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Risk Behavior and Investment Decisions: The Mediating Roles of Priority, Strategy, and Culture among Indonesian Retail Investors

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Abstract

This study analyzes the effect of Risk Capacity (objective financial ability to bear risk), Risk Tolerance (psychological willingness to accept risk), and Risk Propensity (inherent disposition toward risk) on Investment Decisions. Using a quantitative explanatory design, data from 100 Indonesian retail investors selected through purposive sampling were analyzed with SEM-PLS via SmartPLS. SEM-PLS was chosen due to its predictive capability and ability to handle complex, non-normal data. All constructs met the criteria for convergent validity, discriminant validity, and reliability, with Cronbach's Alpha exceeding 0.70, while an R^2 value of 0.622 indicates that the model explains 62.20% of the variance in Investment Decisions. The results show that Risk Capacity has no significant effect on Investment Decisions, either directly or through the mediating variables, suggesting that objective financial capability is not the dominant determinant of investment behavior. In contrast, Risk Tolerance significantly influences Investment Decisions through Investment Priority, Investment Strategy, and Culture in a full mediation pattern. Practically, these findings suggest that financial advisors and policymakers should focus on translating investors' psychological risk tolerance into structured investment priorities and strategies, rather than relying solely on objective financial capacity.

Keywords:
Risk Capacity; Risk Tolerance; Risk Propensity; Investment Decisions; Culture; Behavioral Finance; SEM-PLS.

1. INTRODUCTION

Investment decision-making has grown increasingly complex in the contemporary financial environment, which is marked by rapid technological advancement, volatile market conditions, and broader access to digital investment platforms. Individual investors encounter a diverse array of financial instruments that require a comprehensive understanding of the psychological, behavioral, and financial factors influencing investment choices. Research in behavioral finance demonstrates that investment decisions are shaped not only by rational analysis but also by risk attitudes, personal preferences, and individual cognitive processes (Lezgovko, 2021).

This condition is consistent with the core proposition of Prospect Theory, introduced by Kahneman & Tversky (1979), which challenges the assumption of homo economicus in neoclassical finance. Prospect Theory posits that individuals assess outcomes based on gains and losses relative to a reference point, rather than final wealth levels. This framework explains loss aversion, where losses are perceived as significantly more painful than equivalent gains are satisfying. Risk Tolerance significantly influences Investment Decisions through Investment Priority, Investment Strategy, and Culture in a full mediation pattern. Practically, these findings suggest that financial advisors and policymakers should focus on translating investors' psychological

risk tolerance into structured investment priorities and strategies, rather than relying solely on objective financial capacity (J. Bistline & Goteti, 2022).

Three behavioral attributes significantly influence investment behavior: risk capacity, risk tolerance, and risk propensity. Risk capacity denotes an investor's financial ability to absorb potential losses without compromising financial stability (Arpaci et al., 2024). Risk tolerance refers to an individual's psychological willingness to accept uncertainty and fluctuations in investment outcomes (J. E. T. Bistline & Goteti, 2022). In contrast, risk propensity describes a person's inherent inclination toward risk-taking, shaped by personality traits and decision-making style (Brmalj & Mujacevic, 2023). Together, these variables encompass the financial, psychological, and behavioral dimensions that inform investors' perceptions of and responses to investment opportunities.

The conceptual distinction among these three variables extends beyond terminology and has significant theoretical implications. The literature indicates that risk tolerance refers to an individual's willingness to accept potential future outcomes, while risk capacity denotes the financial buffer available in the event of investment failure. Therefore, the level of risk an individual is willing to assume may differ from their objective capacity, which is determined by their financial position (J. Bistline & Goteti, 2022). Recent empirical evidence from a high-income investor sample demonstrates that capacity-based thresholds, such as income and net worth, do not fully explain an investor's propensity to engage with complex or high-risk assets (Grable, 2026). This observation prompts further inquiry into the extent to which objective financial capability determines investment decisions relative to subjective psychological preferences.

The literature regarding risk propensity remains inconclusive. Conceptualize risk propensity as a mediating variable and report that all cognitive biases influence investment performance through risk propensity, with the illusion of control identified as the strongest predictor (ul Abdin et al., 2022). In contrast, other studies indicate that the prospect, herding, and heuristics dimensions of behavioral bias significantly affect financial risk propensity, which subsequently influences investment decisions. This divergence in theoretical perspectives highlights the need to investigate whether risk propensity, as a dispositional characteristic, necessitates an intervening mechanism before it manifests in actual investment decisions.

Recent research indicates that investment decisions are shaped by investors' internal priorities and strategies rather than being formed directly. Investment priorities determine how investors rank financial objectives, including wealth accumulation, retirement planning, and short-term liquidity needs. Clearly established priorities allow investors to align decisions with long-term goals and reduce the likelihood of impulsive or emotionally driven actions (Costa et al., 2025). Additionally, investment strategy, which includes diversification, asset allocation, and portfolio management, serves as the mechanism that translates risk attitudes into specific investment actions. A well-defined strategy enables effective risk management while optimizing potential returns (Gottwald, 2012).

From the perspective of behavioral finance, both mediating variables function as cognitive mechanisms that are subject to bias. Investment priorities are not determined objectively; rather, they are shaped by the framing of information and by individuals' reliance on intuition instead of mathematical calculation when evaluating probabilities. Investors may prioritize certain financial instruments not due to higher returns, but because these instruments appear safer or more familiar. The choice of an aggressive investment strategy may result from overconfidence, whereas a defensive approach may be driven by pronounced loss aversion. This mediating framework has been substantiated by multiple studies. Risk perception as a mediator between behavioral finance factors and investment decisions (Ahmed et al., 2022; Almansour et al., 2023). Open report a comparable pattern. The mediating role of financial risk tolerance between behavioral biases and individual investors' investment decisions (Jain et al., 2023).

