



Investing at a Young Age: Analyse the Benefits and Risks

Safe Places to Invest

Nurhaliza¹, Winda Pauwisata Pasaribu², Tomuan Sagala³, Risky⁴

Accounting Study Programme, Faculty of Social Science, Panca Budi Pembangunan University, Medan,
North Sumatra, Indonesia¹²³⁴

tomuansahgala@gmail.com

Submission: 16 Agustus 2024

Accepted: 3 September 2024

Published: 20 September 2024

Abstract

The research aims to provide information on investments ranging from benefit, risk and safe places to invest. Investment is a present time commitment with the hope of providing benefits in the future, in Indonesia itself an investment rate has improved as people's financial literacy and an awareness of the importance of investing in long-term financial goals. There are various types and safe places to start such investments as deposits, mutual funds, gold investments, forex, online gold savings, SBN securities, stock investments, p2p expenditures and so on. In this study, the authors use library research as a kind of study where the authors use literature in both books, notes and research reports from previous studies.

Keywords : Benefits, Risks, Where to Invest

This is an open access article distributed under CC BY-SA 4.0 Attribution License, provided the original work is properly cited. ©2024 by Nurhaliza, Winda Pauwisata Pasaribu, Tomuan Sagala, Risky

INTRODUCTION

Investment has become one of the main topics in modern financial management, especially for young generations who are increasingly aware of the importance of financial stability in the future. Investment is often defined as the commitment of resources, whether in the form of money or other assets, made in the present with the hope of gaining economic benefits in the future (Tandelilin, 2010). In practice, investment encompasses various instruments, both tangible, such as land, gold, and property, and financial, such as stocks, bonds, and mutual funds. In Indonesia, the growing interest in investment indicates a significant increase in financial literacy. According to the Ministry of Investment/Investment Coordinating Board (BKPM), investment realization in the first quarter of 2024 increased by 22.1% compared to the same period in the previous year, creating more than 547,000 new jobs.

Despite increasing financial literacy, a gap remains between the ideal and the reality in the field. On one hand, investments promise various benefits, such as wealth growth, diversified income, and long-term financial security. On the other hand, inherent risks in

investment, such as purchasing power risk due to inflation, business risk, interest rate risk, market risk, and liquidity risk, remain significant obstacles (Hartono & Harjito, 2002). Moreover, for inexperienced young investors, emotional influence and a lack of deep understanding of risk management often affect their investment decisions (Brigham & Houston, 2004). These conditions underline the need for targeted efforts to bridge the gap between financial literacy and practical capabilities in managing investment portfolios.

Previous literature has extensively discussed the benefits and risks of investment, as well as the factors influencing its success. Merawati (2015) emphasized the importance of the capital market as a connector between investors and companies to support sustainable economic growth. Meanwhile, Nugroho (2012) highlighted the importance of education and understanding before starting investment to minimize potential risks. In recent years, digital technology has significantly contributed to facilitating investment access, especially through online platforms increasingly popular among younger generations (Rorizki et al., 2022; Saputra & Mulyadi, 2023). With this convenience, young generations have greater opportunities to embark on their investment journey. However, investment success depends not only on accessibility but also on a solid understanding of the instruments used and the strategies implemented.

Investing at a young age offers unique advantages, especially due to the extended time frame to leverage the compounding effect. By starting early, young investors can build stronger and more stable portfolios over time. However, the risks faced by the younger generation are also unique. One major risk is the tendency toward high-risk tolerance, often leading them to make overly bold decisions without careful consideration. Additionally, a lack of experience in managing investments can trap them in emotional pitfalls, such as selling assets when prices drop or buying assets without adequate analysis. Therefore, it is crucial for young generations to receive appropriate guidance to maximize opportunities without compromising their financial stability.

In this context, innovation in the form of more in-depth and targeted financial literacy becomes essential. This study aims to explore the benefits, risks, and safe places to invest, particularly for young generations. Using a literature review approach, this research not only contributes to the theoretical development of investment but also offers practical recommendations for young investors. This study also highlights the importance of portfolio diversification and risk management as key strategies for achieving investment success.

The benefits of investment are not limited to wealth accumulation but also include other aspects such as building good financial habits, enhancing understanding of financial markets, and preparing for a more stable financial future. By starting early, young generations can prepare themselves to face future financial challenges, such as purchasing a home, pursuing higher education, or even retirement. On the other hand, the risks associated with investment, such as market volatility and dependency on a single type of asset, require special attention. Therefore, understanding risk management and portfolio diversification becomes crucial in managing investments effectively.

Along with technological advancements, access to various types of investments has become easier. Digital platforms enable young generations to start investing with small capital, thereby reducing financial barriers that previously existed. Instruments such as

mutual funds, stocks, bonds, and even technology-based investments like peer-to-peer lending have become increasingly popular among young investors. However, this convenience also introduces new risks, such as data security and potential fraud. Thus, it is essential for young investors to select investment platforms registered and supervised by relevant authorities, such as the Financial Services Authority (OJK) in Indonesia.

