

The Effect of Financial Literacy on the Investment Decision

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Abstract

The increase in the economic marketplace and the aging population in Indonesia has resulted in a new understanding of investment. Basically, someone's financial literacy will be in line with investment decisions, because someone already understands the level of risk and the level of return obtained in the future. This study uses a quantitative approach using a survey method involving 400 research samples consisting of Baby Boomers, Generation Xers and Gen-Y / NetGen. The results show that financial literacy has an effect on investment decisions. These results also show a similarity in patterns with research in developed countries and emerging market countries, but show an inconsistency with other studies in Indonesia.

Keywords

financial literacy, investment decisions, Indonesia



I. Introduction

The pace of global economic growth will coincide with the direction of financial market developments, therefore the improving global economic conditions have prompted a shifting of investment from government bonds (safe haven assets) to stocks, which have strong correlation with economic growth. This shifting also shows the increasing risk appetite of global investors, reflected in the willingness to invest in riskier assets, such as stocks and government bonds in developing countries. A lot of capital inflows into developing countries affected the local currency exchange rate which tended to strengthen against the USD (US Dollar) even though several countries were still depreciating. However, the risk of reversal is relatively increased, especially in developing countries.

According to a World Bank report, Indonesia is ranked 72 out of 190 countries based on the Ease of Doing Business (EoDB) category. The 2018 World Investment Report also shows that there has been significant investment growth in Foreign Direct Investment (FDI) to Indonesia.

Many economists have made researches on estimating the threshold level of inflation using panel data for a number of countries and time-series data for single country cases and these researchers fix the threshold level of inflation for both developing and developed country (Wollie, 2018). The rating agency (Fitch Rating) has made Indonesia's Sovereign Credit Rating rated BBB. This reflects a belief in the Indonesian economy and the resilience of Indonesia's external sector amidst the current global economic conditions.

Economic growth is still an important goal in a country's economy, especially for developing countries like Indonesia (Magdalena, 2020). Indonesia's stable economic growth has been driven by all national economic activities and has benefited from the aging population. United Nation (2015) explains that the aging population is a

phenomenon of increasing the media age of an area due to increased life expectancy. It is further explained that the aging population is an indication of the success of the region in reducing child mortality, improving the quality of education, increasing job opportunities, upholding equality or emancipation, increasing the quality of reproduction, and improving health services.

The point of view of an investor when viewed from the classical theory (utility theory) will have investment desires based on two things, namely, portfolio and profitability (Aminatuzzahra, 2014). Therefore investors will be rational in accordance with their level of financial literacy in making investment decisions, meaning that decision making will be based on the consideration of all relevant information that can be measured, so that rational investors will have credible information and perfect self-benefits, and can measure behavior patterns (Pompian, 2006). In measuring this pattern of behavior, it refers to making investment decisions that do not violate the normative principles of the basic economic theory (finance), so that the judgment in the decision will be based on perfect personal gain.

Economic actors, basically have very important functions (Ansari, 2019). In determining individual investment decisions will be driven by financial literacy, this can be seen from how they manage their finances, which will affect satisfaction in financial management. The results of previous research conducted by Sarah (2009) showed that financial literacy has a significant effect on financial management. Thus, in general, investment decision making is strongly influenced by financial literacy because high financial literacy will optimize information processing as a consideration in determining investment decisions.

Mason & Wilson in Krisna and Suthapa (2010) explain that financial literacy is an individual competence in understanding and evaluating credible information for decision making by better understanding its financial risks. someone to obtain, understand, and evaluate information relevant to decision making by understanding the financial consequences it causes. From this explanation, it shows that knowledge of finance is very important for each individual, because financial literacy allows each individual to avoid mistakes in managing his financial problems, for example from uncontrolled use of credit cards which results in high debt, has low savings. and a high risk of bankruptcy (Bernheim, Garrett & Maki, 2001). This opinion is corroborated by the results of research conducted by Chen and Volpe (1998) which found that individuals with poor levels of financial literacy tend to have wrong opinions about finances and tend to make mistakes in making financial decisions.

