

Analysis of the Influence of Financial Literacy, Investment Knowledge, Financial Behavior, and Risk Tolerance on Investment Behavior among Millennials in Indonesia

Angga Tri Adi Putra¹, Vip Paramarta¹, Kosasih¹

¹Program Pascasarjana Magister Manajemen, Universitas Sangga Buana YPKP, Bandung, Indonesia

*Corresponding Author: Angga Tri Adi Putra

Email: anggaputra.210792@gmail.com

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Abstract

Investment participation among Indonesian millennials has expanded along with broader access to financial services and digital investment platforms; however, higher participation does not necessarily indicate better investment behavior. This study examines the effects of financial literacy, investment knowledge, financial behavior, and risk tolerance on the investment behavior of millennials in Indonesia. A quantitative descriptive-verify, cross-sectional design was employed. Data were collected using a Likert-scale questionnaire from 100 millennial respondents with investment experience. Path analysis using SPSS 26 was applied after validity, reliability, and normality testing. The path coefficients were 0.278 for financial literacy ($p < 0.001$), 0.238 for investment knowledge ($p = 0.016$), 0.398 for financial behavior ($p < 0.001$), and 0.132 for risk tolerance ($p = 0.011$). All four variables had positive and significant partial effects on investment behavior. Financial behavior generated the largest total effect (33.88%), followed by financial literacy (21.07%), investment knowledge (19.80%), and risk tolerance (5.28%). Simultaneously, the four variables explained 80.1% of the variance in investment behavior ($R^2 = 0.801$; $F = 95.527$; $p < 0.001$). These findings indicate that strengthening day-to-day financial behavior is the most dominant factor, while financial literacy, investment-instrument knowledge, and risk awareness remain essential for developing more rational and planned investment behavior.

Introduction

The financial sector development not only requires expanding public access to financial products and services but also enhancing individuals' ability to understand, manage, and make rational financial decisions. In Indonesia, strengthening financial literacy and financial inclusion has become an integral part of the financial sector development agenda. The data in this study indicate that the financial literacy index increased from 38.03% in 2019 to 49.68% in 2022 and 66.46% in 2025. At the same time, the level of financial inclusion remained higher, creating a challenge to ensure that access to financial services is accompanied by the ability to understand the benefits, costs, and risks associated with financial products (OECD, 2023; Rahayu et al., 2021; Pasek, 2022).

Technological developments have also accelerated public participation in investment activities. The number of Single Investor Identification (SID) holders in Indonesia's capital market increased from 7.49 million in 2021 to 14.87 million in 2024. More than half of capital market investors are under 40 years of age. This condition highlights the significant role of younger generations, including millennials, in the development of financial markets. However, the growing number of investors has not necessarily been accompanied by adequate decision-

making quality. Investment decisions based on social media recommendations, influencers, online communities, and the phenomenon of fear of missing out (FOMO) remain challenges for young investors (Hasanudin, 2023; Aji et al., 2024; Candra et al., 2024; Prasaja et al., 2023).

A preliminary survey conducted among 30 millennial investors revealed that 63.3% of respondents had purchased investments due to influencer influence or recommendations, 56.7% did not yet understand portfolio diversification, 46.7% were unfamiliar with their personal risk profiles, and only 36.7% routinely conducted analysis before purchasing investment products. These preliminary findings indicate that the expansion of investment access needs to be accompanied by stronger cognitive, behavioral, and psychological factors that determine the quality of investment behavior (Yuliani et al., 2024; Tamara & Maharani, 2024; Ratnadi, 2023; Dirsan & Arifin, 2023).

Financial literacy provides a foundation for individuals to understand financial concepts and evaluate information before making decisions. The OECD (2023) defines financial literacy as a combination of knowledge, skills, attitudes, and behaviors that support effective financial decision-making. In the context of investment, adequate financial literacy helps investors understand the relationship between risk and return, financial planning, diversification, and the characteristics of financial products. Raut et al. (2021) also demonstrated that financial literacy and risk perception are associated with investment decision-making behavior. Similar relationships have been identified in studies examining financial literacy, investment decisions, and perceived returns (Romadona & Setiyono, 2021; Shroff et al., 2024; Nggadas & Candraningrat, 2023; Suriansyah & Harianto, 2022).

