THE EFFECT OF LOSS AVERSION AND OVERCONFIDENCE ON INVESTMENT PERFORMANCE WITH INVESTMENT EXPERIENCE AS A MODERATING VARIABLE ON INVESTMENT GALLERY INVESTORS IN SURABAYA

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Abstract

Public participation in investment, especially within the banking sector, is witnessing notable growth driven by technological advancements and increased access to information. Nonetheless, this growth masks a reality where investor behaviour is often irrational and influenced by psychological factors. Insights from behavioural finance reveal that investment decisions rely on objective analysis, emotional factors, and individual perceptions. Specifically, loss aversion and overconfidence biases are thought to affect investment performance. Additionally, investment experience can amplify or diminish the impact of investment outcomes. This study identifies and analyses how loss aversion and overconfidence influence investment performance, with investment experience as a moderating variable. Employing a quantitative methodology, the research used purposive sampling to distribute a questionnaire at the Surabaya Investment Gallery. Data analysis was conducted through the Partial Least Square (PLS) method, utilizing SmartPLS 3.0. The study's findings reveal that: 1) Loss aversion significantly positively impacts investment performance among investors at the Surabaya Investment Gallery; 2) Overconfidence also has a significant positive effect on investment performance among these investors; 3) Investment experience moderates the effect of loss aversion on performance; and 4) Investment experience similarly moderates the effect of overconfidence on performance among investors at the Surabaya Investment Gallery. These findings elevate behavioural finance literature and can guide investors toward making more rational decisions.

Keywords: Loss Aversion, Overconfidence, Investment Performance, Investment Experience

INTRODUCTION

The banking sector strategically supports national economic growth, especially in encouraging public participation in investment activities. Not only carrying out the function of financial intermediation, banks also provide various investment instruments such as mutual funds, bonds, and time deposits, which are intended for people with multiple risk tolerance levels. These instruments become the foundation of an investor's portfolio, as they offer stability, high liquidity and relatively low risk. This aligns with the findings of Arnova et al. (2024) and Kustandi (2024), which show that conservative investors choose banking instruments as the first step in their investment activities.

It not only provides investment instruments, but its role in Surabaya City also reflects the changing paradigm of society in investing. Based on data from the Indonesia Stock Exchange (2023), the number of capital market investors in Surabaya has reached 307,000 people, with an annual growth of 9.98% by the end of September 2023. Investment Gallery activities in educational and banking partner institutions encourage financial literacy and strengthen connections between investors and the capital market. This trend indicates increased public financial literacy and inclusion, driven by advances in digital technology and easy access to investment platforms. As a regional economic hub, Surabaya is essential in observing urban investor behaviour in Indonesia.

Public investment participation indicates a positive growth trend. Mahendra (2024) states that advances in information technology are driving a significant transformation in investment behavior, which now reaches individuals from various backgrounds. KSEI data shows a surge in investors in 2021-2024, especially in capital market instruments and mutual funds. This increase is driven by easy access to information, digital technology, and promotions from various platforms, making investment more inclusive and accessible. Data shows investment instruments such as capital markets and mutual funds experienced the highest growth.

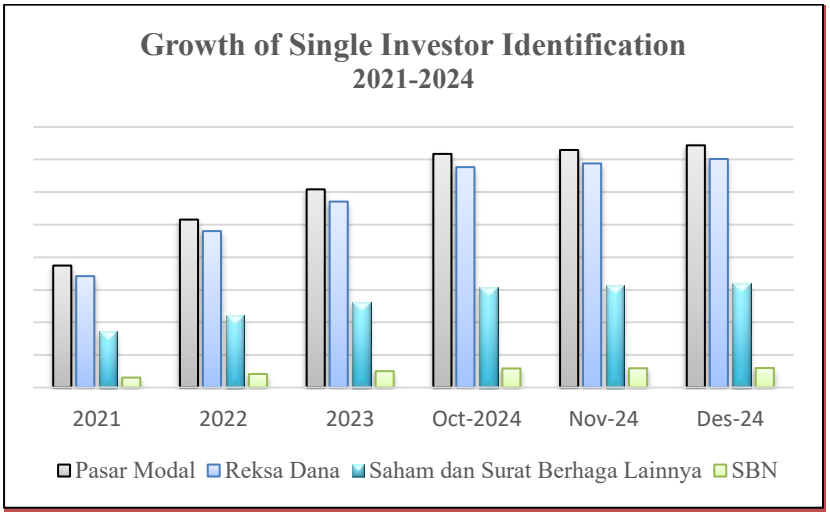

Figure 1.
Growth of Single Investor Identification (SID) 2021-2024
Source: PT Kustodian Sentral Efek Indonesia 2025

