What is Investors' Reaction to Different News and Decision?

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Abstract: - This is an explanatory research, which is done through laboratory experiment, to explain the casual relationship of variables. To analyze investors reaction toward the news, this research utilized the General Linear Model (GLM) Repeated Measure ANOVA within-subject and Compare Mean Paired-Samples t-test. The results indicated that there is the different of investor reaction between persistent bad news and persistent good, short-term bad news and good news. Investors tend to use prior common stock price information to predict current common stock price and tend to hold common stock loss-position also to realize (sell) gain-position common stocks, or the disposition effect exists.

Key-words : Investor reaction, stock price, news, term.

1 Introduction

The facts in a variety of research in the field of behavioral finance concluded that the irregularities that could affect the stock price. These deviations are the implications of the phenomenon of excessive investor reaction (overreaction) and the reaction of investors is lacking (under reaction). Investors act overreaction to bad news are repeated, then the investor will assess the stock price is too high, when investors act under reaction against good news the temporal will assess the stock is too low. As a result of act overreaction or acts under reaction, investors will assess the stock price is too low or too high. According Hirschey and Nofsinger (2008), that investor underreact to news short-term and overreact to long-term news in the stock market, showing no means the average share price was efficient. This indicates that investors systematically failed to assess the price of shares in the right way.

The share price in an efficient market is not accurately reflect all the information about the business and the business environment. If the price of one type of stock is correct, then the overall stock price will be right. The phenomenon of investor reaction in the stock market is part of the field of behavioral finance which attracted the attention of many researchers in the field of finance, especially the behavior of investors in the capital market. One cornerstone of research in behavioral finance theory is based on the prospect theory of Kahneman and Tversky (1979). Prospect theory as a risky decision analysis. According to Dorsey (2004: 35) that the core of decision-making prospect theory is the level of risk, can be seen as a choice between expectations (prospect) and speculation (gambles).

Variations in the behavior of an investor bias to the reaction in the market, this is explained by the models of behavioral finance. Behavioral financial is a paradigm in which the financial markets studied by models wider than models based on expected utility theory of Von Neumann-Morgenstern and the assumption of the arbitration process. Financial behavior using models that assume some rational agents do not fully caused by the preference or false beliefs. In particular, behavioral finance has two main things: cognitive psychology and limitations to arbitrate (Ritter, 2003). Both of these causes are heuristic decision became investors in which two important principles, representativeness and anchoring-adjustment. Representativeness relates to assigning weights on experience, while anchoring-adjustment shows the efforts made anchor investor in the ways in which everything is in a normal condition.

The reaction of investors and capital market traders affected by the information, good information about the condition of the issuer or other information that is considered to affect the market price of the shares. According to Bloomfield, Libby, and Nelson (2000: 114) said that market underreact to information if the market price does not rise too high as a response to the good news or not drop too low as a reaction to the bad news. The market is said to overreact to information

if the market price rises too high in response to the good news and down too low in response to bad news. The belief that is moderated also depends on the weight given to the contents of the news investors. When the same weight, investors may overreact to both the good and bad news, or underreact both the good and bad news. However, when given different weights, then investors may overreact to bad news and underreact to good news or otherwise.

Some researchers (Milgrom, 1981; Jegadeesh and Lakonishok, 1996) suggests the presence of an asymmetric response (not the same) between the good news and the bad news where bad news will lead to overreact while good news will cause underreact. Other researchers (Barberis et al., 1998; Hong and Stein, 1999) suggests that underreact to good news will be changed to overreact in line over time. Here shows that investors need time to adjust the reaction that led to the decision to invest in risky securities. Information previous stock market prices often become the anchor for reaction to investors because the price of the most recently recalled. The tendency of investors to use this anchor amplify similarities stock prices from one day to the next (Shiller, 2000) cited by Habbe (2006).

