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YOUNG INVESTOR DOMINANCE AND OVERCONFIDENCE IN STOCK INVESTMENT DECISIONS: RISK TOLERANCE MEDIATION

Alfianti Arung Badeng[1], Maiercherinra Daud[2]
[1,2]Universitas Kristen Indonesia Paulus, Makassar, Indonesia
Corresponding author: Alfianti Arung Badeng
E-mail: alfiantiarungbadengg@gmail.com

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Abstract:
This study investigates the effect of young investor dominance and overconfidence on stock investment decisions, with risk tolerance positioned as a mediating variable. A quantitative survey was conducted among individual stock investors in Indonesia selected through purposive sampling. Data from 100 respondents were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. The results show that young investor dominance has no significant effect on either risk tolerance or stock investment decisions, and risk tolerance does not mediate the relationship between young investor dominance and stock investment decisions. In contrast, overconfidence has a positive and significant effect on risk tolerance and stock investment decisions. Risk tolerance also has a positive and significant effect on stock investment decisions and mediates the relationship between overconfidence and investment decisions. These findings indicate that psychological factors, particularly overconfidence and risk tolerance, are more influential than demographic dominance in explaining stock investment behavior. The study contributes to behavioral finance by emphasizing the importance of psychological bias and risk-profile awareness in young retail-investor education.
Keywords: Young Investor Dominance; Overconfidence; Risk Tolerance; Stock Investment Decision; Behavioral Finance

INTRODUCTION

Indonesia's capital market has undergone a marked expansion in retail participation, and this change has been accompanied by a clear shift in investor demographics. Recent market statistics report that the number of capital-market investors rose from 14.87 million at the end of 2024 to approximately 20.13 million by 19 December 2025, indicating annual growth of about 35% (Kustodian Sentral Efek Indonesia, 2025; Antara News, 2025). The same demographic profile shows that 54.23% of investors were under 30 years old and 24.88% were aged 31-40 years, meaning that almost four-fifths of Indonesian capital-market investors were below 40 years of age. This composition makes young investors a central group in understanding the contemporary dynamics of stock investment in Indonesia.

The increasing presence of young investors has been supported by digital trading platforms, easier access to market information, and broader financial-literacy initiatives. Education programs conducted by the Financial Services Authority, the Indonesia Stock Exchange, KSEI, securities firms, universities, and investment communities have encouraged younger groups to participate in stock trading (CGS International Sekuritas Indonesia, 2023; Otoritas Jasa Keuangan, 2024; Soejono et al., 2026). Nevertheless, larger participation does not necessarily imply mature investment behavior. Many young investors, including students and novice retail investors, enter the market with limited trading experience while simultaneously receiving abundant information through applications, social media, and digital investment forums (Pontoh, 2023; Purnomo et al., 2025).

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This condition is highly relevant to behavioral finance, which argues that investors do not always make financial decisions through fully rational and information-efficient processes. Classical finance assumes rational investors who process information objectively and maximize expected utility, as reflected in modern portfolio theory, capital asset pricing, and efficient-market arguments (Fama, 1970, 1998; Markowitz, 1952; Sharpe, 1964). Behavioral finance challenges this assumption by showing that cognitive bias, emotion, subjective perception, and limited information processing can influence financial judgement under uncertainty (Barberis & Thaler, 2003; Kahneman & Tversky, 1979; Shleifer, 2000; Thaler, 2016).

One psychological bias that is particularly important in investment decisions is overconfidence. Overconfidence refers to excessive belief in one's knowledge, analytical ability, or prediction accuracy when evaluating financial assets (Ningrum et al., 2023; Rona & Sinarwati, 2021). Overconfident investors tend to overestimate their capability, underestimate downside risk, and trade more aggressively because they believe their interpretation of market signals is superior (Addinpujoartanto & Darmawan, 2020; Ferdinand, 2023; Rahman & Dewi, 2023). In the context of young investors, confidence in the use of digital information and trading applications may strengthen this bias, particularly when investors have limited experience but high exposure to market narratives.

