TESTING THE FINANCIAL INFORMATION IN FORMING INVESTOR CONFIDENCE

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ABSTRACT

This study aims to see how market reaction in invest to information content of corporate financial performance in the capital market. This research do decomposition attitude to behave be investor character in response to information the financial performance of corporations. Begin with evaluate financial fundamental factors in expect to the common market reaction.

Object research used is data from the financial reports of manufacturing company for years 2008-2017 which listing at Indonesian Stock Exchange. Analysis of data use logistic regression with probit model and multivariate GLM. To achieve the aim, it will be construct the model of market reaction in invest to information the financial performance of corporation. The research result show that the first, that there are differences net operating asset, caused growth, and financing asset to companies that experienced profit positive and negative. Second, company information had a significant effect on believe investors. Investors tend to give a reaction when it receives company on information containing bad news.

Keywords : market reaction, investor confidence, information, financial performance.

INTRODUCTION

Financial behavior play an important role in decision-making someone to invest. Before making a decision, an investor should study of corporate financial reports, the performance of the company, their track record of portfolio, the state of the economy, risk of business, etc. This is what is presented in the fundamental approach. But the fundamental approach need the assumption that must be fulfilled that is generally difficult to obtained. First , availability of that really related to company fundamentals value of a financial assets that have been analyzed. Second, investor is rational. In fact , the assumptions above difficult obtained. Kahneman and Tversky (1973) stated that information that can be obtained are limited. Although information can be obtained, but interpretation of the information can differents. Thus psychology factor in decision making grounded in the discovery Miller (1977) said that in one time unit, the human brain to receive information, manage it and shaping it into a decision has limited, so that people do not regardless of bias and doing decision making relying on power of psychologis. A group of researchers opinion that limited attention investors and the ability to process information to cause systematic mistake can affect stock market prices. Besides that investors also simplify consideration and decision with focused on information on the bloated earnings performance.

Utility theory developed by Von Neumann and Morgenstern (1947), who stated that (1) the investors very rational, (2) agree by complex choice, (3) dislike risks and, (4) maximize wealth. Not all the part of investors consisting of a rational people and also did not emotional. If the bad news, market players will take an emotional immediately assess share too low. To avoid loss, the investor becomes behave irrational and seek sell shares having bad performance quickly.

Information is a signal to the market against good news or bad news and also acts as a stimulus (Bruns, 1968). Sophisticated investors will analyzes information to determine whether the signal valid, trustworthy, and able to produce valuable information. If signal beyond and trusted, signal serves as a stimulus affecting investors confidence. This factor changed according to time because information and cause motivation changed as an indication that affects of intentions (Ajzen, 1988).

Indonesian capital markets are the emerging market with decision-making is speculative, affected opinions and psychology. Decision making for accounting and finance focused on fundamental analysis. The determination of the value of shares with the performance of fundamental , can be used to assess the prospects of a firm (Scott, 2009).

LITERATURE REVIEW AND HYPOTHESIS

Investor Confidence

Confidence are essential components in the process is supposed to do make a decision (Beaver, 1989). Changes in decisions can occur when new information received change confidence. Scott (2009) and Beaver (1989) said financial information have information content if help in the formation of investors confidence in a buy or sell stock. Scott (2009) give predictions investors began to withdraw their behavior in responding to things in the financial report information : (1) Investors is very confident about return and risk stock issuers expected. It is grounded in the information available on the market , which includes the market price till just before current net income company published. But, the confidence is not the same because different in putting information and the ability interpretation of information. (2) After publishing net income years running, investors will become more know by analyzing the income. If net income higher than expected, shall be good news. Other investors have hope high of how supposed to net income now , the interpretation of the net income which is the same as bad news.

Belief Adjustment Theory (Hogarth & Einhorn’s, 1992) is supposed that man will process information consecutively and have limited a memory. Therefore the will change the order is supposed to do them through the process of anchoring and adjustment. Confidence now beneficial as a conviction early to be adjusted to be a renewed and occurring continued respectively. This theory also considers the force the confidence of an anchor and predict that the person who have more anchor may be cut by negatives information than the person who have small anchor.

