

EXPLORING OF THE IMPACT OF CAPITAL MARKET LITERACY AS A MODERATOR ON INVESTORS' REINVESTMENT INTENTION IN THE INDONESIAN STOCK MARKET

Thasrif Murhadi¹, Aida Fitri²

^{1,2} Faculty of Economic, Universitas Muhammadiyah Aceh

Corresponding E-mail: thasrif.murhadi@unmuha.ac.id

Abstract

This research aims to explore the influence of capital market literacy as a moderating variable on the relationship between Expertise, Reputation, and Investor Trust with the investors reinvestment intention in the Indonesian stock market. Data were collected from 454 respondents using a questionnaire distributed to stock investors across Indonesia. The study employed a non-probability sampling approach with the purposive sampling method. Data analysis was conducted using descriptive and verificative analysis techniques, employing the Structural Equation Modelling (SEM) AMOS as the analytical tool. The research results indicate that expertise and reputation have a significant direct impact on Investor Trust. However, expertise and reputation do not have a direct influence on reinvestment intention. Additionally, investor trust has been proven to be a significant mediator in the relationship between expertise and reputation with reinvestment intention. The most intriguing finding is that capital market literacy, as a moderating variable, can moderate the relationship between investor trust and reinvestment intention. This suggests that the level of capital market literacy can strengthen the influence of investor trust on the reinvestment intention. The results of this research provide a deeper understanding of the role of capital market literacy in shaping the reinvestment decisions of investors in the Indonesian stock market, as well as its implications for investment practices and the development of capital market literacy in the future.

Keywords: *Capital market literacy, Expertise, Reputation, Investor trust, Reinvestment Intention*

1. INTRODUCTION

The Indonesian stock market, established in 1912 during the Dutch colonial era, has undergone significant evolution and progress. A pivotal moment in its history was the amalgamation of the Jakarta Stock Exchange and the Surabaya Stock Exchange on November 30, 2007. As of December 2022, the number of investors in the Indonesian stock market has surpassed 10 million, making it an attractive investment destination for a diverse group of investors. However, the challenge lies in the relatively low number of investors actively participating in reinvestment, currently standing at only 256,000. This presents a distinct challenge for regulators, self-regulatory organizations, and particularly, stock brokerage firms. Investor decisions to reinvest in the stock market are influenced by various psychological factors and a nuanced understanding of the capital market. Capital market literacy, encompassing understanding of financial instruments, stock market trading mechanisms, and investment risk evaluation, are expected to play a crucial role in moderating the relationship between these factors and investors' intentions to reinvest. As a critical element of the nation's financial system, the stock market has garnered attention from a diverse range of investors, offering substantial opportunities for asset growth. This research aims to investigate the moderating influence of capital market literacy on the relationship between Expertise, Reputation, Investor Trust, and the Intention to Reinvest among investors in the Indonesian stock market.

Research Background

The stock market constitutes a fundamental component of a nation's economic structure, serving as both an investment platform and a financing avenue for businesses. It has garnered attention across various sectors, from individual investors to institutional players. Investing in the stock market offers the potential for significant wealth accumulation. However, the decision of investors to reinvest in the stock market is shaped not only by profit expectations but also by psychological factors and the depth of their knowledge about the capital market. In this context, the role of capital market literacy is paramount. This literacy encompasses an understanding of financial instruments, stock market mechanisms, and the evaluation of investment risks. Investors equipped with a high level of capital market literacy are better positioned to grasp investment risks and opportunities, enabling more informed investment decisions (Jiang et al., 2020). Knowledge, generally defined as information known to the public applicable for task execution, and expertise, extraordinary information or skills about facts, terms, attributes, and dynamic information underlying skilled actions for a task (Page and Uncles, 2004), assume fundamental significance.