In addition to financial literacy, investment knowledge is essential because investors need to understand investment concepts, instrument characteristics, the relationship between risk and return, and diversification strategies. Financial behavior is also important because investment decisions do not occur in isolation but are part of broader patterns of income management, expenditure, saving, and financial planning. The role of investment knowledge and experience, while Arianti (2020) highlighted that financial behavior is associated with individuals' ability to allocate funds for investment. Recent evidence similarly indicates that investment knowledge and financial literacy contribute to investment interest and decision-making among young investors (Mulyani & Wirawati, 2024; Pratiwi et al., 2024; Sari, 2021; Kurniadi et al., 2022; Nugraha et al., 2022).

Risk tolerance complements these cognitive and behavioral dimensions. Investors with different levels of risk tolerance are likely to demonstrate different tendencies in selecting financial instruments, maintaining investment positions, and responding to fluctuations in asset values. Grable et al. (2021) identified risk tolerance as an important characteristic in investment decision-making. Variations in investment behavior based on individuals' risk capacity and preferences. Evidence from Indonesian investors also shows that risk tolerance, financial literacy, and investment experience are relevant to investment decision-making (Hendarto et al., 2021; Ferli et al., 2022; Yulianis & Sulistyowati, 2021; Yuliani et al., 2023).

Although research on investment behavior has continued to develop, there remains room for further investigation because many studies examine financial literacy, risk, or behavioral biases separately. Research that simultaneously integrates cognitive aspects (financial literacy and investment knowledge), behavioral aspects (financial behavior), and psychological aspects (risk tolerance) among Indonesian millennials remains relatively limited. This study addresses this gap by examining the direct and indirect effects of these four variables on the investment behavior of millennial investors (Ramadani et al., 2022; Usriyono & Wahyudi, 2023; Tamara et al., 2023; Kusumahadi & Utami, 2022; Mohta & Shunmugasundaram, 2024; Suherman et

al., 2023; Barlian et al., 2022). Based on these phenomena and research gaps, this study aims to: (1) describe the conditions of financial literacy, investment knowledge, financial behavior, risk tolerance, and investment behavior among millennial investors; (2) examine the partial effects of each independent variable on investment behavior; and (3) examine the simultaneous effects of financial literacy, investment knowledge, financial behavior, and risk tolerance on investment behavior.

Method

Research Design

This study employed a quantitative approach with a descriptive and explanatory survey design and a cross-sectional structure. The descriptive analysis was used to describe financial literacy, investment knowledge, financial behavior, risk tolerance, and investment behavior, while the explanatory analysis examined the relationships between the independent variables and investment behavior. The unit of analysis was individual millennials in Indonesia with investment experience and experience making investment decisions. Path analysis was used to examine the relationships between financial literacy, investment knowledge, financial behavior, risk tolerance, and investment behavior.

Population and Sample

The population comprised millennials in Indonesia who had investment experience and had made investment decisions. The sampling technique was probability sampling using random selection without stratification. The questionnaire was distributed to 140 respondents, and 100 respondents were included in the final analysis. The final sample consisted of 100 millennial respondents with investment experience, as reflected in the respondent characteristics and subsequent statistical analysis.

Measurement and Data Collection

Primary data were collected using a structured, closed-ended questionnaire. All research variables were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The questionnaire consisted of 76 items covering five research variables: financial literacy, investment knowledge, financial behavior, risk tolerance, and investment behaviour. The operationalization of the variables is presented in Table 1.

Table 1. Operationalization of Research Variables

Variable	Dimensions	Items
Financial Literacy (X1)	Financial knowledge; financial skill; financial attitude; financial behavior	15
Investment Knowledge (X2)	Investment concept knowledge; investment instrument knowledge; risk and return knowledge; investment strategy knowledge	15
Financial Behaviour (X3)	Financial planning; financial management; money management behavior; financial decision-making; future financial preparation	15
Risk Tolerance (X4)	Risk preference; risk perception; risk capacity; risk decision	15
Investment Behaviour (Y)	Investment planning; information seeking; investment decision; risk management; investment evaluation	16

Source: Operationalization of research variables, adapted from the original research instrument.