Decisions overreact or underreact reflected in changes in the price of securities. Associated with the acquisition price of the securities, then the change can be put investors in a gain or loss. This position may affect investors' decision to hold or sell securities owned. According Barberis and Xiong (2009: 751), a fact that is very strong on securities trading by investors individual is where the disposition effect, that is, when people intend to sell a stake in its portfolio, it will sell shares whose value rises above its cost compared to stocks whose value falls below their acquisition cost. In other words, investors tend to sell securities in a profit position and hold shares in a loss position.

The essence of the whole concept and the facts as described above is, that the irrational or anomalous behavior of investors into the main determinant of how likely investors and stock price movements, not only the fundamental and technical factors. The focus of this research is the reaction of investors on the different news content as well as investor's decision to sell or hold shares owned. News content is very important because investors' reactions and decision largely depends on news received. Likewise, the decision to sell or hold shares they own is a common decision on the capital market.

The purpose of this study to test investor reaction to bad news or good news that is long term or short term in determining the over / under value the stock price.

2 Problem Formulation

The design of this research is an explanatory research. This explanatory research conducted through laboratory experiments to explain causality between variables (Babbie, 1998). The use of experimental design according to Callahan et al., (2006) is a method to evaluate theoretical predictions of economic behavior. Experimental design implemented in various stages of experimental activities. Experiments were performed using computer simulations in real-time-online with an open auction trading system, as happened in the Indonesian Stock Exchange (BEI).

Before performing an experiment, it is necessary to first do research to the original investors. The collection of data from the original investors conducted through questionnaires, which essentially ask the opinion of the investors in the stock trading. Information required includes; any information from a company that is always remembered, by anyone when they make transactions, profit ratio information to be remembered and known, as well as any information used in determining the purchase-sale price of the shares. The acquired data will be analyzed to gain information about its actual stock trading in the capital market.

2.1 Data Collection Instrument

The instrument used in this study consists of two forms, namely the instrument in the form of software and print-outs. Software is a stock trading simulation program that is specifically designed to obtain stock price prediction, the market price of stocks, stock trading volume, each investor assets, gains and losses each investor in each transaction, the reward at each session, the price prediction error, the number of shares gain on sale, the number of shares of profit plays, the number of shares and loss on sale, the number of shares and loss position, and the demographics of participants. Software used in this study is the result of modifications to the software used by Habbe (2006) in his study there is a difference between the software in this study with the software of the study, in addition to treatment used that information about movement patterns earnings, also provided information about stock market prices before , Other difference is; treatment administration time, the predictions of investors, the number of shares used, participants, duration and number of sessions.

On the other hand, an instrument in the form of a print-out is the instruction and scenarios that should be played by each participant before and during stock trading. The manual is also contained in the statements relating to checks manipulative.

2.2 Model and Technical Analysis

Methods for analyzing the reaction of investors on the over / underreaction is the General Linear Model (GLM) Repeated Measures ANOVA within-subject,that is related to testing the hypothesis H_1 to H_4.The use Repeated Measures ANOVA within-subject that is tested against the same subject were measured with a different task. With this method, the factors of individual differences (eg preference of risk, utility function, gender, educational background, age) that can lead to variance errors in measurement automatically controlled (Singh, 1986, p. 448) in Habbe (2006).

To test the hypothesis about the difference the amount of reaction between good news and bad news, as well as the tendency of investors using the stock price information prior to determining the stock price in the future, then used the t test average difference paired samples (compare the mean paired-samples t-test). Furthermore, the t test was used an average difference of independent samples (compare mean independent samples t-test) to analyze the presence of disposition effect (the tendency of investors to sell stocks quickly and hold a position longer profitable stock plays loss). Besides, the use of the methods of Odean (1998) ie by comparing the proportion of profit realized (PUD) in the proportion of the realized loss (PRD).

3 Problem Solution

3.1 Analysis and Implications of Investor Reactions to News Content and Stock Price Valuation

3.1.1 Investors Underreact Against Bad News Characteristically Term / Persistent, therefore Assessing the stock price is overvalued.

