

Psychology of Trading as Moderator: Financial Literacy, Subjective Norms, and Generation Z Investment Decisions

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ABSTRACT

Generation Z now accounts for the largest share of new investors in the Indonesian capital market, yet participation in Eastern Indonesia remains low, and the quality of investment decisions is uneven. This study examines whether the psychology of trading as trading (POT) moderates the effects of moderator: Financial literacy, subjective financial literacy and subjective norms on norms, and Generation Z investment the investment decisions of Generation Z in decisions. A quantitative explanatory design was applied to 100 members of the Indonesia Stock Exchange Investment Gallery at Cenderawasih University, selected through saturated sampling, and the data were analyzed using partial least squares structural equation modeling (PLS-SEM) with 5,000 bootstrap subsamples. The model explains 74.8% of the variance in investment decisions ($R^2 = 0.748$). Financial literacy ($b = 0.342$; $p = 0.000$), subjective norms ($b = 0.365$; $p = 0.000$), and POT ($b = 0.497$; $p = 0.000$) all have positive and significant effects, with POT the strongest predictor. POT significantly strengthens the effect of financial literacy ($b = 0.230$; $p = 0.006$) but weakens that of subjective norms ($b = -0.380$; $p = 0.000$). Financial education for Generation Z should therefore pair technical knowledge with training in emotional regulation and bias awareness.

Keywords: Behavioral Finance; Financial Literacy; Generation Z; Investment Decisions; Psychology of Trading; Subjective Norms; Theory of Planned Behavior

JEL Classification: D14; G11; G41; G53

INTRODUCTION

Investment in the capital market has increasingly become a preferred option for individuals managing their personal finances. The number of capital market investors in Indonesia reached approximately 12.16 million single investor identifications in 2023, an increase of about 18% over the previous year ([Indonesian Central Securities Depository \[KSEI\], 2025](#)), driven largely by the ease of access provided by digital trading platforms and by the intensification of financial education programs. The investor population is dominated by Millennials and Generation Z, who are increasingly aware of the importance of investment for long-term financial goals ([Tanoni et al., 2025](#)). Because individuals differ in risk profile, young investors are expected to weigh risk against expected return before committing funds ([Dinh, 2023](#)).

Investment decisions are not shaped solely by financial literacy; they are also driven by psychological and behavioral factors such as risk tolerance, risk perception, overconfidence, and herding behavior ([Kumari et al., 2022](#); [Singh et al., 2024](#)). Financial literacy, subjective norms, and the psychology of trading therefore need to be examined together to understand how young investors reach rational decisions.

Financial literacy refers to an individual's ability to understand and use financial information when making sound decisions about financial management, including investment; the higher the literacy, the better the individual manages the risks and returns of capital market investment ([Li et al., 2020](#)). [Jaya et al. \(2024\)](#) and [Wendy \(2024\)](#) report a positive and significant effect of financial literacy on investment decisions, while [Karamchandani et al. \(2024\)](#) show that financial security, expected return, and risk minimization consistently shape student investment choices across national settings.

Beyond financial literacy, social factors, particularly subjective norms, also shape investment decisions. Subjective norms refer to an individual's perception of social pressure regarding whether a behavior is appropriate to perform, and that pressure is stronger when significant others encourage the behavior ([Ajzen, 1991](#)). Within the Theory of Planned Behavior (TPB), subjective norms significantly influence the decision to participate in investment activities. [Salisa \(2021\)](#) and [Hassan et al. \(2024\)](#) find that they exert one of the strongest influences on investment decisions.

Investment decisions are also strongly influenced by psychological aspects. The psychology of trading (POT) is an investor's capacity to manage the emotions, mindset, and behavioral tendencies that affect the outcome of investment decisions ([Pitters & Oberlechner, 2014](#)). Investors with strong trading psychology adhere consistently to a predetermined plan and avoid impulsive decisions triggered by market news or social media discussion, which increases their potential returns ([Singh et al., 2024](#)).

Psychological biases such as overconfidence, herding behavior, and distorted risk perception may lead investors to act less rationally, for instance by buying rapidly rising stocks without adequate analysis; rising prices tend to breed greed, while falling prices trigger panic ([Adib, 2020](#)). [Fathin and Hersugondo \(2022\)](#) report that trading psychology, proxied by overconfidence, positively and significantly affects investment decision-making, whereas [Nasir et al. \(2025\)](#) find that overconfidence erodes decision quality. These conflicting results indicate that the role of trading psychology is not yet settled.

In Eastern Indonesia, and particularly in Jayapura City, access to modern investment instruments has expanded alongside advances in digital technology. Data from the [Indonesia Stock Exchange \(2025\)](#) indicate that Generation Z is the largest contributor to active investors in Papua, reaching 125,524 investors in 2025. Utilization nevertheless

remains low relative to Western Indonesia: of the 17.57 million investors recorded by the KSEI (2025), Maluku and Papua account for only 1.23%. Elistyawati et al. (2025) and Surwanti et al. (2024) observe that Generation Z tends toward consumptive behavior, saves little, and has not yet prioritized investment as a long-term strategy; a paradox amid increasingly accessible digital investment instruments.

This study therefore focuses on Generation Z in Jayapura City as a representation of Eastern Indonesia. Its objective is to examine the effects of financial literacy and subjective norms on investment decisions and to test whether the psychology of trading moderates those relationships. Although investment decisions have been examined extensively, findings remain mixed, and the effects of financial literacy and subjective norms are reported inconsistently (Karamchandani et al., 2024; Nasir et al., 2025). Studies positioning the psychology of trading as a moderator are still scarce and concentrate on Western Indonesia, so the social, cultural, and literacy characteristics of Eastern Indonesia may yield more context-specific findings.

The significance of this study lies in integrating a cognitive determinant (financial literacy), a social determinant (subjective norms), and an emotional determinant (the psychology of trading) within a single TPB-based model rather than treating them as unrelated predictors. Its novelty lies in specifying the psychology of trading as a moderator in an under-researched Eastern Indonesian setting, showing that psychological control conditions how knowledge and social pressure are converted into action. Practically, it offers investment galleries, securities firms, and regulators a basis for designing financial education that pairs technical material with training in emotional regulation and bias awareness.

