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The Influence of Loss Aversion and Overconfidence on Generation Z Investment Decisions Moderated by Financial Literacy

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Abstract

The rapid development of digital technology in the Industrial Revolution 5.0 era has increased investment participation among Generation Z, particularly through digital investment platforms. However, investment decisions are often influenced by behavioral biases, such as loss aversion and overconfidence. Previous studies have reported inconsistent findings regarding the effects of these biases on investment decisions, indicating the need for further investigation. Therefore, this study aims to analyze the influence of loss aversion and overconfidence on investment decisions among Generation Z in Makassar City and to examine the moderating role of financial literacy. This study employed a quantitative approach with an associative research design. The sample consisted of 170 Generation Z investors selected through purposive sampling. Data were collected using an online questionnaire with a Likert scale and analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS). The results show that loss aversion and overconfidence significantly influence investment decisions among Generation Z in Makassar City. Furthermore, financial literacy significantly moderates the relationship between loss aversion, overconfidence, and investment decisions. These findings contribute to behavioral finance literature by highlighting the important role of financial literacy in promoting more rational, cautious, and risk-appropriate investment decisions among Generation Z investors.

Keywords: Loss Aversion, Overconfidence, Financial Literacy

INTRODUCTION

The Industrial Revolution 5.0 has accelerated digital transformation across various sectors, including investment activities. Digital technology enables investors to access

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information and conduct transactions more efficiently through online investment platforms. The emergence of various investment instruments, such as fintech, cryptocurrencies, peer-to-peer lending, and crowdfunding, has further expanded investment opportunities for the public (Rinjani & Darussalam, 2024). According to Sidayang et al. (2024), advancements in information and communication technology have significantly improved investment accessibility, encouraging greater participation in financial markets.

This trend is reflected in the rapid growth of investors in Indonesia. Data from the Indonesian Central Securities Depository (KSEI) show a substantial increase in the number of investors between 2022 and 2025, with individuals under 30 years old representing the largest investor group.



SID	Pertumbuhan Investor					
	2022	2023	2024	Okt-25	Nov-25	Des-25
Pasar Modal	37,68%	18,01%	22,22%	2,87%	2,48%	3,43%
Reksa Dana	40,41%	18,87%	22,92%	2,81%	2,45%	3,37%
Saham dan Surat Berharga Lainnya*	28,64%	18,37%	21,42%	3,24%	2,83%	3,52%
SBN	36,05%	20,60%	19,56%	2,12%	1,51%	1,44%

Figure 1: Growth of Indonesian Investors (SID) 2022-2025
Source: Indonesian Central Securities Depository (KSEI) (2025).

A similar pattern can be observed in South Sulawesi, where investment participation is dominated by young investors (SulselSatu, 2024). As digital natives, Generation Z possesses strong technological capabilities and easy access to financial information (Choung et al., 2023). However, the abundance of information does not always lead to rational investment decisions. Behavioral biases often influence investment choices and may reduce the quality of decision-making (Hayati & Desmiza, 2025).

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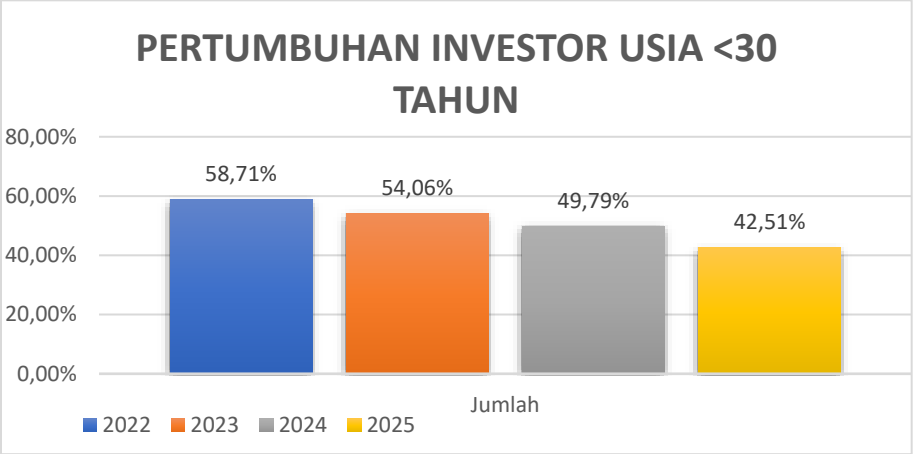


Figure 2 : Percentage of Investors Aged Below 30 Years
Source: Indonesian Central Securities Depository (KSEI) (2025).

