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Relationship between Financial Knowledge, Financial Attitude and Financial Skills and Millennial Investment Decisions

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Abstract

Investment as an activity to put capital into an object, institution or party for future benefits is currently important. However, lack of understanding on the basic concepts of investment by the millennial causes many inappropriate financial decisions. Without a proper basic understanding, they may not know the right time to prepare emergency fund. The purpose of this study was to determine the relationship between financial knowledge, financial attitudes and financial skills on investment decisions of the millennials. The method used in this research is a quantitative method in which analysis was based on statistical procedures using the SmartPls. The samples were the students of FEB Ahmad Dahlan University to whom the questionnaires were distributed. The number of samples was determined by considering the population that is homogeneous. The tool for analytical test was Smart PLS v.3.3.9 with the SEM (Structural Equation Modeling) as the analysis method. The results show that financial knowledge has no significant effect.

Keywords: financial attitude, financial knowledge, financial skills, millennial, investment decisions, SmartPls

INTRODUCTION

Investment is an activity to put the capital either money or other valuable assets into an object, institution or party with expectation that there will be benefits gained in the future according to the investor's plan. Current investment is very important since investment is one of the factors that drives economic growth. It enables to build a future life, have a steady income, reduce debt bondage, build a happy family life.

Several types of investment are currently growing and vary greatly according to the risk and return required by the investor. They are savings, deposits, gold, property, and cryptocurrencies and nft that are the newest ones. Along with the times, more sectors are good place for investing in particularly during the digital era. In Indonesia, the number of investors is currently experiencing an increase, especially at the beginning of the unpredictable Covid-19 period. Based on the report of the Indonesian Central Securities Depository (KSEI), the number of registered capital market investors reached 7.15 million as of November 2021. The majority or 59.81% are millennials or aged 30 and under. This indicates that the millennial generation is becoming more aware of the importance of investing for both themselves and the country. Awareness of millennial generation on the importance of investment is appropriate in anticipating the fall of economy as a result of the unpredictable COVID-19 event that make many people who did not take it into account fell into poverty.

However, the millennial generation experiences lack of understanding on the basic concepts of investing that directs them to make inappropriate financial decisions. For example, they invest based on the trend without having a basic understanding and knowledge on when is the right time to prepare emergency fund. Another problem relates to consumptive behavior of millennial in this era. Compared to the previous generations that are more likely to buy item or invest in immobile property, millennials spend for consumeable items. Moreover, many millennials are not disciplined in executing their financial plans. This happens because the millennial generation applies the principle of "you only live one" which results in millennials do not prepare emergency fund.

These problems can be the factors that affect investment decisions for the millennial generation in Indonesia. Financial knowledge, financial attitudes, and financial-related abilities considerably have an impact on investment decisions for the millennial generation even though various mediators are needed to overcome these shortcomings (Rambe, 2018).

The purpose of this study is to determine the relationship between financial knowledge, financial attitude and financial skills on investment decisions of the millennial. The research can expectantly increase knowledge on investment and finance, especially for millennial investors in making investment decisions.

LITERATURE REVIEW

Investment Decisions of Millennial

Investment is a commitment to a certain amount of funds or other resources that are currently being carried out, with the aim of obtaining a certain amount of profit in the future. The term investment can be associated with various activities. Investing in real sector (land, gold, machinery or buildings) or financial assets (deposits, stocks or bonds) is a common activity (Vidyattama, 2017).

The millennial generation is a social community that is literate and adaptable to technology. They are more likely to use technology to facilitate their activities including shopping. Advancement in payment technology directs this generation to be more cashless (do not carry cash in hand). Convenience in shopping payments through debit cards, credit cards, e-money, internet banking and others is easily adopted by urban middle-class millennials, which will certainly be a trigger for the development of cashless payments. In the future, traditional payment instruments will be shifted to modern payment instruments (Simões & Gouveia, 2018).

Currently, generation Z or millennial generation investors invest more in especially stock and cryptocurrency. The data show that in Indonesia 41.3 percent of the millennial generation admitted that they have bought shares in the last one or two years and 48.1 percent claimed to have bought them in less than one year (Widoatmodjo & Onasie, 2021). The data also show that the millennial generation has a very long experience in investment and thus various ways are needed to support the needs of millennial investors in making investments.

