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Investor Behavior and Company Values

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Abstract

The company's goal is to maximize shareholder wealth through increased value of the company. The value ofthe company is the market value of debt and equity securities outstanding companies and the investors' perception of the level of success of the company. In investing, investors were not only using the estimate of the prospects of investment instruments, but psychological factors are already in determining the investment. This paper attempts to examine the behavior of investors linked to the company and presenting it to us that investors in the decision to consider psychological factors.

Keywords: Investor Behavior; Company Value; Investment.

Introduction

Investor is a party which was instrumental in the success of the company as it is the parties who took part in creating as the provider of funds has always wanted no yield benefit from the investments made. Investors will not pay for an asset exceeds the value of these assets (Damodaran,2006).

Behavior of Investors

In investing, investors were not only using the estimate of the prospects of investment instruments, but psychological factors are already in determining the investment. In fact, various parties stated that this investor psychology factors have the greatest role in investing (Manurung, 2012). Behavior is the evaluation, a feeling, a person's tendency toward something. Behavioral put someone on framework for closer and like something, or abstain and not like something (Natapura, 2009). The behavior of investors in a stock market by Goldberg and Nitzsch (2001) are grouped into three categories: a). intuitive type (acting on feelings), b) type of emotional and c) rational types. Intuitive types are investors who take action based on the routines and patterns of activities undertaken. Routines are performed aiming to generate a profit. In the "program" created, investors do not know the term of this type of loss. Intuitive types have an intuition of the transaction and the favorable circumstances, and take action based on intuition. Investors closely despite having sufficient time. Investors who took the decision by intuition are more likely to trade in the short term, even a day late, so the decision likely to be taken quickly, invest quickly, as quickly as possible in the hope of benefit. (Natapura, 2009). Investors of this type include the type of daily who do not have sufficient time to process the information received, much less information is available in large quantities. On the other hand the intuitive type of investor is able to utilize any existing information and make decisions based on that information. The dependence of this intuitive type of investor behavior patterns of behavior e.g. stock price, the value of currency or financial instruments and other capital. Type emotional type, where this type of investors will face the problems associated with the kind of emotion of anger and hatred. By way of protecting his ego investor will attempt to be accepted by everyone and suppress negative feelings.

Type a rational investor, where this type of uncertainty aware of dangers and making the wrong decision are also included in this fear. Rational investors often delay decisions or trying to make no decision at all. The main objective of the investor is to reduce the fear of uncertainty, so it takes a rational explanation for everything. For him, knowledge is power, because that's the rational investor will not stop before finding an adequate explanation. Investor type of rational will build, test, and optimize your system before applying the trade itself in a private

transaction. Moreover, rational investors often invest in the long term. The purpose of trade not a quick profit, but rather an increase in fixed investment, within a period of time, the annual even decades. These investors are willing to re-take the risk if he knew that the investment would provide benefits in the short term, but safe for the long term. If the goal can not be achieved with a certain level of risk (or even without a risk), then at least those risks must be controlled.
However, it remains willing to assume greater risk only if it can improve its performance. (Natapura, 2009).

The Value of the Company

The value of the company is the market value of debt and equity securities outstanding companies and the investors' perception of the level of success of the company that are often associated with stock prices (Keown, 2004). The company's value will be reflected in its share price. The market price of the shares of the company formed between buyers and sellers when transactions occur is called the market value of the company, because the price of the stock market is considered a reflection of the true value of the company's assets. The value of the company was formed through a stock market value of the indicator is strongly influenced by investment opportunities. Further investment opportunities can provide a positive signal about the company's growth in the future, which may increase the value of companies (Fama 1978). Maximizing the value of the company maximizes shareholder wealth (Mangantar, 2017). The value of the company is very important because of the high value of the company which will be followed by a high prosperity of shareholders (Brigham and Gapenski, 1996). Theory of Financial Management discusses Corporate Values into The Market Value of the Firm Theory, Moreover Value Company also has links with some of the concepts and theories of the Agency theory, the theory of Trade Volume of shares, the theory Diversified Portfolio Theory ownership structure of the company, free cash flow, investment, stock liquidity, risk and return, operating performance, and corporate governance (Mangantar, 2017), which is further described below:

1. Agency Theory

This theory states that in an organization there must be a strict separation between control activities with operational activities, in this case there must be a separation between the Board of Directors as a representative of a shareholder who performs the function of control over the operations of the company and the Board of Management-CEO as parties running the company's operations. Berle and Means (1933) explicitly states the separation of ownership (ownership) and control of the company, so that the distribution of share ownership in the company becomes an important thing. When control of the company is no longer done by the owner but turned over to others to manage the company's resources, then the problem that arises is the potential for conflict in the relationship between the owners (principals) with the manager (agent) which is often called the agency problem. Agency relationship is described as a relationship arising from the contract stipulated between the principal who uses agents to provide services for the benefit of the principal. Agency problems will occur when managers tend to act for the benefit of himself and not based on enterprise value maximization in making funding decisions (Jensen and Meckling, 1976).

