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THE INFLUENCE OF FINANCIAL LITERACY, REGRET AVERSION, AND HERDING ON MUTUAL FUND INVESTMENT DECISIONS AMONG GENERATION Z

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Abstract

The increasing number of mutual fund investors in Indonesia, predominantly consisting of Generation Z, is not necessarily accompanied by rational investment decision-making. Based on behavioral finance theory, investment decisions are influenced by cognitive, psychological, and social factors. This study aims to analyse the influence of financial literacy, regret aversion, and herding on mutual fund investment decisions among Generation Z. The study employed a quantitative approach with a causal research design. Data were collected through an online questionnaire based on a Likert scale, distributed to Generation Z individuals in Denpasar City who had invested in mutual funds for at least six months, using a convenience sampling technique. Data were analysed using multiple linear regression with the assistance of SPSS, complemented by classical assumption tests and hypothesis testing. The results indicate that financial literacy, regret aversion, and herding have a positive influence on mutual fund investment decisions among Generation Z. These findings suggest that, in addition to financial knowledge, emotional and social factors also influence the investment behaviour of Generation Z. The study concludes that enhancing financial literacy and managing behavioural biases are essential to encourage better investment decision-making.

Keywords: financial literacy, regret aversion, herding, investment decisions, mutual funds, Generation Z

INTRODUCTION

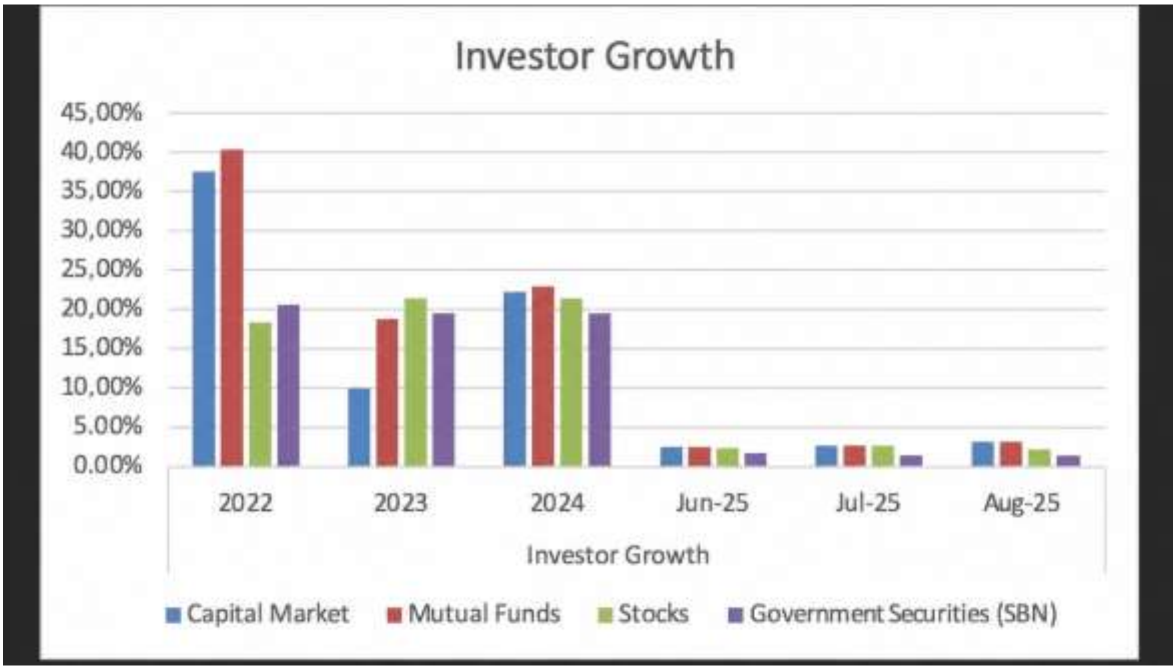
Investment is the allocation of current resources in the form of capital into an asset with the expectation of obtaining economic benefits or an increase in value in the future. Investment decisions are made by considering the uncertainty and risks associated with future returns (Bodie et al., 2024: 99). Investors undertake investments with the objective of preserving or increasing their wealth (Efendi and Waharini, 2023). Investment products are generally classified into two (2) categories: real assets and financial assets. Real assets refer to tangible investments such as gold, works of art, buildings, and land. Financial assets include deposits, stocks, bonds, and mutual funds. Investors intending to invest should understand that risk will always accompany return. In other words, risk and return have a positive linear relationship, indicating that the higher the risk borne by investors, the higher the expected return (Adnyana, 2020: 1–2).

