Journal : **Journal of Management and Innovation Entrepreneurship (JMIE),**
Publisher : **Yayasan Nuraini Ibrahim Mandiri**
ISSN : **e-ISSN 3026-6505**
Volume / Issue / Year/ Page : **4/ 1/ 2026: October / 310-332**

THE EFFECTS OF REGRET AVERSION, MENTAL ACCOUNTING, ILLUSION OF CONTROL, AND OVERCONFIDENCE ON INVESTMENT DECISIONS

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Article Information

Submission	:	06-08-2026
Review	:	15-08-2026
Revised	:	05-10-2026
Accepted	:	11-10-2026
Published	:	26-10-2026

Keywords
Illusion of Control, Investment Decision, Mental Accounting, Overconfidence, Regret Aversion.

Abstract

Investment decisions are influenced not only by rational considerations but also by psychological factors and behavioral biases, as explained by Behavioral Finance Theory, Prospect Theory, and the Theory of Planned Behavior. This study examines the effects of regret aversion, mental accounting, illusion of control, and overconfidence on investment decisions among investors in Bengkulu City. A quantitative approach was employed using primary data collected through questionnaires. Of 395 distributed questionnaires, 358 met the research criteria and were valid for analysis. Data were analyzed using multiple linear regression with IBM SPSS Statistics version 27. The results show that regret aversion significantly affects investment decisions (t = 2.096; Sig. = 0.037), mental accounting significantly affects investment decisions (t = 5.711; Sig. = 0.000), and illusion of control significantly affects investment decisions (t = 6.754; Sig. = 0.000). In contrast, overconfidence has no significant effect (t = 0.543; Sig. = 0.587). These findings indicate that regret aversion, mental accounting, and illusion of control are important psychological factors in investment decision-making, while overconfidence does not significantly influence investment decisions. Practically, investors and capital market stakeholders, particularly the Indonesia Stock Exchange Representative Office in Bengkulu, should strengthen financial education and investor literacy programs addressing behavioral biases to support more informed and rational investment decisions.

How To Cite: Oktryani, S., Sumarlan, A., Yusmaniarti, & Junaidi, A. (2026). The effects of regret aversion, mental accounting, illusion of control, and overconfidence on investment decisions. *Journal of Management and Innovation Entrepreneurship (JMIE),* 4(1), 310–332. https://doi.org/10.70248/jmie.v4i1.4430

DOI : https://doi.org/10.70248/jmie.v4i1.4430
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INTRODUCTION

Investment plays an important role in supporting individual financial welfare and economic development. Investment decisions involve the selection of investment instruments by considering expected returns, risks, and the conditions faced by investors. In practice, however, investment decisions are not always based solely on rational economic considerations. Psychological factors, emotions, and cognitive biases can influence how investors interpret information, assess risk, and determine investment alternatives. This condition has become increasingly relevant along with the rapid growth of retail investors, particularly among younger generations who are increasingly exposed to financial information and investment platforms.

The development of the capital market in Bengkulu demonstrates this increasing participation. Based on data reported by the Indonesia Stock Exchange (IDX) Representative Office in Bengkulu, the number of capital market investors in Bengkulu reached 76,366 investors in June 2025, representing an increase of 17,476 investors compared with the previous year. The growth was particularly evident among investors aged 18–25 years, indicating the increasing participation of young investors in the capital market. The value of stock transactions in Bengkulu also reached approximately IDR 382.9 billion, with Bengkulu City recording the largest number of investors, namely 29,852 investors (Mayasari, 2025). This development indicates that investment activity in Bengkulu has expanded considerably and highlights the importance of understanding the factors underlying investors' decision-making.

From the perspective of traditional financial theory, investors are generally assumed to behave rationally by evaluating risks and expected returns before making investment decisions. Nevertheless, this assumption does not fully explain actual investor behavior. Behavioral Finance Theory provides a broader perspective by explaining that investment decisions may be influenced by psychological factors and behavioral biases. The theory examines how individuals respond to information and how psychological factors influence their evaluation of risk and expected returns. Consequently, investors may make decisions that deviate from rational economic assumptions because of emotional and cognitive influences (Tang & Asandimitra, 2023). The behavioral finance perspective therefore serves as the overarching theoretical framework of this study for explaining the role of psychological biases in investment decision-making (Barberis & Thaler, 2003; Hirshleifer, 2001).

Within this broader behavioral finance perspective, Prospect Theory developed by Kahneman & Tversky, (1979) provides a more specific explanation of how individuals evaluate alternatives under conditions of risk and uncertainty. The theory argues that individuals do not evaluate gains and losses objectively but tend to perceive losses more strongly than equivalent gains. Thus, investment decisions may be influenced by subjective perceptions of gains, losses, probabilities, and uncertainty rather than by expected returns alone. In this study, Prospect Theory is particularly relevant to explaining regret aversion and mental accounting. Investors who are concerned about experiencing regret may avoid investment alternatives that they perceive as potentially producing unfavorable outcomes, as described in regret theory(Bell, 1982; Loomes & Sugden, 1982; Zeelenberg & Pieters, 2007). At the same time, investors may mentally categorize and evaluate their financial resources according to particular purposes or subjective categories (R. Thaler, 1985; R. Thaler, 1999), thereby affecting the way they allocate funds and evaluate investment alternatives.

In addition to emotional responses to potential losses, investment decisions may be affected by cognitive biases. Behavioral Finance Theory explains that investors may develop inaccurate perceptions of their own abilities and their degree of control over uncertain investment outcomes. Two relevant forms of cognitive bias are illusion of control and overconfidence. Illusion of control refers to the tendency to perceive that one has greater control over investment outcomes than is objectively possible (Langer, 1975), whereas overconfidence reflects excessive confidence in one's own knowledge, skills, or ability to predict market movements (Moore & Healy, 2008; Odean, 1998). These biases can influence risk assessment and may encourage investors to rely excessively on their own judgments while underestimating uncertainty. The literature

in the present study also positions Behavioral Finance Theory as the theoretical basis for explaining illusion of control and overconfidence.

