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Millennials and zoomers as investors: Behavioral factors shaping financial choices

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Abstract
Investment decision-making, once viewed as purely rational, is now recognized as subject to behavioral biases. This study examines the psychological factors influencing investment decisions among Generation Y and Z investors in commercial banks, using a causal-comparative design. Data were collected from 405 investors aged 18 to 44 via electronic questionnaires. The study explores the impact of traits such as anger, anxiety, and overconfidence. Results show that Trait Anger and Overconfidence positively influence investment decisions, while Trait Anxiety has a negative effect. Herding and Self-Monitoring showed no significant impact. Regression analysis confirmed the substantial influence of these psychological traits. While offering valuable insights into investor behavior, the study is limited by its sample scope and cross-sectional design. Future research should consider broader samples and longitudinal approaches for deeper analysis.

Keyword: Investment decisions, behavioral biases, generation y and z, psychological traits, regression analysis

Introduction

Investment Decisions are often viewed through the lens of cold, hard logic. However, these decisions are just as influenced by emotions as they are by rational thought. Research has shown that behavioral biases significantly affect how people invest their money (Kimeu *et al*., 2016; Masini & Menichetti, 2012; Nga & Ken Yien, 2013; Kumar & Goyal, 2015) [13, 16, 10, 28].

Traditional finance assumes that investors act with perfect knowledge and rationality. This classic view portrays investors as wise, calculated individuals who always weigh the intrinsic value of shares to minimize risk and maximize profit. This school of thought has its foundation on the concept of the rational economic man, and it implies that the markets are efficient and that any related information is appropriately presented in markets prices (Nell, 2007) [15].

Behavioral finance however has a different version. By the argument, psychological biases affect heavily in investment decisions. These biases may make these investors move towards humane and illogical actions. This school is a development of the findings of the first 19th -century economists such as Adam smith, David Ricardo and John Stuart Mill who had acknowledged the human psychology in economic undertaking (Andrikopoulos, 2006) [29].

Empirical research on investment behaviour among the Gen Y and Z has been conducted recently and these studies have identified some of the factors that affect their investment behaviour. Trait anxiety, overconfidence, and self-monitoring as the behavioral factors influence the investment choices of Gen Y considerably (Rahman & Gan, 2020) [19]. In Gen Y and Z, finances, attitudes, and perceptions are essential contributors to investment choice (Fadilah *et al*., 2022) [30]. Performance expectancy, effort expectancy, facilitating conditions and social influence may influence the adoption of digital investment platforms (Prasarry *et al*., 2023) [17]. Also, knowledge, self-motivation, social environment, initial capital, information transparency, social media influencer, and financial literacy are listed as the major influences of whether these generations participate in investment activities or not (Suryani *et al*., 2022) [31]. The comprehension of those determinants is needed by the company, which creates investment technologies, and those new investors who want to make wise financial decisions in a more and more digital war.

Behavioral finance has two foundations that are social activities and human perceptions. According to, Davis *et al*. (2015), and Kimeu *et al*. (2016a, b) [34, 32], the factors are critical elements in the comprehension of economic behavior. However, regardless of the combined effects of both the traditional and the behavioral paradigms of finance, investors in every part of the world behave rationally and irrationally. Such two-way influence between psychology and economics is relevant to formulate the interaction of financial behaviors which reflect the multitropolitanism of the investment decision.

Research studies which were conducted in the recent past have studied the influences of behaviour in the management of the investment decisions more focus on generation Y & Z investors. Long-term orientation, financial literacy, banking services, psychological inclination, and gender have become essential factors determining people's investment options (Rosyidah Rahmah & Purnamasari, 2023) [18]. Thus, reflecting on 21 explicit tendencies that affect investment decisions, Sinha *et al*., (2023) [21] have stressed the need for further research in the field of female investors. The framing effect, which is established to mitigate the disposition effect when it gets applied by Gen Z investors in the short-run, further intensifies the cardinality of limited rationality in demystifying investment decisions (Kiky *et al*. 2024) [36]. Some of the cognitive biases that are most easily identifiable when it comes to people's financial decisions include overconfidence, anchoring predispositions, the 'herd' mentality, and the fear of loss (Shah *et al*. 2020) [20]. These truths underscore that behavior and psychology play a large role in investment actions, especially among the young population, thus the creation of specific systematic aids and approaches for the investment decisions.

Literature Review and Hypothesis Formulation

Trait Anger is a consistent personality trait which implies aggressive reaction to a low level of provocation. According to Spielberger and Sydeman (1994) [37] it is the state that varies when it is mild irritation to strong rage. Decision-making according to Lerner and Keltner (2001) [12] gets distorted due to angry temper, which influences the assessment of risks as overestimates. Forgas (2000) [7] and Slovic *et al*. (2004) [22] point out that attitudes and choices are strongly determined by the emotional states. Therefore, Trait Anger can affect the investment behaviour due to the change of the risk perception.

Trait Anxiety is defined as the image of a person that is predisposed to anxiety because of the uncertainty. Lazarus (1991) [11] connects the general state of uncertainty with elevated pressure and decreased motivation in terms of investment. Caplin and Leahy (2001) [6] report on the same. Nervous investors will not take any decision or cling to tried and tested measures (Van Winden *et al*., 2011) [26]. According to studies done by Gambetti and Giusberti (2012) [8] and Bensi and Giusberti (2007) [2], Trait Anxiety has negative influence on investment decisions because it propagates risk aversion and procrastination.

Overconfidence, a common cognitive bias, involves overestimating one's knowledge or control over outcomes. Bondt and Thaler (1995) [4] argue that it leads to poor judgment and excessive trading. Adel and Mariem (2013) [1] further show that overconfident investors misread market signals, resulting in risky and volatile decisions.

