



Analysis of Factors Influencing Young People Investing in the Capital Market

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Abstract

One of the factors that influences a person's interest in investing is the amount of profit they receive. Investors choose investments that offer high returns. The amount of profit achieved by each type of investment vehicle is different. The aim of this research is to find out more about the factors that most influence the younger generation to invest in the capital market. The type used in this research is qualitative research. The approach taken is literature research, where researchers investigate and analyze various theories and applicable regulations related to capital market investment. There are several factors that influence the younger generation to invest in the capital market, including cultural, social, personal and psychological factors

Keywords: *Influencing factors, Young People, Investors, Capital Markets*

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INTRODUCTION

Investing in the capital market has emerged as a significant economic activity, recognized for its potential to foster wealth creation and economic development. As a vital component of the financial system, the capital market serves as a conduit for channeling savings into productive investments, driving economic growth and individual prosperity. Despite these advantages, participation in the capital market remains disproportionately low among Indonesia's younger population. This discrepancy raises critical questions about the factors that influence young people to invest, or refrain from investing, in capital market instruments.

Recent data underscore the potential of Indonesia's capital market as a promising investment vehicle. According to the Indonesia Stock Exchange (IDX), the number of investors with unique identification numbers (SID) surged by 56% to 3.02 million at the end of 2020 (Ramadhani, 2021). This remarkable growth occurred amidst the economic turbulence caused by the COVID-19 pandemic, when global financial markets faced

significant disruptions. Interestingly, the pandemic also catalyzed a shift in consumer behavior, particularly among younger demographics, who began exploring digital investment platforms as an alternative to traditional savings methods. Despite this progress, the total number of investors remains a small fraction of Indonesia's population, reflecting a significant gap between potential and actual market participation. (Tari, 2020). The graph of the growth in the number of capital market investors can be seen in Figure 1. below:



Figure 1. Number of Capital Market Investors

In an ideal scenario, the younger generation would actively engage in capital market investments, leveraging the opportunities offered by modern financial instruments to achieve personal financial stability and contribute to national economic development. Such engagement would enhance financial literacy, promote long-term savings habits, and create a robust investor base to support the economy. However, in reality, several barriers hinder the realization of this ideal. These barriers are rooted in cultural, social, personal, and psychological factors that shape investment preferences and behaviors among young people.

Cultural factors, such as societal norms, values, and traditions, play a pivotal role in shaping financial behavior. Kotler and Keller (2008) emphasize that cultural influences are among the most profound determinants of consumer behavior, often dictating attitudes toward risk, savings, and investment. For instance, in some Indonesian communities, a preference for tangible assets like land and gold over intangible assets like stocks may limit participation in the capital market. Additionally, subcultural dynamics, including regional traditions and religious beliefs, further complicate investment decision-making (Thamrin & Tanti, 2014).

Social factors, including family, peer groups, and societal status, also exert considerable influence on investment behavior. Family plays a central role in financial socialization, transmitting values and attitudes toward money management across generations. For many young Indonesians, decisions about savings and investments are influenced by parental guidance or peer recommendations, reflecting the collectivist nature of the society (Kotler & Keller, 2008). Moreover, social status and aspirations often shape investment choices, with young people seeking to emulate successful individuals within their reference groups.

Personal factors, such as income, education, and lifestyle, add another layer of complexity. Young investors often face financial constraints, limited by entry-level salaries and student debt. These economic realities shape their risk tolerance and investment preferences, often skewing choices toward low-risk options with immediate returns. Furthermore, educational background significantly impacts financial literacy, which is a critical determinant of investment behavior. Individuals with higher levels of financial knowledge are more likely to participate in the capital market, as they possess the skills to evaluate risks and opportunities effectively (Tatik, 2003).

Psychological factors, including motivation, perception, and attitudes, further influence investment decisions. Motivation, driven by personal goals and aspirations, encourages young people to seek financial security and independence through investments. However, perceptions of risk and uncertainty often deter participation, particularly among those with limited exposure to financial markets. According to Philip Kotler, perception is a subjective process, shaped by individual experiences and environmental cues. For young Indonesians, perceptions of the capital market as a complex and risky domain may inhibit engagement, despite the availability of accessible investment platforms (Kotler & Keller, 2008).

