



Editorial Office: Program Studi Magister Manajemen |
Program Pascasarjana | Universitas Warmadewa
Jl. Terompong No.24, Sumerta Kelod, Kec. Denpasar Timur, Kota Denpasar, Bali 80239



Jurnal Ekonomi dan Bisnis Jagaditha

Volume 13, Number 1, 2026

ISSN: 2355-4150 (Print) | 2579-8162 (Online)

Publication details, Including author guidelines

visit URL: <https://www.ejournal.warmadewa.ac.id/index.php/jagaditha/authorguideline>

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Made Pratiwidewi^{1*} | Yudi Azis¹ | Widarto Rachbini¹

1. Universitas Pancasila, Jakarta, Indonesia

Article History

Received: July 18, 2025

Revised: March 2, 2026

Accepted: March 12, 2026

How to cite this article (APA)

Pratiwidewi, M., Azis, Y., & Rachbini, W. (2026). Integration of Behavioral Finance and Local Culture in Investment Decisions. *Jurnal Ekonomi dan Bisnis Jagaditha*. 13(1), 54-65. <https://doi.org/10.22225/jj.13.1.2026.54-65>

*Correspondence regarding this article should be addressed to:

Made Pratiwidewi

Email: madepratiwidewi@gmail.com

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Integration of Behavioral Finance and Local Culture in Investment Decisions

Made Pratiwidewi^{1*} | Yudi Azis¹ | Widarto Rachbini¹

1. Universitas Pancasila, Jakarta, Indonesia

Abstract. The objective of this study is to conduct a systematic literature review of the development of studies related to behavioral finance and its influence on investment decision making. The study will pay particular attention to the role of local culture as a moderating factor. The present study employed the Systematic Literature Review (SLR) approach to conduct a comprehensive review of 50 scientific articles published from 2000 to 2025. The analysis indicates that behavioral biases, including overconfidence, loss aversion, and herding behavior, in addition to risk perception and return expectation, are variables that have been consistently identified as having a significant influence on investment decisions. However, there are still significant gaps in the extant literature, especially regarding the integration of local culture in financial decision-making models. In the Indonesian context, cultural values such as Catur Purusa Artha are believed to play a significant role in shaping investment attitudes and preferences. However, these cultural values have not yet been empirically studied. Consequently, this study offers a conceptual framework that integrates extant research and proposes a novel approach to the study of behavioral finance, one that is more culturally pertinent. The findings are expected to serve as a theoretical and practical foundation in encouraging local wisdom-based investment research and policy in Indonesia.

Keywords: behavioral finance; expected return; investment decision; local culture; risk perception; SLR

Introduction

In recent decades, the traditional financial paradigm, which is predicated on the assumption of full investor rationality, has been the subject of increasing scrutiny. Classical models, including the Efficient Market Hypothesis (EMH), operate under the assumption that investors possess the capacity to process all available information objectively and make optimal decisions (Fama, 1965). Nevertheless, the existence of various market anomalies and the observation of investor behavior that deviates from rationality suggest that this assumption may not fully capture the complexity of decision-making processes within financial markets. This condition has encouraged the development of a behavioral finance approach that integrates psychological and social science perspectives into financial studies (Ricciardi & Simon, 2000; Olsen, 1998; Shefrin, 2002).

The extant behavioral finance literature has identified various behavioral biases—such as overconfidence, loss aversion, anchoring, and herding behavior—as significant factors that influence individual investment decisions (Tversky & Kahneman, 1974; Baker & Nofsinger, 2002; Statman, 2014; Gill & Bajwa, 2018). Furthermore, risk perception and return expectations are identified as pivotal variables that facilitate the impact of behavioral biases on investment decisions (Weber et al., 2013; Trang & Tho, 2017). Indeed, a substantial body of research has demonstrated that risk perception can function as a mediating mechanism, elucidating the manner in which behavioral factors are translated into investment decisions (Almansour et al., 2023). Conversely, the interplay between expectations, risk perception, and investment preferences has been a subject of considerable discourse within the domain of behavioral economics. This field has underscored the notion that investment decisions are frequently influenced by subjective evaluations of risk and reward, rather than by objective, numerical calculations (Antonides & Van der Sar, 1990; Huber & Huber, 2019). These findings indicate that

investment decisions are not solely determined by rational calculations, but rather by multifaceted interactions among cognitive, emotional, and individual experience factors.

