



## The Influence of Overconfidence, Disposition Effect, and Risk Aversion on Sharia Stock Investment Decisions with Financial Literacy as a Moderating Variable

(A Study on Investors of KSPM-GIS UIN Raden Mas Said Surakarta)

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ARTICLE INFO	ABSTRACT
ISSN:	<p><b>Research Aims:</b> This study aims to examine the influence of overconfidence, disposition effect, and risk aversion on Sharia stock investment decisions, with financial literacy as a moderating variable.</p> <p><b>Design/methodology/approach:</b> This research employs a quantitative method with primary data. The sampling technique utilized is purposive sampling, involving a sample size of 350 respondents. The analysis technique for this study employs moderated regression analysis.</p> <p><b>Research Findings:</b> The results of this study indicate that overconfidence and financial literacy have a positive and significant influence on Sharia stock investment decisions. However, disposition effect and risk aversion do not significantly affect Sharia stock investment decisions. Financial literacy does not moderate the relationship between overconfidence and disposition effect on Sharia stock investment decisions. However, it does moderate the relationship between risk aversion and Sharia stock investment decisions.</p> <p><b>Theoretical Contribution/Originality:</b> This thesis provides insights into the relationships between overconfidence, disposition effect, risk aversion, and financial literacy concerning Sharia stock investment decisions. These findings can serve as a reference or valuable insight for investors, institutions, and stakeholders interested in optimizing their investment decision-making processes.</p> <p><b>Keywords:</b> Overconfidence, disposition effect, risk aversion, investment decision, financial literacy</p>

### Introduction

Investment is now crucial for Indonesia's economic growth, encouraging individuals to manage their finances wisely. There is increasing interest in investment

among the public and students, particularly in products such as stocks, bonds (including sukuk), mutual funds, and gold (Sholihah & Hariyanto, 2021).

One of the investment products widely known and favored by the public today is stocks. Stocks represent ownership in a company and provide rights to claim the company's income and assets, as well as participation in Shareholders' General Meetings (RUPS) (OJK, n.d.). Additionally, there are stocks whose business activities, management practices, and capital participation are in accordance with Sharia principles, known as Sharia stocks (Ala'uddin, 2020). Sharia stocks are gaining popularity in Indonesia due to the community's desire to invest in accordance with religious values (Filbery, 2021). Data from the OJK shows consistent growth in the number of Sharia stocks from 2017 to 2022, reflecting increasing investor interest in this segment of Indonesia's capital market.

Data from the Financial Services Authority (OJK) shows that the number of issuers in the Indonesian capital market has been consistently increasing over the past six years, with a notable rise in the number of Sharia stocks listed. From 2017 to 2022, the number of Sharia stocks increased by 44.53%, rising from 375 Sharia securities to 542 Sharia securities by the end of last year. Looking specifically at the period from 2017, the highest growth in the number of Sharia stocks occurred last year, with an increase of 11.98% from 484 stocks in 2021 to 542 stocks in 2022. This growth trend continued from 2021, which saw an increase of 11.01%. The lowest growth was experienced in 2020, at 0.23%, increasing the number of stocks from 435 to 436.

Sharia stock investment has shown significant growth over the past 6 years, indicating substantial potential in this market. Sharia stocks are increasingly popular among investors, including students, as they are perceived to be profitable and in line with Sharia principles (Lifiautami & Kaukab, 2022). At the Raden Mas Said State Islamic University in Surakarta, students have the opportunity to study and practice Sharia capital market investments through the Sharia Investment Club (KSPM) or Sharia Investment Gallery located on campus.

Despite Sharia stocks showing promising investment opportunities, there is an issue observed at KSPM-GIS UIN Raden Mas Said Surakarta regarding the lack of active participation among investors or student members in conducting Sharia stock transactions. This condition is a particular concern considering that KSPM serves as a platform to enhance investment skills among students.

The lack of active participation among student members of KSPM in Sharia stock transactions may be attributed to psychological factors such as overconfidence, disposition effect, and risk aversion. Overconfidence refers to an excessive belief in one's abilities, which can lead students to be overly confident in their investment analyses and decisions, prompting them to trade too frequently (overtrading) or even hesitate to make transactions (Pradhana, 2018).

