

The Effect of Financial Behavior on Investment Decisions in the Millennial Generation Group

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Abstract—The decision to invest in Islamic finance itself is driven by many factors, such as intergenerational characteristics and financial behavior. This study aims to determine the impact of financial behavior on the investment decisions of millennial Islamic mutual funds. This study uses quantitative methods, combining descriptive and confirmatory methods. The research results show that the generational group is a variable that strengthens the influence of financial behavior on investment decision-making.

Keywords—islamic finance, investment decision, financial behavior

I. INTRODUCTION

The development of the Islamic finance industry in Indonesia is currently experiencing growth, as can be seen from the increase in market institutions and various types of Islamic capital market instruments in Indonesia as well as an increase in the number of investors in the Islamic finance industry in 2020 which reached 81,413 investors with a growth of more than 6 times in the last 4 years [1]. Where in 2016 the number of investors in the Islamic finance industry was only 12,283 investors. This means that within 4 years investors in the Islamic finance industry in Indonesia have increased by 563% [2].

Although the Islamic finance industry in Indonesia has developed, when compared to the conventional financial industry, it can be seen that the Islamic finance industry is still relatively low. This can be seen from the low market share of Islamic finance in Indonesia as of June 2020 which only reached 9.63% of the total assets of the Indonesian financial industry. In this case, the Islamic financial market share is assisted by the Islamic capital market sector of Rp.955.89 trillion [3]. The low market share of Islamic finance in Indonesia is closely related to the investment decisions of the productive age population.

The decision to invest in the Islamic finance industry itself is driven by many factors, such as the characteristics of generations and financial behavior described by Widayat (2010) which states that the cause of heterogeneity in investment behavior is due to socio-economic conditions [4].

Socio-economic and demographic factors have a significant influence on investment decisions. This explanation shows that each generation's characteristics will have different tendencies in responding to the perceived stimulus. Therefore, a country, organization or company is considered important to be able to know the generational differences because generational differences always appear in the development of economic progress.

Demographically, Indonesia currently has several productive ages reaching 191.1 million people or 70.72% of the total population of Indonesia as many as 270.2 million people, where currently the composition of Indonesia's population is dominated by the millennial generation and generation Z, with the percentage of millennial generation is 25.87% and generation Z is 27.94% [5]. The financial behavior of various generations in determining investment decisions in the Indonesian capital market will benefit from the aging population phenomenon. According to the estimated 2015-2045 statistical data, Indonesia's population will be dominated by the 15–64-year age group, namely the production age. Therefore, Indonesia will benefit from economic development if the community can determine and make appropriate investment decisions [6].

In the economic context, the generational character is useful for understanding the financial behavior of individuals according to their generation, whether consumptive or productive. Young et. al. [7] conducted a study on differences in investor behavior between collectivist cultures (such as Eastern cultures) and individualistic cultures (such as Western cultures) using the cultural concept of Hofstede where the results of the study stated that in individualistic cultures, this will lead to a greater level of individual confidence to have an impact on increasing capital market trading [8].

Culture can influence corporate-level finance and development through at least three channels. First, the dominant values in a country or group depend on its cultural values. Second, culture influences institutions. Third, culture affects the allocation of resources economically [9], while the point of view of culture as a characteristic of the generation group that is most popular and widely used in the literature is

based on the measure used by Haugen et. al. [10] which consists of five cultural dimensions, namely: power distance, individualism vs collectivism, masculinity vs femininity and long-term vs short-term orientation. Eckhardt [11] criticizes the cultural dimension used by Hofstede and mentions other cultural dimensions as a description of generational groups that focus more on the outcome or impact of past factors on current behavior such as religion, language, race, ethnicity, or other historical factors. An explanation of the description of generational groups viewed from a cultural point of view can provide an overview of the characteristics of generational groups that influence an investor's investment decisions. An investor's point of view when viewed from classical theory (utility theory) will have an investment desire based on two things, namely, portfolio and profitability [12]. Therefore, investors will act rationally according to their level of financial knowledge and will make good investment decisions, meaning that investment decisions will be based on consideration of all relevant information that can be measured, such as using various financial models to predict stock prices, for example, the capital asset pricing model [13] and the arbitrage pricing theory [14] so that rational investors will have credible information and perfect self-benefit [15].

