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Investment Decisions: Mediating Role of Financial Behavior on Young Investors in the Capital Market

Terre Liyanty¹, Dela Jovam Sari², Benny Dhevyanto^{3*}, Krisdiana Krisdiana^{4*}

^{1,2,3,4}Swadaya Gunung Jati University, Cirebon, Indonesia

*Corresponding author email: <u>dhevyanto.benny@ugj.ac.id</u>, <u>krisdiana@ugj.ac.id</u>

Abstract

Interest in capital market investments continues to increase, along with improved access to information and digital platforms that make it easier for the younger generation to invest. However, psychological phenomena such as FOMO (Fear of Missing Out), YOLO (You Only Live Once) and FOPO (Fear of Other People's Opinions) often affect their investment decisions. FOMO, in particular, can cause young investors to make rash investment decisions without careful consideration. This study aims to empirically test whether financial knowledge and risk preferences affect investment decision which mediated by financial behavior. Research used quantitative methods with descriptive, statistical analysis, and a sample of 150 respondents who were young investors aged 18-30 years in Cirebon. The findings of the analysis indicated that financial knowledge and risk preferences influences investment decision, and financial behavior successful as a mediator. It can be inferred that increasing financial knowledge and understanding of risk preferences can help young people make more rational investment decisions, despite the influence of psychological factors such as FOMO and others.

Keywords: Financial Knowledge, Risk Preference, Financial Behavior, Investment Decision, Young Investors.

1. Introduction

Investment is an effort made by someone to get greater benefits at the expense of assets owned (Armansyah et al., 2023). Globally, the phenomenon of investment among the younger generation has undergone significant changes over the past decade. As from the results of a survey by The World Economic Forum with BNY Mellon (2022), which was distributed to 9 countries including China, Japan, Brazil, France, Germany, United Arab Emirates, South Africa, United Kingdom, and United States. The survey results found that there was a dominance by the productive age group and 45% of them were retail investors under the age of 35.

The increasing dominance of young investors has also occurred in the Indian Market, based on a reports by the National Stock Exchange of India found that the proportion of investors under 30 years old has jumped significantly in the past few years, recorded in March 2018 at 22.9% rising to 40% by September 2024 (Ani, 2024). A similar phenomenon has also occurred in Indonesia, where there has been significant growth in investors, especially among the younger generation. It can be seen from the statistical data of the Indonesian Central Securities Depository (KSEI) as follows:



Figure 1 : Investor Growth, KSEI statistic

Based on the data above, shows a significant growth in the number of investors in Indonesia starting in 2020 at 3.88 million towards 2021, almost doubling and continuing to increase every year with more than 50% of investors coming from the age group under 30 years, and number of investors in Indonesia's capital market to reach 14.87 million by December 2024 (KSEI, 2020, 2021, 2022, 2023, 2024). The Cirebon Financial Services Authority (OJK) also noted investor's growth in the capital market according to Single Investor Identification (SID) data, which previously in June 2024 the number of investors was 301,598 people and reached 304,350 people in early November 2024, this number increased by 11.33% (OJK, 2024).

Interest in capital market investing continues to grow, but this condition is accompanied by the existence of FOMO (Fear of Missing Out) phenomenon in the younger generation (Chakrabarti, 2024). FOMO is a psychological condition in which a person is afraid of missing opportunities that are considered profitable (Milyavskaya et al., 2018). In addition to FOMO, there are other terms attached to the younger generation, namely YOLO (You Only Live Once) and FOPO (Fear of Other People's Opinions), this phenomenon will be detrimental in making investment decisions. Ignorance of what caused the losses and improper capital allocation often leads investors to repeat the same mistakes. In deciding to invest, insight and knowledge are needed as well as good control to be able to make investment decisions. According to Hidayat & Abdul Moin (2023) investment decision is a process in which investors, both individuals and companies, use their resources and information to make investment decisions and during the process, there is rational and irrational investor behavior.

