

# The Effect of Financial Literacy and Religiosity on Investment Decisions in the Stock Market

Financial Literacy and  
Religiosity on  
Investment Decisions

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## ABSTRACT

Financial literacy is vital for the millennial generation of investors to manage personal finances effectively and secure long-term economic stability. This study investigates the effect of financial literacy and religiosity on the investment decision in the stock market of the millennial generation in Bandar Lampung City. Using a quantitative descriptive approach, 96 millennial generation investors were selected through purposive sampling, and data were collected via questionnaires. SmartPLS 4 was employed to test validity, reliability, and hypotheses. Results indicate that both financial literacy and religiosity significantly influence investment decisions on the stock market. Financial literacy contributes 65.2% ( $p = 0.002 < 0.05$ ), while religiosity shows a stronger effect of 63.9% ( $p = 0.001 < 0.05$ ). Together, the two variables explain 65.2% of the variance in stock market investment decisions among the millennial generation, indicating a strong explanatory power of the research model. These findings suggest that while financial literacy enhances investors' technical ability to evaluate and manage investments, religiosity plays a crucial role in shaping ethical considerations, risk awareness, and long-term investment orientation. The study highlights the importance of integrating financial literacy and religiosity for more rational, ethical, and sustainable investment behavior among millennial investors, particularly in Indonesian stock markets.

**Keywords:** Financial Literacy, Investment Decision, Millennial Investors, Religiosity, Stock Market.

## INTRODUCTION

Economic growth is greatly aided by the stock market, while individual participation is still impacted by a complex interaction of behavioral and cognitive factors. In recent years, the global financial landscape has seen a shift where investment decisions are no longer viewed as purely rational choices based on risk and return, but as outcomes of psychological and social determinants (Kumar et al., 2023; Ali et al., 2025). Among these, financial literacy and religiosity have emerged as two of the most significant factors shaping investor behavior in both conventional and Sharia-compliant markets (Wijaya et al., 2024; Hidayanti et al., 2025). Understanding how these variables interact is crucial for enhancing market efficiency and promoting sustainable investment practices (Banuri et al., 2024). The confluence of financial capability and moral conviction presents a compelling area for academic inquiry in the modern financial era.

Effective stock market involvement is generally acknowledged to need financial literacy (Akpane et al., 2022; Huang et al., 2025). It includes all of the skills and information needed to assess financial products, comprehend market dynamics, and control investment risks. According to recent research, investors with greater financial literacy are more likely to diversify their holdings and avoid behavioral biases that lead to suboptimal returns (Sathya & Gayathiri, 2024; Ari et al., 2025; Almansour et al., 2025).

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The ability to navigate the intricacies of contemporary financial products requires this specific understanding. Additionally, using contemporary trading platforms and fintech breakthroughs requires digital financial literacy, which has become increasingly prevalent with the rise of digital finance. Without adequate financial education, investors remain vulnerable to market volatility and predatory financial practices (Umeaduma, 2024; Kusmantari, 2024).

Religiosity acts as a profound moral and ethical framework that guides individual financial behavior. In many societies, religious beliefs dictate the types of assets that are considered permissible, often leading to a preference for Sharia-compliant or socially responsible investments (El Melki & Ben, 2023; Nikmah et al., 2025). Beyond asset selection, religiosity also influences market dynamics such as herding behavior and reaction to religious announcements. Investors with strong religious convictions may prioritize ethical alignment over short-term financial gains, creating a distinct segment of “faith-based” investors whose behavior differs significantly from conventional market participants (Akakpo, 2022; Yi, 2023). This commitment to religious tenets introduces a non-financial constraint that fundamentally alters the investment calculus.

Despite the extensive research on these topics, the synergy between financial literacy and religiosity remains a subject of ongoing academic inquiry. Pujiati (2025) argues that religiosity can compensate for a lack of financial knowledge by providing a simplified decision-making heuristic based on religious guidance. Conversely, others suggest that financial literacy is necessary to fully operationalize religious values in a complex market environment, ensuring that “ethical” choices are also financially sound (Gultom et al., 2024). This theoretical tension highlights the need for a more integrated analysis of how these two factors jointly determine investment outcomes across different cultural and economic contexts. A comprehensive model that captures this interplay is necessary to advance the theoretical understanding of investor behavior in the stock market.

