

The Influence of Risk Perception, Risk Tolerance, and Loss Aversion on Investment Decision

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Abstract

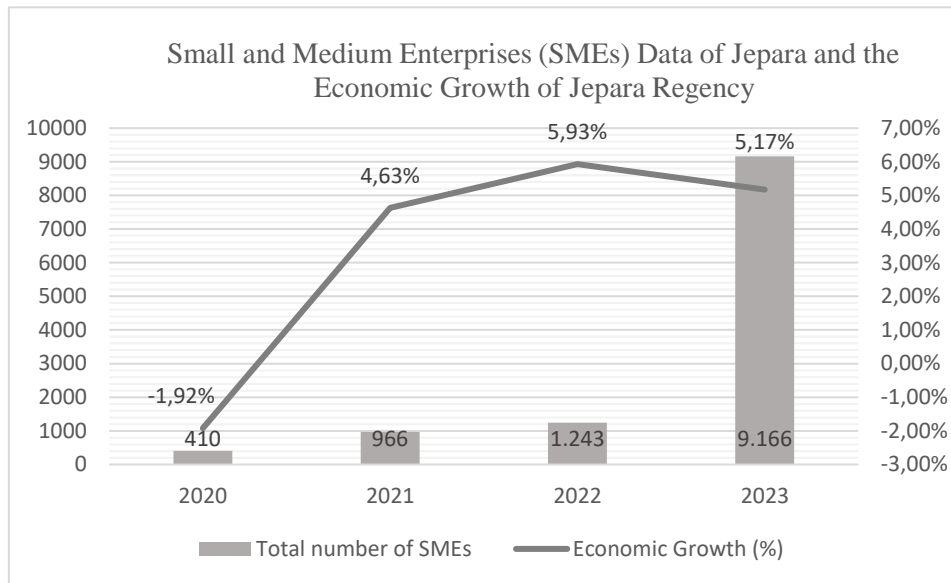
Purpose: Small and Medium Enterprises (SMEs) in Indonesia are facing increasingly intense competition in today's dynamic industrial environment. Many of them encounter various challenges, including business failure, and often lack attention to maintaining financial stability to ensure their business operates efficiently and sustainably. SME owners prioritize financial profits and daily operational costs over other essential areas, such as risk management, long term planning, and innovative strategies to address changing market conditions. Business owners who focus solely on profits and operational expenses frequently overlook other aspects, such as investment opportunities that could enhance their competitiveness. This study seeks to examine how risk perception, risk tolerance, and loss aversion influence investment decision making. **Methodology/Approach:** This research uses a quantitative methodology, analyzing data collected from a sample of 214 respondents selected through the convenience sampling method. This method involved distributing a questionnaire with questions to owners of food and beverage SMEs. The data obtained was then analyzed using multiple linear regression. **Results/Findings:** The study reveals that risk perception does not significantly influence investment decision making, while risk tolerance has a strong positive impact, and loss aversion shows no effect. **Limitations:** This research is conducted with data reflecting current market and economic conditions. Investment decisions are highly influenced by the ever changing market situation, so unexpected events such as economic crises or major innovations in finance could cause significant shifts in investor behavior. These shifts could drastically affect investment decisions, especially in the short term, which means the findings of this study may not fully reflect investor responses in different future market conditions. **Contribution:** This study provides active investor engagement by making informed investment decisions, potentially enhancing investment performance, particularly amidst uncertain market dynamics. **Novelty:** The novelty of this research lies in its specific focus on the food and beverage SME sector. Most previous studies are either more general or focus on other sectors, so this focus provides new more specific insights.

Keywords: *Investment Decision, Risk Perception, Risk Tolerance, Loss Aversion*

1. Introduction

Investment is a key element that supports a country's economic growth and enhances the welfare of its people, including Indonesia as a developing nation. Investments have the potential to provide substantial returns to society, though they also carry the risk of unexpected losses (Hesniati & Hendy, 2021). Investment decision-making involves selecting from available options while considering uncertainty and potential risks. Investors require strong financial analysis skills to make accurate assessments of risks and rewards. Additionally, they demand comprehensive, accurate, timely, and relevant information to guide their investment decisions (Silitonga, Ramadhani, & Nugroho, 2019). Choosing the right investment can yield excellent returns, enabling investors to maximize their profits. Sufficient information about an investment can also help investors select the optimal type of investment.