Even though an investor has conducted an analysis using various financial models to predict stock prices, there is a phenomenon of investors making mistakes or violating their rationality which begins with miscalculating (too easy or too high) the probability, and has different choices based on non-permanent factors. So that investors tend to leave too long and win the sale too early [16]. Violation of this rationality causes intellectual submission to emotion, giving rise to impulses such as fear, love, hatred, joy, and pain that will determine decisions made in investment and utility theory fails to capture the anomalous behavior in the stock market.

The existence of irrational behavior from an investor when viewed from a psychological point of view, Ricciardi and Simon [17] explain that financial behavior emphasizes clarity and understanding, then the behavior of an individual will always use emotions and feelings in his investment decisions. This explanation is in line with the statement of [18] which explains that financial behavior is learning from the psychological aspect of attitudes for financial management which then influences the behavior of its use. More focused Ricciardi and Simon [18] explain that financial behavior is an understanding of the reasons for using funds in productive aspects based on emotional assessments so that they influence decisions by seeking answers to what, why and how from a personal point of view [19].

Emotional involvement in investment decisions in fact drives processes irrationally, causing a bias in individual financial behavior as explained by Ahmad et. al. [20] which states that irrational processes in investment decisions cause emotional biases such as mental accounting, loss aversion bias and regret aversion bias. Bias in financial behavior refers to individual tendencies based on psychology in making decisions. As explained by Waweru which states, biased

financial behavior is a psychological condition of emotional illusion that affects a person in the decision-making process [21]. So that way an investor will lose the ability or the emergence of doubts in investment decisions, so that it can hinder in obtaining the expected profits from their investments. The irrational process of financial behavior that affects investment decisions is inseparable from the cultural involvement that exists in the generation group of each investor concerned so that it contributes to influencing investment decisions taken by [9].

Based on the explanation of the background of this research, the millennial generation group will be a moderator of financial behavior in determining investment decisions, because understanding the characteristics of the millennial generation group in determining investment decisions based on financial behavior is important considering that it can encourage good investment decisions. Referring to this explanation, the researcher is interested in conducting more in-depth research with the title "The Influence of Financial Behavior on Investment Decisions in the Millennial Generation Group".

According to the phenomenon, the authors conclude the hypothesis as follows:

- H1: Financial behavior has a significant effect on investment decisions
- H1a: Generation group has a significant effect on investment decisions

II. METHODS

This research uses quantitative methods with descriptive and verification approaches. The way of collecting data in this research is to use a survey method where the sample and population are taken through a questionnaire to collect data. This study is to identify, explore, and analyze financial behavior in determining investment decisions with the generation group as moderating. The sample selection in this study used non-probability with a total sampling technique of 30 people. Furthermore, at the data analysis stage, a path analysis test is carried out with the path equation as follows (See Fig.1):

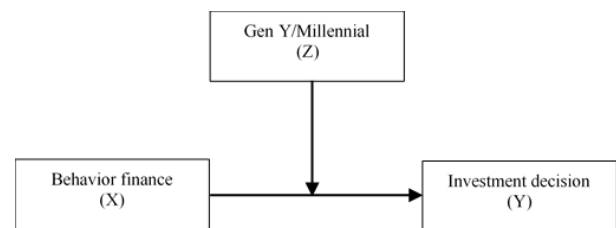


Fig. 1. Investment decision framework.

III. FINDING AND DISCUSSION

A. Data Analysis

The demographics of the respondents are described by gender, education, age, status, occupation, and income. The results of data analysis are presented in the following chart:

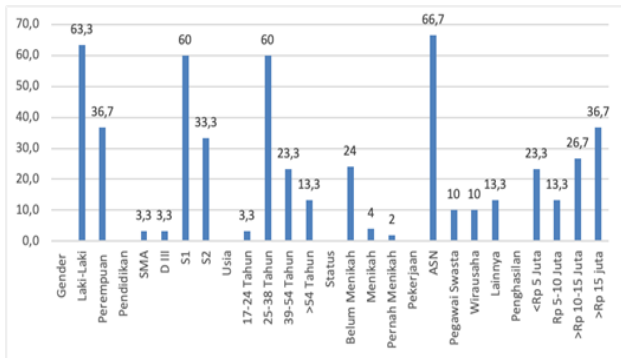


Fig. 2. Respondent demographic overview.

