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SENTIMENT'S STOCK IMPACT: COMPANY SIZE'S ROLE IN STOCK PRICE DYNAMICS

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Investor sentiments, market capitalization, stock price

ABSTRACT

This study aims to present empirical evidence on the impact of investor sentiment on stock prices, test the moderating effect of firm size on the relationship between investor sentiment and stock prices, and examine potential differences in this relationship across firms of varying sizes. The sample for this study consists of 246 companies listed on the main board of the Indonesia Stock Exchange from 2018 to 2022. EViews 12 were used for data processing. The findings of the study suggest that investor sentiment has a positive impact on the stock prices of firms traded on the Indonesia Stock Exchange. Additionally, the relationship between investor sentiment and stock prices is not moderated by company size, although the effect of investor sentiment on stock prices varies across different company sizes.

INTRODUCTION

The stock market is a vital part of the global economy, facilitating the issuance, buying, and selling of stocks, which represent ownership claims on businesses. These activities are conducted through formal exchanges or over-the-counter (OTC) marketplaces. The stock market plays a crucial role in allocating capital, enabling both individual and institutional investors to acquire equity in corporations. This provides companies with the necessary funds to expand and innovate, which is fundamental to economic growth and development. The mechanism of capital distribution allows for the efficient allocation of resources towards their most productive uses (Ritter, 2003).

The stock market originated in the late 16th century with the establishment of the Amsterdam Stock Exchange by the Dutch East India Company. It was the world's first official stock exchange and laid the foundation for the modern financial system. Since then, stock markets have evolved significantly due to technological advancements, regulatory changes, and the globalization of financial markets. This has expanded the investor base and increased the availability of capital for businesses. The transition from physical trading floors to electronic trading platforms has enhanced market efficiency, transparency, and accessibility. Electronic trading platforms enable faster transactions and a greater volume of trade, which contributes to market depth and liquidity (Pagano, 1993).

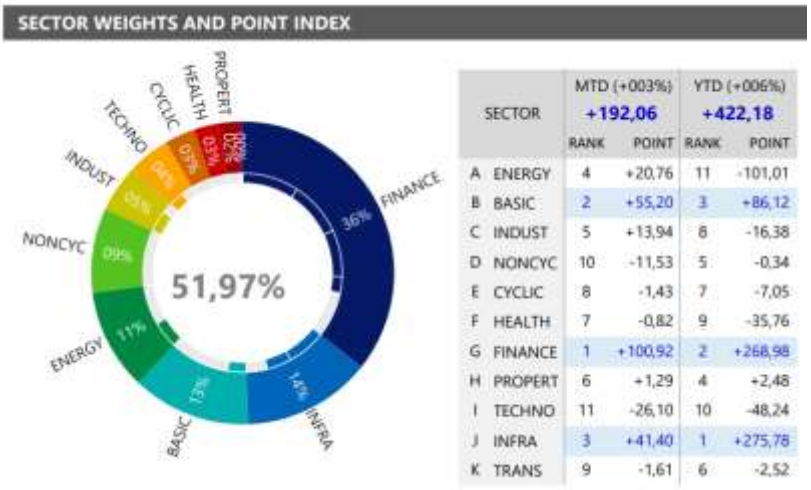
The Indonesia Stock Exchange (IDX) has experienced significant growth over the years, attracting both domestic and foreign investors and contributing to the development of the capital market in Indonesia. To increase market transparency, enhance investor protection, and promote sustainable and responsible investment, the IDX has implemented

various initiatives (Lukman et al., 2018).

The stock market's growth is also indicated by the increasing number of stock investors each year, as evidenced by the rising number of Single Investor Identification (SID) registrations. To become an investor, one must be officially registered in the capital market and possess a Single Investor Identification (SID) number. Figure 1 displays the number and percentage of investors in the Indonesian capital market from 2020 to December 2023, categorized into Stock Market (Pasar Modal), Mutual Funds (Reksa Dana), Other Securities (Saham dan Surat Berharga Lainnya), and Government Bonds (SBN). The number of investors has steadily increased since 2020, reaching over 12 million as of December 2023, more than double the number in 2020. The percentage of Indonesians investing in the capital market has been steadily increasing. In December 2023, 5.26% of Indonesians were invested in the capital market, up from 2.68% in 2020. Mutual funds are the most popular type of investment among Indonesians, with over 11 million investors as of December 2023. Stocks and other securities are the second most popular type of investment, with over 5 million investors. Government bonds are the least popular type of investment, with just over 1 million investors (Indonesia, 2023).

