How do psychological biases, financial literacy education, and digital influences shape investment choices for Gen Z in today's financial landscape?

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Abstract
As Gen Z continues to enter the financial world in growing numbers, it has become crucial to understand the psychological, social, and educational factors that shape their investment behaviors. This paper reviews the emerging data on Gen Z's financial literacy, investment strategies, debt habits, and approach to homeownership. Furthermore, it provides insight to where Gen Z turns for financial advice, often favoring social media over traditional sources, and examines behavioral economics concepts like overconfidence and loss aversion. The paper also discusses how confirmation bias plays a significant role in their decision-making. The rapid growth of the digital age has created social platforms that influence young investors by introducing both opportunity and risk. Technology accelerates access to information but often blurs the line between fact and misinformation. By drawing comparisons to older generations and established financial patterns, this review gives insight into how these trends could shape long-term financial outcomes. In conclusion, this paper is a call to action for everyone, including educators, financial institutions, and Gen Z. Without intentional financial education and media literacy, the risk of repeating historical mistakes only grows and becomes more costly for the new generation of investors.

1. Introduction

In today's fast-paced financial world, Gen Z—the generation born between 1997 and 2012, well known for growing up in the digital age with access to social media shaping how they access financial information to make investments. Many of these investors are entering the realm of high-risk investments, such as cryptocurrencies and startups, often lacking financial literacy—the ability to understand and effectively use financial skills like budgeting, saving, and investing (GFLEC, 2024). Gen Z investors have created an increasing trend of engaging in high-risk economic behaviors such as meme coins and crypto. Along with this is a growing trend of relying on peers and social media for financial advice over traditional professionals (Warkar, A. D., & Durai, T., 2025). As the first generation to experience this digital wave, it is no surprise that the investment decisions of Gen Z are shaped by platforms such as Reddit, TikTok, and YouTube, all of which prioritize promoting emotionally charged content over data-backed techniques (D'Agostino, 2022). Furthermore, the increased accessibility of trading platforms like Robinhood and Coinbase—easily downloadable on smartphones—combined with the rapid market shifts caused by the COVID-19 pandemic, highlights the importance of understanding the underlying factors behind investment decisions. (Fajarwati & Dimas, 2023). A recent study revealed that 42% of Gen Z hold cryptocurrency, compared to just 11% of Gen Z having retirement accounts (Hanbury, 2025). This leads to the question: "What are the psychological factors in Gen Z that cause risky economic decisions, and how common are these?"

The importance of financial literacy is often misunderstood. Many assume that their financial security depends on making more money: better jobs, promotions, or job hopping to increase income. However, this is not always the reality, and this strategy is not reliable to fulfill all of your wants. Financial literacy stresses that your comfort is not found in how much you earn but in how you manage what you have. We need to look up to individuals with modest incomes who can build financial stability without making many sacrifices. These individuals often share the skills of understanding budgeting, saving, and managing debt to prepare for the future (Boston Brand Media, 2024). Without this knowledge, higher income does not necessarily translate to financial well-being. One study found that about 20% of families who make over $150,000 in the

United States (U.S.) struggle to make ends meet due to poor choices–a figure that most consider very abundant to make a living out of (Fortune, 2024). Especially for Gen Z, a generation of teenagers and young adults, the misunderstanding of turning to social media for advice is critical. Poor financial literacy contributes to dangerous financial behaviors, such as overspending and accumulating debt, regardless of income level (Deng et al., 2025). In fact, the lack of financial literacy costs the average American over $1,800 annually, with younger adults being hit harder. The first step to solving a problem is recognizing it and realizing that the financial literacy gap exists, which explains why it is so important to learn how Gen Z is consuming financial information and why they make the choices they do. After all, this issue affects not just the individual's ability to make money and keep it for their future, but also affects the economy as a whole, leading to consequences in everyone's lives (Financial Times, 2024).

