2nd ICBEAT 2026 (Universitas Dian Nuswantoro)
"Artificial Intelligence, Digital Transformation, and Sustainable Innovation: Reshaping Business, Economics, Accounting, and Technology in the Global Economy", Semarang - https://doi.org/10.33633/ic-beat.v1i1.17477

The Mediating Role of Financial Literacy in the Relationship Between Risk Tolerance and Stock Investment Decisions Among Generation Z in Semarang City

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Abstract

This study aims to examine the effect of financial literacy on investment decisions, with risk tolerance serving as a mediating variable among Generation Z in Semarang City. The study employed a quantitative approach using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method with SmartPLS 4. The sample consisted of 143 respondents selected through purposive sampling, with the criteria of being members of Generation Z aged 17–29 years and residing in Semarang City. The findings indicate that financial literacy has a positive effect on both investment decisions and risk tolerance. Furthermore, risk tolerance positively influences investment decisions. The results also reveal that risk tolerance mediates the relationship between financial literacy and investment decisions. These findings suggest that improving financial literacy can enhance individuals' risk tolerance, thereby supporting more rational investment decision-making among Generation Z.

Keywords: financial literacy; risk tolerance; investment decision; Generation Z

Introduction

In recent years, public interest in investment has increased significantly, particularly among younger generations. Data from the Indonesia Stock Exchange (IDX) indicate that the number of retail investors in Indonesia continues to grow rapidly, with investors under the age of 30 dominating the market (Bursa Efek Indonesia, 2025). The development of the Indonesian capital market has shown remarkable growth in recent years. The Indonesia Stock Exchange (IDX) reported that by the end of January 2025, the number of capital market investors had reached 15,161,166 Single Investor Identifications (SID), increasing from approximately 14.87 million SID at the end of 2024. This growth reflects the increasing public interest in capital market investments, particularly in stocks. Furthermore, investor growth is largely dominated by younger age groups who have extensive access to digital technology and investment platforms. This phenomenon indicates that Generation Z has become one of the primary drivers of investor growth in Indonesia. However, the increase in the number of investors is not necessarily accompanied by optimal investment decision-making quality, as many of them still possess limited investment experience (Bursa Efek Indonesia, 2025; KSEI, 2025). This trend demonstrates that investment is no longer an exclusive activity limited to certain groups but has become an increasingly popular financial trend, especially among Generation Z. As a generation raised in the digital era, Generation Z has broad access to investment information through social media, digital platforms, and financial applications that provide practical and convenient stock trading services. Nevertheless, the extensive exposure to investment information is not always accompanied by adequate understanding of capital market mechanisms and investment risks (Angela et al., 2025; Blessy & Widoatmodjo, 2026). Consequently, stock investment decisions are often not entirely based on rational considerations and thorough analysis (Rahmiyati & Somodiharjo, 2025).

One of the investment instruments that has become increasingly attractive to Generation Z is stocks. Stocks offer relatively higher return potential compared to other investment instruments but are also associated with substantial risk due to market fluctuations, economic sentiment, and global uncertainty (Kulshrestha et al., 2026). The high-risk, high-return nature of stocks makes risk tolerance an important factor in explaining the investment behavior of Generation Z investors (Anwar, 2025). Risk tolerance reflects the extent to which individuals are willing to accept uncertainty and potential losses in investment activities (Ghosh, 2023). Individuals with high risk tolerance tend to be more willing to make stock investment decisions, whereas those with low risk tolerance tend to be more cautious in selecting investment instruments (Rahmiyati & Somodiharjo, 2025; Slamet & Citta, 2020).

In addition to risk tolerance, financial literacy is a crucial factor that can determine the quality of stock investment decision-making. Financial literacy is not only related to the ability to understand basic financial concepts but also encompasses skills in managing risk, understanding investment instruments, and making sound financial decisions based on available information (Angela et al., 2025). Individuals with high financial literacy are generally more capable of evaluating the risks and potential returns of stocks rationally, enabling them to make investment decisions that align with their financial objectives. Therefore, financial literacy has the potential to serve as a mediating variable that bridges the relationship between risk tolerance and stock investment decisions.

