

CHAPTER 1

INTRODUCTION

1.1 Background

Investment is one of the instruments of growth and development that is essential for a country to improve the prosperity and welfare of its people. One of the most common form of investment is investments made in the capital market. An investment is defined by Cambridge Dictionary as the commitment of a portion of funds for a certain period to get a rate of return that will compensate for the lock-up time in which the funds cannot be used, the expected inflation during the investment period and the uncertainty of the future. Investment is needed in order to increase wealth, fulfill needs, overcome inflation and to anticipate uncertainty in the future. The decision to invest involves the exchange between current/immediate consumption and future/delayed consumption for a potentially greater consumption in the future.

A stock is defined as a sign of capital participation of an individual or institution in a company or corporation. It is an attractive investment instrument for an investors to make returns. By owning shares, an investor becomes part of the company owner and will receive returns based on the performance of the company and in proportion to the shares own. The trade-off in stock investing is between the expected return of the investment and its risk. The returns that an investor can get is from the appreciation of stock price over time and/or from the dividends paid from the company to the stockholder (Mishkin & Eakin, 2007). The risk of an investment is defined as the variability and uncertainty of that expected return and the possibility of having capital loss. If a person decides to invest, that person will do so according to the utility theory by selecting stocks and creating portfolios that maximizes the person's satisfaction (Kusmawati, 2011). Utility is maximized when the investor

receives the greatest expected return for a certain variance (risk) or the least variance (risk) for a certain expected return.

To make an investment decision, investor must first determine their required rate of return (Reilly & Brown, 2006). Investor have access on information such as the expected cash flow, income statements and the market prices of the stock of companies that are listed in a stock exchange which are available for public. Investor then can use the information to estimate the value of an investment and determine whether the intrinsic value matches the current market price. Models such as discounted cash flow, Gordon growth and price earnings multiple are often used for valuation of the investment. Investor can then decide whether to buy the stock or not based on the stock's valuation and its expected return.

In Indonesia, the only organized stock market is the Indonesia Stock Exchange (IDX). The capital market in Indonesia had existed before the deceleration of Indonesia's independence. It was first established on 1912 in Jakarta (used to be called Batavia) during the Dutch colonial era to serve the Dutch East India Company also known as VOC. The market in that era grew moderately and became dormant for some moment during World War I and II. After the war and Indonesia's declaration of independence, a transition of power occurs between the Dutch government to Indonesian government. The capital market is then reactivated in 1977, and has been growing tremendously ever since.

The Jakarta Composite Index (JCI) is an index created by Indonesia Stock Exchange that uses all listed companies as the constituents for its index calculation to reflect the market condition of Indonesia. During the period of 2016 to March 2018, the average JCI growth per year was recorded at 11.59%. This figure exceeds the return

on other investments which ranges at 7.65% for gold at 2014 to March 2018, 7.21% for government debt at 2016 to March 2015 and 6% for deposits at 2014 to March 2018 (Sihombing, 2018). The graph below shows the price of JCI over the past years:



Figure 1.1 JCI Prices

Source: Yahoo Finance (2018)

The average yield generated by issuers (listed companies) on the Indonesia Stock Exchange has been favorable. Many issuers provide yields of up to hundreds of percent both in the short and long term investment horizon. According to Sulistio as cited in Sihombing (2018), the managing director of the Indonesian Stock Exchange, on May 2016, the Indonesia Stock Exchange had provided one of the highest return in the world, up to 317% of total return or 15% annually in the last ten years. Overall the average return on investment in the Indonesia Stock Exchange is has been satisfactory in comparison of stock exchanges on an international scale. The following table shows the top 10 returns of stock exchanges in the world in 2017 (Budiman & Malik, 2018).

Table 1.1 Returns of Stock Exchanges

| Rank | Index | Country | Return (%) |
|-------------|--------------|----------------|-------------------|
| 1 | Hang Seng | Hong Kong | 35,99 |
| 2 | S&P Sensex | India | 27,9 |
| 3 | DJIA | USA | 25,68 |
| 4 | PSE Index | Philippines | 25,11 |
| 5 | Kospi | South Korea | 21,76 |
| 6 | JCI | Indonesia | 19,99 |
| 7 | Nikkei 225 | Japan | 19,10 |
| 8 | FTSE ST | Singapore | 18,13 |
| 9 | SET Index | Thailand | 13,66 |
| 10 | FTSE BM | Malaysia | 9,45 |

Source: Budiman & Malik (2018)

With one of the highest annual average return in the world, the Indonesian capital market should have been an attractive investment vehicle for Indonesian people. But despite of the great potential return it offers, the interest of Indonesian people to invest in stocks is still very minimal. The lack of investment can be seen from the portion of funds in Indonesia Stock Exchange that originated from foreign investors (52,23%).

Based on data from the Indonesian Central Securities Depository (KSEI), the number of Indonesian investors as of March 2018 reached 1.21 million single investor identification (SID), an increase of 36 percent from the 2016 realization of 894,116 SID. SID are codes that are issued by KSEI for investors to conduct securities transactions. The largest portion of investors are sourced from Java which is 75.59%. Followed by, Sumatra 13.50%, Kalimantan 4.13% and Sulawesi 2.62%. Then, Bali, NTT and NTB at 2.62%. And finally, Maluku and Papua at only 1%.

Despite the overall growth of double digits in the number of investors, this number is still relatively very small compared to the total population which is around 258 million people. This is quite depressing when compared with some other neighboring countries such as Malaysia and Singapore which had 2.49 investors and 1.5 million investors (Gumiwang, 2018).

