

## HERDING BEHAVIOR IN THE SHARIA CAPITAL MARKET ON INVESTMENT DECISIONS



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### Abstract

Herding behaviour is an irrational decision-making because it is the following of other investors. Using information asymmetry as a moderating variable, this research aims at identifying the factors that influenced investment decisions. The research object was the Jakarta Islamic Index, and the data used were quarterly data from 2019 to 2021. The methods of sampling and analysis used were the panel data regression method and the purposive sampling method. The results showed that volatility, exchange rate, market sentiment and firm size positively and significantly affected herding behaviour. Information asymmetry strengthened the influence of herding behaviour on investment decisions. Furthermore, investors and potential investors could use the results to make future investment decisions.

### INTRODUCTION

The global outbreak of the COVID-19 pandemic has a positive also a negative impact on the economy of a country. COVID-19 is a serious threat that could affect the stability of countries including Indonesia. Investment is one area of concern in the middle coronavirus epidemic. The existence of various restrictions in a country certainly affects economic activity. At the start of the Covid-19 period in early March 2020, according to The Investment Coordinating Board (BKPM) investment impact due to the spread of the plague COVID-19 could not be predicted until late March or early April. Indonesia's economic growth was expected to decline sharply due to the COVID-19 pandemic, but foreign investment in the real estate sector was said to still have opportunities. The challenge for the investment world, and real estate going forward, was the speed with which countries moved away from classic topics such as dealing with COVID-19 and with workers. However, behind these challenges and issues, there were still opportunities in several business fields (Rusmin 2020).

Indonesia has two types of capital markets: conventional and Islamic. Established in 1995, the Islamic capital market has witnessed notable growth over the years. Remarkably, during periods of global crisis and the COVID-19 pandemic, the Islamic stock index remained relatively stable. The growth in investment within the Islamic capital market, particularly in the Islamic stock index, was evident from the increasing number of investors between 2016 and 2021. This trend highlighted the resilience and attractiveness of the Islamic capital market to investors during varying economic conditions. This situation was conceived to be due to herding behaviour, namely the irrational behaviour of investors in making investment decisions. Herding behavior was seen in changes in market conditions, volume and volatility, but did not occur during market crisis conditions (Liem and Sukamulja 2017). There were two ways in which COVID-19 might affect investor herding behaviour. First, investors faced an economic downturn and medical and social uncertainty and considered the information available to maintain and/or invest in the capital market based on their beliefs. Second, they considered other agents who had more information to follow their conduct (Espinosa-Méndez and Arias 2021).

Herding behaviour is a concept rooted in behavioural finance theory, which has evolved from traditional to modern frameworks. It analyzed market anomalies, narrowed the gap between traditional and actual market conditions, and synthesized academic events that reinforced behavioural biases and their impact on financial markets (Prosad, Kapoor, and Sengupta 2015). Herding was a significant driving factor of asset bubbles so authors hoped to detect its existence in irrational transactions that occurred in the capital market (Ali et al. 2020).

The development of the sharia stock index is reflected in the value of the JII and JII70 stock indexes as follows:

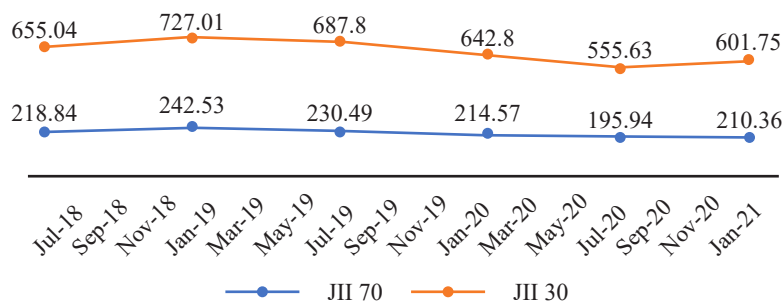


Figure 1. Jakarta Islamic Index Stock Price

As presented in Figure 1, the condition of stock prices on the Jakarta Islamic Index (JII), consisted of two categories, namely JII30 and JII70. The figure showed that share prices in the JII generally did not experience a significant decline, especially in the JII70 share price which contradicted the pandemic conditions in almost all indices experiencing a sharp decline. This was interesting to study because stock market conditions experienced a decline during the COVID-19 pandemic. This indicated the presence of herding signals in the Islamic stock index. Herding was a condition where investors acted irrationally in decision-making without considering relevant information. Herding behaviour gave several signs that differed from country to country (Jiang et al. 2022).