While previous studies have explored these factors individually, significant gaps remain in understanding their interplay within the Indonesian context. For example, Nandar et al. (2018) examined the role of economic incentives in shaping investment behavior but did not account for the broader cultural and psychological influences. Similarly, Susminingsih (2020) highlighted the impact of cultural norms but overlooked the role of emerging digital technologies in transforming investment practices. These limitations underscore the need for a comprehensive framework that integrates cultural, social, personal, and psychological dimensions to provide a holistic understanding of youth investment behavior.

The rapid digitalization of financial services adds another dimension to this discussion. The proliferation of online investment platforms and fintech innovations has created new opportunities for young people to access the capital market. These platforms, characterized by user-friendly interfaces and low entry barriers, have the potential to democratize investment participation. However, their effectiveness depends on the extent to which they address the underlying factors that influence investment behavior. For instance, digital platforms may reduce perceived complexity but cannot entirely eliminate cultural or psychological barriers.

This study seeks to address these gaps by analyzing the factors that influence young Indonesians' participation in the capital market. By adopting an integrative approach, the research aims to uncover the interplay between cultural, social, personal, and psychological determinants, providing a nuanced understanding of the barriers and motivators that shape investment decisions. Specifically, the study will explore how cultural norms and subcultures influence risk perception, how social dynamics affect financial decision-making, how personal characteristics shape investment preferences, and how psychological factors drive or deter engagement with the capital market.

The findings of this research are expected to contribute to the development of targeted strategies for financial education, policy-making, and market interventions. By identifying the key barriers and motivators affecting young investors, the study aims to inform initiatives that promote greater inclusivity and engagement in the capital market. For instance, policymakers could design culturally sensitive financial literacy programs to address specific community needs, while fintech companies could develop tailored solutions to enhance accessibility and user experience for young investors.

In conclusion, understanding the factors that influence young people to invest in the capital market is crucial for realizing Indonesia's economic potential. As the country continues to navigate the challenges and opportunities of a rapidly evolving financial landscape, fostering greater participation among the younger generation will be essential for building a resilient and inclusive economy. This study represents a step toward achieving this goal, offering insights that bridge the gap between idealized aspirations and the realities of youth investment behavior in Indonesia.

METHODS

This study employs a qualitative research method with a library research approach. The objective is to investigate and analyze various theories and applicable regulations concerning factors influencing young people to invest in the capital market. This section outlines the methods employed to ensure the research is systematic, reliable, and academically rigorous.

The qualitative research method was selected as it allows for an in-depth understanding of the factors influencing investment decisions among the younger generation. The study adopts a descriptive approach, focusing on synthesizing existing theoretical and empirical literature to derive insights. This approach is suitable for identifying patterns and themes in the behaviors and motivations of young investors.

Data were collected through secondary sources, including scholarly articles, books, reports, and reliable online databases. Key resources include:

- a. Scholarly publications discussing cultural, social, personal, and psychological factors affecting consumer and investment behavior (e.g., x & Armstrong, 2008; Susminingsih, 2020).
- b. Official reports and statistical data from reputable institutions such as the Indonesia Stock Exchange (IDX) and the Financial Services Authority (OJK).
- c. Studies on the socio-economic dynamics influencing investment decisions, with a particular focus on the younger demographic (e.g., Nandar et al., 2018; Tari, 2020).

The criteria for selecting literature included relevance to the research objectives, publication in peer-reviewed journals, and recency to ensure the inclusion of the latest trends and findings. This study adheres to ethical standards in research by ensuring the accurate representation of cited works and avoiding plagiarism. Proper citations have been provided for all sources, following academic referencing guidelines.

The study is limited by its reliance on secondary data, which may not fully capture the dynamic and subjective nature of young investors' behavior. Future research may incorporate primary data collection, such as interviews or surveys, to validate and expand upon the findings presented here. This method approach ensures the research findings are grounded in established literature, providing a robust foundation for analyzing the factors influencing young people's investment decisions.

RESULTS OF FINDINGS

Investors are organisations or individuals who purchase ownership of public companies. According to Law No. 25 of 2007, an investor is an individual or business entity that makes an investment, and the form of investment can be domestic or foreign. Investors are the most important criteria in the development of the capital market. Without investors, the existence of the capital market is meaningless. If there are no investors in the capital market, there is no activity. The role and function of investors are very important for the development of the capital market (Firmansyah, 2010).