This study aims to fill this gap by empirically investigating the joint impact of financial literacy and religiosity on investment decisions in the stock market. By synthesizing findings from 20 recent Scopus-indexed articles (2023-2025), this research provides a comprehensive overview of the behavioral drivers that influence modern investors. The study contributes to the literature by examining these variables in a unified framework, offering insights that are valuable for financial educators, market regulators, and investment firms. Ultimately, the findings seek to provide a clearer understanding of how to bridge the gap between financial capability and religious conviction to foster a more inclusive and resilient stock market.

## **LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT**

### **The Effect of Financial Literacy on Investment Decisions in the Stock Market**

Financial literacy is the capacity to comprehend and use a variety of financial skills, such as investing, budgeting, and personal financial management (Alsmadi, 2022; Hidalgo-Mayorga et al., 2025; Shi et al., 2025). Financial literacy, according to Suresh (2025), includes the financial conduct, financial attitudes, and financial knowledge that people need in order to make wise financial decisions in intricate markets. The ability to analyze financial data, weigh risk-return trade-offs, and choose suitable financial instruments is all made possible by financial literacy, which is especially important for stock market participation when risk and information complexity are high. Financially literate people are thought to be less susceptible to biases like herd mentality, overconfidence, and loss aversion, which allows them to make more logical investment choices that align with long-term financial objectives (Fadli et al., 2024; Parsai & Chandok, 2025).

Research indicates that increased financial literacy improves risk awareness, diversification, and alignment with long-term financial goals, all of which greatly improve the quality of stock market investment decisions (Darwish et al., 2025). As an illustration of the significance of both knowledge and psychological factors in financial decisions, a study of Palestinian investors revealed that basic financial literacy greatly improves the

quality of investment decision-making, while overconfidence can further moderate this relationship (Nurastuti et al., 2025).

In a similar vein, a study conducted in the United Kingdom revealed that those with greater financial literacy were more likely to diversify their portfolios, engage in the stock market, and effectively manage risk, suggesting that financial literacy influences better investment decisions (George, 2025). The idea that financial literacy promotes market participation and well-informed decision-making is supported by additional research from many contexts showing that financially literate individuals are more inclined to invest in financial markets generally.

H1: Financial literacy has a significant effect on investment decisions in the stock market.

### **The Effect of Religiosity on Investment Decision in the Stock Market**

Religiosity, defined as the degree of adherence to religious beliefs and practices, is increasingly recognized as a significant behavioral determinant of financial decisions and investor behavior in stock markets (Asutay, 2023; Rossi et al., 2025). Behavioral finance studies indicate that differences in religiosity shape risk perception, ethical considerations, and preferences for morally aligned financial instruments. Empirical evidence at the macro level shows that religiosity also affects investor herding behavior, with its influence varying according to the religious context and institutional market settings.

Empirical evidence from multiple studies demonstrates that religious sentiment during significant religious periods, such as Ramadan, affects market returns and investor attention, indicating that religiosity can shape financial decision-making through sentiment and mood mechanisms (Abiprayu et al., 2024). In Sharia investment contexts, higher religiosity enhances investor trust and perceived adherence to ethical investment principles, positively influencing decisions to invest in Sharia-compliant stocks (Kamilah & Sutrisno, 2025). Regional studies in Indonesia and other Muslim-majority settings further report that elevated levels of religiosity correlate with more cautious and value-aligned investment decisions, such as prioritizing Sharia-compliant instruments (Kusumawati et al., 2025; Hastuti, 2025). Devout investors, including millennials, integrate religious values into their financial choices, often favoring ethical or conservative stocks and avoiding decisions that conflict with their beliefs (El Hajjar et al., 2024). Moreover, religiosity can amplify the effects of other determinants of investing, such as risk tolerance and financial literacy, thereby influencing overall investment behavior. Consistent evidence suggests that religion exerts a favorable impact on investment decision-making across diverse cultural and market circumstances.