Financial knowledge can influences investment decision. According to Siska et al. (2021) the more knowledgeable a person is in manage their finance, the better level of plan and make a decision in investment. This opinion is supported by other study results from Mubaraq et al. (2021) and Putri et al. (2023) states that financial knowledge influences investment decision making. Investors must have adequate knowledge so that they will better understand how to make good decisions without being affected by feelings of FOMO and become more aware of the various types of risk investments that they can choose or avoid.

Furthermore, according to Hendwiyani & Ulpah (2021) the factor that can influence investment decisions is risk preference or the way a person views or assesses a risk that can affect a individual's tendency to respond to risk or that in the end a person makes a decision to invest. This is strengthened by the results of study from Liu et al. (2024) state that the risk preference influences safety investment decision. Risk preference is investor's tendency to choose investment instruments according to the level of risk they can accept (Aren & Zengin, 2016). With an understanding of risk in decision making when investing, it will increase the accuracy of the choice of investment products and individual characters according to their preferences. However, this is inversely proportional to what was conveyed by Muliadi et al. (2023) that risk preference has no impact on investment decision.

Investment decisions and financial behavior affect each other. Investment decisions can be influenced by a person's financial behavior based on research by Abidin et al. (2024). This statement aligns with study's result by Khatimah et al. (2024) that shows that financial behavior factors affect the quality of decision results in investment and successfully act as a mediating variable. Meanwhile, based on research by Marpaung et al. (2024) state that there is no effect of financial behavior on investment decision and financial behavior fails act as a mediating variable.

The objective of research is to empirically test whether financial behavior is able to become mediator the influences of financial knowledge and risk preferences on investment decision. The research's object more specifically focused on young investors in the capital market. The findings are expected to contribute positively and increase investment-related knowledge that can be applied as a strategy in decision making for young investors, especially novice investors in the capital market.

2. Literature Review

2.1Prospect Theory

Kahneman & Tversky (1979) first proposed an alternative model of the decision making process under the risk, called prospect theory. This alternative model can clarify risks in various outcomes, focusing on potential outcomes before reaching a final decision because prospect theory is based on uncertainty factors (risks) and misjudgment (preferably to gain profit even it is nominal) in the process. Application of prospect theory has the potential to help explain financial phenomena, especially the preparation of investment decision information. Based on prospect theory, apart from being influenced by the knowledge possessed, investment decision making also considers preferences as a factor of consideration in decision making even though there is no conformity with the probability or in other words, it is meant by the risk preferences that they may face later.

2.2 Reasoned Action Theory

Reasoned action theory is used as a reference in this study. Reasoned action theory was first coined by Fishbein and Ajzen, using the assumption that humans behave in a conscious manner and consider the information available (Ajzen & Fishbein, 1988). This theory illustrates that attitudes influence behavior in decision making, thus supporting financial knowledge as a decision-making factor. In general, investors who are carrying out their investment activities have a desire to know, distinguish, and ensure accuracy in making decisions that will be made.

2.3 Behavioral Financial Theory

Behavioral financial theory is a theory that explains the influence of the psychological factors on individual's wealth management decisions (Singla & Kaur, 2024). The concept of behavioral economic theory first appeared in in 1970 and explains how individuals utilize, manage, and control wealth resources under the influence of psychological factors. This theory is not only based on rational attitudes in their behavior, but also followed by their irrational attitudes. The theory also states that the better and healthier a person's psychology and mentality (the more financially literate), the better he or she will be at facing and solving problems when making investment decisions (Ackert & Deaves, 2009). The theory also suggests that the better you manage your finances, the better your investment planning and decisions will be.

2.4 Financial Knowledge on Investment Decision

Investment decisions are policies made by investors to invest their capital in an asset to get more profit in the future (Armansyah, 2021). Financial knowledge defined as the skills of reading, analyzing, managing, and communicating each individual's financial condition (Remund, 2010). Financial knowledge plays a critical part in determining in investment plan decisions, with the information that a person has about how to manage and plan their finances, of course, it provides benefits and can avoid financial losses.