Instrument Testing

The validity of the questionnaire items was assessed using Pearson product-moment correlation. An item was considered valid when its correlation coefficient exceeded 0.30. Internal consistency reliability was evaluated using Cronbach's Alpha, with a coefficient greater than 0.70 considered acceptable. The normality of the data was assessed using the Kolmogorov-Smirnov test. The data were considered normally distributed when the significance value exceeded 0.05.

Data Analysis

Data were processed using SPSS version 26. Descriptive analysis was conducted to summarize the characteristics and conditions of the research variables. Before path analysis, the ordinal questionnaire responses were transformed into interval-scale data using the Method of Successive Intervals (MSI), following the procedure specified in the original research. Path analysis was subsequently employed to examine the relationships between financial literacy (X₁), investment knowledge (X₂), financial behavior (X₃), risk tolerance (X₄), and investment behavior (Y).

where Y represents investment behavior, X₁ financial literacy, X₂ investment knowledge, X₃ financial behavior, X₄ risk tolerance, and ε the residual term. The path coefficients were evaluated using partial t-tests, while the simultaneous contribution of the independent variables was assessed using the F-test at a 5% significance level. The coefficient of determination (R²) was used to determine the proportion of variation in investment behavior explained by the model.

Result and Discussion

Respondent Characteristics

The study was analyzed using 100 respondents. The composition of respondents was relatively balanced by gender, with males dominating at 56%. The majority of respondents were aged 31–35 years (42%), held a bachelor's degree (59%), and had 2–5 years of investment experience (46%). These characteristics indicate that the sample was dominated by individuals of productive age with relatively high educational attainment and sufficient investment experience.

Table 2. Respondent Characteristics

Characteristic	Category	n	%
Gender	Male	56	56
	Female	44	44
Marital Status	Married	48	48
	Unmarried	52	52
Age	26–30 years	31	31
	31–35 years	42	42
	36–40 years	27	27
Education	Senior High School/equivalent	15	15
	Diploma (D3)	18	18
	Bachelor's Degree (S1)	59	59
	Master's Degree (S2)	8	8

Investment Experience	< 2 years	37	37
	2–5 years	46	46
	> 5 years	17	17

Source: Processed from research data, 2026.

Instrument Quality and Data Normality

All variables met the reliability criteria, with Cronbach's Alpha values ranging from 0.895 to 0.937, all of which were above the threshold of 0.700. The Kolmogorov-Smirnov test showed that the Asymp. Sig. values for each variable were greater than 0.05, indicating that the data followed a normal distribution. These results support the suitability of using path analysis.

Table 3. Summary of Reliability and Normality

Variable	Cronbach's Alpha	Asymp. Sig. K-S	Description
Financial Literacy (X1)	0.930	0.062	Reliable; normal
Investment Knowledge (X2)	0.937	0.071	Reliable; normal
Financial Behavior (X3)	0.895	0.067	Reliable; normal
Risk Tolerance (X4)	0.933	0.068	Reliable; normal
Investment Behavior (Y)	0.898	0.074	Reliable; normal

Source: SPSS 26 processing results, 2026.

Descriptive Analysis

In general, all variables were within the fairly good to very good range. Investment behavior had the highest mean (3.89), followed by financial behavior (3.77), investment knowledge (3.75), financial literacy (3.71), and risk tolerance (3.55). At the dimension level, several aspects still require strengthening, particularly financial attitude in financial literacy (3.25), investment instrument knowledge in investment knowledge (3.01), money management behavior in financial behavior (3.63), risk perception in risk tolerance (3.34), and investment decision in investment behavior (3.61).

Table 4. Descriptive Statistics of Variables

Variable	Mean	SD	Range	Interpretation
Financial Literacy	3.71	0.87	2.83–4.57	Fairly good to very good
Investment Knowledge	3.75	0.97	2.78–4.72	Fairly good to very good
Financial Behavior	3.77	0.83	2.94–4.60	Fairly good to very good
Risk Tolerance	3.55	0.98	2.57–4.53	Fairly good to very good
Investment Behavior	3.89	0.80	3.09–4.69	Fairly good to very good

Source: Processed from research data, 2026.

Path Analysis and Hypothesis Testing

The results of the path analysis showed that all path coefficients were positive. Financial behavior had the largest path coefficient ($\beta = 0.398$), followed by financial literacy ($\beta = 0.278$), investment knowledge ($\beta = 0.238$), and risk tolerance ($\beta = 0.132$). All calculated t-values were greater than the t-table value of 1.985, and all significance values were below 0.05. Therefore, H1 to H4 were accepted.

