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# Risk Perception and Return Expectation on Investment Decisions in the Capital Market

Diendra Kusuma Warjono[1*], Maretha Ika Prajawati[2], Muhammad Sulhan[3]
[1,2,3] Faculty of Economics, Maulana Malik Ibrahim State Islamic University Malang, Indonesia
*Corresponding author, e-mail: 210501110090@student.uin-malang.ac.id

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KEYWORD

*Investment, Return Expectation, Risk Perception.*

**A B S T R A C T**

*This study examines the effects of risk perception and return expectations on investment decision-making among students in the capital market context. Using a quantitative approach, the population comprises 520 active students from the Faculty of Economics at UIN Maulana Malik Ibrahim Malang. A sample of 84 respondents was selected through simple random sampling by employing Slovin's formula to ensure equal selection opportunity and representativeness. Data collection involves structured questionnaires measuring risk perception, return expectations, and investment decisions. Investment decisions serve as the dependent variable, while risk perception and return expectations are independent variables. The indicators for each variable align with foundational theories to capture their essential dimensions, ensuring data relevance and accuracy. Data analysis was performed using SPSS 27, incorporating descriptive statistics to summarize respondent demographics and regression analysis to evaluate variable influences. The findings reveal that risk perception and return expectations significantly and positively affect students' investment decisions. This suggests that students consider both risk and potential returns, reflecting a sound understanding of investment principles before making decisions.*

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## INTRODUCTION

The business landscape has undergone significant transformations driven by of rapid technological advancements, particularly in the areas of communication and trade. Many companies are capitalizing on technology to strengthen their market positions in an increasingly competitive environment. One of the effective strategies is to engage in the capital market, which acts as a platform for transactions between investors and public companies or governments, encompassing instruments like stocks and bonds (Anoruo et al., 2021). Through participation in the capital market, companies can secure additional financial resources to support their growth initiatives. Notably, between 2020 and 2024, the capital market has seen a consistent increase in investors, as shown in Figure 1.

Figure 1. Number of Investors in the Capital Market from 2020 to February 2024

The increased number of investors indicates the increasing enthusiasm of Indonesian investors to invest in the capital market. The Indonesia Stock Exchange (IDX) has taken the initiative to expand its investor base by establishing Investment Galleries in universities, which have attracted interest from the general public and students. However, this enthusiasm highlights certain challenges that young investors face, particularly psychological factors influencing their decision-making processes. This research focuses on students of the Faculty of Economics at UIN Maulana Malik Ibrahim Malang as the research object, primarily due to their exposure to financial literacy programs and access to an Investment Gallery on campus. These students represent a critical demographic of young, emerging investors whose decisions are shaped by both rational and psychological factors.

Despite the growing trend of investor participation in the capital markets, psychological factors continue to influence the decision-making processes of young investors (Kahneman & Tversky, 1979). This theory explains how individuals evaluate gains and losses under risky conditions in three main ways. First, individuals always have risk aversion for options with certain gains but tend to seek risk when faced with certain losses, a phenomenon which is inevitable in the certainty effect. Second, people evaluate losses and gains based on their final assets, involving two thought processes. Third, losses are given higher weight than gains of the same amount because the losses are perceived as more significant, called loss aversion. These aspects underline the basic principle of behavioral finance: investment decisions are not always rational and are often influenced by psychological biases and human emotions. This finding aligns with research emphasizing the importance of making informed investment decisions. Investment is generally correlated with the level of risk, meaning that a higher potential return often accompanies greater investment risk. Thus, risk can be interpreted as the possibility that investment activities will not produce the expected return, which is one of the most important things for investors. Since everyone has different risk preferences, it is essential to understand each person's individual risk profile before making financial decisions. (Baihaqqi & Prajawati, 2023). A rule in stock investment states that the expected rate of return will increase along with the increase in risk. In stock investment, a principle states that the higher the risk is taken, the greater the expected rate (Tandelilin, 2017; Fridana & Asandimitra, 2020).