Figure 1
Number of SID 2020-2023
Source: KSEI.co.id Statistics Data December 2023

Figure 2 displays the IDX Composite Index, a stock market index in Indonesia for the year ending December 2023. The index tracks the performance of 864 different stocks and has a total market capitalization of 11,379.942 trillion Indonesian rupiah (IDR). The sector weights indicate each sector's contribution to the overall index. The financial sector holds the largest weight at 35.80%, followed by basic materials at 10.20% and energy at 11.10%. Technology and property are the smallest sectors, at 5.60% and 2.60%, respectively. The point index indicates the price movement of each sector, with the finance sector gaining the most points at +180.82. Non-cyclical consumer goods and cyclical consumer goods are the next best-performing sectors, with gains of +23.51 and +23.70, respectively. The infrastructure sector is the worst performing, having lost -31.25 points.



SECTOR	MTD (+003%) +192,06		YTD (+006%) +422,18	
	RANK	POINT	RANK	POINT
A ENERGY	4	+20,76	11	-101,01
B BASIC	2	+55,20	3	+86,12
C INDUST	5	+13,94	8	-16,38
D NONCYC	10	-11,53	5	-0,34
E CYCLIC	8	-1,43	7	-7,05
F HEALTH	7	-0,82	9	-35,76
G FINANCE	1	+100,92	2	+268,98
H PROPERT	6	+1,29	4	+2,48
I TECHNO	11	-26,10	10	-48,24
J INFRA	3	+41,40	1	+275,78
K TRANS	9	-1,61	6	-2,52

Figure 2
CSPI December 2023
Source: IDX.co.id Fact Sheet Composite Stock Price Index December 2023

High market capitalization indicates that a company has a large total value of its outstanding shares of stock, reflecting its significant size and presence in the market. Companies with high market caps are often seen as stable and established, and they can be influential in their respective industries and the broader economy (Baker & Wurgler, 2006). For investors, market capitalization is a quick and simple way to evaluate a company's value based on the public's perception of it (Fernando et al., 2016).

One of the goals of someone investing is to achieve a high return or rate of return on their invested capital while considering the level of risk they are willing to take. Investors usually strive to maximize their profits, which may be in the form of dividends, interest, or capital gains resulting from an increase in the investment's value. The objective is to attain a specific return while managing investment risk, balancing the potential for higher returns against the possibility of losing some or all of the invested capital (Nalurita, 2015).

The stock market is a complex and dynamic system that is influenced by various factors, including investor sentiment. Investor sentiment refers to the general emotions and attitudes of investors towards the market and individual stocks. Economic conditions, news events, and market trends are among the factors that can affect investor sentiment. Investors, financial analysts, and policymakers need to understand the relationship between investor sentiment and stock returns (Ángeles López-Cabarcos et al., 2020).

The Efficient Market Hypothesis (EMH) posits that stock prices reflect all available information, making it impossible for investors to purchase undervalued stocks or sell stocks for inflated prices. EMH suggests that it is impossible to outperform the overall market through expert stock selection or market timing, and the only way an investor can obtain higher returns is by purchasing riskier investments (PH & Rishad, 2020).

Investor sentiment refers to the attitude of investors towards a particular security or financial market. Investors tend to trade on market signals and emotional biases rather than fundamental analysis (Salur, 2013). It can cause deviations from fundamental values, as optimistic or pessimistic attitudes can drive prices above or below their true value. This can result in short-term mispricing, as changes in sentiment can cause demand shocks and trading

pressure that are not immediately offset by rational arbitrageurs (Seok et al., 2019).

The Efficient Market Hypothesis (EMH) and investor sentiment are often viewed as conflicting concepts. While the EMH suggests that markets are efficient and that current prices are the best approximation of intrinsic value, investor sentiment implies that psychological factors can cause prices to deviate from fundamental values (Ángeles López-Cabarcos et al., 2020). The existence of investor sentiment in the market poses a challenge to the Efficient Market Hypothesis (EMH), especially in its strong form, which assumes that all information, public and private, is reflected in stock prices (PH & Rishad, 2020).

