OVERCONFIDENCE, HERDING, AND INCOME: HOW FINANCIAL LITERACY AFFECTS GOLD INVESTMENT DECISIONS

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Abstract

This study aims to determine the direct and indirect effects of herding, overconfidence, and income through financial literacy on gold purchasing decisions among the people of Banda Aceh. This study uses a quantitative approach with primary and secondary data. The research sample was determined using the Hair et al. formula through non-probability sampling techniques with a total of 105 respondents. The results show that herding, overconfidence, and income have a positive and significant effect on financial literacy and a direct impact on gold purchasing decisions. In addition, financial literacy has been shown to partially mediate the relationships among herding, overconfidence, and income, as well as between overconfidence and gold purchasing decisions. These findings indicate that a good level of financial literacy can strengthen the influence of psychological and economic factors on investment behavior. Thus, gold investment for the people of Banda Aceh is not only seen as a way to preserve the value of money in the future, but also as a smart strategy to strengthen financial resilience and increase personal assets.

Keywords: Financial Literacy; Herding; Overconfidence; Income; Gold

INTRODUCTION

Gold has long been a popular investment instrument among Indonesians due to its resistance to inflation and its function as a safe-haven asset. Over the past decade, gold prices in Indonesia have shown a significant upward trend. According to data from Sahabat Pegadaian (2025), the price of gold rose from around Rp530,000 per gram in 2013 to Rp1,520,000 per gram at the end of 2024, even reaching Rp2,154,000 per gram in October 2025. This surge indicates an increasing interest among the public in using gold as a long-term investment asset. However, behind this positive trend, an interesting phenomenon has emerged in regions such as Aceh, where people tend to store gold not only as a hedge but also as a form of traditional savings. According to Munsadi (2025) in a Liputan6 report, this habit of saving money in the form of gold has begun to have an impact on reducing money circulation and potentially slowing regional economic growth. This phenomenon highlights the need for a deeper understanding of the factors that influence gold investment decisions, especially in regions with unique financial cultures such as Aceh.

Gold has not only economic value but also social and cultural value. The tradition of the Acehnese people, who use gold as a symbol of status, dowry, and family savings, has created a unique pattern of investment behaviour. As quoted in public information (2024), USK economic observer Mukhlis Yunus stated that the tendency of the community to hoard gold actually reduces money circulation in the productive sector and can hamper economic growth in Tanah Rencong. This is in line with findings that the high preference for gold investment in Aceh has caused the real sector, such as MSMEs and trade, to not develop optimally. In this context, an important question arises: is the public's decision to invest in gold solely driven by economic rationality, or is it influenced by psychological and social factors such as overconfidence and herding behaviour?

Previous research shows that psychological factors play an important role in investment decision-making. Overconfidence bias causes individuals to overestimate their analytical abilities, leading them to make investment decisions with excessive confidence, while herding behaviour describes the tendency to follow the majority's decisions without in-depth analysis (Aristiwati & Hidayatullah, 2021; Daniati & Prasetyo, 2022). In the context of gold, these behavioural biases can influence people's decisions to buy gold when prices are rising simply because of social pressure or excessive optimism about market trends. However, several studies, such as (Suresh, 2024) and (Jain et al., 2023), show that financial literacy acts as a balancing factor that can moderate the influence of behavioural bias on investment decisions. This means that individuals with a good understanding of finance tend to be more rational in making investment decisions, even when exposed to psychological biases.

On the other hand, income also has a significant contribution to investment decisions. Research by Ekanegara et al. (2023) shows that income has a direct effect on a person's tendency to invest in instruments such as sharia stocks and gold. Meanwhile, financial literacy plays a role in mediating this relationship by improving individuals' ability to manage and allocate income to productive assets. This indicates a close relationship between economic, psychological, and educational aspects in shaping people's investment behaviour. However, in Banda Aceh, the level of financial literacy among the population is still relatively low. Based on the OJK's National Survey of Financial Literacy and Inclusion (2022), Aceh's financial literacy index only reached around 38.03%, which is lower than the national average. This condition has the potential to reinforce emotional behaviours such as herding and overconfidence in gold investment decisions.

