The Impact of Financial Capability on Well-Being: Serial Mediation by Anxiety and Behaviour among Indonesian Retail Investors

Sari Nuzullina Rahmadhani
Universitas Medan Area; Medan, Indonesia
E-Mail: sarinuzullina@staff.uma.ac.id

Muhammad Dharma Tuah Putra Nasution
Universitas Pembangunan Panca Budi; Medan, Indonesia
E-Mail: dharmatuah@gmail.com

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ABSTRACT

In recent years, attention to individual financial well-being has increased significantly, driven by the increasing complexity of financial decisions amidst global economic dynamics. This study examines the relationship between financial capability, financial anxiety, and financial behavior in determining financial well-being among retail investors in the Indonesian capital market. This study uses a quantitative approach utilizing survey data from 200 retail investors and analyzes the data through Structural Equation Modeling Partial Least Squares (SEM-PLS). The findings reveal that financial capability negatively impacts financial anxiety while positively impacting financial behavior. Furthermore, financial behavior significantly impacts financial well-being. This study establishes a serial mediation effect where financial capability influences financial well-being through sequential mediation of financial anxiety and financial behavior. This study contributes to the literature by empirically testing a serial mediation model in the context of retail investment and underscoring the important role of psychological factors in individuals' financial decision-making processes in the capital market.

Keywords: *Financial Anxiety, Financial Behaviour, Financial Capability, Financial Well-Being, Retail Investors, Serial Mediation.*

ABSTRAK

Dalam beberapa tahun terakhir, perhatian terhadap kesejahteraan finansial individu telah meningkat secara signifikan, didorong oleh meningkatnya kompleksitas keputusan finansial di tengah dinamika ekonomi global. Studi ini mengkaji hubungan antara kapabilitas finansial, kecemasan finansial, dan perilaku finansial dalam menentukan kesejahteraan finansial di kalangan investor ritel di pasar modal Indonesia. Studi ini menggunakan pendekatan kuantitatif dengan memanfaatkan data survei dari 200 investor ritel dan menganalisis data tersebut melalui Structural Equation Modeling Partial Least Squares (SEM-PLS). Temuan penelitian mengungkapkan bahwa kapabilitas finansial berdampak negatif terhadap kecemasan finansial, sementara berdampak positif terhadap perilaku finansial. Lebih lanjut, perilaku finansial berdampak signifikan terhadap kesejahteraan finansial. Studi ini menetapkan efek mediasi serial di mana kapabilitas finansial memengaruhi kesejahteraan finansial melalui mediasi sekuensial kecemasan finansial dan perilaku finansial. Studi ini berkontribusi pada literatur dengan menguji secara empiris model mediasi serial dalam konteks investasi ritel dan menggarisbawahi peran penting faktor psikologis dalam proses pengambilan keputusan finansial individu di pasar modal.

Kata Kunci: *Kecemasan Finansial, Perilaku Finansial, Kemampuan Finansial, Kesejahteraan Finansial, Investor Ritel, Mediasi Serial.*

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INTRODUCTION

In recent years, attention to individual financial well-being has increased significantly, driven by the growing complexity of financial decisions amid global economic dynamics (Taylor, 2011), advancements in financial technology, and mounting living costs. This heightened attention reflects the critical importance of personal financial management for achieving long-term stability and psychological peace of mind across diverse populations including students, workers, lecturers, and housewives (Goyal & Kumar, 2021).

Financial capability, which encompasses knowledge, skills, confidence, and decision-making ability in financial contexts (Taylor, 2011), serves as the cognitive foundation for sound money management. While some definitions integrate financial behavior within this concept, empirical research typically treats financial behavior as a separate construct that reflects actual individual actions such as saving, budgeting, and debt management (Riitsalu & Murakas, 2019). However, literature reviews indicate that cognitive and behavioral dimensions alone provide an incomplete picture of financial well-being.

The affective dimension, particularly financial anxiety characterized by worry, stress, and discomfort when confronting financial pressures (Ahamed & Limbu, 2024) emerges as a critical yet underexplored variable. This emotional response can trigger avoidance behaviors, decision-making delays, and failure to achieve long-term financial objectives (Shapiro & Burchell, 2012), while also demonstrating strong correlations with cognitive factors such as literacy and verbal intelligence (Gignac et al., 2023). Additionally, early financial socialization experiences create lasting impacts on anxiety levels and financial identity formation in adulthood (Vosylis & Erentaite, 2019), positioning financial capability within broader public health and social justice frameworks due to its relationship with psychological well-being and economic resilience (Allmark & Machaczek, 2015).