This is supported by research indicating that overconfidence influences investment decisions (R. A. Putri & Isbanah, 2020); (Fridana & Asandimitra, 2020). However, it contrasts with a study conducted by Mutawally & Asandimitra (2019), which suggests that overconfidence does not affect investment decisions.

Meanwhile, the disposition effect refers to the tendency to quickly sell profitable stocks and hold onto losing stocks. This behavior can hinder Sharia stock trading activities among student members of KSPM, as they may hold onto losing stocks for too long or sell profitable stocks too quickly, potentially reducing their investment gains (Candraningrat et al., 2018). This statement is supported by previous research indicating that the disposition effect has a significant impact (Candraningrat et al., 2018); (Subandi & Basana, 2020). However, it contradicts research presented by Adil et al. (2022).

Another psychological factor is risk aversion, which refers to investors' tendency to avoid risk and minimize losses in their investments (Rahmah & Dewi, 2023). Therefore, student members of KSPM who are more risk-averse may be less active in Sharia stock transactions because they prefer safer investments even if they potentially offer lower returns (Rahmah & Dewi, 2023). This is supported by Rahmah & Dewi's (2023) research, which indicates that risk aversion has a positive and significant influence. However, previous research, such as Adil et al. (2022), suggests that risk aversion has a negative and significant impact on investment decisions.

Therefore, to address the issue of low activity among investors or student members of KSPM in Sharia stock transactions, which may be influenced by these psychological factors, financial literacy becomes crucial. With good financial literacy, students are expected to better understand financial and investment concepts, and be able to apply them more effectively in making rational decisions regarding Sharia stock investments, thus avoiding psychological biases (Faidah & Sunarti, 2021).

This study aims to analyze the influence of overconfidence, disposition effect, and risk aversion on Sharia stock investment decisions among students of KSPM-GIS UIN Raden Mas Said Surakarta, with financial literacy as a moderating variable. The results are expected to provide insights into the factors affecting investment decisions and Sharia stock transaction activities, as well as highlight the importance of financial literacy in making optimal investment decisions. These findings can assist KSPM in enhancing financial literacy and investment skills among students.

Based on the background previously mentioned, this study chooses to address the topic "The Influence of Overconfidence, Disposition Effect, and Risk Aversion on Sharia Stock Investment Decisions with Financial Literacy as a Moderating Variable."

## **Literature Review**

### **Theory of planned behavior**

The Theory of Planned Behavior (TPB) anticipates deliberate actions by individuals because behavior can be considered and planned (Ajzen, 2020). Developed by Ajzen, the Theory of Planned Behavior explains that individual behavior is predicted by intentions influenced by three main factors: attitude toward the behavior, subjective norms, and perceived behavioral control. The application of TPB can identify ways to enhance financial literacy and support better-informed investment decisions for individuals in society.

### **Theory of behavioral finance**

Studies in behavioral finance involve researching the psychological behaviors of financial practitioners that influence the market. This field explores why and how markets can become inefficient (Sewell, 2007). Behavioral finance theory seeks to explain investor irrationality and decision-making processes based on psychological factors (Subramaniam, A., & Velnampy, 2017).

### **KSPM-GIS**

KSPM (Capital Market Study Group) is an organization within the Faculty of Economics at universities aimed at enhancing students' knowledge and skills in the capital market. They play an economic role by providing students with opportunities to learn about investment and trading. Additionally, they contribute to supporting funds for those in need with the hope of receiving returns.

In addition, initiatives such as the establishment of Investment Galleries by the Indonesia Stock Exchange (BEI) in collaboration with universities, such as the Sharia Investment Gallery at UIN Raden Mas Said Surakarta, demonstrate a commitment to introducing investment products to the public. Through these collaborations, student members of KSPM can provide education about the capital market and actively participate in stock trading. This effort aims to encourage active participation in Indonesia's capital market (Rabbani & Saputra, 2022).

### **Shariah Stocks**

Stocks are certificates or evidence of ownership in the capital of a company (Bodie et al., 2018). Shariah stocks, on the other hand, are equity-based securities that adhere to Islamic principles, such as prohibitions against interest (riba), speculation (maisir), and activities deemed unlawful (haram) (El-Gamal & Mirakhor, 2016).

### **Disposition effect**

The disposition effect is a phenomenon where investors tend to sell assets that have increased in value too quickly and hold onto assets that have decreased in value for too long (Candraningrat et al., 2018).

