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Investor Perceptions of Financial Performance Announcements and Their Impact on Trading Decisions: A Phenomenological Study of Commodity Cycle Companies

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Abstract: Theoretically, profit and loss announcements should serve as fundamental signals guiding investment decisions. However, empirical evidence suggests that investors, particularly those trading in commodity cycle companies, often make decisions that are not entirely rational. This study aims to explore in depth how investor perceptions of financial performance announcements are formed and how these perceptions influence trading decisions in commodity cycle companies. Employing a qualitative phenomenological approach, the research involved 18 informants, including retail investors, investment managers, and securities analysts actively trading shares of commodity companies on the Indonesia Stock Exchange. Data were collected through semi-structured interviews and participant observation in investor discussion forums and subsequently analyzed using interpretative phenomenological analysis. The main findings reveal four central themes: the ambiguity of profit meaning amidst commodity volatility, emotional heuristics as the primary mediator of perception, cognitive dissonance between fundamental information and actual trading behavior, and social proof within investor communities as a decision catalyst. This study contributes to the expansion of behavioral finance theory by demonstrating that investor perception operates through dual-processing mechanisms that diverge from perfect rationality assumptions. Practically, the findings underscore the need for financial literacy programs that account for the psychological aspects of commodity cycle investors.

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INTRODUCTION

Modern capital markets are founded on the fundamental assumption that material and accurate financial information will be promptly reflected in stock prices through rational arbitrage mechanisms employed by investors (Fama, 1970). Within the framework of the Efficient Market Hypothesis (EMH), corporate earnings announcements represent one of the most significant forms of public information and are expected to elicit quick and unbiased responses from market participants (Ball & Brown, 1968). However, more than five decades after that seminal study, empirical evidence continues to reveal persistent anomalies: investors do not always respond rationally to earnings information, and perceptual mechanisms frequently mediate the relationship between earnings announcements and trading decisions (Kahneman & Tversky, 1979; Barberis et al., 2021).

This phenomenon becomes increasingly complex when the context of commodity cycle companies is introduced. Firms in sectors such as coal, crude palm oil (CPO), precious metals, and other minerals face unique characteristics: extreme global commodity price volatility often dominates stock price movements, rendering fundamental information like corporate earnings less

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relevant in investors' eyes (Pindyck & Rotemberg, 2019; Toda & Walsh, 2020). Data from the Indonesia Stock Exchange (IDX) for the 2020-2023 period indicate that the correlation coefficient between quarterly earnings announcements and abnormal returns in commodity stocks was only 0.23, considerably lower than the banking sector (0.67) and consumer sector (0.58) (Financial Services Authority, 2024). More strikingly, a survey of investor behavior conducted by the Indonesia Stock Exchange (2023) involving 1,200 retail investors revealed that 73 percent of respondents admitted to being more influenced by global commodity prices and market sentiment than by corporate financial reports.

The primary issue identified in the literature is the existence of a perceptual gap between theoretical assumptions of investor rationality and the psychological reality of decision-making in uncertain markets (Shiller, 2019). Previous studies, such as those by De Bondt and Thaler (1985) on overreaction and Barber and Odean (2013) on attention-driven trading, have documented various cognitive biases affecting investors. However, nearly all such research employs quantitative experimental methods or event studies, overlooking the subjective and contextual aspects of how investors genuinely interpret earnings announcements in real-world situations (Barberis, 2018; Hirshleifer, 2020).

The research gap becomes more specific in three directions. First, the dominance of quantitative approaches in behavioral finance literature has produced rich knowledge about what occurs (anomalies, biases) but remains deficient concerning why and how the perceptual process unfolds (Märkle & Rau, 2022; Hommes et al., 2023). Second, studies on investor perception of earnings announcements have rarely been conducted in the context of commodity cycle companies, which paradoxically possess characteristics of extreme volatility and high fundamental uncertainty (Bianchi et al., 2020; Giglio et al., 2021). Third, research on the impact of perception on actual trading decisions—rather than hypothetical intentions or preferences—remains very limited due to restricted access to investors' real decision-making processes

The urgency of this research is theoretical, practical, and methodological. Theoretically, a re-examination of investor rationality assumptions is needed in the most challenging context: companies with high fundamental volatility. Practically, capital market regulators and investment managers require a better understanding of how investor perceptions are formed so that information disclosure policies and corporate communication strategies can be designed more effectively (Bhattacharya et al., 2022; Blankespoor et al., 2020). Methodologically, a phenomenological approach is necessary to capture the subjective nuances that quantitative methods have overlooked.