Despite extensive research on investment decision models, the influence of cultural factors has received comparatively limited attention. Cultural values embedded within investors significantly shape their willingness to assume risk. According to Hofstede's cultural dimensions framework, cultures with high uncertainty avoidance tend to exhibit low risk tolerance and a preference for stable, low-risk financial products. Uncertainty avoidance influences investors' behavioral biases, such as home bias and foreign investment concentration, based on annual data from fifty-one economies between 2001 and 2018 (Tang & Zhou, 2022). A more recent cross-national study utilizing the Culture-Cognition-Decision framework across sixty-one countries from 2014 to 2024 similarly finds that collectivism amplifies herding behavior, high uncertainty avoidance suppresses speculative trading, and long-term orientation distorts the disposition effect. These findings are particularly relevant for Indonesia, which is generally categorized as a collectivist society with a long-term orientation. Thus, cultural values may serve as a critical channel through which risk preferences are translated into investment decisions.

While numerous studies have recognized the significance of behavioral factors, empirical evidence on the simultaneous influence of risk capacity, risk tolerance, and risk propensity on investment decisions, especially through the mediating roles of investment priority, investment strategy, and culture, remains scarce. Most existing research has analyzed these variables separately, either from psychological or strategic behavioral perspectives. Recent cross-national studies have explicitly noted that the literature seldom integrates cultural psychology and behavioral finance within a unified empirical model. This gap highlights the need for further investigation within a more comprehensive behavioral finance framework.

The novelty of this study is demonstrated in two primary aspects. First, investment priority is positioned as a mediating variable, who conceptualize risk capacity and investment priority as moderators within a conditional moderated moderated-mediation model (J. Bistline & Goteti, 2022). Second, the present study introduces culture as a third mediator, allowing the model to simultaneously capture financial, cognitive, and sociocultural mechanisms within a unified analytical framework.

In this context, understanding the interconnections among psychological and behavioral factors is essential for developing a more accurate model of investment decision-making, particularly in emerging markets where investor behavior is influenced by financial literacy, socioeconomic conditions, and market uncertainty. This study examines the effects of risk capacity, risk tolerance, and risk propensity on investment decisions, with investment priority, investment strategy, and culture serving as mediating variables.

H1: The Effect of Risk Capacity on Investment Decisions Through Investment Priority
H2: The Effect of Risk Capacity on Investment Decisions Through Investment Strategy
H3: The Effect of Risk Capacity on Investment Decisions Through Culture
H4: The Effect of Risk Tolerance on Investment Decisions Through Investment Priority
H5: The Effect of Risk Tolerance on Investment Decisions Through Investment Strategy
H6: The Effect of Risk Tolerance on Investment Decisions Through Culture
H7: The Effect of Risk Propensity on Investment Decisions Through Investment Priority
H8: The Effect of Risk Propensity on Investment Decisions Through Investment Strategy
H9: The Effect of Risk Propensity on Investment Decisions Through Culture

2. RESEARCH METHOD

2.1. Research Design

A quantitative approach utilizing a causal (explanatory) research design is employed to examine the effects of risk capacity, risk tolerance, and risk propensity on investment decisions. Investment priority, investment strategy, and culture are included as mediating variables. The explanatory design is chosen to move beyond description and to explain causal relationships among latent constructs, as well as to test theoretical mechanisms proposed within the Behavioral Finance framework.

The primary analysis utilizes Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. Unlike Covariance-Based SEM (CB-SEM) which requires strict normality and large samples, PLS-SEM is ideal for exploratory research and complex models with formative/reflective constructs (Hair et al., 2022). First, the study adopts a predictive and exploratory approach, seeking to extend an existing theoretical model by introducing culture as a new mediator rather than confirming an established theory. Second, PLS-SEM does not require the assumption of multivariate normality, a condition that is often unmet in survey data collected from individual investors. Third, the research model is relatively complex, comprising three exogenous constructs, three mediators, and one endogenous construct. In such configurations, PLS-SEM offers superior statistical power.

2.2. Population and Sample

The study population consists of retail investors in Indonesia. Purposive sampling was employed using the following inclusion criteria: respondents must be at least 18 years old, have a minimum of six months of investment experience, and be willing to complete the questionnaire. The six-month threshold was established to ensure that respondents have sufficient experience to meaningfully assess their risk attitudes and investment strategies. The sample size of 100 is justified based on the 10-times rule for PLS-SEM (Hair et al., 2022), where the minimum sample must be 10 times the maximum number of arrows pointing at a construct.

2.3. Variables and Operationalization

All variables were measured using a five-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree), unless specified otherwise. All constructs were conceptualized as reflective, with indicators representing manifestations of the underlying latent construct rather than its defining components.

2.3.1. Independent Variables

Risk Capacity (RC) is measured using ten indicators adapted from Rajasekar et al. (2022). These indicators include emergency fund withdrawal behavior, willingness to borrow for investment opportunities, portfolio adjustment based on personal judgment, long-term patience, consultation with financial advisors, panic selling, tax implication assessment, and return objective setting.

Risk Tolerance (RT) was assessed using five indicators adapted from Rajasekar et al. (2022): perceived difficulty of investing, preference for bank deposits over equity markets, mental association between risk and loss, perceived role of luck in market returns, and prioritization of safety over returns.

Risk Propensity (RP) is measured using six indicators adapted from Rajasekar et al. (2022). These indicators assess preference for guaranteed returns, avoidance of equity investment, willingness to borrow for

promising opportunities, emphasis on investment security, belief in the necessity of greater financial risk, and readiness to accept potential loss in exchange for gain.

2.3.2. Mediating Variables

Investment Priority (IP) is assessed using eight indicators adapted from Rajasekar et al. (2022). These indicators include retirement funding, assurance of a comfortable retirement, home down payment, high investment growth, income protection in the event of death or disability, smooth asset transfer to heirs, endowment plans, and unit-linked insurance plans.

Investment Strategy (IS) is measured using ten indicators adapted from Rajasekar et al. (2022). These indicators include overall goal evaluation, consideration of alternative options, information sourcing from financial advisors and television, online trading, use of analytical software, discussion with experienced family or friends, assessment of investment liquidity, comprehensive analysis prior to decision-making, and prioritization of security in strategy selection.

Culture (CU) was operationalized in accordance with Sharma (2019) by classifying respondents based on their ethnic-cultural backgrounds, specifically Javanese, Sundanese, Madurese, Baduy, Balinese, and others.

