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The Influence of Financial Self-Efficacy, Risk Perception, Financial Literacy, and Herding on Investment Decision

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The author(s) declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

Abstract

Purpose: This study aims to examine the influence of financial self-efficacy, risk perception, financial literacy, and herding behavior on investment decisions among Generation Z and Millennials in the Jabodetabek area. It highlights the importance of psychological, cognitive, and social factors in shaping rational financial behavior in the digital investment landscape.

Research Design and Methodology: A quantitative survey was conducted involving 214 eligible respondents who met the criteria of being Generation Z or Millennial investors in the capital market. Data were collected using an online questionnaire based on validated measurement instruments and analyzed through Structural Equation Modeling (SEM) using the SmartPLS 4.0 application to test the proposed hypotheses and model fit.

Findings and Discussion: The findings indicate that financial self-efficacy, risk perception, and financial literacy have a significant positive influence on investment decisions at the 5% level, while herding shows a positive but weaker effect at the 10% level. These results suggest that individual confidence, risk awareness, financial competence, and social influence all contribute to investment behavior among young investors in the digital era..

Implications: This study emphasizes the need for financial education programs and personalized digital tools to strengthen financial decision-making among young retail investors. It also provides insights for policymakers and investment platforms to encourage responsible investing through improved financial literacy, risk management awareness, and investor self-efficacy.

Introduction

Economic uncertainty and high living costs have prompted individuals, particularly younger generations, to manage their finances more prudently. A global study revealed that over twenty-three thousand millennials across thirty-three countries expressed concern regarding future financial preparedness (Khan, 2025). Financial stability has increasingly been viewed as a long-term security benchmark, encouraging individuals to seek additional income through investment activities (Aulia *et al.*, 2024). This phenomenon, known as "money earns money,"

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reflects a paradigm in which funds are not merely saved but also invested for future growth and returns. This shift aligns with the idea that savings have evolved into investments, signifying a key component of long-term financial planning (Oganga, 2024). Investments are expected to generate supplementary income that may be used to fulfill various future needs (Tanuatmodjo *et al.*, 2024).

This transformation has also been driven by rapid digitalization, which has removed barriers between professional and novice investors. Online investment platforms, easy access to information, and technological penetration have enabled anyone to invest instantly and flexibly (Sunarko & Sutrisno, 2025). According to recent data, the number of capital market investors in Indonesia reached sixteen point two million by April two thousand twenty-five, with the Jabodetabek region contributing over twenty-three percent of the total. The dominance of young investors was reflected in the seventy-nine percent of investors under the age of forty (Paramahamsa, 2025).

Despite the increasing participation, the quality of investment decision-making has not been fully optimized. Losses due to illegal investments from two thousand seventeen to two thousand twenty-three reached approximately one hundred thirty-nine point sixty-seven trillion Rupiah, with an additional one hundred five billion Rupiah lost within the first four months of two thousand twenty-five (Shaid, 2024; Islamiati, 2025). Low rationality, emotional impulses, and external influences remain major challenges, particularly for novice investors lacking adequate knowledge and planning (Rona & Sinarwati, 2021). Avoiding such risks requires individuals to possess adequate knowledge regarding appropriate investment strategies and financial fundamentals (Pajar & Pustikaningsih, 2017).

Investment behavior has been extensively explained through the Theory of Planned Behavior, which identifies intention as a key determinant of action shaped by attitudes, subjective norms, and perceived behavioral control (Ajzen, 1991). Meanwhile, the Behavioral Finance perspective highlights the role of cognitive biases and social pressures in influencing financial decisions (Ricciardi & Simon, 2000). Therefore, psychological, cognitive, and social factors must be considered to understand investment decisions comprehensively.

Financial self-efficacy (FSE) has been defined as the belief in one's ability to manage finances independently and responsibly (Sunarko & Sutrisno, 2025). A positive relationship between FSE and investment decision-making has been observed in multiple studies (Ramadhani & Yurniwati, 2025; Budiyono, 2024), although different results have also been reported (Ulfa & Sulistyawati, 2023).

Risk perception (RP) reflects an individual's assessment of uncertainty and potential loss in investment (Weber *et al.*, 2002). High levels of RP have been found to enhance caution and strengthen investment decision-making (Hana *et al.*, 2024), although other research has shown insignificant effects (Rini, 2024; Fadila *et al.*, 2022)..