Classical finance theory historically ignored the impact of investor sentiment on stock returns (Salur, 2013). The theory assumes that investors are rational and make decisions based on fundamental analysis. However, empirical evidence suggests that investor sentiment can significantly affect stock returns, which challenges the fundamental assumptions of conventional finance theories.

Several studies have analyzed the correlation between investor sentiment and stock returns, shedding light on the dynamics of the stock market. For instance, (Fisher & Statman, 2003) explored the impact of investor sentiment on stock returns and found that sentiment can affect returns in the U.S. stock market. Similarly, (Baker & Wurgler, 2006) conducted research that supports the idea that investor sentiment plays a role in the pricing of stocks. (Chung et al., 2012) studied the predictive power of investor sentiment on stock returns and found that sentiment can be a significant predictor. (Lee et al., 2002) examined the volatility and excess returns in the stock market, considering the role of investor sentiment. (Yang et al., 2017) conducted a study in the context of the Korean Stock Market, which confirmed that high investor sentiment is associated with higher stock market returns. The studies indicate that sentiment has a greater impact on returns in stocks with specific characteristics, such as small firms or heavily traded stocks by individual investors. This suggests that investor sentiment affects not only the U.S. stock market but also stock returns in other countries. The relationship between investor sentiment and stock returns is complex and can vary depending on market conditions, firm characteristics, and the type of investors involved in trading.

However, some studies suggest that investor sentiment does not affect stock returns. For instance, (Suhendro et al., 2023) used EGARCH to demonstrate that market sentiment, as measured by index volatility, has no impact on stock returns. Similarly, (NOVINA, 2023) found that investor sentiment, proxied by trading volume, does not affect stock returns.

(Baker & Wurgler, 2007) established a correlation between investor sentiment and stock returns, which varies depending on firm characteristics. Their research indicates that sentiment has a greater impact on companies that are young, unprofitable, highly volatile, distressed, and seeking growth, as well as those with small market capitalizations and non-dividend-paying stocks. (Salur, 2013) analyzed the correlation between investor sentiment indicators and their impact on stock returns in the US and other countries. The results demonstrated that investor sentiment had a significant impact on small-cap portfolios and that this impact varied across different industry sizes and portfolios.

Investor sentiment is an important factor in stock market dynamics, influencing how stock prices move in response to various stimuli. However, the impact of sentiment on stock returns is not uniform across all types of companies. Smaller companies are particularly

vulnerable to fluctuations in sentiment due to factors such as lower visibility, trading volumes, and analyst coverage. This makes their stocks less liquid and more volatile, leading to larger price swings driven by sentiment-driven trading. In contrast, larger companies benefit from established market positions, stable investor bases, and higher liquidity, which dampen the impact of sentiment-driven fluctuations. Research shows that sentiment has a stronger effect on the stock returns of smaller firms, lower-priced stocks, and value firms with higher book-to-market ratios, especially those heavily traded by individual investors. Overall, while sentiment affects all stocks, its impact is more pronounced for smaller companies, highlighting the importance of understanding this relationship for investors when considering investments in smaller versus larger firms (Ángeles López-Cabarcos et al., 2020).

This study aims to analyze the impact of investor sentiment on stock returns, while also considering firm size as a moderating variable and referencing previous research findings. The relationship between investor sentiment and stock returns will be thoroughly examined to provide a comprehensive understanding of how investor sentiment influences stock market dynamics. The study will also investigate how the relationship between the two variables is moderated by firm size, which is proxied by market capitalization.

This study also considers the results of research by (Halisa & Annisa, 2020), (Nalurita, 2015), (Romlina & Effendi, 2020), dan (Yuliarti & Diyani, 2018) which found a relationship between return on assets, return on equity, debt to equity ratio, market book ratio, covid-19 and stock returns. To avoid biased research results, the variables return on assets, return on equity, debt to equity ratio, market book ratio, and COVID-19 are included in the estimation model as control variables. This is done to ensure that the effect of independent variables on the dependent variable does not ignore important factors.

The research results will enhance the current understanding of the impact of investor sentiment on stock returns and provide valuable insights for investors, financial professionals, and policymakers. Understanding the impact of investor sentiment on stock returns can help investors make more informed decisions, improve risk management strategies, and increase market efficiency. Furthermore, these insights can assist policymakers in formulating regulations and policies that promote market stability while safeguarding investors.

