GIJEA
Greenation International Journal of Economics and Accounting
+62 81210467572 https://research.e-greenation.org/GIJEA greenation.info@gmail.com
GREENATION RESEARCH

DOI: https://doi.org/10.38035/gijea.v3i2.

The Influence of Financial Literacy, Risk Tolerance and Return on Investment Decisions Among Capital Market Study Group Students at Jambi University

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Abstract: : This study examines the influence of financial literacy, risk tolerance, and return on investment decisions among Capital Market Study Group (KSPM) students at Jambi University. Using quantitative methods with multiple linear regression analysis on 73 respondents who are active KSPM members with investment experience, the results show that simultaneously, financial literacy, risk tolerance, and return significantly influence investment decisions (F = 17.032, sig. 0.000). Partially, risk tolerance has the most dominant positive and significant effect (β = 2.175, sig. 0.000), return also shows positive and significant effect (β = 1.578, sig. 0.003), while financial literacy shows no significant effect (β = -0.110, sig. 0.897). The research contributes to behavioral finance theory by demonstrating that psychological factors (risk tolerance) are more influential than cognitive factors (financial literacy) in student investment decisions.

Keyword: Financial Literacy, Investment Decisions, Return, Risk Tolerance.

INTRODUCTION

Investment has become a trend among young people, especially university students who prefer to allocate their funds to various investment instruments such as stocks, bonds, or mutual funds rather than just saving. According to Warren Buffett's view, investment is a smart way to grow money. Through portfolio diversification in various financial products, millennials expect to achieve their personal economic targets in the future. Investment activities represent the allocation of funds typically conducted with extensive time horizons for acquiring assets or obtaining equity and other financial instruments such as debt securities and managed funds to achieve profits in the future (OJK, 2022).

The capital market has become a popular investment choice among society due to its high profit potential. Capital market is essentially a system where securities with maturity periods of more than one year are traded. Here, investors can channel their funds to various companies, while companies can obtain capital for business expansion. According to

regulations stipulated in Law of the Republic of Indonesia Number 8 of 1995 concerning capital markets, capital market is conceptualized as a series of activities that include initial public offerings, securities trading activities, public companies, and various institutions and professions related to securities.

According to data from the Indonesian Central Securities Depository (KSEI), the majority of investors in Indonesia are young generation under 30 years old, reaching 55.58% of total investors (KSEI, 2024). This high interest is driven by several factors, including increasing awareness of the importance of early investment, especially among students. Additionally, investment knowledge gained during education, availability of pocket money or personal income, and future planning also serve as main drivers. The demographic structure of investors in Indonesia's capital market shows dominance from young generations, particularly millennials and generation Z with age range of 20-30 years.

However, despite the significant growth in the number of investors, Indonesia's financial literacy level remains suboptimal. According to OJK (2022), the financial literacy percentage in capital market services sector was only 4.11% in 2022, declining from 4.92% in 2019. This data indicates a mismatch between the increase in young investors and adequate knowledge about capital markets. The phenomenon related to increasing young generation or Gen Z as capital market investors occurs not only in major cities, but also begins to be visible in regions like Jambi University, where campuses actively promote financial literacy through student community formation such as Capital Market Study Groups (KSPM).

KSPM Jambi University is a concrete example of student participation in capital market education and practice activities. Activities conducted by KSPM include capital market seminars JFI FEST 2022 with theme "Build Your Future with Investment as a Lifestyle in Digital Era", investment training simulation stock transactions, and securities account opening. This shows that students not only gain theoretical knowledge but also begin to dare make direct investment decisions.

The phenomenon of increasing young investors in Indonesia's capital market is highly relevant to this research. Based on KSEI (2024) data, 55.58% of capital market investors in Indonesia are under 30 years old, showing high participation of young generation in investment activities. KSPM Jambi University students, who are majority aged 20-23 years, belong to this demographic group, making them appropriate representatives for studying young generation investment behavior.

This research aims to analyze the factors influencing investment decisions among KSPM students, specifically examining the role of financial literacy, risk tolerance, and return expectations in their investment decision-making process. The selection of students who have investment experience as respondents is based on their active interest and involvement in capital market and investment world.