The results showed that, investors estimate the stock price is too high (overvalued) shown from the average prediction error and error rates is positive. This indicates that investors act underreact to the level of current income and the pattern of persistent profit decline. The level of current income and profit decreased movement pattern of persistent, expressed as a long-term bad news. The results of the study should show that the average value of the prediction error variable and the error rates are negative (undervalued).

This finding is inconsistent with the findings of the Bloomfield (2003), that investors act overreaction to change the long-term profit. Likewise, the findings of Habbe (2006) found that investors act overreaction to information the rate of profit decline settled / persistent and the average prediction error and the error rates are a negative sign means undervalued stock price. Differences may occur due to differences treatment in the study. Treatment in this study the rate of profit is now in the pattern of profit declines, while treatment in research Habbe (2006) is a low profit rate and movement patterns of the same average earnings (persistent) in the long term. In addition to their treatment movement patterns of such earnings, investors will also be given additional information about the previous share price-related or corresponding period of the earnings announcement. Other difference lies in the method of determining the stock price predictions by investors that in this study conducted directly predict stock prices based on the level of current income and current profit movement patterns. Therefore, investors can act overreaction to the level of current income and profit decreased persistent movement pattern, but predicting overvalued stock prices. Rate overvalued stock prices also occurred at the time of the investment manager acting undereaction when pursuing a strategy of buying back, where the shares were bought back at a price higher than the market price, when the stock price is declining.

Following the findings of the study are consistent with other findings of De Bondt and Thaler (1987) and Lakonishok, Shleifer, and Vishny, (1994) said that negative relationship between return in long-term measure of financial performance in the past such as earnings or sales growth. Furthermore, De Bondt and Thaler (1987) found that when prices drop too low or rise too high in the long term, investors will assess the reversal stock prices in the next period.

3.1.2 Investors overreact Characteristically Against Short-Term Good News, therefore Assessing the stock price is overvalued.

The results of this study suggest that investors estimate the stock price is too high (overvalued), as well as acting overreaction to the current income level and the pattern of change in short-term profit, expressed as a short-term good news. The results of the study should show that investors underreact to the level of current income and the pattern of change in short-term profit and the average value of

the prediction error variable and the error rates are negative (undervalued).

This finding is inconsistent with the findings of the Bloomfield (2003) found that investors act underreaction to change short-term profit. So also with the findings of Habbe (2006), that the investor is the investor reaction act underreaction to information down short-term profit level, and the average value of prediction errors and the error rates are a negative sign (undervalued). This difference can occur because, in addition to the treatment used, investors also provide additional information such as stock quotes or appropriate prior corresponding period of the earnings announcement. Other difference lies in the method of determining the stock price predictions by investors that in this study conducted directly predict stock prices based on the level of current income and current profit movement patterns. Therefore, investors can act overreaction to the level of current income and profit decreased persistent movement pattern, but predicting overvalued stock prices.

Further findings support the results of the study, that investors assess share prices are overvalued in the short term, supported by the findings of De Bondt and Thaler (1987), which found that in the short term investor overreaction to changes in income. Further it is said that within the framework of the efficient market hypothesis, there is a difference that is dramatically down (up) stock price can be predicted to rise (fall) of your profits. In other words, good news as the earnings information to change the short-term rise, then the investor reaction is overreaction to assess stock prices are overvalued. Short-term good news information in the form of profit falls before then ride is not a concern for investors, short-term information that is considered is the previous share price. Furthermore, not only profit information that can be used anchor or reference, but down the stock price information before it can be a starting point or anchor as a basis for decision making of investors to determine the next stock price. This is consistent with theory of anchoring-adjustment heuristic that the reaction of investors in the short-term decision making starts with the initial value or the value of the anchor and then made adjustments. Empirically can know what information is causes a reaction of investors to predict stock prices are overvalued.

3.1.3 Investors Underreact Against Short-Term Bad News Characteristically, therefore Assessing the stock price is overvalued

The results showed that investors underreact to bad news assess the short-term stock prices are overvalued. This suggests that investors estimate the stock price is too high (overvalued), and underreact to the level of current income and the pattern of change in short-term profit, expressed as a short-term bad news. The results of the study should show that the average value of the prediction error variable is positive and error rates. The prediction error and the error is positive price shows investors estimate the stock price is too high (overvalued). Furthermore, investors' reaction was underreact suggests that investors are anchored on the previous value was high.

