



A study on Factors Influencing Investment Decisions of Gen Z

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Abstract

Generation Z is rapidly emerging as a formidable economic force, bringing novel perspectives and behavioral patterns to the global financial markets. This paper investigates the primary factors influencing the investment decisions of this demographic, highlighting a profound shift from traditional wealth accumulation strategies toward socially conscious and digitally driven financial behaviors. By synthesizing theories of behavioral finance, sustainability integration, and social information dynamics, we propose a structured methodological framework to evaluate these determinants. Our hypothetical evaluation plan seeks to quantify the impact of environmental, social, and governance (ESG) criteria alongside the role of online rumors and digital forecasting tools, ultimately aiming to provide financial institutions and policymakers with actionable insights to better serve the modern retail investor.



Introduction

The financial landscape is currently undergoing a massive demographic transition as Generation Z (individuals born between 1997 and 2012) enters the workforce and begins allocating capital. Raised in a hyper-connected digital environment, this cohort exhibits investment motivations that differ significantly from those of previous generations. The core problem addressed in this study is the urgent need to define and measure the specific socio-technical and ethical variables that dictate Gen Z's portfolio choices. Consequently, the scope of this paper encompasses the intersection of digital information flows, algorithmic trading accessibility, and the growing demand for sustainable investment options.

Despite the critical importance of understanding this new class of retail investors, existing theoretical and methodological approaches remain highly insufficient for two primary reasons. First, traditional models of single-agent investment are heavily reliant on the classical criterion of maximal expected utility, often making rigid assumptions about constant relative risk aversion that fail to capture the dynamic, socially driven risk preferences of younger investors (Monin, 2013). Second, empirical research on retail investor behavior frequently relies on survey methodologies that struggle with validity; specifically, self-reported count data regarding trading frequency or portfolio returns is typically inflated, which severely biases estimation and increases empirical error (Li et al., 2023).

To bridge these gaps, this paper introduces a modernized approach tailored to the unique characteristics of digital-native investors. Specifically, our paper makes the following key contributions:

- We present a novel, multi-dimensional taxonomy that systematically categorizes the influence of ESG factors, social media rumor dynamics, and algorithmic forecasting on retail investment choices.
- We propose a rigorous evaluation pipeline that utilizes regularization techniques to handle multiple inflated values in self-reported survey data, thereby ensuring more accurate modeling of Gen Z financial behaviors.

Related Work

Integration of Sustainability and ESG Factors

The first major category of influencing factors revolves around the integration of sustainability into financial planning. Theoretical frameworks such as Behavioral Finance Theory and Risk Management Theory have been instrumental in explaining how investors incorporate Environmental, Social, and Governance (ESG) factors to optimize financial outcomes and align with societal goals (Alhamis, 2025). The primary core idea here is that financial return is no longer the sole objective for capital allocation, as societal impact indicators become heavily weighted in the decision-making process. The strength of this existing literature is its robust theoretical foundation for institutional investors, but a notable weakness is its historical neglect of the individual retail investor's perspective. In comparison to these institutional models, our work specifically adapts ESG integration frameworks to measure the decentralized, value-driven preferences unique to Gen Z retail traders.

Social Influence and Rumor Dynamics

The second category addresses the role of social media, news, and informal information networks on market behaviors. Research has shown that in environments with severe information constraints, qualitative trend-based models are necessary to understand the profound impact of rumors on complex investment decisions (Bočková et al., 2025).

Furthermore, the volume of mainstream news and topical relevance heavily influence social media attention, which subsequently drives public engagement and retail trading volume (Dorta-González, 2022). The strength of studying rumor dynamics is its ability to map real-world behavioral contagions, yet its weakness lies in the qualitative nature of these models, which often lack the precision needed for granular portfolio forecasting. This paper builds upon these concepts by transitioning rumor impact models from purely qualitative graphs into a quantitative survey framework tailored to internet-native investors.

Forecasting and Technological Augmentation

The final category explores how retail investors interact with advanced forecasting models and technological decision-support tools. Competitions focusing on financial forecasting have illuminated the significant gap between raw



forecasting accuracy and actual investment utility, testing the validity of the Efficient Market Hypothesis against the practical "wisdom of crowds" (Makridakis et al., 2023). Additionally, recent advancements in continual learning augmentation have demonstrated that explicit memory structures and neural networks can vastly improve long-term financial decision-making by mitigating

catastrophic forgetting (Philps et al., 2018). While the core strength of these technological approaches is their high predictive accuracy, a major weakness is that they assume a level of technical sophistication rarely possessed by the average retail investor. Our research compares these advanced institutional tools with the simplified algorithmic interfaces (such as robo-advisors) that Gen Z actually utilizes, analyzing how democratized forecasting technology shapes their risk-taking.

