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Generation Y Investment Decisions in Medan City: Impact of Financial Literacy, Risk Perception, and Financial Behavior

Muhammad Ridwan[1], Sri Puji Lestari[2], Sri Fitri Wahyuni[3]*

[1,2,3] *Faculty of Economics and Business, Universitas Muhammadiyah Sumatera Utara, Indonesia*

ABSTRACT

This study explores both the direct and indirect effects of financial literacy, risk perception, and financial behavior on the investment decisions of Generation Y individuals living in Medan City. Utilizing a quantitative research methodology, data analysis was performed using the Statistical Package for the Social Sciences (SPSS), with a specific focus on path analysis to examine the relationships among latent variables. The target population consisted of individuals aged 30 to 42 years, classified as Generation Y, totaling 587,743 persons in Medan City. The determination of the sample size was carried out using Slovin's formula, yielding a total of 100 respondents for the study. Data were obtained through observation and the administration of structured questionnaires. The findings indicate that financial literacy, risk perception, and financial behavior each exert a statistically significant and positive individual influence on investment decisions. Moreover, when analyzed simultaneously, these variables collectively contribute meaningfully and positively to the investment decision-making process among Generation Y in the target region. This study provides novel insights into the financial behavior of Generation Y in an urban Indonesian setting, highlighting the importance of financial knowledge, perceived risk, and behavioral tendencies in shaping investment choices. Limitations related to sampling bias, self-reporting, and regional scope are acknowledged, and future studies are encouraged to expand the geographic coverage and apply mixed methods for deeper analysis.

Keywords: *financial literacy, financial behavior, risk perception, investment decisions, generation Y*

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**Correspondence:*
Sri Puji Lestari
sripujilestari@umsu.ac.id

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1. INTRODUCTION

The capital market plays a crucial role in advancing national economic growth and improving societal welfare. As a long-term financing mechanism, it bridges the gap between capital providers and entities seeking funds for productive activities. This function not only contributes to macroeconomic stability but also enables individuals to accumulate wealth through various investment avenues (Ekananda, 2019). In recent years, Indonesia has witnessed a substantial increase in public participation in the capital market. Data from the Indonesian Central Securities Depository (KSEI, 2024) indicate that the number of capital market investors surged from 3.88 million in 2020 to 13.66 million as of August 2024. This trend reflects a growing interest in investment activities and signals a shift in financial behavior, particularly among younger generations.

Within this investor base, Generation Y (aged 30 to 40 years) currently represents the dominant cohort. KSEI reports that this group accounted for an investment value of IDR 226.74 trillion in 2024. Characterized by technological proficiency and extensive access to financial information, Generation Y serves as a pivotal segment driving the long-term development of Indonesia's capital market (Wendy, 2024). However, elevated participation levels do not necessarily translate into sound financial decision-making. Prior research reveals that many millennials continue to face difficulties in comprehending financial products, assessing risks accurately, and managing personal finances effectively (Yanti & Endri, 2024).

The literature consistently identifies three critical determinants of investment decisions: financial literacy, risk perception, and financial behavior. Financial literacy refers to an individual's understanding of fundamental financial concepts such as budgeting, saving, investing, and risk management. Lusardi & Mitchell (2014) emphasize that individuals with higher financial literacy are more likely to engage in effective financial planning and make rational investment choices. Conversely, limited financial literacy is frequently associated with suboptimal investment outcomes. In the Indonesian context, financial literacy remains a significant challenge. According to the 2024 OCBC NISP Financial Fitness Index, the national average score is only 41.16 out of 100, considerably lower than Singapore's 61. Moreover, 72% of Indonesians reportedly lack adequate understanding of basic investment principles, including risk profiles and diversification strategies (OCBC NISP, 2024).

In addition to financial literacy, risk perception significantly influences investment behavior. Risk perception denotes individuals' subjective evaluation of uncertainty and potential losses involved in investment decisions (Redawati & Hayat, 2024). Psychological factors such as prior experiences, emotional responses, and social influences shape this perception. Yolanda & Tasman (2020) found that a majority of millennials tend to avoid risk and rely heavily on informal recommendations when making investment decisions. This cautious approach reflects a lack of confidence or understanding regarding risk-return trade-offs, which may lead to missed investment opportunities or inefficient asset allocation.