This finding is consistent with the theory of heuristic Anchoring-Adjustment (Kahneman and Tversky, 1974) which says if there is uncertainty, people will start to a point estimate, as the median is used as an anchor. Besides, these findings are also in accordance with the findings of Kyle and Wang (1997), which states that if there is a change, people tend to slow (underreact) to respond to those changes. Heuristic Anchoring-Adjustment regarded as a conservative measure. Whenever there is a change, people will underreact for conservative bias. Furthermore, the finding that investors assess share prices are overvalued in the short term, supported by De Bondt and Thaler (1987), that in the short term investor overreaction to changes in income. Further it is said that within the framework of the efficient market hypothesis, there is a difference that is dramatically down (up) stock price can be predicted to rise (fall) of your profits.

3.1.4 Investors Underreact Against Long-Term Good News, therefore Assessing the stock price is undervalued.

The results showed that investors estimate the stock price is too low (undervalued), and underreact to the level of current income and the pattern of change in the long-term profit, expressed as a long-term good news / persistent. The average value of the prediction error and the error variable is negative price indicates undervalued stock price.

This finding is inconsistent with the findings of the Bloomfield (2003), that investors act overreaction to change the long-term profit. So also with the findings of Habbe (2006) said that investors act overreaction to information ascending rate of profit settled / persistent and average prediction error and the error is marked positive price which means overvalued stock prices. This can occur because of differences treatment. Treatment in this study that the profit rate is now in the form of an ascending pattern of earnings, whereas in the study treatment Habbe (2006) is a high profit rate and pattern of the same average earnings (persistent) in

the long term. In addition to their treatment income level and the profit pattern, investors will also be given additional information about the previous share price-related or consistent with the period of the earnings announcement. Another difference lies in the method of determining the stock price predictions by investors that in this study conducted directly predict stock prices based on income level and pattern of current profits. Therefore, investors can act underreaction the level of income and persistent pattern of ascending current profits, as well as predict the is stock price undervalued.

Following the findings of this study in accordance with the findings of De Bondt and Thaler (1987) and Lakonishok, Shleifer, and Vishny, (1994) said that negative relationship between return in long-term measure of financial performance in the past (past financial performance measures) such as earnings or sales growth.

Furthermore, the same thing was stated by De Bondt and Thaler (1987), that there is a relationship between stock returns with earnings changes not only in the short term over the long term. The findings mentioned above indicate that the earnings information is not the only information used by investors. Previous stock price information is also used in determining the stock price the next. Therefore, only earnings information used by investors in other long-term. Findings that term support these findings are of De Bondt and Thaler (1987), that the reaction of investors to the good news in the long term, assess the stock price on the contrary (reversal stock price),so it should be overvalued but considered undervalued.

Thus it can be argued that when the investor act overreaction or act underreaction is evidence of stock price behavior anomaly associated with the earnings announcement that is the root of the failure of the stock market participants in assessing stock prices come based on information current profits (Bernard and Abarbanell, 1992).

The implications of these results for investors. When investors act overreaction or underreaction will cause a failure in predicting stock prices (mispriced). In addition, this situation caused investors no longer consider the fundamentals of the company's information, so that the predicted outcome will deviate much the stock price fundamentals and losses. In this case this information is closely related to the actual performance of the company. The share price formed can be an act of speculators who control the capital market. If speculators are optimistic about the situation in the capital market then it will do the buying pressure the stock, so that the stock price will rise. Conversely, if the speculator pessimistic then he will do the selling pressure, so the price will go down. This is in accordance with the Herding Theory, that there is a chairman of the speculators who will benefit, because he has information, and as a regulator in the capital market.