Table 5. Path Coefficients and Partial Tests

Relationship	β	t-value	Sig.	Decision
X1 $\rightarrow$ Y	0.278	3.948	<0.001	H1 accepted
X2 $\rightarrow$ Y	0.238	2.447	0.016	H2 accepted
X3 $\rightarrow$ Y	0.398	4.117	<0.001	H3 accepted
X4 $\rightarrow$ Y	0.132	2.595	0.011	H4 accepted

Source: SPSS 26 processing results, 2026. t -table = 1.985.

The calculation of direct and indirect effects showed that financial behavior was the most dominant variable. The total effect of financial behavior reached 33.88%, while financial literacy contributed 21.07%, investment knowledge 19.80%, and risk tolerance 5.28%. The total effect obtained from the sum of the path components was 80.03%; this value was very close to the R^2 value of 80.1%, with the difference resulting from rounding the percentage components.

Table 6. Direct and Indirect Effects

Variable	Direct	Indirect	Total Effect
Financial Literacy (X1)	7.73%	13.34%	21.07%
Investment Knowledge (X2)	5.66%	14.14%	19.80%
Financial Behavior (X3)	15.84%	18.04%	33.88%
Risk Tolerance (X4)	1.74%	3.54%	5.28%
Total	30.97%	49.06%	80.03%

Source: Processed from research data, 2026.

The simultaneous test produced $F = 95.527$ with $p < 0.001$. The R value was 0.895, R^2 was 0.801, and adjusted R^2 was 0.792. This means that financial literacy, investment knowledge, financial behavior, and risk tolerance jointly explained 80.1% of the variation in investment behavior, while the remaining 19.9% was influenced by other factors outside the model. Therefore, H5 was accepted.

Table 7. Simultaneous Test and Coefficient of Determination

R	R^2	Adjusted R^2	F	df1; df2	Sig.
0.895	0.801	0.792	95.527	4; 95	<0.001

Source: SPSS 26 processing results, 2026.

Financial literacy has a positive and significant effect on investment behavior, with a path coefficient of 0.278, a direct effect of 7.73%, and a total effect of 21.07%. This finding indicates that understanding money management, the benefits and risks of financial products, and the ability to evaluate financial conditions help investors make more planned decisions. This result is consistent with Khan et al. (2021), who found that financially literate individuals were more likely to participate in risky financial assets, suggesting that financial literacy is associated with the ability to evaluate investment opportunities and risks. Raut (2020) similarly demonstrated that financial literacy contributes to the investment decision-making process of individual investors by supporting their ability to process financial information and make investment-related decisions. The OECD (2023) further emphasizes that financial literacy encompasses financial knowledge, financial behavior, and financial attitudes and is associated with financial well-being and financial resilience. Nevertheless, the financial attitude dimension obtained a relatively low score (3.25), indicating that strengthening long-term-oriented financial attitudes remains necessary.

Financial Literacy, Investment Knowledge, and Risk Tolerance as Foundations of Investment Behavior

The findings demonstrate that financial literacy, investment knowledge, and risk tolerance each have a positive and significant effect on investment behavior, although their contributions differ in magnitude. Financial literacy has a path coefficient of 0.278 and a total effect of 21.07%, while investment knowledge has a path coefficient of 0.238 and a total effect of 19.80%. Risk tolerance has a smaller path coefficient of 0.132 and a total effect of 5.28%. These results indicate that investment behavior among Indonesian millennials is not determined by a single form of knowledge or by risk preference alone. Rather, investment behavior emerges from the interaction between individuals' capacity to understand financial information, their specific knowledge of investment instruments, and their ability to assess and respond to financial risk.

Financial literacy provides the broader cognitive foundation for investment behavior because it enables individuals to understand financial conditions, evaluate the benefits and risks of financial products, and relate investment decisions to longer-term financial objectives. This finding is consistent with Khan et al. (2021), who demonstrated that financial literacy is associated with participation in risky financial assets, and with Raut (2020), who showed that financial literacy supports the processing of financial information in individual investment decision-making. The present finding also corresponds with the OECD (2023), which conceptualizes financial literacy as encompassing knowledge, skills, attitudes, and behaviors rather than knowledge alone. In the present study, however, the relatively low mean score for financial attitude (3.25) suggests that possessing financial knowledge does not automatically translate into a sufficiently future-oriented financial orientation. This distinction is important because investment behavior requires not only the ability to understand financial information but also the willingness to apply that understanding consistently.

