



Analysis of Factors Affecting Investment Decision-Making in the Indonesian Capital Market

Barnabas Tridig Silaban^{1,*}, Ana Rusmardiana², Aldian Yusup³, Nana Adriana⁴, Gratia Tehilla Yustus¹

¹Fakultas Hukum dan Bisnis Digital, Universitas Kristen Maranatha, Bandung

Jl. Prof. drg. Soeria Soemantri No.65, Sukawarna, Kec. Sukajadi, Kota Bandung, Jawa Barat, Indonesia

²Fakultas Teknik dan Ilmu Komputer, Universitas Indraprasta PGRI, Jakarta

Jl. Nangka Raya No.58 C, RT.7/RW.5, Tj. Bar., Kec. Jagakarsa, Kota Jakarta Selatan, Daerah Khusus Ibukota Jakarta, Indonesia

³Institut Prima Bangsa, Cirebon

Jl. Brigjen Darsono, Bypass Jl. Cideng Raya No.20, Kertawinangun, Kec. Kedawung, Kabupaten Cirebon, Jawa Barat, Indonesia

⁴Fakultas Ekonomi dan Bisnis, Universitas Pertiba, Pangkal Pinang

Jl. Adhiyaksa No.9, Kacang Pedang, Kec. Gerunggang, Kota Pangkal Pinang, Kepulauan Bangka Belitung, Indonesia

Email: ^{1,*}barnabastridigs@gmail.com, ²ana.irawan93@gmail.com, ³yusufaldian895@gmail.com, ⁴nana08082017@gmail.com

Email Penulis Korespondensi: barnabastridigs@gmail.com

Submitted: 30/03/2026; Accepted: 04/05/2026; Published: 07/05/2026

Abstract—The Indonesian capital market has experienced significant investor growth, particularly among retail investors and younger generations. However, this increase in participation has not been fully accompanied by rational and high-quality investment decision-making. This study aims to analyze the factors influencing investment decision-making in the Indonesian capital market, with a particular focus on behavioral factors, financial literacy, and risk perception. The study employs a qualitative approach using a systematic literature review method, examining a curated sample of recent and relevant scholarly articles, academic books, and official institutional reports related to investment behavior and decision-making. The data were analyzed using descriptive qualitative analysis and content analysis to identify patterns and relationships among variables. The findings indicate that financial literacy is the most dominant factor in improving the quality of investment decisions, while overconfidence, herding behavior, and risk perception also significantly influence investor behavior. The interaction among these factors creates a complex pattern of investment decision-making. The novelty of this study lies in the development of an integrated analytical framework that simultaneously combines behavioral biases, financial literacy, and risk perception within a single model, particularly in the context of an emerging market such as Indonesia. This study contributes to the literature in three main ways. First, it provides a comprehensive synthesis of prior studies by integrating behavioral and cognitive perspectives into a unified framework. Second, it highlights the mediating role of risk perception and the moderating role of financial literacy in shaping investment decisions. Third, it offers contextual insights specific to the Indonesian capital market, where retail investor dominance and digital influence create unique behavioral dynamics. This study contributes theoretically by extending behavioral finance literature through a multidimensional perspective, and practically by providing insights for investors, regulators, and financial institutions to improve decision quality through a more holistic approach.

Keywords: Investment Decision-Making; Financial Literacy; Behavioral Biases; Risk Perception; Overconfidence; Herding Behavior; Indonesian Capital Market.

1. INTRODUCTION

The capital market plays a strategic role in supporting a country's economic growth through its function as a financial intermediary and a source of long-term financing (Karo et al., 2025). The development of the Indonesian capital market in recent years has shown a significant increase in investor participation, particularly among younger generations, reflecting a growing public interest in investment activities (Pujiati, 2025). Investment activities in the capital market are not only influenced by macroeconomic factors but also by individual investor characteristics in making decisions (Usriyono & Wahyudi, 2023). Therefore, understanding the factors influencing investment decision-making is essential to create an efficient and stable market (Almansour et al., 2025).

In traditional finance theory, investors are assumed to behave rationally in maximizing utility based on available information (Almansour et al., 2023). However, behavioral finance suggests that investment decisions are often influenced by psychological factors such as overconfidence, herding, and loss aversion (Pant & Pant, 2025). These factors can lead to deviations from rational decision-making and affect investment outcomes (Butt et al., 2023). Thus, analyzing investor behavior has become increasingly relevant in understanding modern capital market dynamics (Subedi et al., 2025).

In addition to psychological factors, financial literacy is also an important determinant in investment decision-making (Garg & Singh, 2024). A higher level of financial literacy enables investors to better understand investment risks and opportunities (Megananda & Sutrisno, 2024). Conversely, low financial literacy increases vulnerability to behavioral biases and suboptimal decision-making (Dinarjito, 2023). Therefore, financial literacy often acts as a reinforcing factor in improving the quality of investment decisions (Ramadhianto & Hartanti, 2025).

Another important factor is risk perception, which reflects how investors assess uncertainty in investments (Kaban & Linata, 2024). Risk perception has been found to significantly influence investment decisions, both directly and as a mediating variable (Anifa & Soegiharto, 2023). Investors with high risk perception tend to be more cautious in selecting investment instruments (Utama et al., 2024). On the other hand, low risk perception may encourage speculative behavior that increases the potential for financial losses (Trisno & Vidayana, 2023).



The urgency of this research lies in the increasing number of investors in the Indonesian capital market, which is not fully accompanied by adequate understanding of the factors influencing investment decisions (Karo et al., 2025). This condition may lead to irrational investment decisions and potential financial losses among investors (Pant & Pant, 2025). Furthermore, the growing complexity of behavioral biases in the digital era demands more in-depth empirical studies (Pujiati, 2025). Therefore, this research is important to contribute to improving the quality of investment decision-making in Indonesia (Almansour et al., 2025).

