

The Impact of Financial Literacy, Risk Tolerance, and Overconfidence on Investment Understanding in the Capital Market

Financial Literacy,
Risk, and
Overconfidence

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ABSTRACT

This study aims to analyze the influence of financial literacy, risk tolerance, and overconfidence on investment understanding in the capital market. In this research, the method used is quantitative with an associative problem formulation, with a sample of 100 respondents determined using a purposive sampling technique. The results of this study indicate that the t -statistic value for the financial literacy variable is $2.584 > 1.989$ and the p -values value is $0.012 < 0.05$. Risk tolerance has a t -statistic value of $3.301 > 1.989$ and a p -values value of $0.001 < 0.05$, while the overconfidence variable has a t -statistic value of $0.541 < 1.989$ and a p -values value of $0.590 > 0.05$. It can be concluded that financial literacy and risk tolerance have a positive and significant effect on investment understanding in the capital market. The overconfidence variable has no effect on investment understanding in the capital market. The risk tolerance variable is the most dominant in influencing investment understanding in the capital market, so the higher a person's risk tolerance, the higher their investment understanding. The novelty of this research lies in the measurement of the dependent variable investment understanding. The use of this variable provides a new perspective in understanding the factors that influence individual investment behavior in the investment world.

Keywords: Financial Literacy, Investment Understanding, Overconfidence, Risk Tolerance

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh literasi keuangan, risk tolerance, dan overconfidence terhadap pemahaman investasi di pasar modal. Pada penelitian ini, metode yang digunakan adalah kuantitatif dengan rumusan masalah asosiatif, dengan sampel sebanyak 100 responden yang ditentukan menggunakan teknik purposive sampling. Hasil penelitian ini menunjukkan bahwa nilai t -statistik pada variabel literasi keuangan sebesar $2,584 > 1,989$ dan nilai p -values sebesar $0,012 < 0,05$. Risk tolerance memiliki nilai t -statistik sebesar $3,301 > 1,989$ dan nilai p -values $0,001 < 0,05$, sedangkan variabel overconfidence memiliki nilai t -statistik sebesar $0,541 < 1,989$ dan nilai p -values $0,590 > 0,05$. Hal ini dapat disimpulkan bahwa literasi keuangan dan risk tolerance berpengaruh positif dan signifikan terhadap pemahaman investasi di pasar modal. Adapun variabel overconfidence tidak berpengaruh terhadap pemahaman investasi di pasar modal. Variabel risk tolerance paling mendominasi dalam memengaruhi pemahaman investasi di pasar modal, sehingga semakin tinggi tingkat risk tolerance seseorang, semakin tinggi pula pemahaman investasi. Kebaruan penelitian ini terletak pada pengukuran variabel terikat pemahaman investasi. Penggunaan variabel ini memberikan perspektif baru dalam memahami faktor-faktor yang memengaruhi perilaku investasi individu dalam dunia investasi.

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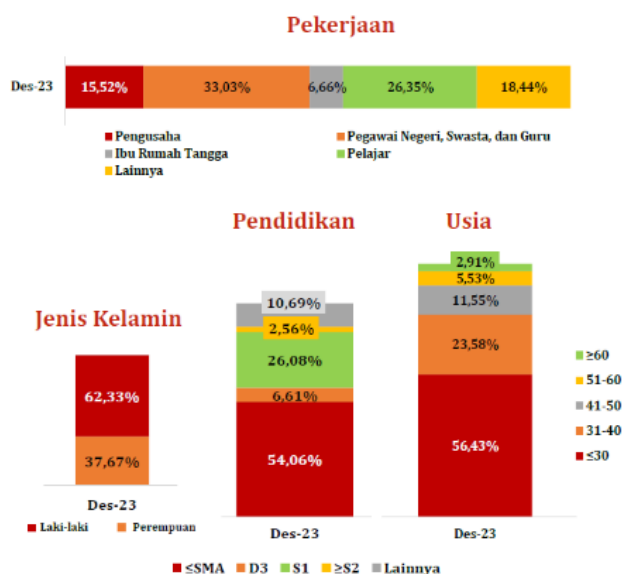
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INTRODUCTION