Despite financial behavior being recognized as a strong predictor of financial well-being (Castro-González et al., 2020), a significant empirical gap persists in understanding why healthy financial habits do not always correlate with satisfaction or anxiety reduction regarding one's financial condition. This discrepancy underscores financial anxiety's importance as a mediating variable that can explain the relationship between financial capability and perceived well-being outcomes (Xiao & Meng, 2024). To address this complexity, the cognitive-affective-conative framework provides a comprehensive theoretical model where financial capability functions as the cognitive dimension, financial anxiety as the affective response, financial behavior as the action manifestation, and financial well-being as the ultimate outcome (Serido et al., 2013). Research within this framework demonstrates that enhanced financial capability reduces anxiety levels, which subsequently encourages positive financial behaviors and improves overall well-being (Kim et al., 2022).

This study systematically examines the serial mediation pathway from financial capability to financial well-being through both psychological (anxiety) and behavioral mechanisms, representing a novel perspective that integrates cognitive, affective, and conative aspects an approach rarely explored in Indonesian or Southeast Asian literature. By focusing on retail-level financial actors, this research aims to enrich academic discourse while providing practical insights for policymakers, financial education providers, and financial institutions seeking to develop more psychologically-informed approaches to fostering sustainable financial well-being in society. This research is expected to provide a more comprehensive understanding of the interplay between financial capability, financial anxiety, financial behavior, and financial well-being, particularly among retail investors in Indonesia. The findings of this study are expected to form the basis for developing public policies and financial literacy programs that focus not only on cognitive aspects (knowledge) but also consider affective (emotional) and conative (behavioral) dimensions. Thus, future interventions are expected to improve overall financial well-being, encourage healthy financial behavior, and reduce financial anxiety in the community. Furthermore, this research is also expected to encourage further studies using a cross-disciplinary approach in finance, psychology, and education, to develop a policy framework that is more adaptive to the socio-economic conditions of Indonesian society.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Financial Capability, Financial Anxiety, and Financial Behavior

Financial capability encompasses financial knowledge, behavior, and context, acting as both an economic tool and a psychological buffer (Xiao et al., 2022). It significantly influences mental health, with higher capability linked to reduced distress and greater well-being (Taylor et al., 2011; Sun & Chen, 2022). However, many studies narrowly measure it using knowledge tests, overlooking subjective factors like self-efficacy, which are more predictive of decision-making (Serido et al., 2013; Birkenmaier et al., 2022). Longitudinal findings affirm that financial capability is a lifelong developmental process contributing to lasting financial satisfaction (Xiao et al., 2023).

Financial competence plays a crucial role in reducing financial anxiety, particularly for individuals who make independent financial decisions (Xiao & Meng, 2024). This competence encompasses financial literacy, skills, and confidence (Ahamed & Limbu, 2024). Research shows that financial knowledge, behavior, and confidence collectively reduce anxiety (Xiao & Meng, 2024). Early life experiences also shape financial mindsets throughout adulthood (Fernández-López et al., 2022; Prakitsuwan et al., 2025). However, anxiety can persist despite competent financial behavior due to social pressures, personal expectations, and intimacy (Fiksenbaum et al., 2017). The modern financial environment can even exacerbate anxiety due to information overload (Jakubowska & Sadílek, 2024). While complex, evidence consistently suggests that improving financial competence is a key coping strategy for reducing financial anxiety across diverse populations (Ahamed & Limbu, 2024).

H1: Financial capability has a negative effect on financial anxiety.
H5: Financial capability indirectly affects financial behavior through financial anxiety.

Financial Anxiety on Financial Behavior

Financial anxiety is a multidimensional response to economic stress involving physical, cognitive, social, and behavioral symptoms (Ahamed & Limbu, 2024). It arises more from challenges in understanding and managing finances than from actual financial shortages (Gignac et al., 2023). Financial literacy acts as a key protective factor, fully mediating the impact of cognitive ability on anxiety (Ahamed & Limbu, 2024). Neuropsychological studies validate financial anxiety as distinct from general anxiety (Shapiro & Burchell, 2012). Though often linked with avoidance behaviors, with proper support, financial anxiety can motivate constructive financial actions (Fiksenbaum et al., 2017; Jones, 2021).