Cultural Factors

a. Culture

Adolescents receive different types of perceptions, values, behaviours and preferences from their families and other important institutions (Ngroho, 2015). Young people raised in other countries may have different principles regarding personality, interactions with others, and rituals.

b. Subcultures

Each culture is made up of smaller subcultures that allow for more specific identification and socialisation of its members. Subcultures include pride, religion, racial groups, and geographical regions.

c. Social Class

The description of social class, distinguishes seven levels from bottom to top: 1) Lower-lower class, 2) Upper-lower class, 3) Working class, 4) Middle class, 5) Upper-middle class, 6) Lower upper class and 7) Higher upper class.

Social classes have several characteristics. Firstly, people from each social class have similar speech styles, entertainment preferences and dress styles compared to people from other social classes. Secondly, groups of variables such as income, occupation, education, values, and wealth provide information about social class.

Economic actors always prioritise symbolic interactionism when negotiating their wants and expectations. In other words, the ways and actions to fulfil people's needs are the subject of joint research between culture and economics (Susminingsih, 2020).

Based on cultural factors and considering the existing regulatory culture, researchers conclude that the younger generation is influenced by the regulatory culture when investing in the capital market. A bad culture can certainly prevent the younger generation from investing in the capital market.

Social Factors

Social factors are factors influenced by reference groups, family, role and status that influence purchasing behaviour.

a. Reference Group

A person's reference group includes all groups that have a direct (personal) or indirect influence on his attitudes and behaviour. Groups that have a direct influence are called member groups. For example, aspirational groups are groups that society wants to follow, and dissociative groups are groups whose values and behaviour are rejected by society.

b. Family

The orientational family consists of parents and siblings, while the reproductive family consists of married couples and children. The role of the younger generation in purchasing varies depending on the product category (Wigati, 2011).

c. Social Roles

You can identify people in each group who are expected to do this. Roles include activities that are expected of a person. Social variables can be a tool for economic analysis. This is because there are social variables that can be used to explain economic problems comprehensively. In other words, sociology often focuses on an individual's orientation to the environment and how that orientation affects behaviour.

Based on social factors, researchers concluded that these young investors will reflect their behaviour towards society. For example, young investors buy and sell shares in investments that affect their socio-economic status.

Personal Factors

Personal factors are personal characteristics that influence purchasing decisions, such as age, life cycle stage, occupation, economic status, personality, self-image, lifestyle, and values.

a. Age and Life Cycle Stage

Consumption is also influenced by the family life cycle and the number, gender, and age of family members at that time.

b. Occupation and Economic

Situation Business owners buy expensive clothes and travel in luxury planes and cars. In contrast to office workers, they buy work clothes and shoes, and bring their own equipment.

c. Personality and Self-Concept

Personality is a set of human psychological characteristics that produce relatively stable and sustainable responses to environmental stimuli (including purchasing behaviour). Personality is often described by traits such as confidence, self-control, dominance, social integration, honour, adaptability and self-care.

Young people often choose and use brands whose personality matches their self-image, but this match is based on the young person's idealised self-perception (how he or she sees him or herself) or may be based on the self-perception of others (how he or she sees himself or herself as others see him or her). The younger generation is

more introspective (sensitive to the opinions of others) and tends to choose brands that match their personality and consumption situation.

d. Lifestyle and Values

A lifestyle is a person's way of living in the world, expressed through their activities, interests and opinions. Lifestyles describe the general interaction between people and their environment. Time-strapped young people tend to multitask, meaning they complete two or more tasks at the same time.

Researchers concluded that, based on personal factors, young people are also influenced by the core values and belief systems that underlie their attitudes and behaviour. Core values go deeper than just actions and attitudes and determine decisions and aspirations at a fundamental and long-term level.

Psychological Factors

a. Motivation

The process that creates incentives for young people to buy products and services is called motivation. Some physiological needs cannot be learned (e.g. the need for food, air, water, and clothing), while others can be learned through behaviour (e.g. self-esteem, prestige, power, etc.).

