

The Effect of Islamic Financial Literacy, Return Perception, and Risk Perception on Investment Decisions in Sharia Stocks with Experienced Regret as a Moderation Variable (Case Study on the Indonesian Muslim Merchants Association)

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Article Info:

Abstract

Keywords:

Islamic Financial Literacy;
Return Perception;
Risk Perception;
Investment Decision;
Experienced Regret;

This study aims to identify the influence of Islamic financial literacy, return perception, and risk perception on investment decisions by involving experienced regret as a moderating variable. This research is a quantitative research whose data source comes from questionnaires distributed to 100 ISMI members. The data were analyzed using partial least square technique with the help of SMARTPLS 3 software. The results showed that Islamic financial literacy, return perception, and risk perception have a positive and significant effect on investment decisions. In addition, there is a moderating role of experienced regret in strengthening the influence of Islamic financial literacy, return perception, and risk perception on investment decisions.

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INTRODUCTION

By 2024, the Islamic finance sector in Indonesia is expected to grow by 10-12%, driven by increasing awareness of Sharia-compliant financial products, as well as the growth of the Muslim population and government support for Islamic finance. The number of Sharia-compliant stocks on the Indonesia Stock Exchange (IDX) has grown significantly, with Sharia stocks now accounting for around 60% of the total market, reflecting increased interest among local investors. In addition, innovations in Islamic financial products, such as green sukuk and Islamic fintech, contribute to the sector's dynamism. These products are not only in line with

Islamic principles, but also appeal to a wider range of investors interested in ethical and sustainable investments (Islamic Markets, 2024; Asian Banking & Finance, 2024; Global Finance, 2024).

Investment decisions are the process of evaluating and selecting assets or financial instruments to achieve certain financial goals, taking into account various factors such as potential returns, risks, and short-term and long-term goals. Generally, investors evaluate assets such as stocks, bonds, mutual funds, or property based on their risk profile and expected return expectations (Singh & Jain, 2023). In the context of sharia stocks, investment decisions have an additional dimension that focuses on conformity with sharia principles. Sharia shares are shares of companies whose business activities meet sharia criteria, such as not engaging in prohibited activities (e.g. gambling, usury, or production of haram goods) and have financial ratios that comply with sharia restrictions, such as a debt-to-equity ratio that is controlled (Hussain et al., 2018). Islamic stock investors also consider special indices, such as the Indonesian Sharia Stock Index (ISSI) or the Dow Jones Islamic Market Index, as a guide for choosing stocks that are in line with Islamic values (Lajuni et al., 2017).

Investment decisions are not made without various considerations. There are various factors that determine investment decisions by certain groups of investors, including Islamic financial literacy, perception of returns, and risk perception. Hussain, et.al (2018) explains that financial literacy plays an important role in investment decisions because it allows investors to understand the characteristics and mechanisms of various financial products, such as stocks, bonds, and mutual funds. Lajuni et.al. (2017) explains that profits are often the main motivation for investors because they are driven by the potential to develop wealth. Risk perception is an important factor in shaping investment decisions because it influences how investors assess the potential losses of their financial choices. The uncertainties inherent in various investment situations, such as market volatility, economic conditions, or a lack of understanding of a particular financial product, often demand a systematic and accurate strategy to address them (Abdullah & Anderson, 2015; Kholid & Bachtiar, 2020).

Experienced regret has an important role in moderating the relationship between Islamic financial literacy, expected return, risk perception, and investment decisions (Lestari dkk., 2022; Putri & Hamidi, 2022; Omar & Rahman, 2020). Islamic financial literacy provides a person with the knowledge necessary to make the right investment choices and in accordance with the sharia, but the extent to which this knowledge is realized in action is often influenced by past emotional experiences, such as *experienced regret*. For example, experienced regret stemming from previous financial decisions can make a person more cautious, thus encouraging them to apply their knowledge carefully to avoid repeating previous mistakes. Similarly, expected return, which is an important determinant of investment decisions, can be shaped by the experienced regret experienced. Investors who have overestimated returns in the past and experienced regret may approach future opportunities more systematically, potentially reinforcing positive expected returns on their investment behavior. Disisi lain, risk perception, yang biasanya menghalangi investasi, juga dipengaruhi oleh experienced regret yang dialami. A person who regrets underestimating risk in previous decisions can strengthen risk analysis in making more informed investment decisions.

Based on the background and problems that have been described, this study aims to answer the gap related to Islamic financial literacy, return perception, risk perception, and the role of experienced regret in Islamic stock investment decisions among ISMI members. Therefore, the title of this study is "The Effect of Islamic Financial Literacy, Return Perception, and Risk Perception on Investment Decisions in Sharia Stocks with Experienced Regret as a Moderation Variable (Case Study on the Indonesian Muslim Merchants Association)." This title was chosen to make a relevant academic and practical contribution in supporting the development of the Islamic capital market in Indonesia, especially among Muslim entrepreneurs.