From a cognitive standpoint, financial literacy (FL) is considered a crucial foundation in financial decision-making. Despite the national financial literacy rate reaching sixty-six point forty-six percent in two thousand twenty-five (BPS, 2025), considerable gaps remain in fundamental investment knowledge (OJK, 2024). Investment literacy is essential to long-term financial stability and must be improved through proper education and training (Chairani *et al.*, 2021). FL in the investment context refers to the ability to comprehend and apply financial knowledge in selecting appropriate investment instruments, including an understanding of risk, return, and mechanism.

External influences, including social encouragement, have also been shown to impact investment decisions, a behavior referred to as herding. In this context, herding represents irrational investment decisions based on peer or market influence rather than personal analysis and logic (Rona & Sinarwati, 2021). Several studies have indicated a positive effect of herding on investment decisions (Pertiwi & Panuntun, 2023; Theressa & Armansyah, 2022), although contradictory findings have also emerged (Putri & Hudaya, 2024; Gulo & Cahyonowati, 2024).

Although these factors have been previously explored, a research gap persists. Many studies have been conducted outside the Jabodetabek area and have not specifically examined Generation Z and Millennials, who currently dominate the investor base and are highly adaptable to digital change. Therefore, this study aims to analyze the influence of financial self-efficacy, risk perception, financial literacy, and herding on investment decisions, with a specific focus on

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Generation Z and Millennials in the Jabodetabek area as digitally adaptive investors who play a key role in capital market development in Indonesia.

Literature Review

Signaling Theory. Signaling theory by Spence (1973, in Putri, 2020) explains how individuals with more information (signalers) transmit observable signals to those with less information (receivers) to communicate unobservable characteristics. In investment, signals include financial reports, analyst recommendations, and market behavior (Connelly *et al.*, 2024). Financial self-efficacy enhances one's ability to interpret such signals (Sunarko & Sutrisno, 2025), and financial literacy improves signal evaluation (Hambali, 2024). Risk perception emerges from how investors interpret these signals (Rini, 2024). Herding reflects reliance on social signals, where the behavior of others is treated as credible (Weixiang *et al.*, 2022 in Gultom & Kamaludin, 2025).

Legitimacy Theory. Legitimacy theory suggests that individuals and organizations seek alignment with societal norms to maintain acceptance (Deegan *et al.*, 2002 in Binus University School of Accounting, 2025). In investment behavior, decisions may be socially influenced by collective norms and public expectations. Although traditionally applied to organizational contexts, it has been argued that individual investors are also shaped by social legitimacy cues (Dowling & Pfeffer in Ghozali & Chariri, 2014). According to Hidayat *et al.* (2024), social pressure and community norms are key drivers of investment decisions among younger generations, reflecting an internalized need for acceptance and alignment with perceived financial responsibility.

Theory Planned Behaviour. Theory planned behaviour identifies three determinants of intention: attitude, subjective norms, and perceived behavioral control. Positive attitudes toward investment outcomes increase intention to invest, while social influence from peers and public figures fosters conformity (Zhang, 2018). In collectivist societies like Indonesia, subjective norms have even stronger effects (Zhang, 2018). Perceived behavioral control reflects one's belief in their capacity to invest. Financial literacy shapes attitudes, self-efficacy enhances control, and herding represents perceived social pressure. If an individual lacks confidence or resources, intention to invest may decline regardless of their awareness or social environment.

Behavioral Finance. Behavioural finance integrates psychological and social factors into financial decision-making. It challenges traditional finance by highlighting emotional and cognitive biases. It has been argued that investors frequently commit cognitive errors, such as overconfidence and loss aversion, as supported by more recent studies (Pompian, 2018). Herding behavior also arises from uncertainty, prompting reliance on others' actions (Gulo & Cahyonowati, 2024). Young investors often exhibit emotional responses, driven by digital influence and fear of missing out. Financial literacy and self-efficacy can reduce irrational biases, yet many still follow trends despite available information. Behavioral finance thus helps explain investment patterns that deviate from purely rational models.

The Influence of Financial Self-Efficacy on Investment Decisions. Financial self-efficacy (FSE) refers to an individual's belief in their ability to manage and make responsible financial decisions independently (Sunarko & Sutrisno, 2025). Individuals with higher levels of FSE tend to feel more confident in facing market uncertainties and are less likely to be influenced by external pressures. This allows them to make more rational and informed investment decisions (Ulfa & Sulistyawati, 2023). Previous studies by Ramadhani & Yurniwati (2025) and Budiyono (2024) also found a positive effect of financial self-efficacy on investment decisions. Thus, the hypothesis proposed is:

H_1: Financial self-efficacy positively influences investment decisions.

