

The Effect of Behavioral Propensity on Financial Risk Tolerance among Investors: The Role of Religiosity as a Moderating Variable

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ABSTRACT

This research aims to examine the effect of behavioral propensities variables that included propensity for regret, propensity for trust, happiness in life, propensity to attribute success to luck, propensity for overconfidence, and propensity for social interaction, on the variable of financial risk tolerance, as well as the moderating effect of religiosity. This study employs a quantitative approach using SEM (Structural Equation Modelling) analysis methods. This research was conducted by distributing questionnaires to investors aged 17 and above in Surabaya. The findings indicate that propensity for trust and propensity for social interaction significantly influence financial risk tolerance. However, propensity for regret, happiness in life, propensity to attribute success to luck, and propensity for overconfidence do not affect financial risk tolerance. Furthermore, regarding the moderating variable, religiosity influences all six behavioral propensity variables – propensity for regret, propensity for trust, happiness in life, propensity to attribute success to luck, propensity for overconfidence, and propensity for social interaction – toward financial risk tolerance.

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh variabel kecenderungan perilaku yang meliputi kecenderungan menyesal, kecenderungan percaya, kebahagiaan hidup, kecenderungan mengaitkan kesuksesan dengan keberuntungan, kecenderungan terlalu percaya diri, dan kecenderungan interaksi sosial, terhadap variabel toleransi risiko keuangan, serta pengaruh moderasi religiusitas. Studi ini menggunakan pendekatan kuantitatif dengan metode analisis SEM (Structural Equation Modelling). Penelitian ini dilakukan dengan mendistribusikan kuesioner kepada investor berusia 17 tahun ke atas di Surabaya. Hasil penelitian menunjukkan bahwa kecenderungan percaya dan kecenderungan interaksi sosial berpengaruh signifikan terhadap toleransi risiko keuangan. Namun, kecenderungan menyesal, kebahagiaan hidup, kecenderungan mengaitkan kesuksesan dengan keberuntungan, dan kecenderungan terlalu percaya diri tidak berpengaruh terhadap toleransi risiko keuangan. Selanjutnya, terkait variabel moderasi, religiusitas memengaruhi keenam variabel kecenderungan perilaku – kecenderungan untuk menyesal, kecenderungan untuk percaya, kebahagiaan dalam hidup, kecenderungan untuk mengaitkan kesuksesan dengan keberuntungan, kecenderungan untuk terlalu percaya diri, dan kecenderungan untuk interaksi sosial – terhadap toleransi risiko keuangan.

Keywords:

Financial Risk Tolerance, Behavioral Propensities, Propensity to Trust, Religiosity.

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1. INTRODUCTION

The COVID-19 pandemic has fundamentally reshaped global economic behavior, and Indonesia's investment landscape is no exception. One of the most striking post-pandemic phenomena has been the dramatic surge in retail investor numbers. According to PT Kustodian Sentral Efek Indonesia (KSEI, 2023), the number of capital market investors in Indonesia increased by 536.74% between 2018 and 2022. Even more remarkably, mutual fund product investors grew by 864.76% during the same period. This explosive growth has been driven largely by two factors: the emergence of stock influencers on social media and deeply discounted share prices during the market downturn (Chung et al., 2026).

Importantly, the demographic profile of these new investors is heavily skewed toward younger generations. KSEI (2023) reports that people under 30 now dominate Indonesia's investor base, with over 6.2 million millennial investors. However, the reality of investing is that not all investments generate profits; losses are equally possible. Therefore, investment activity cannot be separated from the concept of risk. Each individual investor has a different level of risk tolerance—defined as the maximum degree of uncertainty they are willing to accept regarding potential negative outcomes.

As many as 58.18% of millennials exhibit behavioral finance patterns and have a different risk tolerance limit compared to Generation X (Rahman, 2020). This finding underscores the urgency of understanding how psychological and behavioral tendencies influence risk tolerance. Investment decisions, including the choice of asset class and the amount of funds allocated, are strongly influenced by an investor's risk tolerance. Consequently, identifying the behavioral antecedents of risk tolerance is not merely an academic exercise but a practical necessity for financial advisors, policymakers, and individual investors themselves.

Thus, the research problem can be formulated as follows: How do behavioral propensities—specifically, propensity for regret, propensity for trust, happiness in life, propensity to attribute success to luck, propensity for overconfidence, and propensity for social interaction—affect financial risk tolerance, and does religiosity moderate these relationships in the context of Indonesia?

Despite a growing body of literature on behavioral finance and risk tolerance, several significant gaps remain. First, previous studies have produced inconsistent findings regarding the direction and magnitude of relationships between behavioral propensities and risk tolerance. Happiness in life (HL) by Rahman (2020) and Rahman et al. (2020) found a significant negative effect of happiness on risk tolerance, suggesting that happier individuals are more risk-averse. This aligns with Isen and Patrick (1983), who argued that people with high levels of happiness tend to have low risk tolerance. However, Elmosalammi (2023) reported a significant positive effect, contradicting the earlier findings. Propensity for social interaction (PSI) by Elmosalammi (2023) found a significantly positive effect on risk tolerance. In contrast, Rahman (2020) and Rahman et al. (2020) found no significant influence

of PSI on risk tolerance. Rahman (2020) reported a significant negative moderating effect of religiosity on the relationship between happiness and risk tolerance. However, Elmosalammi (2023) found a significant positive moderating effect, directly contradicting Rahman's results. Rahman (2020) found a moderating effect of religiosity on PSI: religiosity does not moderate the relationship between social interaction and risk tolerance, attributing the lack of significance to differences across ethnic groups (Chinese, Malaysians, and Indians) in Malaysia. Conversely, Elmosalammi (2023) reported a significantly positive moderating effect.

Second, and more critically, most prior research has been conducted outside Indonesia. The studies by Rahman (2020) and Rahman et al. (2020) were set in Malaysia, while Elmosalammi (2023) likely focused on another context (e.g., Bangladesh). Indonesia, despite being the world's fourth most populous country and home to the largest Muslim population globally, has not been systematically examined. The behavioral finance literature lacks empirical evidence from Indonesia's unique cultural and religious environment.

Third, no previous study has simultaneously tested all six behavioral propensity variables (PR, PT, HL, PASL, POC, and PSI) within a single unified model, with religiosity as a moderator for each relationship, in an Indonesian setting. Most existing studies either examined a subset of these variables or did not explicitly test the moderating role of religiosity across all behavioral dimensions.