2. Volume of Stock Trading

Karpoff (1986) suggested this theory based on the assumption that the market agents frequently revise their asking price and randomly deal with his partner. In a stock market that has characteristics that heterogeneous market players (it has a different perception and assessment) and operates in a changing environment, the patterns become more active stock trading. Trading volume associated with changes in stock prices and related information. The stock price will continue to revise depends on two things: the stock liquidity and speculative desires. The trading volume will also be influenced by the amount of assets owned by the company (which reflects the amount of companies in the market). Changes the share price is largely determined by the expectations of buyers and sellers in the capital markets. Expectations of buyers and sellers in the capital markets may cause the volume of stock trading is not normal and normal. These patterns influence the changes in stock prices in the capital market.

3. Diversified Portfolio

Markowitz developed this theory by stating that the more stocks that make up a portfolio, the lower the unsystematic risk that portfolio. Further development by Kane and Buser (1979) is a continuation of the theory of Markowitz portfolio selection. This theory is more emphasis on the study of the costs and benefits of diversification and the use of diversified assets (wider than diversified stock). This theory states the decision to create diversified portfolios aim to maximize corporate value. If the company then diversified to maximize the value of diversification is called diversification has benefits (benefits). If it does not maximize the value of diversification of the company, diversification is called diversification which has a cost (cost).

Rational company or manager will be formed diversified portfolios that maximize the value of the company. Therefore, the allocation of the investment must be efficient, or resources allocated to such diversification should maximize the value of the company. Maximizing enterprise value means it has a marginal diversification return is greater than marginal cost.

4. Ownership Structure

According to Born (1988), the ownership structure is the percentage ownership of shares held by directors, managers and commissioners. Their ownership in a company's management will be led to speculation of interest that the company's value increases as a result of increased management ownership. While an analysis of how the company's value is affected by the distribution of ownership among the managers who enjoy the benefits of outsiders and who do not enjoy the benefits conducted by Jensen and Meckling (1988). Within this framework, an increase in the ownership of the management will reduce agency Difficulties (difficulty agent) by reducing the incentive for shareholders and taking over shareholder value. It is very potent in reducing the allocation of resources that are not profitable, which in turn will increase the value of the company. Mangantar and Ali (2015) states that significantly affect the ownership structure of corporate governance and corporate governance affects the value of manufacturing companies go public in Indonesia Stock Exchange.

5. Free Cash Flow

Jensen (1988) defines free cash flow is the excess of cash flows required to finance the entire project with a positive NPV. Management with a large free cash flow can make the decision for; (a) pay dividends (b) repurchase shares (c) to allocate to investments with a negative NPV. If the management invested with negative NPV, then the value of the company will decrease (negative). So the concept is very important in terms of agency theory and firm size effect. Because the larger the company the greater the opportunity for management to act without restraint. Richardson (2005), said that free cash flow is the cash flow that exceeds what is required to maintain the assets and to finance new investment that is expected). While Smart (2004), defines free cash flow is the amount of cash flow available to investors or providers of debt and equity. Free cash flow represents net amount of cash flow after the company settled all the needs of the operation and repayment of long and short-term investments).

The general definition given by Eugene and Houston (1998) that free cash flow as operating cash flow minus investment company equity is required. He stated that in general, companies with superior investment opportunities should establish a lower payout ratio, which means hold more profit, than companies with smaller investment opportunities.

While Brealey and Myers (2003), defines free cash flow as cash not needed for operations or for reinvestment. Free cash flow is the amount of cash that the company used to pay dividends to investors after paying all the investments needed for growth.

One of the problems of measurement in the definition of free cash flow of Jensen (1986) is about the "future project". Out projects future investment becomes difficult to measure due to several limitations. Gul (2001), argues it is difficult to measure the free cash flow from the definition Jensen (1986) for the entire project future can’t be directly identified and information on the level of discount the future that are relevant also unavailable, thus, a need for a proxy or measure/estimate).

6. Investment

Myers (2001) suggested the term IOS (investment Opportunity Set outlining terms of the investment company, namely as a combination of real assets (assets in place) and future investment options. Gaver and Gaver (1993), stressed that future investment is not solely ditujukkan with the projects that are supported by research and development activities, but also with the ability to more companies to exploit the opportunity to take advantage compared to other companies that are similar in an industry group.

Also Gaver and Gaver (1993) can be generally classified into three groups based on the factors used in measuring the values of the IOS. IOS classifications are as follows:

a) Proxied by the price, this proxy believe in the idea that the growth prospects of a company partly expressed in market prices. Growth companies will have a market value which is relatively high compared with the real assets (assets in place).
b) Proxied by the investment, this proxy believe in the idea that a high level of investment activity relates positive at an enterprise value of IOS. Investment activity is expected to provide investment opportunities in the next period which increases in the company concerned.

c) Proxy based variant, this proxy believe in the idea that an option will be more valuable when used to estimate the amount of variability in the size of the options that are growing, such as return variability underlying the increase in assets.