The Influence of Risk Perception on Investment Decisions. Risk perception is a crucial factor in investment decision-making, as it reflects how individuals subjectively assess potential risks and uncertainty in the financial market (Rini, 2024). Perceptions are shaped by objective information as well as psychological conditions, emotions, and personal experiences. Investors with a high perception of risk tend to act more cautiously and adopt a more calculated approach

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(Hana *et al.*, 2024). Previous studies by Hana *et al.* (2024) and Cahayati (2024) confirm a positive relationship between risk perception and investment decisions. Therefore, the proposed hypothesis is:

H_2: Risk perception positively influences investment decisions.

The Influence of Financial Literacy on Investment Decisions. Financial literacy is a fundamental component in making wise and well-informed investment decisions. It encompasses both an understanding of financial concepts and the ability to apply them effectively in real life (Huston, 2020 in Putri *et al.*, 2021). Individuals with higher levels of financial literacy are better equipped to manage risk, assess potential returns, and select investment instruments aligned with long-term goals. Previous studies by Gusti *et al.* (2024), Hambali (2024), and Kulintang & Putri (2024) found a positive influence of financial literacy on investment decisions. Hence, the hypothesis is:

H_3: Financial literacy positively influences investment decisions.

The Influence of Herding on Investment Decisions. Herding behavior refers to making investment decisions not based on personal analysis—either technical or fundamental—but by imitating the actions of other investors (Fitriyani *et al.*, 2022). In highly uncertain market conditions, even investors with strong confidence, good risk understanding, and sufficient financial literacy may be swayed by majority behavior (Pertiwi & Panuntun, 2023). Prior research by Pertiwi & Panuntun (2023) and Theressa & Armansyah (2022) has shown that herding positively affects investment decisions. Thus, the proposed hypothesis is:

H_4: Herding positively influences investment decisions.

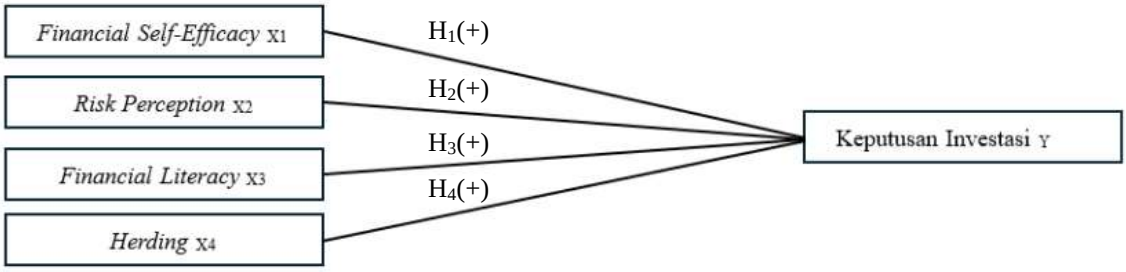

Figure 1. Research Framework
Source: Constructed by Author

Research Design and Methodology

Variable Measurement. All variables in this study were measured using a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree) to obtain quantitative data for statistical analysis. The scores were transformed into an interval scale with a range of 0.8, categorized as follows: 1.00–1.79 = Strongly Disagree, 1.80–2.59 = Disagree, 2.60–3.39 = Somewhat Agree, 3.40–4.19 = Agree, and 4.20–5.00 = Strongly Agree. Each variable was measured using several indicators adapted from previous studies and adjusted to the context of respondents in the Jabodetabek area.

Financial Self-Efficacy is measured using five indicators developed by Lown (2011). These include: (1) the ability to manage expenditures when facing unexpected costs, (2) the ability to achieve financial goals, (3) the ability to overcome financial difficulties, (4) confidence in handling personal financial matters, and (5) concern regarding financial well-being in retirement.

Risk Perception is assessed based on four indicators proposed by Sunarko and Sutrisno (2025). These consist of: (1) confidence in the investment option chosen, (2) confidence in the

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performance of that investment, (3) belief that the investment will result in meaningful outcomes, and (4) confidence in the return expected from the investment made.

Financial Literacy is measured according to the framework by Sunarko and Sutrisno (2025), using four specific indicators. These are: (1) knowledge of basic personal financial concepts, (2) understanding of how to manage personal finances, (3) familiarity with saving and investment instruments, and (4) comprehension of how to manage financial risks effectively.

Herding Behavior is measured through indicators adapted from Gulo and Cahyonowati (2024) and Pertiwi and Panuntun (2023). These indicators include: (1) the tendency to be influenced by the investment decisions made by others, (2) reliance on blogs or online forums when making investment decisions, (3) preference for investing in stocks that are already chosen by peers or relatives, and (4) the influence of investment recommendations from others on one's decision to buy shares.