The significant disparity between Indonesia's market capitalization level and that of other ASEAN countries indicates a deep gap in financial literacy among the population. The low penetration of the capital market, which only reaches 4%, suggests that the majority of Indonesians have not fully understood the concept of investment and its benefits (Heo et al., 2021; Gustika et al., 2024). This condition not only hinders inclusive economic growth but also has the potential to widen income inequality and slow down national wealth accumulation. Investment, according to the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*), emphasizes the importance of long-term fund allocation to generate profits. The spectrum of investment is very broad, covering real assets such as property and gold, as well as financial assets like stocks, bonds, and mutual funds. The capital market, as the heart of financial investment activities, provides an efficient platform to connect fund seekers (issuers) with investors. Harjito & Martono (2014) and Sunarya (2024) argue that the capital market is a place for trading long-term funds, whether in the form of debt or equity, through securities. Besides serving as a source of funding for companies to expand and innovate, the capital market also functions as a barometer of a country's economic performance. Thus, the capital market not only acts as a financial instrument but also as a catalyst for sustainable economic growth.

The digitalization era has given rise to Generation Z, which has a different mindset regarding financial management. A high interest in innovation and technology, along with an awareness of the importance of financial planning from an early age, encourages Generation Z to actively invest in the capital market (Yulianis & Sulistyowati, 2021; Gultom et al., 2024). The involvement of Generation Z in the capital market not only contributes to economic growth but also drives digital transformation in the financial sector. The increase in the number of Single Investor Identification (SID) holders among Generation Z, especially after the COVID-19 pandemic, is clear evidence of this trend. This indicates that the capital market has successfully captured a significant demographic opportunity and positioned itself as one of the key pillars of Indonesia's economic development (Nugraheni, 2023).

There has been a surge and significant growth in the number of Single Investor Identification (SID) holders in the Indonesian capital market since 2020. From only 3.88 million in 2020, the number of investors surged to 12.1 million by the end of 2023. The fastest growth occurred in 2021, when the number of investors nearly doubled. Although the growth rate slightly slowed in 2023, this positive trend continues, indicating the increasing public interest in capital market investment. In addition to the rising total number of investors, the composition of investors has also changed. In 2023, most investors invested in mutual funds, followed by stocks and other securities, as well as government securities. This shows that public interest in investment diversification is increasing. This positive trend not only indicates growing public interest in investment but also reflects the increasing maturity of Indonesia's capital market (Laning & Setiawan, 2023).



Source: PT Kustodian Sentral Efek Indonesia
Figure 1. Demografi Investor

The growth of capital market investors in Indonesia over the past 12 months has been dominated by mutual fund and government securities (*Surat Berharga Negara/SBN*) investors. Although stock investors have also increased, their growth has not been as significant as that of mutual funds and SBN. Demographic data as shown in Figure 1, that capital market investors in Indonesia are dominated by millennials and Generation Z, particularly those under the age of 30. This indicates a strong interest from the younger generation in investing. Although young people dominate the number of investors, in terms of asset value, investors aged 41 and above hold significantly larger assets. This suggests that older investors have better experience and financial literacy, allowing them to allocate their investment funds more effectively. Overall, the data indicates a positive trend in the growth of capital market investors in Indonesia, especially among the younger generation. However, there remains a significant gap between the number of investors and the value of assets held, particularly between younger and older generations.

Unfortunately, despite the significant growth in investment interest in Indonesia, particularly among the younger generation, this trend has not been fully reflected in Bogor City. According to data from the Bogor City Central Statistics Agency (*Badan Pusat Statistik/BPS*) in 2023, the city's population reached 1 million people. However, the Capital Market Monthly Statistics report by the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) in December 2023 showed that the number of investors in Bogor City in 2023 was only 155,694 SID, an increase from 102,758 SID in 2021. This means that only about 7% of Bogor City's population is registered as investors. This is quite surprising given the national trend indicating a rise in investment interest, particularly among the younger generation. Demographic data shows that Generation Z and millennials are the primary contributors to investor growth in the capital market nationwide. However, in Bogor City, the growth of investment interest among university students has not progressed as rapidly as expected.

Previous studies have identified several key factors that can enhance an individual's understanding of investments. Research by Aini et al. (2019) and Burhanudin et al. (2021) suggests that factors such as access to investment information, basic knowledge of investments, understanding investment goals, and direct experience, such as owning stocks, significantly influence an individual's understanding of the capital market. Additionally, research by Baiq (2018) highlights the importance of comprehensive financial literacy. Good financial literacy not only includes knowledge about investments but also covers an understanding of savings, debt, insurance, and other financial

instruments. Other factors that need to be considered are risk tolerance and confidence levels. These two factors can influence an individual's investment decisions.

