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Financial Risk Tolerance of Generation Z Investors: A Behavioral Finance Perspective

Fira Syarwadina[1], Akhmad Syakir Kurnia[2*]
[1,2]**Faculty of Economics and Business, Diponegoro University, Indonesia**
E-mail: [1]fira.syarwadina@gmail.com, [2]akhmadkurnia@lecturer.undip.ac.id
[*)]**Corresponding Author**

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Abstract

Research Originality. This study enriches the literature by integrating demographic, behavioral, and religious factors into the analysis of Gen Z's financial risk tolerance. It applies behavioral finance and prospect theory to the dimensions that shape investment behavior.

Research Objectives. This study examines Generation Z investors' financial risk tolerance in the greater Jakarta area, focusing on religiosity and herding behavior within the context of behavioral finance and prospect theory.

Research Method. The study uses survey data from Gen Z investors in the Jabodetabek area and employs a binary logistic model to estimate the probability of high versus low risk tolerance and to identify its key determinants.

Empirical Results. Results indicate that gender, income, marital status, religion, herding, and religiosity significantly influence financial risk tolerance, while experience does not. Male, higher-income, unmarried investors are more risk-tolerant, whereas Muslims and more religious individuals are less so; herding increases risk-taking among Gen Z.

Implications. The findings underscore the need for personalized financial education and investment strategies that consider demographic and behavioral factors, such as religiosity, social values, and herd mentality, to enhance Gen Z's financial literacy and risk management.

Keywords:

prospect theory; generation z investors; investment behavior; religiosity; herding behavior

How to Cite:

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INTRODUCTION

Indonesia is experiencing a demographic bonus, with 69.13% of its population, or 192.66 million people, in the productive age group (15–64 years) as of 2023. This structure offers significant potential for accelerated economic growth through a large workforce and productivity gains. Within this population, Generation Z represents 26.4% (71.5 million people). Understanding this cohort is crucial, as Gen Z will play a central role in shaping Indonesia's economic trajectory in the coming decades.

As Gen Z becomes increasingly active in financial markets, ensuring that this demographic potential is accompanied by sound financial decision-making becomes equally important. Nevertheless, despite the rapid growth of financial inclusion and Gen Z's participation in investment activities, Indonesia's financial literacy remains relatively low. Limited financial literacy may prevent individuals from fully understanding the characteristics and risks associated with financial products, thereby increasing the likelihood of suboptimal investment decisions (Lusardi, 2019). In this context, investigating financial risk tolerance and its factors is essential for understanding investment dynamics, especially among the younger generation (Alfando et al., 2025; Pokharel & Maharjan, 2024).

Generation Z differs from previous generations as a digital native group that grew up with extensive access to technology and social media (Lev, 2021). As the homo globalists, they are highly connected, exposed to diverse cultures, and prefer concise, interactive, and visually engaging forms of learning (Alsemgeest, 2023). Easy access to online information and financial content enables Gen Z to quickly learn about saving and investing, increasing their participation in financial markets. However, despite this digital advantage, their investment decisions remain strongly influenced by factors such as financial risk tolerance.

Financial risk tolerance refers to the degree to which an individual is willing to accept uncertainty when making financial decisions (Hemrajani et al., 2023; Fisher & Yao, 2017). Because individuals differ substantially in their willingness to bear financial risk, understanding the factors that shape risk tolerance has become a central concern in finance and behavioral economics. A growing body of literature suggests that this tolerance is shaped by a combination of demographic, behavioral, personality, and social factors. Among these, demographic characteristics, such as gender, marital status, income, and age, are consistently identified as key determinants of financial risk tolerance (Brooks et al., 2019; Dickason & Ferreira, 2018; Bannier & Neubert, 2016; Fisher & Yao, 2017; Liu et al., 2025). Nevertheless, empirical findings on the influence of these factors often vary, primarily because social, cultural, and economic contexts differ across countries.

Besides, emerging studies in behavioral finance argue that cognitive biases, social influence (e.g., herding), and psychological traits may play a more dominant role, particularly in digitally connected environments. Recent evidence suggests that social media sentiment, online investment communities, and influencer-driven information flows can amplify herding behavior and reduce the informational efficiency of financial markets (Yoon & Oh, 2022; Li et al., 2023). This divergence reflects a broader debate

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between structural explanations and behavioral explanations of financial decision-making. While structural factors or demographic characteristics such as age, gender, education, and income remain important predictors of financial behavior, behavioral factors such as sentiment, social influence, fear of missing out, and cognitive biases increasingly explain investment decisions in digital financial ecosystems.