Small and Medium Enterprises (SMEs) in Indonesia play a vital role in improving the welfare of the community. Various business opportunities provide a platform for further development through innovation (Widiastuti, Khajar, & Ghoniyah, 2022). Effective financial management requires the ability to make sound investment decisions as conditions change. SMEs contribute to regional and national income while also helping to reduce unemployment rates in Indonesia. Investment decision making involves allocating capital with the expectation of generating future profits. When making investment decisions, it is important to take necessary steps to mitigate potential risks.



Picture 1. SME Data and Economic Growth
Source :BPS (Central Bureau of Statistics)

As shown in Picture 1 since 2020, the COVID-19 pandemic brought various challenges for SMEs. The economic downturn that year reflected the significant impact of the pandemic on small and medium sized business activities, including supply chain disruptions and a decline in consumer demand. Entering 2021, SMEs began to show signs of recovery. With the introduction of various economic stimulus packages and recovery programs launched by the government, this sector once again recorded positive growth. This recovery continued through 2022, as SMEs continued to grow alongside broader economic recovery. In 2023, although economic growth slightly slowed compared to the previous year, the number of SMEs continued to increase. This demonstrates the resilience of the SME sector in facing challenges and adapting to changing market conditions. Overall, this data illustrates the journey of SMEs filled with challenges and achievements in contributing to the economy. With the advancement of technology and shifting dynamics in the global economy, it is hoped that individuals will develop strong financial management knowledge. This capability is essential not only for managing daily expenses but also for making sound investment decisions.

In the world of investment, an investor's decision making goes beyond simply selecting profitable instruments; it also requires a deep understanding of the risks associated with each option and the ability to manage those risks wisely. Especially in the context of Small and Medium Enterprises (SMEs), the process of making investment decisions becomes increasingly complex due to various psychological and financial factors. Investment decisions are largely influenced by risk perception, risk tolerance, and loss aversion, which can help SME actors make more strategic investment decisions. This approach enables them to maximize profits while minimizing potential risks, allowing them to survive and thrive in constantly changing market conditions.

Risk perception shapes investment decisions. Perception is how individuals interpret various stimuli they experience to understand and give meaning to their surroundings (Saraswati, 2022). Investment decisions are formed by risk perception, which is socially constructed and modified by various factors, leading to different reactions to potential losses. When making investment decisions, investors must balance anticipated gains with risks. Consequently, an investor's risk perception can significantly influence their investment decisions. Risk perception is an internal factor that affects a person's investment decisions. According to (Alquraan, T., Alqisie, A., dan Shofa, 2016), risk perception positively impacts investment decisions, if investors believe that investing may result in a loss, they will refrain from investing. Risk perception leads to subjective decisions made by investors regarding the characteristics and magnitude of risks they may face. As a result, an investor's risk perception can greatly influence their investment decisions (Rosyidah, 2013). These findings differ from those of (Mutawally, Haryono, & Cahyani, 2019) who found that risk perception does not affect investment decisions. This occurs when investors lack sufficient financial experience, making them unable to assess potential risks if their investments experience losses.

Soleha (2018), defines risk tolerance as an investor's willingness to take risks when making investment decisions. The higher the risk tolerance, the greater the risks an investor can bear. Investors with a high level of tolerance are often more prepared to make bold investment decisions. Risk tolerance is seen as the level of total uncertainty someone is willing to accept in financial decision making, influencing nearly all aspects of financial and social life. Previous studies (Lathifatunnisa & Nur Wahyuni, 2021; Ayu Wulandari & Iramani, 2014; Budiarto, 2017) indicate that risk tolerance positively impacts investment decisions. A person's level of risk tolerance increases the likelihood that they will take on risks. However, studies by (Putri & Ishanah, 2020) and (Hidayat & Satria Pamungkas, 2022) suggest that risk tolerance does not affect investment decisions, as individuals with lower tolerance levels tend to avoid risks.