Financial literacy is the ability to understand, manage, and make wise financial decisions. Lusardi (2014) and Wardani & Lutfi (2017) emphasize that financial literacy is crucial for improving an individual's financial well-being. Low financial literacy can have serious consequences, such as errors in financial planning and difficulties in achieving financial security in old age. Several studies, including those conducted by Dewi & Krisnawati (2020) and Pradhana (2018), have proven that financial literacy significantly influences investment decisions. This means that the higher a person's financial literacy, the better their ability to make sound investment decisions.

Risk tolerance is an individual's ability to accept uncertainty in investments. The higher a person's risk tolerance, the more willing they are to take on higher-risk investments. This finding is supported by research from Putra (2016), which shows that individuals with high risk tolerance tend to choose riskier investment instruments. The importance of risk tolerance in investment decision-making is also emphasized (Wardani & Lutfi, 2017; Lathief et al., 2024). Their research indicates that risk tolerance is the only factor that significantly influences the decision to choose capital market instruments over bank accounts. However, research results are not always consistent. The study by Jusuf et al. (2023) and Ulfa et al. (2023) presents different findings, where risk tolerance was not found to have a significant impact on investment decisions. Besides risk tolerance, overconfidence or excessive confidence can also influence investment understanding and decision-making. Overconfidence is often linked to less rational decision-making and increased investment risk.

Overconfidence is a condition where an investor is overly confident in their ability to predict the market and make investment decisions. This condition is often experienced by seasoned investors who feel comfortable with their current investments (Anggirani, 2017). Lakshmi et al. (2013) and Jain (2023) explain that overconfident individuals tend to perceive their abilities as superior to those of other investors. While having confidence in investing is beneficial, excessive overconfidence can lead to irrational and risky decision-making. Research by Pradikasari & Isbanah (2018) shows that overconfidence significantly influences investment decisions, particularly among university students in Surabaya. Their study reveals that students with high levels of overconfidence tend to make riskier investment decisions.

Based on the increasing trend of investment activity in Indonesia's capital market and data showing low investment understanding, particularly among the younger generation in Bogor City, this study aims to further examine the factors influencing investment understanding among university students. Focusing on students at Ibn Khaldun University and Pakuan University, who are enrolled in finance and investment-related programs, this study will analyze the impact of financial literacy, risk tolerance, and overconfidence on investment understanding in the capital market. The selection of these two universities is based on the presence of investment galleries and investment management and portfolio courses, which are expected to enhance students' financial literacy. Through this study, a more comprehensive understanding of the factors that drive students to understand investments and the role of universities in improving students' financial literacy is expected to be obtained. Ultimately, this research aims to contribute to increasing investment understanding in Bogor City, particularly among the younger generation. This study intends to examine the influence of financial literacy, risk tolerance, and overconfidence on investment understanding in the capital market (students' perception at Ibn Khaldun University and Pakuan University regarding the investment management and portfolio course).

METHODS

Based on its analytical approach, this study uses a quantitative design by formulating associative problems. This means that this study aims to find out the causal relationship between several variables, namely financial literacy, risk tolerance, and overconfidence in

investor understanding in the capital market. This method relies heavily on objective measurements and statistical analysis. Sugiyono (2022) defines quantitative research as a research method based on the philosophy of positivism. This means that quantitative research aims to find objective and general truths, which can be tested and tested empirically. To conduct this research, a sampling method called purposive sampling was used. The analysis method used is multiple linear regression analysis with a focus on numerical data and statistical analysis. The types of data used are primary data and secondary data. The data analysis technique uses the help of the SPSS (Statistical Product and Service Solutions) 24 program to test the previously processed hypotheses. SPSS is used because it is in accordance with the objectives and research data to be explained, namely questionnaire data.

RESULTS

This study found that the distribution of respondents was fairly balanced. The data showed that in the gender category, female respondents dominated the survey, with a total of 43 individuals or 50.59%, while male respondents accounted for 42 individuals or 49.41%. This is a positive aspect as it can enhance the quality and generalization of the research findings. From the survey results of 85 student respondents, it was observed that interest in investing is increasing. A total of 75% of them already have an investment account. However, 25% have not yet started investing. This may be due to several factors, such as more urgent spending priorities or financial constraints. Additionally, this study also examined student participation in investment awareness programs. The results show that the majority of students have attended investment awareness sessions, although about one-third have not.