Financial behavior, the third factor, encompasses how individuals manage their income, expenditures, savings, and long-term financial planning. Siregar & Anggraeni (2022) note that positive financial behaviors, such as disciplined budgeting, consistent saving, and expense tracking are essential for building financial stability and achieving investment goals. Nevertheless, preliminary survey results from Katadata Insight Center & Zigi (2022) reveal that only 19.1% of Indonesian millennials regularly set aside savings, while more than 58% do not maintain records of their expenditures. This behavioral gap highlights a disconnect between financial knowledge and actual practices, which may hinder effective investment decision-making.

In this regard, Medan City, as one of the largest economic centers outside Java, provides a unique context to examine the investment behaviors of Generation Y. The city is marked by ethnic diversity, high urbanization, and a vibrant entrepreneurial culture. Despite its economic significance, empirical studies on millennial financial behavior in Medan are limited, with most existing research focusing on populations in Jakarta or Java. Therefore, a regional perspective is crucial to better understand localized factors influencing investment decisions (Hidayat & Pamungkas, 2022).

This study aims to comprehensively analyze the influence of financial literacy, risk perception, and financial behavior on the investment decisions of Generation Y in Medan City. Financial literacy is expected to enhance individuals' ability to evaluate investment instruments and formulate rational strategies. Risk perception serves as a psychological construct shaping investors' attitudes toward potential gains and losses. Meanwhile, financial behavior represents the practical application of financial

knowledge and discipline in daily money management. By empirically examining the interactions among these variables, this study seeks to provide nuanced insights into the factors that drive prudent and sustainable investment decisions among millennials within Medan's socio-economic environment.

2. LITERATURE REVIEW

Financial Literacy on Investment Decisions

Financial literacy refers to the ability to understand and utilize financial skills, including personal financial management, budgeting, and investing. It is a foundation that supports sound financial decision-making and contributes to long-term economic well-being. According to Roestanto (2017), financial literacy encompasses a set of knowledge and competencies that allow individuals to manage financial resources responsibly and make informed financial decisions. Individuals with a high level of financial literacy possess the competence to assess investment alternatives, understand financial risks, and make strategic decisions based on their financial goals. This is consistent with the view of Huston (2010), who defined financial literacy as both understanding (knowledge) and application (behavioral capacity) in financial contexts. Furthermore, Garman & Forgue (2018) explain that effective financial literacy involves not only acquiring knowledge but also shaping responsible attitudes and financial habits, which directly influence an individual's ability to make rational financial decisions.

Recent literature supports this notion by recognizing the critical role of financial literacy in shaping investment behavior. According to Remund (2010), financially literate individuals are more likely to evaluate investment risk and returns prudently, allocate resources efficiently, and avoid speculative behavior. Thus, financial literacy is not just a standalone skill but a dynamic capability that evolves with economic experiences and learning, which ultimately contributes to better investment outcomes.

Risk Perception of Investment Decisions

Investment decisions inherently involve uncertainty and potential loss. Risk perception—defined as an individual's subjective assessment of the potential for negative outcomes—plays a central role in shaping these decisions. Sumarwan et al. (2011) and Selvi (2018) noted that risk perception stems from both cognitive evaluation and emotional response to uncertainty, influencing how individuals interpret and respond to financial threats. Slovic (2016), in his work on risk psychology, asserts that individuals do not always assess risk objectively but rather through a "psychometric paradigm" influenced by emotions, heuristics, and previous experiences. Therefore, two investors with the same information may interpret risk very differently based on their perceptions.

Investors with high risk perception typically gravitate towards safer, low-return investments, while those with low risk perception may pursue high-risk instruments in search of greater returns. Kahneman & Tversky (2019). Understanding this psychological dimension is essential in explaining why investors deviate from classical economic rationality. Moreover, the concept of risk tolerance, as described by Kapoor et al. (2020), complements risk perception by providing a broader understanding of how individuals assess and respond to financial uncertainty. Risk tolerance reflects an individual's comfort level in accepting investment risk and plays a crucial role in determining whether one prefers conservative, moderate, or aggressive investment strategies.