An individual's level of understanding of financial concepts can influence their capability and self-confidence to handle their finance by making good short term decisions and healthy long term plans. According to Siska et al. (2021) financial knowledge affects process investment decision making because the greater financial knowledge an investor has, the better they are at predicting investments that will arise to generate profits and determine the type of investment that is suitable for them. Indicators for measuring financial knowledge are how far a person understands basic financial knowledge, credit and debit management, investment, savings and risk management (Lusardi & Mitchell, 2014). **H**₁ *Financial Knowledge Influences Investment Decision*

2.5 Risk Preference on Investment Decision

Risk is an uncertainty caused by a change or deviation from something that is expected (Popova et al., 2021). Risk preference is defined as an individual's tendency to choose when faced with two options with the same expected value but differing on dimensions that are assumed to affect the riskiness of the choice, risk preference refers to an attitude of a person toward the taking of risk in a given context (Weber & Hsee, 1998). According to Weber et al. (2002) classifies investors' attitude or behavior towards risk into 3: those who like risk (risk seekers), those who feel challenged by risk (risk indifference) and those who prefer to avoid risk (risk averter).

H₂ Risk Preference Influences Investment Decision

2.6 Financial Behavior on Investment Decision

Financial behavior is a study that combines psychology and finance to understand an individual's financial decision making and the influence of psychological and emotional factors in it, this study highlights that a person does not always act fully rationally when managing finances (Wangi & Baskara, 2021). In individual financial management, financial behavior can be interpreted as how one's action in use or utilization their assets, so that it can influence an individual's decision in using their money. According to Kasoga & Tegambwage (2022) indicators of financial behavior include financial budgeting, financial management, and financial storage. **H**₃ *Financial Behavior Influences Investment Decision*

2.7 Finansial Knowledge on Finansial Behavior

When making financial management decisions, financial knowledge can be a factor that influence a individual's financial behavior (Ariza & Jufrizen, 2022). Therefore, it's important for investor knows about financial knowledge to understand the investor's financial behavior in order to make investment decisions. Based on previous research by Rahmawati & Marcella (2023) and Zaidan Prayuda & Purwanto (2024) stated that financial knowledge can influences a person's financial behavior. Meanwhile, according to Yudha & Martanti (2022) there is no relation between financial knowledge and person's financial behavior.

H₄ Financial Knowledge Influences Financial Behavior

2.8 Risk Preference on Financial Behavior

An understanding of risk preferences can impact to a personal financial behavior, for example, it can help financial planners or make decisions that are in accordance with the risk profile of each investor. According to Mudzingiri et al. (2018) risk preferences affect financial behavior.

H₅ Risk Preference Influences Financial Behavior

2.9 Financial Behavior as Mediator of Financial Knowledge and Risk Preference on Investment Decision

The expected returns on investment are the basis for make investment decision. Investment returns and risks are aligned, so the higher level of risks taken, the more noteworthy returns gotten from the investment, and conversaly (Armansyah, 2021). Making decision involves making a choice from all the alternatives one has, the final decision marks the critical part to go ahead with an investment after careful evaluating of its eligibility. The decision usually the final outcome of extensive plans, risk assessment, financial analysis, and technical studies to anticipate risks and opportunities, and evaluate potential future scenarios. Based on previous research by Kasoga & Tegambwage (2022) states that financial behavior as a mediating variable has a positive influence. Meanwhile, according to Marpaung et al. (2024) financial behavior fails as a mediator in the interaction of other variables and investment decision.

H₆ Financial Behavior Mediate the Influence of Financial Knowledge on Investment Decision

H₇ Financial Behavior Mediate the Influence of Risk Preference on Investment Decision



Figure 2 : Research Framework

3. Materials and Methods

3.1. Materials

Research conducted in Cirebon, West Java with the population in the study was young investors aged 18-30 years in Cirebon. The research used a non-probability sampling strategy with purposive sampling technique to determine the sample. Due to the unknown population size, to calculate the sample size using the Lameshow formula (Siska et al., 2021). Researchers used a 95% of confidence level, a proportion of 50% with a margin of error 8%, resulting in a sample of 150 respondents. Collect data from respondents in the study through online survey conducted using Google Forms as a medium, distributed to young investors in Cirebon through social media platforms and young investor communities based at universities in Cirebon region. Using a Likert scale with the answer of each instrument has a certain level with a scale from 1 - 5.