The Theory of Planned Behavior (TPB) proposed by Ajzen, (1991) complements the behavioral finance perspective by explaining how psychological perceptions can be translated into behavioral intentions and actions. TPB proposes that behavior is influenced by intention, which is shaped by attitude toward the behavior, subjective norms, and perceived behavioral control. In investment behavior, perceived control is relevant because investors' perceptions regarding their ability to manage investment decisions may influence their intention and subsequent behavior. Therefore, TPB complements Behavioral Finance Theory by providing a behavioral mechanism through which individual perceptions and attitudes may contribute to investment decisions.

The integration of these theories provides a logical foundation for examining the four psychological variables in this study. Prospect Theory explains the emotional and evaluative responses associated with gains and losses, particularly through regret aversion and mental accounting, while Behavioral Finance Theory explains cognitive deviations from rational decision-making, including illusion of control and overconfidence. TPB further supports the behavioral dimension by explaining how attitudes and perceived behavioral control can contribute to the formation of investment behavior. Thus, the theories are not positioned as separate explanations but as complementary perspectives for understanding different psychological mechanisms underlying investment decisions.

Empirical research has demonstrated the relevance of these psychological factors, although the findings remain inconsistent across different populations and investment contexts. Research by Nurdinda et al., (2020) examined regret aversion bias and risk tolerance among young investors in West Java, while Mayora & Lestari, (2024) investigated regret aversion together with risk perception, recency bias, and herding behavior among the younger generation in Surabaya. Research concerning mental accounting has also examined its relationship with investment decisions, including among Generation Z investors (Tang & Asandimitra, 2023)and cryptocurrency investors (Nizam et al., 2024).

The evidence concerning cognitive biases is similarly diverse. Studies have investigated illusion of control and overconfidence in different investment settings. Karima & Sari, (2022) examined financial literacy, illusion of control, and overconfidence among investors in Tulungagung, while Nurchayati & Perkasa, (2024) examined the role of illusion of control, financial literacy, and overconfidence bias in capital market investment decisions. Other studies have focused specifically on overconfidence, including research by Mulyana et al. (2023), Nurhardika et al. (2025), and Yulistiyani et al. (2023).

Although these studies provide important evidence, the existing literature indicates that psychological biases have generally been examined using different combinations of variables, populations, and investment contexts. Some studies emphasize emotional biases such as regret aversion, while others focus on cognitive biases such as overconfidence or illusion of control. Research has also examined combinations of regret aversion, mental accounting, and illusion of control, such as the study by Putri et al., (2025). However, there remains a need for a more integrated examination of emotional and cognitive biases simultaneously within a single investment decision model, particularly in the context of young and relatively inexperienced investors in a developing regional capital market.

This research gap is important because young or novice investors may face a distinctive decision-making environment. On the one hand, their increasing access to digital financial information and investment platforms provides opportunities to obtain information quickly. On the other hand, limited investment experience may make them more vulnerable to psychological biases when interpreting information, evaluating risk, and predicting investment outcomes. Consequently, examining emotional and cognitive biases simultaneously may provide a more comprehensive understanding of the mechanisms underlying investment decisions than examining individual biases separately.

In this context, overconfidence is incorporated into the research model not merely as an additional variable, but as a theoretically relevant cognitive bias that complements the emotional and cognitive dimensions represented by the other variables**.** Regret aversion represents an emotional tendency related to the anticipation of regret, while mental accounting reflects the subjective categorization of financial resources. Illusion of control represents an exaggerated perception of control over uncertain outcomes, whereas overconfidence reflects excessive confidence in one's own knowledge and ability. Examining these four biases simultaneously therefore enables the study to capture different psychological mechanisms that may influence investment decisions.

The novelty of this study lies in integrating emotional and cognitive behavioral biases regret aversion, mental accounting, illusion of control, and overconfidence into a single framework for explaining investment decisions, with a specific focus on investors in Bengkulu. This contextual focus is relevant given the substantial growth of capital market participation in the region, particularly among younger investors. Rather than examining psychological biases independently, this study seeks to determine how different forms of emotional and cognitive bias collectively relate to investment decision-making in a regional investor population. The study therefore contributes to the behavioral finance literature by providing empirical evidence from Bengkulu and extending the understanding of psychological factors in investment decision-making among investors in a rapidly growing local capital market.

Based on the theoretical integration and empirical evidence, the relationship between each independent variable and investment decision can be formulated as follows.

Regret Aversion and Investment Decision

Regret aversion refers to an individual's tendency to avoid decisions that may lead to regret in the future(Bell, 1982; Loomes & Sugden, 1982). In the context of investment, investors may consider the possibility of experiencing regret when selecting investment alternatives, particularly when an investment decision has the potential to generate losses. Prospect Theory explains that individuals tend to be more sensitive to losses than equivalent gains, which can encourage investors to avoid choices perceived as risky or potentially disappointing. Previous studies have shown that regret aversion may influence investment decisions, particularly among younger investors (Nurdinda et al., 2020; Mayora & Lestari, 2024). Regret aversion has also been used to explain the disposition effect, namely the tendency to sell winning investments too early and to hold losing investments too long (Shefrin & Statman, 1985). Therefore, the first hypothesis is formulated as follows:

H1: Regret aversion has a significant effect on investment decisions.

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Mental Accounting and Investment Decision

Mental accounting refers to the tendency of individuals to categorize, evaluate, and manage financial resources through separate mental accounts based on particular objectives or subjective considerations (Thaler, 1985). In investment decision-making, this tendency can influence how investors allocate funds, perceive risk, and evaluate investment alternatives. From the perspective of Prospect Theory, investors may evaluate financial gains and losses differently depending on how they mentally categorize their resources. Evaluating each investment in a separate mental account has also been linked to investors' risk-taking and to patterns in individual stock returns (Barberis & Huang, 2001; Thaler, 1999). Previous research has demonstrated the relevance of mental accounting to investment decisions, including among Generation Z investors (Tang & Asandimitra, 2023). Accordingly, the second hypothesis is formulated as follows:

H2: Mental accounting has a significant effect on investment decisions.