2.3.3. Dependent Variables

Investment Decision (ID) is measured using four indicators adapted from Rajasekar et al. (2022). These indicators assess decision-making based on readily accessible information, reliance on past investment performance, responsiveness to recent market news, and preference for convenient and accessible instruments.

2.4. Data Collection Instrument

A closed-ended questionnaire is administered in both online and offline formats. The instrument comprises two sections: respondent demographics (age, gender, education, income range, investment experience, and instrument type) and construct indicators. All items are presented in Indonesian. As the instruments are adapted from English-language sources, a back-translation procedure is implemented. The questionnaire is first translated into Indonesian by one translator and then independently translated back into English by another. Any discrepancies are reconciled to ensure semantic equivalence.

2.5. Validity and Reliability Testing

Content validity is determined through expert evaluation, where scholars in behavioral finance assess the relevance and clarity of each item. Prior to full deployment, a pilot test with 30 to 50 respondents is conducted to identify ambiguous or problematic items.

Convergent validity is determined by examining outer loadings, where values greater than 0.70 are considered optimal. Loadings between 0.50 and 0.70 are retained only if the Average Variance Extracted (AVE) exceeds 0.50. Discriminant validity is assessed using the Heterotrait-Monotrait ratio (HTMT), with a threshold of less than 0.90, and is further supported by the Fornell-Larcker criterion and cross-loading analysis.

Reliability is evaluated using Cronbach's Alpha and Composite Reliability, with both coefficients required to exceed 0.70.

2.6. Data Collection Procedure

Questionnaires are distributed using Google Forms through investor communities, brokerage platforms, and social media, with additional offline distribution implemented when feasible. The data collection period lasts four to eight weeks. At the beginning of the survey, each respondent receives a brief informed consent statement that guarantees anonymity and confidentiality, and participation is strictly voluntary. A total of 150 questionnaires were distributed, and 100 valid responses were obtained, yielding a response rate of 66.6%. Data collection was conducted from Januari to Februari 2026. The first section of the Google Form included screening questions; respondents who did not meet the criteria were automatically disqualified.

2.7. Data Analysis Technique

The analysis is conducted in two stages, consistent with the conventions of partial least squares structural equation modeling (PLS-SEM). In the first stage, the measurement model (outer model) is assessed for convergent validity, discriminant validity, and construct reliability according to the criteria specified in Section 2.5. In the second stage, the structural model (inner model) is evaluated as follows table 1.

Table 1. Resume of inner model criteria

Test	Criterion / Threshold
Collinearity (VIF)	< 5.00
Coefficient of determination (R^2)	0.75 substantial, 0.50 moderate, 0.25 weak
Effect size (f^2)	0.02 small, 0.15 medium, 0.35 large
Predictive relevance (Q^2)	> 0
Path significance	t-statistic > 1.96 or p-value < 0.05

Mediation testing employs the bootstrapping procedure with 5,000 subsamples (Karunia et al., 2025). Mediation type is determined by examining both indirect and direct effects. Full mediation is established when the indirect effect is significant while the direct effect is not, partial mediation when both are significant, and no mediation when the indirect effect is not significant.

2.8. Ethical Considerations

This research adheres to standard ethical protocols for social science inquiry. Participation is voluntary, respondents may withdraw at any stage, no personally identifying information is collected, and all data are used exclusively for academic purposes and reported in aggregate form.

3. RESULTS AND DISCUSSION

3.1. Results

This study conducted a data cleaning process using SEM-PLS through SmartPLS software. The respondent demographics consist of gender, culture, and length of investment experience. In terms of gender, the respondents comprised 58 males and 42 females. In terms of cultural background, 52 respondents were Javanese, 17 Madurese, 12 Buginese, 15 Batak, and 4 Sundanese.

3.1.1. Validity and Reliability Testing

Convergent validity indicates whether the indicators within a construct genuinely measure that construct. The required condition is an outer loading value of ≥ 0.70, with values between 0.60 and 0.70 still retainable provided that AVE exceeds 0.50. In addition, an AVE value of ≥ 0.50 signifies that the construct explains 50% of the indicator variance. In the first testing stage, convergent validity was not satisfied for several construct indicators. Indicators such as RC1, RC2, RC3, RC6, RC7, RC10, RT5, RP1, RP2, RP3, RP5, RP6, IP3, IP5, IP7, IP8, IS3, and IS4.were removed because their outer loadings fell below the 0.60 threshold, indicating that they did not adequately reflect the underlying construct (Hair et al., 2022).

Table 2. Outer Loading

	KR	TR	KC	PI	SI	BD	KI
KR4	0.764						
KR5	0.705						
KR8	0.665						
KR9	0.836						
TR1		0.785					
TR2		0.793					
TR3		0.782					
TR4		0.796					
KC4			1.000				
PI1				0.892			
PI2				0.890			
PI4				0.809			
PI6				0.806			
SI1					0.686		
SI10					0.773		
SI2					0.851		
SI5					0.778		
SI6					0.642		
SI7					0.769		
SI8					0.821		
SI9					0.725		
Suku/Budaya						1.000	
KI1							0.870
KI2							0.834
KI3							0.751
KI4							0.846

Source: SEM-PLS Output

Table 3. Average Variance Extracted (AVE)

	Average variance extracted (AVE)
KR	0.556
TR	0.623
SI	0.575

PI	0.723
KI	0.683

Source: SEM-PLS Output

Table 3 shows that all indicators have satisfied the established standard, with outer loading values above 0.60 and AVE values exceeding 0.50. The research data have therefore fulfilled the requirements of convergent validity.

Discriminant validity assesses whether the constructs differ from one another. The loading of an indicator on its own construct must be greater than its loading on other constructs.