METHOD

This research employs quantitative methodology with multiple linear regression analysis. The research was conducted on Capital Market Study Group (KSPM) students at Jambi University who have investment experience in capital markets.

The population consists of all active KSPM members totaling 140 students. Sampling used purposive sampling method with criteria: (1) Active KSPM members, and (2) Have investment experience in capital markets. From 112 distributed questionnaires, 73 valid responses were obtained for analysis.

Data collection was conducted through online questionnaires distributed via WhatsApp groups using Google Forms. The questionnaire used a modified 4-point Likert scale (1 = Strongly Disagree to 4 = Strongly Agree) to avoid neutral responses.

The research variables consist of:

a) Independent variables: Financial Literacy (X1), Risk Tolerance (X2), and Return (X3)
b) Dependent variable: Investment Decision (Y)

Data analysis included descriptive analysis, validity and reliability tests, classical assumption tests (normality, multicollinearity, heteroscedasticity), multiple linear regression analysis, and hypothesis testing using SPSS version 27.

The multiple linear regression equation used: $\mathbf{ID = \alpha + \beta_1 FL + \beta_2 RT + \beta_3 R + e}$

Where: ID = Investment Decision; FL = Financial Literacy; RT = Risk Tolerance; R = Return; e = Error term

RESULT AND DISCUSSION

Theoretical Framework

Behavioral Finance Theory

Behavioral finance studies began attracting academic attention since the 1950s, coinciding with the birth of modern portfolio theory introduced by Harry Markowitz in 1952. This approach marks the initial step of a new paradigm emergence in understanding financial behavior. One central figure in behavioral finance development is Richard H. Thaler, professor of economics and behavioral science from University of Chicago, known for his approach that contradicts neoclassical economic doctrine.

Conceptually, behavioral finance is a branch of science that examines how individuals respond to financial information in decision-making processes, particularly in managing risk and optimizing return rates. This science emphasizes that investment decisions are not always rational, but are influenced by complex psychological and emotional factors often unrecognized by market participants themselves (Pandji et al., 2024).

Financial Literacy

According to OJK.id, financial literacy is knowledge, skills, and beliefs that can influence attitudes and behavior to maximize the quality of decision-making and financial management to achieve welfare. Financial literacy is key to making policies, and someone can avoid mistakes in the process of making decisions related to finance (Sulistyowati et al., 2022).

Risk Tolerance

Risk can be understood as representation of uncertainty about conditions that might occur in the future, as consequences of decisions made at present by considering various variables not yet fully measurable. In investment context, risk reflects potential failure in realizing expected fund returns, thus becoming an inherent element in every capital investment activity (Nurani et al., 2022).

Return

According to Kristanti Dwiputri et al. (2022), return refers to the profit rate enjoyed by investors as results of investments made. In another sense, return can also be interpreted as compensation or rewards obtained from investment activities. Conceptually, return is divided into two main categories: first, actual return or actual profit calculated based on historical data and past performance; second, expected return or profit anticipated in the future as projection of potential investment results to come.

Literature Review and Hypothesis Development

Previous research on investment decisions has been conducted by several researchers. Research by Sulistyowati et al. (2022) shows that financial literacy, return and risk positively influence investment decisions among Islamic millennials in Bekasi city. However, research by Yundari & Artati (2021) shows that financial literacy does not significantly influence investment decisions.

Research on risk tolerance variables by Syauqiyah & Kurniawati (2023) concluded that risk positively influences investment decisions, different from research by Fadila et al. (2022)

which concluded that risk perception does not influence investment decisions. Previous research examining return variables by Syafa'ah & Aeni (2020) concluded that return influences investment decisions, while research by Aini et al. (2019) found that return has no significant influence on investment interest.

Based on the literature review, the following hypotheses are formulated:

a) H_1: Financial literacy, risk tolerance, and return simultaneously influence investment decisions
b) H_2: Financial literacy influences investment decisions
c) H_3: Risk tolerance influences investment decisions
d) H_4: Return influences investment decisions

Based on the collected data from 73 valid respondents, the characteristics are as follows:

Table 1. Respondent Characteristics

Characteristics	Category	Frequency	Percentage
Gender	Female	43	59%
	Male	30	41%
Investment Experience	<1 year	45	62%
	1-2 years	17	15%
	>2 years	11	23%
Investment Instrument	Stocks	17	23%
	Mutual Funds	19	26%
	Bonds	24	33%
	Others	9	12%

The majority of respondents are female (59%) with investment experience less than one year (62%), indicating that most respondents are beginner investors. Bonds are the most preferred investment instrument (33%), followed by mutual funds (26%) and stocks (23%).