Widayat (2010) states that investment decisions are influenced by many antecedence variables such as financial literacy, demographic aspects, and individual economic conditions. Meanwhile, the results of research by Cristanti and Mahastanti (2011) show that investors with old age tend to have more considerations in determining investment decisions compared to young investors. In addition, by categorizing the sexes, it is known that men will be more willing to make investment decisions than women and investment experience also plays an important role when making investment decisions.

This study focuses on examining the effect of financial literacy on investment decisions in Indonesian society compared to research in developed countries and emerging market countries, so that patterns can be found among investment decisions based on the financial literacy of the Indonesian people.

II. Research Method

This research uses quantitative methods with descriptive and verification approaches. The method of collecting data in this study is using a survey method in which the sample and population are taken through a questionnaire to collect data. This research is to identify, explore, and analyze financial literacy in determining investment decisions.

The data used in this study are primary data obtained from the results of distributing questionnaires, as well as secondary data as support in the form of documents, previous research, journals and books relevant to this research.

The population in this study were Indonesians who had investments in the capital market totaling 1,613,165 people, with the number of investors in Indonesia currently dominated by men (59.13%), aged 21-30 years (39.72%), with a private employee work status (58.27%) and a Bachelor degree (51.42%), KSEI (2018). In line with KSEI, this study takes a population that refers to control variables by equating socio-economic (income) and demographics (gender and environment).

Table 1. Number of Samples for Each Generation Group

Group	Number of samples
Baby Boomers	28 people
Generation Xers	237 people
Gen-Y / NetGen	135 people
Total	400 people

In this study, using a validity test by connecting each score per item with the total score which is the overall score of each item that is added. If in this validity test there is an invalid question item, further research will not be subjected to it. An item or instrument that is declared valid is if the correlation coefficient r count is greater than the correlation coefficient r table with a significant level of 5%. In the questionnaire, it can be declared reliable if the answers chosen by the respondent are consistent and stable (Ghozali, 2013). So to determine whether a questionnaire is reliable, a reliability test must be carried out. Therefore, a reliability test is used which is used to determine the accuracy of the questionnaire value using the Cronbach Alpha Coefficient formula (Azwar, 2011).

III. Results and Discussion

Demographic descriptions of respondents were explained by gender, education, age, status, occupation, income, experience, type of investment and information-seeking technology in investment. The results of data analysis are presented in the following table form:

Table 2. Description of Respondent Gender

Gender	Frequency	Percentage
Male	252	63
Women	148	37
amount	400	100

The results of the analysis show that the majority of respondents, namely as many as 252 people or 63% were men and the remaining 148 people or 37% were women. The investment interest in the capital market in Indonesia tends to be done by men, which

shows that men have greater motivation, knowledge, risk-taking courage and driving factors for investment behavior than women. This is in line with Khan's explanation in Khairani & Putri (2009) that women basically have emotionality, are careful and sensitive, while men have rationality.

In this validity test, item analysis was used using the Pearson Product Moment formula with minimum requirements ($r_{count} > 0.361$). as for the results of the validity test, namely:

Table 3. Validity Test of Research Variables

Question	r _{count}	r _{table}	Conclusion
Financial Literacy			
What is meant by the capital market	0.575	0.361	Valid
What is meant by shares	0.608	0.361	Valid
Where you can buy company stock	0.600	0.361	Valid
Does the stock have a term / maturity date	0.599	0.361	Valid
Does the bond have a maturity / maturity	0.768	0.361	Valid
What are the advantages of the investment made	0.712	0.361	Valid
If the company incurs a loss, will the company distribute dividends to investors?	0.534	0.361	Valid
Investing in stocks offers higher returns than bonds	0.404	0.361	Valid
Time deposit investing offers higher returns than stocks	0.674	0.361	Valid
What are the basic principles of investing	0.503	0.361	Valid
Below are the risks of investing, except	0.682	0.361	Valid
Whether a company that sells its shares to the public (go public) can go bankrupt	0.707	0.361	Valid
Capital loss is a term in investment which means	0.647	0.361	Valid
Is pThe shareholders have the right to share the company's assets if the company goes bankrupt	0.534	0.361	Valid

