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Research Article

BUILDING A PREDICTIVE MODEL FOR STUDENT DECISIONS: THE ROLE OF INVESTMENT UNDERSTANDING, HERDING BEHAVIOR AND RISK TOLERANCE

Elis Listiana Mulyani, Dede Arif Rahmani, Dian Kurniawan, Iwan Ridwan Paturochman, Lucky Radi Rinandiyana, Tine Badriati*

Faculty of Economics and Business, Siliwangi University, Tasikmalaya

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**Corresponding author:*
E-mail:
luckyradi@unsil.ac.id

ABSTRACT

Various factors influence the investment decisions of Siliwangi University students, such as their understanding of investment and herding behavior, and risk tolerance. So the problem formulation in this study is about how the effect of investment understanding on student investment decisions in the capital market, how the effect of herding behavior on student investment decisions in the capital market, how the effect of Risk Tolerance on student investment decisions in the capital market, how the effect of investment understanding, herding behavior and Risk Tolerance on student investment decisions in the capital market. While the purpose of this study is to identify and describe the effect of investment understanding on student investment decisions in the capital market, the effect of herding behavior on student investment decisions in the capital market, the effect of risk tolerance on student investment decisions in the capital market, and the combined effect of investment understanding, herding behavior, and risk tolerance on student investment decisions in the capital market. This research uses a descriptive method with a verification approach. The data collection technique was carried out through a questionnaire as primary data. The results of the study will be analyzed using correlation analysis, determination, and F test.

Keywords*:* *Investment Understanding, Herding Behavior, Risk Tolerance, Investation Decision*

Introduction

Investment is an activity of placing funds in profitable assets with the hope of obtaining capital growth within a certain period. Financial managers make investment decisions by providing and or their assets to investments that are expected to generate a profit in the future so that company funds can be managed and generate profits. Therefore, investment is an important strategic step for everyone, especially people who are interested in investment (investors). Investments usually require large

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funds and have a long-term impact on the company. In making investment decisions, several factors are considered, such as information related to economic conditions, stock price fluctuations, interest rates, and others, to minimize risk. The current economic uncertainty can have an impact on business, especially for investors or potential investors.

Individuals have different psychological behaviors, which impact the way they respond to events and situations and influence how they filter, use, and interpret information in decision-making. Emotional factors, such as fear, greed, and over-optimism, can influence investment decisions. For example, fear may encourage selling assets at low prices, while greed may lead to buying assets at peak prices, both of which can be detrimental. In the context of investing, bringing the wrong emotions into decisions can negatively impact our wealth, such as significant financial losses during a market downturn or large losses when the market corrects after a period of excessive optimism. It is therefore important for investors to be aware of and manage these psychological influences, to make more rational and informed decisions to achieve their financial goals.

In recent years, empirical evidence suggests that investors more often select their portfolios based on personal estimates rather than available information. This challenges the efficient market paradigm that previously assumed that all relevant information is reflected in the price or value of financial assets. Now, in the financial world, we realize that people can make decisions that are not always wise. Misjudging information or following herding behavior can negatively impact investment returns, which will ultimately affect investor wealth. This highlights the importance of considering psychological and emotional behavioral aspects in designing investment strategies and financial analysis.

Investors need complete, precise, and relevant information to help them make optimal investment decisions, as this process involves choosing from a variety of available options. Before making an investment decision, investors and potential investors generally conduct research that includes examining the company's financial statements, analyzing economic conditions, considering potential risks, and evaluating investment performance.

Many studies have been conducted on the investment components that must be considered. One of them is research by Puspitaningtyas (2012) entitled "The Value Relevance of Accounting Information and Its Benefits to Investors". The results of this study confirm that accounting information is very useful for investors, and they also reinforce the view that accounting information has important value and great benefits for market participants. However, this result is different from the research conducted by Mahastanti (2011), which states that investors in Indonesia tend to base their investment decisions on economic factors.

The results of preliminary studies through a pre-survey on investment decisions made by students of Siliwangi University Tasikmalaya, obtained the following data.

Tables 1.1. Pre-Survey Results Regarding Investment Decisions

No	Description	Yes	No
1.	*Return*	50%	50%
2.	*Risk*	60%	40%
3.	*The Time Factor*	40	60%

Source: survey data 2023

Based on the results after the survey above, in making decisions that are rarely considered is time. Most students do not take time into account compared to returns and risk. This means that of the three dimensions above, the time dimension is the most neglected.

