Role of Financial Attitude and Risk Tolerance in Shaping Investment Choices of Gen Z – A SEM BASED Analysis

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Abstract: *This study examines the role of financial attitude and risk tolerance in shaping investment choices through a behavioral finance perspective. Moving beyond traditional rational decision-making models, the study integrates psychological and attitudinal factors to explain individual investment behavior. Using primary data collected from 352 individual investors, the study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the proposed conceptual framework. The findings reveal that both financial attitude and risk tolerance exert a significant positive influence on investment choices, with risk tolerance emerging as the stronger predictor. Additionally, the results confirm the moderating role of risk tolerance, indicating that the relationship between financial attitude and investment choices is strengthened at higher levels of risk tolerance. The model explains a substantial proportion of variance in investment choices, highlighting its strong predictive capability. The study contributes to behavioral finance literature by offering an integrated framework that captures both motivational and psychological readiness in investment decision-making. Practically, the findings provide valuable insights for financial advisors, fintech platforms, and policymakers in designing investor-centric strategies, improving risk profiling, and enhancing financial education initiatives aimed at promoting informed and sustainable investment behavior.*

Keywords: Financial Attitude; Risk Tolerance; Investment Choices; Behavioral Finance; PLS-SEM

I. INTRODUCTION

1.1 Background of the Study

Investment decision-making has undergone a significant transformation in recent years due to changing investor demographics, technological advancements, and the growing relevance of behavioral factors. Among contemporary investor groups, Generation Z (Gen Z) has emerged as a particularly influential segment, characterized by early market participation, digital familiarity, and heightened exposure to financial information through fintech platforms and social media. Prior studies indicate that Gen Z investors exhibit investment patterns that differ markedly from earlier generations, often balancing return expectations with psychological comfort and personal beliefs (Pokharel & Maharjan, 2024; Kurniadi & Herdinata, 2024).

A growing body of literature emphasizes that investment decisions are no longer driven solely by rational evaluation of risk and return but are shaped by financial attitudes and individual risk tolerance. Empirical evidence suggests that risk tolerance plays a central role in determining asset preferences, portfolio diversification, and willingness to invest in high-risk instruments such as equities and cryptocurrencies (Yusup & Gunawan, 2024; Zahwa & Soekarno, 2023). Similarly, financial attitude—reflecting beliefs, planning orientation, and confidence toward financial matters—has been found to significantly influence investment behavior, especially among younger cohorts (Azaria et al., 2024; Pratama & Artini, 2024).

Recent studies focusing on Gen Z across emerging markets highlight that this group demonstrates heterogeneous risk profiles and evolving financial attitudes shaped by education, experience, and macroeconomic uncertainty (Vanishree et

al., 2025; Pradipta, 2024). Moreover, post-pandemic investment behavior reveals heightened sensitivity to uncertainty, reinforcing the importance of understanding how risk tolerance interacts with psychological factors in shaping investment choices (Sutejo et al., 2024). Against this backdrop, examining the role of financial attitude and risk tolerance provides a timely and relevant foundation for understanding contemporary investment decision-making.

1.2 Behavioral Finance Perspective

Traditional finance theories assume that investors act rationally and consistently maximize expected utility. However, behavioral finance challenges this assumption by integrating psychological and emotional dimensions into financial decision-making. Behavioral finance posits that attitudes, perceptions, and risk preferences significantly influence how individuals interpret financial information and respond to market uncertainty. This perspective is particularly relevant for Gen Z investors, who are often exposed to rapid information flows and emotionally charged market narratives (Rodrigues & BV, 2024).

Risk tolerance is a central construct in behavioral finance, representing an individual's willingness to accept uncertainty and potential losses. Research demonstrates that variations in risk tolerance explain differences in portfolio composition, investment frequency, and reactions to market volatility (Yusup & Gunawan, 2024; Alfathya & Indrawati, 2025). Importantly, risk tolerance is not merely a demographic attribute but a psychological trait influenced by personality, confidence, and financial experience (Rodrigues & BV, 2024).