In this literature review, previous studies on investing at a young age will be analyzed to provide a comprehensive overview of the factors influencing investment success. Additionally, this study will discuss strategies to overcome investment failures, such as the importance of education, portfolio diversification, and risk management. Thus, this research is expected to provide broader insights into how to start and manage investments effectively, especially for young generations who are just beginning their financial journey.

Ultimately, this study has several primary objectives. First, to provide a deeper understanding of the benefits and risks of investing at a young age. Second, to identify safe and strategic places to start investing and the factors to consider when selecting investment instruments. Third, to offer practical recommendations to help young generations make wiser investment decisions. By referencing the latest literature and conducting critical analyses of existing challenges, this research is expected to serve as a relevant and beneficial guide for young generations in the modern era.

In conclusion, investing at a young age is not only about generating financial returns but also about building a strong financial foundation for the future. By understanding the benefits, risks, and appropriate strategies, young generations can maximize their potential to achieve long-term financial goals. This study aims to support these efforts through comprehensive analysis and practical recommendations, thereby contributing to the development of financial literacy and economic stability in the future.

METHODS

This study utilizes a literature review method to examine the benefits, risks, and safe investment options for young generations. This method involves a systematic approach to identifying, analyzing, and synthesizing various scholarly sources to gain comprehensive insights. The primary data sources consist of academic journal articles, books, government reports, and other relevant publications. Article selection was based on relevance to the topic of investment, with a focus on literature published in the last ten years to ensure up-to-date data.

Keywords such as "investment benefits," "investment risks," and "safe investment" were used to conduct searches in databases like Scopus, PubMed, and Google Scholar. The search results were filtered based on inclusion criteria, such as studies focusing on young generation investments, and exclusion criteria to avoid less credible sources. The collected data were analyzed using thematic analysis to identify key patterns and insights related to investment.

The research process includes several stages: problem identification, literature search, data extraction, thematic analysis, and reporting results. Digital tools such as Mendeley and NVivo were employed to facilitate reference organization and data analysis. With this

approach, the study aims to provide relevant and credible insights into financial literacy and investment practices among young generations.

RESULTS OF FINDINGS

Investing at a young age offers numerous profound advantages, not only in terms of building financial wealth but also in fostering healthy financial habits and essential managerial skills. One of the primary benefits of investing early is the extended time horizon available to grow investment returns. As explained by Tandelilin (2010), a longer investment period allows individuals to benefit from the principle of compound interest, where earnings generated from previous returns further enhance future returns. Thus, the earlier one begins investing, the greater the potential returns over the long term.

Additionally, investing at a young age provides opportunities to take on higher risks. Brigham and Houston (2004) argue that younger investors typically have a higher risk tolerance, enabling them to explore riskier instruments that offer greater potential returns, such as stocks or derivatives. This is especially relevant in the context of capital markets, where price fluctuations can present opportunities for long-term investors willing to accept higher risks. The decision to take on significant risks is more justifiable given the ample time available to recover from potential losses.

Moreover, starting investments early offers the chance to develop a deeper understanding of financial markets and risk management. Nugroho (2012) emphasizes that investing is not solely about generating returns but also about learning how to effectively manage risks. Hands-on experience in financial markets enables young investors to acquire skills that will prove valuable in the future. These include understanding market fluctuations, managing portfolios, and identifying opportunities and threats within the investment landscape.

Another critical benefit is the establishment of healthy financial habits. According to Merawati (2015), initiating investments at a young age encourages individuals to cultivate habits of saving and planning for long-term financial goals. These habits are essential for ensuring financial stability in the future, as they help individuals address urgent needs and achieve larger financial objectives, such as purchasing a home, funding education, or planning for retirement. Through consistent and well-planned investments, individuals can attain financial independence earlier in life, reducing reliance on active income sources.

Technological advancements have also played a significant role in supporting young investors. Digital investment platforms have made it easier for younger generations to start investing with relatively small amounts of capital and lower transaction costs. The Financial Services Authority (Otoritas Jasa Keuangan, 2021) reports that technological advancements, particularly through investment applications and online platforms, have facilitated access to capital markets and other investment instruments. These platforms enable young investors to easily access various products, such as mutual funds, stocks, and bonds, in an efficient manner. Furthermore, the use of robo-advisors allows individuals to receive tailored investment recommendations based on their risk profiles, thus enhancing smarter investment decisions.

Overall, the findings of this study highlight that investing at a young age offers numerous benefits, from long-term financial gains to the development of habits and skills necessary for managing personal finances. However, it is important to remember that all investments involve risks, and investment decisions should be based on thorough understanding, careful research, and well-structured strategies. Early investments provide opportunities to optimize wealth, but the success of these investments depends on accurate market knowledge and effective risk management.