On the other hand, the increasing number of investors should be accompanied by society's ability to understand financial aspects and investment risks. The results of the 2025 National Survey of Financial Literacy and Inclusion (SNLIK) indicate that Indonesia's financial literacy index reached 66.46%, while the financial inclusion index reached 80.51%, resulting in a gap of 14.05 percentage points between financial understanding and the use of financial products. This condition suggests that many individuals have already invested without possessing sufficient knowledge regarding the characteristics and risks of investment. This phenomenon is particularly relevant in Semarang City, one of the regions with high capital market investment activity in Central Java Province. Therefore, research is needed to examine how risk tolerance influences stock investment decisions and whether financial literacy is capable of mediating this relationship among Generation Z in Semarang City (Otoritas Jasa Keuangan & Badan Pusat Statistik, 2025).

This context becomes increasingly relevant when viewed in relation to the conditions of Semarang City as one of the economic growth centers in Central Java Province. Evidence shows that the number of capital market investors in Semarang City continued to increase until August 2025, reaching 167,000 investors, with approximately 70% being under the age of 30 (Jateng, 2025). The development of the trade and service sectors, along with increased access to digital financial services, has encouraged more Generation Z individuals in Semarang City to engage in stock investment. However, this ease of access also requires individuals to possess the ability to understand financial information so that investment decisions are not merely driven by trends but are instead based on an understanding of risk and appropriate investment strategies. Therefore, it is important to examine the factors influencing stock investment decisions among Generation Z in Semarang City, particularly from the perspectives of risk tolerance and financial literacy.

Although numerous studies have examined the influence of risk tolerance on investment decisions, most have focused on the direct relationship without considering the role of financial literacy as a mechanism that explains the investment decision-making process. Studies conducted by Fauzi et al., (2017); Mishra, (2018); Damayanti & Rafik, (2025) emphasize that risk tolerance is a strong predictor of individual investment decisions; however, the models employed primarily focus on direct relationships. Furthermore, research on the stock investment behavior of Generation Z in Indonesia, particularly in Semarang City, remains relatively limited despite the fact that this group represents a rapidly growing segment of investors.

Based on these conditions, several important research gaps can be identified. First, there is still limited research that positions financial literacy as a mediating variable in the relationship between risk tolerance and stock investment decisions. Second, many previous studies have focused on financial literacy as a direct independent variable rather than as a mechanism explaining the relationship between individual psychological characteristics and investment decisions. Third, studies examining stock investment decisions among Generation Z in Semarang City remain underdeveloped. Therefore, this research is important as it contributes to the development of behavioral finance literature and provides practical implications for regulators, financial institutions, and educational institutions in enhancing the financial literacy of Generation Z so that their stock investment decisions become more informed, effective, and sustainable.

Literature Review

The Theory of Planned Behavior (TPB) explains that individual behavior is preceded by intention, which is formed by three main determinants: attitude toward the behavior, subjective norms, and perceived behavioral control (Conner & Armitage, 1998). In the context of this study, TPB provides a relevant theoretical foundation for explaining that stock investment decisions among Generation Z are not solely influenced by risk tolerance as a psychological characteristic but are also determined by financial literacy as a source of knowledge and cognitive capability in investment decision-making. Risk tolerance reflects an individual's attitude toward uncertainty and potential losses, thereby shaping a person's tendency to accept or avoid stock investments characterized by market fluctuations (Safitri et al., 2025). Meanwhile, financial literacy plays a role in enhancing perceived behavioral control because individuals with a strong understanding of financial concepts

are generally better able to analyze market information, evaluate investment opportunities and risks, and determine appropriate investment strategies (Rahmiyati & Somodiharjo, 2025). Therefore, financial literacy strengthens Generation Z's intention to invest in stocks in a more rational and planned manner. Accordingly, this study argues that financial literacy functions as a mediating variable that bridges the influence of risk tolerance on stock investment decisions among Generation Z in Indonesia.

Financial Literacy Has a Positive and Significant Effect on Investment Decisions

Financial literacy refers to an individual's ability to understand basic financial concepts, manage financial resources, and evaluate various investment alternatives rationally (Maheshwari et al., 2024). n the context of stock investment, financial literacy is an important factor because investors are required to understand market mechanisms, calculate potential returns and risks, and determine investment strategies that align with their financial goals (Ghosh, 2023; Sari & Alhazami, 2026). Individuals with a high level of financial literacy tend to be more capable of accessing, interpreting, and utilizing financial information effectively, enabling them to make more informed and higher-quality investment decisions (Angela et al., 2025). Furthermore, financial literacy helps individuals understand the importance of portfolio diversification, risk management, and long-term investment planning (Blessy & Widoatmodjo, 2026). Such understanding allows investors not only to focus on short-term gains but also to consider the stability and sustainability of their investments. Conversely, low financial literacy may hinder individuals from accurately assessing risks and selecting appropriate investment instruments, resulting in suboptimal investment decisions (Rahmawati & Nugroho, 2025).