Previous studies have identified several key factors influencing investment decisions, including behavioral biases, financial literacy, and risk perception. For instance, recent research shows that herding behavior and overconfidence significantly influence investor decisions, particularly among retail investors in developing markets (Halim & Pamungkas, 2023; Tamara, 2022). Similarly, financial literacy has been widely recognized as a crucial determinant that improves the quality of investment decisions (Oktasari et al., 2023; Sawitri & Candraningrat, 2025). In addition, risk perception has been found to play a significant role in shaping investor behavior and decision-making processes (Kaban & Linata, 2024).

However, despite the growing body of literature, several gaps remain. First, prior studies tend to examine behavioral biases, financial literacy, and risk perception in isolation, rather than analyzing their combined and interactive effects on investment decision-making. Second, empirical findings across recent studies are inconsistent, particularly regarding the role of overconfidence and herding behavior, where some studies find significant effects while others report insignificant relationships (FATMA, 2024). Third, limited research has focused specifically on the Indonesian capital market context, where investor characteristics, financial literacy levels, and information asymmetry may differ significantly from those in developed markets. Finally, few studies integrate behavioral finance and financial literacy perspectives into a single comprehensive framework.

Based on these gaps, this study aims to analyze the role of behavioral factors (overconfidence and herding), financial literacy, and risk perception in influencing investment decision-making in the Indonesian capital market. Specifically, this study seeks to examine not only the individual effects of these variables but also their combined influence in shaping investor behavior.

This study offers several key contributions. First, it develops an integrated conceptual framework that simultaneously examines behavioral biases, financial literacy, and risk perception, addressing the limitation of prior studies that tend to analyze these variables separately. Second, it provides a more comprehensive explanation by positioning risk perception as a mediating variable and financial literacy as a moderating factor within the investment decision-making process. Third, this study enriches empirical understanding in the context of the Indonesian capital market, which is characterized by rapid growth in retail investors and strong digital and social media influence.

Theoretically, this research extends the behavioral finance literature by providing a multidimensional perspective on investment decision-making. Practically, the findings are expected to provide insights for investors, regulators, and financial institutions in designing strategies to improve the quality of investment decisions.

2. RESEARCH METHODS

This study employs a qualitative approach using a literature review method. This approach is used to systematically examine and synthesize previous studies related to work-life balance policies, employee well-being, organizational productivity, and factors influencing investment decision-making in the Indonesian capital market. The aim is to develop a comprehensive understanding and identify research gaps (Sugiyono, 2022b).

2.1 Data Sources

The data used in this study are secondary data obtained from credible sources, including national and international journal articles, academic books, and official reports from institutions such as the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX). The selected sources are relevant, recent, and academically reliable (Sugiyono, 2022a; Zed, 2018).

2.2 Data Collection Technique

Data were collected through systematic literature search and documentation. The researcher identified and selected relevant studies using academic databases such as Google Scholar and ScienceDirect. The process included keyword searching, screening based on relevance, and organizing the selected literature according to the research focus (Ratnaningtyas et al., 2023).

2.3 Data Analysis Method

The study uses descriptive qualitative analysis with content analysis. The analysis process includes data reduction, data presentation, and conclusion drawing. Relevant information is filtered, organized into a structured narrative, and interpreted to identify patterns and relationships among variables (Krippendorff, 2018; Miles et al., 2020).

3. RESULTS AND DISCUSSION



3.1 Behavioral Factors in Investment Decision-Making

Behavioral factors are critical determinants in investment decision-making, particularly in emerging markets such as Indonesia, where investor behavior is often influenced by psychological and social dynamics rather than purely rational analysis. Behavioral finance theory explains that investors are subject to systematic cognitive biases, including overconfidence, herding behavior, and emotional biases, which significantly shape their financial decisions (Utama et al., 2024). These biases can lead to suboptimal investment outcomes, such as excessive trading, mispricing of assets, and increased market volatility (Pant & Pant, 2025).

One of the most dominant behavioral biases is overconfidence, which refers to investors' tendency to overestimate their knowledge, predictive ability, and control over investment outcomes. Empirical studies in Indonesia show that overconfidence significantly influences investment decisions and often leads investors to take excessive risks and ignore potential losses (Adielyani & Mawardi, 2020; Malini, 2025). For instance, during the surge of retail investors in Indonesia between 2020–2022, many novice investors actively engaged in frequent stock trading based on limited knowledge, believing they could outperform the market. This phenomenon was evident in the increased trading volume of speculative stocks, where investors relied more on short-term trends than on fundamental analysis. Such behavior aligns with findings that overconfidence can lead to excessive trading and reduced portfolio performance.

Another important behavioral factor is herding behavior, defined as the tendency of investors to imitate the actions of others without conducting independent analysis. Herding is particularly prevalent in environments with high uncertainty and information asymmetry, such as the Indonesian capital market (Trisno & Vidayana, 2023). Research indicates that herding behavior is strongly influenced by social factors, including trust in influencers and peer recommendations, especially among young investors (Kresnawati et al., 2024).

This figure illustrates the relative influence of key factors affecting investment decision-making in the Indonesian capital market, namely overconfidence, herding behavior, financial literacy, and risk perception, based on a synthesis of the literature.