Financial information as former investor confidence

The theory belief - adjustment explain the phenomena order effect that arises from an interaction between strategic information processing and characteristic of a duty that is one part of the heuristic bias (Bazerman, 1994). Specifically, model adjustment confidence predicted no influence the order of (no order effects) to evidence are consistent (a whole negative or whole positive) but the influence of his review happens when individual obtains evidence diverse (some negative and some positive). Strategic reference point theory is a theory of psychology who explained that in the environment complex decision maker tending to consider three the main factor for a decision making: the internal factor, external and dimension (past time, now , and the future).

Preview Research

Ferris et al (1990) show users who have no knowledge of the benefits of financial information at risk. Study different produced Beaver et al. (1970), Lee (1999), dan Koonce et. al (2004), users who is very confident companies experienced financial hardship, illikuid, financial condition worrying so that have perception risky. Users control unsystematis risk to diversify shares of variety of companies, industry, and composition.

Risk perception reflects the view about potential loss on items the company financial reports and risky (Koonce et al., 2004). Risk perception show the condition worrying from the performance and prospects bad company. So, user to perform performance evaluation stock. When the the performance of shares is bad will be sold and revised with a stake performance still good. As a result intention in an election stock high (Chen dan Steiner, 1990; Gibson et al, 1997). The results of a study different indicated Hsu and Chiu (2004) that the user unwanted not attentive to consequence in intention to act.

Chen and hsu (2005) prove information company news advice contributed higher than information financial statements in changing belief and action investors. Users act naive financial report because it was not able to analyze financial information to be useful in the decision-making . Eipstein (1975), Easton and Zmijewski (1989), Beaver (1989), Barberis and Thaler (2003), Sturke (2005), serta Scott (2009) shows that investors is very confident beginning about shares of the company who wrote it.

Baker Wurgler in 2007 used the investor sentiment in see how psychological factors investors can make bias so as to affect the decision taken .This is reflected in one of which is through return individual and return stock market that formed. Sentiment investors it can result from capitalization shares low, a company that less profitable, fluctuations the higher prices, the absence of payment dividend, and companies that experienced financial distress.

Chan & Chen (1991) and Fama & French (1992) shows that the anomaly markets namely the return higher to share small value and company shares relatively experienced distress.This tested back by Aggarwal (2008) indicating that risk premium relating to assets held company and the company capitalization. Investors will be underreaction against a risk going out of business so that stock of a corporation will experience negative premium risk.

Hypothesis

Chen and hsu (2005) shows information company news and advice makes a contribution is higher than its financial statement is in change belief and investor action, as well as stated that the ministry of religious affairs relevant is more important than reliability. Based on the theoretical and empirical results , arranged hypothesis as follows

H1 : Company information influences investors belief

Scott (2009) and Beaver (1989) shows that financial information have the womb information help in the formation of investors in the buying or selling of stocks is supposed to do. Scott (2009) give predictions investors began to withdraw their behavior in responding to things in the financial report information : (1) Investors is very confident about return and risk stock issuers expected. It is grounded in the information available on the market , which includes the market price till just before current net income company published. But, the confidence is not the same because different in putting information and the ability interpretation of information. (2) After publishing net income years running, investors will become more know by analyzing the income. If net income higher than expected, shall be good news. Other investors have hope high of how supposed to net income now , the interpretation of the net income which is the same as bad news. Baker Wurgler in 2007 used the investor sentiment in see how psychological factors investors can make bias so as to affect the decision taken .This is reflected in one of which is through return individual and return stock market that formed. Based on the theoretical and empirical results , arranged hypothesis as follows:

H2 : Investors tend to react favorably to company information when they received information a finance company that indicates good news.