Many factors influence decision making including investment understanding, herding behavior, and risk tolerance. Regarding investment understanding has an influence on investment decisions. Sevav with less understanding, the desire to decide to invest will also decrease.

The lack of understanding of investment has a huge impact on students' decisions to invest, with their ignorance about the advantages and benefits of investing will certainly determine their decision whether they want to invest or not.

Meanwhile, another variable that can affect investment decisions is the herding behavior variable. Herding behavior is one of the behaviors. Herding behavior is an irrational behavior in which investors imitate the actions of other investors in determining investment choices, rather than conducting independent analysis. Investors who are followed are usually considered to have more information so they are considered to make more informed decisions. However, when herding behavior occurs, stock prices in the market often do not reflect actual economic conditions, leading to errors in stock pricing due to biases in decision-making. This disruption of rational behavior can lead to high price volatility. Therefore, detecting herding behavior in the stock market is necessary to evaluate the rationality of investors in making investment decisions, to avoid inefficient market conditions that can lead to a crisis.

The level of risk tolerance possessed by individuals plays a very important role in making investment decisions. According to Putri and Iradianty (2020), a person's level of risk tolerance greatly affects the amount of funds they prepare and the type of investment chosen. This shows that individuals with a high level of risk tolerance tend to be more courageous in making risky investment decisions. According to Wardani and Lutfi (2019), Risk Tolerance reflects the extent to which individuals are willing to accept risk in investment, which affects the way they respond and make investment-related decisions. Thus, the level of Risk Tolerance is a key factor that helps individuals adjust investment decisions to their comfort level with the risks that may occur.

Research conducted by Nurdinda et al. (2020), Wardani and Lutfi (2019), and Wardani and Iramani (2019) show that the level of risk tolerance affects the way individuals make investment decisions. Pujiyanto's (2013) research also confirmed that Risk Tolerance is the main factor influencing investment decisions, by showing a statistically significant difference in proportion between individuals with high and low Risk Tolerance. However, research conducted by Salvatore and Esra (2020) shows that Risk Tolerance has no significant effect on investment decisions. This finding is in line with the results of research by Faidah et al. (2020). This difference in results may be due to variations in research methodology, sample, or market context studied. Nonetheless, in general, many studies support that Risk Tolerance plays an important role in how individuals manage and take risks in their investments.

Methods

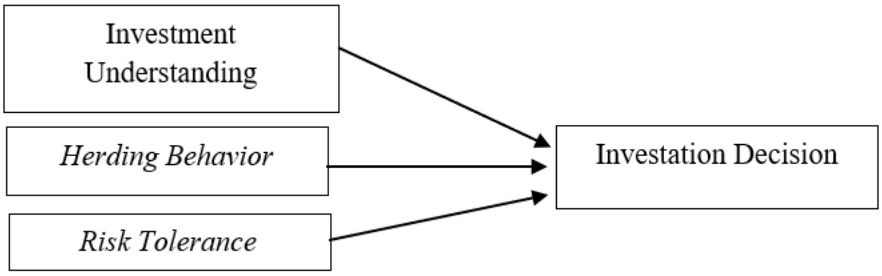
In this study, the authors used a survey method with a descriptive quantitative approach. This approach was chosen because the aim is to provide a systematic, factual, and accurate description of the facts or nature of the object under study, as well as to interpret the relationship between the phenomena being investigated. Through this analysis, the research aims to understand and describe the meaning of the data obtained, and relate it to current events.

This study aims to test a model that identifies the influence of investment understanding, herding behavior, and Risk Tolerance on investment decisions. To obtain the main data, a survey was conducted with the main instrument in the form of a questionnaire. Before distributing the questionnaire, a review of theory and previous research was carried out to develop indicator items to be asked to respondents. The research questionnaire was then tested for validity and reliability to obtain a valid and consistent research instrument.

The method in this research is quantitative descriptive method, with a population consisting of all students in the capital market study group. The sample technique used was the total sampling technique, in which all populations were sampled. Data collection techniques involved observation, literature study, and the use of questionnaires. Data analysis was carried out using statistical analysis methods using SPSS version 24 for Windows.