Previous research has investigated the relationship between investor sentiment and stock prices, but the results have been inconsistent. Previous studies have also analyzed the moderating effects of various factors on this relationship, such as market conditions, macroeconomic variables, and firm-specific characteristics. However, the moderating role of firm size with market capitalization proxy in the relationship between sentiment and stock price has received less attention. This study analyzes how firm size, as measured by market capitalization, affects the strength and direction of the sentiment-stock price relationship. Additionally, the study uses trading volume trends as a proxy for investor sentiment variables.

METHOD RESEARCH

This study uses company size as a moderating variable (M) by measuring market capitalization. The dependent variable (Y) used in this study is the stock price, while investor

sentiment is proxied by the trend in trading volume which is the independent variable (X1) and ROA (X2), ROE (X3), DER (X4), MBR (X5), and covid-19 (X6) are included in the estimation model as control variables. The study was conducted in Indonesia using a sample of 246 companies listed on the main board of the Indonesia Stock Exchange from 2018 to 2022. The research utilized secondary data obtained from the IDX website, Yahoo Finance, and the companies' annual reports. The data consisted of market capitalization, closing stock price, trading volume, return on assets, return on equity, debt-to-equity ratio, and market book ratio. The collected data was analyzed to examine the relationship between investor sentiment, company size, and stock price using ANOVA (F-test), t-test, coefficient of determination test, and correlation test. EViews12 was used to process the data. Before conducting the analysis, a classical assumption test was performed.

RESULTS AND DISCUSSION

Panel Data Regression

Y = -0,089 + 1,224e-09*X1 + 1,998e-23*X1*M + 1,020*X2 + 0,050*X3 – 0,006*X4 + 0,016*X5 + 0,269*X6

The constant value of -0.089 means that if the investor sentiment variable, ROA, ROE, DER, MBR, and COVID-19 value are 0, then the stock price value is -0.079. The regression coefficient of the investor sentiment variable is 1.224-09, meaning that if the other independent variables are fixed and investor sentiment increases by 1%, the price will increase by 1.224e-09. The regression coefficient of the investor sentiment*company size interaction variable is 1.998e-23, meaning that if the other independent variables are fixed and the investor sentiment*company size interaction variable increases by 1%, the stock price will increase by 1.998e-23. The regression coefficient of the ROA variable is 1.020, meaning that if the other independent variables are fixed and ROA experiences a 1% increase, the stock price will increase by 1.020. The regression coefficient of the ROE variable is 0.050, meaning that if the other independent variables are fixed and ROE experiences a 1% increase, the stock price will increase by 0.050.

The regression coefficient of the DER variable is -0.006, meaning that if the other independent variables are constant and DER decreases by 1%, the stock price will increase by 0.006. The negative coefficient means that there is a negative relationship between DER and stock price, the more DER increases, the higher the stock price. The regression coefficient of the MBR variable is 0.016, meaning that if the other independent variables are fixed and MBR has increased by 1%, the stock price will increase by 0.016. The regression coefficient of the COVID-19 variable is 0.269, meaning that if the other independent variables are fixed and covid 19 experiences a 1% increase, the stock price will increase by 0.269.

Classical Assumption Test Result

The classical assumption test is a series of statistical tests used to check whether the regression model meets some basic assumptions. In any linear regression model using the OLS approach, only multicollinearity and heteroscedasticity are required (Basuki & Yuliadi, 2014).

Multicollinearity Test

Multicollinearity occurs when there is a linear relationship between the independent variables X in a multiple regression model. A test is performed to determine whether or not there is a multicollinearity problem.

Table 1
Multicollinearity Test Result

	X1	X1*M	X2	X3	X4	X5	X6
X1	1.00	0.48	0.00	0.00	0.01	-0.01	0.11
X1*M	0.48	1.00	-0.03	-0.03	-0.02	-0.06	0.08
X2	0.00	-0.03	1.00	0.69	-0.24	0.35	0.00
X3	0.00	-0.03	0.69	1.00	-0.43	0.19	-0.04
X4	0.01	-0.02	-0.24	-0.43	1.00	0.15	0.03
X5	-0.01	-0.06	0.35	0.19	0.15	1.00	-0.01
X6	0.11	0.08	0.00	-0.04	0.03	-0.01	1.00

Source: *Output* Data EViews 12 (2023)

Multicollinearity is the existence of a linear relationship between independent variables X in a panel data regression model. A test is carried out to detect the problem of multicollinearity. No multicollinearity problems were found in the model based on the test results because the correlation matrix value is less than 0.85.