Recent research in behavioral economics has identified the psychological factors that help us interpret these trends (Barberis, 2013). Behavioral psychology—the study of internal predictable mental tendencies that distort decision-making—is important for understanding why Gen Z investors behave the way they do in these financial settings. Psychological factors, including overconfidence—when investors overestimate their ability to predict the market; confirmation bias—the tendency to favor information that supports their existing beliefs while ignoring opposing data; and loss aversion—a bias where people fear losses more strongly than value gains of the same size, often leading to emotionally driven investment behavior—are just a few that can cloud logical thinking and lead investors to make poor choices (Fajarwati & Dimas, 2023). The rapid rise and fall of the cryptocurrency (crypto) Dogecoin shows how these biases have played out. This crypto gained sudden popularity due to the help of social media and endorsements from public figures. Many Gen Z investors were drawn by the fear of missing out (FOMO), and underestimated their risks (D'Agostino, 2022). This showed clear signs of overconfidence bias and herd behavior–the phenomenon where individuals in a group act collectively and conform to the majority opinion. (Statman, 2014). This coin's dramatic surge, followed by its expected crash, left many new investors with losses, highlighting the dangers of emotionally driven decision-making—making financial decisions based on emotions like fear and hype instead of logic and statistics—without proper financial literacy (D'Agostino, 2022). Importantly, overconfidence, when individuals overestimate the accuracy of their investment choices, has been shown to explain almost half of the divergence in Gen Z investment decisions (Warkar, A. D., & Durai, T., 2025). Furthermore, confirmation bias, which causes investors to ignore warnings that contradict their outlooks, has been prevalent (Sangari & Sumakul, 2024). These biases are not isolated cases; they highlight a pattern created by the way Gen Z learns new information and takes risks.

Most importantly, these psychological biases are magnified by Gen Z's lack of financial knowledge. According to the Global Financial Literacy Excellence Center, Gen Z scored the lowest on the Personal Finance Index—a tool to measure financial literacy and well-being among U.S. adults, covering eight key areas of personal finance, including earning, consuming, saving, investing, borrowing, insuring, understanding risk, and information sources—among the last five generations, with an average score of just 43% (GFLEC, 2024). Therefore, lacking the ability to evaluate financial advice or manage risk, Gen Z investors are drawn to making emotional decisions based on persuasive advice on social media (Warkar, A. D., & Durai, T., 2025). To fully understand why this population behaves this way requires more than just clarifying the economic context; it also requires awareness of the mental shortcuts investors unconsciously make, drawing them to make flawed decisions. Behavioral psychology is essential for explaining the decisions, their impact on the investor, and why they are often flawed.

2. Purpose

Given Gen Z's growing involvement in financial markets and their vulnerability to behavioral biases, it is essential to examine how these psychological factors interact with individuals and influence their decisions, outcomes, and success. While some of Gen Z's financial struggles may be attributed to external factors outside of their control, this paper argues that financial illiteracy—the lack of financial knowledge that leads to poor financial decisions—has created a fertile ground for behavioral biases to take over and create a significantly risky financial environment. By comparing Gen Z's financial behaviors to past generations, this paper underscores how credible guidance and long-term investment habits remain the most tested and proven strategies. Furthermore, to gain a holistic understanding of the situation, this paper will share different perspectives and the sources used by Gen Z, their investment choices, and their success rates. This paper aims to understand Gen Z's financial patterns and what they mean for individual investors and the broader economy.

3. Literature Review

3.1 Lack of Financial Literacy & Early Digital Influence

As the first generation to be completely immersed in modern technology, Gen Z is often called the first group of digital natives—individuals raised with digital technology who often turn to social media for financial advice (VOA & Hassoun, 2020). Living in a world surrounded by computers, smartphones, and social media, children are introduced to online content from a very young age. As a result, Gen Z has developed habits related to a preference for fast information. These same habits are present in how Gen Z learns financial advice. Although recent trends in education reforms are making steps in the right direction, such as California's requirement for high schools to offer financial literacy courses starting in 2028 (Governor's Office, 2024), and 34 other states requiring the same coursework (Keshner, 2024), these changes have come late for the large chunk of Gen Z. Many of these young adults have graduated without proper education to the basic financial principles such as budgeting, saving, or investing. Therefore, this absence of education has drawn them to social media (Lin et al., 2025). A survey found that 76% of Gen Z said they learned about personal finance through TikTok and YouTube (WallStreetZen, 2024). Furthermore, while there is some valuable information, most of the information posted is driven more by engagement metrics than by the quality of the information (Kearns, M. & Roth, A., 2020).