Financial Behavior towards Investment Decisions

Financial behavior reflects how individuals manage and respond to their economic circumstances, including budgeting, saving, spending, and investment-related decisions. As Angipora (2002) and Kurniawan (2023) emphasized, financial behavior is shaped not only by habitual patterns but also by one's attitude toward financial control and the ability to establish and pursue financial goals. These elements highlight that financial behavior is not merely mechanical but closely tied to psychological and

cognitive dimensions. Building on this foundation, Kapoor et al. (2020) point out that effective financial behavior arises from a combination of financial awareness, planning skills, and decision-making ability. They emphasize that individuals who practice disciplined budgeting, consistent saving, and proactive financial planning are better equipped to navigate financial challenges and make sound investment decisions. This perspective reinforces the idea that financial behavior is not just a reaction to economic conditions but a learned and developed skill set.

To further explain how such behavior is formed, it is helpful to adopt a theoretical perspective. The Theory of Planned Behavior by Ajzen (2020) provides a widely recognized framework in this regard. This model proposes that behavioral intentions—shaped by an individual's attitude toward the behavior, perceived social norms, and perceived behavioral control—are the direct antecedents of actual behavior. In the domain of personal finance, this framework helps elucidate how personal beliefs and external influences jointly determine financial actions such as saving, borrowing, and investing. These theoretical explanations are further reinforced by practical insights. Kapoor et al. (2020) underscore that translating financial knowledge into action requires not only understanding but also the behavioral discipline to apply it in daily life. Complementing this view, Garman & Forgue (2018) argue that financial behavior functions as a proactive mechanism that bridges the gap between awareness and execution. In other words, it serves as the crucial link that turns financial knowledge into meaningful, goal-oriented investment outcomes.

Financial Literacy, Risk Perception and Financial Behavior towards Investment Decisions

The interaction between financial literacy, risk perception, and financial behavior provides a comprehensive framework for understanding investment decision-making. As Safitri (2017) and Manan (2009) highlighted, investment decisions are shaped by a combination of knowledge, perception of risk, and behavioral patterns. However, knowledge alone is insufficient without the behavioral capacity to act upon that knowledge. Nofsinger (2001) emphasized that psychological and behavioral elements are integral in financial contexts, particularly when making investment choices under uncertainty. Perwito et al. (2020) further supported this view by stating that financial literacy must be complemented by responsible behavior to yield meaningful financial outcomes.

In summary, financial literacy equips individuals with the knowledge to navigate financial markets, risk perception guides their attitude towards uncertainty, and financial behavior reflects their ability to act on that knowledge and perception. Together, these constructs form a multidimensional foundation for effective and rational investment decisions.

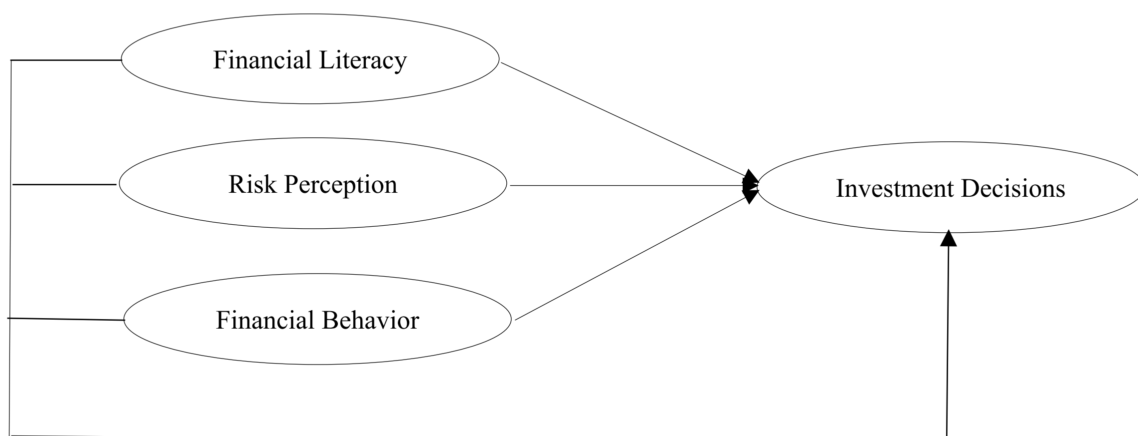

Figure 1. Research Conceptual Model

Hypothesis

H1 : Financial Literacy significantly influences Investment Decision-making among Generation Y in Medan City

H2 : Risk Perception significantly affects the Investment Decisions of Generation Y in Medan City

H3 : Financial Behavior significantly influence the Investment Decisions of Generation Y in Medan City

H4 : Financial Literacy, Risk Perception, and Financial Behavior collectively exert a significant influence on Investment Decisions among Generation Y in Medan City