Beyond capital market literacy, this research delves into several other factors. Particularly, expertise, referring to the specific knowledge and skills possessed by stock brokerage employees in providing investment advice, proves to be a pertinent element. Companies with employees boasting high expertise in analyzing financial instruments and identifying potential investment opportunities exude confidence in making investment decisions (Tversky & Kahneman, 1992). This resonates with the findings of Crosby et al. (1990), underscoring the significant impact of a salesperson's expertise on customer satisfaction and trust. Simultaneously, the reputation of a stock brokerage firm emerges as a critical factor in nurturing investor trust for continued stock purchases through the same brokerage. This aligns with Omoregie (2019) assertion that a company's reputation builds customer trust and satisfaction, directly influencing customer loyalty. Furthermore, Fombrun (2018) identifies reputation as a manifestation of one's experience with products or services. A positive reputation can enhance investor trust in the company or the stock market as a whole (Smith & Smith, 2018; Arshad et al., 2016).

As a vital element of the Indonesian financial industry, maintaining customer trust in financial companies within the stock market is imperative. Trust, universally regarded as the foundation for every human interaction or transaction (Gundlach and Murphy, 1993), ensures customers feel safe and assured in their dealings with a company. Customers must also be assured that their interactions with the company remain confidential for trust to thrive (Rauyruen and Miller, 2007). According to Pavlou and Fygenson (2006), trust is defined as the buyer's belief that the seller will behave ethically, be capable, and act in good faith. Trust plays a pivotal role in influencing whether an investor feels comfortable reinvesting in the stock market or not. Therefore, understanding how factors such as capital market literacy, expertise, and reputation influence investor trust and, ultimately, the intention to reinvest is crucial in aiding investors in making intelligent decisions. A more profound understanding of these relationships lends significance to this research. It seeks to explore whether capital market literacy can act as a moderator, strengthening the influence of investor trust in the stock market on the decision to reinvest. Through a nuanced understanding of these variables, this research is poised to offer invaluable insights to decision-makers, including stock market regulators and brokerage firms, facilitating the development of capital market literacy and informed investment decision-making.



2. IMPLEMENTATION METHOD

In this study, a quantitative approach was employed for both data collection and analysis. The research adopts an explanatory research design aimed at exploring and elucidating the relationships among key variables: capital market literacy, expertise, reputation, investor trust, and reinvestment intention. The explanatory approach allows for an in-depth understanding of the factors influencing investors' decisions to reinvest in the Indonesian stock market. Data for this research were collected using a questionnaire distributed to 454 respondents across Indonesia. The questionnaire was designed efficiently with easily understandable language to facilitate data collection. Questions in the questionnaire were developed based on relevant literature and underwent validation and reliability testing. For participant selection, a non-probability sampling approach, specifically the purposive sampling method, was utilized. This approach was chosen as it enabled researchers to select respondents with characteristics aligned with the research objectives. Respondents were chosen based on relevant criteria such as investment experience and the level of capital market literacy. The collected data were analyzed using Structural Equation Modelling (SEM) with the assistance of AMOS software.

3. RESULTS AND DISCUSSION

Respondents consisted of 66.3% males and 33.7% females. The largest age group among respondents was 21-30 years, accounting for 38.5%, followed by the age group 31-40 years (30.0%), 17-20 years (13.7%), 41-50 years (10.0%), and 50 years and above (4.6%). In terms of education, 49.8% of respondents held a Bachelor's degree, 24.3% had a Master's degree or higher, while 17.4% had completed high school. A total of 75.3% of respondents had been investing in Shariah stocks for more than 3 years, and all respondents had experience as stock investors in the Indonesian stock market. To confirm the data's validity and reliability, validity and reliability tests were conducted, with a criterion of factor loading values >0.5 , indicating the validity of the indicators included in the study. Values for CR and DV were required to be >0.7 , while values for VE and CV had to be >0.5 (Hair et al., 2010). In this study, both CR and DV values were above >0.7 , and VE and CV values were >0.5 , as seen in Table 1, indicating that all constructs in this study are reliable, surpassing the cutoff values. The results of the model measurement showed the fit indices as follows: IFI = 0.945, NFI = 0.924, RMSEA = 0.067, Chi-squared/df = 1.876, indicating a good fit for the proposed model in this study. Hair et al. (2010) noted the importance of measuring validity before testing the structural model.