The implications of research results for business capital market, the capital market to be organized and efficient. If the capital market used as speculated by the investor is not the place to invest, it will make the capital market is not efficient. For that there needs to be an effort on the part of capital manager to make an efficient capital market, through education and dissemination of knowledge about the capital market to investors and potential investors. For that there needs to be an effort on the part of capital manager to make an efficient capital market, through education and dissemination of knowledge about the capital market to investors and potential investors. It is hoped that there is an attempt to raise more long-term investors, also will make the capital market as a place to invest is not the place to speculate.

Implications for academics. indication of investor behavior in act overreaction and underreaction in accordance with the heuristic theory Representativeness and Anchoring Adjustment, showed no cognitive biases of investors. With this bias reflected the assumption of rational behavior of investors in the neoclassical financial theory no longer be the only theoretical reference. Further benefits include a profit of fundamental information published quarterly or once a year, as well as information about the total shares outstanding is not always a reference for investors. When the fundamentals and stock price information (technical information) provided to investors as the basis for any investment decision, investors will tend to quickly use the stock price information as the basis for any investment decision. The fundamental information consists of earnings ratios and other corporate financial performance is past information, among others; Price Earnings Ratio (PER), Earnings Per Shares (EPS), Return on Equity (ROE), Return On Investment (ROI), Return on Assets (ROA). Based on these ratios, the ratio of PER only the stock price and earnings per share information only, a combination of past and present information. While the technical information consists of the share price and volume of transactions. When only the stock price information used for investment decisions, there can be an error in judgment because only one type of information used from two types of information that should be used as a basis for decision making. Use of the stock

price information in making investment decisions as well as the result of the behavior of investors who only seek profit (profit taking) on the difference between the stock price is the purchase price and the selling price of the shares. As a result, investors can earn abnormal profits, then the investor will not consider the stock market as a place of investment, but as a place to speculate. It is a challenge for academia and the accounting profession, that information profit as an end product of financial accounting does not always become an important information and be a reference for investors. So what are the financial statements was made by the company and published? Furthermore, if the earnings information and other financial performance information to be used by investors, it needs to be made of engineering a new format of the content, form, and time for the presentation of financial accounting information. The new format for example presenting basic information according to cash earnings (cash basis) so that more reliable information, financial statements published and delivered per month. For that we need to hold further research how, form, content, and time of the presentation of financial information necessary for investors.

Furthermore, the implications of research results for issuers. As explained earlier that the earnings information as the end product of financial accounting does not always become an important information for investors. So what are the financial statements was made by the company and published? According to the Financial Accounting Standards there are four (4) types of financial statements is Balance Sheet, Income Statement, Statement of Changes in Retained Earnings, and Statement of Cash Flows. Of the four types of these financial statements, Statement of Cash Flows can be immediately delivered to investors, so that investors can know the state of the company's fundamentals that can be linked to the stock price of the company concerned. Thus the information about the company's performance is not too late to investors and become the basis of a decision by the investor. For should be considered to be able to publish and submit financial statements, especially cash flow statements per month.

3.1.5 There is a great difference between the investor reaction to bad news long-term / persistent and good news Long-term / persistent reflected in the over (under) value of the stock price.

The findings of this study is there is a great difference between the investor reaction to bad news long-term / persistent and good news Long-term / persistent reflected in the over (under) value of the stock price. The magnitude greater investor reaction to the bad news give long-term / persistent than good news Long-term / persistent reflected in the over (under) value of the stock price. This finding is not with the findings of Lako (2003) found no difference in the magnitude of the reaction of investors to the good news and bad news. It is explained that the research Lako (2003) measuring the dependent variable is the investor reaction in stock prices in the capital market, not the reaction of each investor. The stock price reflects the stock price predictions of so many investors in the capital market and that happens only 1 (one) share price used for a certain period. Besides, the research does not distinguish short-term good news and bad news short term, as distinguished if it can get different results.

The findings in this study in accordance with the findings of Ball and Brown (1968), who found that changes in abnormal returns of the good news and the bad news is not to be symmetric, as the reduction of abnormal returns on the bad news is greater than the rise time of the abnormal returns.