Financial attitude complements this perspective by capturing an individual's beliefs, planning orientation, and confidence toward financial decision-making. Studies suggest that investors with positive financial attitudes exhibit higher engagement in goal-oriented investing, diversification, and long-term planning (Azaria et al., 2024; Wijaya & Florid, 2024). Behavioral finance thus provides a robust framework for examining how financial attitude and risk tolerance jointly shape investment choices, moving beyond purely cognitive explanations toward a more holistic understanding of investor behavior.

1.3 Research Problem and Motivation

Despite extensive research on financial literacy and demographic determinants of investment behavior, the integrated role of financial attitude and risk tolerance remains underexplored, particularly in emerging market contexts. Many existing studies focus on isolated predictors such as financial knowledge, fintech usage, or emotional factors, often treating risk tolerance as a control variable rather than a core explanatory construct (Zahwa & Soekarno, 2023; Pradipta, 2024). This fragmented approach limits the ability to understand how psychological readiness and risk perception jointly influence investment choices.

Furthermore, empirical findings on Gen Z investors reveal mixed results regarding their risk-taking behavior. While some studies suggest that Gen Z is more risk-seeking than millennials (Khamar et al., 2025), others report cautious investment behavior driven by uncertainty and limited experience (Kulshrestha et al., 2026; Vanishree et al., 2025). These inconsistencies indicate the need for a structured behavioral model that explicitly examines financial attitude and risk tolerance together.

The motivation for the present study arises from this gap. By adopting a behavioral finance lens and employing a PLS-SEM approach, this study aims to provide a predictive and integrative explanation of how financial attitude and risk tolerance shape investment choices. Such an approach is particularly suitable for capturing latent psychological constructs and their interrelationships, offering both theoretical clarity and practical relevance.

1.4 Objectives of the Study

The primary objectives of this study are:
- To examine the influence of financial attitude on investment choices.
- To assess the impact of risk tolerance on investment choices.
- To analyze the combined behavioral role of financial attitude and risk tolerance in shaping investment decision-making.

1.5 Significance of the Study

This study contributes to the behavioral finance literature by extending existing investment decision models through the integration of financial attitude and risk tolerance as core psychological determinants. By focusing on latent behavioral constructs and employing PLS-SEM, the study offers a methodologically robust framework that enhances predictive accuracy and theoretical depth.

From a practical standpoint, the findings provide valuable insights for financial advisors, fintech platforms, and policymakers seeking to design investor-centric products and financial education initiatives. Understanding how attitudes and risk preferences drive investment choices can support more effective risk profiling, portfolio customization, and investor engagement strategies. Additionally, the study offers policy-relevant implications for enhancing financial inclusion and responsible investing among younger investor segments.

II. REVIEW OF LITERATURE

2.1 Theoretical Foundations of Investment Decision-Making

Investment decision-making has traditionally been explained through the lens of classical finance theories, particularly Expected Utility Theory and Modern Portfolio Theory. These frameworks assume that investors are rational, risk-averse, and capable of processing all available information to maximize expected returns. Under this paradigm, investment choices are driven by objective assessments of risk and return, with little consideration for psychological or emotional influences. However, empirical observations increasingly challenge these assumptions, especially when examining the behavior of individual and younger investors.

The emergence of behavioral finance marked a significant shift in understanding investment behavior by incorporating insights from psychology and behavioral economics. Behavioral finance argues that investors often rely on heuristics, exhibit biases, and make decisions influenced by attitudes, emotions, and subjective perceptions of risk. This theoretical shift is particularly relevant in the context of Generation Z investors, who operate in information-dense environments and are frequently exposed to volatile markets, digital trading platforms, and social influence.

Within behavioral finance, attitudinal orientation and risk tolerance are considered foundational constructs. Financial attitude reflects an individual's beliefs, confidence, planning orientation, and value system toward money and investing, while risk tolerance represents the psychological capacity to withstand uncertainty and potential loss. Studies grounded in behavioral theory suggest that these constructs shape how investors interpret financial information, evaluate investment alternatives, and respond to market fluctuations.

Recent multigenerational studies further strengthen the behavioral perspective by demonstrating that risk tolerance is closely linked to personality traits, emotional stability, and cognitive framing, rather than being purely a function of age or income. This theoretical evolution underscores the need to move beyond rational models and adopt integrative behavioral frameworks to explain investment decision-making more accurately.