Several factors influence herding, including micro-factors like volatility, market sentiment, and firm size. Meanwhile, macroeconomic factors include the exchange rate. Stock price volatility leads to the random walk theory of hypothesis, which states that stock prices and stock market prices evolve according to a random path and are therefore unpredictable. This is consistent with the efficient market hypothesis, according to Eugene Fama (1965) explained that stock prices could be calculated randomly. Volatility was the rate of change in the price of a security at a given time and was a measure of the level of risk faced by investors (Baker et al. 2019). Variations in volatility and shifts in risk aversion play crucial roles in influencing herding behaviour among investors (Nath and Brooks 2020). Herding behaviour was noticeable in markets during periods of high volatility amid a pandemic (Ferreruela and Mallor 2021) (Ferreruela and Mallor 2021). Predominant herding occurred when the market direction was volatile, while adverse herding was common during calm market directions (Fu and Wu 2021). Investors' tendency to engage in herding behaviour drove market trading volume and volatility to peak levels. Consequently, this collective behaviour of investors propelled stock prices to deviate significantly from their fair values due to the influence of price momentum and heightened volatility (Sabir, Mohammad, and Shahar 2019).

Economists and financial professionals extensively analyzed crucial macroeconomic elements in a nation, including exchange rates, the correlation between exchange rates and stock prices, and the intricate interactions among these factors (Ikhsan et al. 2022). Sumarto & Rachbini (2020) identified three main groups interested

in exchange rate movement: companies, investors, and governments. The government's role in maintaining the rupiah exchange rate against the US dollar supported this stability. This stability encouraged companies and investors to make decisions based on their goals, such as increasing company value and achieving optimal profits. Exchange rates were determined by the relative supply and demand of the two currencies, with foreign currency demand influencing spending on goods and services abroad (Wijaya 2020).

The worldwide depreciation of currency exchange rates amid the COVID-19 pandemic, impacting nations like Indonesia, led to an increased risk of worldwide uncertainty. This caused the tendency of investors to divert their investment funds to save haven asset values resulting in capital outflows (Supriyatna and Djailani 2020). An uptick in exchange rate unpredictability could impact investors' mindset when selecting financial assets for their investment portfolios, leading to heightened demand for and prices of shares (Wagner 2022).

Sentiment was related to the level of market sentiment, with pessimistic levels indicating an overreaction by investors, while optimistic levels were closer to a random walk (Schadner 2021). This had potential investment implications, as well as financial stability implications. Market sentiment played an important role in analysing herding behaviour, particularly for companies that were difficult to value, large companies, companies with significant institutional ownership, companies with high book-to-market ratios, and companies with limited analyst coverage (Chiang and Lin 2019). The intensity of herding was influenced by previous returns and sentiment or subjective judgment factors, affirming the presence of both rational and emotional elements in this phenomenon (Blasco, Corredor, and Ferreruela 2012). Herding behaviour became more pronounced during extreme market fluctuations triggered by COVID-19, in conditions of reduced market trading volumes, and when there was low market volatility (Wu, Yang, and Zhao 2020).

The intensity of herding behaviour fluctuated under varying market conditions, with a more pronounced effect observed in declining markets, especially during the pre-crisis phase. In the post-crisis period, however, the trend of herding behaviour tended to manifest in the reverse direction (Vo and Phan 2016). As trading activity escalated, there was a noticeable rise in herding behaviour, particularly in stocks that attracted a substantial number of individual investors (Choi 2016).

The tendency of herding behaviour by investors was the size of the company which was quite large and had short-term market sentiment (Shah, Shah, and Khan 2017). For investors, the condition of large company assets was often an indicator of investment stability and security. Information regarding the company's actual assets received by each investor also varied, even though the information was widespread, there was some information that could only be obtained from the company's internal. As a result, these conditions led to herding behaviour in making investment decisions. Under Initial Public Offering (IPO) conditions, investors tended to look at the total assets owned by the company, thereby triggering an increase in herding behaviour (Armansyah 2015).

