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The Effect Of Behavioral Finance, Investment Experience, And Risk Tolerance On Financial Allocation In Bond Instruments

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Abstract

In recent years, investment interest among the younger generation, particularly Generation Z, has increased significantly. This increase is inseparable from the development of financial technology and social media, which provide easy access to investment information and various digital financial services (Widjanarko, 2023). The availability of various financial instruments provides individuals with alternatives in allocating their funds. This condition indicates that financial decisions are no longer solely based on rational considerations, but are also influenced by psychological factors, individual experience, and risk preferences. This research is motivated by the increasing participation of Generation Z investors in the Indonesian capital market, particularly in bonds, which are influenced not only by rational factors but also by behavioral aspects, experience, and risk tolerance. Therefore, this study analyzes the influence of behavioral finance, investment experience, and risk tolerance on financial allocation in bond instruments. The results of this study indicate that behavioral finance has a positive and significant effect on financial allocation, investment experience does not have a significant effect on financial allocation, and risk tolerance does not have a significant effect on financial allocation.

Keywords: Behavioral Finance, Investment Experience, Risk Tolerance, Financial Allocation, Bonds.

INTRODUCTION

Indonesia is a developing country with a population of approximately 275.77 million people, of whom around 67.11 million fall within the age range of 15–29 years (BPS, 2022). This condition indicates that Indonesia has a very large proportion of young people who are entering their productive phase, including in making independent financial decisions. In the era of globalization and rapid technological advancement, individuals are required to possess adequate financial knowledge and the ability to manage financial resources

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effectively in order to achieve long-term financial stability and well-being (Gunawan, 2021). Effective financial management plays a crucial role in maintaining a balance between income and expenditure, particularly in investment activities aimed at generating future returns (Wahyu, 2021).

In recent years, investment interest among young generations, particularly Generation Z, has increased significantly. This growth is closely associated with the development of financial technology and social media, which have facilitated access to investment information and various digital financial services (Widjanarko, 2023). The availability of diverse financial instruments provides individuals with multiple alternatives for allocating their funds. This condition indicates that financial decisions are no longer based solely on rational considerations, but are also influenced by psychological factors, individual experiences, and risk preferences.

In this context, behavioral finance approach becomes relevant in explaining investors financial decision-making behavior. Behavioral finance posits that individuals often allocate funds not only based on mathematical calculations or objective risk analysis, but also under the influence of cognitive biases, emotions, and psychological tendencies such as heuristics, overconfidence, herding behavior, and loss aversion. This condition highlights the importance of understanding financial behavior in explaining patterns of fund allocation, particularly among young investors who are still in the stage of developing experience and financial decision-making capabilities.

This phenomenon is particularly pronounced among Generation Z, defined as individuals born between 1995 and 2010 (Manik et al., 2021). As a generation that has grown alongside rapid digital technological advancements, Generation Z exhibits a high level of digital literacy and is accustomed to using various internet- based platforms in their daily lives, including for investment activities (Andreas, 2023). Although this ease of access has encouraged increased investment participation, reports from financial institutions indicate that Generation Z is also a financially vulnerable group. Limited financial literacy, combined with social pressure to follow investment trends, may lead to suboptimal financial decision-making.

In addition to behavioral factors, limited investment experience also represents a challenge faced by Generation Z. Many young investors are still at an early stage of investing and therefore lack sufficient experience in understanding the characteristics of financial instruments and the associated risks. Although some members of Generation Z earn additional income from side activities such as freelancing, online businesses, or other digital-based work, their income levels remain relatively limited compared to previous generations. Nevertheless, the ease of access to investment applications with affordable initial capital enables Generation Z to begin investing at an early age making investment

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experience and the quality of fund allocation critical determinants of long term investment outcomes.

Another important aspect influencing fund allocation decisions is risk tolerance. Risk tolerance reflects an individual's level of willingness to face uncertainty and potential losses in investment activities (Owusu, 2023). Differences in risk tolerance lead to variations in investors fund allocation patterns. Bond instruments exhibit diverse risk characteristics, ranging from government bonds with relatively low risk to corporate bonds with more moderate risk levels. These characteristics make bonds a relevant investment instrument for Generation Z, who generally tend to have a moderate risk profile and prefer income stability. Previous studies have shown that behavioral finance, investment experience, and risk tolerance influence investment decisions and fund allocation. However, empirical research that comprehensively examines the effects of these three factors on financial allocation, particularly in bond instruments among Generation Z investors in Indonesia, remains relatively limited. This limitation indicates the existence of a research gap that warrants further investigation.

The phenomenon of increasing number of Generation Z investors in the Indonesian capital market is not always accompanied by adequate understanding of risk management and optimal fund allocation. Although bonds are widely recognized as relatively stable investment instruments. Generation Z decisions to allocate funds to these instruments are often influenced by behavioral biases, limited investment experience, and differences in risk tolerance. This condition highlights the need for empirical investigation into the factors influencing financial allocation in bond instruments.