Although various studies have discussed the relationship between behavioural bias, financial literacy, and investment decisions, there is a research gap that needs to be bridged. Most previous studies have focused on the stock market or modern investment instruments such as cryptocurrency (Arriqoh & Zoraya, 2024) and (Pratiwi, et al., 2020), while research on gold investment, particularly in the socio-cultural context of Aceh, remains very limited. Furthermore, there have been few studies that simultaneously examine the influence of overconfidence, herding, and income on gold

investment decisions with financial literacy as a mediating variable. Therefore, this study aims to fill this gap by examining the phenomenon of gold investment in Banda Aceh, which has distinctive cultural and religious characteristics.

Theoretically, this study is based on Behavioural Finance Theory, which explains that investment decisions are not always rational and are often influenced by emotions and cognitive biases (Suresh, 2024). With this approach, the study aims to answer the following questions: How do overconfidence, herding, and income influence the gold investment decisions of the people of Banda Aceh, and to what extent does financial literacy mediate these relationships? The results of this study are expected to contribute theoretically by expanding the understanding of investment behaviour based on local culture and provide practical contributions to financial institutions such as Pegadaian in designing more effective investment education programmes.

Theoretical Basis and Hypothesis Development

In understanding the investment behaviour of the community, particularly in the context of Banda Aceh, traditional financial theory, which assumes full rationality, is often inadequate in financial/investment decisions. This is where behavioural finance theory becomes important because it explains that investment decisions are not only influenced by economic factors, but also by emotions, cognitive biases, and social and cultural contexts. According to Suresh (2024), behavioural finance acknowledges that investors often act irrationally due to overconfidence, a tendency to follow others (herding), and risk perceptions influenced by past experiences. Within this framework, the gold investment decisions of the people of Banda Aceh are interesting to study, as their financial behaviour reflects not only their response to market fluctuations, but also to deeply rooted cultural and social values.

Behavioural Finance Theory can be combined with Prospect Theory (Kahneman & Tversky, 1979), which states that individuals tend to assess gains and losses subjectively, rather than based on absolute values. The people of Aceh often view gold not only as an economic asset, but also as a symbol of stability, status, and cultural grandeur. This reinforces the tendency to invest in gold even though the profit opportunities from other sectors may be greater. Human Capital Theory (Becker, 1993) is also relevant in this context because it explains that financial literacy as a form of human capital plays a role in improving a person's ability to make sound financial decisions. The higher an individual's financial literacy, the greater their ability to balance emotional and rational factors in investment decisions (Susanti et al., 2023).

Overconfidence, Financial Literacy, and Investment Decisions

One of the most prominent behavioural biases in behavioural finance is overconfidence, which is an excessive belief in one's ability to analyse and predict investment outcomes. According to Jain et al. (2023), overconfident investors often overestimate their knowledge and ignore risks, leading them to trade more actively and make decisions without sufficient consideration. In the context of gold investment, this

bias is evident when people buy gold because they are convinced that its price 'will never fall'. Similar findings were also revealed by Daniati & Prasetyo (2022), who found that Pegadaian gold customers with high levels of self-confidence tend to invest without in-depth analysis of market conditions.

However, a number of studies show that overconfidence does not always have a negative impact on investment decisions. Extensive investment experience can encourage individuals to deepen their financial knowledge, thereby improving financial literacy (Suci & SI, 2023). Thus, overconfidence can encourage active learning and strengthen literacy. In Acehnese society, where gold investment is often passed down from generation to generation, confidence in decision-making can be a gateway to improving financial knowledge, especially when balanced with formal education. In addition to influencing literacy, overconfidence also has a direct impact on gold investment decisions (Nadhifah et al., 2021). Individuals who are overly confident usually have a low perception of risk (Dasril, et al., 2023). This makes them more daring to buy gold in large quantities or when prices are high. This is reinforced by the findings of Aristiwati & Hidayatullah (2021); (Daniati and Prasetyo, 2022), which show that overconfidence has a significant positive relationship with the investment decisions of gold customers at Pegadaian Ungaran. However, without adequate financial knowledge, this bias can lead to impulsive decisions.