Investment knowledge complements general financial literacy by providing more specific understanding of investment concepts, instrument characteristics, risk-return relationships, diversification, and investment strategies. The significant effect of investment knowledge is consistent with Sari (2021) and Mubaraq et al. (2021), who identified financial knowledge as relevant to investment decision-making among Indonesian investors. The descriptive findings, however, reveal that investment instrument knowledge recorded the lowest mean among the investment-knowledge dimensions, at 3.01. This suggests that respondents may possess a general understanding of investment while still having insufficiently detailed knowledge of the characteristics and risk profiles of specific instruments. Consequently, the expansion of investment participation should be accompanied by more instrument-specific financial education, particularly concerning how stocks, bonds, mutual funds, deposits, and other alternatives differ in terms of return potential, risk, liquidity, and investment horizon.

Risk tolerance represents a different but complementary dimension because it concerns how individuals perceive and respond to uncertainty and potential financial losses. Its positive and significant relationship with investment behavior is consistent with Grable et al. (2021), Grable and Kwak (2021), and Heo et al. (2021), who demonstrate that financial risk attitudes vary across individuals and may change in response to economic and social conditions. The relatively low mean for risk perception (3.34) indicates that respondents still have room to strengthen their ability to evaluate the relationship between potential returns and investment risks. Thus, the findings suggest that sound investment behavior requires an alignment between what investors know and what they are psychologically prepared to tolerate. Knowledge may

help an investor recognize the characteristics of an instrument, but risk tolerance influences whether the investor can maintain a decision when investment values fluctuate.

Financial Behavior as the Dominant Mechanism Shaping Investment Behavior

Among the four explanatory variables, financial behavior emerges as the most dominant factor influencing investment behavior. It records the highest path coefficient ($\beta = 0.398$) and the largest total effect (33.88%), exceeding financial literacy (21.07%), investment knowledge (19.80%), and risk tolerance (5.28%). This result is particularly important because it indicates that investment behavior is shaped not merely by what individuals know but by how consistently they manage their financial resources in everyday life. Financial planning, income management, expenditure control, preparation for future needs, and allocation of funds for investment therefore constitute an important behavioral mechanism through which financial capability is translated into actual investment practices.

This finding is consistent with Arianti (2020), who demonstrated the relevance of financial behavior to investment decisions, and Suciawati and Sinarwati (2021), who found a significant positive effect of financial behavior on investment decisions. The finding also corresponds with the OECD (2023), which emphasizes that financial literacy becomes meaningful when financial knowledge and attitudes are translated into appropriate financial behaviors. In this respect, the present study provides an important behavioral interpretation of investment participation among millennials. An individual may understand diversification, risk-return relationships, and investment products, but these forms of knowledge may have limited practical consequences if the individual does not maintain expenditure discipline, plan for future financial needs, and allocate funds systematically toward investment.

The relatively strong overall mean of financial behavior (3.77) supports this interpretation, although the money-management behavior dimension obtained a comparatively lower mean of 3.63. This suggests that respondents generally demonstrate good financial practices but still have opportunities to strengthen the consistency of day-to-day money management. The implication is that investment education should move beyond conventional product-oriented approaches. Educational interventions should incorporate budgeting, cash-flow management, saving discipline, investment allocation, and financial planning so that investment becomes part of a broader financial management process. Such an approach is particularly relevant for millennials because investment behavior is embedded within their wider financial lives rather than occurring as an isolated financial decision.

The dominance of financial behavior also provides an important theoretical implication for the interpretation of investment behavior. The result suggests that the transition from financial capability to investment action is substantially behavioral. Financial literacy and investment knowledge may provide the cognitive resources required to make informed decisions, while risk tolerance determines how individuals respond to uncertainty; however, financial behavior represents the practical application of these resources in everyday financial management. Accordingly, improving investment behavior requires an approach that connects knowledge acquisition with repeated financial practices. This interpretation is also consistent with Raut (2020), who identified past behavior as relevant to individual investment decision-making, and with Ramadani et al. (2022), who examined financial behavior as an important mechanism in millennial investment decisions.