Therefore, the research gap can be summarized as follows: There is a lack of consistent empirical evidence on how behavioral propensities influence risk tolerance, particularly regarding the contradictory findings on happiness and social interaction, and a complete absence of studies that examine the moderating role of religiosity on these relationships within the Indonesian investor population.

This study offers three distinct and interrelated novelties that collectively position it as a significant contribution to behavioral finance literature.

First, geographical and cultural novelty. This research is conducted in Indonesia, a country where the majority of the population is religious and multiple religions coexist harmoniously. As stated explicitly in the original research background, "The unique aspect of this research is its focus on Indonesia, a country where most of the population is religious. It is suspected that religiosity will strengthen the tendency of investor behavior and affect the risk tolerance of these investors, as religious people tend to limit themselves from risky actions" (Elmosalammi, 2023). No prior study has systematically tested the moderating effect of religiosity on behavioral propensities and risk tolerance in Indonesia. Given Indonesia's high level of religious diversity and observance, the findings may reveal patterns that are distinct from those observed in Malaysia or Western countries.

Second, theoretical novelty. This study integrates six behavioral propensity variables within a single framework: propensity for regret (PR), propensity for trust (PT), happiness in life (HL), propensity to attribute success to luck (PASL), propensity for overconfidence (POC),

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and propensity for social interaction (PSI). Previous studies (Rahman, 2020; Rahman et al., 2020; Elmosalammi, 2023) have examined these variables separately or in smaller combinations. By testing all six simultaneously, this research can compare the relative strength of each behavioral tendency in predicting risk tolerance. Furthermore, the inclusion of religiosity as a moderator for each relationship allows for a more nuanced understanding of how religious beliefs amplify or dampen behavioral influences on risk-taking.

Third, empirical novelty regarding contradictory findings. This study directly addresses the inconsistencies in prior literature. For example, the contradictory findings on life happiness (negative in Rahman, 2020; positive in Elmosalammi, 2023) and social interaction (insignificant in Rahman, 2020; positive in Elmosalammi, 2023) will be re-examined in the Indonesian context. Additionally, the moderating role of religiosity on these relationships will be tested to determine whether differences in religious context explain the conflicting results. As Elmosalammi (2023) found that religiosity positively moderates the effects of happiness and social interaction on risk tolerance, this study will verify whether the same holds true in Indonesia.

Finally, this research is among the first to provide actionable insights for financial practitioners and policymakers in Indonesia regarding how religiosity interacts with behavioral biases. Given that more than 6.2 million millennial investors are active in the market, understanding whether religious beliefs temper or amplify risk tolerance can guide the design of more effective financial literacy programs, investment product disclosures, and advisory services tailored to Indonesia's unique cultural landscape.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Behavioral finance tries to understand and explain facts about investors, market behavior, and theories of investor behavior. Financial behavior is the understanding of how people make individual and collective decisions (Michael, 2012). Understanding how investors and markets behave makes it possible to modify or adapt to these behaviors to improve investment returns. Behavioral finance is also generally defined as the application of psychology to finance. Behavioral finance seeks to identify and study the psychological aspects of financial markets. The theory of financial behavior explains how people make financial decisions and how their behavior can affect investment performance.

It integrates concepts from psychology, economics, and financial management theory to explain how people process financial information and make financial decisions. The theory encompasses the study of how people make financial decisions, including how investors think and feel about finance and how investors behave in financial situations (Thaler, 2019). In behavioral finance theory, two types of investor biases exist: emotional and cognitive. Emotional biases refer to the influence of a person's emotions and subjective feelings on financial decisions. Emotional biases occur when an individual's emotions influence their financial decision-making (Irvansyah et al, 2024).

Emotions such as fear, greed, complacency, or anxiety can influence one's investment judgment and actions. Cognitive bias occurs when a person's way of thinking or decision-making is affected by cognitive distortions. These biases relate to how the human mind processes information and makes judgments that can lead to logical errors.

In behavioral finance theory, behavioral propensity refers to the tendency of individuals to influence their financial behavior based on psychological, emotional, and cognitive factors. Behavioral propensity reflects an individual's predisposition to behave in a certain way in the context of financial decisions. This concept emphasizes that rational economic, influential psychological, and social factors influence financial behavior. Behavioral propensity recognizes that humans exhibit certain tendencies in making financial decisions, which can differ from those of purely rational models. In behavioral finance theory, understanding behavioral propensities is essential because it helps uncover the factors influencing individual financial decision-making. With this understanding, financial decision-makers can be more aware of their biases and can take steps to reduce them and improve the quality of their financial decisions. This study will use behavioral finance factors, specifically behavioral propensity, as the independent variable. These factors are: propensity for regret (PR), propensity for trust (PT), happiness in life (HL), propensity to attribute success to luck (PASL), propensity for overconfidence (POC), propensity for social interaction (PSI), and the dependent variable, financial risk tolerance.

Effect of Propensity for Regret on Financial Risk Tolerance

The tendency to regret positively impacts risk tolerance (Rahman, 2020). A high level of regret makes venture capital acceptable. This pattern is supported by Tsai (2012), who states that the reluctance of bank chief executives makes banks more tolerant of financial risk, suggesting that regret may positively influence risk tolerance. Meanwhile, Bell (1982) also found positive evidence for the relationship between regret and risk aversion. Rahman's (2020) findings are helpful for financial advisors, who should consider the level of regret when assessing risk tolerance, as it may be exaggerated or underestimated relative to the true risk tolerance. In addition, the survey results also show that financial advisors can recommend risky investment portfolios to clients with relatively high levels of regret (Rahman et al., 2020).

H1: It is suspected that propensity for regret has a positive impact on financial risk tolerance

Effect of Propensity for Trust on Financial Risk Tolerance

Propensity for trust positively affects risk tolerance; someone with a high propensity for trust tends to be better able to face financial risk. They tend to believe that other people or related institutions will act honestly and responsibly in financial matters (Rahman et al., 2020). Hurley (2006) found that people's risk tolerance significantly impacts their willingness to trust trustees. In contrast, Ashraf et al. (2006) found

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little or no correlation between the propensity to trust and overall risk aversion or risk tolerance. In an investment context, individuals with a high propensity for trust tend to be more inclined to take risks in their investment portfolios. Respondents may feel comfortable investing in higher-risk instruments, such as stocks or other high-risk assets. Respondents may be confident that the company or party they invest in will manage their money well and deliver the expected results (Rahman, 2020).

