

The Financial Literacy and Investment Decisions in Indonesia

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Abstract. This study aims to examine financial literacy variables can influence investment decision making in investors in Indonesia. This study uses descriptive methods with data collection methods, through survey methods. Respondents in this study were the people of Bandung, West Java, Indonesia. Samples taken as many as 117 respondents through Purposive Sampling techniques. The collected data is then analyzed with using the ratio scale and Likert scale. To find out the relationship between the two variables, a simple regression is used with the t test. The results of the study show that Financial Literacy has no significant negative effect on investment decision making by investors in Indonesia. This finding provides the implication that to encourage investment in Indonesia, it is necessary to financial literacy in the community, especially investors.

Keywords: Financial Literacy; Investor; Investment Decision

1 Introduction

Investment is a commitment to a number of funds or other resources currently carried out, with the aim of obtaining a number of futures. The form of investment is divided into two parts, namely; on real assets (land, gold, houses, buildings) and on financial assets (deposits, shares and bonds). Real asset investment involves long-term tangible assets that have high returns and high risks, such as gold, land, and real estate, while financial asset investments involve written contracts in the form of paper sheets from other parties with relatively short periods of time that have small returns and low risk such as Savings and Deposits. High risk statement, high return is also always applied in investing because the higher the potential profit from the selected investment product the higher the risk that will be faced. Making investments there are two forms of risk that will be in face namely; systematic risk, which is a risk that cannot be eliminated by diversifying investment and unsystematic risk, namely risks that can be eliminated by investment diversification [1,2,3].

Some things that underlie a person in making investment decisions. First is return which is the main reason that makes a person invest. Both risk or risk, the greater the expected return of a type of investment, the higher the risk. Third is the relationship between return and risk. Investing activities certainly an investor will choose an investment instrument that has good prospects. The form and type and composition of an investment will affect and support the expected level of profit in the future will come. This is an important challenge that must be faced by investors. When making investment decisions, investors have two attitudes namely rational and irrational.

A rational attitude is the attitude of someone who thinks based on common sense based on analysis of information obtained, while irrational attitude is someone's attitude of thinking that is not based on common sense and based on future predictions. The relationship between the level of risk and the rate of return is expected to be linear or in the same direction. Asset because of the return obtained is greater than investment in the form of financial assets because the risks faced are also high [4,5].

An investment decision is a decision taken to invest capital in an investment instrument to obtain future profits (Dewi and Iramani 2014). Investors often hear statements namely high risk, high return in investing, meaning that if you want to get a high return, you must be prepared with high risk and vice versa. The form of investment is divided into two parts, namely investment in real assets in the form of land, property, gold and financial asset investments in the form of deposits, shares, mutual funds, obligates; Taking one's investment decision will be different from one; with others because there are many factors that influence differences, but the goal achieved is that the investment decision taken will provide optimal satisfaction. An important factor in making investment decisions is financial literacy. These factors have an impact on making investment decisions for each investor, not only relevant information as a consideration for investment but important financial literacy in order to avoid financial problems [6,1].

Financial literacy is the ability to understand, analyze and manage finances to make the right financial decisions to avoid problems. Financial literacy will help investors in managing personal financial planning and also the ability to implement so that they can achieve welfare. One of the most important principles that can influence financial decisions is representativeness. Representativeness is decision making based on stereotypical thinking. Stereotype is that investors will make investment decisions that are guided by past experience and information that; according to his mental picture.

Investors use shortcuts to draw conclusions when making judgments about the possibility of an event under uncertainty. Psychological factors such as familiarity can also influence investment decisions. Familiarity is that investors will choose an investment choice based on something familiar or familiar. Investors will feel comfortable with the things that are familiar to them, investors' thoughts often use something familiar to be a shortcut in choosing investments. This is certainly a type of investment that is familiar [7,8,9,10,11].

Financial literacy is an important need to avoid financial problems that occur. Financial literacy in recent years has received attention from governments, banks, entrepreneurs, financial markets and others. Financial literacy is an important factor in making investment decisions. Financial literacy is needed if you want optimal investment results. Financial literacy is defined as a combination of awareness, knowledge, skills, attitudes, and behaviors needed to make sound financial decisions that ultimately achieve individual financial well-being. Financial literacy can be obtained through information obtained such as from friends, relatives, parents, electronic media and other sources; Financial literacy has an influence on the decisions of individual investors in the United Arab Emirates.

Investors who have high literacy will tend to use financial publications in making a decision, while investors with low literacy tend to rely more on advice from colleagues, and family. There is a significant difference in the level of financial literacy based on gender. Women have a low level of financial literacy compared to men. So that financial literacy will influence how people save, borrow, invest and manage their own finances [12,13].

This study aims to examine financial literacy variables; can influence investment decision making in investors in Indonesia, with; investors in the city of Bandung, West Java. Researchers chose the city of Bandung because the city of Bandung has many industries and high income,

as evidenced by the increase in the Minimum Regional Minimum Wage (UMR) as well as the high cost of living which requires someone to be able to survive and be able to manage well financially in the future. come. Good financial management is one of them by having investments in various investment instruments that provide benefits that can be used in the future. Increased financial knowledge causes better financial behavior in financial decision making and the ability to implement it. Financial literacy will influence how people save, borrow, invest, and manage finances [14].