Behavioral finance suggests that investors are not always rational when making financial decisions. Two common psychological biases affecting investment decisions are loss aversion and overconfidence. Loss aversion refers to an individual's tendency to perceive losses more intensely than gains, leading to excessive risk avoidance (Budiman & Patricia, 2021). Meanwhile, overconfidence reflects excessive belief in one's knowledge and abilities, often causing investors to underestimate risks and make overly optimistic decisions (Listiani & Soleha, 2023). These biases may result in suboptimal investment outcomes and financial losses (Gufron & Wibowo, 2024; Febianti & Simatupang, 2025).

Financial literacy is considered an important factor in improving investment decision-making. It encompasses the knowledge, skills, and confidence needed to manage financial resources effectively and make informed financial decisions (OJK, 2025). Higher levels of financial literacy can help investors better understand investment risks, evaluate available information, and make more rational decisions (Adwitiya & Abdurrahman, 2025). In addition, financial literacy may reduce the negative effects of behavioral biases such as loss aversion and overconfidence (Hayati & Desmiza, 2025; Hartati & Syarifudin, 2025).

Previous studies have reported inconsistent findings regarding the influence of loss aversion and overconfidence on investment decisions. Humairo and Panuntun (2022) found that both variables significantly and positively affect investment decisions, whereas Khsunah et al. (2024) reported that loss aversion has a negative and insignificant effect. Similarly, Budiman et al. (2025) found a negative effect of overconfidence on investment decisions. These inconsistencies indicate a research gap that requires further

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investigation. Therefore, this study aims to examine the effects of loss aversion and overconfidence on investment decisions among Generation Z in Makassar City and to analyze the moderating role of financial literacy. This study contributes to the behavioral finance literature by providing empirical evidence on how financial literacy influences the relationship between psychological biases and investment decision-making among Generation Z investors.

LITERATURE REVIEW

Several studies have examined the influence of behavioral biases on investment decisions, particularly overconfidence and loss aversion. Humairo and Panuntun (2022) found that overconfidence, loss aversion, and herding bias positively and significantly affect investment decisions among Generation Z investors. Similar findings were reported by Mujianah et al. (2025), who found that financial literacy, overconfidence, and loss aversion positively and significantly influence investment decisions. Likewise, Kumalasari and Prajawati (2025) revealed that overconfidence, loss aversion, and fear of missing out (FOMO) positively affect investment decisions. Hossain and Siddiqua (2024) also reported that loss aversion and overconfidence significantly influence stock investment decisions, while Afiani et al. (2024) found that financial literacy and overconfidence positively affect investment decisions among Millennials and Generation Z investors.

However, several studies have produced contradictory findings. Budiman et al. (2025) found that both loss aversion and overconfidence negatively affect investment decisions. Similarly, Tubastuvi et al. (2024) reported that loss aversion significantly influences investment decisions, whereas overconfidence has no significant effect. These inconsistencies indicate that the influence of overconfidence and loss aversion on investment decisions remains inconclusive. Differences in investor characteristics, research settings, and contextual factors may explain the variation in findings across studies.

The moderating role of financial literacy has also generated mixed results. Mahmood et al. (2024), Adil et al. (2022), and Hartati and Syarifudin (2025) found that financial literacy acts as a significant moderating variable in the relationship between behavioral biases and investment decisions. In contrast, Kumalasari and Prajawati (2025) as well as Budiman et al. (2025) reported that financial literacy does not moderate the relationship between overconfidence, loss aversion, and investment decisions. These inconsistent findings indicate a research gap regarding the role of financial literacy in investment decision-making. Therefore, this study seeks to examine the influence of loss

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aversion and overconfidence on investment decisions among Generation Z in Makassar City and to investigate the moderating role of financial literacy, thereby contributing to the behavioral finance literature.

RESEARCH METHOD

This study employed a quantitative approach with an associative research design to examine the influence of loss aversion and overconfidence on investment decisions among Generation Z in Makassar City, as well as the moderating role of financial literacy. According to Sugiyono (2017), associative research aims to identify relationships among variables. The study population consisted of Generation Z individuals residing in Makassar City who had experience investing in stocks, mutual funds, or other digital investment instruments. Respondents were selected using purposive sampling based on the following criteria: being born between 1997 and 2012, residing in Makassar City, and having investment experience. Following the recommendation of Hair et al. (2019), the sample size was determined using ten times the number of indicators. With 17 indicators employed in this study, the final sample consisted of 170 respondents.