Overconfident investors may overlook potential risks, leading to inefficient asset allocation. Consequently, they may prefer investing in high risk assets, such as equities, while less confident investors allocate their funds to low risk assets. Loss aversion is a behavioral bias that can influence financial decisions, reflecting a tendency to focus more on avoiding losses than on gaining profits. Loss aversion affects an individual's level of risk tolerance, people often go to great lengths to avoid significant losses and prioritize loss aversion while seeking potential gains. Overreacting to losses can result in an emphasis on loss aversion rather than pursuing positive returns in investments. Loss aversion also reflects a preference for minimizing losses over achieving higher profits. The perception of small losses as distinct from small gains can be attributed to heuristic operations that discretize continuous variables, potentially leading to loss aversion. This bias leads investors to bear losses, even if minimal, rather than pursue higher returns. Previous studies (Areiqat, Al-Alani, & Alhorani, 2019), and (Alquraan, T., Alqisie, A., dan Shofa, 2016) indicate that loss aversion has a significant impact on investment decisions. However, (Pradhana, 2018) found that loss aversion has a minimal effect on investment decisions, as investors are not fearful of financial losses and tend to invest smaller amounts, resulting in overall lower returns.

This study aims to thoroughly analyze how these variables influence investment decisions among small and medium sized enterprise (SME) operators, particularly in the food and beverage sector, which is known as one of the most dynamic and rapidly growing industries in Indonesia. Consequently, it is expected to provide deeper insights for SME owners in making more informed and strategic financial decisions, as well as to support the development of insurance in designing targeted interventions that promote the growth of small and medium-sized enterprises.

2. Literature review and hypothesis/es development

2.1 Investment Decision

An investment decision is a predefined framework for allocating funds to investment instruments, ensuring benefits or returns over a specified period (Yundari & Artati, 2021). It is a deliberate approach to distributing budgets across financial products to achieve benefits or profits within a set timeframe (Pratama, Fauzi, & Purwohedi, 2022). Investment decisions are made with the goal of generating profits over time by strategically allocating or investing funds in one or more asset types

(Logitama, Setiawan, & Hayat, 2021). An investment decision involves an action taken by an investor to allocate resources into assets with the objective of securing a portion of future income (Armansyah, 2021). When making investment decisions, investors consider acceptable risks and strive to minimize them. Investors demonstrate varying levels of risk tolerance, reflecting the level of risk they are willing to accept to reach their financial goals (Adielyani & Mawardi, 2020).

2.2 Risk Perception

Risk perception, as explained by (Nur Aini & Lutfi, 2019), can emerge from the careful evaluation of investment decisions by investors before making choices. Defined as an individual's assessment of risk (Liu, 2004). Risk perception reflects one's views on potential risks, even if these risks are unidentifiable and may differ from reality (Fridana & Asandimitra, 2020). It encompasses individual judgments or opinions whether as consumers or investors regarding uncertainties and potential outcomes associated with making investment decisions. Risk perception illustrates how investors understand potential hazards that may arise during the decision-making process (Ayu Wulandari & Iramani, 2014). This scenario often stems from a lack of experience, making it challenging for investors to understand and assess potential risks effectively. Consequently, when there is a decline or loss in the chosen investment instrument, these investors may not be fully equipped to anticipate its impact. This highlights the importance of practical experience in investment, as it provides a fundamental understanding of risks associated with performance, and investors may struggle to face potential losses without this foundation. Research by (Yolanda & Tasman, 2020), indicates that risk perception significantly affects investment decisions, with heightened risk assessment being critical for more strategic decision-making. According to (Fridana & Asandimitra, 2020), individuals with high levels of risk perception tend to be more cautious and deliberate, fully considering available information before deciding.

In the midst of intense competition and changing consumer preferences, SMEs in this region must continually strive to innovate and enhance their products to remain competitive. However, like other investment areas, the food and beverage SME sector is not exempt from various risks that may affect business continuity. These risks include market fluctuations, raw material price variations, regulatory changes, and fierce competition. In facing these risks, the risk perception of SME players becomes an important factor that can influence their investment decisions. Food and beverage SME actors consider risk assessment crucial to developing effective strategies for coping with uncertainties. Therefore, this study aims to further explore the relationship between risk perception and investment decisions in the food and beverage SME sector, as well as to identify other factors that may influence these investment decisions. Accordingly, the researcher proposes a hypothesis.