The interrelationship between risk and return is the reason investors estimate the level of risk and expected return through statistical measurements in order to construct an investment portfolio (Adnyana, 2020: 31). An investment portfolio is a collection of investment instruments owned by either institutional or individual investors (Sunaryo, 2021: 5). An investment portfolio consists of several investment components selected by investors, including capital market instruments, mutual funds, stocks, warrants, bonds, and property (Adnyana, 2020: 31–37). Over the past several years, Indonesia has experienced rapid growth in the number of investors, particularly in mutual fund products.

Statistical data indicate that the number of mutual fund investors in Indonesia has increased significantly. According to data from the Indonesia Stock Exchange (IDX) as of April 2025, the total number of money market mutual fund investors reached 16.2 million, of which approximately 55% were Generation Z investors (IDX, 2025). Data on investor growth published by the Indonesia Central Securities Depository (KSEI) from 2022 to August 2025 also show that mutual funds have experienced a consistent and significant upward trend in the number of investors.

From 2022 to 2024, the growth in mutual fund investors was higher than that of other investment instruments, as reflected in growth rates of 40.41% (2022), 18.07% (2023), and 22.92% (2024), consistently maintaining a competitive and stable level. The number of mutual fund investors increased from 9,604,269 in 2022 to 17,031,932 by August 2025. This increase indicates that mutual funds have become increasingly attractive to the public, particularly young investors. Although other instruments, such as the capital market and Government Securities (SBN), also experienced growth, their growth tended to be more volatile and less robust than that of mutual funds during the same period. Monthly data from June to August 2025 show that mutual funds recorded stable monthly growth rates of 2.59%, 2.76%, and 3.10%, respectively, exceeding those of the capital market and Government Securities (SBN). This sustained stability and continuous increase demonstrate that mutual funds have become one of the investment instruments most actively adopted by new investors (OJK, 2025).

Figure 1. Investor Growth



Source: (KSEI, 2025)

Mutual funds are certificates indicating that their holders have entrusted a certain amount of capital to a mutual fund manager for investment activities in the money market and capital market. Mutual fund managers are generally referred to as investment managers. Mutual funds are similar to savings accounts; however, the key difference lies in the ownership certificate. Mutual fund ownership certificates may be traded, whereas savings account ownership cannot be transferred through trading (Adnyana, 2020: 35). According to Law No. 8 of 1995, a mutual fund is a vehicle that pools funds from the public to be invested in a securities portfolio managed by an investment manager (Dewi and Diantini, 2024). Investors who invest in mutual funds for purposes such as educational funding or retirement preparation will benefit from the appreciation of their investment value over time. Mutual fund investments function to increase investors' wealth, although investment growth generally requires a relatively long period to materialise (Tazkiyah and Fauziah, 2024).

The growth in mutual fund investors in Bali Province has also increased significantly. As of January 2025, the year-on-year (YoY) growth in mutual fund investors in Bali reached 25.47%, with a total of 146,093 investors. Denpasar City accounts for the largest proportion of investors in Bali Province, representing approximately 35.1% of the total number of investors in the province (OJK, 2025). The age distribution of investors in Bali is dominated by individuals aged 18–29 years (OJK, 2025). Individuals within the

18–29 age group, born between 1997 and 2012, are categorised as Generation Z (Yolanda, 2024).

Along with the rapid development of the capital market in Indonesia and the increasing participation of investors, particularly Generation Z, investment management companies and investment managers are required not only to understand the technical and fundamental aspects of investment instruments but also the behaviour of investors in making investment decisions. Investor behaviour has become an important factor because mutual fund investment decisions are not always rational and are often influenced by psychological factors, social factors, and information limitations (Bodie et al., 2024). For investment managers, understanding investor behaviour is crucial for designing mutual fund products that align with investors' characteristics, risk preferences, and investment objectives. Investors with low risk tolerance, for example, tend to prefer mutual fund products with lower levels of risk, whereas investors with speculative tendencies are more attracted to products offering higher potential returns (Bodie et al., 2024). Without an adequate understanding of investor behaviour, the investment products offered may fail to meet investors' needs, thereby reducing investor trust and loyalty towards the investment management company (Tandelilin, 2017: 88).