3.2. Methods

Quantitative methods are used for this research. The application of this method is based on the positivist philosophy used to study a particular population or sample, data used for analysis in the form of numbers processed by statistical methods, with the aim of testing the hypothesis that has been set.

The data analysis technique in this study uses descriptive and statistical analysis using the SEM (structural equation modeling) approach supported by the SMARTPLS version 3 program. SEM-PLS consists of two stages, the outer model is first used to measure the validity and reliability tests of indicators. Second, the inner model is used to predict relationships between latent variables. Structural models are evaluated by testing R-squared values , testing appropriate models and hypotheses.

4. Results and Discussion

4.1 Results

Respondent Characteristics

In accordance with the characteristics of our target respondents, namely young investors in the capital market in Cirebon with an age range of 18 - 30 years and after distributing the online survey, 150 answers were obtained, with the results dominated by investors with an age range of 18 - 24 years and dominance in stock investment instruments which proves that there is interest in investing in the capital market in the younger generation and they are quite brave in taking risks in investment.

Table 1 : Respondent Characteristics					
Description	Number of Respondent	Precentage			
Age					
18 – 24 years	95	63.33 %			
25 – 30 years	55	36.67 %			
Total	150	100 %			
Investment Intrument					
Stocks	77	51.33 %			
Mutual Funds	36	24 %			
Bonds	21	14 %			
Others	16	10.67 %			
Total	150	100 %			

Source: (Data processed 2025)



Figure 3 : PLS Algorithm Test

Table 2 : Convergent Validity and Composite Reliability							
Variable	Indicator	Outer Loading	Cronbach Alpha	Composite Reliability	AVE	Conclusion	
Financial	X1.1	0.857					
Knowledge	X1.2	0.753		0.887	0.613		
	X1.3	0.735	0.840			Valid & Reliabel	
	X1.4	0.717					
	X1.5	0.842					
Risk	X2.1	0.846			0.655	Valid & Reliabel	
Preference	X2.2	0.721	0.868				
	X2.3	0.868		0.904			
	X2.4	0.742					
	X2.5	0.859					
Financial	Z1.1	0.770	0.807	0.874	0.635	Valid & Reliabel	
Behavior	Z1.2	0.746					
	Z1.3	0.887					
	Z1.4	0.777					
Investment Decision	Y1.1	0732	0.776		0.596		
	Y1.2	0.825		0.055		Valid &	
	Y1.3	0775		0.855		Reliabel	
	Y1.4	0752					
Courses (Data mas)	Surgers (Data was seened with Surget DIS 2025)						

Validity & Reliability Test Results

Source: (Data processed with SmartPLS, 2025)

Based on the validity analysis results, it shows that outer loading of all indicators on each variable obtained has met the convergent validity criteria (>0.70). Affirming that each indicator in the variable can be considered valid for further analysis.

Furthermore, in the reliability analysis results, the cronbach's alpha and composite reliability values show adequate results > 0.7 which means that all measured constructs meet the required reliability standards and confirm that the items used in this research are reliable. In addition, the AVE value > 0.5 for each variable outer loading dimension indicates that the measurement has met the convergent validity criteria. Thus, it is inferred that the measurements used in this study are valid and reliabel for further analysis.

Indicator	Financial Behavior	Financial Knowledge	Investment Decision	Risk Preference
X1.1	0.599	0.857	0.618	0.584
X1.2	0.543	0.753	0.554	0.542
X1.3	0.673	0.735	0.601	0.840
X1.4	0.569	0.717	0.586	0.534
X1.5	0.579	0.842	0.593	0.577
X2.1	0.593	0.629	0.533	0.846
X2.2	0.683	0.836	0.662	0.721
X2.3	0.512	0.542	0.517	0.868
X2.4	0.675	0.588	0.720	0.742
X2.5	0.498	0.529	0.502	0.859
Z1.1	0.770	0.542	0.597	0.512
Z1.2	0.746	0.665	0.622	0.645
Z1.3	0.887	0.685	0.691	0.704

Table 39. Cross Loading Discriminant Validity

Table 3b: Cross Loading Discriminant Validity					
Z1.4	0.777	0.512	0.582	0.517	
Y1.1	0.489	0.490	0.732	0.510	
Y1.2	0.734	0.702	0.825	0.766	
Y1.3	0.548	0.549	0.775	0.512	
Y1.4	0.613	0.561	0.752	0.471	

Table 3b: Cross Loading Discriminant Validity

Source: (Data processed with SmartPLS, 2025)

As demonstrated in the preceding table, the outer loadings of the indicators on the related constructs exceed the cross loadings of other constructs. Consequently, it can be posited that the latent variable exhibits a superior capacity to predict its indicators in comparison to other latent variables.