Illusion of Control and Investment Decision

Illusion of control represents the tendency of individuals to overestimate their ability to control or predict uncertain outcomes. In investment decision-making, investors with a strong illusion of control may believe that their knowledge, analysis, or experience enables them to influence investment outcomes, even when those outcomes are substantially affected by market uncertainty (Langer, 1975). Evidence from professional traders further indicates that unrealistic perceptions of control are associated with poorer trading performance (Fenton-O'Creevy et al., 2003). Behavioral Finance Theory explains that such cognitive biases may cause investors to deviate from rational decision-making and underestimate investment risks. Previous studies have examined the role of illusion of control in investment decisions, including among capital market and cryptocurrency investors (Karima & Sari, 2022; Zakaria & Megawati, 2022). Therefore, the third hypothesis is formulated as follows:

H3: Illusion of control has a significant effect on investment decisions.

Overconfidence and Investment Decision

Overconfidence refers to excessive confidence in one's own knowledge, ability, judgment, or prediction (Moore & Healy, 2008). In investment activities, overconfident investors may overestimate their ability to analyze information and predict market movements, which may influence their risk assessment and investment choices. Behavioral Finance Theory identifies overconfidence as an important cognitive bias that can cause investors to rely excessively on their own judgments. Seminal studies of individual investors show that overconfidence is associated with excessive trading and lower net returns (Barber & Odean, 2000, 2001; Odean, 1998), and that investors may become overconfident by learning from their past successes (Gervais & Odean, 2001). TPB also provides a complementary perspective because perceived behavioral control may influence an individual's intention and behavior. Previous studies have examined overconfidence as a factor associated with investment decisions across different investor groups, including younger investors and capital market participants (Fikri et al., 2022; Hidayah & Fitriati, 2024; Nurhardika et al., 2025). Therefore, the fourth hypothesis is formulated as follows:

H4: Overconfidence has a significant effect on investment decisions.

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Based on the theoretical framework, research gap, and hypotheses developed above, this study aims to examine the effects of regret aversion, mental accounting, illusion of control, and overconfidence on investment decisions among investors in Bengkulu City**.**

RESEARCH METHODS

This study was conducted among investors registered with the Bengkulu Representative Office of the Indonesia Stock Exchange (IDX). The study employed a quantitative approach using primary data collected through questionnaires distributed both in person (offline) and online via Google Forms. The study population consisted of 29,852 investors. The sample size was determined using the Slovin formula with a 5% margin of error, resulting in 395 respondents. Of the 395 questionnaires distributed, 358 questionnaires were deemed suitable and valid for further analysis. The sampling technique used was purposive sampling.

Respondents were selected through purposive sampling using three measurable inclusion criteria: (1) domiciled in Bengkulu City, as stated in the address field of the questionnaire; (2) aged at least 16 years, as stated in the age field of the questionnaire; and (3) having invested for more than six months in at least one capital market instrument (stocks, mutual funds, or bonds). The minimum investment period was operationalized through the response options of the questionnaire, which started at more than six months (more than six months to one year, one to four years, and more than four years). Transaction frequency was not recorded in the questionnaire and therefore could not be applied as a selection criterion. Willingness to participate and completeness of the responses were treated as data eligibility requirements rather than as respondent selection criteria; questionnaires that were incomplete were excluded from the analysis. The minimum age of 16 years was applied to the age reported by respondents in the questionnaire; it was not derived from a specific legal or regulatory provision on the minimum age for investing, and age was not verified against an identity document. Three respondents were below 18 years of age (one aged 16 and two aged 17 years; 0.84% of the sample).

The questionnaires were distributed using both online and offline methods. The online questionnaire was distributed through Google Forms via WhatsApp groups of investors in Bengkulu City with assistance from securities companies and the Student Capital Market Study Group (KSPM). The offline questionnaire was distributed directly to investors domiciled in Bengkulu City when they visited the Bengkulu Representative Office of the Indonesia Stock Exchange or participated in investor socialization activities.

Before the data were analyzed, the questionnaires from both distribution channels were merged into a single dataset and screened in three steps: completeness of responses, consistency of respondent characteristics with the inclusion criteria, and detection of duplicate submissions. Duplicate submissions were a particular concern because the same investor could have been reached both through the WhatsApp groups and in person at the Representative Office or investor socialization events. Investor identification numbers (SID), telephone numbers, and e-mail addresses were not collected. Duplicates were therefore screened by cross-checking the personal identifiers available in the questionnaire, namely full name, gender, age, and address, together with the investment profile (occupation, education, investment period, instrument type, and investment objective). Records in which these identifiers matched were reviewed as

potential duplicates. Because this procedure relies on self-reported personal data rather than a unique identifier, it is weaker than identifier-based screening and is acknowledged as a limitation.

Of the 395 questionnaires distributed, 37 (9.37%) were excluded: 25 offline questionnaires (6.33%) were incomplete and 12 online questionnaires (3.04%) were not returned. The remaining 358 questionnaires (90.63%), consisting of 70 offline and 288 online responses, were used in the analysis. Inclusion criteria were applied using the respondents' self-reported answers; the youngest age category in Table 2 is 16–20 years, consistent with the minimum-age criterion, and no questionnaire was excluded for failing to meet the inclusion criteria. The questionnaire did not record whether respondents under 18 years of age held their investment accounts or took part in the study with the consent of a parent or guardian, so this could not be confirmed. The inclusion of these three respondents, together with the reliance on self-reported age, is acknowledged as a limitation of this study.

The use of the Slovin formula in determining the sample size is acknowledged as a methodological limitation because it does not explicitly consider population variance or effect-size considerations. Nevertheless, the formula was retained because the population size was known and the sampling design had been established using a 5% margin of error.

Measurement Scale and Operational Definition of Variables

The variables in this study were measured using a five-point Likert scale. Respondents were asked to indicate their level of agreement with each statement using the following scoring: 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree**.** The five-point Likert scale was applied consistently to all variables, namely regret aversion, mental accounting, illusion of control, overconfidence, and investment decision. This measurement scale follows the instrument used in the underlying research. The operational definitions, indicators, number of items, measurement scales, and sources of the research instruments are presented in Table 1.

