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## Effects of Financial Literacy, Risk Tolerance, and Herding on Gen Z IPO Decisions Moderated by Prospectus Information

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### Abstract

*This study aims to analyze the influence of financial literacy, risk tolerance, and herding behavior on the investment decisions of Generation Z in IPO stocks, with prospectus information serving as a moderating variable. The research adopts a quantitative approach involving 180 Gen Z investors in Semarang City who purchased IPO stocks during the period of 2023 to 2025. Data were collected through a structured questionnaire and analyzed using SmartPLS version 4 to assess both the measurement model and the structural model. The findings reveal that financial literacy and herding behavior do not exhibit a significant direct effect on investment decisions. In contrast, risk tolerance shows a positive and significant influence, indicating that individuals with a higher ability to accept risk tend to make more decisive investment choices in IPO stocks. Furthermore, prospectus information does not moderate the relationship between financial literacy or risk tolerance and investment decisions, suggesting that the availability of information does not necessarily enhance the impact of these variables. Interestingly, prospectus information is found to strengthen the influence of herding behavior on investment decisions. This indicates that when investors are exposed to clear, detailed, and credible information, their tendency to follow the actions of the majority becomes more pronounced. Overall, the study highlights that psychological aspects, particularly risk tolerance play a crucial role in shaping Gen Z's investment behavior, while informational factors may interact differently depending on the nature of the investor's behavioral tendencies.*

**Keywords:** Financial Literacy, Risk Tolerance, Herding Behavior, Investment Decisions, Prospectus Information

### 1. Introduction

Indonesia's economic growth in recent years has shown a positive trend despite having been pressured by the pandemic. In the second quarter of 2025, the economy grew by 5.12 percent (yoy), indicating a strong recovery. This growth cannot be separated from the role of investment as one of the main components forming GDP. Data from KSEI (2025), shows that the number of investors in the capital market, mutual funds, stocks, and securities has continued to increase significantly from 2022 to mid-2025. This increase is dominated by young investors, particularly Generation Z, who have now become the largest group of investors, with the majority aged under 30. According to Nurachma (2024), the high interest of Generation Z in the stock market is influenced by the ease of access through digital platforms as well as the encouragement of social media trends and online communities.

One of the stock instruments that attracts the attention of Gen Z is the Initial Public Offering (IPO). An IPO is the initial stage of a company going public by offering shares to the public (Tandelilin 2010). IPO stocks are considered appealing because they often provide high initial returns in a short period (Rachman, S. F., & Purwaningrum 2025). However, investing in IPO stocks carries high risks due to the limited information available about newly listed companies. This risk arises mainly from the lack of comprehensive information, making it difficult to conduct thorough fundamental analysis, which often results in stock prices that do not reflect the company's actual condition. This situation indicates that investment decisions in IPO stocks are not solely based on rational analysis but are also influenced by behavioral and psychological factors. According to Wahyudi (2024), investment decisions reflect how investors allocate their funds by considering risks and returns. However, in reality, many young investors make decisions without in-depth analysis, driven primarily by emotional and social factors.

The current investment phenomenon among Indonesian society shows a significant increase, especially in stocks that have just been listed on the exchange, known as Initial Public Offerings (IPO). Many Generation Z

investors are attracted to purchasing IPO stocks in hopes of obtaining large profits in a short time. According to research by Wibowo and Rahmawati (2024), the high interest in IPO stocks is often not accompanied by thorough fundamental analysis but is instead driven by expectations of quick profits and social influence from fellow investors. This aligns with trends on social media platforms such as TikTok, where numerous contents discuss IPO stocks that are “currently rising” or “potential big gains,” thus encouraging impulsive investment behavior. This phenomenon demonstrates that investment decisions are influenced not only by rational factors such as financial literacy but also by psychological and social factors like risk tolerance and herding behavior, which lead investors to follow market trends without careful consideration. An external factor that also influences investment decisions is the information contained in the prospectus. A prospectus is an official document containing details about a company’s condition, business strategies, risk factors, and financial statements that must be provided to potential investors. Therefore, the prospectus becomes an important source of information that helps investors assess the feasibility of a company more objectively before making investment decisions.