METHOD

Population in this research is financial data all employers who included in the manufacturing industries which classified in the Indonesian Capital Markets Directory. Research undertaken by using a method of purposive the sampling method of for the purpose of obtaining representative sample in accordance set criteria.

The criteria used for an election sample is: 1) sample is companies including in manufacturing years 2008-2017 and publish a financial report has audit. Sampling derived from one industry aims to avoid any influence the difference industry. 2) sample is companies that meet the criteria as the representative of group of the company reported operating profit positive and group of the company reported operating profit negative.

Data Analysis

The first step is to discriminate detection of financial information company that experienced positive and negative profit profit .An instrument the analysis used is binary logistic regression .Next based on an indicator obtained so gonna prove that forms of financial information which investors is supposed to do. An instrument the analysis used is GLM multivariate and interacction effect.

RESULT AND FINDING

Processed data indicate that financial information can distinguish profit companies that obtain positive or negative is a net operating assets, earning per share growth, fixed assets turnover and decisions funding for assets.

Parameter Estimates

	Parameter	Estimate	Std. Error	Z	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
PROBIT[a]	Dnoa	.484	.229	2.111	.035	.035	.934
	Cap	.047	.072	.654	.513	-.095	.189
	Pbv	.014	.019	.736	.462	-.023	.051
	Geps	.036	.014	2.513	.012	.008	.063
	Fato	.162	.050	3.221	.001	.063	.261
	Dar	-1.419	.270	-5.261	.000	-1.948	-.890
	Gebit	.000	.009	-.016	.987	-.018	.018
	Dpr	.714	.679	1.051	.293	-.617	2.046
	Beta	-.004	.041	-.099	.921	-.085	.077
	Intercept	.692	1.055	.656	.512	-.363	1.746

a. PROBIT model: PROBIT(p) = Intercept + BX

Peason goodnes of fit shows that model fit with the data.The results of statistics show value sig = 0,984 namely was sitting on 0.05.

Chi-Square Tests

		Chi-Square	df[a]	Sig.
PROBIT	Pearson Goodness-of-Fit Test	321.694	378	.984

a. Statistics based on individual cases differ from statistics based on aggregated cases.

Processing the data showing there is a real difference between group.The results of research suggests that there are differences real with a operating asset, caused growth, and financing asset between the company which has profit positive and negative, and this difference also react different by investors. In other words a net operating assets, growth of eps, and financing of assets give different investors confidence. However fixed assets turnover only the results of tried with pillai’s trace of the course who gives evidence there was a gap in belief investors whereas the one at high the remaining portfolios were not testing .

Multivariate Tests[a]

Effect		Value	F	Hypothesis df	Error df	Sig.
Intercept	Pillai's Trace	.449	364.243[b]	2.000	894.000	.000
	Wilks' Lambda	.551	364.243[b]	2.000	894.000	.000
	Hotelling's Trace	.815	364.243[b]	2.000	894.000	.000
	Roy's Largest Root	.815	364.243[b]	2.000	894.000	.000
Dnoa	Pillai's Trace	.091	44.481[b]	2.000	894.000	.000
	Wilks' Lambda	.909	44.481[b]	2.000	894.000	.000
	Hotelling's Trace	.100	44.481[b]	2.000	894.000	.000
	Roy's Largest Root	.100	44.481[b]	2.000	894.000	.000
Geps	Pillai's Trace	.006	2.830[b]	2.000	894.000	.060
	Wilks' Lambda	.994	2.830[b]	2.000	894.000	.060
	Hotelling's Trace	.006	2.830[b]	2.000	894.000	.060
	Roy's Largest Root	.006	2.830[b]	2.000	894.000	.060
Fato	Pillai's Trace	.002	.774[b]	2.000	894.000	.461
	Wilks' Lambda	.998	.774[b]	2.000	894.000	.461
	Hotelling's Trace	.002	.774[b]	2.000	894.000	.461
	Roy's Largest Root	.002	.774[b]	2.000	894.000	.461
Dar	Pillai's Trace	.013	5.737[b]	2.000	894.000	.003
	Wilks' Lambda	.987	5.737[b]	2.000	894.000	.003
	Hotelling's Trace	.013	5.737[b]	2.000	894.000	.003
	Roy's Largest Root	.013	5.737[b]	2.000	894.000	.003