Another important debate concerns the role of culture and religion in shaping economic behavior. Recent studies indicate that religiosity influences financial risk-taking, reward processing, and investment preferences, although the direction and magnitude of these effects vary across institutional and cultural contexts (Lestari et al., 2021; Vanheusden et al., 2025). These suggest that values, norms, and belief systems remain important determinants of economic behavior and should be incorporated into contemporary models of financial decision-making. While traditional financial models largely treat preferences as exogenous, recent literature emphasizes that values, norms, and belief systems can significantly influence economic decisions and risk preferences (Mahdzan & Zainudin, 2024). Religion, in particular, is an important determinant of attitudes toward uncertainty, risk-taking, and financial behavior. In predominantly Muslim societies, financial decisions are often guided by ethical principles that discourage excessive uncertainty (gharar) and speculative behavior (maysir), potentially fostering greater risk aversion and more conservative financial choices.

Empirical evidence generally suggests that more religious individuals tend to exhibit lower risk tolerance and are less likely to engage in speculative investment activities (Leon & Pfeifer, 2017). However, findings regarding the relationship between religiosity and risk-taking remain inconclusive. While some studies report a significant negative relationship between religiosity and risk-taking behavior (Leon & Pfeifer, 2017), others find weak, indirect, or context-dependent effects that vary across cultural settings, financial literacy levels, and dimensions of religiosity being measured (Wijaya et al., 2024; Vanheusden et al., 2025). These suggest that the interaction between religiosity, behavior, and financial decision-making is complex and not yet fully understood, warranting further investigation into the mechanisms through which religious values shape individual financial choices.

At the same time, the rapid expansion of digital financial ecosystems has introduced new dimensions to investment behavior. Indonesia, one of the world's largest internet and social media markets, has experienced a surge in retail investor participation, particularly among younger generations. While digital platforms and online communities have lowered information costs and broadened access to financial markets, they have also amplified behavioral biases by increasing exposure to social influence and herding behavior (Bikhchandani et al., 2024; Yoon & Oh, 2022; Zhou & Liu, 2022). Social media interactions and online investor communities increasingly shape trading patterns and investment decisions, making investing a more socially embedded activity(Vasquez & Cross, 2024).

This development raises an important question: does greater access to information enhance rational decision-making or intensify collective irrationality? Although digital

platforms can improve market efficiency by reducing information asymmetry (Cookson & Niessner, 2020; Han et al., 2022), excessive information flows and influencer-driven content may foster information overload, speculative trading, and herd dynamics (Han et al., 2022; Barber et al., 2022). Consequently, digitalization may simultaneously enhance information accessibility while increasing investors' susceptibility to behavioral biases. These developments suggest that financial risk tolerance is shaped not only by individual characteristics but also by behavioral, sociocultural, and technological factors.

Indonesia, home to the world's largest Muslim population, provides a unique setting for studying financial risk tolerance. Its cultural diversity and strong religious adherence significantly shape financial behavior and attitudes toward risk (Lestari et al., 2021; Mahdzan et al., 2023). Since religion serves not only as a moral guide but also as a source of social norms, religiosity may influence perceptions of money, investment, and risk. Consequently, examining the role of religion and religiosity in financial risk tolerance is particularly important in the Indonesian context, where religious values are deeply embedded in everyday life and financial decision-making. Another distinctive feature of Indonesia is its vast digital landscape, as the country ranks among the world's top four in terms of internet users (Statista.com, 2023; ITU, 2024). This widespread connectivity enables Indonesians, particularly Gen Z, to access abundant financial information and investment opportunities online. However, the ease of obtaining information also increases the likelihood of herding behavior, in which individuals imitate others' investment choices without thoroughly assessing associated risks (Bikhchandani & Sharma, 2021; Bikhchandani et al., 2024). Such behavior is often driven by social influence, as investors feel safer following peers or perceived successful figures rather than independently evaluating potential risks and rewards (Bharti et al., 2025; Bikhchandani & Sharma, 2021; Andraszewicz et al., 2023; Yoon & Oh, 2022).