Herding behaviour was mostly done by amateur investors compared to professional investors. The difference between amateur and professional investors might be due to the financial training that professionals receive so that they paid more attention to quality information (Venezia, Nashikkar, and Shapira 2011). Signalling Theory is the basis of investment decision theory. (Suteja et al. 2023). This theory explains that capital expenditure is a positive signal that leads to future company growth. This in turn affects profits and increases the value of the company.

The behaviour of investors is rooted in their decision-making processes. According to Liem & Sukamulja (2017), Investors exhibiting herding behaviour were inclined to mimic the decisions of other investors, regardless of whether these actions appear less logical in the context of making investment decisions. Based on research by Kanwal et al, (2018) herding behaviour could have a significant impact on investment decisions. In contrast to research (Alquraan, Alqisie, and Al Shorafa 2016; Gozalie and Anastasia 2015) it was stated that herding and investment decisions had no effect.

Information asymmetry is a critical prerequisite for the occurrence of herding behaviour (Komalasari 2016). Institutional herding behaviour was determined by signals originating from information asymmetry, the support of institutional herding behaviour in stabilizing prices in international markets (Kyriazis 2020). Under such conditions, investors sought information based on how other investors have behaved, (Choi 2016) found evidence of individual and institutional herding in the Korean stock market due to information sharing among all market participants. Information asymmetry caused herding behaviour, while market uncertainty, on the contrary, did not cause herding (Hartono 2015). Information asymmetry was a novelty in this research because it was used as a moderating variable between herding behaviour and investment decisions. Agency theory highlights the relationship between the owner (principal) and the agent acting on behalf of the owner (agent). Managerial and shareholder interests might diverge, potentially resulting in conflicts or agency problems (Setia et al. 2022). Information asymmetries could create inequalities in information between the principal and agent, moderating the extent to which herding behaviour could influence investment decisions. This asymmetry could strengthen or reduce the agent's influence in following market behaviour.

In both Indonesian and Asia Pacific stock markets globally, herding behaviour was observed during periods of market stress, while in normal conditions or times of exceptionally high stock returns, investors tended to behave more rationally (Gunawan et al. 2011). There was no evidence of herding in the JII, implying that investors tended to behave rationally in investment decisions (Fauziah and Rusmita 2020).

Research on herding behaviour in the Islamic capital market during the COVID-19 pandemic could provide valuable insights into investors' behaviour and decisions under uncertain economic conditions. The rationale for this research involved understanding the effect of the pandemic on the market, identifying the impact of herding behaviour on investment portfolios, linkage to sharia principles, development of investment strategies, contribution to academic literature, and relevance for policy decision-makers. The results of the research were expected to enrich the knowledge of the Islamic capital market and provide a basis for wiser investment decision-making as well as support the overall growth of the Islamic capital market.

Investment decisions are the result of investors' understanding in assessing the financial performance contained in financial statements made based on accounting science. So decision-making could increase the company's investment, but investors often invest without assessing the accounting side. Their tendency to follow other investors when making decisions causes herding behaviour.

This prominent difference is due to information asymmetry that distorts the capital market. Distortion of this information could be caused by rumours circulating among investors. Rumours easily spread among investors so that they could trick investors into selling or buying shares even though the value of the assets has not changed much. As a result, rumours circulating in the capital market created information asymmetry, which had an impact on investors' irrational attitudes (Muslim and Widyastuti 2019). Information asymmetry harmed investment decisions because information was asymmetric, and investment decreased rapidly compared to an increase in investment (Ahmad., et al 2021).

This research focused on the condition of companies during a pandemic, especially in the Islamic capital market, so the period used was 2019-2021. This research aimed at examining how volatility, exchange rates, market sentiment, and company size influence herding behaviour. Additionally, it sought to explore the impact of herding behaviour on investment choices, considering information asymmetry as a moderating factor, among firms listed on the Jakarta Islamic Index 70 (JII70) between 2019 and 2021.

The research hypotheses developed based on research problems and research framework were as follows: H1: There was a significant effect of volatility on herding behaviour; H2: There was a significant effect of exchange rate on herding behaviour; H3: There was a significant effect of market sentiment on herding behaviour; H4: There was a significant effect of company size on herding behaviour; H5: There was a significant effect of herding behaviour on investment decisions; H6: There was also a significant effect of herding behaviour on investment decisions moderated by information asymmetry.