Investor behaviour also affects the stability of assets under management. Investors who are easily influenced by emotions, such as fear of losses or the tendency to follow the decisions of other investors, are more likely to withdraw their funds collectively during periods of market volatility. Such large-scale withdrawals may negatively affect mutual fund performance and create liquidity risks for investment managers. Therefore, understanding investor behaviour enables companies to anticipate market reactions and formulate appropriate communication strategies for investors (Statman, 2019).

The rapid increase in the number of investors does not necessarily guarantee that investors are capable of making rational mutual fund investment decisions unless it is supported by adequate financial literacy. The consumer-oriented behaviour commonly associated with Generation Z raises concerns regarding the increasing number of investors, as this phenomenon is often influenced by Fear of Missing Out (FoMO) behaviour in investment activities (Rindiani and Darmawan, 2024). Mutual fund investment decisions that are not based on rational considerations may result in investment mistakes, including involvement in fraudulent investment schemes. Investment financial literacy plays an important role in encouraging Generation Z to make more rational decisions. The growth in the number of investors continues to be monitored by the Financial Services Authority (OJK) to determine whether the increase reflects a better understanding of the capital market or is merely driven by investors' FoMO behaviour (Rindiani and Darmawan, 2024). Investment decisions influenced by investor behaviour constitute one of the reasons for the emergence of Behavioral

Finance Theory, which applies psychological principles within the field of finance (Fitriarianti, 2020).

Behavioral Finance Theory integrates economic theory with principles of psychology and sociology to explain how investors behave and make decisions. This theory explains why investors do not always make rational financial decisions by considering how biases and emotions influence investment decision-making (Suriani, 2022: 8). Financial behaviour plays an important role in determining mutual fund investment decisions. Investors do not always make decisions consistently; instead, their decisions are influenced by their perceptions and understanding of the information they receive (Siregar and Anggraeni, 2022). Various factors may influence investors in making mutual fund investment decisions, and each investor possesses different behavioural characteristics (Suriani, 2022: 64). Retail investor behaviour is often influenced by limited knowledge, emotions, and social interactions, potentially leading to suboptimal investment decisions. Based on Behavioral Finance Theory, financial literacy, regret aversion, and herding were selected as the research variables because they represent the dominant cognitive, psychological, and social factors influencing investment decision-making.

Investors' limited knowledge is associated with cognitive factors. Cognitive factors refer to the extent of investors' knowledge, which is influenced by financial literacy. Financial literacy is defined as an individual's ability to apply financial knowledge in real-life situations, including saving, investing, and retirement planning (Lusardi and Mitchell, 2023: 139). Investors with a high level of financial literacy tend to be more capable of selecting appropriate and profitable investment instruments. Such investors are more likely to conduct careful analyses and preliminary evaluations to assess potential gains and losses before making investment decisions. Therefore, the level of financial literacy plays a significant role in determining investors' success in making mutual fund investment decisions (Aulianingrum, 2021; Suidarma et al., 2023).

Previous studies conducted by Sun and Lestari (2022), Rayhan and Juwita (2023), and Mahiryahya Kasturi (2024) found that financial literacy has a negative effect on mutual fund investment decisions. Their findings indicate that investors with higher financial literacy are not necessarily encouraged to make better investment decisions. In contrast, studies by Panjaitan and Listiadi (2021), Tehupelasuri et al. (2021), Upadana and Herawati (2020), Andreansyah and Meirisa (2022), Al-Qibthya and Sari (2022), and Yuniasari et al. (2024) reported that financial literacy has a positive influence on mutual fund investment decisions. The better investors understand financial literacy, the better their financial management becomes. Good financial literacy encourages comprehensive financial planning, enabling prospective investors to allocate funds for emergencies, savings, and investment purposes (Audhita et al., 2022; Yuniasari et al., 2024).