In terms of investment instrument ownership, the data indicates that students are becoming more interested in and aware of the importance of investing. The majority of surveyed students already own multiple investment instruments, reflecting their awareness of portfolio diversification. Stocks are a popular choice, indicating a willingness to take risks for higher returns. However, gold, as a hedge asset, is also a favored option, demonstrating a balance between potential profit and investment security. Additionally, students' interest in new instruments such as cryptocurrency is quite high, despite its significant risks. This suggests that students have diverse risk profiles and are continuously learning about various investment opportunities.

The following are the results of testing each question item for each variable, with the number of question variations from the financial literacy variable (X1), risk tolerance (X2), overconfidence (X3), and investment understanding (Y).

Table 1. Validity Test Results

Variable	Item	r_{count}	r_{table}	Information
Financial Literacy	X1.1	0.328	0.3	Valid
	X1.2	0.317	0.3	Valid
	X1.3	0.546	0.3	Valid
	X1.4	0.681	0.3	Valid
	X1.5	0.780	0.3	Valid
	X1.6	0.725	0.3	Valid
	X1.7	0.568	0.3	Valid
	X1.8	0.340	0.3	Valid
	X1.9	0.330	0.3	Valid
	X1.10	0.608	0.3	Valid
	X1.11	0.342	0.3	Valid
	X1.12	0.778	0.3	Valid
Risk Tolerance	X2.1	0.673	0.3	Valid
	X2.2	0.856	0.3	Valid
	X2.3	0.785	0.3	Valid
Overconfidence	X3.1	0.903	0.3	Valid
	X3.2	0.941	0.3	Valid
	X3.3	0.960	0.3	Valid
	X3.4	0.949	0.3	Valid
	X3.5	0.960	0.3	Valid

	X3.6	0.931	0.3	Valid
	X3.7	0.809	0.3	Valid
Understanding Investment	Y1	0.638	0.3	Valid
	Y2	0.771	0.3	Valid
	Y3	0.760	0.3	Valid
	Y4	0.711	0.3	Valid
	Y5	0.481	0.3	Valid
	Y6	0.586	0.3	Valid
	Y7	0.763	0.3	Valid
	Y8	0.755	0.3	Valid
	Y9	0.714	0.3	Valid
	Y10	0.690	0.3	Valid

Source: Output SPSS 24, 2024

Based on Table 1, overall the calculated r value is above 0.3. This indicates that the variables of financial literacy (X1), risk tolerance (X2), overconfidence (X3), and investment understanding (Y) are declared valid. Thus, the questions in this study are in accordance with the objectives and the research can be continued.

The purpose of the reliability test is to measure the consistency of the measuring instrument, and to determine the level of confidence.

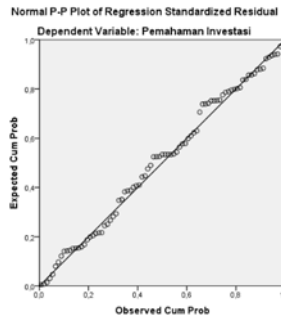
Table 2. Reliability Test Results

No	Variable	Cronbach's Alpha	r_{Critical}	Information
1	Financial Literacy	0.793	0.6	Reliable
2	Risk Tolerance	0.666	0.6	Reliable
3	Overconfidence	0.970	0.6	Reliable
4	Investment Understanding	0.839	0.6	Reliable

Source: Output SPSS 24, 2024

Based on Table 2, the Cronbach's alpha value on the financial literacy variables (X1), risk tolerance (X2), overconfidence (X3), and investment understanding (Y) are all above the critical value of 0.6. Thus, the variables can be stated as reliable and can be trusted.

In this regression model, the normality test is used to test whether the variables of financial literacy (X1), risk tolerance (X2), and overconfidence (X3) on investment understanding (Y) are normally distributed.



Source: PT Kustodian Sentral Efek Indonesia

Figure 2. Normal P-Plot Graph

Based on Figure 2, the points follow the diagonal line quite well and this represents a perfect normal distribution which indicates that the residual data from the regression model tends to follow a normal distribution.

