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Risk Tolerance and Investment Performance: From The Perspective of Generation

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Abstrak

Generasi milenial kini mendominasi pasar modal sebagai investor pemula. Investor pemula cenderung mengandalkan pendekatan heuristik dalam mengambil keputusan, yang sering kali mempercepat proses pengambilan keputusan tetapi juga dapat menyebabkan kesalahan penilaian dan pilihan investasi yang lebih memuaskan pribadi daripada rasional. Akibatnya, keputusan investasi ini tidak optimal, yang kemudian berdampak negatif pada performa investasi. Makalah ini mengeksplorasi bagaimana generasi investor mempengaruhi hubungan antara toleransi risiko dan performa investasi. Penelitian ini menggunakan metode kuantitatif dengan data primer, dan melibatkan 1000 investor aktif di Bursa Efek Indonesia sebagai unit analisis. Analisis dilakukan menggunakan Process Macro for SPSS (Hayes model 1) untuk uji regresi. Hasil menunjukkan bahwa generasi investor secara signifikan memoderasi pengaruh tolerances Risico terhadap performa investasi. Ini

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menunjukkan bahwa hubungan antara toleransi risiko dan kinerja investasi semakin kuat ketika variabel generasi meningkat. Toleransi risiko ditemukan berdampak negatif signifikan terhadap performa investasi, terutama pada generasi yang lebih tua, yang memiliki pengalaman dalam mengambil risiko (dengan toleransi risiko yang lebih rendah), tetapi pada akhirnya menghasilkan kinerja investasi yang lebih baik.

Kata Kunci: *Generasi, Investor, Keuangan Keperilakuan, Kinerja Investasi, Toleransi Risiko*

Abstract

Millennials now dominate the capital market as first-time investors. Novice investors tend to rely on a heuristic approach to decision-making, which often speeds up the decision-making process but can also lead to misjudgments and investment choices that are more personally satisfying than rational. As a result, these investment decisions are not optimal, which then negatively impacts investment performance. This paper explores how investor generations influence the relationship between risk tolerance and investment performance. This study uses quantitative methods with primary data, and involves 1000 active investors on the Indonesia Stock Exchange as the unit of analysis. The analysis was conducted using Process Macro for SPSS (Hayes model 1) for regression test. The results show that investor generation significantly moderates the effect of risk tolerance on investment performance. This indicates that the relationship between risk tolerance and investment performance gets stronger as the generation variable increases. Risk tolerance is found to have a significant negative impact on investment performance, especially in older generations, who have experience in taking risks (with lower risk tolerance), but ultimately result in better investment performance.

Keywords: *Behavioral Finance, Generation, Investment Performance, Investors, Risk Tolerance*

Introduction

Humans do not always act rationally; humans tend to behave irrationally in predictable patterns. Behavioral finance research is based on guiding investors in making better decisions by presenting suitable options to improve their investment performance through various means. Individuals have different risk tolerances, so the steps to obtain optimal investment performance also vary. Investors can manage risks that may occur and think rationally according to their normal expectations (Statman, 2020). The development of investment performance research continues by focusing on risk tolerance through experimental asset markets. Through the experiment, investor behavior can be further investigated. Risk tolerance significantly influences individual behavior in investment performance. In particular, aggressive individuals transact (buy) more when share prices rise than conservative individuals (Yusuf et al., 2022). Based on this, this research further analyzes investors' steps in managing risk to improve their investment portfolio performance.

Demographically, the millennial generation dominates the investment world. In 2016, the number of millennial investors (aged 21-30 years) amounted to 38.04% of total investors. Then, in 2020, they increasingly dominated with 44.70% of total investors and increased rapidly to 60.30% in 2022. BEI and stakeholders carry out outreach and

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education from campuses (investment galleries) to remote villages (Indonesian Stock Exchange, 2022). Investors from the new generation are generally beginners with limited knowledge and understanding in making accurate decisions. Behavioral bias conditions can occur if investors receive good news or advice about online trading, then aggressive novice investors trade without comprehensive preparation (Pambudhy, 2020). According to empirical research, aggressive investing occurs more often among novice investors when they enter pre-opening trading sessions and when the market is bullish after positive news releases (Gill et al., 2018). If investors are too aggressive, then an investment assessment often does not consider the risks that could occur. Being too aggressive is not always a negative phenomenon. Too conservative investors can hamper investment performance through the high-risk, high-return principle.

The return on an investment portfolio is known as investment performance (Akhtar et al., 2018). Investor perceptions are used in this study to measure investment performance. A person's perspective is how they see and understand a situation or occurrence; most people base their decisions more on perception than on reality (Karmacharya et al., 2022). The impression one has after investing within a specific time frame is their perception of the performance of their investments (Akhtar et al., 2018). Considerations of return, risk, information stored and security, time, or duration are converted into the dimensions and indicators employed in this study (Akhtar & Das, 2020).