Investment Decision is measured using four indicators based on the study by Gulo and Cahyonowati (2024). These include: (1) having general knowledge about investing, (2) analyzing available information prior to making investment decisions, (3) the ability to make logical and realistic investment decisions, and (4) the habit of taking time to consider before finalizing investment choices.

Population and Sample. The population targeted in this study consisted of Generation Z and Millennials residing in Jabodetabek, a central economic region with an urban financial inclusion rate of 83.61% (OJK, 2025). A purposive sampling technique was applied, with inclusion criteria as follows: aged 17–44 years, residing in Jabodetabek, and possessing knowledge and experience in capital market investment. As the exact population size was unknown, the minimum sample size was determined using the rule of five times the number of items, requiring at least 105 respondents for 21 items (Hair *et al.*, 2022).

Data Collection. Primary data were collected using an online questionnaire distributed through social media platforms such as Instagram, Twitter, WhatsApp, and Kudata. The survey method was considered appropriate for hypothesis testing. The questionnaire items were adapted from established instruments and translated with contextual adjustments to suit the study's objectives. A quantitative approach was employed.

Data Analysed Method. The data were analyzed using the Partial Least Squares Structural Equation Modeling (SEM-PLS) approach. Duplicate data were screened due to the use of online distribution. SPSS version 29 was used for cross-tabulation analysis, while SmartPLS 4.0 was applied for descriptive statistics, validity and reliability tests, as well as hypothesis and structural model testing through bootstrapping.

Descriptive Statistics. Descriptive statistics were used to summarize and present the characteristics of the collected data without generalizing findings to the entire population. This included mean, median, mode, standard deviation, maximum, and minimum values.

Measurement Model Evaluation (Outer Model). The measurement model evaluated the relationship between indicators and their respective latent constructs using confirmatory factor analysis and a Multi-Trait Multi-Method (MTMM) approach (Hair *et al.*, 2022).

Convergent Validity. This was assessed through loading values (≥ 0.70 preferred, 0.50–0.60 acceptable at early stages) and Average Variance Extracted (AVE ≥ 0.50), indicating adequate indicator representation of latent constructs.

Discriminant Validity. Validity was tested through cross-loadings and the Fornell-Larcker criterion (√AVE). An indicator must load more strongly on its associated construct than others, and √AVE must exceed inter-construct correlations.

Reliability. Reliability was evaluated using Cronbach's Alpha and Composite Reliability (CR), with acceptable thresholds of ≥ 0.60, confirming the internal consistency of the constructs.

Structural Model Evaluation (Inner Model). The inner model mapped the relationships between latent variables based on the proposed theoretical framework (Hair *et al.*, 2022). Evaluation was conducted through the following:

R-Square (R^2). This indicates the proportion of variance explained by independent variables. R^2 values are categorized as substantial (≥ 0.75), moderate (≥ 0.50), or weak (≥ 0.25).

Q^2 Predictive Relevance. Predictive relevance was determined using Q^2. A value greater than 0 implies that the model has predictive accuracy, while a negative value suggests poor predictiveness.

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Goodness of Fit (GoF). Model fit was assessed using the Standardized Root Mean Square Residual (SRMR ≤ 0.08) and Normed Fit Index (NFI > 0.70), reflecting the model's overall quality.

Hypothesis Testing (Bootstrapping). A resampling technique with a minimum of 5,000 samples was applied to test the significance of hypothesized relationships. Significance was evaluated using p-values at the 10%, 5%, and 1% levels.

Findings and Discussion

Descriptive Statistics. Employed to summarize the respondent data numerically, including the minimum, maximum, and average (mean) values for each research variable. This analysis provides an initial overview of respondent perceptions and serves as a foundation before conducting model testing using the SEM-PLS approach. The results are presented in Table 1.

Table 1. Descriptive Statistics Test

Variable	N	*Min*	*Max*	*Mean*
Financial Self-Efficacy (FSE)	214	*2*	*5*	4.223
Risk Perception (RP)	214	*2*	*5*	4.135
Financial Literacy (FL)	214	*2*	*5*	4.235
Herding (HR)	214	*1*	*5*	3.875
Investment Decision (KI)	214	*2*	*5*	4.265

Source: Processed Data by SmartPLS 4.0 (2025)

Based on **Table 1**, all variables in this study show mean values above 3.40, indicating that the overall responses fall within the "Agree" to "Strongly Agree" categories on the transformed Likert interval scale. The Investment Decision (KI) variable recorded the highest mean score of 4.265, placing it in the "Strongly Agree" category. This suggests that most respondents feel confident and consistent in making investment decisions.