Table 3. One-Sample Kolmogorov-Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		85
Normal Parameters ^{a,b}	Mean	0.000000
	Std. Deviation	3.89006331
Most Extreme Differences	Absolute	0.084
	Positive	0.046
	Negative	-0.084
Test Statistic		0.084
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Source: Output SPSS 24, 2024

Based on Table 3, the Asymp. Sig. (2-tailed) value is 0.200.d. The basic assumption of the data above is that if the significance value is greater than 0.05, then we fail to reject the null hypothesis. So it can be concluded that the One-Sample Kolmogorov-Smirnov Test is a normal distribution.

The statistical test used to identify whether there is a very high correlation between two or more independent variables (financial literacy, risk tolerance and overconfidence) in a regression model is a multicollinearity test.

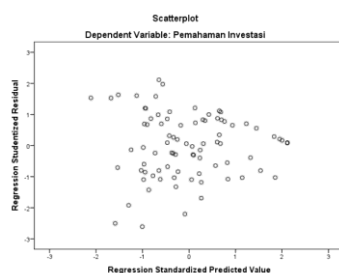
Table 4. One-Sample Kolmogorov-Smirnov Test Results

No	Variable	Tolerance	VIF
1	Financial Literacy	0.579	1.728
2	Risk Tolerance	0.825	1.212
3	Overconfidence	0.580	1.723

Source: Output SPSS 24, 2024

Based on Table 4, it explains that the VIF value for the financial literacy, risk tolerance and overconfidence variables is less than 10 ($VIF < 10$) and the tolerance value is greater than 0.1 (tolerance > 0.1). Thus, it can be concluded that the regression model in this study does not show symptoms of multicollinearity.

Aims to test whether there is inequality of variance from residuals from one observation to another in a regression model. The basic assumption in regression analysis is homoscedasticity, which is a condition where the variance of the residuals is constant for all values of the independent variables.



Source: Output SPSS 24, 2024

Figure 3. Heteroscedasticity Test Results

Based on Figure 3, the points in the figure above are randomly distributed, do not form a clear pattern, and in the data the points are distributed above and below the numbers 0 and Y on the Y axis. So it can be concluded that there are no symptoms of heteroscedasticity in the regression model, and this explains that this regression model can be used to predict investment understanding in the capital market based on financial literacy, risk tolerance and overconfidence.

The coefficient of determination (R-squared) is used to indicate the percentage of variation in the dependent variable (investment understanding) that can be explained by

the independent variables (financial literacy, risk tolerance, and overconfidence) included in the model.

Table 5. Multiple Correlation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.573 ^a	0.328	0.303	3.961

Predictors: (Constant). Overconfidence. Risk Tolerance. Financial Literacy
Dependent Variable: Understanding investment

Source: Output SPSS 24, 2024

Based on Table 5, the R-square value of 0.328 indicates that about 32.8% of the total variation in investment understanding can be explained by the three independent variables included in the model. While the remaining 67.2% of the variation is unexplained, there are still about two-thirds of the variation in investment understanding that is influenced by other factors not discussed in this study. The standard error of the estimate shows the average distance between the actual value of the dependent variable and the value predicted by the model. In this case, the value of 3.961 indicates that the average model prediction error is 3.961 units.

The F test is conducted to test the significant influence of independent variables (financial literacy, risk tolerance, and overconfidence) simultaneously on the dependent variable (investment understanding) in a regression model. The decision-making criteria in this F test are if the F-test value is > F-table, then the hypothesis is accepted or H0 is rejected and Ha is accepted. However, conversely, if the F-test value is <F-table, then the hypothesis is rejected or H0 is accepted and Ha is rejected.

Table 6. F Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	621.286	3	207.095	13.197	.000 ^b
Residual	1271.138	81	15.693		
Total	1892.424	84			

a. Dependent Variable: Understanding Investment

b. Predictors: (Constant). Overconfidence. Risk Tolerance. Financial Literacy

Based on Table 6, it explains that the results of the test obtained at the Fcount value > Ftable value (13,197 > 3.11) with a significant value of 0.000 < 0.05. This means that H0 is rejected and Ha is accepted. In other words, the independent variables entered into the model (overconfidence, risk tolerance, and financial literacy) collectively provide a simultaneous influence on the understanding of investment in the capital market which is very significant in explaining why some people have a better understanding of investment than others.