Financial risk tolerance is the level of risk tolerance investors are willing to accept when investing. This is considered risky when someone decides without being sure of the outcome or the influence of an uncertain condition (Rai et al., 2021). There are dimensions or indicators of financial risk tolerance, namely uncertainty of results, expected results, and potential results. Then, researchers use the term generation-based (Kupperschmidt, 2023), namely a group of people who have the same year of birth and life events that impact critical stages of development. Events in life impact the lives and feelings of people living in that generation. Based on similarities in birth time and the history that individuals have gone through, the division of generations is categorized into five categories, namely, matures (<1946), Baby Boomers (1947-1964), Generation X-ers (1965-1980), Generation Y (1981-1995) and Post Millennial (1995-present (Oblinger & Oblinger, 2005).

Previous research focused on the investment performance of generation risks concerning investment performance. This research uses age (generation) as a moderating variable to study risk tolerance on investment performance and the role of each generation in the capital market.

Research Method

The focus of this research is on how investors perceive investment performance, specifically considering their risk tolerance and demographic factors, such as generational differences. The study involves respondents who are active investors in the Indonesian Stock Exchange. This research was conducted during June 2023–May 2024. This research used a population of active investors investing in the Indonesian Stock Exchange. Based on data from the Indonesian Stock Exchange, the number of investors in June 2024 is 13 million SID. The sampling method used is by Purwohedi (2022). A convenience sampling technique was used to determine respondents from the research sample, namely determining how to take samples from parts of the population where members agree or are willing to provide the information. The survey was administered

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to 1003 investors who participate in the Indonesian Capital Market. This research was carried out by distributing questionnaires via an online form distributed to respondents through group communities and investor social media until the required data was sufficient.

Operational variables for each variable with dimensions and indicators are arranged to describe each construct and its measurement so that data is obtained for analysis. Data processing based on questionnaire instruments through explanatory surveys was used to answer research problems. The perception of investment performance serves as the dependent variable in this study. Perception of investment performance is a person's perspective in assessing the profits or losses experienced after investing in a certain period. The aspects of investment decision-making in this study are adapted from Akhtar et al. (2018), encompassing the evaluation of return, risk, available information, and the time or duration.

The tolerance variable for financial risk referred to in this research is individual tolerance (the level of ability that investors can accept) towards the possibility of an event with the consequences or impact of investment risks that arise in financial decisions. There are three dimensions of risk tolerance adapted from (Kannadhasan et al., 2016; and Weber and Figner, 2015): outcome uncertainty, outcome expectations, and outcome potential. A generation is a group of people who share the same year of birth and life events that impact critical stages of development. Events in life impact the lives and feelings of people living in that generation. Based on similarities in birth time and the history that individuals have gone through, the division of generations is categorized into five categories, namely, matures (<1946), Baby Boomers (1947-1964), Generation X-ers (1965-1980), Generation Y (1981-1995) and Z Post Millennial (1995-present) (Oblinger & Oblinger, 2005; Kupperschmidt, 2023).

Statistical data processing in this study used SPSS software with the addition of PROCESS version 3.4 (Hayes, 2021) and used the 1st model. Quantitative data analysis is used in this research, namely describing through collecting quantitative data and analyzing it using a mathematical-based approach. The relationship between variables is evaluated and analyzed using statistical techniques from a questionnaire designed according to the study of research variables in collecting and analyzing numerical data according to statistical procedures (Creswell, 2014).

Findings and Analysis

Descriptively, a risk tolerance and investment performance description can be essential information in hypothesis testing analysis. The investment performance variable describes the dimensions of return consideration with a score of 86%, information held with a score of 84%, risk and security with a score of 84%, and time or period with a score of 88%. Based on these data, for the investment performance dimension, respondents had the highest score on the time indicator with an average score of 88%, with the statement "I consider time in every decision I make," and the lowest score on the risk consideration aspect with the statement "Performance and return My investment beats the risk of inflation." This indicates that respondents consider time when measuring investment performance.

Based on the risk tolerance dimension, respondents had the highest score in the aspect with the uncertainty of results indicator with an average score of 88%, with the indicator "Investment is too difficult to understand," and the lowest score in the aspect of potential results with the indicator "I am more comfortable saving my money in a

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bank account." This indicates that investors feel uncomfortable saving money in the bank and that the investment world is difficult to understand.