Hypothesis 1: Risk Perception Has a Positive Influence on Investment Decision

2.3 Risk Tolerance

Risk tolerance relates to the level of risk that can be deemed acceptable when investing in volatile assets (Soleha, 2018). Risk tolerance is the extent to which an individual is prepared to bear certain risks in their investment (Listiani & Soleha, 2023). According to findings by (Nur Aini & Lutfi, 2019), risk tolerance indicates a person's readiness to accept and endure the risks inherent in investments. Risk tolerance is associated with the willingness and ability of investors to recognize and confront potential risks when making investment decisions (Budiarto, 2017). It is one of the factors influencing investment decision-making, with higher risk tolerance often leading to more aggressive investment decisions compared to lower tolerance levels. Studies by (Nur Aini & Lutfi, 2019; Ayu Wulandari & Iramani, 2014; Mandagie, Febrianti, & Fujiyanti, 2020; Adiputra, 2021), have stated that risk tolerance has a significant impact on investment decision-making.

SME actors who tend to use high-risk investment strategies exhibit a greater risk tolerance. Investors with these characteristics are generally individuals who can maintain composure in challenging situations, are meticulous in analyzing market conditions, and possess a deep knowledge of the investment sector which is essential. This calm demeanor enables these investors to think clearly,

even when faced with high risks or issues. When confronted with challenges, they are not easily swayed by emotional pressure and are better able to control their reactions. These skills allow for more accurate investment decisions based on comprehensive analysis and research. When risks arise, investors with high risk tolerance do not panic quickly instead they remain focused on long term goals, enabling them to respond wisely to market conditions and take prudent steps to protect or enhance their investment value. Therefore, the researcher proposes a hypothesis.

Hypothesis 2: Risk Tolerance Has a Positive Influence on Investment Decision

2.4 Loss Aversion

According to (Humairo & Panuntun, 2022) loss aversion is characterized by an investors tendency to experience greater discomfort from wealth loss than from gaining an equivalent amount. This psychological inclination motivates individuals to avoid losses, as the pain of loss is felt more intensely than the pleasure derived from comparable gains. Loss aversion can influence an individuals investment decision, as those with loss averse attitudes tend to avoid risks and prefer stable, secure investments. According to (Pradhana, 2018) loss aversion suggests that individuals gain satisfaction from profits but experience significant distress when facing losses. For example, a person may feel happy with a 4% gain but would feel very saddened by a 4% loss. The pain of losing surpasses the satisfaction of an equivalent gain. (Handoyono, Rispanyo, & Widarno Bambang, 2019) observed the negative impact of loss aversion. Additionally, (Nur Aini & Lutfi, 2019) found that loss aversion negatively affects investment decisions, indicating that loss aversion does not consistently influence investment decisions, whether in high risk or low risk assets.

SME actors with a high level of loss aversion tend to focus more on avoiding losses rather than pursuing profit opportunities. When they experience losses, the negative feelings are significantly more intense than the positive feelings associated with equivalent gains. In the context of investment decisions, this makes SME actors more likely to allocate their funds to types of investments considered safer and more stable, such as low risk assets even if these assets may offer lower returns. They avoid high risk assets, even if these could provide substantial profits because they are deemed too risky and potentially lead to losses that are difficult to accept. Consequently, the investment decisions made are generally conservative which may reduce the potential for long term business growth. Therefore, the researcher proposes a hypothesis.