H1: Financial Literacy has a positive and significant effect on Investment Decisions.

Financial Literacy Has a Positive and Significant Effect on Risk Tolerance

The level of financial literacy possessed by an individual can influence how one perceives and responds to risk in investment activities (Lestari & Wardhani, 2025). Individuals with a better understanding of financial concepts tend to be more capable of recognizing the characteristics of investment instruments, understanding the relationship between risk and return, and objectively assessing potential losses (Safitri et al., 2025). Such knowledge enables investors to be better prepared to face market uncertainty, as their decisions are based on more rational considerations and informed judgments (Miswari et al., 2025). Furthermore, a strong financial understanding encourages individuals to implement risk management strategies, such as portfolio diversification and long-term investment planning (Yong et al., 2017). This can enhance investors' confidence in dealing with stock price fluctuations, allowing them to accept potential losses as a natural consequence of investing (Hermansson & Jonsson, 2021). Therefore, higher financial literacy can lead to increased risk tolerance, as investors possess the ability to manage and control their investment decisions more effectively (Djaini et al., 2025). Conversely, low levels of financial literacy may cause individuals to have inaccurate perceptions of risk, leading them to avoid highly volatile investments because they feel incapable of anticipating market uncertainty. Therefore, the higher an individual's level of financial literacy, the greater their risk tolerance in making investment decisions.

H2: Financial Literacy has a positive and significant effect on Risk Tolerance.

Risk Tolerance Has a Positive and Significant Effect on Investment Decisions

Risk tolerance plays an important role in determining investment decisions, particularly in investment instruments characterized by high levels of volatility, such as stocks (Firmansyah et al., 2026). Individuals with high risk tolerance tend to be more prepared to face market uncertainty and are more willing to accept potential losses during the investment process (Badriatin et al., 2022). This condition makes them more confident in making investment decisions, selecting stocks with higher return potential, and being less influenced by short-term price fluctuations (Nadhifah & Anwar, 2021). In contrast, individuals with low risk tolerance tend to be more cautious and avoid investment instruments perceived as highly uncertain. Investors with these characteristics generally prefer stable and low-risk investment instruments, making stock investment decisions less dominant compared to other investment alternatives. This indicates that risk tolerance influences an individual's willingness to make investment choices and determines the type of investment selected. Therefore, the higher an individual's risk tolerance, the greater the tendency to make stock investment decisions more actively and purposefully (Badriatin et al., 2022; Firmansyah et al., 2026).

H3: Risk Tolerance has a positive and significant effect on Investment Decisions.

Financial Literacy Has a Positive and Significant Effect on Investment Decisions Through Risk Tolerance

Financial literacy can influence investment decisions not only directly but also indirectly through increased risk tolerance (Ghosh, 2023). Individuals with high levels of financial literacy tend to have a better understanding

of the characteristics of investment instruments, including the potential returns and risks associated with stock investments (Lestari & Wardhani, 2025). This enhanced understanding enables individuals to assess risks more rationally and develop greater confidence in dealing with market fluctuations (Angela et al., 2025). Consequently, such conditions increase investors' risk tolerance when making investment decisions.Higher risk tolerance, in turn, encourages individuals to be more willing to make investment choices, particularly in high-risk, high-return instruments such as stocks (Djaini et al., 2025). Investors who are able to accept market uncertainty are more likely to make active investment decisions because they feel prepared to face potential losses and price fluctuations (Hermansson & Jonsson, 2021). Therefore, risk tolerance serves as an important mechanism that explains how financial literacy can encourage individuals to make more appropriate and informed investment decisions (Yong et al., 2017).
H4: Financial Literacy has a positive and significant effect on Investment Decisions through Risk Tolerance (mediation effect).