The impact of risk tolerance on investment performance, with generational factors as a moderating influence, is illustrated in the table below:

Table: The impact of risk tolerance on investment performance

Exogenous	**Endogenous Investment Performance**			
	Coeff	**se**	**t**	**p**
constant	59.4358	4.2932	13.8441	0.0000
Risk Tolerance	-0.2937	0.1333	-2.2035	0.0278
Generation	-15.1133	1.1344	-13.3229	0.0000
Int_3 (RT.GEN)	0.3810	0.0367	10.3907	0.0000
R square	0.7844			
F(5,1002)	1211.4277			p=0,0000

Source: Data Analysis (2023)

The effect of risk tolerance on investment performance in this study obtained a negative and significant coefficient. The higher the risk tolerance, the lower the performance of Indonesian investors. This also shows high investment performance can occur in investors with low-risk tolerance. Respondents with low-risk tolerance are aggressive investors (risk takers), which can lead to increased investment performance. On the other hand, if investors have a high-risk tolerance, this generally occurs in investors who tend to avoid risk. By the term high-risk high return, to be able to achieve high performance, investors are challenged with high risk or, in other words, low-risk tolerance.

Risk Tolerance in this research is developed from various indicators, namely potential results, safety, and certainty of results. In this research, it was also found that the potential return dimension is the dimension with the highest numbers, so it is hoped that investors will be able to manage risk tolerance (bear risk) by managing their concerns regarding potential profits in investing. High risks can be overcome by investors with excessive knowledge, experience, and information, which are shown in the highest dimension of the risk tolerance variable (potential yield/return). This also causes lower risk tolerance (investors dare to take high risks), improving investment performance. Investors tend to feel capable of managing their investment risks.

This research supports previous research that shows that risk tolerance influences investment performance. Akhtar and Das (2020), using household investors in India as respondents, explained that risk tolerance influences investment performance. In line with these results, Kubilay and Bayrakdaroglu's (2016) research explained a significant relationship between risk tolerance and perceptions of investment performance. In line with the results of this research, Ainia and Lutfi (2019) studied investors in Surabaya and Jombang. There were 400 respondents in the sample, and using the survey method, the data was then processed using the PLS-SEM (Partial Least Square-Structural Equation Model) model as a data analysis technique. The results of his research show that risk tolerance has a significant influence on investment performance. Investors' risk tolerance can influence perceptions of investment performance.

Risk management is necessary for an investor before entering the world of capital markets or business. The financial behavior of each generation still needs to be carried out in in-depth research to control risks and shape a person's skills in making decisions regarding investment performance. For individual investors, it is essential to understand the capital market not only from a rational point of view but also the behavior that can occur when investing; of course, this has become one of the basic foundations and capital to be able to develop in the world of investment.

The results of the interaction test show that Generation effectively moderates the influence of risk tolerance on investment performance with a positive and significant coefficient. This suggests that the relationship between risk tolerance and investment performance is stronger with higher values of the moderating variable (Generation). The impact of risk tolerance on investment performance increases as the value of the moderating variable (Generation) rises. The older the generation, the more they can manage risk tolerance, influencing investment performance. The older age group already has experience taking high risks (low-risk tolerance) to optimize investment performance. In this research, outcome uncertainty was the highest dimension of risk tolerance. On the other hand, the consideration dimension of the results of the investment performance variable also has the highest average value, so it can be a concern for investors in managing investment performance according to their investment characteristics. The older age group has experience, which can be a strength in managing risk so that uncertainty in investment results can be managed well and impact high investment performance.

This research supports previous research in that Akhtar and Das (2020) explain that generation mediates the influence of risk tolerance on investment performance. Then Nguyen et al. (2023) also strengthened research results regarding generations that influence investment performance. According to his research, age or generation has a major favorable impact on investors' investing performance. His research findings illustrate that risk tolerance influences individual investors' financial risk tolerance. Pak & Mahmood (2015), in their research regarding risk tolerance and investment decisions of Kazakhstan investors, stated that financial risk tolerance influences decisions and significantly impacts investment performance.

Conclusion

The study’s findings reinforce our comprehension of how risk tolerance influences investment performance, indicating that risk tolerance has a significant impact on investment performance. Apart from that, generation has been proven to effectively moderate risk tolerance on investment performance, meaning that in the older generation group, the influence of risk tolerance on investment performance can increase. The older age group tends to have experience, which can be a strength in managing risk so that uncertainty in investment results can be managed well and impact high investment performance.

This study seeks to clarify the varying results of prior research on risk tolerance and investment performance from a generational perspective. However, there are limitations that could serve as foundations for future research. These limitations involve the potential for further development of pre-testing questionnaires and the expansion of sampling techniques. Future studies might include factors such as biases to identify influences on investment performance, and could also incorporate control variables like social interaction and gender.

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