 Herding Bias

Herding bias was identified when investors tended to follow majority decisions or the recommendations of other investors in selecting stocks. This bias primarily emerged under conditions of market uncertainty and limited time available for conducting independent analysis. One respondent stated:

“When I do not have enough time to conduct research, I still want to remain active in the market. Therefore, I tend to follow stocks that are being widely purchased by other investors because I feel more comfortable when my decision aligns with the majority.” (Respondent 1)

In addition, social pressure from investment communities and online discussion groups further reinforced herding behavior. Another respondent revealed:

“When many members of the group buy a particular stock, I, who still do not fully understand the market, end up buying it as well because I am afraid of missing out on potential profits.” (Respondent 2)

These statements indicate the presence of a psychological drive in the form of fear of missing out (FOMO), which motivates investors to follow group decisions without sufficient analytical support. Herding bias also functions as a shortcut in investment decision-making, as expressed by the following respondent:

“I rarely have time to analyze on my own, so I usually follow recommendations from friends or groups. If many people say it is good, I buy it immediately.” (Respondent 9)

Furthermore, Respondent 9’s reliance on peer or group recommendations without conducting in-depth analysis suggests that herding bias also operates as a heuristic in investment decision-making. This finding is consistent with the view According to Setiawan et al. (2018), as cited in (Sabila & Pertiwi, 2021) herding behavior is commonly found among inexperienced investors, leading them to ignore their own information and conform to the actions of other investors as a means of risk avoidance. In the context of retail investors, such behavior is often triggered by limited experience, time constraints, and the need for social validation.

The findings of this study align with prior research indicating that herding behavior frequently emerges when investors rely on social cues and collective actions rather than independent analysis, particularly under conditions of market uncertainty. Herding bias reflects a tendency to imitate the decisions of other investors due to information limitations and social pressure, which can lead to deviations from rational decision-making (Syardhana & Prajawati, 2025) Furthermore, qualitative evidence suggests that herd mentality and other behavioral biases challenge traditional assumptions of market efficiency, as investors’ decisions are often shaped by psychological factors and the influence of information circulated within the market environment (Putri & Tanno, 2024). These findings support the behavioral finance perspective that herding bias represents a form of irrational behavior driven by psychological and social influences rather than purely rational considerations.

### 3.1.3 Overconfidence Bias

In addition to herding bias, the findings reveal a pronounced tendency toward overconfidence bias among the respondents. This bias is evident in investors’ excessive confidence in their own analytical abilities, particularly after experiencing gains in previous stock transactions. As expressed by Respondent 3, past investment success led to a heightened sense of self-assurance and reduced caution in subsequent decisions:

“I once made a big profit from a speculative stock, and from that point I thought, ‘Wow, I’m really good at this.’ After that, I became less cautious because I felt I would make profits again.” (Respondent 3)

This statement illustrates how prior gains can foster an exaggerated belief in personal competence, causing investors to underestimate risks and rely more heavily on subjective judgment rather than thorough analysis. Such behavior is consistent with the concept of overconfidence bias, in which investors overestimate their decision-making abilities and persist in riskier investment actions without adequately revising their initial assessments in response to new information (Hakim et al., 2025). Furthermore, (Sapkota & Chalise, 2023) highlight that overconfidence constitutes a significant behavioral factor influencing equity investment decisions, demonstrating that investor behavior is frequently shaped by psychological biases rather than by purely rational or fundamental considerations. Collectively, these findings reinforce the behavioral finance perspective that overconfidence bias represents a systematic deviation from rational decision-making driven by cognitive limitations and excessive self-belief.

Moreover, this result aligns with previous studies reported in the research proposal, particularly the study by (Pradnyawati & Sinarwati, 2022) which found that retail investors frequently assess their competence as higher than it actually is. As a consequence, investment decisions tend to be driven more by subjective perceptions than by thorough and rational considerations.

Excessive confidence was also observed among investors who independently learned technical analysis through digital media. One respondent explained:

“At first, I felt quite capable because I had learned chart analysis from YouTube. But after making several wrong purchases and getting stuck with losses, I realized that my ability was actually still limited.” (Respondent 4)

In addition, overconfidence bias encouraged investors to increase their investment positions when stock prices moved in line with their initial expectations, as illustrated by the following statement:

“I bought a stock and the price went up. From there, I thought the trend would continue, so I bought more. But the next day, the price actually fell.” (Respondent 5)

Empirical evidence suggests that overconfidence bias often arises when investors place excessive trust in their own knowledge and decision-making abilities, particularly when such confidence is reinforced by prior investment experience and frequent use of digital investment platforms. Investors with high levels of digital financial literacy tend to believe that their familiarity with financial applications and market information is sufficient, which may encourage bolder and riskier investment behavior while underestimating potential risks (Yuwana et al., 2025). Furthermore, behavioral studies indicate that investors frequently overestimate the accuracy of their judgments and rely heavily on personal signals rather than objective market information, leading to suboptimal investment decisions driven by psychological bias rather than rational analysis (Sapkota & Chalise, 2023).