Safryani et al.,(2020) state that investment decisions are actions taken in the present to obtain future returns. However, investments do not always yield profits because investors also face potential losses. Investment decisions are influenced by several factors, including financial literacy, risk tolerance, and herding behavior. Financial literacy refers to the ability to understand and manage financial information to make effective decisions (Anam et al., 2023). Risk tolerance describes an individual’s ability to accept the consequences of the investment decisions made (Soraya et al., 2023). Meanwhile, herding behavior occurs when individuals follow the actions of other investors without conducting in-depth analysis because they perceive the majority’s decisions as safer (Fernandes et al., 2022). Research by Darwish (2025) shows that financial literacy has a significant positive influence on the quality of investment decisions, where increased financial knowledge encourages investors to make more rational choices. Similar findings are also shown by Rika and Syaiah (2022), who found that risk tolerance significantly influences investment decisions, indicating that individuals with higher risk tolerance are more willing and prepared to face market uncertainties. In addition, research by Valentina and Pamungkas (2022) found that herding behavior also affects investment decisions because investors tend to follow the actions of the majority as a form of social confirmation.

However, studies that examine prospectus information as a moderating variable are still very limited. The prospectus serves as the primary source of information that can help investors evaluate companies more objectively. Therefore, this study aims to bridge this gap by investigating how prospectus information shapes the influence of financial literacy, risk tolerance, and herding behavior on investment decisions. According to the aforementioned background, the researcher intends to determine how financial literacy, risk tolerance, and herding behavior influence the investment decisions of Generation Z in Semarang City, with prospectus information as the moderating variable.

## 2. Research Methods

This research utilizes quantitative approach to provide a more accurate overview of Gen Z investment behavior in IPO stocks in Semarang City. This approach concentrates on gathering original data by administering questionnaires to participants who are 18 –27 who have conducted stock purchase transactions during initial public offerings (IPO) in the period of 2023–2025 and are domiciled in Semarang. The population in this study is categorized as an infinite population because no available data specify the exact number of Gen Z investors in Semarang City who have invested in IPO stocks. The sample was selected using a purposive sampling technique, and based on calculations referring to the formula by Hair et al., a total sample of 180 respondents was determined. The use of this technique aims to ensure that the individuals selected as respondents possess characteristics that align with the needs and objectives of the study. Data collection was carried out through the distribution of a questionnaire using Google Forms. The questionnaire link was disseminated online through platforms such as WhatsApp and TikTok by contacting investors residing in Semarang City who met the respondent criteria. Through this process, a total of 180 respondents were obtained. Each respondent was asked to provide assessments of the research statements using a five-point Likert scale. Subsequently, the data obtained were examined with Smart Partial Least Squares (SmartPLS) version 4.0 to assess the validity of the constructs and to investigate the relationships between the variables within the research model

### 3. Results and Discussions

#### Outer Model Evaluation

##### Convergent Validity

**Table 1 Outer Loading**

|      | Investment Decisions | Financial Literacy | Risk Tolerance | Herding Behavior | Prospectus Information |
|------|----------------------|--------------------|----------------|------------------|------------------------|
| X1.1 |                      | 0.779              |                |                  |                        |
| X1.2 |                      | 0.620              |                |                  |                        |
| X1.3 |                      | 0.748              |                |                  |                        |
| X1.4 |                      | 0.772              |                |                  |                        |
| X2.1 |                      |                    | 0.818          |                  |                        |
| X2.2 |                      |                    | 0.737          |                  |                        |
| X2.3 |                      |                    | 0.804          |                  |                        |
| X3.1 |                      |                    |                | 0.824            |                        |
| X3.2 |                      |                    |                | 0.793            |                        |
| X3.3 |                      |                    |                | 0.847            |                        |
| X3.4 |                      |                    |                | 0.847            |                        |
| Y1   | 0.819                |                    |                |                  |                        |
| Y2   | 0.714                |                    |                |                  |                        |
| Y3   | 0.781                |                    |                |                  |                        |
| M1   |                      |                    |                |                  | 0.832                  |
| M2   |                      |                    |                |                  | 0.758                  |
| M3   |                      |                    |                |                  | 0.787                  |
| M4   |                      |                    |                |                  | 0.828                  |