Financial anxiety causes individuals to avoid essential financial activities (Ahamed & Limbu, 2024). This avoidance includes budgeting, debt management, and financial planning behaviors that are crucial for financial health. When anxiety levels increase (Fiksenbaum et al., 2017), rational financial decision-making capacity decreases substantially. Anxious individuals exhibit three primary problematic behaviors. First, they engage in impulsive consumption and compulsive buying (Valor-Martínez et al., 2024). Second, they experience decision-making delays and future planning difficulties (Ahamed & Limbu, 2024). Third, crisis situations amplify these behavioral problems (Kemp et al., 2021), creating cycles of poor financial choices. Modern payment technologies worsen anxiety-driven behaviors. Mobile payment usage increases financial anxiety (An et al., 2024) through overspending and overindebtedness patterns. These technological conveniences facilitate impulsive spending those financial professionals observe in their anxious clients (Morris et al., 2023). Although some research suggests anxiety might motivate positive changes (Fiksenbaum et al., 2017), empirical evidence consistently demonstrates negative behavioral outcomes. Financial anxiety undermines decision-making capacity, triggers counterproductive behaviors, and creates financial management difficulties across diverse populations.

H2: Financial anxiety negatively affects financial behavior.

Financial Behavior on Financial Well-Being

Financial behavior involves actions such as saving, budgeting, investing, and credit use (Riitsalu & Murakas, 2019), shaped by attitudes, knowledge, demographics, and social pressures (Xiao et al., 2022). It refslects financial capability and predicts financial well-being (Prakash et al., 2022). Among millennials, factors like education, income, and self-efficacy influence behavior patterns (Goyal & Kumar, 2021), while financial literacy reduces biases and promotes mental accounting (Baker et al., 2019). Crisis conditions heighten anxiety and reshape financial behavior (Ghosh, 2022; Ahamed & Limbu, 2024). Financial threats trigger protective behaviors and stress responses (Despard et al., 2018). Global studies highlight how traits like compulsive buying and socio-demographics affect decisions. Validated instruments, such as 12-item scales, measure financial practices like budgeting and record-keeping with strong reliability and validity (Dew & Xiao, 2011; Abrantes-Braga & Veludo-de-Oliveira, 2019), supporting academic and practical interventions. Financial behavior is a key determinant of financial well-being (Riitsalu & Murakas, 2019), often providing better predictions than financial knowledge alone (Kabadayi & O'Connor, 2019). Positive behaviors such as budgeting and saving are strongly linked to financial satisfaction (Owusu, 2023) and mediate the relationship between education and satisfaction (Xiao & Porto, 2017). In emerging economies, these behaviors significantly impact well-being (Tang & Baker, 2016). Professionals also highlight financial preparedness and behavior as crucial for client success (Abrantes-Braga & Veludo-de-Oliveira, 2019; Morris et al., 2023), especially among young adults (Pandey & Utkarsh, 2024).

H3: Financial behavior has a positive effect on financial well-being.

Financial Capability, Financial Well-Being and Financial Anxiety

Financial well-being (FWB) is defined as a personal sense of financial security, the ability to meet daily needs, and confidence in future stability (Xiao et al., 2022). Rather than relying solely on income or assets, FWB incorporates subjective dimensions such as trust, emotional safety, and perceived control (Kabadayi & O'Connor, 2019; Mahdzan et al., 2020). Psychological factors like financial self-efficacy, social perception, and confidence are more influential on FWB than objective wealth (Vlaev & Elliott, 2014; Ponchio et al., 2019; She et al., 2021). Financial behavior acts as a mediator linking these psychological elements to well-being (Van Mol, 2017). Cross-cultural studies confirm that FWB is highly contextual, shaped by national culture, institutions, and income levels (Podsakoff et al., 2003). This implies that policies and interventions must adapt to local social and cultural settings (Abrantes-Braga & Veludo-de-Oliveira, 2019). Integrative frameworks now include consumption patterns, macroeconomic factors, and institutional roles, reinforcing the view that FWB reflects an interaction of personal, behavioral, and structural elements with implications for enhancing both individual satisfaction and societal well-being (D'Alessandro et al., 2020). Financial capability influences financial well-being primarily through psychological and behavioral mediators (Xiao & Porto, 2017). Studies show that financial education impacts satisfaction via literacy, behavior, and capability (Tahir et al., 2021), while decision-making and financial management behaviors act as mediators (Parvathy & Kumar, 2022; Kasoga & Tegambwage, 2022). Although mediation paths vary such as through behavioral biases like overconfidence (Shunmugasundaram & Sinha, 2025) serial mediation remains a consistent framework in financial research. Behavioral intentions also affect financial inclusion via trust, usage, and literacy (Shaheen et al., 2023), supporting the adoption of a serial mediation model.