Meanwhile, financial literacy plays an important mediating role between overconfidence and investment decisions. Individuals who are confident and highly literate tend to use their confidence to perform rational analysis and choose the right time to invest. Conversely, overconfidence without literacy only results in speculative decisions. Research by Jain et al. (2023) and Susanti et al. (2023); (Putri and Yulianti (2025) found that financial literacy reinforces the positive effect of overconfidence on investment decisions, as individuals are better able to identify risks and potential returns carefully.

Hypothesis 1 (H1): Overconfidence has a positive effect on financial literacy.

Hypothesis 2 (H2): Overconfidence has a positive effect on gold investment decisions.

Hypothesis 3 (H3): Financial literacy mediates the effect of overconfidence on gold investment decisions.

Herding Behaviour, Financial Literacy, and Investment Decisions

In addition to overconfidence, another significant factor in explaining gold investment behaviour is herding behaviour, which is the tendency of individuals to imitate the decisions of the majority without in-depth analysis. In communities with a communal culture such as Aceh, this type of social effect is very strong. Hidayat et al. (2024) show that herding behaviour arises mainly when investors face information uncertainty, so they prefer to follow the actions of others who are considered more knowledgeable. However, herding behaviour is not always negative. In volatile market situations, following general trends can provide psychological security. This is in line with Prospect Theory, which states that individuals are more likely to avoid losses than seek

gains (Kahneman & Tversky, 1979). A study by Daniati & Prasetyo (2022) reveals that herding has a positive effect on gold investment decisions, as individuals often use collective decisions as a form of social validation for the risks they take.

On the other hand, financial literacy plays an important role in controlling the impact of herding. Lestari & Isbanah (2024) explain that individuals with high financial literacy tend to be more sceptical of market trends and more selective in imitating the behaviour of others. Conversely, individuals with low literacy are easily influenced by social opinion and viral news. In the context of Banda Aceh, where investment decisions are often influenced by social communities or community leaders, financial literacy becomes an important filter to ensure that decisions remain rational and do not simply follow the crowd. However, herding can also contribute positively to investment decisions, especially when this behaviour is based on valid information obtained from the social environment. The phenomenon of 'following the trend' of buying gold when prices rise often occurs because of economic signals that are interpreted collectively. Research by Pratiwi et al. (2020) and Arriqoh & Zoraya (2024) shows that herding can encourage investment participation when community literacy increases, as investors learn from the experiences of others and use them as a reference for their decisions.

The role of financial literacy as a mediator in the relationship between herding and investment decisions is also important. Literacy helps individuals sort through information and distinguish rational trends from market euphoria. Jain et al. (2023) emphasise that financial literacy mediates the relationship between behavioural bias and investment decisions, as financial understanding allows individuals to filter out excessive social influences. Putri and Yulianti (2025) found that financial literacy strengthens the positive effect between herding and investment decisions. In Banda Aceh, where gold investment decisions are often made collectively within family communities, the role of literacy is increasingly vital in balancing social aspects and financial rationality.

Hypothesis 4 (H4): Herding behaviour has a negative effect on financial literacy.
Hypothesis 5 (H5): Herding behaviour has a positive effect on gold investment decisions.
Hypothesis 6 (H6): Financial literacy mediates the effect of herding behaviour on gold investment decisions.

Income, Financial Literacy, and Investment Decisions
In addition to psychological factors, economic aspects such as income also influence a person's decision to invest. According to Human Capital Theory (Becker, 1993), a person's income level often reflects their economic capacity to access information and learn about finance. Individuals with higher incomes tend to have greater opportunities to participate in financial education and develop an understanding of investment instruments. This is in line with the research by Susanti et al. (2023), which found that income has a positive effect on the financial literacy of the people of Surakarta, because the higher the income, the greater a person's ability to allocate resources for learning and investing.