Based on this background, this study aims to: (1) explore in depth how investor perceptions of financial performance announcements in commodity cycle companies are formed; (2) analyze the mechanisms linking these perceptions to actual trading decisions; and (3) identify contextual factors moderating the relationship between earnings information and investor behavior.

RESEARCH METHOD

This study employs a qualitative approach based on interpretative phenomenological analysis (IPA), as outlined by Smith, Flowers, and Larkin (2022). This approach was selected for three methodological reasons. First, the study aims to understand the subjective meaning investors assign to earnings announcements rather than to measure quantitative effects. Second, investor perception is highly contextual and rooted in individual lived experiences, making phenomenology

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the most suitable approach (van Manen, 2017). Third, the study seeks to capture the cognitive and affective processes underlying investor responses to earnings information, which cannot be adequately captured through surveys or experiments alone.

The research adopts a multiple-case, within-case design (Yin, 2018), in which commodity cycle companies serve as the case and individual investors constitute the unit of analysis. The commodity sector was chosen due to its high fundamental volatility, with a focus on three subsectors: coal, crude palm oil (CPO), and precious metals. The research period spans from January 2020 to August 2024, covering the post-pandemic commodity super-cycle and the subsequent price normalization phase.

A total of 18 informants were selected through purposive sampling based on four criteria: (1) at least three years of trading experience in commodity stocks; (2) active trading at a minimum frequency of once per month during the 2022-2024 period; (3) willingness to participate in in-depth interviews and repeated debriefing sessions; and (4) basic proficiency in reading profit and loss statements The sample comprised 10 retail investors, 5 investment managers, and 3 securities analysts. Retail investors constituted the majority due to their higher susceptibility to perceptual biases (Barber & Odean, 2013). Snowball sampling was employed to ensure variation in experience and financial literacy levels.

Data were collected using three complementary methods. The primary method was semi-structured interviews, lasting 90 to 120 minutes per informant and conducted at least twice to reach data saturation. The interview protocol was based on dual-process theory (Kahneman, 2011) and piloted with three initial informants. The second method involved a think-aloud protocol (Ericsson & Simon, 2023), in which informants verbalized their thought processes while reviewing earnings scenarios for three different commodity companies. The third method consisted of six months of participant observation in two online investor communities: the r/commoditystocks Reddit forum and the Indonesian Commodity Investors Telegram group. This observation aimed to capture natural discussion dynamics and instances of social proof.

Data were analyzed following the six-stage IPA procedure proposed by Smith et al. (2022): (1) repeated reading and initial noting; (2) experiential theme coding; (3) clustering superordinate themes; (4) cross-case pattern searching; (5) abstraction and generalization; and (6) narrative interpretive writing. NVivo 14 software was used to manage coding and visualize thematic relationships. Validity was ensured through member checking, source triangulation (comparing interviews with forum observations and think-aloud protocols), and systematic audit trail documentation.

RESULTS AND DISCUSSION

This research yielded four main themes describing how investors perceive earnings announcements of commodity cycle companies and how these perceptions impact their trading decisions. All informant names are pseudonyms to maintain confidentiality.

Ambiguity of Profit Meaning Amidst Commodity Volatility

The most surprising and provocative finding of this research is as follows. Informants consistently reported a systematic gap between their beliefs about the importance of fundamental information and their actual trading behavior. This phenomenon was identified as a form of cognitive dissonance that is resolved through various rationalization mechanisms

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A retail investor with 5 years of experience, expressed:"I read the earnings report of Company A [a coal company] last quarter, profits were up 300 percent. But why did the price drop? Apparently because global coal prices fell. So I'm confused, is earnings important or not actually?" (Interview I, March 12, 2024)

Similar ambiguity was felt by Dian, an investment manager at a securities firm:"In theory, high profits should be a buy signal. But for commodities, experienced investors know that high profits at the cycle peak can actually be a sell signal because it indicates commodity prices won't rise further. This is a paradox not taught in university." (Interview II, March 25, 2024)

Document analysis of discussion forums showed that out of 347 posts discussing commodity company earnings announcements, 62 percent contained expressions of confusion such as "good earnings but why the drop?" or "I don't understand this price."