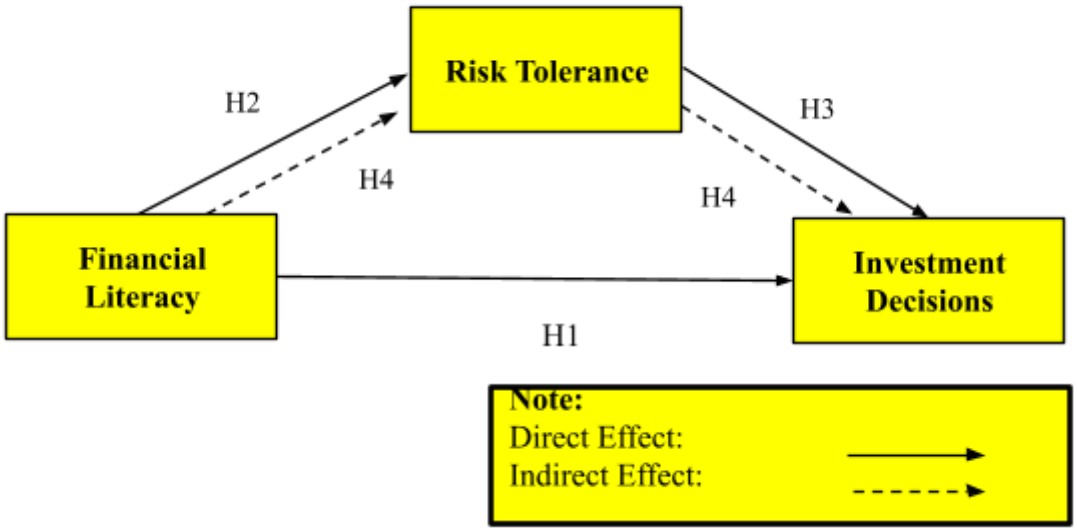


Figure 1. Research Model

Methods
This study was conducted in Semarang City from March to April. The research employed a quantitative approach designed to empirically examine the relationships among variables based on data collected from respondents. To analyze the structural relationships among constructs, this study applied the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method. The selection of SEM-PLS was based on its capability to test predictive research models and to simultaneously explain both direct and indirect effects among variables. Research data were collected through questionnaires distributed to respondents who met the predetermined criteria. The questionnaire instrument was systematically developed to measure the variables of financial literacy, risk tolerance, and investment decisions.

The sampling technique used in this study was purposive sampling, which involves the selective selection of respondents based on characteristics that align with the research objectives. A total of 143 respondents participated in this study. The research subjects were members of Generation Z residing in Semarang City, aged between 17 and 28 years This group was selected because it represents a generation with a high intensity of digital technology usage and increasing participation in investment activities, particularly in stock investments. These characteristics make Generation Z a relevant group for examining investment decision-making behavior. Overall, this research design is expected to provide a more comprehensive understanding of the mechanism through which financial literacy influences investment decisions, both directly and indirectly through the role of risk tolerance, particularly among Generation Z in Semarang City.

The research data were analyzed using SmartPLS 4 software through the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach. The analysis was conducted in stages by first evaluating the measurement model (outer model) to ensure the validity and reliability of the indicators. This was followed by testing the structural model (inner model) to assess the strength of the relationships among variables (J. F. Hair et al., 2021). Furthermore, the significance of both direct and indirect effects was examined using the

bootstrapping procedure to obtain path coefficients, t-statistics, and p-values as the basis for hypothesis testing and decision making (J. F. Hair et al., 2021).

Based on the respondents' characteristics, the majority of respondents in this study were members of Generation Z, with a relatively balanced gender composition consisting of 68 male respondents (47.6%) and 75 female respondents (52.4%). In terms of age, the largest proportion of respondents was in the 21–23 age group, comprising 51 individuals (35.7%), followed by those aged 24–26 years with 38 individuals (26.6%), 18–20 years with 32 individuals (22.4%), and 27–28 years with 22 individuals (15.4%). Regarding stock investment status, most respondents were actively investing in stocks, totaling 97 individuals (67.8%), while 46 respondents (32.2%) had previous experience investing in stocks. Based on the length of stock investment experience, the majority of respondents had invested for 1–2 years, accounting for 57 individuals (39.9%), followed by those with less than one year of experience, totaling 54 individuals (37.8%), and those with more than two years of investment experience, totaling 32 individuals (22.4%). These findings indicate that the majority of Generation Z respondents in this study can be categorized as young investors who are still in the early to intermediate stages of stock investment experience.