Primary data were collected through an online questionnaire distributed via Google Forms. The research instrument utilized a five-point Likert scale ranging from strongly disagree to strongly agree. The indicators of loss aversion were adapted from Humairo and Panuntun (2022), overconfidence from Shefrin (2018), investment decisions from Tandelilin (2010), and financial literacy from Budiman et al. (2025). The study was grounded in Behavioral Finance Theory, which explains that investment decisions are influenced not only by rational considerations but also by psychological biases and individual financial capabilities.

Data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS). According to Hair et al. (2019), SEM-PLS is appropriate for analyzing complex relationships among latent variables and assessing predictive models. Data credibility was evaluated through validity and reliability testing. Convergent validity was assessed using outer loading and Average Variance Extracted (AVE) values (Hair, 2014), while discriminant validity was evaluated using cross-loadings and the Fornell–Larcker criterion (Ghozali, 2021). Reliability was measured through Composite Reliability and Cronbach's Alpha, with values above 0.70 indicating acceptable reliability (Ghozali, 2021). Hypothesis testing was conducted using the bootstrapping procedure, with significance determined by a t-statistic of ≥ 1.96 and a p-value of < 0.05. This procedure

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was used to examine both the direct effects of loss aversion and overconfidence on investment decisions and the moderating effect of financial literacy.

RESULT

Respondent Characteristics

The following table presents the demographic characteristics of the respondents, including gender, age, domicile, educational/occupational status, and preferred investment instrument. The data are presented in terms of frequency (n) and percentage (%) to provide an overview of the respondents' profiles.

Table 1. Respondent Characteristics

Characteristics	Frequency (n)	Percentage (%)
Gender		
Male	68	40%
Female	102	60%
Total	**170**	**100 %**
Age		
17-20 years	23	13,5%
21-24 years	114	67,1%
25-29 years	33	19,4%
Total	**170**	**100 %**
Domicile		
Biringkanaya	11	6,5%
Bontoala	13	7,6%
Kecamatan Makassar	21	12,4%
Mamajang	5	2,9%
Manggala	17	10%
Mariso	4	2,4%
Panakukang	16	9,4%
Rappocini	25	14,7%
Tallo	8	4,7%
Tamalanrea	12	7,1%
Tamalate	10	5,9%
Ujung Pandang	5	2,9%

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Ujung Tanah	1	0,6%
Wajo	4	2,4%
Other Domicile	18	10,6%
Total	**170**	**100 %**
Educational		
School Student	7	4,1%
University Student	108	63,5%
Employee	48	28,2%
Others	7	4,1%
Total	**170**	**100%**
Instrument Type		
Saham	88	51,8%
Reksadana	40	23,5%
Sukuk	4	2,4%
Obligasi	12	7,1%
Others	26	15,3%
Total	**170**	**100%**

Source: SmartPLS Processed Data (2026)

Based on the table 1, the majority of the 170 respondents were female (60%), aged 21-24 years (67.1%), and university students (63.5%). Most respondents resided in Rappocini District (14.7%). Regarding investment preferences, stocks were the most preferred investment instrument (51.8%), followed by mutual funds (23.5%), while sukuk was the least preferred instrument (2.4%).

Measurement Model Evaluation (Outer Model)

The measurement model (outer model) was evaluated to assess the validity and reliability of the constructs used in this study. Convergent validity was examined using the loading factor and Average Variance Extracted (AVE). An indicator is considered valid if it has a loading factor greater than 0.70, while a construct demonstrates adequate convergent validity when the AVE value exceeds 0.50. Reliability was assessed using Composite Reliability and Cronbach's Alpha, with values greater than 0.70 indicating satisfactory internal consistency. The results of the measurement model evaluation are presented in Table 2.

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Table 2. Results of the Outer Model Evaluation

Variable	Indikator	Loading Factor	AVE	Composite Reliability	Cronbach's Alpha	Interpretation
Loss Aversion (X1)	LA3	0.907	0.711	0.925	0.900	Valid & Reliabel
Overconfidence (X2)	OC3	0.818	0.598	0.881	0.834	Valid & Reliabel
Investment Decision (Y)	KI2	0.871	0.750	0.900	0.834	Valid & Reliabel
Financial Literacy (Z)	FL4	0.874	0.674	0.892	0.852	Valid & Reliabel

Source: SmartPLS Processed Data (2026)

Based on Table 2, all constructs satisfy the recommended criteria for validity and reliability. The loading factor values range from 0.818 to 0.907, exceeding the minimum threshold of 0.70, indicating that the indicators adequately represent their respective constructs. Likewise, the AVE values range from 0.598 to 0.750, all above the recommended threshold of 0.50, confirming satisfactory convergent validity.