Accordingly, the selection of behavioral finance, investment experience, and risk tolerance as research variables is grounded in behavioral finance literature, which suggests that individual investment decisions are shaped not only by rational considerations but also by psychological factors and empirical experience. Bonds are chosen as the object of this study due to their risk and return characteristics, which are relevant to the typically moderate to conservative risk profile of Generation Z investors. A quantitative approach is employed to empirically examine the causal relationships among the variables.

LITERATURE REVIEW

This study employs three main variables as independent variables, namely behavioral finance, investment experience, and risk tolerance, as well as one dependent variable, financial allocation. These four variables are conceptually grounded in modern portfolio management theory, particularly Modern Portfolio Theory (MPT) proposed by Markowitz (1952). This theory explains that fund allocation decisions result from a trade-off between risk and expected return, whereby investors seek to construct an optimal portfolio in accordance with their individual risk preferences.

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Numerous empirical studies support the application of Modern Portfolio Theory in explaining individual fund allocation decisions. Research findings indicate that differences in risk perception, investment experience, and risk preferences lead to significant variations in the portfolio compositions formed by investors. This reinforces the notion that financial allocation is the outcome of the interaction between individual characteristics and risk management principles as articulated in Modern Portfolio Theory.

Based on the foregoing discussion, it can be concluded that behavioral finance, investment experience, and risk tolerance are key factors influencing financial allocation decisions within the framework of Modern Portfolio Theory, particularly in the context of fund allocation to bond instruments. Therefore, the use of Modern Portfolio Theory as the sole theoretical foundation in this study is considered appropriate for explaining how differences in investor characteristics lead to variations in optimal fund allocation strategies.

Several empirical studies support the application of these theoretical perspectives in the context of personal fund allocation. Lim and Tan (2021) demonstrate that behavioral biases such as overconfidence and herding significantly influence individual portfolio allocation preferences. Alrabadi and Al- Gharaibeh (2022) find that repeated investment experience assists investors in developing more rational asset allocation strategies, thereby reducing errors arising from emotional biases. Meanwhile, Pak and Mahmood (2021) confirm that risk tolerance is a primary determinant of asset distribution, where differences in risk tolerance levels result in significant variations in portfolio composition across individuals.

Behavioral Finance

Behavioral finance is a field within financial science that integrates principles of psychology and economics to understand how individuals and groups make financial decisions that are often irrational. Unlike classical financial theories, which assume that individuals behave rationally, behavioral finance acknowledges that cognitive biases, emotional influences, and social pressures play a significant role in shaping financial behavior.

According to Kim et al. (2020), behavioral finance helps explain why investors frequently make decisions that contradict financial logic, such as excessive trading, overconfidence, or irrational reactions to losses. Their study indicates that behavioral biases cause significant deviations in financial asset allocation. Nguyen et al. (2022) further explain that behavioral finance plays a crucial role in the context of digital investment. They observe that retail investors tend to be more susceptible to biases such as anchoring and the representativeness heuristic when using investment applications, which in turn affects how they allocate funds across different financial instruments. In addition, Khurana et al. (2025) argue that financial decisions within family firms are also strongly influenced by

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psychological factors and social relationships. They conclude that the behavioral finance approach is capable of explaining the complexity of financial behavior that cannot be fully captured through quantitative financial data alone.

In the context of financial allocation, this approach explains that decisions are not solely based on rational calculations but are also influenced by cognitive biases, heuristics, and subjective perceptions of risk and return. Behavioral finance reflects how individuals manage their financial resources. Understanding individual financial behavior is therefore essential, as it helps explain why people make certain financial decisions and how these decisions affect their financial allocation (Özkan, 2020). Behavioral finance can also influence a country's financial conditions by promoting more efficient financial allocation, thereby attracting greater investment and fostering economic growth (Van der Merwe, 2012).

According to Ali, Raza, and Qureshi (2022), biases such as loss aversion and overconfidence strongly affect retail investors in emerging markets. Investors who are loss-averse tend to adopt conservative allocation strategies despite the presence of higher return opportunities, whereas overconfident investors are more likely to take excessive risks without thorough consideration. In line with this, Ngoc (2020) demonstrates that heuristics and mental accounting play a significant role in shaping individuals' financial decisions, often leading to fund allocation that is based not on objective analysis but on personal perceptions or inefficient habitual practices. Bashir and Madhavaiah (2021) also emphasize that emotions, personality traits, and behavioral biases such as the tendency to rely on intuition rather than data significantly influence the proportion of funds allocated to savings, consumption, and investment.