Object of Research

The research was conducted on student administrators of the Capital Market Study Group at Siliwangi University. The paradigm in this study can be described as follows:

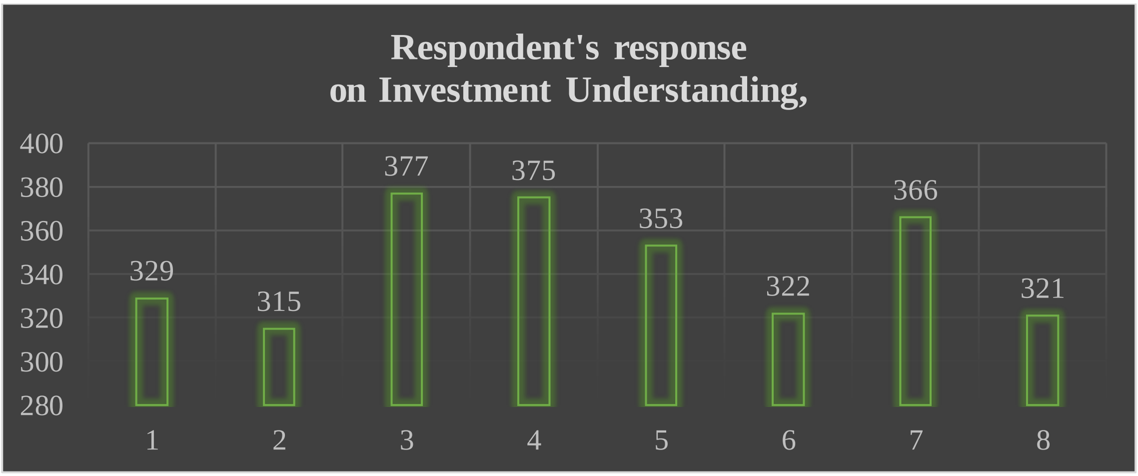


Pictures 3.1. Research Paradigm

Result and Discussion

1. Investment Understanding

Understanding investment is an important aspect in making decisions to invest. Based on the results of research on investment understanding by Siliwangi University students, as depicted in the form of the following graph.

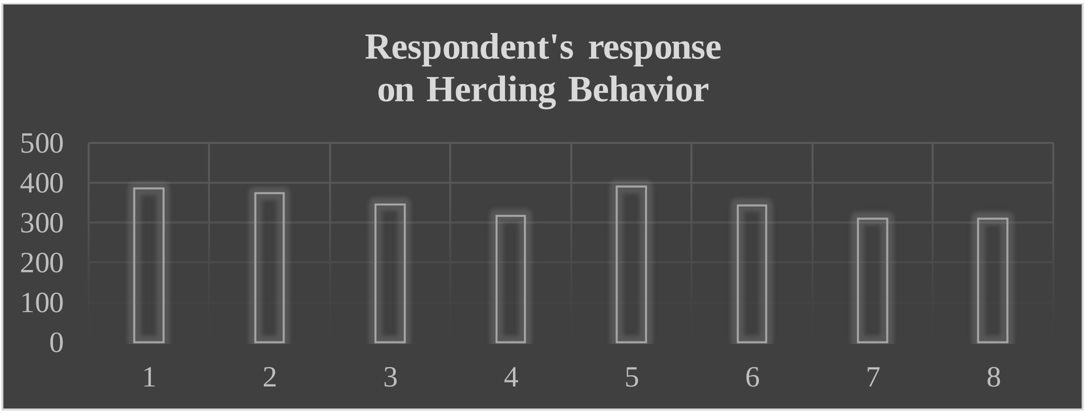


Graph 1. Respondents' responses to incest ability

Based on the graph above, it is known that the highest respondent response is in the third indicator while the lowest response is in the second indicator. The results of the respondents' responses when viewed in total were 2760.

2. Herding behavior

Herding behavior is a common behavioral tendency where investors tend to follow the investment decisions made by the majority. The main reason for this crowding behavior is pressure or influence from peers or people around them. Herding can generate risk because investors tend to ignore their belief in their own abilities and prefer to follow the actions of other investors, the choice of the majority, or even investment experts. The results of research on herding behavior can be depicted in the form of the following graph.