THEORETICAL FOUNDATION

Consumer Behavior Theory

Consumer behavior theory describes how a person makes decisions in choosing a product or service that can meet their needs and desires. In this case, consumers are not only influenced by economic factors, but also by the psychological and social elements that help shape the decision-making process (Azizah & Tamanni, 2023). Consumers will evaluate various product alternatives based on their perception of benefits, risks, and prices. In the context of sharia stock investment, this theory can be used to explain how investors choose investment products based on financial considerations and religious values. Factors such as Islamic financial literacy, understanding of risks, and religious beliefs are important elements in the decision-making process. Therefore, consumer behavior theory is relevant for this study to better understand how the Indonesian Muslim Merchants Association makes investment decisions by considering sharia principles.

The behavior shown by a person who in this case is a consumer in seeking the suitability of needs and desires in the form of products and services provided by the market is consumer behavior (Wibowo & Supriadi, 2013). All forms of marketing related to meeting the needs and desires of consumers, both in the form of products and services, have an important role to be able to maintain the sustainability of the company. To understand this, it will be dissected why consumers or a person chooses these products and services based on theory. To be able to understand deeply how a person's behavior to be able to make decisions about choosing products or services is very difficult, because consumers have different backgrounds both in terms of economy, environment, culture, education, and many other factors. So that every product or service provided by the company must be appropriate to be able to support the sustainability of the company and improve the welfare of each ecosystem in it.

Figure 1. Consumer Behavior Model

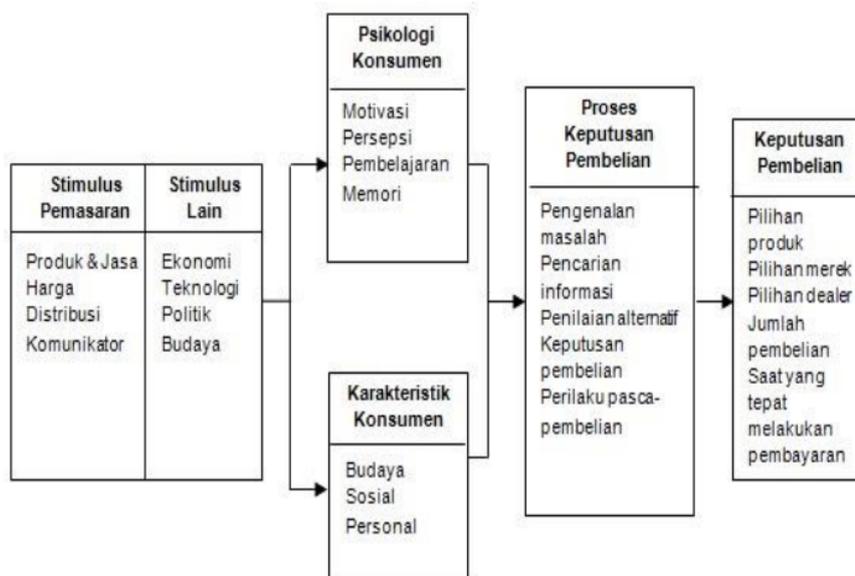


Figure 1 It shows that marketing stimulus, which consists of products, services, prices, distribution, and communication, as well as external factors such as economics, technology, politics, and culture, has a significant influence on consumer psychology and characteristics.

These stimuli act as triggers that affect various psychological aspects of consumers such as motivation, perception, learning, and memory. In addition, consumer characteristics that include cultural, social, and personal factors also play an important role in how a person reacts to marketing stimuli and other external factors. This process creates a complex interaction between external and internal stimuli, which ultimately influences the consumer's purchasing decision-making process. Consumers not only passively receive stimuli, but they process the information through the lens of their own psychological and personal characteristics, which include how they motivate themselves, perceive a product or service, and learn and remember previous experiences related to a particular product or brand

Investment Decision

Investment is investment in various business sectors with the aim of making profits in the long term (Kasmir & Jakftar, 2012). The Indonesian Accounting Association in PSAK No. 13 defines investment as an asset owned to increase wealth through the distribution of results or value appreciation. Investments can be categorized into two types, namely real investment and financial investment (Fahmi & Hadi, 2011). Real investments include tangible assets such as land and machinery, while financial investments are in the form of instruments such as stocks and bonds. Investment decisions are a strategic step that requires careful planning because of their long-term impact on the company's growth (Jogiyanto, 2010). Based on *signaling theory*, investment spending is often a positive signal to the market regarding a company's prospects and can affect stock prices (Wahyudi & Pawestri, 2006). This process of planning the expenditure of funds for long-term assets is known as *capital budgeting* (Aristiwati & Hidayatullah, 2021).

In making investment decisions, there are three main aspects that must be considered, namely return, risk, and the relationship between the two. Return is the level of return obtained from investment and can be in the form of *expected return* (expected) or *realized return* (that has been realized) (Nela, 2012). Risk in investing is the possibility of a difference between the expected return and the actual one, where the higher the desired return, the greater the risk that must be faced. The relationship between risk and return is positive, which means that an increase in risk is usually followed by an increase in expected return (Nela, 2012). Therefore, investors need to conduct an in-depth analysis of these factors to balance the potential profits and risks incurred. With careful planning, investment decisions can provide long-term benefits while supporting financial stability and growth in company value.

