CHAPTER V

CONCLUSION AND SUGGESTIONS

5.1   Conclusion

The majority of respondents for this research titled **"The Effect of Propensity for Regret, Propensity for Overconfidence, Income Level, and Stock Ownership on Stock Investors' Financial Risk Tolerance in Greater Jakarta Area"** are as the following:

1. Domiciled in the Greater Jakarta Area

2. Have not married yet

3. Have a job and an income

4. Have invested in stocks before

The purpose of this research is to study the effect that Propensity for Regret, Propensity for Overconfidence, Income Level, and Stock Ownership have on Financial Risk Tolerance. Based on the results of the data processing done using Structural Equation Model and multiple regression analysis, here are the concluded research findings:

1. The variable Propensity for Regret has a significant positive effect on Financial Risk Tolerance. This is shown by a positive Estimated Regression Coefficient value of 0.636, which indicates a positive relationship between the two variables, and a p-value of 0.000, which indicates a significant effect, because it is ≤ 0.05. Therefore, it can be inferred that Propensity for Regret's effect on Financial Risk Tolerance is significant, and that the higher an individual's Propensity for Regret, the higher their Financial Risk Tolerance levels will be.

2. The variable Propensity for Overconfidence does not have a significant effect on Financial Risk Tolerance. This is shown by a p-value of 0.881,

which is above the cut-off value of ≤ 0.05, which indicates that the effect Propensity for Overconfidence has on Financial Risk Tolerance is insignificant. Propensity for Overconfidence has an Estimated Regression Coefficient of 0.017, which indicates that it has a positive effect on Financial Risk Tolerance, but the relationship between them is very weak, and considering that its effect is insignificant, this positive effect is unimportant. Therefore, it can be inferred that the variable Propensity for Overconfidence has no significant effect on Financial Risk Tolerance.

3. The variable Income Level has a significant positive effect on Financial Risk Tolerance. This is shown by a positive Estimated Regression Coefficient of 1.000, which indicates a strong positive relationship between the two variables, and a p-value of 0.000, indicating a significant effect Income Level has on Financial Risk Tolerance, because the value is ≤ 0.05. Therefore, it can be concluded that Income Level's effect on Financial Risk Tolerance is significant, and an individual's Financial Risk Tolerance level will rise as their Income Level increases.

4. The variable Stock Ownership has a significant positive effect on Financial Risk Tolerance. This is shown by an Estimated Regression Coefficient of 1.000, indicating a strong positive relationship between Stock Ownership and Financial Risk Tolerance, and a p-value of 0.000, indicating a significant effect Stock Ownership has on Financial Risk Tolerance, because it is within the cut-off value of ≤ 0.05. Therefore, it can be inferred that Stock Ownership's effect on Financial Risk Tolerance is significant, and there is a positive relationship between an individual's Stock Ownership percentage in their portfolio and their Financial Risk Tolerance.

5.2   Research Implications

Based on the findings of this research, the following are the implications that could be beneficial to financial advisors and asset management firms:

1.   Financial advisors and asset management firms should assess the client's Propensity for Regret level before concocting a financial plan or investment plan for them, as a client's Propensity for Regret level is highly influential to their Financial Risk Tolerance level, and as found in this research, a higher Propensity for Regret would likely lead to a higher level of Financial Risk Tolerance.

2.   Financial advisors and asset management firms should assess the client's Income Level before creating a financial plan or investment plan for them, as a client's Income Level is a significant determinant of their Financial Risk Tolerance level, and as found in this research, an individual with a higher Income Level would likely have a higher level of Financial Risk Tolerance.

3.   Financial advisors and asset management firms should assess if the client had any past experience in investing in stocks, and how much of their current asset portfolio is made up in the form of stocks, because as found in this results of this research, an individual's Stock Ownership percentage in their portfolio has a significant effect on their Financial Risk Tolerance, where an individual who held a larger percentage of their assets in the form of stocks, would likely have a higher level of Financial Risk Tolerance.

4.   Investors should be aware that their behavioural tendencies, namely Propensity for Regret, are influencing their level of Financial Risk Tolerance, therefore they should assess whether their exaggerated level of regretfulness are creating a bias in their risk tolerance and decision making.

5.3   Research Limitations and Suggestions for Future Study

The author realizes and admits that this research is far from perfection, and it could use many kinds of improvements and additions. Based on the experience had during this research and building from the academic spirit of constant improvement, the following are a few suggestions the author would like to give to further researchers that intend to study a similar topic:

1. Based on the Squared Multiple Correlation (R^2) test result shown in Table 4.11, it is concluded that the independent variables used in this research, which are Propensity for Regret, Propensity for Overconfidence, Income Level, and Stock Ownership, could only influence the dependent variable which is Financial Risk Tolerance for 13.2%. Therefore, there are still 86.8% of the dependent variable that is influenced by other factors and variables unknown and unused in this research. Thus, the author suggests that further research should explore and study the effects of new independent variables on Financial Risk Tolerance, in order to gain a better insight as to what other variables have an influence on Financial Risk Tolerance.

2. Based on the point stated above, and the condition that the author only studied the effects of two behavioural factors as independent variables in this research, namely Propensity for Regret and Propensity for Overconfidence, the author suggests that further research should explore and study the effects of other behavioural factors, such as Propensity to Trust, on Financial Risk Tolerance as well.

3. Based on the demographical factors, this study is limited to only using the demographic factor Income Level. Therefore, this study doesn't represent the full or complete effect demographical factors have on Financial Risk Tolerance. Therefore, the author suggests that future research should

explore the effect of other demographical factors such as age, marital status, and education level on Financial Risk Tolerance.

4. Based on the sampling criteria of this research, which limits the respondents to individuals with unmarried marital status, the author suggests that further research should also study the effects that Propensity for Regret, Propensity for Overconfidence, Income Level, and Stock Ownership have on the Financial Risk Tolerance of individuals that have married, to find whether there are any differences between the effects on unmarried and married individuals.

5. Based on the sampling criteria of this research, which limits the respondents to individuals that live in the Greater Jakarta area of Indonesia, the author suggests that further research should conduct a similar study on other areas and cities in Indonesia, to determine whether there are any differences between the results when the study is conducted in a different region.

6. Based on the author's domicile, which leads to this research to be conducted in Indonesia, the author suggests that a similar study should be conducted in other countries as well, as a different country might lead to different individual behaviour and mindsets, leading to a difference in the research results.

7. Based on the data analysis method used in this study, this research uses the Structural Equation Modeling (SEM) Method for data analysis. The author notes that future research should conduct a similar study using Multiple Linear Regression Method for data analysis, as it may provide a different result.