The emotional or psychological factor influencing mutual fund investment decisions is regret aversion. Regret aversion refers to the emotional tendency of investors to fear making decisions because they seek to avoid repeating mistakes made in the past. Fear arises as an effort to avoid the regret that may result from repeating previous poor investment decisions (Suriani, 2022: 69–70). Negative experiences encountered by investors in the past may generate emotional pressure, causing them to hesitate to reinvest in similar investment instruments or even discontinue investing altogether (Ermulyawati et al., 2023).

The fear experienced by investors influences investment decisions because they become excessively reluctant to make decisions and assume that previous negative outcomes will recur without considering current market developments. Conversely, regret aversion may also have the opposite effect. If investors have previously experienced substantial investment gains, they may become more inclined to invest larger amounts of capital than they initially invested (Ermulyawati et al., 2023).

Previous studies conducted by Handranatan Tang and Haryono (2023) and Rosnani Said (2025) found that regret aversion has a negative influence on mutual fund investment decisions. These findings suggest that the tendency to avoid regret does not always constitute a significant factor in the investment decision-making process among Generation Z investors. In contrast, studies by Ariefin and Darmawan (2020), Nurdinda et al. (2020), and Ermulyawati et al. (2023) concluded that regret aversion positively influences mutual fund investment decisions. Febianti and Simatupang (2025) explained that regret aversion arises because investors frequently experience disappointment or sadness resulting from losses incurred in previous investments.

The impact of regret aversion causes investors to become overly conservative and exhibit an excessive tendency to avoid risk. When the market experiences prolonged downturns and investment positions remain in a loss, investors often become excessively pessimistic about market conditions. Such pessimism may trigger herding, namely the tendency to imitate the actions of other investors without careful rational consideration when making mutual fund investment decisions (Nurdinda et al., 2020). Herding represents a social factor influencing mutual fund investment decisions. It refers to investor behaviour characterised by the tendency to follow or imitate the investment decisions of others without conducting adequate analysis of available information and the fundamental conditions of investment instruments.

Herding behaviour emerges when investors rely more heavily on the actions of the majority in the market than on their own independent judgement when making investment decisions (Sari and Nugroho, 2023). Herding behaviour in investment decision-making cannot be separated from the psychological factors that influence how investors assess, respond to, and act under specific circumstances. Herding is influenced by both internal and external factors. Internal factors relate to investors' personalities, emotions, and perceptions in making decisions, such as lack of self-confidence and fear of missing out. External factors originate from market conditions, information, and the socio-economic environment that shape investors' perceptions, including market information, mass media, institutional influence, and financial opinion leaders (Suriani, 2022: 71).

Regarding the influence of herding on mutual fund investment decisions, studies by Putri et al. (2023) and Prasetyo et al. (2024) found that herding has a negative effect on mutual fund investment decisions. Their findings indicate that herding bias does not always represent a dominant factor influencing investment decisions among Generation Z investors. Conversely, studies conducted by Ariefin and Darmawan (2020), Rona et al. (2021), and Safitri (2021) concluded that herding has a positive influence on mutual fund investment decisions. This positive influence arises because investors who lack confidence in their investment knowledge compared with other investors experience difficulty evaluating the wide range of available information. Such limitations encourage investors to adopt a simpler strategy by following the investment decisions of others who are perceived to possess superior knowledge and expertise in processing investment information (Ariefin and Darmawan, 2020).

RESEARCH METHOD

This study employed an associative quantitative research design with a causal approach to analyse the influence of financial literacy, regret aversion, and herding on mutual fund investment decisions among Generation Z (Gen Z) (Sugiyono, 2019: 65). The research was conducted in Denpasar City, Bali Province, which was selected because it had the highest number of mutual fund investors in Bali, accounting for 35.1% of the total investors as of January 2025. The object of the study focused on the mutual fund investment decisions of Generation Z as influenced by financial literacy, regret aversion, and herding. The dependent variable was investment decisions (Y), while the independent variables consisted of financial literacy (X1), regret aversion (X2), and herding (X3). Investment decisions were measured based on the expected rate of return, level of risk, alignment with investment objectives, investment horizon, and management costs. Financial literacy was measured through understanding of financial concepts, risk and return, long-term financial planning, investment product selection, and personal financial management. Regret aversion was measured by fear of regret, risk-avoidance tendencies, decision postponement and reluctance to make decisions, and previous investment experience. Herding was measured through the tendency to follow other investors' decisions, market trends, recommendations from others, lack of independent analysis, and social pressure (Putri & Anwar, 2021; Sariani, 2020; OECD, 2020: 29; Irowati, 2021; Suriani, 2022: 69; Shohiha, 2022; Ackert & Deaves, 2020).