The T-test plays a role in determining the partial influence of financial literacy variables, risk tolerance and overconfidence on investment understanding in the capital market. The decision-making criteria in this T-test are if the t-test value is > t-table, then the hypothesis is accepted or H0 is rejected and Ha is accepted. However, the results of the t-test value < t-table, this explains that the hypothesis is rejected or H0 is accepted and Ha is rejected.

Table 7. Multiple Linear Regression and T-Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	24.494	3.454		7.091	0.000
Financial Literacy	0.223	0.086	0.309	2.584	0.012
Risk Tolerance	0.691	0.209	0.331	3.301	0.001
Overconfidence	0.041	0.075	0.065	0.541	0.590

a. Dependent Variable: Understanding Investment

Based on Table 7, the regression equation obtained is: $Y = 24.494 + 0.223X_1 + 0.691X_2 + 0.041X_3 + e$ The constant value of 24.494 represents the level of investment understanding in the capital market when financial literacy, risk tolerance, and

overconfidence variables have no influence. If these independent variables have a value of zero, the baseline understanding of investment in the capital market is measured at 24.494. Financial literacy has a positive effect on investment understanding, with an increase of 0.223. Similarly, risk tolerance also positively influences investment understanding, with a more significant increase of 0.691. Although overconfidence contributes positively to investment understanding, its impact is not significant, showing only a slight increase of 0.041. The T-test analysis for each variable. The T-test for the financial literacy variable obtained a t-value of 2.584, while the t-table value was 1.989. Since the t-value is greater than the t-table value ($2.584 > 1.989$), and the significance level is less than 0.05 ($0.012 < 0.05$), this indicates that H_0 is rejected and H_a is accepted. This means that, partially, there is a statistically significant and positive influence of financial literacy on investment understanding in the capital market. For the risk tolerance variable, the T-test results showed a t-value of 3.301, while the t-table value remained at 1.989. Since the t-value is greater than the t-table value ($3.301 > 1.989$), and the significance level is below 0.05 ($0.001 < 0.05$), it can be concluded that H_0 is rejected and H_a is accepted. This confirms that risk tolerance has a statistically significant and positive effect on investment understanding in the capital market. Meanwhile, the T-test for the overconfidence variable resulted in a t-value of 0.541, which is lower than the t-table value of 1.989 ($0.541 < 1.989$). Additionally, the significance level was higher than 0.05 ($0.590 > 0.05$), indicating that H_0 is accepted and H_a is rejected. This means that, partially, there is no statistically significant influence of overconfidence on investment understanding in the capital market.

DISCUSSION

The F-test results indicate that financial literacy, risk tolerance, and overconfidence collectively have a significant simultaneous influence on investment understanding in the capital market. This finding explains why some individuals possess better investment comprehension than others. It highlights that these three variables are essential factors in enhancing students' understanding of the capital market. These results are supported by previous studies, where these variables are in line with the indicators used to assess investment decision making, namely financial literacy, risk tolerance, and overconfidence (Wardani & Lutfi, 2017; Pradikasari & Isbanah, 2018; Dewi & Krisnawati, 2020; Ferennita et al., 2022; Jusuf et al., 2023).

Regarding the partial influence of each variable, the analysis shows that financial literacy has a significant positive impact on investment understanding in the capital market. Theoretically and empirically, financial literacy is a crucial foundation for students' investment comprehension. From a behavioral finance perspective, the ability to understand fundamental financial concepts such as risk, returns, and diversification directly affects their capacity to analyze investment information, make rational decisions, and effectively manage portfolios. Without adequate financial literacy, students are more susceptible to cognitive biases, impulsive decision-making, and a lack of understanding of market complexities, ultimately hindering their ability to participate intelligently and profitably in investments. A higher level of financial literacy helps investors, especially students, make more informed and structured financial decisions. This study aligns with research by Pradikasari & Isbanah (2018), which states that investors with high financial literacy can make wiser and more confident investment decisions, even in high-risk scenarios, due to their strong financial understanding. Moreover, this finding is consistent with studies by Ferennita et al. (2022) and Jusuf et al. (2023), which confirm that financial literacy significantly influences investment decisions. However, it contradicts Pradhana (2018), who found that financial literacy does not have a partial effect on investment decisions.

