

The Influence of Financial Literacy, Overconfidence, and Financial Behavior on Investment Decisions of Students of the Faculty of Economics and Business University of Pembangunan Nasional "Veteran" East Java

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ARTICLE INFO

Keywords: Financial Literacy, Overconfidence, Financial Behavior, Investment Decision

Received : 06, November

Revised : 11, December

Accepted: 17, January

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ABSTRACT

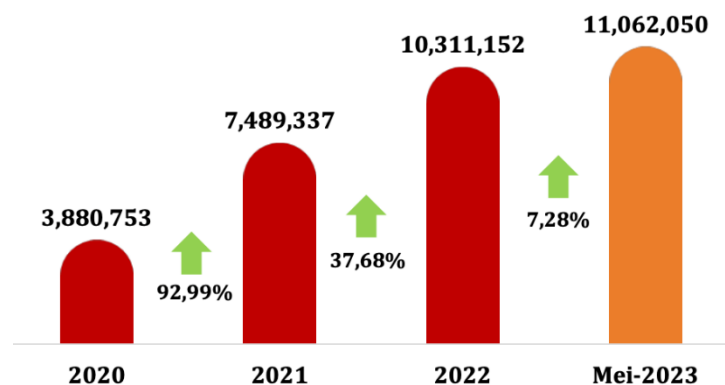
This study aims to determine the effect of financial literacy, overconfidence, and financial behavior on investment decisions of students of the Faculty of Economics and Business, University of *Pembangunan Nasional* East Java. The method applied in this study is a quantitative approach using stratified random sampling techniques. The sample of this study consisted of 98 respondents who had experience in making investment decisions. Data for this study was collected through filling out questionnaires distributed to students of the Faculty of Economics and Business University of *Pembangunan Nasional* "Veteran" East Java. Data analysis using Partial Least Square (PLS). The findings of this study show that financial literacy has no influence on investment decisions, overconfidence has a significant influence, and financial behavior has a significant influence on investment decisions.

INTRODUCTION

The economy in Indonesia in the era of globalization from year to year has grown rapidly so that people think of getting more income outside of their working salary. One way to earn income outside of salary is through investment. Investment is a means by which funds can be placed in the hope that they will earn positive income and maintain an increase in value. Everyone carries out investment activities with the hope of living a prosperous and well-off life.

Financial management in investment planning is key in the world of investment, because the right investment will produce sustainable profits for individuals. With investment planning, everyone is no longer worried because investment decisions are made carefully by considering unexpected risks in order to avoid losses and not be deceived when investing. To anticipate and minimize losses in investing, investors should improve knowledge related to financial literacy so that financial planning is more directed, maintaining financial stability and allocating financial resources appropriately and efficiently. Each investor has the ability to bear risks and profits with different levels, so that later they can plan investment goals clearly, not just to follow along to get profits in the capital market.

Stocks are one of the most popular investment instruments in Indonesia, there has been an increase in public interest in investing in stocks. This is reflected in the increasing number of investors in the capital market, as follows:



Graphic 1. Increase in Number of Capital Market Investors Throughout 2020-May 2023

Source: KSEI, 2023

From 2020 to 2023, the number of capital market investors always increases. In May 2023, this number increased by 7.28% from the previous year, namely 10,311,152 investors in 2022 increased to 11,062,050 investors.

The Financial Literacy Index of the Indonesian people is quite low. With a survey conducted by National Strategy on Indonesian Financial Literacy 2022, Indonesia has a financial literacy rate of 49.68%, so out of 100 people, only 49 people are literate in good financial knowledge (National Strategy on Indonesian Financial Literacy, 2021-2025).

In this study, a pre-survey was conducted to find out whether the student had invested or not. This pre-survey was conducted by conducting

interviews with 35 students. The results of the pre-survey only 28 students have invested, but there are still several obstacles faced when carrying out investment activities, as follows:

Table 1. Pre-survey Results

Number of Students	Problems
8 Students	Just following trend
6 Students	Poor risk management
7 Students	Less enthusiastic in investing because of small returns
7 Students	Feel their investment is right and generate <i>returns</i> as expected

Source: Author

It can be seen that there are some problems the students faced in investments, so researchers want to conduct further research on investment decisions made by students of Faculty of Economics and Business University of *Pembangunan Nasional "Veteran"* East Java.