Financial Literacy (FL) and Financial Self-Efficacy (FSE) also fall under the "Strongly Agree" category, with mean scores of 4.235 and 4.223 respectively. These results indicate that respondents generally possess a strong understanding of financial concepts and exhibit high confidence in managing their personal finances.

The Risk Perception (RP) variable, with a mean of 4.135, is categorized as "Agree", suggesting that respondents are aware of the potential risks involved in investing, though not as strongly as their financial capability and literacy.

Herding Behavior (HR) has the lowest mean among the five variables at 3.875, which still falls under the "Agree" category. This indicates a moderate tendency among respondents to be influenced by the investment decisions of others, although such influence is relatively weaker compared to internal factors like self-efficacy and literacy.

Convergent Validity. Refers to the extent to which indicators of a construct are correlated with one another, assessed through outer loading values and Average Variance Extracted (AVE). An indicator is considered to have convergent validity if its loading exceeds 0.70 and the construct's AVE is ≥ 0.50 (Hair *et al.*, 2022). The results of the convergent validity test for each variable in this study are presented in Table 2.

Table 2. Convergent Validity Test

Variable	Convergent Validity		Description
	Loading Factor	*AVE*	
Financial Self-Efficacy	0.785 – 0.865	0.709	Valid
Risk Perception	0.798 – 0.851	0.688	Valid
Financial Literacy	0.869 – 0. 889	0.769	Valid
Herding	0.670 – 0.867	0.603	Valid
Investmen Decision	0.844 – 0.872	0.740	Valid

Source: Processed Data by SmartPLS 4.0 (2025)

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As shown in **Table 2**, all indicators have loading values above 0.70, and all constructs meet the AVE requirement of exceeding 0.50, thereby satisfying the convergent validity criteria. An exception is found in indicator HR_3, which has a loading value of 0.670. However, this is still acceptable since the construct's AVE remains above the 0.50 threshold (Hair *et al.*, 2022). In addition to the tabular presentation, convergent validity results were also visualized through the SmartPLS 4.0 output in the form of a path diagram illustrating relationships between indicators and latent variables:

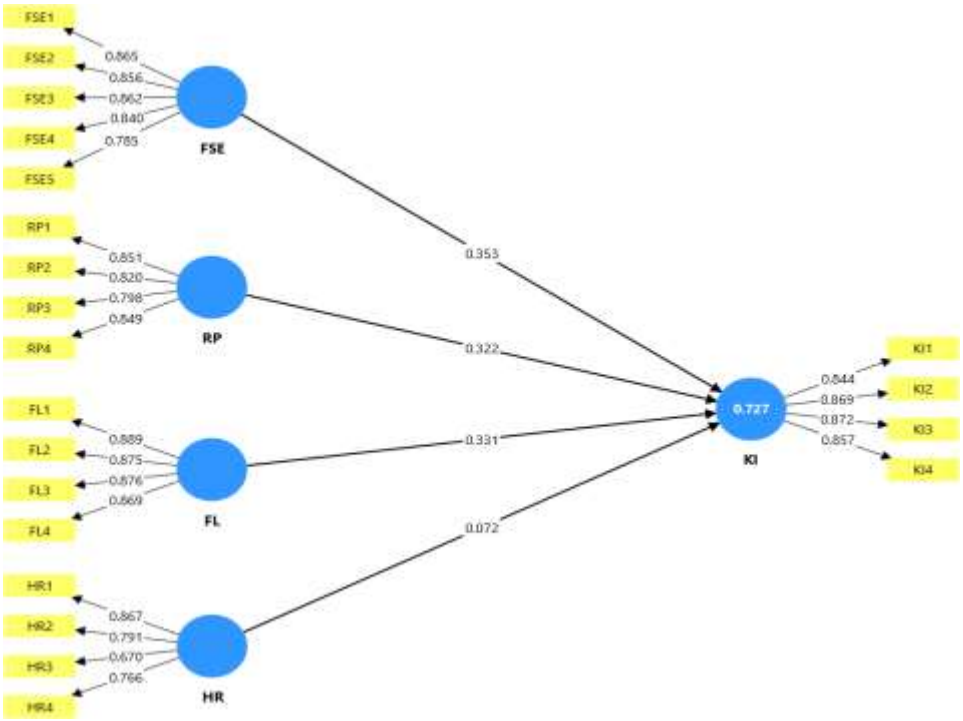

Figure 2. Path Diagram of Convergent Validity Test Results
Source: Processed Data by SmartPLS 4.0 (2025)

Discriminant Validity. To ensure that each indicator correlates most strongly with the construct it is intended to measure rather than with other constructs, a discriminant validity test was conducted using the cross-loading method (Hair *et al.*, 2022). An indicator is considered to meet discriminant validity if its loading on the intended construct is greater than its loading on any other construct in the model.