The Herding Effect describes the tendency to follow others' actions, especially in uncertain environments. Tan *et al*. (2008) [25] state that this behavior can distort stock prices and affect market efficiency. Caparrelli *et al*. (2004) [5] caution that herding contributes to bubbles but may be useful if applied strategically.

Self-Monitoring is the ability to adapt behavior based on social context. High self-monitors adjust their investment choices according to situational cues (Snyder, 1974; Biais *et al*., 2005) [23, 3]. Kourtidis *et al*. (2011) [35] note that such psychological traits significantly shape investment behavior, with low self-monitors tending to decide more quickly and independently.

Based on the above information, the following hypothesis are as follows:

The investment choices made by Nepal's Generation Y and Z are examined in this study using a behavioral analysis methodology. Its specific goal is to investigate the unique elements affecting their investment decisions. By offering insightful information about these generations' financial practices, the study hopes to advance our knowledge of how they make investment decisions. Thus, following hypothesis was formulated:

- **H_1:** There is a significant impact of Trait Anger on Investment Decisions among Generation Y and Z.
- **H_2:** There is a significant impact of Trait Anxiety on Investment Decisions among Generation Y and Z.
- **H_3:** There is a significant impact of Overconfidence on Investment Decisions among Generation Y and Z.
- **H_4:** There is a significant impact of the Herding Effect on Investment Decisions among Generation Y and Z.
- **H_5:** There is a significant impact of Self-Monitoring on Investment Decisions among Generation Y and Z.

Methods and Instrumentations

Primary data were collected through electronic and printed questionnaires distributed to active investors aged 18 to 44, representing Generations Y and Z. A total of 405 valid responses were obtained. The sample is considered representative due to the respondents' active market participation. The study employed a causal-comparative research design to examine the impact of behavioral traits on investment decisions. Data collection focused on capturing individual psychological characteristics using validated instruments.

Trait Anger and Trait Anxiety were measured using 19 items adapted from Gambetti and Giusberti (2012) [8]. Overconfidence was assessed with seven items from Mumaraki and Nasieku (2016) [14], while the Herding Effect was measured using four items from Kengatharan and Kengatharan (2014) [9]. Self-Monitoring was evaluated with ten items from Biais *et al*. (2005) [3] and Snyder and Gangestad (1986) [24]. Investment Decisions were assessed using five items from Kourtidis *et al*. (2011) [35]. All items were rated on a 5-point Likert scale. SPSS software was used for data analysis, employing descriptive statistics, correlation, regression, and reliability testing (Cronbach's Alpha) to interpret the relationships among variables.

Table 1: Reliability Test

Variable	Cronbach's Alpha	No of Items
Investment Decision	.812	5
Trait Anger	.748	9
Trait Anxiety	.802	10
Overconfidence	.860	7
Herding Effect	.847	4
Self-Monitoring	.883	10

Table 2: Correlation Analysis

		TA	TRA	OC	HE	SM	ID
TA	Pearson Correlation	1					
TRA	Pearson Correlation	.794**	1				
OC	Pearson Correlation	.602**	.687**	1			
HE	Pearson Correlation	.595**	.581**	.443**	1		
SM	Pearson Correlation	.675**	.483**	.603**	.617**	1	
ID	Pearson Correlation	.678**	.571**	.497**	.703**	.761**	1
**. Correlation is significant at the 0.01 level (2-tailed).							

Table 2 presents Pearson correlation coefficients among key variables using SPSS 21. All behavioral traits show significant positive correlations with Investment Decision (ID) at the 0.01 level. Trait Anger (r = 0.678), Trait Anxiety (r = 0.571), Overconfidence (r = 0.497), Herding Effect (r = 0.703), and Self-Monitoring (r = 0.761) are all positively associated with ID. These results suggest that psychological traits play a meaningful role in shaping investment decisions.

Table 3: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.058	.012		4.833	.000
	TA	.528	.041	.436	12.878	.000
	OC	.078	.021	.074	3.714	.000
	HE	.541	.167	.602	3.239	.001
	SM	.703	.027	.625	26.037	.000
	TRA	.095	.019	.073	5.499	.000
a. Dependent Variable: ID						

The regression analysis shows that all five behavioral traits Trait Anger (TA), Overconfidence (OC), Herding Effect (HE), Self-Monitoring (SM), and Trait Anxiety (TRA) have a statistically significant influence on Investment Decision (ID) at the 0.01 level. Among them, Self-Monitoring (β = 0.625, p<0.001) is the strongest predictor, followed by Herding Effect (β = 0.602, p = 0.001) and Trait Anger (β = 0.436, p<0.001). Trait Anxiety (β = 0.073, p<0.001) and Overconfidence (β = 0.074, p<0.001) also contribute positively, though to a lesser extent. These findings indicate that every psychological factor can shape the nature of investments greatly and Self-Monitoring and Herding Effect can influence the activity of generation Y and Z investors by most significantly.

Conclusion

This research explored Trait Anger, Trait Anxiety, Overconfidence, Herding Effect, and Self-Monitoring were some of the psychological traits that affected the investment choice of Generation Y as well as Generation Z employees of the commercial banks. The results show that the Trait Anger, Trait Anxiety, and Overconfidence influence the investment behavior very significantly, and such traits determine different patterns in decision-making. But Herding Effect and Self-Monitoring did not demonstrate any important effect, which can mean that social influence and self-awareness are not as important in the decision making process regarding investment by this group.

Although the study provided important information, it has some limitations when it comes to sample specificity, the possible selection bias, as well as being a cross-sectional study, which can limit its generalization and the scope of the results. Studies in the future must consider larger samples, longitudinal studies, and improved measures that would be more appropriate to capture the complexity of psychological processes that determine investment decision within various populations.

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