Table 1. Validity and Reliability Test

Item	Loading Factor	Construct Reliability	Variance Extracted	Discriminant Validity	Covergent Validity	Information
Expertise						
EX1	0,822	0,877	0,549	0,741	0,773	Valid
EX2	0,795					Valid
EX3	0,621					Valid
EX4	0,812					Valid
EX5	0,402					Not Valid
EX6	0,813					Valid
EX7	0,760					Valid

Reputation						
RE1	0,443					Not Valid
RE2	0,677					Valid
RE3	0,799	0,889	0,619	0,787	0,784	Valid
RE4	0,782					Valid
RE5	0,785					Valid
RE6	0,879					Valid
Invst Trust						
TR1	0,667					Valid
TR2	0,702					Valid
TR3	0,681	0,858	0,505	0,711	0,732	Valid
TR4	0,832					Valid
TR5	0,339					Not Valid
TR6	0,795					Valid
TR7	0,815					Valid
Capl Mkt Literacy						
CM1	0,421					Not Valid
CM2	0,382					Not Valid
CM3	0,587	0,845	0,529	0,727	0,718	Valid
CM4	0,789					Valid
CM5	0,814					Valid
CM6	0,561					Valid
CM7	0,837					Valid
Repurchase Int						
RI1	0,801					Valid
RI2	0,743					Valid
RI3	0,852	0,932	0,696	0,834	0,833	Valid
RI4	0,887					Valid
RI5	0,838					Valid
RI6	0,485					Not Valid
RI7	0,875					Valid

In the provided Table 1, we obtain an overview of the validity and reliability analysis. Six indicators exhibit factor loading values <0.5 , necessitating their exclusion from the study. Subsequently, to assess the reliability of indicators in this research, computations for CR (Composite Reliability), VE (Variation Extracted), DV (Divergent Validity), and CV (Construct Validity) were conducted. Table 1 reveals that all CR, VE, DV, and CV values exceed the predetermined cutoff thresholds, indicating robust reliability for all constructs.

Results

Following the confirmatory factor analysis (CFA), validity and reliability tests, the study continues with the analysis of the collected questionnaire data. A total of 454 respondents returned the questionnaires. The data were analyzed using Structural Equation Modeling (SEM) with the assistance of the AMOS software. The results of the data processing can be seen in the table below.

Table 2. Results of the Goodness of Fit Test for the Structural Model

Criteria	Cut Off	Value	Results
Degree of Freedom (DF)	Positif (+)	526	Good
χ^2 (Chi-Square)	est to be small	821,545	Good
CMIN/DF	$\leq 2,00$	1,562	Good
GFI	$\geq 0,90$	0,877	Marginal
RMSEA	$\leq 0,08$	0,42	Good
AGFI	$\geq 0,90$	0,852	Marginal
TLI	$\geq 0,90$	0,957	Good
CFI	$\geq 0,90$	0,962	Good
PNFI	0,60 – 0,90	0,797	Good
PGFI	0 – 1,0	0,732	Good

From Table 2 above, it is evident that the test results meet the criteria for the goodness of fit of the structural model, with values such as CMIN/DF, TLI, CFI, PNFI, PGFI, and RMSEA satisfying the specified cut-off values for goodness of fit. Although two criteria, GFI and AGFI, have values below the cut-off, Chau & Hu (2001) suggest that the cut-off values for GFI and AGFI can be lower, specifically 0.80.

The interplay among the variables expertise, reputation, investor trust, reinvestment intention, and capital market literacy is illustrated in the figure below :