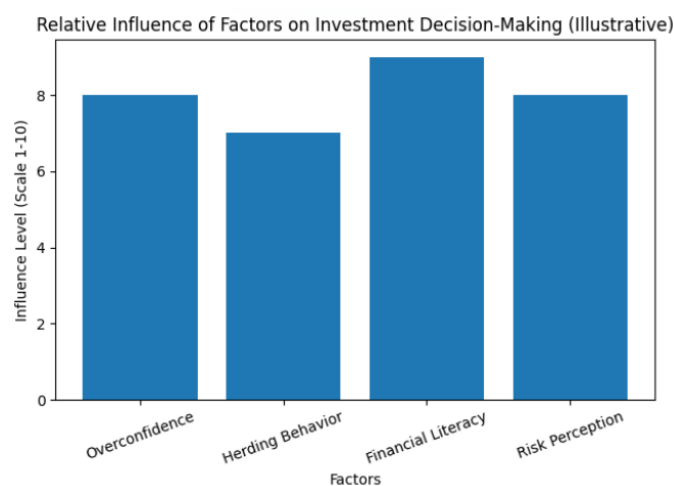


Figure 1. Factors Influencing Investment Decision-Making

The results indicate that financial literacy has the most dominant influence in improving investment decision quality, while overconfidence and risk perception also play significant roles in shaping investor behavior. Meanwhile, herding behavior remains influential, particularly among novice investors, although its impact is relatively lower compared to the other factors.

A real case in Indonesia can be observed during the “stock hype” phenomenon, where certain stocks (often referred to as “gorengan stocks”) experienced rapid price increases due to coordinated buying by retail investors influenced by online communities and social media. Many investors followed these trends without understanding the underlying fundamentals, leading to price bubbles and eventual losses when prices corrected. This case illustrates how herding behavior can distort market efficiency and increase systemic risk.

In addition, behavioral responses during the COVID-19 pandemic provide further evidence of herding dynamics in Indonesia. Studies show that herding behavior was present in the Indonesian stock market, particularly during periods of extreme market conditions, where investors reacted collectively to market movements (Sadewo & Cahyaningdyah, 2022). However, some findings also indicate that herding behavior decreased during certain pandemic phases as investors became more cautious and relied more on rational judgment (Warganegara & Warganegara, 2022). This suggests that behavioral biases are dynamic and influenced by external shocks and market conditions.

Furthermore, the interaction between overconfidence and herding behavior adds complexity to investment decision-making. While overconfidence drives individual risk-taking, herding behavior reinforces collective irrationality, potentially amplifying market bubbles or crashes. Empirical evidence shows that both biases can



influence investment decisions either directly or indirectly through risk perception (Kaban & Linata, 2024). This interaction is particularly relevant in Indonesia, where the increasing number of novice investors with limited experience makes the market more susceptible to behavioral-driven fluctuations.

Overall, the Indonesian capital market demonstrates that behavioral factors are not merely complementary but fundamental in shaping investment decisions. The dominance of retail investors, rapid digitalization, and the influence of social media further intensify these behavioral effects. Therefore, understanding and mitigating behavioral biases is essential to improve investment decision quality, enhance market efficiency, and reduce the risk of irrational market movements.

3.2 The Role of Financial Literacy

Financial literacy is widely recognized as a fundamental determinant of investment decision-making, particularly in emerging markets such as Indonesia, where investor participation is rapidly increasing but knowledge levels remain uneven. Financial literacy encompasses not only basic financial knowledge but also skills, attitudes, and the ability to apply financial concepts in real decision-making contexts. Empirical evidence shows that financial literacy has a positive and significant effect on investment decisions, enabling investors to allocate funds more effectively and choose appropriate financial instruments (Megananda & Sutrisno, 2024; Wendy, 2024).

A deeper analysis reveals that financial literacy improves three critical aspects of decision-making: understanding of financial products, risk evaluation, and long-term planning. Investors with higher literacy are more capable of distinguishing between speculative and fundamentally strong assets, which reduces the likelihood of irrational investment behavior. Studies in Indonesia confirm that financially literate investors tend to make more rational and informed decisions, while those with low literacy are more prone to errors and financial losses (Ikhsan et al., 2024). Moreover, financial literacy also influences risk perception, meaning that knowledgeable investors are better at assessing and managing investment risks.

However, the Indonesian context presents a paradox: while the number of investors has grown significantly, financial literacy levels remain relatively low and uneven across regions and demographic groups. This gap creates a condition where many individuals participate in the capital market without sufficient understanding of financial principles. Research shows that financial literacy significantly influences investment interest and participation, indicating that improving literacy is key to expanding sustainable market growth (Hakim et al., 2023; Handranata et al., 2023).

This figure illustrates the conceptual relationship between financial literacy and investment decision quality. It shows how increasing levels of financial knowledge and skills are associated with improved decision-making outcomes among investors, particularly in contexts with varying levels of experience and understanding.

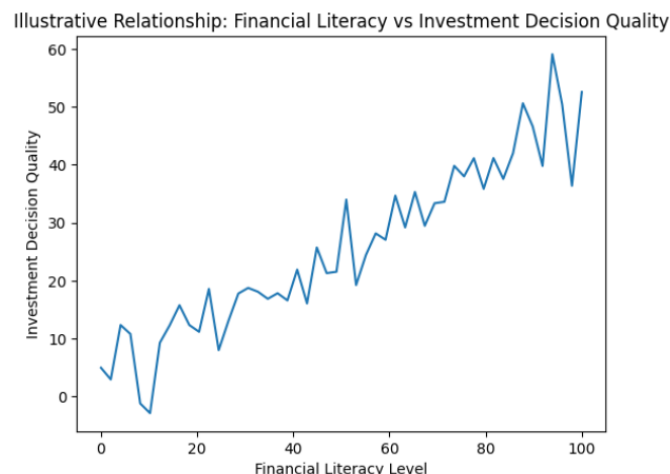


Figure 2. Financial Literacy and Investment Decision Quality

The upward trend indicates a positive relationship, suggesting that higher financial literacy leads to better investment decisions. Minor fluctuations along the line reflect the influence of behavioral factors, such as overconfidence or market sentiment, which may still affect decision quality even among more knowledgeable investors.