Figure 1 shows a consistent growth trend in various investment instruments, reflecting the increasing active participation of the public in investment activities. This condition indicates that individual awareness of the importance of investing continues to grow, along with easy access to information, utilization of digital technology, and rampant promotion carried out by various platforms. This situation shows that investment is becoming more inclusive and accessible to people from multiple backgrounds.

The increase in public enthusiasm for investment makes investment performance evaluation increasingly important. Liestyowati et al. (2023) mentioned that investment performance shows the success of a portfolio in achieving returns commensurate with risk by investment objectives. This indicator is the primary reference in measuring the extent to which investors' financial expectations are met.

In investment euphoria, many investors are affected by psychological factors that lead to irrational decision-making. This shows the limitations of conventional financial theory, which assumes that investors always act rationally and logically. This mismatch became the basis for the birth of the behavioral finance approach, which emphasizes the role of cognitive and emotional biases in investment decisions (Shefrin, 2000). Mufidah et al. (2023) added that perceptions, emotions, and personal experiences also influence the assessment of risks and opportunities. Understanding biases such as loss aversion and overconfidence is essential in this context.

One of the main theories in behavioral finance is prospect theory by Kahneman and Tversky (1979), which explains that individuals make decisions based on potential gains and losses relative to a reference point, not just based on the outcome. Loss aversion refers to the tendency of individuals to feel losses more than equivalent gains (Githa & Murtanto, 2024). Humairo and Panuntun (2022) explain that this bias makes investors hold on to losing assets longer or rush to sell profitable assets for fear of loss. As a result, investors often become overly cautious or miss investment opportunities. Some studies, such as Lebdaoui et al. (2021), Cao et al. (2021), Ahmad et al. (2021), and Hamidon and Kehelwalatenna (2020), show that loss aversion has a positive and significant effect on investment performance. However, Quddoos et al. (2020) found different results, namely the absence of a significant effect.

If loss aversion encourages investors to be careful, overconfidence has the opposite effect with excessive confidence in their ability to manage investments (Theressa & Armansyah, 2022). Investors who experience overconfidence tend to overtrade, ignore conflicting information, and underestimate risk. Rona and Sinarwati (2021) state that this bias makes investors ignore accurate information to maintain personal beliefs. Depending on the situation, this behavior can have a positive or negative impact. For example, overconfident investors often buy stocks without in-depth analysis or engage in unsubstantiated speculation (Ismail et al., 2024). This attitude must be controlled because a thorough market analysis is not necessarily fulfilled. Research by Zain et al. (2022), Ul Abdin et al. (2022), and Quddoos et al. (2020) showed a significant positive effect of overconfidence on investment performance, while Lebdaoui et al. (2021) found a negative impact of this bias.

Irrational behavior in investment decision-making leads to market instability, as seen in the 8.04% decline in the JCI in the first quarter of 2025, from a peak of 7,910 points in 2024 to 6,510 points in March 2025 (Bloomberg Technoz, 2025). Azizah (2025) stated that

this decline was influenced by negative sentiment, investors' emotional behavior, macroeconomic instability, and declining company performance. The decline in trading volume occurs because investors hold back funds, exacerbating emotional behaviors such as loss aversion and overconfidence, which increase the risk of loss and negatively impact investment performance (Ramadhan, 2022). If not controlled, both biases can increase the risk of adverse investment decisions.

In situations like this, investment experience significantly strengthens or weakens the influence of psychological biases on investment performance. Dunan and Karundeng (2025) revealed that experienced investors can better control market pressures and act rationally without getting carried away by emotions. Experience helps avoid impulsive decisions influenced by fear or excessive self-confidence, while novice investors tend to be more susceptible to psychological biases such as loss aversion and overconfidence (Sabilla & Pertiwi, 2021). Thus, investment experience can moderate the impact of psychological biases in investment decision-making.