Risk tolerance is another critical factor in stock investment decisions. It describes an investor's willingness to accept uncertainty and potential financial loss in pursuit of higher expected return (Rahmawati et al., 2023; Restana & Komalasari, 2023). Investors with high risk tolerance tend to select assets with higher return potential, even when those assets involve substantial volatility, whereas investors with low risk tolerance prefer more stable instruments (Gunawan & Wiyanto, 2022; Pradikasari & Isbanah, 2018). In behavioral-finance research, risk tolerance can function not only as a direct determinant of investment choice but also as a psychological mechanism that explains how investor characteristics and biases affect investment decisions (Salim & Pamungkas, 2025; Soraya et al., 2023; Widiastuti et al., 2024).

Prior studies have examined overconfidence, risk perception, literacy, and risk tolerance as predictors of investment decisions, but several gaps remain. Many studies continue to emphasize behavioral bias without integrating the current demographic phenomenon of young-investor dominance in Indonesia (Malini, 2025; Purnomo et al., 2025). Other studies treat risk tolerance mainly as an independent variable, while its mediating role in linking psychological bias and stock investment decisions is less frequently tested (Soraya et al., 2023). Therefore, this study offers a more integrative model by combining young investor dominance, overconfidence, risk tolerance, and stock investment decisions in a single PLS-SEM framework.

The novelty of this research lies in positioning young investor dominance as a demographic factor, overconfidence as a behavioral bias, and risk tolerance as a mediating variable in explaining stock investment decisions. The proposed model is grounded in the rapid rise of young retail investors in Indonesia, the behavioral-finance view that investors often deviate from rational assumptions, and empirical evidence that risk tolerance may bridge psychological tendencies and investment action (Kustodian Sentral Efek Indonesia, 2025; Malini, 2025; Soraya et al., 2023; Statman, 2019). Accordingly, the study addresses whether young investor dominance and overconfidence influence risk tolerance and stock investment decisions, and whether risk tolerance mediates these relationships.

Based on this rationale, the hypotheses are formulated as follows: H1, young investor dominance has a positive effect on risk tolerance; H2, overconfidence has a positive effect on risk

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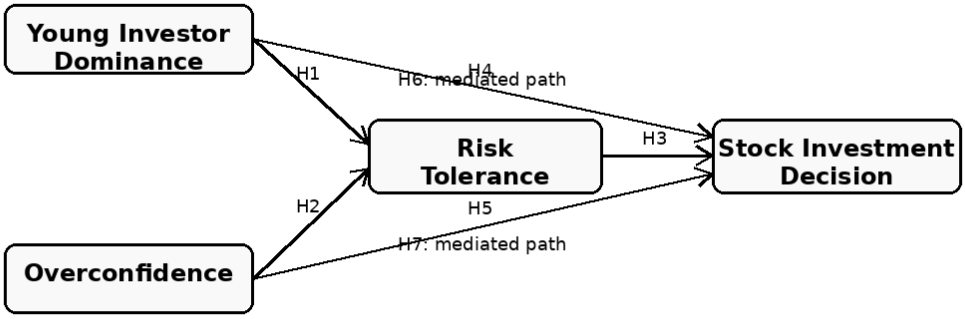
tolerance; H3, risk tolerance has a positive effect on stock investment decisions; H4, young investor dominance has a positive effect on stock investment decisions; H5, overconfidence has a positive effect on stock investment decisions; H6, risk tolerance mediates the effect of young investor dominance on stock investment decisions; and H7, risk tolerance mediates the effect of overconfidence on stock investment decisions.

Figure 1. Conceptual Framework



METHODS

This study employed a quantitative survey design to examine the relationships among young investor dominance, overconfidence, risk tolerance, and stock investment decisions. The population consisted of individual stock investors participating in the Indonesian capital market through securities companies registered with the Indonesia Stock Exchange. Respondents were selected using purposive sampling, with four criteria: having an active securities account, conducting at least one stock transaction in the last year, possessing basic knowledge of stock investment, and completing the questionnaire. The study targeted approximately 100 individual investors, which is consistent with the minimum sample recommendation for Partial Least Squares Structural Equation Modeling (PLS-SEM). Primary data were collected through an online questionnaire using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), while secondary data were obtained from academic publications, books, and capital-market reports. The questionnaire measured four constructs: young investor dominance, overconfidence, risk tolerance, and stock investment decisions. Data were analyzed using SmartPLS through two stages: measurement-model evaluation, including outer loading, Cronbach's alpha, composite reliability, average variance extracted, and HTMT; and structural-model evaluation, including R-square, F-square, model fit, path coefficients, bootstrapping, and indirect-effect testing for mediation.