Despite the growing body of literature on financial risk tolerance, several important gaps remain. First, existing studies provide competing explanations regarding the determinants of risk tolerance, with traditional research emphasizing demographic characteristics such as gender, income, age, and marital status. In contrast, more recent behavioral finance studies highlight the roles of social influence, cognitive biases, online sentiment, and herding behavior, particularly in digitally connected environments. Second, although religion and religiosity are widely recognized as important determinants of economic behavior, empirical findings regarding their influence on risk-taking remain mixed and context-dependent. Third, prior studies tend to examine demographic, religious, and behavioral factors separately, resulting in a fragmented understanding of financial risk tolerance, while empirical evidence from emerging economies remains limited.

Limited attention has also been paid to applying Prospect Theory as an integrated framework to explain how sociodemographic characteristics, religiosity, and social influences jointly shape risk tolerance among Generation Z investors. Unlike expected utility theory, prospect theory emphasizes reference dependence, loss aversion, diminishing sensitivity, and probability weighting, which are particularly relevant in digitally connected environments where peer communities, social media, and online platforms influence investment decisions

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(Reichenbach & Walther, 2025; Downing, 2025). By incorporating Prospect Theory, originally developed by Kahneman & Tversky (1979), this study offers a more nuanced understanding of how psychological, demographic, and sociocultural factors interact to shape financial risk tolerance.

METHODS

We surveyed Gen Z investors who have traded stocks on the Indonesia Stock Exchange through securities companies and reside in the Greater Jakarta area (Jabodetabek). We selected Jabodetabek because it represents Indonesia's economic center and has the largest concentration of investors, accounting for approximately 25.51% of the country's total investors, according to the Financial Services Authority (OJK). We used purposive sampling, selecting respondents based on specific criteria relevant to the research objectives: aged 18 to 27, residing in Jabodetabek, with prior investment experience, and owning at least one investment product. The sample size was 170, determined using the rule of thumb proposed by Hair et al. (2019), which recommends a minimum of 5–10 observations per indicator. With 17 indicators, the required sample ranged from 85 to 170 respondents. Moreover, this sample size is consistent with guidelines for binary logistic regression, which emphasize the need for sufficient observations to obtain stable, reliable parameter estimates (Peduz et al., 1996; Conner, 2020).

The questionnaire assesses the financial risk tolerance of Gen Z investors in Jabodetabek. The first section collects demographic characteristics, including gender, age, occupation, income, marital status, years of investment experience, and religious affiliation. The second section measures financial risk tolerance using a 13-item instrument covering three dimensions: investment risk, speculative risk, and risk comfort. Higher-risk responses receive higher scores, while lower-risk responses receive lower scores. The total score for each respondent ranges from 13 to 47, with an average score of 27.4 from the 170 respondents. Based on the average score, respondents with scores of 28 or higher are classified as having high risk tolerance (coded as 1), while those with scores below 28 are categorized as having low risk tolerance (coded as 0).

The third section examines herding behavior and religiosity. We used religiosity measures based on five indicators: 1) Intellectual engagement, 2) Ideological alignment, 3) Public practices, 4) Private practices, and 5) Religious experience. Each indicator is evaluated through three statements. Following Rahman & Gan (2020), we assessed herding behavior using four indicators: 1) Financial choices influenced by other investors, 2) Volume movements of financial instruments, 3) Recommendations from influencers or celebrities, and 4) Quick reactions to changes in other investors' decisions. All indicators are assessed using a 5-point Likert scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree.

This structured approach allows for a thorough analysis of the factors influencing financial risk tolerance among Gen Z investors in Jabodetabek. By examining demographic characteristics, risk tolerance, herding behavior, and religiosity, the study aims to provide

a comprehensive understanding of how these variables shape financial decision-making in this young investor population. This study employs binary logistic regression because financial risk tolerance is dichotomized into two groups: high (coded as 1) and low (coded as 0). The logit model estimates the probability that an investor exhibits high risk tolerance, conditional on explanatory variables. The dependent variable represents a conditional probability, where P_i is the probability of an investor having high financial risk tolerance, and $(1 - P_i)$ is the probability of low risk tolerance.

