META-ANALYSIS ON OVERCONFIDENCE IN INVESTMENT PERFORMANCE EVIDENCE FROM GLOBAL MARKETS

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ABSTRACT

Overconfidence is one of the cognitive biases that can affect investment decisions. Overconfident investors tend to make high-risk and poorly informed investment decisions, which can lead to poor investment performance. This study aims to conduct a meta-analysis to systematically and comprehensively review the effect of excessive confidence on investment performance in global markets. This study aims to conduct a meta-analysis to systematically and comprehensively review the effect of excessive confidence on investment performance in global markets. A literature search is conducted through various scientific databases to identify relevant studies. Inclusion and exclusion criteria are applied to select studies that meet quality and relevance standards. Data were extracted from selected studies and analyzed using meta-analysis statistical methods. The results of the meta-analysis showed that excessive confidence had a significant influence on investment performance with a Hedge's value (d) = 0.703 with a medium effect size criterion. Overconfident investors tend to have portfolios with lower returns and higher risks compared to investors who are not overconfident.

Keywords: Excessive Confidence, Kinerja Investasi, Meta-Analisis, Investment Education

INTRODUCTION

Overconfidence, or overconfidence, is a person's tendency to overtrust their own abilities, knowledge, or influence, often exceeding reality. In the context of finance and investment, this phenomenon can greatly influence a person's investment decisions. Overconfident investors may believe that they are able to predict market movements better than they actually are, or that they are able to assess investment risk more accurately (Bajzik, 2021). This often leads to over-trading behavior, where investors often buy and sell assets in hopes of beating the market, which can ultimately reduce their investment returns due to transaction costs and improper timing.

Furthermore, overconfidence also has the potential to exacerbate the effects of ‘confirmation bias’, where an investor only seeks or pays attention to information that confirms their initial beliefs (Grezo, 2020). This can result in them ignoring warning signals or important information that is contrary to their predictions. For example, an investor may continue to hold onto a declining stock because it is too confident in their initial analysis and ignores negative market trends or fundamental changes in the business they are investing in.

Overcoming overconfidence requires the development of self-awareness and objectivity in making investment decisions. One effective way is to implement a portfolio diversification strategy to reduce risk (Reyes et al., 2022; Shirodkar & Konara, n.d.). In addition, investors can benefit from consulting with financial experts or using more objective data-based decision analysis. Implementing a system of periodic review of investment decisions that have been made can also help evaluate previous mistakes and improve future investment approaches (Erol, 2023).

Excessive confidence can have a significant negative impact on investment performance, one of which is through the formation of a portfolio with lower returns (Katsoulis, 2024; Lotus, 2023). Overconfident investors tend to overtrade based on the belief that they can predict market fluctuations accurately, or they better know when the right time to buy or sell (Shahar et al., 2021). Ironically, this excessive trading activity often leads to less than optimal results, due to increased transaction costs and errors in market timing. Studies have shown that over-trading usually reduces the returns that can be earned, as financial markets are often unpredictable with a high degree of accuracy by individuals.

In addition, excess confidence also increases risk in the investment portfolio. Overconfident investors may take riskier positions assuming that they are able to manage those risks better than the market average (Zigrayiova et al., 2020; Patel, 2021). This can include overinvesting in certain assets or sectors that are considered to deliver high returns, ignoring the principles of healthy diversification. As a result, the portfolio becomes more vulnerable to market volatility and economic changes, which can ultimately erode the value of the investment faster than if the portfolio were more diversified (Kraft, 2022). This lack of diversification often leaves investors facing huge losses when the market moves against their expectations (Kraft, 2022).

The problem of overconfidence can lead to excessive trading behavior, which not only results in higher transaction costs but also the potential for
mistingiming in buying or selling assets. This phenomenon often reduces the return that can be obtained from investments. The investigation aims to empirically measure how significant the impact of overtrading triggered by overconfidence is on investment returns, as well as the factors that may moderate or mediate the relationship. In addition, excessive self-confidence affects risk-taking in portfolio formation, especially in the context of lack of diversification (Desi & Zhao, 2018). The analysis will cover how overconfident investors tend to ignore the principles of healthy diversification, opting to invest in assets or sectors that are considered to have high profit potential but actually have higher volatility. The study aims to gain a deeper understanding of the relationship between overconfidence, risk-taking, and portfolio performance, which in turn can provide insights for more effective risk mitigation strategies and portfolio formation. Hence the importance of excessive self-confidence in investors in the global market (Buser et al., 2020).