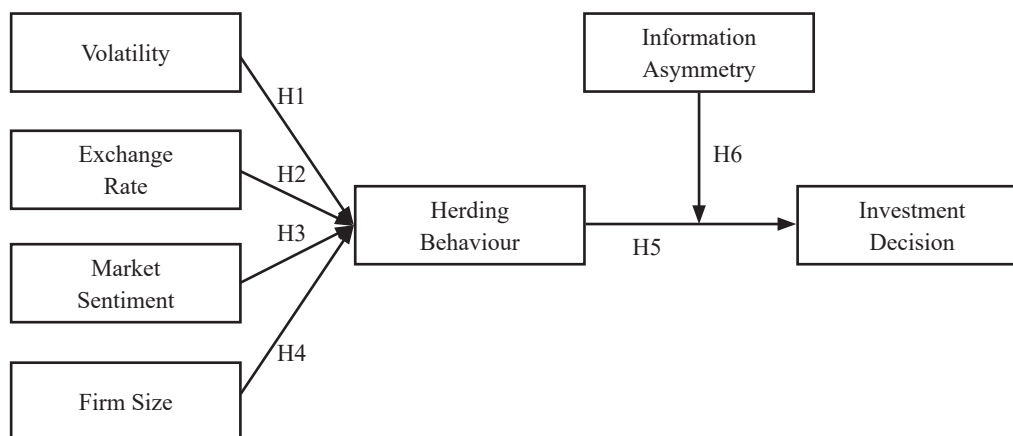


Figure 2. Research Framework

## METHODS

This research used a quantitative descriptive method. Descriptive research is a type of research that uses a method to describe the results of research. Descriptive research aims at describing, explaining and validating the phenomenon under research, as the name suggested (Priadana and Sunarsi 2021). The purpose of descriptive research was to describe a situation or a phenomenon as it was. Companies listed on the JII70 were the population for this study, with a research sample after using purposive sampling of 14 companies with

a research period of 2019 - 2021 and the data used was quarterly. The data used including the closing prices of the JII index and the rupiah-US dollar exchange rate, were secondary data from [www.idx.com](http://www.idx.com) and [www.bii.com](http://www.bii.com) with quarterly from 2019-2021. The following are measurements of research variables:

Table 1. Operational definition of variables

Variable	Definition	Measurement
1. Volatility (X1)	A measure of investment risk could show the rate of change in stock price over some time (Hooi et al, 2015).	$V = \frac{Hi - Li}{(Hi + Li)/2}$
2. Exchange Rate (X2)	The number of currency units that could be purchased or exchanged for one unit of another currency (Aini et al. 2020; Bancin, Romli, and Isnurhadi 2020)	Middle rate = (Selling rate + Buying rate)/2
3. Market Sentiment (X3)	Market sentiment was investors' beliefs about investment risks that are not justified by existing facts (Heinig et al., 2020)	$S = \text{Log} (P_i, t) - \text{Log} (P_i, t-1)$
4. Company Size (X4)	Company size was one indicator that showed the company's financial strength. The bigger the company, the more investors were interested in investing their shares compared to small companies. Measurement for the size of the company using (Herry, 2017)	Size = Ln (Total Assets)
5. Herding Behavior	Herding behaviour was identified as an investor's behavioural tendency to follow the actions of others (Arjoon, Bhatnagar, and Ramlakhan 2020; Chen 2020; Choi and Yoon 2020)	$CSAD_t = \frac{1}{2} \sum_{i=1}^n  R_{i,t} - R_{m,t} $
6. Investment Decision	The measurement of investment decisions here is only focused on the difference between the total assets of the current year and the total assets of the previous year which was then divided by the total assets of the current year (Santioso & Angesti, 2019; Syaugi & Rahmah, 2021).	$TAG = \frac{\text{Total Asset } t - \text{Total asset } t-1}{\text{Total asset } t-1}$
7. Information Asymmetry	Information asymmetry could be seen from the difference between the asked price and the bid price for the company's shares or the difference between the selling price and the purchase price for the company's shares for one year (Matagu 2018).	Information Asymmetry = $(ask_{i,t} - bid_{i,t}) / \left( \frac{ask_{i,t} + bid_{i,t}}{2} \right) \times 100$

Classical assumption testing Classical assumption testing was a prerequisite in regression analysis. The classical assumption tests used in linear regression with the OLS estimation method included the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

The test model used is Panel Data Regression, three models could be used in panel data testing: 1) Common Effect Model (CEM); 2) Fixed Effect Model (FEM); 3) Random Effect Model (REM). To determine the best model, proper testing was carried out through the Chow test, Hausman test, and Lagrange multiplier test. In this research, the data was analyzed using e-Views 12.