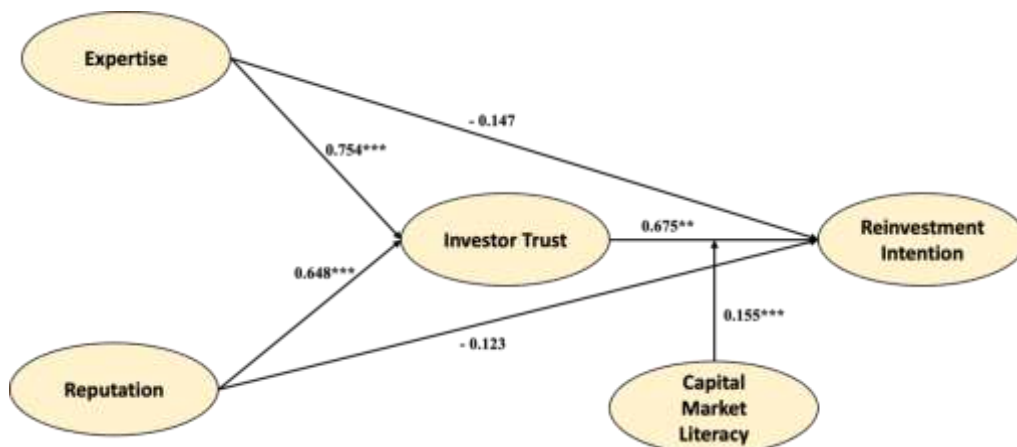


Figure 1. Structural Model

From Figure 1 above, we can conclude that the variables expertise and reputation have a significant influence on repurchase intention through the variable investor trust but do not have a direct effect. Capital market literacy moderates and strengthens the influence of investor trust on reinvestment intention. In other words, expertise has a significant effect on investor trust by 0.754, and reputation has a significant effect on investor trust by 0.648. This indicates that the level of expertise and reputation positively impacts the trust level of investors in the Indonesian stock market and the brokerage firms involved. Expertise and reputation do not have a direct effect on reinvestment intention, as evidenced by the p-value >0.05 (not significant). These results indicate that, although the level of expertise and reputation can enhance investor trust, both variables do not have a direct impact on investors' decision to reinvest. Investor trust mediates the relationship

between expertise and reputation on reinvestment intention. This suggests that investor trust acts as an intermediary in influencing the reinvestment decisions of stock investors in Indonesia, also known as full mediation. The testing of the mediation effect in this study uses SEM Amos by observing the values of standardized direct effects, indirect effects in the Amos output. The significance of the indirect effect is tested using bootstrap Standardized Indirect Effects - Two-Tailed Significance (BC).

Capital market literacy, as a moderating variable, can strengthen the influence of investor trust on reinvestment intention by 0.155. This result indicates that capital market literacy plays a quasi-moderating role in reinforcing the influence of investor trust on the decision to reinvest. This means that the higher the level of capital market literacy, the stronger the influence of investor trust on the decision to reinvest by investors in the Indonesian stock market. The results of this study support research conducted by Spake and Megehee (2009), which identified trust as moderating the relationship between expertise and repurchase intention. The same results are justified by Guenzi and Georges (2010), where the relationship between expertise and repurchase intention is mediated by trust. Furthermore, Arshad et al. (2016) in their research identified that trust mediates the relationship between reputation and repurchase intention. This is further justified by Omoregie (2019), where the relationship between reputation and repurchase intention is mediated by trust.

Interpretation of Results

The analysis results indicate that expertise and reputation have a positive and significant influence on investor trust. This illustrates the importance of knowledge and reputation in shaping investor trust in the Indonesian stock market. However, the decision to reinvest is not directly influenced by expertise and reputation. Instead, their influence on reinvestment intention occurs through investor trust as a mediator. This implies that investor trust fully mediates the relationship between expertise and reputation and repurchase intention. This aligns with the mediation theory justified by Hair et al. (2017). Furthermore, this study identifies that capital market literacy plays a moderating role, strengthening the influence of investor trust on reinvestment intention. This means that capital market literacy can enhance the positive effect of investor trust on the intention to reinvest. In other words, the more literate an investor, the greater the impact of their trust on the decision to reinvest in the Indonesian stock market. The results of this study provide a deeper understanding of the dynamics of the relationship between capital market literacy, expertise, reputation, investor trust, and reinvestment intention in the context of the Indonesian stock market. The implications of these results are that the development of stock market literacy is deemed necessary and should be undertaken by all stakeholders to boost investor confidence in making better and sustainable investment decisions. This, in turn, can impact the growth and development of the Indonesian stock market.

