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Factors Affecting Stock Investment by Individual Investors on the Indonesia Stock Exchange

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ABSTRACT

This study aims to examine the factors that influence individual investors in investing in stocks on the Indonesia Stock Exchange. The factors studied and suspected of influencing individual investor decisions are financial literacy, risk perception and herding behavior. The study also examines the effect of financial literacy on risk perception. The population in this study were college students in Yogyakarta who had invested in the Indonesia Stock Exchange. Respondents were focused on students of the Islamic University of Indonesia with a total of 115 students taken using convenience sampling and snowball sampling techniques. To test the hypothesis, the researcher used a structural equation model analysis tool with the Smart PLS program. The results of the study indicate that financial literacy, risk perception have a positive effect on investment decisions. However, herding behavior does not affect investment decisions, while financial literacy also affects risk perception.

KEYWORDS: investment decision; financial literation; risk perception; herding behavior

INTRODUCTION

The capital market has a strategic role in the sustainable economic development of a country. In Indonesia, the Indonesia Stock Exchange (IDX) is known as a capital market that is used as a place for investors to make investments, one of which is investing in stock instruments. The reason why people need to invest, not only has an impact on the country's financial performance, Investment aims to protect the value owned by investors so that it is not eroded by inflation from year to year, besides the purpose of investment is to achieve financial freedom. So, investment is starting to be of interest to many people. Quoting from the Databoks website, in 2023 the Indonesia Stock Exchange recorded the number of investors in Indonesia as many as 12.16 million investors, this number increased by 18% or 1.85 million investors compared to the previous year in 2022 with a total of 10.31 million investors, and continues to increase from previous years.

Stock investment offers various opportunities and risks that make it an attractive choice for investors as an alternative investment with high profit potential. So that stock investment is quite popular among individual investors. Not only that, stock investment can have a good impact on companies and the country's economy. Companies that offer their shares to the public have a positive impact on the growth of the company, because it has a positive influence on the company's operations, as well as growth and profitability. That way, the taxes received by the government also grow. In addition, companies that grow will provide opportunities for the community by opening up jobs, so that many people are involved and empowered, and minimize the unemployment rate in a country. In investing, investors are often faced with various important decisions, one of which is financial literacy (Agustin & Lysion, 2021). The level of knowledge about finance can influence opinions and decision making (Chen and Volpe, 1998). In addition, financial literacy also involves practical application. So it can be interpreted that financial literacy is a person's ability to understand and use financial knowledge effectively in making daily financial decisions. Financial literacy can help investors navigate and make rational choices, evaluate decisions effectively and have a good understanding of investing (Agustin & Lysion, 2021), this is supported by research conducted (Suprasta & Nuryasman, 2020) that there is a positive influence between financial literacy and investment decisions. However, contrary to research conducted by Putri and Isbanah (2020) which stated that financial literacy does not have a positive effect on investment decisions. Due to the lack of investor provisions in their research subjects regarding knowledge and financial literacy in high-risk investments.

Knowledge and understanding of financial concepts and strategies in investment can help investors in processing information and being more careful in determining risks in investment decisions (Agustin & Lysion, 2021). In addition,