THEORETICAL REVIEW

Financial Literacy

Financial knowledge is very important and indispensable for everyone to be able to optimally use existing financial instruments and products and be able to make the right financial decisions. According to (Purwanto, 2022) Financial literacy is an understanding of basic financial concepts, namely knowledge related to compound interest, differences in nominal and real values, basic knowledge related to risk diversification, time value of money. Similarly (Huston, 2010) financial literacy is the ability to read, analyze, manage, and communicate about personal financial conditions that can influence financial choices, financial decisions, discuss financial issues without discomfort, and can plan for the future that affect daily financial decisions.

Overconfidence

Overconfidence is excessive sureness in the ability and knowledge that has been possessed in making a trade or investment. This behavior will basically have a bad impact on investment decision making, because irrational actions that make an investor measure their knowledge and abilities too much without thinking about the impact and risk that will come. Investors believe that by making investments will get high return and low risk. In reality, this is not a guarantee and is not necessarily the case. According to (Pompian, 2006:3) overconfidence It can also be interpreted as a financial behavior that includes elements of human emotions and cognitive errors in financial decision making. Overconfidence can influence the decision making of an investor (Jannah & Ady, 2017).

Financial Behavior

Financial behavior is a person's ability to plan, budget, check, manage, control, search, and store daily financial funds (Kholilah and Iramani, 2013). This behavior also studies how humans actually can behave in a financial determination. According to (Wicaksono and Divarda, 2015) financial behavior is an approach that discusses and explains how humans make an investment or relate to finance which is influenced by psychological factors.

Investment Decisions

Investment is an activity of investing capital to get good and high return in the future. This relates to the investment decision making that will be carried out by an investor. Investment decisions or commonly known as capital budgeting according to (Rangkuty, 2006), which is a decision making for capital allocation. According to (Wulandari and Iramani, 2014) an investment decision is an action or policy that will be taken in investing an asset to produce return which is profitable in the future.

The Effect of Financial Literacy on Investment Decisions

Financial Literacy is a means to accelerate financial welfare, having financial literacy will help households manage daily finances, handle emergency funds, and also pull them out of poverty conditions (Salleh, 2015: 610). Financial literacy, especially about investment, can minimize errors in making investment decisions. It is suspected that financial literacy affects investment decisions. Well-literate investors will be able to make investment decisions appropriately. The higher the level of financial literacy of investors, the more rational they will be in making investment decisions.

Based on research by Purwanto and Ferdinand (2022) which examined with the title "Stock Investment Decisions in Students of the Faculty of Business Economics, Universitas Pembangunan Nasional Veteran Jawa Timur", it is proven that Financial Literacy affects investment decisions. The higher the level of financial literacy of students, will be followed by an increase in investment decisions.

H1: It is suspected that Financial Literacy variables have a positive influence on Student Investment Decisions

The Effect of Overconfidence on Investment Decisions

Overconfidence is a condition where an investor has excessive sureness in their abilities and knowledge. Overconfidence arises when an investor trusts the information they have gathered themselves too much because they have excessive optimism. A common feature of overconfidence among investors is that they are too sure in their ability to pick stocks, and decide when to enter or exit a position.

This influence between overconfidence and investment decisions has previously been tested by several researchers. As with the research conducted by Ayudiasuti (2021) entitled "Analysis of the Influence of Student Investment Decisions" found that overconfidence negatively affects investment decisions. It

is explained that a person's high and low level of overconfidence can contribute to investment decisions of unidirectional or negative change.

H2: It is suspected that Overconfidence variable has a negative influence on Student Investment Decisions

The Influence of Financial Behavior on Investment Decisions

Financial behavior is the ability or action taken by a person in organizing and managing finances, ranging from planning, spending, irregularities, bookkeeping, supervision and accountability of their financial resources. Financial behavior is based on the amount of a person's desire to meet their needs in accordance with the level of income obtained (Arwildayanto, 2017).

