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Research Article

The Impact of Overconfidence, Disposition Effect, Representativeness, and Financial Knowledge on the Investment Satisfaction of Young Investors in Indonesia

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Abstract: This study aims to analyze the influence of Overconfidence, Disposition Effect, Representativeness, and Financial Knowledge on Investment Satisfaction among young investors in Indonesia. The research sample consists of 252 young investors in Indonesia. The data analysis method used is SmartPLS 4.0. The research findings show that Overconfidence, Disposition Effect, and Financial Knowledge have a significant positive effect on Investment Satisfaction among young investors in Indonesia, whereas Representativeness does not have a significant effect. This study is expected to provide insights for young investors in Indonesia regarding investment satisfaction.

Keywords: Overconfidence, Disposition Effect, Representativeness, Financial Knowledge, Investment Satisfaction, Young Investors Indonesia.

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1. Introduction

Thanks in large part to the increasing number of young investors, Indonesia's capital market has been experiencing explosive expansion in the past few years. The number of capital market investors in Indonesia reached 14.81 million as of December 2024, with 54.92% of that total being those under the age of 30 (OJK, 2025), according to a study from the Indonesian Central Securities Depository (KSEI). Despite their modest asset holdings, the younger generation's involvement in the financial market is a key sign of how investing behavior is changing in Indonesia (Hamada, 2010). As far as regional dispersion goes, youthful investors aren't only hanging out on Java anymore. The survey data from this study shows that among young investors, Kalimantan has the highest share at 35.3%, followed by Sumatra at 24.6%, Java at 22.6%, and Sulawesi at 17.5%. Alhammadi (2023) found that more equitable investment involvement across regions was made possible by an expansion of access to financial information and technology.

A problem with investment decision-making quality persists despite a growing number of youthful investors (Paramita & Wirakusuma, 2024). Many people are susceptible to illogical decision-making due to cognitive biases such overconfidence, disposition effect, and representativeness. Jappelli and Padula (2013) found that people are less likely to be satisfied with their investment returns when they are financially illiterate. Few studies have looked at how psychological biases affect investment satisfaction among young Indonesian investors, despite the fact that several have investigated the link between the two (Colline et al., 2024).

Still, developing sensible investing plans requires familiarity with both financial information and psychological factors (Nofsinger, 2017). So, according to Aldilawati (2024), this study's goals are to (1) determine the impact of psychological biases and (2) offer practical suggestions for improving wiser and more sustainable decision-making among young investors in Indonesia.

One reason for choosing the title "The Influence of Overconfidence, Disposition Effect, Representativeness, and Financial Knowledge on Investment Satisfaction among Young Investors in Indonesia" is that, due to technological advancements and the digitization of financial services, a younger generation is becoming increasingly interested in investing, particularly in stocks. But there's a problem with all this excitement: young investors typically make decisions influenced by psychological biases and have poor financial literacy.

To what extent do these cognitive and psychological elements impact investing satisfaction, and by extension, the choice to stay involved in the investment world? This research aims to fill that knowledge gap.

Furthermore, this research is essential since there are variances in the characteristics of young investors across different locations in Indonesia (Yusbardini & Natsir, 2022). Different regions have different levels of financial literacy, technology availability, and socioeconomic backgrounds. Take Java as an example; young investors there had more opportunities for financial literacy and information than their counterparts outside of Java. Interestingly, though, the survey found that Kalimantan had a greater proportion of young investors. Investment happiness may be affected differentially across areas due to a distinct dynamic including psychological biases and financial literacy. To create more inclusive and targeted initiatives for financial literacy and investment education, it is crucial to understand the regional context.

2. Metode

A survey was sent out to young people who are active stock traders on the Indonesia Stock Exchange via the internet in order to gather data. The following respondent criteria were employed in a purposive sampling method: (1) between the ages of 18 and 35; (2) with a minimum of three months' experience investing in stocks; and (3) having transacted in stocks within the last six months. One point equals strong disagreement and seven points equals strong agreement on a 7-point Likert scale, which was used for measurement in this study (Arikunto & Tanzeh, 2020). To give a broad picture of the data features, descriptive statistics were run as part of the data analysis procedure (Sinaga, 2023). After that, we used the Partial Least Squares Structural Equation Modeling (PLS-SEM) method to analyze the data's quality. This included evaluating the data's validity and reliability using outer loadings, Average Variance Extracted (AVE), and Composite Reliability (CR) (Hair et al., 2019). After that, the model's fit was evaluated using a Goodness of Fit (GoF) test, which utilized R-squared (R^2) and SRMR (standardized root mean square residual) values. Using bootstrapping-derived t-statistics and path coefficients, we tested the importance of the inter-variable connections.

