

The Role of Financial Literacy in Shaping Stock Market Investment Behaviour of Generation Z in Klang Valley

Nur Aqilah Zainordin^{1*}, Anna Lee Shue Ann², Kho Yin Xuan³,
Nor Aziyatul Izni Mohd Rosli⁴, Nursyamillah Annuar⁵

¹UNIKL Business School, 1016 Jalan Sultan Ismail, 50250 Kuala Lumpur.

^{2,3}Faculty of Business and Management, UCSI University, No.1 UCSI Heights, Jalan Puncak Menara Gading, Taman Connaught, 56000 Kuala Lumpur, Malaysia

⁴Centre of Foundation Studies, Universiti Teknologi MARA, Cawangan Selangor, Kampus Dengkil, 43800 Dengkil, Selangor, Malaysia

⁵ Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Perlis, Kampus Arau, 02600 Arau, Perlis, Malaysia

Authors' Email Address: ¹naqilah@unikl.edu.my, ²1002161954@ucsiuniversity.edu.my,
³1002266202@ucsiuniversity.edu.my, ⁴naizni@uitm.edu.my, ⁵nsyamillah@uitm.edu.my

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*Corresponding Author

ABSTRACT

This study examined the factors influencing stock market investment decisions among Generation Z in Klang Valley based on herding behaviour, advocate recommendations, social media influence, and financial literacy. This study aims to provide valuable insights into the key drivers behind stock investment decisions among Generation Z, aiming to fill the knowledge gap, particularly in the Klang Valley region. The research integrates three theoretical frameworks to understand how these factors affect investment choices: the Theory of Planned Behavior, Behavioral Finance Theory, and Social Cognitive Theory. Data from 450 respondents aged 18-27 were collected via questionnaires using SPSS Version 29. The study adopted a quantitative, cross-sectional design and convenience sampling. The findings revealed that herding behaviour, social media influence, and financial literacy significantly and positively impact stock investment decisions, with financial literacy being the most influential. Conversely, advocate recommendations were found to have minimal and statistically insignificant impact on stock investment decisions. The study also outlined theoretical and practical implications, limitations, and suggestions for future research.

Keywords: financial literacy, generation Z, stock market, TPB theory, quantitative method

INTRODUCTION

Investment involves distributing surplus funds or resources to available opportunities, anticipating greater returns in the future, and investments are intended to gain financial stability both presently and in retirement. Most potential investors are confident that investment activities will propel their wealth towards long-term prosperity (Kusumaningrum et al., 2019). With the progress in media and business, individuals today are more aware of investment opportunities. According to Jalil (2023), investors

under the age of 45 constitute 7% of the total stock market investors in Bursa Malaysia, with the number likely being significantly smaller for individuals aged between 20 and 30 years old, considered the youngest investors. Moreover, Akhtar and Das (2019) asserted that investing in stocks has become increasingly popular in today's financial landscape, emerging as a favoured option among investors. They also mentioned that long-term stock investments offer the potential for capital gains and attractive returns, albeit accompanied by inherent risks (Akhtar & Das, 2019). Engaging in stock market investments primarily aims to optimise potential returns while reducing associated risks. Hence, investing in stocks is viewed as a means for investors to generate additional income, although returns are not assured (Siegel, 2021).

Given the growing popularity of stock market investments, it is essential to understand how different demographic groups approach this financial opportunity. According to the report provided by the Institute for Capital Market Research Malaysia (ICMR), Millennials (born roughly between 1981-1996) and Generation Z (born roughly between 1997-2012) account for 63% of the global population. Apart from this, data from the Department of Statistics Malaysia (DOSM) indicates that there are approximately 17.1 million individuals aged between 10 and 40 years old, constituting 52.5% of the total population. Generation Z, often known as "Gen Z" refers to individuals born between 1997 and 2012. It represents a generation succeeding the Millennials and preceding Generation Alpha. The eldest of this group are entering their late 20s and in the transition phase from college life to marriage and starting families, while the youngest are around 12 years old (Warren, 2024).

