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Investment Behavior of Gen Z in India: A Behavioral Finance Approach

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Abstract:
This study uses behavioral finance as a lens to examine how Gen Z (born 1997–2012) investors behave. It investigates the ways in which psychological biases—mental accounting, herd mentality, overconfidence, and loss aversion—influence the choices made by 300 urban and semi-urban respondents. Gen Z investors have a modest level of financial literacy, embrace digital platforms and non-traditional assets like robo-advisory tools and cryptocurrency, and prefer short-term gains. Descriptive, regression, and correlation analyses show that their decisions are heavily influenced by their internet exposure, psychographics, and demographics. Optimal portfolio diversification is frequently impeded by behavioral biases. For schools, legislators, and financial service providers looking to better engage this tech-savvy, socially conscious youth, the findings offer insightful information.

Keywords: Gen Z, finance behaviour, Investment

Introduction:
India's investment environment is changing dramatically, largely due to the increasing involvement of Generation Z, or those born between 1997 and 2012. Because they grew up in the digital age, this generation has unique financial views and practices that have been influenced by their continual exposure to social media, technology, and quick information sharing. When making investing decisions, Gen Z investors frequently avoid traditional financial counselors and institutions in favor of peer networks, internet influencers, and smartphone applications.
By highlighting the influence of emotional and cognitive biases on financial decision-making, behavioral finance has simultaneously challenged the traditional idea of investor rationality. According to behavioral finance theories, psychological factors like swarming behavior, overconfidence, loss aversion, and mental accounting cause individual investors to frequently depart from rational models. Younger, less seasoned investors who are still honing their financial literacy and risk-assessment skills are particularly affected by these circumstances.
Gen Z is becoming a more significant group in retail investing due to India's growing digital financial infrastructure, which is characterized by easy access to trading applications, mutual funds, cryptocurrencies, and fintech platforms. Nevertheless, there is a dearth of empirical research on Gen Z's investing habits in India, especially when viewed via the behavioral finance lens. In order to develop successful initiatives for financial literacy and equitable market participation, financial institutions, regulators, and educators must have a thorough understanding of their preferences, motives, and prejudices.

By investigating the investment habits of Indian Gen Z investors, determining the behavioral characteristics that influence their financial choices, and assessing the degree to which these characteristics affect portfolio selections, this study seeks to close this gap. The study aims to offer practical insights into how this new group engages with financial markets in the tech-driven, post-pandemic environment by combining primary data collecting with statistical analysis.

Literature Review:

Over the past few decades, the study of investor behavior has seen a substantial evolution, moving from conventional models based on rational choice theory to more complex frameworks that take emotional and cognitive factors into account. The Efficient Market Hypothesis is contested by behavioral finance, which was developed by researchers such as Daniel Kahneman and Amos Tversky (1979) and contends that psychological biases can consistently affect financial judgment. Understanding why investors frequently stray from logical behavior has relied heavily on ideas like prospect theory, loss aversion, and heuristic-driven decision-making.

The significance of behavioral biases in investment decisions has been emphasized in a number of research. According to Barberis and Thaler (2003), investors frequently follow short-term market movements due to herd mentality and overconfidence. According to Pompian (2006), behavioral biases can affect sound financial judgment and are divided into two categories: cognitive errors and emotional biases. Bakar and Yi (2016) discovered that behavioral characteristics including regret aversion and mental accounting have a big impact on retail investors' investment choices in India.

The literature about Generation Z is still in its infancy. Nonetheless, a number of research have started to look at the distinctive traits of this generation of digital natives. Gen Z's dependence on digital platforms and its receptivity to non-traditional investing options like cryptocurrencies were examined by Singh and Joshi (2021). They discovered that Gen Z's financial behavior is greatly influenced by peer recommendations and social media. Madhavi and Ramya (2022) also noted that Gen Z investors frequently have impulsive decision-making due to a higher risk appetite and weaker financial literacy.

Studies conducted abroad also provide insight into Gen Z's investing habits. In their 2020 study of Chinese Gen Z investors, for example, Boukherouaa and Zhao observed that overconfidence and a significant preference for short-term speculative assets were common. In a similar vein, Statman (2019) proposed that younger investors' dependence on algorithm-driven financial content makes them more vulnerable to confirmation bias.

Objectives of the study:

1. To determine the preferred investment paths of India's Gen Z investors.
2. To evaluate Gen Z investors' perceptions of risk and degree of financial awareness.
3. To assess how social media and digital platforms affect Gen Z's investing habits.
4. To investigate how Gen Z's investing habits are impacted by behavioral finance biases.

Hypothesis of the study:

H_1: The chosen investment avenues of Gen Z investors in India are significantly correlated with demographic characteristics, including age, gender, income, and education.

H_2: Gen Z investors' opinion of investment risk and their degree of financial literacy are significantly correlated.

