

# Investment Decision Judging from Personal Income, Financial Literacy and Demographic Factors

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## ABSTRACT

This study aims to determine the behavior of individuals in making family investment decisions in terms of personal income and financial literacy as well as demographic factors in the Tasikmalaya community. Primary data were collected through the distribution of questionnaires with snowball sampling technique and as many as 247 samples were collected during the period March-May 2021. The data were analyzed by crosstabs analysis and multiple regression analysis. The results of the descriptive analysis showed that the people in Tasikmalaya were more likely to choose to invest in moderate-risk assets, with a high level of financial literacy. The results of the crosstabs analysis showed that there was no significant difference in determining the choice of investment type, between women and men in the Tasikmalaya community. However, analyzed from other demographic items, namely education, marital status, occupation, income, and age, there were significant differences in determining the choice of investment type. The results of the multiple regression test showed that personal income and financial literacy simultaneously had a positive and significant effect on investment decisions for people in Tasikmalaya. The results showed that personal income partially had a significant effect on investment decisions for the community in Tasikmalaya, but partially a financial literacy did not have a significant effect on investment decisions for the community in Tasikmalaya. This implies that, in determining the choice of investment type, the people of Tasikmalaya considered the amount of income more than using an understanding of financial literacy.

**Keywords:** *demographic factors, financial literacy, investment decisions, personal income.*

## 1. INTRODUCTION

Nowadays, public awareness about the importance of investment is starting to increase, especially for those who are already married. The Investment Coordinating Board (Badan Koordinasi Penanaman Modal or BKPM) released data on the investment realization in the first quarter of 2021 of IDR 219.7 trillion or an increase of 4.3% compared to the first quarter of 2020. Meanwhile, compared to the previous quarter, it increased by 2.4 %.

By 2020, the number of investors in the Indonesian Capital Market, consisting of stock, bond, and mutual fund investors, increased by 56 percent to reach 3.87 million Single Investor Identification (SID) by December 29, 2020.

Investment is the activity of placing a certain amount of funds in a certain period in the hope of generating profits and/or increasing the value of the

investment. Individual investment behavior will be related to the choice of which type of investment to choose, and this will be related to the level or amount of income and also the level of financial knowledge of each individual in determining investment choices.

Investment decision-making will be greatly influenced by the information received, as well as the level of ability and knowledge of investors or individuals about investment. Financial literacy is an important factor in making investment decisions because it can help individuals determine the right type of investment according to the needs and bring a high level of return.

Financial literacy can be defined as financial knowledge and one's ability to apply it [1]; [2]. It has been found that financial literacy had a positive influence on investment decision-making [3]; [4].

Meanwhile, another factor that is very likely to influence investment decision-making is demographic factors. Different personalities between men and women allow for differences in the choice of investment type. Different levels of education may also affect a person's level of financial literacy, which affects the choice of investment.

Several research has been conducted related to the issue. Income had a positive and significant effect on financial behavior [5];[6]; [7]; [8]. Financial literacy had a significant effect on investment decisions, while income and education had no significant effect on investment decisions[9];[10]; [11].

Financial literacy did not have a significant effect on investment decisions [12]; [8]; [13], [14], [15], [16] found that the level of financial literacy had a positive effect on individual investment decision behavior, and there were differences in the influence between men and women on individual investment decision behavior, and income had a negative and insignificant effect on individual investment decisions.

Meanwhile, [17] found that respondents with low financial literacy preferred to invest in traditional and safe financial products. It also showed that women's financial literacy levels were lower than men's; respondents aged 41-50 were more knowledgeable than all other age groups, and financial literacy was highly correlated with education. On the other hand, demographic factors including gender, age, income, education, and experience did not affect investment decisions [18].

Many factors influence investment behavior, namely demographics and [19]. Gender had a significant effect on individual investment decisions [20], age and employment status had a significant relationship with financial literacy ability [21]. Women generally had less knowledge about personal finance topics, thus causing differences in investment choices between men and women [22].

According to [23] argued that investment decisions mean that investors make decisions about where, how, and how much funds to invest in various financial instruments to generate income or appreciate value. Investment is related to investing funds in various alternative assets, both real assets and financial assets [24].

Financial literacy is financial knowledge and the ability to apply it [25]. This financial literacy should affect a person's behavior in managing finances and investment decisions made [26].

This study aims to see the extent of the influence of personal income and financial literacy on individual/household investment decisions in Tasikmalaya and to analyze whether there are

differences in the choice of investment types in terms of demographics (gender, age, education, occupation, marital status)

## 2. METHODS

This type of research is descriptive and verification research, aimed at investigating circumstances, conditions, or other aspects and clearly describing the characteristics of research that can reveal various phenomena and examine the relationship and influence between the independent and dependent variables.

The population is the people of Tasikmalaya. As a minimum sample size limitation, it relied on the calculation of the Cochran formula which produced a minimum sample size of 96. The responses of respondents/samples collected in this study were 247, using the Snowball Sampling technique during the period March-May 2021. Questionnaires were distributed via Google Form, prioritized to the closest person first, and then spread to others.