Investment decision is defined based on the definition of investment as an activity to put a number of funds by a company into assets with expectation to obtain profits in the future (Sandhu & Shamsuzzoha, 2018). The assets held in the current period are sacrified to expect a larger amount of assets in the future. It can be concluded that investment is an activity to invest a number of funds in the present with the hope of obtaining profits in the future. The following are indicators that focus on investment decisions (Yalcin et al., 2016):

1. Investor Sentiment

   There are two important things in investing: return and risk. Investors want maximum returns with minimal risk. Another equally important component is the volatility of stock returns.

2. Too confident

   The more an investor feels he has high competence in the capital market, the more often that investor will trade. Mature investors do not consider other investment factors in their investment activities because they are confident and sure with their abilities.

3. Important meaning

   Salience influences investors' investment decisions. This biased behavior is unavoidable because investment decisions involve selecting the right option from several options that require consideration. The alternative selection process takes effort and time. Therefore, investors use salience to overcome difficulties in the decision-making process.

4. Overreaction

Investment decisions generally involve a variety of information, both public information and private information. Information is an important component that triggers investors to adopt investment strategies considered feasible and profitable.

5. Herding

   Older people have more investment experience than age prospects, so they have different thoughts than young people in investing

Financial Knowledge

Financial knowledge is the ability to manage economic information, make financial plans, and make better decisions about wealth accumulation, retirement, and debt. A person with high financial knowledge tends to be satisfied with his financial situation and continues to improve his quality of life because he fully understands his current financial situation and how to improve it (Dewi et al., 2020). Thus, if individuals or families are able to manage financial knowledge well and use their money wisely such as for their needs, then the desired goals will be achieved. Objective financial knowledge is what is actually stored in the memory and is measured by assessing the level of people's understanding of various components of financial markets and products, such as accounting, assets, debt, savings and investments, value of money, inflation, compound interest, and risk diversification.

Financial Attitude

An understanding of financial attitudes will help a person to understand what is believed to be related to money. Among others, forming the right financial attitude by focusing on the present means to stop contemplating the past and worrying about the future in addition to take positive action which means seeing the benefits of the past so that it does not repeat itself in the present and in the future. Good financial attitude can be measured with the following five components: (Özkoçak, 2021)

1. a person's ability to show a good mindset about money (obsession)
2. able to control the financial situation (business)
3. adjust the use of money to the needs (inadequacy)
4. don't want to spend money (retention)
5. have a broad view of money (securities)

Financial Skills

Financial skills are a person's ability to manage finances and find income managable according to their needs (Alkaraan & Northcott, 2017). There are several things that must be considered in financial skills:

1. Psychological

   Psychological aspects are related to human behavior as individuals and in relation to the environment. The behavior can be visible or invisible behavior, conscious or unconscious behavior.

2. Sociological

   Sociological aspects relate to life and behavior, especially in relation to a social system and how that system affects people and how the people involved in it affect the system.

3. Finance

   The financial aspect is related to money management that will affect the lives of individuals and organizations. In this case, finance is concerned with processes, instruments, markets and any institutions involved in the movement or transfer of money, whether between individuals, businesses or governments.

4. Investment

Investment is an activity to place the capital we have in the form of money or other valuable assets into an object, institution or party with the hope that future investors or investors will benefit for a certain period of time according to their plan.

Previous Research

Rahman and Gan (2018) conducted a study to investigate behavioral factors that influence individual investment decisions in Generation Y in Malaysia. Their research suggests that excessive anxiety and self-confidence have a negative effect on investment decisions. In addition, the nature of anger does not significantly affect investment decisions. In addition, the results of this study will broaden investors' knowledge about the financial decision-making process.

Aren and Zengin (2016) conducted a study investigating the variables that affect an investor's investment preferences. The research used the Duncan Test and One Way Anova for analyzing the variables of financial literacy, personality attitude and risk perception. The results of the study indicate that personality traits have no relationship with investment decisions, while the level of financial literacy and risk perception affect individual investment preferences. In addition, it was also found that investors avoiding risk tend to choose deposits as their investment, while investors with a high perception of risk prefer to invest in foreign exchange, equity, portfolio and equity.