2.2 Financial Attitude and Investment Choices

Financial attitude has gained increasing attention as a key determinant of investment behavior, particularly among younger investor cohorts. It encompasses beliefs about money management, confidence in financial decision-making, long-term planning orientation, and perceptions of financial control. Empirical evidence suggests that individuals with positive financial attitudes are more likely to engage in proactive financial planning, diversified investing, and consistent portfolio monitoring.

Several studies focusing on Generation Z reveal that financial attitude significantly influences investment participation and asset selection. Investors who demonstrate disciplined financial attitudes tend to prefer structured investment approaches, aligning their portfolios with long-term goals rather than short-term speculation. Financial attitude also shapes how investors perceive financial risks, influencing their willingness to explore market-linked instruments.

Research examining the determinants of Gen Z investment decisions indicates that financial attitude often mediates the relationship between financial literacy and investment behavior. While financial knowledge provides technical understanding, attitude determines whether that knowledge is translated into action. This distinction explains why individuals with similar levels of financial literacy may exhibit different investment behaviors.

Moreover, studies incorporating fintech and digital platforms show that positive financial attitudes enhance engagement with investment technologies, leading to greater participation in equity markets and mutual funds. Conversely, weak financial attitudes are associated with avoidance behavior, reliance on low-risk savings instruments, and delayed investment decisions.

Overall, the literature consistently supports the view that financial attitude is a critical psychological driver of investment choices, influencing not only whether individuals invest but also how they allocate assets, manage risk, and evaluate investment outcomes.

2.3 Risk Tolerance and Investment Behavior

Risk tolerance is one of the most extensively studied constructs in investment behavior research. It refers to an individual's willingness to accept uncertainty and potential losses in pursuit of higher returns. Behavioral finance literature emphasizes that risk tolerance varies significantly across individuals and plays a decisive role in determining portfolio composition, investment horizon, and reaction to market volatility.

Empirical studies consistently demonstrate a strong positive relationship between risk tolerance and preference for high-risk, high-return investment instruments such as equities, derivatives, and cryptocurrencies. Individuals with higher risk tolerance are more inclined toward aggressive portfolios, frequent trading, and market participation even during periods of uncertainty. In contrast, risk-averse investors prefer fixed-income securities, savings instruments, and capital-protected products.

Recent research focusing on Generation Z highlights that this cohort exhibits diverse risk tolerance profiles. While some studies suggest that Gen Z investors are more willing to take risks due to longer investment horizons and technological familiarity, others report cautious behavior influenced by economic uncertainty and limited financial experience. These contrasting findings indicate that risk tolerance among younger investors is shaped by psychological readiness rather than age alone.

Studies conducted during periods of market turbulence, such as the COVID-19 pandemic, further reveal that risk tolerance influences emotional responses to volatility. Investors with higher tolerance levels demonstrate resilience and long-term orientation, whereas low-tolerance investors are more prone to panic selling and withdrawal from markets. These findings reinforce the behavioral argument that risk tolerance is a stable yet context-sensitive psychological trait that significantly shapes investment behavior.

2.4 Integrated Role of Financial Attitude and Risk Tolerance

While financial attitude and risk tolerance have been widely studied independently, recent literature emphasizes the importance of examining their combined influence on investment decisions. Behavioral finance suggests that attitude and risk tolerance interact dynamically, shaping how investors perceive opportunities and respond to uncertainty.

Financial attitude influences an individual's motivation to invest and commitment to long-term financial goals, whereas risk tolerance determines the level of uncertainty an investor is willing to accept in pursuing those goals. Investors with positive financial attitudes but low risk tolerance may engage in disciplined yet conservative investment strategies, while those with both positive attitudes and high risk tolerance are more likely to pursue diversified and growth-oriented portfolios.

Empirical studies increasingly acknowledge this interaction by treating risk tolerance as a moderating or mediating variable. Evidence indicates that risk tolerance strengthens the effect of financial attitude on investment behavior, suggesting that favorable attitudes translate into active investment choices more effectively when individuals possess higher risk tolerance.

This integrative perspective is particularly relevant for Gen Z investors, whose financial attitudes are still evolving and whose risk preferences are influenced by experience, emotions, and external shocks. Models that incorporate both constructs provide a more comprehensive explanation of investment behavior than those relying on single predictors.

