

Investor Behavior on Israeli-Palestinian War and Current Money Market Uncertainty

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Abstract

In the fierce geopolitical constellation among the world's great powers, given the increasingly complex conflict between Israelis and Palestinians, the worst could happen. The conflict could spread to some regions in the Middle East, such as Syria, Iran, or the Strait of Hormuz, which is an important route that accounts for 30% of the world's total oil trade. There are investors who believe that investment should be centered on consideration of financial condition. Investors and consumers withdrawing their funds from companies involved in conflicts can affect the financial performance of those companies. When investors make investment decisions, they consider both quantitative and qualitative aspects of a financial product or service. Grey swan event is a term used to describe events that are very unexpected but plausible. There are also some investors who take advantage of the momentum of Boycott, Divestment, and Sanctions (BDS), stock investments in companies that are suspected to be external to Israel to be able to extract potential stock investments. The first "black swan event" can bring down the market or, conversely, cause an explosive growth of a particular asset, and no one can prepare for it. Safe haven is a safe investment asset when world economic conditions are shaken due to a crisis or geopolitical issue, such as war or humanitarian crisis.

Keywords: *boycott, divestment, witness, black swan even, safe heaven*

A. Introduction

The protracted conflict between Israel and Palestine has created divisions and polarization of opinion around the world. One of the prominent reactions to this conflict was the boycott movement against products originating in Israel.

Calls for a boycott of Israeli-affiliated products have intensified as Israeli soldiers have intensified attacks on Hamas. A number of companies targeted by the boycott began to stir. They clarified that the boycott movement has reportedly had an impact on reducing the number of customers. Israel is clearly concerned about the impact of these losses. In recent times, Israel's priority diplomatic mission has been the response to the Boycott, Divestment, and Sanctions (BDS) movement. This movement is considered successful in making the Israeli economy collapse because citizens in various parts of the world compact do not buy products that are included in the boycott list.

The boycott is not only an expression of solidarity, but also an economic measure intended to exert pressure on conflict-related entities or products. However, on the other hand, there are investors who believe that investment should be centered on consideration of financial condition. They argue that attracting investment from conflict-related entities will only result in financial losses, without having a significant impact on conflict resolution

Boycotts of Israeli products create ethical dilemmas for investors. The question is whether investors should include ethical, social, or political factors in their investment decisions, or whether financial gain alone should be the primary factor.

Divestment is the opposite of investment, that is, the withdrawal of funds from a project with a specific purpose. The divestment strategy is the opposite of investment. More fully, divestment is the activity of reducing some amount of assets in order to obtain greater profits in the future. In simple terms, an example of divestment is adding up a number of lots of shares when prices in the market are high. This is done so that investors get greater profits. Thus, it can be concluded that the divestment strategy is some strategic steps taken to reduce assets in order to obtain greater profits.

Israel has been the target of international condemnation for acts of genocide committed against Palestinians in the Gaza Strip. But until now no country has dared to impose real sanctions on Israel. The Zionist state has also always escaped criticism in the UN Security Council because it has the protection of the United States (US) and Western countries. Any country in the world can actually impose sanctions on Israel for its war crimes against Palestinians. Of course, if that country has the courage to apply those sanctions against Israel.

In general, sanctions are divided into two, namely economic and political sanctions. Here are various forms of sanctions that can be applied to Israel, both in the economic and political fields. 1. Arms Embargo An arms embargo, which is a ban on selling arms to Israel. So far, only a few countries have implemented a total arms embargo against Israel, namely the Soviet Union (1973-1991), Cuba (1973-present), Venezuela (2002-present), and Iran (2022-present). 2. Export Restrictions on the Export of Certain Goods, i.e. restrictions on the quantity or type of goods that can be exported from or to Israel. Sanctions restricting the export of goods to Israel can be imposed by one country or by a group of countries. Restrictions on the export of goods to Israel can be applied by various countries in the world, both countries that have diplomatic relations with Israel and countries that do not have diplomatic relations with Israel.

Investor behavior involves the decision-making process in investing, which is influenced by cognitive and affective factors (Ricciardi, 2014). In the context of the Israeli-Palestinian conflict, investor behavior can show a response to the conflict through boycott actions against products related to the region.

