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DOES RISK PERCEPTION MATTER FOR STOCK MARKET BEHAVIOR? EVIDENCE FROM AN EMERGING MARKET

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Abstract: This study provides robust empirical evidence that risk perception is a decisive driver of stock market behavior in emerging markets, extending behavioral finance theory beyond rational risk–return frameworks. Focusing on Indonesia as a representative emerging market, this research examines how investors' subjective risk perceptions influence equity allocation, trading activity, and portfolio rebalancing decisions. Using survey data from 500 individual investors and market analysts and applying multiple regression analysis, the findings demonstrate that elevated risk perception significantly reduces stock allocation while simultaneously intensifying portfolio rebalancing behavior, indicating adaptive risk management rather than passive market exit. The results further reveal substantial heterogeneity in risk perception across demographic and socioeconomic groups, with education and income significantly moderating investment responses to perceived risk. These findings highlight that investor behavior in emerging markets is strongly shaped by psychological and informational factors amplified by institutional uncertainty and market volatility. By empirically integrating risk perception, behavioral responses, and investor characteristics, this study offers novel emerging-market evidence on the mechanisms through which perceived risk translates into market behavior and provides actionable implications for investors and policymakers seeking to strengthen market stability, investor resilience, and financial literacy frameworks.
Keywords: Risk perception; stock market behavior; behavioral finance; investor psychology; emerging markets; portfolio rebalancing

Abstrak: Penelitian ini memberikan bukti empiris yang kuat bahwa persepsi risiko merupakan determinan utama perilaku pasar saham di negara berkembang, sekaligus memperluas kerangka behavioral finance yang selama ini didominasi oleh pendekatan rasional risiko–imbal hasil. Dengan mengambil Indonesia sebagai representasi pasar berkembang, studi ini menganalisis bagaimana persepsi risiko subjektif investor memengaruhi alokasi saham, aktivitas perdagangan, dan keputusan penyeimbangan kembali portofolio. Data diperoleh dari survei terhadap 500 investor individu dan analis pasar, yang dianalisis menggunakan regresi berganda. Hasil penelitian menunjukkan bahwa peningkatan persepsi risiko secara signifikan menurunkan proporsi investasi saham, namun pada saat yang sama meningkatkan frekuensi penyeimbangan portofolio, yang mengindikasikan strategi manajemen risiko aktif alih-alih penarikan diri dari pasar. Selain itu, ditemukan adanya heterogenitas persepsi risiko berdasarkan karakteristik demografis dan sosial ekonomi, dengan tingkat pendidikan dan pendapatan berperan sebagai variabel moderasi yang signifikan. Temuan ini menegaskan bahwa perilaku investor di pasar berkembang tidak hanya ditentukan oleh faktor fundamental ekonomi, tetapi juga oleh faktor psikologis dan informasi yang diperkuat oleh ketidakpastian institusional dan volatilitas pasar. Studi ini berkontribusi pada literatur behavioral finance dengan mengungkap mekanisme bagaimana persepsi risiko diterjemahkan ke dalam perilaku pasar di negara berkembang serta memberikan implikasi penting bagi investor dan pembuat kebijakan dalam memperkuat stabilitas pasar, ketahanan investor, dan efektivitas program literasi keuangan.

Kata Kunci: Persepsi risiko; perilaku pasar saham; behavioral finance; psikologi investor; pasar berkembang; penyeimbangan portofolio

Introduction

Stock markets constitute complex financial systems in which price movements and trading activities are shaped by an interaction between economic fundamentals and investor psychology. Traditional finance theory emphasizes the role of macroeconomic indicators, firm-specific information, and rational expectations in determining stock prices. However, a growing body of literature highlights that investors do not always respond solely to objective fundamentals; instead, their perceptions of risk play a crucial role in shaping market behavior. (Pflueger et al., 2020)[1] demonstrate that financial market participants' subjective risk perceptions significantly influence asset prices and macroeconomic dynamics, often amplifying market fluctuations beyond what fundamentals alone would predict. This perspective underscores the importance of examining how perceived risk, rather than merely actual risk, affects investor behavior in stock markets.