In the meantime, investment scammers deceive the public by offering fabricated investment opportunities, whether through false information regarding genuine investments or by fictitious investment prospects in various sectors such as stocks, bonds, forex, notes, and commodities (Reurink, 2018). Despite the regulatory efforts of Bank Negara Malaysia under the Financial Services Act 2013 and Islamic Financial Services Act 2013, and the Securities Commission under the Capital Market Service Act 2007, some consumers remain unaware of illegal financial service providers and investment scams (Huan & Singh, 2023; Yusoff & Hassan, 2022). Subsequently, there is a worrying trend that more Gen Z individuals will experience failed investments, leading to financial problems at a young age. However, there is currently a lack of research on factors influencing investment decisions in the stock market among Gen Z. This paper aims to address this knowledge gap in understanding the influence of herding behaviour, advocate recommendations, social media influence, and financial literacy on Gen Z investors' decisions in the stock market, particularly in Klang Valley. Analysing how these factors impact the investment decisions of Gen Z individuals in the region helps them exercise greater caution while encouraging investment in the stock market. It offers valuable insights for investors and financial institutions alike.

LITERATURE REVIEW

Theoretical Foundation

This study used the Theory of Planned Behaviour (TPB) adopted from Ajzen, 2020. According to the TPB, behavioural intention is shaped by three factors: attitude toward the behavior, subjective norm, and perceived Behavioral control (Ajzen, 2020). The TPB model, acclaimed for its efficacy in analyzing the impact of information and incentives on human behavior, has become one of the most widely accepted and effective social-psychological models for understanding and predicting human behavior (Akhtar & Das, 2019; Ajzen, 2015; Timm & Deal, 2016).

This study also incorporated the behavioural finance theory, which demonstrates how cognitive and personality characteristics influence decision-making processes, occasionally resulting in irrational choices (James, 2023; Kubilay & Bayrakdaroglu, 2016; Relan, 2018). These judgements

can be profoundly affected by current and projected macroeconomic situations. The study aims to elucidate why Gen Z individuals sometimes diverge from rational decision-making by neglecting numerous behavioural and emotional elements that affect certain investing choices.

Moreover, another theoretical framework to support the study is the social cognitive theory (SCT). The theory emphasises how individuals learn and make decisions through observing others' behaviours, which aligns well with examining herding behaviour and social media's impact on investment decisions. In the context of social media and investment decisions, this theory can shed light on how investors learn from each other on these platforms and how it influences their stock investment decisions (Maniy et al., 2023). In the realm of investment decisions, self-efficacy can influence how investors utilise social media to gather information and make decisions.

Herding Behaviour

Herding, as articulated by Chauhan et al. (2020) and Tonne and Dao (2014), denotes the imitation of other investors' behaviours within their social networks or the broader public, frequently disregarding pertinent information on the investment or market conditions. Additionally, herding conduct can be ascribed to the Bandwagon effect and the Fear of Missing Out (FOMO). Barnfield (2020) articulated that the Bandwagon effect refers to the inclination of individuals to make decisions influenced by the preferences of others, operating under the assumption that widespread endorsement signifies appropriateness for their own choices. Additionally, Hasanah et al. (2019) asserted that band wagon influences individuals' inclination and investment decision-making.

Qasim et al. (2019) found that herding behaviour significantly affects investment decisions. Kengatharan (2014) discovered that herding behavior positively influences investors' decision-making, whereas Lim (2012) concluded that herding behavior does not significantly impact investors' decision-making. Cao et al. (2021) also identified a positive correlation between herding behaviour and investment decisions. Hence, based on the above literature, the following hypothesis was formulated:

H1: Herding behaviour significantly impacts investment decisions in the stock market among Gen Z in Klang Valley

Advocate Recommendations

Advocate recommendations (AR) encompass advice from various sources such as family, friends, financial advisors, brokerage firms, co-workers, and individual stockbrokers, all of which play a significant role in shaping investment decisions among Gen Z individuals in the stock market (Shah & Asghar, 2023). Intelligent and risk-averse investors always want to take suggestions from peers, financial experts, or sharebrokers (Ahmed et al., 2022). Research conducted by Hou et al. (2019), Sachdeva and Lehal (2023), and Sapkota and Chalise (2023) demonstrates that advocate suggestions substantially impact investment decisions, highlighting the importance of advocacy in influencing investor behaviour and choices. Despite Haritha and Uchil (2020) and Sachdeva and Lehal (2023) highlighting the necessity of social interactions for seeking advice and knowledge, particularly when traditional financial information may not suffice, their studies revealed that advocate recommendations are the least influential factor in investment decisions.

Findings of Hossain et al. (2023) and Lal et al. (2023) support this finding, indicating that younger investors, including Gen Z, tend to be more independent and less susceptible to external advice when making investment decisions. These researchers highlighted that this independence might stem from their increased access to diverse information sources and technological tools, allowing them to conduct their research and make informed decisions without relying heavily on advocate recommendations.

H2: Advocate recommendations significantly impact investment decisions in the stock market among Gen Z in Klang Valley.