### **Risk Aversion**

Risk aversion, or the avoidance of risk, is the tendency to steer clear of the possibility of risks occurring. This concept describes investor behavior where

individuals prefer to protect their capital rather than seek higher-than-average potential profits (Barberis & Thaler, 2021).

### **Financial literacy**

Knowledge and skills in the field of finance, known as financial literacy, play a crucial role in an individual's financial decision-making. The higher one's level of financial literacy, the wiser their decisions tend to be. Investors with good financial literacy are more likely to avoid irrational behavior and are better equipped to act rationally (Pradhana, 2018).

### **Investment decision**

Investment decision refers to the decision-making process involved in buying, selling, or holding shares. It encompasses the steps taken by companies or individuals to allocate funds with the expectation of future profitability (Sari et al., 2019).

### **Method**

This study employs a quantitative method with primary data. The population consists of 2,585 respondents sourced from investors registered in the Sharia Investment Gallery (Galeri Investasi Syariah) at the Faculty of Economics and Business Islam (FEBI) UIN Raden Mas Said Surakarta from 2021 to 2023. Sampling was conducted using the Slovin formula with purposive sampling techniques, resulting in 350 respondents surveyed through questionnaires for data collection. The criteria for sample selection are as follows:

1. Registered as an investor in the Sharia Investment Gallery at UIN Raden Mas Said Surakarta,
2. Have invested in Sharia stocks,
3. Have participated in capital market training or capital market study and investment organizations.

The collected data were analyzed using research instrument validation, classical assumption tests, Moderated Regression Analysis (MRA), Model Fit (F-test) & R-squared, and T-test assisted by SPSS version 26. Based on this description, the researcher formulated the following hypotheses:

H1 : Overconfidence has a positive influence on Sharia stock investment decision.

When individuals are overly confident in their judgments and decisions, they tend to overlook potential risks (Asri, 2015). In investing, overconfident investors often make reckless decisions, even when they lack sufficient experience. This can lead to losses (Kartini & Nugraha, 2015). According to behavioral finance theory, overconfidence has a positive impact on investment decisions, as demonstrated by previous studies by (Armansyah, 2021) and (Rabbani & Saputra, 2022).

H2 : Disposition effect has a positive influence on Sharia stock investment decision.

Loss aversion theory explains that investors tend to quickly sell stocks that have risen in value (winning stocks) and hold onto stocks that have decreased in value

(losing stocks) for too long, which often harms them. The winning stocks that are sold usually continue to perform well, while the stocks that are held worsen. This phenomenon is called the disposition effect and is driven by the human tendency to avoid losses and seek quick gains (Rau, 2014). Emotions, especially regret, play a significant role in these decisions (Summers & Duxbury, 2012). Based on previous research, the disposition effect has been proven to significantly influence investment decisions (Candraningrat et al., 2018) and (Subandi & Basana, 2020).

H3 : Risk aversion has a positive influence on Sharia stock investment decision.

Risk-averse behavior can be an obstacle for investors as it may limit the potential gains from investments (Ilut & Schneider, 2014). Investors who fear risk tend to be pessimistic and cautious in making decisions, which can reduce their chances of achieving higher returns (Alshamy, 2019). Investors with a high level of risk aversion usually hold fewer assets, while those who are less afraid of risk tend to own more assets (Mahdzan et al., 2017). Previous research shows that risk-averse behavior influences investment decisions (Rahmah & Dewi, 2023).

H4 : Financial literacy has a positive influence on Sharia stock investment decision.

According to the theory of planned behavior, a person's actions are influenced by their intentions and perceptions of control. In investing, the awareness to act is crucial, and investors consider various factors before making decisions, including psychological and emotional aspects, not just economic factors (Ajzen, 1991). Moreover, financial literacy plays an important role in investment decision-making. Investors with high financial literacy tend to act more rationally and choose the right investment instruments, while those with low literacy tend to avoid stocks due to their complex risks (Ariani, 2015). The higher a person's financial literacy, the better the investment decisions they make, and they are less likely to be influenced by the preferences of others (Ekatama, 2021).

H5 : Financial literacy strengthens the influence of overconfidence on Sharia stock investment decision.