Sharia Financial Theory

Islamic financial literacy is a crucial aspect in investment decision-making, especially in the Islamic capital market. A good understanding of Islamic financial principles allows investors to make more rational decisions and in accordance with sharia provisions. This literacy includes knowledge of Islamic economic concepts, sharia investment instruments such as sharia stocks, sukuk, and sharia mutual funds, as well as regulations governing sharia-based transactions. The main principles in Islamic finance include the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation), as well as the obligation to ensure that investments are halal and provide social benefits. The higher a person's Islamic financial literacy, the greater his ability to understand risks and potential benefits, so investment decisions are based more on careful analysis than speculation (Rahman & Fauzi, 2022).

Increasing Islamic financial literacy affects individual investment behavior, including in risk management and profit expectations. Investors who have a better understanding of Islamic finance tend to be more confident in making decisions and are not easily influenced by speculative information. In addition, Islamic financial literacy can also increase participation in sharia-based investments, as a better understanding encourages trust in sharia investment

mechanisms. The government and Islamic financial institutions have an important role in increasing this literacy through education programs and information transparency regarding Islamic investment products. Thus, Islamic financial literacy not only increases understanding of investment products, but also forms investment attitudes and behaviors that are more responsible and in accordance with Islamic values (Taufik & Hadi, 2022).

Return Perception

Return perception is an investor's expectation of the potential profits that will be obtained from an investment, which is often different from the actual return received. This difference reflects uncertainty in investments, where the results obtained are not always as expected (Taufiqoh in the Wulandari et al., 2020). In stock investing, returns generally come from three main sources, namely dividends, capital gains, and bonus stocks. Dividends are the distribution of a company's profits to shareholders that reflect the company's financial stability and are often an attraction for long-term investors. Meanwhile, capital gains are obtained from the difference between the purchase price and selling price of shares in the secondary market, which are widely used by short-term investors looking for quick profits. However, the risk of capital loss must also be taken into account if the stock price declines (Darmadji & Fakhruddin, 2015:9).

In addition to dividends and capital gains, bonus shares are also an attractive form of return for investors. Bonus shares are given by the company to shareholders as an additional distribution of profits without changing the company's capital structure. The granting of bonus shares can increase the number of shares outstanding and their liquidity in the market, thus attracting more investors. An investor's return perception is influenced by a variety of factors, including the company's performance and volatile market conditions. Therefore, investors need to consider risks and appropriate investment strategies, both for short-term and long-term goals, in order to optimize the potential profits from their investments.

Risk Perception

Risk perception in investing refers to investors' perception of potential losses or uncertainties that can affect their decisions. Risk and return always go hand in hand, where the greater the potential profit, the higher the risk that must be borne (Hartono, 2015:285). Investors who are highly aware of risk are more likely to conduct analysis and mitigation strategies to reduce potential losses (Wardani & Supiati, 2020). Some of the types of risk that investors often perceive include financial risk (the possibility of losing assets or failing to obtain expected returns), social risk (concern about the views of others regarding investment decisions), and performance risk (uncertainty regarding whether an investment will yield an expected return).

In addition, investors also consider time and convenience risks, namely the potential for lost time due to a long or complicated investment process. Physical risks are also a concern in investments involving tangible assets, such as property or infrastructure. Meanwhile, psychological risks include the emotional impact or self-image of investors as a result of the investment decisions they make (Liau Xio in the Haryani, 2019). By understanding these various aspects of risk, investors can take more appropriate mitigation measures to manage uncertainty and increase confidence in investment decision-making. The role of good risk perception will help investors in adjusting their strategies according to the level of risk they can tolerate.

Experienced Regret

Experienced regret is a feeling of regret that arises due to past investment mistakes, which then affect future investment decisions. In the context of behavioral finance, regret aversion bias causes investors to tend to avoid high-risk decisions for fear of experiencing similar regrets

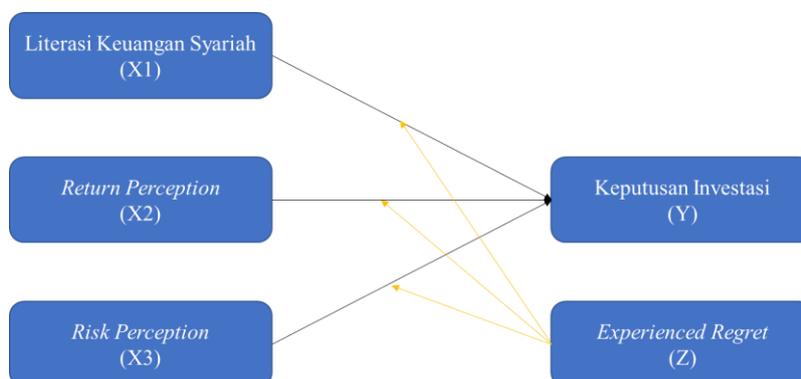
(Pompian, 2006). There are two types of regret, namely *regret of omission* (regret for not making a decision) and *regret of commission* (regret for making the wrong decision). Shefrin and Statman in Nofsinger (2005) state that investors often sell profitable stocks too quickly to secure profits (*disposition effect*), while holding losing stocks for too long because they are reluctant to admit mistakes. This shows how experienced regret can shape a more defensive and cautious investment decision-making pattern.

