

**THE EFFECT OF INVESTMENT EXPERIENCE AND
FINANCIAL LITERACY TOWARD FINANCIAL BEHAVIOR
ON INVESTMENT DECISION****Salomo Michihiro Simanjuntak^{1*}, A. A. Gede Rama Cahyaningrat²,
Dewa Made Adi Pranayanata Kusuma³, I Nyoman Jyobala Wijaya
Kanela⁴, Leiviano Aaron Susanto⁵, Farida Komalasari^{6*}**¹⁻⁶Faculty of Business, President University

*Corresponding Authors: salomo.simanjuntak@student.president.ac.id, farida_k@president.ac.id

ABSTRACT

The covid-19 Pandemic made a lot of people work from home. It also made their wages decrease. Because of that, they tried to do something to make more money. From that, the investment and trading trend started to rise in Indonesia. However, not everyone has the same education and experience in investing or trading. From that, this research aims to examine whether investment experience, financial literacy, and financial behavior affect investment decisions or not. This is a quantitative study that uses online questionnaires to collect primary data. The questionnaires were distributed to 151 Indonesians who were chosen using the purposive sampling method. The data were analyzed with the use of the Structural Equation Model (SEM). Financial literacy and investment experience were employed as independent variables; meanwhile, financial behavior and investment decision, on the other hand, are the mediating and dependent variables. As a result, investment experience influences investment decisions indirectly through financial behavior. Same with that, financial literacy also influences investment decisions indirectly through financial behavior. This result could be used by many parties in developing an investment atmosphere in order to increase the investment decision.

Keywords: Investment Experience, Financial Literacy, Financial Behavior, Investment Decision, Indonesia

1. Introduction

COVID-19 hit Indonesia in mid-2020. Many people lost their jobs, and the possibility of working from home and the lockdown system made people feel bored and try new jobs that allowed them to make money from home. This is where the beginning of investment or trading began to rise among the people of Indonesia. As of November 2021, the Indonesian Central Securities Depository (KSEI) reported that the number of capital market investors based on Single Investor Identification (SID) had reached 7.15 million (Annur, 2022). The majority are millennials aged 30 years and under, 59.81% and aged 31 - 40 years, as much as 21.48%. According to data from the Ministry of Trade, as of December 2021, the number of crypto asset investors in Indonesia has increased to 11 million. Of course, every person has a different type of investment. There are several people who invest in bonds, mutual funds, stocks, cryptocurrency, and forex; even now, people have started to invest in Non-Fungible Token (NFT). Different types of people invest in different types of investment instruments. Before they started to invest in investment instruments, of course, they had their knowledge about finance. Some of them already have experience in investing, some of them just start investing because they are afraid they will miss the chance in an investment instrument, some of them start investing because of some influencer, and some of them start investing because they want to double their money.

The differences between those purposes in investing could be influenced by investment experience, financial literacy, and financial behavior. Financial literacy, financial behavior, and investment experience could greatly influence the investment decisions of Indonesians (Asfira et al., 2019; Asdar et al., 2022). Even though those things could greatly influence investment decisions, not all Indonesians have basic knowledge about them. The reason is that Indonesians don't get lessons about all of that in school. Knowledge about those three things is only given in a specific major in universities or by parents who are finance experts. Because of that, not everyone has the same knowledge about that. As a result, not every investor gains the same profit. Some of them get a higher percentage of profit, while some of them only get a very low percentage of profit. Even some of them get profit while the others suffer because of experiencing loss, even losing their capital. Because of this problem, this research aims to examine whether investment experience, financial literacy, and financial behavior affect investment decisions or not.

2. Literature Review

2.1 Investment Experience

Investment experience is an event or occurrence that is felt by a person's direct personality resulting from the stimuli received from the surrounding environment and gives certain impressions to that person (Sina, 2013). The amount of time spent on the stock market and the intensity of activity determine the level of experience. Beginners were defined as investors with little than two years of experience, while those with more than two years were labeled experienced. Higher investment experiences and financial literacy will lead to greater risk tolerance and investors then have to choose risky investment securities to match their high level of risk tolerance; experienced investors have a portfolio of a good and bad experience (Awais et al., 2016). Experience in investment could be gathered not only by trying it in real life but also could be through a simulation. Bradbury, Hens, and, Zeisberger (2014) found that the simulated experience increases participants' grasp of the underlying risk-return profile, prompting them to re-evaluate their investment decisions and choose riskier financial products without subsequently regretting their greater risk-taking behavior.