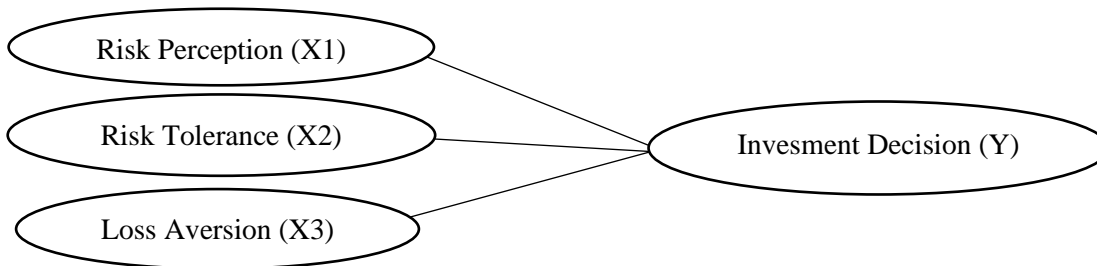
Hypothesis 3: Loss Aversion Has a Negative Influence on Investment Decision

3. Methodology

This study employs a quantitative approach, utilizing primary data collected from small and medium-sized enterprise (SME) owners. The research sample consists of 9,166 SME owners. The sampling method used is non-random sampling through a convenience sampling approach. Convenience sampling is a non-random technique where samples are selected based on their availability to the researcher. This method is chosen for the ease of recruitment rather than for accurately representing a broader population. The sample for this study focuses on food and beverage SMEs, using a criterion of at least one year of operation. The determination of the sample size employs a ratio between the dimensions of the sample and the parameters (indicators), estimated at 5:1 (hair, black, babin, 2020). This study uses 17 indicators, which require a minimum sample size of 85 respondents. A questionnaire is utilized to collect data, which can be administered either directly or electronically to the owners of food and beverage SMEs. A Likert scale method is applied to measure respondents' perceptions of the factors influencing the financial success of SMEs. Responses are classified into four levels: (1) strongly disagree, (2) somewhat disagree, (3) agree, and (4) strongly agree. This study employs multiple linear regression analysis to test how each independent variable affects the dependent variable and to measure the contribution of each independent variable. The formula for multiple linear regression is represented as: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_nX_n + \epsilon$. The following testing stages are used to ensure and assess the overall quality, employing values such as Cronbach's Alpha exceeding 0.7, Composite Reliability exceeding 0.7, and Average Variance Extracted (AVE) exceeding 0.5.

Additionally, R-Square is used to reflect the strength of the independent factors' influence on the dependent variable, followed by the Variance Inflation Factor (VIF) test, which has a threshold of less than 10, indicating that there is no significant multicollinearity among the variables. Furthermore, the t-test is used to evaluate the proposed hypotheses, and the relationships among factors are assessed from the structural model applied. The research model is presented as shown in Picture 2.

Picture 2. Conceptual Framework



From Picture 2 this study analyzes the influence of risk perception, risk tolerance, and loss aversion on investment decisions. This research also elaborates on the variables, definitions, and indicators for each variable to be used in the analysis which can be seen in table 1 as follows:

Table 1. Variables and Definitions

Variables	Definitions	Indicators
Investment Decision (Y)	Investment decision refers to a planned policy to allocate funds to investment products, with the aim of obtaining benefits or profits within a specified time period (Yundari & Artati, 2021).	<ol style="list-style-type: none"> 1. Return 2. Risk 3. The Time Factor
Risk Perception (X1)	Risk perception (risk belief) is defined as an individual's assessment of risk (Liu, 2004).	<ol style="list-style-type: none"> 1. Financial risk 2. Social risk 3. Performance risk 4. Time and convenience risk 5. Physical risk
Risk Tolerance (X2)	Risk tolerance is the level of acceptable ability to take on risk in investments (Soleha, 2018)	<ol style="list-style-type: none"> 1. Investing in high-risk ventures 2. Investing with debt 3. Prioritizing profit over security 4. Not believing that risk always leads to loss.
Loss Aversion (X3)	Loss aversion is an investor's attitude that experiences greater pain when losing or incurring a loss on capital compared to gaining an equivalent profit (Humairo & Panuntun, 2022)	<ol style="list-style-type: none"> 1. Focusing on losses experienced rather than the missed opportunity for gains 2. Feeling nervous when the value of invested assets declines 3. Refusing to increase investment when market performance is poor 4. In investment, avoiding losses is more important than gaining profits 5. Avoiding selling assets that have decreased in value while selling those

4. Results and discussion

4.1 Deskripsi Responden

Examining respondent characteristics not only helps researchers ensure their suitability and ability to understand and respond to research questions, but it also serves as a foundation for discussing research findings in detail.