Mutawally and Asandimitra (2019) conducted a study to determine the effect of financial literacy, risk perception, herding, illusion of control, and investment experience on students at the Surabaya Investment Gallery. The study that applied multiple linear regression used 165 students who had become the investors in 15 investment galleries in Surabaya as the respondents. The results indicate that financial literacy, risk perception and illusion of control have no effect on investment decisions. This is due to the lack of practice in investment decisions using financial literacy.

Research Hypothesis

The hypothesis is a temporary answer to the formulation of the research problem. Based on the explanation of the framework and the previous research, the research hypothesis proposed as a temporary answer to the formulation of the research problem is as follows:

1. It is suspected that there is an influence of financial knowledge on millennial investment decisions
2. It is suspected that there is an influence of financial attitudes on millennial investment decisions
3. It is suspected that there is an influence of financial skills on millennial investment decisions

METHOD

This study uses quantitative approach. Quantitative research is a method for testing certain theories by testing the relationship between variables. The variables are measured with research instruments, so the data consisting of these numbers can be analyzed based on statistical procedures. This study examine the relationship between fintech utility as a mediator of the relationship between financial knowledge, financial attitude, and financial skills on millennial investment decisions.

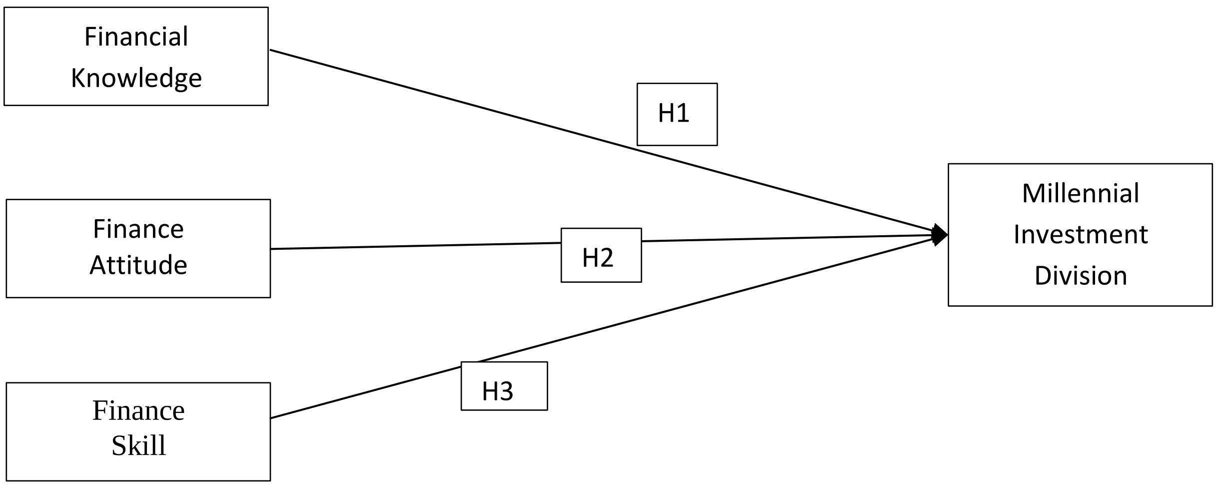

Figure 1. Research Construct

Regression Analysis using SMART PLS

Based on the research design, the collected data will be analyzed using the partial least squares (PLS) method. PLS is a powerful analytical method because it can be applied to all data scales, does not require many assumptions and the sample size does not have to be large. The steps for testing the empirical model of PLS-based research with SmartPLS software as follows:

1. Model Specification

   a. Outer Model

   The specification of the relationship between the latent variable and its indicators, also known as the external relationship or measurement model, defines the characteristics of the construct and its manifest variables.

   b. Inner model

   The specification of the relationship between latent variables or structural model is also called inner relation which describes the relationship between latent variables based on the substantive theory of research.

   c. Weight Relationship

   Estimation of latent variable case values. The inner and outer models provide specifications followed by approximate weight relationships.

2. Model Evaluation

   The measurement model or outer model with reflection indicators is evaluated with convergent and discriminant validity of the indicators and composite reliability for all indicators.

3. Model measurement

   a. Convergent validity

Correlation between reflective indicator scores and latent variable scores

b. Discriminant Validity

Measurement of reflective indicators based on cross loading with latent variables

c. Composite Reliability

An indicator that measures a variable has a good composite reliability if it has a composite reliability of 0.7 even though it is not an absolute standard.