Source: Processed data using SmartPLS 4, 2025

As shown in Table 1, all indicators for each research variable demonstrate Outer Loading values above 0.6. This indicates that each indicator is able to adequately reflect the construct being measured.

### Average Variance Extract (AVE)

**Table 2 AVE**

|                        | AVE   |
|------------------------|-------|
| Investment Decisions   | 0.596 |
| Financial Literacy     | 0.537 |
| Risk Tolerance         | 0.620 |
| Herding Behavior       | 0.686 |
| Prospectus Information | 0.643 |

Source: Processed data using SmartPLS 4, 2025

Based on Table 2 above, all variables have AVE values that meet the required criterion, namely is more than 0.5. Therefore, all indicators of each variable in this study can be declared valid.

### Reliability Test

**Table 4 Reliability Test**

| Variable               | Cronbach's alpha | Composite reliability (rho_a) | Composite reliability (rho_c) |
|------------------------|------------------|-------------------------------|-------------------------------|
| Investment Decisions   | 0.660            | 0.859                         | 0.815                         |
| Financial Literacy     | 0.708            | 0.715                         | 0.821                         |
| Risk Tolerance         | 0.695            | 0.705                         | 0.830                         |
| Herding Behavior       | 0.849            | 0.708                         | 0.897                         |
| Prospectus Information | 0.814            | 0.662                         | 0.878                         |

Source: Processed data using SmartPLS 4, 2025

Based on Table 4, The values for composite reliability and Cronbach's alpha are higher than the established criteria greater than 0.6. Since these criteria have been met, each variable in this study can be deemed reliable.

### Structural Model Test

The structural model functions to assess the relationships among exogenous constructs through the R-Square and F-Square values.

### R-Square Measurement

**Table 5**  
**Measurement Results R- Square**

|                    | R-square | R- Square Adjusted |
|--------------------|----------|--------------------|
| Financial Literacy | 0.756    | 0.746              |

Source: Processed data using SmartPLS 4, 2025

The independent variables explain 74.6% of the variation in investment decisions, while the remaining 25.4% is influenced by other factors not included in this study. This shows that the model has strong explanatory power.

### F-Square Measurement

**Table 6**  
**Measurement Results F-Square**

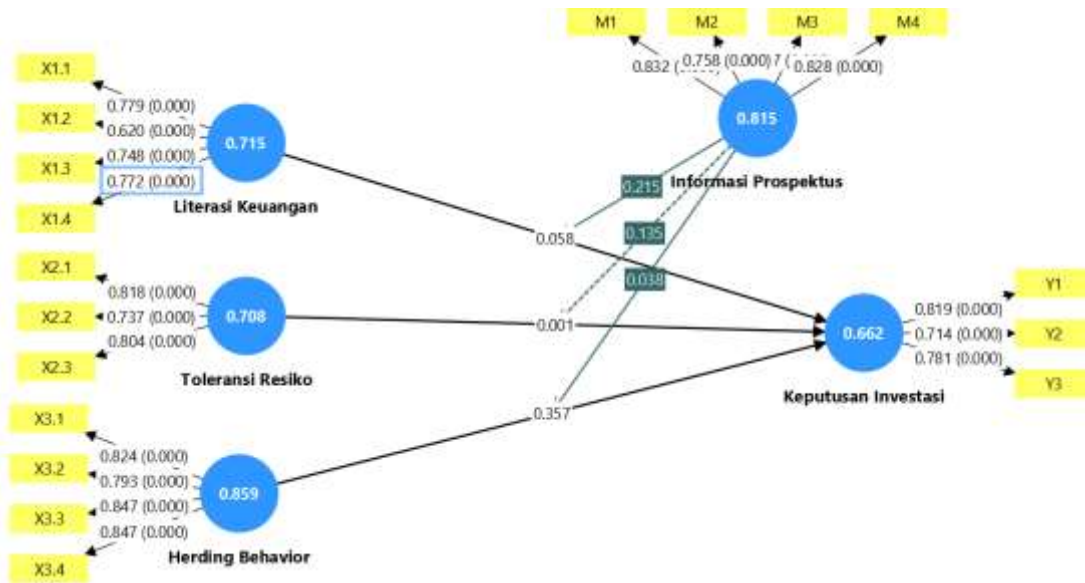
|                     | Investment Decision | Financial Literacy | Risk Tolerance | Herding Behavior | Prospectus Information |
|---------------------|---------------------|--------------------|----------------|------------------|------------------------|
| Investment Decision |                     |                    |                |                  |                        |
| Financial Literacy  | 0.018               |                    |                |                  |                        |
| Risk Tolerance      | 0.077               |                    |                |                  |                        |
| Herding Behavior    | 0.002               |                    |                |                  |                        |