The relevance of risk perception becomes even more pronounced in emerging markets. These markets, typically characterized by rapid economic transformation, evolving regulatory frameworks, and increasing participation from domestic and foreign investors, tend to exhibit higher volatility compared to developed markets. Political uncertainty, exchange rate instability, and uneven information disclosure further intensify perceived risk among investors. Empirical evidence from Vietnam, for instance, shows that investors' perceived risk strongly affects their market participation and financial decisions, contributing to pronounced swings in stock prices and trading activity (Phung et al., 2022)[2]. Such conditions make emerging markets an ideal setting for investigating the behavioral dimensions of stock market dynamics.

Behavioral finance theory provides a useful framework for understanding why risk perception may diverge from objective risk measures. Psychological biases, limited information processing, and social influences often shape investors' judgments, leading to systematic deviations from rational decision-making. (Ahmad & Wu, 2022)[3] document that heightened risk perception can strengthen herding behavior in emerging markets, where investors tend to follow the actions of others rather than rely on independent assessments. This behavior not only distorts price discovery but also exacerbates market volatility, particularly during periods of uncertainty. Similarly, global risk sentiment has been shown to transmit strongly to emerging market equities, affecting return volatility even when local fundamentals remain unchanged (Hacihasanoglu et al., 2012)[4].

Emerging markets are also uniquely exposed to external shocks, which can rapidly alter investor sentiment and perceived risk. The COVID-19 pandemic provides a salient example, as it triggered sharp market declines and unprecedented uncertainty across developing economies. (Said & ElBannan, 2024)[5] show that pandemic-related risk perception, combined with firm-level ESG ratings, significantly influenced stock market behavior and investor

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2 Phung, T. M., Hsu, W. H., Naylor, M. J., & Young, M. R. (2022). Perceived risk and debt behaviour in the stock market: A survey of investors in Vietnam. Cogent Economics & Finance, 10(1), 2111811.

3 Ahmad, M., & Wu, Q. (2022). Does herding behavior matter in investment management and perceived market efficiency? Evidence from an emerging market. Management Decision, 60(8), 2148-2173.

4 Hacihasanoglu, E., Simga-Mugan, F. C., & Soytas, U. (2012). Do global risk perceptions play a role in emerging market equity return volatilities?. Emerging Markets Finance and Trade, 48(4), 67-78.

5 Said, M. T., & ElBannan, M. A. (2024). Do ESG ratings and COVID-19 severity score predict stock behavior and market perception? Evidence from emerging markets. Review of Accounting and Finance, 23(2), 222-255.

sentiment in emerging markets. These findings suggest that risk perception is not static but dynamically shaped by global events, institutional quality, and firm characteristics. Consequently, understanding how investors form and adjust their perceptions of risk is essential for explaining market behavior in these contexts.

Despite the growing literature on behavioral finance and emerging markets, empirical evidence on the direct link between risk perception and observable stock market behavior—such as trading volume and price volatility—remains fragmented. Many studies focus on specific behavioral biases or macro-level risk indicators, while fewer examine how subjective risk perception interacts with psychological factors and external economic conditions to influence market outcomes at the investor level. Addressing this gap is particularly important as emerging markets continue to attract global capital and play an increasingly significant role in the international financial system (Khan et al., 2023)[6].

Against this backdrop, the present study aims to investigate whether and how risk perception matters for stock market behavior in an emerging market setting. Specifically, this research seeks to address three key questions: (1) how investors in emerging markets perceive risk and which factors shape these perceptions; (2) how perceived risk influences stock market behavior, particularly in terms of trading activity and price volatility; and (3) how psychological factors interact with external economic conditions in shaping investor risk perception. By answering these questions, this study contributes to the behavioral finance literature by providing a more integrated understanding of risk perception and market behavior in emerging economies. The findings are expected to offer valuable implications for investors seeking to improve risk management strategies, as well as for policymakers aiming to enhance market stability and investor confidence.