H2: It is suspected that Propensity for Trust has a positive impact on financial risk tolerance

The Effect of Happiness in Life on Financial Risk Tolerance

Happiness in life hurts risk tolerance (Rahman et al., 2020). This finding suggests that relatively happy respondents have a low risk tolerance, making risky investments less attractive. However, other studies show that happier individuals tend to be more prepared to face risks in their financial decisions (Boyce et al., 2013). Investors who are more satisfied with their lives tend to be more active in stock trading and more likely to take risks in their investment decisions (Barber & Odean, 2000).

H3: It is suspected that happiness in life has a positive effect on risk tolerance

Effect of Propensity to Attribute Success to Luck on Financial Risk Tolerance

Several research findings suggest a possible direct and indirect relationship between social interactions and individual investment decision-making, ultimately related to risk and tolerance (Bromiley & Curley, 1992). Many studies have found significant relationships between social interaction and individual decision-making (Cook & Oliver, 2011; Renneboog & Spaenjers, 2012). Weber and Milliman (1997) found that individuals who attribute their success to luck rather than skill or personal effort have lower financial risk tolerance. They tend to feel that luck cannot be controlled and that they should avoid high financial risk.

H4: It is suspected that the propensity to attribute success to luck hurts FRT.

Effect of Propensity for Overconfidence on FRT

The tendency to be overconfident positively affects risk tolerance, indicating that individuals with high overconfidence are more willing to accept risky investments (Rahman, 2020). Research by Gervais et al. (2005) explored the relationship between propensity for overconfidence and financial risk tolerance in the context of investment decisions. They found that individuals who tend to feel overconfident in their ability to make profitable investment decisions tend to have higher financial risk tolerance. They are more inclined to take more significant risks in their investment portfolios.

H5: It is suspected that the propensity for overconfidence positively impacts financial risk tolerance.

Effect of Propensity for Social Interaction on FRT

Several studies have found that people with high-risk tolerance tend to buy more stocks (Nofsinger & Baker, 2002; Renneboog & Spaenjers, 2012). Previous research also found that social interaction positively impacts risk tolerance (Rahman, 2020). The relationship between social interaction and risk-taking in the context of investment decisions. This study found that more socially active individuals tend to have higher risk tolerance and are more likely to take greater risks in their investment portfolios (Lyandres et al., 2017).

H6: It is suspected that propensity for social interaction positively impacts financial risk tolerance.

The Effect of Behavioral Propensities on Financial Risk Tolerance Moderated by Religiosity

The research findings of this study, which examines the moderating effect of religiosity using six behavioral propensities, are significant. The study aims to determine the role of religiosity in either strengthening or weakening the influence of behavioral propensities on risk tolerance (Rahman, 2020). The expected outcome is that the moderating effect of religiosity will strengthen the influence of the five behavioral tendencies on risk tolerance, except for social interaction. However, the findings also reveal that low levels of religiosity can strengthen the influence of the five behavioral tendencies and risk tolerance more than high levels of religiosity. This research builds on the work of Kuran and Lustig (2004), who explored the relationship between religiosity and risk-taking in the context of economic decisions. They found that high levels of religiosity are often associated with lower risk tolerance, as religious beliefs emphasize prudence, fairness, and the avoidance of unnecessary risks.

H7: It is suspected that religiosity positively influences the propensity for regret, propensity for trust, happiness in life, propensity to attribute success to luck, propensity for overconfidence, and propensity for social interaction on financial risk tolerance.

The research model is presented in Figure 1

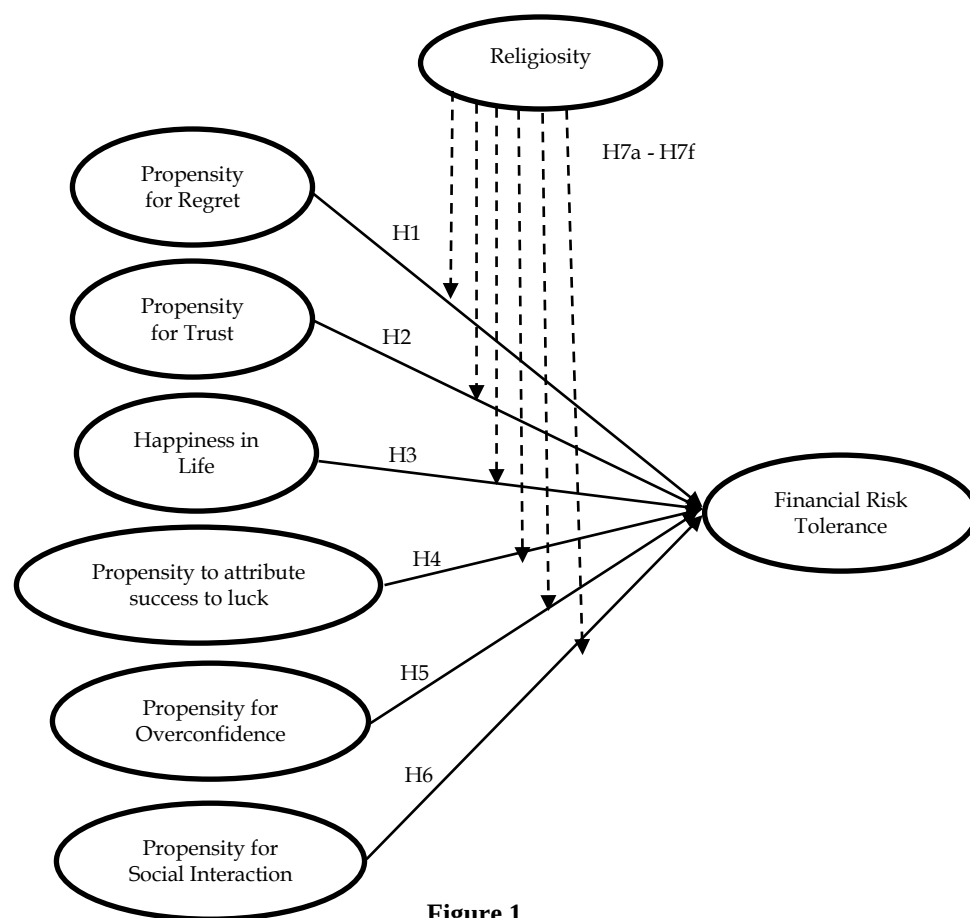


Figure 1
Research Model

3. RESEARCH METHOD

This study uses six independent variables, one dependent variable, and 1 moderating variable. The independent variables used are propensity for regret, trust, happiness in life, propensity to attribute success to luck, propensity for overconfidence, and propensity for social interaction. The dependent variable of this study is financial risk tolerance, and the moderating variable is religiosity. The measurement indicators for each variable are presented in Table 1. This study uses convenience sampling technique. This study uses a sample of 190 people, with the criteria that investors are at least 17 years old; investors have a Single Investor Identification (SID); investors are Indonesian Citizens (WNI); and have been actively buying and selling shares for the last year. This research uses Structural equation modeling (SEM) in JASP.