Heteroscedasticity Test

Heteroscedasticity is a statistical concept referring to the nonuniform variation of regression residuals or error terms from one observation to another. It indicates that the residual variance is not uniform, or that symptoms of heteroskedasticity are present if the residual graph crosses the boundary between 500 and -500. On the other hand, if the residual curve falls within the range of -500 to 500, it indicates that the residual variance is uniform or that there are no signs of heteroskedasticity (Napitupulu et al., 2021).

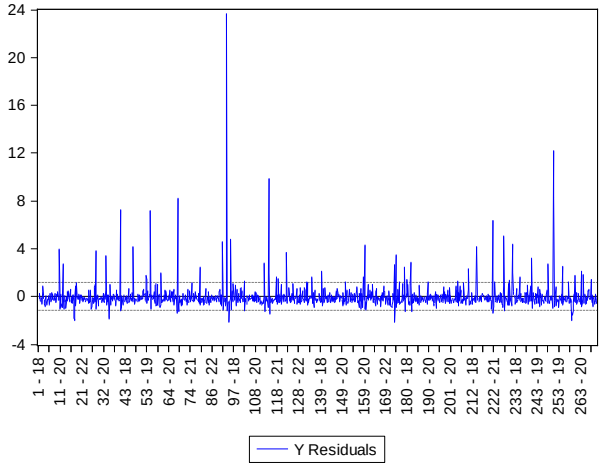


Figure 3
Heteroscedasticity Test Result
Source: Output Data EViews 12 (2023)

Figure 3 displays a residual graph with values ranging from -500 to 500. The residual variance is consistent and there is no evidence of heteroscedasticity.

Hypothesis Test Results

a. F Test

ANOVA significance testing is a method used to evaluate the existence of a linear relationship between Y and X. A significant F value indicates that at least one, and possibly all, of the independent variables have a significant effect on the dependent variable. In

contrast, an insignificant F value indicates that none of the independent variables have a significant effect on the dependent variable (Ghozali, 2006).

Table 2
F Test

R-squared	0,047683
Adjusted R-squared	0,042475
S.E. of regression	1,152551
Sum squared resid	1700,319
Log-likelihood	-2006,448
F-statistic	9,155758
Prob (F-statistic)	0,000000

Source: *Output* Data EViews 12 (2023)

The p-value or prob (F-statistic) of 0.00000 < 0.05 or the critical limit. This value indicates that the independent variables (investor sentiment, interaction of company size and investor sentiment, ROA, ROE, DER, MBR, and COVID-19) together significantly affect the stock price variable.

b. t-Test

The test of individual parameters for significance is intended to measure the degree of influence of an independent variable in explaining the variations in the dependent variable. A significant effect of the independent variable on the dependent variable is indicated by a parameter with a significance value of less than 0.05 (Ghozali, 2006).

Table 3
T Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.0888	0.0595	-1.4918	0.1360
X1	1.22E-09	3.61E-10	3.3867	0.0007
X1*M	2.00E-23	1.28E-23	1.5574	0.1196
X2	1.0204	0.5189	1.9664	0.0495
X3	0.0505	0.1600	0.3156	0.7524
X4	-0.0056	0.0116	-0.4837	0.6287
X5	0.0163	0.0090	1.8082	0.0708
X6	0.2694	0.0667	4.0401	0.0001

Source: Output Data EViews 12 (2023)

The p-value of the investor sentiment variable is 0.0007 <0.05, thus accepting H1, which means that the investor sentiment variable has a significant and positive effect on stock prices. The p-value of the ROA and COVID-19 variables is <0.05, which means that the two control variables have a significant and positive effect on stock prices. The p-value of ROE, DER, and MBR > 0.05, which means that the three control variables do not affect stock prices. The p-value of the interaction variable of company size and investor sentiment is 0.1196> 0.05, thus accepting H0, which means that the company size variable does not moderate the effect of investor sentiment on stock prices.

Coefficient of Determination Test

The coefficient of determination is a statistical measure that shows how well the model can explain variations in the dependent variable. It is expressed as a value between 0 and 1, with higher values indicating better predictive ability (Ghozali, 2006).

The adjusted R-squared value in Table 2 shows 0.042475 or 4.25%. The coefficient of determination shows that the investor sentiment, interaction, ROA, ROE, DER, MBR, and COVID-19 variables can explain the stock price variable by 4.25%, while the rest is explained by other variables not included in this research model.