Table 3. Discriminant Validity Test

Indicator	FSE (X_1)	RP (X_2)	FL (X_3)	HR (X_4)	KI (Y)	Remark
FSE1	**0.865**	0.423	0.520	-0.004	0.598	Valid
FSE2	**0.856**	0.481	0.492	0.051	0.615	Valid
FSE3	**0.862**	0.466	0.562	0.014	0.654	Valid
FSE4	**0.840**	0.459	0.516	0.055	0.624	Valid
FSE5	**0.785**	0.450	0.457	0.047	0.586	Valid
RP1	0.402	**0.851**	0.433	-0.029	0.569	Valid
RP2	0.428	**0.820**	0.411	0.099	0.589	Valid
RP3	0.521	**0.798**	0.479	0.024	0.598	Valid
RP4	0.442	**0.849**	0.482	-0.104	0.541	Valid
FL1	0.514	0.465	**0.889**	-0.011	0.620	Valid
FL2	0.612	0.477	**0.875**	0.022	0.640	Valid
FL3	0.483	0.471	**0.876**	-0.063	0.644	Valid

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Indicator	FSE (X_1)	RP (X_2)	FL (X_3)	HR (X_4)	KI (Y)	Remark
FL4	0.518	0.496	**0.869**	0.021	0.621	Valid
HR1	0.036	-0.024	-0.001	**0.867**	0.086	Valid
HR2	0.012	0.011	-0.056	**0.791**	0.040	Valid
HR3	-0.053	-0.034	-0.038	**0.670**	0.015	Valid
HR4	0.054	0.030	0.020	**0.766**	0.069	Valid
KI1	0.625	0.571	0.604	0.160	**0.844**	Valid
KI2	0.661	0.626	0.632	-0.007	**0.869**	Valid
KI3	0.621	0.594	0.619	0.030	**0.872**	Valid
KI4	0.610	0.596	0.623	0.106	**0.857**	Valid

Source: Processed Data by SmartPLS 4.0 (2025)

Based on Table 3, all indicators have the highest loading on their respective constructs compared to other constructs. This confirms that discriminant validity, as assessed by the cross-loading method, has been met, indicating that the constructs are valid for further analysis (Hair *et al.*, 2022).

Lastly, the Investment Decision (KI) variable shows consistently high mean values across all indicators, with the highest being KI4 (mean = 4.322). This implies that respondents generally make conscious and well-considered investment decisions.

This section provides the description on research subject and object. The result of statistical test comprises : (1) Validity test, (2) Reliability test, (3) Stationer test, (4) Classical assumption test, (5) t-Test & F-Test, and (6) Coefficient of Determination test. The types of statistical test are adjusted to the content of research conducted.

Reliability Test. Aims to assess the extent to which the indicators of a variable consistently and stably measure the intended construct. If respondents provide relatively consistent answers to a given item, then the resulting data can be considered reliable. In the Partial Least Squares (PLS) approach, reliability is assessed using two key measures: composite reliability and Cronbach's alpha. A construct is considered to meet the reliability criteria if both measures exceed the threshold of 0.70 (Hair *et al.*, 2022). The table below presents the reliability test results for each variable in this study.

Table 4. Reliability Test

Variable	Reliability Test		Remark
	Cronbach's Alpha	Composite Reliability	
Financial Self-Efficacy (X_1)	0.897	0.924	Reliabel
Risk Perception (X_2)	0.849	0.898	Reliabel
Financial Literacy (X_3)	0.900	0.930	Reliabel
Herding (X_4)	0.809	0.858	Reliabel
Investment Decision (Y)	0.883	0.919	Reliabel

Source: Processed Data by SmartPLS 4.0 (2025)

Based on **Table 4**, all variables exhibit Cronbach's Alpha and Composite Reliability values above 0.70, indicating high internal consistency. The highest reliability score is observed in the Financial Literacy (X_3) variable, followed by Financial Self-Efficacy (X_1) and Investment Decision (Y). Therefore, all variables are deemed reliable and suitable for further analysis.