H4: Financial anxiety has an indirect effect on financial well-being through financial behavior.
H6: Financial capability has an indirect effect on financial well-being through the serial mediation of financial anxiety and financial behavior.

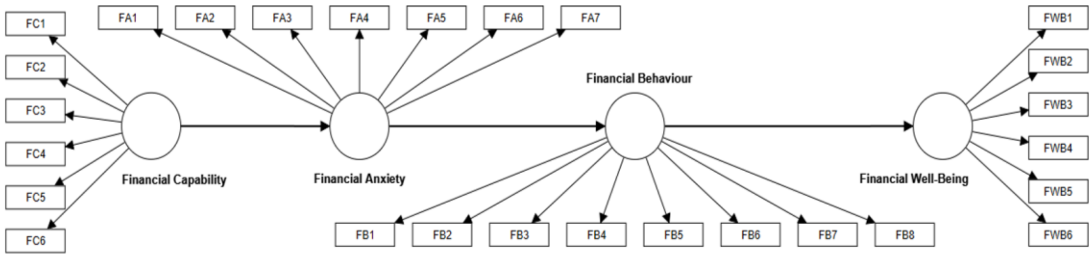

Figure 1. Research Framework

Figure 1 shows a research model using a serial mediation approach that examines the indirect effect of financial capability on financial well-being through two mediators: financial anxiety and financial behavior. Financial capability is measured using six indicators (FC1–FC6), financial anxiety using seven indicators (FA1–FA7), financial behavior using eight indicators (FB1–FB8), and financial well-being using six indicators (FWB1–FWB6). This model explains that the higher a person's financial capability, the lower their level of anxiety, which encourages positive financial behavior and ultimately improves financial well-being.

RESEARCH METHOD

This study uses a quantitative approach with an explanatory-causal design to test the causal relationships between the variables: financial capability, financial anxiety, financial behavior, and financial well-being. This study was designed to explain the mechanism of serial mediation in the context of financial behavior using a latent variable-based approach. Data was collected through an online questionnaire distributed voluntarily between January and February 2025 to the digital retail investor community via social media and investment networks in major cities such as Jakarta, Surabaya, Medan, and Bandung. Prior to completion, respondents were provided with an explanation of the purpose, participation rights, and confidentiality. The study population was retail investors aged 22–35 who actively invest in the Indonesian capital market. The sample was determined using purposive sampling with the following criteria: having a steady income, an active account on an official digital securities platform, and having made a transaction in the past six months. Of the 1,200 questionnaires distributed, 200 valid data sets were collected.

The research instrument consisted of a standardized scale that had been contextually adjusted. Financial capability was measured with 6 items (Xiao et al., 2022), financial anxiety with 7 items (Shapiro & Burchell, 2012), financial behavior with 8 items (Xiao & Fan, 2002), and financial well-being with 6 items (Vlaev & Elliott, 2014), using a 5-point Likert scale. The research variables included the independent variable (financial capability), mediators (financial anxiety and financial behavior), and dependent variable (financial well-being). To clarify the operationalization of the constructs used in this study, Table 1 summarizes the operational definitions, number of measurement indicators, and reference sources for instrument validation for each main variable.

The data analysis method used Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the structural model and relationships between variables. Model evaluation was conducted through construct validity (AVE, CR), reliability (Cronbach's Alpha), discriminant validity (Fornell-Larcker and HTMT), and inner model analysis (path coefficient, R^2, f^2, and Q^2). The analysis was conducted using SmartPLS software version 4.0, which was chosen for its ability to optimally handle complex models and non-normally distributed data.

Table 1. Operational Definitions of Research Variables

Variable	Operational Definition	N of Items	Dimensions/Subdimensions	Source
Financial Capability	An individual's ability to comprehend financial information, make decisions, and autonomously manage personal finances.	6	Financial access, self-perception, social experiences, self-confidence	(Xiao et al., 2022)
Financial Anxiety	The degree of worry or stress an individual experiences regarding their financial circumstances.	7	Physical symptoms, cognitive aspects, social and behavioral disruptions	(Shapiro & Burchell, 2012)
Financial Behavior	An individual's tangible financial management actions (e.g., budgeting, saving, investing, debt management).	8	Budgeting, saving, investing, debt, control, long-term planning	(Xiao & Fan, 2002)
Financial Well-Being	An individual's subjective perception of current financial security and future financial expectations.	6	Current security, future expectations	(Vlaev & Elliott, 2014)

RESULTS

Based on Table 2, a non-response bias test was conducted by comparing initial and final respondents using a t-test. The results showed no significant differences in the main variables, so non-response bias can be ignored.