The Indonesia Stock Exchange continues to strive in increasing the number of capital market investors in Indonesia. According to the Sulistio as cited in Gumiwang (2018), students, which has been an easier target for IDX, still has a great potential as new capital market investors. As of March 2018, 16.76% of the total number of investors are university students. IDX, the government, universities and other educational institution are staying active in the hopes to increase student's participation in stock investment. Various efforts such as the creation of 'Yuk Nabung Saham' campaign, capital market school, investment galleries and various capital market education programs has been deployed to increase the interest of the students to invest (Riyandi, 2018).

In the context of Indonesia's economic development, scholars and university students, plays a very important role. They are the ones that will fill the workforce and will become the pillars of the economy in the future. Students are also viewed as an agent of change. They are the intellectual part of the community group and are expected to be able to think critically to solve problems and give solutions for the community. Therefore, students plays a crucial role in the revolution of a community (Ramadhan, 2015). Students, especially those in the fields of commerce and economic studies, have been provided with the basic knowledge of investment and financial instruments in their lectures and study curriculums and therefore are expected to be the ideal investor candidates that can actively and intelligently participate in the capital

market. Their participation will increase both the total quantity and the quality of investors in the Indonesian capital market.

Khotimah, Warsini, and Nuraeni (2014) found that financial knowledge affects one's investment interest. An adequate knowledge of a certain field can increase the confidence of the person to do an action which in this case is investing in stocks. Therefore, if a person has sufficient knowledge, that person will be encouraged to invest.

In addition to that, one's motivation also plays a crucial role in fostering one's interest in investing (Kusmawati, 2011). Motivation can trigger someone to take actions or decisions outside of their action in everyday life such as investing. Investment needs are carried out by someone who has funds that exceed their substantial needs and want to utilize the fund for other needs (Hamonangan, 2007).

There has been prior studies in regards to investment interest of people in Indonesia. One of the most relevant study is a study done by Kusmawati (2011) which analyzes the influence of motivation towards the investment interest in women using knowledge and age as a moderating variable. Despite that, to the knowledge of the researcher, there is a lack of study that focuses on the stock investment interest of university students specifically on those studying commerce related studies in Jakarta. Therefore, based on the problems described above, the researcher intends to conduct the research with the title "The Effect of Investment Knowledge and Motivation towards the Investing Interest of Commerce Students in Jakarta".

1.2 Scope

This research will focus on the investment interest specifically on commerce students in Jakarta. Given the various possible factors that can influence people's interest in investing in shares, this study will focus on the influence of investment knowledge and motivation. Given the large number of population of commerce students in Jakarta, a sample of 100 respondents will be used for this study. Respondents are strictly required to be Indonesian citizens, living in Jakarta, enrolled in a university and are majoring in commerce or economy related studies. Jakarta is chosen for the scope of this study as Jakarta is the capital city of Indonesia which acts not only as the center of the government, but also as the major economic, trade, industrial and cultural contributors to Indonesia. It also hosts to some of the greatest commerce universities in Indonesia making it an ideal target for gathering the respondents.

1.3 Research Questions

As mentioned previously, an adequate knowledge of a certain topic can increase the interest and confidence of the person towards the topic. In addition to that, a person's motivation can also trigger their interest to take actions or decisions outside of their action in everyday life. Investment knowledge and motivation is then suspected to be able to influence the investment interest of a person. The researcher also noticed a lack of study that focuses on the stock investment interest of university students specifically on those studying commerce related studies in Jakarta.

Therefore, in accordance to the background mentioned above, the main research questions are as follows:

1. Does investment knowledge significantly influence the interest in stock investment of commerce students in Jakarta?
2. Does motivation significantly influence the interest in stock investment of commerce students in Jakarta?

1.4 Research Objectives

In accordance to the background mentioned above, the objectives of this study are as follows:

1. To analyze the influence of investment knowledge towards the interest in stock investment of commerce students in Jakarta.
2. To analyze the influence of motivation towards the interest in stock investment of commerce students in Jakarta.

1.5 Research Contribution

This research is expected to give contributions on the following areas:

1. To general readers, this research is expected to give knowledge and insights regarding the factors that can influence the interest of a commerce student in stock investment also to provide an insight of what causes the low number of stock investors in the Indonesia Stock Exchange. It is also hoped to spark interests of non-stock investors to invest in shares.
2. To future researchers, this research is hoped to be able to become a source for background and comparison as well as to be an additional reference to future researches.

3. To the Indonesia Stock Exchange and other related organization, this research is hoped to be able to act as a reference and can give insights on how to effectively increase the interest students to invest.
4. To the author, this research is expected to give knowledge and insights regarding the factors that influences a commerce scholar's interest in stock investment also to provide an insight of what causes the low number of stock investors in the Indonesia Stock Exchange.

1.6 Research Structures

This research will include five main chapters, which will provide an extensive and lucent understanding for the reader. In each chapter, the reader will be able to have a thorough understanding of the topics discussed in the chapters respectively. A brief explanation of each chapters is described as follow:

Chapter 1: INTRODUCTION

This chapter will provide a brief overview of the topic that which includes the background of the study, the problem identified, scope of the study, aim of the study and the benefits that the study offers.

Chapter 2: THEORETICAL FOUNDATION

This chapter will emphasize on the discussion of the theories underlying the research topic and defining the related key concepts. The discussion of the development of hypothesis and theoretical framework will also be incorporated in this chapter.

Chapter 3: RESEARCH METHODOLOGY

This chapter explains the methodology that will be used in collecting data, processing data, and interpreting the results of data processing.

Chapter 4: RESEARCH FINDINGS

This chapter contains an analysis of the results and findings from data processing that was carried out which is then discussed to answer the research questions described previously.

Chapter 5: CONCLUSION AND RECOMMENDATIONS

This chapter includes the conclusion which will cover the findings of the research. Furthermore, it will also include the limitations of this study and recommendations for future researches and studies.