

## **Behavioral Finance Factors Influencing Investment Decisions Among Generation Z Investors**

### **Faktor-Faktor Keuangan Perilaku Yang Mempengaruhi Keputusan Investasi Di Kalangan Investor Generasi Z**

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#### **ABSTRACT**

*The rapid growth of digital financial technology has significantly increased the participation of young investors, particularly Generation Z, in financial markets. However, investment decisions made by this generation are often influenced not only by rational financial analysis but also by psychological and behavioral factors. This study aims to examine behavioral finance factors that influence investment decisions among Generation Z investors. The study focuses on key behavioral aspects such as overconfidence bias, herding behavior, loss aversion, risk perception, and financial literacy, which are widely recognized as important determinants of individual investment behavior. This research employs a systematic literature review method to analyze relevant academic studies related to behavioral finance and investment decision-making. Data were collected from scholarly databases such as Google Scholar, Scopus, Web of Science, and ScienceDirect. The selected literature was analyzed to identify key themes, theoretical frameworks, and empirical findings regarding behavioral biases affecting investment decisions. The findings indicate that behavioral factors significantly influence the investment decisions of Generation Z investors. Overconfidence and herding behavior often lead investors to rely on personal judgment or market trends rather than objective analysis. In addition, loss aversion and risk perception affect how investors respond to potential gains and losses. Financial literacy is also found to play a crucial role in helping investors make more rational and informed investment decisions.*

**Keywords:** Behavioral Finance, Investment Decisions, Generation Z Investors, Financial Literacy, Behavioral Biases

#### **ABSTRAK**

Pertumbuhan pesat teknologi keuangan digital telah secara signifikan meningkatkan partisipasi investor muda, khususnya Generasi Z, di pasar keuangan. Namun, keputusan investasi yang diambil oleh generasi ini sering kali dipengaruhi tidak hanya oleh analisis keuangan yang rasional, tetapi juga oleh faktor-faktor psikologis dan perilaku. Penelitian ini bertujuan untuk mengkaji faktor-faktor keuangan perilaku yang memengaruhi keputusan investasi di kalangan investor Generasi Z. Penelitian ini berfokus pada aspek-aspek perilaku utama seperti bias rasa percaya diri yang berlebihan, perilaku mengikuti arus, keengganan mengalami kerugian, persepsi risiko, dan literasi keuangan, yang secara luas diakui sebagai penentu penting dari perilaku investasi individu. Penelitian ini menggunakan metode tinjauan pustaka sistematis untuk menganalisis studi akademis yang relevan terkait keuangan perilaku dan pengambilan keputusan investasi. Data dikumpulkan dari basis data ilmiah seperti Google Scholar, Scopus, Web of Science, dan ScienceDirect. Literatur yang dipilih dianalisis untuk mengidentifikasi tema-tema utama, kerangka kerja teoretis, dan temuan empiris mengenai bias perilaku yang memengaruhi keputusan investasi. Temuan menunjukkan bahwa faktor perilaku secara signifikan memengaruhi keputusan investasi investor Generasi Z. Kepercayaan diri yang berlebihan dan perilaku mengikuti tren seringkali menyebabkan investor mengandalkan penilaian pribadi atau tren pasar daripada analisis objektif. Selain itu, keengganan terhadap kerugian dan persepsi risiko memengaruhi bagaimana investor menanggapi

potensi keuntungan dan kerugian. Literasi keuangan juga ditemukan memainkan peran penting dalam membantu investor membuat keputusan investasi yang lebih rasional dan terinformasi.

**Kata Kunci:** Keuangan Perilaku, Keputusan Investasi, Investor Generasi Z, Literasi Keuangan, Bias Perilaku

## 1. Introduction

The rapid advancement of financial technology and the proliferation of digital investment platforms have fundamentally reshaped the global investment environment. In recent years, participation in investment activities has become increasingly widespread, especially among younger generations who are highly accustomed to digital technologies. Within this demographic group, Generation Z, typically defined as individuals born between 1997 and 2012, has emerged as a new segment of investors entering financial markets at a relatively early age. Compared to earlier generations, Generation Z investors possess distinctive characteristics, including strong digital literacy, extensive engagement with social media, and continuous access to real-time financial information through various online platforms. These features have introduced new patterns of investment behavior, highlighting the importance of examining the factors that influence their financial decision-making processes.