R-Square (R^2). Used to measure the proportion of variance in the dependent variable that can be explained by the independent variables in the model. The explanatory power of the model is indicated by the R^2 value, which is categorized as substantial (0.75), moderate (0.50), and weak (0.25) (Hair *et al.*, 2022). The R^2 test results in this study are presented in the following table:

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Table 5. R-Square Test

Variable	R-Square
(Y) Investment Decision	0.727

Source: Processed Data by SmartPLS 4.0 (2025)

In **Table 5**, the R^2 value of 0.727 indicates that the four independent variables Financial Self-Efficacy, Risk Perception, Financial Literacy, and Herding, collectively explain 72.7% of the variance in respondents investment decisions. This demonstrates that the model has strong explanatory power in capturing investment behavior. However, the remaining 27.3% suggests that other variables outside the model may also influence investment decisions, thus opening opportunities for future research development, particularly among the younger generation in the digital era.

Q^2 Predictive Relevance. Evaluated to determine the extent to which the indicators of independent variables contribute to explaining the dependent variable. A Q^2 value greater than 0 indicates the presence of predictive relevance, whereas a value less than or equal to 0 reflects a lack of predictive capability (Hair *et al.*, 2022).

Table 6. Q^2 Predictive Relevance Test

Variable	Q^2 Predictive Relevance
(Y) Investment Decision	0.708

Source: Processed Data by SmartPLS 4.0 (2025)

Based on **Table 6**, a Q^2 value of 0.708 indicates that high predictive relevance was achieved for the Investment Decision variable, as the value exceeds the minimum threshold of $Q^2 > 0$ (Hair *et al.*, 2022). This confirms that the model applied in this study is predictively relevant and can be considered appropriate for projecting investment behavior based on the tested independent variables.

Model Fit Test. Model fit in the PLS-SEM approach was assessed using SRMR, d_ULS, d_G, and NFI. An SRMR value below 0.08 indicates a good model fit, while NFI values closer to 1 reflect better fit compared to the null model (Hair *et al.*, 2022). The results of the model fit assessment using SmartPLS 4.0 are presented in the following table.

Table 7. Model Fit Test

Fit Index	Criteria (cut-off value)	Estimated Model Value	Conclusion
SRMR	< 0,08	0.058	*Fit*
d_ULS	Small value is better	0.789	*Fit*
d_G	Small value is better	0.386	*Fit*
Chi-square	≤ 31.410	485.122	Tidak *Fit*
NFI	Approaching value 1	0.836	*Fit*

Source: Processed Data by SmartPLS 4.0 (2025)

Based on Table 7, the SRMR value of 0.058 was below the threshold of 0.08, indicating a good model fit (Hair *et al.*, 2022). The d_ULS (0.789) and d_G (0.393) values were within acceptable ranges, while the NFI value of 0.836 approached the ideal value of 1, suggesting an adequate overall model fit. Although the chi-square value reached 485.122, this indicator is not considered a primary criterion in PLS-SEM. Therefore, the structural model was deemed to have met the model fit criteria and is considered suitable for further hypothesis testing.

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Hypothesis Testing (Bootstrapping). Hypotheses were tested using the bootstrapping method in SmartPLS 4.0 with a one-tailed approach. Significance was determined at the 5% level ($p < 0.05$; $t > 1.645$) and marginally at the 10% level ($p < 0.10$; $t > 1.28$) (Hair *et al.*, 2022). Path coefficients indicated the direction and strength of influence, classified as very weak (< 0.10), weak to moderate (0.10–0.50), or strong (> 0.50) (Hair *et al.*, 2022). The results are shown in Table 8:

Table 8. Hypothesis Testing (Bootstrapping)

	Hypothesis	Original Sample (O) / Path Coefficients	P values	Conclusion
H_1	Financial self-efficacy positively influences investment decisions	0.353	0.000	Hypothesis accepted
H_2	*Risk perception* positively influences investment decisions	0.322	0.000	Hypothesis accepted
H_3	*Financial* positively influences investment decisions	0.331	0.000	Hypothesis accepted
H_4	*Herding* positively influences investment decisions	0.072	0.078*	Hypothesis accepted ($\alpha = 10\%$)

Source: Processed Data by SmartPLS 4.0 (2025)

Based on the results presented in Table 8, three out of four hypotheses namely H_1 (Financial Self-Efficacy), H_2 (Risk Perception), and H_3 (Financial Literacy) were found to be statistically significant at the 5% significance level ($p < 0.05$). Meanwhile, H_4 (Herding) was significant at the 10% level, with a p-value of 0.078 (*), and thus can still be considered acceptable. The path coefficients indicate the direction and strength of the relationship between each independent variable and investment decision-making, supporting the model's adequacy in explaining respondents investment behavior.