4. CONCLUSION

This study discusses the influence of Capital Market Literacy as a moderator on the relationship between Expertise, Reputation, Investor Trust, and Reinvestment Intention in the Indonesian stock market. Based on the research findings, we can conclude several key points :

1. Expertise and Reputation significantly influence Investor Trust directly. The level of expertise and reputation plays a crucial role in shaping the investor's confidence in the stock market. This requires attention from brokerage firms to continually enhance the skills of

their employees and improve the company's reputation. Additionally, regulatory support in the Indonesian stock market is essential.

2. Expertise and Reputation do not have a direct influence on Reinvestment Intention. Although both factors can enhance Investor Trust, they do not directly impact the decision to reinvest. This indicates to brokerage firms that building and maintaining investor trust requires continuous effort.
3. Investor Trust mediates the relationship between Expertise and Reputation with Reinvestment Intention. Investor Trust acts as an intermediary in influencing the decision to reinvest.
4. Capital Market Literacy, as a moderating variable, strengthens the influence of Investor Trust on Reinvestment Intention. Market literacy can enhance the positive impact of Investor Trust on the intention to reinvest.

These findings underscore the importance of developing market literacy to enhance intelligent and sustainable investment decision-making. More literate investors are better equipped to understand investment risks and opportunities, feeling more confident in reinvesting in the stock market.

5. RECOMMENDATIONS FOR FUTURE RESEARCH

In the context of advancing further research, there are several recommendations for future studies :

1. Sample Expansion: Expanding the respondent sample and involving more investor categories, such as institutional investors, can provide a more comprehensive insight into the relationships among the research variables.
2. Comparative Studies: Conducting comparative studies between the Indonesian stock market and stock markets in other countries can help understand the differences in factors influencing the intention to reinvest.
3. Capital Market Literacy Interventions: Investigating the impact of capital market literacy programs implemented by regulators and self-regulatory organizations (SRO) on investors' decisions to reinvest.
4. Long-Term Analysis: Illustrating how the factors studied in this research develop in the long term and how these changes affect the intention to reinvest.

Future research that deepens the understanding of the relationship between capital market literacy, expertise, reputation, investor trust, and reinvestment intention will provide a better insight into the dynamics of the Indonesian stock market and contribute to more intelligent investment decision-making.