Validity and Reliability Test Results

All questionnaire items showed r-calculated values greater than r-table (0.230) with significance level 0.05, indicating all items are valid. The reliability test showed Cronbach's Alpha value of 0.877 > 0.70, confirming the instrument's reliability.

Classical Assumption Test Results

Table 2. Classical Assumption Test Results

Test	Method	Result	Conclusion
Normality	Kolmogorov-Smirnov	Sig. 0.194 > 0.05	Normal distribution
Multicollinearity	VIF & Tolerance	All VIF < 10, Tolerance > 0.10	No multicollinearity
Heteroscedasticity	Scatterplot	Random distribution	No heteroscedasticity

Multiple Linear Regression Analysis

The regression analysis results yielded the following equation: **ID = 2.812 - 0.110FL + 2.175RT + 1.578R + e**

Table 3. Regression Analysis Results

Variable	Coefficient	t-value	Significance	Conclusion
Constant	2.812	-	-	-
Financial Literacy	-0.110	-0.130	0.897	Not Significant
Risk Tolerance	2.175	3.809	0.000	Significant
Return	1.578	3.053	0.003	Significant
F-test	-	17.032	0.000	Significant
R^2	0.425	-	-	-
Adjusted R^2	0.400	-	-	-

Hypothesis Testing Results

1. Simultaneous Effect (H_1): F-test results show F-calculated = 17.032 with significance 0.000 < 0.05, indicating that financial literacy, risk tolerance, and return simultaneously influence investment decisions significantly.
2. Financial Literacy Effect (H_2): t-test results show significance 0.897 > 0.05, indicating financial literacy does not significantly influence investment decisions. This suggests that students' financial knowledge has not become the main determining factor in their investment decisions.
3. Risk Tolerance Effect (H_3): t-test results show significance 0.000 < 0.05 with coefficient 2.175, indicating risk tolerance has the most dominant positive and significant effect on investment decisions.
4. Return Effect (H_4): t-test results show significance 0.003 < 0.05 with coefficient 1.578, indicating return has a positive and significant effect on investment decisions.

Detailed Discussion of Findings

Simultaneous Effect Analysis

The F-test results showing significance of 0.000 < 0.05 confirm that financial literacy, risk tolerance, and return collectively influence student investment decisions. This finding supports Behavioral Finance theory proposed by Pandji et al. (2024), which states that investment decisions are not only influenced by rational factors but also psychological factors. The adjusted R^2 value of 0.400 indicates that the model explains 40% of investment decision variations, which is considered good for social science research.

This simultaneous effect demonstrates that investment decision-making is a complex process involving multiple factors. Even though financial literacy individually shows no significant effect, when combined with risk tolerance and return, it contributes to the overall model's explanatory power. This aligns with Tandelilin (2017)'s statement that investment decision foundations lie in deep understanding of dynamic relationships between expected return levels and investment risks.

Financial Literacy Effect Analysis

The non-significant effect of financial literacy (sig. 0.897 > 0.05) with negative coefficient (-0.110) contradicts theoretical expectations but supports findings by Yundari & Artati (2021) and Syauqiyah & Kurniawati (2023). This phenomenon can be explained by several factors.

First, 62% of respondents are beginner investors with less than one year experience, so they may not have fully applied their financial knowledge in practical investment decision-making. Second, although KSPM Jambi University actively organizes capital market

education activities, knowledge transfer may not have been fully internalized in student investment behavior. Third, student investment decisions might be more driven by psychological and social factors, such as peer influence or investment trends among students.

This finding suggests that theoretical knowledge about finance does not automatically translate into better investment decisions, especially among novice investors. The negative coefficient, although not significant, might indicate that students with higher financial literacy actually become more cautious and less likely to make investment decisions, possibly due to better understanding of associated risks.

