CAPITAL MARKET LITERACY AND STUDENTS INVESTMENT DECISIONS

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Abstract

Capital market literacy is presented to give knowledge and experience to students as young investors with no experience in capital market investment products and transactions. The purpose of this research is to find out the role of capital market literacy to encourage students to make the right investment decisions. The unit analysis of this research was an active student of Widyatama University who has followed capital market school and become investors in the Indonesia capital market. This is preliminary research that only using simple statistical descriptive techniques about the number of students investors and their transaction values. The results showed that capital market literacy through capital market schools has an important role in increasing student investment interest and investment decisions which are reflected in the increasing trend of student investors and the value of their transactions in the capital market.

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1. Introduction

The capital market is a vessel that confronts between investors and issuers. The capital market trades various investment instruments including stocks, bonds, mutual funds, and derivatives. Each investment instrument offered has a certain level of return and risk. Stocks are famous investment instruments that have high demand by investors because they are considered capable of providing the highest rate of return with a certain level of risk. However, before making an investment decision, every individual is important to know clearly every product is offered by the capital market, because it is not only related to the returns, but also concern with the risks that will be faced by investors. Capital markets sometimes propose new products to attract investors interest, sometimes the products offered are quite complicated and difficult to understand quickly, especially for individuals who have no experience or have little experience with capital market transactions. Each individual must be responsible for his own investment decisions.

Now, the trend of investors in various capital markets, including Indonesia, has shifted from the baby boomers who have wealth, so they are able to carry out investment activities, to the millennial realm that is most of them are students with young age relatively. The Pew research center estimates that the number of capital market investors from the millennial generation has increased to 73 million, while the baby boomers have decreased by 72 million in 2019 (Finance.yahoo.com, 2019). Most of the millennial investors are students. Every year the number of student investors is increased, especially in the stock market. Students who invest in the stock market have the same goal as investors in general, which is expected future return on investments in the form of dividends and capital gains (Croushore, 2006). In the way to achieve their goals, students need better knowledge and understanding of the products offered by the capital market as new players with limited experience in order to avoid fallacious investment decisions. Refer to conventional financial theory, investors are very rational and act to maximize wealth in their investment decisions (Markowitz, 1952), but when they making investment decisions in real life, it appears that investors often behave irrationally (Rasheed, et al. 2016). This behavior is partly due to the low of capital market literacy which will affect the psychological aspects when making investment decisions.

Over the past few years, to solve this problem, the Indonesia Stock Exchange has collaborated with a number of universities throughout Indonesia to give away capital market education and literacy. The aim of this program is to increase student's interest in investment and precisely in investment decision making. One of the colleges that have collaborated with the Indonesia Stock Exchange is Widyatama University. For the last five years, capital market lecturers who already have capital market certifications together with The Indonesia Capital Market Institute (TICMI) routinely carry out literacy on Widyatama University students, especially management program students. The purpose of this study is to find out the role of capital market literacy in helping students make the right investment decisions, especially stock investment as the most popular investment instrument.

This study is different from previous research and is still rarely studied because it emphasizes the role of capital market literacy in helping students making proper investment decisions that reflected in the number of students investing in the capital market and changing of student investment value at Widyatama University.

2. Literature Review

Capital market literacy is part of financial literacy. Financial literacy has an important role related to various factors including the development of new financial products, the complexity of financial markets, changes in politics, demographics, and the economy. One of factors that can cause individuals to have an investment behavior bias is the lack of financial literacy that will bring them is erroneous in making investment decisions (Baker & Nofsinger,
Therefore financial education and financial knowledge gained from trading experience or other learning techniques might improve behavior and reduce bias in making investment decisions that show knowledge is truly beneficial. Over the past few years, financial literacy has been the focus of attention of various groups, such as the government, bankers, entrepreneurs, community group’s concerned, financial markets and other organizations, especially in developed countries (Al-Tamimi & Kalli, 2009).

Research on financial literacy has been carried out by a number of researchers such as Chen and Volpe (1998) who examined personal financial literacy in 924 college students from 13 campuses located in the United States. They try to explain the relationship between financial literacy of each student with gender, age, nationality, race, income, work experience, scientific discipline, and class ranking. Research result shows that scientific discipline, class rank, and length of work experience are significantly different for each level of literacy. They further stated that for students with non-business concentrations, low student ratings, and low work experience tend to have a low level of financial literacy. The results of his research also showed that female students had better financial literacy than men, then American citizen students had better financial literacy than students from outside the United States.

The Organization for Economic Cooperation and Development (OECD) in 2005 conducted an assessment of financial literacy in 12 countries including the United States, the United Kingdom, European countries, Australia and Japan, the results showed that the level of financial literacy of most respondents was still very low. The same result was mentioned by Lusardi and Mitchell (2005) who conducted research by designing a module on financial literacy for the health and retirement study. This module measures how workers make their savings decisions, how they collect information to make this decision, and whether they have the financial knowledge needed to make this decision. Respondents in this study are workers aged 50 years and over, and the results are only 1/3 of respondents who can answer questions asked by researchers about financial literacy which also shows that financial literacy is still low. This research result also showed that women as minority groups and those who did not have a bachelor's degree had great potential to have low financial knowledge.

Research conducted by Hidayat, et. al. (2019) towards 200 undergraduate students of the accounting and financial management study program of STIE Kesatuan from May – July 2019, shows that knowledge of investment profit levels and basic knowledge of stock valuation has a positive effect on student investment interest. This study result indicates that the student’s capital market literacy influences students’ desire to invest. Amhalmad & Irianto (2019) perform a study to 80 students of the Economic Education program, Faculty of Economics, Padang State University. The study result shows that investment knowledge affects the student investment interest.