When investors make investment decisions, they consider both quantitative and qualitative aspects of a financial product or service. However, in the case of conflicts that have a strong emotional impact, such as the Israeli-Palestinian conflict, the emotional aspect can also play a significant role in investment decision making.

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B. Discussion

The Boycott, Divestment and Sanctions (BDS) movement for products affiliated with Israel is increasingly massive. This action also has an impact on the share price of the affiliated company.

Several companies listed on the Indonesia Stock Exchange (IDX) are affiliated with Israel. For example, the issuer of the retail network PT Mitra Adiperkasa Tbk. (MAPI), which through its subsidiary PT MAP Boga Adiperkasa Tbk. (MAPB) manages the well-known coffee brand Starbucks Indonesia.

The world's largest coffee brand from the United States (US) is said to support Israel. In addition to Starbucks shares plummeting in the US, a number of Starbucks outlets are now empty of visitors in two points of the capital and buffer cities. Starbucks Indonesia says it is not following Starbucks' steps in the U.S. and has also condemned acts of terror.

However, MAPI shares have experienced a correction over the past month. Citing RTI Business, MAPI has fallen 11.87% in the past month. Meanwhile, within a week, MAPI moved stagnant. On Thursday (16/11/2023), MAPI's shares closed down 2.08% to IDR 1,650. MAPI also entered the ranks of the most disposed issuers with a total net foreign sell (NFS) of IDR 3.5 billion.

Meanwhile, MAPB in the last month was recorded to have appreciated 1.79%. However, over the past week, MAPB shares have been stagnant. As of session I at 10.35 WIB today's trading, MAPB shares were observed to be still stagnant at a price of IDR 1,985 per share.

In addition to Starbucks, Kentucky fast food restaurant Fried Chicken (KFC) was also affected. In Indonesia, KFC is under the auspices of PT Fast Food Indonesia Tbk. (FAST). FAST shares have fallen 5.70% over the past month. Even so, FAST shares gained 1.35%. This strengthening was also continued in today's first trading session, with an increase of 0.67% to a price of 745.

Furthermore, Unilever products are also on the list of BDS movements. Unilever is also included in the list of companies affiliated with Israel. In Indonesia, PT Unilever Indonesia Tbk. (UNVR) houses a myriad of well-known consumer goods brands such as Pepsodent, Lux, Lifebuoy, Dove, Sunsilk, Clear, Rexona, Vaseline, Rinso, Molto, Sunlight, Wall's, Bango, Royco, Sariwangi, and many more.

UNVR shares were also affected. UNVR has corrected 4.44% in the past week. As of the close of today's first session, UNVR gained 0.29% to a price of 3,440.

The BDS action aims to put economic pressure on Israel to give equal rights to Palestinians. In Indonesia, this movement was further encouraged after the Indonesian Ulema Council (MUI) issued Fatwa Number 83 of 2023 concerning the Law of Support for Palestine.

The fatwa states that supporting the Palestinian struggle for independence against Israeli aggression is mandatory. Conversely, supporting Israel and supporting products that support Israel is haram.

When investors make investment decisions, they consider both quantitative and qualitative aspects of a financial product or service. However, in the case of conflicts that have a strong emotional impact, such as the Israeli-Palestinian conflict, the emotional aspect can also play a significant role in investment decision making.

In this context, there are two opposing angles. Some investors view boycotts as conforming to their moral and ethical principles, avoiding investing in entities deemed to be complicit in acts they consider to be human rights violations. They believe that their investments should align with their values.

However, on the other hand, there are investors who believe that investment should be centered on consideration of financial condition. They argue that attracting investment

from conflict-related entities will only result in financial losses, without having a significant impact on conflict resolution.

Black Swan Investment Strategy

There are also some investors who take advantage of the momentum of the boycott of stock investment in companies that are suspected to be external to Israel to be able to extract potential stock investments. As mentioned as Black Swan Investment (Ekeroth, 2020) that investors take advantage of boycotting stock investments in companies by taking advantage of momentum and investing in these potential stocks. The term 'black swan' is used to describe economic, political, and social accidents that are inevitable and impossible to predict. This is what Nassim Nicholas Taleb, a former Wall Street trader and author of the black swan theory is called.

Grey swan event is a term used to describe a very unexpected but plausible event that can have significant consequences. Unlike black swan events, which are highly improbable and unpredictable, grey swan events can be anticipated to some extent. In the world of finance and investing, grey swan events can have a huge impact on portfolios and investment strategies.