REFERENCES

- Adekunle, S.A and [Ejechi, J.O.](#) (2018). "Modelling repurchase intention among smartphones users in Nigeria". *Journal of Modelling in Management*. Vol. 13 No. 4, pp. 794-814.
- Arshad, T., Zahra, R. and Draz, U. (2016), "Impact of customer satisfaction on image, trust, loyalty and the customer switching behavior in conventional and Islamic banking: evidence from Pakistan". *American Journal of Business and Society*. Vol. 1 No. 3, pp. 154-165.
- Chau, P. Y. K., & Hu, P. J. H. (2001). Information Technology Acceptance by Individual Professional: A Model Comparison Approach. *Decision Sciences*, 32, 699-719.
- Crosby, L. A., Evans, K. R., dan Cowles, D. (1990). "Relationship Quality in Services Selling: An Interpersonal Influence Perspective". *Journal of Marketing*. Vol. 54 No. 3, pp. 68-81.
- Fombrun, C. J. (2018). Reputation: Realizing Value From The Corporate Image. 20th Ed. Cambridge, MA: Harvard Business School.
- Guenzi, P., dan Georges, L. (2010). "Interpersonal trust in commercial relationships: Antecedents and consequences of customer trust in the salesperson". *European Journal of Marketing*. Vol. 44 No. 1/2, pp. 114-138.
- Gundlach, G. T., dan Murphy, P. E. (1993). "Ethical and Legal Foundations of Relational Marketing Exchanges". *Journal of Marketing*. Vol. 57 No.4, pp. 35-46.
- Gupta, S., & Mehta, S. (2021). The Role of Trust in Reinvestment Intentions: An Empirical Study. *Journal of Behavioral Finance*, 22(1), 22-39.
- Hair, J.F., Black, W.C., Babin, B.J. and Anderson, R.E. (2010). Multivariate Data Analysis. 7th Ed. New York: Pearson.
- Hair, J.F.J. , Hult, G.T.M. , Ringle, C.M. and Sarstedt, M. (2017). A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM), 2nd Ed. Thousand Oaks, CA: Sage Publication.
- Herbig, P., dan Milewicz, J. (1995). "The relationship of reputation and credibility to brand success". *Journal of Consumer Marketing*. Vol. 12 No. 4, pp. 5-10.
- Jiang, J., Liao, L., Wang, Z., & Xiang, H. (2020). Financial literacy and retail investors' financial welfare: Evidence from mutual fund investment outcomes in China. *Pacific-Basin Finance Journal*, 59, 101242. <https://doi.org/https://doi.org/10.1016/j.pacfin.2019.101242>
- Jiang, Z., Liu, W., & Li, X. (2023). The Moderating Role of Capital Market Literacy in the Relationship Between Investor trust and Reinvestment Intention. *Journal of Financial Psychology*, 14(1), 45-61.
- Johnson, A., & Gupta, S. (2022). Determinants of Reinvestment Intention: A Comprehensive Study. *Journal of Investment Strategies*, 11(3), 45-58.
- Johnson, A., & Lee, S. (2022). The Impact of Corporate Reputation on Investor Decision-Making: Recent Findings. *Journal of Finance and Investment Analysis*, 11(2), 48-60.
- Lee, C., Eze, U. & Ndubisi, N., (2011). "Analyzing key determinants of online repurchase intention". *Asia Pacific Journal of Marketing and Logistic*, Vol. 23 No. 2, pp. 200-221.
- Oliver, Richard, L. (1997). Satisfaction: A Behavioral Perspective on the Consumer. 2nd Ed. New York: McGraw-Hill.
- Omoregie, O. K., Addae, J. A., Coffie, S., Ampong, G. O. A., & Ofori, K. S. (2019). "Factors influencing consumer loyalty: evidence from the Ghanaian retail banking industry". *International Journal of Bank Marketing*. Vol. 37 No. 3, pp. 798-820.
- Page, K., dan Uncles, M. (2004). "Consumer knowledge of the World Wide Web: Conceptualization and measurement". *Psychology and Marketing*. Vol. 21 No. 8, pp. 573-591.
- Pavlou, P. a, dan Fygenson, M. (2006). "Understanding and Predicting Electronic Commerce Adoption: An Extension of the Theory of Planned Behavior". *Management Information Systems Research Center*. Vol. 30 No. 1, pp. 115-143.

- Rauyruen, P., dan Miller, K. E. (2007). "Relationship quality as a predictor of B2B customer loyalty". *Journal of Business Research*. Vol. 60 No. 1, pp. 21-31.
- Smith, R., & Brown, M. (2021). The Role of Investment Expertise in Individual Investor Decision-Making. *Journal of Finance and Investment Analysis*, 10(3), 1-12.
- Smith, R., & Smith, J. (2018). The influence of reputation on investor trust in the stock market. *Journal of Behavioral Finance*, 19(1), 45-59.
- Solomon, M. R. (2018). *Consumer Behavior: Buying, Having, Being*. 12rd Ed. Australia: Pearson.
- Spake, D. F., dan Megehee, C. M. (2009). "Consumer sociability and service provider expertise influence on service relationship success". *Journal of Services Marketing*. Vol. 24 No. 4, pp. 314–324.
- Tversky, A., & Kahneman, D. (1992). Advances in prospect theory: Cumulative representation of uncertainty. *Journal of Risk and Uncertainty*, 5(4), 297-323.
- Wang, Y., Lo, H. P., dan Hui, Y. V. (2003). "The antecedents of service quality and product quality and their influences on bank reputation: Evidence from the banking industry in China". *Managing Service Quality: An International Journal*. Vol. 13 No.1, pp. 72-83.
- Wang, Q., Chen, L., & Zhang, X. (2022). The Impact of Financial Literacy on Individual Investment Decision in Stock Market: Evidence from China. *International Journal of Financial Research*, 13(2), 157-167.