Table 1. Indicators for each variable

Variables	Question
Financial risk tolerance (FRT)	FRT1. I'm willing to take the risk of losing money if there's a chance I'll make money too.
	FRT2. I'm willing to take risks like starting a business or gambling, unlike anyone else who prefers a secure job with a fixed salary over an uncertain venture.
	FRT3. If I'm sure an investment will be profitable, I'll be willing to borrow money to make this investment.
Propensity for Regret (PR)	PR1. Whenever I make a financial choice, I am curious about what would have happened if I had chosen differently.
	PR2. Whenever I make a financial decision, I try to get information about how other alternatives came about. iii. If I make a choice and it turns out well, I still feel like a failure if I discover that another choice would have been better.
Propensity for Trust (PT)	PT1. I believe that I can trust people to be involved in making financial investments.
	PT2. I believe I can trust financial institutions.
	PT3. I believe I can trust the information provided by financial advisors.
Happiness in Life (HL)	HL1. In general, I am very happy with my financial situation.
	HL2. I am satisfied with my parents' financial situation.
	HL3. All things considered, I am very satisfied with my life overall.
Propensity to Attribute Success to Luck (PASL)	PASL1. Luck plays an important role in the outcome of financial decisions.
	PASL2. I believe in luck for any financial gain.
	PASL3. I often feel it is my lucky day to make financial decisions.
Propensity For Overconfidence (POC)	POC1. I feel more confident in my own opinions about financial decisions than those of others.
	POC2. I believe that on average my financial decisions will be better than others.
	POC3. When I have a successful decision outcome, I feel that my actions and knowledge influenced that outcome.
Propensity for Social Interaction (PSI)	PSI1. In the past four weeks, I have often participated in various activities organized by student clubs and societies.
	PSI2. I am often involved in doing some volunteer work in my faculty.
	PSI3. I participated in student community action programs in my faculty.
Religiosity (RL)	RL1. Religion is very important to me because it answers many questions about the meaning of life
	RL2. I often read books and magazines about my religion.
	RL3. I spend time trying to grow my understanding of faith.
	RL4. I make financial contributions to my religious organizations.
	RL5. I enjoy spending time with others from my religion.
	RL6. My religious beliefs affect all my affairs in life.

4. DATA ANALYSIS & DISCUSSION

Descriptive statistics for respondents are presented in Table 2.

Table 2. Descriptive Statistics of Respondents

		Frequency	Percentage
Gender	Male	93	48.95
	Female	97	51.05
	Total	190	100.00
Educational Background	High school or equivalent	94	49.47
	Diploma or bachelor's degree	95	50.00
	Master or doctoral degree	1	0.53
	Total	190	100.00
Age	Less than 25 year	141	74.21
	25 – 50 year	48	25.26
	More than 50 year	1	0.53
	Total	190	100.00

Based on the data in Table 2, the total number of respondents in this study was 190. A general overview of the respondent

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characteristics, including gender, educational background, and age, is as follows. The distribution of respondents by gender is nearly equal. There were 97 female respondents (51.05%), slightly outnumbering the 93 male respondents (48.95%). This indicates that there was no significant dominance of either gender; thus, the collected data adequately represents both gender groups proportionally. In terms of educational background, the majority of respondents had relatively equal educational levels. Respondents with a diploma or bachelor's degree (S1) dominated, with 95 respondents (50.00%), followed closely by respondents with a high school or equivalent education, with 94 respondents (49.47%). Meanwhile, only 1 person (0.53%) held a master's or doctoral degree. These findings indicate that respondents in this study were predominantly educated at the secondary to tertiary level, with nearly equal percentages of high school graduates and university graduates. This means that the research results are highly relevant for assessing the views of groups with strong academic credentials. The age variable shows that respondents were predominantly under 25, with 141 respondents (74.21%). The 25-50 age group comprised only 48 respondents (25.26%), and the over-50 age group comprised only one respondent (0.53%). The predominance of respondents under 25 indicates that the majority of the study subjects are young or early adults (of productive age). This is important to note because the perceptions and behaviors being measured likely reflect the characteristics of Generation Z, or young millennials.

Overall, the profile of respondents in this study was predominantly young (under 25), with secondary to higher educational backgrounds (high school and university degrees), and a relatively balanced gender composition (slightly female). These characteristics need to be considered when generalizing research results, because the sample is more representative of the productive and educated age population than the older age group or those with postgraduate education.

Based on JASP processing, the results are presented in Table 3.

Table 3. Hypothesis Test Results

	Hypothesis	CR	Estimate	Pr.
H1	Regretful Tendency towards Financial Risk Tolerance	-0,453	-0,154	0.650
H2	Propensity to Trust → Financial Risk Tolerance	2,948	1,029	0.003**
H3	Happiness in Life to Financial Risk Tolerance	0,134	0,03	0.893
H4	Tendency to Attribute Success to Luck → Financial Risk Tolerance	-1,15	-0,2	0,25
H5	Tendency to Overconfidence towards Financial Risk Tolerance	-1,046	-0,147	0.296
H6	Tendency to Social Interaction on Financial Risk Tolerance	2,705	0,326	0.007**
H7a	Religiosity moderates the effect of the Tendency to Regret on Financial Risk Tolerance	18,837	0,149	<0.001***

H7b	Religiosity moderates the effect of Propensity for Trust on Financial Risk Tolerance	18,837	0,149	<0.001***
H7c	Religiosity moderates the effect of Happiness in Life on Financial Risk Tolerance	18,837	0,149	<0.001***
H7d	Religiosity moderates the effect of the Propensity to Attribute Success to Luck on Financial Risk Tolerance	18,837	0,149	<0.001***
H7e	Religiosity moderates the effect of Overconfidence Tendency on Financial Risk Tolerance	18,837	0,149	<0.001***
H7f	Religiosity moderates the effect of Tendency to Social Interaction on Financial Risk Tolerance	18,837	0,149	<0.001***

* Significant at level 10%, ** Significant at level 5%, *** Significant at level 1%
(Sources: JASP 0.6.14)

Of the 6 direct effect hypothesis tests, only 2 behavioral propensities directly influence financial risk tolerance in Indonesia.