Arik and Sri (2021) stated that financial literacy can influence optimism bias in making investment decisions. That way, financial literacy can help investors describe their perceptions of the risks taken. Risk perception itself is defined as a person's perspective or assessment in assessing the level of risk in a particular event or situation. Understanding risk perception in investment is very important for studying investment behavior and how it can affect investment decisions (Areiqat, et al., 2019). Risk perception can affect individuals in determining risk, investment decisions and their overall performance in the financial market (Ahmad & Shah, 2020), in agreement with this (Pratama et al, 2020) in their findings, found that risk perception can affect investment decisions. However, in contrast to (Areiqat, et al., 2019) and (Putri & Isbanah, 2020) in their research found that risk perception does not have a positive effect on investment decisions, due to an investor's overconfidence and lack of caution. News and information also play an important role in influencing investment decisions (Pahlevi & Oktaviani, 2018). However, lack of adequate knowledge can make people unable to process information efficiently (Khan et al., 2015). As a result, individual investors are faced with bias in making decisions and experience bias in processing information and decision making. So that investors tend to follow without doing independent analysis, this is commonly known as herding behavior. Herding behavior can have positive or negative impacts (Pahlevi & Oktaviani, 2018). Herding behavior can help investors increase individual investors' confidence in making decisions. However, herding behavior can also cause investors to behave irrationally and cause market volatility (Areiqat et al., 2019). This results in speculative bubbles in the market. Several researchers agree (Kengatharan, 2014; Arieqat et al, 2019; Keswani et al, 2019; Adielyani & Mawardi, 2020; Pratama et al, 2020; Putri & Isbanah 2020), that herding behavior influences investment decisions. However, this is contrary to research (Sari, 2021) which found that herding behavior did not have a significant effect on investment decisions. This study aims to examine the impact of financial literacy, herding behavior, and individual investor risk perception on decision making in stock investment. In addition, this study adds the impact of the influence of financial literacy on individual investor risk perception in stock investment on the Indonesia Stock Exchange.

THEORETICAL FRAME WORK AND HYPOTHESIS DEVELOPMENT

Investment Decisions

Investment decisions are a crucial process in financial decision-making carried out by company managers in allocating investment funds. However, investment decisions can be made individually by investors in the investment decision-making process. Investment decisions are the process of selecting a place to allocate funds with the aim of generating returns or profits (Barber & Odean, 2001). The goal is to make wise decisions in choosing various alternatives in investment instruments by taking into account various decision factors.

Investment decisions lead to the process of selecting the allocation of funds or resources into assets or financial instruments with the aim of providing returns or profits in the future. This involves an assessment to evaluate the potential benefits and risks associated with choosing investment options, making decisions based on personal preferences, financial goals, and market conditions (Guiso, Sapienza, & Zingales, 2008). Investment decisions can include various types of assets such as stocks, bonds, mutual funds, property, commodities, and other investment instruments. In general, investment decisions are one of the key aspects of financial management that can have a significant impact on the financial success of individuals and organizations in the future.

Financial Literacy

Financial literacy is knowledge related to financial concepts and the ability to make decisions regarding financial planning and management (Suprasta & Nuryasman, 2020). This involves an individual's ability to manage personal finances, save, invest, understand financial products in the financial market, and make informed financial decisions (Lusardi & Mitchell, 2014). Because the low level of financial knowledge among individual investors can limit their ability to make informed decisions (Chen & Volpe, 1998). Thus, by deepening financial literacy, investors can provide effectiveness in making better investment decisions and planning (Suprasta & Nuryasman, 2020). Financial literacy is important for individuals of all ages and backgrounds, because financial literacy can empower them to navigate complex financial backgrounds and help them make informed decisions that are in line with their financial goals (Lusardi & Mitchell, 2014).

More broadly, the scope of financial literacy also includes various aspects of economic knowledge, credit and debt, and investment knowledge (Huston, 2010). The theory behind financial literacy is that financially literate individuals are better prepared to make healthy financial decisions, and lead to increased financial well-being and long-term financial security (Lusardi & Mitchell, 2014). Thus, financial literacy plays an important role in controlling individual financial life. Financial literacy can also make it easier for them to map and make decisions based on their financial information with the aim of achieving financial well-being and security.

Risk Perception

Perception is the process of individuals interpreting information in order to understand the environment or an event. A person's perception in assessing risk can differ from one another, this can be influenced by knowledge, experience,

individual preferences, emotions, and the quality of information obtained.