The probability of an investor characterized as having high risk tolerance is defined as P_i.

$$P_i = \frac{1}{1 + e^{-Z_i}} \tag{1}$$

where

$$Z_i = \beta_o + \beta_1 Gend_i + \beta_2 Inc_i + \beta_3 Mar_i + \beta_4 Exp_i + \beta_5 Reli_i + \beta_6 Her_i + \beta_7 Rlity_i + \mu_i,$$

Defining the probability of investors having low risk tolerance as $1 - P_i$, hence

$$1 - P_i = \frac{1}{1 + e^{Z_i}} \tag{3}$$

The ratio of the probability of having high financial risk tolerance (P_i) to the probability of having low financial risk tolerance $(1 - P_i)$ is called the odds ratio. This measure indicates the likelihood that an investor will be classified as high-risk rather than low-risk, providing a meaningful way to interpret the relationship between the dependent and independent variables within a logistic regression framework. The odds ratio is written as follows:

$$Odds\ ratio = \frac{P_i}{1 - P_i} = \frac{1 + e^{Z_i}}{1 + e^{-Z_i}} = e^{Z_i} \tag{4}$$

Taking the natural logarithm of the odds ratio, we have:

$$Ln\left(\frac{P_i}{1 - P_i}\right) = \beta_o + \beta_1 Gend_i + \beta_2 Inc_i + \beta_3 Mar_i + \beta_4 Exp_i + \beta_5 Reli_i + \beta_6 Her_i + \beta_7 Rlity_i + \mu_i$$

The independent variables included in the model are defined as follows: gender ($Gend_i$) coded as 1 for male and 0 for female; income (Inc_i) which is measured as a ratio; marital status (Mar_i) coded as 1 for married and 0 for unmarried; investment experience (Exp_i) categorized as 1 for less than one year, 2 for one to two years, and 3 for more than two years; religion ($Reli_i$) coded as 1 for Muslim and 0 for non-Muslim. Herding behavior (Her_i), and religiosity ($Rlity_i$) are measured through respective indicator items derived from the questionnaire.

This specification allows us to estimate the likelihood that Generation Z investors demonstrate higher financial risk tolerance relative to low risk tolerance, conditional on explanatory factors. The coefficients are estimated using Maximum Likelihood Estimation (MLE) to obtain the most likely values based on the observed data.

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RESULTS AND DISCUSSION

The empirical results suggest that both demographic and behavioral factors shape financial risk tolerance among Generation Z investors. Gender, income, marital status, religion, herding behavior, and religiosity significantly influence risk tolerance, whereas investment experience does not. Overall, male, higher-income, and unmarried investors exhibit greater risk tolerance, while Muslim and more religious individuals tend to be more conservative. In addition, herding behavior increases the likelihood of risk-taking among young investors.

Table 1. Respondents' Profile

Gender	Count	Share
1. Male	103	61%
2. Female	67	39%
Age		
1. 18 to 21 years	33	19%
2. 22 to 24 years	66	39%
3. 25 to 27 years	72	42%
Job Categories		
1. Student	48	28%
2. Government Employee	7	4%
3. Private Sector Employee	75	44%
4. Entrepreneur	19	11%
5. Others	21	21%
Income		
1. < Rp 3.000.000	58	34%
2. Rp 3.000.001 – Rp 7.000.000	75	44%
3. Rp 7.000.001 – Rp 15.000.000	31	18%
4. > Rp 15.000.001	6	4%
Investment Experience		
1. < 1 Year	60	35%
2. 1 – 2 Years	59	35%
3. > 2 Years	51	30%
Religion		
1. Islam	124	73%
2. Non-Islam	46	27%

To better understand these findings, the following descriptive statistics describe the respondents' characteristics and provide preliminary insights into the distribution of financial risk tolerance across demographic groups. The respondents are predominantly male (61%). Among male respondents, 64 exhibit high risk tolerance and 39 low risk tolerance, whereas female respondents (39%) are more concentrated in the low-risk

category (50 versus 17 with high risk tolerance). In terms of age distribution, 42% of respondents are aged 25–27, followed by 39% aged 22–24 and 19% aged 18–21. The predominance of respondents in the 25–27 age group may reflect their relatively higher income levels and more clearly defined financial objectives compared to younger cohorts. This pattern suggests that individuals in their mid-twenties are generally more financially mature and better prepared to engage in investment activities as they enter more stable stages of employment, income generation, and long-term financial planning.