Based on Landang and Widnyana's (2021) research entitled "The Effect of Behavioral Financial Literacy", this study aims to determine the influence of financial literacy, financial behavior, income on investment decisions in students of the Faculty of Economics, Mahasaraswati University Denpasar. The results of this study show that Financial Behavior has a positive and significant effect on Investment Decisions

H3: It is suspected that Financial Behavior variables have a positive influence on Student Investment Decisions

METHODOLOGY

Population and Sample

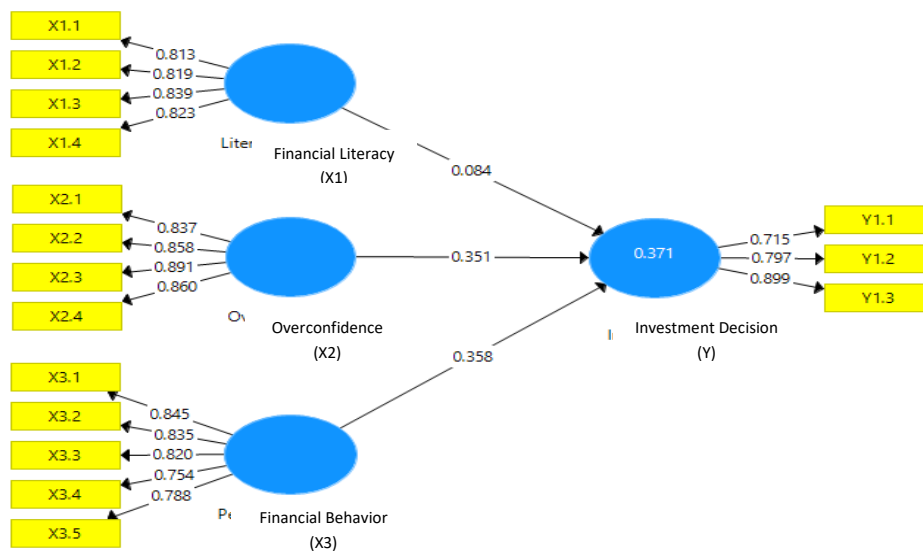
The population in this study is students of the Faculty of Economics and Business University of Pembangunan Nasional "Veteran" East Java. Population is the overall object of this research's focus. The technique used in this study is probability sampling. This study uses stratified random sampling in order to have consideration in the number of samples from each strata. Sampling in this study is done in a simple random way. In this study, samples were taken from students of the Faculty of Economics and Business University of Pembangunan Nasional "Veteran" East Java with a total of 98 samples consisting of 43 students majoring in Management, 33 students majoring in Accounting, 21 students majoring in Development Economics, and 1 student majoring in Entrepreneurship.

Data Collection Techniques

The types of data in this study are primary data and secondary data. The primary data source used in this study was questionnaires related to financial literacy, *overconfidence*, and financial behavior towards investment decisions to students of the Faculty of Economics and Business University of Pembangunan Nasional "Veteran" East Java. While secondary data sources in this study were obtained from several sources, namely journals, literature, previous researchers and sources from the internet that support this study. The Analysis Technique uses Smart PLS.

RESULTS AND DISSCUSION

Figure 1 PLS Model Analysis



Source: Processed Primary Data (2023)

In the PLS output that has been attached, we can find out the loading factor value for each indicator located above the arrow that connects the variable and the indicator. Coefficients path displayed above the arrow that connects exogenous variables and endogenous variables. The value of the R-square located inside the circle of endogenous variables (investment decision variables).