Financial literacy is how a person manages finances for the long term. There is a relationship between financial literacy and overconfidence in investment decisions. The higher an investor's financial literacy, the less likely they are to become overconfident. This is because a good understanding of finance helps investors use information correctly and think rationally (Arik & Sri, 2021).

H6 : Financial literacy strengthens the influence of disposition effect on Sharia stock investment decision.

Investors in the stock market can make either rational or irrational decisions. Rational decisions require thorough analysis, while irrational decisions are often influenced by emotions and psychology. One example of bias is the disposition effect, where investors tend to sell stocks that have risen in price and hold onto those that

have declined. Investors with lower financial literacy are more likely to be influenced by the disposition effect, leading them to make decisions without sufficient analysis. They are often tempted to sell stocks after gaining a small profit. Research shows that financial literacy can moderate the influence of the disposition effect on investment decisions (Khan, 2020).

H7 : Financial literacy strengthens the influence of risk aversion on Sharia stock investment decision.

Many investors tend to avoid risk because they want to avoid losses. Investors with this mindset usually choose more stable assets, even though the returns are smaller compared to high-risk investments (Ainia & Lutfi, 2019). Risk aversion influences their decisions in allocating funds. Financial understanding is crucial for investors to avoid mistakes in financial decisions (W. W. Putri & Hamidi, 2019). A person's level of financial literacy can affect how they make investment decisions; the higher the financial literacy, the better the decisions made. With sufficient knowledge, investors will be more confident in facing risks and tend to reduce risk-averse behavior (Susilawati & Puryandani, 2020).

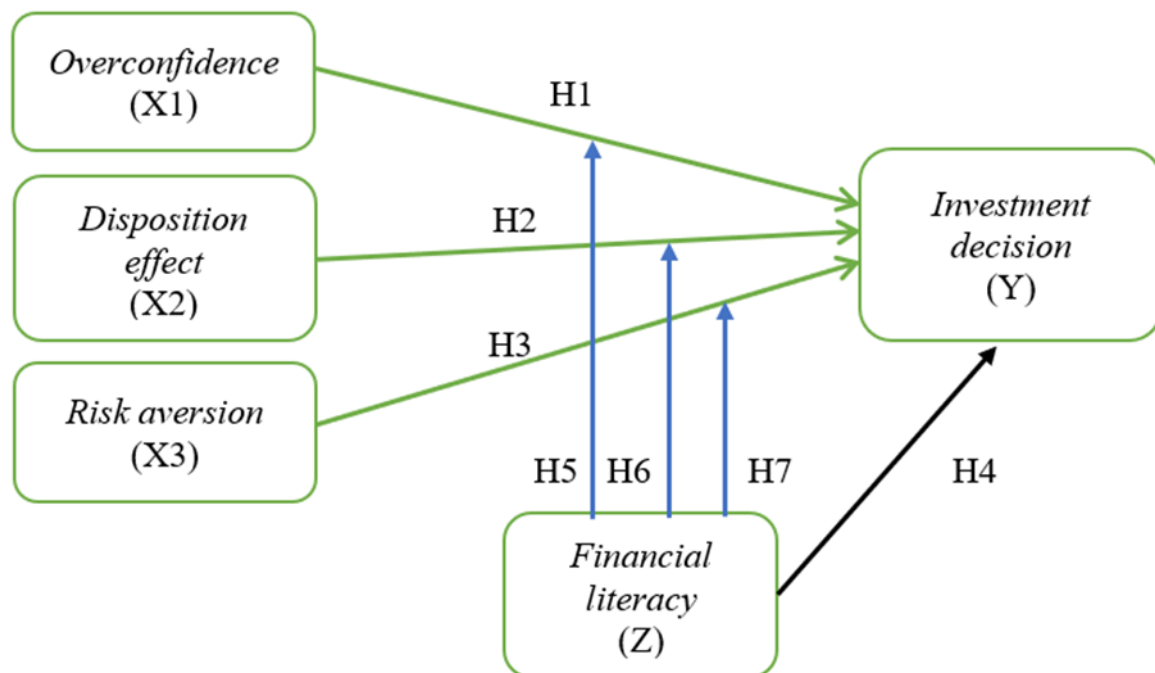


Figure 1: Conceptual Model of the Study

## Result and Discussion

### Instrument Testing

#### 1. Validity Test

The results of the validity test analysis show that all the questions in each research variable have an R-value greater than the R table (0.105), meaning that all variables are declared valid.