Table 1. Operational Definition and Measurement of Variables

Variable	Operational Definition	Indicators	Number of Items	Measurement Scale	Source
Investment Decision (Y)	The process undertaken by investors to establish their investment targets or preferences, followed by searching for and evaluating information concerning various investment instrument alternatives.	1. Return (expected rate of return) 2. Risk (level of risk faced by investors 3. Time factor (investment period selected by investors)	7	Likert 1–5	S. M. Putri et al. (2025)
Regret Aversion (X1)	The tendency of investors to avoid making investment decisions because of fear of experiencing regret.	1. Previous loss experience 2. Feelings of regret when investing 3. Influence of previous loss experience on future investment decisions	6	Likert 1–5	Tang & Asandimitra (2023)

Mental Accounting (X2)	A cognitive process in which individuals evaluate investments by categorizing income and expenditure into particular accounts or categories.	1. Allocating income into several different accounts 2. Managing monthly income and bonuses differently 3. Calculating expenses from monthly income 4. Calculating expenses originating from bonuses	7	Likert 1–5	(Mahadevi & Asandimitra, 2021)
Illusion of Control (X3)	The tendency of individuals to believe that they are able to control or influence outcomes even though such outcomes cannot be completely controlled.	1. Belief in the ability to overcome problems 2. Belief in the ability to anticipate outcomes 3. Decision-making based on experience 4. Ability to control or influence future outcomes	6	Likert 1–5	S. M. Putri et al. (2025)
Overconfidence (X4)	Excessive confidence in one's investment knowledge and abilities without adequate consideration of the risks involved.	1. Confidence in investment returns 2. Confidence in investment ability compared with other investors 3. Confidence in investment knowledge compared with other investors 4. Confidence in investment selection 5. Tendency to disregard risk because of perceived ability	7	Likert 1–5	Mulyana et al. (2023)

The indicators in Table 1 are consistent with the operational definitions used in this study. The questionnaire contained 26 statement items in total: three items each for Regret Aversion and Mental Accounting, six items for Illusion of Control, and seven items each for Overconfidence and Investment Decision. Investment Decision is measured by return, risk, and time factor; Regret Aversion by previous loss experience, regret, and its influence on future decisions; Mental Accounting by income and expenditure categorization; Illusion of Control by perceived ability to anticipate and influence outcomes; and Overconfidence by confidence in investment returns, abilities, knowledge, selection, and risk consideration.

Data Analysis

The data were analyzed using IBM SPSS Statistics version 27 through descriptive statistics, reliability and classical assumption tests, multiple linear regression, R^2, F-test, and t-test. The regression model is:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

where Y = Investment Decision, X_1 = Regret Aversion, X_2 = Mental Accounting, X_3 = Illusion of Control, and X_4 = Overconfidence. Reliability was assessed using Cronbach's Alpha, with a value above 0.60 considered reliable. The regression tests were conducted to examine the individual and simultaneous effects of the independent variables on Investment Decision.

RESULTS AND DISCUSSION

Respondent Profile

Table 2 presents the profile of the 358 respondents used in the analysis. Female respondents were slightly more numerous than male respondents (58.66% versus 41.34%). The sample is young and mostly composed of students: 67.88% of respondents were aged 21–25 and 71.79% were students. Most respondents (74.58%) had invested for between six months and one year, and stocks were the dominant instrument (81.84%). Investment objectives were spread almost evenly across long-term, short-term, and both objectives.

Table 2.
Respondent Profile

Characteristic	Category	n	%
Gender	Female	210	58.66
	Male	148	41.34
Age (years)	16–20	63	17.60
	21–25	243	67.88
	26–30	23	6.42
	31–35	12	3.35
	36–40	8	2.23
	41–50	8	2.23
	51–60	1	0.28
Occupation	Student	257	71.79
	Private sector employee	48	13.41
	Entrepreneur	19	5.31
	State-owned enterprise/civil servant	2	0.56
	Others	32	8.94
Last education	Senior high school (SMA)	202	56.42
	Vocational high school (SMK)	88	24.58
	Diploma (D3)	1	0.28
	Bachelor (S1)	66	18.44
	Master (S2)	1	0.28
Investment experience	More than 6 months to 1 year	267	74.58
	1–4 years	87	24.30
	More than 4 years	4	1.12
Investment instrument	Stocks	293	81.84
	Mutual funds	45	12.57
	Bonds	13	3.63
	Stocks and mutual funds	6	1.68
	Stocks and bonds	1	0.28
Investment objective	Long term	118	32.96
	Short term	125	34.92
	Both	115	32.12
Total		358	100.00

Source: primary data (2026).

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ISSN : e-ISSN 3026-6505
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Validity Test

Table 3.
Validity Test

Variable	Item	Corrected Item-Total Correlation	Critical r	Notes
Regret Aversion (X1)	X1.1	0.430	0.104	Valid
	X1.2	0.416	0.104	Valid
	X1.3	0.392	0.104	Valid
Mental Accounting (X2)	X2.1	0.327	0.104	Valid
	X2.2	0.458	0.104	Valid
	X2.3	0.475	0.104	Valid
Illusion of Control (X3)	X3.1	0.419	0.104	Valid
	X3.2	0.455	0.104	Valid
	X3.3	0.229	0.104	Valid
	X3.4	0.396	0.104	Valid
	X3.5	0.511	0.104	Valid
	X3.6	0.313	0.104	Valid
Overconfidence (X4)	X4.1	0.363	0.104	Valid
	X4.2	0.302	0.104	Valid
	X4.3	0.319	0.104	Valid
	X4.4	0.343	0.104	Valid
	X4.5	0.290	0.104	Valid
	X4.6	0.450	0.104	Valid
	X4.7	0.393	0.104	Valid
Investment Decision (Y)	Y1.1	0.446	0.104	Valid
	Y1.2	0.501	0.104	Valid
	Y1.3	0.415	0.104	Valid
	Y1.4	0.464	0.104	Valid
	Y1.5	0.467	0.104	Valid
	Y1.6	0.548	0.104	Valid
	Y1.7	0.437	0.104	Valid

Source: primary data (2026). Critical r = 0.104 (n = 358, α = 0.05).