Kaur and Vohra (2021) examine the investment behavior of female investors and find that their decisions in allocating financial assets are strongly influenced by emotions and heuristic biases rather than purely rational analysis. This indicates that psychological factors cannot be overlooked in studies of financial allocation. Meanwhile, Hassan, Naeem, and Ullah (2023) explain that risk perception and financial attitude act as mediating variables between financial literacy and fund allocation behavior. This suggests that even when individuals possess adequate financial knowledge, allocation decisions remain influenced by their level of confidence in dealing with risk and their overall attitude toward financial matters.

Investment Experience

Investment experience refers to the level of individual involvement, duration, and intensity in engaging in investment activities across various financial instruments. This concept encompasses how frequently an individual conducts transactions, the types of instruments they have invested in (such as stocks, bonds, mutual funds, digital assets, and others), as well as the depth of practical understanding gained through real experience in

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portfolio management. According to Grable and Joo (2004), investment experience plays an important role in shaping risk attitudes and asset allocation preferences. Investors with longer experience tend to exhibit more stable risk tolerance compared to novice investors who are more easily influenced by market fluctuations.

Almenberg and Dreber (2015) emphasize that investment experience contributes to more rational financial decision-making, as direct experience provides lessons about the real consequences of investment choices. This helps investors develop more consistent strategies. Meanwhile, Nguyen and Ha (2021) argue that investment experience not only reflects the length of time an individual has participated in the market but also includes learning from both failures and successes. They find that experienced investors are better able to restrain psychological biases such as herding behavior or overreaction to market news.

Practical knowledge and skills acquired through direct involvement in investment activities, which influences how individuals allocate funds across financial instruments. Investment experience refers to the extent to which investors have previously invested their funds in various financial products (Khanam, 2017). The longer the duration of an investor's investment experience, the more proficient the investor becomes in making investment decisions that generate future returns. This finding is consistent with the study conducted by Khanam (2017), which reports a positive effect of investment experience on financial allocation.

Experiences of gaining profits among novice investors tend to encourage them to allocate more capital, whereas experiences of losses may cause novice investors to become risk-averse or reluctant to reinvest. Investment experience therefore serves as an important consideration that encourages investors to be more cautious in selecting investment types and determining the amount of capital to be invested. Such experience influences investment decisions, as the accumulation of experience is directly proportional to the practical knowledge gained through real investment activities (Rizky et al., 2020).

Therefore, investment experience strongly influences the way financial allocation is managed. The greater the investment experience an individual possesses, the more mature they become in formulating fund allocation strategies that align with both short-term and long-term financial objectives. According to Grable and Joo (2004), investment experience directly affects risk preferences and asset allocation behavior. Experienced investors tend to diversify their portfolios to minimize risk, whereas novice investors are more likely to concentrate their investments in a single instrument with high volatility. This indicates that experience is a key factor in shaping more prudent financial allocation strategies.

A study by Almenberg and Dreber (2015) further emphasizes that investment experience enhances individuals' ability to understand the real consequences of each financial decision. Experienced investors learn not only from gains but also from losses,

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enabling them to adjust their financial allocation more adaptively in response to changing economic conditions.

In the digital investment context, Nguyen and Ha (2021) find that investment experience makes investors more resilient to psychological biases such as herding behavior and overreaction. Experienced investors are better able to allocate funds rationally by considering the fundamental characteristics of financial instruments rather than merely following market trends. Thus, investment experience plays a crucial role in financial allocation by providing practical knowledge that cannot be obtained solely through theoretical understanding. The higher an individual's investment experience, the greater their ability to diversify portfolios, manage risk, and adjust fund allocation in accordance with financial goals and market conditions.

Risk Tolerance

Risk tolerance refers to the extent to which an individual is willing to accept uncertainty and potential losses in financial and investment decisions in order to achieve future gains. This variable reflects an investor's attitude toward risk, including asset value fluctuations, the possibility of capital loss, and uncertainty regarding expected returns. According to Budiarto (2017), risk tolerance is defined as an investor's ability and capacity to face the risks associated with making investments, where investment decisions form an integral part of financial allocation. The indicators used to assess an individual's risk tolerance in investment decisions, as proposed by Budiarto (2017), include: (1) allocating income to speculative investments, (2) purchasing financial instruments without careful consideration, and (3) investing in activities that offer high returns. Grable (2000) argues that risk tolerance is a primary psychological factor influencing how individuals allocate financial assets. Investors with high risk tolerance tend to prefer riskier instruments such as stocks or derivative assets, whereas those with low risk tolerance are more inclined toward conservative instruments such as bonds or deposits. Roszkowski and Grable (2005) emphasize that risk tolerance is influenced not only by financial factors (such as income or wealth) but also by demographic factors (age and education), psychological factors (optimism and self-confidence), and prior investment experience.