## 2. Reliability Test

Based on the reliability test results, it is known that the Cronbach's alpha values for the variables of overconfidence, disposition effect, risk aversion, financial literacy, and investment decision are greater than 0.60 or greater than the R table. Therefore, it can be concluded that all the questions in each variable in this study are declared reliable.

## Classical Assumption Test

### 1. Normality Test

The significance value of Asymp. sig. (2-tailed) is 0.200, which is greater than  $\alpha$  (0.05). Therefore, it can be concluded that the data is normally distributed.

### 2. Multicollinearity Test

Based on the Coefficients section of the Collinearity Statistics, the Tolerance values for all variables are greater than 0.10, and the VIF values for all variables are less than 10. Therefore, it can be concluded that the regression model does not exhibit multicollinearity symptoms.

### 3. Heteroscedasticity Test

The significance value (Sig.) greater than  $\alpha$  (0.05) indicates that the regression model does not exhibit symptoms of heteroscedasticity.

## Moderated Regression Analysis (MRA) Test

Table 1: Results of the MRA Test

### Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.069	1.898		.563	.574
	<i>Overconfidence</i>	.256	.150	.505	1.709	.088
	<i>Disposition effect</i>	-.093	.353	-.082	-.265	.791
	<i>Risk aversion</i>	.377	.150	.764	2.520	.012
	<i>Financial literacy</i>	.916	.156	1.266	5.865	.000
	<i>Overconfidence*Financial literacy</i>	-.016	.012	-.609	-1.331	.184
	<i>Disposition effect*Financial literacy</i>	.003	.027	.056	.128	.898

	<i>Risk aversion*Financial literacy</i>	-.029	.012	-1.110	-2.492	.013
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a. Dependent Variable: *Investment decision*

Source: SPSS Output of primary data, 2024

Based on table 1 above, the following moderated multiple linear regression equation can be derived:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4Z + \beta_5X_1Z + \beta_6X_2Z + \beta_7X_3Z + e$$

$$Y = 1,069 + 0,256 - 0,093 + 0,377 + 0,916 - 0,016 + 0,003 - 0,029 + e$$

### Model Accuracy Test

#### 1. F Test (Simultaneous Test)

The significance value of 0.000 is less than 0.05, and the calculated F value of 31.155 is greater than the F table value of 2.398. Therefore, based on the decision-making criteria for the F test, it can be concluded that the hypothesis is accepted.

#### 2. R<sup>2</sup> Test (Coefficient of Determination Test)

The Adjusted R Square (R<sup>2</sup>) value is 0.265. This indicates that 26.5% of investment decisions are influenced by overconfidence, disposition effect, risk aversion, and financial literacy. Meanwhile, the remaining 73.5% (100% - 26.5%) is influenced by variables that are not related to the study.

If the R<sup>2</sup> test results for the moderated model show an Adjusted R Square value of 0.300, it means that the contribution of the variables overconfidence (X1), disposition effect (X2), and risk aversion (X3) to the variable investment decision (Y), after accounting for the moderating variable (financial literacy), is 30%. The remaining influence is due to other variables outside the model.

### Hypothesis Test

Table 2: Hypothesis Test Results (Regression)

Model		Coefficients <sup>a</sup>				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.477	.484		17.527	.000
	<i>Overconfidence</i>	.066	.032	.130	2.073	.039
	<i>Disposition effect</i>	-.031	.063	-.027	-.487	.627
	<i>Risk aversion</i>	-.001	.026	-.002	-.031	.976
	<i>Financial literacy</i>	.317	.044	.438	7.241	.000

a. Dependent Variable: *Investment decision*

Source: SPSS Output of primary data, 2024

The research findings indicate that the significance value of the overconfidence variable is 0.039 and the financial literacy variable is 0.000, both of which are less than 0.05. This means that overconfidence and financial literacy have a positive and significant influence on investment decisions in Sharia stocks. However, the significance values of the disposition effect variable (0.627) and the risk aversion variable (0.976) are greater than 0.05, indicating that these variables do not influence investment decisions in Sharia stocks.

