

FINANCIAL BEHAVIOR AND STOCK INVESTMENT DECISIONS: EXPLORING THE ROLE OF DUAL PROCESS THEORY AMONG GENERATION Z IN EAST JAVA

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Abstract. This study examines the influence of financial behavior, including fear of missing out, financial literacy, herding behavior, loss aversion, and risk perception, on stock investment decisions among Generation Z in East Java. Utilizing Dual Process Theory as a theoretical framework, this research explores the dynamic interaction between intuitive and analytical thinking processes in shaping investment behavior. A quantitative approach was employed, with data collected through questionnaires distributed to 402 Generation Z respondents actively investing in the stock market. The results reveal that financial literacy positively impacts herding behavior and loss aversion, while herding behavior and loss aversion significantly influence investment decisions. Moreover, fear of missing out and risk perception serve as critical intermediaries, illustrating how emotional and cognitive factors interact in decision-making. The findings contribute to a deeper understanding of Generation Z's investment behavior, highlighting the significance of balancing intuition and analysis. Practical implications include the need for targeted financial education programs to enhance financial literacy and reduce bias-driven behaviors. This study provides theoretical insights by bridging Dual Process Theory with financial decision-making, offering a comprehensive framework for understanding stock investment behavior in emerging markets. Future research could expand the scope by exploring other demographic groups or incorporating additional psychological factors.

Keywords: Financial Behavior, Loss Aversion, Investment Decision, Herding Behavior

INTRODUCTION

Investing in financial assets has become a frequently discussed topic among young generations in recent years. This trend aligns with the increasing number of public figures and influencers actively promoting the importance of investing at a young age. Awareness of the significance of early investment is a positive development and is essential for facing future uncertainties. Several digital assets, known as cryptocurrencies, offer investment opportunities with user-friendly transaction features and guaranteed security. According to Katadata.co.id (2021), data shows that investors under 30 years old, or Generation Z, dominated the capital market, with 1.46 million people, or 46.75% of the total 3.14 million Single Investor Identifications (SIDs) by the end of August 2020. This data is supported by a report from PT Kustodian Sentral Efek Indonesia (KSEI) (2020), which highlights a 34.78% increase in capital market investors, from 2,484,354 at the end of 2019 to 3,348,396 in 2020.

Cryptocurrency has become a popular choice for investment transactions. Leading cryptocurrencies like Bitcoin, Ethereum, Tether, XRP/Ripple, Bitcoin Cash, Binance Coin, USD Coin, Litecoin, Bitcoin SV, and others have experienced significant growth in recent years. According to a report

from Asset Management Market Research (2024), the cryptocurrency market size is projected to reach USD 1,067.26 million in 2024, with a compound annual growth rate (CAGR) of 24.61%, reaching USD 3,999.59 million by 2030. In Indonesia, cryptocurrency is legally recognized and regulated by Badan Pengawas Perdagangan Berjangka Komoditi (Bappebti). The global growth of cryptocurrency also influences Indonesia, with Bappebti recording 18.25 million registered crypto asset customers by November 2023.

The widespread use of cryptocurrency suggests that Indonesian youth have become more aware of and literate in investment. Financial knowledge is a critical factor enabling individuals to make sound investment decisions. Rationally, individuals with solid financial knowledge are more likely to make beneficial investments for their future. Yong et al. (2018) emphasized that financial knowledge, encompassing understanding and practical application, shapes financial decision-making. Financial literacy serves as a benchmark for evaluating how well individuals manage their finances and investments. However, financial literacy levels vary among individuals. Low financial literacy among investors can be a significant challenge in decision-making. Enhancing financial literacy can improve investors' ability to make rational investment decisions, altering their behavior to better assess investment opportunities and risks.