According to *Kamus Besar Bahasa Indonesia (KBBI)*, the terms return, profit, or yield are broadly interpreted as gains. Returns serve as the primary motivation for investing (Tandelilin, 2017). Therefore, when investors are willing to take risks, these returns compensate for their willingness to assume such risks. The study analyzed how risk affects investment decisions at Jakarta State University's Investment Gallery and discovered a positive correlation between the two factors (Melindasari & Oktapiani, 2023). This aligns with findings indicating that returns significantly impact investment decisions (Musri et al., 2021). In contrast, previous research suggests that investment decisions are unaffected by risk (Diva & Suardana, 2023).

Comprehending the interplay between risk and return is fundamental for informed investment decision-making. An intricate analysis of this relationship enables investors to optimize their portfolios and align their strategies with their risk tolerance and return expectations. Furthermore, returns positively influence investment decisions and significantly impact investment choices (Mahardika & Asandimitra, 2023; Musri et al., 2021). However, given that various factors influence returns, they do not consistently exert a beneficial effect on investment decisions (Salsabila et al., 2022).

Previous studies have highlighted a gap in understanding the factors influencing investment decision-making in the capital market. This research explores the impact of risk and returns on students' investment choices. It is expected that the findings offer valuable insights into how these two variables shape students' decisions regarding investments. The choice of students as the research object stems from their increasing participation in investment activities and their potential to represent the future generation of informed investors.

## RESEARCH METHOD

This research adopts a quantitative methodology to examine how risk perception and return expectations impact investment decision-making in the capital market. The population of this study consists of 520 active students from the Faculty of Economics at UIN Maulana Malik Ibrahim Malang. Following a simple sampling formula proposed by Eliot M. Slovin (1960) and (Santoso, 2023), a sample size of 84 respondents was determined. The sampling technique used simple random sampling, ensuring that each participant in the population had an equal opportunity to be selected. This approach was chosen to enhance the representativeness and reliability of the findings.

Data collection was conducted using a questionnaire designed to assess risk perception, return expectations, and investment decision-making behavior. In this study, investment decisions are treated as the dependent variable, while risk perception and return expectation are independent variables. Indicators are used to measure each variable to ensure that the data collected is relevant and accurately reflects the relationships between variables (Kumar & Analyst, 1989). The indicators for each variable are crafted in alignment with the foundational theories and concepts relevant to the field. These indicators are designed to capture essential dimensions that collectively encapsulate the core characteristics of the variables in question.

Table 1. Operational Variables

| Variables | Indicator | Source |
|---|---|---|
| Risk Perception (X1) | 1. Financial risk<br>2. Social risks<br>3. Performance risk<br>4. Psychological risks<br>5. Physical risks<br>6. Time risk | Sumarwan et al. (2013) |
| Return Expectation (X2) | 1. Interest in returns<br>2. Attractive and competitive benefits<br>3. The reward is proportional to the risk<br>4. Profit from investment<br>5. Investment considerations<br>6. Returns and risks | Aini et al. (2019) |
| Investment Decisions (Y) | 1 Income allocated for investment<br>2 Investments made without careful consideration<br>3 Investments that do not have collateral<br>4 Investment decisions are based on instinct | The Lover & The Lover (*2022*) |

Source: Processed data (2024)

The data analysis was conducted in several phases, beginning with descriptive statistics to provide a comprehensive dataset overview. This was followed by classical assumption tests, including normality, multicollinearity, and heteroscedasticity evaluations, ensuring the regression model's validity. Finally, multiple linear regression analysis was utilized as a robust statistical method to explore the complex interdependencies between independent and dependent variables. To rigorously evaluate the significance of each independent

variable within the model, hypothesis testing was conducted using the t-test. Additionally, the F-test was employed to determine the overall significance of the regression model itself.

This study aims to deepen our comprehension of how students in academic environments perceive risk and return dynamics, and how these perceptions significantly impact their investment decision-making processes within the capital markets. By examining the cognitive frameworks that underlie these perceptions, we seek to elucidate how they influence investment behaviors and choices among student investors. By systematically analyzing these factors, the research aims to uncover valuable insights into the investment behaviors of young individuals with a degree of economic literacy. These findings are anticipated to serve as a crucial reference point for developing educational and financial strategies that promote informed and prudent investment decision-making among this demographic.