Table 1. Operational Definition of Variables

Respondent Characteristics

	Category	Frequency (Persons)	Percentage (%)
Gender	Male	68	47.6
	Female	75	52.4
Age Range (Generation Z)	18–20 years	32	22.4
	21–23 years	51	35.7
	24–26 years	38	26.6
	27–28 years	22	15.4
Stock Investment Status	Currently Investing	97	67.8
	Previously Invested	46	32.2
Length of Stock Investment Experience	< 1 years	54	37.8
	1–2 years	57	39.9
	> 2 years	32	22.4

Source: Primary data obtained from participating respondents.

The operational definition table in this study is used to clarify the concepts of each variable analyzed. Financial literacy describes respondents' ability to understand financial information and utilize it in financial management and investment decision-making. Risk tolerance refers to an individual's level of readiness to face uncertainty and potential losses in investment activities. Meanwhile, investment decisions refer to the investment actions taken by respondents, such as buying, holding, or selling assets based on risk considerations and financial objectives.

Table2. Operational Definitions of Variables

Variable	Definition	Indicators
Financial Literacy	Financial literacy is an individual's ability to understand financial information and concepts and use them to manage personal finances and make appropriate investment decisions.	1. Knowledge of basic financial concepts 2. Understanding of inflation 3. Understanding of interest rates 4. Understanding of risk diversification 5. Understanding of investment instruments (Rahmiyati & Somodiharjo, 2025)
Risk Tolerance	Risk tolerance is the degree of an individual's willingness to face investment uncertainty, including readiness to accept potential losses in pursuit of future returns.	1. Preference for high-risk investments 2. Willingness to face uncertainty in investment outcomes 3. Ability to accept potential losses

		4. Attitude toward investment value fluctuations (Juwono et al., 2025)
Investment Decision	Investment decision refers to an individual's action in determining investment choices, such as buying, holding, or selling assets, based on considerations of risk, benefits, and financial objectives.	1. Decision to select investment instruments 2. Decision to buy stocks 3. Decision to sell stocks 4. Decision to hold stocks 5. Investment decisions based on risk and return considerations (Rahmiyati & Somodiharjo, 2025)

Source: Literature obtained from previous studies.

Results

The convergent validity test was conducted by evaluating the outer loading values of each indicator. A construct is considered to have achieved convergent validity if its outer loading value exceeds 0.70 (Shela et al., 2023). Based on Table 3, all indicators of the Investment Decision variable (0.724–0.784), Financial Literacy (0.785–0.887), and Risk Tolerance (0.738–0.836) have outer loading values above the minimum threshold. Therefore, all constructs in this study satisfy the criteria for convergent validity and are suitable for further analysis.

Table 3. Convergent Validity

Variable Indicator	Financial Literacy	Risk Tolerance
Indicator Investment Decision		
\FL1	0.860	
FL2	0.887	
FL3	0.857	
FL4	0.836	
FL5	0.785	
ID1	0.758	
ID2	0.779	
ID3	0.678	
ID4	0.724	
ID5	0.784	
RT1		0.836
RT2		0.776
RT3		0.767
RT4		0.738

Source: Primary data processed by the researchers using SmartPLS 4 (2026).

Reliability testing was conducted by examining the values of Cronbach's alpha and composite reliability (rho_a and rho_c). A construct is considered reliable when the values of Cronbach's alpha and composite reliability exceed 0.70. In addition, construct validity is supported by the Average Variance Extracted (AVE), which should be greater than 0.50 (J. F. J. Hair et al., 2014). Based on Table 4, all variables, namely Investment Decision (α = 0.801; CR = 0.862; AVE = 0.556), Financial Literacy (α = 0.900; CR = 0.926; AVE = 0.715), and Risk Tolerance (α = 0.785; CR = 0.861; AVE = 0.608), satisfy all the required criteria. Therefore, it can be concluded that all constructs demonstrate good reliability and adequate validity for further analysis.

Table 4. Reliability of Variables

Variable	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)

Investment Decision	0.801	0.811	0.862	0.556
Financial Literacy	0.900	0.901	0.926	0.715
Risk Tolerance	0.785	0.793	0.861	0.608

Source: Primary data processed by the researchers using SmartPLS 4 (2026).