LITERATURE REVIEW

Theory of Planned Behavior (TPB)

TPB, developed by Ajzen (1991), posits that behavior is driven by behavioral intention, which is shaped by attitude, subjective norms, and perceived behavioral control. Within this framework, financial literacy strengthens perceived behavioral control, ensuring that decisions rest on knowledge rather than speculation. The psychology of trading functions as an emotional filter shaping attitude, whether the market is perceived as an opportunity or a threat, so that uncontrolled psychological factors may undermine even well-established literacy. Subjective norms act as a bridge of external influence. Collectively, the three represent a cognitive–social–emotional approach to explaining investment decision-making.

Kumari et al. (2022), Salisa (2021), and Sulistiyani et al. (2024) argue that optimal investment decisions require three aligned elements: a positive attitude supported by rational trading psychology, supportive subjective norms, and perceived behavioral control grounded in adequate financial literacy. When one element is imbalanced, for instance, high literacy combined with overconfidence, the intention to invest may remain strong, yet the resulting decisions deviate from the rational behavior TPB predicts. This asymmetry motivates modeling the psychology of trading as a conditioning rather than a purely additive factor.

Behavioral Finance

Behavioral finance complements TPB by relaxing the assumption that investors are fully rational. Tversky and Kahneman (1981) showed that the framing of a decision problem systematically alters choice, so preferences are constructed rather than fixed. Behavioral finance accordingly explains investor behavior through emotions, cognitive biases, and subjective perceptions of risk and return rather than objective expected-utility

calculations (Bajo et al., 2023; Xie, 2024), with biases such as overconfidence, loss aversion, herding, and the alternation of fear and greed distorting how financial information is acted upon.

Behavioral finance thus provides the theoretical basis for treating the psychology of trading as a moderating variable. If investors were fully rational, financial knowledge would translate directly into better decisions and social pressure would carry little weight. Because they are not, the emotional and cognitive control an investor exercises determines how much knowledge becomes disciplined action and how susceptible that investor is to surrounding opinion (Lakshmi et al., 2024). TPB specifies which determinants matter; behavioral finance explains why they do not operate uniformly.

Financial Literacy

Financial literacy is the combination of knowledge, skill, and confidence that enables an individual to understand basic financial concepts and apply them in managing personal finances. Li et al. (2020) show that households with higher financial literacy hold better-structured portfolios and obtain higher returns, because literacy improves both instrument selection and risk management. Parsai and Chandok (2025) note that it operates on three levels: knowledge of financial products, the ability to interpret financial information, and the confidence to act on that interpretation.

In Indonesia, financial literacy among young investors is uneven. Putri et al. (2021) report that Generation Z respondents display moderate literacy but translate it weakly into behavior, while Elaine et al. (2025) find that higher literacy reduces consumptive spending. This study measures financial literacy through four dimensions: general personal finance, saving and borrowing, insurance, and investment.

Subjective Norms

Subjective norms represent an individual's perception of the social pressure exerted by significant others regarding whether a behavior should be performed (Ajzen, 1991), comprising normative beliefs about what important referents expect and the motivation to comply. For Generation Z, those referents extend beyond family and close friends to digital communities, online investment forums, and financial influencers, which broadens both the volume and the speed of normative information reaching the investor (Hidayati & Destiana, 2023).

In this study, subjective norms are measured through perceived family support, perceived peer support, perceived support from lecturers or respected figures, and the belief that important others think one should invest.

Psychology of Trading (POT)

POT refers to the emotional and cognitive states that influence how an investor makes and executes investment decisions (Pitters & Oberlechner, 2014), encompassing self-confidence, emotional regulation under uncertainty, discipline in adhering to a plan, and susceptibility to biases such as overconfidence and herding. Lakshmi et al. (2024) and Singh et al. (2024) find that psychological determinants explain a substantial share of the variation in personal investment behavior, sometimes exceeding demographic or income variables.

The construct is not uniformly beneficial. Because this study operationalizes it through three confidence-based indicators: accuracy in selecting investments, confidence in one's own abilities, and confidence in one's own knowledge, both a facilitating and an impairing effect remain theoretically plausible.

Investment Decisions

An investment decision is an action through which an individual allocates funds to one or more instruments to obtain future returns. Dinh (2023) emphasizes that a sound decision requires explicit assessment of the relationship between risk and expected return rather than a focus on return alone, and Karamchandani et al. (2024) add that student decisions are shaped simultaneously by financial security, expected return, liquidity, and risk minimization. This study accordingly measures investment decisions through three indicators: return, risk, and the time factor.

Hypotheses Development

Financial Literacy and Investment Decisions

The better individuals understand their financial condition, the better they manage it. Karamchandani et al. (2024) and Pathmu & Shreevarsha (2025) find that financial literacy influences investment decisions because greater financial understanding produces more informed choices and less avoidable risk. Wendy (2024) reports the same among Indonesian investors and shows that literacy improves decision quality partly by correcting distorted risk perception, while Jaya et al. (2024), Parsai & Chandok (2025), and Tanoni et al. (2025) confirm a positive and significant relationship across settings and measurement approaches.

Within TPB, these results are consistent with the proposition that financial literacy strengthens perceived behavioral control: investors who understand instruments, returns, and risk feel more capable of executing a plan, and that perceived capability translates into more deliberate action. Accordingly, the first hypothesis is proposed as follows.

H1: Financial literacy positively influences investment decisions.

Subjective Norms and Investment Decisions

Subjective norms refer to the perceived social pressure from significant others to perform or refrain from a behavior (Ajzen, 1991). They no longer operate merely as pressure toward conformity but as a mechanism for seeking social approval and self-legitimization. Anwar et al. (2023), Hidayati & Destiana (2023), and Lioera et al. (2022) demonstrate a positive effect of subjective norms on investment intention, and Hassan et al. (2024) report that they rank among the strongest determinants of investment decisions.