This finding is also consistent with the findings Veronesi (1999) that the reaction of investors is different on bad news and the good news, further said that investors react more (overreact) to bad news and react less (underreact) to good news. In line with what was stated previously, investors will tend to overreact to bad news and underreact or is not very overreact to the news good. is react In other words it can be said that the reaction of asymmetric investor depends on the content of the news.

3.1.6 There is a great difference between the investor reaction to bad news short-term and short-term good news reflected in the over (under) value of shares

The results showed that there is a great difference between the investor reaction to short-term bad news and good news Short-term as reflected in the over (under) value of the stock price. The magnitude greater investor reaction to the bad news give long-term / persistent than good news Long-term / persistent reflected in the over (under) value of the stock price. These findings do not support a finding of Lako (2003) who found that there is no great difference of investor reaction to the good news and bad news. It is explained that the research Lako (2003) as the dependent variable measures the reaction of investors is the stock price that occurred in the capital market, not the reaction of each investor. The stock price reflects the stock

price predictions of so many investors in the capital market and that happens only 1 (one) share price used for a certain period. Besides, the research does not distinguish short-term good news and bad news short term, as distinguished if it can get different results.

The findings are consistent with the findings Veronesi (1999) that the reaction of investors is different on bad news and the good news, further said that investors react more (overreact) to bad news and react less (underreact) to good news. Furthermore, in accordance with the time horizon, the effect of good news and bad news can be different. Short-term bad news / incidental at this time can lead to overreacting higher compared with the bad news that the long term. Likewise, short-term good news / incidental to give action overreaction higher than the long-term good news.

Implications of these results for investors, investor reaction indicative of the difference between bad news and good news. Where a larger reaction to bad news than the good news. Indications are showing no bias psychological (cognitive and emotional) in the behavior of investors. Appropriate publication of KSEI that the investors in stock investments in Indonesia is dominated by foreign investors is 64% while only 36% of local investors. Besides, the good news or positive generally known beforehand by foreign investors. Similarly, foreign investors will always earn more profits first. Instead of bad news or negative more quickly known by local investors. Thus the reaction is greater because of the influence of bad news will happen to local investors, especially in making investment decisions, which then can lead to the loss.

The implications for the capital market managers can make efforts to increase the number of local investors, through education knowledge of capital markets and apply strict rules for capital market participants that make the capital market as a container vessel speculation not investment. The implications for the issuer, indication of the different investor reaction between bad news and good news in this study, the issuer in the capital markets took a strategic decision smoothing the reaction of investors to the decline in earnings and increase in profit.

3.2 Analysis and Implications of Current Price Determinants and Behavioral Selling and Holding Shares

3.2.1 Investors Tend Depending on Share Price Information Earlier in Determining Stock Price Now.

The results are consistent with the findings of Shiller (2000), which suggests that the stock market investors tend to predict stock prices based on stock price before, now with ROE predicted earlier. The absence of better information, stock prices tend to be decisive before the current stock price. Therefore, anchor The most remembered is the final price. The tendency of investors to use the anchor. This reinforces the similarity of the stock price from one day to the next (Shiller, 2000) cited by Habbe (2006).

These findings indicate that investors do not always use fundamental information including earnings information. Previous stock price information is technical information. To make technical analysis is necessary before the stock price information, as well as information about stock trading volume is concerned. When investors are only using the previous share price, without trading volume information in predicting stock price follows, then the behavior of investors may experience cognitive form heuristic. bias-adjustment the anchoring. The bias occurs because the anchor investor in the stock price before.

Besides, the findings are consistent with research results to the original investors who showed that the indicators used in determining the purchase-sale price of shares is the stock price before that was answered by 50 people or 74.6% of investors. Thus it can be argued that in addition to information about earnings, investors will also use the information to determine the share price before the next share price in the transaction of purchase of shares.