In the feasibility test of the research instrument, the reliability test was then used using the Cronbach Alpha coefficient with the overall decision making of the statement declared reliable (reliable) if the Cronbach Alpha value was > 0.60 . The results of the reliability test are:

Table 4. Research Variable Reliability Test

Variable	Cronbach Alpha	Provisions	Conclusion
Financial literacy	0.872	0.60	Reliable
Investation decision	0.741	0.60	Reliable

Based on the results of the reliability test carried out through the Cronbach's alpha test, it is known that the alpha value is greater than the stipulated value (0.60) so that it can be concluded if the investment decision variable is reliable.

This analysis was conducted to determine the relationship between the research variables. In addition, this analysis can also determine the distribution of research variables based on their categories. Following are the results of the univariate analysis carried out through chi-square with the provisions of p value < 0.05 .

Table 5. The Relationship between Financial Literacy and Investment Decisions
Crosstab

			financial_literacy		Total
			not good	well	
Investation decision	not very good	Count	0	5	5
		% of Total	0.0%	1.3%	1.3%
	not good	Count	9	0	9
		% of Total	2.3%	0.0%	2.3%
	enough	Count	27	31	58
		% of Total	6.8%	7.8%	14.5%
	well	Count	113	125	238
		% of Total	28.2%	31.3%	59.5%
	very good	Count	30	60	90
		% of Total	7.5%	15.0%	22.5%
Total	Count	179	221	400	
	% of Total	44.8%	55.3%	100.0%	

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	20.699a	4	.000
Likelihood Ratio	26,065	4	.000
Linear-by-Linear Association	3,731	1	.053
N of Valid Cases	400		

a. 4 cells (40.0%) have expected count less than 5. The minimum expected count is 2.24.

Based on the results of the crosstab analysis, it is known that the majority of respondents have good financial literacy, namely as many as 221 people or 55.3% and have good investment decisions, namely 238 people or 59.5%. Investors with good financial literacy, the majority will have good investment decisions, namely as many as 125 people or 31.3% as well as investors who have bad financial literacy have a tendency to produce bad investment decisions, namely as many as 9 people or 2, 3%. Furthermore, if seen from the results of the chi-square test, it is known that the p value is $0.000 < 0.05$, so it can be stated that financial literacy will provide an impetus in determining investment decisions.

Based on this description, it shows that there is an effect of financial literacy on investment decisions. These results are similar to the results of research conducted by Jappelli (2009) which show that financial literacy has a very positive effect on investment decisions. This indicates that financial literacy consistently has an influence on investment decisions.

Another study that focuses on the financial sector was conducted by Suhardi & Gadzali (2019) which shows that a person's general decision to choose a bank is confidentiality, costs and benefits of the products offered, service delivery, convenience, size and reputation of the bank, friends and family influence. , personnel friendliness, mass media advertising, and satisfaction with products, banking services and religiosity. These considerations are aspects related to a person's financial literacy. So that the effect of financial literacy on investment decisions shows a consistent pattern. In addition, Yulianti and Silvy (2013) stated that financial knowledge has a good influence on investment decision making and planning because increased financial knowledge can also improve financial behavior.

Efforts to analyze the effect of financial literacy on investment decisions are carried out by making comparisons with research in developing, developed countries and other research conducted in Indonesia.

Regarding research in developing countries, Murugiah (2016) conducted a study to identify the level of understanding of financial literacy in Malaysia and strategies to increase the level of financial literacy. The results of the study indicate the level of respondent's knowledge of financial literacy based on basic knowledge, time value of money, compound interest rates, diversification of risk and finance and banking products or services. Correlation analysis states that financial literacy has an influence on investment decisions.