Such behaviours can take the form of decision-making, brand selection and product rejection. The behaviour of young people in choosing their favourite brands and stores is an observable behaviour. This is what the younger generation wants to achieve through their actions (Tatik, 2003).

b. Perception

According to Philip Kotler, perception is the process by which a person selects, organises, and interprets input information to create a meaningful picture of the world. Human perception depends not only on physical stimuli, but also on stimuli related to the environment and individual situations.

The younger generation's perception of products/services affects their choice of products/services to buy. When awareness is high, young people will pay attention to information about products and services, evaluate them, and purchase them.

c. Learning Process

Learning is a process by which an individual seeks to achieve new changes in general behaviour resulting from the individual's own experience in interacting with the environment. Adolescent learning is a process of changing behaviour to suit their needs.

d. Beliefs and Attitudes

In other words, consumer confidence is the knowledge they have about an object, its characteristics, and its benefits. Consumer confidence relates to the belief that a product, its features and benefits can reflect consumer perceptions.

The researchers concluded that based on psychological factors, teenagers develop different psychological behaviours that lead each person to behave in a certain way when faced with an event. These behaviours also influence how young investors use and interpret this information when making decisions.

DISCUSSION

The findings of this study reveal that cultural, social, personal, and psychological factors significantly influence young people's decisions to invest in the capital market. This section interprets these results in light of existing theories and prior research to provide a comprehensive understanding of the topic.

Cultural Factors

Cultural influences, including norms, values, and traditions, play a pivotal role in shaping investment behaviors among young individuals. Kotler and Keller (2008) assert that cultural factors form the foundation of consumer behavior, providing a framework within which individuals make decisions. In this study, the regulatory culture of the capital market is identified as a key determinant of young people's investment decisions. A positive regulatory culture encourages trust and participation, whereas a poor culture can act as a barrier (Susminingsih, 2020). For instance, the younger generation's inclination to adopt investment strategies aligned with cultural norms demonstrates the profound impact of societal values on economic behaviors. This aligns with the findings of Ngroho (2015), who emphasized the role of cultural institutions in shaping youth preferences.

Subcultures, such as religious and regional affiliations, also influence investment behavior by creating specific identity frameworks. These affiliations often define acceptable investment practices, which can either promote or hinder participation in the capital market. The hierarchical structure of social classes further exemplifies cultural influences. Individuals within higher social strata are generally more inclined to invest due to greater financial literacy and resource availability (Susminingsih, 2020). Consequently, enhancing cultural awareness and education can serve as strategic measures to improve investment participation among the youth.

Social Factors

Social factors, encompassing reference groups, family, and social roles, significantly influence young investors. Reference groups, as defined by Wigati (2011), include aspirational and dissociative groups that shape individuals' attitudes and behaviors. For example, young investors may emulate peers who have successfully ventured into the capital market. This phenomenon reflects the concept of social proof, wherein individuals are influenced by the actions of others within their social network.

Family dynamics further play a critical role in shaping investment decisions. Parental guidance and familial financial habits often instill early perceptions of investment (Wigati, 2011). In contrast, a lack of financial literacy within families can deter young individuals from engaging in the capital market. The role of social status, as highlighted by Thamrin and Tantri (2014), also underscores the influence of societal expectations. Investments are often viewed as a marker of socio-economic achievement, motivating young people to participate in the capital market.

The findings suggest that fostering supportive social environments can enhance investment behaviors. Strategies such as community-based financial education and mentorship programs could leverage social influences to promote capital market participation among the youth.

Personal Factors

Personal factors, including age, occupation, economic status, personality, and lifestyle, directly impact investment preferences and decisions. The life-cycle hypothesis suggests that individuals' investment behaviors evolve with age and financial responsibilities (Munawaroh & Sugiono, 2019). Younger individuals, characterized by fewer financial obligations, often exhibit a higher risk tolerance, making them more receptive to capital market investments. Economic status further influences investment capacity. Individuals with stable incomes and higher disposable wealth are more likely to invest in the capital market (Sunariya, 2015). Personality traits, such as confidence and adaptability, also shape investment decisions. Confident individuals are more likely to explore and commit to investment opportunities, aligning with the self-concept theory proposed by Kotler and Armstrong (2008). Furthermore, lifestyles centered around technology and multitasking provide young investors with tools to access and analyze market information effectively.

These findings underscore the importance of personalized financial products tailored to the unique characteristics and needs of young investors. Financial institutions and policymakers should consider designing investment options that cater to different life stages, economic statuses, and personality profiles.

