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Herding Behavior in Cryptocurrency Trading in the Millennial Generation in Indonesia

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ABSTRACT

This research is expected to increase knowledge about cryptocurrencies, both about the development of cryptocurrencies and the challenges of cryptocurrency transactions themselves. The role of technology as a medium of knowledge for the millennial generation who want to know and learn about what cryptocurrency is. More precise knowledge, analysis, and emotional control are needed from crypto investors to avoid herding behavior and be more resistant to various crises and shocks. Meanwhile, several challenges in developing the cryptocurrency market must also be overcome, including the limited types of securities traded, rules for the protection of investors' rights, "games" in crypto transactions and the lack of public knowledge about blockchain.

Keywords: Technology, Cryptocurrency, Herding Behavior.

INTRODUCTION

This century can be referred to as the post-information technology century in which a new approach to information and its processing, use, and transmission was born. Today information is not only a source of knowledge in the education system, but also a commodity. Information technology today penetrates all aspects of human activity, including the economic aspect. Along with the development of information technology, alternative instruments to make payments other than using currency and money on both a domestic and international scale have also developed. This has triggered various innovations that are increasingly efficient, safe, fast and convenient. As of the development of information technology, a new type of financial instrument, *cryptocurrencies* have been born and evolved.

Cryptocurrency is a virtual currency that can be used as an electronic transaction tool. In addition, the owners also use cryptocurrencies to invest and trade. Now business transactions can be done online without involving intermediaries such as banks. Transactions are made instantly, cross-country, cross-continent, faster, easier, cheaper, and more guaranteed confidentiality (Aesop, 2018). *Cryptocurrencies* has been the first implementation of Blockchain technology and its potential is not limited to payment systems alone. Decentralized applications are made to basically affect areas of life such as economics, science, education, art, culture and others (Shovkhalov & Idrisov, 2021). The year 2008 was the beginning of an era *Cryptocurrencies* with the release of paper by someone under the pseudonym Satoshi Nakamoto. *Cryptocurrencies* The first to be introduced was Bitcoin, and it began operating in 2009. Due to Bitcoin's popularity, *Cryptocurrencies* Becoming popular with investors as well as retail consumers (Nuh & Bakar, 2020). The high public interest resulted in the price of Bitcoin soaring. Bitcoin's popularity was then inevitable. Experts, businessmen, and other levels of society criticize the presence of cryptocurrencies (Afrizal & Marliyah, 2021) And as time goes by, problems arise for investors in investing or trending, namely *herding behavior*.

An investor does *Shepherding behavior* because of pressure or influence from the people around him. Research on herding has begun since 1970 on institutions in the U.S. market. (Nofsinger & Sias, 1999). Interpreting herding as the movement of a group of investors in the same direction and within the same period of time. One of the sources of herding occurs when investors are interested in several securities with company characteristics such as returns, company size and corporate governance mechanisms (Sias & W., 2002). According to Radwan et al. (2019), Herding is the behavior of investors who tend to follow other investors in investing without conducting a fundamental analysis first so that the market that is formed becomes inefficient. Herding refers to a situation in which rational people begin to behave irrationally by imitating the judgments of others when making decisions. While According to Hirshleifer & Teoh (2011) herding is a behavior that tends to imitate the actions of others rather than following their beliefs or the information they have. Herding consists of intentional herding and unintentional herding. Intentional herding occurs when an investor deliberately follows the actions of another investor and ignores his or her personal information. Intentional herding occurs when there is little reliable information in the market. The investor's decision follows other investors, not a reaction from oneself based on the available information. Unintentional herding occurs when a group of investors are in the same condition with the same information so that they make the same decision. In unintentional herding, investors acknowledge that existing information is reliable. So, many investors made the same decision. The two types link uncertainty and information availability. According to Virigineni & Bhaskara Rao (2017) an investor who is classified as herding behavior does not base his investment decision on the available information or the fundamental value of the company but on the actions of other investors or on the noise that occurs in the market. Investors are herding because there is no clear information available, which encourages investors to follow the behavior of other investors or consensus that has been formed before. Investors who fall into Herding's behavior have a clear intention to ignore their personal information and imitate the behavior of other investors leading them to trade in the same direction, thus moving in and out of the market of those investors as a group. Phuoc & Thu (2011) Stating in this case, Herding can contribute to the evaluation of professional performance due to the low ability that can 15 mimic the behavior of their high-capable peers to develop their professional reputation (Septiyani, 2019).