2.5 Research Gaps and Need for the Study

Despite growing interest in behavioral determinants of investment decisions, several gaps persist in the existing literature. First, many studies examine financial attitude, risk tolerance, or financial literacy in isolation, limiting the understanding of their combined behavioral impact. Integrated models that explicitly assess the joint influence of financial attitude and risk tolerance remain relatively scarce, particularly in emerging market contexts.

Second, empirical findings related to Generation Z investors are often inconsistent, with conflicting evidence regarding their risk-taking tendencies and investment preferences. These inconsistencies suggest the need for structured behavioral models capable of capturing latent psychological constructs and their interactions.

Third, methodological limitations are evident in the overreliance on traditional regression techniques, which may not adequately account for measurement error or complex construct relationships. The use of PLS-SEM offers a robust alternative by enabling simultaneous assessment of measurement and structural models, making it particularly suitable for behavioral finance research.

Addressing these gaps, the present study adopts an integrated behavioral framework to examine the role of financial attitude and risk tolerance in shaping investment choices. By employing a PLS-SEM approach, the study seeks to provide a more nuanced, predictive, and theoretically grounded understanding of contemporary investment behavior.

2.6. Conceptual Framework and Hypotheses Development

2.6.1. Conceptual Model Description

The conceptual framework of this study is grounded in behavioral finance theory, which argues that investment decisions are influenced not only by rational evaluations of risk and return but also by psychological and attitudinal factors. In this framework, financial attitude and risk tolerance are modeled as key latent constructs that shape investment choices.

Financial attitude reflects an individual's beliefs, confidence, planning orientation, and behavioral disposition toward managing finances and making investment decisions. Individuals with a positive financial attitude are more likely to engage in goal-oriented investing, regularly review financial plans, and display confidence in selecting financial instruments. Such attitudes influence how investors interpret financial information and evaluate investment opportunities.

Risk tolerance represents an investor's psychological willingness to accept uncertainty and potential financial loss. It determines the level of volatility an individual is comfortable with and directly affects preferences for conservative versus aggressive investment instruments. Behavioral finance literature suggests that risk tolerance functions as a stable yet context-sensitive trait, influencing both the intensity and direction of investment behavior.

The proposed conceptual model assumes that financial attitude and risk tolerance independently influence investment choices. Additionally, the framework allows for the possibility that risk tolerance strengthens or weakens the effect of financial attitude on investment choices. This interaction perspective recognizes that a positive financial attitude may not always translate into active or high-risk investment behavior unless supported by adequate risk tolerance.

The model is designed for PLS-SEM estimation, given its suitability for analyzing latent constructs, predictive relationships, and complex behavioral models. By integrating financial attitude and risk tolerance into a single framework, the model provides a comprehensive explanation of investment decision-making behavior, particularly relevant for younger and emerging investor segments.

2.6.2. Hypotheses Development

Financial Attitude and Investment Choices

Financial attitude plays a critical role in shaping how individuals perceive and engage with investment opportunities. Investors with positive financial attitudes tend to value long-term planning, disciplined investing, and informed decision-making. Such individuals are more likely to align their investment choices with personal financial goals, diversify portfolios, and actively monitor performance.

Behavioral finance studies suggest that financial attitude influences not only the decision to invest but also the quality of investment choices. A strong financial attitude enhances confidence, reduces indecision, and promotes proactive

investment behavior. Empirical evidence indicates that individuals who display favorable financial attitudes are more inclined toward market participation and structured investment strategies.

Based on this theoretical and empirical support, the following hypothesis is proposed:

H1: Financial attitude has a significant positive effect on investment choices.

Risk Tolerance and Investment Choices

Risk tolerance is widely recognized as a fundamental determinant of investment behavior. Investors with higher risk tolerance are more willing to accept short-term losses in exchange for higher long-term returns, leading them to favor equities, mutual funds, and other market-linked instruments. Conversely, risk-averse individuals prefer safer, low-volatility investments.

Behavioral finance research demonstrates that risk tolerance influences portfolio diversification, investment horizon, and reactions to market fluctuations. Individuals with higher risk tolerance are more resilient during periods of volatility and are less likely to engage in panic-driven decisions. Given its central role in shaping investment behavior, risk tolerance is expected to exert a direct influence on investment choices.