Risk tolerance also significantly and positively affects investment understanding in the capital market. Investment decisions are not always purely rational; they are influenced by psychological factors such as emotions and cognitive biases. Students with varying levels of risk tolerance exhibit different investment behaviors. Those who take higher risks

may be driven by overconfidence or optimism bias, while more conservative investors might be influenced by loss aversion or regret aversion. This indicates that psychological factors often dominate students' investment choices rather than pure rational analysis. The findings suggest that risk tolerance plays a key role in shaping students' investment comprehension. Generally, students in this study exhibit a moderate level of risk tolerance, meaning they are comfortable taking risks within reasonable limits. This research aligns with Kusumawati (2020), who classified investors into three types: risk seekers, risk neutrals, and risk averters. It also supports findings by Wardani & Lutfi (2017) and Pradikasari & Isbanah (2018), who demonstrated that risk tolerance has a positive effect on investment decisions. However, it contradicts Jusuf et al. (2023), who found that risk tolerance does not influence investment decisions in Gorontalo.

On the other hand, overconfidence does not have a significant effect on investment understanding in the capital market. While some studies suggest that overconfidence influences investment behavior by causing individuals to underestimate risks and overestimate their abilities, this study finds that its impact on students' investment understanding is not always significant in real-world research. This may be due to students' lack of actual investment experience, education, awareness, and other dominant factors. According to behavioral finance theory, overconfidence often fails to show a significant effect because students, who generally have limited investment experience, lack sufficient empirical data to support their excessive confidence. Furthermore, educational settings and investment simulations may suppress overconfidence biases by emphasizing rational analysis and risk management. Thus, factors such as financial literacy and cognitive bias awareness may play a more dominant role in shaping investment understanding, reducing the potential impact of overconfidence. This finding aligns with Wulandari & Iramani (2014), who suggested that high levels of overconfidence could lead investors to underestimate risks, potentially exposing them to significant losses. Overall, the results indicate that students tend to have relatively low levels of overconfidence, meaning they are generally realistic in assessing their abilities and acknowledge the risks associated with investing. This finding contradicts previous studies which found that overconfidence has a positive effect on investment decisions (Pradikasari & Isbanah, 2018; Dewi & Krisnawati, 2020; Ferennita et al., 2022). However, the results of this study are in accordance with previous studies which concluded that overconfidence does not affect investment decisions (Wulandari & Iramani, 2014; Wati et al., 2014; Rakhmawati, 2018).

The overall analysis confirms that financial literacy, risk tolerance, and overconfidence collectively have a significant positive impact on investment understanding in the capital market. This provides empirical evidence regarding the extent to which these three factors shape students' investment comprehension. Such insights are valuable for developing more effective financial education programs tailored to students' characteristics and needs. Furthermore, these findings offer valuable guidance for educational institutions and related stakeholders in promoting financial literacy and investment awareness among young generations, enabling them to make better investment decisions in the future. This study is in line with previous studies which concluded that financial literacy, risk tolerance, and overconfidence collectively have a significant positive influence on investment understanding (Salwah, 2020; Purwanti & Seltiva, 2022).

CONCLUSION

This study aims to analyze the extent to which financial literacy, risk tolerance, and overconfidence affect the understanding of investment in the capital market based on the perceptions of students at Ibn Khaldun University and Pakuan University regarding investment and portfolio management courses. The results of the study indicate that financial literacy has a positive influence on investment understanding. The higher a person's financial literacy, the better their understanding of analyzing financial instruments and managing portfolios effectively. In addition, risk tolerance also contributes positively to investment understanding. Individuals who are more tolerant of

risk tend to be more open to making risky investment decisions, thereby enriching their insight into investment. Conversely, overconfidence does not have a significant effect on investment understanding, indicating that overconfidence is not always related to better investment understanding. Overall, these three variables contribute 32.8% to investment understanding, while 67.2% is influenced by other factors not studied. Based on these findings, it is recommended that students improve their financial literacy to build a balanced and rational investment portfolio. A deep understanding of investment instruments and capital market mechanisms will help them avoid high-risk investment traps. In addition, although risk tolerance can be beneficial, students need to balance ambition with caution through thorough risk analysis. For students who tend to be overconfident, building networks with financial practitioners can help them make more objective decisions. Participation in the investment community is also useful for exchanging ideas and reducing cognitive bias. Further research is recommended to add variables such as experienced regret to understand its impact on investment decisions.

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