The test results showed no significant influence of propensity for regret on financial risk tolerance, leading to the rejection of H1. This finding is consistent with Pan and Statman (2011) but contradicts Rahman (2020), Rahman et al. (2020), and Elmosalammi & Metawie (2023), who found positive relationships. The absence of a significant effect may be attributed to the relatively high level of investment understanding among Indonesian investors. According to Murhadi et al. (2023), Indonesian investors have strong financial knowledge and interests, which help them make rational investment decisions and plan their finances, reducing the influence of past regrets. From a theoretical perspective, regret is classified as an emotional bias in behavioral finance, and prospect theory (Kahneman & Tversky, 1979) predicts that loss-averse individuals avoid actions that might lead to future regret. However, the Indonesian context demonstrates that emotional biases are not immutable; they can be attenuated by investor sophistication, market experience, and financial literacy. Unlike novice investors who may be paralyzed by the fear of making wrong decisions, Indonesian investors—particularly millennials who entered the market during the pandemic—have learned that regret is an unavoidable part of investing and have developed rational coping mechanisms. Additionally, the post-pandemic investment environment in Indonesia, characterized by easy access to digital trading platforms and abundant financial information on social media, has accelerated the learning curve for retail investors. As a result, the anticipatory regret that typically drives risk-averse behavior in inexperienced investors has been neutralized. Practically, financial advisors in Indonesia need not spend excessive time addressing clients' fear of regret, as this bias does not significantly influence risk tolerance. Instead, advisors should focus on other factors, such as trust and social interaction, which do matter.

This study found a significant positive relationship between trust propensity and financial risk tolerance, thus supporting H2 and aligning with Rahman (2020), Rahman et al. (2020), and Elmosalammi

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& Metawie (2023). The findings show that respondents with high confidence levels tend to have high financial risk tolerance, and a high degree of trust makes risky investments acceptable. Trust is a significant factor in investment decisions (Carlin et al., 2009; Bohnet & Zeckhauser, 2004), meaning that investors who trust others—whether other investors or financial advisers—are more willing to take risks. From a theoretical perspective, the propensity for trust is a cognitive bias or heuristic in which individuals rely on generalized trust to simplify complex financial decisions. When facing uncertainty, individuals who trust others delegate some of their anxiety to others' perceived reliability, reducing the psychological burden of risk assessment and making risky investments more acceptable. The consistency of this finding across multiple studies (Rahman in Malaysia, Elmosalammi & Metawie in another context, and the present study in Indonesia) suggests that trust is a culturally universal positive predictor of risk tolerance, unlike other behavioral propensities that vary across contexts. In Indonesia, trust may be even more important due to the rapid growth of fintech platforms such as Stockbit, Bibit, and Ajaib, which rely heavily on building user trust through transparent interfaces and educational content. Investors who trust these platforms are more willing to take risks because they believe the platform has their best interests at heart. However, cases of illegal online lending apps (*Pinjol*) and investment fraud in Indonesia have damaged trust in some financial sectors, making trust an even more critical differentiator between cautious and risk-tolerant investors. In practice, financial institutions in Indonesia should prioritize trust-building activities, such as transparent fee structures, clear risk disclosures, responsive customer service, and regulatory compliance, because trust directly translates into higher risk tolerance and greater investment activity.

The test results for hypothesis 3 showed no significant effect of life happiness on the relationship between life happiness and financial risk tolerance, leading to the rejection of H3. This finding diverges from Rahman et al. (2020), who reported a negative effect, and from Boyce et al. (2013) and Barber & Odean (2000), who reported positive effects. The absence of a relationship may be explained by the fact that most investors in Indonesia already have clear financial goals and objectives, as noted by Murhadi et al. (2023), so daily happiness does not affect risk tolerance, as financial goals are rationally set from the outset. Furthermore, Frey and Stutzer (2002) argued that market conditions and the investment environment are more dominant factors than individual happiness; for example, when markets are unstable, investors become more cautious regardless of their happiness levels. Thus, Indonesian investors appear to separate their emotional state from their financial decisions. This finding challenges two well-established theories: the mood maintenance hypothesis (Isen & Patrick, 1983), which predicts that happy individuals avoid risk to protect their positive mood, and the risk-as-feeling hypothesis, which suggests emotions directly influence risk-taking. The Indonesian context provides a boundary condition for both theories: when investors are goal-oriented and financially literate, they override transient emotions.

This is particularly relevant for millennial investors in Indonesia, who entered the market during the pandemic with specific goals such as saving for a house or achieving financial independence. These concrete goals serve as cognitive anchors, preventing daily fluctuations in happiness from affecting risk tolerance. Additionally, Indonesia's volatile investment environment trains investors to be emotionally detached; allowing happiness to dictate risk tolerance would lead to poor decisions, such as selling during market dips or buying at peaks. Practically, financial advisors need not assess clients' happiness levels when determining risk tolerance. Instead, they should focus on financial goals, market knowledge, and investment experience.

Testing the association between the propensity to attribute success to luck and financial risk tolerance yielded insignificant results, leading to the rejection of H4. This finding is consistent with Wohl and Enzle (2003), who argued that feeling lucky or unlucky does not significantly influence decision-making. In the Indonesian context, investors with a good understanding of investing can distinguish luck from rational risk assessment, and experienced investors gain knowledge that reduces luck's influence. Investors who have been through various market situations—bull markets, bear markets, and stagnation—are more likely to make decisions based on facts and data rather than subjective feelings, thereby mitigating the cognitive bias associated with an external locus of control. From a theoretical perspective, propensity to attribute success to luck is a cognitive bias related to locus of control. Individuals with an external locus of control believe outcomes are determined by forces outside their control, while those with an internal locus believe outcomes are determined by their own actions. Prior research (Weber & Milliman, 1997) suggested that external attributions lead to lower risk tolerance because individuals feel they cannot control outcomes. However, the Indonesian finding suggests that experienced investors develop a more nuanced understanding: they recognize that luck plays a role but do not let this recognition dictate their risk-taking. Indonesian investors who have survived multiple market cycles understand that disciplined long-term strategies outperform luck-based approaches. Furthermore, the cultural concept of *rezeki* (sustenance believed to be granted by God) normalizes the role of divine will in financial outcomes. Unlike in Western contexts, where luck is seen as random and anxiety-inducing, *rezeki* is viewed as predetermined and benevolent, reducing anxiety about luck-based outcomes. Indonesian investors thus view luck as an accepted part of life, not a threat to financial security. In practice, financial education programs in Indonesia need not focus on correcting luck attribution biases, as these biases do not affect risk tolerance. Instead, educators should focus on building fundamental investment skills.