Table 4. Cross Loading

	KR	TR	KC	PI	SI	BD	KI
KR4	0.764	-0.221	0.134	0.349	0.395	0.096	0.194
KR5	0.705	-0.151	0.133	0.369	0.255	0.214	0.164
KR8	0.665	-0.325	0.089	0.420	0.243	0.429	0.298
KR9	0.836	-0.137	0.226	0.535	0.348	0.180	0.291
TR1	-0.190	0.785	-0.237	-0.130	-0.440	-0.322	-0.507
TR2	-0.232	0.793	-0.123	-0.330	-0.500	-0.331	-0.362
TR3	-0.280	0.782	0.131	-0.330	-0.309	-0.543	-0.343
TR4	-0.172	0.796	0.005	-0.165	-0.456	-0.297	-0.416
KC4	0.198	-0.063	1.000	0.116	0.305	-0.156	0.277
PI1	0.579	-0.277	0.056	0.892	0.327	0.417	0.173
PI2	0.514	-0.294	0.161	0.890	0.350	0.349	0.239
PI4	0.390	-0.300	0.108	0.809	0.384	0.319	0.305
PI6	0.443	-0.183	0.067	0.806	0.236	0.425	0.091
SI1	0.323	-0.319	0.281	0.123	0.686	0.045	0.526
SI10	0.306	-0.433	0.465	0.326	0.773	0.228	0.659
SI2	0.282	-0.434	0.223	0.180	0.851	0.071	0.632
SI5	0.350	-0.369	0.120	0.320	0.778	0.110	0.598
SI6	0.250	-0.456	-0.010	0.322	0.642	0.206	0.432
SI7	0.397	-0.418	0.208	0.248	0.769	0.145	0.528
SI8	0.377	-0.491	0.216	0.384	0.821	0.274	0.562
SI9	0.229	-0.338	0.272	0.436	0.725	0.084	0.539
Suku/Budaya	0.317	-0.481	-0.156	0.441	0.194	1.000	0.366
KI1	0.341	-0.412	0.329	0.268	0.711	0.335	0.870
KI2	0.163	-0.442	0.200	0.102	0.602	0.276	0.834
KI3	0.279	-0.429	0.076	0.165	0.439	0.405	0.751
KI4	0.295	-0.409	0.272	0.248	0.671	0.215	0.846

Source: SEM-PLS Output

Table 4 demonstrates that the loading of each indicator on its own construct is greater than its loading on other constructs. The research data therefore satisfy the criteria for discriminant validity.

3.1.2. Reliability Testing

Reliability testing measures the internal consistency of a construct. Data are classified as reliable when the Cronbach's Alpha value meets the threshold of ≥ 0.70, with values between 0.60 and 0.70 still considered acceptable for exploratory research. The Cronbach's Alpha values are presented below.

Table 5. Cronbach's Alpha

	Cronbach's alpha
KR	0.732
TR	0.799
PI	0.872
SI	0.893
KI	0.845

Source: SEM-PLS Output

Table 5 shows that the Cronbach's Alpha values for all constructs are ≥ 0.70. The research constructs are therefore deemed reliable.

3.1.3. Model Analysis and Mediation Hypothesis Testing

The inner model test examines the path coefficient values and the R^2 value. The path coefficients are presented as follows.

3.1.3.1. Effects Prior to the Inclusion of Mediating Variables

Table 6. Path Coefficients (Direct Effect)

	β	T statistics	P values
KR -> KI	0.172	1.570	0.117
TR -> KI	-0.462	4.108	0.000
KC -> KI	0.196	2.225	0.026

Source: SEM-PLS Output

3.1.3.2. Effects With the Inclusion of Mediating Variables

Table 7. Path Coefficients (Direct Effect)

	β	T statistics	P values
KR -> PI	0.529	6.859	0.000
KR -> SI	0.244	2.686	0.007
KR -> BD	0.248	3.048	0.002
KR -> KI	0.020	0.185	0.853
TR -> PI	-0.157	1.646	0.100
TR -> SI	-0.455	4.559	0.000
TR -> BD	-0.422	5.749	0.000
TR -> KI	-0.038	0.365	0.715
KC -> PI	-0.000	0.001	0.999
KC -> SI	0.224	2.447	0.014
KC -> BD	-0.235	2.843	0.004
KC -> KI	0.133	1.824	0.068
PI -> KI	-0.203	1.861	0.063
SI -> KI	0.691	8.597	0.000
BD -> KI	0.317	4.026	0.000

Source: SEM-PLS Output

Table 8. Path Coefficients (Indirect Effect)

	β	T statistics	P values
KR -> KI	0.140	1.589	0.112
TR -> KI	-0.417	6.104	0.000
KC -> KI	0.080	1.183	0.237

Source: SEM-PLS Output

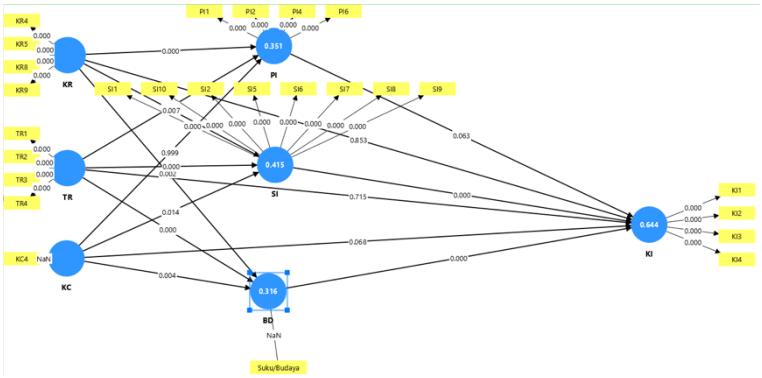


Figure 1. SEM-PLS Test Results (Source: SEM-PLS Output)

Table 6 indicates that the path coefficient values from the inner model test are expressed through β, T-statistics, and P-values. The results of the SEM-PLS testing are explained as follows.

a. Risk Capacity (RC) has no significant effect on Investment Decisions (ID) through Investment Priority (IP), as the indirect effect of RC on ID yields a path coefficient (β) of 0.140 with a P-value of 0.112 (> 0.05). The direct effect of RC on ID produces a path coefficient (β) of 0.172 with a P-value of 0.117 (> 0.05).
b. Risk Capacity (RC) has no significant effect on Investment Decisions (ID) through Investment Strategy (IS), as the indirect effect of RC on ID yields a path coefficient (β) of 0.140 with a P-value of 0.112 (> 0.05). The direct effect of RC on ID produces a path coefficient (β) of 0.172 with a P-value of 0.117 (> 0.05).

