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A Survey of Overconfidence Investor Generation Y

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Abstract

Generation Y is a generation that has a unique, have different behavior with the previous generation and considerably larger than Generation X. In the case of investments, during the next five to ten years generation Y potential to become the biggest investor in the capital market, and who can understand the behavior of their investment will benefit. This study aims to determine Overconfidence investors generation Y. Overconfidence level of capital market investors was measured using Calibration assessment test. Assessment aimed at Generation Y, who is studying at the University and has become an investor in the capital market. The results could represent how overconfidence level of generation Y, which has the potential to become the largest investor in the total population.

Keywords: Generation Y, Overconfidence, capital market investor.

INTRODUCTION

Generation Y in some literature has several distinctive features; they are the dominant consumer groups in decision-making, and elusive (Drake-Bridges and Burgess, 2010). Heavily dependent on technology and the Internet (Lester et al., 2006), striking differences in consumption patterns from previous generations (B. Valentine and L. Powers, 2013). At the time when generation Y trading in the stock market, will interact with previous generations so that they are required to have the ability to analyze macro and micro economic factors, and management companies. Also, they have to face the perceptions and preferences of investors in the capital market that integrate diverse. Recent events in the capital market categorized as an event that cannot predict or uncertainty.

Human life every day to face the uncertain situation, dealing with uncertainty is the central challenge in our lives. To manage uncertainty, people must make predictions behavior of individuals, groups, social systems, economies and international engagements. Investors in the capital market must make decisions with limited time, and information in a world of

uncertainty. Perception and memory are imprecise filters of information, too much information is difficult to deal with (Ackert and Deaves, 2009). Therefore, investors developed shortcuts or heuristic to come up with reasonable decisions. Unfortunately, these heuristics lead to bias, especially when used in uncertainty situation. Overconfidence is the tendency for someone to overestimate his or her knowledge, abilities, and the precision of his or her information, about the future and his or her ability to control or to be over-optimistic about their predictions. (Fischhoff et al., 1977; Sarah Lichtenstein and Fischhoff, 1977). Overconfidence behavior in the capital market will result in high transaction activity, the excessive frequency, and volume of transactions, resulting in high transaction costs, the smaller the rate of return, and lead to inefficient capital markets (Barber and Odean, 2000; Griffin and Tversky, 1992; Odean, 1998).

Many marketing research literature suggests that Generation Y is more than three times size of Generation X, and it the largest consumer market in America since the Baby Boomers (Nayyar, 2001) (Nayyar, 2001; Neuborne and Kerwin, 1999). Generation Y has approximately than 67 million members in The Indonesia who were born between 1981 and 1995 and 15% become Frist or middle manager at where they work (Konadi and Iba, 2011). Given the value of generation Y and potential to become the largest investor in the capital market. It is important to know how they behavioral specifically level of overconfidence as an investor. Overconfidence measured by using a calibration assessment test (S Lichtenstein et al., 1982) to undergraduate students and postgraduate, at the Faculty of Economics and Business, University of Airlangga. The result of the study will allow for the development of behavioral finance that will attempt to a future investment decision.

THEORETICAL STUDY AND LITERATURE

Generation Y

Generational theorists suggest that the environment at global level tends to develop distinctive consumer behavior patterns for different generations (Strauss and Howe, 2000). Generation Y ranges from people who were born between 1981 to 1995 and in 2015 member of Generation Y ranged from age 20 to 34 (Solka et al., 2011). The size of Generation Y is three times bigger than Generation X, and it is the largest consumer market in America. (Nayyar, 2001; Neuborne and Kerwin, 1999). Generation Y is trustful, more tolerant, and better traveled than many of their parents. However, what set them apart from previous generations is that they are deeply concerned about social issues (Strauss and Howe, 2000). Generation Y is different from the previous generation; They are more likely to trust and reward socially responsible companies with purchase more products, working at that company, and more liable to the message of the business because they have a deep commitment (Furlow, 2011).

Technology and the Internet have significantly influenced generation Y from a very early age, they have had access to fast information, and they are eager to achieve their objectives in a short period, thus patience is not a virtue of most individuals in Y Generation. Generation Y attracted to a wide variety of media, regularly using blogs, social media network to express openly their interest and feelings (Hershatter and Epstein, 2010). Many retailers use this connection to communication with Generation Y to get feedback and insight from this audience (Engel et al., 2011).

Overconfidence

Many literature reference overconfidence as the tendency for someone to overestimate his or her knowledge, abilities, and the precision of their information, about the future and their

ability to control or to be over-optimistic about their predictions (Fischhoff et al., 1977; Sarah Lichtenstein and Fischhoff, 1977). Knowledge consists of two things, first what someone believes to be truth and second how confident he or she is in that belief. One of the ways to validate the level of confidence is to look at the calibration of a set of such confidence statements (S Lichtenstein et al., 1982). Someone is good calibration if, over the long run, for all propositions that are true is equal to the probability assigned. The quality of people's probability assessment sets an upper limit on the quality of their function in uncertain environments.