Table 2. Test of Non-Response Bias Based on Early vs Late Respondents

Variable	Response Type	N	Mean	SD	F	Sig.	t	df	Sig. (2-tailed)
Financial Capability	Early	63	2.4694	0.43196	0.866	0.353	-0.861	198	0.390
	Late	137	2.5235	0.40342					
Financial Anxienty	Early	63	2.8942	0.64640	0.045	0.833	-1.222	198	0.223
	Late	137	3.0195	0.68572					
Financial Behavior	Early	63	1.2440	0.44190	0.112	0.738	-0.069	198	0.945
	Late	137	1.2482	0.37037					
Financial Well-Being	Early	63	1.1296	0.26681	0.130	0.719	0.349	198	0.727
	Late	137	1.1156	0.26318					

Table 3 shows the common method variance test conducted using Harman's single-factor test. The results indicate that one main factor only explains 48.24% of the variance (<50%), so CMV is not a serious problem in this study.

Table 3. Harman's Single-Factor Test Result

Statistic	Value
Component	1
Initial Eigenvalue	13.024
% of Variance	48.238
Cumulative%	48.238

The demographic profile comprised 200 retail investors across various categories. In terms of gender, the majority were male (58%), with 42% female. The largest age group was 26–30 years old (42.5%), followed by 31–35 years old (32.5%) and 22–25 years old (25%). Most had a bachelor's degree (71%), with the remainder having a diploma (11%), master's/doctoral (11.5%), and high school (6.5%). Regarding personal income, the majority earned more than IDR 5 million (65%), with the remainder earning between IDR 3–5 million (26%) and less than IDR 3 million (9%). In terms of location, 33.5% lived in Jakarta and its surrounding areas, followed by Medan (22.5%), Surabaya (19%), Bandung (15%), and other cities (10%). Finally, nearly half of investors (49%) had an investment period of more than one year, 34% between 6–12 months, and 17% less than six months.

Before testing the structural model, descriptive analyses were conducted to assess the response patterns of each variable. Table 4 shows the highest score for financial behavior (M = 3.10) and the lowest for financial anxiety (M = 2.46), indicating good financial practices and low levels of anxiety. These findings support the assumption that positive behavior can reduce anxiety and improve financial well-being and provide initial justification for the relationships in the research model.

Table 4. Descriptive Statistics of Research Variables

Variable	Mean	SD	Number of Items
Financial Capability	2.85	0.45	6
Financial Anxiety	2.46	0.50	7
Financial Behaviour	3.10	0.47	8
Financial Well-Being	2.74	0.44	6

Table 5. Outer Loadings dan Reliability Construct

Latent Variable	Code	Outer Loading	α	ρA	CR	AVE
Financial Anxiety	FA1	0.884	0.943	0.944	0.953	0.745
	FA2	0.849				
	FA3	0.850				
	FA4	0.873				
	FA5	0.857				
	FA6	0.872				
	FA7	0.858				
Financial Behavior	FB1	0.826	0.931	0.935	0.943	0.675
	FB2	0.817				
	FB3	0.836				
	FB4	0.839				
	FB5	0.778				
	FB6	0.856				
	FB7	0.802				
	FB8	0.815				
Financial Capability	FC1	0.848	0.937	0.940	0.950	0.761
	FC2	0.888				
	FC3	0.891				
	FC4	0.849				
	FC5	0.890				
	FC6	0.868				
Financial Well-Being	FWB1	0.729	0.891	0.898	0.917	0.648
	FWB2	0.835				
	FWB3	0.832				
	FWB4	0.778				
	FWB5	0.814				
	FWB6	0.837				

Before testing the structural model, a measurement model evaluation was conducted, including indicator reliability (outer loading), convergent validity, construct reliability, and discriminant validity using the PLS-SEM approach (Hair et al., 2017). Table 5 shows that all items have outer loadings > 0.70, Cronbach's Alpha and Composite Reliability values > 0.70, and AVE > 0.50, indicating good internal consistency and convergent validity. Discriminant validity was also met based on the Fornell–Larcker and HTMT criteria (Hair et al., 2019).