Living in a world where many young adults rely on social media platforms for financial advice is risky, especially when many influencers are severely unqualified to share financial advice (Nixon, 2025). "Finfluencers" often preface their advice with disclaimers such as "this is not financial advice," thus revealing their lack of credibility. Furthermore, their content is usually oversimplified and frequently geared towards sensational topics such as day trading and cryptocurrency. As they lack the tools to evaluate this information, Gen Z blindly absorbs advice that feels empowering yet lacks actual value (Nixon, 2025). This dependence on unvetted advice and the lack of basic financial knowledge helps explain why Gen Z scored a mere 43% on the Personal Finance Index–the lowest among the surveyed generations (Bankrate, 2023). This gap in financial literacy highlights how Gen Z is particularly vulnerable to deeper, often unconscious psychological patterns that influence their financial decision-making compared to previous generations.

3.2 Psychological Biases Driving Risky Decisions

To fully understand why Gen Z often decides to make risky economic choices, we must look beyond education and look into the psychological biases that shape this behavior. Behavioral psychology reveals that many decisions are not fully caused due to logical reasons but by mental shortcuts, emotions, and ingrained habits (Bruch, 2024). These psychological biases help explain why investors make flawed decisions sometimes, even though they are given strong financial information (Mahmood et al., 2024).

Overconfidence bias, where individuals overestimate the accuracy of their financial judgments, is one of the most significant behavioral biases (ul Abdin et al., 2022). This leads investors to believe their choices are better than they truly are, and often ignores evidence that may contradict them (Swedroe, 2013). This bias can be especially misleading for Gen Z investors who rely heavily on short-form videos or influencer-driven content without proper training. One study finds that overconfidence explains up to 45% of the variance in Gen Z's investment behavior (Raut & Das, 2023). This suggests that many of these young investors enter trading with unjustified certainty, believing in their strategies purely because they saw others succeed online.

Similarly, confirmation bias causes individuals to seek out information that supports their preexisting beliefs while ignoring contradictions. The *algorithms* on social media platforms like TikTok or YouTube prefer content that reinforces users' prior interests and views. This creates echoes that only intensify this bias (ResearchGate, 2024). Even if an expert analysis suggests otherwise. A Gen Z investor who believes in a cryptocurrency that will increase in value may only go look for creators who support that idea, and the algorithm will start to show them supporting creators, even though many analyses support the contrary. This bias gives the investor a false sense of validation and increases the likelihood of making a poor investment decision.

Finally, loss aversion is another significant influence. Loss aversion is the tendency to fear losses more strongly than to value potential gains. This bias drives up illogical decisions in the investor, such as holding onto poor investments too long to avoid the discomfort of the loss. Or investors tend to panic-sell during a small dip to "cut losses," even though the long-term strategy proves otherwise. This is demonstrated by The Decision Lab, which states that the pain of losing is psychologically about twice as powerful as the pleasure you receive from gaining (The Decision Lab, n.d.). In conclusion, these volatile markets, which are led by hype and fear, are dangerous for Gen Z as these biases cause them to act impulsively.

What makes these biases especially so dangerous for Gen Z is not just the fact that they exist within us, but how they are continuously reinforced through digital media. Overconfidence primes the user to act quickly; confirmation bias filters their content; and loss aversion creates emotional reactions. In conclusion, the lack of a strong foundational knowledge to balance these detrimental effects causes these biases to form a decision-making environment that prefers emotion over logic.

3.3 Intersection of Low Literacy & Cognitive Biases

While it is important to recognize that financial illiteracy–the lack of financial knowledge that leads to poor financial decisions–and psychological biases are each individually concerning on their own, the real problem lies in how they interact and only reinforce one another. The lack of a solid financial education leads young investors to rely on their mental shortcuts, which behavioral psychology warns against (Shivangi & Chaudhary, 2025). A study on digital finance and literacy finds that biases like overconfidence, confirmation, and loss aversion become more effective when the financial knowledge is low, especially in online investing environments (Arif et al. 2025). Similarly, another study's analysis of the algorithmic reinforcement—how social media algorithms amplify content that aligns with the user's beliefs, reinforcing bias—shows that the content designed for clicks further amplifies these biases, creating a fertile ground for poor decisions (Baveja & Verma, 2024).