Table 2 Outer Loadings (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
X1.1 <- Financial Literacy (X1)	0,812977	0,803221	0,045520	0,045520	17,859630
X1.2 <- Financial Literacy (X1)	0,818834	0,814383	0,042037	0,042037	19,478909
X1.3 <- Financial Literacy (X1)	0,838863	0,836562	0,041669	0,041669	20,131438
X1.4 <- Financial Literacy (X1)	0,823094	0,817828	0,051031	0,051031	16,129218
X2.1 <- Overconfidence (X2)	0,837349	0,833604	0,036596	0,036596	22,880610
X2.2 <- Overconfidence (X2)	0,857992	0,855424	0,028373	0,028373	30,239794
X2.3 <- Overconfidence (X2)	0,890516	0,890166	0,017813	0,017813	49,993688
X2.4 <- Overconfidence (X2)	0,860343	0,856301	0,033231	0,033231	25,889803
X3.1 <- Financial Behavior (X3)	0,845422	0,844716	0,026469	0,026469	31,940331
X3.2 <- Financial Behavior (X3)	0,834839	0,831664	0,031701	0,031701	26,334956
X3.3 <- Financial Behavior (X3)	0,819713	0,817732	0,033693	0,033693	24,328700
X3.4 <- Financial Behavior (X3)	0,754358	0,750744	0,047504	0,047504	15,879827
X3.5 <- Financial Behavior (X3)	0,788023	0,786486	0,052268	0,052268	15,076617
Y1.1 <- Investment Decision (Y)	0,714517	0,713363	0,067670	0,067670	10,558799
Y1.2 <- Investment Decision (Y)	0,797075	0,792204	0,048013	0,048013	16,601136
Y1.3 <- Investment Decision (Y)	0,898528	0,897351	0,019469	0,019469	46,152717

Source: Processed Primary Data (2023)

The value of the Loading Factor (Original sample) can be said to be sufficient validity if it is greater than 0.5 and or the value of T-Statistic is greater than 1.96 (Z value at $\alpha = 0.05$). Loading Factor is a correlation between indicators and variables. Loading factor greater than 0.5 is considered as fulfilled validity as well as if the value of T-Statistic is greater than 1.96 then its significance is fulfilled.

Thus, based on the outer loading table above, all reflective indicators on the variables Financial Literacy (X1), Overconfidence (X2), Financial Behavior (X3), and Investment Decision (Y) have met the Convergent validity or good validity.

Measurement of validity indicator can also be seen from the Cross Loading table. If the loading factor value of each indicator on each variable is greater than the loading factor of each indicator on other variables, then the loading factor is said to be valid.

Table 3 R-Square

	R Square
Investment Decision (Y)	0,371119

Source: Processed Primary Data (2023)

Based on the test results, it was found that the value of R^2 is 0.371119. This can be interpreted that the research model is able to explain 37.11% of the variation in the phenomenon of Investment Decisions influenced by independent variables, such as Financial Literacy, Overconfidence, and Financial Behavior. The remaining 62.89% can be explained by other factors not studied in the study.

Table 4 Path Coefficients (Mean, STDEV, T-Values, P-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Financial Literacy (X1) -> Investment Decisions (Y)	0,083635	0,092970	0,109798	0,761718	0,446587
Overconfidence (X2) -> Investment Decision (Y)	0,350917	0,346829	0,103167	3,401444	0,000724
Financial Behavior (X3) -> Investment Decisions (Y)	0,358497	0,373026	0,099964	3,586261	0,000368

Source: Processed Primary Data (2023)

The Effect of Financial Literacy on Investment Decisions

Based on the results of the research that has been conducted, it was found that Financial Literacy does not affect the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java, Faculty of Economics and Business Students. This explains that high and low levels of financial literacy does not contribute to students' investment decisions. The results of this study are not in line with the hypothesis that the Financial Literacy variable has a significant positive effect on the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java, Faculty of Economics and Business Students.

Students feel that they have enough and do not have the urgency to invest, this is because students do not have dependents and all needs have been met by parents. Most investment decisions were made because reasons such as following trends along, trying it out, or just wanting to know what investment is like. This causes students not to be serious in undergoing their investment. The results of the analysis based on factor loading on the Financial Literacy variable show that the most influential indicator on Investment Decisions is Basic Knowledge of Financial Management. This does not mean that it can influence an investor to invest, because basic knowledge of financial management is not enough to help in making investment decisions.

This research is supported by research that states that Financial Literacy does not have a positive effect on Investment Decisions. Among them, the results of research conducted by Muhammad and Andika (2022) show that financial literacy does not affect investment decisions. This is proven because the level of literacy only affects how individuals manage their finances to meet their daily needs. Thus, it can be concluded that Financial Literacy cannot

influence the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java, Faculty of Economics and Business Students.