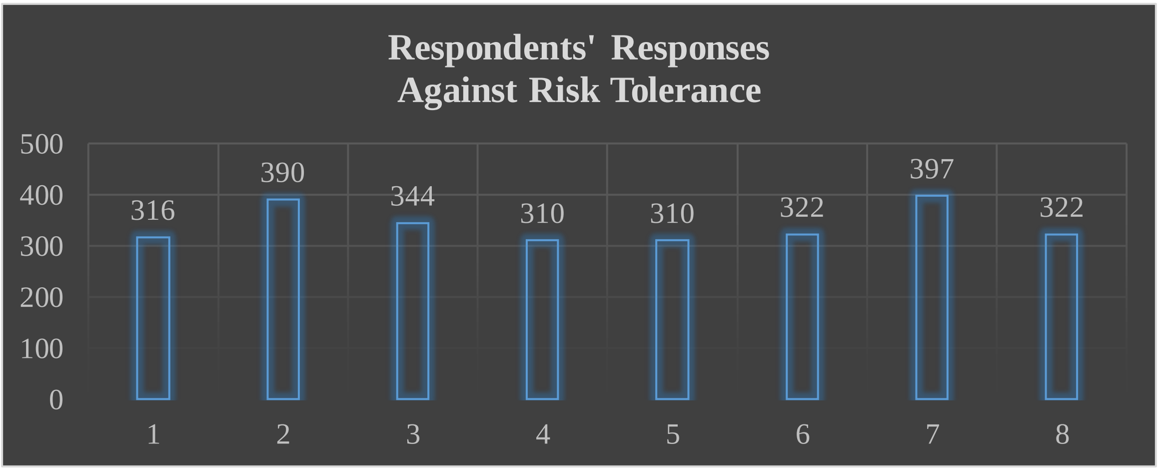


Graph 2. Herding behavior

Based on the graph above, it is known that the highest respondent response is in the first indicator while the lowest response is in the seventh indicator. The results of the respondents' responses when viewed in total were 2775.

3. **Risk Tolerance**

Risk Tolerance is a very important factor in investment decision making, referring to the level of risk that an investor can accept. According to Grable (2000), Risk Tolerance is the maximum amount of uncertainty or risk that a person can accept when making investment decisions. The research results regarding Risk Tolerance are depicted in the form of the following graph.

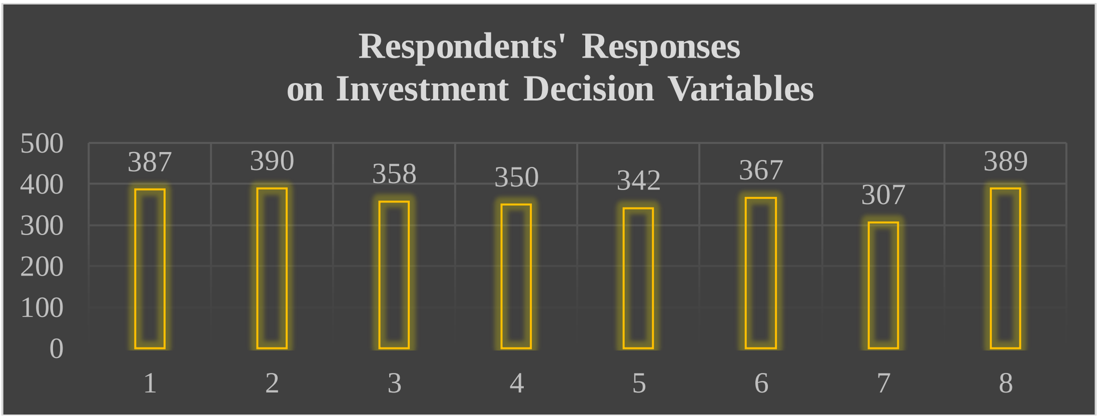


Graph 3. Risk Tolerance

Based on the graph above, it is known that the highest respondent response is in the seventh indicator while the lowest response is in the fifth indicator. The results of the respondents' responses when viewed in total were 2711.

4. **Investation Decision**

Investment decisions involve allocating funds, both from internal and external companies, into various forms of investment available. The research results regarding investment decisions are depicted in the form of the following graph.



Graph 4. InvestationDecision

Based on the graph above, it is known that the highest respondent response is in the second indicator while the lowest response is in the seventh indicator. The results of the respondents' responses when viewed in total were 2890.

Hypothesis Substantiation

Based on the results of proving the hypothesis as in the following table.