REVIEW OF LITERATURE

Prospect Theory

Prospect theory is part of behavioral finance, which was developed by Kahneman and Tversky (1979) to explain individual behavior when faced with uncertainty and risk (Yuniningsih, 2020). This theory describes the tendency of individuals to behave irrationally - preferring to avoid risk when they have the opportunity to gain profits but instead seeking risk when facing losses (Mafo et al., 2024). According to Edwards (1996), cognitive bias plays an important role in decision-making. Individuals tend to value specific outcomes more than uncertain ones and feel losses more intensely than the pleasure of gains of the same value (Yuniningsih, 2020).

Loss Aversion

Loss aversion was first introduced by Kahneman and Tversky (1979), assuming that losses have a greater psychological impact than gains of equal value. Gächter et al. (2022) explain that investors tend to respond to losses more intensely than gains. Putri et al. (2024) added that the emotional impact of losses is felt more strongly than the satisfaction of gains. Investors reluctant to accept losses tend to hold losing assets and may take greater risks to avoid realizing these losses (Maratun Shaleha et al., 2022). When they feel the investment is not safe, they tend to sell; otherwise, when the value of the investment decreases, they choose to keep it in the hope that the value will recover. According to Masomi and Ghayekhloo (2010), loss aversion indicators that meet the criteria, namely: 1) loss aversion indicators include investors' tendency to know the performance of stocks before investing; 2) expect specific results; 3) be cautious about potential adverse changes; 4) choose stocks with a positive performance history; 5) base investment decisions on knowledge, experience, and education.

Overconfidence

According to Pompian (2006), overconfidence is an excessive belief in cognitive abilities and judgments that are not always based on facts. This bias makes investors overestimate knowledge and risk (Ayudiastuti, 2021). Nofsinger (2005) states that overconfidence affects how individuals make investment decisions. Salerindra (2020) adds

that high self-confidence encourages bolder decision-making, while low self-confidence leads to doubt and caution. This bias makes investors ignore other possibilities and feel they have information superior to reality (Pompian, 2006). Overconfidence indicators, according to Wulandari and Irmani (2014), include: 1) accuracy of investment selection; 2) confidence in personal abilities; 3) confidence in choosing investment instruments.

Investment Performance

Some argue that irrational investors will be eliminated from the market, while others believe that investors who are overconfident and overtrading can achieve higher returns (Anderson et al., 2005). In this case, investment performance is the primary benchmark. According to Sharpe (1966), investment performance reflects the results obtained by considering the rate of return and risk. Psychological factors such as loss aversion and overconfidence can influence how investors assess and manage risk and return expectations. Oberlechner and Osler (2004) use a subjective approach, where investors self-assess their investment performance based on returns. Lin and Swanson (2003) identify three leading indicators in measuring investment performance, including 1) raw return; 2) risk-adjusted return; and 3) momentum-adjusted return, which is calculated based on five time periods, namely daily, weekly, monthly, quarterly, and annually.

Investment Experience

Investment experience is the level of individual involvement in investment activities, which is reflected in the frequency and duration of transactions (Grinblatt & Keloharju, 2001). This experience broadens the investor's understanding of market dynamics and helps them respond to risk and financial turmoil (Barber & Odean, 2001; Dunan & Karundeng, 2025). As a moderating variable, investment experience can reduce the negative influence of behavioral biases such as overconfidence and loss aversion (Waweru et al., 2008). According to Awais et al. (2016), indicators include 1) awareness of investment objectives; 2) how to respond to risk; and 3) investment duration.

Conceptual Framework

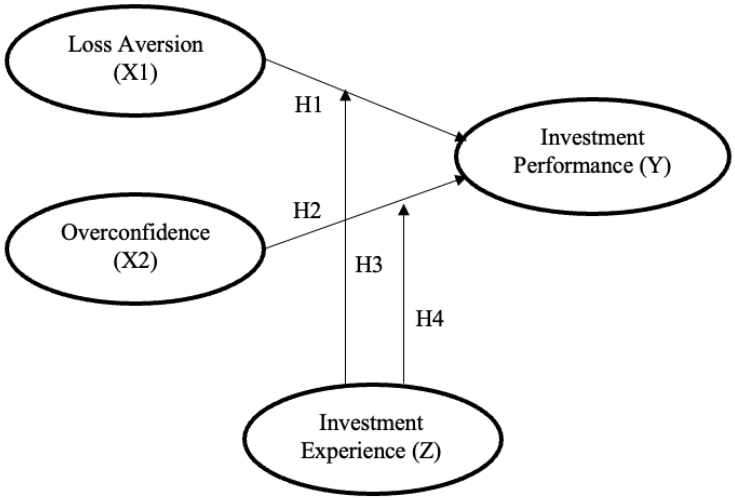

Figure 2.
Conceptual Framework

The hypothesis in this study is as follows:

H1: Loss aversion has a positive effect on the investment performance of Investment Gallery investors in Surabaya.