Based on Table 6, all AVE root values are higher than the correlation between constructs, meeting the Fornell–Larcker criteria (Fornell & Larcker, 1981). In addition, all HTMT values are <0.90, indicating that discriminant validity has been achieved and there is no overlap between constructs (Henseler et al., 2015).

Table 6. Discriminant Validity: Fornell–Larcker Criterion and HTMT Ratio

Construct	FL (FA)	FL (FB)	FL (FC)	FL (FWB)	HTMT (FA)	HTMT (FB)	HTMT (FC)	HTMT (FWB)
Financial Anxiety	(0.863)	0.494	0.614	0.237	–	0.521	0.650	0.247
Financial Behavior		(0.821)	0.238	0.583	–	–	0.253	0.630
Financial Capability			(0.873)	0.172	–	–	–	0.181
Financial Well-Being				(0.805)	–	–	–	

Multicollinearity testing using VIF showed all VIF values were 1.000, well below the critical limit of 5.0, indicating no multicollinearity problem (Hair et al., 2022). Furthermore, Table 8 shows the results of the path analysis, indicating that all paths were significant at the 0.001 level ($t > 1.96$; $p < 0.05$), thus supporting all hypotheses. Financial capability has been shown to directly reduce financial anxiety and indirectly increase financial well-being through a multilevel pathway, supporting the main theoretical assumptions in this model.

Table 7. Path Coefficients and Hypothesis Testing

Pathway	β	t-value	p-value	Sig.	Hypothesis Supported
FC → FA (Direct)	0.614	15.653	0.000	***	Yes
FA → FB (Direct)	0.494	7.112	0.000	***	Yes
FB → FWB (Direct)	0.583	8.028	0.000	***	Yes
FA → FB → FWB (single mediation)	0.288	4.691	0.000	***	Yes
FC → FA → FB (single mediation)	0.304	6.393	0.000	***	Yes
FC → FA → FB → FWB (serial mediation)	0.177	4.513	0.000	***	Yes

Table 7 presents the results of the hypothesis testing and structural model path analysis. All pathways demonstrated statistically significant relationships at the 0.001 level ($p < 0.001$), confirming the proposed direct and indirect effects. Financial capability significantly reduces financial anxiety, which subsequently enhances financial behavior. In turn, financial behavior positively influences financial well-being. Moreover, the serial mediation path from financial capability to well-being via financial anxiety and behavior is also supported, validating the integrative model. These findings confirm all six hypotheses and underscore the interconnectedness of cognitive, affective, and behavioral components in shaping financial well-being.

To strengthen visual understanding of the direction and significance of paths in the structural model, Figure 2 below presents the bootstrapping results that illustrate path coefficient estimates and t-statistics values for all relationships between constructs.

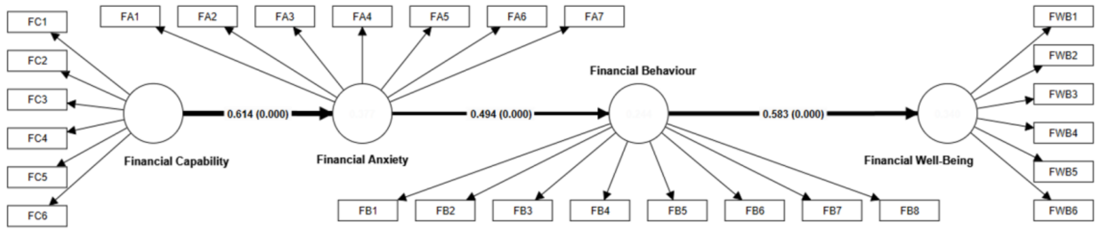

Figure 2. Bootsrapping

In addition to testing the statistical significance of mediation paths, the type of mediation is also analyzed using the Variance Accounted For (VAF) value. This calculation aims to determine whether the mediation is full mediation or partial mediation, as explained by Hair et al. (2019). The calculation results are presented in Table 8.

Table 8. Variance Accounted For (VAF) and Mediation Type

Pathway	**Indirect Effect**	**Direct Effect**	**Total Effect**	**VAF (%) / Mediation Type**
FC → FA → FB → FWB	0.177	0.177	0.354	50.0% / Partial Mediation

Based on Table 8, the FC → FA → FB → FWB path has a VAF value of 50%, indicating the occurrence of partial mediation. This means that part of the influence of financial capability on financial well-being is transmitted through a serial pathway involving financial anxiety and financial behavior, while the other part still goes through the direct path. This finding indicates that interventions on financial capability not only affect well-being directly, but also indirectly through strengthening psychological aspects and financial behavior. Conceptually, this result reinforces the theory that financial well-being is influenced by multidimensional and mediative processes, not merely linear ones.