Table 3: Hypothesis Test Results (Moderation)

Model		Coefficients <sup>a</sup>			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	<b>(Constant)</b>	1.069	1.898		.563	.574
	<i>Overconfidence</i>	.256	.150	.505	1.709	.088
	<i>Disposition effect</i>	-.093	.353	-.082	-.265	.791
	<i>Risk aversion</i>	.377	.150	.764	2.520	.012
	<i>Financial literacy</i>	.916	.156	1.266	5.865	.000
	<i>Overconfidence*Financial literacy</i>	-.016	.012	-.609	-1.331	.184
	<i>Disposition effect*Financial literacy</i>	.003	.027	.056	.128	.898
	<i>Risk aversion*Financial literacy</i>	-.029	.012	-1.110	-2.492	.013

a. Dependent Variable: *Investment decision*  
Source: SPSS Output of primary data, 2024

The research findings indicate that financial literacy does not moderate the effects of overconfidence and disposition effect on investment decisions in Sharia stocks, as the significance values are greater than 0.05 (0.184 and 0.898 > 0.05, respectively). However, the significance value of the interaction between risk aversion and financial literacy is 0.013, which is less than 0.05. Therefore, financial literacy moderates the relationship between risk aversion and investment decisions in Sharia stocks.

## Discussion

### Overconfidence Affects Sharia Stock Investment Decisions

Based on the results of the t-test analysis conducted by the researcher, it can be observed that the calculated t value is 2.073, which is greater than the t table value of 1.967, and the significance level is 0.039, which is less than 0.05. This provides evidence

that H1 is accepted. Therefore, it can be stated that overconfidence has a positive and significant influence on investment decisions in sharia stocks at GIS UIN Raden Mas Said Surakarta.

The research findings indicate that overconfidence influences investment decisions in Sharia stocks. Overconfidence can impact an investor's decision-making process in several ways, such as being willing to take higher risks in investments, engaging in more frequent trading (overtrading) to seek profits, having less diversified investment portfolios, and disregarding negative information that could affect their investment decisions. Therefore, within the framework of behavioral finance theory, overconfidence can be a crucial factor influencing investment decisions in Sharia stocks. Understanding this relationship can assist Sharia stock investors in making more rational and effective investment decisions.

The results of this study are similar to the studies by Ainia & Lutfi (2019) and Armansyah (2021), both of which show that overconfidence has a positive and significant effect on investment decision-making.

### **The disposition effect does not affect sharia stock investment decisions**

The results of the t-test (partial test) indicate that the significance value of the influence of the disposition effect on investment decisions in sharia stocks is 0.627, which is greater than 0.05, and the calculated t value is -0.487, which is less than the t table value of 1.967. It can be concluded that the disposition effect does not have an impact on investment decisions in sharia stocks. Based on this explanation, it can be determined that H2 is rejected.

The data test results show that the disposition effect does not influence investment decisions in Sharia stocks. This can be attributed to the different characteristics of investors and the structure of Sharia financial instruments, which reduce the impact of the disposition effect. Investments in Sharia stocks are often regarded as long-term investments in line with Sharia principles, rather than merely seeking short-term gains. Consequently, the tendency for excessive buying and selling can be minimized. The researchers conclude that the disposition effect does not have a significant influence on investment decisions, as stated by Adil et al. (2022).

### **Risk aversion does not affect sharia stock investment decisions**

It is known from the results of the t-test that the calculated t value is -0.031, which is less than the t table value of 1.967, and the significance value is 0.976, which is greater than 0.05. This means that H3 is rejected. Therefore, it can be concluded that the variable risk aversion does not have an influence on investment decisions.

The research results show that the variable risk aversion does not influence investment decisions. The study found that risk aversion is not a primary

consideration for investors when deciding to invest in Sharia stocks. This means that Sharia investors consider other factors besides the level of risk, such as Sharia compliance Nugroho (2023), company prospects, or other preferences. This research indicates that Sharia stock investors tend to have a different risk profile compared to conventional investors. They focus more on the alignment of their investments with Islamic principles rather than just considering the level of risk (Utami et al., 2021).

#### **Financial literacy affects sharia stock investment decisions**

Based on the results of the t-test, the calculated t value is 7.241, which is greater than the t table value of 1.967, and the significance value is 0.000, which is less than 0.05. This means that financial literacy has an influence on investment decisions. Therefore, it can be concluded that H4 is accepted.