A concrete example of the role of financial literacy can be observed during the boom of retail investors in Indonesia during the COVID-19 pandemic (2020–2022). During this period, millions of new investors entered the stock market, many of whom were first-time investors influenced by digital platforms and social media trends. While this increased participation reflects positive financial inclusion, it also exposed the lack of adequate financial literacy among new investors.

Many investors purchased stocks based on hype, recommendations from influencers, or trending discussions in online communities without conducting proper fundamental or technical analysis. As a result, some investors



experienced significant losses when market corrections occurred. This phenomenon is consistent with research findings that low financial literacy leads to inefficient investment decisions and higher exposure to risk (Waspada & Machmud, 2022).

Another example can be seen in the rise of cryptocurrency investment in Indonesia, where many investors entered the market driven by profit expectations rather than adequate understanding. Studies show that many crypto investors in Indonesia exhibit high risk tolerance but do not necessarily possess high financial literacy, leading to speculative behavior (Santoso & Modjo, 2022). This highlights that financial literacy is essential not only for traditional stock investments but also for emerging financial instruments.

Importantly, financial literacy does not operate in isolation but interacts with behavioral factors. While higher literacy generally promotes rational decision-making, its effectiveness can be weakened by psychological biases such as overconfidence. Research indicates that even financially literate investors may make irrational decisions if they are overly confident in their abilities (Ikhsan et al., 2024). This suggests that financial literacy must be complemented by behavioral awareness to achieve optimal investment outcomes.

The findings imply that improving financial literacy is a critical strategy for enhancing the quality of investment decision-making in Indonesia. However, financial education should not be limited to theoretical knowledge but must also include practical skills, critical thinking, and awareness of behavioral biases. For policymakers and regulators, this highlights the importance of expanding financial education programs, especially targeting young and novice investors. For investors, increasing financial literacy can lead to more rational, disciplined, and sustainable investment behavior.

3.3 Risk Perception as a Determinant of Investment Decisions

Risk perception refers to how investors subjectively interpret and evaluate uncertainty, potential losses, and variability of returns in financial markets. Unlike objective risk, which can be measured using statistical tools, risk perception is highly influenced by psychological, social, and contextual factors. Empirical evidence shows that risk perception significantly affects investment decision-making, where investors with higher perceived risk tend to adopt more conservative strategies, while those with lower perceived risk are more willing to engage in high-risk investments (Ambarwati & Yoga, 2025).

A deeper analysis indicates that risk perception is not only a direct determinant but also acts as a mediating and moderating variable in investment decision-making. Research in Indonesia demonstrates that behavioral biases such as overconfidence and herding influence investment decisions indirectly through risk perception (Kaban & Linata, 2024). Overconfident investors tend to underestimate risks, while herd-driven investors may ignore risk signals when following market trends. This interaction highlights that risk perception serves as a bridge between psychological factors and actual investment behavior.

Furthermore, risk perception is strongly shaped by market conditions and external shocks. In volatile markets such as Indonesia, fluctuations in stock prices, macroeconomic instability, and policy changes significantly influence how investors perceive risk. Studies show that higher market volatility increases perceived risk, which in turn reduces investors' willingness to invest in risky assets (Hamonangan et al., 2024). This explains why risk perception is dynamic and can change over time depending on economic conditions.

This figure illustrates the relationship between risk perception and risk-taking behavior in investment decisions. It shows how changes in perceived risk influence investors' willingness to engage in different levels of investment risk.

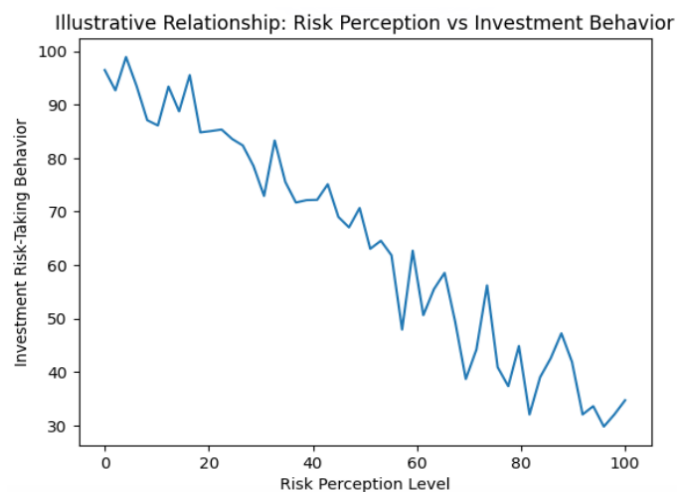


Figure 3. Risk Perception and Investment Risk-Taking Behavior

The graph indicates a negative relationship, where higher risk perception leads to lower risk-taking behavior. Conversely, lower perceived risk encourages more aggressive investment behavior.



A clear real-world example can be observed during the COVID-19 pandemic (2020), when the Indonesian stock market experienced extreme volatility. During this period, investors' risk perception increased significantly due to economic uncertainty, leading to more cautious investment behavior. Research shows that investors reduced their risk-taking tendencies and became more risk-averse, reflecting heightened concern about potential losses (Setiawan et al., 2022). This shift demonstrates how external crises can directly alter risk perception and, consequently, investment decisions.

Another example is the reaction of investors to Bank Indonesia's interest rate policies. When interest rates increase, investors tend to perceive higher risk in the stock market, leading to capital outflows and reduced stock prices. Conversely, lower interest rates create a perception of lower risk, encouraging investment inflows. Empirical findings confirm that monetary policy announcements significantly influence foreign investors' risk perception and market behavior in Indonesia (Pramesti, 2025). This case highlights that risk perception is not only individual but also influenced by macroeconomic signals.