The study population comprised Generation Z individuals aged 18–29 years residing in Denpasar City who had invested in mutual funds for more than six months. The sample was determined using a non-probability sampling method with a convenience sampling technique. Based on the 20 research indicators and the recommended sample size of 5–10 times the number of indicators, the required sample ranged from 100 to 200 respondents (Sugiyono, 2019: 84, 137). The data consisted of quantitative data in the form of respondents' scores and qualitative data in the form of statements and general descriptions of the variables. Primary data were collected through questionnaires, while secondary data were obtained from documents and supporting data related to the Generation Z population in Denpasar City. Data collection was conducted through an online survey using a Google Forms questionnaire with a five-point Likert scale ranging from strongly disagree to strongly agree. Prior to data collection, the research instrument was tested for validity and reliability. The validity test results indicated that all statement items had Pearson Correlation values greater than 0.30 and were therefore considered valid. The reliability test results showed that Cronbach's Alpha values for all variables exceeded 0.70, indicating that the instrument was reliable and suitable for use in this study (Sugiyono, 2019).

Data were analysed using the Statistical Package for the Social Sciences (SPSS) through multiple linear regression analysis to examine the influence of financial literacy, regret aversion, and herding on mutual fund investment decisions among Generation Z. Prior to hypothesis testing, classical assumption tests consisting of normality, multicollinearity, and heteroscedasticity tests were conducted to ensure the appropriateness of the regression model. Hypothesis testing was subsequently performed using the model feasibility test (F-test), the coefficient of determination (Adjusted R^2), and the partial significance test (t-test). The F-test was used to examine the overall feasibility of the regression model, the Adjusted R^2 was employed to measure the ability of the independent variables to explain the variation in investment decisions, and the t-test was used to examine the partial influence of each independent variable on investment decisions. The regression model employed in this study is expressed as: $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$. where Y represents investment decisions, X_1 represents financial literacy, X_2 represents regret aversion, X_3 represents herding, α represents the constant, β represents the regression coefficients, and ε represents the standard error (Sugiyono, 2019).

RESULT AND DISCUSSION

Description of Research Variables

Table 1. Criteria for the Mean Scores of Research Descriptions

Mean Score	Assessment Criteria for Variable Y	Assessment Criteria for Variables X1, X2, X3
1,00-1,80	Highly Inappropriate	Very Low
1,81-2,60	Inappropriate	Low
2,61-3,40	Moderate	Moderate

3,41-4,20	Appropriate	High
4,21-5,00	Highly Appropriate	Very High

Source : (Sugiyono, 2019)

Based on the results of the descriptive statistical analysis, all research variables obtained mean scores within the high to very high categories. The investment decision variable had a mean score of 4.28 (highly appropriate), indicating that respondents tended to make rational investment decisions by aligning their investments with their financial objectives, which recorded the highest mean score of 4.39. Although risk considerations obtained the lowest score of 4.16, they remained within the appropriate category. The financial literacy variable had a mean score of 4.24 (very high), indicating that Generation Z possessed a good level of financial literacy, particularly in understanding the relationship between investment returns and risks, which recorded a score of 4.51. However, their understanding of the characteristics of various financial products remained relatively lower, with a score of 3.92. The regret aversion variable had a mean score of 4.16 (high), indicating that respondents tended to act cautiously to avoid potential losses, which recorded a score of 4.39, although they did not frequently postpone investment decisions, as reflected in a score of 3.80. Meanwhile, the herding variable had a mean score of 4.25 (very high), indicating a tendency to follow the investment behaviour of others, particularly when many investors selected the same product, which recorded a score of 4.34. Nevertheless, respondents continued to independently evaluate investment risks before making decisions, as reflected in a score of 4.18.