Furthermore, the Composite Reliability values range from 0.881 to 0.925, while Cronbach's Alpha values range from 0.834 to 0.900. Since all reliability coefficients exceed the recommended value of 0.70, the constructs demonstrate strong internal consistency and reliability. Therefore, the measurement model is considered valid and reliable, indicating that the indicators are appropriate for measuring the constructs and that the data are suitable for further structural model (inner model) analysis.

Structural Model Evaluation (Inner Model)

The structural model evaluation (inner model) was conducted to examine the explanatory power of the research model and test the relationships between variables. The evaluation includes the coefficient of determination (R^2) and hypothesis testing using the bootstrapping procedure in SmartPLS, which is assessed based on the path coefficient, t-statistic, and p-value values. The results of the structural model evaluation are presented in the following tables.

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Table 3. Coefficient of Determination (R^2)

Indicator	R Square	R Square Adjusted	Interpretation
Investment Decision (Y)	0.706	0.697	Strong

Source: SmartPLS Processed Data (2026)

Based on Table 4, the R-Square (R^2) value of the investment decision variable is 0.706, indicating that loss aversion, overconfidence, and financial literacy explain 70.6% of the variation in investment decisions, while the remaining 29.4% is explained by other variables outside the research model. This indicates that the research model has a good explanatory ability.

Table 4. Hypothesis Testing

	Original Sampel (O)	Sampel Mean (M)	Standard Deviation (STDEV)	T Statistics(|O/STDEV|)	P Values	Interpretation
Loss Aversion > Investment Decision	0.633	0.632	0.087	7.295	0.000	Positive and Significant
Overconfidence > Investment Decision	0.054	0.052	0.115	0.466	0.321	Positive but Not Significant
Financial Literacy X Loss Aversion > Investment Decision	-0.146	-0.150	0.061	2.382	0.009	Negative and Significant
Financial Literacy X Overconfidence > Investment Decision	0.142	0.144	0.069	2.053	0.020	Positive and Significant

Source: SmartPLS Processed Data (2026)

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The results of the testing in Table 5. show that :

a. Effect of Loss Aversion on Investment Decisions

The first hypothesis is supported. The results show a path coefficient of 0.633, a t-statistic of 7.295, and a p-value of 0.000. Therefore, H1 is accepted, indicating that loss aversion has a positive and significant effect on investment decisions.

b. Effect of Overconfidence on Investment Decisions

The second hypothesis is not supported. The results show a path coefficient of 0.054, a t-statistic of 0.466, and a p-value of 0.321. Therefore, H2 is rejected, indicating that overconfidence has a positive but insignificant effect on investment decisions.

c. The Moderating Effect of Financial Literacy on the Relationship Between Loss Aversion and Investment Decisions

The third hypothesis is supported. The results show a path coefficient of -0.146, a t-statistic of 2.382, and a p-value of 0.009. Therefore, H3 is accepted, indicating that financial literacy significantly moderates the relationship between loss aversion and investment decisions.

d. The Moderating Effect of Financial Literacy on the Relationship Between Overconfidence and Investment Decisions

The fourth hypothesis is supported. The results show a path coefficient of 0.142, a t-statistic of 2.053, and a p-value of 0.020. Therefore, H4 is accepted, indicating that financial literacy significantly moderates the relationship between overconfidence and investment decisions.

DISCUSSION

Effect of Loss Aversion on Investment Decisions

The results of hypothesis testing indicate that loss aversion has a positive and significant effect on investment decisions among Generation Z in Makassar City. This finding shows that investors with higher levels of loss aversion tend to be more careful in making investment decisions because they are more sensitive to potential losses. According to Prospect Theory proposed by Kahneman and Tversky (1979), individuals perceive losses as having a greater psychological impact than equivalent gains, causing investors to prioritize avoiding losses rather than pursuing higher returns.