Conventional financial theories, particularly the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT), are grounded in the assumption that investors behave rationally and base their decisions on complete and accurate information to maximize returns while minimizing risk (Fama, 1970; Markowitz, 1952). According to this perspective, investors objectively analyze available financial data and select alternatives that maximize their expected utility. Nevertheless, empirical studies have shown that real-world investment behavior often deviates from these rational assumptions. In practice, investors are frequently influenced by psychological tendencies, emotional reactions, and cognitive limitations, which may lead to decisions that cannot be fully explained by traditional financial models.

In response to these limitations, behavioral finance has emerged as an interdisciplinary field combining insights from psychology and economics to better explain anomalies in financial decision-making (Thaler, 1999). Behavioral finance emphasizes that investors are prone to various psychological biases that shape how they interpret information, assess risk, and make investment choices. Such biases may lead individuals to overestimate their capabilities, follow prevailing market trends without critical evaluation, or rely on emotional judgments rather than objective analysis.

Numerous behavioral finance studies have identified several psychological factors that significantly influence investor behavior. One of the most prominent biases is overconfidence, which refers to investors' tendency to overrate their knowledge, predictive skills, or ability to control investment outcomes (Barber & Odean, 2001). Investors who exhibit overconfidence often engage in excessive trading activity and underestimate the risks associated with their decisions, which may ultimately result in lower investment performance. This bias is particularly relevant among younger investors who frequently depend on digital sources of information and may believe that their knowledge enables them to outperform the market.

Another important behavioral factor is herding behavior, which occurs when investors mimic the actions of others rather than relying on their own independent analysis (Bikhchandani & Sharma, 2001). Herding behavior commonly arises during periods of market uncertainty, when investors tend to follow prevailing trends or rely on information circulating through social media without carefully evaluating its credibility. With the growing influence of online communities, financial influencers, and social trading platforms, Generation Z investors may be especially vulnerable to herding tendencies compared to previous generations.

In addition to herding and overconfidence, loss aversion is another crucial psychological factor affecting investment decisions. According to Prospect Theory, individuals

generally experience the negative emotions associated with financial losses more intensely than the satisfaction derived from equivalent gains (Kahneman & Tversky, 1979). Consequently, investors may hold on to losing assets for extended periods in an attempt to avoid realizing losses or may hesitate to pursue potentially profitable opportunities due to fear of financial setbacks. Such behavior can result in inefficient portfolio management and reduced long-term investment performance.

Another frequently discussed concept in behavioral finance is risk perception, which refers to the way investors subjectively interpret and evaluate potential financial risks. Risk perception does not always correspond with objective measures of market risk; instead, it is often influenced by personal experiences, financial knowledge, media exposure, and emotional responses (Slovic, 1987). For Generation Z investors, perceptions of risk may be shaped by economic instability, global crises, and rapidly evolving financial markets, as well as the abundance of investment-related information available on digital platforms.

The relevance of behavioral finance becomes particularly significant when analyzing the investment behavior of Generation Z. This generation has grown up in a highly digitalized environment characterized by continuous access to online information and frequent interaction through social media platforms. Consequently, their investment decisions are influenced not only by financial knowledge but also by social media trends, peer opinions, and digital investment technologies. Previous research has indicated that discussions within online communities and social media platforms can strongly influence individual investment choices, especially among younger investors who rely heavily on digital information sources (Nofsinger, 2018).

Moreover, the rapid expansion of mobile trading applications and online investment services has reduced barriers to entry in financial markets, allowing young individuals to begin investing with relatively small amounts of capital. Although this increased accessibility provides opportunities for broader financial inclusion and early wealth accumulation, it also raises concerns regarding impulsive decision-making driven by psychological biases. Generation Z investors may engage in frequent trading, speculative activities, or trend-following strategies without conducting comprehensive financial analysis.

Despite the increasing participation of Generation Z in investment activities, empirical studies examining the behavioral determinants of their investment decisions remain relatively limited, particularly in emerging economies. Much of the existing literature has focused primarily on traditional investors or institutional market participants, leaving a gap in understanding the behavioral characteristics of younger investors. Examining these behavioral patterns is essential for several reasons. First, it may help financial educators and policymakers design more effective financial literacy programs tailored to young investors. Second, it may assist financial institutions and digital investment platforms in developing tools and services that encourage more rational and informed investment decisions.

