

The Impact of Financial FOMO on Investment Decisions Among Young Investors: An Empirical Study

Mayank Ashok Ingale, Dr. Ujwala Narkhede

MBA III, Financial management, Wainganga Collage of Engineering and Management

Email: srushtiingale5@gmail.com, vaidehi1210@gmail.com

Abstract

This study investigates the impact of Financial Fear of Missing Out (Financial FOMO) on the investment decisions of young retail investors (aged 18–30). Driven by social media amplification, hyper-connectivity, and accessible trading platforms, financial FOMO has emerged as a central psychological catalyst driving modern retail financial behavior. Drawing on Social Comparison Theory and the Heuristic-Systematic Model, this paper examines how financial FOMO interacts with social media exposure, herd behavior, and financial literacy to shape asset allocation, risk tolerance, and trading frequency.

Using a primary survey dataset ($N = 384$) collected from young active retail investors, multiple linear regression and structural equation modeling (SEM) were executed to test the hypothesized paths. The findings reveal that financial FOMO exerts a significant positive impact on speculative trading frequency, risk tolerance, and herd behavior, while showing a significant negative relationship with portfolio diversification and long-term financial planning. Financial literacy acts as a significant moderating variable, dampening the destructive behavioral impacts of high financial FOMO. The study offers strategic recommendations for policy regulators, financial technology app developers, and educational institutions to mitigate emotional bias in retail trading.

Keywords: Financial FOMO, Young Investors, Behavioral Finance, Social Media Influence, Herd Behavior, Financial Literacy, Investment Decision-Making.

Introduction

Background

Traditional finance theory rests on the Efficient Market Hypothesis (EMH) and Expected Utility Theory, assuming that individuals act as rational agents who process all available market information to maximize utility. However, the rise of behavioral finance has demonstrated that human decision-making is systematically biased by cognitive shortcuts (heuristics) and emotional drivers.

In the digital era, the convergence of social media platforms (TikTok, Instagram, Reddit, YouTube), commission-free trading gamification, and volatile digital asset classes (cryptocurrencies, meme stocks, retail options) has birthed a distinct socio-psychological dynamic known as **Financial Fear of Missing Out (Financial FOMO)**. Financial FOMO is defined as the pervasive apprehension that peers or online communities are securing substantial financial gains from trending assets, instigating an urgent emotional compulsion to enter market positions without prior fundamental due diligence.

Social Media Exposure
(FinFluencers, Viral)

| ———> |

Financial FOMO
(Apprehension & Regret)

| ———> |

Irrational Investment
(Herd, High Risk)

Problem Statement

Young investors (Generation Z and young Millennials) face unprecedented exposure to curated narratives of rapid wealth accumulation online. This continuous social comparison generates psychological distress, prompting impulsive capital deployment into highly speculative, volatile assets. Consequently, young investors increasingly engage in excessive trading, neglect risk management, and suffer substantial wealth erosion during market corrections. Understanding the mechanics of financial FOMO is essential for preserving the financial stability of early-stage market participants.

Literature Review

Conceptual Foundations of FOMO

Przybylski et al. (2013) operationalized Fear of Missing Out (FOMO) as a pervasive apprehension that others might be having rewarding experiences from which one is absent. In financial domains, Liberatore et al. (2021) and Ilyas et al. (2021) expanded this concept into **Financial FOMO**, observing that market participants experience emotional distress when witnessing non-linear asset rallies that they do not hold.

Behavioral Biases and Social Media

Behavioral finance literature highlights how digital environments exacerbate existing cognitive biases:

- **Herd Behavior (Bikhchandani et al., 1992):** Investors abandon their personal signals to mimic collective crowd action.
- **Social Comparison Theory (Festinger, 1954):** Individuals evaluate their economic standing relative to digital peers, driving conspicuous and speculative investing.
- **Availability Heuristic & Action Bias (Tversky & Kahneman, 1974):** Highly visible online success stories distort perceived win rates, driving hasty entries.

Financial Literacy as a Buffer

Lusardi and Mitchell (2014) established that objective financial literacy buffers individuals against behavioral anomalies. Recent empirical work by Hassan et al. (2016) and T. S. & Amrutha (2021) suggests that higher levels of financial literacy enhance systematic analytical processing over emotional heuristic processing, neutralizing FOMO triggers.

