

## PAST BEHAVIOUR, FINANCIAL LITERACY AND INVESTMENT DECISION MAKING PROCESS OF INDIVIDUAL INVESTORS

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### Abstract

This paper aims to find out consequences of investor decision making behaviour by including two external variables, namely, financial literacy and past behaviour. The addition of past behaviour may be a novelty of this article because the examination has not been carried out empirically, especially in the case of developing countries such as Indonesia. The purpose of this study is to create hypotheses and test the behavioural intentions of individual investors by relating them to psychological variables (attitudes, perceived behavioural control and past behaviour, social variables (subjective norms) and personal abilities (financial literacy). This research method uses techniques random sampling, using a self-administered questionnaire and the data collected were analyzed in AMOS 20.0 using two-step structural equation modelling (SEM).

**Keywords:** Past Behaviour, Financial Literacy And Investment Decision.

### INTRODUCTION

Investment in the capital market allows investors to choose traded capital market products, so you can analyze a company before buying its shares. Investors are expected to have adequate financial knowledge (Zhelyazkov&Tatarynowicz, 2021; Bajaher et al., 2022; Ardiana et al., 2020; Salsabiila & Hakim, 2022; Bassen & Kovács, 2020).The level of financial literacy of investors in making investment decisions is essential so that investors can manage their funds wisely and appropriately. Without good fund management, no matter how much profit you get, it will not grow and be in vain. The addition of new or local retail investors is good news for the capital market, but there are side effects that make you shake your head. Indonesian people's interest in investing in the capital market is getting higher. This is evident from the number of capital market investors, which increased 56% throughout 2020 to 3.87 million.

Millennialsdominate the increasing number of retail investors in the Indonesian capital market(Rahayu et al., 2022). But unfortunately, the increase in the number of investors does not seem to be accompanied by a qualified education. Not a few new investors who plunged into the capital market suffered losses after the price of the shares they bought decreased in value. Many of these newcomers buy stocks without thinking about technical and fundamental analysis and tend to buy stocks because of an invitation(Nti et al., 2020; Endri, 2021; Puneeth et al., 2021; Özyesil, 2021). The National Survey of Indonesian Financial Literacy (SNLKI) conducted by the Financial Services Authority (2017), the Financial Literacy Index (ILK) of the Indonesian people in 2016 was 29.7% which means that out of every 100 residents, only 30 people are in the well literate category(Yanto et al., 2021; Saifurrahman & Kassim, 2021;

Safitri, 2021). So it can be interpreted that the Indonesian people do not fully have sufficient knowledge to optimize their financial management. The significant importance of individual attitudes, subjective norms, behavioral control, financial literacy, and past behavior found in stock market participation can be a strategic theme for governments and policymakers to educate investors through their opinion leaders to increase their involvement. In addition, investors can thus control their behavior and make rational decisions.

The main objective is to provide a good comprehension of the fundamental issues that influence investors' stock trading behaviour. The goal of this research is to hypothesize and test individual investors' behavioural intentions by linking them to psychological variables (attitude (AT), perceived behavioural control (PCB), and past behavior (PB), social variables (subjective norms (SN), and personal ability (financial literacy (FL). Moreover, the mediating impact of AT between PB and intention to invest in the stock market is predicted and evaluated in order to have a better understanding of the investors' psychological intentions.

## **LITERATURE REVIEWS AND HYPOTHESES**

### **Individual attitude**

Attitude toward behavior refers to the extent to which a person has a favorable or unfavorable view of the actions of his or her interests. Attitudes are the negative and positive foundations for possibly apparent future behavior. As a result, an individual's preferred attitude toward a behavior can result in a positive intention to perform that behavior. This study follows the same concept regarding the individual investor's intention to invest in the stock market. If the individual has a favorable attitude, there may be opportunities for positive purposes for stock investment participation.

### **Subjective norms**

Subjective norms are perceived social pressures to perform or not to perform a behavior. Social forces can impact individuals in such a way that they intend to perform certain behaviors regardless of their preferences. This hypothesis aims to examine the effect of social pressure on individual behavioral intentions in the context of making investment decisions in the capital market.

### **Perceived behavioral control**

Perceived behavioral control is defined as a person's perception of the ease or difficulty in performing the behavior resulting from the presence and absence of the necessary resources and opportunities. A high level of behavioral control helps in increasing the effort and persistence to perform the desired behavior. This study examines how much control individuals have in shaping their intentions to invest in the stock market by inquiring about their salient beliefs regarding adequate resources or opportunities and barriers.