Meanwhile, Nga and Yien (2013) find that risk tolerance is closely associated with personal financial management behavior. The higher an individual's risk tolerance, the greater their tendency to diversify investments across instruments with higher levels of volatility. Accordingly, risk tolerance can be defined as the degree to which an individual is willing to accept potential losses in investment activities, influenced by financial, demographic, psychological, and experiential factors, and serving as a primary determinant of fund allocation patterns across various financial instruments.

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Wagner (2014) states that the greater an individual's willingness to take decisions, the more it influences their financial management as a consequence of the risks arising from those decisions. Each individual has a different level of risk tolerance, and these differences may be influenced by various factors such as age, career status, socioeconomic conditions, income, and individual wealth. As a result of these differences, risk tolerance plays an important role in shaping investment decision-making (Wulandari, 2014). The risk tolerance variable is closely related to prospect theory, which serves as the theoretical foundation of this study. This relationship is supported by the findings of Wagner (2014) and Ruwanda (2020), who demonstrate that risk tolerance has a significant and positive effect on financial allocation. Risk tolerance refers to the degree to which individuals are willing to accept uncertainty and potential losses in financial and investment activities. This concept represents a key psychological factor that strongly determines how individuals formulate financial allocation strategies, namely the distribution of funds across various financial instruments in accordance with their objectives and preferences. Individuals with a high level of risk tolerance tend to allocate funds to high-risk instruments such as stocks, corporate bonds, and digital assets, as they are willing to face volatility in pursuit of higher returns.

In contrast, individuals with low risk tolerance prefer conservative allocation to relatively stable instruments such as deposits, savings accounts, or government bonds, as their primary focus is on preserving capital. This relationship is consistent with Modern Portfolio Theory (Markowitz, 1952), which explains that investors with high risk tolerance construct portfolio along the efficient frontier with a greater proportion of risky assets, whereas investors with low risk tolerance choose safer asset combinations despite lower expected returns.

Empirical evidence also supports this view. Grable (2000) finds that risk tolerance is a key predictor of asset selection, whereby individuals with high risk tolerance tend to engage in more aggressive diversification toward volatile assets

Meanwhile, Roszkowski and Grable (2005) emphasize that risk tolerance is influenced by financial, demographic, and psychological factors, which are subsequently reflected in actual financial allocation. Nga and Yien (2013) also demonstrate that risk tolerance is positively associated with investors' willingness to allocate funds to high-risk instruments and negatively associated with the tendency to allocate funds solely to conservative instruments. When investors decide to invest, they must have a realistic understanding of their capabilities as well as their expectations regarding potential increases in investment value. Investors exhibit different behaviors when facing the risks associated with their investments. They should neither act recklessly nor be overly complacent in responding to potential risks, as risk is closely related to the possibility of losses in investment activities. Therefore, risk tolerance plays a crucial role in shaping investment decisions.

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Accordingly, it can be concluded that risk tolerance has a direct influence on financial allocation. Higher levels of risk tolerance encourage individuals to adopt more aggressive allocation decisions, with a larger proportion of funds allocated to high-risk instruments that offer higher potential returns. Conversely, lower risk tolerance leads to more conservative financial allocation strategies that prioritize stability and capital preservation. This relationship indicates that differences in risk tolerance among individuals result in distinct patterns of financial allocation, in line with their preferences, objectives, and perceptions of risk.

Financial Allocation

Financial allocation reflects how individuals or entities make decisions in distributing their available financial resources across various needs or instruments, taking into account objectives, risk considerations, and personal preferences. Effective fund allocation indicates a level of financial intelligence and strategic decision-making ability in financial management. According to Chavali and Mohanraj (2022), fund allocation behavior is strongly influenced by financial knowledge, risk assessment ability, and individual preferences regarding investment security and returns. Individuals with sound financial literacy tend to make more rational decisions when distributing funds across assets such as savings, stocks, mutual funds, and other alternative investments.

Shafique et al. (2020) find that financial allocation behavior is closely related to individuals' confidence in making investment decisions, which is mediated by their level of financial literacy. Individuals with higher financial understanding are better able to allocate funds based on rational evaluation rather than merely following market trends. Zahro and Nurmalita (2023) state that individual financial allocation behavior is strongly influenced by the level of financial literacy, where understanding financial products and associated risks serves as a key determinant in the fund allocation decision-making process. They also emphasize that successful financial management is influenced not only by knowledge but also by personal motivation and social pressures within the surrounding environment.

Framework and Hypothesis

In the modern era, characterized by advances in financial technology and the increasing complexity of financial instruments, individuals' ability to manage personal finances has become increasingly important. One of the main foundations of prudent financial decision-making is behavioral finance. Financial behavior encompasses an understanding of fundamental financial concepts, such as budgeting, risk management, and diversification.