METHODOLOGY

According to Yusuf (2019) in research that uses qualitative methods, the terms population or sample are not used but the term (social situation) social situation to describe the existence of a group being studied. There are 3 main elements in social situations that are interrelated, namely places, informants and activities. This research uses primary data sources to be the main source that is obtained directly from the original source or the first party.in terms of data collection, it can be done by interview, questionnaire, observation or a combination of the three. The primary data of this study came from the results of interviews conducted by researchers with the millennial generation about how they understand herding behavior in cryptocurrency investment.

RESULTS AND DISCUSSION

After describing the things that are behind the research and the theories that have confirmed the research, and the methods used, in this chapter it is explained about the results of the research and the discussion focused on the problem being studied, the qualitative data analysis carried out in this study uses an inductive approach that has found interesting findings. The researcher will explain in depth the results of the research, focusing on the development of theories that emerge from data analysis.

TPB (Planned Behavior Theory)

Planned Behavior Theory (TPB) is a theory put forward by (Ajzen, 1991), This theory is a development of the Theory of Reasoned Action (TRA) which was first initiated by Ajzen in 1980. The Theory of Reasoned Action has the conclusion that the intention to do something is caused by 2 factors, namely subjective norms and attitudes towards then adding 1 factor of perception of behavior control (herding behavioral control), thus changing the Theory of Reasoned Action to Theory of Planned Behavior

Behavioral Finance Theory

According to Ellen & Yuyun (2019) behavioral finance is a financial theory about people's attitude of ignoring everything in decision-making and deliberately making a difference.

Planned Financial Behavior Theory

By combining these two theories, researchers can find new theories that will help researchers understand how behavior intention/herding behavior. Planned Financial Behavior Theory is a theory that adapts the Theory of Planned Behavior (TPB) developed by Ajzen, this theory is focused on behaviors related to individual financial decisions, such as saving, investing, managing debt, or managing a budget. All components in this theory still refer to the SDGs, but are more devoted to understanding how those factors influence financial decisions.

DISCUSSION

a. Based on the first analysis of the data obtained, it can be concluded that the main cause of a crypto investor herding is the influence of a person or group that makes investors make irrational decisions, on the market which causes bubble market conditions (economic waves) are economic cycles characterized by a rapid increase in asset prices and far beyond their intrinsic value. Through "panic buying" and "panic selling" activities. (The act of selling investments on a large scale).
b. The results of the study show that what can be used for crypto investors in controlling emotions is to make the right investment plan, conduct periodic evaluations of the market and avoid hasty or impulsive decisions to stay informed with the development of something that can affect market prices suddenly.
c. Third, it shows that several techniques can be used by crypto investors in analyzing the price in the market, including Fibonacci retracement, and moving average is a technical analysis used in trading to identify the support and resistance levels of the price of an asset in the market. The qualitative data analysis carried out in this study uses an inductive approach that has found interesting findings. This chapter will explain in depth the results of the research, focusing on the development of theories that emerge from data analysis.

CONCLUSION

Based on the data and facts that have been explained above, herding behavior is the main influence of losses for crypto investors in the millennial generation in Indonesia. The causes of herding behavior are the influence of a person or group, lack of emotional control and lack of understanding and analysis of the market. Based on the theory that has been described and after seeing the negative impact of herding behavior, the author suggests the following things: Take preventive measures by analyzing the market before investing. And avoid fomo and influence from people around you that cause investors to buy and sell in a hurry.

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