Results of Multiple Linear Regression Analysis

Table 2. Summary of Multiple Linear Regression Analysis Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,973	1,017		0,957	0,340
Financial literacy	0,395	0,056	0,393	8,621	0,000
Regret aversion	0,228	0,051	0,241	5,571	0,000
Herding	0,342	0,036	0,431	9,397	0,000
F-Statistic	: 149,276				
F sig.	: 0,000				
R	: 0,834				
R Square	: 0,696				
Adjusted R Square	: 0,691				

Dependent Variable: Investment decisions

Source: Data processed in 2026

Based on the results of the analysis presented in Table 2, the multiple linear regression equation obtained is as follows:

$y = 0{,}973 + 0{,}395\ X_1 + 0{,}228\ X_2 + 0{,}342\ X_3 + e$

Based on the multiple linear regression equation above, the following information can be derived:

1) The constant value of 0.973 indicates that when financial literacy (X_1), regret aversion (X_2), and herding (X_3) are assumed to have values of zero, investment decisions (Y) retain a value of 0.973. This result indicates that other factors outside the model also influence investment decisions.
2) The regression coefficient of financial literacy (β_1) is 0.395, meaning that an increase in financial literacy will be followed by an increase in investment decisions, assuming that regret aversion and herding remain constant.
3) The regression coefficient of regret aversion (β_2) is 0.228, meaning that an improvement in regret aversion will be followed by an increase in investment decisions, assuming that financial literacy and herding remain constant.
4) The regression coefficient of herding (β_3) is 0.342, meaning that an increase in herding will be followed by an increase in investment decisions, assuming that financial literacy and regret aversion remain constant.

Results of the Classical Assumption Tests

Classical assumption tests were conducted to ensure that the regression model satisfied the required statistical assumptions, thereby ensuring that the analytical results were valid and unbiased. The classical assumption tests employed in this study consisted of the following:

1) Normality Test

Table 3. Results of the Normality Test

One-Sample Kolmogorov-Smirnov Test		Keterangan
N	200	Berdistribusi Normal
Test Statistic	0,050	
Asymp. Sig. (2-tailed)	0,200	

Source: Data processed in 2026

Table 3 shows that the Kolmogorov–Smirnov test produced an Asymp. Sig. (2-tailed) value of 0.200, which is greater than 0.05. Therefore, it can be concluded that the regression model satisfies the normality assumption and that the data are normally distributed.

2) Multicollinearity Test

Table 4. Results of the Multicollinearity Test

Variable	Collinearity Statistics		Description
	Tolerance	VIF	
Financial literacy	0,748	1,337	Free from Multicollinearity
Regret aversion	0,830	1,205	Free from Multicollinearity
Herding	0,739	1,353	Free from Multicollinearity

Source: Data processed in 2026, Appendix 7

Table 4 shows that the tolerance values for the financial literacy, regret aversion, and herding variables are 0.748, 0.830, and 0.739, respectively, all of which are greater than 0.10. Meanwhile, the VIF values for the financial literacy, regret aversion, and herding variables are 1.337, 1.205, and 1.353, respectively, all of which are less than 10. These results indicate that multicollinearity is not present in the regression model.

3) Heteroscedasticity Test

Table 5. Results of the Heteroscedasticity Test

Variable	Sig.	Description
Financial literacy	0,856	Free from Multicollinearity
Regret aversion	0,215	Free from Multicollinearity
Herding	0,134	Free from Multicollinearity

Source: Data processed in 2026

Table 5 shows that the significance values between the financial literacy, regret aversion, and herding variables and their respective absolute residual values (ABS_RES) are 0.856, 0.215, and 0.134, respectively, all of which are greater than 0.05. These results indicate that the regression model does not exhibit heteroscedasticity.

Regression Model Goodness-of-Fit Test (F-Test)

The regression model goodness-of-fit test (F-test) was conducted to evaluate the appropriateness of the regression model by examining the significance value of the F-statistic generated by the SPSS regression output, using a significance level of 0.05. If the significance value of the F-test is greater than 0.05, the regression model is considered inappropriate for the study. Conversely, if the significance value is less than 0.05, the regression model is considered appropriate for the study.

The F-test results yielded an F-statistic of 149.276 with a significance value of 0.000, which is less than 0.05. These findings indicate that financial literacy, regret aversion, and herding simultaneously influence investment decisions, implying that the research model is fit to the observed data and is appropriate for subsequent hypothesis testing.