Referring to Prospect Theory, which states that investment decisions are based on potential gains and losses rather than final outcomes (Kumar, S., 2015), it is unsurprising that financial literacy directly correlates with investment decisions. Improved investment decisions indicate higher levels of financial literacy. To enhance financial literacy, it is essential to understand its components. According to Huston (2010), financial literacy consists of two dimensions: understanding and application. These align with the Theory of Planned Behavior, linking financial behavior and financial knowledge. A. A. Eniola & Entebang (2015) and Eniola & Ektebang (2014) argued that financial literacy results from the convergence of knowledge and experience, where proper knowledge, combined with confidence, fosters high-quality literacy, leading to sound investment decisions.

Risk, broadly defined, represents uncertain future events, which can be positive or negative (Barbeauld & McMahan, 2020). Henschel and Heinze (2018) explained that risk acceptance is integral to entrepreneurial activities and closely tied to decision-making. In the context of decision-making under risk, it refers to known probabilities resulting from selecting alternatives with inherent risks (Takemura, 2014). Tamura (2008) added that outcome-dependent probabilities influence measurable value functions under risk, assuming known event probabilities. Investment decisions are influenced by loss aversion and herding behavior, both of which directly affect investment decisions. Additionally, the impact of loss aversion and herding behavior on investment decisions is inseparable from financial literacy levels.

Beyond the direct effects of herding behavior and loss aversion, Fear of Missing Out (FOMO) is used as a mediating variable in this study. This is due to the abundance of information on social media, often a mix of reliable sources and promotional content. Although cryptocurrency adoption in Indonesia is rising rapidly, comprehensive understanding remains low. Many novice investors enter the crypto market driven by FOMO. Kala et al. (2023) identified FOMO as a bridge between the desire to adopt crypto and investment behavior. As Dogan (2019) described, FOMO makes individuals believe they are missing opportunities others have. However, FOMO is also influenced by personality traits. Rozgonjuk et al. (2021) found that neuroticism and conscientiousness negatively correlate, albeit slightly, with FOMO. Risk perception can reinforce investor behavior in determining investment decisions. Risk assessment encompasses how investors define risks and their ability to evaluate risks accurately. Risk assessment significantly influences the investment decision-making process. Advanced financial literacy broadens investors' perspectives on risk, enhancing their decision-making capacity.

RESEARCH METHOD

2.1 Data Collection Procedure

This study is quantitative research with a population comprising individuals born between 1997 and 2012, or Generation Z, in East Java, totaling 11,933,122 people (BPS East Java Province, 2022). The population falls under the category of a finite population, as the total number of individuals in the demographic area can be measured (Cooper & Schindler, 2014). The sample size determination was conducted using the Slovin formula with a margin of error of 5%. Based on this calculation, the sample size used in this study was 800 respondents. The sampling method employed was purposive sampling (Sekaran & Bougie, 2016:248) through the online distribution of questionnaires. The criteria for sample selection were as follows:

- a. Individuals residing in East Java.
- b. Individuals aged between 18 and 24 years.
- c. Individuals possessing a Single Investor Identification (SID) as proof of investor identity.
- d. Individuals who have previously or are currently investing in financial market products.

Primary data for this study were collected through questionnaires using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Secondary data were sourced from literature and data supporting the research constructs. Data analysis was conducted using SEM-PLS with SmartPLS 3.3.3 software.

2.2 Measurement Variables

2.2.1. Financial Literacy

Financial literacy refers to an individual's ability to comprehend and manage financial products and personal finances. Indicators for this variable were adapted from Huston (2010) to fit field conditions, including:

- a. Financial knowledge
- b. Loan knowledge (credit interest)
- c. Inflation understanding
- d. Daily financial management
- e. Bill payments
- f. Investment knowledge

2.2.2. Herding Behavior

Herding behavior describes the tendency of a group of investors or market participants to imitate the actions or decisions of others, particularly during periods of uncertainty or high price volatility. Indicators for this variable were adapted from Puhorit (2014) with adjustments for field conditions, including:

- a. Underconfidence
- b. Lack of awareness
- c. Bandwagon effect
- d. Social proof

2.2.3. Risk Perception

Risk perception is an individual's assessment of financial risks and uncertainty levels. Indicators for this variable were based on Khan (2016) and include:

- a. Financial risk assessment
- b. Asset investment control
- c. Investment risk evaluation

2.2.4. Risk Tolerance

Risk tolerance is an individual's attitude toward taking risks in investment decision-making, particularly in uncertain situations. Indicators for this variable were adapted from Bapat (2020) and Saurabh & Nandan (2018), focusing on: (1) Financial risk tolerance.