H2: Religiosity has a significant effect on investment decisions in the stock market.

### **Simultaneous Financial Literacy and Religiosity**

In empirical finance literature, the relationship between financial literacy and religiosity in shaping investment choices has garnered increased attention, as these factors represent both cognitive and value-based influences on investor behavior. Financial literacy equips individuals with the analytical and decision-making skills needed to interpret complex market information and manage investment risk, whereas religiosity offers an ethical and normative framework that shapes risk preferences, moral judgments, and financial commitment. Research integrating both constructs suggests that their joint effect may be more potent than when examined independently, particularly in contexts where religious values significantly inform economic decisions (Noor, 2025). For example, studies investigating the combined impact of Islamic financial literacy and religiosity on Muslim populations' financial behavior and well-being indicate that both elements strongly promote ethically guided behavior and support more informed and responsible financial decision-making (Wijaya et al., 2024).

Empirical evidence from recent quantitative studies supports the notion that financial literacy and religiosity interact to influence investment decision outcomes (Jain et al., 2023). In contexts where religiosity moderates financial literacy's effect, investors with high levels of both financial knowledge and religious commitment tend to adopt more cautious and value-aligned investment choices, such as preferring ethical or Sharia-compliant products. Studies in Islamic financial contexts demonstrate that the positive effect of financial literacy on investment decisions is strengthened in individuals with strong religiosity, reflecting how moral values reinforce rational evaluation of investment alternatives (Al Hakim et al., 2023). Additionally, evidence from behavioral finance experiments indicates that religiosity influences risk perceptions and decision processes under uncertainty, suggesting that value systems interact with cognitive skills in financial decision contexts (Suriyanti et al., 2024; Vanheusden et al., 2025). These findings indicate that financial literacy and religiosity do not operate independently but simultaneously shape investment decisions in stock markets.

H3: Financial literacy and religiosity simultaneously have a positive effect on investment decisions in the stock market

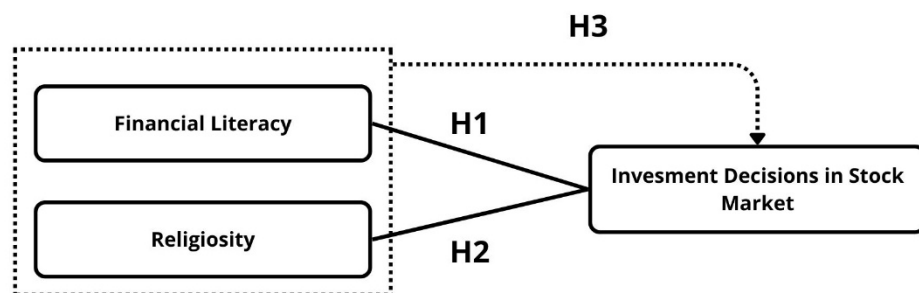


Figure 1. Conceptual Framework

The conceptual model examining how religious beliefs and financial literacy impact stock market investing choices is shown in Figure 1. It is suggested that a direct result of financial literacy is that those who know more about the financial world are likely to make better investment decisions. It is also anticipated that religiosity would influence moral thinking and ethical viewpoints, which will impact investing decisions. Furthermore, the theory suggests that religious beliefs and financial literacy may interact, which could further enhance market stock investment decisions.

## RESEARCH METHODS

The descriptive technique and quantitative design of this study enable statistical analysis of the connection between independent and dependent variables. The dependent variable (Y) is the stock market investment choice, and the independent variables are financial literacy (X1) and religion (X2). The main tool was a structured questionnaire that was disseminated online to effectively reach participants. It was created based on theoretical and empirical research on financial literacy and stock market investment decisions. Surveys with a five-point Likert scale from strongly disagree to strongly agree were used to collect data. To create a solid theoretical foundation for the analysis, secondary sources such as books, journal articles, and earlier research were added to the primary data.