Discriminant validity was assessed using cross-loading values to ensure that each indicator had the highest correlation with its respective construct compared to other constructs (J. F. Hair et al., 2019). Based on Table 5, all indicators of Financial Literacy (FL1–FL5), Investment Decision (ID1–ID5), and Risk Tolerance (RT1–RT4) exhibited the highest loading values on their respective constructs compared to the loadings on other constructs. Therefore, these results confirm that all constructs satisfy the criteria for discriminant validity, indicating that the measurement model is appropriate for further analysis.

Table 5. Discriminant Validity (Cross-Loading Values)

Indicator	Investment Decision	Financial literacy	Risk Tolerance
FL1	0.694	0.860	0.678
FL2	0.691	0.887	0.751
FL3	0.632	0.857	0.698
FL4	0.646	0.836	0.623
FL5	0.675	0.785	0.687
ID1	0.758	0.624	0.633
ID2	0.779	0.527	0.577
ID3	0.678	0.435	0.530
ID4	0.724	0.551	0.533
ID5	0.784	0.754	0.659
RT1	0.656	0.776	0.836
RT2	0.595	0.562	0.776
RT3	0.612	0.606	0.767
RT4	0.605	0.573	0.738

Source: Primary data processed by the researchers using SmartPLS 4 (2026).

Based on Table 6, the R-square value for the Investment Decision variable is 0.690, with an adjusted R-square of 0.685 (J. F. Hair et al., 2021). These results indicate that Financial Literacy and Risk Tolerance explain 69.0% of the variance in Investment Decisions, while the remaining 31.0% is influenced by factors outside the research model. Furthermore, the R-square value for the Risk Tolerance variable is 0.664, with an adjusted R-square of 0.662. This means that Financial Literacy explains 66.4% of the variance in Risk Tolerance, while the remaining 33.6% is explained by other variables not included in this study. Overall, these R-square values indicate that the model has strong predictive power in explaining the endogenous variables.

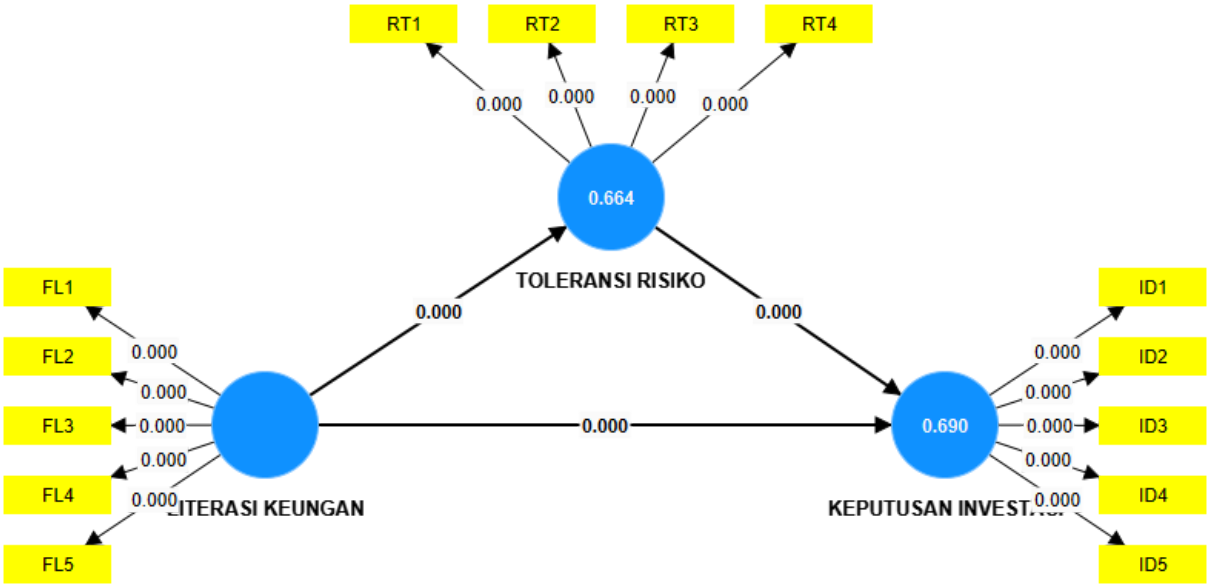
Table 6. R-Square Values

Variable	R-square	R-square adjusted
Investment Decision	0.690	0.685
Risk Tolerance	0.664	0.662

Source: Primary data processed by the researchers using SmartPLS 4 (2026).