Table 2. The Results of Validity Test

Variable	Code	r values
Financial Risk Tolerance	RT1	0.547
	RT2	0.502
	RT3	0.436
	RT4	0.481
	RT5	0.390
	RT6	0.639
	RT7	0.439
	RT8	0.644
	RT9	0.624
	RT10	0.466
	RT11	0.447
	RT12	0.441
	RT13	0.554
Herding	H1	0.866
	H2	0.561
	H3	0.729
	H4	0.862
Religion	R1	0.510
	R2	0.715
	R3	0.771
	R4	0.741
	R5	0.476
	R6	0.474
	R7	0.519
	R8	0.593
	R9	0.657
	R10	0.716
	R11	0.781
	R12	0.728
	R13	0.735
	R14	0.756
	R15	0.772

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Regarding occupation, private sector employees make up the largest group (44%), followed by students (28%). Smaller proportions are from government jobs (4%) and other occupations, including self-employed individuals (32%). For income, most respondents earn between IDR 3,000,001 and IDR 7,000,000 per month (44%), which is typical for Generation Z, who are often early in their careers. The remaining respondents earn less than IDR 3,000,000 (34%), between IDR 7,000,001 and IDR 15,000,000 (18%), or more than IDR 15,000,000 (4%). Regarding investment experience, 35% of respondents have less than 1 year of experience, while another 35% have been investing for 1 to 2 years. Only 30% report more than two years of investment experience, suggesting most Generation Z investors are still early in their investment journey. In terms of religious affiliation, most respondents are Muslim (73%), while the remaining 27% adhere to other religions, reflecting the sample's religious diversity.

Table 2 presents the results of the validity test, which assesses the adequacy of the measurement items used in this study. An item is considered valid when its calculated *r*-value exceeds the critical *r*-table value of 0.361. All indicators used to measure financial risk tolerance, herding behavior, and religiosity have positive *r*-values above the threshold, indicating that all measurement items are valid.

Table 3 reports the reliability test results. Cronbach's alpha and composite reliability were used to set a threshold of 0.70 for internal consistency. All variables—financial risk tolerance, herding behavior, and religiosity—exceed this threshold, confirming the reliability of the measurement scales.

Table 3. The Result of Reliability Test

No	Variable	*Cronbach's Alpha*	
1	Financial Risk Tolerance	0.757	Reliable
2	Herding	0.748	Reliable
3	Religiosity	0.906	Reliable

The Hosmer-Lemeshow test was performed to assess the model's adequacy in a binary logistic regression. The test yielded a chi-square value of 6.436 with a p-value of 0.599, which is greater than 0.05, indicating no difference between the predicted and observed classifications (Table 4). It suggests that the logistic regression model is appropriate and the model's predictions align well with the observed data.

Table 4. Hosmer and Lemeshow Test

Step	*Chi-square*	df	*p-value*
1	6.436	8	0.599

The Overall Fit Model Test was conducted to assess whether the model fits the data appropriately. This test compares the -2 Log Likelihood values at the initial (block = 0)

and final (block = 1) stages of the model (Table 5). According to the results, the -2 Log Likelihood value for block 0 was 233.804, while for block 1 it was 161.908 (Table 6). The reduction in the -2 Log Likelihood value from 233.804 to 161.908 suggests that the model improves as more variables are included, indicating a better fit with the data. Therefore, the model is suitable for predicting financial risk tolerance.

Table 5. The Overall Fit Model (Block = 0)

Iteration		*-2 Log Likelihood*	*Coefficients Constant*
Step 0	1	233,804	-0,107
	2	233,804	-0,107

Table 6. Overall Fit Model (Block = 1)

Iteration	-2 Log Likelihood	Constant	Gen	Inc	Marr	Exp	Reli	Herd	Rlity
Step 1	186,352	-0.347	1.372	0.006	-0.347	0.167	-0.669	0.073	-0.028
Step 2	168,937	-0.475	1.722	0.021	-0.605	0.108	-1.026	0.092	-0.038
Step 3	162,387	-0.680	2.147	0.036	-0.956	0.102	-1.460	0.122	-0.049
Step 4	161,912	-0.746	2.378	0.041	-1.099	0.113	-1.637	0.138	-0.055
Step 5	161,908	-0.754	2.399	0.042	-1.113	0.114	-1.655	0.140	-0.056
Step 6	161,908	-0.754	2.399	0.042	-1.114	0.114	-1.655	0.140	-0.056