RESULT AND DISCUSSION

The respondent profile indicates that the sample was dominated by women, who accounted for 76 respondents or 73.8%, while men represented 27 respondents or 26.2%. In terms of age, most respondents were between 20 and 25 years old, comprising 70 respondents or 68.0%, followed by respondents below 20 years old at 23.3%. Respondents aged 26-30 years and above 30 years

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represented only 5.8% and 2.9%, respectively. This distribution confirms that the sample was largely composed of young investors in an early productive age group.

Investment experience was also concentrated among novice investors. Most respondents had less than one year of investment experience, representing 70 respondents or 68.0%, while 29 respondents or 28.2% had one to three years of experience. Respondents with more than three years of experience were limited. Transaction frequency also suggests relatively cautious participation: 48.5% rarely traded stocks, while 29.1% traded occasionally. Valbury was the most frequently used brokerage platform, followed by Stockbit, Bibit, Ajaib, RHB, and IPOT. These characteristics show that the respondents were young and relatively new to the capital market, with low-to-moderate trading intensity.

Table 1. Respondent Demographic Profile (n=100)

Characteristics	Category	Frequency	Percentage (%)
Gender	Male	27	26.2
Gender	Female	76	73.8
Age	<20 years	24	23.3
Age	20-25 years	70	68.0
Age	26-30 years	6	5.8
Age	>30 years	3	2.9
Investment experience duration	<1 year	70	68.0
Investment experience duration	1-3 years	29	28.2
Investment experience duration	3-5 years	1	1.0
Investment experience duration	>5 years	3	2.9
Stock transaction frequency	Rarely	50	48.5
Stock transaction frequency	Sometimes	30	29.1
Stock transaction frequency	Fairly often	21	20.4
Stock transaction frequency	Very often	2	1.9
Brokerage platform used	Stockbit	24	23.3
Brokerage platform used	Ajaib	11	10.7
Brokerage platform used	Bibit	15	14.6
Brokerage platform used	IPOT	4	3.9
Brokerage platform used	Valbury	41	39.8
Brokerage platform used	RHB	5	7.7

The measurement model was evaluated to determine whether the indicators validly and reliably represented their respective constructs. All outer loading values exceeded the 0.70 threshold, ranging from 0.752 to 0.875 for young investor dominance, 0.817 to 0.853 for stock investment decision, 0.805 to 0.885 for overconfidence, and 0.719 to 0.795 for risk tolerance. These results indicate that the indicators achieved adequate convergent validity.

Table 2. Summary of Measurement Model Evaluation Results

Construct	Code	Loading	Cronbach's Alpha	CR	AVE	HTMT (Max)
Young Investor Dominance	DIM1	0.875				
Young Investor	DIM2	0.783	0.814	0.906	0.629	0.562

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Construct	Code	Loading	Cronbach's Alpha	CR	AVE	HTMT (Max)
Dominance						
Young Investor Dominance	DIM3	0.752				
Young Investor Dominance	DIM4	0.756				
Stock Investment Decision	KI1	0.840				
Stock Investment Decision	KI2	0.817				
Stock Investment Decision	KI3	0.853	0.855	0.861	0.695	0.730
Stock Investment Decision	KI4	0.825				
Overconfidence	OC1	0.828				
Overconfidence	OC2	0.865				
Overconfidence	OC3	0.885	0.895	0.896	0.705	0.635
Overconfidence	OC4	0.810				
Overconfidence	OC5	0.805				
Risk Tolerance	RT1	0.795				
Risk Tolerance	RT2	0.719	0.767	0.771	0.589	0.730
Risk Tolerance	RT3	0.774				
Risk Tolerance	RT4	0.780				

The Average Variance Extracted values also exceeded the minimum criterion of 0.50, with young investor dominance at 0.629, stock investment decision at 0.695, overconfidence at 0.705, and risk tolerance at 0.589. Internal consistency was acceptable because Cronbach's alpha ranged from 0.767 to 0.895 and composite reliability ranged from 0.771 to 0.906. Discriminant validity was supported by HTMT values below 0.90, ranging from 0.562 to 0.730. These results demonstrate that the measurement model met the requirements for convergent validity, reliability, and discriminant validity.