c. Risk Capacity (RC) has no significant effect on Investment Decisions (ID) through Culture (CU), as the indirect effect of RC on ID yields a path coefficient (β) of 0.140 with a P-value of 0.112 (> 0.05). The direct effect of RC on ID produces a path coefficient (β) of 0.172 with a P-value of 0.117 (> 0.05).
d. Risk Tolerance (RT) has a significant effect on Investment Decisions (ID) through Investment Priority (IP), as the indirect effect of RT on ID yields a path coefficient (β) of −0.417 with a P-value of 0.000 (< 0.05). The direct effect of RT on ID produces a path coefficient (β) of −0.462 with a P-value of 0.000 (< 0.05). The mediation model is full mediation, since the direct effect becomes insignificant once the mediating variables are introduced, with a path coefficient (β) of −0.038 and a P-value of 0.715 (> 0.05).
e. Risk Tolerance (RT) has a significant effect on Investment Decisions (ID) through Investment Strategy (IS), as the indirect effect of RT on ID yields a path coefficient (β) of −0.417 with a P-value of 0.000 (< 0.05). The direct effect of RT on ID produces a path coefficient (β) of −0.462 with a P-value of 0.000 (< 0.05). The mediation model is full mediation, since the direct effect becomes insignificant once the mediating variables are introduced, with a path coefficient (β) of −0.038 and a P-value of 0.715 (> 0.05).
f. Risk Tolerance (RT) has a significant effect on Investment Decisions (ID) through Culture (CU), as the indirect effect of RT on ID yields a path coefficient (β) of −0.417 with a P-value of 0.000 (< 0.05). The direct effect of RT on ID produces a path coefficient (β) of −0.462 with a P-value of 0.000 (< 0.05). The mediation model is full mediation, since the direct effect becomes insignificant once the mediating variables are introduced, with a path coefficient (β) of −0.038 and a P-value of 0.715 (> 0.05).
g. Risk Propensity (RP) has no significant effect on Investment Decisions (ID) through Investment Priority (IP), as the indirect effect of RP on ID yields a path coefficient (β) of 0.080 with a P-value of 0.237 (> 0.05). The direct effect of RP on ID produces a path coefficient (β) of 0.196 with a P-value of 0.026 (< 0.05).
h. Risk Propensity (RP) has no significant effect on Investment Decisions (ID) through Investment Strategy (IS), as the indirect effect of RP on ID yields a path coefficient (β) of 0.080 with a P-value of 0.237 (> 0.05). The direct effect of RP on ID produces a path coefficient (β) of 0.196 with a P-value of 0.026 (< 0.05).
i. Risk Propensity (RP) has no significant effect on Investment Decisions (ID) through Culture (CU), as the indirect effect of RP on ID yields a path coefficient (β) of 0.080 with a P-value of 0.237 (> 0.05). The direct effect of RP on ID produces a path coefficient (β) of 0.196 with a P-value of 0.026 (< 0.05).

This study also examines the magnitude of R^2 alongside the mediation effect testing. The R^2 values within the research model are presented in the following table 9.

Table 9. R^2

	R^2
PI	0.331
SI	0.397
BD	0.294
KI	0.622

Source: SEM-PLS Output

Table 9 presents an R^2 value of 0.622, or 62.20%. This value indicates that the model examining the effect of Risk Capacity (RC), Risk Tolerance (RT), and Risk Propensity (RP) on Investment Decisions (ID) through Investment Priority (IP), Investment Strategy (IS), and Culture (CU) explains 62.20% of the variance in investment decisions. The remaining 37.80% of the variance in investment decisions is likely influenced by factors not included in this model, such as macroeconomic conditions, financial literacy levels, or specific personality traits.

3.2. Discussion

3.2.1. The Effect of Risk Capacity (RC) on Investment Decisions (ID) Through Investment Priority (IP)

The test results concerning the effect of Risk Capacity (RC) on Investment Decisions (ID) through Investment Priority (IP) indicate that Risk Capacity does not significantly influence Investment Decisions through Investment Priority. This finding suggests that Investment Priority is unable to function as a mediating variable bridging the relationship between risk capacity and investment decisions. Theoretically, risk capacity reflects an individual's objective ability to bear financial risk based on income level, wealth, employment stability, and other economic conditions. From a behavioral finance perspective, however, investment decisions are not fully determined by such objective capability but are instead more strongly influenced by psychological factors, risk perception, and the cognitive biases inherent in the individual.

Behavioral Finance Theory explains that individuals evaluate risky alternatives based on their subjective perception of potential gains and losses rather than solely on their available financial capacity (Kahneman & Tversky, 1979). The concept of loss aversion within this theory asserts that individuals tend to be more sensitive to losses than to gains of equivalent magnitude. Consequently, even when investors objectively possess high risk capacity, this does not necessarily translate into more aggressive or rational investment priorities. In this

context, investment priorities are shaped more by subjective perceptions and psychological preferences than by actual economic capacity.

Behavioral biases such as overconfidence, regret aversion, and mental accounting frequently dominate the investment decision-making process more than rational considerations grounded in financial capacity (Costa et al., 2025). Furthermore, investors do not merely pursue returns and manage risk objectively but also weigh emotional factors and personal values when determining their investment decisions (Putra & Sedana, 2019). Risk capacity, therefore, is not always the principal determinant in the formation of investment priorities or decisions.

Investor behavior is influenced more by overconfidence than by objective financial capability (Gowen et al., 2019). This finding indicates that psychological variables possess greater explanatory power over investment decisions than economic capacity. In addition, financial literacy and an individual's understanding of risk exert a stronger influence on financial decisions than economic conditions alone (Karami et al., 2020). This reinforces the argument that investment priority does not automatically emerge from the risk capacity an investor possesses.

Overall, the results of this study underscore the relevance of the behavioral finance approach in explaining investment behavior. The insignificant effect of Risk Capacity on Investment Decisions through Investment Priority demonstrates that the investment decision-making process is more complex and not based solely on objective financial capability. Investors tend to be influenced by psychological factors, risk perception, and behavioral biases that may weaken the rational relationship between risk capacity and investment decisions. Within the context of this study, therefore, Investment Priority does not function as a mediating mechanism between Risk Capacity and Investment Decisions.