The analytical tools used were cross-tabulation analysis (Crosstabs) and multiple regression. Crosstabs analysis is the simplest analytical method but has strong enough explaining power to explain the relationship between variables descriptively so that the relationship between variables can be seen clearly. In crosstabs analysis, statistical analysis was used, namely Chi-Square which is symbolized by  $\chi^2$ . Meanwhile, multiple regression analysis was used to test whether there is an effect of the independent variable on the dependent variable. Research model show by Figure 1 as a follow:

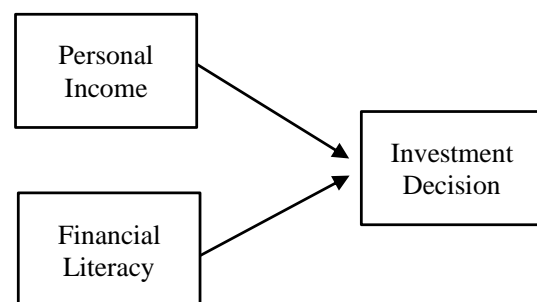


Figure 1. Research Model

## 3. RESULTS AND DISCUSSION

The results of the crosstabs analysis explain the relationship between variables. There is no significant difference between women and men in determining the choice of investment type, although women tend to prefer to invest in low-risk assets and moderate-risk assets compared to men. There is a relationship between education and investment decisions, meaning that a person's educational background makes a significant difference in determining the choice of investment type.

The level of individual financial literacy does not make a significant difference in determining the choice of investment type.

Individual marital status provides a significant difference in determining the choice of investment type. Respondents who are married and have children tend to invest in medium-risk assets and are brave enough to invest in high-risk assets, whereas none of the respondents with single parent status and have children choose to invest in high-risk assets. Individual employment status makes a significant difference in determining the choice of investment type. Respondents who are still students are more daring to invest in high-risk assets. The amount of individual income provides a significant difference in determining the choice of investment type.

Age provides a significant difference in determining the choice of investment type. Ages 31 years and above tend to choose medium-risk assets, while those aged 20-30 years tend to choose low-risk assets, although it turns out that the largest portion of those who choose high-risk assets is from the age group of 20-30 years. There is no significant difference between women and men in understanding financial literacy, although the high level of financial literacy tends to be owned by more women. An individual's educational background makes a significant difference in understanding financial literacy. The majority of respondents with educational backgrounds of bachelor's degree, master's degree, and doctoral degree have a very high level of understanding of financial literacy compared to those with a diploma and senior high school/vocational school level.

Furthermore, the analysis was carried out with multiple regression tests to examine the effect of personal income and financial literacy variables, both simultaneously and partially on investment decisions. The output results of data processing through SPSS can be seen in Table 1 and Table 2.

**Table 1.** F Statistical Test Results

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.459	2	2.229	5.334	.005 <sup>b</sup>
	Residual	101.978	244	.418		
	Total	106,437	246			
a. Dependent Variable: Investment Decision						
b. Predictors: (Constant), Fin. Literacy, Income						

**Table 2.** T Statistical Test Results

Model	B	t	Sig.
(Constant)	1,287	4.280	.000
Income	.078	2.805	.005
Fin. Literacy	.003	.722	.471

Based on the results of the F statistical test, it can be concluded that personal income and financial literacy simultaneously have a significant effect on investment decisions. Based on the result of the T statistical test, personal income partially has a positive and significant effect on investment decisions. Financial literacy partially has no significant effect on investment decisions.

The significance of the partial effect of personal income on investment decisions is also explained from the results of the crosstabs analysis above that individual income makes a significant difference in determining the choice of investment type. This implies that the choice of the type of investment for the people of Tasikmalaya relies much on the amount of their income.

The insignificant effect of partial financial literacy on investment decisions is also explained from the results of the crosstabs analysis above that the level of financial literacy does not create significant differences in determining the choice of investment type. This means that the majority of the people of Tasikmalaya do not feel the need to use financial knowledge / financial literacy in making decisions to choose the type of investment, but rather based on the amount of income they have.

This can be accepted and understood if it is associated with the tendency of the people of Tasikmalaya to choose investments, which prefer to invest in moderate-risk assets, meaning that the people of Tasikmalaya prefer investments that are quite safe but provide promising benefits in the future. In addition, the majority or average personal income of the people of Tasikmalaya is in the medium category, this can be a reason or cause for the people of Tasikmalaya to choose safe investments, namely investments with a sufficient level of risk (medium risk assets).

The results of the author's research are in line with the results of research by [27], [13], [28], [20], [6] and [7], and [8].

There has been no research related to investment choice decisions in the Tasikmalaya community before, especially those associated with personal income and financial literacy variables accompanied by an analysis of demographic factors. This is what distinguishes this research from the previous ones

## 4. CONCLUSIONS

The results showed that personal income and financial literacy simultaneously had a positive and significant effect on investment decisions in the Tasikmalaya community. The results also showed that partial personal income had a significant effect on

investment decisions, but partially financial literacy had no significant effect on investment decisions.

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