The Effect of Overconfidence on Investment Decisions

Based on the results of the research that has been conducted, it was found that Overconfidence has a positive effect on the Investment Decisions of Students of the Faculty of Economics and Business University of Pembangunan Nasional "Veteran" East Java. This shows that the higher the level of overconfidence of investors, the higher their investment decisions, resulting in increased trading activity. The results of this study are not in line with the hypothesis that the overconfidence variable has a significant negative effect on the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java Faculty of Economics and Business Students.

Overconfidence is excessive sureness investors has in assessing their abilities and knowledge. When investors assume to have skills in the world of investment, it becomes overconfidence and consequently increases the frequency of trading. The results of the analysis based on factor loading on the Overconfidence variable show that the most influential indicator on Investment Decisions is the Accuracy of Investment Purchases, so investors believe that the investment chosen will bring better benefits than other people's choices.

The results of this study are in line with research by Pertiwi (2019) with the title "*The biased factors of investor's behavior in stock exchange trading*" found that overconfidence positively affect the investment decisions of investors registered in several securities companies in the city of Surabaya. This indicates that the higher the level of overconfidence, the higher their investment decisions will be, resulting in increased trading activities. Thus it can be concluded that Overconfidence can influence the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java Faculty of Economics and Business Students.

The Influence of Financial Behavior on Investment Decisions

Based on the results of the research that has been conducted, it was found that Financial Behavior has a positive effect on the Investment Decisions of Students of the Faculty of Economics and Business University of Pembangunan Nasional "Veteran" East Java. This shows that the better the investor's financial behavior, the wiser decisions will be made and in accordance with their investment goals. The results of this study are in line with the hypothesis that the Financial Behavior variable has a significant positive effect on the Investment Decision of University of Pembangunan Nasional "Veteran" East Java Faculty of Economics and Business Students.

Financial behavior is the ability or action carried out by a person in organizing and managing finances, ranging from planning, spending, irregularities, bookkeeping, supervision and accountability of their financial resources. Financial behavior in the context of investment decisions refers to how a person manages and makes decisions related to their investments. The results of the analysis based on factor loading on Financial Behavior variables show that the most influential indicator on Investment Decisions is Preparing

Future Plans. In this context, if investors have good financial behavior, they must have structured future financial planning.

The results of this study are in line with Fitriarianti's research (2018) entitled "The Effect of Financial Literacy, Financial Behavior, and Income on Investment Decisions". The results of this study show that financial behavior and income have a significant effect on investment decisions because the better a person's financial attitude or mentality, the better one's financial behavior in making investment decisions. Thus, it can be concluded that Financial Behavior can influence the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java Faculty of Economics and Business Students.

CONCLUSIONS AND RECOMMENDATIONS

Based on the test results using PLS analysis to examine the effect of Financial Literacy, Overconfidence, and Financial Behavior on Investment decisions, the following conclusions can be drawn, (1) Financial Literacy does not affect the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java Faculty of Economics and Business Students. They feel that they have good financial literacy so they are more careful in making investment decisions. (2) Overconfidence has a significant positive effect on the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java Faculty of Economics and Business Students. Students with overconfidence believe that investment success comes from one's own ability and knowledge. In addition, they also feel that the information they have is the most accurate information and refuse to consider the risks that could occur. (3) Financial Behavior has a significant positive effect on the Investment Decisions of University of Pembangunan Nasional "Veteran" East Java Faculty of Economics and Business Students. Students who have regular and organized financial behavior will create a good financial attitude or mentality so their investment decision making will get better.

Based on the results and research that has been presented, there are several suggestions that can be considered and used as material in future decision making. Some suggestions are as follows: (1) It is hoped that students should have more confidence in their abilities in making investment decisions. Do not hesitate, fear, and feel inadequate in investing. Investment decisions made half-heartedly will not get maximum results. (2) Preparing financial plans for the future must be familiarized by students. It can help students to predict and prevent emergency situations.

FURTHER STUDY

This study has limitations on variables and objects, it is hoped that the next researcher can add other variables and expand the object of research that has not been included in this study to determine its effect on investment decisions.

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