## 3.2 Discussion

### 3.2.1 Herding Bias from a Behavioral Finance Perspective

The findings of this study indicate that herding bias represents one of the most prominent behavioral tendencies in the investment decision-making processes of retail investors. The dominance of this behavior is reflected in respondents' inclination to follow investment decisions made by the majority of market participants or specific investor groups, particularly in situations characterized by information constraints and high levels of uncertainty. These findings are consistent with the herding theory proposed by (Bikhchandani, 2021), which suggests that individuals tend to imitate the actions of others as an adaptive mechanism when their capacity to conduct independent analysis is limited.

Within the context of this study, following majority decisions is perceived by retail investors as a strategy that provides greater psychological comfort compared to making independent investment decisions. Decisions aligned with the actions of other investors are believed to reduce doubt, anxiety over potential errors, and the likelihood of regret when investment outcomes do not meet expectations. This tendency becomes more pronounced during periods of market volatility, when retail investors exhibit increased susceptibility to cognitive biases such as herding and are more likely to mimic the behavior of the majority as a psychological mechanism to reduce uncertainty and emotional discomfort. Consequently, herding bias is influenced not only by rational considerations but also by emotional and social factors that are inherently embedded in the investment decision-making process (Bharti et al., 2025)

Furthermore, the results of this study reinforce the perspective articulated by Keynes (1936) as cited in Devenow & Welch (1996), who argued that moving with the market trend is often considered safer than taking positions that oppose the majority of market participants. This perspective remains highly relevant in modern capital markets, where social pressure and collective expectations play a significant role in shaping investor behavior. The advancement of digital technology and the extensive use of social media have further amplified herding tendencies through the rapid, widespread, and often repetitive dissemination of information. Such conditions create an investment environment saturated with social pressure, thereby encouraging retail investors to align their investment decisions with prevailing market sentiment.

### 3.2.2 Overconfidence Bias and Investment Experience

The findings regarding overconfidence bias in this study are in line with previous empirical evidence showing that investors tend to overestimate their knowledge, judgment, and ability to process investment information, which often leads to excessive confidence in decision-making and underestimation of risk. Overconfidence bias causes investors to rely heavily on their own assessments while neglecting market signals and external information, resulting in bold and sometimes suboptimal investment decisions (Hakim et al., 2025) Furthermore, behavioral finance research indicates that such excessive confidence reflects irrational investor behavior, where investment performance is frequently attributed to personal skill rather than external factors, contributing to market inefficiencies and biased equity investment decisions (Sapkota & Chalise, 2023).

Furthermore, the results of this study are in line with the findings of Pradnyawati & Sinarwati (2022); Sadeli et al. (2021) who reported that investors with high levels of confidence tend to engage in more aggressive trading behavior. Investors in this category are generally more likely to trade frequently, take relatively riskier positions, and give less consideration to potential losses that may arise. These conditions indicate that overconfidence bias not only influences investors' perceptions of their own abilities but also has a direct impact on their investment behavior and the level of risk they assume.

### 3.2.3 Interaction between Herding Bias and Overconfidence Bias

Interestingly, the findings of this study indicate that herding bias and overconfidence bias do not always emerge as independent phenomena but often occur simultaneously within the investment decision-making processes of retail investors. In practice, investors frequently follow prevailing market trends or recommendations circulating within investment communities, such as Telegram groups or online forums, while simultaneously believing that their decisions are entirely the result of objective and rational personal analysis. This belief reflects a tendency to overestimate one's own ability to evaluate and interpret market information (Linda et al., 2025).

Such conditions may give rise to an *illusion of control*, defined as a false perception that investors possess greater control over investment outcomes than they actually do. As explained by Devenow & Welch (1996) the illusion of control can emerge when individuals believe they are capable of understanding and predicting market dynamics, even though

their decisions are heavily influenced by collective behavior and prevailing market sentiment. Consequently, the interaction between herding bias and overconfidence bias not only reinforces investors' confidence in their decisions but also increases the likelihood of decision-making errors, particularly under volatile and uncertain market conditions.