Research Gap

Despite growing literature on behavioral finance and social media usage:

1. **Lack of Quantified Structural Models:** Most existing studies evaluate social media usage or general psychological stress in isolation, lacking a unified structural model linking Financial FOMO directly to quantitative investment outcomes (e.g., portfolio concentration, trading frequency, asset class selection).
2. **Limited Moderation Focus:** Studies frequently omit the moderating boundary conditions of objective versus subjective financial literacy on the FOMO-to-investment decision pathway among early-career retail investors.

Research Objectives

1. To quantify the direct impact of Financial FOMO on the investment decisions of young retail investors.
2. To examine the mediating role of Herd Behavior in the relationship between Financial FOMO and speculative trading choices.
3. To evaluate the moderating effect of Financial Literacy on reducing Financial FOMO-driven irrational trading.
4. To offer evidence-based recommendations for regulatory interventions and app-interface safeguards.

Research Questions

- **RQ1:** How does Financial FOMO significantly affect speculative trading frequency, portfolio diversification, and risk tolerance among young investors?
- **RQ2:** To what extent does Herd Behavior mediate the path between Financial FOMO and asset allocation in volatile markets?
- **RQ3:** Does Financial Literacy significantly attenuate the impact of Financial FOMO on impulsive investment behavior?

Hypotheses

- H_1 : Financial FOMO has a statistically significant positive effect on Speculative Trading Frequency among young investors.
- H_2 : Financial FOMO has a statistically significant negative effect on Portfolio Diversification among young investors.
- H_3 : Financial FOMO has a statistically significant positive effect on Herd Behavior.
- H_4 : Herd Behavior significantly mediates the relationship between Financial FOMO and High-Risk Asset Allocation.
- H_5 : Financial Literacy negatively moderates the relationship between Financial FOMO and Irrational Investment Decisions.

Research Methodology

RESEARCH DESIGN OVERVIEW		
Research Type	Quantitative, Cross-Sectional Empirical Study	
Target Population	Active Retail Investors aged 18–30	
Sampling Technique	Purposive & Convenience Sampling	
Sample Size (N)	384 Valid Responses (Cochran's Formula)	
Primary Tools	Structured 5-Point Likert Questionnaire	
Analytical Tests	Cronbach's Alpha, Pearson Correlation, Multiple Regression, Structural Equation Modeling (PLS-SEM)	

Operationalization of Variables

- **Independent Variable (IV):** Financial FOMO (measured using adapted scales from Przybylski et al., assessing anxiety over missed market moves and compulsion to monitor trends).
- **Mediating Variable (MV):** Herd Behavior (mimicking online community trades, influencer recommendations).
- **Moderating Variable (MoV):** Financial Literacy (assessed via a 5-item test on compound interest, inflation, risk diversification, and asset volatility).
- **Dependent Variable (DV):** Investment Decisions (measured by Trading Frequency, Risk Profile, Asset Choice, and Diversification Score).

Data Analysis and Interpretation**Sample Demographic Profile (N = 384)**

- **Age Group:** 18–22 years (38.5%), 23–30 years (61.5%).
- **Gender:** Male (62.1%), Female (35.4%), Non-binary/Other (2.5%).

- **Primary Asset Exposure:** Cryptocurrencies (\$41.2\%\$), Individual Stocks (\$32.8\%\$), Options/Derivatives (\$14.6\%\$), Mutual Funds/ETFs (\$11.4\%\$).

Measurement Model Assessment (Reliability & Validity)

All constructs demonstrated satisfactory internal consistency and convergent validity.

Construct	Items	Cronbach's Alpha (α)	Composite Reliability (CR)	Average Variance Extracted (AVE)
Financial FOMO	5	0.884	0.915	0.683
Herd Behavior	4	0.842	0.894	0.679
Financial Literacy	5	0.811	0.865	0.562
Investment Decisions	6	0.867	0.902	0.605

Note: All AVE values exceed 0.50, and CR values exceed 0.70, confirming convergent validity.

Structural Model & Hypothesis Testing

Multiple Regression Analysis: Predicting Speculative Trading & Risk

A standard multiple linear regression was conducted where Financial FOMO ($\mathbf{X}_1$) and Herd Behavior ($\mathbf{X}_2$) were entered as predictors for Speculative Investment Intensity ($\mathbf{Y}$).

$$\mathbf{Y} = \beta_0 + \beta_1 (\text{FinFOMO}) + \beta_2 (\text{Herd Behavior}) + \epsilon$$

Regression Analysis Results

Variable	Unstandardized B	Std. Error	Beta (β)	t-value	p-value
(Constant)	0.612	0.114	—	5.368	< 0.001
Financial FOMO	0.448	0.042	0.461	10.667	< 0.001
Herd Behavior	0.315	0.048	0.312	6.562	< 0.001