When peers, digital communities, or authority figures signal that investing is a “new normal” reflecting financial awareness, individuals perceive investment as socially accepted and desirable, which encourages the intention to invest. The stronger Generation Z's perception of social support and expectation, the higher the likelihood of an investment decision. Accordingly, the second hypothesis is proposed as follows.

H2: Subjective norms positively influence investment decisions.

Psychology of Trading and Investment Decisions

The psychology of trading shapes the quality of investment decisions because it governs how individuals manage emotions, risk perceptions, and cognitive patterns under market uncertainty. Lakshmi et al. (2024) and Singh et al. (2024) find that psychological determinants significantly influence personal investment behavior, and Fathin & Hersugondo (2022) report the same for retail investors on the Indonesia Stock Exchange. Investors who regulate fear and greed are less likely to panic during downturns or act impulsively during upswings, so their decisions tend to be more rational and more disciplined.

The evidence is not unanimous: [Adib \(2020\)](#) and [Nasir et al. \(2025\)](#) show that elevated confidence can reduce caution and information search, so the direction of the effect remains an open empirical question. Following the dominant finding, the hypothesis is nevertheless stated positively.

H3: The psychology of trading positively influences investment decisions.

The Moderating Role of the Psychology of Trading in the Relationship between Financial Literacy and Investment Decisions

Financial literacy is the ability to understand concepts such as risk management, diversification, and investment instruments, and higher literacy encourages more analysis-based decisions ([Parsai & Chandok, 2025](#)). In practice, however, investment decisions are also influenced by psychological aspects ([Lakshmi et al., 2024](#); [Singh et al., 2024](#)), an argument rooted in behavioral finance, which explains that investor behavior is often shaped by emotions, cognitive biases, and subjective perceptions of risk and return ([Tversky & Kahneman, 1981](#)).

The psychology of trading therefore acts as a moderator that can either strengthen or weaken the effect of financial literacy on investment decisions. Investors with high literacy may not decide optimally when strong psychological biases intervene, since knowledge unaccompanied by emotional control is easily overridden at execution. [Nasir et al. \(2025\)](#) show that overconfidence attenuates the contribution of literacy to decision quality, and [Hassan et al. \(2024\)](#) show that psychological characteristics condition the strength of the determinants of investment decisions. Accordingly, the fourth hypothesis is proposed as follows.

H4: The psychology of trading moderates the effect of financial literacy on investment decisions.

The Moderating Role of the Psychology of Trading in the Relationship between Subjective Norms and Investment Decisions

As a core TPB construct, subjective norms explain that individual decisions are influenced by social pressure and by expectations from the surrounding environment ([Ajzen, 1991](#)). Under market uncertainty, investors rely on social opinion and shared experience as reference points, so collective pressure drives them toward decisions perceived as socially rational. [Thanki et al. \(2022\)](#) show that stronger social pressure increases the likelihood that individuals adopt decisions aligned with their environment.

The influence of subjective norms is shaped by the internal condition of the investor, and particularly by the psychology of trading, which reflects how self-confidence, herding tendencies, and sensitivity to social opinion affect responses to market information. The psychology of trading may therefore either strengthen or weaken the effect of subjective norms. It may strengthen that effect where investors susceptible to social pressure internalize external views as the basis for their decisions ([Bajo et al., 2023](#); [Xie, 2024](#)), so that the need for social validation amplifies normative influence ([Pitters & Oberlechner, 2014](#); [Pragadeesh & Shivanareesh, 2024](#)). It may equally weaken that effect where psychologically prepared investors rely on their own analysis, so the direction of the moderation is left as an empirical question. Accordingly, the fifth hypothesis is proposed as follows.

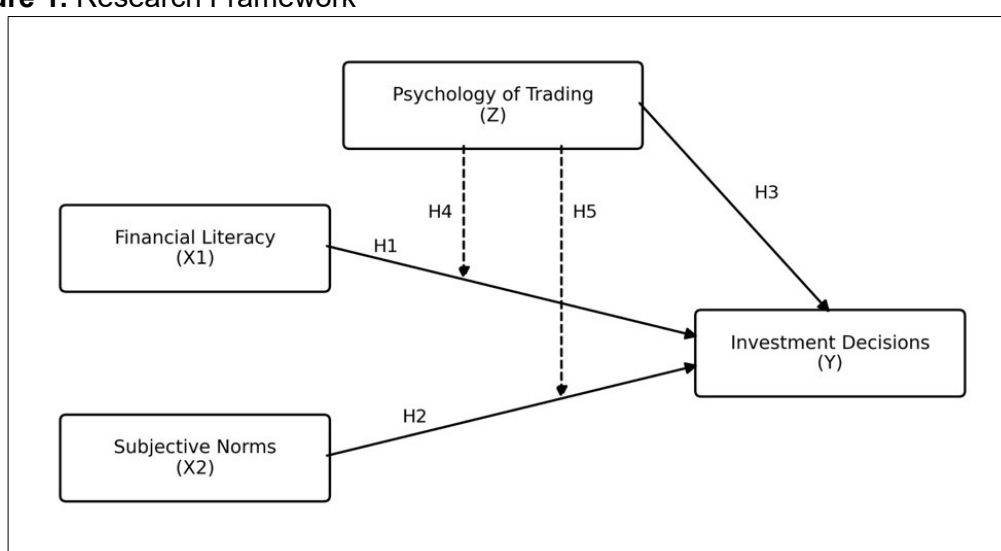
H5: The psychology of trading moderates the effect of subjective norms on investment decisions.

Conceptual Framework

The conceptual framework integrates the five hypothesized relationships into a single structural model. Financial literacy (X1) is modeled as a cognitive determinant with a direct path to investment decisions (Y), representing the perceived behavioral control component of TPB (H1); subjective norms (X2) as a social determinant with a direct path to Y, representing the normative component (H2); and the psychology of trading (Z) with a direct path to Y, representing the emotional component that behavioral finance identifies as a systematic source of deviation from rationality (H3).