Regression Test of Large, Medium, and Small Companies

This test is performed to analyze the effect of investor sentiment on stock prices for companies of different sizes. This test is performed by looking at the regression coefficient, t-statistic, and p-value for the investor sentiment variable categorized by size. The following is the regression equation for large, medium, and small companies:

(1) $Y_B = 0.0315 + 2.7646e\text{-}10*X1_B + 2.6575e\text{-}23*X1_B*M_B + 1.9624*X2_B - 1.4324*X3_B - 0.0037*X4_B + 0.0374*X5_B + 0.2907*X6_B$

(2) $Y_M = -0.2218 + 3.3557e\text{-}10*X1_M + 3.0065e\text{-}22*X1_M*M_M + 2.2833*X2_M + 0.1575*X3_M + 0.0120*X4_M + 0.0568*X5_M + 0.2481*X6_M$

(3) $Y_K = -0.1489 + 6.5496e\text{-}09*X1_K - 4.1975e\text{-}21*X1_K*M_K + 0.9005*X2_K + 0.2992*X3_K + 0.0019*X4_K + 0.0288*X5_K + 0.2527*X6_K$

For large companies, the coefficient is 2.7646e-10, which is not statistically significant (p-value 0.8001). For medium-sized companies, the coefficient is 3.3557e-10, also not statistically significant (p-value 0.7650). However, the coefficient for small firms is 6.5496e-09 and is statistically significant (p-value 0.0010). The significant positive coefficient for small companies indicates that investor sentiment has a greater influence on the share price of small companies. This could be because large and medium-sized companies are generally more established and may be less affected by investor sentiment as they are more likely to be valued based on fundamentals. On the other hand, small firms may be more sensitive to sentiment as they may be more subject to greater speculation.

Correlation Test of Large, Medium, and Small Companies

This test examines the correlation coefficient between investor sentiment and stock prices across large, medium, and small companies to measure the relationship between the two variables. A higher correlation coefficient indicates a stronger relationship between the two variables. The results of the correlation test are presented below:

Table 4

Correlation test based on company size

	Y	X1
Large Company Correlation Test		
Y	1,000000	0.103580
X	0.103580	1,000000
Medium Company Correlation Test		
Y	1,000000	0.219404
X	0.219404	1,000000
Small Company Correlation Test		
Y	1,000000	0.091647
X	0.091647	1,000000

Source: Output Data EViews

Table 4 shows that the correlation value for large companies is 0.104, indicating a very low or non-existent relationship between investor sentiment and stock prices. For medium-sized companies, the correlation value is 0.219, indicating a weak positive relationship that is stronger than the relationship between investor sentiment and stock prices in large companies. This suggests that investor sentiment has a stronger correlation with stock prices for medium-sized companies than for large companies. A positive correlation indicates that high investor sentiment leads to an increase in share price, and vice versa. The correlation coefficient between Y and X1 for small companies is 0.092, indicating a weaker relationship compared to large companies. Changes in investor sentiment have a minimal relationship with changes in stock prices for small companies.

Discussion

The following section will explain the results of the influence test between the hypothesized variables investor sentiment and stock price, and investor sentiment and stock price moderated by company size.

The Effect of Investor Sentiment on Stock Prices

Investor sentiment is often categorized as either 'bearish' or 'bullish,' depending on the prevailing market sentiment. A bullish indicator suggests that, based on market patterns, signals, or general sentiment, there is a consensus among investors that a stock or market will experience an uptrend. A bearish indicator suggests that investors expect a stock or market to go down. Trading volume trends are used as a proxy for investor sentiment; the average change in trading volume over some time reflects the average investor's tendency to trade.

The study found that investor sentiment has a positive impact on the stock prices of companies listed on the Indonesia Stock Exchange, with a significance value of 0.0007 < 0.05. Investors are more likely to buy shares of a particular company when they have a positive view of that company. This not only indicates that the information provided by the company is of high quality, but also reflects the company's appeal to investors. This can have a direct impact on increasing stock prices if companies can instill confidence and optimism in investors. Therefore, to maintain investor interest and trust, companies seeking to generate positive sentiment in the stock market must maintain transparency, produce accurate financial reports, and communicate consistently with their stakeholders.