The Influence of Financial Self-Efficacy on Investment Decisions. The test results indicated a positive and significant effect of Financial Self-Efficacy on Investment Decision, with a path coefficient of 0.353 and a p-value of 0.000. Since $p < 0.05$, hypothesis H_1 was accepted. This finding suggests that higher confidence in managing personal finances is associated with a greater tendency to make active and well-planned investment decisions. This supports the Theory of Planned Behavior, particularly the perceived behavioral control component, and aligns with Behavioral Finance Theory, which emphasizes psychological factors such as self-confidence in financial behavior. The result is consistent with findings from Ramadhani & Yurniwati (2025), Budiyono (2024), Hidayat *et al.* (2023), and Ulfa *et al.* (2023), who also reported a significant positive relationship between FSE and investment decision-making.

The Influence of Risk Perception on Investment Decisions. Risk Perception was found to have a positive and significant effect on Investment Decision, with a path coefficient of 0.322 and a p-value of 0.000. Since $p < 0.05$, hypothesis H2 was accepted. These findings imply that individuals with higher risk perception tend to make more cautious and rational investment decisions. Risk is not avoided but rather used as a consideration in decision-making. In the Theory of Planned Behavior, risk perception relates to perceived behavioral control and attitude, while in Signaling Theory, market information is subjectively interpreted by investors as signals. This result is in line with previous studies by Hana *et al.* (2024) and Arianti & Purbowanti (2024), which also found a significant positive influence of risk perception on investment decision-making.

The Influence of Financial Literacy on Investment Decisions. Financial Literacy was found to have a positive and significant effect on Investment Decision, with a path coefficient of 0.251 and a p-value of 0.000. Since $p < 0.05$, Hypothesis H3 was accepted. This indicates that individuals with higher financial literacy are more likely to make accurate and beneficial investment decisions. In the Theory of Planned Behavior, this finding aligns with the attitude toward the behavior component, where financial knowledge fosters a positive attitude toward

investing. From the perspective of Signaling Theory, financially literate investors are better equipped to interpret and respond to market signals objectively and avoid biased information. These findings are consistent with previous studies by Gusti *et al.* (2024), Hambali (2024), and Kulintang & Putri (2024), which also confirmed the significant role of financial literacy in investment decision-making.

The Influence of Herding on Investment Decisions. Herding was found to have a positive but weak effect on Investment Decision, with a path coefficient of 0.072 and a p-value of 0.078. Although not significant at the 5% level, Hypothesis H4 was accepted under the 10% significance threshold. This suggests that the tendency to follow majority decisions still influences investment behavior, albeit with limited strength. Within the Theory of Planned Behavior, the result reflects the role of subjective norm in shaping investment intention. However, the influence of herding tends to diminish among individuals with strong financial literacy, financial self-efficacy, and risk perception. In line with Behavioral Finance Theory, herding is considered a common bias that can be mitigated by internal factors. These findings are consistent with those of Pertiwi & Panuntun (2024) and Theressa & Armansyah (2022), who also identified a significant positive influence of herding behavior on investment decisions, although at a stronger significance level than observed in this study.

Conclusion

This study examined the influence of Financial Self-Efficacy, Risk Perception, Financial Literacy, and Herding on Investment Decisions among Generation Z and Millennials in Jabodetabek, using the SEM-PLS method with 214 respondents. The results indicate that:

Financial Self-Efficacy has a positive and significant effect on investment decisions. Individuals with high confidence in managing finances tend to be more prepared and willing to make investment decisions (Ramadhani & Yurniwati, 2025; Budiyono, 2024).

Risk Perception also has a positive and significant effect. A higher perception of risk encourages rational and cautious investment behavior rather than avoidance (Hana *et al.*, 2024; Arianti & Purbowanti, 2024).

Financial Literacy positively and significantly affects investment decisions. A sound understanding of financial concepts improves the ability to make logical, informed, and goal-oriented investment decisions (Gusti *et al.*, 2024; Hambali, 2024).

Herding has a positive effect at a 10% significance level (p = 0.078). This finding suggests that some investors, particularly from Generation Z and Millennials, are still influenced by the behavior of the majority in their investment decision-making (Pertiwi & Panuntun, 2024; Theressa & Armansyah, 2022).

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