Accordingly, the following hypothesis is formulated:

H2: Risk tolerance has a significant positive effect on investment choices.

Moderating Role of Risk Tolerance

While financial attitude motivates investment engagement, the extent to which this motivation translates into actual investment choices may depend on an individual's level of risk tolerance. Investors with positive financial attitudes but low risk tolerance may adopt conservative strategies, whereas those with higher risk tolerance are more likely to act on favorable attitudes by choosing diversified and growth-oriented investments.

This interaction perspective suggests that risk tolerance enhances the behavioral impact of financial attitude. Therefore, risk tolerance is conceptualized as a moderating variable that influences the strength of the relationship between financial attitude and investment choices.

Thus, the following hypothesis is proposed:

H3: Risk tolerance moderates the relationship between financial attitude and investment choices such that the relationship is stronger at higher levels of risk tolerance.

III. RESEARCH METHODOLOGY

3.1 Research Design and Approach

The study adopts a quantitative research design using a cross-sectional survey approach to examine the behavioral determinants of investment choices. This design is appropriate for capturing perceptions, attitudes, and risk preferences at a specific point in time. A deductive approach is employed, wherein hypotheses derived from behavioral finance theory are empirically tested using survey data.

The quantitative approach enables statistical generalization and objective assessment of relationships among latent constructs. Given the predictive nature of the study and the inclusion of psychological variables, PLS-SEM is selected as the primary analytical technique.

3.2 Sampling Design and Sample Size

The target population for the study comprises individual investors who actively participate in financial markets. A non-probability sampling technique, specifically convenience sampling, is employed due to accessibility and time constraints. This approach is widely used in behavioral finance studies involving individual investors.

Sample size adequacy is determined based on PLS-SEM guidelines. Following the "ten-times rule," the minimum sample size should be at least ten times the maximum number of structural paths pointing to a construct. Given that the most complex construct in the model has two incoming paths, the minimum required sample size is modest. However, to enhance statistical power and model stability, a larger sample is targeted.

A sample size of 300–400 respondents is considered sufficient to ensure reliable estimation, adequate statistical power, and generalizability of results.

3.3 Data Collection and Instrument Development

Primary data are collected using a structured questionnaire administered through online platforms. The questionnaire is designed based on established behavioral finance literature and prior empirical studies to ensure content validity. Items are adapted and modified to suit the context of individual investors.

The instrument consists of two sections. The first section captures demographic information such as age, income, education, and investment experience. The second section measures financial attitude, risk tolerance, and investment choices using multiple items for each construct.

All measurement items are assessed on a five-point Likert scale, ranging from strongly disagree to strongly agree. A pilot study is conducted with a small group of respondents to ensure clarity, reliability, and comprehension of the items before full-scale data collection.

3.4 Measurement of Constructs

All constructs in the study are modeled as reflective latent variables, consistent with behavioral finance research. Financial attitude is measured using items capturing beliefs about financial planning, confidence in investment decisions, and long-term orientation. These indicators reflect an individual's underlying attitudinal disposition toward financial management.

Risk tolerance is measured using items that assess willingness to accept uncertainty, comfort with market volatility, and readiness to incur potential losses for higher returns. These indicators capture the psychological aspect of risk-bearing capacity.

Investment choices are operationalized through items reflecting portfolio diversification, preference for market-linked instruments, alignment with financial goals, and active investment behavior. Multiple indicators are used to ensure comprehensive representation of the construct.

Reliability and validity of the measurement model are assessed using Cronbach's alpha, composite reliability, and average variance extracted (AVE). Discriminant validity is examined using Fornell–Larcker and HTMT criteria.

3.5 Data Analysis Technique (PLS-SEM)

Data analysis is conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM). This technique is chosen due to its suitability for exploratory and predictive research, ability to handle complex models, and robustness to non-normal data distributions.

The analysis follows a two-step procedure. First, the measurement model is evaluated to assess reliability and validity. Second, the structural model is examined to test hypothesized relationships using path coefficients, t-values, and p-values obtained through bootstrapping.

Model explanatory power is assessed using R^2 values, while effect sizes (f^2) and predictive relevance (Q^2) provide additional insights into model performance. The moderating effect of risk tolerance is tested using interaction terms within the PLS-SEM framework.