Meanwhile, risk perception is a person's perspective in interpreting and understanding the level of risk involved in a particular situation or decision. Risk perception is defined as a reference believed by individuals, groups, or communities regarding the possibility of risk, starting from the effects, time to the magnitude of the risk (Areiqat, et al., 2019). Risk perception refers to how an individual views and evaluates the potential risk associated with a particular activity or investment (Barber & Odean, 2000). Thus, this involves a subjective assessment of uncertainty and potential loss in a particular situation (Ahmad & Shah, 2020). Naturally, a person will tend to assess or consider the risks they will take before making a decision. This makes risk perception play an important role in making decisions to evaluate choices and actions that are appropriate for investors.

Herding behavior can cause market conditions to become inefficient and result in speculative bubbles in the market. In contrast, informed and rational investors in making decisions will ignore mass decisions in selling and buying shares (Kengatharan, 2014). The theory of herding behavior aims to explain why individuals or groups engage in it and what its effects are on financial markets. Some suggest that herding can be driven by the desire to take advantage of short-term information in the form of company fundamentals, social influence and fear of losing potential profits (Bikhchandani & Sharma, 2001). This phenomenon is currently widely observed in financial markets, where investors tend to follow the decisions of others, thus forming a grouping in investment behavior (Chang, et al., 2000).

Financial Literacy and Risk Perception

Financial literacy refers to the knowledge and understanding of financial concepts and the skills needed to make the right decisions (Lusuardi & Mitchell, 2014). It is important for investors to be aware of the potential risks that will occur in the financial market (Lusardi & Mitchell, 2014). Because, without adequate knowledge, a person will tend to make mistakes. Irjayanti (2017) idem (Putri & Isbanah, 2020) with a high level of knowledge and financial literacy will tend to reduce the level of risk taken.

In a study conducted by Arik and Sri (2021) found that financial literacy affects optimism bias. So the higher the financial literacy of investors, the lower the investor's optimism bias as well as their investment decisions. Because financial knowledge and literacy can minimize the risk of loss.

H1: Financial literacy has a positive effect on Investor Risk Perception

Financial Literacy and Investment Decisions

According to Huston (2010) Financial literacy is the ability to use knowledge and skills in managing financial resources effectively as financial security and well-being. That way, having financial literacy for investors will make it easier to analyze decisions that will be taken in the short and long term. In previous research conducted by Agustin, I.N. and Lysion, F. (2021) in their findings found that financial literacy has a positive influence on individual investor decision-making.

H2: Financial literacy has a positive effect on stock investment decisions

Risk Perception and Investment Decisions

In the context of stock investment, risk perception is related to how individual investors view and assess the level of risk associated with different stocks or investment strategies. So that it affects the decision-making process, from stock selection, portfolio allocation to investor behavior in buying and selling stocks (Barber & Odean, 2000). Thus, it can be said that risk perception is an investor's instinctive attitude to respond to or evaluate the level of investment risk in the stock market.

In a study conducted by Pratama et al., (2020) and Ahmad & Shah (2020) they argued that risk perception can influence investment decisions. Meanwhile, the findings studied by Areiqat et al., (2019) found no significant influence of risk perception on stock investment decisions.

H3: Risk perception has a positive effect on stock investment decisions

Herding behavior has a positive impact on stock investment decisions

Herding behavior is triggered by a lack of individual information processing so that investors tend to follow the actions or behavior of others (Bikhchandani & Sharma, 2001). Herding behavior itself has been widely studied before. In a study conducted by Putri & Isbanah (2020) it was revealed that herding behavior can influence investment decisions, this happens because investors feel safe about the possible risks that will occur. In agreement with the study conducted by Pratama et al., (2020) herding behavior significantly influences investment decisions in the stock market. The study explains that herding behavior occurs due to the lack of investor experience in investing in the stock market. Likewise, Adielyani & Mawardi (2020) in their research stated that they found that herding behavior has a positive impact on stock investment decisions among millennial investors, they argue that by following others they can get useful and reliable information. Areiqat et al., (2019) also agree, according to him herding behavior has a positive impact on investor attitudes because it can influence the intention to invest. In agreement with previous research Keswani et al., (2019), and (Kengatharan, 2014) revealed that herding behavior significantly influences investment decisions, in addition herding behavior has an influence on investment profits for investors in the capital market. H4: There is a positive influence of herding behavior on investment decisions