However, the prevailing approach in behavioral finance research remains universalistic, emphasizing individual psychological aspects without sufficiently considering the social and cultural context in which investors operate. Culture is defined as a system of values that shapes how individuals perceive risk, profit, and economic goals (Hofstede, 2001; Yates & Oliveira, 2016). Cross-cultural studies demonstrate that disparities in cultural values, such as individualism and collectivism, influence risk perception and investment preferences (Weber & Hsee, 1999; Hens & Wang, 2007; Chang & Lin, 2015; Li et al., 2021). Specifically, studies of culture and risk in Indonesia demonstrate that the propensity to evade uncertainty can influence risk avoidance and elevate investors' perception of risk (Arsyad & Ibrahim, 2019). This finding suggests that investment behavior is inextricably linked to the prevailing cultural context.

In the context of developing countries, particularly Indonesia, the cultural dimension is becoming increasingly salient. Local values function not only as social guidelines, but also as a form of social control, influencing life orientation, attitudes toward wealth, and the way individuals make economic decisions (Bauto, 2014). A number of studies in Indonesia demonstrate that investment behavior is influenced by a combination of psychological factors, knowledge/literacy, and the values held by investors, including young investors and sharia stock investors (Abidin et al., 2020). Moreover, evidence from other regional contexts demonstrates that social identity factors, including gender, ethnicity, and religion, can influence investment preferences and decisions (Albaity & Rahman, 2012; Ferreira & Dickason, 2018). The present study explores the potential interplay between religiosity and behavioral biases in the context of investment decision-making (Hameed et al., 2018). This finding is pertinent to the argument that investment decisions are not independent of socio-cultural values; rather, they are embedded in the characteristics and value systems of investors.

In Bali, for instance, the Catur Purusa Artha philosophy, comprising Dharma (ethics), Artha (economic welfare), Kama (life satisfaction), and Moksa (spiritual balance), serves as the foundation for values that guide individual behavior, including economic and investment activities. Nevertheless, to date, there has been a paucity of systematic studies that integrate these local cultural values into the behavioral finance framework. Research that pertains to Catur Purusa Artha is typically situated within the domain of financial governance or ethics. However, its practical application to investment behavior mechanisms has remained largely unexplored, except in the context of investment decision models (Sutra, 2020; Sudiana et al., 2022).

Empirical studies conducted in Indonesia have demonstrated a correlation between religiosity and cultural values on the one hand, and investment attitudes and decisions on the other. However, the extant studies are generally stand-alone and have not been integrated into a comprehensive conceptual model. Moreover, there is a paucity of studies that have explicitly incorporated local culture as a moderating variable in the examination of the relationship between behavioral bias, risk perception, return expectations, and investment decisions. Within the framework of planned behavior, investment intentions and decisions can be understood as the result of attitudes, norms, and perceived behavioral control (Ajzen, 1991). A number of studies have adapted TPB to explain investment intentions, situating risk perception as a significant component in the process (Alleyne, 201; Arsyad et al., 202; Bosnjak et al., 2020). This finding suggests the presence of a robust theoretical foundation for integrating behavioral mechanisms (bias, risk, and expectation) with the local cultural context within a more comprehensive framework.

In light of these conditions, a systematic review is imperative. Such a review should map the development of behavioral finance research and critically evaluate the extent to which cultural dimensions, particularly local culture, have been integrated into the investment decision-making literature. Consequently, this article employs a systematic literature review (SLR) approach to analyze and synthesize findings from previous studies discussing behavioral finance, risk perception, return expectations, and the role of culture in investment decisions.

The primary innovation of this article is its systematic endeavor to integrate behavioral finance perspectives with local cultural values within a unified conceptual framework. Contrary to the prevailing SLR studies that have historically concentrated on behavioral biases and psychological factors in a more broad sense, this study unambiguously establishes local culture, particularly Catur Purusa Artha, as a contextual mechanism that has the capacity to moderate the relationship between behavioral factors, risk perception, return expectations, and investment decisions.