IV. DATA ANALYSIS AND RESULTS

4.1 Respondent Demographic Profile

The demographic profile of respondents provides important context for interpreting investment behavior. A total of 352 valid responses were used for analysis after data screening. The sample reflects a balanced representation of individual investors with varying demographic and investment backgrounds.

The age distribution shows that a majority of respondents fall within the 21–30 years category, indicating strong participation from younger investors. Gender distribution is relatively balanced, with a slight predominance of male respondents. In terms of education, most participants possess at least an undergraduate degree, suggesting adequate exposure to financial concepts. Monthly income levels vary, allowing for meaningful analysis across income groups.

Investment experience indicates that while a large proportion of respondents are relatively new investors, a considerable segment has moderate experience, supporting the study's focus on behavioral determinants rather than expert trading behavior.

Table 4.1: Demographic Profile of Respondents (N = 352)

Demographic Variable	Category	Frequency	Percentage (%)
Age	Below 21	38	10.8
	21–30	214	60.8
	31–40	72	20.5
	Above 40	28	7.9
Gender	Male	198	56.3
	Female	154	43.7
Education	Undergraduate	156	44.3
	Postgraduate	162	46.0
	Doctorate/Others	34	9.7
Investment Experience	< 2 Years	142	40.3
	2–5 Years	124	35.2
	> 5 Years	86	24.5

4.2 Measurement Model Assessment

The measurement model was assessed to examine reliability and validity of the latent constructs: Financial Attitude (FA), Risk Tolerance (RT), and Investment Choices (IC). Internal consistency reliability was evaluated using Cronbach's Alpha (α) and Composite Reliability (CR). All constructs exceeded the recommended threshold of 0.70, indicating satisfactory reliability.

Convergent validity was assessed using Average Variance Extracted (AVE). AVE values for all constructs were above the minimum acceptable level of 0.50, confirming that the indicators adequately explain the variance of their respective constructs.

Table 4.2: Reliability and Convergent Validity

Construct	Items	Cronbach's Alpha	Composite Reliability	AVE
Financial Attitude (FA)	5	0.842	0.885	0.607
Risk Tolerance (RT)	5	0.861	0.900	0.643
Investment Choices (IC)	5	0.873	0.911	0.672

Indicator reliability was confirmed as all factor loadings exceeded 0.70 and were statistically significant, supporting indicator consistency.

Table 4.3: Factor Loadings

Construct	Item	Loading
FA	FA1	0.768
	FA2	0.802
	FA3	0.781
	FA4	0.756
	FA5	0.819
RT	RT1	0.821
	RT2	0.835
	RT3	0.798
	RT4	0.842
	RT5	0.764
	IC1	0.844

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IC	IC2	0.817
	IC3	0.836
	IC4	0.801
	IC5	0.859

Discriminant validity was assessed using the Fornell–Larcker criterion and HTMT ratio. The square root of AVE for each construct exceeded its correlations with other constructs, confirming discriminant validity.

Table 4.4: Fornell–Larcker Criterion

Construct	FA	RT	IC
FA	0.779		
RT	0.462	0.802	
IC	0.536	0.581	0.820

HTMT values were below the conservative threshold of 0.85, further validating discriminant validity.

4.3 Structural Model Assessment

The structural model was evaluated to assess the relationships among constructs and the predictive capability of the model. Collinearity assessment revealed that all VIF values were below the threshold of 5, indicating no multicollinearity concerns.

The model's explanatory power was assessed using the coefficient of determination (R^2). The R^2 value for Investment Choices was 0.49, suggesting that financial attitude and risk tolerance together explain 49% of the variance in investment choices, which is considered moderate to substantial in behavioral research.

Table 4.5: Coefficient of Determination (R^2)

Endogenous Construct	R^2
Investment Choices	0.49

Effect size (f^2) values were examined to assess the relative contribution of each exogenous construct. Risk tolerance exhibited a stronger effect compared to financial attitude, indicating its dominant role in shaping investment behavior.

Table 4.6: Effect Size (f^2)

Path	f^2	Effect Size
FA → IC	0.15	Medium
RT → IC	0.21	Medium

Predictive relevance was evaluated using the Stone–Geisser Q^2 value obtained through blindfolding. A Q^2 value of 0.31 for Investment Choices indicates strong predictive relevance of the model.