3.2.2. The Effect of Risk Capacity (RC) on Investment Decisions (ID) Through Investment Strategy (IS)

The analytical results of this study indicate that Risk Capacity (RC) exerts no significant mediated effect on Investment Decisions (ID) through Investment Strategy (IS). In other words, investment strategy does not serve as the mechanism bridging the influence of risk capacity on investor decisions within this sample. Theoretically, this finding aligns with the behavioral finance framework, which emphasizes that investment decisions are more strongly influenced by psychological factors, such as subjective risk perception, cognitive bias, and emotion, than by an individual's objective financial capacity alone. The concepts within Prospect Theory assert that investors evaluate gains and losses subjectively through loss aversion, such that actual risk capacity is not always reflected in the formation of a rational investment strategy. As a result, the expected causal chain from risk capacity to investment strategy and ultimately to investment decisions may weaken or fail to emerge as significant.

Recent empirical findings reinforce this explanation. Several studies conducted within the past five years have found that psychological or behavioral mediators, such as risk perception, investment motivation, investment interest, or investment behavior variables, are inconsistent or insignificant in transmitting the effects of risk or financial capability variables on investment decisions. This indicates that mediation is not universal and depends heavily on context, the constructs employed, and sample characteristics (Hoque et al., 2026). Relevant studies have reported the absence of effective mediation by investment priority or strategy, or the presence of mediating effects along only certain paths (Rajasekar et al., 2022), affirming that the role of risk capacity and investment priority is more moderating or contextual than directly mediating. Other research has identified limitations in the role of risk attitude constructs as mediators within several models, while investment motivation, investment interest, or risk perception mediate only certain paths and frequently fail to mediate the relationship between risk factors and investment decisions (Handoko et al., 2026).

Accordingly, the results of this study are consistent with both empirical evidence and behavioral finance theory, which together demonstrate that objective risk capacity is not automatically translated into an investment strategy that determines an investor's final decision. The implication is that research and financial practice should incorporate measures of psychological dimensions, such as subjective risk tolerance, behavioral biases, and financial literacy, alongside sample context, in order to explain more accurately how investment decisions are formed.

3.2.3. The Effect of Risk Capacity (RC) on Investment Decisions (ID) Through Culture (CU)

The results of this study show that Risk Capacity (RC) has no significant effect on Investment Decisions (ID) through Culture (CU) as a mediating variable. Theoretically, this finding can be understood through the behavioral finance perspective, which holds that investment decisions depend not only on an investor's objective ability to bear risk but also on cognitive biases, risk perception, and socio-psychological contexts that extend beyond financial capacity alone. Behavioral finance explains that individuals often make investment decisions based on their subjective perceptions of risk, cultural norms, and personal experience. Culture, as a complex social construct, therefore cannot always serve as a direct mediator between risk capacity and investment decisions. Risk perception and other psychological factors play an important role in investment decisions, yet they do not necessarily mediate the relationship between objective risk capability and investor decisions universally, indicating that psychological context rather than objective financial capacity is frequently more dominant in shaping investment decisions (Hoque et al., 2026).

Moreover, although behavioral biases and risk perception influence investment decisions, mediation through psychosocial variables is not always significant across all relationships among variables. This strengthens the argument that contextual mediators such as culture do not automatically constitute a significant pathway for explaining the effect of risk capacity on investment decisions (Jain et al., 2023). Contextual variables such as social norms and behavioral biases often interact differently with risk factors and investment decisions, and therefore do not consistently produce a strong mediating role (Jurica et al., 2025).

The mediating role of investment intention is not always significant across every relational pathway, particularly when the independent variables under examination exert a strong direct influence on investment decisions without passing through a mediator. This suggests that factors such as culture may play a more moderating or direct role rather than functioning as a significant mediator (Hermawan et al., 2025). In addition, the mediating role of risk perception in the relationship between risk propensity and investment decisions among millennial investors, demonstrating that contextual mediating variables are not always universal in explaining such relationships (Karunia et al., 2025).

Taken together, these findings reinforce the behavioral finance interpretation that culture is not necessarily a significant mediator between risk capacity and investment decisions, because culture as an aspect of social values and internal norms frequently interacts with complex individual psychological processes that are more dominant in shaping how risk is perceived and how investment decisions are made.

3.2.4. The Effect of Risk Tolerance (RT) on Investment Decisions (ID) Through Investment Priority (IP)

The analysis in this study shows that Risk Tolerance (RT) has a significant effect on Investment Decisions (ID) through Investment Priority (IP), exhibiting the characteristics of full mediation. The effect of RT on ID is entirely channeled through IP, such that the direct path from RT to ID becomes insignificant once IP is introduced into the model. Theoretically, this finding aligns with the behavioral finance and prospect theory frameworks, which emphasize that risk preferences and attitudes determine an individual's investment intentions or priorities first, and that these intentions or priorities subsequently drive actual investment action. From this standpoint, the decision-making process is influenced more by cognitive schemas and subjective preferences than by objective information alone, so that the effect of risk tolerance on actual behavior becomes mediated by investment priority or intention.

Empirical support for a similar mediating pathway can be found across a number of recent studies. Several investigations demonstrate that investment intention, or constructs of investment priority and inclination, mediates the relationship between psychological or financial factors and investment decisions. For instance, studies examining the mediation of investment intention between financial literacy or expected return and investment decisions have identified significant mediation along several paths (Lezgovko, 2021). Another study on the Generation Z population in Denpasar reported that investment intention mediates the effect of financial literacy and financial satisfaction on investment decisions, while simultaneously affirming the important role of risk tolerance in shaping investment intention (S. Singh et al., 2025). Research within the broader Indonesian context has likewise found that risk tolerance contributes to the formation of investment intention, which subsequently determines investment decisions (Nguyen et al., 2016). Studies among young investors in Yogyakarta and across other contexts confirm a comparable mechanism, in which investment priority or intention functions as a significant mediating pathway between risk constructs and investment outcomes (Nisa & Rahmawati, 2025). These findings reinforce the interpretation that when investment priority is clearly measured and formed, it can transmit the entire effect of risk tolerance to investment decisions, reflecting the full mediation pattern observed in this study.