In Bell's (1982) research, experienced regret arises when the investment results chosen are not better than other alternatives. Investors who have experienced investment failures in the past tend to be more risk-averse, avoiding investments that are considered high-risk so as not to repeat previous mistakes. The difference between *experienced regret* and *anticipated regret* lies in the time of occurrence—anticipated regret appears before the decision is made, while experienced regret occurs after experiencing a real loss. Over time, investors with a bad experience in investing will be more cautious in making decisions and more likely to avoid high risks. Therefore, experienced regret plays an important role in shaping one's investment behavior, especially in how they assess and manage future risks.

Research Framework

Guided by the theory expressed earlier. Based on the nature and relationship between independent variables and asymmetric (one-way) dependent variables where independent variables affect their dependent variables but not the other way around. From the analysis of the findings of the previous research, accompanied by a description of the underlying theory of each variable, the conceptual framework in this study is as follows:

Figure 2. Conceptual Framework (Writer, 2025)



Research shows that financial literacy improves investors' ability to understand and evaluate investment opportunities, leading to more informed decision-making (Lestari et al., 2022; Putri & Hamidi, 2022). In the context of Islamic finance, having knowledge of investment principles that are in accordance with sharia is essential to make the right investment choices. Thus the first hypothesis in this study is:

H1 : Financial Literacy Has a Positive and Significant Effect on Sharia Stock Investment Decisions

Satisfactory return expectations are an important motivator for investors. Various previous studies have shown that good expected returns are directly correlated with improved investment behavior (Wibowo & Maulida, 2022; Rizqia et al., 2021). Based on this explanation, the second hypothesis in this study can be formulated as follows:

H2 : Return Perception Has a Positive and Significant Effect on Sharia Stock Investment Decisions

Investors' perception of risk plays an important role in their investment choices. Wibowo and Maulida (2022) stated that higher *risk perception* can deter a person from investing, especially in Islamic financial products, where ethical considerations are related to risk assessment. So, the third hypothesis that can be proposed in this study is:

H3 : Risk Perception Has a Positive and Significant Effect on Sharia Stock Investment Decisions

Previous research has shown that *experienced regret* has a tendency to be able to moderate the relationship between financial literacy and investment decisions (Mouna & Anis, 2016; Omar & Rahman, 2020). Financially literate individuals with a high *level of experienced regret* can make more cautious investment decisions, prioritizing avoiding *further experienced regret* over potential profits. In contrast, those with *low levels of experienced regret* can leverage their financial literacy to pursue riskier investments and deliver higher returns. So, the fourth hypothesis that can be proposed in this study is:

H4 : Experienced regret Can Strengthen the Influence of Financial Literacy on Sharia Stock Investment Decisions

Previous research has shown that individuals who experience *experienced regret* are more likely to avoid situations that could result in similar negative emotions in the future (Zeelenberg & Pieters, 2004). For example, an investor who is prone to regret may ignore optimistic return perceptions, prioritizing emotional security over financial gains (Omar & Rahman, 2020). This behavior is in contrast to investors with *low levels of experienced regret*, who may rely more on their perceptions of returns to guide decision-making. The role of *experienced regret* moderation highlights its capacity to dampen the influence of return perception on investment decisions, creating behavioural differences that are not purely driven by financial considerations. Based on this explanation, the fifth hypothesis in this study can be formulated as follows:

H5 : Experienced regret can strengthen the influence of return perception on sharia stock investment decisions

Previous research has shown that *experienced regret* has been shown to increase individuals' sensitivity to perceived risks, making them less likely to engage in risky investments (Omar & Rahman, 2020). Investors who have previously experienced *regret* tend to exaggerate the potential negative returns of their current investments, thereby reinforcing their risk perception and reducing their desire to invest (Pieters & Zeelenberg, 2005). In contrast, individuals who do not experience significant *regret* may evaluate risks more objectively, focusing on expected returns and not just on potential losses. This suggests that the emotional experience of *experienced regret* weakens the influence of risk perception on investment decisions, as investors who are easily regretful tend to reduce their risk tolerance further, regardless of the actual perceived risk:

H6 : Experienced regret Can Strengthen the Influence of Risk Perception on Sharia Stock Investment Decisions

RESEARCH METHODOLOGY

Types and Research Designs

This study uses a quantitative method to test hypotheses through numerical data analysis with a statistical approach. The main focus is to measure the influence of financial literacy, *return perception*, *risk perception*, and *experienced regret* on sharia stock investment decisions. The research design starts from problem identification, hypothesis formulation, to data collection with questionnaires that have been tested for validity and reliability. The analysis was carried out using *Structural Equation Modeling* (SEM) to see the relationship between variables and the moderation effect of *experienced regret*.