For example, an individual who enters the investing space without knowing the importance of diversification or long-term planning may be easily swayed by TikTok and YouTube videos that promote risky speculative asset—a risky investment driven more by hype than fundamentals, such as meme stocks or certain cryptocurrencies—"get rich quick" schemes (CFA Institute, 2023). The lack of a strong financial foundation leads to the new investors trusting in creators who speak in simple and confident terms, regardless of the truthfulness and accuracy of the advice. In conclusion, this creates the perfect environment for a storm: low financial literacy allows the behavioral psychological biases to take over and go unchecked, while platforms such as YouTube and TikTok continue to reward the creators who share the type of content that appeals to those biases.

Ultimately, psychological research supports the idea that when two cognitive burdens occur simultaneously, such low financial literacy and behavioral biases in our context, their combined impact is significantly greater than either of them alone, a phenomenon called the cognitive load theory (Sweller, 1988). It suggests that the lack of foundational knowledge increases the mental stress, reducing the individual's ability to recognize and correct their biases. In the Gen Z context, their lack of a schema to organize financial knowledge adds to the mental shortcuts that they rely on; therefore, it intensifies the likelihood of poor decision-making in general, especially given the fast-paced digital environment (Baveja & Verma, 2024). Instead of these two problems canceling each other out, they compound into a more detrimental environment that exposes vulnerabilities in young investors. This psychological principle underscores the urgency of this problem, and when there is no foundation to fall back on, misinformation and biases take over, creating a scenario for Gen Z investors with a high probability of poor decision-making. This psychological reality raises a new question that needs to be answered: How does the cognitive load theory hold up when we look at real-world data?

3.4 Lasting Impact

The reality is that this problem only continues to compound over time. Viewers are constantly being shown videos of success stories rather than the true reality, where over 70% to 90% of retail traders—an individual investor who trades for personal earnings, not affiliated with a financial institution—fail (Quantified Strategies, 2024). Furthermore, another study found that 97% of day traders lose money, and 74% of trading volume comes from unsuccessful accounts, highlighting how emotional bias behavior overwhelms rational thinking (CurrentMarketValuation, 2024). However, the “success stories” that they see online validate their possible doubts and build confidence in this risky strategy, only reinforcing overconfidence (Raut & Das, 2022). Each of these videos of a creator promoting specific investment strategies sharpens confirmation bias, as the algorithm pushes out similar videos (Hayes, 2023). If a market correction occurs and the investor's prediction proves wrong, loss aversion bias kicks in, and they may sell their stocks at a loss (Mead 2024). Moreover, behavioral funds observed that during the 2022 stock downturn, many investors sold their shares prematurely, highlighting how loss aversion often overrides long-term strategies (Schwab, 2024). The lack of a basic financial education to understand risk management—strategies to identify, assess, and minimize financial risk—and accurately evaluate a source or stock leads to Gen Z investors making decisions due to their emotions, which can have real economic consequences.

Most importantly, the consequences of financial illiteracy and *emotionally driven investing* extend far beyond the individual's portfolios–even those who are financially literate cannot escape the impact. When large groups of the population, like Gen Z, participate in poor financial practices, those ripple effects weaken the economy as a whole. It leads to rising defaults on debt and lower savings rates, and this increased risky behavior can increase market volatility, and many investors may lose confidence in the market systems (IFAC, 2023). Even for someone who is financially responsible, this new environment may be too difficult to navigate–one where opportunities are erased and their carefully made plans are destroyed. The OECD points out that poor financial literacy at scale increases economic inequality and exponentially increases the severity of financial crises, affecting not just those who made poor decisions but everyone who is part of the economy (OECD, 2023). In conclusion, Gen Z’s financial illiteracy is not just their problem; it creates a financial environment where even the educated investors face higher risk, fewer opportunities, and higher costs as they are not put into an economy shaped by widespread poor financial decision-making.

3.5 Comparison to Other Generations

While this paper’s main focus is Gen Z, it is crucial to analyze how their financial behavior compares to that of Millennials, Gen X, and Baby Boomers in the US to gain a better perspective on generational differences and outcomes.