Table 3. R-Square Value

Variable	R-Square	Adjusted R-Square
Stock Investment Decision	0.471	0.454
Risk Tolerance	0.244	0.229

The R-square test shows that the structural model explained 47.1% of the variance in stock investment decisions, with an adjusted R-square of 0.454. By contrast, the model explained 24.4% of the variance in risk tolerance, with an adjusted R-square of 0.229. This means that the model had stronger explanatory power for stock investment decisions than for risk tolerance. The remaining variance in both variables may be explained by other factors outside the model, such as financial literacy, market sentiment, investment experience, return expectation, and risk perception.

Table 4. F-Square Value

Variable	Young Investor Dominance	Stock Investment Decision	Overconfidence	Risk Tolerance
Young Investor Dominance		0.012		0.023
Stock Investment Decision				

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Variable	Young Investor Dominance	Stock Investment Decision	Overconfidence	Risk Tolerance
Overconfidence		0.123		0.158
Risk Tolerance		0.253		

The F-square values suggest that young investor dominance contributed only weakly to stock investment decisions and risk tolerance, with values of 0.012 and 0.023, respectively. Overconfidence had a small-to-moderate effect on stock investment decisions and risk tolerance, with F-square values of 0.123 and 0.158. Risk tolerance produced the strongest structural contribution to stock investment decisions, with an F-square value of 0.253, which falls into the medium-effect category. These findings indicate that risk tolerance was the most influential structural predictor in the model.

Table 5. Model Fit Result

Model	Estimated Model	Saturated Model
SRMR	0.085	0.085
d_ULS	1.102	1.102
d_G	0.438	0.438
Chi-Square	256.599	256.599
NFI	0.737	0.737

The model-fit results show an SRMR value of 0.085 for both the estimated and saturated models. Although this value is slightly above the ideal 0.080 threshold, it still indicates an acceptable level of model fit for exploratory behavioral research. The d_ULS value of 1.102, d_G value of 0.438, Chi-square value of 256.599, and NFI value of 0.737 suggest that the model is sufficiently suitable for structural analysis, although further refinement could improve its fit.

Figure 2. Structural Equation Modelling

Table 6. Path Coefficient and Hypothesis Test

Hypothesis	Relation	Original Sample	Mean	SD	T-Statistics	P-Values	Description
H1	DIM -> RT	0.154	0.192	0.133	1.154	0.248	Not Supported
H2	OC -> RT	0.399	0.389	0.141	2.827	0.005	Supported
H3	RT -> KIS	0.421	0.395	0.153	2.754	0.006	Supported
H4	DIM -> KIS	0.093	0.128	0.125	0.743	0.457	Not Supported

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Hypothesis	Relation	Original Sample	Mean	SD	T-Statistics	P-Values	Description
H5	OC -> KIS	0.317	0.325	0.145	2.192	0.028	Supported
H6	DIM -> RT -> KIS	0.065	0.066	0.055	1.175	0.240	Not Supported
H7	OC -> RT -> KIS	0.168	0.149	0.078	2.153	0.031	Supported

The hypothesis test reveals that three hypotheses were not supported. Young investor dominance did not significantly affect risk tolerance (coefficient = 0.154, t = 1.154, p = 0.248), so H1 was rejected. Young investor dominance also did not significantly affect stock investment decisions (coefficient = 0.093, t = 0.743, p = 0.457), so H4 was rejected. Furthermore, risk tolerance did not mediate the relationship between young investor dominance and stock investment decisions (coefficient = 0.065, t = 1.175, p = 0.240), so H6 was rejected.