Additionally, the behavior of Generation Z investors in Indonesia provides further insight into the role of risk perception. Studies show that young investors tend to be more responsive to digital information and market signals, which shape their perception of risk. When risk is perceived as high, they adopt more cautious strategies, but when risk is underestimated, they engage in aggressive trading (Ambarwati & Yoga, 2025). This demonstrates how risk perception is influenced by both information availability and technological developments.

Risk perception also interacts closely with financial literacy and behavioral factors. Financial literacy helps investors better understand and assess risks, but studies show that risk perception can weaken or strengthen the effect of financial literacy on investment decisions (Wendy, 2024). For example, even financially literate investors may avoid investing if they perceive the market as too risky.

Moreover, risk perception is closely linked to investor sentiment and emotional responses. Research indicates that psychological factors related to risk significantly influence investor sentiment, which in turn affects investment decisions (Sinaga et al., 2023). This suggests that risk perception is not purely cognitive but also emotional in nature.

The findings imply that improving investment decision quality requires not only enhancing financial literacy but also managing investors' risk perception. Investors need to develop the ability to objectively assess risks rather than relying solely on subjective feelings or market sentiment. For regulators, this highlights the importance of providing transparent and timely information to reduce uncertainty and stabilize investor perceptions. Meanwhile, financial institutions should design tools and strategies that help investors better understand risk-return trade-offs.

3.4 Interaction Between Behavioral Factors, Financial Literacy, and Risk Perception

The interaction between behavioral factors, financial literacy, and risk perception forms a complex and dynamic framework in shaping investment decision-making, particularly in emerging markets like Indonesia. Empirical studies confirm that these three variables do not operate independently but are interconnected through moderating and mediating relationships. Behavioral biases such as overconfidence and herding influence investment decisions both directly and indirectly through risk perception, while financial literacy plays a moderating role in strengthening or weakening these effects (Almansour et al., 2025).

A deeper analysis shows that risk perception acts as a key mediating mechanism, translating psychological biases into actual investment behavior. For example, herding behavior and overconfidence can increase or distort investors' perception of risk, which ultimately determines whether they engage in aggressive or conservative investment strategies. Similarly, studies in Indonesia indicate that behavioral biases significantly influence investment decisions through indirect pathways involving risk perception and risk tolerance (Pramita et al., 2023). This highlights that risk perception is not merely a standalone factor but a central link between cognition, emotion, and action.

At the same time, financial literacy functions as a moderating variable, shaping how effectively investors can manage behavioral biases and interpret risk. Higher financial literacy enables investors to recognize irrational tendencies such as overconfidence and herding, thereby reducing their negative impact on decision-making. However, empirical findings also show that financial literacy does not always fully eliminate behavioral biases, as even knowledgeable investors may still be influenced by psychological and emotional factors (Hildebrandus et al., 2023). This suggests that financial literacy improves—but does not guarantee—rational decision-making. The interaction among these variables can be understood through a moderated mediation framework:

1. Behavioral biases → influence risk perception (mediation)
2. Risk perception → determines investment decision
3. Financial literacy → moderates both relationships

Empirical studies confirm that financial literacy can strengthen the positive impact of rational risk perception while weakening the negative effects of behavioral biases (Anifa & Soegiharto, 2023). Furthermore, financial literacy itself can influence risk perception, indicating a bidirectional relationship between knowledge and perception (Megananda & Sutrisno, 2024).

A clear example of this interaction can be observed during the retail investor surge in Indonesia (2020–2022). Many new investors entered the stock market with limited financial literacy but were heavily influenced by social media trends and community-driven investment strategies. In this context:

1. Herding behavior drove investors to follow trending stocks
2. Low financial literacy limited their ability to analyze fundamentals



3. Distorted risk perception led them to underestimate potential losses

As a result, many investors experienced losses when speculative stocks declined. This phenomenon aligns with findings that behavioral biases, when not moderated by financial literacy, can significantly distort risk perception and lead to poor investment decisions.

Another example is found in the cryptocurrency investment boom in Indonesia, particularly among younger investors. Research shows that financial literacy, herding behavior, and risk perception jointly influence investment decisions in this sector. Importantly, financial literacy affects investment decisions more strongly when mediated by risk perception and herding behavior (Rahyuda & Candradewi, 2023). This case demonstrates that even when investors have some level of financial knowledge, behavioral and perceptual factors still play a critical role.

Additionally, studies on Generation Z investors in Indonesia show that financial literacy, risk perception, and behavioral biases simultaneously influence investment decisions. When combined, these variables significantly improve explanatory power compared to individual effects (Lestari et al., 2025). This reinforces the idea that investment decision-making is inherently multidimensional.

The interaction among behavioral factors, financial literacy, and risk perception implies that improving investment decision quality requires a holistic and integrated approach. Focusing solely on increasing financial literacy is insufficient if behavioral biases and risk misperceptions are not addressed simultaneously. Investors must develop not only financial knowledge but also behavioral awareness and risk management skills.

For regulators and policymakers, this highlights the importance of designing financial education programs that integrate:

1. Cognitive knowledge (financial literacy)
2. Emotional awareness (behavioral biases)
3. Analytical skills (risk assessment)

Such an integrated approach is essential to foster more rational, resilient, and sustainable investment behavior in the Indonesian capital market.

3.5 Discussion

This study demonstrates that investment decision-making in the Indonesian capital market cannot be adequately explained through a single perspective, but rather through the interaction of behavioral factors, financial literacy, and risk perception. The findings show that behavioral factors such as overconfidence and herding behavior strongly influence how investors process information and respond to market conditions. In many cases, these biases lead investors to make decisions that are not fully based on rational analysis. At the same time, financial literacy plays a significant role in improving investors' understanding of financial products, their ability to evaluate risk, and their capacity to make more informed and disciplined investment decisions. Meanwhile, risk perception functions as a key mechanism through which investors interpret uncertainty and translate psychological tendencies into actual investment behavior.