The results of the study are consistent with the research conducted by (Kim & Lee, 2022), which suggests that investor sentiment has an impact on stock returns in the Korean stock market. The results of the study are consistent with the research conducted by (Kim & Lee, 2022), which suggests that investor sentiment has an impact on stock returns in the Korean stock market. The study finds that investor sentiment significantly affects stock returns, especially in KOSDAQ with high individual ownership. In addition, the study finds that firm characteristics such as size and stock price affect the relationship between investor sentiment and stock returns.

The results of the study confirm the research of (PH & Rishad, 2020), which demonstrates the strong influence of investor sentiment on stock prices and market volatility. The study found an asymmetric relationship between the sentiment index and its positive and negative components. A positive sentiment index has a positive effect on market returns above the benchmark, while the impact of negative sentiment on downside returns is less pronounced. The results suggest that increased investor optimism about the market's ability to generate excess returns leads to an increase in speculative activity. This, in turn, encourages them to invest more. In addition, the study identifies

the persistence of market volatility and sentiment indices, suggesting that changes in sentiment have a contemporaneous impact on market excess returns.

The Ability of Company Size to Moderate the Effect of Company Size on Stock Price

Market capitalization is a measure of a company's size and represents the total market value of its outstanding shares in Rupiah. This measure is commonly used by investors to determine the size of a company. The results of the study do not support the hypothesis that company size moderates the relationship between investor sentiment and stock prices. This is indicated by the insignificance of the interaction term in the model. Based on the data analyzed, it appears that firm size does not moderate the effect of investor sentiment on stock prices.

This could reflect the irrational and emotional nature of investor mood, as outlined in Behavior Finance theory. Such sentiment can lead to inefficiencies in the market and to price movements that cannot be explained solely by fundamental factors or by the size of the company, which is proxied by its market capitalization. During a crisis or a market bubble, investor sentiment can cause stock prices to rise to levels that cannot be justified by the fundamentals of the company.

In addition, the stock market can be complex, and several different factors can have an impact on stock prices. For example, in the case of large companies with high market capitalizations, there may be other factors in addition to investor sentiment that are more influential in the determination of stock prices, such as company fundamentals, macroeconomic conditions, and monetary policy. Therefore, it is unlikely that investor sentiment significantly affects the stock price of large companies compared to small or medium-sized companies. This is because large companies often have institutional investors who are more stable and less susceptible to short-term changes in sentiment.

In summary, market capitalization is an important measure of a company's size and market position, but it is only one of many factors that influence investor sentiment and stock prices. There is a complicated relationship between market cap and stock prices. Stock prices are driven by a combination of fundamental factors, investor sentiment, and the dynamics of the market.

The results of this study contrast with those of (Yang et al., 2017), who examined the effect of investor sentiment on asset returns based on company characteristics. They found that even after controlling for trading behavior, other risk factors, and company characteristics, there is a significant positive correlation between investor sentiment and stock returns. It is worth noting that investor sentiment has a greater impact on small firms.

The results of this study are inconsistent with the research by (Seok et al., 2019) on the correlation between investor sentiment and asset returns in the Korean stock market. (Seok et al., 2019) also examined the impact of firm characteristics on the significance of the effect of sentiment on the returns of individual stocks. The empirical results of the study indicate that there is a positive correlation between sentiment and realized stock returns in the short run. In addition, the correlation between sentiment and actual stock returns is more pronounced for smaller and more volatile companies, as they are more difficult to value.

The Relationship Between Investor Sentiment and Stock Price in Companies of Different Sizes

The study did not find a moderating effect, but it did find variations in the relationship between different market capitalization groups. This suggests that other factors related to company size may influence the relationship. For instance, investor sentiment may have a significant impact on stock prices in smaller companies, but not necessarily in larger ones.

It is important to note that the absence of moderating effects does not necessarily exclude the possibility of different patterns across the groups in this study. The statistical analysis indicates that the interaction term (investor sentiment × firm size) lacks statistical significance. However, there may still be variations in how investor sentiment independently influences stock prices in different firm size categories.

The results indicate that there are diverse patterns across groups, suggesting that firm size has an indirect or variable impact on the relationship between sentiment and stock price. This variation in performance could be attributed to several factors, including market dynamics, differences in investor base, and risk perception. These factors may vary with firm size and cannot be fully captured by a simple interaction term (Adnan, 2022).