Overconfidence in investors can have a significant effect on the scale of global markets. In international markets, where information and data can be spread at varying speeds and of varying quality, overconfident investors may assume they have superior ability to interpret market information and make accurate predictions regarding global trends (Buser et al., 2020). This often drives risky investment decisions, such as over-allocating funds to emerging markets that are perceived as "golden" opportunities without considering actual political or economic volatility. Overconfidence can also trigger an overreaction to certain news or events, which can lead to sharp and volatile market price fluctuations, affecting global investors as a whole. (Lotus, 2023).

In addition, the effects of excessive self-confidence are also seen in collaboration and competition among international investors (So, 2022). Overconfident investors tend to ignore or underestimate the expertise and opinions of other investors, which can undermine the potential for cross-border cooperation or negotiation in co-investments (Singh et al., 2022; Kraft, 2022; Brunzel, 2021). In the long run, this could hinder the growth and efficiency of global markets due to the lack of collaboration and information exchange. The inability to acknowledge personal limitations and seek additional advice or information can lead to investment decisions that are not only detrimental to individuals but can also affect global financial stability. Based on this, this study aims to conduct a meta-analysis to systematically and comprehensively review the effect of excessive confidence on performance.

RESEARCH METHODS

This research is a type of meta-analysis research. Meta-analysis is a research approach that collects and analyzes data statistically to reach a conclusion (Aybirdi et al., 2023; Putra et al., 2023; Zulkifli et al., 2022); Putra et al., 2023; Badawi et al., 2023). The data sources in this study come from 11 national and international journals published in 2022-2024. Data sources are obtained through google scholar; mendeley and Sciencedirect. Data analysis through statistical analysis with the help of the STATA application. Furthermore, the effect size criteria can be seen in Table 1.

| Average effect size | 0.913 |

RESULTS AND DISCUSSIONS

From the results of data search through the database, 11 relevant studies related to Overconfidence and Investment Performance Evidence From Global Market were obtained. Furthermore, the data analyzed the characteristics consisting of the journal code, publication year, effect size, publication index and source which can be seen in Table 2.

| Tabel 2. Anaisis 11 Penelitian Untuk Data Meta-analisis |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Journ al Code  | Year of Publicati on | Effect Size (Hedge 's) | Inde x | Source |
| PL1             | 2022             | 0.93             | Sinta | Google Scholar |
| PL2             | 2023             | 1.16             | Sinta | Mendeley |
| PL3             | 2023             | 0.62             | Scop us | ScienceDirect |
| PL4             | 2023             | 1.92             | Scop us | ScienceDirect |
| PL5             | 2024             | 0.88             | Sinta | Google Scholar |
| PL6             | 2024             | 0.39             | Scop us | Google Scholar |
| PL7             | 2023             | 0.90             | Sinta | Google Scholar |
| PL8             | 2022             | 1.42             | Scop us | Mendeley |
| PL9             | 2023             | 0.93             | Scop us | Mendeley |
| PL10            | 2024             | 0.51             | Sinta | Google Scholar |
| PL11            | 2024             | 1.29             | Scop us | Mendeley |
| Average effect size | 0.913 |

From Table 2, the analysis of 11 research publications obtained an average effect size of
stability and investments.

CONCLUSION
From the results of this study, it can be concluded that excessive confidence has a significant influence on investment performance with a Hedge's value \((d) = 0.703\) with a medium effect size criterion. Overconfident investors tend to have portfolios with lower returns and risks. Overconfidence leads to excessive trading behaviour and disproportionate risk-taking, often resulting in lower returns and increasing portfolio volatility. This research also highlights the importance of awareness of overconfidence bias and implementing effective diversification strategies as mitigation measures. By providing extensive empirical evidence, this study invites investors, educators, and policymakers to integrate this understanding into investment practices and policies to improve decision-making and optimize investment performance in a dynamic and interconnected market environment.

REFERENCES