Table 2. Respondent Characteristics

Item	Category	Number of Respondents	Percentage
Gender	Male	72	33,64%
	Female	142	66,35%
Age	20-25	50	23,36%
	26-30	93	43,45%
	31-35	29	13,55%
	36-40	23	10,74%
	41-45	18	8,41%
	51-55	1	0,46%

Source: Processed PLS Data Results (2024)

Table 2 provides a general overview of the research respondents. The survey participants primarily consist of women, totaling 142 respondents, while the remaining 72 respondents are men. The most common age group is 26 to 30 years. This may suggest that the majority of SME operators in this sample are women.

4.2 Descriptive Statistics

Table 3. Descriptive Statistics

Variabel	Responden	Mean	Min	Max	Std.Dev
Investment Decision	214	3,568	1	4	0,740
Risk Perception	214	3,148	1	4	0,896
Risk Tolerance	214	3,353	1	4	0,918
Loss Aversion	214	3,395	1	4	0,876

Based on table 3, the total number of respondents is 214. The lowest average value is for the Risk Perception variable at 3.148, while the highest average is for investment decision at 3.568. The minimum value for all variables is the same at 1, and the maximum value for all variables is also consistent at 4. The smallest standard deviation is for the investment decision variable at 0.740, and the highest standard deviation is for the risk tolerance variable at 0.918.

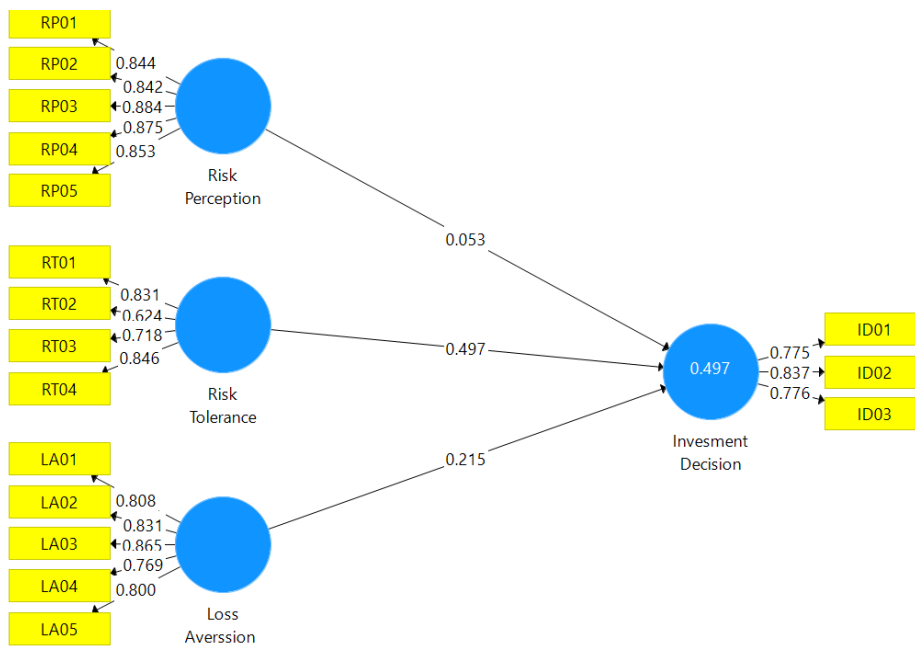
4.3 Instrument Validity and Reliability Testing

Table 4. Results of Validity and Reliability Testing

Economics, Business, Entrepreneur, and Sustainability Conference (ECoBESC)

Variabel	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Invesment Decision	0,713	0,724	0,839	0,635
Risk Perception	0,877	0,900	0,908	0,664
Risk Tolerance	0,912	0,913	0,934	0,739
Loss Aversion	0,776	0,840	0,844	0,578

Source: Processed PLS Data Results (2024)



Picture 2. Convergent Validity
Source: Processed PLS Data Results (2024)

Evaluating validity and reliability involves determining the extent to which the developed instrument effectively measures the intended research constructs. Higher scores on the instrument indicate that it is more aligned with the research questions posed. Validity and reliability values such as Cronbach's Alpha (>0.7), Composite Reliability (>0.7), and AVE (>0.5) are considered. AVE testing is useful for assessing convergent and discriminant validity. The results of AVE testing reflect the latent factors within the reflective model. An Average Variance Extracted (AVE) value exceeding 0.5 indicates that all measured variables are considered valid.