2.2 Financial Literacy

Financial literacy is necessary for effectively managing personal resources through short-term decision-making (Hastings et al., 2012). This is particularly true and troubling for those who are unaware of it; they are more financially educated on the one hand and are under constant and accumulating financial pressure on the other. As a result, they lack the skills and capacities to manage their limited resources to attain their basic demands. It is extremely common for people to lack financial training, and many people are unaware of even basic economic measurements (Boisclair et al., 2017). Respondents with low financial literacy invest primarily in traditional, safe financial products and make few investments in riskier, higher-returning financial products (Abdeldayem, 2016). Financial literacy is related to money matters such as earnings, savings, loans, and spending (Yildirim et al., 2017). Financial literacy is particularly significant for present students because it affects a range of financial behaviors that are regarded to be vital for asset development and wealth creation, such as saving, retirement funds, financial market activity, investing, and debt management. To improve the effectiveness of investment decisions, from a financial literacy perspective, it is necessary to encourage improvements in making investment planning (Suprasta and Nuryasman, 2020). A lack of financial awareness and skill leads to poor financial judgments and investment errors, which can have negative economic consequences.

Financial literacy is used to learn about services, institutions, and financial service products, as well as to make adjustments in one's financial attitudes and behaviors to improve one's well-being. The table below shows the percentages of people who are financially literate in Southeast Asian countries. Based on the data below, it can be observed that Indonesia's financial literacy is relatively poor, especially when compared to other ASEAN countries, where the average is 29%. Malaysia has a financial literacy rate of 66%, Thailand has a rate of 73%, and Singapore has a rate of 98%.

Table 1. Financial Literacy Comparison

Country	Percentage %
Indonesia	29
Malaysia	66
Thailand	73
Singapore	98

Source: Data processed by (Otoritas Jasa Keuangan 2016)

In 2016, The Financial Services Commission conducted a National Study on financial literacy and equality, which indicated that Indonesia has a financial literacy rate of 29.7%. According to Sondang Martha's statement as the Head of the OJK Financial Literacy and Inclusion Department, published on www.financial.bisnis.com, "there are about 70 people out of 100 who have financial products, but only 30 people can understand finance," she said, citing a lack of literacy. Finance has an impact on current and future lives, and it can have a negative impact.

2.3 Financial Behavior

Financial behavior is any activity that has to do with money. Zahroh (2014) reveals that behavior is the way a person acts or behaves himself. Someone who wants to study behavioral finance must have an understanding of aspects of psychology, sociology, and finance. Suryanto (2017), financial behavior is related to how people treat, manage, and use available financial resources. While connected savings have regular savings or not, have emergency money or not, and many other considerations. Other expenditures will appear, such as being able to buy a house, setting objectives, and so on. Based on the research conducted by GoBear Indonesia in research entitled GoBear Financial Health Index (FHI) ("Financial Literacy, Security," 2019). Respondents came from a variety of Southeast Asian countries, indicating that Indonesians are still unaware of the need for financial planning. The results of the FHI study stated that they had not planned a financial plan at the age of 35 and only started planning for retirement at the age of 41. The study also shows that there is a sense of security in Indonesian society, with a score of 7.5 on a scale of 1-10 financially; in fact, if the source of income is lost, only 37% of Indonesian people have savings to meet their need for more than six months.

2.4 Investment Decision

Investment is a medium- or long-term allocation of resources with the goal of recouping investment expenditures and generating a large profit (Virlics, 2013). When a person purchases something as an investment, the purpose is not to consume it but to use it to generate future wealth. Fewer wealthy people approaching retirement age will have less capacity to invest in stocks and will need to borrow money at high rates (Chen, 2015). A decision is an act of choosing one course of action from a list of options. The process of selecting the best and most successful course of action from two or more options in order to attain the intended goal is referred to as decision-making. Management revolves around all concerns of plan, organization, direction, coordination, and control through decisions made by the enterprise's operators. Targets, aims, tactics, regulations, and organizational structures must all be selected to regulate the firm's success. The choice made by investors or management on the quantity of cash to be put into investment possibilities is referred to as an investment decision. It can also be regarded as choosing the assets in which the cash will be invested. Investment decisions are such a crucial aspect of the financial function that they define the company's worth entirely. To obtain optimum investment decisions, investment decision-making must be managed, which is connected to investment relevance. If the investor makes the right selection, he or she will be able to choose the best investment opportunity.