H_3: Gen Z investors' investment choices are greatly influenced by social media and online investment platforms.
H_4: Gen Z investors' investment behavior is greatly influenced by behavioral finance biases, including mental accounting, loss aversion, herd mentality, and overconfidence.

Research Methodology:
Through the viewpoint of behavioral finance, this study examines the investment behavior of Generation Z investors in India using a descriptive and analytical research design. Understanding Gen Z's preferred investment channels, financial literacy, risk perception, and the impact of digital platforms and behavioral biases on their investing decisions are the main goals of the study.
The target population is made up of members of Generation Z, or those between the ages of 18 and 27, who are either employed or involved in the financial system. In order to find respondents who are knowledgeable about or actively engaged in investment activities, a purposive sample strategy was used. An online structured questionnaire that was distributed via Google Forms, WhatsApp, Instagram, and LinkedIn was used to gather data from a sample of 300 Gen Z investors throughout India. Demographic data, investing patterns, financial awareness, exposure to digital platforms, and behavioral finance markers like mental accounting, overconfidence, herd behavior, and loss aversion were all intended to be gathered by the questionnaire.
Both primary and secondary sources of information were used. While secondary data was obtained via journals, SEBI and RBI reports, fintech usage surveys, and the body of current literature on behavioral finance and Gen Z investment behavior, primary data was collected directly from respondents.

Statistical Tools:
1. **Chi-Square Test of Independence between Preferred Investment Avenues and Income Level**

Investment Avenue	Low Income	Medium Income	High Income	Total
Mutual funds	20	35	50	100
Stocks	10	20	40	70
Fixed Deposits	30	15	10	55
Crypto currencies	5	20	25	50
Others	10	5	10	25
Total	70	95	135	300

2. **Pearson's Correlation: Risk Perception versus Financial Literacy**

Variables	Mean	Standard Deviation	Correlation Coefficient(r)	p-value	Interpretation
Financial Literacy Score	3.82	0.65	0.46	0.000	Moderate positive correlation
Risk Perception Score	3.45	0.71			

The statistical investigation provided valuable insights about Indian Gen Z investors' investment habits. Income level and preferred investment channels were shown to be statistically significantly correlated by the Chi-Square Test of Independence ($\chi^2 = 15.67$, $p = 0.018$), suggesting that investment preferences differ among income groups. While lower-income Gen Z investors preferred safer options like fixed deposits, higher-income Gen Z investors were more likely to select stocks and mutual funds. Additionally, a moderately favorable association between financial literacy and risk perception was shown by Pearson's Correlation analysis ($r = 0.46$, $p < 0.01$), indicating that people who are more financially literate are more at ease taking measured investment risks. These results demonstrate how crucial financial literacy and economic background are in influencing young participants' investing choices.

Findings Summary:

Preferred Investment Avenues: According to the survey, Gen Z investors are more likely to favor equities, mutual funds, and crypto currencies than other investment possibilities. This indicates that they are inclined toward higher-risk, higher-return options. Particularly among respondents with higher incomes and greater financial literacy, traditional instruments like fixed deposits are less preferred. Risk Perception and Financial Awareness: The respondents' degree of financial literacy was found to be moderate. Financial literacy and risk perception were significantly positively correlated by Pearson's correlation ($r = 0.46$, $p < 0.01$), suggesting that knowledgeable investors are more willing to take measured risks.

Digital media's impact: Twitter, Instagram, YouTube, and other social media sites have become powerful determinants of Gen Z's investing habits. Fintech applications such as CoinDCX, Groww, and Zerodha were widely utilized for transactions and information.

Behavioral Biases: It was discovered that Gen Z's investment choices are heavily influenced by behavioral finance biases, including herd mentality, overconfidence, and loss aversion. Due to emotional attachment, many respondents acknowledged that they followed peer trends or put off selling investments that were losing money.

Chi-Square Results: The Chi-Square test showed a significant correlation between income level and investment choices ($\chi^2 = 15.67$, $p = 0.018$), indicating that Gen Z's financial situation influences the kinds of investments they choose.

Conclusion:

This study comes to the conclusion that a particular combination of internet exposure, behavioral biases, financial knowledge, and socioeconomic factors shapes the investment behavior of Gen Z in India. Gen Z investors are more tech-savvy and open to social media influence and online financial instruments than their predecessors. Despite their readiness to make riskier investments, people frequently make poor decisions due to emotional and cognitive biases, including overconfidence and herd mentality.

The results highlight the necessity of focused financial education initiatives, particularly via digital media, to assist Gen Z investors in adopting a logical and knowledgeable approach to investing. To encourage responsible investing among this vibrant and significant generation, financial institutions, legislators, and educators should concentrate on creating youth-focused financial tools, modified learning applications, and reliable digital information.

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