According to table 4, all constructs or variables used in the study model show substantial reliability, as they exceed the 0.7 threshold for Composite Reliability and Cronbach's Alpha.

4.4 R-Square Testing

Table 5. R-Square

R Square	R Square Adjusted
0,497	0,490

Source: Processed PLS Data Results (2024)

Table 5 presents an R-squared value of 0.497, which translates to 49.7%, based on the results obtained from the SmartPLS 3.0 software application. This result indicates that risk perception, risk tolerance, and loss aversion contribute to investment decision, while the remaining contribution is attributed to other variables not included in this study.

4.5 Hypothesis Testing

Table 6. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Risk Perception -> Invesment Decision	0,053	0,051	0,084	0,623	0,534
Risk Tolerance -> Invesment Decision	0,497	0,500	0,091	5,454	0,000
Loss Aversion -> Invesment Decision	0,215	0,214	0,085	2,525	0,012

Source: Processed PLS Data Results (2024)

Table 6 illustrates the results of the first hypothesis test which states that risk perception has a positive but statistically insignificant effect on investment decision, with a t-statistic value of 0.623, which is less than 1.98, and a p-value of 0.534, exceeding 0.05. This result indicates that risk perception does not have a significant effect on investment decision, leading to the rejection of the first hypothesis. The analysis of the second hypothesis shows that risk tolerance has a strong and statistically significant effect on investment decision, with a t-statistic value of 5.454, exceeding 1.98, and a p-value of 0.000, which is less than 0.05. This affirms that risk tolerance plays an important role in shaping investment decision, thereby supporting the validity of the second hypothesis. The final hypothesis test reveals that if H1 is accepted, then H0 is rejected, indicating that loss aversion does not influence investment decision.

4.6 Effect of Risk Perception on Investment Decision

The results of the first hypothesis indicate that risk perception does not have an effect on investment decision. In making investment decisions, savvy investors demonstrate a high level of confidence, enabling them to reach conclusions quickly without prolonged consideration. Individuals involved in small and medium sized enterprises (SMEs) typically have considerable investment experience, positioning them as experts in investment strategies. This explanation clarifies why SME stakeholders tend to prefer high risk investment opportunities with the goal of generating significant long-term profits. They believe that high risk investments can yield substantial returns due to their extensive experience in investing. According to a study (Ayu Wulandari & Iramani, 2014), experienced investors tend to make riskier judgments because they rely on past experience to inform their investment

decisions making them more inclined to accept risk. This observation is consistent with findings by (Khairunizam & Isbanah, 2019), and (Putri & Ishanah, 2020) who found that risk perception does not significantly affect investment decision. This phenomenon occurs because investors have confidence that their investment decisions will yield profits in the future. Many business owners invest with the expectation of earning substantial profits, even if accompanied by risk, a principle often summarized in the phrase "high risk, high return." As a result, their investment decisions are not influenced by risk perception, as they often make significant investment decisions without thoroughly analyzing the underlying data and frequently neglecting to consider the risks.

4.7 The Effect of Risk Tolerance on Investment Decision

The results of the second hypothesis test indicate that risk tolerance has a positive effect on investment decision. This is due to the fact that SME actors possess the necessary risk-taking characteristics that align with the "high risk, high return" approach. Respondents in this study are characterized as risk seekers, demonstrating their willingness to take on risks in exchange for potential rewards. This indicates that SME stakeholders show a high level of risk tolerance, making them more likely to engage in risk taking behavior when making investment decisions. Research by Budiarto (Budiarto, 2017) highlights that risk tolerance significantly impacts investment decision, stating that SME actors demonstrate high levels of risk tolerance. This finding is also consistent with studies by Ayu Wulandari & Iramani, (2014) and Halim & Satria, (2023), which emphasize that an individuals or consumers competence and willingness to face and manage risks are crucial factors in investment activities. This includes the ability to bear losses and uncertainty associated with investment outcomes that do not meet expectations, underscoring that understanding and evaluating risks are vital in the investment decision making process. Every investor must determine the level of risk they are willing to tolerate based on their goals and financial circumstances. A higher level of risk tolerance reflects an increased recognition of potential losses, making individuals more likely to accept risks. Conversely, lower risk tolerance indicates a preference for avoiding risks altogether.