Beyond these direct effects, the psychology of trading is specified as a moderator on two interaction paths: $X1 \times Z$ on investment decisions (H4) and $X2 \times Z$ on investment decisions (H5). The framework therefore tests not only whether cognitive, social, and emotional factors matter individually, but also whether the emotional factor conditions the strength of the cognitive and the social pathway. The complete framework is presented in Figure 1.

Figure 1. Research Framework



RESEARCH METHOD

Research Approach and Design

This study applies a quantitative approach with an explanatory (causal-associative) design, appropriate for testing hypothesized relationships among latent variables measured through a structured questionnaire. The design positions financial literacy and subjective norms as exogenous variables influencing investment decisions, and the psychology of trading both as an exogenous variable and as a moderator on the two paths leading to investment decisions. Data were collected at a single point in time, so the study is cross-sectional. The structural model is specified as follows.

$$Y = \beta^1 X1 + \beta^2 X2 + \beta^3 Z + \beta^4 X1 * Z + \beta^5 X2 * Z + \epsilon$$

Notes:

Y = endogenous latent variable, investment decision

X1 = exogenous latent variable, financial literacy

X2 = exogenous latent variable, subjective norms

Z = exogenous latent variable, psychology of trading (moderating variable)

B = coefficient representing the effect of exogenous latent variables on the endogenous variable

ϵ = error term of the model

Population and Sampling

The population consists of all members of the Indonesia Stock Exchange Investment Gallery at Cenderawasih University, Jayapura City. At the time of data collection, the gallery had 100 registered members, all belonging to Generation Z and holding an active securities account, so it constitutes an appropriate frame for studying Generation Z investors in Eastern Indonesia. Because the population was small and fully accessible, a saturated sampling technique (census) was applied, and all 100 members were included. This satisfies the minimum requirement for partial least squares structural equation modeling (PLS-SEM) under the ten-times rule: the endogenous construct receives five paths and therefore requires at least 50 observations (Hair et al., 2022).

Data Collection

Data were collected through a self-administered questionnaire distributed directly at the investment gallery and through an online form. Respondents were informed of the study's purpose, the voluntary nature of participation, and the confidentiality of their responses, and participation was treated as consent. The questionnaire had two parts: the first recorded demographic and investment-related characteristics; the second contained the measurement items for the four constructs, all closed-ended and scored on a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree). Incomplete questionnaires and those with an identical response to every item were excluded before analysis.

Variable Measurement

The four constructs were measured reflectively using indicators adapted from prior studies. Financial literacy and subjective norms were each measured through four indicators, and the psychology of trading and investment decisions through three each, giving fourteen items in total, each scored on the five-point Likert scale described above. Table 1 presents the operational definition of each variable and its indicators.

Table 1. Variable Measurement

Variable	Definition		Indicator
Financial literacy (X1)	An individual's ability and understanding of fundamental financial concepts, such as savings, investment, credit, loans, as well as short-term and long-term financial planning.	1	General personal finance
		2	Saving and borrowing
		3	Insurance
		4	Investment
Subjective norms (X2)	An individual's perception of social pressure originating from the surrounding environment, which influences the tendency to perform or avoid a particular behavior.	1	Perception of family support toward investment
		2	Perception of peer support toward investment
		3	Perception of support from lecturers or respected figures toward investment
		4	Belief that others think they should engage in investment
Psychology of trading (Z)	Emotional and cognitive states that may influence how an investor or trader makes investment decisions.	1	Accuracy in selecting investments
		2	Confidence in one's own abilities
		3	Confidence in one's own knowledge
		1	Return

Investment decisions (Y)	A policy or action taken by an individual in determining the allocation of funds to one or more specific instruments or assets with the objective of generating future returns.	2	Risk
		3	Time factor

Data Analysis

The data were analyzed using PLS-SEM with SmartPLS software, selected because the model contains interaction (moderating) terms, because the sample is relatively small, and because the objective is prediction and theory extension rather than strict theory confirmation (Hair et al., 2022). The moderating effects were estimated using the two-stage approach, which Hair et al. (2022) recommend for reflectively measured moderators: the main-effect model was first estimated to obtain the latent variable scores of each construct, and those scores were then standardized and multiplied to form the two interaction terms, entered into the structural model as single-item constructs.

The analysis proceeded in two stages. The measurement model (outer model) was evaluated for convergent validity through outer loadings above 0.70 and average variance extracted (AVE) above 0.50; for discriminant validity through the Fornell–Larcker criterion, under which the square root of a construct's AVE should exceed its correlation with any other construct; and for internal consistency reliability through composite reliability above 0.70 (Hair et al., 2022). The structural model (inner model) was then evaluated through the coefficient of determination (R^2), the effect size (f^2), and model fit indices.

Model fit was assessed using the standardized root mean square residual (SRMR) and the normed fit index (NFI). A model fits well when SRMR is below 0.080, while values up to 0.100 remain acceptable; NFI approaches 1 as fit improves, with values approaching 0.90 regarded as a good fit (Hair et al., 2022). The squared Euclidean distance (d_{ULS}) and the geodesic distance (d_G) are reported as complementary discrepancy measures, for which smaller values indicate closer correspondence between the empirical and model-implied correlation matrices. Out-of-sample predictive power was assessed through PLSpredict and the cross-validated predictive ability test (CVPAT) with ten folds and ten repetitions. A Q^2 predict above zero indicates that the model outperforms the naive indicator-average benchmark, and RMSE values below those of the linear model (LM) benchmark indicate high predictive power (Shmueli et al., 2019).

Hypothesis testing used bootstrapping with 5,000 subsamples at a 5% level of significance ($\alpha = 0.05$). A hypothesis is supported when the t-statistic exceeds 1.96, and the p-value is below 0.05 (Hair et al., 2022). Because bootstrapping reports t-statistics as absolute values, the direction of each relationship is read from the sign of the path coefficient.