2 Research Method

This research is pure research because of research that includes the development of science. This research uses descriptive method because this research includes collecting data to test hypotheses or answer questions about the final status of the research subject. This study uses cross-section data, namely data collected at a certain time and used to observe responses in the same period so that the variation between observations. Based on data collection methods, this study uses survey methods because researchers directly ask questions to the subject and collect answers in a personal or non-personal way. The resulting data is more precisely that comes from the questionnaire [15].

Respondents in this study were the people of Bandung, West Java, Indonesia. Samples taken from people who live in the city of Bandung, West Java, Indonesia, and have; original identity card. This study involved 117 respondents based on questionnaires. The sample chosen in this study using Purposive Sampling technique which is a method used in sampling techniques because in determining the research sample, respondents are required to be able to meet the criteria determined by the researcher. The sample criteria from this study are: having a job and having a minimum income of IDR 4,000,000 / month and having one or more investment assets in real assets or financial assets. The collected data is then analyzed with using a ratio scale and Likert scale as a measuring device for data.

Variables used in this study are using independent variables and the dependent variable based on the research hypothesis namely; Financial literacy has a positive effect on investment decision making in investors in Bandung, West Java, Indonesia. The measurement of variables used in this study is to use a Likert scale on the Investment Decision variable, with scores and ranges: (1) never (2) ever, (3) rarely (4) often (5) very often while for financial literacy using the answer category in the statement; right and wrong.

Measurement of this variable uses a ratio scale that is the number of correct answers divided by the number of questions made multiplied by one hundred. The financial literacy category can be divided into three namely low financial literacy, moderate financial literacy, and high financial literacy / To find out the relationship between the two variables is used a simple regression with t test

3 Results and Analysis

3.1 Results

Respondents to the investment decision variable is to show that based on the type of investment decision making, respondents in this study were classified as not brave in making investment decisions that have high risk even if for earn big income. Respondents' response to the financial literacy variable is that all respondents have sufficient financial literacy or financial knowledge to make investment decisions well as indicated by nine item statements from eleven

statements submitted that can be answered correctly by all respondents. Test t test used to test partially Financial Literacy influencing Investment Decisions significantly.

Based on the results of the partial test using SPSS 16 indicate that the financial literacy variable has a significant negative effect on investment decision making. This is indicated by t Hit < t with a value of $-1,274 < 1.64$. Thus, it can be concluded that H1 is rejected H0 is accepted. Based on the table of regression test results can be concluded by the regression equation as follows:

$$ID = 17,121 - 0,022 FL + e$$

ID is Investment Decisions

FL is Financial Literacy

From the regression equation above shows the number 17,121 is the constant coefficient, then the number -0,022 is b1 from Financial Literacy. The results of this study indicate that the financial literacy variable has no significant negative effect on investment decisions which means that in; research; this average investor has high knowledge but investors do not necessarily dare to choose risky investments such as in real assets investment.

In addition, the average investor has low knowledge that does not necessarily also choose investment in financial assets such as savings and deposits. So, the high level of financial literacy owned by investors does not cause investors to take risky investment decisions; even though there is a high level of profit or return.

3.2. Discussion

The results of this study are not significantly supported by descriptive results which show that the percentage of investment decisions which state that investing without collateral with an answer never means that respondents are very brave in choosing risky assets even though the investment has a high return. It also explained that investing without consideration with an answer was never interpreted as well that respondents were very brave in choosing risky assets. Respondents rarely even make investment decisions without a clear matter. The low level of financial literacy is obtained from the responses of respondents from the statement on the questionnaire in the aspect of investment that respondents do not understand that the right time to invest in gold is not done when the interest rate is high.

This is because also that the type of investment in this study is only for real assets and financial investments. This financial asset is more to a bank account in the form of savings and deposits which can be done easily without having special knowledge to invest because it is managed directly by the bank concerned and protected directly by Deposit Insurance Agency (in Indonesia called Lembaga Penjamin Simpanan).

An investor will be informed by the bank when investing in savings and deposits. Real assets can also be done easily and uncomplicated because real assets are assets that can provide optimal benefits if making long-term investments. Many investors choose the type of investment in real assets such as land, houses and property because of its value which tends to increase from inflation. The results of this study are consistent with the research conducted by Sofi and Lutfi (2016) that the level of financial literacy does not have a significant effect on investment decisions [16].

The results of this study are not the same as the research conducted by Al-Tamimi and Kalli (2009). This study found that financial literacy affects investment decisions. This is because in the research of Al-Tamimi and Kalli examined the decision investment in different types of assets and respondents studied. The type of asset that is purchased is a capital market in the form

of shares. The difference is because the investment method is very complex and must require high literacy or knowledge regarding trading in buying and selling shares [17].

4 Conclusion

The results of this study indicate that Financial Literacy has no significant negative effect on investors' investment decision making in the city of Bandung. In this study there are several limitations, namely; a) Respondents were less serious when filling out the questionnaire and some respondents did not fill in the questions on the questionnaire because they felt the question was privacy, thus affecting respondents' answers and research results. b) The process of distributing and returning questionnaires takes a long time, this is due to the search process of respondents.

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