This finding indicates that the meaning of earnings is not inherent in the numbers themselves, but in the position of those numbers within the commodity cycle—something not explicitly disclosed in financial reports.

Emotional Heuristics as the Primary Mediator of Perception

Findings indicate that investors process earnings information not through pure cognitive reasoning, but rather through what are referred to as emotional heuristics. Emotions—including fear, greed, and anticipated regret—systematically shape investors' interpretations of earnings announcements..

A retail investor, recounted her experience when CPO prices fell: "When CPO prices were falling, I saw palm oil company profits declining. Logically I knew this was a cycle, but my feeling was panic. I was afraid of bigger losses. Finally I sold, even though a few months later prices rose again. I regretted it, but at the time I felt unable to think clearly."

A securities analyst, confirmed this pattern from his experience interacting with clients:> "Retail clients are interesting. They can know the theory, can read financial statements. But when the market is volatile, emotions take over. I call it loss aversion in action—they are more afraid of losing than hopeful for gains. Consequently, good earnings are sometimes ignored, bad earnings are exaggerated." (Interview II, April 10, 2024).

Think-aloud protocol data from three informants asked to analyze fictional earnings reports showed that informants spent an average of 68 percent of their thinking time discussing "feelings" and "fears" compared to only 32 percent calculating financial ratios.

This finding explicitly rejects the assumption of perfect rationality and supports the dual-process model where System 1 (automatic, affective) often overrides System 2 (analytical, deliberative) (Kahneman, 2011).

Cognitive Dissonance Between Fundamental Information and Actual Trading Behavior

The most surprising and provocative finding of this research is that informants consistently reported a systematic gap between their beliefs about the importance of fundamental information and their actual trading behavior. This phenomenon was identified as a form of cognitive dissonance that was subsequently resolved through various rationalization mechanisms.

A retail investor, honestly admitted: "I know theoretically I should look at earnings. But honestly, I more often look at commodity prices in the news and see stock price movements on the app. Sometimes I buy because my friend buys. Only afterwards do I search for rational reasons, including looking at earnings reports. I realize this isn't logical, but I'm not alone, many do this." (Interview II, April 18, 2024)

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An investment manager, Linda (44 years old), provided a more structural perspective: "I manage institutional funds, so I can't be careless. But I admit, even at our level there is pressure 'not to miss the boat' (fear of missing out/FOMO). Our clients compare our performance with peers. So when the commodity market is bullish, we have to buy even though valuations no longer make sense. Only afterwards do we look for earnings reports to justify that decision." (Interview I, April 22, 2024).

A strong confirmation bias phenomenon was also identified. An informant, explained: "If I've already decided to buy a commodity stock, I will look for news or reports that support my decision. If the earnings report is good, that's perfect. If it's bad, I look for other reasons—for example, 'profits fell due to one-time factors, long-term fundamentals are still good.' Rationalization happens automatically." (Interview I, April 28, 2024)

This finding extends cognitive dissonance theory (Festinger, 1957) into the domain of investment decisions, showing that dissonance is not only resolved post-hoc but is also anticipated and prevented through biased information seeking from the outset.

Social Proof in Investor Communities as a Decision Catalyst

This finding illustrates the central role of investor communities in shaping perceptions and driving trading decisions. Social proof—defined as the tendency to emulate the behavior of others amidst uncertainty—emerged as the strongest explanatory factor for herding behavior in commodity stocks.

A retail investor, described the dynamics in a Telegram group: "In the Telegram group, there are usually 'opinion leaders'—people considered knowledgeable. If they say Company X's earnings are good and they've bought, many other members will buy without checking themselves. I also sometimes do that, because it's simpler. But I know this is dangerous."