Hypothesis testing was conducted using the bootstrapping procedure in SmartPLS 4 by examining the path coefficients, t-statistics, and p-values. A hypothesis is accepted when the t-statistic exceeds 1.96 and the p-value is less than 0.05 (J. F. Hair et al., 2021). Based on the results presented in Table 7 and Figure 2, the relationship between Financial Literacy and Investment Decision shows a path coefficient of 0.433, a t-statistic of 5.511, and a p-value of 0.000. Therefore, it can be concluded that Financial Literacy has a positive and significant effect on Investment Decision. Furthermore, Financial Literacy was found to have a positive and significant effect on Risk Tolerance, with a path coefficient of 0.815, a t-statistic of 32.104, and a p-value of 0.000. In addition, Risk Tolerance has a positive and significant effect on Investment Decision, with a path

coefficient of 0.438, a t-statistic of 5.512, and a p-value of 0.000. Thus, all hypotheses proposed in this study are supported, as all relationships among the variables are statistically significant.



Source: Primary data processed by the researchers using SmartPLS 4 (2026).

Figure 2. PLS Structural Model (Bootstrapping Results)

Table 7. Hypothesis Testing Results

Hypothesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Financial Literacy -> Investment Decision	0.433	0.432	0.079	5.511	0.000
Financial Literacy -> Risk Tolerance	0.815	0.816	0.025	32.104	0.000
Risk Tolerance-> Investment Decision	0.438	0.442	0.080	5.512	0.000

Source: Primary data processed by the researchers using SmartPLS 4 (2026).

A hypothesis is accepted when the t-statistic exceeds 1.96 and the p-value is below 0.05. Based on the results presented in Table 8, the indirect effect of Financial Literacy on Investment Decision through Risk Tolerance has a coefficient of 0.357, a t-statistic of 5.241, and a p-value of 0.000. These findings indicate that Risk Tolerance significantly mediates the relationship between Financial Literacy and Investment Decision. Since the direct effect of Financial Literacy on Investment Decision remains significant, it can be concluded that the mediation effect is classified as partial mediation.

Table 8. Mediation Hypothesis Testing Results

Hypothesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Financial Literacy-> Risk Tolerance Investment Decision	0.357	0.361	0.068	5.241	0.000

Source: Primary data processed by the researchers using SmartPLS 4 (2026).

Discussion

Effect of Financial Literacy on Investment Decisions

The results of the analysis indicate that Financial Literacy has a positive and significant effect on Investment Decisions, with a path coefficient of 0.433, a t-statistic of 5.511 (> 1.96), and a p-value of 0.000 (< 0.05). These findings demonstrate that the higher an individual's level of financial literacy, the better their ability to make investment decisions. Individuals who possess a strong understanding of basic financial concepts, investment risks, and market mechanisms tend to be more confident and rational in selecting stock investment instruments. For Generation Z investors in Semarang City, financial literacy is a crucial factor because this

group obtains a substantial amount of information through digital media. Therefore, the ability to distinguish valid and reliable information significantly influences the quality of investment decisions. These findings are consistent with the study by Blessy & Widoatmodjo, (2026), which emphasizes that financial literacy plays an important role in enhancing individuals' ability to make sound financial decisions. The results also support the findings of Damayanti & Rafik, (2025), who found that individuals with higher levels of financial literacy tend to participate more actively in the stock market and make more rational investment decisions. Therefore, financial literacy is a critical factor for Generation Z investors, particularly in navigating the rapid flow of digital information. The ability to understand risks and evaluate information effectively becomes a key determinant of investment decision quality.