Furthermore, investigating the behavioral finance factors influencing Generation Z investors can contribute to improving the stability of financial markets. When a large number of investors exhibit similar behavioral biases—such as herding behavior or excessive confidence—market volatility may increase, potentially resulting in speculative bubbles. Therefore, identifying the psychological drivers that influence investment decisions among Generation Z is crucial not only for academic research but also for practical financial management and policy formulation.

Based on these considerations, this study seeks to examine the behavioral finance factors that affect investment decisions among Generation Z investors. In particular, the research focuses on several psychological biases, including overconfidence, herding behavior, loss aversion, and risk perception, which are believed to play significant roles in shaping investors' financial choices. By analyzing these behavioral factors, the study aims to provide

deeper insights into how psychological influences affect the investment decision-making processes of young investors within the modern digital financial environment.

The results of this study are expected to contribute to the growing body of knowledge in behavioral finance and investment behavior. Furthermore, the findings may offer valuable implications for financial educators, policymakers, and financial service providers in developing strategies that encourage responsible, informed, and sustainable investment practices among Generation Z investors.

## 2. Research Methods

This study adopts a systematic literature review (SLR) methodology to explore behavioral finance factors that influence investment decisions among Generation Z investors. The literature review approach is particularly useful for integrating existing empirical evidence, examining relevant theoretical frameworks, and identifying gaps in previous research concerning behavioral finance and the decision-making processes of young investors. As highlighted by Snyder (2019), a systematic literature review allows researchers to critically assess and synthesize findings from prior studies in order to develop a deeper and more comprehensive understanding of a specific research topic.

The main objective of this review is to examine and synthesize recent academic studies that discuss behavioral biases and investment behavior among Generation Z investors. In particular, the analysis emphasizes psychological and behavioral variables such as overconfidence bias, herding behavior, loss aversion, risk perception, and financial literacy, which are widely recognized in behavioral finance literature as important determinants of investment decision-making (Barber & Odean, 2001; Kahneman & Tversky, 1979; Nofsinger, 2018).

To ensure a systematic and transparent review process, several stages were followed. The first stage involved identifying relevant scholarly publications through reputable academic databases, including Scopus, Web of Science, Google Scholar, and ScienceDirect. The search strategy employed a combination of keywords such as *behavioral finance*, *investment decisions*, *Generation Z investors*, *financial literacy*, *overconfidence bias*, *herding behavior*, and *risk perception*. These keywords were selected based on the theoretical foundations of behavioral finance and previous empirical studies investigating investor behavior.

The second stage involved applying specific inclusion and exclusion criteria to determine the relevance of the literature. Only peer-reviewed journal articles, conference proceedings, and other academic publications published between 2015 and 2025 were included in order to maintain the currency and relevance of the reviewed studies. Priority was given to research examining behavioral finance, investor psychology, and investment decision-making among individual or young investors. Studies that did not directly address behavioral finance concepts or investment behavior were excluded from the analysis.

In the third stage, the selected studies were systematically examined and grouped according to key themes and behavioral finance variables associated with investment decision-making. The analysis focused on identifying recurring patterns, theoretical perspectives, and empirical findings related to psychological biases and financial decision processes. Through this thematic analysis, the researcher was able to integrate insights from multiple studies and illustrate the relationships between behavioral factors and investment decisions (Xiao & Watson, 2019).

Finally, the findings from the selected literature were synthesized to develop a comprehensive overview of behavioral finance factors influencing Generation Z investment behavior. This synthesis involved comparing and integrating empirical results from different studies to identify dominant behavioral biases and emerging trends within the research field. Additionally, the review highlights existing research gaps that may serve as directions for

future studies focusing on behavioral finance and the investment decision-making behavior of young investors.

By employing a systematic literature review approach, this study offers a structured and comprehensive evaluation of behavioral finance factors affecting Generation Z investors. The findings are expected to contribute to the advancement of behavioral finance research and provide meaningful insights for researchers, policymakers, and financial institutions in understanding the investment behavior of young investors in the contemporary digital financial environment.

### **3. Results and Discussions**

#### **Overview of the Literature Findings**

Based on the systematic literature review conducted through major academic databases, a number of empirical and conceptual studies were identified that discuss behavioral finance factors influencing investment decisions, particularly among young and emerging investors. After applying the inclusion and exclusion criteria described in the research methodology, the selected literature primarily focuses on psychological biases, financial literacy, and risk perception as key determinants of investment behavior.