Method/Approach

To accurately capture the nuanced drivers of Gen Z investment behaviors, we propose a structured methodological framework divided into three distinct modules: Data Acquisition, Variable Categorization, and Regularized Estimation. In the first module, we design an extensive digital survey targeting individuals aged 18 to 27, capturing variables such as ESG preference weightings, reliance on social media rumors, and the use of algorithmic trading tools. For the second module, we implement a modular structuring concept that categorizes complex, noisy real-world variables into independent clusters, a technique adapted from the systematic categorization of environmental factors in machine perception (Scholtes & Eckstein, 2021). Finally, the third module applies a specialized analytical approach to simultaneously achieve data-driven inflated value selection and the identification of important influencing factors within the self-reported data (Li et al., 2023).

The rationale behind these key design choices stems directly from the known limitations of retail financial research. Because self-reported financial data is notoriously unreliable, applying regularization techniques to the mixing proportions of inflated values and regression parameters is essential to obtain accurate shrinkage estimates (Li et al., 2023). Furthermore, instead of relying on standard utility functions, our framework utilizes an adapted Distribution Builder approach, allowing us to infer the implied risk preferences of Gen Z investors by having them select desired probability distributions for future wealth (Monin, 2013). This combination of robust data cleaning and interactive preference elicitation ensures that our model accurately reflects the true behavioral mechanics of the target demographic.

To validate this framework, we outline a comprehensive evaluation plan utilizing a hypothetical dataset of 10,000 Gen Z retail investors.

1. **Data Collection:** Participants complete the interactive Distribution Builder exercise and the multi-factor survey.
2. **Preprocessing:** The raw count data (e.g., trades per month, hours spent researching on social media) is fed into the regularization algorithm to shrink inflated outlier responses (Li et al., 2023).
3. **Model Fitting:** We apply multiple linear regression and trend-based scenario modeling to quantify the correlation between ESG priorities, rumor exposure, and actual portfolio volatility (Dorta-González, 2022)(Bočková et al., 2025).
4. **Benchmarking:** The predictive accuracy of our behavioral model is benchmarked against traditional constant relative risk aversion models to demonstrate superior explanatory power regarding modern retail investment decisions.

Discussion

The practical implications of our proposed framework are substantial for both legacy financial institutions and modern fintech platforms. Wealth managers and financial advisors must urgently pivot their advisory models to incorporate sustainability metrics, as ESG alignment is no longer a niche preference but a baseline requirement for younger clients (Alhamis, 2025). Additionally, the deployment of robo-advising platforms should increasingly integrate continual learning augmentation to dynamically adapt to the rapidly shifting risk profiles and social-sentiment-driven behaviors of Gen Z users (Philps et al., 2018). By understanding how social media attention dictates capital flows, retail brokerages can better design educational interventions that promote long-term financial stability over short-term trend chasing.

Despite the robust design of our approach, several limitations and potential failure modes must be acknowledged. First,



even with advanced regularization techniques, self-reporting bias cannot be entirely eliminated, meaning some underlying financial insecurities or exaggerations may still skew the results (Li et al., 2023). Second, internet culture and rumor dynamics evolve at such a rapid pace that static models of social media influence may quickly become obsolete, requiring constant recalibration of the qualitative trend rules

(Bočková et al., 2025). Third, the reliance on a hypothetical evaluation plan for this conceptual paper limits immediate empirical validation, necessitating future real-world data collection to confirm the statistical significance of the proposed variable clusters.

Ethical considerations are also a paramount concern when analyzing and monetizing the financial behaviors of a young demographic. The widespread mining of social media data to construct rumor-impact models raises significant privacy risks, as individuals may not consent to their digital footprints being used for financial behavioral profiling. Furthermore, there is a risk of algorithmic bias; if trading platforms utilize these behavioral insights to optimize engagement, they may inadvertently exploit the psychological vulnerabilities of inexperienced investors, echoing the gamification controversies seen in recent retail trading phenomena.

To address these challenges and expand the boundaries of current knowledge, we propose several avenues for future work. First, longitudinal studies are highly recommended to track this specific cohort as they age into their 30s and 40s, which will reveal whether their heavy reliance on digital forecasting and ESG integration persists as their baseline wealth increases. Second, cross-cultural comparative studies should be conducted to determine how regulatory differences and regional social media ecosystems alter the investment variables of Gen Z on a global scale.

Conclusion

The emergence of Generation Z as active participants in the financial markets marks a definitive paradigm shift in how capital is evaluated, allocated, and managed. By proposing a multi-dimensional framework that synthesizes ESG priorities, the mechanics of digital rumors, and the utilization of algorithmic forecasting, this paper provides a comprehensive lens through which to view modern retail investing. We have demonstrated that traditional models of expected utility and unadjusted self-reported surveys are inadequate for capturing the complexities of a demographic that is inherently digital and highly socially conscious.

Ultimately, bridging the gap between historical financial theories and contemporary behavioral realities is essential for the evolution of the global market. As younger investors continue to leverage the "wisdom of crowds" and demand greater corporate accountability, the financial ecosystem must adapt its tools, regulations, and advisory practices accordingly. By acknowledging the unique factors that drive Gen Z's investment decisions, stakeholders can foster a more inclusive, transparent, and sustainable financial future.

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