From a theoretical perspective, this study contributes to the development of behavioral finance, particularly in the context of emerging markets such as Indonesia. The findings strengthen the argument that investment decisions are not solely driven by rational-economic calculations, as suggested in traditional finance theory, but are also significantly shaped by cognitive and emotional factors. More specifically, this study offers an integrated understanding by showing that risk perception acts as a mediating variable, while financial literacy serves as a moderating factor that can reduce or intensify the influence of behavioral biases on investment decisions. Therefore, this study contributes theoretically by offering a more comprehensive framework for understanding investor behavior in the Indonesian capital market, where the rapid growth of retail investors and digital investment platforms has made behavioral influences increasingly relevant.

This study provides empirical evidence that behavioral factors, financial literacy, and risk perception play important roles in shaping investment decision-making. The findings highlight that behavioral biases, particularly overconfidence and herding, remain dominant influences among investors.

The result indicating that herding behavior significantly affects investment decisions is consistent with recent studies, which confirm that herding is a strong determinant of investor behavior, especially in emerging markets (Halim & Pamungkas, 2023; Tamara, 2022). However, contrasting findings also exist, where herding behavior is found to be insignificant in certain investor groups (FATMA, 2024). This suggests that herding behavior is highly contextual and influenced by investor characteristics and market conditions.

Furthermore, the effect of overconfidence on investment decisions in this study aligns with several recent findings that confirm its positive influence (Sawitri & Candraningrat, 2025). Nevertheless, other studies report that overconfidence does not significantly affect investment decisions (Tamara, 2022). These mixed findings indicate that the influence of overconfidence varies depending on investor experience, knowledge, and market dynamics.

In addition, this study finds that financial literacy has a positive and significant effect on investment decisions. This result is consistent with recent research demonstrating that financial literacy improves decision quality and encourages more rational investment behavior (Oktasari et al., 2023; Sawitri & Candraningrat, 2025). However, some studies suggest that financial literacy does not always moderate behavioral biases such as herding and overconfidence (ADITAMA & RAHARJA, 2025; Tamara, 2022). In contrast, other studies show that financial literacy can strengthen the relationship between behavioral factors and investment decisions (Wardhani & Nur, 2025). These inconsistencies



indicate that financial literacy alone may not be sufficient to eliminate irrational behavior but interacts with psychological factors.

Risk perception is also found to significantly influence investment decisions, supporting recent studies that identify it as a key determinant (Halim & Pamungkas, 2023; Oktasari et al., 2023). Moreover, recent research highlights that risk perception can act as a mediating variable between behavioral biases and investment decisions (Kaban & Linata, 2024; Mirfaqoh et al., 2024). However, some findings suggest that this mediating role is not always significant (Anifa & Soegiharto, 2023). This indicates that the role of risk perception is complex and context-dependent. From a practical perspective, the findings of this study provide several important implications:

1. For investors, it is important to improve financial literacy and develop awareness of behavioral biases such as overconfidence and herding in order to make more rational and sustainable investment decisions.
2. For novice and young investors, the findings highlight the need to avoid making investment decisions solely based on social media trends, peer influence, or speculative market sentiment without adequate analysis.
3. For regulators such as OJK and IDX, the study suggests the importance of strengthening investor education programs that not only focus on increasing participation, but also on improving the quality of investor decision-making.
4. For financial institutions and investment platforms, the results imply the need to provide clearer risk communication, educational features, and decision-support tools that help investors assess investment alternatives more critically.
5. For academics and educators, the findings indicate that financial education should integrate not only technical financial knowledge, but also behavioral awareness and risk management capability.

Overall, this study confirms that improving the quality of investment decision-making in Indonesia requires a holistic approach. Financial literacy alone may not be sufficient if investors remain vulnerable to psychological biases and distorted risk perception. Similarly, understanding behavioral tendencies without adequate financial knowledge may also limit the quality of decision-making. Therefore, the most effective strategy is to integrate financial literacy, behavioral awareness, and risk evaluation capability into a unified framework of investor development. In the context of the Indonesian capital market, such an approach is essential to support more rational investor behavior, improve market efficiency, and reduce the risk of speculative and irrational investment decisions.

4. CONCLUSION

This study concludes that investment decision-making in the Indonesian capital market is shaped by the interaction of behavioral factors, financial literacy, and risk perception, where financial literacy emerges as the most dominant factor while overconfidence, herding behavior, and risk perception significantly influence investor behavior and decision quality. This study makes several important contributions. First, it offers an integrated framework that explains investment decision-making through the simultaneous interaction of behavioral, cognitive, and perceptual factors, addressing fragmentation in prior literature. Second, it confirms the role of risk perception as a mediating mechanism and financial literacy as a moderating factor, providing a more nuanced understanding of how investment decisions are formed. Third, it provides contextual evidence from the Indonesian capital market, highlighting the importance of behavioral dynamics in an emerging market dominated by retail investors and digital platforms. Practically, this study provides insights for investors, regulators, and financial institutions to improve decision quality through enhancing financial literacy, increasing awareness of behavioral biases, and strengthening objective risk evaluation.