Coefficient of Determination

The coefficient of determination is used to measure the extent to which the model explains the dependent variable by using the adjusted (R^2) value. Based on the analysis results, the coefficient of determination (Adjusted R^2) was 0.691, which was calculated as follows:

D = Adjusted R^2x100%

= 0,691 x100%

= 69,1%

It can therefore be concluded that 69.1% of mutual fund investment decisions among Generation Z can be explained or influenced by financial literacy, regret aversion, and herding, while the remaining 30.9% (100% – 69.1%) of investment decisions may be influenced by other variables that were not examined or discussed in this study.

t-Test (Hypothesis Testing)

The t-test was conducted to examine whether financial literacy, regret aversion, and herding individually have a significant influence on investment decisions. If the significance value is less than 0.05, the hypothesis is accepted, indicating that the regression coefficient is statistically significant. Accordingly, each independent variable has a significant partial effect on the dependent variable. The results of the hypothesis testing are presented as follows:

1) The Influence of Financial Literacy on Investment Decisions

H_0: Financial literacy does not have a significant positive influence on mutual fund investment decisions.

H_1: Financial literacy has a significant positive influence on mutual fund investment decisions.

Based on the analysis of the influence of financial literacy on investment decisions, the regression coefficient was 0.395 with a significance value of 0.000 < 0.05; therefore, H_0 and H_1 are accepted. The results indicate that financial literacy has a positive influence on mutual fund investment decisions among Generation Z. Thus, the first hypothesis of this study is accepted.

2) The Influence of Regret Aversion on Investment Decisions

H_0: Regret aversion does not have a significant positive influence on mutual fund investment decisions.

H_2: Regret aversion has a significant positive influence on mutual fund investment decisions.

Based on the analysis of the influence of regret aversion on investment decisions, the regression coefficient was 0.228 with a significance value of 0.000 < 0.05;

therefore, H_0 and H_2 are accepted. The results indicate that regret aversion has a positive influence on mutual fund investment decisions among Generation Z. Thus, the second hypothesis of this study is accepted.

3) The Influence of Herding on Investment Decisions

H_0: Herding does not have a significant positive influence on mutual fund investment decisions.

H_3: Herding has a significant positive influence on mutual fund investment decisions.

Based on the analysis of the influence of herding on investment decisions, the regression coefficient was 0.342 with a significance value of 0.000 < 0.05; therefore, H_0 and H_3 are accepted. The results indicate that herding has a positive influence on mutual fund investment decisions among Generation Z. Thus, the third hypothesis of this study is accepted.

Discussion of Research Findings

The Influence of Financial Literacy on Mutual Fund Investment Decisions among Generation Z

The results of the hypothesis testing indicate that financial literacy has a positive influence on mutual fund investment decisions among Generation Z. This finding implies that the higher the level of financial literacy possessed by Generation Z, the better their mutual fund investment decisions. Conversely, lower levels of financial literacy are associated with poorer mutual fund investment decisions. Therefore, the first hypothesis proposed in this study is accepted.

Financial literacy encompasses the knowledge, skills, and confidence that influence investors' attitudes and behaviours in making financial decisions and managing their finances to achieve financial well-being. Investors with a high level of financial literacy tend to achieve greater success in their investment activities. Based on the respondents' assessments, Generation Z demonstrates a fundamental understanding of the concepts of risk and return, which constitute essential principles in investment. This understanding serves as an important foundation for investment decision-making, as individuals who recognise the relationship between risk and return tend to evaluate investment opportunities more rationally. Such understanding encourages more prudent investment behaviour, leading financially literate Generation Z investors to make more cautious and well-planned mutual fund investment decisions. They are also more likely to align their investment choices with their financial objectives. These findings demonstrate that the level of financial literacy possessed by Generation Z influences their mutual fund investment decisions.

These findings can be explained by Behavioral Finance Theory, which suggests that an individual's level of financial knowledge plays a crucial role in the investment decision-making process. Generation Z investors with higher financial literacy are generally better able to process information effectively, minimise decision-making biases, and select investment instruments that are consistent with their risk tolerance. The findings of this study are consistent with those reported by Tehupelasuri et al. (2022), Andreansyah and Meirisa (2022), Siregar and Anggraeni (2022), Harjanti and Risnawati (2023), Yuniasari et al. (2024), and Upadana and Herawati (2020), all of whom concluded that financial literacy has a positive influence on investment decisions.