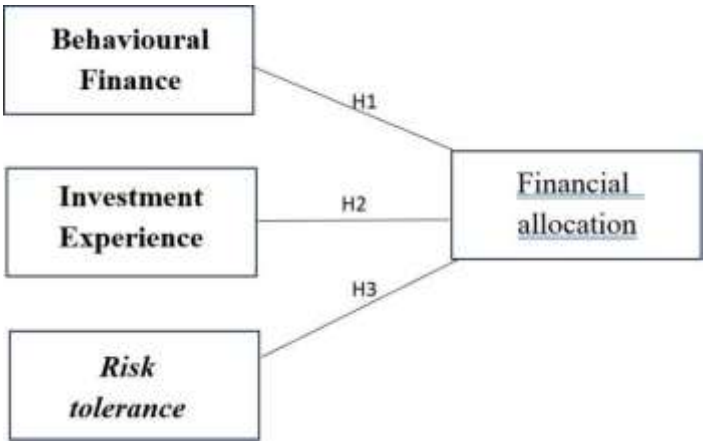
Financial allocation is a crucial aspect of personal financial management that reflects the extent to which individuals are able to manage and distribute their financial resources

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wisely across various financial instruments. Appropriate fund allocation behavior indicates a high level of financial intelligence and well- developed long-term financial planning.

One of the main factors influencing fund allocation behavior is investment experience, which refers to an individual's ability to understand fundamental financial concepts such as risk, interest rates, inflation, and diversification. Individuals with a high level of financial literacy tend to have a better understanding of the characteristics of financial instruments, are more capable of comparing risks and returns, and are able to make financial decisions that align with their objectives and risk profiles. This enables them to be more prudent in selecting instruments such as savings accounts, deposits, mutual funds, stocks, or gold.

On the other hand, risk tolerance explains that financial decision-making is not influenced solely by rational considerations, but also by psychological, emotional, and social factors. Behavioral biases such as overconfidence, loss aversion, and mental accounting often affect how individuals allocate funds, potentially leading to suboptimal decisions. Based on the findings of previous studies, the relationships among these variables are formulated into the following hypotheses:



Gambar 1: Research Model

Based on Figure 1, the following hypotheses are proposed:

H1 : Behavioral finance has a positive and significant effect on financial allocation in bond instruments.

H2 : Investment Experience has a positive and significant effect on financial allocation in bond instruments.

H3 : Risk Tolerance has a positive and significant effect on financial allocation in bond instruments.

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RESEARCH METHOD

The population of this study consists of productive individuals aged 18 to 25 years who are domiciled in Indonesia and actively engaged in financial activities, including saving, investing, and independently managing personal expenditures. This population is selected because this age range is considered a life stage in which individuals generally have income and are actively involved in financial decision-making, particularly in allocating funds across various financial instruments such as savings accounts, deposits, gold, stocks, and mutual funds. The sample is selected using a purposive sampling technique. The sample size in this study is determined based on the approach proposed by Hair et al. (2021), which suggests that the ideal sample size for quantitative research, particularly studies involving linear regression analysis, is a minimum of 100 respondents or should be adjusted according to model complexity and the number of variables employed. Accordingly, this study utilizes a sample of 170 respondents.

Operationalization of Variables

The research instrument employed in this study is a questionnaire, as this research adopts a quantitative approach. The questionnaire is administered in the form of an electronic survey created using Google Forms. Distribution of the questionnaire is conducted online through platforms such as WhatsApp, Line, and Instagram to ensure efficiency in terms of time and cost.

The measurement scale used in this study is the Likert scale. The Likert scale is one of the most widely used psychometric measurement tools in social science research to assess individual attitudes, perceptions, or opinions toward a particular object or phenomenon.

Behavioral Finance

Behavioral finance is positioned as an independent variable (X1). It is defined as the extent to which cognitive biases, emotions, and social influences shape economic and financial decision-making, leading to deviations from purely rational behavior. In the context of consumption, its implications are reflected in behaviors such as excessive spending (over-spending), following trends or group behavior (herding and social proof), and suboptimal financial management (mental accounting and present bias), which arise from psychological and social processes documented in the recent literature (Chen, 2024).