High financial literacy is proven to be able to make investors use different criteria in making investment decisions compared to investors who have low financial literacy (Lusardi and Mitchell, 2005; Al-Tamimi & Al Anood, 2009; Van Rooij, Lusardi, and Alessie, 2011; Porto and Xiao, 2016). More evidence has shown that financial literacy influences financial behavior (Allgood and Walstad, 2016). Low financial literacy can affect investor bias behavior. Takeda, Takemura, and Kezo (2013) found that high financial literacy can prevent investors from being influenced by overconfidence bias with the consequence of bias in investment decisions. Financial literacy will encourage investors to have better financial knowledge, which can lead to positive financial behavior and increase investor investment.
decision (Bernheim et al., 2001; Danes et al., 1999; Varcoe et al., 2005)

Capital market literacy consist of knowledge of capital market as an official investment, issuer, investment instrument, risk & return, trading and other related topic.

3. Methods

This research type is applied research with descriptive statistical approach. The data used in this study is secondary data taken from capital market report. The data consist of the information about students who decide become investors and value of their investment. This research also uses additional information that is needed obtained from articles, journals, textbooks and etc.

Population of this study is Widyatama University students, especially student of management program. This study only using students who already decide becomes investor in capital market as sample to fulfill research objective. This study conduct for the period of 2015 – 2019 since Widyatama University sign memorandum of understanding with Indonesia Stock Exchange in 2015 and perform capital market school to increase student interest in capital market and becomes investor.

This research only explains how capital market literacy through capital market school can influence student behavior and decide to become an investor with continued capital market transactions. Financial literacy is not the only one factor that influences student investment decisions, but it plays an important role in increasing student interest and investment decisions as mention by Chen & Volpe (1998); Hidayat et. al. (2019); Amhalmad & Irianto (2019).

4. Results and Discussions

Capital market literacy is still low in Indonesia. Financial literacy index had reached 38.03% in 2019, while the capital market literacy was still 4.4.%, that means it is still low. In the way to increase capital market literacy, one of the steps taken by the Indonesia Stock Exchange and Financial Services Authority (OJK) is to collaborate with universities in Indonesia.

Widyatama University is one of college in west java that already sign a memorandum of understanding with Indonesia Stock Exchange through The Indonesia Capital Market Institute (TICMI) in 2015. Widyatama University also signs a collaboration agreement with PT Phintraco Bandung as a securities company. Since collaborating with TICMI and PT. Phintraco, Widyatama University starts to perform capital market literacy to management program students every semester. Capital market literacy is approached in terms of knowledge relating to capital market institutions, capital market products, risk and return, and also securities trading. This is important to be understood by candidates investors. Capital market literacy carried out through capital market school by using Widyatama Universities facilities and perform together with TICMI and PT. Phintraco. Capital market schools provide basic capital market material that has been published by TICMI in the form of comprehensive modules and videos. Other activities are stock lab games, technical analysis, and trading practice. Stock lab game design to push student’s interest to become capital market investors. The stock lab game was designed by OJK and is often contested, a number of Widyatama University students often take part in competitions and win. The money from the competition is invested by students in the capital market. The technical analysis explains by PT Phintraco trainer in an interesting way that makes students like learning. The trading practice also conducts by PT Phintraco trainer and experienced lecturer from Widyatama Universities.

All capital market literacy has a positive effect on the students, many students are interested to learn more about investing in the capital market by attending conferences and webinars performed by Indonesia Stock Exchange, securities companies, and others. Now many students of Widyatama Universities become Indonesia Capital Market Investors. The trend of Widyatama University students becoming investors in the Indonesia Stock Exchange since the capital market literacy has continued to rise,
including in upgrade of student transactions that illustrate the enhancement of student confidence in making investment decisions in line with their investment returns and risk. Only in 2017 a decrease of the students investors due to the slow process of opening an investment account and other completeness. The amount of students investor and their transaction values can be seen in the below table from 2015 until 2019:

Table 1. Students Investment and transactions values

| Years | The amount of students | Total Transactions |
|-------|------------------------|--------------------|
| 2015  | 25                     | 83,411,000         |
| 2016  | 61                     | 383,580,300        |
| 2017  | 42                     | 221,676,300        |
| 2018  | 62                     | 803,834,400        |
| 2019  | 79                     | 2,482,844,900      |

Source: Capital Market Reports

5. Conclusion

Students still have limited knowledge and little experience with capital market transactions. Capital market school in universities will help students to understand about capital market investment instrument. Capital market literacy has an important role to increase student knowledge about the capital market, push their interest to invest early and becomes a smart capital market investor, and also prevent from bias behavior in making investment decisions. The purpose of this research is to find out the role of capital market literacy in helping students to make the right investment decisions, especially stock investment as the most popular investment instrument in the capital market. The result shows that, after attending capital market school including stock lab games, technical analysis, and trading practice, also some conferences and webinars, trend of student interest to become investor lean to increase, except in 2017. The highest transaction is seen in 2019 compared to previous years. This study also indicates that students who have tried investing with the knowledge they have are increasingly interested in continuing to improve their transactions.

This research is preliminary research that only shows investor data and transaction value from students of management program, Widyatama University who has to follow capital market school and becomes an investor. Financial literacy not only one-factor influence student investment decision, therefore further research will be surveyed to determine factors affecting student investment decisions beside capital market literacy.

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