The correlation between income and financial literacy is also reinforced by data from the National Survey of Financial Literacy and Inclusion from the Financial Services Authority (2022), which shows that high-income communities have a better financial literacy index than low-income groups. In the context of Banda Aceh, people with more stable incomes, such as civil servants and medium-sized business owners, tend to have better financial literacy than low-income groups, although they are still influenced by cultural values in their decisions to invest in gold. Thus, income can be considered an important determinant in shaping individual financial awareness.

Income also has a direct influence on gold investment decisions. Based on the Permanent Income Hypothesis (Friedman, 1957), individuals tend to adjust their consumption behaviour according to their long-term income expectations, rather than just their current income. Individuals with high incomes are more likely to set aside part of their income for investment. Research by Rasyid, et.al (2018); Andreansyah and Meirisa (2022) shows that income has a significant effect on investment decisions. Other studies also reveal that income does not directly affect investment decisions (Yulistiani, et.al, 2023). In addition to its direct influence, financial literacy also plays a mediating role between income and investment decisions. According to the Financial Capability Framework (Atkinson & Messy, 2012), income provides financial opportunities, while literacy determines how those opportunities are utilised. Individuals with high income but low literacy may make poor investment decisions, such as storing all their assets in gold without diversification. Conversely, middle-income individuals with good literacy can manage their investments wisely. The results of research by Susanti et al. (2023) support the role of literacy as a mediator between income and investment decisions, with literacy increasing the ability to analyse the risks and benefits of investing in gold.

Finally, the direct relationship between financial literacy and investment decisions is central to understanding people's financial behaviour. Financial literacy encompasses a person's ability to understand, evaluate, and make effective financial decisions. OJK (2022) emphasises that good financial literacy contributes to rational and planned investment behaviour. Research by Suresh (2024) and Lestari & Isbanah (2024) shows that financial literacy has a positive effect on investment decisions, as individuals who understand risk and returns will be more cautious and careful in assessing the financial instruments they choose. Atmaningrum, et al (2021) state that financial knowledge has a significant impact on investment decisions. According to the results of the SNLIK (2022) survey, the level of financial literacy among the people of Aceh in 2019 was 44.36 per cent, increasing to 49.87 per cent in 2022, which is above the national literacy survey. This is a positive development that may lead some people to invest in gold not only based on tradition or social influence, but also because literacy has become a supporting factor in investment. Through education and Islamic finance programmes, it is hoped that the public can shift from the behaviour of 'hoarding gold' to the behaviour of 'managing gold as a productive investment asset'. This reinforces

the argument that literacy is not only an intermediate variable, but also a major factor in improving the quality of the public's investment decisions.

Hypothesis 7 (H7): Income has a positive effect on financial literacy.
Hypothesis 8 (H8): Income has a positive effect on gold investment decisions.
Hypothesis 9 (H9): Financial literacy mediates the effect of income on gold investment decisions.
Hypothesis 10 (H10): Financial literacy has a positive effect on gold investment decisions.

From the theoretical description above, it can be concluded that the gold investment behaviour of the people of Banda Aceh is not only determined by rational factors such as income, but also by psychological and social factors such as overconfidence and herding behaviour. Within the framework of Behavioural Finance Theory, the financial behaviour of the people of Aceh reflects a complex interaction between emotional and cognitive aspects and strong cultural values regarding gold. Financial literacy plays a central role in balancing these three factors, both as a mediator and a direct determinant of investment decisions. Therefore, this study seeks to empirically test how overconfidence, herding behaviour, and income influence gold investment decisions with financial literacy as a mediating variable, in the context of the Banda Aceh community, which has unique socio-cultural characteristics.
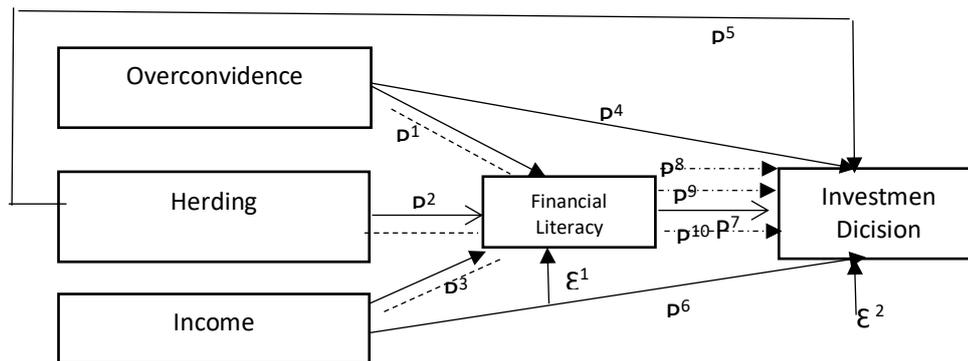
Source: Author's illustration (2025)