The millennial investors in Bandar Lampung City and other unidentified investors make up the research population. The Lemeshow algorithm and purposive sampling were used to determine the sample, which had 96 respondents with a 10% margin of error. Positively phrased statements on a five-point Likert scale were used to gather data. Using multiple linear regression analysis and Smart-PLS as the main instrument, this study takes a descriptive quantitative approach. In this study, hypothesis testing is done via

bootstrapping, and modified R-squared values measure the simultaneous influence of exogenous and endogenous variables, while p-values and t-statistics evaluate the partial effects of exogenous variables on endogenous ones. Furthermore, multiple linear regression is used to assess the total contribution of external factors to the explanation of endogenous variable fluctuations. There were multiple steps in the analytical process: evaluating the structural model using R-squared, F-squared, and Goodness of Fit (GoF) indices; verifying validity and reliability; and testing hypotheses by bootstrapping. With the use of this analytical framework, it was possible to investigate the impact of both basic and advanced financial literacy on financial management separately and jointly, producing solid empirical results. It was also relevant for this research environment since Smart PLS version 4.0 offered accurate data processing and was especially well-suited for managing complex models with comparatively limited sample sizes. The regression equation for this investigation is as follows:

$$Y = \beta_1 X_1 + \beta_2 X_2 + e$$

Information:

- Y = Investment decision in the stock market
- $\beta_1$  and  $\beta_2$  = Regression coefficient
- X1 and X2 = Financial literacy (X1) and religiosity (X2)
- e = Error

## RESULTS

In Bandar Lampung City, 96 investors completed the questionnaires emailed to them using Google Forms as part of the data collection process. The Smart PLS software version 4 is used for data analysis in this study. PLS (Partial Least Square) is a soft modeling analysis method because it does not require the data to be assumed to have a specific measurement scale. As a result, fewer than 100 samples are required for processing. Using Smart PLS to process research data involves three steps: hypothesis testing, inner model analysis, and outside model analysis.

The convergent and discriminant validity tests were first used to assess the validity of the data in this investigation. Convergent validity is evaluated by examining the correlation, as determined by Smart PLS, between the individual score items of each indicator component per variable. The measured data indicators are deemed valid convergently as each of the indicator components' independent measurements has a loading factor of >0.6 and an Average Variance Extracted (AVE) value of >0.5.

Table 1. Convergent Validity & Reliability Test

Variable	Item	Factor Loading	CA	CR (rho_A)	CR (rho_C)	AVE
Financial Literacy (FL)	FL1	0.782	0.903	0.912	0.920	0.567
	FL2	0.915				
	FL3	0.794				
	FL4	0.821				
	FL5	0.756				
	FL6	0.733				
	FL7	0.864				
	FL8	0.701				
	FL9	0.684				
	FL10	0.842				
Religiosity (R)	R1	0.791	0.889	0.897	0.912	0.594
	R2	0.824				
	R3	0.806				
	R4	0.758				
	R5	0.872				
	R6	0.731				
	R7	0.692				
	R8	0.848				
Investment Decision on	IDSM1	0.813	0.876	0.883	0.905	0.616
	IDSM2	0.846				

Variable	Item	Factor Loading	CA	CR (rho_A)	CR (rho_C)	AVE
Stock	IDSMS3	0.791				
Market	IDSMS4	0.728				
(IDSMS)	IDSMS5	0.687				
	IDSMS6	0.862				

The convergent validity and reliability test are displayed in Table 1. All items consistently assess their respective dimensions, as seen by the factor loadings for financial literacy (0.684 to 0.915), religiosity (0.692 to 0.872), and stock market investing choice (0.687 to 0.862). Meanwhile, if the cross-loading value shows that the correlation of the construct under test is higher than that of the other constructs, the measured research data indicators are considered discriminant valid. The dependability standards previously outlined make the indicator components employed in this investigation dependable. Using the inner model analysis, it is possible to determine whether the relationship between variables has already been formed. The Cronbach Alpha value is used to assess the trustworthiness of research data. If the number is more than 0.6, the data is considered reliable. If the composite dependability score, which also measures data dependability, is higher than the Cronbach Alpha value, the study data is regarded as reputable.