Source: Processed data using SmartPLS 4, 2025

The results indicate that F-Square test in Table 4.19, it is known that Financial Literacy has an F-Square value of 0.018, indicating a very small impact on Investment Decisions. Risk Tolerance exhibits a value of 0.077, which falls into the category of a small effect. Meanwhile, Herding Behavior has a value of 0.002, indicating that this variable has no effect or only a very minimal effect on Investment Decisions.

### Hypothesis Testing

Hypothesis testing was carried out through structural model analysis by examining the path coefficient values for direct effects and the specific indirect effect values for indirect effects. The decision to accept a hypothesis is determined based on the P Value, where a The hypothesis is deemed accepted the P Value < 0.05.



Picture 1

Structural Equation Model

Source: Processed data using SmartPLS 4, 2025

Direct Effect

Table 7

Direct Effect

|   | Path Coefficient | P values | Description |
|---|------------------|----------|-------------|
| Financial Literacy -> Investment Decision | 1.569            | 0.058    | No Effect   |
| Risk Tolerance -> Investment Decision     | 3.186            | 0.001    | Effect      |
| Herding Behavior -> Investment Decision   | 0.367            | 0.357    | No Effect   |

Source: Processed data using SmartPLS 4, 2025

## Indirect Effect

**Table 8**

### Indirect Effect

|  | Path Coefficient | P values | Description |
|--|------------------|----------|-------------|
| Financial Literacy x Prospectus Information -> Investment Decision | 0.790            | 0.215    | No Effect   |
| Risk Tolerance x Prospectus Information -> Investment Decision     | 1.104            | 0.135    | No Effect   |
| Herding Behavior x Prospectus Information -> Investment Decision   | 1.769            | 0.038    | Effect      |

Source: Processed data using SmartPLS 4, 2025

#### Financial Literacy Has No Influence on Investment Decisions

The test results show a p-value of 0.058, which is greater than 0.05, indicating that the hypothesis is rejected. Thus, financial literacy does not have a significant effect on the investment decisions of Gen Z in IPO stocks. This finding suggests that basic knowledge of financial management, understanding of risk and return, and awareness of the importance of time value in investing are not strong enough to serve as the foundation for decision-making. Investors tend to be influenced by factors beyond financial literacy. This result aligns with the findings of Primasari et al., (2024) and (Gilang et al., (2021), which show that financial literacy does not have a significant influence on investment decisions, reinforcing the idea that financial literacy levels do not always determine the investment decision-making process.