4.8 The Effect of Loss Aversion on Investment Decision

The findings from the third hypothesis test reveal that loss aversion does not significantly affect investment decision. This suggests that as loss aversion increases, the likelihood of an investor making an investment decision decreases. (Handoyono et al., 2019) also found a negative relationship between loss aversion behavior and investment decision, indicating that as loss aversion increases, the investment decision making process diminishes. This study suggests that SME actors, who tend to experience loss aversion, prefer to avoid risks when making investment decisions. They feel more discomfort or experience greater pain when facing the possibility of loss compared to the satisfaction they feel when earning profits of the same amount. As a result, these SME actors are more cautious in allocating their funds and tend to choose investments considered safer and more stable, such as low risk assets. Although these low-risk assets often provide smaller returns, they are seen as more reliable in maintaining the financial stability of the business, compared to investing in high risk assets. On the other hand, high risk investments have the potential to generate greater profits. However, the fear of loss can prevent them from seizing investment opportunities that may be more profitable.

5. Conclusion

5.1. Conclusion

Based on the research and analysis mentioned above, it can be concluded that risk perception does not affect investment decision, as investors demonstrate a high level of confidence in making investment recommendations without thoroughly considering every aspect, often overlooking risk perception in this context. The variable of risk tolerance has a positive effect on investment decision because the ability to bear losses and the uncertainty associated with investment outcomes that do not meet expectations highlights that understanding and evaluating risks is crucial for making the right investment decisions. Each investor must determine the extent to which they can tolerate risk based on

their goals and financial situation. A high level of risk tolerance goes beyond potential financial loss, allowing individuals to face risks with optimism and willingness. The variable of loss aversion does not influence investment decision because SME actors tend to be more cautious in allocating their funds and prefer safer, more stable investments, such as low-risk assets. Although these low-risk assets often provide smaller returns, they are considered more reliable in maintaining the financial stability of the business, compared to engaging in high risk investments that may offer greater potential returns. However, this could also hinder SME growth, as the fear of financial loss prevents them from seizing investment opportunities that could be more profitable.

5.2. Limitation

This study uses data that reflects the current market and economic conditions, where investment decisions are highly influenced by the ever changing dynamics of the market. The volatile global economic situation or significant innovations in the financial sector, such as the development of financial technology can trigger substantial changes in investor behavior. In times of market uncertainty, investors tend to avoid risks as a way to protect their capital making psychological characteristics such as risk perception, risk tolerance, and loss aversion more prominent. This directly impacts investment decisions, especially in the short term, as investors may shift to safer instruments. Therefore, the results of this study may not fully represent investor behavior in stable market conditions or during future structural changes, considering investors highly contextual responses to different economic situations.

5.3. Suggestion

Based on the findings of this study, it is recommended for SMEs who make investment decisions to pay attention to psychological factors in determining investment choices. In-depth understanding of factors such as risk perception, risk tolerance, and loss aversion on investment decision is very important, especially in investing in Small and Medium Enterprises (SMEs) that are vulnerable to fluctuations. Risk perception includes how investors perceive potential gains and losses, while risk tolerance refers to how much they are willing to deal with uncertainty in the returns from their investments. Loss aversion describes an investors tendency to experience greater discomfort from losing wealth than gaining an equivalent amount. These three factors are proven to have an influence on investment decisions for SMEs. Therefore, each variable has an understanding of the psychological aspects that can help in designing investment strategies to better suit SMEs, so that investment decisions taken become more rational and balanced in accordance with the desired financial goals.

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