ABSTRACT

This study porposed to see how the overconfidence effect on investors in the Indonesia Stock Exchange in the year 2011 to 2015. Overconfidence effect is a psychological bias that makes investors tend to be more aggressive in trading in riskier stocks and shares low return. This is because investors are confident on they ability to assess the movement of the stock market despite the insufficient ability of investors. Approach to see the overconfidence effect is to look at the pattern of the relationship between stock returns, volatility and volume of transactions.

In this study using the Vector Autoregression (VAR). The data used in this study are the stock return, volatility of the stock and the volume of daily transactions. The sample used is ten stocks that have the largest share capitalization period 2011 until 2015. Analysis of VAR uses four methods to answer the research problem, such as Granger causality test, VAR analysis, variance decomposition analysis and impulse response function analysis.

From the test results using VAR analysis, showed that Indonesian investors affected overconfidence effect. This conclusion is based on the test results. The results of the Granger causality test indicates that stock return, volatility and trading volume have granger causality, variance decomposition test results show a variable response to shocks variable and its past. While the results of the IRF show response of variable shocks due to other variables.

*Keywords**: Effects overconfidence, aggression, stock returns, volatility, transaction volumes, VAR***