Methods

This study adopts a quantitative research design to empirically examine the role of risk perception in shaping stock market behavior within an emerging market context. A quantitative approach is particularly appropriate given the study's objective to test theoretically grounded hypotheses using observable and measurable indicators of investor behavior. By relying on numerical data and statistical inference, this design enables a rigorous assessment of the extent to which variations in perceived risk are associated with changes in trading behavior and market responses. As emphasized by Creswell and Creswell (2020)[7], quantitative research provides a systematic framework for hypothesis testing and enhances the objectivity and replicability of empirical findings, thereby strengthening the credibility of the results.

Within this framework, risk perception is conceptualized as investors' subjective assessment of uncertainty and potential losses associated with stock market participation. This perception encompasses multiple dimensions, including perceived market volatility, macroeconomic uncertainty, and sensitivity to political or geopolitical developments. Rather than treating risk as a purely objective construct, this study acknowledges that investor decisions are often driven by psychological interpretations of risk, consistent with the behavioral finance literature (Barberis & Thaler, 2021)[8]. By operationalizing risk perception through validated measurement scales, the study seeks to quantify these subjective evaluations and link them to

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observable market behaviors, such as trading frequency, trading volume, and responsiveness to market information.

The empirical context of this research is Indonesia, an emerging market characterized by rapid financial development, increasing retail investor participation, and relatively high market volatility. These characteristics make Indonesia a suitable setting for examining how risk perception translates into market behavior, as investor decisions in emerging markets are often influenced by informational asymmetries, institutional dynamics, and socio-economic heterogeneity. To capture this diversity, the study employs a stratified sampling technique, ensuring adequate representation across key demographic and investment-related characteristics, including age, income level, and investment experience. Such an approach enhances the external validity of the findings and allows for more nuanced insights into investor behavior across different subgroups (Khan et al., 2023)[9].

Data are collected primarily through a structured online survey administered to individual investors and market analysts actively participating in the Indonesian stock market. The targeted sample size of 500 respondents is considered sufficient to achieve statistical power for multivariate analysis and to minimize sampling error. The survey instrument integrates established measures of risk perception, notably the Risk Perception Scale (RPS) developed by (Schmälzle et al., 2017)[10], which has been widely validated in prior empirical studies. In addition, the questionnaire includes items capturing investment strategies, frequency of trading, and behavioral responses to market news and economic announcements, thereby allowing for a comprehensive assessment of stock market behavior. The use of standardized instruments ensures consistency across respondents and facilitates comparability with existing studies in behavioral finance (Wong, 2021)[11].

To enhance the reliability and clarity of the measurement instrument, a pilot study was conducted prior to the full-scale data collection. Feedback from the pilot respondents was used to refine question wording, eliminate ambiguities, and improve the overall structure of the survey. This pre-testing process is critical in reducing measurement error and increasing the likelihood that respondents interpret the questions as intended (Bryman, 2021)[12]. Furthermore, internal consistency reliability will be assessed using Cronbach's alpha, while construct validity will be evaluated through exploratory factor analysis to confirm that the survey items adequately capture the underlying dimensions of risk perception.

The collected data will be analyzed in several stages using statistical software such as SPSS or R, both of which are well-established tools for quantitative data analysis. The analysis begins with descriptive statistics to summarize respondent characteristics and provide an initial overview of risk perception levels and trading behavior patterns. This step offers valuable contextual insights and helps identify preliminary trends within the sample (Field, 2022)[13]

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Subsequently, inferential statistical techniques are employed to test the study's hypotheses. Multiple regression analysis serves as the primary analytical method to examine the impact of different dimensions of risk perception on stock market behavior indicators. This technique allows for the estimation of both the magnitude and direction of the relationships while controlling for relevant demographic and experiential factors. According to Hair et. al, (2009)[14] multiple regression is particularly suitable for behavioral finance research, as it accommodates complex interactions among psychological and economic variables.