RESULTS

Respondents' Demographic Profile

All 100 members of the investment gallery returned a usable questionnaire, so the response rate was 100%. Table 2 summarizes their demographic and investment-related characteristics, which are reported because prior studies indicate that demographic and experience-related attributes shape the way investors weigh return, risk, and social information (Karamchandani et al., 2024).

Table 2. Respondents' Demographic Profile (N=100)

Characteristic	Category	Frequency (n)	Percentage (%)
Age	17–19 years	19	19
	20–22 years	70	70
	More than 23 years	11	11
Gender	Male	30	30
	Female	70	70
Investment experience	Less than 1 year	56	56
	1–2 years	32	32
	More than 2 years	12	12
Transaction frequency	Daily	4	4
	Weekly	57	57
	Monthly	28	28
	Occasionally	6	6
Instrument most frequently traded	Stocks	84	84
	Mutual funds	0	0
	Government bonds	0	0
	Others	16	16

Table 2 shows that the respondents are concentrated in the 20–22-year age band (70%), which places them at the core of Generation Z, and that women form the majority of the sample (70%). Investment experience is short: 56% have invested for less than one year and only 12% for more than two years, which is consistent with the recent expansion of the investment gallery. Most respondents transact weekly (57%) or monthly (28%), and stocks are by far the dominant instrument (84%), so the sample is appropriate for examining decisions taken under conditions of visible price volatility.

Outer Model Evaluation

The reflective measurement model was evaluated against three criteria: convergent validity, assessed through outer loadings and AVE; discriminant validity, assessed through the Fornell–Larcker criterion; and internal consistency reliability, assessed through composite reliability.

Convergent Validity

An indicator satisfies convergent validity when its outer loading exceeds 0.70. Hair et al. (2022) note that an indicator loading between 0.40 and 0.70 may nevertheless be retained when its removal would not raise the AVE or the composite reliability of the construct above the required threshold. Table 3 presents the outer loadings of each indicator.

Table 3. Outer Loadings

Variable	Indicator	Outer loading	Rule of thumb	Notes
Financial literacy (X1)	FL1	0.887	> 0.70	Valid
	FL2	0.860	> 0.70	Valid

Subjective norms (X2)	FL3	0.725	> 0.70	Valid
	FL4	0.748	> 0.70	Valid
	SN1	0.772	> 0.70	Valid
	SN2	0.856	> 0.70	Valid
	SN3	0.865	> 0.70	Valid
Psychology of trading (Z)	SN4	0.786	> 0.70	Valid
	PT1	0.738	> 0.70	Valid
	PT2	0.861	> 0.70	Valid
	PT3	0.830	> 0.70	Valid
Investment decisions (Y)	KI1	0.839	> 0.70	Valid
	KI2	0.814	> 0.70	Valid
	KI3	0.852	> 0.70	Valid

Table 3 shows that all fourteen indicators produce outer loadings above the 0.70 threshold, ranging from 0.725 (FL3) to 0.887 (FL1). The loadings are consistently strong across constructs: financial literacy ranges from 0.725 to 0.887, subjective norms from 0.772 to 0.865, psychology of trading from 0.738 to 0.861, and investment decisions from 0.814 to 0.852. Since no indicator falls below the cut-off recommended by Hair et al. (2022), none had to be dropped, and all fourteen items were retained for subsequent analysis. Each indicator thus shares more than half of its variance with the construct it measures, confirming that the measurement model satisfies the requirement of indicator reliability.

Convergent validity was further assessed at the construct level through the AVE, for which a value above 0.50 indicates that a construct explains more than half of the variance of its indicators. The AVE values are presented in Table 4.

Table 4. Average Variance Extracted

Variable	Average variance extracted (AVE)
Financial literacy	0.619
Subjective norms	0.637
Psychology of trading	0.658
Investment decisions	0.697

Table 4 shows that the AVE values of financial literacy (0.619), subjective norms (0.637), the psychology of trading (0.658), and investment decisions (0.697) all exceed the 0.50 threshold. Taken together with the outer loadings in Table 3, these results confirm that the four constructs satisfy convergent validity.

Discriminant Validity

Discriminant validity establishes that each construct is empirically distinct from the others. It was assessed using the Fornell–Larcker criterion, under which the square root of a construct's AVE, shown on the diagonal of Table 5, must exceed the correlation between that construct and any other construct.

Table 5. Discriminant Validity (Fornell–Larcker Criterion)

Variable	FL	SN	POT	ID
Financial literacy (FL)	0.787			
Subjective norms (SN)	0.448	0.798		
Psychology of trading (POT)	0.142	−0.038	0.811	
Investment decisions (ID)	0.567	0.571	0.516	0.835

Note: Diagonal values in bold are the square root of the AVE of each construct; off-diagonal values are the correlations between constructs.

Table 5 shows that the square root of the AVE is 0.787 for financial literacy, 0.798 for subjective norms, 0.811 for the psychology of trading, and 0.835 for investment decisions, while the strongest correlation between any two constructs is 0.571. Each square root of the AVE therefore exceeds every correlation involving that construct, so the Fornell–Larcker criterion is satisfied.

Internal Consistency Reliability

Composite reliability was used to assess internal consistency; a construct satisfies the criterion when its value exceeds 0.70. Table 6 presents the composite reliability of each construct.

Table 6. Composite Reliability

Variable	Composite reliability (rho_a)
Financial literacy	0.827
Subjective norms	0.817
Psychology of trading	0.772
Investment decisions	0.786

Table 6 shows that the composite reliability of financial literacy (0.827), subjective norms (0.817), the psychology of trading (0.772), and investment decisions (0.786) all exceed 0.70. All four constructs are therefore reliable, and the measurement model satisfies convergent validity, discriminant validity, and internal consistency reliability, so the structural model can be evaluated.

Structural Model Evaluation (Inner Model)

The structural model was evaluated through model fit indices, the coefficient of determination (R^2), the effect size (f^2), and out-of-sample predictive power assessed through PLSpredict and CVPAT.