The Chow test was employed to ascertain the appropriate panel data regression model, specifically between the Common Effect Model and the Fixed Effect Model. The guidelines for performing the F-Stat test or Chow test were described as follows: If the p-values from both the Cross-section F and Cross-section Chi-square tests were above 0.05, it implied that the null hypothesis (H0) was accepted, signifying the selection of the Common Effect Model (CEM) for the regression. Conversely, if the p-values from these tests fell below 0.05, it suggested rejecting the null hypothesis (H0) and opting for the Fixed Effect Model (FEM) in the regression.

The Hausman test was conducted to compare the Fixed Effect Model and the Random Effect Model to determine which model should be used. This test was conducted using the Eviews programme. The instructions for conducting the Hausman test were outlined as follows: (a) If the p-value of the Cross-section random test exceeded 0.05, the null hypothesis (H0) was accepted, indicating that the chosen regression model was the Random Effect Model (REM). (b) If the p-value of the Cross-section random test was below 0.05, H0 was rejected, and the selected regression model was FEM.

The Lagrange Multiplier test was utilized to assess whether the Random Effect Model outperforms the Common Effect Model. This examination was executed utilizing the Eviews software. The criteria for the Lagrange Multiplier test were outlined as follows: (a) If the Breusch-Pagan cross-section value was greater than 0.05, then the null hypothesis (H0) was accepted, indicating that the most suitable model to employ was the Common Effect Model (CEM); (b) If the Breusch-Pagan cross-section value was less than 0.05, then H0 was rejected, suggesting that the appropriate model to use was the Random Effect Model (REM).

## RESULTS

Descriptive statistics were used to determine the mean, minimum, maximum and standard deviation of data. The descriptive statistics of this research could be seen in Table 2 and Table 3.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Means	Dev Std
Volatility (X1)	168	0.004914	0.9214	0.044086	0.030722
Exchange Rates (X2)	168	13956.00	16367.01	14488.14	616.8095
Market Sentiments (X3)	168	-0.849203	0.921411	-0.006559	0.171529
Size (X4)	168	29.55994	31.77243	30.96415	0.501410
Herding Behavior (Y)	168	0.120228	0.423426	0.176697	0.080392
Information Asymmetry (M)	168	0.005187	1.40000	0.138621	0.158013
Investment Decisions (Z)	168	-0.040233	0.300000	0.036602	0.092071

Table 2 presented that the standard deviation of the market sentiment, information asymmetry, and investment decision variables had a value more than the mean value, this showed that the deviation of the variable data could be said to be quite varied. As for the volatility, exchange rate, size, and herding variables, they had a standard deviation value that was less than the mean value, which meant that the data deviation was less varied.

Table 3. Results of Hypothesis-testing

hypothesis	Relationships	coefficient	T-stat	P-values	Decision
H1	(X1) → (Y)	1.2013	4.1772	0.0000	Accept
H2	(X2) → (Y)	0.0000	2.2228	0.0276	Accept
H3	(X3) → (Y)	0.1061	2.4341	0.0160	Accept
H4	(X4) → (Y)	1.5969	5.7309	0.0000	Accept
H5	(Y) → (Z)	1.1233	13.271	0.0000	Accept
H6	(Y*M) → (Z)	0.0902	2.9693	0.0034	Accept

Using a significant level of 5% ( $\alpha = 0.05$ ), with degrees of freedom calculated as  $nk-1$  ( $168-4-1 = 163$ ), and employing a two-tailed (2-tailed) testing approach, obtained t- table 1.65426. The results of hypothesis testing showed that the hypothesis built following the test results could be seen from the p-value of less than 0.05. It could be concluded that the research hypothesis was accepted.