Figure 1. Conceptual Framework of Overconfidence, Crowd Effects, and Income: How Financial Literacy Affects Gold Investment Decisions

RESEARCH METHODOLOGY

This study uses a quantitative approach with the Partial Least Squares–Structural Equation Modelling (PLS-SEM) method to examine the causal relationship between the variables of overconfidence, herding behaviour, and income on gold investment decisions with financial literacy as a mediating variable. This approach was chosen because it is capable of analysing complex models with latent variables and can accommodate relatively small sample sizes and data that are not fully normally distributed. PLS-SEM is also relevant to behavioural finance studies, where

relationships between variables are often non-linear and based on individual perceptions.

The research design is causal and explanatory, aiming to explain the cause-and-effect relationship between the variables studied. The research was conducted on the community in Banda Aceh, which has unique characteristics because the tradition of gold investment has become part of the local economic culture. This pattern makes Banda Aceh an ideal locus for understanding the influence of financial literacy on investment decisions amid psychological and social factors in the community. The population in this study was the entire community of Banda Aceh who had gold investment activities, either directly through the purchase of physical gold or digitally through institutions such as pawnshops and Islamic banks. The sampling technique used purposive sampling, with the criteria for respondents being individuals aged at least 20 years, having a fixed or irregular income, and having invested in gold in the last two years. The sample size was determined based on the rules of Hair et al. (2010), namely 5–10 times the number of indicators in the measurement model. Since this study has 25 indicators representing five latent variables, the ideal sample size ranges from 100 to 200 respondents. Taking into account the response rate and data validity, this study set 100 respondents as a representative sample size. The research instrument was compiled in the form of a closed questionnaire using a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). Each variable was measured based on indicators that had been tested in previous studies:

Primary data was obtained through the distribution of online and offline questionnaires to respondents who met the criteria. Prior to the collection of primary data, an instrument trial was conducted to ensure initial reliability and validity. Data analysis was performed using SmartPLS 4 software, covering the following stages: 1) Evaluation of the measurement model (outer model) – including convergent validity testing (loading factor > 0.70; AVE > 0.50) and construct reliability (Composite Reliability > 0.70; Cronbach's Alpha > 0.60). 2) Evaluation of the structural model (inner model) – conducted by looking at the R^2, f^2, Q^2 values, and bootstrapping tests to test the significance of the relationship between latent variables. 3) The financial literacy mediation effect test was conducted using an indirect effect approach using bias-corrected bootstrapping with a significance level of 5%. This research model can be expressed in the form of the following structural equation:

$$ID = \gamma_{11}OC + \gamma_{12}HB + \gamma_{13}IN + \zeta_1 \ldots\ldots\ldots\ldots \text{ (i)}$$
$$ID = \gamma_{21}FL + \zeta_1 \ldots\ldots\ldots\ldots \text{ (ii)}$$
$$FL = \gamma_{31}OC + \gamma_{32}HB + \gamma_{33}IN + \zeta_1 \ldots\ldots\ldots\ldots \text{ (iii)}$$
$$ID = \gamma_{41}OC + \gamma_{42}HB + \gamma_{43}IN + \gamma_{43}FL + \zeta_1 \ldots\ldots\ldots\ldots \text{ (iv)}$$

Explanation: FL (Financial Literacy), ID (Investment Decision), OC (Overconfidence) HB = Herding Behaviour, IN (Income), γ (Path coefficient indicating the influence between variables), ζ (Error term)

RESULTS AND DISCUSSION

The results of this study provide empirical understanding of how behavioural and economic factors influence the investment decisions of the people of Banda Aceh in gold, with financial literacy as a mediating variable. The criteria for respondents are shown in Table 1.

