

Analysis of the Impact of Financial Literacy and Financial Behavior on Millennials' Investment Decisions

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Abstract— *The pattern of consumer behavior in today's society has shifted especially financial background. This study examines the impact of financial literacy and financial behavior on investment decisions with qualitative methods and uses a descriptive, comprehensive way of static analysis. Questionnaire techniques obtained the primary data on 100 respondents, millennials aged 18-39. The data is analyzed using Multiple Linear Regression Analysis with SmartPLS. All data Instruments will be tested using validation and reliability testing. The results show that financial literacy and financial behavior significantly positively impacted millennial investment decisions. Millennials need to increase confidence in understanding financial literacy and financial behavior in determining investment decisions.*

Keywords: Financial Behavior, Financial Literacy, Investment Decisions.

1. INTRODUCTION

The pattern of consumer behavior of today's society has shifted from just the fulfillment of primary needs developed to the fulfillment of secondary, tertiary, even complementary, and more consumptive needs [1]. Millennials are also referred to as generation Y. Millennials are those born between 1980-1995 [2]. Millennials are consumptive using their money. The majority of millennials spend as much as 51.1% of millennial money is spent on everyday purposes. In comparison, savings shows as much as 10.7%, and lastly, only 2% of millennial interest in investment [3]. Therefore, it is seen that millennials spend more money to meet their consumptive behavior than save money to save. The condition of the millennial generation is considered consumptive, caused by a lack of financial knowledge and sound financial planning in their lives [4].

Financial literacy is a set of processes or programs designed to enhance knowledge, skills, and self-confidence to manage an individual's finances [5]. The financial knowledge possessed by someone will help the individual manage his financial planning so that individuals can maximize time, money and improve the standard of living to a more prosperous.

Financial behavior is related to managing and using the financial resources available to humans [4]. In other words, financial behavior is concerned with the practice of managing and using one's financial resources, such as budgeting, saving money, managing expenses, investing on time, and paying commitments [6].

Based on the research background, Millennial financial literacy and low behavior, as well as how to generate income and high levels of consumption that create irrational

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purchasing needs., in addition to managing the money received, they are faced with a variety of financial choices that are pretty complicated, including paying for their personal needs or difficulty distinguishing primary needs, Secondary or tertiary. Several previous studies support this research. In some researchers stated that financial literacy and financial behavior influence investment decisions. Based on previous research, the focus of the research discussion is on the analysis of the impact of financial literacy and financial behavior on the investment decisions of the millennial generation [4][7][8][9].

2. THEORITICAL REVIEW

Decision Theory

Decision theory is a theory of individual and group decision-making used in all fields. In the decision-making process, a person faces three conditions: uncertainty, risk, and definite conditions. Uncertain conditions are conditions in which a decision will have many possibilities, and the probability of any possible outcome is unknown. A risk condition is a condition in which there may be some possible outcome in deciding, and the decision-maker can calculate the probability of an outcome. The exact condition is when there is a definite outcome when making an accurate decision.

Investment decision

The investment decision is an action that a person takes when making investment decisions in the hope of making a profit. Some things are the basis of individuals when making investment decisions. The first is return, which is the first reason individuals do investment activities. Both risk and risk. The greater the desired return on an investment, the higher the risk. The third is whether the relationship between return and the expected rate of return is linear or one-way. Investment decisions significantly affect activities carried out, especially for someone who is doing investment-related learning activities. This will be able to increase his knowledge about investment, so that it will be able to stimulate the emergence of one's interest in making investments [10].

Financial Literacy

Financial literacy is one of the critical aspects of life that an individual needs to have the knowledge and skills to effectively manage their financial resources for their health [11]. According to the Financial Services Authority, the definition of financial literacy is a set of processes or activities designed to enhance the knowledge, skills, and confidence of the community and enable better management of an individual's financial management. Financial literacy helps people to avoid financial problems. Indeed, everyone wants to move away from good living and financial problems.

Financial Behavior

Financial behaviors are behaviors related to financial practices or applications [4]. Financial Behavior deals with how a person can manage and use his or her financial resources [8]. In financial behavior, three aspects affect: Psychological aspects of human Behavior as an individual and related to his environment. It affects people and how they affect the system, especially the social system's sociological aspects of life and Behavior. Finally, financial issues related to managing money affect individuals' and organizations' lives. In this case, finance refers to any process, means, market, and institution involved in transferring funds, whether between individuals, businesses, or governments [12].

Research Framework

Referring to the evaluation of the idea and ideas that have been said above. A theoretical framework is drawn up, with figure 1.

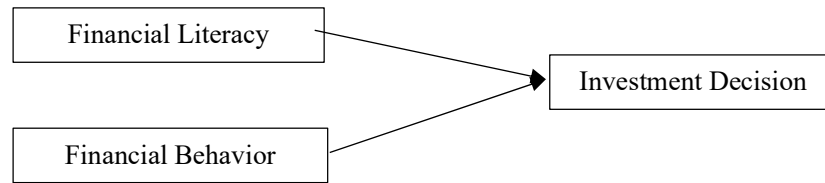


Figure 1. Research Framework

Based on the proposed theory, the hypothesis of this study is:

H1: Financial literacy has a significant impact on millennial investment decisions.

H2: Financial behavior has a significant impact on millennial investment decisions.

3. RESEARCH METHODS

Validity Test

The validity test is used to measure the validity of the questionnaire. A questionnaire is said to be valid if the question in the questionnaire can reveal something measured by the questionnaire.

- 1) If the value of the correlation coefficient is $(r) < (0.5)$ r table, the element is invalid.
- 2) Correlation factor value $(r) > (0.5)$ If r table, the item is valid.