H2: Overconfidence has a positive effect on the investment performance of Investment Gallery investors in Surabaya.

H3: Investment experience moderates the relationship between loss aversion and investment performance among Investment Gallery investors in Surabaya.

H4: Investment experience moderates the relationship between overconfidence and investment performance among Investment Gallery investors in Surabaya.

RESEARCH METHOD

This research is a quantitative study with a causal approach that aims to analyze the effect of loss aversion and overconfidence on investment performance and the moderating role of investment experience on Investment Gallery investors in Surabaya. The approach used is a survey with a purposive sampling technique involving 140 respondents who are active investors. Primary data was collected through an online Google Form questionnaire with a Likert scale as a measuring tool. Before being analyzed, the instrument was tested for validity and reliability. Data analysis was conducted using Partial Least Square-Structural Equation Modeling (PLS-SEM) method using SmartPLS 3.0 software includes testing the outer and inner models and hypothesis testing of direct relationships and moderating effects between variables.

RESULTS AND DISCUSSION

Respondent Characteristics

Respondents in this study are investors who are members of the Investment Gallery in Surabaya and have a stock portfolio in the banking sector. Data was obtained by distributing questionnaires to 140 respondents who all met the criteria as active investors. Based on age characteristics, the majority of respondents are in the age range of 21-25 years, as many as 132 people or 94.3%, reflecting the dominance of productive age who actively explore investment instruments. Regarding status, most respondents are students, as many as 121 people or 86.4%, which shows that interest in stock investment in the banking sector is also high among young academics. 126 respondents, or 90%, have an income below IDR 2,500,000 per month from pocket money, part-time jobs, or small-scale investment returns. However, 120 respondents, or 85.7%, have had 1-3 years of investing experience. This shows that Investment Gallery investors in Surabaya are a relevant group to assess the influence of psychological factors such as loss aversion and overconfidence on investment performance in stocks in the banking sector because they have experience making investment decisions that consider various aspects of risk and potential returns in the market.