Participant observation over 6 months in the "Indonesian Commodity Investors" Telegram group (1,200 active members) revealed that during 12 commodity company earnings announcements, a consistent pattern emerged: within 10 minutes after a high-reputation member (high-karma user) posted an earnings analysis, the message volume containing "I'll buy too" or "entry at price X" increased up to 400 percent.

A securities analyst, offered a critical perspective:"Social proof is actually efficient under normal conditions because it reduces information search costs. But in extreme conditions—for example when commodity prices are crashing—social proof can become an echo chamber that exacerbates panic. I saw this happen when coal fell in early 2024."

Interestingly, this finding also reveals that social proof is not always positive (encouraging buying) but also negative (encouraging mass selling). An informant, Hendra (33 years old), admitted: "I sold CPO shares when prices dropped because everyone in the group said 'get out first, this is just the start of the decline.' Even though after I rechecked, the company's fundamentals were still good, profits were still positive. I panicked because I saw others panicking."

This finding supports informational cascade theory (Bikhchandani et al., 1992) and extends it by showing that in the context of Indonesian retail investors, social proof operates through mechanisms of perceived authority (not formal authority) and group identity.

Discussion

In-depth Interpretation of Findings: Why Investor Perception Operates Non-linearly? Collectively, the findings of this research depict a reality far removed from the rationality assumptions underpinning the Efficient Market Hypothesis (Fama, 1970).

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Rather than processing earnings information objectively and translating it directly into trading decisions, the investors in this study exhibited a more complex pattern: perception operates through commodity cycle filters, becomes colored by emotions, leads to post-decision rationalization, and is reinforced by social dynamics.

The most fundamental interpretation of these findings is that the relationship between earnings information and investor decisions is neither linear nor universal, but rather recursive and contextual. In the context of commodity cycle companies, investors do not ask "Did earnings rise or fall?" but "At which cycle position do these earnings occur?" If high earnings are achieved at the cycle peak, investors interpret them as a sell signal—contrary to the predictions of classical signaling theory (Spence, 1973).

Reinforcing the Interpretation with a Neurofinance Perspective. The findings of this study gain additional validation when viewed from a neurofinance perspective—an interdisciplinary field combining neuroscience and finance. Experimental research by Frydman and Camerer (2016) using functional magnetic resonance imaging (fMRI) showed that when investors process ambiguous financial information (such as commodity company earnings amid high volatility), the brain areas that become active are the amygdala (emotion center) and the anterior insula (uncertainty perception center), not the dorsolateral prefrontal cortex (analytical reasoning center). These neurofinance findings independently confirm what we found phenomenologically: the dominance of System 1 (affective) over System 2 (cognitive) is not an individual failure, but a hardwired characteristic of the human brain when faced with high fundamental uncertainty The implication is that debiasing efforts through financial education alone will be insufficient without accompanying interventions targeting affective pathways—for example, calming visual nudges or cooling-off periods allowing System 2 time to "overtake" impulsive System 1 responses. This integration of the neurofinance perspective strengthens the theoretical position that bounded rationality (Simon, 1955) is not an eliminable limitation, but a permanent feature of human cognition that must be accommodated by capital market policy design.

Comparing Findings with Related Literature: Supporting, Rejecting, and Extending

Supporting Existing Theories

Findings regarding emotional heuristics (Theme 2) strongly support Prospect Theory by Kahneman and Tversky (1979) and Dual-Process Theory (Kahneman, 2011). Investors in this study clearly demonstrated loss aversion (more fear of loss than pleasure from gain) and the dominance of System 1 (affective, fast) over System 2 (analytical, slow) in time-pressure and high-uncertainty situations. These findings are also consistent with recent experimental studies by Barberis et al. (2021) showing that retail investors respond more strongly to salient news such as commodity price fluctuations than to financial reports.

Rejecting Assumptions of Existing Theories

The findings of this study implicitly reject the fundamental assumption of the Efficient Market Hypothesis (EMH) in the context of commodity cycle companies. The semi-strong version of EMH (Fama, 1970) states that all public information including earnings reports should be immediately reflected in prices. However, the findings of Themes 1 and 3 indicate that earnings information is not always rationally integrated because investors interpret it ambiguously and often ignore it in favor of other information (commodity prices, social proof). This supports Shiller's (2019) critique that markets are not always efficient, especially during conditions of irrational exuberance or panic.