The validity of the instrument was tested using corrected item-total correlations, calculated separately for each variable. Table 3 shows that the coefficients of all 26 items range from 0.229 to 0.548 and exceed the critical r value of 0.104 (n = 358, α = 0.05); therefore, all items are declared valid. Twenty-four of the 26 items also exceed the more conservative threshold of 0.30. The two lowest coefficients were found for item X3.3 (0.229) and item X4.5 (0.290); both were retained because they remain above the critical value and removing them would reduce the number of indicators and the content coverage of their constructs. This is acknowledged as a limitation of the instrument.

Reliability Test

Table 4.
Reliability Test

Variable	*Cronbach's Alpha (α)*	Notes
Regret Aversion (X1)	0.601	Reliable
Mental Accounting (X2)	0.609	Reliable
Illusion Of Control (X3)	0.648	Reliable

Variable	*Cronbach's Alpha (α)*	Notes
Overconfidence (X4)	0.640	Reliable
Investment Decision (Y)	0.752	Reliable

Based on Table 4, the Cronbach's Alpha values for Regret Aversion, Mental Accounting, Illusion of Control, and Overconfidence are 0.601, 0.609, 0.648, and 0.640, respectively, while Investment Decision has a Cronbach's Alpha value of 0.752. The values for the four independent variables are above the minimum criterion of 0.60 used in this study but remain below the commonly preferred value of 0.70. Therefore, the reliability of these constructs should be interpreted as marginal rather than strong. The relatively low values may be partly related to the limited number of items used to measure some constructs, particularly Regret Aversion and Mental Accounting (three items each; see Table 1), and the multidimensional nature of behavioral variables. Nevertheless, the values remain above the minimum criterion established for this study, while the dependent variable demonstrates stronger internal consistency with an Alpha value of 0.752. Methodologically, alpha coefficients in the 0.60–0.70 range are commonly regarded as acceptable for exploratory behavioral research, particularly when constructs are measured with a relatively small number of items and represent psychological attributes that are inherently multidimensional rather than a single, homogeneous trait (Hair et al., 2019; Ghozali, 2021).

Regret aversion, mental accounting, illusion of control, and overconfidence each capture several conceptually distinct facets of investor cognition, so a degree of heterogeneity among items and consequently a somewhat lower inter-item correlation is expected and does not by itself indicate a defective measurement instrument. It should be acknowledged, however, that alpha values in this marginal range carry some risk to construct validity, since low inter-item consistency can allow items within a construct to capture partially different sub-dimensions of the underlying bias; this risk is mitigated in the present study by the conceptual consistency of the items with prior validated instruments, but it remains a limitation. Accordingly, the results can be used for further analysis, although the findings involving the four independent variables should be interpreted with appropriate caution, and future studies are encouraged to refine item wording or increase the number of indicators per construct to strengthen internal consistency and construct validity.

Normality Test

Table 5.
Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		358
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	2.41391520
Most Extreme Differences	Absolute	.045
	Positive	.030
	Negative	-.045
Test Statistic		.045
Asymp. Sig. (2-tailed)[c]		.077

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Monte Carlo Sig. (2-tailed)[d]	Sig.		.081
	99% Confidence Interval	Lower Bound	.074
		Upper Bound	.088

Based on Table 5, it can be seen that the Unstandardized Residual has an Asymp. Sig. (2-tailed) value of 0.077, which is greater than 0.05; therefore, the data used in this study are normally distributed.

Multicollinearity Test

Table 6.
Multicollinearity Test

Variable	Tolerance	VIF	Notes
Regret Aversion (X1)	0.977	1.023	multicollinearity
Mental Accounting (X2)	0.974	1.027	multicollinearity
Illusion of Control (X3)	0.825	1.211	multicollinearity
Overconfidence (X4)	0.843	1.186	multicollinearity

Based on Table 6, the Tolerance values of the independent variables are 0.977 for Regret Aversion (X1), 0.974 for Mental Accounting (X2), 0.825 for Illusion of Control (X3), and 0.843 for Overconfidence (X4). All of these values are greater than 0.10. The Variance Inflation Factor (VIF) values are 1.023, 1.027, 1.211, and 1.186, respectively, all of which are below the cut-off value of 10. Therefore, it can be concluded that there is no multicollinearity among the independent variables in the regression model, so the model satisfies this classical assumption and the regression coefficients can be estimated and interpreted reliably.

Heteroscedasticity Test

Table 7.
Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.196	.565		-.346	.729
	X1	.056	.032	.107	1.759	.079
	X2	.035	.034	.064	1.032	.303
	X3	.032	.024	.083	1.297	.195
	X4	-.014	.019	-.045	-.734	.464

Based on Table 7 of the results of the heteroscedasticity test using the Glejser test, the significant results for variables X1 (0.079), X2 (0.303), X3 (0.195), and X4 (0.464) indicate that they are above the standard significance level of 0.05. Therefore, it can be concluded that there is no issue of heteroscedasticity.

Multiple Linear Regression Analysis

Table 8.
Multiple Linear Regression and t-Test Results

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.