Tables 1

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	7.019	2.133		3.291	.001
	Investment Understanding	.226	.085	.219	2.665	.009
	Herding behavior	.925	.152	.089	6.102	.000
	Risk Tolerance	-.370	.101	.611	-3.668	.000

a. Dependent Variable: Investment Understanding

Starting from the table above, it is known that:

1. The effect of investment understanding on investment decisions is 21.9% in the low category. This means that someone will make an investment sometimes also does not understand the investment he will make. They are only interested in what is conveyed by colleagues or companies that convey the investment program.
2. The effect of herding behavior on investment decisions is 8.9% in a very low category. This means that someone's decision to invest is not due to herding behavior but from other factors.
3. The effect of Risk Tolerance on investment decisions is 61.1% in a strong enough category. This means that sometimes investors consider the risks they will get when carrying out investments, both positive and negative risks.

The results of the analysis of the simultaneous influence can be seen in the following table.

Tables 2

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.755[a]	.569	.556	2.73773

a. Predictors: (Constant), *Risk Tolerance*, Understanding Inventation, herding behavior

Based on the table above, it is known that the relationship between investment understanding, herding behavior, and risk tolarance with investment decisions, including the close category. While the effect of investment understanding, herding behavior, and risk tolarance on investment decisions is 56.9%, while the remaining 43.1 is influenced by other variables that are not examined.

Discussion

1. Invesment understanding affects investment decisions

   Understanding of investment affects investment decisions in the low category. This means that if someone understands investing, of course, they will invest. Or even someone will make an investment sometimes also does not understand the investment he will make. They are only interested in what is conveyed by colleagues or companies that convey the investment program.
2. Herding behavior affects investment decisions

   Herding can be divided into intentional herding and unintentional herding. Intentional herding occurs when investors intentionally follow the actions of other investors and ignore their personal information, especially when there is little reliable information in the stock market. On the other hand, unintentional herding occurs when a group of investors obtain the same information and are in similar conditions so that they make similar investment decisions, because the information is reliable. Research conducted by Hardini (2021) supports that herding behavior has a positive and significant effect on investment decisions. This shows that the herding behavior variable can encourage investors to make similar investment decisions.
3. Risk Tolerance affects investment decisions

   The results of the research that has been done show that Risk Tolerance plays a significant role in investment decision making. According to Pak and Mahmood (2015),Risk Tolerance has a positive influence on investment decision making. Similarly, the results of research by Wulandari and Iramani (2014), which state that Risk Tolerance has a significant effect on investment decisions, with investors who have high Risk Tolerance tending to choose stock investment, while investors with low Risk Tolerance tend to choose deposits. Research by Yohnson (2008)also shows that Risk Tolerance is a significant variable in investment decision making. In general, the higher a person's Risk Tolerance level, the more likely it is to influence the investment decisions taken.
4. Investment understanding, Herding behavior and Risk Tolerance affect investment decisions

   In the context of investment decision making, investment understanding, herding behavior, and Risk Tolerance have a close relationship. Investment savvy refers to investors' knowledge and understanding of investment products and financial markets, which can influence their investment decisions. Herding behavior, as discussed earlier, is the tendency to follow the decisions of most investors, which can significantly influence how investment decisions are made. Meanwhile, Risk Tolerance describes an investor's comfort level or resistance to risk in their investments. The results show that investment understanding, herding behavior, and Risk Tolerance together have an influence of 56.9% on investment decisions. The remaining 43.1% may be influenced by other variables not examined in the study. Each investor has different characteristics and preferences in making investment decisions. Rational investors will look for a level of return that is in accordance with the risks they take, and this reaction to risk will affect the investment decisions they make.

Conclusions

Based on the results of the study, the following conclusions were drawn : Investment understanding affects investment decisions by 21.9% in the low category. This means that someone will make an investment sometimes also does not understand the investment he will make. They are only interested in what is conveyed by colleagues or companies that convey the investment program.

Herding behavior affects investment decisions by 8.9% in a very low category. This means that someone's decision to invest is not due to herding behavior but from other factors; Risk Tolerance affects investment decisions by 61.1% in a strong category. This means that sometimes investors consider the risks they will get when carrying out investments, both positive and negative risks; The relationship between investment understanding, herding behavior, and Risk Tolerance with investment decisions is very strong. Together, these three factors play a significant role in determining how investors make investment decisions. Studies show that 56.9% of the influence on investment decisions can be explained by these variables. The remaining 43.1% is influenced by other factors that have not been examined in depth in the context of the study.

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