Looking back, it turns out that the Black Swan Strategy has been proposed by Greenwood et al. (2007), the Black Swan Strategy involves activist investors with the ability to maximum percentage ownership, they tend to force the target company to take over, resulting in large abnormally positive returns.

It is important for investors to consider the potential impact of grey swan events and develop investment strategies that consider those events. By preparing for possible grey swan events, investors can mitigate risk and protect their investments from catastrophic consequences.

In 2007, a year before the start of the global economic crisis, Lebanese American trader Nassim Nicholas Taleb published the book "The Black Swan: The Impact of the Highly Improbable." He used the term "black swan event" to refer to large-scale accidents that affected all-in areas of life.

Black swan events always meet three criteria: 1. It should be unexpected to observers. 2. The effect must be large-scale. 3. As time goes by, people will find prerequisites for it—as if it could be expected.

In fact, almost all sudden changes can be classified as examples of black swan events that are considered unexpected events, for example reading the description of the Great French Revolution which is considered one example of black swan events. First of all, the reader will be greeted by a paragraph with prerequisites revealed after the fact of the revolution itself.

The Black Swan Event changed our beliefs

In 2007, in conjunction with the release of his book, Taleb wrote an article for The New York Times, in which he explained the influence of "black swan" on our basic understanding of the world:

"A single observation can refute a common belief based on observations of millions of white swans over thousands of years. All we need is a blackbird (and, as they say, a bit ugly)."

In other words, such rare events fundamentally reverse our picture of the world, proving that everything is based on rather unearthly and even illusory constructions.

Human nature makes us build predictions based on previous historical events. Completely new events may be unpredictable if there is no experience to predict them.

According to Taleb, investment strategy is no more trustworthy than astrology. The first "black swan event" can bring down the market or, conversely, cause an explosive growth of a particular asset, and no one can prepare for it. The author of 'Black Swan' explains:

"We forecast oil demand for the next 30 years, without realizing that we can't know what next summer will look like. The cumulative errors in political and economic forecasts are so egregious that when I look at their list, I want to pinch myself to make sure that I stay awake."

Taleb cited past events of September 11, 2001 in New York. At that time, no one objectively assessed all the possible risks of severe consequences, simply because such a turn of events seemed the most incredible.

Taleb extended the "black swan" theory to famous figures who were not appreciated during their lifetimes—such as Edgar Allan Poe or Arthur Rimbaud. In his opinion, if we abandon the usual logical attitude, we will have time to recognize their talents, which is ahead of its time.

Previous Black Swan Event Examples

1997 Asian Financial Crisis

If we talk about financial markets, some events in recent history can be attributed to the black swan. The 1997–1998 Asian financial crisis led to a decline in national exchange rates in many Southeast Asian countries, bank failures, and Asian economic stagnation in the late 1990s.

In the middle of the last decade of the 20th century, regional countries, including Thailand, the Philippines, Malaysia, Indonesia, and South Korea, experienced a period of rapid economic growth. This growth was largely financed by foreign borrowing, driven by the liberal monetary policy of the U.S. Federal Reserve and favorable borrowing terms denominated in the local currency. As a result, the economies of Asian countries experienced over-credit which provoked major deviations and collapses.

Another example could be the peak inflation rate during the 1970s, which exceeded the standard deviation predicted by statistically based models. In both cases, severe limitations only make historical data and the deviation strategy model clear. The Black Swan Event serves as a reminder that the future is inherently unpredictable, and the only way to mitigate the risk of unforeseen events and catastrophic consequences is through diversified investment strategies and contingency planning.

Accident "Dotcom"

The "Dotcom Bubble" was observed between 1995 and 2001. The bubble was formed as a result of a surge in shares of Internet companies (mostly American), as well as the emergence of a large number of new Internet companies. Shares of companies promising to integrate Internet technology skyrocketed in value. However, many new business models turned out to be ineffective, triggering a wave of bankruptcies. At the turn of the nineties and two thousand, due to unjustified speculation and optimism, many investors lost about \$5 trillion.

Thus, black swan events refer to highly unexpected and rare events that have a severe impact on normal expectations. During the dot-com bubble, tech companies were highly valued and came under widespread pressure from investors. However, when the bubble

burst, many of these companies went out of business, leaving investors and finance professors alike hit by an unexpected turn of events.