#### Risk Tolerance Has a Significant Positive Influence on Investment Decisions

The hypothesis testing yields a p-value of 0.001, which is smaller than 0.05, indicating that the hypothesis is accepted. This means that risk tolerance has a positive and significant effect on the investment decisions of Gen Z in IPO stocks. Investors with higher risk-taking ability tend to be more confident in determining their investment goals and are more prepared to face price fluctuations without excessive panic. Their preference for higher-risk instruments also makes them more active in making investment decisions. This finding is consistent with studies by Lestari and Wardhani (2025) and Rika and Syaiah (2022), which state that risk tolerance has a positive and significant effect on investment decisions, reinforcing that the ability to accept risk is a key determinant in investment behavior.

#### Herding Behavior Has No Influence on Investment Decisions

The p-value of 0.357, which is greater than 0.05, indicates that the hypothesis is rejected. Thus, herding behavior does not have a significant effect on the investment decisions of Gen Z in IPO stocks. This suggests that investors do not fully rely on the actions of the majority or the influence of others when making decisions; therefore, stock popularity, advice from others, or the tendency to imitate others' gains are not decisive factors. This finding is in line with research by Gilang Restu (2021) and IskiAwalia (2025), which state that herding behavior does not affect investment decisions, strengthening the conclusion that following others is not a primary factor in investment decision-making.

### Prospectus Information Does Not Moderate the Influence of Financial Literacy on Investment Decisions

The moderation test yields a p-value of 0.215, which is greater than 0.05, indicating that the hypothesis is rejected. This means that prospectus information is unable to strengthen the influence of financial literacy on investment decisions. Although a prospectus provides comprehensive company information and risk disclosures, the complexity of its language, the length of the document, and the level of information novelty are not sufficient to enhance investors' ability to utilize their financial literacy. Investors continue to rely on their personal financial knowledge without being influenced by the presence of a prospectus. Thus, the completeness of the prospectus does not provide an additional effect in strengthening the relationship between financial literacy and investment decisions.

### Prospectus Information Does Not Moderate the Influence of Risk Tolerance on Investment Decisions

The test results show a p-value of 0.135, which is greater than 0.05, and therefore the hypothesis is rejected. This finding indicates that prospectus information does not strengthen the influence of risk tolerance on investment decisions. Although the prospectus contains risk disclosures and updated information, investors still rely on their personal perceptions of risk. The complexity and length of the prospectus limit the extent to which the information is used as an additional consideration. Thus, the prospectus does not provide an added effect on the relationship between risk tolerance and investment decisions.

### Prospectus Information Moderates the Influence of Herding Behavior on Investment Decisions

The test results yield a p-value of 0.038, which is less than 0.05, indicating that the hypothesis is accepted. This means that prospectus information strengthens the influence of herding behavior on investment decisions. When the prospectus is comprehensive and easy to understand, investors' tendency to follow others becomes stronger. Clear risk disclosures provide additional legitimacy to majority decisions, while updated and easy-to-understand information reinforces the tendency to follow other investors. Thus, the prospectus plays a role in strengthening the relationship between herding behavior and investment decisions.

## 4. Conclusion

The findings of this study show that financial literacy and herding behavior do not influence investment decisions in IPO stocks, whereas risk tolerance is proven to have a significant effect. This indicates that Gen Z investors rely more on their ability to accept risk when making investment decisions, while financial knowledge and the tendency to follow the majority are not determining factors. Prospectus information also does not strengthen the relationship between financial literacy or risk tolerance and investment decisions. However, the prospectus serves as a moderator in the relationship between herding behavior and investment decisions, meaning that when prospectus information is presented clearly, the tendency to follow the majority becomes stronger. These findings demonstrate that the quality of external information can influence the role of certain psychological factors in investment decision-making. Practically, this study provides insights for Gen Z investors to pay greater attention to risk aspects and enhance their ability to understand prospectuses so that their investment decisions become more rational. For issuers and financial institutions, presenting prospectuses in a more concise and easy-to-understand manner can help novice investors make more accurate decisions. Future research is recommended to involve a larger number of respondents and to consider other variables such as investment experience, social media influence, or perceptions of IPO stock risks. A qualitative approach is also suggested to obtain a deeper understanding of the psychological factors that influence investor behavior in an ever-changing market.

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