## RESULT AND DISCUSSION

### Result

Before proceeding to data analysis, a validity test was conducted to ensure that the research instrument used could measure the intended variables accurately. This validity test was conducted using a correlation technique between each item in the instrument and its total score. The results of the validity test are presented in the appendix 1. A validity test ensures that the research instrument is well-designed and capable of accurately measuring the variables. Tables 2, 3, and 4 demonstrate that all items within the variables X1, X2, and Y are deemed valid, as their significance (p-value) is less than 0.05. Reliability in the measurement, particularly when using questionnaires, refers to the degree to which a measuring instrument yields consistent and dependable results (Ghozali, 2018). This suggests that the results will remain consistent if the same variable or construct is assessed using a questionnaire at different times or with different groups of respondents. The achievement of convergent validity indicates that the constructs are highly correlated with each other (Juita et al., 2020).

The internal reliability of a scale or questionnaire is typically evaluated using Cronbach's Alpha, a metric that indicates internal consistency reliability (Bonett & Wright, 2015). A variable is considered reliable when its Cronbach's Alpha score >0.70. As shown in Appendix 2, the value is 0.825, which exceeds the 0.70 threshold, thus affirming the reliability of the variable. The multicollinearity test shows no signs of multicollinearity among the variables, as indicated by a tolerance level > 0.100 and a variance inflation factor (VIF) <10.00. Appendix 3 demonstrates the absence of multicollinearity among the independent variables, indicating that these variables do not exhibit strong linear relationships with one another. This finding supports the validity of the regression analysis by ensuring that the influence of each independent variable can be assessed independently. Specifically, the risk perception and investment return expectations variables have a tolerance value of 0.786 (greater than 0.100) and a VIF value of 1.272 (less than 10.00).

The results of the P-Plot test assess whether the residuals of the created regression model follow a normal distribution. The data points generally align with the diagonal line, although there are minor deviations at the extremes. The findings suggest that the regression model exhibits characteristics consistent with a normal distribution. The Kolmogorov-Smirnov test is a statistical procedure employed to assess the concordance of a given dataset with a normal distribution (Vhalery, 2020). The Asymptotic Significance (2-tailed) value is 0.200, which exceeds the established significance threshold of 0.05. This suggests that the observed results are not statistically significant, indicating insufficient evidence to reject the null hypothesis. Therefore, it can be assumed that the data is normally distributed.

The scatter Plot figure in Appendix 4 displays a random scattering of data points above and below the zero line, indicating the absence of any discernible pattern. This distribution suggests that the residual variance remains constant; therefore, no specific pattern is evident. As a result, the conditions for the heteroscedasticity test have been satisfied, indicating no evidence of heteroscedasticity.

The criteria for the Glejser test indicate that there are no indications of heteroscedasticity when the significance value exceeds 0.05. Table 8 reveals that the significance value for the investment risk perception variable is 0.23, which exceeds the 0.05 threshold. Thus, it can be concluded that this variable did not exhibit signs of heteroscedasticity. Furthermore, the p-value for the return expectation variable is 0.365, which is higher than the 0.05 benchmark. This finding further indicates that the return variable lacks the characteristics typically associated with heteroscedasticity.

A significance value <0.05 suggests a meaningful simultaneous impact of the independent variable on the dependent variable in this F-test. The findings reveal that both risk perception and return expectation significantly affect investment decisions, with a significance value of less than 0.001.

Table 2. Result of T-Test

| Model | Unstandardized Coefficients | | Unstandardized Coefficients Beta | | |
|---|---|---|---|---|---|
| 1 | B | Std, Error | | t | Sig, |
| (Constant) | 5,582 | 1,688 | | 3.306 | 0.001 |
| X1 | 0.239 | 0.77 | 0.279 | 3.12 | 0.003 |
| X2 | 0.497 | 0.84 | 0.527 | 5.902 | <0.001 |

Source: Processed data (2024)

If the significance value from a T-test is less than 0.005, it suggests that the independent variable influences the dependent variable. Table 2 shows that the perception of investment risk has a significance value of 0.03, which is below the threshold of 0.05. This suggests that this variable significantly influences investment decisions. As a result, H1 is accepted while H0 is rejected. Additionally, the return on investment significantly impacts investment decisions, as evidenced by a p-value of less than 0.05. Therefore, H2 is accepted while H0 is rejected. Since both the perception of risk and the expectation of returns have significance levels <0.05, it can be concluded that they both partially affect the dependent variable.