9/11 attacks

Black swan trading in the stock market is not the only example. September 11, 2001, seems to be one of the most tragic days. Terrorists hijacked civilian airliners with passengers on board and sent them to the twin towers of the World Trade Center in New York. It was a huge loss: more than 2,900 people were killed in the attack. Shortly thereafter, the United States launched a massive anti-terror campaign. However, after the tragedy, some people began to claim that the events of September 11 could have been predicted in advance.

2008 Global Financial Crisis

The global economic crisis began with the US financial crisis in 2007-2008. The S&P 500 index, which includes the country's 500 largest companies, fell 38.49% in 2008. The economic downturn was so severe that investment bank Lehman Brothers filed for the largest bankruptcy procedure in history — 25,000 people lost their jobs, and the company — a market value of \$46 billion. The extreme impact of the crisis also affected the world's stock markets, which then lost about \$10 trillion. Of course, after the crisis, experts began to argue that the prerequisites and reasons could be seen long before the collapse.

Brexit

After long preparations, the United Kingdom left the European Union in January 2020. These events impact stock prices and market volatility, but their potential severe consequences are still ongoing. Experts say, after Brexit, human rights in the United Kingdom will be tested harshly, not least by the government's hostility to many aspects of human rights protection, the decline of democratic institutions, the climate of intolerance and the denial of human rights by many media outlets. The economic downturn is just one of the many events facing society.

Is Covid-19 a Black Swan?

This opinion is very common. For example, during the Ideas Lab conference in Brussels, experts said that the coronavirus shows the fragility of a globalized world and the inability of countries to act effectively. As a result, we find ourselves isolated and separated by borders, the economy falls into chaos, and the WHO issues belated and contradictory recommendations.

As befits a real "black swan event", the pandemic over the past few years has been unpredictable for the world community (except for Bill Gates' predictions, which no one listened to) and brought global consequences.

Examples of more modern black swan events in the economy include events in early 2020 when the global COVID-19 pandemic broke out in the world. On March 12, Black Thursday took place - on that day the scale of the market fall could be called catastrophic. The S&P 500 lost 9.5% on the day, its worst daily decline in the index since Oct. 19, 1987. Other world market indicators also reached their peak. The recovery of the American index to the level of January 2020 occurred only in November.

How Are Investors Preparing for Black Swan?

In his book, Taleb writes that the best way to soften the influence of black swan events is to not try to predict them. It is necessary to understand its inevitability and develop a

stable and sustainable plan that will help reduce the likelihood of such an event occurring. Or smooth out the consequences.

For example, banks run stress tests —simulations designed to test whether financial institutions will survive another crisis. This practice became common in organizations after 2008. Some central banks also take an example from them - for example, the Bank of England, a few years after the crisis, began to regulate its own stress tests.

However, as Taleb notes, not only professional organizations but also private traders can prepare for catastrophic events. Black swan events in commerce, as in other regions, come suddenly and without warning. Therefore, anyone should always try to secure your portfolio as much as possible from adversity. There are several guidelines:

When we study the history of market movements, it becomes clear that bad events always happen. Therefore, accidents should not come as surprises, but rather a normal cycle of life. When the stock market drops and the stock price drops due to such events, it is worth considering investing in sustainable companies. In the end, they will be able to get out of the crisis, and the value of assets will rise again.

Portfolio diversification

This advice is relevant to all investors. If we only have one asset in our portfolio, it will be greatly affected by the black swan event. To secure investment funds, be sure to distribute them among different instruments.

Black Swan investment tips

Here are the main conclusions from the historical statistics of the stock market:

1. The "black swan event" in its influence on the market is basically no different from other crisis phenomena.
2. Recovery time is closely related to the duration of a recession but rarely exceeds one year.
3. The trend of broad market indices in the long term is always up.

When choosing individual securities, investors often make mistakes. Take the current crisis. The market is recovering quickly, and some sectors such as IT, especially cloud-related stocks, are booming. But there are exceptions to this general trend. For example, Dropbox — one of the symbols of cloud computing and remote work — isn't growing exponentially, but continues to trade below its IPO price in early 2018. We can protect ourselves from such failures if we invest in the broad market, and not in individual securities.

By trading ETFs, investors can not only save their investments from "black swan events" and other economic problems, but also earn money. The downward trend of the market is perceived by many as an opportunity, so they buy it.

