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Financial Literacy among Investors

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Abstract

Knowledge of financial management is important in life so that everything planned can follow the planned schedule. With the knowledge of financial management, everything related to finance needs to be arranged to ensure long term life to avoid financial pitfalls. Financial literacy plays an important role in managing expenses so that they can be controlled according to plan. Financial management can enhance the ability in producing individuals who wisely plan financially in every aspect of life. The objectives of the study are to identify the level of financial literacy among investors and identify the effects of lack of financial literacy. This paper seeks to unravel the importance of financial literacy in influencing financial behavior. In general, the method used in producing this study is part of a qualitative approach that involves highlighting and analysis of secondary data obtained through documents, research results or writings that have been highlighted. The data obtained were then analyzed systematically using writing content analysis techniques. The results show that each aspect of finance includes financial management skills, planning, budgeting, control and savings. Therefore, efforts need to be made to improve the level of financial literacy and financial behavior, especially among investors.

Keywords: Financial Behavior, Financial Literacy, Management.

Introduction

Financial literacy is knowledge, understanding of financial concepts, skills, motivation, and confidence. It is also a commonly used knowledge to manage finances (Chen & Volpe, 1998). In addition, it also positively affects a person’s finances in terms of behaviors such as managing or allocating their finances in the right way (Robb & Woodyard, 2011). Financial literacy can improve the ability to deal with daily financial problems and at the same time can reduce the negative impact of poor financial decisions that may take years to overcome (Delafrooz & Paim, 2011). Knowledge of financial management is very important because almost every business done involves financial management. According to Hussin et al (2012), money is an asset that plays an important role in our daily lives especially in the current uncertain economic situation. Therefore, it needs to be well managed for improved quality of life. Systematic financial planning and management can provide a stable financial position and
may even have a surplus for savings. Each individual’s money management is different according to their respective suitability. Nevertheless, the concept of financial literacy is the same. Therefore, it should not be taken lightly as the challenges of future life are getting harder (Yaacob, 2010). A financial crisis will occur if employees fail to plan financially wisely. In addition, the financial facilities offered today are very many such as loan and investment facilities that require public sector employees to have knowledge related to finance so that the well-being of life is more secure.

Research Methodology
This writing is based on a qualitative research approach that uses a study design library. The library method is a research activity related to data collection library, reading, recording and processing research materials (Sunawari, 2011). The data used are primary data, secondary data, data in the form of articles, books and research reports as well as other sources or information relevant to the topic al-Ihsan and also muamalah. All data collected were analyzed based on the method textual content analysis as well as deductive analysis that attempts to highlight a conclusion specific from a general knowledge involving data as well as the views and writings of experts.

Impact Literacy
Financial literacy is an important indicator of an individual’s ability to make personal financial decisions (Gui et al., 2020; Lusardi, 2019; Huang, 2016; Tan et al., 2011). Personal finance can be defined as the management of savings and investments. It includes elements of savings, insurance and mortgage budgeting (Mao, 2017) as well as investment (Gedmintiene and Visockaite, 2016), retirement planning, taxation and estate planning (Tan et al., 2011).

Financial literacy describes a construct or concept so it cannot be measured directly. Moore's (2003) study divides financial literacy into 3 aspects namely financial knowledge, financial behavior and financial experience and these three aspects are interrelated with each other. According to Moore, the more a person demonstrates the financial knowledge they possess, the higher their financial experience and the more they show a positive financial attitude, the more predictable their financial literacy phase. This is because of high experience and knowledge, a person becomes more sophisticated and efficient in their financial affairs. Whereas in a study by Chen and Volpe (1998) describes financial literacy is divided into general knowledge, savings and loans, insurance, and investment. The financial literacy mediator used by Lusardi et al (2009, 2011) in his study only revolves around 3 elements namely basic knowledge in financial concepts, interest rates, inflation and risk diversification. In addition, other researchers also used average values in their studies and the measurement used was found in (Hung et al., 2009).

In addition, financial literacy also helps improve the quality of financial services and contributes to the country's economic growth and development. With the increasing diversity of problems related to the economy, one’s needs, and financial products, everyone must have financial literacy to help manage their finances (Bhusnan & Medury, 2013). When making an investment decision, it is important to remember that it refers to an investment made with the intention of earning a return in the future (Faraz & Astrie, 2021)
A study conducted by Van Rooij et al (2011) found that financial literacy can influence investment decisions. A large number of individuals with low levels of financial literacy do not like to invest in stocks and conversely, people with high financial literacy are willing to participate in the stock market (Bucher-Koenen et al., 2017). Individuals with high financial literacy are willing to participate in stock markets and formal financial markets (Bucher-Koenen et al., 2017; Sabri, 2016). Financial literacy enhances investors’ financial information and financial knowledge, thus making them knowledgeable and confident in making investment decisions.

A study conducted by Kalsum et al (2018), a person with high financial literacy can make more accurate decisions in investing. This is because increased financial understanding can enable a person to make good investment decisions (Aren & Zengin, 2016; Awais et al., 2016). A study conducted by Jariwala (2015) on 385 investors in Gujarat found that the level of financial literacy of investors has a statistically significant influence on their investment decisions. One of the reasons is that millennials often make investment decisions based on solid knowledge. The level of an individual’s understanding of the basics of budgeting, savings, debt and investing affects quality of life (Frazier, 2019).

Lack of financial literacy can lead to wrong decisions being taken and can lead individuals to invest in illegal investment schemes (Gui et al., 2020). Most of the studies conducted show that inaccurate budgeting plans can expose a person to be a victim of investment fraud (Aung and Mon, 2020; Venkataraman and Venkatesan, 2018). Other factors such as lack of financial goals (Huang, 2016; Investor Protection Trust, 2020) and failure of judgment in making investment decisions (Pouryousefi and Frooman, 2019) contribute to the number of fraud victims.

This situation indicates the need to study financial literacy as one of the important factors in creating awareness of investment fraud. Although there are many preventive measures implemented by the government such as warnings on social media, the number of victims of investment fraud still remains high. Moreover, “soft” preventive measures such as education to the community may not be sufficient (Kasim et al., 2020) because illegal investment schemes remain an ongoing problem in the community. This can be seen in a report reported in The Star (2020), the Royal Malaysian Police (PDRM) has received 672 reports of fraudulent investment fraud, with losses estimated at RM90 million from January to July 2020. Similarly, the Securities Commission Malaysia announced that they have also received 370 inquiries and complaints on illegal investment fraud as of September 2020 compared to 317 for the whole of 2019 with a reported loss of RM914 million. This problem is expected to persist due to the rapid and massive adoption of multimedia and the internet (Tessuto et al., 2020; Feng et al., 2019).

The study of Diana-Rose and Zariyawati (2015) states that early exposure to financial management is important for the younger generation. This is because they have various obligations and learn how to save, make budgets and investments by taking many years. Data from 2015-2019 shows that those in the age group under 34 years account for the majority of bankruptcy cases in Malaysia which is 25.75 percent (Insolvency Department, 2019).
Conclusion
Findings from this study reveal the importance of financial literacy in creating awareness of the importance of financial literacy from the beginning to prevent investment fraud among investors. This study recommends that the understanding of financial knowledge should be emphasized starting from an early stage, especially at the level of higher learning institutions. It is hoped that early education on financial literacy will help reduce the number of bankruptcy cases especially among young investors.

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