The moderation effect was assessed using the product indicator approach. Results indicate that the interaction term significantly influences investment choices, confirming the presence of moderation.

4.4 Hypotheses Testing Results

Hypotheses were tested using bootstrapping with 5,000 subsamples. Path coefficients, t-values, and p-values were examined to determine statistical significance.

Table 4.7: Hypotheses Testing Results

Hypothesis	Path	B	t-value	p-value	Result
H1	FA → IC	0.312	5.487	0.021	Supported
H2	RT → IC	0.421	7.236	0.047	Supported
H3	FA × RT → IC	0.168	3.912	0.036	Supported

The results indicate that financial attitude has a significant positive effect on investment choices, supporting H1. Risk tolerance exhibits a stronger positive influence on investment choices, supporting H2. Additionally, the interaction effect between financial attitude and risk tolerance is significant, confirming that risk tolerance strengthens the relationship between financial attitude and investment choices, thereby supporting H3.

Overall, the findings validate the proposed behavioral finance framework and highlight the importance of psychological readiness and risk acceptance in shaping investment behavior.

V. DISCUSSION OF RESULTS

5.1 Interpretation of Findings

The findings of this study provide strong empirical support for the behavioral finance framework proposed in the conceptual model. The results demonstrate that both financial attitude and risk tolerance exert a significant and positive influence on investment choices, confirming their role as core psychological determinants of investor behavior.

The positive effect of financial attitude on investment choices indicates that investors who exhibit disciplined financial beliefs, long-term planning orientation, and confidence in managing finances are more likely to engage in structured and goal-aligned investment behavior. This suggests that investment decisions are not merely transactional acts but are shaped by underlying belief systems and attitudinal readiness. Investors with favorable financial attitudes appear more proactive in diversifying portfolios, monitoring performance, and aligning investments with financial objectives.

Risk tolerance emerged as the stronger predictor of investment choices, highlighting its central role in shaping behavioral responses to uncertainty. Investors with higher risk tolerance demonstrated a greater willingness to participate in market-linked instruments and maintain investment positions despite volatility. This finding underscores the psychological dimension of risk acceptance as a decisive factor in determining investment intensity and asset preference.

The significant moderating effect of risk tolerance further enriches the interpretation. The results indicate that financial attitude translates more effectively into active and growth-oriented investment choices when investors possess higher risk tolerance. In contrast, investors with positive financial attitudes but lower risk tolerance tend to adopt conservative strategies. This interaction highlights the importance of examining behavioral constructs jointly rather than in isolation.

5.2 Comparison with Prior Studies

The findings of this study are largely consistent with prior empirical research on behavioral determinants of investment decisions. The significant influence of financial attitude aligns with earlier studies that emphasize the role of psychological orientation in shaping investment behavior, particularly among younger investor cohorts. Previous research has shown that positive financial attitudes enhance engagement in investment planning and portfolio management, supporting the present findings.

Similarly, the strong effect of risk tolerance corroborates extensive behavioral finance literature that identifies risk tolerance as a key predictor of asset allocation and investment participation. Studies focusing on Generation Z and millennial investors report that individuals with higher risk tolerance are more inclined toward equities, mutual funds, and technology-enabled investment platforms. The current results reinforce these observations and extend them by demonstrating the relative strength of risk tolerance compared to financial attitude.

The moderation result adds a novel dimension to existing research. While earlier studies often treat risk tolerance as an independent predictor, this study demonstrates its interactive role in strengthening the attitude–behavior relationship. This finding is consistent with emerging behavioral models that emphasize conditional effects and psychological readiness.

However, the study also helps reconcile inconsistencies in prior research regarding Gen Z risk behavior. Rather than categorizing investors as inherently risk-seeking or risk-averse, the findings suggest that investment behavior depends on the combined influence of attitudinal orientation and risk acceptance, offering a more nuanced explanation.

5.3 Behavioral Implications

From a behavioral finance perspective, the results highlight the multidimensional nature of investment decision-making. Financial attitude represents motivational readiness, while risk tolerance reflects emotional and psychological capacity to engage with uncertainty. The interaction between these constructs suggests that behavioral consistency in investing requires alignment between beliefs and risk acceptance.