### **Past behavior**

Past behavior can be termed a person's actions or reactions to any past stimuli. When an investor performs his investment behavior more than once, the likelihood of using simplified

decision-making rules increases, leading to decreased information seeking and increased dependence on repeated information selection. In this context, individual investors can assume that the conditions that led to the previous behavior existed in the current situation. Therefore, they repeat the behavior without needing to verify the assumption. In this study, past behavior is taken as one of the predictive variables to explain investors' intentions, and attitude is taken as a mediator between the two. This relationship assumes that once investors engage in stock investing, they often perform a bias search from memory of previously acquired experiences that confirm their attitudes and intentions for their current investment decisions. Therefore, past behavior will be able to reflect investors' beliefs about the behavior in question because cognition can be the reason for subsequent behavior.

### Financial literacy

An essential requirement for information processing and decision making is product knowledge. In the case of financial products, this knowledge is represented as financial literacy. Financial literacy is broadly defined as the knowledge that a person needs to enable them to make critical financial decisions in their best interest. Financial literacy has been generally accepted as one of the significant factors influencing an individual's ability to make financial decisions. Deficiencies in financial literacy contribute to inertia and less than optimal financial decision making. Financial literacy, embedded in stock market knowledge, is also a key driver of individual participation in the stock market and share ownership.

### METHODOLOGY

The data used in this study were collected by distributing questionnaires randomly to investors involved in trading activities on the Indonesia Stock Exchange (IDX). The respondents consisted of fewer than 20 years to the age category of 35 years. The respondents' professions in this questionnaire are divided into five, namely students, private employees, entrepreneurs, civil servants (PNS), and entrepreneurs. The sample size used in this study was 100 respondents consisting of various categories.

**Table 1: Characteristic Respondent**

Variable	Category	Frequency	Percentage
Gender	Man	58	58%
	Woman	42	42%
Age	17-20	72	72%
	21-25	23	23%
	26-30	3	3%
	30-35	2	2%
Profession	Undergraduate	85	85%
	Private employee	11	11%
	Entrepreneur	3	3%
	Civil nation employee	1	1%

Source : Authors' own

All data and information for this study were collected from primary sources through a questionnaire. The questionnaire consists of six independent variables and one dependent variable. The independent variable (X) individual attitudes (X1), subjective norms (X2), behavioral control (X3), financial literacy (X4), past behavior (X5), and then the dependent variable (Y) is (X6).intention to invest in the capital market. This questionnaire is self-completion in which respondents answer questions by filling out the questionnaire independently.

In this study, samples were taken from investors involved in the Indonesia Stock Exchange. The research sample was taken using a random sampling technique. The selected sample truly represented the population of the respondent groups involved in transactions on the Indonesian stock exchange. The Likert method rating scale allows respondents to be asked whether they strongly agree or disagree with the question. This study uses a 5-point Likert scale to obtain information related to psychological and social factors that affect individual investors. For example, 5 points on a scale of 1 to 5, namely strongly disagree (1), disagree (2), neutral (3), agree (4), and strongly agree (5).

## RESULTS AND DISCUSSION

### Results

In the table there are characteristics of respondents based on work status above, indicating that the majority of the respondents in this study were students with a percentage of 85% or 85 respondents. Then the respondents with the status of private employees became the next largest with a percentage of 11% or totaling 11 respondents. After that are respondents who have their own business with a percentage of 2% or totaling 2 respondents. Then the last one is the respondent with the status of Civil Servant (PNS) with a percentage of 1% or 1 respondent.

In this study, the researcher also conducted a reliability test with Cronbach's alpha to ensure that the research instrument used was reliable and the extent to which the value of the instrument was free from measurement errors. If the alpha value is less than 0.6, it can be less good, while 0.7 is still acceptable, and 0.8 - 1 is good (Sugiyono, 2010). The following are the results of the validity and reliability of Cronbach's Alpha in this study on the table of individual attitude variables, subjective norms, behavioral control, financial literacy, past behavior, and investment intentions, Cronbach's alpha value  $\alpha = 0,7$  which means this variable is declared reliable.

**Table 2: Output Cronbach's Alpha**

Construct/Key dimensions/items	Cronbach's alpha
Construct 1 : Attitude (AT)	0,759
Construct 2 : Subjective Norms (SN)	0,847
Construct 3 : Perceived behavioural control (PBC)	0,765
Construct 4 : Financial literacy (FL)	0,804
Construct 5 : Past behavior (PB)	0,726
Construct 6 : Intention to invest (ITI)	0,743

Figure 1: Full Model Confirmatory Factor Analysis (CFA)