3. Research Method

3.1 Theoretical Framework

In accordance with the purpose of the literature review that we will present in this section, this research has passed through the development of a theoretical framework that aims to determine the factors that influence investment decisions. Investment Experience (IE) and Financial Literacy (FL) are the independent variables in this framework. Meanwhile, Financial Behavior (BF) behaves as the mediating variable, and Investment Decision behaves as a dependent variable of the framework (see Figure 1).

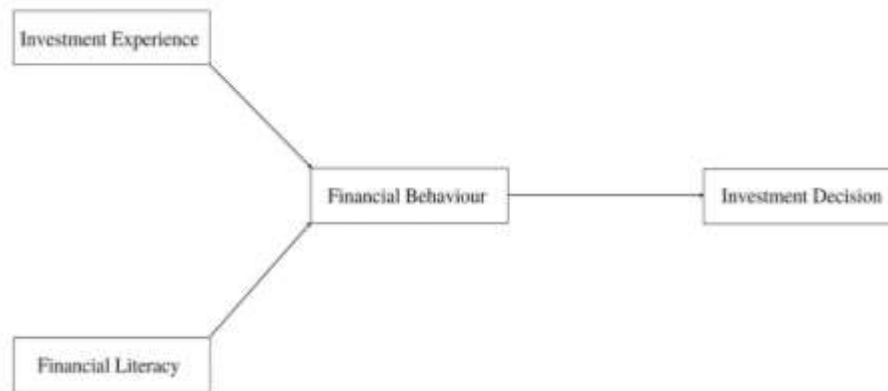


Figure 1. Theoretical framework

3.2 Hypotheses

Based on the theoretical framework, the hypotheses are:

H1: Investment experience (IE) influences financial behavior (FB)

H2: Financial literacy (FL) influences financial behavior (FB)

H3: Financial behavior (FB) influences investment decision (ID)

3.3 Sampling Design and Data Collection

The population of this research is people in Indonesia who have experience in making financial investments. Purposive sampling is used in selecting the respondents because the respondents need to meet certain criteria.

The number of respondents of this research was 151 respondents who passed the screening questions. Regarding the data collection method, respondents are required to complete an online questionnaire that was distributed by Whatsapp group and personal chat, Line group, and personal chat, and lastly, Instagram story. The questionnaire consists of 20 measurement statements with a Likert Scale (1-6) to measure the four research variables.

3.4 Statistical Analysis

This research uses the Structural Equation Model Partial Least Square (SEM-PLS) method. This seeks to test the data's validity and reliability, as well as the model and hypothesis testing. Validity and reliability tests were performed on questions or questionnaires to ensure that the data collected from the surveys was accurate and dependable. The degree to which a quantitative research notion may be directly measured is known as validity (Heale & Twycross, 2015). A validity test was used to determine whether or not a questionnaire was valid. A correlation test between the item scores and the total construct score was used to conduct the validity test. Each question indicator is valid if the association between the scores of each indicator and the total score of the constructs is substantial. For empirical evaluation of formative measurement models in SEM-PLS, convergent validity assessment is required. This is the relationship between two or more measures of the same phenomenon (Hair et al., 2018). The questionnaire, which is an indicator of a variable or constructs, is measured using the reliability test. If someone's response to a question is constant, the questionnaire is said to be dependable. The Cronbach Alpha value of a concept was used to conduct the reliability test. The construct or variable is deemed to be dependable if the Cronbach Alpha value is greater than 0.50 (Mostafavi et al., 2016).

4. Results and Discussion

4.1 Respondent's Profile

The profile of the respondent and the results are taken from an online questionnaire that has been distributed to our respondents using the google form. The total number of our respondents is 151 respondents who passed the selection. Respondents who passed the selection were Indonesians who had experience in the field of financial investment.