Table 4 : Fornell-Larcker Criterion Discriminant Validity					
	Financial Behavior	Financial Knowledge	Investment Decision	Risk Preference	
Financial Behavior	0.797				
Financial					
Knowledge	0.761	0.783			
Investment Decision	0.755	0.757	0.772		
Risk Preference	0.754	0.764	0.749	0.809	
Source: (Data processed with SmartPLS, 2025)					

As illustrated in the above table, the Average Variance Extracted (AVE) value exceeds the squared correlation with other constructs. This finding suggests that all constructs included in the estimated model meet the criteria for discriminant validity.

Multicollinearity Test Results

Table 5 : Inner Variance Inflation Factor (VIF) Value				
	Financial Behavior	Financial Knowledge	Investment Decision	Risk Preference
Financial Behavior			2.780	
Financial Knowledge	2.706 3.243			
Investment Decision				
Risk Preference	2.706		3.162	
Source: (Data processed with SmartPLS, 2025)				

Based on the multicollinearity test results, demonstrates the VIF value for each indicator is less than 10. This indicates that there is no multiple linearity between the indicators. Consequently, it was determined that multicollinearity does not pose a concern in the data presented in this study.

R- Square Test Results

Table 6 : R- Square Value					
R Square R Square Adjusted					
Financial Behavior	0.640	0.635			
Investment Decision	0.694	0.687			
Source: (Data processed with SmartPLS, 2025)					

The table above shows that the financial behavior variable has a R- Square value of 0.640, which means that the influence of the independent variables on financial behavior is 64% and on investment decision variable reaches 0.694 or 69.4%, the remaining factors are influenced by variables not explicated within the scope of the study.



Figure 4 : Bootstrapping Test

Hypothesis Test

	Hypothesis	Original Sample (O)	P Values
H1	Financial Knowledge > Investment Decision	0.256	0.005
H2	Risk Preference > Investment Decision	0.234	0.011
Н3	Financial Behavior > Investment Decision	0.413	0.000
H4	Financial Knowledge > Financial Behavior	0.440	0.000
Н5	Risk Preference > Financial Behavior	0.405	0.000
H6	Financial Knowledge > Financial Behavior > Investment Decision	0.182	0.004
H7	Risk Preference > Financial Behavior > Investment Decision	0.168	0.001
Carrier and (Dat			

 Table 7 : Hypothesis Test

Source: (Data processed with SmartPLS, 2025)

The results of the hypothesis testing above demonstrate that the seven hypotheses proposed exhibit a substantial influence between financial knowledge and risk preferences on financial behavior as a intervening variable and on investment decision as the dependent variable, given that the P values are less than 0.05. Consequently, the mediating variable is deemed competent in mediating the effect of financial knowledge and risk preferences on investment decision among young investors in the capital markets.

4.2 Discussion

The Influence of Financial Knowledge on Investment Decision

Based on the result indicate that financial knowledge exerts a positive significant influence on investment decision. Consequently, hypothesis 1 is validated (see table 7). And align with the reasoned action theory which states that a person behaves in a conscious manner and considers the information available for decision making. The better financial knowledge a person has, the more appropriate the investment decision chosen, and vice versa. These results support the outcomes of research conducted by previous researchers which states that financial knowledge influences investment decisions (Mubaraq et al., 2021; Putri et al., 2023; Siska et al., 2021).