Someone who has a low average level of overconfidence (has a high degree of knowledge) able to predict more accurately, meaning that although the results of the prediction still deviate from the default prediction, the prediction deviation or error is relatively small. Conversely, people who have a high average level of overconfidence tends to predict inaccurately, meaning predictions deviate far from the predicted value by default. The implication is that people who have a relatively high value of overconfidence are someone who does not or lacks sufficient knowledge, causing high prediction error that will eventually lead to the prediction accuracy is relatively small (Fischhoff et al., 1977; S Lichtenstein et al., 1982).

Overconfidence is injurious behavior so that it will have profound implication for capital markets. Overconfidence has four implications; First, if the investor is overconfidence, they overreact to private information and under-react to the news (Daniel et al., 1998). Second, the profit of market causes the excessive trading volume by overconfidence investors (Admati and Pfleiderer, 1988). Third, the excessive trading volume of overconfidence investor contributes to excessive volatility (Statman et al., 2004). Fourth, overconfidence investor underestimates risk and exchange more in riskier securities (Chuang and Lee, 2006). Finally, the presence of irrational investors (including investors overconfident) has created imbalances stock market prices, increasing the risk of the market resulting in lower efficiency of the market (Shefrin and Statman, 1985).

METHODS

This study is to survey a narrower group of Generation Y individuals, specifically college-aged generation Y investor who represents enormous potential investor and have better financial literacy. Overconfidence measured by using a calibration assessment test (S Lichtenstein et al., 1982) to undergraduate students and postgraduate, at the Faculty of Economics and Business, University of Airlangga. Respondents of the survey area range in age from 20 to 35 years old, college-age students participated voluntarily and no incentive for their cooperation. A Quota sampling approach was used to obtain a representation of investor from six provinces in Indonesia (Jakarta, Jawa Barat, Jawa Tengah, Jawa Timur, Jogjakarta, dan Bali) and gender brackets under investigation.

The survey conducted in two stages; First to collect a respondent profile of investor for the present study were generated using phenomenological interviews (Thompson et al., 1989) with online media. Second, after selection of the respondent profile for research, we do a calibration assessment test. Respondent should access: <http://uastec.net/ovstatis/> to participate the online test, respondents must answer twenty questions about prediction.

RESULT

Subjective probability assessments play a fundamental role in decision-making; it is necessary to rely on to assess the prospect of some future event. Someone calibrated if over the long run, for all statements assigned a given probability. The proportions true equals the probability

assigned judges' calibration can empirically evaluate by observing his or her probability assessments.

Two hundred and ten respondents participated in the first round of data collection, one hundred and ten respondents are female, and a hundred are male (52% female and 48% male) with a mean of 29 years old. The second round of data collection, after selected based on a representation of investor from six provinces in Indonesia and range in age, we have one hundred and forty-four respondents (each province represented by twenty-four). 72 male, and 72 Female (50% male and 50% female) with a mean of 26 years old.

The survey results showed that the highest level of overconfidence is 17 and the lowest is 2,1 with an average of 7,5. The average level overconfidence of female is higher (7,95) than male (7,18), but there no statistically significant differences level overconfidence between male and female (Tabel 1).

Table 1 Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Overconfidence	Equal variances assumed	,474	,492	-1,347	142	,180	-,77208	,57314	-1,90506	,36090
	Equal variances not assumed			-1,347	141,994	,180	-,77208	,57314	-1,90506	,36090

Based on the respondent obtained, there are 22 investors who as a graduate student and 122 undergraduate students (Table 2).

Table 2. Description data of t-test statistics based on the level of education

	Education	N	Mean	Std. Deviation	Std. Error Mean
Overconfidence	graduate	22	5,5591	3,13941	,66932
	under	122	7,9286	3,38818	,30675

An investor who as undergraduate students have a higher level (7,92) average of overconfidence than an investor who as a graduate student (5,55), and there is statistically significant difference between graduate and undergraduate investor (Table3). Overconfidence level difference is due to the investors who have the background of graduate education has been getting material on financial literacy better when in class, and they are a much better experience when making investments.

Table 3. Independent Samples Test level overconfidence between graduate and undergraduate investor

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Overconfidence	Equal variances assumed	,446	,505	-3,051	142	,003	-2,36952	,77654	-3,90459	-,83444
	Equal variances not assumed			-3,218	30,514	,003	-2,36952	,73627	-3,87211	-,86692

Between women and men alike have a tendency to behave overconfidence at a high level, and is greater if both have the low educational background. The survey results agree with the results of research conducted by Lundeborg et al. (1994), high and low levels of overconfidence is influenced by cognitive abilities, knowledge and conditions.

CONCLUSION

From this investigation, we know that investor Generation Y has a high degree of Overconfidence, especially with lower levels of education. There is no significant difference level overconfidence between man and women, Increased knowledge; especially financial literacy can reduce the level overconfidence.

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