After path and mediation tests, the evaluation continued with R^2, f^2, and Q^2 analyses to assess the predictive power and effectiveness of the relationships in the model. The results (Table 9) indicate that the exogenous variables significantly influence the endogenous variables, and the model has adequate predictive ability.

Table 9. Summary of Structural Model Assessment

Endogenous Construct	**R^2**	**Adj. R^2**	**Predictor → Outcome**	**f^2 Effect Size**	**Interpretation**	**Q^2 Value**	**Q^2 Interpretation**
FA	0.377	0.374	FC → FA	0.605	Large	0.276	Medium Predictive Relevance
FB	0.244	0.241	FA → FB	0.323	Medium	0.157	Low Predictive Relevance
FWB	0.34	0.337	FB → FWB	0.516	Large	0.21	Low-to-Medium Predictive Relevance

Information: FC = Financial Capability; FA = Financial Anxiety; FB = Financial Behavior; FWB = Financial Well-Being. f^2 thresholds (Cohen, 1988): 0.02 = small, 0.15 = medium, 0.35 = large. Q^2 thresholds: > 0.02 = small, > 0.15 = medium, > 0.35 = large (Hair et al., 2022).

Based on Table 9, the highest coefficient of determination (R^2) value is found in the Financial Anxiety (FA) construct at 0.377, indicating that Financial Capability (FC) is able to explain 37.7% of the variance in FA. Additionally, the effect size (f^2) value of 0.605 on the FC → FA path shows a large effect on that construct (Cohen, 1988). The FA → FB path produces an f^2 of 0.323 (medium effect), while FB → FWB has an f^2 of 0.516 (large effect), indicating that each construct has a significant contribution to the targeted outcome variable.

The Q² value indicates that FA has moderate predictive power (0.276), while FB (0.157) and FWB (0.21) are in the low to moderate category. This indicates that the model has sufficient predictive power, especially for the main pathway between financial capabilities and behaviors and financial well-being. Visualization of the blindfolding results reinforces these findings.

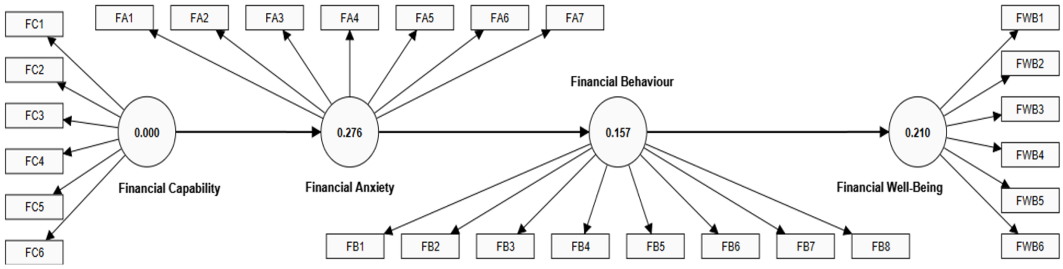

Figure 3. Blindfolding Results

Figure 3 confirms that Financial Anxiety (FA) has the highest predictive power, followed by Financial Well-Being (FWB) and Financial Behavior (FB), in line with the Q² value in Table 10. This indicates that the model has adequate predictive ability, especially for the main financial capability pathway. Furthermore, model fit evaluation was conducted using several model feasibility indices according to the PLS-SEM approach (Table 10).

Table 10. Model Fit Summary

Indeks	Saturated Model	Estimated Model	Cut-off Value	Interpretation
SRMR	0.051	0.055	< 0.08	Good fit
d_ULS	0.982	1.163	-	Acceptable
d_G	0.443	0.451	-	Acceptable
Chi-square	487.212	492.521	-	Informative only
NFI	0.889	0.888	> 0.80	Acceptable

These results confirm that the model not only statistically demonstrates good fit, but also meets the quality standards for a reliable model in the context of individual financial behavior, as suggested in the PLS-SEM literature (Hair et al., 2022).