The indicators used to measure behavioral finance are described as follows:

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table 1: Behavioral Finance Indicator

Variable	Question	Symbol	Scale	Source
Behavioral Finance	I feel I have enough knowledge to choose profitable bonds.	BF-1	Inverval 1-5	Kumar & Goyal (2022).
	I am confident I can predict the direction of bond price changes.	BF-2	Inverval 1-5	
	I tend to follow the recommendations or decisions of other investors when purchasing bonds.	BF-3	Inverval 1-5	
	I am more confident buying bonds that are currently in high demand among investors.	BF-4	Inverval 1-5	
	I am more worried about experiencing losses than I am about enjoying small profits	BF-5	Inverval 1-5	
	I often hold on to losing bonds in the hope that their value will recover.	BF-6	Inverval 1-5	
	I separate funds for bond investments from my other personal finances.	BF-7	Inverval 1-5	
	I set a specific goal (e.g., steady income) as a reason for choosing bonds.	BF-8	Inverval 1-5	
	I prefer bonds from issuers that I am familiar with	BF-9	Interval 1-5	
	The credibility of the bond issuer is my primary consideration when investing.	BF-10	Interval 1-5	
	I use historical bond price data as a reference for investment decisions.	BF-11	Interval 1-5	
	I tend to sell profitable bonds faster than losing ones.	BF-12	Interval 1-5	

Investment Experience

Investment experience is positioned as an independent variable (X2). It is defined as the level of exposure and involvement of individuals in investment activities accumulated over time, reflected in the duration of investment participation, transaction intensity, breadth of instruments or asset classes utilized, and experience in navigating diverse market conditions. Investment experience has been shown to be closely associated with investors' behavior and risk preferences:

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Table 2: Investment Experience Indicator

Variable	Question	Symbol	Scale	Source
Investment Experience	I have been investing in financial instruments for over a year.	IE-1	Inverval 1-5	Awais et al. (2017)
	I have experience investing in several instruments such as stocks, mutual funds, and bonds	IE-2	Inverval 1-5	
	I regularly buy or sell investment instruments every year.	IE-3	Inverval 1-5	
	I have attended training or seminars on capital markets or bonds.	IE-4	Inverval 1-5	
	I have purchased or owned both government and corporate bonds	IE-5	Inverval 1-5	
	My investment experience has made me more careful in allocating funds to bonds.	IE-6	Inverval 1-5	

Risk tolerance

Risk tolerance is positioned as an independent variable (X3). It is defined as an individual's willingness to accept uncertainty in outcomes and potential financial losses in exchange for the opportunity to obtain higher returns. Recent literature emphasizes that risk tolerance can be measured using stated-preference items (willingness to take risk), psychometric scales (risk propensity measures), and revealed-preference tests, with evidence suggesting that psychometric and stated-preference scales are the strongest predictors of portfolio allocation and future risk- taking behavior.

The indicators used to measure risk tolerance are described as follows:

Table 3: Risk Tolerance Indicator

Variable	Question	Symbol	Scale	Source
Risk Tolerance	I am willing to accept bond price fluctuations in order to obtain higher returns.	RT-1	Inverval 1-5	Yao, Z (2021)
	If bond prices fall, I still maintain my investment.	RT-2	Inverval 1-5	
	I prefer investing in bonds because they are lower risk than stocks.	RT-3	Inverval 1-5	

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I chose bonds because they provide a stable, fixed income.	RT-4	Inverval 1-5
I choose bonds for long term financial goals,	RT-5	Inverval 1-5
I am prepared to face the potential for small losses in order to gain larger profits.	RT-6	Inverval 1-5
I allocate most of my investment funds to bonds because the risk is moderate.	RT-7	Inverval 1-5
I am comfortable with the level of risk I am taking through bond investments.	RT-8	Inverval 1-5

Financial Allocation Behaviur

Financial allocation behavior is positioned as the dependent variable (Y). It is defined as the manner in which individuals distribute their financial resources across various financial instruments in accordance with their objectives, risk preferences, and financial considerations. The indicators used to measure financial allocation behavior are described as follows:

Table 4: Financial Allocation Behaviur Indicator

Variable	Question	Symbol	Scale	Source
Perilaku	Most of my portfolio is allocated to bonds.	PFA-1	Inverval 1-5	Omanović (2024).
Financial Allocation	I regularly buy bonds at certain intervals.	PFA-2	Inverval 1-5	
	I chose bonds because they provide a fixed coupon every period.	PFA-3	Inverval 1-5	
	I tend to increase my bond investments when interest rates rise.	PFA-4	Inverval 1-5	
	I increase my bond holdings when the stock market is volatile.	PFA-5	Inverval 1-5	
	I plan to increase my bond allocation within the next year.	PFA-6	Inverval 1-5	

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Data Analysis

Hypothesis testing in this study is conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM) analysis. Ghozali and Latan (2015: 42) explain that hypothesis testing is performed through a bootstrapping procedure, which involves examining the original sample values to determine the direction of the effect, whether positive or negative.

The t-statistics and p-values are used to assess the significance of the relationships, while the path coefficients represent the strength and direction of the relationships between exogenous and endogenous variables in the model. By nalyzing the path coefficients, researchers can understand the magnitude of the influence of exogenous variables on endogenous variables and evaluate the relevance of the proposed relationships. Through this process, the study is able to draw more accurate conclusions regarding the tested hypotheses.