RESEARCH METHODS

Population and Sample

The population in this study were students at universities in Yogyakarta, with student respondents who had invested in stocks on the Indonesia Stock Exchange. Meanwhile, the sample in this study focused on students of the Islamic University of Indonesia who had invested in stocks on the Indonesia Stock Exchange, especially in the Faculty of Business and Economics.

In addition, to facilitate the collection of sample data in the study, the sampling method used convenience sampling and snowball sampling techniques in sampling. The convenience sampling technique, samples are obtained through the closest people through the most easily accessible and available subjects for research, so this technique can be said to be quite subjective in selecting samples (Maidiana, 2021). While the snowball sampling method, the researcher started from several subjects that were easily accessible, then asked them to recommend other subjects that were in accordance with the study. The process continues until the next subject is obtained and develops, so that it is like a snowball.

Research variables

In this study, there is one dependent variable, namely Investment Decision (ID) and three independent variables consisting of financial literacy (FL), risk perception (PR), and herding behavior (HB). Table 1 shows the indicators of each variable.

Table 1: Variable and Indicator

Variable	Definition	Indicator
Investment Decision (ID)	Investment Decision is a complex process that involves the selection and allocation of funds to various financial instruments or specific projects for future financial goals.	a. Emotional management (ability to control emotions in investing). b. Understanding investment risk profiles. c. Clear investment objectives. d. Portfolio diversification. e. Decision making (independence in making decisions). f. Investment satisfaction (measuring the level of investor satisfaction).
Financial Literacy (FL)	The ability of individuals to understand and use knowledge effectively in managing and making appropriate decisions.	a. Basic financial knowledge (inflation, interest, diversification). b. Knowledge of investment products. c. Ability to analyze company performance. d. Investment planning (ability to create long-term investment plans). e. Understanding the risks in investing. f. Risk management (portfolio diversification)
Risk Perception (RP)	The individual's ability to evaluate and respond to risks in decision making	a. Fear of investments that do not have certain benefits. b. Worry about volatility and fluctuations in market prices. c. Worry about investing in stocks that have negative performance or are entangled in cases in the past. d. Feeling hesitant in participating in buying/selling stocks. e. Experience, education, and knowledge in investment.
Hedging Behavior (HB)	An individual's action to follow the majority of other people or groups in making decisions	a. Buy/sell decisions are based on other people's decisions. b. Selection of stocks to buy/sell is based on other people's choices. c. The volume of stocks bought/sold by other people affects the volume of investment. d. Quick response (in buying/selling) stocks to market reactions or other people's actions. e. Influence of social media. f. Influence of forums and online communities.

RESULTS AND DISCUSSION

This study uses the Structural Equation Modeling (SEM) analysis method with the Partial Least Squares (PLS) approach in processing the available data. To assist in data processing, researchers use a tool in the form of the SmartPLS 4 application version 4.1.0.6. and obtain the following calculation results:

Measurement Model (Outer Model)

In the measurement model, validity and reliability tests are carried out in measuring the relationship of latent variables to each indicator. In the Measurement Model or outer model, three measurement tests are carried out, namely the convergent validity test, the discriminant validity test, and the reliability test.