This article utilizes the method of structured literature synthesis to accomplish two objectives. First, it identifies dominant patterns and research gaps in behavioral finance studies. Second, it offers directions for the development of more contextual and holistic theories. Consequently, this study contributes to the expansion of the understanding of investor behavior, particularly in the context of societies with strong cultural values, and it establishes a foundation for further empirical research that integrates local cultural dimensions into investment decision studies.

Concept

The objective of this study is to methodically examine the relationship between behavioral finance and local cultural aspects in investment decision-making. Despite the rapid growth in the literature on behavioral biases, risk perceptions, and return expectations, the integration of local cultural factors into the behavioral finance framework remains underdeveloped. Specifically, local cultural values such as Catur Purusa Artha have not been extensively incorporated into explanations of the investment decision-making process, particularly as factors that influence or moderate the relationship between behavioral aspects and investment decisions.

The objective of this study is to address the following research questions, which are derived from the aforementioned conditions: A review of the extant literature reveals several research trends and directions. Firstly, there is a paucity of research on the influence of behavioral finance on investment decisions. Secondly, the most dominant behavioral biases, risk perceptions, and return expectations in the literature remain to be identified. Thirdly, the relationship between behavioral finance factors and investment decisions is moderated by local culture. Finally, there are research gaps in the study of the integration of behavioral finance and culture in the context of investment decision-making.

In accordance with the formulation of the problem, the objective of this study is threefold. Firstly, it aims to identify and systematize the findings of previous studies on behavioral finance and investment decisions. Secondly, it seeks to classify the main variables used in previous studies, particularly behavioral biases, risk perceptions, and return expectations. Thirdly, it will analyze the role of local culture, especially Catur Purusa Artha, as a variable that has the potential to moderate the relationship between behavioral factors and investment decisions. Finally, it will reveal research gaps in order to provide recommendations for further research that is more holistic, contextual, and relevant to local cultural characteristics.

Method

This research employs a systematic literature review (SLR) approach, which aims to identify, evaluate, and synthesize findings from scientific articles related to the topic of behavioral finance and the integration of cultural values in investment decisions. The research design is consistent with the guidelines established by PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) and Kitchenham & Charters (2007), encompassing the following phases:

1. Keyword Identification and Determination; A comprehensive literature search was conducted using keywords such as: The following terms are pertinent to the present study “behavioral finance”, “investment decision”, “risk perception”, “expected return”, “financial bias”, and “cultural moderation”.

2. Data Sources: The articles were meticulously selected from an array of scientific databases, including Scopus, ScienceDirect, Emerald Insight, SpringerLink, Google Scholar, and distinguished national journals recognized by SINTA. The publication year range under consideration is from 2000 to 2025.

3. Inclusion & Exclusion Criteria

Table 1. Inclusion & Exclusion Criteria

Inclusion Criteria	Exclusion Criteria
Indexed scientific articles (Scopus, SINTA 1/2, national journals)	Opinions, editorials, media reports and unreviewed articles
Focus on investment decisions, behavioral finance, culture	Articles that do not explicitly discuss investment decisions
Mentioning variables: bias, perceived risk, expected return	Articles that are duplicates or not available for full access
Publication period: 2000-2025	Studies that only discuss companies without involving investors

(Source: Data processed, 2025)

1. Selection Procedure:

- Total articles identified: 213 from database + 18 from manual search.
 - After removing duplicates: 189 articles
 - After screening titles and abstracts: 86 articles
 - Final articles used in the analysis: 50 articles
2. Analysis Instrument: Data from 50 articles were coded into an SLR matrix table that included: author, year, title, theory, methodology, variables, results, country context, and research gaps.
3. Process Visualization: PRISMA diagram is used to visualize the process of article identification, selection, and inclusion.

This approach offers a comprehensive mapping of research trends, theoretical models, and the role of culture in investment. Furthermore, it discloses research lacunae that can function as a foundation for subsequent research endeavors. A visual PRISMA diagram is presented to illustrate the flow of article selection.

