

CHAPTER I

INTRODUCTION

A. Research Background

According to the Central Statistics Agency of Indonesia, East Java has the second largest population in Indonesia, which is estimated to reach around 41 million people in 2023. The majority of East Java's population is Muslim, which is around 96%.¹ This demographic condition makes East Java a very potential market for the development of the capital market, especially among young Muslim investors.² The diversity of market potential presents its own challenges in understanding the factors that influence investment decisions, especially those that are in accordance with the sharia principles upheld by the majority of the population.³ Therefore, it is important to further examine how these factors influence investment decisions among the younger generation of Muslims in East Java.

Along with that, the millennial generation and Generation Z are the majority among capital market investors in East Java. Based on data from the Indonesia Stock Exchange (IDX) in 2022, the number of investors aged 18-25 years was recorded at 214,894 people, an increase of 17.09% compared to the previous year.⁴ The 26-30 age group also experienced a significant increase, by 40.84%, with a total of 135,248 people, while investors aged 31-40 years were recorded at 127,963 people, an increase of 39.41% compared to the previous year. The increase in the number of young investors shows that awareness of the importance of investing is

¹ Maharani, Ode., *et. al.*, "Provinsi Jawa Timur dalam Angka 2024 Badan Pusat Statistik Jawa Timur" (*Jawa Timur*; 2024).

² Nasution and Yazid., "Islamic finance and investment behavior: An analysis of Muslim investors", *Journal of Islamic Accounting and Business Research*, Vol. 12, No. 1, (2021), p. 119..

³ Yixing., & Zhang., "Financial literacy and investment behavior: Evidence from Chinese retail investors", *Journal of Financial Planning*, Vol. 32, No. 4, (2018), p. 38.

⁴ Hassan and Nasution., "Impact of social media on Islamic finance investments: A study of young Muslim investors", *Journal of Islamic Finance and Business Research*, Vol.11, No. 2, (2023), p. 52.

increasingly widespread, especially among young people.⁵ This opens up greater opportunities to explore how changes in investment behavior among the younger generation can be influenced by various external and internal factors, including market sentiment and the influence of social media.

Meanwhile, significant developments in financial literacy also support the increasing participation of young investors. Based on data from the Financial Services Authority (OJK) in 2022, the level of financial literacy in East Java was recorded at 40.8%, higher than the national average of 38%. This shows that the people of East Java are increasingly aware and understand financial products, including stocks as investment instruments.⁶ In addition, data from the Indonesian Central Securities Depository (KSEI) in 2023 showed that East Java ranked second in the number of stock investors in Indonesia, with the dominance of young people (20-35 years) reaching 57% of the total investors.⁷ This increase indicates that the public's understanding of stock investment is improving, but there are still challenges to ensure that investment decisions taken by young investors are in accordance with the sharia principles they follow.

The important role in investment decision making among the younger generation is also influenced by access to information through social media.⁸ Based on data from the Indonesian Internet Service Providers Association (APJII), social media now provides wide access for the public

⁵ Hassan and Nasution., "Impact of social media on Islamic finance investments: A study of young Muslim investors", *Journal of Islamic Finance and Business Research*, Vol.11, No. 2, (2023), p. 54.

⁶ Ali and Setiawan., "Financial literacy, investment knowledge, and decision-making among young investors in Indonesia", *Journal of Economics, Business, and Accountancy*, Vol. 29, No. 2, (2023), p. 234.

⁷ Saputro and Wikartika, "Analysis of the Influence of Behavioral Bias on Investment Decisions of Young Investors in Surabaya", *East Asian Journal of Multidisciplinary Research*, Vol. 2, No. 10, (2023), p. 23.

⁸ Soeharto and Ika., "The role of social media in financial literacy education: Impact on investment decisions", *International Journal of Economics and Finance*, Vol. 14, No. 3, (2022), p. 117.

to obtain information and education related to investment, including sharia stocks. Platforms such as Instagram, TikTok, and YouTube are increasingly being used to share information and education about stocks. Surveys show that 78.97% of the younger generation choose social media as their primary source of investment information due to the ease of access and real-time data it provides. This shows how social media has become a very relevant and practical information channel for young investors in making investment decisions.⁹ However, even though there is a lot of information available, not all of this information can guide young investors to make the right decisions, especially in terms of applying Sharia principles in investment.