Table 3. Result of the Determination Coefficient Test

| Model | R | R Square | Adjusted R Square | Std, Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.701 | 0.49.2 | 0.479 | 1.969 |

Source: Processed data (2024)

Table 3 shows that the adjusted R-squared value is 0.479, suggesting that risk perception and expected investment returns together explain 47.9% of the variance in the investment decision variable. The remaining 52.1% can be attributed to external factors that were not examined in this study.

**Discussion**

The findings derived from the statistical analysis performed through partial testing indicate that the variable of investment risk perception plays a significant role in shaping investment decisions. Consequently, this leads to the affirmation of hypothesis H1. This finding underscores that risk perception is essential in shaping investment decisions, extending beyond mere rational analysis. This aligns with the behavioral finance theory, which posits that financial decisions, including those related to investments, are impacted by objective assessments and psychological factors (Kahneman & Tversky, 1979). Individuals often evaluate risk perception subjectively, making their decisions more complex and heavily influenced by the desire to avoid potential losses. This aligns with modern portfolio theory, which states that rational investors will choose a portfolio that maximizes returns while minimizing risk (Markowitz, 1952). Furthermore, risk factors significantly affect investment decisions across various contexts. These studies demonstrate that investors are inclined to consider risk perception when confronted with uncertainty, leading to shifts in their preferences based on how they perceive that risk. Emphasizing this, individuals with low or weak interest tend to deliberate longer before making investment decisions, while those with high or strong interest are more likely to decide quickly (Apprilia & Dwijayanti, 2021). This reinforces the notion that investment decisions are shaped not only by rational analyses like profit and loss calculations but also by psychological factors that drive investors to avoid risks they perceive as high (Abul, 2019; Holzmeister et al., 2020 ; P & Kumar, 2014 ; Melindasari & Oktapiani, 2023 ; Sulistyowati et al., 2022 ;

Shefrin & Statman, 2000).

Statistical analysis through partial testing indicates that the expectation of investment returns significantly affects investment decisions, reinforcing the acceptance of hypothesis H1. This implies that even if investors' returns are relatively modest, this factor remains a crucial element in future investment choices. This finding emphasizes that investors commonly use past investment outcomes as a benchmark when making decisions, which means their actions are often swayed by previous experiences and results. This aligns with the behavioral finance theory suggesting that the process of making investment decisions is not solely grounded in rational thought but is also shaped by psychological aspects, including cognitive biases and emotions (Kahneman & Tversky, 1979).

Furthermore, factors related to prior investment experiences play a significant role in the decision-making process (Hemalatha, 2019; Hoffmann et al., 2015; Hashim et al., 2021; Sivarajan & Bruijn, 2021; Mahardika & Asandimitra, 2023; Musri et al., 2021; Hapsari et al., n.d.). This research supports the perspective that investors frequently evaluate opportunities or risks through the lens of their previous experiences despite the outcomes not always being optimal. Therefore, comprehending the psychological elements in investment decisions may assist in identifying investors' tendencies to adhere to certain risk-taking patterns, particularly in uncertain market environments. This analysis reveals that a behavioral finance perspective is pertinent for understanding the dynamics of investment choices in Indonesia, where psychological influences and past experiences have an essential impact.

## CONCLUSIONS

From the analysis, it can be concluded that both risk perception and expectations regarding investment returns significantly affect investment decisions, with psychological aspects and past experiences playing a crucial role in this process. Investors' perception of risk prompts them to act more cautiously and take potential losses into account. Conversely, their expectations of investment returns serve as the primary motivation guiding subsequent investment decisions, as investors tend to reflect on past performance.

However, this study has several limitations. First, the research sample was limited to students from the Faculty of Economics at UIN Maulana Malik Ibrahim Malang, which may not fully represent the broader population of young investors. Second, the study relied on self-reported data collected through questionnaires, which could be influenced by social desirability bias or inaccuracies in respondents' self-assessment. Third, the study only focused on two independent variables, risk perception and return expectations, potentially overlooking other significant factors influencing investment decisions.