2.2.5. Investment Decision

Investment decision refers to an individual's choice to invest based on analytical considerations, investment goals, and risk assessments. Indicators for this variable were adapted from Metawa et al. (2019), including:

- Decisions to buy or sell investment products based on technical analysis
- Decisions to buy or sell investment products based on fundamental analysis

RESULT AND DISCUSSION**3.1 Respondent Characteristics**

The characteristics of the study respondents reveal that the majority were women, accounting for 64.68% or 260 respondents (Table 1). This finding highlights that being an investor is not exclusive to men; women are also capable of making investment decisions. The education level distribution, as shown in Table 1, indicates the highest percentage is in the high school category at 46.77% (188 respondents), closely followed by the bachelor's/diploma level with 42.04% (169 respondents). This indicates that many investors value education, ranging from high school to higher education levels. Most investors are young, aged between 22 and 28 years, comprising 42.79% or 172 respondents out of a total of 402. This age group, being technologically savvy, enables these young investors to gather detailed information for analysis and consideration in decision-making.

Regarding monthly income, the majority of respondents earn between Rp 2,860,000 and Rp 7,000,000, with a percentage of 44.78% or 180 respondents, followed by those earning less than Rp 2,860,000, at 38.81% or 156 respondents. Based on respondent distribution, it is evident that most investors are beginners. A significant portion has been investing for only 12 months (44.53% or 179 respondents) or between 12 and 24 months (24.88% or 100 respondents). This indicates a need for these beginner investors to enhance their skills by learning from more experienced investors who have spent years in the investment field.

Tabel 1 Karakteristik Responden

DEMOGRAPHY	PARAMETER	FREQUENCY	PERCENTAGE
GENDER	Male	142	35.32
	Female	260	64.68
TOTAL		402	100
AGE	Less than 18 years	10	2.49
	> 18 years s/d 22 years	96	23.88
	> 22 years s/d 28 years	172	42.79
	> 28 years	124	30.85
TOTAL		402	100
EDUCATION	Junior High School	30	7.46
	Senior High School	188	46.77
	Undergraduate	169	42.04
	Master	15	3.73
TOTAL		402	100
INCOME	Less than Rp 2.860.000,-	156	38.81
	> Rp 2.860.000,- s/d Rp 7.000.000,-	180	44.78
	> Rp 7.000.000,- s/d Rp 15.000.000,-	42	10.45
	> Rp 15.000.000,- s/d Rp 25.000.000,-	11	2.74
	> Rp 25.000.000,- s/d Rp 35.000.000,-	8	1.99
	> Rp 35.000.000,- s/d Rp 45.000.000,-	3	0.75

DEMOGRAPHY	PARAMETER	FREQUENCY	PERCENTAGE
	> Rp 45.000.000,-	2	0.50
TOTAL		402	100
INVESTMENT AGE	12 month	179	44.53
	> 12 – 24 month	100	24.88
	> 24 – 36 month	68	16.92
	> 36 – 48 month	26	6.47
	> 48 – 60 month	13	3.23
	> 60 month	16	3.98
TOTAL		402	100

Source: Data Primer, 2024

3.2 Evaluation Model

The outer analysis is conducted to determine the relationship between measurement items and latent variables. This analysis also serves to test the validity and reliability of latent variable constructs. The validity test is used to determine whether a construct is valid or not through convergent validity and discriminant validity. Convergent validity is assessed based on the factor loading and AVE (Average Variance Extracted) values. According to Ghazali and Latan (2015:245), an indicator can still be considered valid if the factor loading coefficient is between 0.60 and 0.70. For analyses with unclear theoretical foundations, a factor loading as low as 0.50 may be acceptable. Chin (1998:325) and Santoso (2018:151) suggest that a loading value greater than 0.6 but less than 0.7 can still be used, provided that other indicators have values of at least 0.70. Below is Table 1, which presents the results of the convergent validity test:

Table 2 Validity Testing

Variable	Item	Outer Loading	Cronbach Alpha	Composite Reliability	AVE	Interpretation
Financial Literacy	FL.1.1	0.682	0.921	0.934	0.587	Valid
	FL.1.2	0.800				
	FL.1.3	0.835				
	FL.1.4	0.784				
	FL.2.2	0.788				
	FL.2.3	0.741				
	FL.3.1	0.811				
	FL.3.2	0.820				
	FL.3.3	0.676				
	FL.3.4	0.706				
Fear of Missing Out	FMO.1	0.882	0.926	0.947	0.818	Valid
	FMO.2	0.916				
	FMO.3	0.931				
	FMO.4	0.888				
Herding Behavior	HB.1.1	0.721	0.833	0.875	0.502	Valid
	HB.1.2	0.654				
	HB.2.1	0.619				
	HB.2.2	0.639				
	HB.4.1	0.771				
	HB.4.2	0.761				
	HB.4.3	0.774				

Variable	Item	Outer Loading	Cronbach Alpha	Composite Reability	AVE	Intepretation
Investment Decision	ID.1.2	0.717	0.950	0.955	0.558	Valid
	ID.1.3	0.685				
	ID.1.4	0.711				
	ID.2.1	0.761				
	ID.2.2	0.796				
	ID.2.3	0.777				
	ID.3.1	0.759				
	ID.3.10	0.775				
	ID.3.2	0.779				
	ID.3.3	0.791				
	ID.3.4	0.766				
	ID.3.5	0.757				
	ID.3.6	0.794				
	ID.3.7	0.604				
	ID.3.8	0.800				
	ID.3.9	0.644				
Loss Aversion	ID1.1	0.747	0.803	0.884	0.717	Valid
	LA.1	0.838				
	LA.2	0.853				
Risk Perception	LA.3	0.849	0.875	0.898	0.526	Valid
	RP.10	0.749				
	RP.3	0.706				
	RP.4	0.616				
	RP.5	0.744				
	RP.6	0.736				
	RP.7	0.735				
	RP.8	0.794				
	RP.9	0.710				

Source: Data Primer, 2024

Based on the results of data processing, validity was assessed using the parameter of outer loading with a cut-off value of 0.6. It can be concluded that the indicators of most latent variables met the validity criteria. For the Fear of Missing Out (FMO) variable, the indicators FMO.2, FMO.3, and FMO.4 demonstrated high outer loading values (0.882, 0.916, and 0.931, respectively), making them highly valid in representing the variable. However, in the Financial Literacy (FL) variable, while most indicators had outer loading values > 0.6 , there were some exceptions. In the Herding Behavior (HB) variable, indicators HB.2.2 and HB.2.3 showed outer loading values < 0.6 , indicating weak contributions to the construct, and these may need further evaluation or elimination. Conversely, the Investment Decision (ID) variable showed strong performance, with almost all indicators having outer loading values > 0.6 , thus being valid in representing investment decisions.

For the Loss Aversion (LA) variable, all indicators exhibited strong outer loading values (> 0.6), with the highest value reaching 0.853, allowing all indicators to be retained in the model. Similarly, in the Risk Perception (RP) variable, all indicators had outer loading values > 0.6 , with the highest at 0.749, indicating strong contributions of the indicators to the variable. Based on these results, indicators with outer loading values < 0.6 , such as FL2.1; HB3.1, HB3.2, HB3.3; FMO5; RP1, and RP2, were removed from the model to improve the validity and reliability of the constructs. Overall, the model demonstrates that most indicators are valid for measuring latent variables, making it suitable for further analysis. Further evaluation can be conducted for indicators with low values to ensure alignment with the theory or concept being measured. In the Average Variance Extracted (AVE) test, the AVE values of all constructs exceeded the minimum threshold of 0.5. This indicates that more than 50% of the variance of the indicators can be explained by their respective constructs, demonstrating adequate convergent validity.