The Influence of Regret Aversion on Mutual Fund Investment Decisions among Generation Z

The results of the hypothesis testing indicate that regret aversion has a positive influence on mutual fund investment decisions among Generation Z. This finding implies that the higher the level of regret aversion possessed by Generation Z, the better their mutual fund investment decisions. Conversely, lower levels of regret aversion are associated with poorer mutual fund investment decisions. Therefore, the second hypothesis proposed in this study is accepted.

Regret aversion refers to the tendency to avoid feelings of regret or fear of experiencing losses, leading individuals to make decisions based on a strong desire to avoid repeating previous mistakes. Poor investment decisions may result in financial losses, which subsequently influence investors' future investment behaviour. Based on the respondents' assessments, Generation Z demonstrates a strong tendency to avoid high-risk investments as a means of protecting themselves from potential future regret. This risk-avoidance behaviour reflects a relatively cautious attitude, with fear serving as an important consideration before making investment decisions. Generation Z carefully evaluates the level of risk that may be encountered, making them more selective and rational in choosing mutual fund investments. These findings indicate that regret aversion influences Generation Z's mutual fund investment decisions.

These findings can be interpreted through the perspective of Behavioral Finance Theory, which emphasises that emotions, particularly fear, play a significant role in shaping investor behaviour. Individuals tend to avoid alternatives that may lead to future regret and therefore prefer investment options perceived to be more stable. Mutual funds are considered an attractive investment choice for Generation Z because their risks can be managed through portfolio diversification. The findings of this study are consistent with previous studies conducted by Ariefin and Darmawan (2020), Febianti and Simatupang (2025), Ermulyawati et al. (2023), and Nurdinda et al. (2020), all of which concluded that regret aversion has a positive influence on investment decisions.

The Influence of Herding on Mutual Fund Investment Decisions among Generation Z

The results of the hypothesis testing indicate that herding has a positive influence on mutual fund investment decisions among Generation Z. This finding implies that the higher the level of herding behaviour exhibited by Generation Z, the better their mutual fund investment decisions. Conversely, lower levels of herding behaviour are associated with poorer mutual fund investment decisions. Therefore, the third hypothesis proposed in this study is accepted.

Herding behaviour reflects the tendency of Generation Z investors to imitate prevailing market trends when evaluating or analysing investment opportunities. Such imitative behaviour is generally regarded as an irrational action frequently displayed by investors. Generation Z investors often engage in herding because they perceive their investment knowledge and education as insufficient to make independent investment decisions with confidence. Based on the respondents' assessments, they tend to experience greater confidence and a stronger sense of security when they observe many other individuals making similar investment decisions. These findings suggest that Generation Z's investment decisions are not solely based on personal judgement but are also influenced by the behaviour of those around them. Information obtained from others is perceived as reducing uncertainty and investment risk. Observing many investors investing in the same mutual fund makes Generation Z perceive the investment risk as more acceptable, thereby encouraging them to invest in the same mutual fund.

These findings can also be explained by Behavioral Finance Theory, which proposes that investors frequently rely on the behaviour of others as a reference when making investment decisions, particularly when faced with limited information or investment experience. Herding functions as a mechanism of social learning, whereby Generation Z utilises collective investment decisions as a basis for evaluating the attractiveness and feasibility of an investment. The findings of this study are consistent with previous studies conducted by Ariefin and Darmawan (2020), Ermulyawati et al. (2023), Ramashar et al. (2022), and Safitri and Wahyudi (2022), which concluded that herding has a positive influence on investment decisions.

CONCLUSION

Based on the findings of this study, the conclusions can be summarised as follows:

1) Financial literacy has a positive influence on mutual fund investment decisions among Generation Z. Generation Z investors are influenced by financial literacy when making mutual fund investment decisions.
2) Regret aversion has a positive influence on mutual fund investment decisions among Generation Z. Generation Z investors are influenced by regret aversion when making mutual fund investment decisions.
3) Herding has a positive influence on mutual fund investment decisions among Generation Z. Generation Z investors are influenced by herding when making mutual fund investment decisions.

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