The research was conducted on members of the Indonesian Muslim Merchants Association (ISMI) because of their relevance in sharia stock investment. Data collection is scheduled for December 2024, considering the increased business activities of ISMI members at the end of the year as well as the continuation of seminars and workshops related to Islamic finance that facilitate the recruitment of respondents.

The data used is primary data obtained directly from respondents through questionnaires and interviews. The questionnaire was designed to explore information related to research variables using a Likert scale with five levels of answers. In addition, unstructured interviews were conducted to gain deeper insight into ISMI members' investment decisions.

The study population was a member of ISMI, with samples taken using *the Proportionate Stratified Random Sampling technique*. The sample consisted of 100 respondents, determined based on the recommendations of Hair et al. (1992), who suggested a minimum of five times the number of parameters in the SEM model. The sample was selected based on business sector, experience level, and geographic region to ensure data representativeness.

Data Processing

In this study, data processing was carried out through validity and reliability tests and data analysis using the Partial Least Square (PLS) method with Structural Equation Modeling (SEM) assisted by SmartPLS software.

The validity test aims to measure the extent to which the research instrument is able to reveal the variables being measured. The instrument is considered valid if the value of $r_{hitung} > r_{Table}$ with degrees of freedom ($df = n - 2$) and significance level $\alpha = 0.05$. If it does not meet these criteria, then the items in the questionnaire need to be corrected or deleted. Meanwhile, the reliability test was used to measure the consistency of the research instrument using the Cronbach Alpha coefficient (α). A variable is said to be reliable if $\alpha > 0.70$, indicating that the measurement results are consistent and reliable.

In data analysis, the PLS-SEM method is used to measure the simultaneous relationship between latent variables and their indicators. The steps in PLS analysis include the preparation of a structural model (inner model) that shows the relationship between latent variables, as well as a measurement model (outer model) that shows how latent variables are measured through their indicators. The evaluation of the outer model was carried out through convergent validity (with a minimum loading factor value of 0.5), discriminant validity ($AVE > 0.50$), and composite reliability (> 0.70). The inner evaluation of the model refers to the R-square (R^2) to assess the predictive strength of the model (either if $R^2 \geq 0.67$, moderate if it is about 0.33, and weak if it is about 0.19). In addition, Q-square predictive relevance is used to measure model predictions, where values above zero indicate predictive relevance.

Hypothesis testing was carried out by bootstrapping resampling, with a probability value of $\alpha = 0.05$. If the value of $sig \leq 0.05$, then the null hypothesis (H_0) is accepted, while if the $sig \geq 0.05$, then the alternative hypothesis (H_a) is accepted. In addition, the effect of size (f^2) was

evaluated with criteria of 0.02 (weak), 0.15 (moderate), and 0.35 (strong) to assess the influence of latent variables on the structural model.

With this approach, research can confirm and explain the relationship between latent variables, ensure the reliability and validity of the data, and provide a deeper understanding of the factors that influence investment decisions in the Islamic capital market.

RESULTS AND DISCUSSION

Research Results

Respondent Characteristics

This study involved 100 respondents from the Indonesian Muslim Merchants Association (ISMI) who were selected based on certain criteria. Respondents' characteristics were analyzed based on gender, age, and last level of education to understand their background in the business world. Based on gender, the majority of respondents were men (84%), while women were only 16%. This shows the dominance of men in the ISMI organization, although women's contributions remain important. In terms of age, the largest groups are 31-40 years old (41%) and 41-50 years old (37%), indicating that the majority of ISMI members are in productive age with mature business experience. The 51-60 age group (14%) reflects individuals who are already established in their careers, while the 21-30 year old age group (8%) suggests the involvement of young members is still limited. For the last education, most of the respondents were educated in S1 (74%), followed by S2 (20%), S3 (4%), and high school (2%). The majority of members have a fairly high academic background, which supports business insight and more professional decision-making.

Convergence Validity Test

Ghazali (2021) stated that all indicators are considered valid if they have a correlation value of more than 0.70. *discriminant validity*, and composite *reliability*. This analysis was carried out to measure the strength of the questionnaire items in measuring the properties and concepts of the variables being measured. Based on the results of the analysis in Table 1, it can be seen that several indicators have loading factor values below the threshold of 0.70, namely X1.2 (0.620), X2.1 (0.656), X3.2 (0.601), and Z1.1 (0.655). This shows that these indicators do not meet the convergence validity criteria set by Ghazali (2021). If an indicator has a low loading factor value, then it is not strong enough to represent the measured construct, so it is necessary to eliminate invalid indicators so that the analysis is more accurate and representative. Thus, only indicators that have a loading factor value above 0.70 will be used in this study.