To evaluate a generation's financial success, this paper focuses on measurable indicators of wealth accumulation, homeownership rates, retirement savings participation, debt, financial literacy, and other financial habits as the benchmarks. These indicators provide a practical lens through which to compare generations because they reflect both individual financial well-being and broader economic engagement over time. While these indicators can't capture every little nuance, researchers often use them to assess how well an individual is prepared for financial security.

While *generational financial outcomes* can be influenced by external factors beyond the individual's control, such as housing market, employment trends, or inflation, the significance in the difference in the results across generations proves that these factors alone do not explain these gaps. The undefeated success of traditional financial approaches, one that stresses the importance of long-term planning, diversification, and listening to advice from credited professionals compared to the risky social media driven habits that emerge today in the world of Gen Z reinforces the argument that a solid foundation in financial education and relying on professionals for advice remains critical regardless of context.

3.5.1 Millennials (1981-1996)

The Millennials, also known as Generation Y, came of age during the 2008 recession and faced the consequences of high housing costs, student debt, and underemployment. Still, data proves that Millennials had a median net worth of $84,941 in 2022, higher than Gen X at $78,333 and Baby Boomers ($58,101) at similar ages and adjusted to inflation (Davis, 2024). However, homeownership lags behind the older generations as only 51.5% of Millennials own homes compared to 56.5% of Baby Boomers in 1990 and 58.2% of Gen X in 2006 (Nesta, 2023).

While Millennials faced structural challenges, they often blended their digital tools with traditional financial advice and consulted financial professionals at a higher rate than Gen Z (Snider, 2025). Their investment strategies reflect an emphasis on diversifying their portfolios and prioritizing wealth preservation over *speculation*, distinguishing them from Gen Z's tendency to prioritize high-risk assets such as crypto and meme stocks that are based on trends. This suggests that even in a difficult economic environment, financial literacy and professional advice remained highly influential in shaping Millennials' financial behavior.

3.5.2 Generation X (1965-1980)

Generation X grew up in a relatively stable economic environment and mostly took a conservative approach to managing finances. According to FINRA, individuals part of Gen X are usually more likely than Millennials or Gen Z to have formal retirement accounts and have lower debt loads, resulting from strong savings habits (FINRA Foundation, 2024). Homeownership among Gen X peaked at around 72%–a number far higher than Millennials or Gen Z (Katz & Bokhari, 2024).

The key difference is that Gen X sought financial advice from professionals–brokers, financial planners, etc–at a higher rate than Gen Z, who relied on social media influencers. This departure highlights how Gen Z's behavior is shaped not only by the external economic challenges but also by a change in where they go and who they turn to for financial knowledge and advice, a trend with potential far-reaching consequences.

3.5.3 Baby Boomers (1946-1964)

The Baby Boomers built their financial success during economic expansion and benefited from rising wages, affordable education, and access to pensions. Therefore, homeownership among Baby Boomers reached 79% at its peak (Mendoza, 25). The Boomers' financial habits revolved around trusting institutions and professionals. They also embraced employer-sponsored retirement plans, consulted financial advisors, and often prioritized steady and conservative investments over risky bets.

In contrast, Gen Z's decentralized approach to financial education and their volatile and risky investment style mark a significant departure from the habits that made the Boomers. While the Boomer generation had the benefit of a favorable economy, their success was largely shaped by the habits that emphasized their patience and reliance on credible advice.

3.6 Addressing Counterarguments

While some people may argue that these generational comparisons are unfair and point out that many economic and structural factors that are outside of Gen Z's control have made it more difficult to make more money and own homes, for example, today's housing market is constrained by its limited supply, with many of those homes being occupied by the older generations (Aratani, 25). Therefore, contributing to higher prices and fewer entry points for the young buyers. Others may also highlight other impacts such as rising education costs, inflation, and wage stagnation, suggesting that Gen Z's financial struggles reflect the systemic challenges more than such personal habits and behaviors.