Furthermore, when the t-statistic value is not directly examined, hypothesis testing can alternatively be conducted by assessing the p-values obtained from the bootstrapping-based path analysis. With a significance level of 5% (α = 0.05), a hypothesis is accepted (not rejected) if the p-value is less than 0.05.

RESULTS

Hypothesis testing in this study is conducted to examine the effects of the independent variables on the dependent variable. The results of the hypothesis testing indicate the relationships between the independent and dependent variables based on the regression coefficient values from the original sample and the significance levels reflected in the p-values. The identified relationships indicate whether the effects are positive or negative, as well as whether they are statistically significant or insignificant.

The results of the hypothesis testing using the path coefficient analysis, conducted with the SmartPLS version 4 application in this study, are presented as follows:

Tabel 5: Hipotesis Test Result (*Path Coefficient*)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDE V)	t-Statistics (|O/ST DEV|)	P-Values
BF -> PFA	0.501	0.501	0.095	5.280	0.000
IE -> PFA	0.143	0.142	0.080	1.788	0.074
RT -> PFA	0.154	0.156	0.088	1.749	0.080

Sourcer: Olah Data SmartPLS Versi 4, 2025

Based on the results of hypothesis testing using the bootstrapping method in SmartPLS version 4, as presented in Table 4, Behavioral Finance (BF) has a p- value of

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0.000, which is less than 0.05 ($p < 0.05$). This indicates that Behavioral Finance has a positive and significant effect on Financial Allocation.

Investment Experience (IE) has a p-value of 0.074, which is greater than 0.05 ($p > 0.05$). This finding indicates that Investment Experience does not have a significant effect on Financial Allocation.

Risk Tolerance (RT) has a p-value of 0.080, which is greater than 0.05 ($p > 0.05$). This result suggests that Risk Tolerance does not have a significant effect on Financial Allocation.

DISCUSSION

This section presents the research findings based on the structural model (inner model) testing conducted using the Partial Least Squares–Structural Equation Modeling (PLS-SEM) approach through the SmartPLS 4 application. The discussion is structured to provide an in-depth explanation of the hypothesis testing results (H1–H3), including both significant and insignificant effects, by comparing them with relevant theories and previous empirical studies.

Behavioral Finance has a positive and significant effect on Financial Allocation.

This implies that the stronger Generation Z investors' tendencies toward cognitive and psychological biases such as overconfidence, herding, loss aversion, and familiarity bias the more pronounced their influence on decisions to allocate funds to bond instruments. This condition reflects that psychological factors play a dominant role in investment decision-making. Theoretically this finding is highly consistent with the primary theoretical foundation of this study, namely Prospect Theory. This theory explains that individuals do not always behave rationally, as their decisions are strongly influenced by psychological perceptions of gains and losses. These results are also strongly supported by relevant previous empirical studie.

Kumar and Goyal (2022) conclude that overconfidence, herding, and loss aversion biases are the primary determinants of modern investment behavior and explain why investors frequently deviate from the principles of pure rationality. These findings are reinforced by Chen et al. (2024), who report that behavioral finance research over the past decade has been dominated by three main clusters cognitive biases, emotional biases, and herding all of which play a direct role in everyday financial decisions, including portfolio allocation. Singh and Yadav (2023) find that overconfidence bias encourages investors to increase allocations to instruments they believe they can better predict in terms of risk, including bonds, as they perceive their risk assessment abilities to be superior to actual market conditions. This is consistent with the findings of the present study, which

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indicate that more confident respondents tend to make more aggressive fund allocation decisions toward certain instruments.

Meanwhile, Khan et al. (2021) demonstrate that loss aversion bias often triggers investors to hold on to assets that are experiencing a decline in value in the hope that prices will recover, a behavior known as the disposition effect. This aligns with the findings of this study, where some respondents tend to delay rebalancing, thereby influencing their overall fund allocation patterns. Recent research by Argo et al. (2023) further emphasizes the role of social pressure and social proof in reinforcing herding behavior. They find that information from peer groups, online communities, or public figures significantly increases investors' tendencies to follow trends without conducting fundamental analysis.

Investment Experience does not have a significant effect on Financial Allocation.

In the context of this study, the duration or extent of investment experience possessed by Generation Z investors is not statistically proven to be a significant factor in shaping their fund allocation strategies toward bond instruments.

Awais et al. (2017) find that investment experience and financial literacy have a positive effect on investment decisions. However, the results of the present study indicate that investment experience does not have a significant effect on financial allocation. This inconsistency can be explained by several important factors related to the characteristics of the respondents in this study, namely Generation Z individuals aged 18–25 years, whose investment experience duration is likely to be relatively short. Consequently, this limited accumulation of experience may not yet be sufficient to develop the insight, intuition, or risk evaluation capabilities typically possessed by more experienced investors.