The Pseudo R-Square test was used to measure how well the model explains variability in the dependent variable. This test provides the Cox and Snell R and Nagelkerke R-Square values (Table 7). These values suggest that the model explains 46.2% of the variability in financial risk tolerance, indicating a moderate fit.

Table 7. Pseudo R-Square

Step	-2 Log Likelihood	Cox and Snell R	Nagelkerke R
1	161,908	0.347	0.462

Table 8. Logistic Regression Result

Variable	Coefficient	S.E.	Wald	Odd Ratio
Gend	2.399***	0.507	22.374	11.009
Inc	0.042***	0.009	22.320	1.043
Marr (1)	-1.114**	0.518	4.619	0.328
Exp	0.114	0.242	0.224	1.121
Reli (1)	-1.655***	-0.553	8.938	0.191
Herd	0.140**	0.069	4.107	1.150
Rlity	-0.055**	0.028	4.076	0.946
Constant	-0.925	-0.925	0.169	0.471

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The Wald Test was then used to assess the individual contribution of each independent variable to explaining the dependent variable. The Wald test indicates that several variables, including gender, income, marital status, religion, herding, and religiosity, significantly affect financial risk tolerance. However, experience did not show a statistically significant impact on the dependent variable.

The results suggest that demographic, behavioral, and psychological factors influence the likelihood that Generation Z investors exhibit high financial risk tolerance. The odds ratio is the ratio of the probability of being in the high-risk tolerance group to the probability of being in the low-risk tolerance group for each independent variable, holding other factors constant. The gender variable shows an odds ratio of 11.009, indicating that male investors are approximately eleven times more likely to exhibit high financial risk tolerance than female investors. From a behavioral finance and prospect theory perspective, this difference can be explained by psychological and social factors: men often display higher self-confidence and a stronger focus on potential gains, making them more open to risky investments, while women tend to prioritize security and stability, emphasizing loss avoidance over profit maximization. These behavioral tendencies are also influenced by broader social and cultural contexts, in which men are often encouraged to take bold decisions and pursue opportunities, whereas women are more often socialized to adopt a cautious, protective approach to financial matters (Ruiz-dotras & Llados-masllorens, 2026; Lobão, 2024; Thanki & Baser, 2021). In addition, although Generation Z has grown up in a digital era with equal access to financial information, these gender-based patterns persist, leading men and women to interpret and respond to economic opportunities differently (Liu et al., 2025).

Further explanation suggests that gender moderates the relationship between problem-solving ability and risk-taking behavior, with men being more gain-oriented and therefore more willing to accept risks to pursue higher returns. In contrast, women tend to emphasize loss avoidance, which is reflected in a more cautious investment approach. Other findings also highlight that women are generally more conservative and risk-averse than men, a tendency reinforced by social and biological factors that favor stability and security (Lobão, 2024). As a result, women are more likely to choose safer investments with stable, albeit lower, returns, while men are more open to riskier opportunities. These findings suggest that traditional gender differences in risk tolerance remain prevalent among Generation Z investors in Indonesia. Although recent studies in some contexts indicate that women have become increasingly willing to undertake financial risks, depending on socioeconomic conditions and levels of financial uncertainty (Fisher & Yao, 2017; Liu et al., 2025), Indonesian female investors still appear to exhibit relatively more conservative attitudes toward risk compared to their male counterparts.