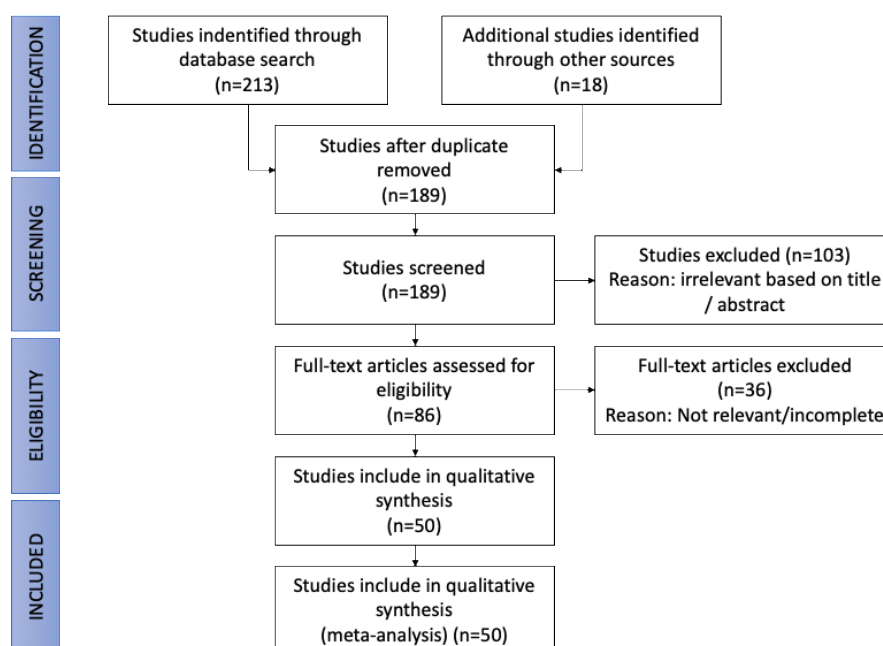


Figure 1. PRISMA Diagram Mapping Research Trends, Theoretical Models and the Role of Culture in investment
(Source: Data processed, 2025)

The data was then subjected to analysis using an SLR matrix, with the following variables taken into consideration: year, author, methodology, main results, and gaps.

Result and Discussion

General Characteristics of Studies and Research Trends

The results of comprehensive literature searches and selection indicate a marked increase in research on behavioral finance and investment decisions, particularly after the year 2010. Methodologically, the majority of studies utilize a quantitative survey-based approach, incorporating regression and SEM analysis, complemented by a series of experimental studies and conceptual reviews (Mittal, 2022; Rosid et al., 2024). From a geographical perspective, the study is not only dominated by developing countries in Asia (Indonesia, India, Pakistan, Vietnam, and Malaysia), but also relies on conceptual foundations from America and Europe that explain the limitations of investor rationality and market behavior anomalies (Fama, 1965; Olsen, 1998; Statman, 2014; Tversky & Kahneman, 1974; Beleulmi, 2020).

This trend signifies a transition from theoretical discourse to empirical testing of psychological and social factors that influence investment decisions. However, despite the growing prevalence of research on behavioral biases, risk perceptions, and return expectations, the incorporation of cultural variables (particularly local culture) remains underdeveloped. Frequently, cultural elements are merely described rather than being tested as analytical constructs (Hens & Wang, 2007; Yates & Oliveira, 2016; Li et al., 2021).

Behavioral Bias as a Determinant of Investment Decisions

A synthesis of findings indicates that behavioral bias is the most consistent determinant in explaining individual investors' investment decisions. The phenomenon of overconfidence bias has been the subject of extensive research, and it is predominantly linked to a propensity for making assertive decisions, an elevated frequency of transactions, and an exaggerated self-perception regarding one's aptitude for comprehending market dynamics (Baker & Nofsinger, 2002; Tourani-Rad & Kirkby, 2005; Shafi, 2014; Raut et al., 2018; Beleulmi, 2020). This perspective aligns with the tenets of behavioral finance, which posits that investors, as "normal people," are influenced by psychological factors in their financial decisions, rather than acting as perfect rational agents (Statman, 2014; Ricciardi & Simon, 2000; Obeng, 2020).