Model Fit

The model fit results produced by the SmartPLS analysis are presented in Table 7 for both the saturated and the estimated model.

Table 7. Model Fit Test Results

Index	Saturated model	Estimated model
SRMR	0.084	0.086
d_ ULS	0.735	0.768
d_ G	0.300	0.321
Chi-square	174.191	188.034
NFI	0.738	0.717

Table 7 shows that the SRMR is 0.084 for the saturated model and 0.086 for the estimated model. Both values lie marginally above the strict threshold of 0.080 but well below 0.100, so the model is regarded as fitting the data acceptably. The d_ ULS values of 0.735 and 0.768 and the d_ G values of 0.300 and 0.321 are discrepancy measures interpreted alongside the SRMR rather than against a fixed cut-off, and all are small, indicating that the model reproduces the empirical correlation matrix closely. The NFI of 0.738 for the saturated model and 0.717 for the estimated model falls below the conventional 0.90 threshold, so incremental fit is adequate rather than strong, an outcome common in models that include interaction terms and are estimated on relatively small samples.

Coefficient of Determination (R^2)

The coefficient of determination indicates the extent to which the exogenous latent variables explain the endogenous latent variable. Values of 0.75, 0.50, and 0.25 are conventionally interpreted as substantial, moderate, and weak explanatory power.

Table 8. R-Square

Variable	R-square	R-square adjusted
Investment decisions	0.748	0.735

Table 8 shows that the R^2 value for investment decisions is 0.748, with an adjusted R^2 of 0.735, placing the model in the substantial range: 74.8% of the variance in the investment decisions of Generation Z in Jayapura City is explained by the model, while 25.2% is attributable to variables outside it. Without the interaction terms the R^2 is 0.680, so the moderating effects add 6.8 percentage points of explained variance. PLSpredict yields a Q^2 predict of 0.706 for the construct and of 0.510, 0.470, and 0.483 for Y1, Y2, and Y3, all above zero, and the RMSE of the PLS-SEM predictions is lower than that of the linear model benchmark for every indicator, indicating high out-of-sample predictive power. CVPAT confirms this: the average loss difference is -0.181 against the indicator-average benchmark ($t = 5.560$; $p = 0.000$) and -0.041 against the linear model benchmark ($t = 3.382$; $p = 0.001$).

Effect Size (f^2)

The f^2 value indicates the magnitude of the partial contribution of each predictor to the endogenous variable when that predictor is omitted from the model. Values of 0.02, 0.15, and 0.35 are interpreted as weak, moderate, and strong effects respectively.

Table 9. Results of the f^2 Effect Size Test

No.	Structural path	f-square	Effect size category
1	FL $\rightarrow$ ID	0.347	Moderate effect
2	POT $\rightarrow$ ID	0.946	Strong effect
3	SN $\rightarrow$ ID	0.379	Strong effect
4	POT $\times$ FL $\rightarrow$ ID	0.098	Weak effect
5	POT $\times$ SN $\rightarrow$ ID	0.265	Moderate effect

Table 9 shows that the psychology of trading exerts the strongest partial effect on investment decisions ($f^2 = 0.946$), followed by subjective norms ($f^2 = 0.379$) and financial literacy ($f^2 = 0.347$), the latter at the upper end of the moderate range. The interaction of the psychology of trading with subjective norms exerts a moderate effect ($f^2 = 0.265$) and its interaction with financial literacy a weak effect ($f^2 = 0.098$), so both moderating effects are substantively meaningful rather than marginal.

Hypothesis Testing

Hypotheses were tested using the bootstrapping procedure in SmartPLS, which generates t-statistics and p-values. The results are presented in **Figure 2**, and the path coefficients are reported separately for the three direct effects and the two moderating effects.

Figure 2. Bootstrapping Results

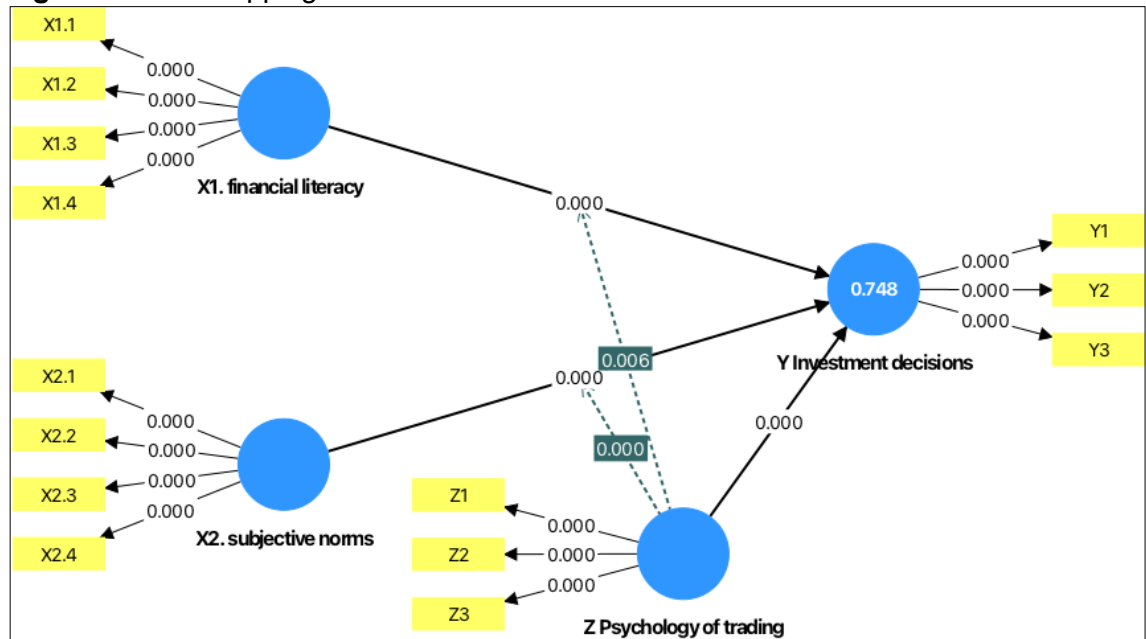


Table 10. Results of Direct Effect Testing

	Hypothesis and Path	Coefficient	t-statistic	p-value
H1	Financial literacy → Investment decisions	0.342	5.592	0.000
H2	Subjective norms → Investment decisions	0.365	4.968	0.000
H3	Psychology of trading → Investment decisions	0.497	7.131	0.000

Note: t-statistics generated by the bootstrapping procedure are absolute values; the direction of each effect is indicated by the sign of the path coefficient.