a. Design: Intercept + dnoa + geps + fato + dar
b. Exact statistic

The testing for each variable proves that there are differences net operating assets , eps growth , and financing assets to companies that have a positive and negative .It is also distinguish investors belief .While the two fixed asset unable to distinguish a company that had a positive and negative and does not distinguish between investors belief .

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	Dpat	14.721[a]	4	3.680	28.348	.000
	Dcaar	2.420[b]	4	.605	2.480	.043
Intercept	Dpat	85.999	1	85.999	662.449	.000
	Dcaar	23.606	1	23.606	96.778	.000
Dnoa	Dpat	10.822	1	10.822	83.359	.000
	Dcaar	2.164	1	2.164	8.871	.003
Geps	Dpat	.733	1	.733	5.650	.018
	Dcaar	.000	1	.000	.001	.978
Fato	Dpat	.122	1	.122	.939	.333
	Dcaar	.125	1	.125	.514	.474
Dar	Dpat	1.480	1	1.480	11.398	.001
	Dcaar	.001	1	.001	.006	.939
Error	Dpat	116.189	895	.130		
	Dcaar	218.309	895	.244		
Total	Dpat	741.000	900			
	Dcaar	388.000	900			
Corrected Total	Dpat	130.910	899			
	Dcaar	220.729	899			

a. R Squared = .112 (Adjusted R Squared = .108)
b. R Squared = .011 (Adjusted R Squared = .007)

The result of this research supports the theory of signaling that financial information can be a signal the possibility of profit in the company into the future so as to affect investors believe .The result of this research does not support a theory of the structure capital with the approach modigliani-miller .This approach said that the total value of companies did not affected by capital structure company , but influenced by investment company did and the ability company to generate profit. (Sudana, 2015).

The result of this research also supports the theory of prospect .Based on the theory, people have a tendency irrasional to be more reluctant to risked advantage of at a disadvantage. When a person in a position good thing and the the width to avoid the risk, and if a person in a position losers so the person tending to would dare tackle risk. In reality, the stock market there were many influenced by psychology the market or animal spirit that follows the rules of who do not logical (Samsul, 2006).

A component of a company product the manufacturing sector 30 until 40 percent of which is so that imports from the east asian strengthen due to the weakening spread between the rupiah and strengthen due to the weakening of the rupiah exchange rate and a half thousand dollars the dollar affect the cost the promotion of production and the operations of the firm .Over the period of the dollar downturn is in the research to depreciate who could be classified as mild. The stability of the rupiah exchange rate against the dollar making firm manufacturing sector capable of producing a growth of sales impact in improving company performance. Improving the performance of the company in generating sales will attract investors to invest. This shows that signal good news andanya abnormal return increased.

CONCLUSIONS AND ADVICE

Conclusion

The results of research suggests that financial information (companies that obtain profit positive or negative) is net operating asset, growth earning per share, fixed assets turnover and decisions funding for asset. The results of the study also prove that there are differences net operating asset, caused growth, and financing asset to companies that experienced profit positive and negative. It is also distinguish investors belief. While to gyrations fixed asset unable to distinguish company that experienced profit positive and negative and does not distinguish between investors belief. This is a reflection of company information had a significant effect on believe investors. Investors tend to give a reaction when it receives company on information containing bad news .

Advice

Companies need to continue to improve the reputation of business so that public trust can be formed through investment interest in the capital market .Not enough the achievement of profit and calm but a concrete manifestation the sustainability of business through a network of terintegreasi necessary so the community can be sure to buy company shares and of course and increased interest community investment through the money market .By because it also is the efforts are required and government regulation in protecting the assets of society who are expected to invest through the money market

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