In terms of implications, these results suggest that client management practice and investor education should not merely measure the extent of an individual's capacity or readiness to bear risk, but should also attend to how that risk tolerance is translated into concrete investment priorities and intentions, such as investment goal profiles, time horizons, and instrument preferences. Effective interventions, whether through financial advising or literacy programs, should be directed toward cultivating sound investment priorities so that positive risk tolerance can be converted into rational, goal-aligned investment decisions.

3.2.5. The Effect of Risk Tolerance (RT) on Investment Decisions (ID) Through Investment Strategy (IS)

The results of this study show that Risk Tolerance (RT) has a significant effect on Investment Decisions (ID) through Investment Strategy (IS), following a full mediation pattern. This means that the effect of risk tolerance on investment decisions is entirely channeled through investment strategy; once the investment strategy variable is introduced into the model, the direct effect of risk tolerance on investment decisions becomes insignificant. This finding aligns with the behavioral finance perspective, which emphasizes that an individual's risk preferences are not immediately realized in actual decisions but are first translated into more structured behavioral patterns such as investment strategy. Within this framework, risk tolerance shapes how individuals construct asset allocations, select instruments, and determine investment horizons, and that strategy subsequently becomes the principal determinant of the investment decisions taken. Investment decisions are

thus the final outcome of a cognitive and psychological process mediated by strategy formulation, rather than a direct response to risk preferences.

Empirically, several studies conducted within the past five years support a comparable mediating mechanism. Risk tolerance significantly influences investment decisions through the intervening variable of investment intention, demonstrating that risk preferences must first be translated into a plan or strategy before becoming an actual decision (Wibowo et al., 2023). Furthermore, investment intention fully mediates the effect of psychological factors on investment decisions, with the direct path becoming insignificant once the mediator is introduced (Omotayo et al., 2020). Studies on millennial investors likewise show that risk tolerance affects investment decisions through planning mechanisms and strategic preferences, such that the final decision depends heavily on how the strategy is constructed (Rad et al., 2025). Psychological factors do not directly determine investment decisions but operate through the formation of particular strategies or investment orientations (Rahmah et al., 2026). Behavioral constructs such as risk tolerance and cognitive bias influence investment decisions when mediated by planning or investment strategy variables, revealing a full mediation pattern across several of the models tested (Rahyuda & Candradewi, 2023).

Accordingly, the results of this study strengthen the behavioral finance argument that investors do not act spontaneously on the basis of their level of risk tolerance alone, but rather through a process of internalizing risk preferences into a structured investment strategy. Investment strategy serves as the cognitive mechanism bridging risk attitudes and concrete decision-making action. Within the context of this study, therefore, investment strategy functions as a full mediator that entirely accounts for the relationship between risk tolerance and investment decisions, such that in the absence of a clear strategy, risk tolerance does not directly influence investment decisions.

3.2.6. The Effect of Risk Tolerance (RT) on Investment Decisions (ID) Through Culture (CU)

The results of this study reveal that Risk Tolerance (RT) has a significant effect on Investment Decisions (ID) through Culture (CU), following a full mediation pattern, which means that the effect of risk tolerance on investment decisions is entirely explained by its influence on investor culture. Theoretically, this can be understood through the behavioral finance perspective, which emphasizes that investment decisions are determined not only by objective financial capacity or risk tolerance alone, but also by how those risk preferences are formed, interpreted, and shaped by the cultural values embedded within individuals and their social groups. Within the behavioral finance framework, culture encompasses subjective values, social norms, and risk perceptions constructed through community experience. These factors play an important role in directing investors to view risk as either an opportunity or a threat, making cultural values the mechanism that mediates how risk tolerance is translated into actual investment decisions.

Several empirical studies from the past five years support the interconnection among psychological aspects, cultural values, and investment decisions. Sharia values, as a form of religious cultural value, contribute to investment decisions alongside financial behavior, although the effect does not always stem directly from risk tolerance alone (Rajasekar et al., 2022). Behavioral biases and social norms indirectly influence investment decisions through psychological perception, indicating that the role of cultural or other contextual values is not always direct but can constitute an important intermediary in the relationship between risk attitudes and decisions (Sharma, 2019). Risk tolerance mediates the relationship between financial literacy and investment decisions, affirming the important mediating function of an individual's psychosocial condition, which in certain contexts is also shaped by culture (S. Singh et al., 2025). Although, it underscores that behavioral finance factors such as psychological biases and social norms influence investment decisions through non-rational mechanisms comparable to the role of culture in the present study (Almansour et al., 2023). Investors' psychological aspects, including internal values shaped by culture, bear a complex relationship with investment decisions when moderated by self-efficacy; although that study focuses on moderation, it nonetheless supports the importance of cultural context in investment behavior (V. Singh et al., 2024).

The results therefore indicate that culture does not merely modify the relationship between risk tolerance and investment decisions but effectively bridges that pathway, such that the effect of risk tolerance on investment decisions is explained through investor culture. This reflects the behavioral finance assumption that values, norms, and cultural context influence how risk is interpreted and how investment choices are made, positioning culture as a full mediator bridging the effect of risk tolerance on investor decisions.

3.2.7. The Effect of Risk Propensity (RP) on Investment Decisions (ID) Through Investment Priority (IP)

The analysis reveals that Risk Propensity (RP) does not significantly influence Investment Decisions (ID) through Investment Priority (IP). This finding suggests that an individual's inherent disposition toward risk does not naturally translate into structured, future-oriented financial goals. Theoretically, while Risk Propensity reflects an immediate, dispositional willingness to take risks, Investment Priority requires deliberate cognitive planning regarding long-term objectives (e.g., retirement, wealth accumulation). Within the behavioral finance framework, cognitive biases such as present bias and framing effects often disrupt this translation. Investors

may exhibit a high propensity for risk-taking but fail to channel it into coherent priorities due to overconfidence or a focus on immediate gains over long-term planning (Hoque et al., 2026; Sutejo et al., 2023).