3. RESEARCH METHOD

This research utilized a quantitative associative design to explore the relationships between financial literacy, risk perception, financial behavior, and investment decisions. The study population targeted Generation Y individuals aged 30 to 42 years living in Medan City, totaling 587,743 based on the most recent demographic statistics. Participants were required to have a minimum monthly income of Rp 3,800,000 to be included in the study. Sampling was conducted through incidental sampling, a non-probability method depending on ease of access and participant willingness within the allotted timeframe. Although this approach is practical and economical, it carries limitations related to sample representativeness and possible selection bias (Etikan et al., 2016; Taherdoost, 2016). The researchers acknowledge that these constraints may limit the extent to which findings can be generalized. Future research should consider employing probability sampling techniques such as stratified random sampling to improve representativeness and minimize bias. The sample consisted of 100 respondents, determined by Slovin's formula. Despite being relatively small compared to the total population, this number meets the minimum recommended by Hair et al. (2014), which advises having at least ten times the number of indicators in the most complex construct for multivariate analyses. However, the researchers recognize the absence of a formal power analysis and suggest future studies increase sample sizes or perform power analysis to enhance result robustness (Cohen, 1992).

The measurement instrument, developed from previously validated constructs, was pilot tested on 30 respondents. The pilot test results showed strong construct validity with factor loadings above 0.5 and excellent internal consistency, as indicated by Cronbach's Alpha values exceeding 0.8 for all variables: Financial Literacy (0.841), Risk Perception (0.826), and Financial Behavior (0.860). These results confirm the reliability and appropriateness of the instrument for further statistical procedures (Hair et al., 2019). Data analysis was carried out using SPSS version 28. Multiple linear regression was used to examine the hypothesized relationships among variables. In addition to regression coefficients and significance levels, standardized beta coefficients and confidence intervals were reported to provide a clearer understanding of the practical implications of the findings (Field, 2017).

4. RESULTS AND DISCUSSION

4.1. RESULTS

4.1.1 General Description of Respondents

To provide a clearer overview of the respondent profile, descriptive statistics are presented below, covering gender, age groups, education, and monthly income levels. These demographic characteristics help contextualize the socioeconomic background of Generation Y in Medan City, which may influence their perceptions and behavior in making investment decisions.

Table 1 | Descriptive Statistics of Respondents

Characteristic	Category	Frequency (n)	Percentage (%)
Gender	Male	58	58.0%
	Female	42	42.0%
Age	30–34 years	38	38.0%
	35–39 years	41	41.0%
	40–42 years	21	21.0%
Education	SMA	38	38.0%
	SMK	14	14.0%
	Sarjana	48	48.0%
Monthly Income	Rp 3.800.000 – 5.000.000	49	49.0%
	Rp 5.000.001 – 7.000.000	33	33.0%
	> Rp 7.000.000	18	18.0%

Source: Processed research data, 2024

4.1.2 Classic Assumption Test

4.1.2.1 Normality Test

The normality test results for the financial literacy, risk perception, and financial behavior variables indicate that the data are normally distributed. This conclusion is supported by an Asymp. Sig. (2-tailed) value of 0.163, exceeding the significance threshold of 0.05.

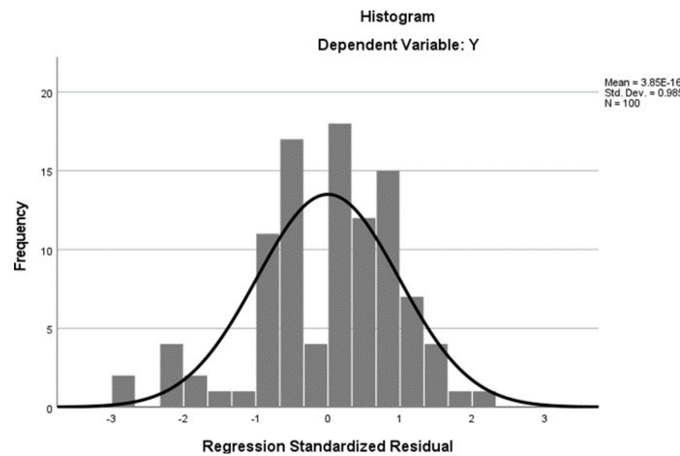

Figure 2. Residual Regression Test

Source: SPSS 28 Data Analysis

Based on the histogram chart above, the distribution curve exhibits a pattern with its peak centered around the zero value on the vertical axis. These findings confirm that the regression model satisfies the normality assumption, thereby permitting the continuation of further analyses.