The next test was for reliability. Based on the data processing results related to Cronbach's Alpha, Composite Reliability, and AVE, all constructs in the model met the criteria for reliability and convergent validity.

1. Cronbach's Alpha values for all variables were above the minimum threshold of 0.7, indicating internal consistency among the indicators within each construct. This suggests high reliability of the items within the constructs.
2. Composite Reliability (CR) values for all variables exceeded the cut-off of 0.7, with most being above 0.8. This indicates that the constructs have a very high level of reliability, showing that the indicators within each construct consistently measure the same concept.

These results indicate that all constructs in the research model meet the criteria for reliability and convergent validity.

Tabel 3 Heterotrait-Monotrait Ratio (HTMT)

	Fear of missing out	Financial literacy	Herding behavior	Investment decision	Loss aversion	Risk perception
Fear of missing out						
Financial literacy	0.103					
Herding behavior	0.400	0.608				
Investment decision	0.205	0.726	0.788			
Loss aversion	0.131	0.720	0.714	0.762		
Risk perception	0.460	0.312	0.531	0.520	0.422	

Source: Data Primer, 2024

The next validity test conducted was the discriminant validity test, which was assessed using the Heterotrait-Monotrait Ratio (HTMT). HTMT is a method used to ensure that the measured construct is distinctly different from other constructs. The interpretation of this test compares the HTMT values against a commonly used threshold of 0.85. The results of the HTMT analysis, as presented in Table 3, reveal that FOMO has relatively low HTMT values with most constructs, such as Financial Literacy (0.103), Loss Aversion (0.131), and Moderating of FMO-RP-ID (0.199). These values indicate good discriminant validity between FOMO and these constructs. However, the HTMT value with Risk Perception (0.460) is higher compared to the others, though still below the threshold. This suggests a stronger relationship between FOMO and Risk Perception compared to other variables. For the Financial Literacy variable, its HTMT values with Herding Behavior (0.608), Investment Decision (0.726), and Loss Aversion (0.720) are relatively high but remain below the threshold, indicating maintained discriminant validity among these variables. The correlation of Financial Literacy with Risk Perception (0.312) and Moderating of FMO-RP-ID (0.133) is lower, reflecting weaker relationships compared to the other variables.

The high HTMT values for Herding Behavior indicate a significant correlation with Investment Decision (0.788) and Loss Aversion (0.714), though still within acceptable limits. This suggests that Herding Behavior significantly influences investment decisions and tendencies toward loss aversion. Similarly, Investment Decision exhibits high HTMT values with Loss Aversion (0.762) and Herding Behavior (0.788), confirming that investment decisions are strongly affected by herding behavior and loss aversion tendencies. Loss Aversion demonstrates relatively strong relationships with Herding Behavior (0.714) and Investment Decision (0.762), highlighting the central role of loss aversion in investment decision-making. Overall, the HTMT results confirm that discriminant validity among the constructs has been adequately achieved. The relatively low HTMT values for most variable relationships support the clarity of differentiation among constructs, while the higher values in certain relationships (e.g., Herding Behavior with Investment Decision) indicate a strong interconnection among constructs in the research context. These results satisfy the requirements for reliability and validity, supporting their use for further analysis.