RESULTS AND DISCUSSION

Results

External model analysis

Table 1 shows that all outer loadings > 0.7 and thus are significant. The AVE value of each variable presented in table 2 is > 0.5 and can be said that all variables in this study have met convergent validity.

Table 1. Outer Loading Results

	Financial Attitude	**Financial Knowledge**	**Financial Skills**	**Millennial Investment Decisions**
FA1	0.729			
FA2	0.841			
FA3	0.767			
FA4	0.791			
FA5	0.730			
FA6	0.771			
FK1		0.846		
FK2		0855		
FK3		0.866		
FK4		0.733		
FK5		0.741		
FK6		0.820		
FS1			0.769	
FS2			0.802	
FS3			0.773	
Y1				0.807
Y2				0.830

	Financial Attitude	Financial Knowledge	Financial Skills	Millennial Investment Decisions
Y3				0.800
Y4				0.788
Y5				0.760

Table 2. AVE Value

Variable	AVE
Financial Attitude	0.597
Financial Knowledge	0.659
Financial Skills	0.611
Millennial Investment Decisions	0.636

Discriminant validity can be seen in the cross loading value which shows a correlation between each indicator and its variables. The validity requirement is that the correlation of indicators on a variable must be greater in value with that variable compared to other variables. The crossloading value can be seen in table 3.

Table 3. Cross Loading Value

	Financial Attitude	Financial Knowledge	Financial Skills	Millennial Investment Decisions
FA1	0.729	0.384	0.016	0.359
FA2	0.841	0.379	0.180	0.405
FA3	0.767	0.260	0.086	0.247
FA4	0.791	0.233	0.094	0.421
FA5	0.730	0.269	0.023	0.305
FA6	0.771	0.170	0.192	0.415
FK1	0.385	0.846	0.117	0.147
FK2	0.337	0855	0.140	0.162
FK3	0.297	0.866	0.104	0.106
FK4	0.365	0.733	0.102	0.041
FK5	0.220	0.741	0.202	0.095
FK6	0.246	0.820	0.133	0.243
FS1	0.204	0.171	0.769	0.255
FS2	-0.030	0.038	0.802	0.311
FS3	0.187	0.205	0.773	0.215
Y1	0.391	0.153	0.358	0.807
Y2	0.394	0.174	0.313	0.830
Y3	0.455	0.181	0.189	0.800
Y4	0.304	0.099	0.243	0.788
Y5	0.343	0.170	0.235	0.760

Based on the cross loading, it can be concluded that the correlation of each indicator with its variables as indicated by the loading score is higher compared to the loading score of the indicator with other variables. Thus, it can be said that the model has good discriminant validity.

Reliability is a series of measurements or a series of measuring instruments that have consistency if the measurements made with the measuring instrument are repeated. Reliability test is the level of consistency of a test, namely the extent to which a test can be trusted to produce a stable score, relatively unchanged even though it is tested in different situations. Table 4 present the results of the reliability test.

Table 4. Reliability

Variable	Alpha Cronbach	Composite Reliability
Financial Attitude	0.856	0.898
Financial Knowledge	0.904	0.920
Financial Skills	0.687	0.825
Millennial Investment Decisions	0.858	0.897

The composite reliability of each variable is above 0.6. The composite reliability of financial attitudes is 0.898, financial knowledge is 0.920, financial skills is 0.825, and millennial investment decisions are 0.897. These results indicate that all variables are reliable. Likewise, Cronbach's Alpha values are all above 0.6, so it can be said that all variables are reliable.