The research results on the financial literacy variable show a positive and significant effect on investment decisions in Sharia stocks. This indicates that the higher the level of financial literacy of investors, the better the investment decisions they make (more rational and in line with their investment goals), particularly in the context of investing in stocks that adhere to Sharia principles. This can increase investors' confidence and trust in Sharia stock investments. The results of this hypothesis test are supported by the study presented by Ekatama (2021).

#### **Financial literacy does not moderate the effect of overconfidence on sharia stock investment decisions**

Based on the results of the MRA test, the significance value is 0.184, which is greater than 0.05, indicating that the financial literacy variable cannot moderate the relationship between overconfidence and investment decisions. This result is inconsistent with the proposed hypothesis, which states that financial literacy can moderate the relationship between overconfidence and investment decisions. Therefore, it can be concluded that H5 is rejected.

The research results show that the variable financial literacy cannot moderate the relationship between overconfidence and investment decisions. The strong dominance of overconfidence is a deeply ingrained behavioral bias that is difficult to eliminate. Based on the research findings, it can be analyzed that if, in general, respondents have a low level of financial literacy, their knowledge and ability to manage finances, including investing in Sharia stocks, are also limited. Therefore, financial literacy is not strong enough to moderate or neutralize the influence of overconfidence on investment decisions (Pratiwi & Anwar, 2022).

#### **Financial literacy does not moderate the effect of the disposition effect on sharia stock investment decisions**

Based on the results of the MRA testing, it is known that the interaction variable between the disposition effect and financial literacy has a significance value of 0.898, which is greater than 0.05. This means that financial literacy does not strengthen the

influence of the disposition effect on investment decisions. Therefore, it can be concluded that H6 is rejected.

Based on the hypothesis testing results, financial literacy is not able to strengthen the influence of the disposition effect on Sharia stock investment decisions. This indicates that the disposition effect is more influenced by psychological and behavioral factors rather than the level of financial knowledge. Investors seem to focus more on ethical and moral compliance rather than just financial aspects (Ainia & Lutfi, 2019).

### **Financial literacy moderates the effect of risk aversion on sharia stock investment decisions**

The results of the MRA test show that the significance value for the moderating variable between risk aversion and financial literacy is 0.013, which is less than 0.05. Therefore, it can be concluded that the financial literacy variable strengthens the influence of risk aversion on investment decisions. Based on this, it is known that H7 is accepted.

The research results show that the financial literacy variable can strengthen the influence of risk aversion on investment decisions. Investors with good financial literacy tend to be better able to evaluate and understand the level of risk involved in Sharia stock investments. With a better understanding of financial risks and their consequences, financially literate investors are more likely to consider risk aversion in their investment decision-making (Ainia & Lutfi, 2019). The higher an investor's level of financial literacy, the stronger the effect of risk aversion on sharia stock investment decisions (Limarus & Pamungkas, 2023).

### **Conclusion**

Research findings indicate that psychological factors and financial knowledge have different impacts on Islamic stock investment decisions. Overconfidence, characterized by excessive self-confidence, tends to drive investors to take greater risks in Islamic stock investments. However, the disposition effect, where investors are inclined to hold onto losing stocks and sell winning ones, does not significantly influence investment decisions. Similarly, risk aversion, or the tendency to avoid risk, also does not significantly affect Islamic stock investment decisions.

On the other hand, financial literacy significantly and positively influences Islamic stock investment decisions. Investors with a strong understanding of finance tend to make more rational and informed investment choices. However, this financial knowledge does not directly address overconfidence or the disposition effect. Nevertheless, financial literacy can strengthen the impact of risk aversion on investment decisions because financially literate investors are better equipped to evaluate risks effectively.

Therefore, a combination of strong financial education and a good understanding of financial psychology can be key to helping Islamic stock investors manage their portfolios more effectively and make more controlled investment decisions.

This research has several limitations, such as limited sampling, challenges in recruiting respondents to meet the sample size, inadequate respondent answers, and less precise measurement instruments. Therefore, further investigation is necessary to address these issues.

A suggestion for future researchers is to enhance this study by examining other factors that may have a more significant impact on investment decisions in Islamic stocks. Additionally, exploring more deeply into the characteristics of Islamic stock investors and the specific investment contexts could provide a more comprehensive understanding.

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