The study found that the impact of investor sentiment on stock prices varies depending on the size of the company. Specifically, there is a weak and insignificant relationship between investor sentiment and stock prices in large companies. This suggests that changes in investor sentiment have a negligible effect on stock prices in this group.

Medium-sized companies have a slightly stronger relationship with investor sentiment than large companies, but it is still considered weak and insignificant. This suggests that there is not enough evidence that investor sentiment has a noticeable effect on stock prices, although there is a correlation between investor sentiment and stock prices.

Although small companies have a weaker relationship between investor sentiment and stock prices compared to large and mid-cap companies, the relationship is still significant. This implies that changes in investor sentiment have a minimal influence on stock prices in this group, but the difference is still large enough to be considered a statistically significant effect. In the context of small companies, the variable of investor sentiment may have a more substantial influence, although it remains weak compared to other companies.

Smaller companies may be more sensitive to investor sentiment due to the limited coverage of the market and the lower liquidity, which makes it a more influential factor. In addition, their limited access to capital markets may make them more sensitive to changes in sentiment that could have an impact on their ability to raise funds. Moreover, smaller companies often exhibit greater price volatility, which implies that even minor shifts in sentiment can rapidly impact share prices. Investors frequently engage in speculation regarding small companies due to their high growth potential, resulting in share prices that are more influenced by expectations and sentiment than by fundamental analysis.

Large and mid-cap companies tend to be closely monitored and scrutinized by professional analysts and financial institutions. These companies have more publicly available information, which means their price movements are driven more by fundamentals and information than market sentiment. In addition, larger companies may have greater stability in terms of revenue and financial performance, as they typically have a more diverse portfolio of products and services. Diversification can decrease sensitivity to market sentiment. Furthermore, larger companies typically have higher liquidity in the stock market, resulting in less influence from individual transactions driven by sentiment. Due to stricter internal policies

and increased regulation, large and mid-sized companies are less susceptible to sentiment-driven market manipulation. The varying influence of investor sentiment on stock prices may be explained by differences in ownership structure, market liquidity, available information, and risk profile among large, medium, and small companies.

The research suggests that company size is not a direct moderator of the sentiment-stock price relationship. However, it does have a role in the differentiation of the impact of investor sentiment on stock prices across different market segments. This study may uncover distinct patterns or effects within each category of firm size, offering insights that moderation analysis alone may not provide.

Originality

This study examines the relationship between investor sentiment and stock prices, with a focus on the role of market capitalization as a proxy for firm size. Previous research has produced conflicting findings on this topic, and little attention has been given to market capitalization as a moderating variable. Additionally, the study introduces a new aspect by using trading volume trends as a differentiating factor for investor sentiment variables. This study offers valuable insights into how investors respond to market changes, providing a comprehensive understanding of potential price movements and trends. The findings can assist investors and analysts in making informed investment decisions.

CONCLUSION

This study presents empirical evidence on the impact of investor sentiment on stock prices, investigates whether company size can moderate this effect, and explores potential differences in the relationship between investor sentiment and stock prices across companies of varying sizes. The research findings can be summarized as follows, Investor sentiment has a positive effect on the share price of companies listed on the Indonesia Stock Exchange. A positive market reaction indicates that the information conveyed by the company is of good quality and attracts investors to invest, Company size does not moderate the effect of investor sentiment on stock prices. This is due to the irrational and emotional nature of investor sentiment, which can lead to market inefficiencies and price movements that cannot be explained by fundamental factors or market capitalization alone, The impact of investor sentiment on stock prices varies depending on the size of the firm. The test results indicate a very weak correlation between investor sentiment and stock prices in large companies. Medium-sized companies exhibit a weak correlation, albeit slightly stronger than large companies. Small firms have the weakest correlation between investor sentiment and stock prices compared to large and medium-sized firms.

The study aims to provide insight into investor behavior in the Indonesian stock market, helping investors make informed decisions. Companies can also use the findings to develop strategies to attract and retain investors. This research aims to provide policymakers with an overview of investor behavior in the Indonesian stock market. The information gathered can help policymakers develop policies that encourage a stable and efficient stock market while protecting investors' interests.

This research is expected to increase knowledge and serve as reference material for conducting further research on related objects in the future. For instance, it can shed light on

factors that can affect investor sentiment or other variables that can moderate the relationship between investor sentiment and stock prices, which are still rarely studied.

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