4.1.2.2 Multicollinearity Test

Table 2 | Multicollinearity Test Results

Coefficientsa								
Unstandardized Coefficients				Standardized Coefficients			Collinearity Statistics	
Model B			Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	3.093	1.192		2.595	.011		
	Financial Literacy	.426	.062	.432	6.901	.000	.589	1.697
	Risk	.270	.050	.367	5.433	.000	.506	1.975

	Perceptio							
	Financial Behavior	.161	.051	.223	3.171	.002	.466	2.148
a. Dependent Variable: Investment Decisions								

Source: SPSS 28 Data Analysis

The results of the multicollinearity test show that the Variance Inflation Factor (VIF) values for Financial Literacy, Risk Perception, and Financial Behavior are 1.697, 1.975, and 2.148, respectively, while their tolerance values are 0.589, 0.506, and 0.466. Given that all VIF values are below 10 and all tolerance values are above 0.1, it can be concluded that the dataset does not exhibit multicollinearity.

4.1.2.3 Heteroscedasticity Test

Based on the scatterplot presented below, data points are dispersed both above and below the zero line, exhibiting an even distribution around it. The points neither cluster exclusively on one side nor display a pattern of widening, narrowing, and widening again. Therefore, it can be inferred that the data do not show signs of heteroscedasticity.

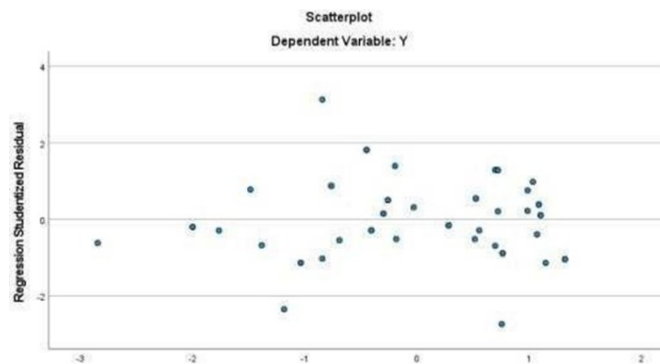

Figure 3. Heteroscedasticity Test
Source: SPSS 28 Data Analysis

4.1.2.4 Multiple Linear Regression

Table 3 | Multiple Linear Regression Test Results

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		**B**	**Std.Eror**	**Beta**	**t**	**Sig**
1	(Constants)	3.093	1.192		2.595	011
	Financial Literacy	426	062	432	6901	<,001
	Risk Perceptio	270	050	367	5433	<,001
	Financial Behavior	161	051	223	3171	002
a. Dependent Variable Investment Decisions						

Source: SPSS 28 Data Analysis

Based on the data analysis, the multiple regression model is formulated as follows:

$$ID = 3.093 + 0.426FL + 0.270RP + 0.161FB + 1.192$$

a. The constant term is 3.093, indicating that when the independent variables—Financial Literacy (FL), Risk Perception (RP), and Financial Behavior (FB)—are zero, the Investment Decision (ID) value is 3.093.
b. The regression coefficient for Financial Literacy (FL) is 0.426, which means that a 1-unit increase in Financial Literacy corresponds to a 0.426 increase in investment decisions.
c. The regression coefficient for Risk Perception (RP) is 0.270, implying that a one-unit increase in Risk Perception results in a 0.270 increase in investment decisions.

d. The regression coefficient for Financial Behavior (FB) is 0.161, indicating that a one-unit increase in Financial Behavior corresponds to a 0.161 increase in investment decisions.

4.1.3 Hypothesis Test

4.1.3.1 T-Test

The t-test is employed to evaluate hypotheses regarding the separate effects of each independent variable on the dependent variable. This test compares the computed t-statistic to the critical t-value derived from statistical tables at a significance level of 0.05 (5%).