The test results for hypothesis 5 showed no significant influence of the propensity for overconfidence on the relationship with financial risk tolerance, leading to the rejection of H5. This finding aligns with Kirchler & Maciejovsky (2002) but contradicts Rahman (2020), Gervais et al. (2005), and Barber & Odean (2000). The absence of a significant relationship can be explained by Indonesian financial culture, which

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tends to be cautious and conservative in managing financial risk. Although some investors may have high confidence in their judgments, a culture rooted in caution can withstand the impact of overconfidence on risk tolerance. According to Murhadi et al. (2023), risk tolerance is influenced by many factors beyond overconfidence, including gender, education, socioeconomic status, and employment; thus, high confidence does not automatically imply high risk tolerance. The Indonesian context suppresses the overconfidence-risk relationship through three mechanisms. First, Indonesian financial culture emphasizes collective decision-making and consultation (*musyawarah*) rather than individual heroism. Even confident investors discuss their plans with family and social networks before acting, preventing overconfidence from translating into reckless risk-taking. Second, the memory of past financial crises—such as the 1997 Asian Financial Crisis and COVID-19 market volatility—is still fresh. These collective traumatic experiences have instilled cultural caution that overrides individual overconfidence. Third, risk tolerance is multidimensional. Demographic factors such as education, employment stability, and household income may be more powerful determinants of risk tolerance than overconfidence. A well-educated investor with stable income may have high risk tolerance due to financial capacity, not overconfidence. Conversely, an overconfident investor with low income may still have low risk tolerance because financial constraints override confidence. In practice, financial advisors in Indonesia should not assume that confident clients are willing to take on high risks. Confidence must be assessed alongside financial capacity, cultural norms, and social constraints.

The test results of hypothesis 6 showed a significant positive influence on the relationship between propensity for social interaction and financial risk tolerance, thus supporting H6 and aligning with Ostrovsky-Berman and Litwin (2018) and Elmosalammi & Metawie (2023) while contradicting the insignificant findings of Rahman (2020) and Rahman et al. (2020). In Indonesia, a collectivist society where social relationships are highly valued and where *gotong royong* (mutual cooperation) is a cultural cornerstone, social interaction plays a major role in shaping investor behavior. Indonesian investors share investment information, discuss market trends, and follow their social networks, which reduces the perceived risk of investing. The mechanism through which social interaction increases risk tolerance operates via three channels. First, information sharing: discussing investments with social networks provides diverse perspectives and insights that reduce uncertainty, leading to greater perceived control and higher risk tolerance. Second, social validation: when investors see others in their network taking certain risks, they receive social permission to do the same, reducing the fear of being wrong because the risk is shared. Third, emotional support: during market downturns, socially connected investors receive encouragement that helps prevent panic selling and maintain long-term risk tolerance. In Indonesia, these mechanisms are particularly powerful due to the strength of social ties and the concept of *gotong royong*, in which community members help

one another in all aspects of life, including financial matters. Additionally, the rise of social media and investment communities on platforms like WhatsApp, Telegram, and Discord has amplified social interaction, creating virtual communities where investment tips and market analyses are shared instantly. The contradiction with Rahman (2020), who found insignificant effects in Malaysia, may be explained by Indonesia's larger population and more extensive use of social media for financial discussions. In practice, investment platforms in Indonesia should facilitate social interaction through features such as comment sections, follower systems, and community forums, as these influence users' risk tolerance.

Next, the moderating effect is discussed below.

The results of this study align with Rahman (2020) and Elmosalammi & Metawie (2023), showing a significant positive moderating effect of religiosity on the relationship between propensity for regret and financial risk tolerance, thus supporting H7a. To begin with, it is essential to contextualize why the direct effect (H1) was insignificant. Based on the descriptive profile, **74.21% of respondents are under 25 years old**—a demographic with a very long investment horizon and relatively limited lifetime financial experience. For this majority, past financial regrets are not yet psychologically salient enough to directly dictate their risk-taking behavior, hence the non-significant direct path. However, when religiosity moderates the relationship, the effect becomes significant. This is because young, highly religious individuals in Indonesia—who are likely active in religious communities—are more sensitive to spiritual accountability. Their educational background, with **50% holding a bachelor's degree and 49.47% holding a high school diploma**, suggests they possess the cognitive capacity to internalize abstract religious concepts like hisab (accountability) into practical financial decisions. This finding underscores the profound influence of religious beliefs on financial decisions in Indonesia, a country with a religious majority where religion shapes individual values, norms, and behavior. More religious individuals are more likely to feel the impact of regret on their financial behavior because religious teachings emphasize accountability for one's actions in this life and the hereafter. This moderating effect is particularly interesting because the direct effect of regret on risk tolerance was insignificant (H1 rejected). While regret does not directly affect risk tolerance among the average Indonesian investor, it does influence risk tolerance among highly religious investors, revealing a conditional effect: religiosity activates or amplifies the regret bias. The theoretical explanation lies in the concept of dual accountability. Religious individuals believe they will be held accountable not only by society and themselves but also by God. This creates a higher-stakes decision environment where the consequences of making the wrong choice extend beyond financial loss to potential spiritual consequences, such as missing out on halal (permissible) investments or engaging in haram (forbidden) ones. Consequently, highly religious investors who are prone to regret become more risk-seeking; they take calculated risks to avoid the regret of missing out on

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good opportunities that God may have provided. In Indonesia, where Islam is the majority religion, concepts such as *hisab* (accountability on Judgment Day) and *tawakkal* (trust in God after taking action) create a psychological framework where regret is both feared and managed through careful, informed risk-taking. Religious investors may consult religious advisors or seek Shariah-compliant products before deciding, aligning investments with religious principles. Once they have made a compliant decision, they are more willing to accept risk. In practice, financial advisors should address regret proactively with religious clients, discussing both losses and missed opportunities in a religiously acceptable context.