Reliability Test

Reliability testing is a tool for measuring questionnaires, which are indicators of variables. Questionnaires are said to be credible or credible if the respondents' statements' answers are consistent. Variables are represented as trusted if given a Cronbach's alpha value > 0.60 .

PLS Regression

This analysis predicts variable Y (exogenous) of variable Y (endogenous) that uses formative dimensions. PLS regression looks for the best components of X to predict Y. The PLS regression decomposes both variables X and Y as a result of a common orthogonal factor, so the endogenous variable X is decomposed as follows: $X = TPT$, $TT T = 1$ Since I is the identity matrix, T is the analytic function, and P is the load matrix (regression charges are not orthogonal in pls), Y is estimated as follows. Matrix B is a diagonal matrix with regression weights as diagonal elements, and C is a weight matrix of extrinsic variables.

Hypothesis Test

The hypothesis test in this study was performed by examining the coefficients of a current path by comparing a probability value of 0.05 with a sig probability value based on the following decision. 1) If the probability value of 0.05 is less than or equal to the probability value of Sig or $(0.05 \leq \text{Sig})$, H_0 is accepted, and H_a is rejected. That is, it does not matter. 2) If the probability value of 0.05 is greater than or equal to the probability value of Sig or $(0.05 \geq \text{Sig})$, H_0 is rejected, and H_a is accepted. H. important [16].

4. RESULTS AND DISCUSSION

Validity Test

The validity test is performed by comparing the square root of the mean-variance (AVE) extracted in each configuration with the correlation between the other configurations contained in the model.

Table 1. Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Financial Literacy	0.755
Financial Behavior	0.688
Investment Decision	0.701

Reliability Test

The reliability test of the construct is measured using the combined reliability and cronbach block measurement construct's Cronbach alpha.

Table 2. Composite Reliability dan Cronbach's Alpha

Variable	Cronbach's Alpha	Composite Reliability
Financial Literacy	0.963	0.968
Financial Behavior	0.935	0.946
Investment Decision	0.915	0.933

PLS Regression

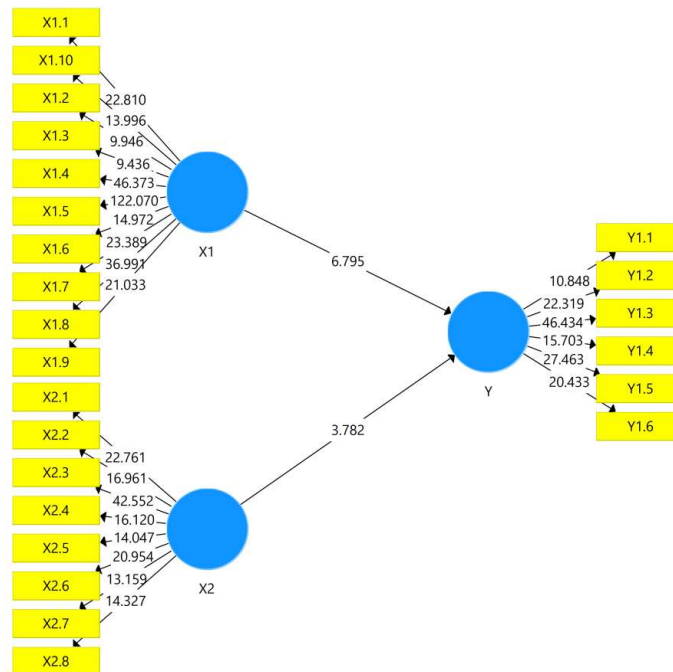


Figure 2. PLS Bootstrapping

Table 3. Path Coefficients (Mean, STDEV, t-Value)

Variabel	Original sample (O)	T statistics	P value	Sig. Level
Financial Literacy -> Investment Decision	0.507	6.795	0.000	<0.05
Financial Behavior -> Investment Decision	0.302	3.782	0.000	<0.05

Using the table above, we can see that the measured measurement model formed is an equation model like this:

$$Y1 = 0.507X1 + 0.302X2$$

X1 = Financial Literacy
 X2 = Financial Behavior
 Y = Investment Decision

Hypothesis Test

Table 4. Hypothesis Test

Hypothesis		t-test	P-Value	Result
H ₁	Financial Literacy effect on Millennial's Investment Decision	6.795	0.000	Valid
H ₂	Financial Behavior effect on Millennial's Investment Decision	3.782	0.000	Valid

Financial Literacy effect on Millennial's Investment Decision

Based on the table above, the timing dimension of variable financial literacy (X1) has a solid relationship with variable investment decisions (Y). This shows that financial literacy that occurs in millennials is good. This shows, if financial literacy (such as basic financial knowledge, savings and loans, investments, and insurance) millennials experience an increase then, one's investment decision-making will tend to be better. The first hypothesis millennials accepted is that financial literacy positively and significantly impacts investment decisions. This study supports a study showing the impact of financial literacy on investment decisions [10], [13]. A study also shows that the financial behavior of people with sound financial knowledge (financial knowledge) tends to be better than those with less financial knowledge [14].

Financial Behavior effect on Millennial's Investment Decision

Fluctuating financial behavior influences investment decisions. This is indicated by a table t-count value of 3.782 more significant than the table t-value = 1.96 and a probability value of 0.000 more minor than the specified value. It occupies a critical value limit of 0.05. These results are consistent with a survey, which concluded that they had a significant impact on investment decision-making among monetary and financial behavior variables. Therefore, this study is consistent with the prospect theory of financial behavior in financial decision-making. The better a person's financial attitude and spirituality, the better his financial behavior when making investment decisions [15].

5. CONCLUSIONS

Based on the results of the survey conducted, the conclusions of this survey are as follows:

- 1) Financial literacy has a significant impact on millennial investment decisions.
- 2) Treasury behavior has a significant impact on millennial investment decisions.

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