Model Summary: $R = 0.742$, $R^2 = 0.551$, Adjusted $R^2 = 0.548$, $F(2, 381) = 233.84$, $p < 0.001$

Hypotheses Decisions

$$\begin{aligned} & \text{H}_1: (\text{FinFOMO}) \rightarrow (\text{Speculative Trading}): \beta = 0.461, t = 10.667, p < 0.001 \rightarrow \text{Supported} \\ & \text{H}_2: (\text{FinFOMO}) \rightarrow (\text{Diversification}): \beta = -0.384, t = -8.121, p < 0.001 \rightarrow \text{Supported} \\ & \text{H}_3: (\text{FinFOMO}) \rightarrow (\text{Herd Behavior}): \beta = 0.582, t = 14.310, p < 0.001 \rightarrow \text{Supported} \\ & \text{H}_4: (\text{Mediation of Herd Behavior}): \text{Indirect Effect} = 0.182, 95\% \text{ CI } [0.124, 0.248] \rightarrow \text{Supported} \\ & \text{H}_5: (\text{Moderation of FinLit}): \end{aligned}$$

Interaction } \boldsymbol{\beta} = -0.214, t = -4.520, p < 0.001} \quad \rightarrow \mathbf{Supported}

Key Findings

1. **Direct Drive toward Speculative Trading:** Financial FOMO is a primary determinant of hyper-active, high-risk trading behavior. High-FOMO individuals trade 3.4 times more frequently per month than low-FOMO peers.
2. **Erosion of Portfolio Diversification:** Financial FOMO drives capital concentration into ultra-volatile single assets (e.g., meme coins, micro-cap tokens) under the influence of viral social trends, abandoning foundational risk-spreading principles.
3. **The Herding Channel:** Herd behavior acts as a powerful partial mediator. Financial FOMO amplifies the need for social confirmation, leading investors to copy trade setups posted on online forums without verification.
4. **Moderating Safeguard of Literacy:** High objective financial literacy significantly flattens the positive slope between Financial FOMO and irrational choices, confirming that financial education acts as a cognitive shield.

Discussion

The empirical results confirm that emotional biases in the modern digital ecosystem drastically alter financial decision-making among young investors. When exposed to social media "gain porn" (screenshots of extreme short-term profits), young investors experience acute anxiety over lost opportunity.

This psychological pressure activates System 1 (fast, intuitive, emotional) cognitive processing while bypassing System 2 (slow, analytical, logical) evaluation. Combined with "gamified" UI/UX features on modern trading apps—such as push notifications, instant execution, and social leaderboards—the emotional response translates directly into irrational market orders, leading to buy-high/sell-low cycles during sudden market panics.

Recommendations

For Regulators & Policy Makers

- **Mandate Risk Disclaimers on Financial Content:** Enforce standardized disclaimers for online "FinFluencers" detailing personal holding stakes and risk metrics.
- **Implement "Cooling-Off" Periods:** Require retail brokerages to implement mandatory confirmation delays on orders involving highly volatile assets during extreme retail volume spikes.

For Fintech App Developers

- **De-Gamify Trading Interfaces:** Remove confetti animations, social leaderboards, and urgency-inducing push notifications that trigger emotional responses.
- **Embed Real-Time Behavioral Friction:** Introduce automated risk alerts when a portfolio's asset concentration in a single high-volatility token exceeds recommended limits.

For Academic & Financial Institutions

- **Actionable Behavioral Curricula:** Shift youth financial education from theoretical definitions to practical behavioral finance training, specifically teaching emotional self-regulation and awareness of algorithmic bias.

Limitations

1. **Cross-Sectional Nature:** The study utilizes cross-sectional data, limiting long-term causal tracking across market bull and bear cycles.
2. **Self-Reporting Bias:** Survey responses regarding investment gains, losses, and financial literacy may suffer from social desirability or self-assessment bias.

3. **Geographic Scope:** Sample collection was concentrated primarily in urban digital-first centers, potentially overrepresenting digitally active retail traders.

Conclusion

Financial FOMO is a powerful psychological driver shaping the investment behaviors of the modern young retail cohort. Triggered by continuous social media comparison and accelerated by gamified trading platforms, financial FOMO leads to heightened speculative trading, extreme portfolio concentration, and irrational herd behavior. However, financial literacy serves as a crucial moderating buffer. Protecting young investors requires a combination of behavioral fintech design, regulatory oversight of digital financial promotions, and modern financial literacy education.

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