DISCUSSION

Investing at a young age aligns strongly with various financial literature and previous studies. The findings of this study corroborate Tandelilin (2010), who highlights the importance of time as a critical asset in investing. A young age provides the advantage of a longer time horizon, allowing investors to leverage compound interest—an essential factor in exponential investment growth. This explains why starting investments earlier can yield significantly higher returns than beginning at a later stage in life.

Additionally, the high-risk tolerance of young investors enables them to make bolder decisions in exploring high-risk instruments, such as stocks and derivatives. A study by Brigham and Houston (2004) supports this view, showing that younger investors have ample time to recover from potential losses, thus taking advantage of market volatility for long-term gains. However, it is crucial to note that success in taking risks relies on a deep understanding of the market and effective risk management.

From a risk perspective, a lack of experience poses a significant challenge for young investors. Nugroho (2012) emphasizes that insufficient financial literacy often leads to impulsive or irrational decision-making. This is exacerbated by market volatility, which can impact portfolio stability if not supported by a well-thought-out investment strategy. In this context, financial education plays a pivotal role in enhancing young investors' ability to understand investment instruments and manage risks effectively.

Technological advancements have significantly influenced the investment patterns of the younger generation. According to the Financial Services Authority (OJK, 2021), digital investment platforms have facilitated access to various investment products, ranging from mutual funds to stocks. This technology not only provides broader accessibility but also offers advanced features, such as robo-advisors, which deliver data-driven recommendations tailored to investors' risk profiles. Research by Saputra and Mulyadi (2023) shows that the adoption of technology in investment has increased young people's participation in the capital market, creating new trends in wealth management.

The development of healthy financial habits is another significant benefit of investing early. According to Merawati (2015), the discipline of saving and planning long-term finances gained through investment positively impacts individuals' financial stability. These habits help young investors focus on achieving financial goals, such as acquiring productive assets or preparing for retirement. With habits built early, young generations are more likely to achieve financial independence in the future.

Moreover, regulatory support from the government and financial institutions plays a crucial role in creating a safe investment environment. A study by Rorizki et al. (2022)

reveals that the initiatives of the Financial Services Authority in improving financial literacy and providing oversight of digital investment platforms have instilled confidence among the public, especially young investors, to start investing. These policies strengthen the accessibility of safe investments tailored to the needs of beginner investors.

However, it is essential to note that not all aspects could be addressed in this study. Limitations in the literature used and the library research approach affect the depth of analysis. Future studies could explore other aspects, such as young investors' behavior or the social impact of investment on this age group, to provide a more comprehensive understanding.

Overall, this discussion underscores that investing at a young age offers significant benefits but requires well-structured strategies and a deep understanding of risks. Support from technology, financial literacy, and strong regulations form the key pillars for maximizing the investment potential of younger generations. This study provides a vital foundation for young investors to seize opportunities and navigate challenges in the investment world wisely.

CONCLUSION

Investing at a young age is a very important and strategic step in building long-term wealth and achieving financial freedom. The benefits of investing at a young age include the advantage of time for investment growth, the opportunity to learn and develop an understanding of finance, and preparation for a more financially stable future. By starting early, you can capitalise on the potential of compound interest to generate significant returns from your investments. Moreover, the financial education gained from this experience can help you better deal with risks and make smarter investment decisions in the future. Don't hesitate to take advantage of this opportunity now. With consistency, proper education, and a good strategy, you can build a strong financial foundation for a better and more financially secure future.

LITERATURE

- Brigham, E. F., & Houston, J. F. (2004). *Dasar-Dasar Manajemen Keuangan*. Jakarta: Salemba Empat.
- Merawati, Y. (2015). Pasar Modal sebagai Sarana Peningkatan Perekonomian Berkelanjutan. *Jurnal Ekonomi dan Keuangan Indonesia*, 3(2), 89-105.
- Nugroho, R. (2012). *Manajemen Keuangan dan Investasi: Teori dan Aplikasi*. Yogyakarta: Graha Ilmu.
- Otoritas Jasa Keuangan (OJK). (2021). *Laporan Tren Investasi dan Literasi Keuangan*. Jakarta: OJK.
- Rorizki, F., Sakinah, S., Dalimunthe, A., & Silalahi, P. R. (2022). Perkembangan dan Tantangan Pasar Modal Indonesia. *Economic Reviews Journal*, 1(2), 147-157.

Investing at a Young Age: Analyse the Benefits and Risks Safe Places to Invest
- Nurhaliza, Winda Pauwisata Pasaribu, Tomuan Sagala, Risky

Saputra, N., & Mulyadi, D. (2023). Perkembangan dan Tantangan Pasar Modal Indonesia. *Jurnal Ilmiah Wahana Pendidikan*, 9(6), 358-363.

Tandelilin, E. (2010). *Dasar-dasar Manajemen Investasi*. Yogyakarta: Kanisius..