Empirically, this aligns with recent literature indicating that dispositional traits do not consistently dictate planning behaviors. Studies demonstrate that while risk attitudes are relatively stable, the prioritization of financial goals is highly susceptible to situational factors and external market information (Trinarningsih et al., 2025; Wibowo et al., 2023). Consequently, Investment Priority fails to act as a bridge in this pathway. The lack of mediation implies that risk-seeking individuals do not necessarily establish aggressive investment priorities; their inherent propensity is often detached from the structured planning required to influence final investment decisions (Karunia et al., 2025).

3.2.8. The Effect of Risk Propensity (RP) on Investment Decisions (ID) Through Investment Strategy (IS)

Similarly, the results indicate that Risk Propensity (RP) has no significant indirect effect on Investment Decisions (ID) via Investment Strategy (IS). While 3.4.7 focused on the failure to form long-term goals, this finding highlights the execution gap between dispositional risk attitudes and systematic investment strategies. Theoretically, an individual's inherent risk propensity is an internal psychological state, whereas an investment strategy is a structured, executable plan (e.g., asset allocation, diversification). Behavioral finance explains that cognitive biases, particularly overconfidence and mental accounting, cause investors to act inconsistently. An investor might possess a strong urge to take risks but lack the structured, analytical strategy to execute it properly, leading to impulsive rather than strategic decisions (Arpaci et al., 2024; J. E. T. Bistline & Goteti, 2022).

Recent empirical evidence supports this disconnect, showing that behavioral predispositions frequently bypass strategic planning mechanisms. Research highlights that strategy formulation is often overridden by momentary market sentiment or heuristic-driven trading, rendering the mediating role of strategy insignificant in this specific path (Addai et al., 2022; Brmalj & Mujacevic, 2023). Therefore, the data suggest that risk propensity is more likely to manifest as direct, sometimes impulsive, investment action, rather than being filtered through a rigorous strategic framework (Costa et al., 2025).

3.2.9. The Effect of Risk Propensity (RP) on Investment Decisions (ID) Through Culture (CU)

Finally, the study finds that Culture (CU) does not significantly mediate the relationship between Risk Propensity (RP) and Investment Decisions (ID). Unlike Investment Priority (goals) and Investment Strategy (execution), which reside within the individual's cognitive process, Culture represents an external, societal construct. Theoretically, Risk Propensity is a deeply personal, dispositional trait, whereas Culture encompasses shared values and social norms. The lack of mediation suggests a disconnect between the individual and the societal level. While cultural values shape how risk is perceived, they do not automatically override a strong inherent risk propensity. Investors may hold certain cultural beliefs, but when making high-stakes financial decisions, their dispositional risk-seeking behavior often supersedes cultural conditioning (Gowen et al., 2019; Sudiyatno et al., 2023).

This finding is corroborated by recent cross-cultural behavioral finance studies. Research indicates that while culture influences general financial behavior, it acts more as a boundary condition (moderator) rather than a transmission channel (mediator) for dispositional traits. When risk propensity is high, the direct psychological drive to take risks tends to bypass cultural framing, leading directly to investment decisions (Ferdaous & Rahman, 2019; Handoko et al., 2026). Consequently, culture cannot act as an effective bridge for translating inherent risk propensity into actual investment decisions.

4. CONCLUSION

This study aimed to analyze the effect of Risk Capacity, Risk Tolerance, and Risk Propensity on Investment Decisions, with Investment Priority, Investment Strategy, and Culture serving as mediating variables. Based on the results of the SEM-PLS analysis, several principal conclusions were obtained.

Risk Capacity (RC) has no significant effect on Investment Decisions (ID), either directly or through Investment Priority, Investment Strategy, and Culture. This finding indicates that an investor's objective ability to bear financial risk is not the dominant factor in determining investment decisions. It reinforces the behavioral finance perspective that investment decisions are influenced more by psychological factors and subjective perceptions than by objective financial capability alone.

Risk Tolerance (RT) has a significant effect on Investment Decisions (ID) through Investment Priority, Investment Strategy, and Culture, following a full mediation pattern. This means that the effect of risk tolerance on investment decisions is entirely channeled through these mediating variables. Once the mediators are introduced into the model, the direct effect of risk tolerance on investment decisions becomes insignificant. This demonstrates that psychological risk preferences are first translated into priorities, strategies, and cultural values before ultimately influencing investment decisions.

Risk Propensity (RP) has no significant effect on Investment Decisions through Investment Priority, Investment Strategy, or Culture. Although risk propensity exerts a direct effect on investment decisions, these mediating variables are unable to bridge that relationship significantly. This indicates that risk propensity as a dispositional characteristic is not always translated into planning mechanisms or cultural values before an investment decision is made.

The R^2 value of 0.622 shows that the research model is able to explain 62.20% of the variance in Investment Decisions, placing it within the moderate to strong category. The remaining 37.80% is explained by other variables outside the research model.

Overall, this study reinforces the relevance of Behavioral Finance Theory in explaining investor behavior in Indonesia, particularly in demonstrating that psychological factors, namely risk tolerance, are more dominant than objective factors such as risk capacity, as well as dispositional propensities, in influencing investment decisions.

The findings offer actionable insights for financial advisors and educators. Since Risk Tolerance is fully mediated by Investment Priority and Strategy, financial literacy programs should not only measure risk appetite but also actively guide investors in establishing concrete investment goals (e.g., retirement funds, down payments) and structured strategies. Furthermore, culturally sensitive financial planning is crucial, given that cultural values serve as a significant mediating channel in the Indonesian context.

Based on the findings and the limitations identified, several recommendations are offered for future research. While the sample size of 100 meets the minimum requirement for PLS-SEM, future studies should aim for a larger sample to enhance the generalizability of the findings. Subsequent studies may incorporate variables such as overconfidence bias, herding behavior, financial self-efficacy, locus of control, or financial literacy as mediators or moderators in order to enhance the explanatory power of the model. This study employed a cross-sectional approach, and longitudinal studies could therefore provide a more dynamic depiction of how risk tolerance and investment decisions change over time, particularly under volatile market conditions. Given the cultural variation present within the sample, which comprised Javanese, Madurese, Buginese, Batak, and Sundanese respondents, future research may employ Multi-Group Analysis (PLS-MGA) to examine differences in effects across cultural groups in greater depth.

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