Income shows a positive, statistically significant relationship with financial risk tolerance. With an odds ratio of 1.043, a one-unit increase in income raises the likelihood of belonging to the high-risk tolerance category by approximately 4.3%. This finding suggests that higher-income individuals possess greater financial capacity and are therefore more willing to accept investment risk. From a behavioral finance perspective, higher income

enhances individuals' ability to absorb potential losses and reduces financial vulnerability, thereby increasing confidence in pursuing investment opportunities with greater uncertainty. Conversely, lower-income individuals tend to prioritize financial security and adopt more conservative investment strategies. Recent evidence supports this view. Muktadir-Al-Mukit (2022) finds that income positively influences stock investors' risk tolerance in developing economies, while Grable & Rabbani (2023) show that greater financial resources and financial knowledge are associated with higher risk tolerance. Similarly, Liu et al. (2025) report that individuals with stronger financial capacity are more willing to engage in risky financial activities, even in digitally mediated investment environments. Nevertheless, income alone may not fully determine risk tolerance, as expenditure patterns, debt obligations, and other dimensions of financial well-being can moderate its effect (Muktadir-Al-Mukit, 2022).

Marital status, on the other hand, exhibits a negative association with financial risk tolerance. The odds ratio of 0.328 indicates that married investors are approximately 67% less likely to exhibit high risk tolerance than unmarried investors. This finding suggests that marital commitments and family responsibilities encourage individuals to adopt more conservative financial behavior to preserve household stability. From a behavioral finance perspective, marriage increases the need for financial security and long-term planning, leading investors to place greater emphasis on loss avoidance and wealth preservation. In contrast, unmarried individuals generally face fewer financial obligations and have greater flexibility to pursue high-return investment opportunities. Previous studies similarly show that marriage tends to reduce individuals' willingness to take financial risks. In contrast, single investors are more inclined to take risks because of their lower financial vulnerability and greater autonomy in financial decision-making (Thanki & Baser, 2021). Consequently, marital status functions not only as a demographic characteristic but also as a behavioral factor that shapes attitudes toward risk and investment decisions.

Investment experience exhibits a positive but statistically insignificant relationship with financial risk tolerance, with an odds ratio of 1.121. This finding contrasts with much of the behavioral finance literature, which regards experience as an important determinant of financial risk tolerance. Less experienced investors are generally more cautious because limited knowledge and cognitive constraints increase reliance on heuristics and heighten sensitivity to potential losses. As investors gain experience, they build knowledge, confidence, and the ability to evaluate risk–return trade-offs, reducing uncertainty and increasing their willingness to take financial risks. Recent evidence supports this view. Lusardi & Mitchell (2023), Grable & Rabbani (2023), and Hemrajani et al. (2023) show that financial knowledge and accumulated experience enhance financial capability and decision-making quality. However, the insignificant effect observed in this study may reflect the distinctive characteristics of Generation Z. As digital natives, young investors can access financial information, educational content, and investment platforms more easily than previous generations, reducing their reliance on accumulated market experience (Alsemgeest, 2023). Consequently, investment experience may play a less important role in determining risk tolerance among Generation Z investors than among older cohorts.

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Muslim investors are approximately 81% less likely to exhibit high risk tolerance than non-Muslim investors. This finding suggests that religious beliefs and values shape attitudes toward uncertainty and influence individuals' willingness to accept financial risk. From an Islamic finance perspective, the lower propensity for risk-taking may reflect ethical principles that discourage excessive uncertainty (*gharar*), gambling (*maysir*), and interest-based transactions (*riba*), thereby promoting prudence and socially responsible investment behavior. Such preferences are consistent with behavioral finance and Prospect Theory, which emphasize that individuals evaluate risk through psychological frames shaped by values, norms, and beliefs rather than purely rational calculations (Leon & Pfeifer, 2017). Recent evidence supports this relationship. Mahdzan et al. (2023) show that religiosity significantly influences financial attitudes and encourages more conservative investment behavior among Muslim investors. These findings are also consistent with Social Identity Theory, which posits that group membership and shared values shape individual preferences and behavior. In the Indonesian context, where religious values are deeply embedded in social life, lower risk tolerance among Muslim investors may reflect broader cultural norms emphasizing prudence, long-term security, and collective welfare. Consequently, although religious values may discourage aggressive risk-taking, they simultaneously foster more stable and ethically grounded investment behavior, thereby contributing to the development of sustainable and inclusive financial markets (Mahdzan et al., 2023; Leon & Pfeifer, 2017)

Herding behavior shows a positive and significant effect, with an odds ratio of 1.150, indicating that investors who tend to follow others' investment decisions are 15% more likely to display high financial risk tolerance. This pattern suggests that social influence and collective behavior can amplify risk-taking tendencies, especially among young investors who rely on peer information in digital trading communities. Consistent with Gupta & Shrivastava (2022), this finding suggests that social influence and collective behavior can amplify risk-taking tendencies, particularly among young investors who rely heavily on peer information and digital trading communities. Consistent with Prospect Theory, investment decisions are shaped not only by rational evaluations but also by social cues and psychological biases. In this context, observing others' actions may reduce perceived uncertainty and encourage investors to take on risks they might otherwise avoid. From a theoretical perspective, this behavior can be explained by bounded rationality, which posits that individuals operate under constraints on limited information, cognitive capacity, and time (Lan & Fang, 2024).