This interaction becomes more evident when examined through concrete examples derived from the interview data. One respondent described purchasing a stock after observing that it was widely discussed and recommended within an online investment community. After earning a profit, the respondent attributed the success to personal skill and intuition rather than to external factors or market momentum. As expressed by the respondent:

"I once made a profit after buying a stock. It made me think, 'Oh, choosing stocks is actually easy.' After that, I became more confident and started investing my extra income without asking for advice anymore, because I felt I already understood how the market works."

This statement illustrates how an initial gain obtained through herding behavior can foster overconfidence, leading investors to overestimate their analytical abilities and to underestimate the risks involved in subsequent investment decisions (Arie Wibowo *et al.*, 2023).

A similar pattern was observed in another respondent's experience, where market-related information and general trends influenced the investment decision, yet the investor perceived the action as the result of superior personal judgment. This is reflected in the following statement:

"Sometimes, when I see news about rising commodity prices, I confidently buy shares of companies selling those products because I believe the price will definitely go up. In reality, that doesn't always happen in the market."

These examples demonstrate how investors are influenced by market trends and widely shared information (herding), but subsequently frame their actions as outcomes of individual insight and confidence (overconfidence). Thus, the interaction between herding bias and overconfidence bias forms a behavioral cycle in which following the crowd reinforces self-confidence, and heightened self-confidence further encourages reliance on market trends without sufficient independent analysis (Salasa Gama *et al.*, 2025).

### 3.2.4 Comparison with Previous Studies

Overall, the findings of this study demonstrate a high degree of consistency with previous research conducted by Budiman *et al.* (2023); Pradnyawati & Sinarwati (2022) which identified herding bias and overconfidence bias as key determinants shaping retail investors' investment behavior. This similarity in findings indicates that these behavioral biases play a significant and relatively stable role in investment decision-making, particularly among individual investors in the capital market.

Nevertheless, this study is distinguished by its use of a qualitative approach, which enables a deeper and more contextual exploration of investors' experiences, perceptions, and subjective considerations. This approach provides valuable insights into the cognitive and psychological processes underlying the emergence of herding bias and overconfidence bias dimensions that cannot be fully captured through quantitative methods alone. Consequently, this study contributes additional value to the development of behavioral finance research in Indonesia by enriching the understanding of retail investor behavior within the social, cultural, and technological context of the domestic capital market.

This qualitative perspective is consistent with the findings of (Jovianto *et al.*, 2023), who demonstrate that in-depth interviews with retail investors are effective in revealing how herding behavior and overconfidence bias emerge from investors' prior experiences, perceived knowledge, and social interactions, aspects that are often overlooked when investor behavior is examined solely through quantitative indicators

## 4. CONCLUSION

This study aims to explore the mechanisms underlying the formation and roles of herding bias and overconfidence bias in the investment decision-making processes of individual retail investors in the Indonesian capital market through a qualitative, phenomenological approach. Based on the findings, it can be concluded that both behavioral biases emerge prominently and interact with one another in shaping investors' investment decision patterns. Herding bias is reflected in investors' tendencies to follow majority decisions, community recommendations, and prevailing market trends without conducting sufficient independent analysis. From a phenomenological perspective, such behavior is subjectively experienced by investors as a source of psychological security and social legitimacy, where collectively made decisions are perceived as safer and more justifiable in the face of market uncertainty. Meanwhile, overconfidence bias manifests in investors' excessive belief in their own ability to analyze and predict market movements, which is often triggered by previous investment success. These successful outcomes are not always interpreted as the result of external market conditions or collective momentum; rather, they are subjectively understood as evidence of personal skill, intuition, and superior judgment. In this sense, the *subjective interpretation of market success* plays a central role in reinforcing overconfidence within investors' lived investment experiences. The interaction between herding bias and overconfidence bias is further strengthened by the dynamics of the digital investment ecosystem and the phenomenon of fear of missing out (FOMO). Within investors' lived experiences, following popular market trends and achieving initial gains tends to reinforce self-confidence, which in turn encourages greater reliance on subsequent trend-following behavior with reduced risk awareness. This dynamic increases the likelihood of judgment errors and potential financial losses, particularly under

volatile and uncertain market conditions. Nevertheless, the findings also indicate that some investors develop a reflective awareness of their investment experiences, leading them to attempt to manage these behavioral biases through improved financial literacy and the application of risk management strategies. Therefore, this study underscores the importance of the behavioral finance perspective in understanding retail investor behavior not only in terms of economic rationality, but also in relation to the subjective meanings and lived experiences that shape investment decisions. These insights have important implications for the design of investor education programs, regulatory frameworks, and digital investment platforms that are more oriented toward enhancing the quality of investment decision-making.

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