Convergent Validity Test

Loading Factor

The validity of the indicator can be seen through the Loading Factor value, generally the loading factor value can be declared valid if the value is greater than 0.7, but in the development of new models or indicators, the loading factor value at the threshold of 0.5 - 0.6 is still acceptable (Yamin and Kurniawan, 2011:202) idem (Haryono, 2016:415). Elimination of indicators can be done if it leads to increasing the consistency of convergent validity (Hair., et al., 2021:77). The research indicator can be declared valid if the value of the loading factor is above 0.6 and has an AVE value above 0.5. So that from the results of the calculation through the sample above, the following results are obtained:

Table 2. Outer Loading

	ID	**FL**	**HB**	**RP**
ID1	0.724			
ID2	0.769			
ID3	0.778			
ID4	0.666			
ID5	0.793			
ID6	0.773			
FL1		0.717		
FL2		0.772		
FL3		0.824		
FL4		0.834		
FL5		0.669		
FL6		0.680		
HB1			0.946	
HB2			0.948	
HB3			0.787	
HB4			0.691	
RP5				0.756
RP6				0.901
RP7				0.933

The values of HB5, HB6, RP1, RP2, RP3 and RP4 are eliminated because they have a small or negative influence on other latent variables. And after being eliminated, the overall value of the outer loading is above 0.6, which means that the loading factor is valid and acceptable. The test results above show that the AVE value of each variable is above 0.5, this has shown that the latent variable can explain more than half of the average variance of each of its indicators (Haryono, 2016:383).

Reliability Test

A high Composite Reliability value can indicate higher reliability in measurement, for example, a Composite Reliability value between 0.60 - 0.70 is acceptable, and a value of 0.70 - 0.90 has good to satisfactory criteria, but a value above 0.95 indicates an excessive value, so that it can reduce the validity of the construct (Diamantopoulos, et al., 2012) idem (Hair., et al., 2021:77). Meanwhile, according to Haryono (2016) a value at the threshold of 0.70 is acceptable and a value above 0.80 has a satisfactory meaning.

Table 3: Result of Validity Test and Construct Reliability

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
ID	0.845	0.851	0.886	0.565
FL	0.845	0.861	0.886	0.565
HB	0.913	0.676	0.911	0.723
RP	0.854	0.965	0.900	0.751

Table 3 shows that the Composite Reliability value is above 0.80 so that each variable shows a satisfactory value. Likewise with the Cronbach Alpha value of each variable. This means that the measurement indicators are very good, and all questions have good reliability values.

Hypothesis Test Result

After evaluating the outer model or measurement model, the next stage is to evaluate the structural model or inner model. Testing is carried out by assessing the Significance and Relevance of the Structural Model relationship. And assessing the explanatory power of the Model (Hair, et al., 2021).

In assessing the significance and relevance of the structural model relationship, it can be seen through the path coefficient in describing the relationship between constructs. The results obtained are as follows:

Table 4: Result of Path Coefficient melalui Bootstrapping Test

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
FL -> ID	0.559	0.569	0.105	5,334	0.000
PR -> ID	0.241	0.212	0.147	1,642	0.041
FL -> RP	0.177	0.196	0.153	1,153	0.045
HB -> ID	-0.210	-0.144	0.172	1,222	0.222

The research variable can be declared valid if it has a statistical T value of ≥1.96, some also complete it to 2. And has a P value (P Values) below 0.05.

Financial Literacy and Investment Decisions

Financial literacy is a person's ability to understand and apply knowledge in managing finances effectively in order to make the right financial decisions (Lusuardi & Mitchell, 2014). With financial literacy, it can help someone prevent financial problems, thus allowing someone to avoid debt problems and financial risks.

The analogy of financial literacy is like a captain on a ship. The captain will be responsible for bringing the ship and its crew to reach the predetermined destination. In the context of financial literacy, money is like a compass in guiding the journey. And the map in this context is Financial Literacy that helps read the compass correctly, so that financial literacy can help someone determine direction and avoid storms and reefs or risks in the future.

