ABSTRACT

Several literature studies on behavioral finance contradict the theory of market efficiency. The effect of psychological bias can contradict market efficiency theory, where with the influence of psychological bias, an investor can make decisions based on opinions that are not based on facts so that they are irrational.

The previous literature review also shows that investor sentiment can be influential in different time dimensions. Investor sentiment can have different effects in the short term (1 month) and the long term (1 year) so it is not linear.

This study aims to determine the effect of investor sentiment on the rate of return on the LQ45 Index 2015-2019. Investor sentiment in this study is measured by using market trading volume.

The results of this study indicate that there is a non-linear influence. In the short term, the effect of investor sentiment is significant and positive, while in the long term, the effect of investor sentiment is significant and negative.

On a short-term investment horizon, investors are advised to choose stocks with high trading volume, while on a long-term investment horizon, investors are advised to choose stocks with low trading volume.

Keywords*: behavioral finance, investor sentiment, non-linear influence, rate of return.*