Table 1. Respondent Characteristic

No	Description		Frequency	Percentage
1	Gender			
	a.	Male	41	41
	b.	Female	59	59
2	Age:			
	a.	20–28 years	32	32
	b.	29–37 years	46	46
	c.	38–46 years	15	15
	d.	47–55 years	5	5
	e.	>55 years	2	2
3	Highest level of education:			
	a.	Primary school	0	0
	b.	Lower secondary school	0	0
	c.	Senior High School	21	21
	d.	Diploma (D3)	18	18
	e.	Bachelor's Degree (S1)	30	30
	f.	Postgraduate (S2/S3)	31	31
4	Employment			
	a.	Civil Servants	42	42
	b.	Regionally Owned Enterprises/State-Owned Enterprises	11	11
	c.	Indonesian National Armed Forces/Indonesian National Police	8	8
	d.	Private Employees	25	25
	e.	Entrepreneurs	14	14
5	Income			
	a.	≤ Rp1,000,000;	0	0
	b.	Rp1,000,001 - Rp3.000.000	10	10
	c.	Rp3.000.0001 - Rp5.000.000	49	49
	d.	Rp5.000.001- Rp7.000.000	34	34
	e.	>Rp7.000.000	7	7
	Total		**100**	**100**

Based on the descriptive results, the majority of respondents were female, reflecting the fact that gold in Banda Aceh is still considered a cultural symbol and a valuable asset in household life. Most respondents were civil servants, micro-entrepreneurs, and housewives with monthly incomes ranging from Rp3,000,000 to Rp8,000,000. These results indicate that gold remains the primary investment choice across social groups due to perceptions of its security and stable value.

Validity and Reliability Test Instrument Results

Validity and reliability tests were conducted to ensure that each measurement item accurately reflected the construct, with loadings above 0.70 and Average Variance

Extracted (AVE) values exceeding 0.50. An indicator was considered valid if the calculated correlation coefficient (r-statistic) was greater than the r-table value of 0.197.

Table 2. Validity Test Results

Variable	Dimension	Indicator	r – status	r – table	Result
Dependent Variable					
Investment Gold Decision	ID	ID1	0.71	0.197	Valid
		ID2	0.80	0.197	Valid
		ID3	0.78	0.197	Valid
		ID4	0.75	0.197	Valid
Independent Variable					
Overconfidence	OC	OC1	0.91	0.197	Valid
		OC2	0.82	0.197	Valid
		OC3	0.77	0.197	Valid
		OC4	0.80	0.197	Valid
Herding	HB	HB1	0.88	0.197	Valid
		HB2	0.72	0.197	Valid
		HB3	0.85	0.197	Valid
		HB4	0.75	0.197	Valid
Income	IN	IN1	0.81	0.197	Valid
		IN2	0.95	0.197	Valid
		IN3	0.76	0.197	Valid
Mediation Variable					
Financial Literacy	FL	FL1	0.82	0.197	Valid
		FL2	0.80	0.197	Valid
		FL3	0.84	0.197	Valid
		FL4	0.79	0.197	Valid
		FL5	0.70	0.197	Valid

Table 2 presents the validity test results for all research statement items above 0.07 and with a table-r value above 0.197. This means that all research items are considered valid for use in the next stage of analysis.

Table 3. Reliability Test Results

No	Variable	Indikator Number	Cronbach's Alpha	Cut-off-value	Results
1.	Investment Gold Decision	4	0,825	0. 60	Reliabel
2.	Overconfidence	4	0,772	0. 60	Reliabel
3.	Herding	4	0,864	0. 60	Reliabel
4.	Income	3	0,769	0. 60	Reliabel
5.	Financial Literacy	5	0,824	0. 60	Reliabel

The reliability test results in Table 3 show that all measurement items are reliable. These high validity and reliability results also reflect that the construct developed from financial behaviour theory is acceptable in the context of Banda Aceh society, where gold investment decisions are influenced by a combination of economic rationality, behavioural bias, and socio-cultural factors.