The Effect of Financial Literacy on Investment Decisions

The multiple linear regression test results reveal a significance level (Sig.) of 0.001, which is below the 0.05 threshold, and a calculated t-value of 6.901 that exceeds the critical value of 1.984. These findings lead to the acceptance of hypothesis H1, indicating a significant influence of financial literacy on investment decisions. The very low significance value suggests a minimal probability that the observed results occurred by chance under the null hypothesis (H_0). Additionally, the calculated t-value lies within the rejection region for H_0, as it surpasses the critical threshold. Therefore, the null hypothesis is rejected, and the alternative hypothesis is supported. Additionally, the standardized beta coefficient for financial literacy was $\beta = 0.432$, indicating a strong practical effect on investment decisions. The 95% Confidence Interval (CI) for this effect was (0.304, 0.548), which further supports the robustness and precision of this relationship.

The Effect of Risk Perception on Investment Decisions

The results of the multiple linear regression analysis indicate a significance value (Sig.) of 0.001, which falls below the 0.05 threshold, alongside a calculated t-value of 5.433 that exceeds the critical value of 1.984. Consequently, hypothesis H2 is accepted, demonstrating that risk perception has a significant impact on investment decisions. The low significance value denotes a very small probability that these findings would occur if the null hypothesis (H_0) were true. Since the calculated t-value surpasses the critical threshold and the significance level is well below 0.05, the null hypothesis is rejected, and the alternative hypothesis is accepted. Additionally, the standardized beta coefficient for risk perception was $\beta = 0.367$, suggesting a moderate effect on investment decisions. The 95% Confidence Interval (CI) for this effect was (0.172, 0.368), which further supports the robustness and precision of this relationship.

The Influence of Financial Behavior on Investment Decisions

The multiple linear regression test results reveal a significance value (Sig.) of 0.002, which is below the 0.05 threshold, accompanied by a calculated t-value of 3.171 that surpasses the critical value of 1.984. Consequently, hypothesis H3 is accepted, indicating that financial behavior significantly influences investment decisions. The Sig. value of 0.002 suggests a very low probability that these results would occur if the null hypothesis (H0) were true. Since the t-value exceeds the critical value and the significance level is substantially below 0.05, the null hypothesis is rejected and the alternative hypothesis is supported. Additionally, the standardized beta coefficient for risk perception was $\beta = 0.223$, suggesting a moderate effect on investment decisions. The 95% Confidence Interval (CI) for this effect was (0.061, 0.261), which further supports the robustness and precision of this relationship.

4.1.3.2 F-Test

Table 4 | F-Test Result

ANOVA[a]						
Model		**Sum of Squares**	**f**	**Mean Square**	**F**	**Sig**
1	Regression	3572.525	3	1190.842	112.160	<.011[b]
	Residual	1019.265	96	10.617		
	Total	4591.790	99			
a. Dependent Variable Investment Decisions b. Predictors : (Constant), Financial Literacy, Risk Perception, Financial Behavior						

Source: SPSS 28 Data Analysis

The significance value (Sig.) of 0.001 is below the 0.05 threshold, while the calculated F-value of 112.160 exceeds the critical F-value of 2.70. Thus, hypothesis H4 is accepted, indicating a statistically significant relationship between the independent variables and the dependent variable. These findings confirm that the regression model, which includes financial literacy, risk perception, and financial behavior, is appropriate for predicting investment decisions. Therefore, it can be concluded that investment decisions are simultaneously influenced by financial literacy, risk perception, and financial behavior. The overall model accounted for 77.8% of the variance in investment decisions ($R^2 = 0.778$), confirming a strong explanatory power of the regression equation.

4.1.3.3 Coefficient of Determination

Table 5 | Determination Coefficient Test Results

Model Summary[b]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std.Eror of the Estimate**	**Durbin-Watson**
1	.882[a]	778	771	3.25843	1.491
a. Predictors: (Constantn), Financial Literacy, Risk Perception, Financial Behavior b. Dependent Variable Investment Decisions					

Source: SPSS 28 Data Analysis

The Coefficient of Determination test yielded an R-squared value of 0.778, equivalent to 77.8%, which indicates a strong positive influence. This suggests that 77.8% of the variation in the dependent variable (Y) is explained by the independent variables (X), while the remaining 22.2% is attributed to other factors outside the regression model or variables not included in this study.

4.2 DISCUSSION

The Influence of Financial Literacy on Investment Decisions

Financial literacy plays a crucial role in shaping individual investment behavior. This study confirms a positive and significant relationship between financial literacy and investment decisions. Individuals with sound financial knowledge are better equipped to make informed choices by critically assessing risk, returns, and the suitability of various investment options. Key financial concepts—such as risk management, asset allocation, time value of money, and portfolio diversification—enable investors to align decisions with personal financial goals and risk tolerance. Financial literacy also enhances one's ability to interpret financial information, including market trends and company performance, thereby reducing impulsivity and promoting rational decision-making.