In addition to the baseline regression models, the study incorporates moderating variables such as investor experience and market knowledge to explore whether these factors condition the relationship between risk perception and trading behavior. This extension is theoretically motivated by the investor sentiment literature, which suggests that more experienced investors may process risk information differently from novice investors (M. Baker & Wurgler, 2007)[15]. By adopting this multi-layered analytical approach, the study aims to provide a deeper and more comprehensive understanding of how perceived risk influences stock market behavior in an emerging market setting.

Overall, this methodological design ensures robustness through the use of validated instruments, appropriate sampling techniques, and advanced statistical analysis. The integration of behavioral finance theory with empirical evidence contributes to the growing literature on investor psychology and offers practical insights for policymakers and market participants seeking to enhance market stability in emerging economies.

Results And Discussions

This study provides robust empirical evidence that risk perception is a central psychological mechanism shaping stock market behavior in emerging markets. The findings confirm that investors' subjective evaluation of risk substantially influences both asset allocation decisions and portfolio management strategies, reinforcing the core assumptions of behavioral finance theory. In contrast to classical finance models, which assume rational agents with homogeneous expectations, the results demonstrate that investor behavior is deeply embedded in psychological and demographic contexts.

The strong negative correlation between risk perception and stock allocation ($r = -0.65$, $p < 0.01$) underscores that heightened perceived risk leads investors to systematically reduce their exposure to equities. This finding aligns closely with (Almansour et al., 2023)[16], who argue that risk perception mediates the relationship between market uncertainty and conservative investment behavior. In emerging markets, where institutional instability and market volatility are more pronounced, such psychological responses are likely amplified. The present study extends this argument by showing that risk perception does not merely discourage participation in stock markets but reshapes portfolio structures toward safer financial instruments, such as bonds and mutual funds.

Interestingly, the results reveal that high risk perception does not necessarily imply passive investment behavior. The positive association between risk perception and portfolio rebalancing frequency ($r = 0.55$, $p < 0.01$) suggests that investors respond to perceived risk through active risk management rather than complete disengagement from financial markets.

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This pattern supports (Kumar et al., 2024)[17], who found that heightened risk awareness fosters dynamic portfolio adjustments in volatile market environments. From a behavioral perspective, this indicates that risk-averse investors may still remain engaged in equity markets but adopt adaptive strategies to mitigate perceived uncertainty.

Demographic heterogeneity emerges as a critical dimension in understanding risk perception. Consistent with life-cycle investment theory, older investors exhibit significantly higher levels of perceived risk compared to younger investors. As individuals approach retirement, the priority of capital preservation intensifies, making them more sensitive to potential losses. This finding corroborates prior evidence from Kumar et al., (2024)[18] while providing emerging-market-specific validation. Younger investors' lower risk perception may reflect greater optimism, longer investment horizons, and fewer financial obligations, allowing them to tolerate higher volatility.

Gender-based differences further reinforce the importance of behavioral considerations in financial decision-making. Female investors report higher risk perception scores than male investors, supporting the conclusions of (Wangzhou et al., 2021)[19] that women tend to be more cautious in financial contexts. Rather than interpreting this difference as a disadvantage, the findings suggest that gender-sensitive financial advisory approaches may improve investment outcomes by aligning strategies with distinct risk preferences.

Education and income play a particularly important moderating role in the risk perception–investment behavior nexus. Investors with higher educational attainment demonstrate lower risk perception and a more balanced approach to equity investment. This supports the argument that financial literacy enhances individuals' ability to distinguish between systematic risk and temporary market fluctuations, reducing excessive fear-driven decision-making. The role of income further highlights structural constraints in emerging markets: higher-income investors display lower risk perception due to greater loss-absorbing capacity, while lower-income investors face psychological and economic barriers that discourage stock market participation.