The descriptive analysis shows that the highest indicator of loss aversion was the tendency to avoid selling stocks that have decreased in value and selling stocks that have increased in value, with an agreement level of 81.2%. This indicates that respondents tend to hold declining stocks in the expectation of future recovery while selling profitable

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stocks. This behavior reflects the characteristics of loss aversion, where investors are more focused on preventing losses than maximizing gains. This finding is consistent with Addinpujoartanto and Darmawan (2020), Dewi and Yudiantara (2026), and Gufron and Wibowo (2024), who found that loss aversion significantly influences investment decisions. Thus, this study confirms that loss aversion is an important behavioral factor affecting investment decision-making.

Effect of Overconfidence on Investment Decisions

The results show that overconfidence has a positive but insignificant effect on investment decisions among Generation Z in Makassar City. This indicates that although investor confidence may influence decision-making, its effect is not strong enough to significantly determine investment decisions. In behavioral finance theory, overconfidence refers to investors' tendency to overestimate their abilities, knowledge, and accuracy in predicting market conditions. However, investment decisions are also influenced by other factors, such as market conditions, investment experience, financial literacy, and risk tolerance.

The descriptive analysis indicates that the dominant indicator of overconfidence was underestimating risk, with an agreement level of 90.6%. This suggests that respondents tend to perceive investment risks as lower than expected returns, reflecting excessive confidence in their investment abilities. However, the insignificant result indicates that respondents still consider other aspects before making investment decisions. This finding is supported by Adiputra et al. (2023), Irvansyah et al. (2024), and Fahmi and Raprayogha (2021), who found that overconfidence does not significantly affect investment decisions. Therefore, although overconfidence shows a positive tendency, it is not the dominant factor influencing investment decisions.

Financial Literacy Moderates the Effect of Loss Aversion on Investment Decisions

The findings indicate that financial literacy moderates the relationship between loss aversion and investment decisions by weakening its influence. This means that higher financial literacy reduces the impact of loss aversion on investment decisions. Investors with loss aversion tendencies often focus more on avoiding losses, which may cause them to avoid investments with potential returns due to fear of risk. However, investors with better financial literacy are more capable of understanding risk and return relationships and making decisions based on rational analysis.

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Financial literacy helps investors understand financial management, diversification strategies, and the importance of investment analysis. Therefore, financial literacy can reduce emotional reactions and control psychological biases in investment decision-making. This finding is supported by Arlita et al. (2026), who stated that financially literate investors can evaluate risks more accurately and focus on long-term investment objectives. Limarus and Pamungkas (2023) also found that financial literacy reduces the influence of loss aversion on investment decisions among young investors. Furthermore, Tyas and Fathmaningrum (2024) explained that financial literacy helps reduce emotional responses toward short-term investment losses.

Financial Literacy Moderates the Effect of Overconfidence on Investment Decisions

The results show that financial literacy strengthens the relationship between overconfidence and investment decisions. This indicates that investors with high financial literacy and confidence tend to be more confident in making investment decisions because their confidence is supported by financial knowledge and understanding. Financial literacy enables investors to analyze financial information, understand market conditions, and evaluate investment instruments based on risk and return considerations.

In behavioral finance theory, overconfidence can cause investors to overestimate their abilities and knowledge. However, when supported by adequate financial literacy, confidence can be based on more accurate information and analysis. This finding is consistent with Hartati and Syarifudin (2025), who stated that financial understanding strengthens investor confidence because decisions are supported by adequate knowledge. Usriyono and Wahyudi (2023) also found that financial literacy strengthens the relationship between overconfidence and investment decisions. Additionally, Adwitiya and Abdurrahman (2025) explained that financially literate investors tend to make more rational investment decisions. Therefore, this study contributes to behavioral finance literature by demonstrating that financial literacy has different moderating roles, namely reducing the influence of loss aversion while strengthening confidence-based investment decisions.

CONCLUSION

Based on the results of this study, it can be concluded that loss aversion has a positive and significant effect on investment decisions among Generation Z in Makassar City, whereas overconfidence has a positive but insignificant effect. The findings also

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indicate that financial literacy moderates the relationship between behavioral factors and investment decisions by weakening the effect of loss aversion and strengthening the effect of overconfidence. These results emphasize the importance of understanding behavioral biases and improving financial literacy to support more effective investment decision-making. Investors are encouraged to recognize their own behavioral tendencies in order to minimize potential biases when making investment choices. However, this study is limited by the number of respondents and its focus on Makassar City, which may limit the generalizability of the findings. Therefore, future research is recommended to involve a larger sample size, expand the geographical coverage, and examine additional behavioral finance variables to provide a more comprehensive understanding of the factors influencing investment decisions.

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