Tabel 4 Koefisien Determinasi

	R Square Adjusted
Fear of missing out	0.126
Herding behavior	0.294
Investment decision	0.629
Loss aversion	0.385

Source: Data Primer, 2024

The results of the coefficient of determination analysis, indicated by the Adjusted R Square value, provide an overview of how much variation in the dependent variable can be explained by the independent variables in the research model. Based on the test results, it was found that Fear of Missing Out (FOMO) has an Adjusted R Square value of 0.126, indicating that the independent variables in the model can explain approximately 12.6% of the variation in FOMO. This suggests that there are still other factors outside the research model that significantly influence FOMO. Herding Behavior has an Adjusted R Square value of 0.294, meaning that about 29.4% of the variation in Herding Behavior can be explained by the independent variables in the model. This value indicates a moderate influence, although there is still room to consider other factors contributing to herding behavior.

Investment Decision has an Adjusted R Square value of 0.629, indicating that the variables in the model can explain approximately 62.9% of the variation in investment decision-making. This high value reflects the model's strong capability to explain the factors influencing investment decisions. The Adjusted R Square value for Loss Aversion is 0.385, meaning that about 38.5% of the variation in Loss Aversion can be explained by the independent variables in the model. This value indicates a moderate influence of the model on loss aversion tendencies. Overall, the varying Adjusted R Square values reflect the model's differing levels of ability to explain each dependent variable.

Tabel 5 Predictive Relevance

	SSO	SSE	Q ² (=1-SSE/SSO)
Fear of missing out	1608.000	1442.044	0.103
Financial literacy	4020.000	4020.000	
Herding behavior	2814.000	2423.046	0.139
Investment decision	6834.000	4474.425	0.345
Loss aversion	1206.000	877.095	0.273
Risk persepction	3216.000	3216.000	

Source: Data Primer, 2024

The Q² (Predictive Relevance) test using the blindfolding method is utilized to evaluate the model's predictive capability for endogenous constructs. As a general rule, a Q² value above 0 indicates that the model has predictive relevance, with higher values reflecting better predictive capability. Based on the test results, the Q² value for Fear of Missing Out (FMO) is 0.103, indicating low but significant predictive relevance. Herding Behavior has a Q² value of 0.139, suggesting better predictive capability compared to FMO. The Investment Decision variable has the highest Q² value of 0.345, reflecting excellent predictive capability within the model. The Q² value for Loss Aversion is 0.273, also indicating fairly strong predictive capability. These results demonstrate that the model has adequate predictive relevance. Overall, the model exhibits good predictive capability for the key constructs, making it suitable for further analysis.

3.3 Hyphotesis Testing

The results of the model evaluation indicate that, overall, the research model meets the criteria for both the inner and outer models, allowing for hypothesis testing. The results of the direct hypothesis testing (Table 6) show that the effect of financial literacy on herding behavior has a positive coefficient (0.544) with a p-value of 0.000 (p-value < 0.05). This indicates that financial literacy significantly influences herding behavior, and thus H1 is accepted. The relationship between financial literacy and loss aversion has a coefficient of 0.621 with a p-value of 0.000 (p-value < 0.05), indicating that financial literacy significantly influences loss aversion, and thus H2 is accepted. Similar results are shown in the testing of the effects of herding behavior and loss aversion on investment decision (H3: β : 0.455, p-value = 0.000 < 0.05; H4: β : 0.332, p-value = 0.000 < 0.05). This means that both herding behavior and loss aversion significantly influence investment decisions, and thus H3 and H4 are accepted. In addition, testing the effects of herding behavior and loss aversion on fear of missing out (FOMO) (H5: β : 0.428, p-value = 0.000 < 0.05; H6: β : -0.146, p-value = 0.012 < 0.05) also gives similar results. This shows that both herding behavior and loss aversion significantly influence FOMO, and thus H5 and H6 are accepted. However, the relationship between fear of missing out and investment decision shows a different result. The test results indicate that the relationship between Fear of Missing Out and Investment Decision has a negative coefficient (-0.071) with a p-value of 0.076 (P-Values = 0.076 > 0.05). This means that Fear of Missing Out does not significantly influence investment decisions, and therefore H7 is rejected. The moderation test also shows that risk perception does not moderate the relationship between fear of missing out and investment decisions (β : -0.038, p-value: 0.215 > 0.05), and thus H8 is rejected.