These findings are supported by a wide body of international research. Lusardi & Mitchell (2014) and van Rooij et al. (2011) reported strong correlations between financial literacy and market participation. Seraj et al. (2022) added that financial literacy influences investment behavior through psychological channels like overconfidence. Similarly, Khan et al. (2023)

identified financial self-efficacy and risk tolerance as mediators in this relationship. In the Southeast Asian context, studies by Pratiwi et al. (2023), Shroff et al. (2024), and Uttari & Yudantara (2023) confirmed similar patterns. Research in Indonesia, Wahyuni et al. (2022), Putri et al. (2021), Raya et al. (2023), and Resyita & Khoiriyah (2023) demonstrated that financially literate individuals tend to avoid speculative schemes and favor productive investment alternatives.

However, context matters. Jiang & Shimizu (2024) noted that financial literacy in Japan does not always lead to better investment practices without motivational and social support. In Indonesia, Desiyanti et al. (2025) showed that financial literacy—along with risk perception and financial attitudes—shapes rational investment among millennials. While Marpaung et al. (2024) found that financial behavior does not mediate the literacy–investment link, Adwitiya & Abdurrahman (2025) and Burton & Yunita (2024) confirmed the role of literacy in driving goal-oriented investment. These results underline the critical importance of promoting financial literacy not just as academic knowledge but as a behavioral enabler. National financial inclusion strategies, digital platforms, and formal education must integrate this skill to prepare investors for complex financial environments.

The Influence of Risk Perception on Investment Decisions

The results of this study indicate that risk perception has a positive and significant influence on investment decisions. These findings support the proposed hypothesis and underscore the critical role that risk perception plays in shaping investor behavior. A well-developed sense of risk enables individuals to evaluate potential returns and losses associated with various investment alternatives more accurately. This awareness fosters more informed investment choices and encourages effective portfolio diversification, thereby reducing concentration risk and exposure to avoidable losses. Moreover, a precise perception of risk enhances investors' preparedness for market volatility. Such individuals are better equipped to withstand short-term fluctuations and maintain a long-term strategic orientation, avoiding impulsive decisions driven by fear or market rumors. In turn, this improves their overall discipline in executing planned investment strategies, including consistent portfolio rebalancing and ongoing risk management.

The significant influence of risk perception on investment decision-making is strongly supported by previous research. Studies by Badriatin et al. (2022), Eduard et al. (2024), Mahwan & Herawati (2021), and Trang & Tho (2017) all emphasize the role of risk perception in guiding rational investor behavior. More recent findings by Firmansyah et al. (2023) and Halim & Pamungkas (2023) confirm that risk perception, alongside behavioral factors like overconfidence and herding, significantly affects investor decision-making. Similarly, Nadhila et al. (2024) and Yanti & Endri (2024) found that risk perception is particularly vital for millennials, especially in the context of market uncertainty. Even in studies where other variables had less impact, Putra & Eurelia (2023) found that psychological factors such as risk perception remained crucial. These findings suggest that risk perception is not merely a psychological attribute but a practical competency essential for sound investment. Therefore, financial educators and policymakers should emphasize not only technical financial knowledge but also behavioral training and risk-based simulations to prepare investors for volatile markets and long-term financial resilience.

The Influence of Financial Behavior on Investment Decisions

The study's findings demonstrate that financial behavior has a significant and positive influence on investment decisions. Individuals who demonstrate prudent financial habits—such as budgeting, debt management, and expense tracking—are more likely to make strategic and well-informed investment choices. Positive financial behavior also includes staying updated with market trends, evaluating new investment instruments, and practicing sound risk management. These behaviors collectively improve investors' capacity to respond adaptively to dynamic financial environments.

Moreover, individuals with strong financial behavior tend to apply systematic and analytical approaches when making financial decisions. They often review financial statements, analyze historical performance, and simulate risk-return scenarios before allocating capital. This level of discipline enhances investment quality and reduces impulsive or emotionally driven decisions (Dinarjito, 2023; Rahman et al., 2021).