Of the total number of respondents, 56 (37.1%) is a male, and 95 (62.9%) is a female. On the age side, 79 (52.3%) were aged under 21 years old, 69 (45.6%) were aged from 21-25 years old, 1 (0.7%) were aged from 26-30 years old, 1 (0.7%) were aged from 36-40 years old, and 1 (0.7%) were aged above 40 years old. In terms of occupation, 124 (82.1%) a student, 23 (15.2%) employees, and 4 (2.7%) entrepreneurs. From the level of education, 37 (24.5%) come from senior high school, 7 (4.6%) come from diploma, 106 (70.2%) come from bachelor's degree, and 1 (0.7%) come from master's degree.

4.2 Descriptive Analysis

4.2.1 Investment Experience

The result shows that 96.7% of the respondents agreed that having a philosophy about investment, considering the range of possibilities, and adjusting along the way can give a better investment experience. Then, 91.4% of respondents agreed that advice from a stock advisor could help the investor to get a successful investment experience. Lastly, 96.7% of respondents agreed that investment experience would help to handle risky investments.

4.2.2 Financial Literacy

Several story questions are used to determine a person's level of financial literacy. Of the 151 respondents who answered our questionnaire, 64.3% agreed with the statement, "Madhu got an inheritance of 100 million today. While Bastian received an inheritance of 100 million, three years from now. 3 years later Bastian is richer", 84.8% agreed with the statement "If I have a million in a savings account that pays 20% interest per year. 5 years from now and I haven't taken a dime. Then my money is more than 1 million". Finally, 84.8 percent agreed that working capital is defined as declared current liability.

4.2.3 Financial Behavior

Based on the data, 68.9% agreed that mood influences investment decisions. There are 80.8% who agreed that pessimism also influences their investment decisions. Finally, 94.6% agreed that optimism influences investment decisions.

4.2.4 Investment Decision

The data shows that 91.4% agreed to consider stock indexes when making investment decisions. Several 86.2% agreed to consider sectoral indications when making investment decisions. Lastly, 89.5% agreed that trading volume affects their investment decisions.

4.2.5 Inferential Analysis

This research uses SEM-PLS and analyses four variables which are investment experience (IE), financial literacy (FL), financial behavior (FB), and investment decision (ID). Before analyzing the inferential analysis, validity and reliability tests were conducted. Table 2 shows the CR and AVE, and Table 3 shows the discriminant validity. According to Tables 2 & 3, it can be seen that the construct that was used was valid and reliable. The result of the relations are as follows: IE directly influences FB, FL directly influences FB, and FB directly influences ID. This model is tested using statistical software (see Figure 2).

Table 2. Construct Reliability & Validity

No	Variable	CR (Required CR is >0.6)	AVE (Required AVE is ≥ 0.5)
1	FB	0.839	0.635
2	FL	0.771	0.529
3	ID	0.872	0.695
4	IE	0.845	0.644

Source: Statistical software result

Table 3. Discriminant Validity (Required discriminant validity is > 0.7)

	FB	FL	ID	IE
FB	0.797			
FL	0.434	0.727		
ID	0.378	0.431	0.834	
IE	0.521	0.488	0.506	0.803

Source: Statistical software result

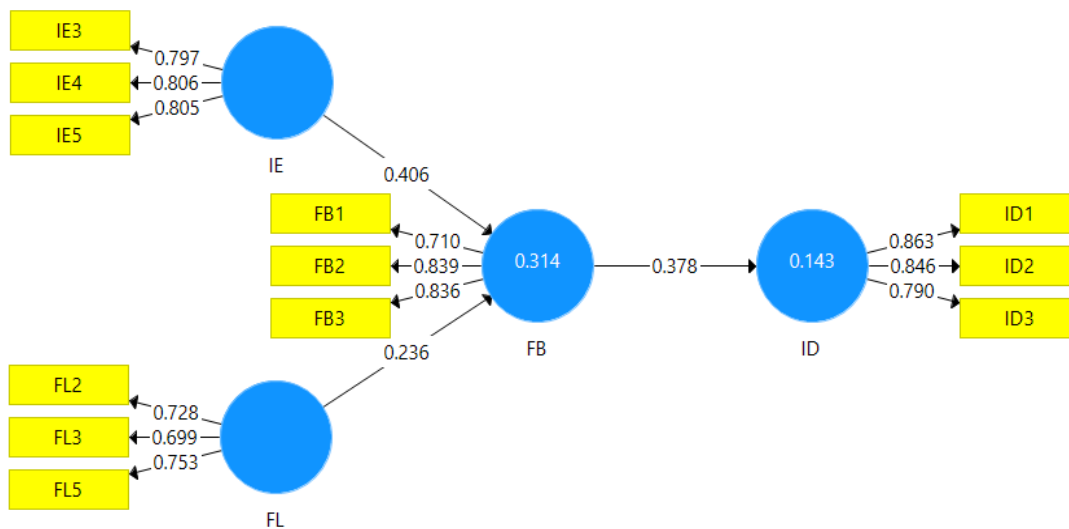


Figure 2. Result of Structural Equation Model (SEM)
(Source: Statistical software result)