3. Result

This study distributed questionnaires to young investors in Indonesia who had a minimum of six months of experience in stock market investing. Data collection was conducted online using Google Forms, targeting respondents who met the predefined criteria of this study. A total of 252 respondents participated, with the following respondent criteria:

Table 1. Respondent Characteristics

Criteria	Number of Respondents	Percentage
GENDER		
MALE	146	57,9%
FEMALE	106	42,1%
AGE		
18-25 YEARS	152	61,1%
26-35 YEARS	100	38,9%
LAST EDUCATION LEVEL		
ELEMENTARY SCHOOL	23	9,1%
JUNIOR HIGH SCHOOL	25	9,9%
SENIOR HIGH SCHOOL / VOCATIONAL HIGH SCHOOL	75	28,9%
BACHELOR'S / MASTER'S DEGREE	85	33,7%
MASTER'S / DOCTORAL DEGREE	44	17,5%
DOMICILE		
JAVA	57	22,6%
KALIMANTAN	89	35,3%
SUMATERA	62	24,6%
SULAWESI	44	17,5%

Table 1 shows that most of the people who filled out the survey were male (57.9% of the total) and that most of them were between the ages of 18 and 25 (61.1%). This suggests that the survey is skewed toward young people and men. Respondents often have a medium to high level of education, given that the majority of them have either a bachelor's or diploma degree (33.7%) or a high school/vocational school diploma (29.8%). However, when it comes to where people call home, the majority of responses are from Kalimantan (35.3%), with Sumatra (24.6%), Java (22.6%), and Sulawesi (17.5%) following closely behind. Despite a clear preponderance from the Kalimantan region, this indicates a rather equal mix of respondents from different geographic areas. In order to comprehend how the respondents' demographics impacted their views and opinions on the subject at hand, these results are crucial.

Validity and Reliability Test

The findings of the loading factor are used to evaluate the data's validity. The research instrument can be deemed valid if the loading factor value is equal to or greater than 0.7 (Hair et al., 2021). A Composite Reliability (CR) score of 0.7 or higher and an Average Variance Extracted (AVE) score of 0.5 or higher are the criteria used to establish reliability. This study presents the loading factor data for 14 statement items:

Table 2. Validity and Reliability Test

Variabel	indicator	Outer loading	CR	AVE
Overconfidence (X1)	**O1**	0.802	0.744	0.658
	O2	0.836		
	O3	0.795		
Disposition Effect (X2)	**DE1**	0.942	0.903	0.901
	DE2	0.956		
Representativeness (X3)	**R1**	0.932	0.839	0.859
	R2	0.921		
Financial Knowledge (X4)	**PK1**	0.807	0.731	0.649
	PK2	0.809		
	PK3	0.801		
Investment Satisfaction (Y)	**KI1**	0.906	0.909	0.784
	KI2	0.887		
	KI3	0.861		
	KI4	0.888		

Source: SmartPLS Output, 2025

The validity of all items in this study is confirmed by the fact that, according to the loading factor values in Table 2, all statement items fulfill the requirement (≥ 0.7). All four study variables have Cronbach's Alpha (CA) values greater than 0.7 and AVE values greater than 0.5, indicating that the research instrument consistently and reliably produces stable measurement data.

Structural Model (Inner Model)

Model Fit Analysis and R-square Evaluation

Standardized Root Mean Residual (SRMR) and Normed Fit Index (NFI) are used to evaluate model fit analysis. An acceptable value for the SRMR is less than or equal to 0.08, whereas an acceptable value for the NFI is more than or equal to 0.8. To find out how much the independent factors affect the dependent variable, one uses the R-squared evaluation with the following criteria: > 0.75 = substantial, 0.50 – 0.75 = moderate, 0.25 – 0.50 = weak, and < 0.25 = very weak (Hair et al., 2021). The R-square test results are as follows:

Table 3. Model Fit Analysis dan Evaluasi R-square

Evaluation	Value	Criteria
SRMR	0,057	Approved
NFI	0,794	Adequate
Variable	**Nilai R-square**	
Insvetment Satisfaction (Y)	0,407	Moderate

With an SRMR score of 0.057 well below the cutoff of 0.08 showing that the model is fit and satisfactory, according to Table 3's Model Fit Analysis and R-squared evaluation. Furthermore, the model appears to have a strong fit, as indicated by the NFI value of 0.794, which is close to the ideal value of 1. However, with an R-squared value of 0.407 for the Investment happiness variable (Y), we can see that the model accounts for a modest level of variability in investment happiness, at 40.7%. This demonstrates that the model's independent variables do, in fact, have a pretty substantial impact on respondents' investment happiness, albeit additional components might increase the model's explanatory power.