Future research should aim to include a more diverse sample, such as young professionals or investors from various academic fields. Furthermore, integrating qualitative methods, such as interviews or focus groups, could yield richer insights into the psychological and contextual factors that affect investment decisions. Future studies should also consider examining additional variables, including financial literacy, market conditions, and the impact of digital investment platforms, to foster a broader understanding of what influences how people invest.

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**Appendix 1. Result of Variable Validity Test**

Result of Validity Test of Variable X1

| | Correlation (r) | Sig, (p) | N | Note |
|---|---|---|---|---|
| X1,1 | 0.653 | <0.001 | 84 | Valid |
| X1,2 | 0.445 | <0.001 | 84 | Valid |
| X1,3 | 0.531 | <0.001 | 84 | Valid |
| X1.4 | 0.345 | 0.001 | 84 | Valid |
| X1.5 | 0.538 | <0.001 | 84 | Valid |

Source: Processed data (2024)

Result of Validity Test of Variable X2

| | Correlation (r) | Sig, (p) | N | Note |
|---|---|---|---|---|
| X2,1 | 0.6 | <0.001 | 84 | Valid |
| X2,2 | 0.524 | <0.001 | 84 | Valid |
| X2,3 | 0.63 | <0.001 | 84 | Valid |
| X2.4 | 0.609 | <0.001 | 84 | Valid |
| X2.5 | 0.666 | <0.001 | 84 | Valid |

Source: Processed data (2024)

Result of Validity Test of Variable Y

| | Correlation (r) | Sig, (p) | N | Note, |
|---|---|---|---|---|
| Y1,1 | 0.566 | <0.001 | 84 | Valid |
| Y1,2 | 0.494 | <0.001 | 84 | Valid |
| Y1,3 | 0.575 | <0.001 | 84 | Valid |
| Y1.4 | 0.531 | <0.001 | 84 | Valid |
| Y1.5 | 0.605 | <0.001 | 84 | Valid |

Source: Processed data (2024)

**Appendix 2 Reliability Test**

| Cronbach's Alpha | N of Items |
|---|---|
| 0.827 | 15 |

Source: Processed data (2024)

**Appendix 3 Multicollinearity Test**

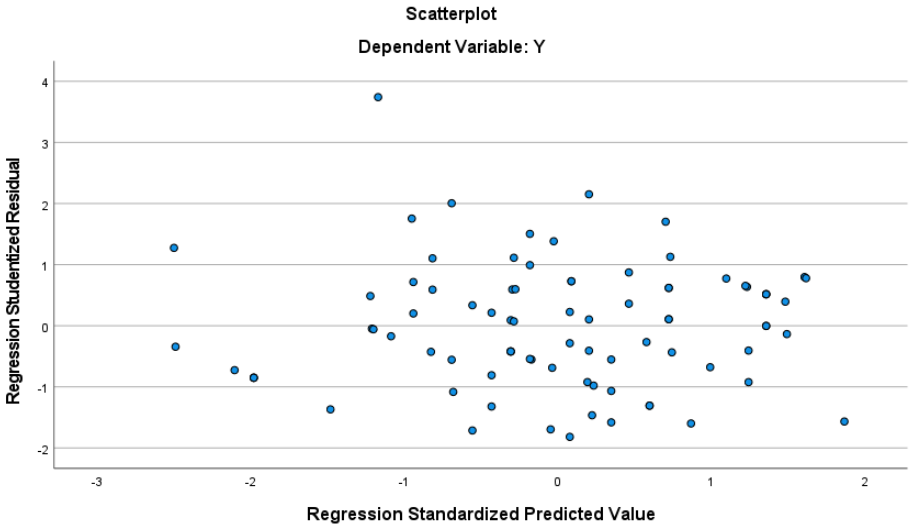
Result of Multicollinearity Test

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | X1 | 0.786 | 1,272 |
| | X2 | 0.786 | 1,272 |

Source: Processed data (2024)

**Appendix 4 Scatter Plot Test**

Result of Scatter Plot Test




Source: Processed data (2024)