DISCUSSION

The results of the H1 hypothesis test indicate that financial capability has a significant negative effect on financial anxiety (β = 0.614; p < 0.001). This means that the higher a person's financial capability, which includes financial literacy, self-efficacy, and money management skills the lower their level of financial anxiety. This finding is consistent with previous literature that views financial capability as a psychological buffer against economic stress (Xiao & Meng, 2024; Ahamed & Limbu, 2024). In the context of retail investors, this capability allows them to make calmer investment decisions when facing market fluctuations.

The results of H2 indicate that financial anxiety has a significant negative effect on financial behavior (β = –0.494; p < 0.001), supporting the theory that emotional distress inhibits rational financial behavior (Xin et al., 2023; Sánchez-Aguirre et al., 2024). Individuals with high levels of financial anxiety tend to avoid important financial activities such as portfolio evaluation or investment decision-making and are more susceptible to impulsive behavior. These findings align with dual-process and affect-cognitive theories, which suggest that psychological distress can impair information processing and self-control (Shapiro & Burchell, 2012; Ahamed & Limbu, 2024).

H3 testing showed that financial behavior positively impacts financial well-being (β = 0.583; p < 0.001). Behaviors such as investment discipline and portfolio evaluation are correlated with feelings of financial security and control (Riitsalu & Murakas, 2019;

Castro-González et al., 2020). However, this impact is also influenced by supporting conditions such as income. For low-income respondents, liquidity constraints can limit the implementation of healthy behaviors, even if they have the intention.

H4 results strengthen the mediating role of financial behavior in the relationship between anxiety and financial well-being (β = 0.288; $p < 0.001$). This means that anxiety not only impacts psychologically but also disrupts behaviors that support well-being (Ahamed & Limbu, 2024). Respondents aged 26–35 tend to be under economic and social stress, making anxiety management crucial for supporting productive financial decisions (Xin et al., 2023; Sánchez-Aguirre et al., 2024).

H5 tested the mediation pathway from capability to behavior through anxiety. The results were significant (β = 0.304; $p < 0.001$), indicating that financial capability will only effectively shape behavior if anxiety can be suppressed. This means that cognitive competence alone is insufficient without emotional stability (Kim et al., 2020; Xiao & Meng, 2024) Although the majority of respondents were highly educated, this capability can be hampered if not accompanied by effective anxiety management (Gignac et al., 2023). This aligns with the finding that financial anxiety acts as a bottleneck that narrows the relationship between capability and actual action (Fan & Henager, 2021).

Finally, the results of H6 confirmed a serial mediation path from capability to well-being through anxiety and behavior (β = 0.177; $p < 0.001$, VAF = 50%). This means that increasing financial capability impacts financial well-being through both psychological (anxiety reduction) and behavioral (implementation of healthy practices) processes (Serido et al., 2013; Xiao & Meng, 2024). Retail investors exposed to market volatility require not only literacy but also emotional resilience to maintain rational behavior and achieve financial well-being (An et al., 2024; Sandoval-Palomares, 2024). Although 83% of respondents had been investing for more than 6 months and 65% had incomes above IDR 5 million, well-being cannot be achieved without a balance between affective and behavioral aspects. These results align with a longitudinal study by Ranta and Salmela-Aro (2018) which emphasized the importance of anxiety and behavior as pathways to financial well-being among young adults.

CONCLUSION

The conclusions of this study indicate that financial capability plays a significant role in improving financial well-being, both directly and indirectly through reduced financial anxiety and improved financial behavior. Individuals with high financial capability tend to have lower financial anxiety, which in turn encourages healthier and more rational financial behavior. Financial behavior has been shown to be a strong predictor of feelings of security, control, and satisfaction with personal finances. The serial mediation pathways found reinforce the understanding that financial well-being is determined not only by cognitive abilities, but also by emotional factors and daily financial habits. This study provides theoretical contributions by expanding the application of affective-cognitive and dual-process theories in the financial context, and strengthening the serial mediation model between financial capability, anxiety, behavior, and well-being. Practically, these results emphasize the need for holistic educational programs—not only improving financial literacy but also strengthening emotional and behavioral aspects through a behavioral insights-based approach, especially for young investors in the capital market. However, this study has limitations. First, the use of a perception-based questionnaire is susceptible to subjective bias due to the lack of objective data. Second, the model does not encompass all important factors such as financial efficacy or socialization. Third, the sample only included young investors with limited experience, thus limiting generalizability. Fourth, the quantitative approach does not capture non-linear dynamics. Therefore, further research is recommended to include additional variables, use objective data, conduct multi-group analyses, and apply longitudinal or mixed methods.

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