Hypothesis test results

SEM-PLS equation modelling was used to test direct and indirect effects. The estimates of direct effects are presented in the following table:

Table 4. Results of Direct Effect Hypothesis Testing

VariabLE			Estimate	SE	CR	P
Financial literacy	←	Overconvidance	.590	.100	5.910	.000***
Financial Literacy	←	Herding Behavior	.163	.086	1.909	,056 *
Financial Literacy	←	Income	.165	.095	1.731	.084 *
Investment Decision	←	Financial Literacy	.358	.144	2.481	.023 **
Investment Decision	←	Overconvidance	.302	.151	1.994	,046 **
Investment Decision	←	Herding Behavior	.179	113	1,722	,041 **
Investment Decision	←	Income	.156	.123	1.757	.067 *

Note: *** indicates significance at the 1% level (p < 0.01); ** indicates significance at the 5% level (p < 0.05); * indicates significance at the 10% level (p < 0.

The Influence of Overconfidence, Herding Behaviour, and Income on Financial Literacy

The path coefficient (estimate) of 0.590 with a CR value of 5.910 and p = 0.000** indicates that overconfidence has a positive and significant effect on financial literacy. This finding shows that individuals who have high confidence in their financial decision-making abilities also tend to have a good level of financial literacy. In the context of Banda Aceh society, strong self-confidence can be a motivator for individuals to actively seek information and understand investment instruments, including gold. These results are in line with the research by Suresh (2024) and Jain et al. (2023), which confirms that overconfident investors often have high financial awareness due to their active involvement in market activities.

Furthermore, the coefficient value of 0.163 with CR = 1.909 and p = 0.056 indicates that herding behaviour has a positive effect but is only significant at the 10% level (marginal significance). This means that the behaviour of following other people's decisions can contribute to an increase in financial literacy within certain limits. This phenomenon is interesting because it shows that the people of Banda Aceh may acquire financial knowledge through social interaction and environmental influences, for example by following gold investment trends in their community or family. However, this relationship is weak because the learning process is unstructured and based more on social experience than analytical understanding. These findings are consistent with the results of Aristiwati & Hidayatullah (2021), who state that herding behaviour is not always accompanied by an increase in financial rationality.

The results of the test on the effect of income on financial literacy obtained a coefficient value of 0.165 with CR = 1.731 and p = 0.084, indicating that income has a positive and marginally significant effect on financial literacy. These results confirm that an increase in income has the potential to expand individuals' access to financial information and services, thereby encouraging an increase in literacy. However, the moderate significance indicates that income alone is not sufficient to improve literacy without financial awareness or formal education. These results support the research by Susanti et al. (2023), which found that financial literacy is influenced by economic factors as well as individual learning motivation and financial involvement.

The Influence of Overconfidence, Herding Behaviour, and Income on Investment Decisions

A coefficient of 0.302 with CR = 1.994 and p = 0.046* indicates that overconfidence has a positive and significant effect on gold investment decisions. This shows that individuals with high levels of self-confidence tend to be more daring in making investment decisions without worrying too much about risk. In the social context of Aceh, this behaviour is evident in investors who are confident in the stability of gold as a safe-haven asset. However, this positive effect needs to be considered carefully because excessive confidence can also lead to impulsive decision-making. These findings are in line with Pratiwi et al. (2020), who state that overconfidence bias can encourage more aggressive investment behaviour.

The coefficient value for herding is 0.179 with CR = 1.722 and p = 0.041*, indicating that herding behaviour has a positive and significant influence on gold investment decisions. This means that the decision of the people of Banda Aceh to buy gold is often influenced by the behaviour of those around them. When gold prices rise and the social environment shows a trend of buying, people tend to participate. This phenomenon shows that gold investment in Aceh also has a strong social dimension. These results reinforce the research by Aristiwati & Hidayatullah (2021) that herding behaviour is one of the main drivers of investment decision-making among traditional communities.