Grohmann (2018) conducted a study to examine the impact of financial literacy among the upper middle class living in urban areas in Asia. The results showed that the average level of financial literacy among the middle class in Bangkok was only 24 percent who could correctly answer questions about stock market dives. The study also shows that financially conscious people are more likely to have assets other than a savings account and are more likely to have fixed deposit accounts. The results of this study can be concluded that the level of financial literacy has a positive effect on a person's financial behavior.

Abdullah and Anderson (2015) show that there are nine factors that determine the financial literacy of bankers in Kuala Lumpur, namely views of banking products, views of Islamic banking products, parental influence on Islamic financial products and services, determinants of investment in securities, views of products. conventional banking, attitudes about the influence of personal financial management on personal financial management, knowledge of wealth planning and management and attitudes on Islamic financial products and services.

Er Assoc and Mutlu (2017) found that the value of the Islamic financial literacy index in Turkey is still below the value of financial literacy that has been prepared in various studies. Because of this, a study with the content of Islamic financial literacy must be carried out to increase the level of awareness regarding banking participation.

Al-Tamimi and Kalli (2009) revealed that financial literacy is affected by income levels, education levels, and work activities. In addition, there are significant differences in financial literacy between male and female respondents. It is concluded that there is a significant relationship between financial literacy and investment decisions.

In another area, research on financial literacy levels in developed countries has been widely carried out. The concept of financial literacy has been studied by many researchers, Glaser and Weber (2007) where in this study it was found that financial literacy will influence a person in carrying out a behavior. When someone does not have good financial literacy, it can cause mistakes in making financial decisions (Lusardi and Mitchell, 2011). Therefore, financial literacy is the key to determining decisions (Coskun, Sahin and Ateş, 2016).

Huston (2010) conducted a study to examine the previous literature to identify barriers and to propose approaches for developing more standard measures of financial literacy. The results of this study include four areas to measure literacy levels, namely money basic, borrowing, investing, and protecting resources.

The Australian Study conducted in 2004 by the Commonwealth Foundation worked with universities and research institutions to make investment decisions and analyze their relationship to financial literacy and its impact on individuals. The results show that socioeconomic factors such as income are associated with investment decisions and that more educated individuals have significantly higher income to own a business and more ability to increase 10 percent of their annual income in a week, increasing their ability to withstand sudden financial stress arrived.

Payne, Yorgason & Dew (2013) show that materialism, which is an independent variable, has a negative effect on investment decision planning. Te "eni-Harari (2016) shows that children who have a high level of involvement in money investing have a higher attitude towards saving, as well as a more positive attitude towards investing.

Xiao et al., (2006) and Woodyard, Ann., Robb, Cliff (2011) which state that someone with a good level of financial knowledge tends to have better financial behavior than someone with a lower level of financial knowledge. Then the results of research conducted by Lusardi and Mitchell (2007) state that an adequate level of financial knowledge will make a person plan, including planning for anticipation of retirement with investment from productive age.

Hassan and Anood (2009) show that the level of financial literacy will be affected by income levels, education levels and work activities. Significant differences in financial literacy were found between respondents according to gender. Where women have lower levels of financial literacy than men. And the four factors that most influence investment decisions are religious reasons, company reputation, perceived ethics of the company and the purpose of diversification. Financial literacy has a negative effect on each of the five categories that affect investment decisions, except for the category of accounting information.

Peter Garlans Sina (2013) states that financial education is one of the triggers for someone to manage finances properly and try to improve the way their money is managed so that investors who have a high level of financial efficacy will tend to be more precise in making investment decisions according to their abilities and needs. Someone who has the desire to try investing must have positive confidence in order to make and make the right investment decisions in order to get prosperity in the future.

Comparisons with other research in Indonesia, such as that conducted by Yulianto (2018) show that Islamic financial literacy regarding basic finance, Islamic financial literacy regarding financial financing, Islamic financial literacy regarding investment / savings, and Islamic financial literacy regarding insurance have no effect on investment decisions. in Islamic financial institutions.