Model structure analysis

1. Output causal model

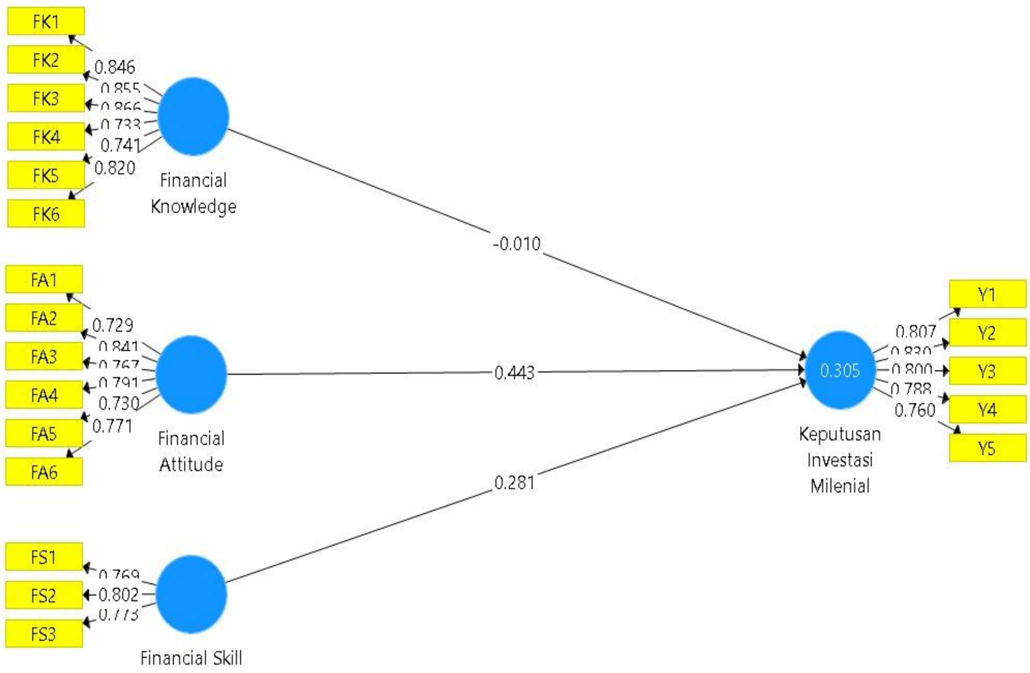

Figure 2. Model PLS

2. Coefficient of Determination (R^2)

The value of the coefficient of determination (R^2) explains how much influence the independent or exogenous variables have on endogenous variables. The value of R^2 for millennial investment decisions is 0.305. This means that the contribution of exogenous variables to the millennial investment decision is 30.5% while the rest is influenced by other variables not examined in this study.

3. Hypothesis Test

Hypothesis testing is done by looking at the bootstrap analysis on the path coefficient, which comparing t count with t table at significance level of 5%. The required t-table value is 1.96. If t arithmetic > t table (1.96) then the hypothesis formulation is accepted and if the value of t arithmetic < t table (1.96) then the hypothesis formulation is rejected. The results of this research analysis can be seen in table 5.

Table 5. Results of Direct Effect

Track	Path Coefficient	T statistics	P value
financial attitude -> millennial investment decisions	0.443	3,620	0.000
financial knowledge -> millennial investment decisions	-0.010	0.082	0.935
financial skills -> millennial investment decisions	0.281	3.187	0.002

The table shows the direct effect of the three endogenous variables on the exogenous variables. First, the influence of financial attitudes on investment decisions with a path coefficient of 0.443 and t count of 3.620 indicates that the effect that occurs is a positive and significant influence. Second, the influence of financial knowledge on millennial investment decisions with a path coefficient of -0.010 and t count 0.082 illustrates that the effect that occurs is negative and insignificant. This means that there is no influence of financial knowledge on millennial investment decisions.

Third, the influence of financial skills on millennial investment decisions with a path coefficient of 0.281 and a count of 3.187 showing a positive and significant effect. This means that there is an influence of financial skills on millennial investment decisions. So it can be concluded that, of the three endogenous variables, only financial attitude and financial skills have an effect on millennial investment decisions, while financial knowledge has no effect on millennial investment decisions.

CONCLUSIONS AND IMPLICATIONS

Conclusion

Based on the results and discussion, it was found that there are two endogenous or independent variables that affect the exogenous or dependent variable. The data shows that the financial knowledge variable has no effect on millennial investment decisions. While the variables related to financial skills and financial attitudes have a positive and significant influence. This means that 2 hypotheses are accepted and 1 hypothesis is rejected. This means that the more millennials are able to improve their financial skills and financial attitudes, then they will be able to choose the right investment for them according to their financial plan.

Recommendations

1. For young investors, this research can be used as consideration in making investment decisions.
2. Future researchers can add other variables related to the relationship of financial knowledge, financial attitudes and financial skills to millennial investment decisions.

The millennial generation must continue to hone their financial skills by continuing to find out about the development of the financial system and investment system so that they are able to patch up their experience in carrying out the right investment.

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