These findings emphasize that strengthening financial behavior is equally as important as improving financial literacy to achieve optimal investment outcomes. Efforts to promote responsible financial behavior—such as goal-setting, saving discipline, and long-term financial planning—are critical in fostering rational and sustainable investment patterns. This is consistent with previous studies, HC & Gusaptono (2020), Siregar & Anggraeni (2022), Dinarjito (2023), Raya et al. (2023), Uttari & Yudantara (2023), and Safitri Dewi et al. (2024), which consistently highlight the central role of financial behavior in shaping individual investment decisions.

The Influence of Financial Literacy, Risk Perception, and Financial Behavior on Investment Decisions

The findings confirm that financial literacy, risk perception, and financial behavior jointly exert a significant and positive influence on investment decisions, validating the proposed hypothesis. This indicates that Generation Y individuals with higher financial knowledge, accurate risk assessment, and prudent financial practices are more likely to engage in rational and effective investment behavior.

The simultaneous effect highlights the interdependent framework of these variables rather than isolated influences. Financial literacy provides foundational knowledge of investment options; risk perception shapes evaluations of potential gains and losses; and financial behavior reflects the practical execution of informed financial actions. Together, they produce a synergistic effect leading to superior investment outcomes compared to when considered independently. For example, individuals with strong financial literacy better understand diverse instruments, and when coupled with balanced risk perception and consistent financial behavior such as budgeting and saving, this leads to disciplined, goal-oriented investment.

These results align with prior studies emphasizing the combined cognitive, affective, and behavioral predictors of investment decisions among young investors (Dinarjito, 2023; Githa Widyastuti & Murtanto, 2024; Hidayat & Pamungkas, 2022; Primasari et al., 2024). Internationally, van Rooij et al. (2011) showed that higher financial literacy correlates with greater stock market participation. Seraj et al. (2022) highlighted the mediating role of overconfidence bias, and Khan et al. (2023) demonstrated that financial self-efficacy mediates the effects of financial literacy and risk perception on investment intentions, confirming the complex interplay among these factors.

5. CONCLUSION

Based on the observations and analyses conducted in this research concerning the effects of financial literacy, risk perception, and financial behavior on investment decisions, the following conclusions can be drawn:

1. Financial literacy significantly influences investment decisions by providing individuals with the knowledge needed to critically assess risks, choose appropriate instruments, and plan strategically for essential financial components, including investment fundamentals, risk management, and portfolio diversification. This in-depth knowledge supports investors in critically and objectively assessing various investment alternatives.
2. Risk perception positively and significantly influences investment decisions. An appropriate understanding of risk allows investors to more precisely evaluate the potential benefits and drawbacks of different investment alternatives. Additionally, sound risk perception encourages investors to diversify their portfolios more effectively. Furthermore, accurate risk perception enhances investor preparedness in managing market fluctuations.
3. Investment decisions are positively and significantly affected by individuals' financial behaviors. These findings suggest that sound financial behavior contributes positively to the quality of investment choices made by individuals. Good financial behavior also includes a tendency to actively seek financial information and knowledge.
4. Financial literacy, risk perception, and financial behavior collectively exert a positive and significant influence on investment decisions. The integration of these three factors establishes a comprehensive framework that fundamentally shapes the investment decision-making process. Financial literacy establishes the foundational knowledge, risk perception offers a framework for evaluating potential outcomes, and financial behavior represents the practical application of this knowledge and evaluation in investment decisions.

6. LIMITATION AND IMPLICATION

6.1 Limitation

This study has several limitations that should be acknowledged. **First**, the use of incidental sampling introduces potential sampling bias, limiting the generalizability of the findings beyond the sample population. **Second**, the data collection relied on self-reported questionnaires, which may be subject to social desirability bias or inaccuracies in respondents' self-assessments. **Third**, the study was conducted solely in Medan City, a specific urban context that may not reflect the investment behavior of Generation Y in rural or other regional settings across Indonesia. These limitations suggest caution when interpreting the findings, especially when attempting to generalize them to broader populations or different socioeconomic environments.

6.2 Implication

Despite these limitations, the study offers valuable insights into the factors influencing investment decisions among Generation Y in urban Indonesia. Future research should consider employing probability sampling methods and mixed-method approaches, such as qualitative interviews, to enrich the data and uncover deeper behavioral patterns. Additionally, expanding the geographical scope to include multiple cities or provinces could offer more representative insights and enable comparative analysis. Understanding these nuances is essential for developing targeted financial education and policy interventions aimed at promoting smarter investment behavior in Indonesia's young adult population.

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