Based on the results of the study above, the test of the influence of financial literacy on investment decisions showed significant results. It can be shown in the results of the path coefficient test of the FL variable against ID showing a P value of 0.00 smaller than 0.05, so the hypothesis is accepted. The results of the study also stated that the respondents in the study already had good Financial Literacy, and Financial Literacy had a positive and significant influence on Investment Decisions. The results of the study above support previous studies conducted by Agustin & Lyson (2021) and Suprasta & Nuryasman (2020) which found a positive influence of financial literacy on investment decisions. Because with good financial literacy, investors will have a good understanding and be able to analyze rational investments and evaluate their decisions effectively. In another study, Lestari, et al, (2022) found that financial literacy had a significant effect on investment decisions. In agreement with this, Fadila, et al, (2022) that among young millennial entrepreneurs, financial literacy also has a significant influence on investment decisions. Not only that, with high financial literacy in individual investors, it has a positive influence on investment interest (Kelly & Pamungkas, 2022).

Risk Perception and Investment Decisions

Risk perception can influence investors in taking risks in their investment decisions and their overall performance in the financial market (Ahmad & Shah, 2020). Risk perception is a person's assessment of the possibility of profit or loss in an investment. In simple terms, risk perception is a perspective on how much risk will occur in investing. This can be caused by several factors according to Ahmad & Shah (2020) and Areiqat, et al., (2019) past experience, cognitive bias,

information, attitude, subjective norms, overconfidence, and excessive optimism.

Based on the results of the study above, testing the effect of risk perception on investment decisions is shown in the results of the path coefficient test of the PR variable on ID with a P value of 0.041 which is smaller than 0.05, the hypothesis is accepted. So that risk perception shows significant results on investment decisions. This means that investors in this study are no longer hesitant or anxious in making decisions on their investments in stock instruments on the Indonesia Stock Exchange.

The results of the study above are in line with the research conducted by Areiqat, et al. (2019) and Putri & Isbanah (2020), in their research found that there was no positive or significant influence on investor risk perception on investment decisions. Previous researchers identified the reason for the low risk perception of investors in investment decisions due to the investor's overconfidence. Fadila, et al, (2022) also agree with this that risk perception does not have a significant influence on investment decisions. He argued that this was because risk perception was still not something that was considered by young entrepreneurs. In addition, Kelly & Pamungkas (2022) added that risk perception was not significant to investment interest. This is because a person's risk perception can be dynamic. The results of the study above, why risk perception does not have a positive effect on investment decisions. Because individuals in the study above already have adequate knowledge and experience in investing, especially in the stock market. So that the majority of the respondents above can be independent in their financial and investment analysis independently compared to their risk perception. In addition, in the results of the research indicators, respondents in this study stated that they were able to manage their emotions when participating in stock investment, so that they were able to control themselves not to feel anxious if they were left behind on several occasions, and not to be greedy without rational consideration and analysis.

Financial Literacy and Risk Perception

Risk perception in financial literacy is a person's perspective in seeing the possibility of profit and risk of loss in financial matters. How financial literacy and risk perception can be related, someone with a good level of financial literacy will tend to view a risk realistically. That way, they understand that in investment there is potential for profit and risk of loss, so that investors can allocate their investment funds according to their risk profile.

Financial literacy provides investors with a good understanding of risk and manages it. So that investors with good financial literacy are able to make decisions effectively and rationally. From the results of existing research, it can be concluded that the higher the level of financial literacy, the lower the level of investor anxiety and concern about investment risk. However, it is possible that investors with a good level of financial literacy will remain anxious and worried in the capital market caused by trauma and previous experiences that make them more careful. In addition, political and macroeconomic changes are also influencing factors. This is shown in the valid relevance of the research indicators in the risk perception variable.

The high level of individual financial literacy can be associated with lower risk perception. This can happen because individuals with good financial literacy will have a better understanding of the investment instruments they are involved in, how they work and the potential risks that will occur in the future. Thus, investors will have a rational understanding in managing the available information. In addition, a good level of financial literacy can manage risk effectively. That way, they can manage their portfolios well, such as portfolio diversification or portfolio rebelancing properly. Finally, someone with good financial literacy is able to make long-term plans and have clear goals for their investments. However, in its implications, a person still needs comprehensive financial education or knowledge that does not only focus on technical matters, and it is necessary to study social and psychological aspects so that they are not easily dragged into cognitive biases such as fear of missing out (FOMO). In addition, strong and good protection in the stock market also plays an important role in increasing investor confidence and providing protection in investing. This study found that financial literacy does not have a positive effect on risk perception, this is evidenced by the financial literacy variable (FL) on risk perception (RP) which has a P value of 0.045 smaller than 0.050, so the hypothesis is proven.