Effect of Financial Literacy on Risk Tolerance

The findings reveal that Financial Literacy has a positive and significant effect on Risk Tolerance, with a path coefficient of 0.815, a t-statistic of 32.104 (> 1.96), and a p-value of 0.000 (< 0.05). These results indicate that Generation Z investors with higher levels of financial literacy are more capable of understanding market risks and potential investment losses, enabling them to accept higher levels of risk in a measured and informed manner. Investors who understand the concepts of diversification, stock price fluctuations, and the relationship between risk and return are generally better prepared to cope with market volatility. Therefore, financial literacy not only enhances knowledge but also shapes investors' attitudes and psychological readiness in dealing with investment uncertainty. These findings are consistent with the studies of Badriatin et al., (2022); Firmansyah et al., (2026), which emphasize that financial literacy is a fundamental competency influencing the quality of individuals' financial decisions. It enables investors to understand risk concepts, evaluate potential returns, and consider the financial consequences of each investment choice. Financial literacy also contributes to investors' ability to manage market uncertainty. Consequently, individuals with better financial knowledge tend to exhibit more measured investment behavior, are less reactive to short-term market fluctuations, and are more capable of taking risks rationally in accordance with their investment profiles.

Effect of Risk Tolerance on Investment Decisions

The results of the analysis indicate that Risk Tolerance has a positive and significant effect on Investment Decisions, with a path coefficient of 0.438, a t-statistic of 5.512 (> 1.96), and a p-value of 0.000 (< 0.05). These findings suggest that the higher an investor's risk tolerance, the greater the likelihood of making investment decisions, particularly in instruments characterized by high volatility, such as stocks. Investors with high risk tolerance generally do not panic easily during price declines and tend to focus on long-term return potential. In the context of Generation Z, this characteristic is particularly relevant because individuals in this age group tend to be more adaptive to market changes and demonstrate greater willingness to invest in high-risk instruments, especially when supported by extensive access to digital information. This study is consistent with previous research emphasizing that risk tolerance is an important factor in shaping investment behavior, particularly in high-risk investment instruments such as stocks (Firmansyah et al., 2026; Nadhifah & Anwar, 2021). These findings demonstrate that high risk tolerance contributes to the development of self-regulation mechanisms and psychological preparedness in dealing with market volatility. As a result, investors are less likely to be influenced by short-term price fluctuations and are better able to make rational investment decisions focused on long-term returns. In the context of Generation Z, risk tolerance also strengthens investors' willingness to select high-risk investment instruments, particularly due to the availability of rapid and extensive digital information.

The Mediating Role of Risk Tolerance in the Relationship Between Financial Literacy and Investment Decisions

The results of this study indicate that Risk Tolerance plays a significant mediating role in the relationship between Financial Literacy and Investment Decisions. This is evidenced by the indirect effect coefficient of 0.357, with a t-statistic of 5.241 (> 1.96) and a p-value of 0.000 (< 0.05). These findings suggest that the higher an individual's level of financial literacy, the greater their risk tolerance, which subsequently encourages stronger investment decision-making, particularly in stock investments characterized by high volatility. In the context of Generation Z investors, financial literacy not only helps individuals understand investment mechanisms but also enhances their psychological readiness to face investment risks. Consequently, investment decisions can be made in a more rational and informed manner. Furthermore, since the direct effect of Financial Literacy on Investment Decisions remains significant, the mediation effect can be classified as partial mediation. This indicates that investment decisions are influenced both directly by financial literacy and indirectly through risk tolerance (Yong et al., 2017).

Conclusion

This study concludes that Financial Literacy has a positive and significant effect on the Investment Decisions of Generation Z investors and also has a positive and significant effect on Risk Tolerance. In addition, Risk Tolerance is found to have a positive and significant effect on Investment Decisions. The findings further reveal that Risk Tolerance serves as a significant mediating variable in the relationship between Financial Literacy and Investment Decisions. The mediation effect is classified as partial mediation because the direct effect of Financial Literacy on Investment Decisions remains significant. These results highlight the important role of Financial Literacy in enhancing Generation Z investors' readiness to face investment risks while simultaneously improving the quality of their investment decision-making, particularly in stock investments. This study contributes to the academic literature on investment behavior by providing evidence of the roles of Financial Literacy and Risk Tolerance in shaping Investment Decisions among Generation Z investors. Furthermore, the findings offer practical implications for financial institutions, regulators, and capital market education providers in designing financial literacy programs aimed at promoting more rational and informed investment decisions. Future research is encouraged to expand the scope of respondents by including other generational groups and more diverse geographical areas to improve the generalizability of the findings. Additionally, future studies are recommended to incorporate other variables, such as financial behavior, social media influence, trust in investment platforms, and risk perception, to provide a more comprehensive understanding of the factors influencing investment decisions, particularly in high-risk investment instruments such as stocks.

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