Social Media

According to Appel et al. (2019) and Dwivedi et al. (2021), social media platforms have developed into essential tools for businesses looking to engage with their target audience, promote products, and establish brand identity. Social media mood and stock prices were found to be significantly correlated by Al-Balushi et al. (2021), suggesting that social media could be a useful tool for advising investors. In a similar vein, Khatik et al. (2021) discovered that social media significantly influenced Gen Z's investing choices. The impact of online community behaviour on investing decisions is demonstrated by the correlation between sentiment analysis of social media conversations and stock market forecasts (Subramanian & Prerana, 2021). Khadka and Chapagain's (2023) study provided additional evidence that investment decisions were highly impacted by social media content, online community activity, and the company's social media image.

Additionally, social media influencers with sizable fan bases have a lot of sway over investor behaviour and the advice they give. Miniesy et al. (2022) highlighted the importance of social media on financial choices by discovering a direct association between stock market developments and Twitter sentiment. Effective risk management techniques are necessary since social media offers both opportunities and risks, including the potential for market manipulation and false information (Reiter et al., 2022).

H3: Social media has a significant impact on investment decisions in the stock market among Gen Z in Klang Valley.

Financial Literacy

One of the most critical factors influencing young investors' investment choices is financial literacy, which includes both the ability to understand how money functions in modern society and the comprehension of financial concepts and how to apply them to investment decisions for long-term financial well-being (Alshebami & Aldhyani, 2022). According to a study by Wong et al. (2022), young Malaysian students found it challenging to use their college loans to save money for investments because they lacked financial literacy. It indicated that financial literacy positively impacts investment decisions.

H4: Financial literacy significantly impacts investment decisions in the stock market among Gen Z in Klang Valley.

METHODOLOGY

In line with the study's objectives, which focus on examining the factors affecting behavioral intention to invest in the stock market among Generation Z in Klang Valley, the sampling frame of the current study comprised Generation Z aged between 18- 27 years old. Convenience sampling was adopted in this study. The rationale behind convenience sampling is that it reduces costs by frequently utilizing pre-existing resources, such as local communities. This approach is perfect for pilot or exploratory research if collecting representative samples is hampered by time restrictions. Figure 1 shows the conceptual framework used in this study.

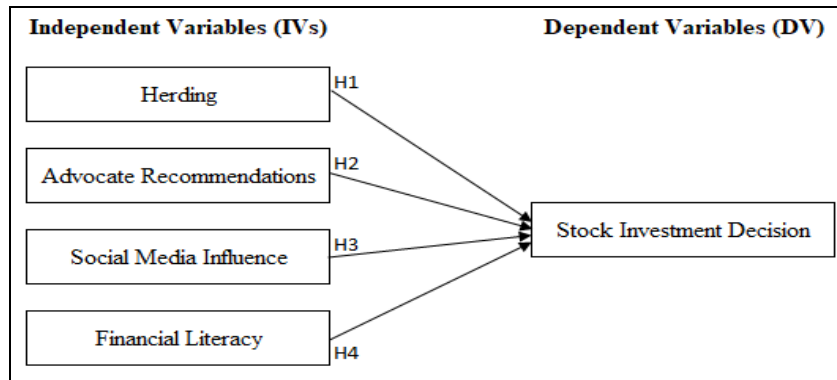


Figure 1: Conceptual Framework (Maniy et al., 2023)

DISCUSSION

Descriptive Analysis

The descriptive analysis of the respondents' demographic data is shown in Table 1. 42.9% of the respondents are male, and 57.1% are female. Moreover, 17.3% of the respondents were aged 18-20, 50.3% were aged 21-23, and 32.4% were aged 24-27. In terms of employment status, 32.93% of the respondents were from the government sector, 18.42% were from the private sector, 41.34% were self-employed, and 7.31% were students. Furthermore, in terms of individual monthly income, 39.1% earned below RM1500, 28.7% have an income of between RM1501 and RM3000, 15.1% of the respondents earned between RM3001 and RM5000 and 17.1% earned between RM5001 and RM7000.