Table 10 shows that financial literacy has a positive and significant effect on investment decisions ($\beta = 0.342$; $t = 5.592 > 1.96$; $p = 0.000 < 0.05$), so H1 is supported; subjective norms likewise ($\beta = 0.365$; $t = 4.968$; $p = 0.000$), so H2 is supported; and the psychology of trading likewise ($\beta = 0.497$; $t = 7.131$; $p = 0.000$), so H3 is supported with the sign matching the direction hypothesized. The psychology of trading carries the largest coefficient, indicating that the readiness of the investor contributes more to decision quality than either financial knowledge or social pressure.

Table 11. Results of Moderating Effect Testing

	Hypothesis and Interaction path	Coefficient	t-statistic	p-value
H4	Psychology of trading × Financial literacy → Investment decisions	0.230	2.739	0.006
H5	Psychology of trading × Subjective norms → Investment decisions	-0.380	5.073	0.000

Note: t-statistics generated by the bootstrapping procedure are absolute values; the direction of each effect is indicated by the sign of the path coefficient.

Table 11 shows that the interaction between the psychology of trading and financial literacy (POT × FL) has a significant effect on investment decisions ($\beta = 0.230$; $t = 2.739$; $p = 0.006$), so H4 is supported. The positive coefficient indicates a strengthening moderation, and the conditional direct effects make this explicit: the effect of financial literacy is 0.112 one standard deviation below the mean of the psychology of trading, where it is not significant ($t = 1.231$; $p = 0.218$), but rises to 0.573 one standard deviation above it, where it is highly significant ($t = 4.950$; $p = 0.000$).

The interaction between the psychology of trading and subjective norms ($POT \times SN$) is also significant ($\beta = -0.380$; $t = 5.073$; $p = 0.000$), so H5 is supported, and the negative coefficient indicates an attenuating moderation. Subjective norms exert a strong effect of 0.745 one standard deviation below the mean of the psychology of trading ($t = 8.989$; $p = 0.000$), but an effect of -0.015 one standard deviation above it that is not significant ($t = 0.119$; $p = 0.905$). The two interaction terms therefore operate in opposite directions, the central empirical result of this study.

DISCUSSION

The Effect of Financial Literacy on Investment Decisions (H1)

The analysis shows that financial literacy has a positive and significant effect on the investment decisions of Generation Z in Jayapura City ($\beta = 0.342$; $t = 5.592$; $p = 0.000$). Therefore, H1 is supported. Respondents with higher financial literacy tend to be more cautious, more rational, and better informed when selecting investment options aligned with their financial goals, so an understanding of budgeting, instruments, and risk management contributes positively to decision quality.

With $f^2 = 0.347$, financial literacy exerts a partial effect at the upper end of the moderate range once the other predictors are accounted for, so financial knowledge is a substantive rather than marginal determinant of decision quality. The pattern is consistent with [Jaya et al. \(2024\)](#) and [Wendy \(2024\)](#), who report a positive and significant effect among Indonesian investors, and with [Tanoni et al. \(2025\)](#), who find the same for Generation Z.

From the perspective of TPB, financial literacy strengthens perceived behavioral control ([Ajzen, 1991](#)): knowledge of financial matters fosters confidence in the capacity to execute an investment plan, and stronger perceived control produces stronger intention to invest rationally. The moderation results below indicate, however, that this conversion of perceived control into behavior is not equally efficient across respondents.

The Effect of Subjective Norms on Investment Decisions (H2)

The analysis demonstrates that subjective norms have a positive and significant effect on the investment decisions of Generation Z ($\beta = 0.365$; $t = 4.968$; $p = 0.000$). Therefore, H2 is supported. With $f^2 = 0.379$ they exert a strong partial effect, second only to the psychology of trading. Social pressure from family, peers, and the surrounding environment thus plays an important role: when individuals perceive that their environment supports or expects participation in investment activity, their propensity to invest increases substantially.

This result is consistent with TPB, which holds that behavioral intention is determined jointly by attitude, subjective norms, and perceived behavioral control ([Ajzen, 1991](#)). It aligns with [Anwar et al. \(2023\)](#), [Hidayati & Destiana \(2023\)](#), and [Lioera et al. \(2022\)](#), who find that subjective norms shape investment intention among Indonesian young adults and university students, and with [Hassan et al. \(2024\)](#), who identify subjective norms as one of the strongest determinants of investment decisions.

The strength of normative influence here may reflect the research setting. Members of a university investment gallery study and trade within a dense peer network, and in a regional market where participation is still developing, the opinions of lecturers and online communities substitute for direct market experience.

The Effect of the Psychology of Trading on Investment Decisions (H3)

The analysis indicates that the psychology of trading has a positive and significant effect on the investment decisions of Generation Z in Jayapura City ($\beta = 0.497$; $t = 7.131$; $p = 0.000$). Therefore, H3 is supported, and the direction of the effect corresponds to the direction hypothesized. With $f^2 = 0.946$ it is the strongest predictor in the model, indicating that the emotional and cognitive readiness of the investor contributes more to decision quality than either financial knowledge or social pressure.