Furthermore, loss aversion has been identified as a predominant cognitive bias that renders investors more sensitive to potential losses than to profit opportunities. In practice, this bias can trigger behaviors such as delaying the sale of loss-making assets, excessive risk avoidance, or making "safe" decisions even though they are economically suboptimal (Tversky & Kahneman, 1974; Mittal, 2022). This finding is further substantiated by studies pertinent to religiosity and loss aversion, which demonstrate that local norms and values can influence investors' preferences for risk and loss (Blau & Crane, 2021; Vanheusden et al., 2024).

Other cognitive biases, such as heuristics (anchoring, representativeness) and herding, also play an important role, especially when investors are faced with complex information and information asymmetry. In such situations, investors often resort to cognitive shortcuts or follow the lead of the majority, thereby increasing the likelihood of decisions that are less reflective (Gill & Bajwa, 2018; Chang & Lin, 2015). These findings serve to reinforce the position of behavioral finance as the primary explanation for investors' behavioral deviations from classical rationality principles.

Risk Perception as a Mediation Mechanism: From "Risk as Cognition" to "Risk as Feelings"

The extant literature demonstrates that risk perception functions not only as an independent variable but also frequently serves as a mediating mechanism, thereby acting as a bridge between the influence of behavioral biases and investment decisions. According to

established scholarship, the perception of risk and the expectations of return are intertwined in the determination of investment preferences and choices (Antonides & Van Der Sar, 1990). Empirical evidence from numerous studies has demonstrated that investors who perceive risk to be high often exercise caution and refrain from making high-risk investment decisions. Conversely, investors who perceive risk to be low tend to engage more actively in high-risk assets (Weber et al., 2013; Trang & Tho, 2017; Nouri et al., 2017).

A contemporary approach posits that risk is not invariably processed cognitively and rationally, but also through emotional responses (risk as feelings). Emotional states have been demonstrated to influence risk perception, which can subsequently impact investment decisions (Loewenstein et al., 2001). Experimental studies have demonstrated that the manner in which scales are presented can influence risk perception, return expectations, and investment tendencies, thereby indicating cognitive biases in the assessment of risk information (Huber & Huber, 2019).

A notable finding is that risk perception frequently functions as a mediator, thereby linking behavioral factors to investment decisions in a more comprehensive manner. Specifically, recent research confirms the mediating role of risk perception in the relationship between behavioral finance factors and investment decisions (Almansour et al., 2023). In Indonesia, numerous studies have demonstrated that risk perception serves as a conduit between financial knowledge or literacy and investment intentions, particularly among novice investors (Mulyani et al., 2021; Shehata et al., 2021). Therefore, risk perception can be conceptualized as a "decision maker" construct that is influenced by information, experience, emotions, and social context.

Expected Return: Not Neutral and Often Subjective

In numerous studies, expected returns are identified as the primary catalyst for investment intentions and market participation. However, a synthesis of the results indicates that expected returns are rarely neutral or purely data-driven; they are often influenced by experience, optimism, sentiment, and behavioral biases. The correlation between anticipated returns and investment decisions is known to exhibit strengthening tendencies when investors possess elevated levels of self-confidence or feel competent in their ability to manage risk (Ajzen, 1991; Alleyne, 2011; Beleulmi, 2020).

In the context of Indonesia and Bali, studies have demonstrated a correlation between expected return, self-efficacy, and risk perception, which collectively influence investment intentions (Kurniawan, 2021). Other studies emphasize that expected return is also related to a more long-term investment orientation and is influenced by how investors interpret the risk-return trade-off (Huber & Huber, 2019; Antonides & Van Der Sar, 1990). Conversely, financial literature demonstrates that expected return can be influenced by the investment base and asset characteristics. However, this approach is more commonly employed in macro market studies (Liu et al., 2009). These findings indicate that the expected return should not be regarded exclusively as an economic variable; rather, it is also a psychological construct influenced by experience, perception, and social values.

Culture, Religiosity, and Local Context: Why Universalistic Models Are Not Enough

A seminal synthesis of this SLR asserts that cultural dimensions remain a "blank space" in the integration of investment decision models, despite cross-cultural evidence demonstrating that culture influences how individuals perceive risk, make decisions, and assess uncertainty (Weber & Hsee, 1999; Yates & Oliveira, 2016; Hofstede, 2001). Cross-cultural studies have demonstrated that cultural factors can influence herding behavior and decision-making in international markets (Chang & Lin, 2015) as well as influence thinking styles and investment decisions (Li et al., 2021).