The results of this study align with Rahman (2020) and Elmosalammi & Metawie (2023), showing a significant positive moderating effect of religiosity on the relationship between trust propensity and financial risk tolerance, thus supporting H7b. Unlike H1, the direct effect of trust on risk tolerance (H2) was already positive and significant in this sample. The descriptive data offer a clear explanation: the balanced educational composition (50% bachelor's, ~49.5% high school) means that half of the respondents have been formally exposed to institutional financial concepts. In contrast, the other half relies on interpersonal trust mechanisms. Additionally, the dominance of the **under-25 age group (74.21%)** implies that these individuals are in a highly social phase of life, actively building trust networks through campus and community interactions. Geographical and cultural contexts are important because Indonesia has a predominantly Muslim population, and religion strongly influences individual values, norms, and behavior. Religious investors in Indonesia are more likely to trust others in financial contexts and to feel more comfortable taking risks because religious teachings emphasize trust in God (*tawakkal* in Islam) and in fellow believers. This generalized trust extends to financial institutions and advisors, making religious investors more willing to accept investment risk. The direct effect of trust on risk tolerance was already positive and significant (H2 supported), but religiosity amplifies this relationship, meaning trust matters more for religious investors. The theoretical mechanism operates through "generalized trust transfer." Religious individuals are taught to trust God's plan and their fellow believers as part of a moral community. This trust disposition spills over into secular domains such as financial decision-making. When a religious investor encounters a financial advisor or platform, they extend the trust they have cultivated in their religion to these entities. Moreover, many Indonesian financial institutions have developed Shariah-compliant products, Islamic mutual funds, and sukuk (Islamic bonds), which are marketed under religious branding such as "halal investment." This further amplifies trust, as religious investors believe these institutions operate under religious guidelines that protect their interests. Additionally, religious social networks—such as mosque congregations, *pengajian* (Islamic study) groups, and religious school alums—serve as trusted intermediaries for financial recommendations. When a respected religious leader recommends an investment product, the trust transfer

is even stronger. Consequently, highly religious investors with high trust are doubly empowered, leading to significantly higher risk tolerance than non-religious investors with the same baseline trust. Practically, financial institutions in Indonesia should pursue Shariah certification and community engagement as trust-building strategies.

This study, in line with Rahman (2020) and Elmosalammi & Metawie (2023), found a significant positive moderating effect of religiosity on the relationship between life happiness and financial risk tolerance, thereby supporting H7c. The descriptive findings help unpack why H3 (direct effect of happiness) was rejected. For the **74.21% of respondents under 25 years old**, happiness is often volatile—closely tied to daily academic achievements, social validation, or transient emotional states. This cohort typically lacks the cognitive linkage between momentary emotional highs and long-term strategic financial risk-taking, resulting in a non-significant direct relationship. Yet, the moderation (H7c) becomes remarkably significant because young religious adults interpret happiness as divine signaling (rezeki or a sign of God's favor). With **50% holding a bachelor's degree**, these respondents are more likely to engage in reflective spiritual reasoning, systematically connecting their emotional well-being to divine approval, thereby translating happiness into a willingness to take calculated risks. This finding has important implications for financial professionals in Indonesia, a country with a predominantly Muslim population, because happier religious investors are more likely to take risks. For religious investors, happiness is often viewed as a blessing or a sign of divine favor. When they feel happy, they may interpret this as a signal that God supports their actions, leading to greater risk-taking. Less religious individuals do not make this spiritual connection and therefore do not translate happiness into higher risk tolerance. This moderating effect is particularly striking because the direct effect of happiness on risk tolerance was insignificant (H3 rejected). Happiness does not directly affect risk tolerance among average Indonesian investors, but it does among highly religious investors. The theoretical explanation lies in "divine signaling." Religious individuals often interpret positive emotions as signs of divine approval. When a religious investor feels happy, they may subconsciously believe that God is affirming their current direction, including financial decisions. This reduces anxiety about risk-taking because they feel divine support. Additionally, religious teachings encourage gratitude for blessings; one way to express gratitude is to be proactive, which may translate into a willingness to take investment risks. In contrast, non-religious individuals experience happiness as a purely psychological state with no metaphysical meaning. They see no logical connection between happiness and investment risk-taking, which explains why the direct effect of happiness is insignificant. In Indonesia, where most people are religious, financial advisors who notice a religious client in a happy mood might consider discussing slightly more aggressive investment strategies, as the client may be more receptive to risk-taking. Conversely, advisors should be cautious when a religious client is unhappy or distressed, as they may become excessively risk-averse.

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This study's results align with Rahman (2020) and Elmosalammi & Metawie (2023), showing a significant positive moderating effect of religiosity on the relationship between propensity to attribute success to luck and financial risk tolerance, thus supporting H7d. The descriptive profile reinforces this logic: **49.47% are high school graduates and 50% are bachelor's degree holders**. This combination means the sample is educated enough to understand probability and randomness, yet deeply embedded in a religious society. For the average young investor, attributing success to "random luck" typically reduces the sense of control, which would normally decrease risk tolerance. However, religiosity completely transforms this dynamic. In Indonesia, a country with a religious majority, more religious investors are more likely to associate success with divine will (*rezeki* in the Indonesian Islamic context) and feel more comfortable taking risks. For religious individuals, luck is not purely random but understood as part of God's plan, which reduces anxiety because outcomes are ultimately in God's hands. This finding is theoretically fascinating because it reverses the expected direction. Conventional behavioral finance (Weber & Milliman, 1997) predicts that external attribution (the belief that outcomes are due to luck) reduces risk tolerance because individuals feel they have no control. However, when religiosity moderates the relationship, external attribution, reinterpreted as divine will, increases risk tolerance. The key distinction is between "random luck" and "divine providence." Random luck is unpredictable and anxiety-inducing, while divine providence is purposeful, benevolent, and trustworthy. Religious investors who attribute success to divine will do not feel helpless; they feel protected. If outcomes are in God's hands, their responsibility is to make reasonable, halal (permissible) efforts and trust God for the results. Even if an investment loses money, the religious investor can interpret it as God's will and a test of patience, rather than as personal failure. Consequently, religious investors with high luck attribution have higher risk tolerance because they have outsourced the anxiety of uncertainty to God. In Indonesia, this is expressed as *tawakkal kepada Allah* (trust in God after taking action). Investors do their due diligence (*ikhtiar*) and then trust God for the outcome. Practically, financial advisors working with religious clients should not try to correct "luck attribution" biases. Instead, they should emphasize that responsible risk-taking, done after proper research and within religious guidelines, is consistent with trust in divine will.