The analysis of recent literature indicates that investment decision-making is not always based on rational financial analysis as suggested by traditional finance theory. Instead, behavioral finance highlights that psychological biases and cognitive limitations play a significant role in shaping investors' decisions (Nofsinger, 2018). This perspective is particularly relevant when examining Generation Z investors, who are characterized by high exposure to digital technology, social media, and online financial platforms.

Recent studies suggest that Generation Z investors tend to rely on both information accessibility and psychological influences when making financial decisions. Digital platforms have made investing more accessible, but they also expose young investors to social influence, misinformation, and emotional reactions that may affect their judgment (Banner & Schwarz, 2021). As a result, behavioral biases such as overconfidence, herding behavior, and loss aversion frequently emerge in the investment decisions of young investors.

Furthermore, several studies highlight that the investment participation rate among younger generations has increased significantly due to the development of financial technology and mobile trading applications (Lusardi & Mitchell, 2022). However, increased participation does not necessarily correspond with rational investment decisions, as psychological factors often dominate the decision-making process.

Overall, the literature review confirms that behavioral finance factors provide a useful framework for understanding the investment behavior of Generation Z investors. The following sections discuss the key behavioral factors identified in the literature and their influence on investment decisions.

#### **Overconfidence Bias and Investment Decisions**

One of the most frequently discussed behavioral biases in investment behavior is overconfidence bias. Overconfidence refers to the tendency of individuals to overestimate their knowledge, abilities, or accuracy in predicting market outcomes (Barber & Odean, 2001). This bias can lead investors to make excessive trades, underestimate risks, and rely heavily on their personal judgment rather than objective financial analysis.

In the context of Generation Z investors, overconfidence often emerges due to the accessibility of financial information through digital platforms and social media. Young investors may feel confident in their ability to interpret market trends after consuming large amounts of online financial content, even when their actual financial knowledge is limited (Banner & Schwarz, 2021).

Empirical studies have found that overconfidence significantly influences trading frequency and risk-taking behavior. For example, investors who are overly confident tend to trade more frequently because they believe their predictions about stock performance are accurate (Nofsinger, 2018). However, excessive trading can reduce overall investment performance due to transaction costs and poor timing decisions.

Recent research also indicates that social media platforms contribute to the development of overconfidence among young investors. Exposure to investment success stories, online financial influencers, and speculative discussions can create unrealistic expectations about financial gains (Kumar et al., 2023). Consequently, Generation Z investors may develop an inflated perception of their investment skills.

Therefore, the literature suggests that overconfidence bias is a major factor influencing investment decisions among Generation Z investors. Financial education and awareness programs are necessary to help young investors evaluate information critically and make more rational investment decisions.

### **Herding Behavior in Investment Decisions**

Another behavioral factor frequently identified in the literature is herding behavior. Herding behavior occurs when investors follow the actions of other investors rather than relying on their own analysis or available financial information (Bikhchandani & Sharma, 2001).

In the modern investment environment, herding behavior is particularly relevant due to the widespread use of social media and online investment communities. Generation Z investors often obtain investment ideas from online forums, financial influencers, and peer discussions. As a result, investment decisions may be influenced by popular trends rather than objective financial evaluation.

Several studies indicate that herding behavior can lead to market inefficiencies and speculative investment patterns (Bannier & Schwarz, 2021). When large numbers of investors follow the same trend simultaneously, asset prices may rise rapidly and create speculative bubbles.

For Generation Z investors, herding behavior is often driven by fear of missing out (FOMO). Young investors may feel pressured to participate in trending investment opportunities, such as cryptocurrency or trending stocks, simply because others are doing the same (Darmawan et al., 2022). This behavior may result in poorly informed investment decisions and increased exposure to financial risk.

Furthermore, empirical research suggests that herding behavior is more prevalent among inexperienced investors. Individuals with limited financial knowledge may rely on the decisions of others as a shortcut for evaluating investment opportunities (Lusardi & Mitchell, 2022).

Consequently, the literature emphasizes the importance of improving financial literacy and critical thinking skills among young investors in order to reduce the impact of herding behavior in investment decisions.

### **Loss Aversion and Risk Perception**

Loss aversion is another key concept in behavioral finance that significantly influences investment decision-making. According to prospect theory, individuals tend to experience the pain of losses more strongly than the pleasure of equivalent gains (Kahneman & Tversky, 1979). As a result, investors often behave irrationally when facing potential losses.