In the context of religiosity, a number of studies have been conducted that demonstrate the capacity of religiosity to moderate the influence of behavioral biases on investment decisions and to affect preferences for speculation and attitudes toward risk (Kumar et al., 2011; Hameed et al., 2018; Liu & Ma, 2019). These findings are further substantiated by studies demonstrating the

impact of religiosity on loss aversion and risk-taking behavior (Blau & Crane, 2021; Vanheusden et al., 2024; Zakiyyah et al., 2023).

In Indonesia, the cultural dimensions and social values of the community appear to be relevant factors in the decision-making process of investors operating within the context of community norms and influences. A multitude of studies have established a correlation between cultural influences and perceived risk, as well as risk avoidance (Arsyad & Ibrahim, 2019). Furthermore, other studies have demonstrated that religious values and norms have the capacity to influence sharia-based investment decisions or decisions regarding specific assets (Abidin et al., 2020; Albaity & Rahman, 2012). Furthermore, demographic factors such as gender, age, and ethnicity frequently emerge as variables that differentiate risk preferences and investment decisions (Ferreira & Dickason, 2018; Radianto et al., 2020; Korniotis & Kumar, 2011; Kunnanatt & Emiline, 2012).

In the context of Bali, local values such as Catur Purusa Artha have the potential to function as a conceptual lens that explains investment decisions as decisions that are not solely profit-oriented, but also value-driven (Sutra, 2020; Sudiana et al., 2022). At this juncture, research becomes more contextual. Local culture can be conceptualized as a "mechanism" that moderates how behavioral biases influence risk perception and return expectations, ultimately informing investment decisions.

Synthesis, SOTA, and Research Gap

A comprehensive review of the extant literature reveals a robust corpus of works that have successfully explicated the following: The present study aims to explore the role of behavioral biases in investment decisions, the importance of risk perception as a mediator, and the significance of expected return as a driver of investment intentions. Nevertheless, the primary research gap pertains to the limitations of models that explicitly incorporate cultural factors into the relationship between bias, risk perception, expected return, and investment decisions. Existing cultural studies demonstrate a tendency toward partiality, utilizing culture as a backdrop or examining religiosity without incorporating a more specific local cultural framework (Hens & Wang, 2007; Weber & Hsee, 1999; Yates & Oliveira, 2016).

Consequently, the present SLR contributes to the ongoing discourse by underscoring the necessity of incorporating local culture as a moderator in the development of behavioral finance models in Indonesia. This integration can be facilitated, for instance, through the Catur Purusa Artha framework. In the future, the recommended research agenda is to empirically test this integrative model using a mixed methods approach and to consider investor heterogeneity based on demographics, financial literacy, and socio-cultural characteristics.

Implications for the Conceptual Model

A synthesis of findings from 50 reviewed articles indicates that investment decisions cannot be understood partially through a single variable, but rather through a series of interrelated behavioral processes. The results of this SLR support a chain of relationships in which behavioral biases (e.g., overconfidence, loss aversion, and heuristics) influence how investors perceive risk, which in turn shapes expected returns, and ultimately determines investment decisions. This cascading relationship indicates that risk perception and return expectations function as cognitive-emotional mechanisms that bridge the influence of biases on actual investment behavior.

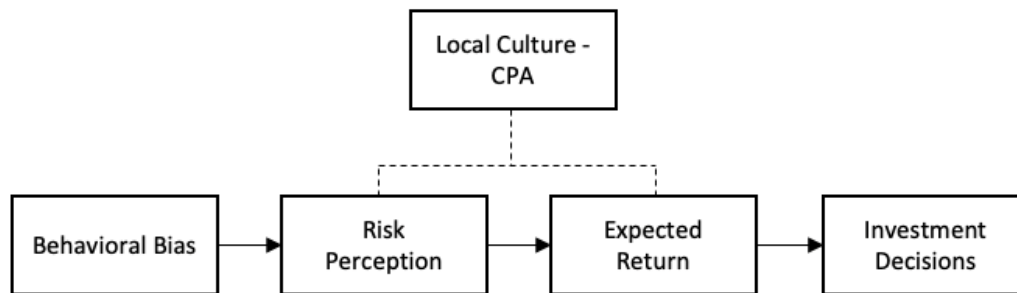


Figure 2. Conceptual Model Behavioral Finance, Risk Perception, Expected Return, Investment Decisions and Culture