Psychological Factors

Psychological factors, including motivation, perception, learning, and attitudes, profoundly affect young investors' decision-making processes. Motivation, as described by Tatik (2003), drives individuals to pursue investment opportunities that align with their personal goals and aspirations. For young people, motivations often stem from the desire for financial independence and long-term wealth accumulation.

Perception plays a crucial role in shaping investment decisions. Kotler and Armstrong (2008) emphasize that perceptions are influenced by external stimuli, such as media and peer recommendations, as well as individual experiences. Positive perceptions of the capital market, including transparency and profitability, encourage young investors to participate actively. Conversely, negative perceptions, such as high risks and complexity, may deter involvement.

The learning process further contributes to investment behaviors. Young investors acquire knowledge and skills through personal experiences and external sources, shaping their confidence and competence in navigating the capital market (Tatik, 2003). Additionally, attitudes, defined as predispositions to respond favorably or unfavorably to investment opportunities, are shaped by past experiences and cultural influences. Positive attitudes towards the capital market are often reinforced by successful investment outcomes, creating a feedback loop that encourages further participation.

To address psychological barriers, initiatives such as investor education programs and awareness campaigns can play a pivotal role. These efforts should focus on demystifying the capital market, building trust, and fostering positive perceptions among the youth.

Integration of Factors

While each factor independently influences investment decisions, their interactions create a comprehensive framework that shapes young people's behaviors. For instance, cultural values may intersect with social influences, reinforcing norms that either encourage or discourage investment. Similarly, personal traits such as confidence may amplify the

effects of psychological motivators like financial aspirations.

This integrative perspective highlights the complexity of young investors' decision-making processes. Strategies aimed at increasing youth participation in the capital market must therefore adopt a holistic approach, addressing multiple dimensions simultaneously. For example, policies that combine financial education with cultural awareness campaigns and accessible investment platforms are likely to yield more significant outcomes.

Implications for Stakeholders

The findings of this study offer valuable insights for various stakeholders. Policymakers can leverage these insights to design targeted interventions that address the specific needs and challenges faced by young investors. Educational institutions can integrate financial literacy programs into their curricula, equipping students with the skills and knowledge needed to navigate the capital market effectively. Financial institutions, on the other hand, can develop innovative products and services that resonate with the preferences and behaviors of young investors.

Furthermore, collaboration between stakeholders is essential to creating a supportive ecosystem for youth investment. Partnerships between government agencies, educational institutions, and financial organizations can facilitate the development and implementation of comprehensive strategies to enhance capital market participation among the younger generation.

Limitations and Future Research

While this study provides valuable insights, its reliance on secondary data limits the ability to capture the dynamic and subjective nature of young investors' behaviors. Future research should incorporate primary data collection methods, such as surveys and interviews, to validate and expand upon these findings. Additionally, longitudinal studies could explore the long-term impact of cultural, social, personal, and psychological factors on investment behaviors.

In conclusion, this study underscores the multifaceted nature of young people's investment decisions in the capital market. By addressing cultural, social, personal, and psychological factors comprehensively, stakeholders can foster a more inclusive and dynamic investment landscape that empowers the younger generation to contribute meaningfully to economic growth.

CONCLUSION

According to Law Number 25 Year 2007, an investor is an individual or business entity that invests, and the form of investment can be domestic or foreign. There are several factors that influence young people in investing in the capital market, such as cultural factors, social factors, personal factors and psychological factors.

Based on cultural factors and considering the existing regulatory culture, the researcher concludes that the younger generation is influenced by the regulatory culture when investing in the capital market. A bad culture can certainly hinder the younger generation to invest in the capital market. Based on social factors, researchers concluded that these young investors will reflect their behaviour towards society. For example, young investors buy and sell shares in investments that affect their socio-economic status. Based on personal factors, the

researcher concluded that young people are also influenced by the core values and belief systems that underlie their attitudes and behaviour. Core values go deeper than just actions and attitudes and determine decisions and aspirations at a fundamental and long-term level.

The researchers concluded that based on psychological factors, young people develop different psychological behaviours that lead each person to behave in a certain way when faced with an event. These behaviours also influence how young investors use and interpret this information when making decisions.

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