This finding is consistent with Nguyen and Ha (2021), who argue that investment experience exerts a strong influence only when investors have been exposed to multiple market phases, including periods of volatility, crisis, and recovery. Without exposure to such market cycles, investment experience does not lead to significant changes in fund allocation patterns. As identified in Chapter II, novice investors who generally possess limited experience tend to rely heavily on external information sources. Zhao and Chen (2023) find that young investors are more likely to make spontaneous fund allocation decisions due to their high dependence on public opinion, social media content, and recommendations from online communities, often making decisions based on trends or suggestions that align with their immediate social environment.

This lack of significance can be understood as a natural phenomenon in the context of Generation Z, who are still in the early stage of developing financial literacy and investment experience. The findings of this study indicate that psychological factors and behavioral biases (H1) appear to play a more dominant role in guiding fund allocation decisions

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Risk Tolerance has a positive and significant effect on Financial Allocation.

However, the level of individual investors' risk tolerance is not found to have a statistically significant effect on fund allocation decisions toward bonds within this Generation Z sample. This finding also contradicts traditional financial theories, such as Modern Portfolio Theory (Markowitz, 1952), which posits that risk preferences are a primary determinant in constructing an optimal portfolio composition. Theoretically, investors with higher risk tolerance are expected to allocate a larger proportion of funds to higher-risk instruments, while more conservative investors tend to prefer lower-risk instruments such as bonds.

Empirical studies supporting this framework, such as Yao (2021) and Omanović (2024), consistently find a significant correlation between risk tolerance and variations in portfolio allocation among investors across different countries. However, the results of this study indicate that risk tolerance does not have a significant effect on financial allocation. This discrepancy suggests that, in the context of Generation Z, psychological and behavioral financial factors are more dominant than rational risk preferences.

This finding is consistent with the study by Lim and Teh (2020) in Malaysia, which reveals that young investors tend to make investment decisions not based on their risk tolerance, but rather due to social influence, exposure to digital media, and perceptions of market trends. In other words, rational constructs such as risk tolerance are not always reflected in actual portfolio allocation behavior.

A study by Liu and Yang (2021) in China shows that Generation Z investors tend to rely more on heuristic shortcuts such as familiarity bias, popularity bias, and recommendations from online communities when selecting financial instruments. As a result, fund allocation decisions are more influenced by what appears safe or is currently trending rather than by alignment with their personal risk tolerance. This phenomenon is consistent with the pattern observed in this study, where bond investment decisions appear to be driven more by social perceptions and behavioral biases than by investors' willingness or unwillingness to bear risk.

The most plausible explanation for this finding is the substantially stronger influence of the behavioral finance variable, which is shown to be highly significant ($p = 0.000$). There is strong evidence that, for Generation Z investors in this sample, behavioral biases such as herding and familiarity bias exert a greater influence on bond investment decisions than rational assessments of their own risk profiles. In other words, rational constructs such as risk tolerance are outweighed by psychological factors in determining fund allocation.

Based on this body of evidence, the most likely explanation for the insignificance of H3 is the dominant effect of behavioral finance (H1), which is empirically confirmed to be highly significant ($p = 0.000$) in this study. Accordingly, it can be concluded that for Generation Z investors, behavioral biases such as herding, familiarity bias, and social proof

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play a more decisive role in shaping fund allocation decisions than rational evaluations of personal risk tolerance. In other words, rational constructs such as risk tolerance are overridden by psychological and behavioral factors, causing allocation decisions to no longer reflect risk preferences as described in classical financial theories.

CONCLUSION

Based on the research findings and discussion regarding the effects of Behavioral Finance, Investment Experience, and Risk Tolerance on Financial Allocation in bond instruments among Generation Z investors, it can be concluded that:

Behavioral Finance has a positive and significant effect on Financial Allocation. This finding confirms that Generation Z fund allocation decisions toward bond instruments are largely dominated by psychological factors and cognitive biases. The stronger the tendency toward such behavioral biases, the greater the allocation of funds to bonds.

Investment Experience does not have a significant effect on Financial Allocation. The duration of investment activity or the frequency of transactions undertaken by respondents is not proven to significantly influence their fund allocation strategies. This indicates that, for Generation Z investors in this study, the level of investment experience may not yet be sufficiently deep or mature (has not reached the “learning curve” threshold) to fundamentally alter asset allocation decision patterns.

Risk Tolerance does not have a significant effect on Financial Allocation. The degree of willingness to bear risk whether conservative or aggressive does not serve as a primary determinant of fund allocation decisions toward bonds. This finding represents an anomaly relative to modern portfolio theory, which posits that risk preferences should determine asset allocation. In this context, behavioral finance factors appear to be more dominant, thereby obscuring the influence of individual risk profiles on bond investment decisions.

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