The test results for hypothesis 7e show a significant positive moderating effect of religiosity on the relationship between overconfidence and financial risk tolerance, thus supporting H7e. Why was the direct effect of overconfidence on risk tolerance (H5) insignificant in this sample? The demographic reality provides the answer: **74.21% are under 25**, meaning they lack extensive real-world investment track records to justify overconfidence through past success genuinely. Without concrete financial experience, secular overconfidence remains merely an abstract attitude rather than a behavioral driver. However, the moderation (H7e) turns out significant

because this young age group, heavily exposed to digital Islamic content and campus-based religious organizations, develops a unique "spiritual confidence." In Indonesia, a country with a religious majority in which religion strongly influences values and behavior, religious investors are more likely to exhibit high risk tolerance when they have high confidence in their financial decisions. This may seem counterintuitive because religious humility might be expected to reduce overconfidence. Still, overconfidence among religious investors takes a specific form: confidence that their decisions align with religious principles and that divine support will protect them from adverse outcomes. This spiritualized overconfidence amplifies risk tolerance. The direct effect of overconfidence on risk tolerance was insignificant (H5 rejected), meaning that, on average, being overconfident does not translate into higher risk tolerance. However, for religious investors, overconfidence does translate into higher risk tolerance, suggesting that religiosity transforms overconfidence from secular arrogance into spiritual confidence. Secular overconfidence is an inflated assessment of one's own abilities that can be dangerous. Spiritual overconfidence, in contrast, is based on the belief that one's actions align with divine will and that divine support will fill gaps in one's knowledge. A religious investor who feels confident about an investment may believe they have been guided by God, that their *niat* (intention) is pure, or that their research has been blessed. Consequently, they are willing to take more risks because they feel divine providence will protect them from catastrophic loss. Additionally, religious communities often provide positive reinforcement for confident decision-making within religious boundaries. In Indonesia, given the growth of Shariah-compliant products, a religious investor overconfident about an Islamic mutual fund or sukuk feels doubly justified: first, their analysis suggests good returns; second, the product is religiously permissible. In practice, financial advisors should be aware that religious clients may require different risk-management conversations. For secular overconfident clients, advisors should temper overconfidence with caution. For religiously overconfident clients, advisors can work within the religious framework, emphasizing that Islam also teaches prudence (*hathar*) and the avoidance of excessive risk.

The test results for hypothesis 7f show a significant positive moderating effect of religiosity on the relationship between propensity for social interaction and financial risk tolerance, thus supporting H7f. The direct effect of social interaction (H6) was already positive and significant, which is highly consistent with the descriptive fact that **74.21% of respondents are under 25**—the peak age for social networking, both offline in universities and online via social media. The gender balance (**48.95% male, 51.05% female**) also suggests that these social networks are broadly inclusive, allowing financial information to flow seamlessly across genders. However, religiosity further amplifies this relationship because young, religious Indonesians engage in high-frequency interactions through digital *pengajian* (religious study groups), mosque congregations, and religious alums

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networks. When financial advice flows through these trusted, value-based channels, it carries significantly more weight. This finding is particularly relevant in Indonesia, a country with a predominantly Muslim population. Religious investors are more likely to take risks when they engage in high levels of social interaction, as they participate in community-based activities such as prayer groups, religious study circles (*pengajian*), and congregational prayers. These same networks also serve as channels for financial information and investment advice. The direct effect of social interaction on risk tolerance was already positive and significant (H6 supported), but religiosity amplifies this relationship, meaning social interaction matters more for religious investors. The theoretical mechanism lies in the density and trustworthiness of religious social networks. Religious individuals have access to dense networks in which the same people interact across multiple contexts—worship, study, social gatherings, and charity. High trust, long-term relationships, and shared values characterize these networks. When financial advice flows through such networks, it carries more weight than information from casual acquaintances. A religious investor who hears about an investment from their mosque congregation is more likely to trust it and take risks because the source is trusted.

Additionally, religious networks provide social validation for risk-taking. If several community members invest in an asset, others feel encouraged to do the same, knowing the risk is shared. In Indonesia, *investasi berbasis komunitas* (community-based investment) is common, where religious communities pool funds for halal investments. Religious leaders (*ustadz, kyai*) also play a role in endorsing investment products, further amplifying the effect. In practice, marketing financial products through religious channels—mosques, churches, and religious schools—can be effective. Still, regulators such as the OJK must guard against fraud, as religious investors are more susceptible to social influence.

5. CONCLUSION, IMPLICATIONS, LIMITATIONS, AND SUGGESTIONS

This study tested six direct effects and six moderating effects of religiosity on financial risk tolerance among Indonesian investors. The results rejected H1 (propensity for regret), H3 (happiness in life), H4 (propensity to attribute success to luck), and H5 (propensity for overconfidence), finding no significant direct effects, while supporting H2 (propensity for trust) and H6 (propensity for social interaction), which showed significant positive direct effects. All six moderating hypotheses were supported, confirming that religiosity significantly and positively strengthens the relationship between each behavioral propensity and financial risk tolerance. These findings resolve the research problem that prior studies were largely conducted outside Indonesia, and produced contradictory results (e.g., whether happiness positively or negatively affects risk tolerance, whether social interaction matters), and overlooked the role of religiosity. By demonstrating that in Indonesia, trust and social interaction directly matter while regret,

happiness, luck attribution, and overconfidence do not, and that religiosity consistently amplifies all six relationships, this study provides a context-specific resolution.

The theoretical implication is that behavioral finance models cannot be universally applied; religiosity must be integrated as a meta-cognitive amplifier, and the direct effects of behavioral propensities are culturally contingent. The practical implication, citing specific findings, is that financial advisors and platforms in Indonesia should prioritize building trust and facilitating social interaction, while also assessing clients' religiosity, because a religious investor's happiness, overconfidence, or luck attribution will increase risk tolerance, whereas the same traits in a non-religious investor will not.

Limitations of this study include its cross-sectional design, which cannot establish causality. Its focus on millennial investors limits generalizability to older generations. Its reliance on self-reported measures, which may introduce social desirability bias. And its geographic confinement to Indonesia limits external validity. Future research should address these limitations by conducting longitudinal studies to track changes in risk tolerance over time, expanding samples to include Generation X and baby boomer investors, incorporating behavioral or experimental measures to complement self-reports, and conducting comparative studies across multiple countries (e.g., Indonesia, Malaysia, Pakistan, Turkey) to further test the cultural contingency of religiosity's moderating effects.

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