Implications of the findings for investors, while investors are only using the previous share price, without trading volume information in predicting stock price follows, then the behavior of investors may experience cognitive form heuristic. bias-adjustment the anchoring The bias occurs because the anchor investor in the stock price before. Investors no longer consider the stock price performance of the company. In addition, the previous stock price does not always relate to the performance of the company concerned. It can be seen that the high stock price performance of firms is not as good, but as a result of the actions of speculators who are optimistic and vice versa.

3.2.2 Tends to Sell Shares Investors who plays Profit and Loss Holding Shares plays.

The results show that investors tend to sell shares profit position and holding a stock that plays loss. Furthermore, the results of the analysis indicate that investors tend to hold the stock position to realize the loss and stock position profit (profit taking). In other words, this study found their disposition effect.

The findings of this study are in line with revenues Scott (2009: 181) states that the possibility of a disposition effect in making investment decisions in which investors hold the shares and selling shares and loss position plays a profit, even be able to buy more shares who plays loss. This was consistent with the findings Frazzini (2006), Shefrin and Statman (1985), Barberis and Xiong (2009), which indicates a disposition effect in the capital market. According Hirschey and Nofsinger (2008), the disposition effect indicates the avoiding action because of regret. Furthermore it is said, in theory, regret is feeling sick as a result of doing a decision before that produces poor results (bad consequences). In addition, investors who sell securities position will generate pride profit for investors, by contrast sell securities plays loss will cause remorse. Remorse happens because of losses on securities sales loss position is evidence of previous decision errors. In order to avoid regret, investors will hold securities position loss and hope the price will rise above the price has not been before.

If the terms of the Mental Accounting developed by Thaler (1984), that investors tend to segregate securities who plays who plays securities profit and loss. Who plays income securities can be used as a tax saver, giving rise to the effect of dispositions, ie longer hold securities that are positioned to capitalize on the tax savings while waiting until the securities position and quick profit selling securities who plays the profit. search pride and regret rejection provides an important reason why investors are difficult to realize the securities position loss. Judging from self-control may explain their "disposition effect". Investors considered to lack the confidence to sell securities position as soon as possible to minimize the loss of income. They tend to hold securities longer plays loss and tend to follow other investors quickly sell securities position profit. Thus, investors often have "a small profit, large losses".

Implications of these results for investors. Investors tend to sell shares profit position and holding a stock that plays loss, and then buy back stock losses to make the average basic price be not too lose. Holding a stock that loss is like letting grass the fields are ready for harvest and buy back stock lose like pouring the grass to become fertile. This means that investors have become more loss again.

4 Conclusion

Investors underreact to (1) the level of current income and to the persistent pattern of declining profit, expressed as a long-term bad news / persistent, and also estimate the stock price is too high (overvalued), (2) the level of current income and the pattern of change in short-term profit, expressed as a short-term good news, as well as estimating the stock price is too high (overvalued) and (3) the level of current income and the pattern of change in the long-term profit, expressed as a long-term good news / persistent, and estimate the stock price is too low (undervalued).

Investors overreact to the current income level and the pattern of change in short-term profit, expressed as a short-term bad news, as well as estimating the stock price is too high (overvalued).

There is a great difference between the investor reaction to (1) bad news long-term / persistent and good news Long-term / persistent. The average value of investors 'reaction to bad news long term is greater than the average value of investors' reaction to the long-term good news, (2) bad news short-term and short-term good news. The average value of investors 'reaction to the short-term bad news is greater than the average value of investors' reaction to the short-term good news.

Investors tend to rely on the previous stock price information, in determining the current stock price and they tend to sell the stock position and holding a stock position profit and loss, occur disposition effect.

In other hand, Investors in order to know enough about the bias of psychology (cognitive and emotional) that happened to him, which may affect the investment decision, so as to avoid it for the prevention of loss, required engineered a new format of accounting information relating to the performance of the company, so that the information can be referenced as the basis for a decision, need for education knowledge of capital markets to provide confidence and hope to investors that the stock market is a place a long-term investment, not a place to speculate in the short term, and issuers Companies need to deliver accurate accounting information, necessary and timely. So that the accounting information regarding the company's financial performance can be used as a reference and can be used as the basis for any investment decision.

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