The Influence of Risk Preference on Investment Decision

The findings indicate that risk preference has a positive and significant effect on investment decision, and thus hypothesis 2 is accepted (see table 7). This is due to the fact that respondents have the ability to choose investment instruments according to their preference for risk, their profile, or the level of risk they can bear. Risk preference is explained through prospect theory which underlies that a person can make rational choices by adding psychological

factors and uncertain behavior, and this findings is resonate with the theory. This results support previous research conducted by Hendwiyani & Ulpah (2021) and Liu et al. (2024) which states risk preference affects investment decisions. But, different from previous research by Muliadi et al. (2023) states that risk preferences have no influence on investment decision.

The Influence of Financial Behavior on Investment Decision

The results indicate that financial behavior has a significant positive effect on investment decision. Consequently, hypothesis 3 is validated (see table 7). This is supported by the results of the study which show that many young investors have taken financial actions that can help them achieve their desires. Such as financial planning as the ability to keep an eye on their financial condition, budget according to needs, keep an eye on the income earned, and save money. This findings is in line with behavioral financial theory, which states that the better a person manage their finances, the better the investment decision chosen. The results supports results of research carried out by Abidin et al. (2024) which states that investment decisions can be influenced by a person's financial behavior. Meanwhile, different from the results of study by Marpaung et al. (2024) which states that financial behavior do not effect on investment decision.

The Influence of Financial Knowledge on Financial Behavior

The results indicate that financial knowledge has a positive significant influnce on financial behavior, and thus hypothesis 4 is accepted (see table 7). To overcome financial problems and create healthy financial conditions, one must have sufficient financial knowledge to manage their finances. In other words, young investors who has sufficient financial knowledge will be more confident and behave better in terms of their finances. And this study support research conducted by Rahmawati & Marcella (2023) and Zaidan Prayuda & Purwanto (2024) which states that financial knowledge affects a person's financial behavior. Meanwhile, it is different from research by Yudha & Martanti (2022) which states that one's financial behavior cannot be affected by their financial knowledge.

The Influence of Risk Preference on Financial Behavior

Based on the results indicate that risk preference has a positive significant Influence on financial behavior, and thus hypothesis 5 is accepted (see table 7). As a result of the respondents' responses, it becomes clear that an young investor's risk preference will affect his financial behavior. Young investors are careful in allocating their funds and in choosing the type of investment they will choose according to the level of risk they can bear. Young investors tend to look for risks that are classified as safe to high with the aim of getting high returns or profits as expected, so they can still apply good financial behavior by managing to the maximum. The results support research that has been conducted by Mudzingiri et al. (2018) which states that risk preferences effect on financial behavior.

The Influence of Financial Knowledge on Investment Decisions Through Financial Behavior

Based on the findings shows that financial knowledge has a positive significant effect on investment decision through financial behavior as mediator, and thus hypothesis 6 is accepted (see table 7). If young Investors have a good financial knowledge will avoid making the wrong investment decisions. It is very important for individuals to use financial behavior in planning, managing, determining goals and making financial decisions, such as making investment and planning decisions.

The Influence of Risk Preference on Investment Decisions Through Financial Behavior

The results indicate that risk preference has a positive significant influence on investment decision through financial behavior as mediator. Consequently, hypothesis 7 is validated (see table 7). Based on respondents' responses, it is known that the respondents' level of knowledge about investment, including learning in advance the types of investments and risks that may be faced, shows that young investors have a high level of financial behavior, which has an effect on the level of risk preference, which makes them more careful when making investment decisions.

5. Conclussion

The results of this research indicated that financial knowledge and risk peference have a positive and significant influence on investment decision mediated by financial behavior on young investors in the capital market. The results show that when young investors have more financial knowledge and understand preferences for risk, they are better able to make better investment decisions, choose the right type of investment, minimize risk and generate high returns. Investors must have good financial knowledge and understanding of risk preference so that they can make wise

investment decisions. The more financial knowledge and understanding of risk preference investors have, the better their behavior when investing.

This study still has limitations, that only involving young investors in Cirebon, so the results may not reflect investment patterns in the capital market in other areas. Therefore, further research is recommended to include investors from various cities or regions to get more comprehensive results. And the scale of respondents in this study is still limited, which may affect the generalizability of the findings. Future studies can increase the number of respondents so that the results are more accurate and can represent a wider population of young investors.

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