Risk Tolerance Effect Analysis

Risk tolerance shows the most dominant influence with coefficient 2.175 and significance 0.000 < 0.05. This finding supports Von Neumann and Morgenstern's utility theory quoted in Cao et al. (2021), which states that individuals make investment decisions based on their risk preferences, categorizable as risk-averse, risk-neutral, or risk-seeking.

The dominance of risk tolerance influence can be explained by KSPM Jambi University student characteristics who are still in early investment stages. They may not have deep investment experience, so they tend to be more careful and consider risk as the main factor in making investment decisions. Additionally, as students with limited investment funds, risk consideration becomes very important because they do not want to lose investment capital that might come from pocket money or savings.

This finding is also reflected in respondent investment instrument preferences, where bonds dominate (33%) followed by mutual funds (26%), both of which have lower risk profiles compared to stocks (23%). This shows that KSPM students tend to be risk-averse, prioritizing capital security over high return potential.

Return Effect Analysis

Return shows positive and significant influence with coefficient 1.578 and significance 0.003 < 0.05. This finding aligns with Pratama et al. (2022)'s statement that return becomes one of main motivations for investors in allocating funds to capital markets. Although KSPM Jambi University students tend to choose low-to-medium risk investment instruments, return expectations remain important considerations in their investment decisions.

The positive coefficient indicates that higher return expectations increase student tendency to make investment decisions. This supports fundamental investment theory that investors are motivated by profit expectations. However, the coefficient value is lower than risk tolerance (1.578 vs 2.175), showing that although return is important, risk considerations remain more dominant in student investment decisions.

This phenomenon reflects balanced investment behavior, where students not only chase high returns but also consider risk-return balance. This attitude actually shows maturity in investment thinking, where they understand that higher returns usually come with higher risks.

Implications for Behavioral Finance Theory

This research contributes to behavioral finance literature by demonstrating that psychological factors (risk tolerance) are more influential than cognitive factors (financial literacy) in novice investor decision-making. This supports cognitive bias and emotional bias concepts in behavioral finance proposed by Pompian (2012), where investment decisions are often influenced by thinking errors and emotional factors.

The research findings also support the view that investment education should not only focus on technical knowledge but also on understanding individual psychological profiles and risk tolerance. This has important implications for investment education program development, especially for young investors.

CONCLUSION

This study concludes that financial literacy, risk tolerance, and return simultaneously influence investment decisions among KSPM Jambi University students, with F-test results showing significance of 0.000 < 0.05. The model explains 40% of investment decision variations, indicating good explanatory power for social science research.

Partially, risk tolerance demonstrates the most dominant influence with coefficient 2.175 and significance 0.000, indicating that student readiness to face risks becomes the main factor affecting their investment decisions. This finding reflects the characteristics of novice investors who prioritize investment security over high return potential, as evidenced by their preference for bonds (33%) and mutual funds (26%) over stocks (23%).

Return shows positive and significant influence with coefficient 1.578 and significance 0.003, confirming that profit expectations remain important considerations in student investment decisions, although with lower influence compared to risk tolerance. This demonstrates balanced investment behavior where students consider risk-return balance rather than merely pursuing high profits.

Conversely, financial literacy shows no significant influence with significance 0.897 > 0.05, indicating that theoretical financial knowledge has not become the main determining factor in student investment decisions. This phenomenon can be attributed to the majority of respondents (62%) being beginner investors with less than one year experience, so knowledge transfer may not have been fully internalized in their investment behavior.

These findings contribute significantly to behavioral finance literature by demonstrating that psychological factors (risk tolerance) are more influential than cognitive factors (financial literacy) in novice investor decision-making. This supports the view that investment education should not only focus on technical knowledge but also on understanding individual psychological profiles and risk tolerance.

The research implications suggest that investment education programs, especially for young investors, should emphasize risk management and psychological aspect understanding rather than solely focusing on theoretical financial knowledge. Additionally, financial institutions and investment service providers should consider risk tolerance as the primary factor in developing products and services for young investor segments.

Future research should explore additional variables such as social influence, income level, demographic factors, and technology access to better explain the remaining 60% variation in student investment decisions. Longitudinal studies are also recommended to observe how financial literacy influence evolves as student investment experience increases.

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