Tabel 6 Hypothesis Testing

HYPHOTESIS	Path Coefficient	Standard Deviation	P-Values	Intepretation
H7 Fear Of Missing Out -> Investment Decision	-0.071	0.040	0.076	Rejected
H1 Financial Literacy -> Herding Behavior	0.544	0.061	0.000	Accepted
H2 Financial Literacy -> Loss Aversion	0.621	0.055	0.000	Accepted
H5 Herding Behavior -> Fear Of Missing Out	0.428	0.071	0.000	Accepted
H3 Herding Behavior -> Investment Decision	0.455	0.045	0.000	Accepted
H6 Loss Aversion -> Fear Of Missing Out	-0.146	0.058	0.012	Accepted

	HYPHOTESIS	Path Coefficient	Standard Deviation	P-Values	Intepretation
H4	Loss Aversion -> Investment Decision	0.332	0.043	0.000	Accepted
H8	Moderating of Fomo – RP – ID	-0.038	0.030	0.215	Rejected

Source: Data Primer, 2024

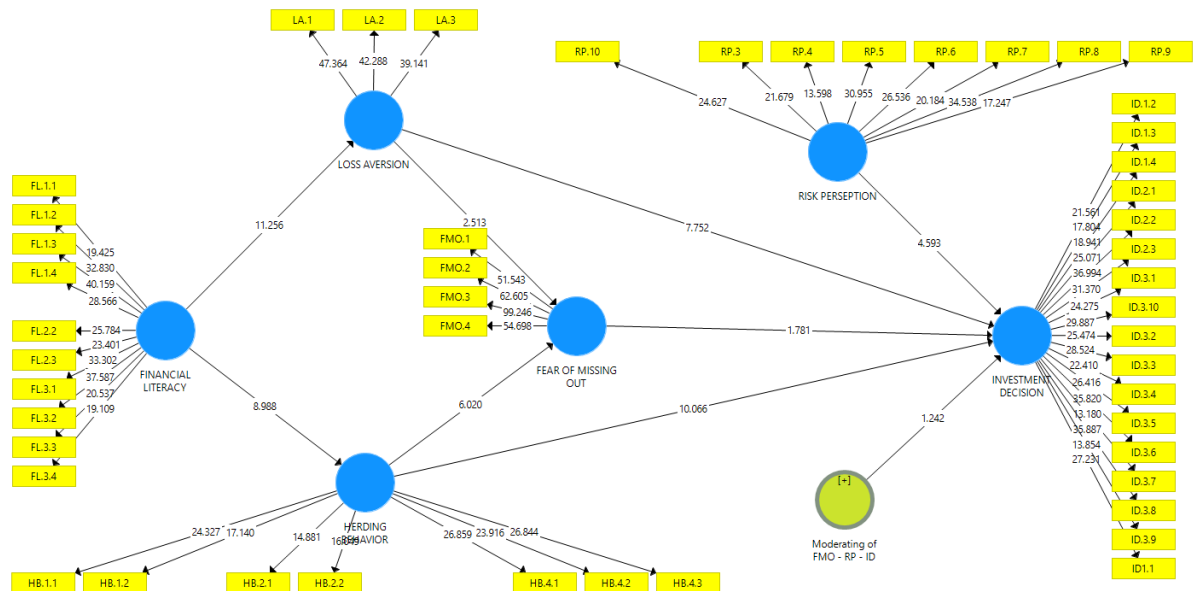


Figure 1. Diagram Path

The results of the indirect testing shown in Table 7 indicate that fear of missing out does not mediate the relationship between herding behavior and investment decision (H9: β : -0.030, p-value: 0.093 > 0.05), thus H9 is rejected. The mediation test of fear of missing out on the relationship between loss aversion and investment decision also shows the same result. The test results indicate that fear of missing out does not mediate the relationship between loss aversion and investment decision (H10: β : 0.010, p-value: 0.168 > 0.05), thus H10 is rejected. The path analysis results can be illustrated in Figure 1.