Hypothesis Testing

In order to test the hypothesis, we used Partial Least Squares Structural Equation Modeling (PLS-SEM) to look at the direct and indirect effects of the independent variables (X) on the dependent variable (Y). The following are the test results for the five hypotheses tested in this study:

Table 4. Hypothesis Testing Results

Hipotesis		*Original Sample*	*Standar Deviation*	*t-Statistic*	*P-Value*	Keterangan
Direct Effect						
H1 (+)	O → KI	0,250	0,101	2,474	0,013	Approved
H2 (+)	DE → KI	0,197	0,087	3,257	0,024	Approved

H3 (+)	R → KI	-0,032	0,084	0,384	0,701	Rejected
H4 (+)	PK → KI	0,322	0,096	3,347	0,001	Approved

Note: O (Overconfidence); DE (Disposition Effect); R (Representativeness); PK (Financial Knowledge); KI (Investment Satisfaction)

The results of the hypothesis testing are presented in Table 4, which shows that three of the four hypotheses were accepted and one was rejected. The results show that overconfidence (O) positively affects investment satisfaction (IS), supporting Hypothesis H1 (t-statistic = 2.474, p = 0.013). Additionally, we accept Hypothesis H2, which states that the disposition effect (DE) significantly impacts investment satisfaction in a favorable way (t-statistic = 3.257, p = 0.024). The low t-statistic (0.384) and p-value of 0.701, which is much above the 0.05 threshold, show that representativeness (R) does not have a significant effect on investment satisfaction. Consequently, Hypothesis H3 is rejected. With a t-statistic of 3.347 and a p-value of 0.001, we accept Hypothesis H4, which states that FK significantly increases investment satisfaction.

With the exception of the representativeness component, these findings show that respondents' investment happiness is mostly influenced by psychological variables and financial understanding.

4. Discussion

According to the results of the hypothesis testing, young Indonesian investors' investment pleasure is positively affected by disposition effects and overconfidence (Hayat & Anwar, 2016). These results show that having a high level of self-confidence and a tendency to keep onto equities that are doing well can increase investment happiness. Research conducted by Yogasnumurti et al. (2020), Sulhia et al. (2022), and Nadhila et al. (2024) lend credence to this conclusion, demonstrating that young Indonesians' investing decisions are positively influenced by their overconfidence. Moreover, studies conducted by Hakim et al. (2025) and Suriadi et al. (2023) corroborate the idea that young investors' overconfidence plays a substantial role in their investment decisions. It is possible that the lack of knowledge or experience among younger investors on past market trends is to blame for the lack of a significant influence of representativeness on investment satisfaction (Wawrosz & Schulz, 2023).

Additionally, there was a statistically significant positive correlation between financial literacy and investing happiness. This indicates that a young investor's likelihood of being satisfied with their investment choices increases as their level of financial literacy increases (Panjaitan et al., 2022). Evidence from studies like Sohn et al. (2012) and Dewi et al. (2020) shows that financial literacy is key to influencing young people in Indonesia to make wise investment decisions. Studies conducted by Lusardi (2019), Wikartika et al. (2023), and Sihombing & Prameswary (2023) corroborate this conclusion, demonstrating that Generation Z's investment interest is greatly impacted by their level of knowledge and motivation about investments. According to Taify (2023), these results show that financial education is very important for encouraging young Indonesians to invest wisely.

5. Conclusion

This study's findings suggest that young Indonesian investors' level of investment pleasure is significantly impacted by both psychological and rational elements, including the disposition effect and overconfidence, as well as financial expertise. Nevertheless, there was no discernible impact of representativeness; this could be because young investors lack expertise or the background knowledge to conduct thorough historical analyses.

At the same time, young Indonesian investors can optimize their investing pleasure and outcomes by increasing their financial literacy and being more cognizant of psychological biases that might impact their investment selections.

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