Table 4. Test Results for The Coefficient of Determination

Equality	Coefficient of Determination
(X1, X2, X3, X4) → (Y)	0.7052
(Y) → (Z)	0.7163
(Y*M) → (Z)	0.7205

Table 4 showed the result of the coefficient of determination test, for equation (1) the value of the coefficient of determination was 0.7052 meaning that the variables volatility, exchange rates, market sentiment, and company size together could explain the herding behaviour variable of 70.52%. Meanwhile, 29.48% was explained by other variables outside the research variables. Equation (2) showed that herding behaviour variables could explain investment decisions by 71.63% and 28.37% were explained by other variables outside the research variables. The coefficient of determination in equation (3) meant that the interaction variable of herding behaviour and information asymmetry could explain the investment decision variable by 72.05% and 27.95% was explained by other variables outside the research variables.

## DISCUSSION

The results of the t-test revealed a calculated t-value for the volatility variable laid in the range where the null hypothesis was rejected. These outcomes validated the acceptance of H1, indicating a substantial impact of volatility on herding behaviour. The regression analysis results demonstrated that volatility had a positive and significant influence on herding behaviour within the JII 70 Sharia Stock Index. A positive effect implied that any increase in volatility is associated with a subsequent increase in herding behaviour on the JII 70 Sharia Stock Index. This explained that volatility had an important role in increasing herding behaviour. The findings

of this research suggested that the magnitude of stock price volatility impacted investors' engagement in herding behaviour. These research outcomes aligned with (Bernales, Verousis, and Voukelatos 2020; Hong, Xu, and Lee 2020; Kabir and Shakur 2018), which stated that volatility had a positive effect on herding behaviour in the JII Sharia Stock Index 70. According to the random walk theory used to model stock price movements, it showed that random stock price movements encouraged irrational investors to do herding. This was proven by the research results where high volatility encouraged irrational investors to make buying decisions on Islamic stocks regardless of pandemic conditions. The level of volatility in the research period showed a downward trend, the decrease in the level of volatility was caused by stock prices which tended to decline. Price fluctuations of individual shares in the market result from shifts in supply and demand. These changes in supply and demand could be attributed to rational or irrational factors. Rational factors encompassed elements like a company's performance, while irrational factors encompassed investor actions driven by market rumours, following the crowd, or engaging in speculative pricing games. Investors tended to exhibit herding behaviour, particularly in periods of heightened volatility. This suggested that as market risk and uncertainty escalated, investors tended to base their trading decisions on the beliefs and actions of their peers, rather than conducting thorough research on fundamental factors to make more informed investment choices. The research findings validated that the degree of stock market volatility significantly influenced herding behaviour. These outcomes were consistent with the observation that investors tended to mimic the actions of others during periods of heightened market volatility. This implied that as market risk and uncertainty increased, investors were more likely to rely on the actions and judgments of their fellow investors, rather than conducting a comprehensive analysis of fundamental factors for making well-informed investment decisions. The research results were in line with the Investors' tendency to engage in herding behaviour when facing high levels of volatility. This suggested that rather than gathering information on fundamentals to make more informed investment decisions, investors tended to base their trades on the beliefs and decisions of other investors as risk and uncertainty in the market increased. These findings suggested that levels of stock price volatility influenced investor herding behaviour.

The test results utilized in the t-test indicated that the computed t-value for the exchange rate variable fell within the region where the null hypothesis was rejected. The test results indicated the acceptance of H2, signifying that the exchange rate exerted a significant influence on herding behaviour. Regression estimates revealed that the exchange rate exhibited a positive and significant impact on herding behaviour within the JII 70 Sharia Stock Index. A positive effect implied that an increase in the exchange rate corresponds to an increase in herding behaviour within the JII 70 Sharia Stock Index. While the smallest regression coefficient in this model did not imply that the exchange rate variables were not a factor of concern for investors engaging in herding behaviour in the capital market, it suggested that investors' tendency toward herding behaviour is primarily associated with internal factors of companies. This indicated that the higher the exchange rate, the stronger the herding behaviour (Firdaus & Ningsih, 2019; Gong & Dai, 2017). Macroeconomic factors proxied through exchange rates had a positive impact on irrational investors in herding, the exchange rate itself is determined by the government or central bank whose fluctuations were controlled in maintaining economic stability. Consistent with the findings of the conducted research, there existed a noteworthy and positive impact of exchange rate variables on herding behaviour. During the pandemic, the Rupiah exchange rate against the dollar witnessed a significant rise, especially at the onset of the COVID-19 spread in Indonesia. The exchange rate reached Rp. 16,000/USD, which greatly influenced the behaviour of investors in determining their investment decisions. A depreciating local currency caused a decrease in profits, thus impacting the capital market (Listiana and Robiyanto 2021). As a result, investor interest decreased, but under certain conditions, investor behaviour led to irrational behaviour and tended to follow other investors in making decisions. When the rupiah exchange rate against the dollar increased, investor herding behaviour tended to occur in the capital market (Ramadan, 2019).