In contrast to previous studies, which focused on the influence of financial literacy and risk perception on investment decisions. This study further examines the influence of financial literacy on risk perception to examine the relationship between financial literacy and risk perception. Because several previous studies have shown that a good level of financial literacy in investors will reduce or have a negative effect on investor risk perception. In previous studies conducted by Kelly & Pamungkas (2022), and Fadila, et al., (2022) where in their research stated that literacy has a significant influence on investment decisions and interests. And inversely proportional to risk perception which has an insignificant influence on investment decisions and interests. Other studies such as Lestari, et al., (2022) examined that risk perception has a positive effect on investment decisions, but becomes insignificant in investment decisions when moderated by financial behavior.

So in this study it shows that a good level of financial literacy can reduce a person's level of risk perception, but further research may be needed to examine and confirm the findings above.

Herding Behavior and Investment Decisions

Herding behavior is the behavior of investors in imitating decisions made by other investors, without conducting a detailed and in-depth analysis of the available information. According to Areiqat, et al. (2019) herding behavior can have a good or bad influence on investment. With herding behavior, investors will have confidence in determining their investment decisions. However, herding behavior can also make investors behave irrationally and contribute to market volatility. Herding behavior is driven by the belief that by following others, investors can get valuable information (Areiqat, et al., 2019).

Based on the results of the study above, in testing the effect of herding behavior on investment decisions, it is shown in the results of the path coefficient test of the herding behavior variable (HB) on Investment Decisions (ID) which has a p value of 0.222 which is greater than 0.05, so the hypothesis is rejected. So there is no significant influence between herding behavior and investment decisions. This means that investors in this study have been independent in determining their investment decisions on the stock market on the Indonesia Stock Exchange.

Herding behavior can occur due to a lack of available information or information that is difficult for investors to understand. Thus, investors will tend to follow other investors in making decisions. Or some people assume that there are many people who do it must have their own reasons and there will be no mistakes. In fact, this assumption is not necessarily true. The results of the study show that investors in this study have been independent in determining their decisions. This can happen because several investors with a good level of financial literacy are able to help investors analyze the information available in determining investment decisions. The results of the study above are in line with research conducted by Sari (2021) in examining the psychological factors of investors in making decisions, where herding behavior does not have a positive influence on investment decisions. The implications of these results are shown by the existence of excessive optimism and self-confidence from investors. And it is not in accordance with the Investor Behavior theory in stock investment conducted by Areiqat, et al., (2019), and several other researchers such as Kengatharan, (2014), Keswani, et al., (2019), Adielyani & Mawardi, (2020), Pratama, et al., (2020), and Putri & Isbanah (2020) which show a significant influence between herding behavior and investment decisions. The implications of the above research show that investors with good financial literacy can reduce investor herding behavior in the market. This is because investors are able to make decisions independently, have a good understanding of their investments and are able to manage risks. So that investors do not depend on other people.

CONCLUSION AND RECOMMENDATIONS

Based on the results of the study, it shows that the variables of financial literacy and risk perception have a positive effect on investment decisions, meaning that investors who have good financial literacy and risk perception will make good investments. Financial literacy also affects risk perception, meaning that if investors have good financial literacy, their perception of risk will also improve. Another result is that herding behavior has no effect on investment decisions.

This study still has many weaknesses, such as the respondents are relatively small and focus on student investors, and the variables studied are only 3 independent variables, so that further researchers can continue with similar research by adding variables or increasing the number of respondents.

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