The Influence of Financial Literacy on Investment Decisions

A coefficient value of 0.358 with CR = 2.481 and p = 0.023* indicates that financial literacy has a positive and significant effect on gold investment decisions. This means that the higher a person's level of understanding of financial concepts, risk, and asset management, the wiser their investment decisions will be. In the context of Banda Aceh, people with good financial literacy tend to understand that gold is not only used as jewellery or savings, but also as a long-term investment asset. These results are consistent with the findings of Lestari & Isbanah (2024) and Suresh (2024), which confirm that financial literacy is a major determinant in rational investment decision-making.

Furthermore, the coefficient on the income variable of 0.156 with CR = 1.757 and p = 0.067 indicates that income has a positive and marginally significant effect on gold investment decisions. This means that the higher an individual's income, the greater the chance of investing in gold, although psychological and social factors still play an important role. The marginal effect of income indicates that financial capacity is not the only driver of investment decisions; belief in the value of gold as a symbol of security also contributes significantly. These results support the findings of Putri (2025) and InfoPublik (2024), which explain that the people of Aceh tend to allocate additional income to purchase gold as a form of wealth protection.

This study also analyses whether business success acts as a mediator in strengthening the relationships among the variables of zakat empowerment, assistance, and business characteristics, and the welfare of mustahik. The results of the study are presented in Table5 below.

Table 5. Results of the Indirect Effect Hypothesis Test

Independent Variable	Mediating Variable	Dependent Variable	Esrimate p-value
Overconvidance	Financial Literacy	Investment Decision	0,011
Herding Behavior	Financial Literacy	Investment Decision	0,058
Income	Financial Literacy	Investment Decision	0,036

Table 5 presents the results of the mediation effect test. These findings indicate that financial literacy plays a significant role as a mediating variable in the relationship between overconfidence, herding behaviour, and income on gold investment decisions. The p-values obtained are 0.011 for overconfidence, 0.058 for herding behaviour, and 0.036 for income. Thus, these results support Hypotheses H8, H9, and H10, and confirm that financial literacy serves as an important bridge connecting psychological and economic factors with rational investment behaviour. These findings highlight that improving financial literacy can transform self-confidence, social imitation behaviour, and individual income capacity into smarter, more measured, and strategic gold investment decisions among the people of Banda Aceh.

CONCLUSION AND RESEARCH IMPLICATIONS

The results of this study confirm that the gold investment decisions of the people of Banda Aceh are driven not only by economic factors but also by psychological and cognitive dynamics influenced by financial literacy. The variables of overconfidence, herding behaviour, and income were found to have a positive effect on investment decisions, both directly and indirectly through the mediation of financial literacy. Among the three, overconfidence showed the strongest influence, indicating that confidence in one's own abilities is the main driving factor in investment decision-making. However, this effect can only be transformed into more rational and productive decisions when individuals have a good level of financial literacy. Thus, financial literacy has been proven to function as the main control mechanism that channels psychological and economic influences into smart, cautious, and measured investment behaviour.

Theoretically, these results reinforce the concept of behavioural finance theory, which states that individual financial decisions are not entirely rational but are influenced by the interaction between psychological and social factors and the level of financial knowledge. In the context of Acehnese society, the decision to invest in gold also reflects cultural and religious values that view gold as a symbol of economic stability and family honour. This study shows that when financial literacy increases, people are able to manage behavioural biases and use these values as a basis for more strategic decision-making. Therefore, improving financial literacy not only plays a role in improving individual behaviour but also strengthens the region's economic capacity through more rational and sustainable investment practices.

In practical terms, the results of this study have important implications for financial institutions, regulators, and policymakers in Aceh. Pawnshops, Islamic banks, and the Financial Services Authority (OJK) need to strengthen financial literacy programmes based on local cultural values that balance confidence, prudence, and financial knowledge. This effort is important to minimise the negative impacts of imitative behaviour and overconfidence, while optimising the economic potential of the growing trend of gold investment. However, this study has limitations in terms of the limited number of respondents in Banda Aceh and its focus solely on gold investment, so the results do not fully represent the broader context. Future research should expand the geographical scope and add variables such as religiosity or social norms to enrich the understanding of community investment behaviour in a more comprehensive manner.

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