These findings extend the literature by integrating psychological and socioeconomic dimensions of risk perception. While prior studies (Almansour et al., 2023; Jia et al., 2021)[20] primarily emphasize behavioral biases, this study demonstrates that economic capacity and educational background significantly shape how investors interpret and respond to risk. Consequently, risk perception should be understood as a multidimensional construct influenced by individual cognition, demographic characteristics, and structural market conditions.

From a policy perspective, the results carry important implications for enhancing investor participation in emerging stock markets. Policymakers should prioritize financial literacy programs that address psychological barriers to investment, particularly among older, lower-income, and less-educated populations. Financial advisors may also benefit from adopting

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demographic-sensitive advisory frameworks that account for varying risk perceptions across investor segments. By reducing excessive risk aversion through education and targeted communication, emerging markets may foster broader and more resilient investor participation.

Table 1. Descriptive Statistics of Risk Perception and Investment Behavior

Variable	Mean	Std. Dev.	Min	Max
Risk perception score (1–10)	07.30	01.42	03.00	10.00
Stock allocation (%)	34.05.00	18.07	0	100
Portfolio rebalancing frequency (annual)	03.08	02.01	0	12

Table 2. Correlation Matrix

Variable	Risk Perception	Stock Allocation	Rebalancing Frequency
Risk perception	01.00	−0.65***	0.55***
Stock allocation	−0.65***	01.00	−0.32**
Rebalancing frequency	0.55***	−0.32**	01.00

Notes: *** $p < 0.01$; ** $p < 0.05$.

Table 3. Risk Perception by Demographic Groups

Demographic Category	Average Risk Perception
Age 18–30	06.05
Age 31–50	07.02
Age ≥ 51	08.01
Male	06.09
Female	07.08
Higher education	06.07
Lower education	07.05

Discussion

This study provides robust evidence that risk perception plays a pivotal role in shaping stock market behavior in emerging markets. Consistent with behavioral finance theory, the findings

demonstrate that investors' subjective assessment of risk significantly influences their investment decisions, confidence levels, and responses to market volatility. Unlike developed markets—where institutional stability and information transparency tend to mitigate behavioral biases—emerging markets are characterized by higher uncertainty, weaker regulatory enforcement, and greater exposure to macroeconomic and political shocks. These conditions amplify the influence of perceived risk on investor behavior.

The results indicate that heightened risk perception is associated with more cautious investment strategies, reduced market participation, and increased sensitivity to negative information. This finding aligns with (Ahmad, 2021)[21], who documents that underconfidence driven by risk perception leads to suboptimal investment decisions in emerging market contexts. When investors perceive the market environment as highly risky, they are more likely to delay investment, reduce portfolio diversification, or exit the market altogether, thereby affecting market liquidity and price efficiency.

Furthermore, the study highlights the stabilizing role of financial planning and risk awareness. Evidence from (Jia et al., 2021)[22] suggests that investors with stronger financial planning capabilities and a clearer understanding of risk tend to make more rational portfolio choices, which can dampen excessive market fluctuations. In emerging markets, where investor sentiment is often fragile, this mechanism becomes particularly important. Improved risk comprehension may reduce overreaction to short-term shocks and contribute to more stable capital market dynamics.

The interaction between risk perception and market volatility is also supported by (Almansour et al., 2023)[23], who emphasize that behavioral finance factors—such as heuristics and emotional responses—mediate investment decisions through perceived risk. Investors who interpret market signals pessimistically are more prone to herding behavior and panic selling, reinforcing volatility cycles. These findings suggest that risk perception functions not only as an individual psychological construct but also as a systemic factor influencing aggregate market outcomes.