Outer Model

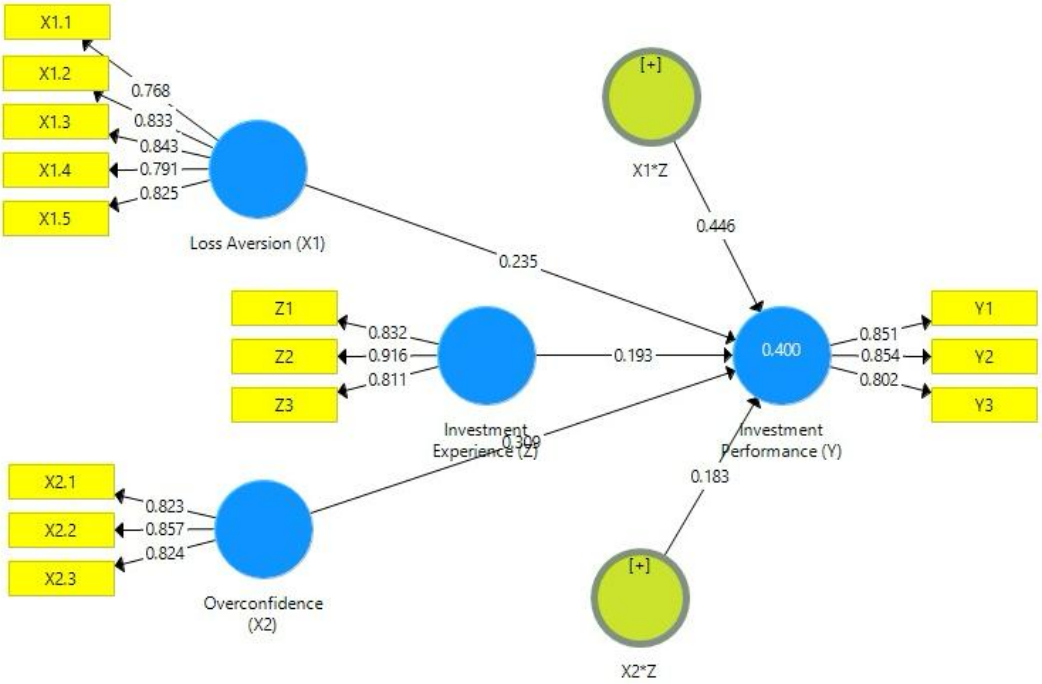

Figure 3.
Outer Model

Based on figure 3, the PLS output above displays the factor loading value of each indicator that connects the variable with its indicator. In addition, the value of path coefficients is also seen above the arrow line that connects exogenous variables and endogenous variables. Not only that but the magnitude of the R-Square value is also located in the endogenous variable circle (Investment Performance (Y)).

Outer Loading

Table 1.
Outer Loading

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)
X1.1 <- Loss Aversion (X1)	0,768	0,739	0,131	5,855
X1.2 <- Loss Aversion (X1)	0,833	0,810	0,113	7,353
X1.3 <- Loss Aversion (X1)	0,843	0,827	0,097	8,661
X1.4 <- Loss Aversion (X1)	0,791	0,758	0,159	4,982
X1.5 <- Loss Aversion (X1)	0,825	0,806	0,103	8,029
X2.1 <- Overconfidence (X2)	0,823	0,804	0,108	7,624
X2.2 <- Overconfidence (X2)	0,857	0,859	0,062	13,754
X2.3 <- Overconfidence (X2)	0,824	0,801	0,105	7,870
Y1 <- Investment Performance (Y)	0,851	0,846	0,031	27,084
Y2 <- Investment Performance (Y)	0,854	0,847	0,035	24,325

Y3 <- Investment Performance (Y)	0,802	0,804	0,045	17,695
Z1 <- Investment Experience (Z)	0,832	0,783	0,182	4,560
Z2 <- Investment Experience (Z)	0,916	0,881	0,132	6,940
Z3 <- Investment Experience (Z)	0,811	0,765	0,150	5,416

Source: Data processed by researchers (2025)

Convergent validity can be evaluated using factor loading, which must have > 0.5 to be considered valid. According to table 1, the factor loading value on each variable indicator shows a number> 0.5. This indicates that this construct has good convergent validity.

Cross Loading

Table 2.
Cross Loading

	Investment Experience (Z)	Investment Performance (Y)	Loss Aversion (X1)	Overconfidence (X2)	X1*Z	X2*Z
(X1) * (Z)	-0,089	0,445	0,062	-0,067	1,000	-0,062
(X2) * (Z)	-0,035	0,097	-0,071	-0,113	-0,062	1,000
X1.1	0,030	0,141	0,768	-0,121	0,020	-0,103
X1.2	0,003	0,198	0,833	-0,062	0,048	-0,087
X1.3	0,007	0,221	0,843	0,018	0,090	0,044
X1.4	0,039	0,159	0,791	-0,159	0,030	-0,129
X1.5	0,078	0,217	0,825	-0,029	0,047	-0,055
X2.1	0,141	0,205	-0,084	0,823	-0,042	-0,092
X2.2	0,041	0,253	-0,044	0,857	-0,077	-0,101
X2.3	0,033	0,161	-0,063	0,824	-0,041	-0,089
Y1	0,145	0,851	0,141	0,313	0,358	0,094
Y2	0,203	0,854	0,274	0,140	0,400	0,094
Y3	0,086	0,802	0,174	0,176	0,359	0,049
Z1	0,832	0,140	0,019	0,080	-0,067	-0,039
Z2	0,916	0,197	0,069	0,074	-0,066	0,005
Z3	0,811	0,076	-0,034	0,065	-0,127	-0,105

Source: Data processed by researchers (2025)

According to table 2, each indicator that forms the loss aversion variable (X1), overconfidence (X2), investment performance (Y), and investment experience (Z) has a cross-loading value that exceeds the indicators on other variables. This shows that all indicators on these variables have met the criteria for discriminant validity.

Average Variant Extracted (AVE)

The following measurement model is the Average Variable Extracted (AVE) value; an AVE value that exceeds 0.5 is considered reasonable.