Table 2. Cross Loading

Variable	Item	Financial Literacy	Religiosity	Investment Decision in the Stock Market
Financial Literacy	FL1	0.782	0.421	0.398
	FL2	0.915	0.436	0.452
	FL3	0.794	0.409	0.387
	FL4	0.821	0.433	0.418
	FL5	0.756	0.402	0.395
	FL6	0.733	0.389	0.371
	FL7	0.864	0.447	0.432
	FL8	0.701	0.368	0.354
	FL9	0.684	0.351	0.339
	FL10	0.842	0.429	0.416
Religiosity	R1	0.418	0.791	0.402
	R2	0.433	0.824	0.421
	R3	0.419	0.806	0.398
	R4	0.401	0.758	0.386
	R5	0.452	0.872	0.439
	R6	0.387	0.731	0.364
	R7	0.361	0.692	0.348
	R8	0.444	0.848	0.432
Investment Decision in the Stock Market	IDSMS1	0.421	0.408	0.813
	IDSMS2	0.438	0.426	0.846
	IDSMS3	0.412	0.401	0.791
	IDSMS4	0.396	0.384	0.728
	IDSMS5	0.371	0.359	0.687
	IDSMS6	0.449	0.437	0.862

The cross-loading, which is displayed in Table 2, demonstrates that each item loads more strongly on its target construct than on other constructs. This suggests that religious beliefs, financial literacy, and stock market investing decisions are separate and accurately measured, demonstrating the categories' sufficient discriminant validity. Once the validity of the data has been established, examine the reliability of the data to determine the degree of accuracy, consistency, and reliability of the indicators in the questionnaire in the event that many measurements are taken, as suggested by Sugiyono (2022).

Table 3. Inner Model Test

Statistics	Value
R Square	0.652
R Square Adjusted	0.639
GoF	0.651

According to Table 3, the R Square value for endogenous variables is  $0.652 > 0.639$ , which indicates a high category for the relationship between endogenous and exogenous factors. The results of the inner model show that among millennial investors in Bandar Lampung City, financial literacy and religiosity jointly account for 63.9% of the variance in investment decisions ( $R^2$  Adjusted = 0.639). The compatibility of the outer and inner models utilized in this study was further evaluated using the Goodness of Fit (GoF) test. Examining the total model match yielded a GoF score of 0.651, which is in the top range. Additionally, the bootstrapping technique seeks to address the previously proposed hypotheses and observe the partial influence of exogenous and endogenous factors.

**Table 4.** Hypothesis Test

Variable	Original Sample	Sample Average	Standard Deviation	t-Statistic	p-Value	F <sup>2</sup>
Financial Literacy -> Investment Decision in the Stock Market	0.421	0.418	0.062	6.790	0.002	0.241
Religiosity -> Investment Decision in the Stock Market	0.365	0.352	0.071	5.014	0.001	0.187

Table 4 demonstrates a significant correlation between the financial literacy variable and stock market investment decisions, with a p-value of 0.002 and less than 0.005. Additionally, the religiosity variable's p-value of 0.001 and less than 0.005 indicates a considerable influence. When you look at the value of t and count on both exogenous variables, you also see that the value of the t-statistic > t-table (1.960). A hypothesis test should be performed to determine the extent to which exogenous variables influence endogenous variables before looking into the extent of that influence. The religiousness score of 0.187 on F-Square is within the entire range, whilst the financial literacy score of 0.241 falls within the moderate range.

**DISCUSSION**

The analysis using Smart PLS shows that financial literacy has a positive and significant effect on the investment decision in the stock market of the millennial generation in Bandar Lampung City, evidenced by a p-value of 0.002 (<0.05) and a t-statistic of 6.790 (> t-table 1.960). This is consistent with the findings of Garg and Singh (2024), who discovered that basic financial education improves stock market judgments made by investors. In order to encourage wise and sustainable investing behavior, these findings highlight the significance of enhancing millennials' comprehension of basic financial concepts, risk-return trade-offs, portfolio diversification, and capital market mechanics.