The value of SRMR must be <0.10 to assess if the model is fit. Because the SRMR was 0.096, the model fit this section of research. Table 4 shows the hypothesis testing result. According to table 4, all hypotheses are accepted because the P-value was <0.05.

Table 4. Hypotheses Testing

No.	Hypotheses	P-Value (Required P-Value is <0.05)	Decision
1	FB → ID	0.000	Accepted
2	FL → FB	0.002	Accepted
3	IE → FB	0.000	Accepted

Source: Statistical software result

4.3 Discussions

The first hypothesis, investment experience influences financial behavior, was accepted. These results are in line with some previous research that found evidence of financial experience affecting financial behavior (Pritazahara & Sriwidodo, 2015). Financial experience is used as individual learning in managing finance and making future financial behavior and also financial decisions. The indication is investment experience influences investment decisions indirectly through financial behavior based on the result of statistical software and respondents, so hypothesis one was accepted.

The second hypothesis, financial literacy has an effect on financial behavior. Meaning that the investment decisions have an indirect association based on the statistical software and with the respondent's answer. This result is aligned with the finding of (Dwiastani, 2015), who said that there is a connection between financial literacy and financial behavior. Financial behavior refers to how people handle, manage, and use the financial resources at hand. If a person has strong financial literacy, he or she will be better at managing money to attain success.

The third hypothesis, that financial behavior influences investment decisions, was accepted. Because financial behavior and investment experience have an impact on investment decisions, according to the respondent and statistical software, this research is in line with the result of research conducted by Aminatuzzahra (2014) that concluded that there is a significant influence between financial behavior and investment decision making. So, this research is also in accordance with the theory of financial behavior perspective in investment decision-making. The better one's attitude or mental finance than the financial behavior of a person in making better investment decisions. Financial behavior has a weak effect on investment decisions, as the R-Square is 0.1. Whereas, investment experience and financial literacy have a moderate effect on financial behavior.

5. Conclusion and Implications

The independent factors in this study were financial literacy and investment experience, while the mediating and dependent variables were financial behavior and investment decision. As a result, investment experience has an indirect influence on investment decisions via financial behavior. Similarly, financial literacy has an indirect influence on investment decisions through financial behavior. Therefore, investment experience has a moderate effect on financial behavior, financial behavior has a moderate effect on investment decisions, and financial literacy has a small effect on financial behavior.

This indicates that all variables affect the problem. Therefore, the higher the level of intellect, attitude, and experience, the greater the indirect influence on the investment decisions we make. The research's shortcoming appears to be its focus on who has been investing. Researchers can have responders for future research even if they have not invested. They can also look at another factor before investing.

This study provides information that can help guide future research and help formulate policymakers as well as educate on the factors that influence investors' decisions. The result of the study can help new investors to have a better mindset when they want to start their investment journey. It shows that financial literacy and investment experience do influence financial behavior, and financial behavior influences investment decisions. It means that to have a good investment decision, we should improve our financial behavior and financial literacy. Then, you can gain a better investment experience and learn a lot faster than before. But besides all of those, we should also consider the other factors that can affect our investment decision.