Safe Haven Assets

Safe havenis a term for investment assets that remain stable amid global economic instability and uncertainty due to various factors, such as war, recession, and inflation. Valueassets *safe haven* will remain stable even if the prices of basic goods and other valuable assets are affected by political, economic, social, and geographical factors in the global market. Arguably, *safe havenis* the right choice for friends who want to invest to meet their needs in old age.

Safe haven is a safe investment asset when world economic conditions are shaken due to a crisis or geopolitical issue, such as war or humanitarian crisis.

Safe havens are assets that usually have low fluctuating values. Therefore, the risk will be smaller than other investment assets. Generally, *safe havens* do not experience much

change even in the midst of difficult economic conditions. Its value even tends to rise and does not decrease like other asset prices that change drastically.

Some of the characteristics of *safe haven* assets are as follows: high level of liquidity which means assets can be liquidated or converted into cash at any time easily; the number of available assets does not exceed market demand so that their value is stable and does not cause scarcity; asset quality is maintained despite the economic crisis; assets have use value in the long run, The value of assets as investment instruments is not replaced with other instruments.

Various Safe Haven Assets

1. Gold

This precious metal can be a safe investment asset when there is instability in the global economic market. The value of gold tends to rise every year and remains stable even if recession or inflation hits the market. Gold as a *safe haven* can realize financial security when used as an investment in the long term.

It takes consideration in choosing assets for gold investment. To get more profit, choose gold bars with a purity content of 99.99% or equivalent to 24 carats. The reason is, pure gold bars are valued higher than gold jewelry that has been mixed with other precious metals, such as silver, copper, and others.

2. Government Securities (SBN)

SBN is a bond issued by the Indonesian government. This document is intended for the development needs of the country. There are two types of SBN, namely conventional and sharia.

Conventional SBN consists of Retail Government Bonds and *Retail Saving Bonds*. Meanwhile, those included as sharia SBN are Retail Sukuk and Savings Sukuk. SBN investment has a low risk, so it is suitable to be carried out in the short and long term.

3. Foreign Currency

Currency is a volatile investment asset so that when the value is high, the exchange rate to the rupiah will be large. Some foreign currencies that can be used as *safe havens* are the United States dollar (USD), because it is used for all economic activities in the world; yen (JPY), because the government and financial system tend to be stable; *franc* (CHF), due to a higher trade surplus than debt.

4. US Treasury

U.S. treasuries can also be a safe investment asset when the economy is unstable. *The US treasury* is a bond issued by the United States Department of the Treasury. There are three types of *US treasury* that can be used as a safe haven, namely *T-Bills*, *T-Bonds*, and *T-Notes*.

The investment period of each bond will differ from one to another. When due, the United States government will pay off the bond bills that have been determined.

C. Conclusion

The impact of the boycott movement on investor behavior is significant. Boycotts can put economic pressure on the companies or products involved, especially when they gain broad support. Investors and consumers withdrawing their funds from companies involved in conflicts can affect the financial performance of those companies.

While boycotts of Israeli products express disapproval of political policies they consider immoral, their impact on investor behavior must be seen in the overall context of

their investments. Some investors may consider it important to involve ethical factors in their investment decisions, while others may focus more on financial considerations.

The boycott movement against Israeli products in response to the Israeli-Palestinian conflict has affected investor behavior. For some investors, ethical and social factors are important considerations in making investment decisions, while others still prioritize financial considerations alone. This condition shows the complexity and dilemma faced by investors in addressing political and ethical issues in the investment world.

Safe Haven Asset Investment Profit Opportunities

1. Low Risk, as mentioned earlier, most assets that are considered *safe havens* have low risk. Therefore, *safe haven* investment is a safe choice for novice investors and investors with the aim of saving in the long term.
2. *Passive Income*, want to live quietly without worrying about financial issues in old age? *Safe haven* here acts as additional income that can secure financial conditions in times of uncertainty in economic conditions.
3. Stable Asset Value, one of the assets that can be traded here is gold. Its value tends to increase every year and remains stable when an economic crisis occurs.
4. Investment Diversification, which is using funds for various kinds of investment assets.
Life is full of unexpected twists and turns, some of which have extreme impacts around the world. The black swan event theory states 'hope for the best, prepare for the worst', and that's the best attitude we might have.

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