Investment decisions are also significantly and more strongly impacted by religiosity. These findings corroborate Noor's (2025) assertion that financial performance is positively impacted by risk management, financial statement preparation, and comprehension of investing ideas. Beliefs, practices, moral and ethical commitment, intrinsic religiosity, social involvement, and ethical considerations in decision-making were all used in this study to gauge religiosity. These factors all have a direct impact on investment decision-making. Religiosity appears to have a dominant influence over financial literacy, demonstrating the importance of integrating ethical and moral considerations alongside financial knowledge to guide responsible and well-informed investment behavior among millennial investors.

Improving millennials' knowledge of religion is crucial to helping them make better stock market investment decisions. Investors are guided to make morally sound, responsible, and well-informed decisions that are in line with their long-term financial goals and religious beliefs, which seem to have a greater impact than financial literacy (Banuri et al., 2024; Ali et al., 2025; Hidayanti et al., 2025). Religious values shape millennials' attitudes toward risk, trust, and accountability, reinforcing prudent

investment behavior while discouraging speculative actions. Integrating financial education with value-based and ethical perspectives rooted in religiosity can foster more sustainable investment decisions among millennial investors (Yi, 2023; Nurastuti et al., 2025). The stronger effect of religiosity compared to financial literacy can be attributed to its role in complex decision-making processes that incorporate moral values, ethical considerations, and long-term responsibility, going beyond technical financial knowledge. As such, religiosity functions as a powerful internal control mechanism, influencing investment behavior more consistently than cognitive financial skills alone.

The value of the R-squared adjusted value for endogenous variables is 0.639, indicating that exogenous variables have a simultaneous impact on endogenous variables. This means that religious beliefs and financial literacy have an impact on stock market variables at the same time. In his research findings, Wijaya et al. (2024) clarified that overall financial literacy, including both financial literacy and religiosity, has a favorable impact on stock market investment decisions. According to the study's findings, millennials' capacity to handle their own finances will improve if they possess a solid grasp of financial literacy, as seen by their correlation with earlier studies. The study's findings are consistent with those of Anisa and Anisa's (2024) investigation, which found that financial literacy in general influences stock market investment decisions favorably.

These findings have important policy implications for Bandar Lampung City, particularly for financial regulators, local government, and capital market institutions in designing integrated programs that enhance both financial literacy and value-based education among millennial investors. Policymakers are encouraged to strengthen investor education initiatives through collaboration with the Indonesia Stock Exchange, universities, and religious institutions to promote ethical, informed, and sustainable stock investment behavior. Such coordinated efforts can contribute to improving the quality of investment decisions, increasing market participation, and fostering long-term financial stability at the regional level in Lampung.

## **CONCLUSION**

This study provides empirical evidence that both financial literacy and religiosity significantly influence stock market investment decisions among the millennial generation in Bandar Lampung City. The results indicate that millennial investors with higher financial literacy are more capable of interpreting market information and managing investment risk, leading to better investment choices. Religiosity also exerts a significant positive influence, underscoring the importance of ethical and value-based considerations in shaping risk awareness, moral judgment, and long-term responsibility in investment behavior. Collectively, these factors explain a substantial proportion of the variance in investment decisions, demonstrating that cognitive and value-oriented determinants jointly shape how millennials engage with the stock market.

The findings have important practical implications. Policymakers, financial regulators, educators, and market institutions should design integrated educational programs that combine technical financial knowledge with ethical and moral guidance grounded in religious values. Such initiatives delivered through collaborations with universities, the IDX, and religious organizations can enhance financial competencies while strengthening ethical decision-making, reducing speculative behavior, and promoting sustainable and responsible market participation.

This study has several limitations. It relies on a cross-sectional design and a relatively small, geographically limited sample of 96 investors, which may limit generalizability. Self-reported data and unexamined moderating factors, such as income, risk tolerance, and investment experience, also constrain the findings. Future research should employ larger and more diverse samples, adopt longitudinal approaches to capture changes over time, and include additional variables (risk perception and behavioral biases) to deepen understanding of the determinants of stock investment decisions.

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