Table 1 Convergence Validity Test Results

	LKS (X1)	Ret_Perc (X2)	Risk_Perc (X3)	KI (Y)	ER (Z)
X1.1	0,870				
X1.2	0,620				
X1.3	0,871				
X2.1		0,656			
X2.2		0,897			
X2.3		0,704			
X3.1			0,734		
X3.2			0,601		
X3.3			0,877		
Y1.1				0,864	

Y1.2	0,843	
Y1.3	0,751	
Z1.1		0,655
Z1.2		0,897
Z1.3		0,888

Source: Data Processed by Researchers (2025)

Discriminating Validity Test

Discriminant validity is one of the important methods in validity analysis to ensure that each indicator in the study has a higher correlation to its own construct compared to other constructs. This aims to show that each variable in the research model has a clear difference between each other and that there is no overlap in the measurement. One way to measure discriminant validity is to use *the Average Variance Extracted (AVE)* value, where a variable is said to have good discriminant validity if the AVE value is greater than 0.50. Thus, the higher the AVE value, the better the indicator in measuring the construct in question. The following are the results of the discriminatory validity test in this study:

Table 2 Results of the Discriminant Validity Test

	Average Variance Extracted(AVE)	Cut Off	Information
LKS (X1)	0,541	>0,5	Valid
Ret_Perc (X2)	0,511	>0,5	Valid
Risk_Perc (X3)	0,626	>0,5	Valid
KI (Y)	0,674	>0,5	Valid
ER (Z)	0,641	>0,5	Valid

Source: Data Processed by Researchers (2025)

Based on the test results in Table 2., all variables in this study had an AVE value above 0.50, which means that each construct was able to explain more than 50% of the variance of its respective indicators. The highest AVE value was found in the Y variable with 0.674, followed by Z at 0.641, X3 at 0.626, X1 at 0.541, and X2 at 0.511. Thus, these results show that each variable used in this study has good discriminant validity, so that it can be used in further analysis without the need to eliminate additional indicators or variables.

Reality Test

Reliability testing is one of the important stages in research to assess the extent to which a research instrument can produce consistent results when used repeatedly under the same conditions. Reliability measures the stability and consistency of an instrument in measuring the variables in question. In this study, reliability was tested using *Cronbach's Alpha* and *Composite Reliability (CR)*. A variable is considered reliable if it has a Cronbach's Alpha or Composite Reliability value greater than 0.70. Higher values indicate that the research instrument has a better level of reliability in measuring established constructs. The following are the results of the reliability test in this study:

Table 3. Feasibility Test

	Cronbach's Alpha	Composite Reliability	Cut Off	Information
LKS (X1)	0,711	0,835	>0,7	Reliable

<i>Ret_Perc</i> (X2)	0,782	0,855	>0,7	Reliable
<i>Risk_Perc</i> (X3)	0,739	0,753	>0,7	Reliable
KI (Y)	0,794	0,832	>0,7	Reliable
ER (Z)	0,749	0,859	>0,7	Reliable

Source: Data Processed by Researchers (2025)

Based on the results in Table 4.6, it can be seen that all variables in this study have *Cronbach's Alpha* and *Composite Reliability* values that exceed the minimum limit of 0.70. This shows that the instruments used in the study have a high level of reliability and are reliable for measuring the variables that have been determined. The highest Cronbach's Alpha value was found on the Y variable with 0.794, indicating that this variable has excellent internal consistency. Meanwhile, the variable with the highest Composite Reliability value is Z with 0.859, which indicates that the indicators in the variable have a strong relationship in measuring their constructs.

Hyphotesis Testing

In this study, hypothesis testing was carried out using data analysis techniques with a *Partial Least Square (PLS) approach* through SMARTPLS 3 software. The PLS-SEM method was chosen because it has the advantage of handling models with a large number of latent variables and being able to overcome data problems that are not normally distributed. In this analysis, the inner model is used to assess the relationship between constructs and assess the significance of the influence between variables. One of the analysis tools used is *path coefficients*, which shows the strength of the relationship between variables in the research model. In general, *the path coefficient value* provides an overview of the direction and strength of the relationship between independent variables and dependent variables. In this analysis, the hypothesis is tested based on *the T-statistics* and *P-values* produced. A relationship is considered significant if *the T-values* > 1.96 and *the P-values* < 0.05. The results of hypothesis testing in this study can be seen in the following table:

Table 4. *Path Coefficient*

Interconnection Variable	<i>Original Sample</i>	<i>T-Statistics</i>	<i>P-Values</i>	Information	Conclusion
X1 -> Y	0,334	2,563	0,011	<0,05 (Significant)	Hypothesis Accepted
X2 -> Y	0,415	2,179	0,019	<0,05 (Significant)	Hypothesis Accepted
X3 -> Y	0,387	2,491	0,014	<0,05 (Significant)	Hypothesis Accepted
X1*Z -> Y	0,477	2,660	0,047	<0,05 (Significant)	Hypothesis Accepted
X2*Z -> Y	0,349	2,035	0,042	<0,05 (Significant)	Hypothesis Accepted
X3*Z -> Y	0,357	2,409	0,043	<0,05 (Significant)	Hypothesis Accepted

