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RISK AVOIDANCE IN INTERGENERATIONAL INVESTMENT DECISIONS

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Abstract:
The character of a generation also shapes risk avoidance behavior. Socio-cultural and economic background influencing each generation's character formation results in differences in the investment preferences and the risk-taking tendencies in each generation group. This research aims to observe the influence of risk avoidance behavior of intergenerational investors on their investment decisions. The sample consisted of 240 respondents, who were obtained through the distribution of research questionnaires. The primary data used in this research is data from behavioral experimental methods for each generation. They were measured, and then the levels of avoidance between generations were compared. The results prove that risk avoidance behavior in all generations results in a moderate level, with the most excellent avoidance behavior in Generation Y and Generation Z. However, if we look at the relativity of risk aversion between generations, the one with the most significant risk averter behavior is the baby boomer generation. Meanwhile, the most prominent moderate risk avoidance behavior is in Generation Y and Generation Z. The baby boomer generation tends to adopt investment behavior by avoiding existing risks compared to Generation Y and Generation Z because of the psychological differences between these four generations.
Keywords: Investment, Risk Aversion, Intergenerational

INTRODUCTION

Along with the development of technology and advances in capital markets, investors have easier and greater access to the types of investments available, whether in the stock market, bond market or other financial instruments. Ease of access to investing can influence risk avoidance behavior among investors. In some cases, high ease of access can make investors overconfident and take unnecessary risks. In contrast, investors may be risk-averse in other cases due to a lack of investment experience and knowledge.

In classical economic theory, risk-avoidance behavior tends to be considered irrational or less efficient because risk is considered part of the expected return. On the other hand, behavioral economics theory assumes that investors do not always act rationally and can be influenced by psychological and social factors when making investment decisions.

Research by Paravisini et al. (2010) on risk aversion, which uses a classical theoretical approach to understanding risk aversion, shows that the level of risk aversion influences borrower portfolio management. Cohn et al. (2014) use behavioral economics and classical theory approaches to understand risk avoidance behavior. Meanwhile, research by Halek and Eisenhauer (2001) uses demographic classification to compare risk avoidance behavior. Investors with high-risk avoidance behavior will have fewer risky assets (Grable & Carr, in Sakinah, 2021).

Furthermore, risk avoidance behavior is also shaped by the character of a generation, which is categorized into four generations: Baby Boomers, Generation age, location, and events in the lives

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of that group of individuals that significantly influence their growth phase. The socio-cultural and economic conditions surrounding the character formation period of this generation result in differences in investment preferences and risk-taking tendencies in each generation group. Individuals with higher risk aversion and married individuals are more likely to have a more significant proportion of risky assets in their portfolios (Mahdzan et al., 2017).

This study determines the level of risk aversion between generations, with the title Risk Aversion to Investment Decisions between Generations. The millennial generation, which is relatively young, can still take risks because their adrenaline is ready to accept risks. As a young person, you still have the opportunity to try more. Meanwhile, when starting to invest when you are approaching retirement age, it is best to avoid trying something too risky because you might not be able to wait another 10 or 20 years until the stock market bounces back (Ramadhani et al., 2021). Generations X, Y, and Z differ in risk levels borne by individual stock investors and follow different strategies (Sitinjak, 2019). Asandimitra et al. (2021) also stated that risk perception influences investment decisions made by the millennial generation.

Financial literacy, risk perception and locus of control positively influence investment decisions (Putrie et al., 2022). Risk perception is the investor's process of viewing, assessing and interpreting the risk of an investment instrument obtained in making investment decisions. Risk perception is a person's assessment of a risky condition, and the assessment depends on a person's psychological character and condition (Pradikasari & Isbanah, 2018). High financial literacy will provide insight and understanding regarding risk avoidance in investing so that investors can choose steps and manage which risks to choose (Junianto et al., 2022). Additionally, millennial investors' decisions are influenced by technology, finance, family background and investor income (Jonathan & Sumani, 2021).