(See Fig.2) Based on the results of descriptive analysis, it is known that most respondents in the study are male (63.3%). The high number of men in the research sample shows that men are more daring in taking risks than women. From the characteristics of the level of education, it is known that the respondents in general have had a high level of education, namely the level of S1 education (60%) and the age range of 25-38 years (60%) which shows that the respondents have good knowledge and tend to have an open mind to information that new. Furthermore, judging from the status of the respondents, it is known that most of the respondents are unmarried (24%) and have jobs as ASN (66.7%) and have incomes above Rp. 15,000,000 (36.7%). This condition illustrates if the respondent has high funds to invest because there are no dependents and have a fixed source of income.

B. Discussion

TABLE I. COEFFICIENTS

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	10.561	2.691		3.924	.001
Perilaku_Keuangan	.603	.122	.682	4.940	.000

^a Dependent Variable: Minat_Investasi

(See Table I) Based on the results of data processing, it is known that the regression equation on the influence of financial behaviour on investment decisions is as follows:

$$Y = 0.603YX + e \tag{1}$$

The regression analysis equation above is 0.603, which means that every one percent increase in financial behaviour will increase investment decisions by 0.603 and when viewed from the t count value of 4.940 which is greater than t table 2.04841 or p value of 0.000 < 0.05 so that behaviour can be stated Finance has a significant effect on investment decisions, while the magnitude of the influence of financial behaviour on investment decisions can be seen from the R2 value in the following table II:

TABLE II. MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.682a	.466	.447	2.246

^b Predictors: (Constant), Perilaku_Keuangan

Based on the test results, it is known that the results of the financial behaviour determination test on investment decisions are 0.466 or 46.6% while the remaining 53.4% is influenced by other variables outside the study.

TABLE III. COEFFICIENTS

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	37.853	13.509		2.802	.009
Perilaku_Keuangan	-1.028	.626	-1.164	-1.642	.113
Generasi_Milenial	-.749	.475	-1.027	-1.578	.127
Moderat	.048	.021	2.746	2.285	.031

^c Dependent Variable: Minat_Investasi

Table III Based on the results of data processing, it is known that the regression equation on the influence of financial behaviour on investment decisions moderated by the generation group is as follows:

$$Y = -1.028YX - 0.749YZ + 0.048YX.Z + e \tag{2}$$

The regression analysis equation on the influence of financial behaviour on investment decisions after being moderated by the generation group is 0.048, which means that every one percent increase in the generation group will strengthen the influence of financial behaviour on investment decisions by 0.048 and if viewed from the t count value of 2.285 which is greater than t table 2.05553 or p value of 0.031 < 0.05 so that it can be stated that the interaction of financial behaviour with generational groups affects investment decisions.

This shows that the generation group is a variable that strengthens the influence of financial behaviour on investment decisions. This is also evidenced by the increase in the value of determination which can be seen from the R2 value in the following table:

TABLE IV. MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.803a	.645	.604	1.900

^d. Predictors: (Constant), Moderate, Generasi_Milenial, Perilaku_Keuangan

Table IV Based on the test results, it is known that the results of the determination test from the interaction of financial behaviour with the generation group are 0.645 or 64.5% which has an increase of 17.9% compared to the influence of financial behaviour on investment decisions without any interaction of financial behaviour with the generation group.

IV. CONCLUSION

In accordance with the introduction, theory, methodology, and the results of data analysis that have been submitted, it can be concluded that financial behaviour is known to have a significant influence on investment decisions with a magnitude of 46.6% and the generational group is proven to be able to strengthen the influence of financial behaviour on investment decision.

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