Source: Data Processed by Researchers (2025)

From the table above, it can be seen that all variables have a significant influence on investment decisions (Y), either directly or through the moderation variable (Z). Each independent variable had a T-statistical value above 1.96, which indicates that the relationship being tested has statistical significance. In addition, a P-value of less than 0.05 indicates that

the hypothesis proposed in this study is acceptable. Based on the results of the above hypothesis test, the following results were obtained:

- a. The relationship between Islamic financial literacy (X1) and investment decisions (Y) has a T-statistical value of 2.563 and a P-value of 0.011, which means that the first hypothesis is accepted. This shows that the higher a person's level of Islamic financial literacy, the more likely they are to make better investment decisions. Islamic financial literacy provides a deeper understanding of Islamic financial principles, the risks involved, and investment instruments that are in accordance with sharia, thereby increasing confidence in investing.
- b. The relationship between *Return perception* (X2) and investment decisions (Y) showed significant results with T-statistics of 2.179 and P-values of 0.019. This suggests that the perception of the rate of return on investment has a significant effect on a person's investment decisions. Investors who have high return expectations tend to be more motivated to make investment decisions than those who have low return expectations.
- c. The effect of *Risk perception* (X3) on investment decisions (Y) also showed a significant relationship with T-statistics of 2.491 and P-values of 0.014. This indicates that risk perception plays an important role in investment decision-making. Investors who have a higher level of risk tolerance tend to be more courageous in making investment decisions than those who tend to avoid risk.
- d. The test results showed that *experienced regret* (Z) played a role in strengthening the relationship between Islamic financial literacy and investment decisions, with T-statistics of 2.660 and P-values of 0.047. This means that investors who have had regret experiences in previous investments are more likely to rely on Islamic financial literacy to make wiser investment decisions.
- e. The moderation of *experienced regret* (Z) on the relationship between *Return perception* (X2) and investment decision (Y) was also significant, with T-statistics of 2.035 and P-values of 0.042. This shows that investors who have experienced regrets in previous investments are more likely to pay attention to investment returns before making decisions. Previous experience has taught them to be more careful in choosing investments with high potential returns.
- f. The effect of *experienced regret* (Z) moderation on the relationship between *Risk perception* (X3) and investment decision (Y) was also proven to be significant with T-statistics of 2.409 and P-values of 0.043. This suggests that investors who have had previous experiences of regret are more likely to consider risk more carefully before investing. They are more likely to avoid investment decisions that could lead to future regrets.

Discussion

The Influence of Sharia Financial Literacy on Investment Decisions

This study found that Islamic financial literacy has a significant effect on investment decisions. This literacy includes an understanding of Islamic principles in finance, such as the prohibition of *riba*, *gharar*, and *maysir*, as well as an understanding of sharia investment instruments such as sharia stocks, *sukuk*, and sharia mutual funds. Individuals with high sharia financial literacy are more confident in making investment decisions because they understand the risks and benefits of sharia-based investments. The characteristics of the respondents, who are mostly S1 educated and act as heads of households, also influence their more prudent and long-term oriented investment decisions.

In addition, Islamic financial literacy assists investors in choosing instruments that are in accordance with Islamic principles and avoiding investments in conflicting sectors, such as the

liquor or gambling industry. This understanding also allows them to better understand the mechanisms of the Islamic capital market and use profit-sharing-based investment strategies, such as mudharabah and musyarakah. The existence of increasingly growing sharia investment products, supported by access to digital information, has also increased investor participation in the sharia capital market. In addition to rational factors, the spirituality aspect also influences investment decisions, where Islamic investors see investment as part of worship and moral responsibility.

However, there are still challenges in improving Islamic financial literacy, especially related to the lack of easily accessible education. Many individuals still consider sharia investment to be more complex than conventional investment, so efforts are needed from the government, academics, and financial institutions to improve public understanding through education and training. With better Islamic financial literacy, investors can make wiser and more sustainable decisions, not only in terms of financial gains but also in adherence to Islamic teachings, which ultimately strengthens the Islamic investment ecosystem in Indonesia.

The Effect of Return Perception on Investment Decisions

Return perception or perception of investment profits is the main factor that influences individual decisions in investing, especially in Islamic stocks. This perception is formed through previous investment experiences, economic growth expectations, and information obtained from the media and social environment. Individuals who have had positive investment experiences tend to be more optimistic in assessing profit opportunities, while those who have experienced large losses are more cautious. In this study, the majority of respondents were in the age range of 31-40 years, where they already had more mature investment experience as well as financial stability that allowed them to make bolder and more measured investment decisions.