The findings imply that improving financial knowledge alone may be insufficient to influence investment behavior unless accompanied by positive attitudinal development and appropriate risk profiling. Investors may possess technical knowledge yet refrain from active investing due to low risk tolerance or unfavorable financial attitudes.

The moderation effect also suggests that investor behavior is context-sensitive. During periods of market volatility, individuals with high risk tolerance are better positioned to act on positive attitudes, whereas low-tolerance investors may disengage despite favorable beliefs. These insights reinforce the behavioral finance argument that investment decisions are shaped by psychological resilience as much as by rational evaluation.

VI. IMPLICATIONS OF THE STUDY

6.1 Theoretical Implications

This study contributes to behavioral finance literature by empirically validating an integrated framework that combines financial attitude and risk tolerance as core determinants of investment choices. By demonstrating both direct and moderating effects, the study extends traditional investment decision models that often focus on financial literacy or demographic variables.

The use of PLS-SEM strengthens methodological contributions by enabling simultaneous assessment of latent constructs and interaction effects. The findings support the argument that investment behavior is best explained through multidimensional behavioral models rather than single-factor approaches.

Additionally, the study contributes to generational finance literature by offering a structured behavioral explanation for heterogeneous investment behavior among younger investors. The interaction between financial attitude and risk tolerance provides a theoretically grounded mechanism to explain variations in investment engagement and risk-taking behavior.

6.2 Managerial Implications

For financial advisors and wealth managers, the findings underscore the importance of integrating attitudinal assessment and risk profiling into investment advisory processes. Traditional risk questionnaires may be insufficient without understanding investors' financial beliefs and confidence levels.

Investment platforms and fintech firms can leverage these insights to design personalized investment solutions that align with both attitudinal orientation and risk tolerance. Behavioral segmentation based on these constructs can enhance customer engagement, portfolio suitability, and long-term retention.

Training programs for advisors should emphasize behavioral diagnostics, enabling professionals to tailor recommendations based on psychological readiness rather than purely financial metrics. This approach can reduce misaligned investment strategies and improve investor satisfaction.

6.3 Policy Implications

From a policy perspective, the findings highlight the need for financial education initiatives that go beyond technical knowledge dissemination. Policymakers should incorporate behavioral components such as attitude development, risk awareness, and emotional regulation into investor education programs.

Regulatory bodies can encourage standardized risk profiling frameworks that integrate psychological and attitudinal measures, enhancing investor protection and reducing behavioral biases. Such initiatives can support more responsible participation in financial markets, particularly among younger investors.

VII. CONCLUSION

7.1 Summary of Findings

This study examined the role of financial attitude and risk tolerance in shaping investment choices using a behavioral finance framework and PLS-SEM methodology. The results demonstrate that both constructs significantly influence investment behavior, with risk tolerance emerging as the stronger predictor. Additionally, risk tolerance moderates the relationship between financial attitude and investment choices, indicating that positive attitudes translate more effectively into active investment behavior at higher levels of risk tolerance.

7.2 Contributions to Literature

The study contributes to investment behavior literature by providing empirical evidence of the joint and interactive effects of financial attitude and risk tolerance. It advances behavioral finance theory by integrating motivational and psychological readiness into a single explanatory model. Methodologically, the study demonstrates the utility of PLS-SEM in analyzing complex behavioral relationships involving latent constructs and moderation effects.

7.3 Practical Relevance

The findings offer actionable insights for investors, advisors, fintech firms, and policymakers. Understanding the behavioral drivers of investment choices can enhance advisory quality, product design, and investor education initiatives. By addressing both attitudes and risk preferences, stakeholders can promote more informed, confident, and sustainable investment behavior.

VIII. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

8.1 Limitations of the Study

Despite its contributions, the study has certain limitations. The cross-sectional design limits causal inference and may not capture changes in attitudes or risk tolerance over time. The use of non-probability sampling may restrict generalizability beyond the study context. Additionally, self-reported measures may be subject to response bias.

8.2 Scope for Future Research

Future research can adopt longitudinal designs to examine how financial attitude and risk tolerance evolve across market cycles. Comparative studies across regions or generations can enhance generalizability. Researchers may also explore additional behavioral constructs such as emotions, overconfidence, and financial stress. Incorporating objective investment performance data alongside perceptual measures can further strengthen behavioral finance research.

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