1	(Constant)	10.453	1.945		5.374	.000
	X1	.179	.085	.098	2.096	.037
	X2	.544	.095	.267	5.711	.000
	X3	.403	.060	.343	6.754	.000
	X4	.025	.045	.027	.543	.587

Based on Table 8, the regression model obtained is as follows:

$$\mathbf{Y} = \boldsymbol{\alpha} + \boldsymbol{\beta 1 X 1} + \boldsymbol{\beta 2 X 2} + \boldsymbol{\beta 3 X 3} + \boldsymbol{\beta 4 X 4} + \boldsymbol{\varepsilon}$$

$$\mathbf{Y} = \mathbf{10.453} + \mathbf{0.179 X 1} + \mathbf{0.544 X 2} + \mathbf{0.403 X 3} + \mathbf{0.025 X 4}$$

These figures can be explained economically as follows:

a) The constant (α) of 10.453 indicates that if the variables Regret Aversion, Mental Accounting, Illusion of Control, and Overconfidence are held constant or assumed to be zero, the Investment Decision is estimated to be 10.453.
b) The regression coefficient for the Regret Aversion variable (X1), which is 0.179, indicates that a one-unit increase in Regret Aversion—assuming all other variables remain constant—will increase the Investment Decision by 0.179 units.
c) The regression coefficient for the Mental Accounting variable (X2) is 0.544, indicating that a one-unit increase in Mental Accounting will increase the Investment Decision by 0.544 units, assuming all other variables remain constant.
d) The regression coefficient for the Illusion of Control variable (X3) is 0.403, indicating that a one-unit increase in Illusion of Control will increase Investment Decisions by 0.403 units, assuming all other variables remain constant.
e) The regression coefficient for the Overconfidence variable (X4) is 0.025, indicating that a one-unit increase in Overconfidence would raise the Investment Decision by 0.025 units, assuming all other variables remain constant. However, this coefficient is not statistically significant (t = 0.543; Sig. = 0.587 > 0.05), so it cannot be distinguished from zero and should not be interpreted as evidence of an effect of overconfidence on investment decisions.

Among the four independent variables, Illusion of Control has the largest standardized regression coefficient (β = 0.343), followed by Mental Accounting (β = 0.267), Regret Aversion (β = 0.098), and Overconfidence (β = 0.027). This indicates that Illusion of Control has the strongest relative contribution to Investment Decisions within the regression model.

Results of the Coefficient of Determination (R^2) Test

Table 9.
Results of the Coefficient of Determination (R^2) Test

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.497[a]	.247	.239	2.428
a. Predictors: (Constant), X4, X2, X1, X3				

Based on Table 9, the Adjusted R^2 value is 0.239, indicating that regret aversion, mental accounting, illusion of control, and overconfidence jointly explain 23.9% of the variation in investment decisions, while the remaining 76.1% is associated with factors outside the model. This modest explanatory power is not unusual in behavioral investment research, and it means that the four biases are contributing rather than

exhaustive determinants of investment decisions, which are also shaped by objective factors such as expected return, perceived risk, and available financial resources. Several unmeasured variables plausibly account for the unexplained variance: financial literacy, which enables a more objective evaluation of risk and return; risk tolerance, a stable dispositional trait; herding behavior, which is particularly relevant to young, digitally connected investors; financial self-efficacy, a skill-based belief that differs from the distorted self-assessments captured by illusion of control and overconfidence; and investment experience and access to financial information or advisory sources. Future research should incorporate these variables into a more comprehensive model.

Model Fit Test Results (F)

Table 10.
Model Fit Test Results (F)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	683.330	4	170.833	28.989	.000[b]
	Residual	2080.234	353	5.893		
	Total	2763.564	357			

a. Dependent Variable: Y
b. Predictors: (Constant), X4, X2, X1, X3

Based on Table 10, the F-test yielded an F-value of 28.989 with a significance level of 0.000. Since this significance level is less than 0.05, this indicates that the regression model used in this study is appropriate for testing the hypotheses.

t-Test Results

The t-test statistics are reported in Table 8. An independent variable is said to have an effect on the dependent variable if the significance value (Sig.) is less than 0.05. Based on the results of the t-test, the following results were obtained.

a) The results of the t-test for the regret aversion variable (X1) show a calculated t-value of 2.096 with a Sig. value of 0.037 < 0.05, so H1 is accepted. These results prove that regret aversion has a significant effect on investment decisions.
b) The results of the t-test for the mental accounting variable (X2) show a calculated t-value of 5.711 with a Sig. value of 0.000 < 0.05, so H2 is accepted. Thus, mental accounting has a significant effect on investment decisions.
c) The results of the t-test on the illusion of control variable (X3) show a calculated t-value of 6.754 with a significance level of 0.000 < 0.05, so H3 is accepted. These results prove that the illusion of control has a significant effect on investment decisions.
d) The results of the t-test for the overconfidence variable (X4) show a calculated t-value of 0.543 with a significance level of 0.587 > 0.05; therefore, H4 is rejected. Thus, overconfidence does not have a significant effect on investment decisions.

DISCUSSION

The Effect of Regret Aversion on Investment Decisions

Based on the research results, it was found that regret aversion has an effect on investment decisions, with a t-value of 2.096 and a significance level of 0.037; thus,

regret aversion does influence investment decisions. Therefore, this hypothesis is accepted.

These findings are also consistent with those of (Nurdinda et al., 2020; Putri et al., 2025; Suciwati et al., 2024), who demonstrated that regret aversion has a significant effect on investment decisions. These consistent results indicate that the psychological factor of regret over past investment experiences plays a crucial role in influencing investor behavior. These experiences serve as lessons for investors, leading them to be more cautious, more selective in evaluating investment opportunities, and more mindful of potential risks before making future investment decisions.

The results of this study are consistent with Prospect Theory proposed by (Kahneman & Tversky, 1979). Prospect Theory explains that individuals tend to be more sensitive to potential losses than to gains (loss aversion). In the context of investing, past losses experienced by investors can lead to regret, thereby influencing their behavior when making subsequent investment decisions. Investors with a high level of regret aversion will try to avoid the possibility of a repeat loss by being more cautious in evaluating information, considering risks, and choosing investment instruments that are considered safer. Thus, the regret arising from previous investment experiences becomes one of the psychological factors influencing the investment decision-making process.