Nur'Aini, Syafitri & Wijaya (2017) state that financial literacy and demographic factors simultaneously influence investment decisions in the capital market. Financial literacy partially has a significant effect on investment decisions in the capital market. Khairiyati & Krisnawati (2019) found that financial literacy has a positive and significant effect on investment decisions. The higher the individual's financial literacy, the wiser it will be in making investment decisions.

Fitriarianti (2018) shows that financial literacy has no significant effect on investment decisions, while financial behavior and income have a significant effect on investment decisions. Ni Made Dwiwana Rasuma Putri et al (2017) said that financial literacy has the greatest influence in determining the behavior of individual investment decisions compared to socio-demographic factors. Meanwhile, according to Musdhalifa's research (2016) shows that the significant influence where locus of control, financial knowledge and income has a positive effect on investment decisions in the people of Makassar City.

Tarora and Juwita (2017), this research was conducted to see the influence of financial literacy on investment decisions. The variables used are General Personal Finance Knowledge, Savings and Borrowing, Insurance, Investments and Investment Decisions. The results of the study simultaneously showed that all independent variables had a significant effect on the dependent variable with an Fcount of 134.595. Partially all independent variables affect the dependent variable. The General Personal Finance

Knowledge variable has a tcount of 2.918, the Saving and Borrowing variable has a tcount of 8.154, the Insurance variable has a tcount of 3.438 and the Investment variable has a tcount of 4.257.

Wardani and Luthfi (2016) show that risk tolerance has a positive effect on investment decisions for Balinese families. Meanwhile, financial literacy, regret, and motivation do not significantly influence investment decisions for Balinese families. This result implies that Balinese people consider risk tolerance as the main factor considered in making decisions whether to put money into a bank account or capital market instruments.

Putri and Hamidi (2019) show that Financial Literacy has a positive and significant effect on investment decision making for MM Students of the Faculty of Economics, Unand Padang. Financial Efficacy has a positive and significant effect on investment decision making in MM Students of the Faculty of Economics, Unand Padang. Demographic factors do not have a significant influence on investment decision making in MM students of the Faculty of Economics, Unand Padang.

Ida and Cinthia Yohana Dwinta (2010) show that financial knowledge affects financial behavior habits, while Locus of Control and income do not affect financial behavior habits.

Rasuma Putri & Rahyuda's research (2017) found that financial literacy and gender have a positive effect on individual investment decision behavior, while socio-demographic factors are assessed as having a negative effect on individual decision behavior. Dewi and Purbawangsa (2018) show that financial literacy, income has a positive effect on investment decision behavior, but tenure has no positive effect on investment decision behavior.

Ubaidillah's research (2019) shows that financial literacy and demographic factors simultaneously influence investment decisions. Partially, financial literacy as measured by 4 aspects, namely general knowledge about finance, savings and loans, insurance, and investment has a positive and significant effect on investment decisions; Meanwhile, demographic factors as measured by the level of education do not affect investment.

Based on this comparison, it shows that consistently both in Indonesia and in emerging market countries show that financial literacy has an influence on investment decisions. This indicates that people who invest always consider and understand every information before making an investment. The pattern of the influence of financial literacy on investment decisions also has the same effect as developed countries. Even research in developed countries has focused on children. This indicates that financial literacy has consistently influenced investment decisions in both emerging and developed countries. A different pattern actually occurs in Indonesia, where there is an inconsistency in the effect of financial literacy on investment decisions.

IV. Conclusion

In accordance with the introduction, theory, methodology, and results of data analysis that have been submitted, it can be concluded that financial literacy is known to have a significant influence on investment decisions with a magnitude of the effect of 2.1%. The pattern of influence consistently both in Indonesia and in emerging market countries shows that financial literacy has an influence on investment decisions. The pattern of the influence of financial literacy on investment decisions is similar to that of developed countries. A different pattern actually occurs in Indonesia, where there is an inconsistency in the effect of financial literacy on investment decisions.

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