Research by Widyastuti (2020) found that social media significantly influences the investment decisions of the millennial generation in DKI Jakarta. In line with supporting theory, namely, the Theory of Planned Behavior (Ajzen & Driver, 1991), information factors, one of which is social media, can influence a person's decisions. Agustin and Lysion (2021) found that herding, financial literacy, and price anchoring influence investment decisions, while overconfidence and loss aversion do not. Herding affects investors who tend to follow the majority's decisions to reduce risk and increase returns when making investment decisions.

Nguyen (2018) states that investors tend to avoid uncertainty, avoid ambiguity and further avoid risk. Investors tend to choose safe investments to avoid existing risks. Guillemette (2016) states that an investor's subjectively effective risk profile evaluation results can be produced from an advisor's risk assessment instrument; behavioral factors, especially reactions to losses, will predict clients' response to investment volatility; this should be a reference in providing recommendations towards investors.

METHODS

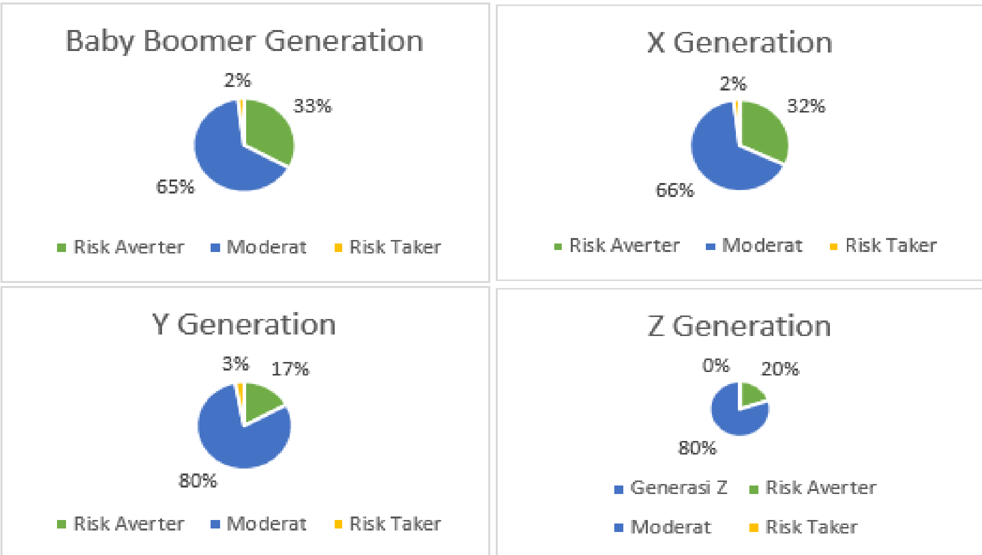
In this research, the method used is behavioral experiments on each generation, measuring and then comparing the level of risk avoidance between generations. Experimental research is carried out by manipulating to determine the effects of manipulation on the observed individual behavior. Manipulation can be carried out through certain situations or actions given to individuals or groups, and the effect is seen. Campbell & Stanley (in Yusuf, 2014) state that experimental research is a form of research in which variables are manipulated so that the influence and effect of these variables on other variables being investigated or observed can be ascertained. The data sources obtained in this research process are primary data relating to samples from each generation, categorized into four generations: Baby Boomers, Generation X, Generation Y/Millennials, and Generation Z. Respondents will answer various written questions listed in the questionnaire. The questionnaire used in this research is experimental, so the questions are behavioral experimental. Sugiyono in Ratminingsih (2011) states that experimental research can be interpreted as a research method that seeks the effect of specific treatments on others under controlled conditions.

RESULT AND DISCUSSION

The study had 240 respondents. The respondents were divided into four generational groups, so 60 respondents represented each generation. Based on the results of processing respondent data, investor behavior towards risk will be classified into three categories: risk averter, moderate, and risk taker.