Beyond this consistency, the pattern in the present data warrants a closer interpretation. The regret aversion items capture the tendency to avoid investments that previously caused a loss and to become more careful after a loss, whereas the investment decision items capture return orientation, information search, risk checking, and time horizon. The positive coefficient therefore indicates that investors who anticipate regret more strongly report a more deliberate decision process, rather than investing less. Regret aversion also has the smallest standardized coefficient among the three significant predictors ($\beta = 0.098$; Sig. = 0.037), so its contribution is modest and close to the 5% threshold. This may reflect the respondent profile: 74.58% of respondents had invested for between six months and one year (Table 2), so many have had limited opportunity to experience realized losses, and their regret is more likely anticipatory than based on past losses. In this situation regret aversion works as a precautionary filter that prompts investors to check risks before committing funds, but it has less leverage than biases activated by the act of investing itself, such as illusion of control. Regret aversion remains a bias, however: the same tendency may lead investors to avoid sound opportunities or to hold on to losing positions, and these outcomes were not examined in this study.

The Effect of Mental Accounting on Investment Decisions

Based on the research results, it was found that mental accounting has an effect on investment decisions, with a t-value of 5.711 and a significance level of 0.000; thus, mental accounting influences investment decisions. Therefore, this hypothesis is accepted.

These findings are consistent with the results of studies by (Nizam et al., 2024; Pandji et al., 2024; Supriadi et al., 2022), which show that mental accounting has a positive and significant effect on investment decisions. These consistent results indicate that the way investors divide their money into separate mental accounts systematically shapes their investment decisions.

The results of this study are consistent with Prospect Theory, as proposed by Kahneman and Tversky (1979). Prospect Theory explains that individuals do not always act rationally when making financial decisions; rather, they are influenced by how they evaluate perceived gains and losses. One manifestation of this behavior is reflected in the concept of mental accountingthe tendency for individuals to group, manage, and evaluate financial resources into specific categories before making decisions. In the context of investing, mental accounting means that money is treated as non-fungible: funds labeled as savings, bonus, or investment capital are evaluated and risked differently even when their monetary value is identical. This departs from the rational assumption that money is interchangeable, which is why mental accounting is treated in this study as a behavioral bias rather than as a decision skill.

Interpreted in this way, the positive coefficient (B = 0.544; β = 0.267) shows that investors who compartmentalize their money more strongly also report decision processes that are more oriented toward return, risk, and time horizon. A plausible mechanism is that earmarking a dedicated pool of funds for investment makes the investment decision concrete and structured, because the amount available, and therefore the choice, is framed within that account. This is plausibly stronger in a sample in which 71.79% are students (Table 2) who typically manage limited and categorized funds. Importantly, the investment decision variable measures how decisions are made rather than how good their outcomes are, so the result does not imply that mental accounting improves decision quality. The same compartmentalization can also lead investors to take excessive risk with money perceived as a bonus, or to keep funds idle in low-return accounts; these consequences were not tested here and should be examined in future research.

The Effect of the Illusion of Control on Investment Decisions

The results of this study indicate that the Illusion of Control has an effect on investment decisions, with a t-value of 6.754 and a significance level of 0.000; thus, the Illusion of Control influences investment decisions. Therefore, this hypothesis is accepted.

The findings of this study are consistent with those of (Cecilia & Ruslim, 2022; Nurchayati & Perkasa, 2024; Zakaria & Megawati, 2022), which show that the illusion of control has a positive and significant effect on investment decisions. The similarity in these findings indicates that investors' confidence in their ability to analyze information, predict market conditions, and control investment outcomes is one of the psychological factors influencing the investment decision-making process. The higher an investor's level of the illusion of control, the greater the tendency for that investor to make investment decisions based on confidence in their own abilities.

The results of this study are consistent with Behavioral Finance Theory, which explains that investment decisions are not based solely on rational considerations but are also influenced by psychological factors and investors' behavioral biases. One such behavioral bias is the illusion of control the tendency for individuals to believe they have a greater ability to control or predict the outcome of a decision than is actually the case.

Beyond confirming that illusion of control matters, its dominance as the strongest predictor in this study (β = 0.343 exceeding mental accounting at β = 0.267, regret aversion at β = 0.098, and overconfidence at β = 0.027) calls for a sharper explanation than a restatement of prior findings. A plausible driver lies in the nature of

the self-directed, mobile-based trading environment that dominates young investors' access to the capital market in Bengkulu. According to Langer, (1975) original account, illusion of control is intensified by active involvement, personal choice, familiarity with the task, and competition-like framing conditions that are readily present when investors personally select instruments, time their own transactions, and monitor portfolio movements in real time through trading applications. This mechanism has recently been confirmed experimentally by Schütze et al., (2024), who show that the sense of control over a chance event intensifies when individuals are personally involved in making the choice, rather than when the outcome is determined externally closely mirroring the self-directed, app-based investing environment common among young Indonesian investors. Because these actions create a strong sense of personal agency over the investment process, investors may attribute favorable outcomes to their own judgment even when broader market forces are the true determinant, and this attribution can form with minimal investment experience. Mental accounting and regret aversion, in contrast, depend more on how investors mentally process the consequences of decisions after they are made, while overconfidence requires an accumulated history of investment outcomes that most respondents in this study, as largely novice investors, have not yet developed. The pronounced contribution of illusion of control therefore reflects a bias activated primarily by the process of engaging with investment decisions rather than by their outcomes, which explains why it emerges as the most salient psychological factor among a population that trades actively but with limited experience.

The Effect of Overconfidence on Investment Decisions

Based on the research results, overconfidence does not have a significant effect on investment decisions, with a t-value of 0.543 and a significance level of 0.587, which is above 0.05; thus, this hypothesis (H4) is rejected.

This finding can be considered in light of the Theory of Planned Behavior (TPB) proposed by Ajzen, (1991), which states that behavior is shaped by attitude toward the behavior, subjective norms, and perceived behavioral control rather than by self-confidence alone. Because these constructs were not measured in this study, this explanation remains tentative; nevertheless, it is consistent with the finding that high self-confidence does not necessarily translate into a different investment decision.

The lack of a significant effect of overconfidence is also influenced by the respondents' characteristics. As shown in Table 2, most respondents were aged 21–25 (67.88%) and were college students (71.79%), meaning they are still in the learning phase of investing and tend to be more cautious when making decisions. In addition, the majority of respondents had investment experience ranging from more than 6 months to 1 year (74.58%; Table 2), indicating that they are still considered novice investors. This relatively limited experience means that excessive self-confidence has not yet developed, so respondents rely more on information, analysis, and risk assessment than on personal conviction when making investment decisions.

