Risk Taking Investment as the Interaction Effect of Loss Aversion and Information (Pilot Test)

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Abstract

The purpose of pilot test of this research is to test the interaction of loss aversion and information to the decision of risk taking investment. The information obtained by investor was positive or negative determined by the low or high level of risk taking investment. Furthermore, the method of pilot test of this research was experimental laboratory within subject design 22 factorial design. The hypothesis test employed alpha index was meant to determine the low or high risk on the participants taking part. Interaction test employed post hoc with Bonferroni model. The test result of hypothesis from pilot test showed that the participants in the gain domain tended to have lower risk taking than that of in the loss domain. Test result of interaction showed that there were some differences of all treatment groups and there was a significant effect between information in gain domain and loss din to risk taking. Meanwhile, the other result from the interaction of loss aversion and information in both gain and loss domain had significant effect to the risk taking. Moreover, the loss aversion both in gain domain and the loss one did not have a significant effect to the risk taking. The limitation of research post test was dealing with the number of participants that was only eleven. This number was then divided into two groups are gain and loss. However, this research provided some value to investor that in decision making of investment, he had to be capable of managing and controlling some psychological factors dealing with knowledge improvement. The novelty of this research was that decision making of investment was not only influenced by external factor but also the internal one, especially dealing with somebody’s psychology.

Keywords: *risk taking; gain domain; loss domain; pilot test.*

1. Introduction

The return and risk level of investment determines the courageous level of someone to the risk taking level of investment.(Seo, Goldfarb and Barrett, 2010) said that risk taking could be classified into two, namely less risk taking and greater risk taking. Some one classified as risk averse is the one who does not have a courage in risk taking. On the other hand, risk seeking is the one who has a courage in risk taking.

The courageous level of someone in risk taking of investment is influenced by many factors. (Pavabutr, 2002) said that personally some one tended to behave refractive that might lead him to make a systematic mistake in decision making. This statement was confirmed by (Mittal, 2010). He said that the decision making for investment was controlled by eagerness, purpose, prejudice bias, and emotion.

Decision making of investment is influenced by many factors. Therefore, the researcher limits on two factors only, namely loss aversion and information. According to (Kahneman, 1979), loss aversion in prospect theory showed that a person/someone would hold loss longer and sell stock more quickly in the gain time. When someone encounters loss he will tend to be more cautious and sensitive rather than to face gain although nominally they are the same (Kahneman, Knetsch and Thaler, 1990) and (Haigh and List, 2005).

Furthermore, the research conducted by (Mbaluka, Muthama and Kalunda, 2012) was found that individual investor tended to have loss aversion in decision making of investment. Meanwhile, the research result of (Sert *et al*., 1999) was found that investor in gain domain showed that there was a risk averse. On the other hand, when he was in a position of loss domain, he would tend to show risk seeking. (Seo, Goldfarb and Barrett, 2010), their research result showed that in loss position a participant tended to be courageous to take a risk but on the other hand, in gain position it did not show the significance of risk taking (Seo, Goldfarb and Barrett, 2010).

The other factor which influenced the courage level or the level of risk taking in decision making is information. The research conducted by (Cassotti *et al*., 2012) showed that information was performed through a picture or a story at first either exciting or not. Meanwhile the research conducted by (Huangfu and Zhu, 2014) and (Dunegan, 1993) showed that positive information influenced someone to make a decision more quickly due to the system of intuitive and heuristic decision making. On the other hand, with negative information someone tended to make his decision later due to the system of decision making that seems to be more rational and analytic. Moreover,(Kaufmann and Weber, 2013),(Mittal and Ross, 1998) said that information influenced the risk taking of investor; there was a tendency of negative information influencing risk seeking and positive information influencing risk averse. On the other hand, the research result conducted by (Seo, Goldfarb and