Because the construct is measured through confidence-based indicators (accuracy in selecting investments, confidence in one's own abilities, and confidence in one's own knowledge), a higher score reflects an investor able to act on a considered judgment rather than one who hesitates under uncertainty. The result is consistent with [Fathin & Hersugondo \(2022\)](#), [Lakshmi et al. \(2024\)](#), and [Singh et al. \(2024\)](#), but contrasts with [Adib \(2020\)](#) and [Nasir et al. \(2025\)](#), who document how overconfidence, greed, and panic distort judgment; the divergence suggests that confidence functions here as a facilitating resource rather than as a bias.

Within TPB, this result relates to perceived behavioral control ([Ajzen, 1991](#)): when an investor regulates emotion under uncertainty, perceived control corresponds more closely to actual competence, so the control guiding behavior is real rather than merely perceived. From the perspective of behavioral finance, the departures from rationality documented by [Tversky and Kahneman \(1981\)](#) appear less pronounced among investors exercising deliberate psychological control.

The Moderating Role of the Psychology of Trading in the Relationship between Financial Literacy and Investment Decisions (H4)

The test of the first moderation hypothesis shows that the psychology of trading significantly moderates the effect of financial literacy on investment decisions ($\beta = 0.230$; $t = 2.739$; $p = 0.006$). Therefore, H4 is supported. The positive sign indicates a strengthening moderation: the stronger an investor's psychological readiness, the larger the contribution of financial literacy to decision quality. The conditional direct effects are decisive here. Financial knowledge does not measurably improve decision quality among respondents with low psychological readiness, where its effect is statistically indistinguishable from zero ($p = 0.218$), and becomes highly significant only among those with high readiness ($p = 0.000$).

The practical meaning is clear. Investors who understand financial concepts, risk management, and instruments benefit fully from that knowledge only when they can control impulses such as herding behavior and loss aversion. The result is consistent with [Nasir et al. \(2025\)](#), who report that high financial literacy does not guarantee sound decisions when emotional aspects are poorly managed, and with [Hassan et al. \(2024\)](#), who show that psychological characteristics condition the strength of the determinants of investment decisions.

Theoretically, the finding supports the behavioral finance perspective adopted here. If investors were fully rational, financial literacy would translate into better decisions with constant efficiency and no interaction would be observed. The significant positive interaction indicates instead that emotional regulation determines how much knowledge becomes disciplined action ([Bajo et al., 2023](#); [Singh et al., 2024](#)).

The Moderating Role of the Psychology of Trading in the Relationship between Subjective Norms and Investment Decisions (H5)

The test of the second moderation hypothesis shows that the psychology of trading significantly moderates the effect of subjective norms on investment decisions ($\beta =$

-0.380; $t = 5.073$; $p = 0.000$). Therefore, H5 is supported, although the direction runs counter to the strengthening effect anticipated when the hypothesis was developed. The negative sign indicates an attenuating moderation, and the conditional direct effects show the pattern starkly: subjective norms exert a strong and significant effect among respondents with low psychological readiness ($p = 0.000$) but no significant effect at all among those with high readiness ($p = 0.905$). Social influence ceases to matter once psychological readiness is high.

The pattern suggests that normative influence substitutes for internal conviction rather than complementing it. Investors uncertain of their own judgment rely on family, peers, and trusted figures as a reference point, whereas those who trust their own reading of the market no longer require external confirmation. This is consistent with [Bajo et al. \(2023\)](#) and [Xie \(2024\)](#), who show that psychological profile shapes how investors absorb external information, and it qualifies [Pragadeesh and Shivanaresh \(2024\)](#): the need for social validation appears to recede precisely as psychological readiness rises.

Taken together, the two moderation results reveal an asymmetry that constitutes the central contribution of this study: the same psychological construct amplifies the cognitive pathway while suppressing the social one. A psychologically prepared investor relies more on what they know and less on what their environment endorses. This extends TPB by showing that the relative weight of its determinants is conditional on the emotional state of the decision maker ([Sulistiyan et al., 2024](#)).

CONCLUSION

This study examined the effects of financial literacy and subjective norms on the investment decisions of Generation Z in Jayapura City and tested whether the psychology of trading moderates those relationships. The model explains 74.8% of the variance in investment decisions. Financial literacy is positively and significantly associated with investment decisions, and subjective norms likewise, indicating that both financial understanding and social encouragement accompany a stronger tendency to invest.

The psychology of trading is positively and significantly associated with investment decisions and is the strongest predictor in the model, so psychological readiness accompanies higher decision quality rather than impaired judgment. The two moderation results operate in opposite directions: the psychology of trading strengthens the association between financial literacy and investment decisions but weakens the association between subjective norms and investment decisions. Because the data are cross-sectional, these findings describe associations rather than established causality.

Theoretically, the study contributes to TPB by showing that the relative weight of its determinants is conditional on the emotional state of the decision maker: the pathway from perceived behavioral control to behavior is amplified by psychological readiness, whereas the normative pathway is attenuated by it.

Practically, financial education for Generation Z should not be confined to technical material. Investment galleries, securities firms, and regulators may consider pairing instruction on instruments, returns, and risk with training in emotional regulation, bias awareness, and adherence to a written trading plan. Because normative influence is strongest among respondents with the lowest psychological readiness, investment communities and mentors carry particular responsibility toward newer members. Future research could extend the model with risk tolerance or financial self-efficacy and test it on larger samples across Eastern Indonesia.

LIMITATION

This study is subject to several limitations. First, the sample consists of 100 members of a single investment gallery at one university in Jayapura City, so the findings should be generalized only with caution. Second, the design is cross-sectional and relies on self-administered questionnaires, so the relationships identified may be affected by common method bias and social desirability. Third, the psychology of trading was operationalized through confidence-based indicators, which capture only part of a construct that also includes emotional regulation, discipline, and loss aversion. Fourth, the normed fit index of 0.717 for the estimated model indicates adequate rather than strong incremental fit. Fifth, 25.2% of the variance remains attributable to variables outside the model. Future studies may address these through longitudinal designs, multi-site sampling, and a fuller measurement of trading psychology.

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DECLARATION OF CONFLICTING INTERESTS

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