Recent evidence supports this relationship. Yoon & Oh (2022) show that social media interactions and online information sharing contribute to time-varying and asymmetric herding behavior among investors. Similarly, Li et al (2023) and Zhou & Liu (2022) find that internet-based interactions and social media sentiment intensify collective trading patterns that may deviate from fundamental values. Reichenbach & Walther (2025) further show that investor attention on social media platforms aligns with cumulative Prospect Theory and that online discussions reinforce coordinated investment behavior. In the context of Generation Z, whose financial decisions are deeply embedded

in digital ecosystems, herding behavior may increase the willingness to invest in popular, potentially high-risk assets even when information is incomplete. While such behavior can increase risk tolerance, it may also heighten vulnerability to speculative bubbles and abrupt market corrections. Therefore, social influence acts as a double-edged sword, simultaneously encouraging market participation and increasing susceptibility to collective irrationality and excessive risk-taking (Kim, 2025).

Findings on religiosity reinforce the argument that religious orientation significantly shapes financial behavior by influencing perceptions of uncertainty, gains, and moral boundaries in economic decisions. The coefficient of –0.055 indicates that religiosity is inversely related to financial risk tolerance. For each one-unit increase in religiosity (that is, moving toward stronger religious commitment or practice), the likelihood of exhibiting high financial risk tolerance decreases by approximately 5.4% (1 – 0.946), holding other variables constant. In other words, more religious individuals tend to be more risk-averse when making investment decisions.

Religiosity, as both a cognitive and an affective construct, often embodies values such as prudence, ethical restraint, and the avoidance of speculative or exploitative activities. These values naturally reduce willingness to engage in high-risk investment behavior. From the perspective of Islamic finance and behavioral ethics, high religiosity discourages engagement in speculative (*gharar*) or gambling-like (*maysir*) activities and promotes investments that are asset-backed, transparent, and socially beneficial. As a result, individuals with stronger religious adherence may prefer safer, long-term investments that align with moral and religious principles. This conservative stance aligns with the moral anchoring effect, in which ethical convictions serve as reference points that limit excessive risk-taking. Empirical evidence supports this interpretation. Studies such as Rahman (2020) and Rossi et al. (2025) found that higher levels of religiosity are associated with lower risk appetite and more cautious financial decision-making. In the context of predominantly Muslim societies like Indonesia, religion operates not only as a personal belief system but also as a social norm that shapes collective attitudes toward money, fairness, and uncertainty. Thus, strong religiosity fosters financial prudence and moral consistency, even in environments that encourage aggressive investment behavior.

CONCLUSION

This study examines the determinants of financial risk tolerance among Generation Z investors in Indonesia by integrating demographic characteristics, religiosity, and herding behavior within a Prospect Theory framework. The findings show that gender, income, marital status, religion, herding behavior, and religiosity significantly influence financial risk tolerance, whereas investment experience does not. Male, higher-income, and unmarried investors exhibit greater risk tolerance, while Muslim and more religious individuals tend to be more conservative. Herding behavior increases risk-taking, highlighting the growing influence of social interactions and digital connectivity on investment decisions. These results support Prospect Theory by demonstrating that financial decisions are shaped by psychological, social, and value-based factors rather than purely rational considerations.

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From a policy perspective, financial education should extend beyond improving literacy to strengthening behavioral awareness, independent decision-making, and risk management. Regulators, educational institutions, and financial service providers should develop targeted programs that account for demographic differences and the influence of religiosity and social interactions. Promoting behavioral resilience and mitigating excessive herding are essential to fostering more informed investment decisions and supporting the development of a stable, inclusive capital market in Indonesia.

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