Kallapur and Trombley (1999), a proxy based on the price as a proxy of the most valid used, other than that the variable is a proxy of the most widely used by researchers in the field of finance in the United States (Gaver and Gaver, 1993) and in Indonesia (Ismiyanti and Hanafi, 2003). Even Kallapur and Trombley (1999) in Elloumi and Gueyie (2001) found that this proxy has a very high correlation with growth in the future.

7. Risk and Return

Brigham and Houston (2001) defined risk as a catastrophe, the possibility of loss or damage. If investors buy shares of a speculative or even any kind of stock, investors took the risk of suffering a loss in the hope of benefit in kind.

According to Damodaran (2001) risk is not always associated with something bad. In the field of financial risk has a different meaning and broader. The more risk associated with the possibility to find rewards are not in accordance with what is expected, or vice versa when investing obtain yields greater than expected. Further said that the risk is a combination of the 'danger' and 'opportunity' in which the financial sector, the danger is defined as risks and opportunity is defined as the yield. Thus the outline can be said that the investment risk associated with the possibility of getting the results as expected. The greater the expected rate of return, the greater the risk assumed.

Gordon et al (1989) the risk is divided into two parts: (1) Market risk (systematic risk) (2) Risk of accounting (which can be analyzed by the variability in the dividend payout ratio, earnings, accounting beta). While Ferry and Jones (1979) suggested that the risk can be measured by various proxies such as: Business risk (variability in future income: sales revenue and pre-tax cash flow), either: (a) the coefficient of variation in sales (b) the coefficient of variation in pre-tax cash flow (c) the standard deviation of standardization growth in sales (d) the standard deviation of standardization growth in cash flow, regardless relation to return, because investors always expect a level appropriate return on any investment risks that it faces.

Brigham et al. (1999), the notion of return is "measure the financial performance of an investment". Return used on an investment to measure a company's financial results.

According to Jones (2000) "return is the yield and capital gain (loss)". (1) yield, that cash flow is paid periodically to shareholders (in the form of dividends), (2) Capital gain (loss), which is the difference between the stock price at the time of purchase by the share price at the time of sale.

Jogiyanto (2003) the stock return is divided into two: (1) return the realization of a return that has occurred, (2) return expectations

8. Corporate Governance

According to the Organization of Economic Cooperation and Development (OECD) corporate governance is the structure of the relationship and its relation to responsibilities among stakeholders comprising shareholders, board members, commissioners, managers, designed to encourage the creation of a performance competitive necessary in achieving the main goals of the company.

Monks (2003) defines corporate governance as a system to regulate and control companies that can create added value for all stakeholders. Meanwhile, according to The Indonesian Institute for Corporate Governance (IICG), corporate governance is the process and structure are applied in running the company, with the main objective to increase shareholder value in the long term by taking into account the interests of other stakeholders.

Investor Behavior and Value of the Company

This review has been conducted that analyze the relationship between the behavior of investors with decision-making and the value of the company, among others:

Manurung (2012) examines the Behavioral Analysis Institutional Investors Approach Analytical Hierarchy Process (AHP) Most institutional investors belonging to the type of investor rational behavior: trying to obtain as much information, always analyzing the information obtained prior to making an investment decision, investing in the long term, tend to be difficult to change the decision that has been taken, and trying to minimize the risk. The most influential factors of institutional investors in making investment decisions in the economic condition of the country. Followed successively by the liquidity of the issuer's financial statements, the profitability, share price movement and volume to date, the quality of the issuer's financial statements, and the solvency of the issuer's financial statements. In general, neutral information and accounting information is very influential in the process of making investment decisions of institutional investors.

Hendrawan (2012) is researching on the analysis of financial decisions and the value of the company based on the level of ownership structure stated that, in the ownership of the dominant financial decisions significantly influence the value of the company, whereas the level of moderate financial decisions do not affect the value of the proposed. Based on these findings suggested issuers should relinquish ownership of more than 25% for the market to respond positively and increased corporate value.

Septyanto(2013) examine and obtain empirical evidence about the factors that affect the behavior of investors in securities investment decision in the Indonesia Stock Exchange. The analysis showed that the financial statements do not have the benefit of changing the initial confidence of investors to undertake investment decisions. The benefits of financial information have no effect on investment intentions. The subjective norms to positively affect the investment intentions, that is the higher the power of social influence, the investor's intention to invest higher. The study results also showed a positive effect of subjective norm on belief revision. The other results showed the revised beliefs positively affect the investment intention, it indicates investors' perception of financial and non-financial information that is motivated to change the initial beliefs about the repositioning of stock. The findings of this study are investors were unsophisticated and irrational because it does not use the information in the financial statements of the investment decision-making.

Conclusion

In the previous section has revealed how the behavior of investors can influence decision-making and further affect the value of the company, so expect the research that attempts to analyze the concept needs to continue to be considered and developed with the intent to be useful in corporate decision in particular in relation to the achievement of corporate goals.

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