The majority of the baby boomer generation has moderate risk avoidance behavior. This behavior implies that the baby boomer generation understands and accepts the risks involved in every decision, especially investment decisions. This awareness leads to the choice of moderate risk with the consequence of receiving relatively moderate investment returns.

Most Generation X is currently in the age range of 43 to 58, and the income cycle is at its peak. In their life cycle's most optimal financial position, Generation X chooses a moderate amount of risk with relatively moderate investment return consequences.



Source: author's analysis results, 2023

Figure 1. Risk Avoidance Behavior in Each Generation

The majority of Generation Y, the generation born between 1981 and 1996, have moderate risk avoidance behavior. Generation Y, currently in the age range of 27 to 42, also has the same risk avoidance behavior as the older generation.

Generation Z respondents in this study were a maximum of 26 years old, which means they are at the beginning of the income cycle. With a relatively younger age position among the three generations studied, they have the same risk avoidance behavior, namely moderate.

Risk avoidance behavior in investing in the baby boomer generation, generation X, generation Y, and generation Z shows the same moderate results. It clarifies that the four generations understand and accept the risks in making investment decisions. It is supported by research from

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Suryawati (2022), which states that the investment decisions of the millennial generation will tend to increase due to increased financial literacy and the low level of environmental damage felt by investors. Rahma (2023) states that risk perception influences increasing the investment decisions of the millennial generation in Surabaya. It is in line with research by Putrie et al. (2022), which states that an investor with a high tolerance level will be braver in making decisions than investors with a low tolerance level. Bellante and Green (2004) state that people with higher education tend to invest in securities with high risks in old age.

However, risk avoidance behavior for all generation groups shows the same results, namely at a moderate level. If examined in more detail, there are differences in the relativity of risk avoidance between generations.

Table 1. Relativity Of Risk Avoidance Behavior Between Generations

GENERATION	RISK AVOIDANCE TYPE		
	Risk Averter	Moderate	Risk Taker
BABY BOOMER	33%	65%	2%
GEN X	32%	6%	2%
GEN Y	17%	80%	3%
GEN Z	20%	80%	0%

Source: author's analysis results, 2023

The data in Table 1 shows that the number of respondents with the most excellent risk-averter behavior is in the baby boomer generation. Meanwhile, moderate risk avoidance behavior is the greatest in the relatively younger generations, namely Generation Y and Generation Z. These two facts prove that the older generation tends to have more robust risk avoidance behavior. It is supported by behavioral finance theory by Thaler (1994), Shefrin and Statman (2000), and Hirschey & Nofsinger (2008), which states that decisions made in the financial sector will always be related to the psychology of the investment actor himself, thus creating a perception of the level of risk. Moreover, the level of return will vary from one investor to another. Psychological differences between the four generations are due to differences in mastery of information and technology.

For Generation Z, information and technology are already part of their lives, while for the baby boomer generation, technology is something new, and only some in that generation are interested in learning about it. Sitinjak (2019) states that Generation Z likes risk more than Generation Z, who prefers risk.

Mulyantini (2022) states that Generation Z and millennials in developed countries understand technology and investment developments better, so this generation thinks more about the impact of investment, while Generation Z and millennials in developing countries prefer safe types of investment. Duffy et al. (2013) research revealed that risk aversion among older adults is more significant than among younger adults, considering that older adults must make important decisions such as insurance coverage, medical care and other essential finances.

CONCLUSION

In general, risk avoidance behavior for all generation groups has the same results, namely at a moderate level. This behavior implies that the four generations understand and accept the risks involved in every decision, especially investment decisions. This awareness leads to the choice of moderate risk with the consequence of receiving relatively moderate investment returns. So that the four generations, when making investment decisions, will be careful but also take only a few risks.

However, if we look at the relativity of risk aversion between generations, the one with the most significant risk averter behavior is the baby boomer generation. Meanwhile, the most prominent moderate risk avoidance behavior is in Generation Y and Generation Z. The baby boomer generation tends to adopt investment behavior by avoiding existing risks compared to Generation Y and Generation Z because of the psychological differences between these four generations.

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