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More explicitly, these findings reject the assumption of the representativeness heuristic in its naive form. In Tversky and Kahneman's (1974) theory, representativeness causes investors to rely too heavily on past patterns. However, our findings show that investors actually rely too little on past earnings patterns because they consider them unrepresentative of the future amidst commodity volatility.

Extending Existing Theories

The primary theoretical contribution of this research is the extension of three theories: 1), The finding regarding ambiguity of earnings meaning relative to the cycle extends Signaling Theory (Spence, 1973). In its original formulation, signals (earnings) were considered to have fixed and universal meaning. This research shows that in the commodity context, signal meaning depends on cycle position—a contextual factor not controlled by the signal-sending firm. This opens a new research agenda on context-dependent signaling. 2), The finding regarding anticipated cognitive dissonance extends Cognitive Dissonance Theory (Festinger, 1957). Festinger focused on dissonance resolution after inconsistency occurs. This research shows that experienced investors develop strategies for pre-emptive dissonance avoidance—they seek information supporting their decisions before dissonance emerges. This is a more systematic form of motivated reasoning than previously documented. 3) the finding regarding social proof through perceived authority (Theme 4) extends Informational Cascade Theory (Bikhchandani et al., 1992). The original theory assumed cascades are initiated by the actions of a few initial individuals without questioning why they are followed. This research shows that in digital investor communities, informal authority (reputation, consistency of past posts) becomes the key determining who initiates a cascade. This integrates social influence literature with behavioral finance.

Further Extending the Theory: Integration with Social Identity Theory. The findings on social proof (Theme 4) not only extend Informational Cascade Theory but also open the door for integration with Social Identity Theory (Tajfel & Turner, 1979), which has rarely been applied in the behavioral finance literature. Data from our study indicate that investors follow others' opinions not only for informational reasons (informational influence) but also for identity reasons (normative influence). One informant, Wati (39 years old), explicitly stated: "I follow recommendations from the Telegram group because I feel 'one community' with them. If I don't follow, I feel 'left out' or missing information." This statement indicates that social proof operates through two parallel channels: first, an epistemic channel (others are considered to have better information); second, an affiliative channel (others are references for socially appropriate behavior). Integration with Social Identity Theory enriches understanding of herding behavior: investors not only herd due to bounded rationality (informational cascade), but also due to psychological needs for belongingness and social validation. This finding is consistent with experimental studies by Cipriani and Guarino (2014) showing that herding in financial markets is stronger when participants know the identities and group affiliations of other market actors. The practical implication is that digital investor communities cannot be regarded merely as information aggregators, but also as identity reinforcement mechanisms that independently shape trading preferences and decisions. Regulators seeking to reduce herding need to consider interventions that disrupt group identity (e.g., anonymizing recommendations) rather than only improving information quality.

Answering the Research Objectives

Objective 1: Exploration of investor perception formation. This research answers that investor perceptions of commodity company earnings announcements are formed through a three-stage

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process: (a) initial framing based on commodity cycle position, (b) emotional filtering (fear/greed) coloring interpretation, and (c) social confirmation through community discussion. This fundamentally differs from the Bayesian updating model assumed in neoclassical finance.

Objective 2: Analysis of perception-decision mechanisms. This research finds that the relationship between perception and decision is not direct, but mediated by cognitive dissonance and social proof. Investors often make decisions first (based on emotion or following others), then seek earnings information to justify that decision—not the reverse.

Objective 3: Identification of moderating contextual factors. Three main contextual factors were identified: (a) commodity cycle phase (rising/falling/peak/trough), (b) intensity of community discussion (normal vs. panic), and (c) investor experience (novice vs. veteran). Veteran investors tend to be more capable of resisting following others, but remain susceptible to overconfidence bias.

Causal Explanation: Why Does This Phenomenon Occur?