A high level of education also plays a role in shaping return perception, as individuals with a good financial understanding are better able to analyze investment opportunities rationally. In addition, technological developments and access to information through digital platforms make it easier for investors to evaluate market trends and economic prospects. While a positive perception of profits can increase investment interest, it's important for investors to keep risk factors in mind. Excessive expectations of returns can encourage unwise investment decisions, such as investing in speculative assets without careful analysis.

In the context of sharia investment, return perception is also influenced by belief in the growth of the sharia-based financial industry. Support from the government and the increasing number of companies listed in the Indonesian Sharia Stock Index (ISSI) strengthen investors' optimism about the prospects of sharia investment. However, to achieve more sustainable investment decisions, investors must combine the perception of profit with an understanding of risk and in-depth analysis. Thus, return perception has a significant influence on investment decisions, but it still needs to be balanced with a rational strategy based on accurate information.

The Influence of Risk Perception on Investment Decisions

Risk perception has a significant influence on investment decisions, especially in the context of Islamic stocks that avoid speculation (gharar) and riba. The higher the awareness of risk, the more cautious an individual is in making investment decisions. This perception is influenced by investment experience, financial literacy, and demographic factors such as age and role in the family. The majority of respondents in this study were 31-40 years old and were heads of households, who tended to be more conservative in investing to maintain family economic stability. They prefer investment instruments that are safe and in accordance with sharia principles rather than high-risk investments with the potential for large profits.

Education level also plays a role in shaping risk perceptions, where the majority of respondents have a S1 education background. With a better understanding of risk concepts and financial analysis, they tend to be more rational in assessing market volatility, macroeconomic conditions, and other factors that can affect their investments. In addition, the principle of prudence in Islamic finance further strengthens investors' selective attitude in choosing investment instruments that are in accordance with Islamic values, such as Islamic stocks with strong fundamentals and good transparency.

Risk perception is also influenced by economic conditions, where market volatility encourages investors to be more cautious and choose safer assets. Conversely, in more stable economic conditions, they are more daring to take risks in the hope of greater profits. The results of this study support previous findings that the higher a person's awareness of risk, the more selective they are in investing. Therefore, a good understanding of investment risks is essential for investors to be able to make wiser and more sustainable decisions in accordance with sharia principles.

The Effect of Experienced Regret as a Moderation Variable

Experienced regret, in this study it is proven to be able to strengthen the influence of Islamic financial literacy, *risk perception*, and *return perception* on ISMI Members' investment decisions in Islamic stocks. Regarding the role of *experienced regret* in moderating the influence of Islamic financial literacy on investment decisions, investors with unpleasant experiences in their investment activities will encourage them to learn more about various aspects of Islamic finance to stimulate more appropriate investment decisions. With the characteristics of respondents who are mostly S1 educated with a current age range of 31-40, it is very logical that their investment decisions in sharia stocks are driven by their understanding of sharia financial literacy which is strengthened by various disappointments over failures in various investment products that have been carried out previously.

Next, experienced regret reinforces the influence of *return perception* on investment decisions understandable because basically, often investors react to regret will try to recover past losses through a more aggressive investment strategy by emphasizing their perception of profits. With the characteristics of respondents who are mostly S1 educated with the current age range of 31-40, it is quite logical that *experienced regret* is not interpreted as a traumatic event but rather a trigger for them to become more mature in their investment decision-making based on their perception of profits.

And finally, experienced regret reinforces the influence of *return perception* on investment decisions understandable because basically, it is not uncommon for mistakes in decision-making that cause losses in the past to be used as the basis for analysis in strengthening their risk mitigation in investment taking. With the characteristics of respondents who are mostly S1 educated with the current age range of 31-40, it is quite logical when *experienced regret* can be understood that high risk perception does not always mean creating greater prudence in trying to optimize profits through investment in sharia stocks, but on the contrary try to avoid risks as much as possible by diverting investment to other issuers.

CONCLUSION

Based on the results and discussion of the research that has been conducted, it can be concluded that there are several main factors that affect investment decisions in sharia stocks. The conclusions that can be drawn from this study are as follows:

1. Islamic financial literacy has a positive and significant effect on sharia stock investment decisions. Investors with a good understanding of Islamic finance are more confident in investing according to Islamic principles.

2. Return perception has a positive and significant effect on sharia stock investment decisions. Investors with high profit expectations are more motivated to invest than those who are pessimistic.
3. Risk perception has a positive and significant effect on sharia stock investment decisions. Investors with a high risk tolerance are more likely to invest than those who avoid risk.
4. Experienced regret strengthens the influence of Islamic financial literacy on Islamic stock investment decisions. Investors who have experienced regrets are more cautious and tend to rely on an understanding of Islamic finance to avoid previous mistakes.
5. Experienced regret strengthens the influence of return perception on sharia stock investment decisions. Investors who have experience regrets are more careful in assessing the potential profits of an investment.
6. Experienced regret strengthens the influence of risk perception on sharia stock investment decisions. Investors with regret experiences consider risk more before investing.

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