(Source: Data processed, 2025)

Moreover, cross-cultural and local context findings demonstrate that these relationships are not universal and homogeneous. Local culture has the capacity to function as a moderating variable, thereby influencing the strength and direction of the relationships between variables in the model. In the Indonesian context, particularly in Bali, the values of Catur Purusa Artha provide a normative framework that has the potential to alter the manner in which investors interpret risk and return. The value of Dharma has been demonstrated to restrain excessive speculative behavior. Artha has been shown to influence the orientation towards economic goals. Kama has been linked to personal satisfaction and preferences, while Moksa encourages a balance between material and non-material goals.

Consequently, the conceptual model proposed in this study positions Catur Purusa Artha not merely as a cultural background, but as a contextual mechanism that moderates the relationship between behavioral bias, risk perception, return expectations, and investment decisions. This approach serves to broaden the existing behavioral finance framework, which has historically concentrated on individual psychological factors, thereby expanding it into a more contextual, holistic model that is pertinent to the socio-cultural reality of local investors.

Conclusion

A comprehensive examination of 50 scientific articles through a systematic literature review has substantiated that the investment decisions of individual investors are the consequence of a multifaceted and sequential behavioral process. A comprehensive review of the extant literature reveals a consistent pattern: behavioral biases, including overconfidence, loss aversion, and heuristics, exert a significant influence on the manner in which investors assess and perceive risk. These risk perceptions subsequently influence expected returns, which in turn inform investment decisions. These findings serve to reinforce the prevailing perspective that investment decisions are not entirely based on economic rationality. Rather, they are influenced by a complex interplay of cognitive, emotional, and subjective experience factors among investors.

Moreover, the results of the literature synthesis demonstrate that the relationship between behavioral bias, risk perception, return expectations, and investment decisions is not universal. The influence of social and cultural contexts on the interpretation of risk and return by investors has been demonstrated. However, previous studies have been very limited in explicitly integrating local culture into the behavioral finance framework. In the context of Indonesia, particularly Bali, the values of Catur Purusa Artha—which include Dharma, Artha, Kama, and Moksa—have great potential to explain investment decisions as decisions that are not only oriented towards financial gain, but also towards a balance of ethical values, life satisfaction, and spiritual goals. However, these dimensions of local culture have not been systematically operationalized in investment decision models.

The primary contribution of this article is the development of an integrative conceptual framework that positions local culture as a moderating variable in the relationship between behavioral factors and investment decisions. By situating Catur Purusa Artha as a contextual mechanism, this study broadens the scope of behavioral finance from an approach that

emphasizes individual psychology to a more contextual and holistic approach. This framework is not only pertinent to understanding investor behavior in Bali; it also creates opportunities for the development of cultural-based behavioral finance theory in various social contexts.

Theoretically, this study contributes to the behavioral finance literature by demonstrating that the integration of local culture can enhance the explanatory power of investment behavior models. The proposed conceptual model posits that behavioral biases do not function directly and uniformly; rather, they are mediated by risk perception and expected return, and moderated by the cultural values embraced by investors. Consequently, this study proposes a transition from a universalistic approach to the development of behavioral finance theory that is more contextual and sensitive to local values.

From a pragmatic perspective, these findings carry significant ramifications for regulators, capital market institutions, and financial education providers. Investment literacy and education programs should not only emphasize the technical aspects of risk and return calculations, but also consider the psychological factors and cultural values of investors. An educational approach that aligns with local values, such as the principles of balance and ethics in Catur Purusa Artha, has the potential to improve the quality of investment decision-making, rendering it more reflective and sustainable.

As an SLR-based study, this research has limitations in that it relies on previous research findings and has not conducted direct empirical testing. Consequently, further research is recommended to empirically test the proposed conceptual model, using quantitative, qualitative, or mixed methods approaches. Furthermore, the exploration of other local cultures in Indonesia and cross-cultural contexts can enrich our understanding of the role of cultural values in investment decisions.

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