Cross-thematic analysis reveals structural root causes:1) Inability to predict commodity prices. Investors learn from experience that commodity company earnings are largely determined by global commodity prices, which no one can predict accurately (Pindyck & Rotemberg, 2019). Consequently, they redesign their strategies: rather than focusing on uncertain earnings, they focus on more easily observable variables (commodity prices) and more easily socialized variables (community recommendations). 2). Bounded cognitive rationality. Investors, especially retail, have limited cognitive capacity to process complex financial reports (Simon, 1955). They use heuristics (such as social proof) as cognitive shortcuts. This is not irrationality, but adaptive behavior in a complex environment. 3). Biased incentive structures. Investment managers acknowledged being evaluated on a quarter-to-quarter basis by clients and superiors. These short-term incentives encourage herding because "no one gets fired for buying IBM" (in the modern context: "no one gets fired for following market consensus").

Anomalous Findings and Theoretical Contradictions

This research identified two anomalous findings that initially appeared contradictory to the theoretical framework: Anomaly 1: Investors most knowledgeable about fundamentals are most susceptible to overconfidence. Two informants with formal financial education backgrounds (Bachelor's in Accounting and Master's in Financial Management) reported the largest losses because they were overly confident in their fundamental analysis abilities and ignored market signals. One informant , admitted: "I thought with my education, I could 'beat the market.' But that's exactly what made me lose big. I held stocks too long because 'fundamentals were good' while the market was already selling due to sentiment. I learned that a diploma doesn't protect against bias."

The explanation for this anomaly is the overconfidence effect being stronger among those with superficial knowledge of a field—known in the literature as the Dunning-Kruger effect (Kruger & Dunning, 1999). Knowledge sufficient to feel confident but insufficient to recognize the limits of that knowledge. Anomaly 2: Very good earnings announcements trigger selling decisions among some investors. Contrary to intuition, three informants admitted selling shares after seeing very good earnings announcements for fear that prices were already overvalued and would correct. One informant explained: "If earnings are too good, I'm suspicious. I think 'the market has already priced this in, now it's time for profit taking.' I sell, and often it's correct, the price drops after the announcement."

This phenomenon, known in the literature as sell on the news, is not anomalous in itself. What is anomalous is the strength of this effect in commodity companies, which is much stronger than in

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other sectors. The explanation returns to Theme 1: very good earnings at the cycle peak are a sell signal, not a buy signal.

CONCLUSION

This research concludes that investor perceptions of financial performance announcements in commodity cycle companies are not formed through a linear, rational reasoning process. Instead, they emerge through complex mechanisms that involve interpretive cycle ambiguity, emotional heuristics, cognitive dissonance, and social reinforcement. Investors do not act like homo economicus processing all information objectively; rather, they are homo psychologicus whose perceptions are shaped by dynamic interactions between fundamental information, internal psychological conditions, and external social environments.

The most distinctive data finding of this research is the discovery of a pre-emptive dissonance avoidance mechanism—investors actively seek information justifying decisions they have already made (or wish to make), rather than allowing information to guide their decisions. This fundamentally differs from the assumption of an informationally efficient market where information comes first, then decisions follow. In the discovered reality, often decisions come first (driven by emotion or social proof), then earnings information is used as post-hoc rationalization.

This conclusion directly addresses the three research objectives. First, investor perception is formed through cycle framing → emotional filtering → social confirmation. Second, the mechanism linking perception to trading decisions is dissonance mediation (not direct). Third, the main contextual factors moderating this relationship are the commodity cycle phase and the intensity of community discussion.

Theoretical implications of this research include the need to revise rationality assumptions in signaling theory and the efficient market hypothesis for contexts of high fundamental volatility. Behavioral finance theories need to integrate the concepts of context-dependent meaning of signals and pre-emptive dissonance avoidance into their models.

Practical implications for regulators (Financial Services Authority, Indonesia Stock Exchange) include the need for targeted disclosure policies that consider how retail investors actually process information—for example, including a contextual note in earnings reports explaining the company's position within the commodity cycle. For investment managers, the implication is the importance of a debiasing strategy in team decision-making processes, such as pre-mortem analysis and a systematically rotated devil's advocate.

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