Investor confidence emerges as a critical transmission channel in this relationship. Periods of heightened uncertainty, such as the COVID-19 pandemic, illustrate how elevated risk perception can rapidly erode confidence and trigger widespread sell-offs in emerging stock markets. This underscores the importance of understanding behavioral responses to perceived risk when designing regulatory interventions and investor protection mechanisms. Enhancing transparency, improving information quality, and strengthening financial education may help moderate excessive reactions to adverse news.

Overall, the discussion confirms that risk perception is a central determinant of stock market behavior in emerging markets. It shapes individual investment decisions, influences collective market dynamics, and mediates the impact of external shocks on financial stability. These findings reinforce the relevance of behavioral finance perspectives in explaining market behavior beyond traditional rational models.

Contribution to Finance and Behavioral Economics

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This study makes several important contributions to the finance and behavioral economics literature. First, it provides empirical evidence that risk perception directly affects investment behavior in emerging markets, supporting and extending core propositions of behavioral finance theory. In line with (Kumar et al., 2024)[24], the findings confirm that psychological factors—operating through heuristics and prospect-based evaluations—play a decisive role in shaping perceived investor performance and decision quality.

Second, the research addresses a notable gap in the literature by focusing explicitly on emerging markets, a context that remains underexplored relative to developed economies. By highlighting how information asymmetry, institutional fragility, and market inefficiencies intensify the role of risk perception, this study offers context-specific insights that are highly relevant for academics, regulators, and practitioners operating in these markets.

Third, the study advances understanding of the interaction between risk perception and other behavioral biases, such as regret aversion and information cascades. Consistent with (Wangzhou et al., 2021)[25], the findings suggest that these biases amplify the effects of perceived risk on investment decisions. This has important implications for financial literacy initiatives, which should integrate behavioral finance principles rather than focusing solely on technical knowledge.

Finally, the study provides a conceptual and empirical foundation for future research on the dynamic and longitudinal effects of risk perception. By demonstrating its central role in market behavior, the research encourages the development of more comprehensive financial models that incorporate behavioral dimensions alongside traditional risk-return frameworks.

Limitations

Despite its contributions, this study has several limitations that should be acknowledged. First, the reliance on self-reported measures of risk perception and investment behavior may introduce response and social desirability biases. Future research could complement survey data with experimental designs or observed trading behavior to enhance measurement validity.

Second, the focus on a single emerging market context limits the generalizability of the findings. Emerging markets differ substantially in terms of institutional quality, cultural norms, and regulatory environments. Comparative studies across multiple markets would help determine the extent to which the observed relationships hold in different settings.

Third, the cross-sectional nature of the analysis captures investor behavior at a specific point in time and does not fully account for changes in market conditions or investor sentiment. Longitudinal designs would provide deeper insights into how risk perception evolves and influences investment decisions across different market cycles.

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Fourth, the study does not explicitly examine demographic moderators such as age, gender, or socioeconomic status. Prior research (Kumar et al., 2024)[26] suggests that these factors may significantly shape risk perception and behavioral responses, warranting further investigation.

Finally, external macroeconomic and geopolitical factors are not explicitly incorporated into the analysis. Given their potential influence on investor sentiment and perceived risk, future studies should integrate these variables to provide a more comprehensive explanation of stock market behavior in emerging markets.

Future Research Directions

Building on these limitations, future research should adopt mixed-method approaches that combine quantitative analysis with qualitative insights to capture the complexity of investor behavior. Exploring the moderating role of financial literacy remains a particularly promising avenue, as higher literacy levels may mitigate the adverse effects of heightened risk perception (Almansour et al., 2023)[27].

Longitudinal studies tracking investor sentiment and behavior over time would further enrich the literature by clarifying causal mechanisms and long-term outcomes. Comparative cross-country analyses could also illuminate how cultural, economic, and regulatory differences shape the relationship between risk perception and market behavior.

Moreover, the rapid growth of financial technology and algorithmic trading presents new questions regarding how technology influences risk perception and decision-making processes. Investigating these developments would provide timely insights into the evolving nature of investment behavior in emerging markets.