Integrated Influence of Cognitive, Behavioral, and Psychological Factors

The simultaneous findings provide a broader explanation of investment behavior among Indonesian millennials. Financial literacy, investment knowledge, financial behavior, and risk tolerance jointly explain 80.1% of the variance in investment behavior ($R^2 = 0.801$), with the simultaneous test producing $F = 95.527$ and $p < 0.001$. Only 19.9% of the variation remains attributable to factors outside the model. The magnitude of the explained variance indicates that investment behavior is strongly associated with the combined operation of cognitive, behavioral, and psychological dimensions rather than with financial knowledge considered independently.

The integrated pattern of results provides a more comprehensive interpretation than examining each variable separately. Financial literacy establishes a general capacity to understand financial information and financial consequences; investment knowledge provides more specific analytical understanding of investment alternatives; financial behavior determines whether financial resources are managed in a disciplined manner; and risk tolerance influences how investors respond to uncertainty and potential losses. The four dimensions therefore represent complementary mechanisms. An investor may possess adequate financial knowledge but fail to invest consistently because of weak financial management practices. Conversely, an investor may have disciplined financial behavior but make inappropriate investment choices if knowledge of investment instruments and risk-return characteristics is insufficient. Investment behavior is consequently better understood as the outcome of the interaction among what investors know, how they manage money, and how they respond to financial uncertainty.

This interpretation is consistent with the behavioral-finance perspective. Baker et al. (2022) demonstrate that behavioral biases can influence individual investment decision-making, emphasizing that investment decisions cannot be understood solely through conventional assumptions of fully rational behavior. Raut (2020) likewise demonstrates that financial literacy and behavioral factors, including past behavior and subjective influences, are relevant to investment decision-making. The present findings extend this perspective by empirically demonstrating that cognitive resources, financial practices, and risk-related characteristics collectively account for a substantial proportion of investment-behavior variation among Indonesian millennials.

The findings also have practical implications for financial institutions, investment-service providers, and financial educators. The relatively low scores for financial attitude (3.25), investment instrument knowledge (3.01), money-management behavior (3.63), risk perception (3.34), and investment decision (3.61) identify specific areas where financial capability can be strengthened. Therefore, financial education should be designed as an integrated process rather than as the simple dissemination of investment-product information. Programs should combine financial planning, instrument-specific investment knowledge, risk profiling, budgeting, portfolio evaluation, and disciplined financial practices. Such an approach is consistent with the central empirical finding of this study: stronger investment behavior is associated not only with greater knowledge but with the capacity to translate knowledge into systematic financial action while appropriately responding to investment risk.

The results support an integrated understanding of millennial investment behavior in which financial capability and psychological characteristics operate together. The high explanatory power of the model does not imply that the four variables exhaust all determinants of investment behavior; rather, it indicates that they provide a substantial framework for

understanding the observed variation in this sample. Other factors, including income, investment experience, financial technology use, psychological characteristics, and behavioral biases, may also contribute and should be considered in future research. This interpretation is consistent with the study's stated limitation that the model focuses on four principal explanatory variables and uses a sample of 100 respondents.

Conclusion

This study demonstrates that investment behavior among Indonesian millennials is shaped by the interplay of cognitive, behavioral, and psychological factors, with financial literacy and investment knowledge providing an important foundation for understanding financial products and evaluating investment alternatives, while risk tolerance influences responses to uncertainty and potential losses. More importantly, the findings highlight the central role of financial behavior, indicating that financial knowledge and capability become more meaningful when translated into disciplined practices of financial planning, expenditure control, saving, and investment allocation. These findings suggest that financial institutions and investment service providers should develop investor education that extends beyond product introduction by integrating financial planning, investment analysis, risk awareness, instrument-specific knowledge, and disciplined money-management practices. The study also contributes theoretically by reinforcing an integrated perspective of investment behavior that considers cognitive, behavioral, and psychological dimensions simultaneously. Nevertheless, the findings are subject to limitations related to the sample and the number of explanatory variables examined. Future research should consider broader and more diverse samples and incorporate additional factors such as income, investment experience, financial technology, psychological characteristics, and behavioral biases to develop a more comprehensive understanding of investment behavior among emerging generations of investors.

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