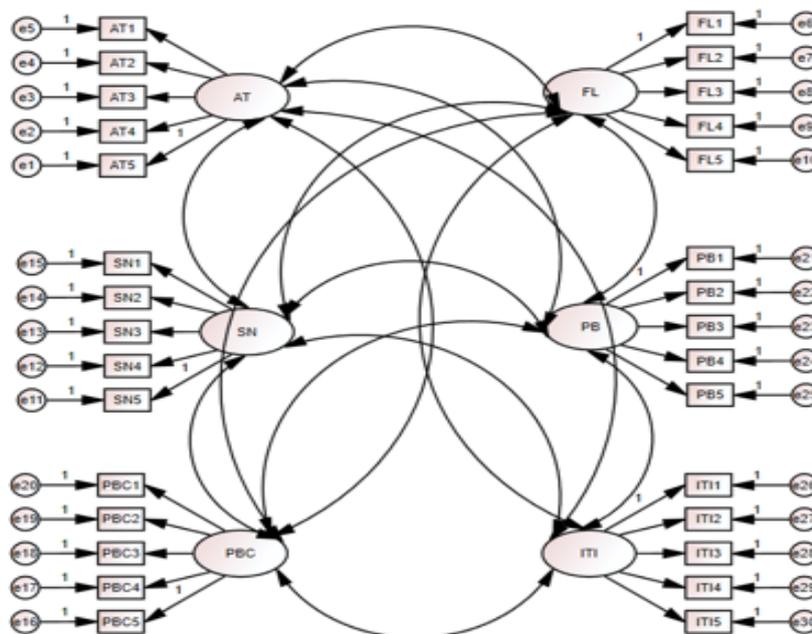


Table 3: Fit Test Result

Goodnes of fit	Cut off Value	Output	Model Evaluation
Probability	> 0,05	0,370	Accepted
RMSEA	< 0,08	0,013	Accepted
GFI	> 0,90	0,957	Accepted
AGFI	> 0,90	0,932	Accepted
CMIN/DF	< 2,00	1,962	Accepted

Based on the table fit test result when the full model CFA test was carried out, all variables were declared fit or had met the conformity requirements, so that no indicators were omitted. Then, the results of the appropriate model show the value of  $P = 0.370$ ,  $RMSEA = 0.013$ ,  $GFI = 0.957$ ,  $AGFI = 0.932$ , and  $CMIN/DF = 1.962$ , so it can be said that the research model is fit. Based on the table hypothesis test result, it can be seen that the results of hypothesis testing in research have a C.R of 3.197 to 4.068, which means it is more significant than 1.96. These results mean a positive influence on the relationship between variables on each hypothesis. This shows that all hypotheses are accepted. In this result, it can be proven that the individual attitude variable of an investor towards individual intention to invest has a C.R of 3.524, which means that it is greater than 1.96. The subjective norm variable on individual intention to invest has a C.R of 3.572, which means it is greater than 1.96. The perceived behavioral control variable on individual intentions to invest has a C.R of 3.865, which means it is greater than 1.96. The perceived behavioral variable on individual intentions to invest has a C.R of 3,494. The perceived behavioral variable on individual attitudes has a C.R of 3.197. The perceived behavioral variable which is moderated by the attitude towards the individual's intention to

invest has a C.R of 3.724. The financial literacy variable on attitudes has a C.R of 4.068. The financial literacy variable on perceived behavioral control has a C.R of 3.399. These results mean that there is a positive influence in the relationship between individual attitude variables on individual intentions to invest. The results of this study are in accordance with previous research by Phan and Zhou (2014).

## DISCUSSION

An important outcome of the attitude was a favorable and favorable assessment of the idea of investing in the stock market. Subjective norms play a crucial role in the formulation of investor intentions, supporting the importance of perceived social influence or pressure and peer opinion. Is shown. We also agree that emerging market investors appear to be behaving based on information. Furthermore, the major linkages of perceived behavioral control suggest that Indonesian investors lack complete control over their stock investment decisions. This could be due to a lack of investor awareness and an efficient investment platform. Information on how to invest in the stock market. As a result, it is reasonable to conclude that Indonesian investors are primarily motivated to participate in the stock market by the influence of friends, family, and colleagues. To expand the TPB model, two new factors, financial literacy and perceived behavior, have been added in addition to the primary variables. Model 2 findings suggest that by combining these variables, investor intent can be better predicted. Financial literacy has been shown to improve attitudes and perceived behavioral control. This means that financial literacy aids investors in developing healthy investing thinking and provides them with the confidence to make sensible and calculated decisions. If investors will have more knowledge about financial terms and stock market behavior and access to information or assistance, they will be motivated differently and depend more on the fundamentals of stocks rather than social influences.

## CONCLUSION

The influence of Perceived behavioral on investors' intention is another essential addition in this study which, in many previous behavioral studies, has been a key dimension in shaping an individual's behavior. Examining the impact of private label, we found a slight direct correlation in predicting investors' willingness to invest. However, when AT was adopted as a parameter, it showed a positive and indirect relationship in predicting intent. This shows that the desire to invest in the stock market is heavily influenced by recent losses, and that future investing selections may be skewed toward anchoring or other traits, or just comparable scenarios. As a result, heuristics, or the reflection of past stock price trends or experience connected with similar information, influence the investor's appraisal of present stock selection features. The findings also revealed that cognitive biases produce negative or positive views and inspire investors to invest in specific stocks.

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