In addition to the influence of social media, there are two other factors that also influence investment decisions, namely investor sentiment and herding behavior. Investor sentiment is related to the views or feelings held by investors towards market conditions, which are often influenced by information obtained from various sources, including social media.¹⁰ Meanwhile, herding behavior, which is the tendency to follow other people's investment decisions, often occurs, especially among young, less experienced investors. This can lead to less rational and risky investment decisions.¹¹ Therefore, it is important to further analyze how these two factors play a role in shaping the investment decisions of young investors in East Java, especially among Muslim investors who have religious guidance in making decisions.

This study addresses an important identity gap observed in previous research on investment behavior. While prior studies often focused on

⁹ Soeharto and Ika., "The role of social media in financial literacy education: Impact on investment decisions", *International Journal of Economics and Finance*, Vol. 14, No. 3, (2022), p. 115.

¹⁰ Sokolov and Shkilko, *et. al*, "Social media as a financial sentiment predictor: Evidence from Twitter", *Journal of Behavioral Finance*, Vol. 20, No. 3, (2019), p. 276.

¹¹ Dube and Hossain "Herding behavior in financial markets: Evidence from social media platforms", *Journal of Financial Markets*, Vol. 25, No. 2, (2021), p. 139.

general investor populations or specific demographic groups, there has been limited attention given to young Muslim investors who operate within the unique context of religious values and rapidly evolving digital influences. The statement of the gap here is that existing literature lacks an in-depth exploration of how religious and cultural factors intersect with psychological influences like sentiment and herding behavior in shaping investment decisions. What sets this research apart is its exploration of the intersection between religious guidance and psychological factors like sentiment and herding behavior, as well as the role of social media as both an educational and behavioral influence.

Unlike previous studies, such as those by Sokolov and Shkilko which highlighted the predictive role of social media in general investment behavior, this study emphasizes its application in promoting financial literacy among a religiously motivated demographic.¹² Additionally, while prior research like Dube and Hossain's focused broadly on the effects of herding behavior, this study reveals its nuanced implications within a religious and cultural framework, providing a more comprehensive understanding of investment behaviors.¹³ This study examines the impact of investor sentiment, social media-based financial education, and herding behavior on young Muslim investors in East Java. It aims to enhance understanding of psychological, social media, and collective factors in investment decisions while contributing to investment literature. The findings are expected to improve financial literacy and support more rational decision-making among young investors.

¹² Sokolov and Shkilko, *et. al*, "Social media as a financial sentiment predictor: Evidence from Twitter", *Journal of Behavioral Finance*, Vol. 20, No. 3, (2019), p. 277.

¹³ Dube and Hossain "Herding behavior in financial markets: Evidence from social media platforms", *Journal of Financial Markets*, Vol. 25, No. 2, (2021), p. 140.

B. Problem Formulation

The formulation of the problem in this study is:

1. Does investor sentiment have a positive effect on the investment decisions of young Muslim investors in East Java?
2. Does social media stock education have a positive effect on the investment decisions of young Muslim investors in East Java?
3. Does herding behavior have a positive effect on the investment decisions of young Muslim investors in East Java?

C. Research Objectives

The objectives of the research in this study are:

1. To determine the positive influence of investor sentiment on the investment decisions of young Muslim investors in East Java.
2. To determine the positive influence of social media stock education on the investment decisions of young Muslim investors in East Java.
3. To determine the positive influence of Herding behavior on the investment decisions of young Muslim investors in East Java.

D. Research Benefits

1. Theoretical Benefits

This research is expected to provide useful insight for academics and other researchers in conducting further research and also as a source of information for scientific interest and enriching the research theory studio that can be used for comparison for further research.

2. Practical Benefits

To increase knowledge gain research experience and hone analytical skills based on related theories, especially on investor sentiment, social media stock education, and herding behavior towards investment decisions of young investors.

3. Government Benefits

The study can provide the government with insight into the mindset and investment behavior of young investors, especially those of the

Muslim faith. This can help in designing more appropriate policies to promote financial literacy and healthy investment among the youth.