Table 3.
Average Variant Extracted (AVE)

	Average Variance Extracted (AVE)
Loss Aversion (X1)	0,660

Overconfidence (X2)	0,697
Investment Performance (Y)	0,699
Investment Experience (Z)	0,730
X1*Z	1,000
X2*Z	1,000

Source: Data processed by researchers (2025)

The AVE test results for the Loss Aversion variable (X1) are 0.660, Overconfidence (X2) is 0.697, Investment Performance (Y) is 0.699, and Investment Experience (Z) is 0.730. Meanwhile, the AVE value for the interaction variables X1 * Z and X2 * Z is 1.000 each. All variables in this study show an AVE value> 0.5. These values indicate that each construct can explain more than 50% of the variance of its indicators. Thus, all constructs in this study have met the requirements of convergent validity and have good validity.

Composite Reliability

Construct reliability is measured using the composite reliability value, where a construct is considered reliable if the composite reliability value is> 0.70. Thus, the indicator is considered consistent to continue measuring the latent variable.

Table 4.
Composite Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Loss Aversion (X1)	0,873	0,887	0,907	0,660
Overconfidence (X2)	0,787	0,814	0,873	0,697
Investment Performance (Y)	0,787	0,802	0,874	0,699
Investment Experience (Z)	0,826	0,939	0,890	0,730
X1*Z	1,000	1,000	1,000	1,000
X2*Z	1,000	1,000	1,000	1,000

Source: Data processed by researchers (2025)

The test results show that all variables in the study have a Composite Reliability (CR) value above 0.70. Specifically, the CR value for Loss Aversion (X1) is 0.907, Overconfidence (X2) is 0.873, Investment Performance (Y) is 0.874, and Investment Experience (Z) is 0.890. The CR value for the interaction variables X1Z and X2Z is 1.000 each. These values indicate that all constructs have perfect internal consistency, so it can be concluded that the instruments used in this study are reliable.

Inner Model

R-Square

Testing of the structural model is done by looking at the R-Square value, which is a goodness-fit model test. Inner model testing can be seen from the R-square value in the equation between latent variables. The R-Square value explains how much the exogenous (independent/free) variables in the model can explain the endogenous (dependent/dependent) variables.

Table 5.
R-Square

	R Square	R Square Adjusted
Investment Performance (Y)	0,400	0,378

Source: Data processed by researchers (2025)

The coefficient of determination based on table 5 is 0.400 or 40%. This shows that Investment Performance (Y) is influenced by Loss Aversion (X1), Overconfidence (X2), and Investment Experience (Z) by 40%, while the remaining 60% is influenced by other variables not explained in this study.

Hypothesis Testing

Table 6.
Path Coefficients (Mean, STDEV, T-Value, P-Value)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Loss Aversion (X1) -> Investment Performance (Y)	0,235	0,243	0,083	2,820	0.005
Overconfidence (X2) -> Investment Performance (Y)	0,309	0,310	0,063	4,880	0.000
X1*Z -> Investment Performance (Y)	0,446	0,404	0,103	4,348	0,000
X2*Z -> Investment Performance (Y)	0,183	0,160	0,071	2,596	0,010

Source: Data processed by researchers (2025)

1) Hypothesis 1: Loss Aversion (X1) has a positive effect on Investment Performance (Y) can be accepted, with path coefficients of 0.235 where the P-values are 0.005 < 0.05, then significant (positive), then hypothesis 1 is accepted.
2) Hypothesis 2: Overconfidence (X2) has a positive effect on Investment Performance (Y) can be accepted, with path coefficients of 0.309 where the P-values are 0.000 < 0.05, then significant (positive), then hypothesis 2 is accepted.
3) Hypothesis 3: Investment experience (Z) can moderate the effect of loss aversion (X1) on investment performance (Y) can be accepted, with path coefficients of 0.446, where the P-values are 0.000 < 0.05, then significant (positive), then hypothesis 3 is accepted.
4) Hypothesis 4: Investment experience (Z) can moderate the effect of overconfidence (X2) on investment performance (Y) can be accepted, with path coefficients of 0.183 where the P-values are 0.010 < 0.05, then significant (positive), then hypothesis 4 is accepted.