References

- Abdeldayem, M.M. (2016). Is There a Relationship Between Financial Literacy and Investment Decisions in the Kingdom of Bahrain? *Management and Administrative Science Review*, 5(4), 203 – 221.
- Aminatuzzahra. (2014). *Perceptions of the Influence of Financial Knowledge, Financial Attitudes, Social Demography Against Financial Behavior In Individual Investment Decision Making (Case Study In Student Management Masters Diponegoro University)*. (Master Thesis, Diponegoro University, Indonesia).
- Annur, C. (2022). Investor Pasar Modal Didominasi Millennial: Databoks. Retrieved from <https://databoks.katadata.co.id/datapublish/2021/12/13/investor-pasar-modal-didominasi-milennial>
- Awais, Mustabsar, M. Fahad Laber, Nilofer Rasheed, and Aisha Khursheed. 2016. “Issues Impact of Financial Literacy and Investment Experience on Risk Tolerance and Investment Decisions: Empirical Evidence from Pakistan.” *International Journal of Economics and Financial Issues* 6(1):73–79.
- Boisclair, D., Lusardi, A., & Michaud, P. C. (2017). Financial literacy and Retirement Planning in Canada. *Journal of pension economics & finance*, 16(3), 277-296. <https://doi.org/10.1017/S1474747215000311>
- Bradbury, M., Hens, T., & Zeisberger, S. (2014). Improving Investment Decisions with Simulated Experience. Retrieved from <https://academic.oup.com/rof/article/19/3/1019/1596295>
- Chen, L. (2015). *Risk and experience in foreign direct investment decision making: evidence from Chinese firms* (Doctoral dissertation, University of Leeds, United Kingdom). Retrieved from <http://etheses.whiterose.ac.uk/11805/>
- Dwiastanti, Anis. 2015. “Financial Literacy as the Foundation for Individual Financial.” *Journal of Education and Practice* 6(33):99–105.
- Financial Literacy, Security and Inclusion Low Among Indonesians: Study. (2019, October 30). *Jakarta Globe*. <https://jakartaglobe.id/business/financial-literacy-security-and-inclusion-low-among-indonesians-study/>
- Hair, Joseph F., Sarstedt, Marko, Ringle, Christian M., Gudergan, S. P. (2018). Advanced Issues in Partial Least Squares Structural Equation Modeling. In *SAGE*.
- Hastings, J. S., Madrian, B. C., & Skimmyhorn, W. L. (2013). Financial literacy, Financial Education, and Economic Outcomes. *Annu. Rev. Econ*, 5(1), 347-373. <https://doi.org/10.1146/annurev-economics-082312-125807>
- Heale, R., & Twycross, A. (2015). Validity and Reliability in Quantitative Studies. *Evidence-Based Nursing*, 18(3), 66–67. <https://doi.org/10.1136/eb-2015-102129>
- Mostafavi, Ali, S., Keshavarz, S., Mohammadi, R., Hosseini, S., Eshraghian, M., ... Akhondzadeh, S. (2016). “Reliability and Validity of the Persian Version of Compulsive Eating Scale (CES) in Overweight or Obese Women and Its Relationship with Some Body Composition and Dietary Intake Variables.” *Iranian Journal of Psychiatry* 11(4):250–56.
- Pritazahara, R., & Sriwidodo, U. (2015). Pengaruh Pengetahuan Keuangan dan Pengalaman Keuangan terhadap Perilaku Perencanaan Investasi dengan Self Control sebagai Variabel Moderating. *Jurnal Ekonomi Dan Kewirausahaan*, 15(1), 28-37.
- Sina, P.G. (2013). Financial Efficacy dan Financial Satisfaction: Ditinjau dari Perbedaan Gender. *Jurnal Manajemen*, 12(2), 173-184
- Suprasta, N., & MN, N. (2020). Faktor-faktor yang Mempengaruhi Pengambilan Keputusan Investasi Saham. *Jurnal Ekonomi*, 25(2), 251-269. doi:10.24912/je.v25i2.669
- Suryanto. (2017). Student Financial Behavior Patterns in Higher Education. *Journal of Political Science and Communication* Volume 7 No. 1 / June 2017.
- Virlics, A. (2013). Investment Decision Making and Risk. *Procedia Economics and Finance*, 6, 169–177. [https://doi.org/10.1016/s2212-5671\(13\)00129-9](https://doi.org/10.1016/s2212-5671(13)00129-9)
- Yildirim, M., Bayram, F., Oguz, A. and Gunay, G. (2017). Financial literacy level of individuals and its relationships to demographic variables. *Mediterranean Journal of Social Sciences*, 8(3), 19-26.
- Zahroh, Fatimatus. (2014). Testing the Financial Knowledge Level, Personal Finance Attitudes, And Personal Financial Behavior Students Management Department Faculty of Economics And Business Semester 3 And Semester 7. [Essay]. Semarang. Faculty of Economics and Business Diponegoro University.