In investment contexts, loss-averse investors may hold losing stocks for too long in the hope that prices will recover, while selling profitable investments too early to secure gains. This phenomenon is often referred to as the disposition effect (Nofsinger, 2018).

Recent studies show that Generation Z investors exhibit mixed patterns of loss aversion. On one hand, some young investors are highly risk-tolerant due to exposure to high-

risk assets such as cryptocurrencies and speculative stocks (Kumar et al., 2023). On the other hand, many still demonstrate strong emotional reactions to financial losses, particularly when they are inexperienced in financial markets.

Risk perception also plays a significant role in shaping investment decisions. Investors who perceive higher levels of risk are more likely to avoid certain investment opportunities or adopt conservative investment strategies (Xiao & Watson, 2019). However, risk perception among young investors is often influenced by external factors such as media coverage, peer discussions, and social media sentiment.

Research suggests that individuals with higher financial literacy tend to evaluate risk more objectively and make more balanced investment decisions (Lusardi & Mitchell, 2022). Therefore, improving financial literacy among Generation Z investors may help reduce emotional decision-making related to losses and risk perception.

### **Financial Literacy and Investment Behavior**

Financial literacy is widely recognized as one of the most important factors influencing investment behavior. Financial literacy refers to the ability to understand financial concepts, evaluate financial products, and make informed financial decisions (Lusardi & Mitchell, 2014).

Numerous studies indicate that individuals with higher levels of financial literacy are more likely to participate in financial markets and make better investment decisions (OECD, 2021). Financial literacy enables investors to evaluate risks, diversify their portfolios, and avoid behavioral biases that may negatively affect investment outcomes.

For Generation Z investors, financial literacy plays an especially critical role because many young individuals begin investing at an early age through mobile trading applications and digital financial platforms. While these technologies make investing more accessible, they also require users to possess adequate financial knowledge to make sound decisions.

Recent research suggests that financial literacy can mitigate the impact of behavioral biases such as overconfidence and herding behavior (Darmawan et al., 2022). Investors with stronger financial knowledge are more likely to rely on data analysis and long-term strategies rather than emotional reactions or social influence.

However, several studies reveal that financial literacy levels among young investors remain relatively low in many countries. Despite having access to large amounts of financial information online, many Generation Z investors lack a fundamental understanding of investment principles such as risk diversification, portfolio management, and long-term investment planning (Kumar et al., 2023).

Therefore, financial education initiatives and investor awareness programs are essential to support responsible investment behavior among Generation Z investors.

### **Implications for Behavioral Finance Research**

The findings of this literature review provide several important implications for the development of behavioral finance research. First, the increasing participation of Generation Z investors in financial markets presents a new context for studying behavioral biases in investment decisions.

Second, digital technology and social media platforms have significantly changed the way investors access and process financial information. These technological developments may amplify certain behavioral biases, particularly herding behavior and overconfidence.

Third, financial literacy continues to play a crucial role in shaping investment behavior. Improving financial education among young investors may reduce irrational investment decisions and encourage more sustainable financial behavior.

Overall, the literature indicates that investment decision-making among Generation Z investors is influenced by a complex interaction of psychological, social, and educational

factors. Understanding these factors is essential for researchers, financial institutions, and policymakers who aim to promote responsible investment practices in the digital era.

#### 4. Conclusion

Based on the results of the literature review and discussion, it can be concluded that behavioral finance factors significantly influence investment decisions among Generation Z investors. Psychological biases such as overconfidence, herding behavior, and loss aversion play an important role in shaping how young investors interpret financial information and respond to investment opportunities. The accessibility of digital technology, online trading platforms, and social media has further strengthened these behavioral tendencies, as Generation Z investors frequently rely on online sources, peer opinions, and trending investment topics when making financial decisions. Consequently, investment behavior among this generation is often influenced not only by rational analysis but also by emotional and social factors.

In addition, financial literacy emerges as a crucial factor that can help mitigate the negative impact of behavioral biases on investment decisions. Investors with higher levels of financial knowledge are more capable of evaluating risks, analyzing investment information critically, and making more rational financial decisions. However, the literature indicates that many Generation Z investors still possess limited financial literacy despite their high participation in digital investment platforms. Therefore, improving financial education and awareness programs is essential to support more responsible and sustainable investment behavior among young investors in the modern financial environment.

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