The results obtained from the t-test reveal that the computed t-value for the market sentiment variable fell within the region where the null hypothesis was rejected. These test findings affirmed the acceptance of H3, This indicated that market sentiment significantly influenced herding behaviour. The results of the regression analysis revealed that market sentiment exerted a positive and substantial influence on herding behaviour within the JII 70 Sharia Stock Index. A positive effect indicated that any uptick in market sentiment corresponds to a subsequent rise in herding behaviour within the JII 70 Sharia Stock Index. These findings were in line with (Chiang & Lin, 2019; Choi & Yoon, 2020). When prices rose, sentiment tended to become bullish, and conversely, when prices declined, sentiment turned bearish. Stocks that were susceptible to sentiment often triggered instances of herding behaviour. This underscored the pivotal role of market sentiment in fostering herding behaviour within the index. Herding behaviour became more prominent during bullish market conditions, lower trading volume, and reduced market volatility, mainly attributed to the impact of the COVID-19 pandemic (Wu et al. 2020). Market sentiment represented the collective outlook of investors or participants in a market

regarding price fluctuations. Due to its reflection on participants' attitudes, market sentiment was frequently associated with herding behaviour. In theory, market sentiment referred to the random walk model which was a random movement that responded to inefficient pricing, which formed bullish and bearish situations. Investor sentiment could influence supply and demand, thereby impacting price shifts. Herding behaviour depended on the rate of return, sentiment or subjective assessment of investors and the presence of irrational attitude factors (Blasco et al. 2012). At times, investors neglected their individual information or disregard their convictions. Instead, they conformed to market sentiment or heavily depended on the actions of fellow investors, leading them to engage in selling or buying decisions (Choi & Yoon, 2020). Specifically, herding behaviour seemed to be primarily motivated by market uncertainty, exceptional market situations, and phases characterized by a high influx of information (Arjoon et al. 2020; Rahayu et al. 2020).

In Indonesia, herding behaviour manifested during periods of market stress. In contrast, during normal circumstances or when stock returns were exceptionally high, investor behaviour tended to be more rational. These research findings were consistent with this observation (Chiang and Lin 2019; Hong et al. 2020; Yao, Ma, and He 2014) This aligned with the idea that herding behaviour tended to surface during extreme market conditions or when the market is on an upward trajectory. Conversely, when the market experienced a downturn, investors often encountered smaller returns, prompting them to assume more risk when market sentiment was positive.

The t-test results indicated that the computed t-value for the firm size variable fell within the region where the null hypothesis was rejected. These findings from the test results confirmed the acceptance of H4, signifying that company size had a significant impact on herding behaviour. The results of the regression analysis revealed that company size exerted a positive and substantial influence on herding behaviour within the JII 70 Sharia Stock Index, leading to an increase in herding behaviour. Company size emerged as a crucial factor affecting herding behaviour (Kremer and Nautz 2013). Company size served as an indicator reflecting a firm's financial prowess, typically assessed through its total assets. An increase in a company's assets signified its growth in size, consequently enhancing its recognition among investors. Consequently, investors were inclined to gravitate towards larger companies for investment opportunities. Hence, as a company expanded in size, it attracted a greater interest from investors looking to invest in its shares compared to smaller companies (Arjoon et al. 2020; Armansyah 2015; Demirer, Lee, and Lien 2015). Smaller companies often exhibited limited transparency, meaning publicly accessible information was scarce regarding them. Consequently, the intentional herding model anticipated a negative correlation between herding behaviour and company size. On the other hand, accidental herding was more prone to happen in the case of larger stocks, as institutions possessed a more substantial amount of uniform information about these stocks (Kremer and Nautz 2013). Herding could occur between large stocks because many investment professionals, such as fund managers, might be restricted from investing in these stocks for regulatory purposes (Arjoon et al. 2020). On the first day of stock trading, it could be seen that herding behaviour was driven by the size of the company (Armansyah 2015).