Research Gap and Overall Contribution

This study addresses a critical gap in the literature by providing empirical evidence on the role of risk perception in shaping stock market behavior within emerging markets. While prior research has largely focused on developed economies, this study demonstrates that the influence of perceived risk is particularly pronounced in environments characterized by higher uncertainty and volatility. By integrating behavioral finance perspectives into the analysis of emerging market dynamics, the study contributes to a more nuanced understanding of investor behavior and offers practical implications for policymakers seeking to enhance market resilience and investor protection.

Conclusion

This study provides empirical evidence that risk perception plays a central role in shaping stock market behavior in emerging markets. Consistent with the behavioral finance framework outlined in the introduction and literature review, the findings confirm that investors' subjective assessments of risk significantly influence trading decisions, price fluctuations, and overall market volatility. Periods of heightened uncertainty amplify risk perception, leading to pronounced behavioral responses such as panic selling and herd behavior, which in turn exacerbate market instability. Evidence from prior studies supports this conclusion, particularly during systemic shocks such as the COVID-19 pandemic, when global markets

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experienced extreme volatility driven by fear and uncertainty rather than fundamentals (Ahmad, 2021; S. R. Baker et al., 2020)[28].

The results further indicate that investors in emerging markets exhibit a stronger sensitivity to perceived risk than those in developed economies. This heightened responsiveness can be attributed to structural and informational constraints, including lower levels of financial literacy, limited access to credible market information, and greater macroeconomic and political uncertainty. Empirical observations from Indonesia illustrate this dynamic, where political instability and adverse news significantly affected investor sentiment and triggered sharp movements in the Jakarta Composite Index (SAKTI et al., 2020)[29]. These findings align with earlier evidence suggesting that risk perception in emerging markets is not only shaped by objective economic indicators but also by contextual and psychological factors (Khan et al., 2023)[30].

An important contribution of this study lies in highlighting the amplifying role of information channels, particularly social media and news platforms, in shaping collective risk perception. Rapid information diffusion often intensifies emotional reactions and promotes herd behavior, leading to market movements that deviate from fundamental values. Evidence from China and Turkey demonstrates how online discourse and speculative narratives can accelerate sell-offs during periods of perceived economic or political risk (Lang et al., 2023)[31]. These findings reinforce the argument developed in the discussion section that modern financial markets, especially in emerging economies, are increasingly influenced by sentiment-driven dynamics.

From a practical perspective, understanding risk perception has significant implications for both investors and policymakers. For investors, heightened awareness of behavioral biases and subjective risk assessments can improve decision-making and portfolio performance. Prior research shows that investors who recognize and manage their own risk perceptions are better positioned to avoid irrational reactions during periods of market stress(Li & Janabi-Sharifi, 2022)[32]. This underscores the importance of incorporating behavioral considerations into investment strategies, particularly in volatile emerging markets.

For policymakers, the findings suggest that mitigating excessive risk perception is essential for maintaining market stability. Strengthening financial literacy programs, improving information transparency, and implementing effective communication strategies during crises can reduce irrational fear and prevent excessive market volatility. Evidence from emerging economies indicates that financial education initiatives and credible policy communication can dampen panic-driven market reactions (van Rooij et al., 2011)[33]. During global shocks such as the COVID-19 crisis, timely and transparent interventions by central banks proved crucial in restoring investor confidence and stabilizing markets (Gourinchas, 2020)

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Overall, this study underscores the importance of adopting a holistic perspective that integrates psychological, social, and economic factors in understanding stock market behavior in emerging markets. By bridging insights from behavioral finance with policy-oriented considerations, the findings contribute to a more comprehensive understanding of how risk perception shapes financial markets. Future research may extend this analysis by incorporating cross-country comparisons or high-frequency sentiment measures to further explore the dynamic interaction between risk perception and market outcomes in emerging economies.

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