REFERENCES

- Adielyani, D., & Mawardi, W. (2020). The influence of overconfidence, herding behavior, and risk tolerance on stock investment decisions: The empirical study of millennial investors in Semarang City. *Jurnal Maksipreneur: Manajemen, Koperasi, Dan Entrepreneurship*, 10(1), 89–101.
- ADITAMA, F. Y., & RAHARJA, S. R. (2025). PENGARUH HEARDING BIAS DAN OVERCONVDENCE TERHADAP KEPUTUSAN INVESTASI CRYPTOCURRENCY DENGAN LITERASI KEUANGAN SEBAGAI VARIABEL MODERASI (Studi pada Komunitas Tokocrypto Official Group). UNDIP: Fakultas Ekonomika dan Bisnis.
- Almansour, B. Y., Almansour, A. Y., Elkrggli, S., & Shojaci, S. A. (2025). The Investment Puzzle: Unveiling Behavioral Finance, Risk Perception, and Financial Literacy. *Economics: Innovative & Economic Research Journal/Casopis Za Ekonomsku Teoriju i Analizu*, 13(1).
- Almansour, B. Y., Elkrggli, S., & Almansour, A. Y. (2023). Behavioral finance factors and investment decisions: A mediating role of risk perception. *Cogent Economics & Finance*, 11(2), 2239032.
- Ambarwati, R., & Yoga, I. (2025). Decoding market signals: how Generation Z investors in Indonesia make investment decisions. *Journal of Business and Management Review*, 6(1), 61–73.
- Anifa, A. S., & Soegiharto, S. (2023). Does The Psychology of Investment Decisions Depend on Risk Perception And Financial Literacy? *MAKSIMUM: Media Akuntansi Universitas Muhammadiyah Semarang*, 13(2), 152–163.
- Butt, H., Sajjad, A., Awan, K. Z., & Shakil, M. H. (2023). The role of behavioral factors on investment decision making: Moderating role of financial literacy. *Pakistan Journal of Humanities and Social Sciences*, 11(4), 4533–4547.
- Dinarjito, A. (2023). The influence of financial behavior on investment decisions with financial literacy as a mediation variable: Case study in PKN STAN learning assignment students. *Jurnal Pajak Dan Keuangan Negara (PKN)*, 5(1), 128–143.
- FATMA, S. (2024). THE INFLUENCE OF FINANCIAL LITERACY, HERDING AND OVERCONFIDENCE ON