The results of this study are consistent with Nurhardika et al., (2025), who state that overconfidence does not have a significant effect on investment decisions, as investors still consider information, market conditions, and risk before investing. However, these findings differ from those of (Addinpujoartanto & Darmawan, 2020; Aqilla & Juanda, 2023; Fachrudin, 2024; Yulistiyani et al., 2023), who found that overconfidence has a positive and significant effect on investment decisions. This

discrepancy suggests that the effect of overconfidence may be influenced by respondent characteristics, investment experience, and the research context. In this study, the predominance of respondents who are young, currently enrolled as students, and have relatively limited investment experience explains why overconfidence has not yet become a significant factor influencing investment decisions.

Taken together, the pattern of results illusion of control emerging as the strongest predictor while overconfidence shows no significant effect points to a more fundamental psychological distinction between the two cognitive biases, beyond respondent demographics alone. Illusion of control is a decision-specific, process-driven bias: it can form as soon as an investor is personally and actively involved in choosing, timing, and monitoring a transaction, regardless of how much experience that investor has accumulated (Langer, 1975). Overconfidence, by contrast, is an outcome-driven, evaluative bias: it reflects a stable belief about one's overall ability to outperform the market, and such a belief is typically calibrated gradually through repeated exposure to investment gains and losses over time, a process recent evidence shows unfolds mainly during an investor's early years of market participation (Bernile et al., 2025). Since the majority of respondents in this study are novice investors with less than one year of trading experience, they are positioned to experience a sense of personal control over their investment actions long before they could plausibly have developed a stable, outcome-based confidence in their own investing ability. This distinction offers a more substantive, psychologically grounded explanation rather than a demographic profile alone for why illusion of control, and not overconfidence, is the dominant behavioral bias among early-stage investors in Bengkulu.

CONCLUSION

This study examined the effects of regret aversion, mental accounting, illusion of control, and overconfidence on investment decisions among investors registered with the Bengkulu Representative Office of the Indonesia Stock Exchange. The results show that regret aversion, mental accounting, and illusion of control each have a significant positive effect on investment decisions, with illusion of control emerging as the strongest predictor, followed by mental accounting and regret aversion, while overconfidence has no significant effect. This pattern indicates that investment decisions among the largely young and novice investors in this study are shaped more by process-driven psychological biases, which form through active engagement in selecting and monitoring investments, than by outcome-driven beliefs about one's own ability, which typically require an accumulated history of investment experience to develop. Overall, the findings support the integration of Prospect Theory, Behavioral Finance Theory, and the Theory of Planned Behavior as complementary lenses for explaining behavioral biases in a regional, digitally connected investor population, and they extend the behavioral finance literature by demonstrating that emotional and cognitive biases can be examined meaningfully within a single explanatory framework rather than in isolation.

This study is subject to several limitations that should be considered when interpreting its findings. First, the Adjusted R^2 value of 0.239 indicates that the four psychological biases examined account for only a modest proportion of the variance in investment decisions, suggesting that other relevant factors, such as financial literacy, risk tolerance, herding behavior, and investment experience, were not captured by the model. Second, the reliability of the four independent variables, with Cronbach's Alpha

values ranging from 0.601 to 0.648, falls within a marginal range that, while methodologically defensible for exploratory behavioral research, still carries some risk to construct validity. Third, the use of the Slovin formula to determine the sample size does not account for population variance, and the cross-sectional design captures investor behavior at a single point in time rather than tracking how these biases evolve as investors gain experience. Finally, the sample was drawn exclusively from investors affiliated with the Bengkulu Representative Office of the Indonesia Stock Exchange, which may limit the generalizability of the findings to investors in other regions or with different demographic profiles. In addition, transaction frequency and unique investor identifiers (such as SID, telephone number, or e-mail address) were not recorded, so respondents' trading activity could not be verified and duplicate submissions across the online and offline channels could be screened only through cross-checks of personal data.

These findings offer practical implications for capital market stakeholders, particularly the Indonesia Stock Exchange Representative Office in Bengkulu and related securities companies. Because illusion of control is the most dominant bias among young, novice investors, investor education programs should place greater emphasis on cultivating realistic self-assessment and objective risk evaluation, rather than focusing solely on financial literacy in the narrow sense. Practical measures could include structured feedback tools that help investors distinguish between outcomes attributable to their own judgment and those driven by broader market movements, as well as mentoring or simulation-based training that exposes new investors to a wider range of market conditions before they commit larger amounts of capital.

Future research is encouraged to incorporate additional explanatory variables, such as financial literacy, risk tolerance, herding behavior, and financial self-efficacy, into the model to improve its explanatory power, and to employ longitudinal designs capable of tracking how illusion of control and overconfidence evolve as investors accumulate experience. Comparative studies across regions with differing levels of capital market maturity would also help clarify whether the dominance of illusion of control observed among novice investors in Bengkulu reflects a broader pattern among early-stage investors elsewhere in Indonesia.

Statement on the Use of Artificial Intelligence (AI)

AI was used in the preparation of this manuscript. The authors used artificial intelligence tools solely to assist with language improvement, grammar checking, and editing for clarity and readability. The authors remain fully responsible for the accuracy, originality, integrity, and academic content of the manuscript. All AI-assisted content was reviewed and verified by the authors before submission.

Conflicts of interest

The authors declare no conflict of interest.

Author contributions

Selvita Oktryani was responsible for conceptualization, data collection, data processing, data analysis, and writing preparation of the initial draft. Ahmad Sumarlan, Yusmaniarti and Ahmad Junaidi served as research validators. All authors have read and approved the final version of this manuscript..

Acknowledgments

The author would like to express gratitude to the Rector of Muhammadiyah University of Bengkulu, the Chair of the Accounting Program, the academic advisor, the examiners, the academic community, and all those who have provided support and encouragement in completing this research.

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