By contrast, four hypotheses were supported. Overconfidence positively and significantly affected risk tolerance (coefficient = 0.399, t = 2.827, p = 0.005), supporting H2. Risk tolerance positively and significantly affected stock investment decisions (coefficient = 0.421, t = 2.754, p = 0.006), supporting H3. Overconfidence also had a positive and significant direct effect on stock investment decisions (coefficient = 0.317, t = 2.192, p = 0.028), supporting H5. Finally, risk tolerance significantly mediated the effect of overconfidence on stock investment decisions (coefficient = 0.168, t = 2.153, p = 0.031), supporting H7.

The unsupported effect of young investor dominance suggests that being young or being part of a young-dominated investor group does not automatically translate into greater risk tolerance or more active stock investment decisions. This finding differs from the view that younger investors tend to have longer investment horizons and are therefore more willing to accept uncertainty (Mahardhika & Asandimitra, 2023; Pradikasari & Isbanah, 2018). A plausible explanation is that most respondents were novice investors with less than one year of experience and relatively low transaction frequency. Their limited experience may have made them cautious despite their young age. This supports the argument that demographic factors alone are insufficient to explain investment behavior; experience, preferences, general economic mood, knowledge, and psychological readiness are also important (Daud et al., 2022; Restana & Komalasari, 2023).

The significant role of overconfidence confirms a central proposition of behavioral finance: investment decisions are strongly influenced by psychological bias, not merely by rational evaluation of information (Barberis & Thaler, 2003; Kahneman & Tversky, 1979; Statman, 2019). Investors with higher overconfidence tend to believe that they can interpret information and predict price movements more accurately than others. This belief may reduce their perceived risk and increase their willingness to invest in volatile instruments. The result is consistent with prior research indicating that overconfident investors trade more aggressively, underestimate downside risk, and show stronger preference for risky assets (Addinpujoartanto & Darmawan, 2020; Malini, 2025; Purnomo et al., 2025; Rona & Sinarwati, 2021).

Risk tolerance also proved to be a meaningful determinant of stock investment decisions. Investors with higher risk tolerance are more prepared to accept price fluctuation and uncertainty, making them more likely to buy, hold, or trade stocks. This result is aligned with portfolio theory, which states that higher expected return is generally associated with higher risk (Markowitz, 1952; Sharpe, 1964), and with empirical studies showing that risk tolerance influences investment

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choices in capital-market contexts (Gunawan & Wiyanto, 2022; Rahmawati et al., 2023; Salim & Pamungkas, 2025; Widiastuti et al., 2024).

The mediation test provides a more specific theoretical implication. Risk tolerance did not explain the relationship between young investor dominance and stock investment decisions, but it did explain the relationship between overconfidence and stock investment decisions. This means that demographic youthfulness was not sufficient to increase investment action through risk acceptance. However, overconfidence increased risk tolerance, and higher risk tolerance subsequently encouraged stock investment decisions. Therefore, the psychological pathway from confidence bias to risk acceptance is more powerful than the demographic pathway from young age to investment action.

CONCLUSION

This study concludes that young investor dominance does not significantly influence risk tolerance or stock investment decisions, and risk tolerance does not mediate the effect of young investor dominance on stock investment decisions. In contrast, overconfidence has a positive and significant effect on both risk tolerance and stock investment decisions. Risk tolerance also has a positive and significant effect on stock investment decisions and successfully mediates the relationship between overconfidence and stock investment decisions. These findings strengthen behavioral finance by demonstrating that psychological factors, especially overconfidence and risk tolerance, are more influential than demographic dominance in explaining stock investment behavior among the respondents. Practically, the results suggest that capital-market regulators, securities firms, universities, and investment communities should not limit investor education to financial literacy and technical knowledge. Education programs also need to address psychological bias, risk-profile awareness, and disciplined decision-making so that young retail investors can participate in the capital market more rationally and sustainably. Future research may expand the sample, compare novice and experienced investors, and include additional variables such as financial literacy, risk perception, market sentiment, and digital-platform influence.

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