The test results showed that the calculated t-value for the variable representing herding behaviour fell within the range where the null hypothesis was rejected. These findings from the test results confirmed the acceptance of H5, signifying that herding behaviour had a significant impact on investment decisions. The outcomes of the regression analysis indicated that herding behaviour had a significant and positive impact on investment choices within the JII 70 Sharia Stock Index, contributing to the enhancement of investment decisions within this specific index. (Liem and Sukamulja 2017). An investor would exhibit herding behaviour when they relied more on validated information than their judgment, believing that investment decisions, or decisions made by the majority, could not be wrong (Afriani & Halmawati, 2019). Investor herding behaviour, which is financial that combined psychological and cognitive theories with conventional economics and finance, was detected in market stress situations when making decisions. (Kyriazis, 2020). This was consistent with the findings that herding behaviour had a positive and significant effect on the investment decisions made in the JII 70 Sharia Stock Index. There is evidence of false herding and intentional herding by investors in the period after COVID-19. The herding that did occur was intentional following the announcement of the pandemic. (Sarifussalim & Setiawan, 2021). This was consistent with research showing that herding behaviour had a significant effect on investment decisions.

The test results showed that the calculated t-value for the interaction between herding behaviour and asymmetric information variables was within the region where the null hypothesis was rejected. These findings from the test results confirmed the acceptance of H6, signifying that information asymmetry could moderate the impact of herding behaviour, which itself had a significant effect on investment decisions. The results also presented that information asymmetry could be used as a signal by irrational investors in making investment decisions. It's crucial to emphasize that information asymmetry was a fundamental prerequisite for the occurrence of herding behaviour (Komalasari, 2016). Finally, the results showed that there was an



agent's interest in fulfilling the principal's wishes, where the agent tried to utilize information signals made by other parties as a guarantee of certain conditions. Market information had the greatest influence on investor decision-making, this explained why investors paid more attention to market information when making their investment decisions (Kanwal et al. 2018). Heterogeneous information trading also played an important role in the formation of herds due to information asymmetry (Dang & Lin, 2016). Herding occurred due to information asymmetry between domestic and foreign investors (Ramli et.al, 2016). The decision of an investor to invest was based on subjective factors. It depended on their assessment of expected costs, their understanding of advances in technology and their perception of risk, all of which were entirely subjective considerations (Virlics 2013). Informed investors making trading decisions by interpreting the signals they received from available information to all market participants. Investors' investment decisions were impacted by the existence of a herd signal (Philippas et.al, 2020).

## CONCLUSIONS

This research demonstrated that herding behaviour in the Islamic capital market was impacted by factors such as volatility, exchange rates, market sentiment, and company size. The findings indicated that herding behaviour tended to increase in periods of high volatility. Similarly, an uptick in exchange rates was associated with herding behaviour in the JII70 index. Positive sentiment surrounding the JII70 index motivated investors to engage in herding behaviour, and the preference for larger companies also drove such.

In the moderation model, it was noted that the presence of information asymmetry could magnify the impact of herding behaviour on investment choices. Notably, market information exerted the most significant impact on investor decision-making, underscoring the importance of market-related information in shaping investment choices. The results of the research corroborated agency theory, which showed that there was a conflict of interest between agents and principals in the presence of information asymmetry. Terms of investment decisions in this research, it was strongly influenced by financial behaviour, namely herding behaviour. This confirmed that psychological factors could influence a person to act irrationally in making decisions. It's worth noting that this research had some limitations, primarily related to the limited sample size, which was confined to the JII70 index. Future researchers were encouraged to expand the sample size by enhancing data diversity. Additionally, further research would be directed into financial behaviour, both in Islamic capital markets and international capital markets, which would be warranted for a more comprehensive understanding of the subject.

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