Table 7. Mediation Effect

		Path Coeffesien	Standard Deviation	P Values	Intepretation
H9	Herding Behavior -> Fear Of Missing Out -> Investment Decision	-0.030	0.018	0.093	Rejected
H10	Loss Aversion -> Fear Of Missing Out -> Investment Decision	0.010	0.008	0.168	Rejected

Source: Data Primer, 2024

3.4 Discussion

This study provides deep insights into how financial literacy, herding behavior, loss aversion, and Fear of Missing Out (FOMO) influence investment decisions, and their relevance to Dual Process Theory. Specifically, the study shows that financial literacy plays a significant role in shaping investment behavior through herding behavior and loss aversion. Individuals with good financial literacy tend to understand the risks and benefits of investments rationally, enabling them to manage behavioral biases such as the tendency to follow group decisions (herding behavior) and avoid losses

(loss aversion). These findings align with the ideas in Dual Process Theory, which suggests that human decision-making is influenced by two systems: System 1, which is intuitive, emotional, and fast, and System 2, which is analytical, rational, and slow. In this context, financial literacy acts as a reinforcement of System 2, allowing individuals to rely more on rational cognitive processing in investment decisions, thus reducing the negative influence of emotional biases that tend to emerge from System 1.

Although FOMO is often considered an emotional factor that can affect decision-making, the results of this study indicate that FOMO's role as a mediator is largely insignificant. For example, the path from herding behavior through FOMO to investment decisions does not have a meaningful impact, nor does the path from loss aversion through FOMO. This suggests that although FOMO is related to System 1 in Dual Process Theory, a fast response triggered by emotions such as the fear of missing out, its influence tends to diminish when individuals have a good understanding of finance. With higher financial literacy, individuals are more capable of using System 2 to analyze information objectively, minimizing the emotional influence of FOMO. This also reflects that rational factors, such as an understanding of investment risks, play a greater role than emotional factors in influencing investment decisions.

Furthermore, the results emphasize the importance of managing behavioral biases such as herding and loss aversion, which tend to arise from System 1 responses, by enhancing financial literacy. For example, individuals with good financial literacy can reduce the tendency to impulsively follow group decisions (herding) and focus more on rational evaluation of investment opportunities. Similarly, a better understanding of risks can help individuals overcome the fear of losses (loss aversion) and make more balanced decisions. In this context, financial literacy not only enhances analytical abilities (System 2) but also helps control intuitive responses (System 1), which are often driven by emotions. Overall, the results support a financial education-based approach to improving the quality of investment decision-making. By strengthening rational cognitive processing through financial literacy, individuals can reduce the impact of emotional biases such as FOMO, and focus more on objective analysis that helps them make better investment decisions. The relevance of these results to Dual Process Theory emphasizes the importance of balancing System 1 and System 2 in decision-making, where financial literacy plays a key role in guiding individuals to rely more on System 2 in the context of investment.

CONCLUSION

The conclusion of this study indicates that financial behaviors such as Fear of Missing Out (FOMO), financial literacy, herding behavior, loss aversion, and risk perception have a significant impact on stock investment decisions among Generation Z in East Java. The findings emphasize that financial literacy plays a crucial role in reducing behavioral biases, such as herding behavior and loss aversion, which ultimately influence investment decisions. Furthermore, risk perception and FOMO were proven to act as mediators, revealing the dynamics of the interaction between intuitive and analytical processes in decision-making, in line with the Dual Process Theory framework. Based on these findings, it is recommended that financial education programs focus more on enhancing financial literacy and managing psychological biases to support more rational investment decision-making among Generation Z. Additionally, investment service providers are encouraged to offer platforms that provide clear, accurate, and easily accessible information to reduce the risk of emotion-based decision-making. This research is expected to serve as a foundation for further studies exploring the role of psychological and behavioral factors in investment decision-making across various demographics and market contexts.

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