Table 1: Descriptive Analysis

Variables	Items	Values (%)
Gender	Male	42.9
	Female	57.1
Age	18-20 years old	17.3
	21-23 years old	50.3
	24-27 years old	32.4
Employment status	Government sector	32.93
	Private sector	18.42
	Self-employed	41.34
	Student	7.31
Individual monthly income	below RM1500	39.1
	RM1501-RM3000	28.7
	RM3001-RM5000	15.1
	RM5001-RM7000	17.1

Reliability Result

As shown in Table 2, the variable with the highest alpha value is social media influence, with 0.831, indicating that the scale of reliability is excellent and that the data for the study is considered reliable. Meanwhile, the other alpha values include stock investment decision (0.804), advocate recommendations (0.756), financial literacy (0.742), and advocate recommendations (0.756). Based on the rule of thumb for reliability analysis, all values are moderate and acceptable, indicating that all variables have good reliability.

Table 2: Reliability analysis

Variable	Number of Items	Cronbach's Alpha	Reliability Level
Herding Behaviour (HB)	7	0.662	Moderate
Advocate Recommendations (AR)	7	0.756	Acceptable
Social Media Influence (SMI)	6	0.831	Acceptable
Financial Literacy (FL)	6	0.742	Acceptable
Stock Investment Decisions (SID)	4	0.804	Acceptable

Multiple Linear Regression

Table 3 depicts that herding behaviour (HB), social media influence (SMI), and financial literacy (FL) are significantly correlated with the predictors of stock investment decisions among Gen Z in Klang Valley, with financial literacy having the most substantial impact. Meanwhile, advocate recommendations (AR) do not significantly influence stock investment decisions among Gen Z in Klang Valley.

Table 3: Multiple Linear Regression Analysis

Variables	Unstandardised Coefficients		Standardised Coefficients	t	Sig.*
	Beta	Std. Error	Beta		
Constant	1.012	0.232		4.367	0.000
HB	0.229	0.055	0.199	4.158	0.000
AR	0.062	0.059	0.051	1.048	0.295
SMI	0.180	0.045	0.188	3.977	0.000
FL	0.335	0.053	0.295	6.323	0.000

Based on the results in Table 4, herding behaviour (HB), social media (SM), and financial literacy (FL) are significant at the 0.05 level of significance. In general, there is a significant relationship between HB, SM, and FL with the stock investment decisions among Gen Z in Klang Valley. Therefore, the null hypotheses were rejected, and the alternative hypotheses were accepted.

Table 4: Hypothesis Results

Variables	Result	Significant level	Beta
Herding behaviour (HB)	Significant	0.000	0.229
Advocate recommendations (AR)	Not significant	0.295	0.062
Social media (SM)	Significant	0.000	0.180
Financial literacy (FL)	Significant	0.000	0.335

CONCLUSION

This study examined the factors influencing investment decisions in the stock market among Generation Z in Klang Valley. Four hypotheses were formulated based on prior studies to tackle the research question. The elements originate from the Theory of Planned Behaviour and behavioral finance theory: herding behavior, advocacy recommendations, social media, and financial literacy. The findings indicated a substantial positive correlation between herding behaviors and stock investment decisions among Generation Z in Klang Valley, consistent with other research. (Qasim et al., 2019; Cao et al., 2021).

The research revealed no substantial correlation between advocate suggestions and effect investment choices in the stock market among Generation Z in Klang Valley. This aligns with the research conducted by Sachdeva and Lehal (2023). The correlation between social media influence and stock

market decisions is substantial, as evidenced by Khatik et al., 2021 and Khadka and Chapagain, 2023. Ultimately, financial literacy profoundly influences the investment choices of Gen Z in the Klang Valley stock market. It is consistent with Oktasari et al., 2023 and Wong et al., 2022.

It is recommended that the study's findings be extended to Malaysia's capital market and security (CMSA). Moreover, the Financial Education Network (FEN) Malaysia should increase its efforts to host events and workshops to enhance financial literacy among young investors. The implications of the findings for policymakers are that they can evaluate how different socioeconomic groups are affected by monetary policies, taxation schemes, and fiscal policies related to the financial sectors. Moreover, policymakers with a strong understanding of the financial instrument can reduce risks associated with inflation, national debt, and currency fluctuations.

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Anna Lee Shue Ann, Kho Yin Xuan, and Zainordin, N. A., managed the process of the research project sections. Izni, N. A., and Annuar, N. provided critical feedback and helped shape the research, analysis, and writing as well as proofreading of the manuscript. All the authors read and approved the final manuscript.

CONFLICT OF INTEREST DECLARATION

We certify that the article is the Authors' and Co-Authors' original work. The article has not received prior publication and is not under consideration for publication elsewhere. This research/manuscript has not been submitted for publication nor has it been published in whole or in part elsewhere. We testify to the fact that all Authors have contributed significantly to the work, validity and legitimacy of the data and its interpretation for submission to Jurnal Intelek.

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