While to a certain extent, these refutations are valid and are worth considering, these external factors do not fully explain the difference in financial outcomes that we are observing today. For example, U.S. first-time homebuyer rates have fallen to a 35-year low, with only about 1.1 million buyers in 2024 (Aratani, 25). What remains unique to Gen Z is their rapid shift away from the traditional and time-tested financial practices such as diversifying one's portfolio, planning for the long term, and seeking advice from credentialed professionals. Instead, Gen Z has been increasingly turning to social media influencers and informal online content for financial guidance, often without the tools to evaluate that information critically.

This divergence in behavior is the heart of the concern. While economic headwinds can explain some of these obstacles, Gen Z's reliance on non-traditional sources and enjoyment in unproven, risky short-term investment strategies amplify their vulnerability. Unlike the previous generations who relied mainly on professional advice and diversifying their portfolios, Gen Z turns to social media influencers for financial advice with over 70% of investors trusting this content (Burba, 25). Compared to just 31% of the investors who verify the credentials of those who offer the financial advice (Dondo, 23). This generational gap in financial literacy and lack of trust in professional advice underscores that the way Gen Z navigates financial decision-making is fundamentally different and riskier than previous generations, regardless of the broader context.

4. Why This Matters

There truly is a reason the commonly used phrase “history repeats itself” has its place in financial markets. Throughout economic history, generational wealth behavior—how different generations approach saving, investing, and building wealth—investors have followed patterns. Patterns following periods of exuberance, speculation, and overconfidence that is often followed by a correction. From the 1929 stock market crash to the dot-com bubble of the 2000s and the housing crisis of 2008, widespread investor behavior has shaped and even destabilized the financial world (Hussman, 24).

This way of viewing history makes generational comparisons significantly relevant today. Even as Gen Z’s financial journey is continuing to unfold, the early signs signal warnings of their habits, including early entry into investing, reliance on digital platforms for advice, and preference for risky assets. Behavioral researchers consistently point out that the surge behavior in asset classes without fundamentals, which is also known as “everything bubbles,” exposes the investors to frequent losses (Lehrer, 10). These habits reflect similar cycles of enthusiasm and risk-taking that characterized previous generations just before major downturns. Yet this story isn’t predetermined. Learning from Boomers and Gen X, and how they achieved financial resilience through their strong habits of disciplined savings, diversification, and professional guidance. Just as they did, Gen Z could also shift course.

This is why understanding these differences truly matters. The financial behaviors of Gen Z won’t just affect their individual futures, but they will also influence the markets, economy, and financial systems that impact everyone. Furthermore, if these current trends continue unchecked, the risk of history repeating itself is significant. However, if Gen Z can blend their digital-native advantages with lessons from past generations, their financial path could set a new standard for investing responsibly in this digital age.

5. Conclusion

Gen Z’s entry into financial markets comes at a unique time where technological advancement, easy and quick information sharing intersect and create a cultural shift in the way financial information is acquired. While past generations faced their own economic challenges in different contexts, they all tended to rely on conservative financial habits, credible advice, and long-term strategies to build wealth and stability. However, Gen Z’s behavior significantly drifts away. It reflects a worrying combination of low financial literacy, heightened psychological biases, and an increasing dependence on social media influencers for making financial decisions.

This research paper shows that while external factors such as housing prices and inflation shape outcomes, they don’t fully explain Gen Z’s divergence. Instead, it is behavioral psychology that helps illuminate why Gen Z investors are uniquely vulnerable today. This is because their decisions are driven not only by economic conditions but by cognitive biases such as overconfidence, confirmation bias, and loss aversion, biases that are continuously reinforced in an individual in a digital media environment.

The consequences of these behavioral patterns are not limited to individual portfolios. As history demonstrates, generational financial behaviors ripple through the entire economy. It affects the market, volatility, inequality, and the stability of the economy. Whether Gen Z’s approach results in greater innovation or another cycle of financial hardship is in our hands and depends on how we choose to engage with financial literacy, professional advice, and disciplined habits moving forward.

All in all, this paper aims to highlight that addressing Gen Z's financial behavior requires not only improving access to financial education but also recognizing the psychological dimensions that shape their decision-making. In conclusion, the future of financial resilience for Gen Z, and the whole society, depends on recognizing and addressing both the educational and behavioral challenges that young investors in this day and age face.

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