The Effect of Loss Aversion on Investment Performance

The research results show that loss aversion significantly affects the investment performance of Investment Gallery investors in Surabaya. The loss aversion indicator has the

highest factor loading value, which is a cautious attitude towards potential losses due to sudden market changes. This indicator has the most significant contribution in forming the loss aversion variable, indicating that investors sensitive to potential risks will be more selective and measured in choosing investment instruments.

The results of this study are supported by Cao et al. (2021), who state that loss aversion significantly positively impacts investment performance. In line with research conducted by Lebdaoui et al. (2021), loss aversion positively affects investment performance, where investors who tend to avoid losses are more selective in choosing investment instruments. Investors with a high level of loss aversion tend to be more careful and consider risks carefully to improve the quality of investment decisions and the resulting performance.

The Effect of Overconfidence on Investment Performance

Based on the research conducted, the results show that overconfidence has a significant positive effect on investment performance in Investment Gallery investors in Surabaya. The overconfidence indicator has the highest factor loading value and is about understanding the risks of the selected investment. This means that the statement is the strongest representative of the overconfidence construct compared to other indicators. This strengthens the position of this indicator as the center of representation of investor overconfidence behavior in this study.

The results of this study are supported by Quddoos et al. (2020), who state that overconfidence significantly positively impacts investment performance. This aligns with research conducted by Zain et al. (2022) and Ul Abdin et al. (2022), which found that overconfidence significantly affects investment performance. Investors with a high level of overconfidence usually have tremendous confidence in making investment decisions, which in certain situations can encourage them to act more aggressively in taking advantage of market opportunities and making profits.

Loss Aversion on Investment Performance with Investment Experience as Moderating Variable

The research results show that investment experience significantly modifies the impact of loss aversion on investment performance on Investment Gallery investors in Surabaya. The considerable effect of investment experience in moderating the relationship between loss aversion and investment performance indicates that investment experience plays an essential role in strengthening the impact of loss aversion on investment performance.

Investors with higher experience tend to better control emotions and make rational decisions despite facing the risk of loss. On the contrary, investors who still lack experience are more susceptible to fear of loss and tend to avoid risk excessively, which in turn can reduce their investment performance. Therefore, investment experience acts as a moderating variable that can strengthen the positive relationship between loss aversion and investment performance by helping investors manage the fear of loss more rationally based on previous experience. The results in this study are supported by the results of Xian and Huan's (2020) research, proving that investment experience can moderate the effect of loss aversion on investment performance. The study shows that investors with loss aversion tend to be cautious, but adequate investment experience helps avoid excessive fear. Experience allows for better market understanding and emotional management, so investment decisions become more rational and positively impact performance.

Overconfidence on Investment Performance with Investment Experience as Moderating Variable

The results of the research show that investment experience has a significant positive effect on moderating the impact of overconfidence on investment performance on Investment Gallery investors in Surabaya. The significant positive impact of investment experience in moderating the relationship between overconfidence and investment performance indicates that investment experience plays an essential role in directing the impact of overconfidence in a more controlled and beneficial direction.

Overconfident investors tend to overestimate their analytical and predictive abilities towards market movements, thus potentially making less rational decisions. However, investors with sufficient investment experience tend to better balance this confidence with more objective considerations. Investment experience allows individuals to understand market patterns, evaluate risks more accurately, and manage emotions and self-confidence in a more controlled manner. Therefore, investment experience is a moderating variable that strengthens the positive relationship between overconfidence and investment performance by directing investors' self-confidence in a more adaptive direction. Thus, investment experience can moderate the effect of overconfidence on investment performance. This finding aligns with Glaser and Weber's (2009) research, which shows that experienced investors tend to better control the effects of overconfidence in the decision-making process.

CONCLUSION

Based on the analysis results using the Partial Least Square (PLS) method, this study found that loss aversion and overconfidence significantly influence investment performance in Investment Gallery investors in Surabaya. Loss aversion encourages investors to be more careful in making investment decisions to improve their performance. In addition, overconfidence owned by investors also contributes positively to investment performance, indicating that a high level of confidence can influence investment results favorably. Furthermore, investment experience is a moderating variable that strengthens the relationship between loss aversion and overconfidence in investment performance. The investment experience that investors have makes them wiser and more rational in making decisions, thus having a positive impact on achieving investment performance. This finding underscores the importance of developing investment experience as a strategy to improve the quality of investment decisions in the context of investor behavior.

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