- INVESTMENT DECISION MAKING AMONG INDONESIAN GEN Z. *FINANCE & ACCOUNTING*, 6(11), 2016–2027.
- Garg, H., & Singh, B. K. (2024). The Impact of Financial Literacy on Investment Decision-Making: A Comprehensive Review. 3, 193–198.
- Hakim, L., Navilla, M. S., & Haque, F. (2023). Determinant of Stock Investment Intention on Young Generation in Indonesia. *EcceS: Economics Social and Development Studies*, 10(2), 205–226.
- Halim, R., & Pamungkas, A. S. (2023). The influence of risk perception, overconfidence, and herding behavior on investment decision. *International Journal of Application on Economics and Business*, 1(1), 521–529.
- Hamonangan, M. D., Sumirat, E., & Sunitiyoso, Y. (2024). Analysing risk & return profiles: A comparative study of the Indonesian stock market against international benchmarks. *International Journal of Current Science Research and Review*, 7(1), 136–146.
- Handranata, Y. W., Arief, M., Warganegara, D. L., & Hamsal, M. (2023). Financial Literacy, Hassle Factor, and Stock Market Participation: Empirical Evidence from Indonesia Stock Exchange. *WSEAS Transactions on Business and Economics*, 20, 730–739.
- Hildebrandus, H., Hady, H., & Nalurita, F. (2023). The Influence of Financial Literacy as a Mediation of the Relationship Between Behavioral Bias and Decisions in Investing Employees in Jabodetabek. *Journal of Social Research*, 2(5), 1643–1654.
- Ikhsan, M., Ismiyanti, F., & Komalasari, P. (2024). Enhancing Rational Investment Decisions: The Impact of Financial Literacy and Experience on Indonesian Retail Investors, Moderated by Overconfidence. *Journal of System and Management Sciences*, 14(10), 517–529.
- Kaban, L. M., & Linata, E. (2024). The Risk perception as a mediator between herding and overconfidence on investment decision by gen Z in Indonesia. *MEC-J (Management and Economics Journal)*, 8(1), 1–14.
- Karo, G., Barus, H. G., Salsabila, N. L., Harahap, R. N. A., Syahutra, R., & Rayoga, R. B. (2025). Analyzing factors influencing investment decisions in the Indonesian capital market. *Jurnal Ecoment Global*, 10(1), 81–89.
- Kresnawati, E., Sofia, L., & Utami, E. R. (2024). Herding behavior, information type, and overconfidence bias: an experimental study on novice investors' investment decisions. *Journal of Accounting and Investment*, 25(1), 369–386.
- Krippendorff, K. (2018). *Content analysis: An introduction to its methodology*. Sage publications.
- Lestari, S. P., Ridwan, M., & Wahyuni, S. F. (2025). Generation Y Investment Decisions in Medan City: Impact of Financial Literacy, Risk Perception, and Financial Behavior: *Keputusan Investasi Generasi Y di Kota Medan: Dampak Literasi Keuangan, Persepsi Risiko, dan Perilaku Keuangan*. *JBM (Jurnal Bisnis, Manajemen Dan Perbankan)*, 11(2), 434–447.
- Malini, H. (2025). Financial literacy, demographic factors, overconfidence, and investment decisions among university students in Indonesia's major cities. *Berkala Akuntansi Dan Keuangan Indonesia*, 10(1).
- Megananda, M. R. R., & Sutrisno, S. (2024). Factors affecting stock investment by individual investors on the Indonesia Stock Exchange. *International Journal of Management and Economics Invention*, 10(10).
- Miles, H., Huberman, A. M., & Saldana. (2020). *Qualitative data analysis: A methods sourcebook*. New York: Sage Publications, Inc.
- Mirfaqoh, V., Muktiyanto, A., Geraldina, I., & Yusriani, S. (2024). How Risk Perception and Financial Literacy Effect Overconfidence Bias and Investment Decisions Relationship. *Indonesian Journal of Islamic Economics and Finance*, 4(2), 337–356.
- Oktasari, D. P., Nurjaya, N., & Karyatun, S. (2023). Financial literacy, risk perception, and herding effects on investment decisions. *International Journal of Research and Scientific Innovation*, 10(6), 22–29.
- Pant, D., & Pant, S. (2025). Influence of Behavioral Aspects on Stock Investment Decision-Making. *The Management Review*, 1(1), 92–115.
- Pramesti, G. N. D. P. (2025). Interest Rate Policy and Foreign Investors' Perceptions of Investment Risks in Indonesia: An Event Study Approach. *Economics Monetary Journal*, 1(2), 87–98.
- Pramita, P. P., Rahayu, T., Diono, C. K., & Hendriana, E. (2023). Effect of psychological factors on investment decisions of millennial investors in an emerging country. *International Journal of Economics and Finance*, 15(11).
- Pujiati, D. (2025). THE MODERATING ROLE OF HERDING BEHAVIOR IN INVESTMENT DECISION-MAKING. *RISSET: Jurnal Aplikasi Ekonomi Akuntansi Dan Bisnis*, 7(2), 295–310.
- Rahyuda, H., & Candradewi, M. R. (2023). Determinants of cryptocurrency investment decisions (Study of students in Bali). *Investment Management & Financial Innovations*, 20(2), 193.
- Ramadhianto, D. R., & Hartanti, R. (2025). The Influence of Financial Self-Efficacy, Risk Perception, Financial Literacy, and Herding on Investment Decision. *Atestasi: Jurnal Ilmiah Akuntansi*, 8(2), 535–547.
- Ratnaningtyas, E. M., Saputra, E., Suliwati, D., Nugroho, B. T. A., Aminy, M. H., Saputra, N., & Jahja, A. S. (2023). *Metodologi penelitian kualitatif*. No. Januari. Aceh: Yayasan Penerbit Muhammad Zaini.
- Sadewo, R. A. J., & Cahyaningdyah, D. (2022). Investor herding behavior in extreme conditions during COVID-19: study on Indonesian stock market. *Management Analysis Journal*, 11(1), 22–29.
- Santoso, F., & Modjo, M. I. (2022). Financial literacy and risk tolerance of Indonesian crypto-asset owners. *Proceedings of the 2022 13th International Conference on E-Business, Management and Economics*, 297–306.
- Sawitri, K. D., & Candraningrat, I. R. (2025). The Influence of Financial Literacy and Overconfidence on Investment Decisions With Risk Tolerance as A Mediating Variable (A Study on Stock Investors in Bali Province). *Enrichment: Journal of Multidisciplinary Research and Development*, 3(2), 172–184.
- Setiawan, C. H., Marciano, D., & Cayaban, C. J. G. (2022). Changes in investors risk-taking behavior during Indonesian economic recession due to the Covid-19 in 2020. *Jurnal Manajemen & Bisnis*, 21(1), 1–12.
- Sinaga, M. A. W., Nuzula, N. F., & Damayanti, C. R. (2023). The psychology of risk influence and investor sentiment on investment decision making in the Indonesian stock market. *Jurnal Ilmiah Akuntansi Dan Bisnis*, 18(2), 197.
- Subedi, P. P., Sharma, B., & Maharjan, S. (2025). Behavioral Factors and Investment Decisions: Evidence from the Nepal Stock Market. *Journal of Emerging Management Studies*, 3(2), 80–96.
- Sugiyono. (2022a). *Metode Penelitian Kuantitatif, Kualitatif dan R&D*. Bandung: Alfa Beta.
- Sugiyono, P. D. (2022b). *Metode Penelitian Kuantitatif, Kualitatif dan R&D*.
- Tamara, D. (2022). Do Overconfidence and Herding Affect Stock Investment Decision? Indonesian Cases During Pandemic Covid-



19. MIX: Jurnal Ilmiah Manajemen MANAJEMEN, 12(3), 541–552.
- Trisno, B., & Vidayana, V. (2023). Understanding herding behavior among Indonesian stock market investors. *E3S Web of Conferences*, 426, 1088.
- Usriyono, E., & Wahyudi, S. (2023). The investment decision of millennial generation: An analysis using financial literacy and financial behavior. *Corporate Governance and Organizational Behavior Review*, 7(2), 8–14.
- Utama, A. N. B., Sangaji, J., & Rimbano, D. (2024). The Influence of Behavioral Finance on Investment Decision-Making: Understanding the Role of Overconfidence and Risk Perception in Stok Market Trends. *Indo-Fintech Intellectuals*, 4(6), 3132–3144.
- Wardhani, A. A., & Nur, D. I. (2025). The role of financial literacy in moderating the influence of herding and overconfidence on investment decisions. *Jurnal Akademi Akuntansi*, 8(3), 342–355.
- Warganegara, S. F. A., & Warganegara, D. L. (2022). Herding behavior in the indonesia stock exchange around the covid-19 pandemic. *Fair Value: Jurnal Ilmiah Akuntansi Dan Keuangan*, 4(11), 4912–4921.
- Waspada, I., & Machmud, A. (2022). The Financial Literacy and Investment Decisions in Indonesia. *ICON 2021: Proceedings of the 1st International Conference on Economic and Education, ICON 2021, 14-15 December 2021, Padang-West Sumatra, Indonesia*, 332.
- Wendy, W. (2024). The nexus between financial literacy, risk perception and investment decisions: Evidence from Indonesian investors. *Investment Management & Financial Innovations*, 21(3), 135.
- Zed, M. (2018). *Metode penelitian kepustakaan*. Yayasan Pustaka Obor Indonesia.