# A STUDY ON HOW LOSS AVERSION AFFECTS GEN Z'S INVESTMENT CHOICES

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# ABSTRACT

This paper examines how loss aversion affects the decisions made by male and female investors who focus on risk perception and demographic factors. Using behavioural finance principles, the study looks at how traders' age, gender, income, and education affect their
perspectives on risk and loss. Based mostly on data collected from traders in Bangalore, India, statistical analysis show that investors' risk tolerance is greatly impacted by earnings tiers, even while loss aversion is enormous. Additionally, the study emphasizes how social media and information overload affect investment decisions, particularly for generation Z investors. According to the findings, younger traders may also exhibit a greater aversion to losses by favouring safer assets and giving socially conscious choices priority. The importance of managing loss aversion in investment strategies is highlighted by this study, especially in light of shifting demographic trends and market dynamics.
Keywords Individual investors, behavioural finance, loss aversion, and demographics.

# INTRODUCTION

Behavioural finance, a subfield of behavioural economics, postulates that psychological elements and biases contribute to the financial behaviours of buyers and economic professionals. Furthermore, a variety of market abnormalities, particularly those related to the stock market, such as sudden increases or decreases in stock prices, can be explained by biases and effects. The Securities and Trade Fee has staff members with a focus on behavioural finance because investing entails behavioural finance to such an extent. Researching behavioural finance can be done from a variety of angles. In the area of finance, especially with regard to the stock market, mental behaviours are commonly thought to influence market outcomes and returns, despite the fact that there are many different research methodologies.

comes back. Behavioural finance has been coined to better understand why people make particular financial decisions and how those actions can affect markets.
Instead of being fully logical and self-managing, behavioural finance makes the assumption that those who contribute to the financial system are psychologically significant and possess fairly normal and self-controlling dispositions. When making financial decisions, an investor's physical and mental health are typically a deciding factor. Changes in an investor's average health frequently coincide with changes in their intellectual state. This affects their capacity to make sensible choices on any and all real-world issues, including those One of the most important conclusions in behavioural finance research is the impact of biases. Biases have many different causes. commonly speak me, biases fall within one among five foremost categories. figuring out and categorizing various styles of behavioral finance biases might be important while focusing on the exam or evaluation of zone or enterprise consequences.

# LITERATURE REVIEW

The complexities of behavioural biases in financial decision-making have been the subject of numerous research**. Muskaan Arora and Santha Kumari** (2015) investigated the effects of age, gender, and loss aversion on the risk-taking behaviour of investors. The importance of regret and loss aversion as intermediary factors influencing investors' decisions was overemphasized by their findings. In their study of the effects of loss aversion on purchasers in the US and UK financial markets, **Soo sung Hwang and Steve E. Satchel** (2010) found that traders are more sensitive to loss aversion in bull markets. Kiran Aziz Malik et al. (2017) examined investor behavioural biases in the Islamabad inventory trade, highlighting the significant impact of loss aversion and overconfidence. The existence of slender loss aversion among character traders was also clarified by **Boram Lee and Yulia Veld Merkoulova** (2016), who investigated visually impaired loss aversion and its relationship to portfolio rearrangement. This body of research challenges the notion of rationality in conventional finance by highlighting the widespread impact of behavioural biases, such as loss aversion, on funding decisions. Behavioural finance has revealed traders' vulnerability to behavioural biases, despite the fact that traditional finance principles assume rationality in funding decisions. By examining how loss aversion affects character traders' funding decisions, this paper attempts to add to the body of existing knowledge. Using a questionnaire-based approach to compare chance in step with caption, the study aims to clarify the interaction between investment decisions and behavioural biases. Through empirical research, this study aims to shed light on the ways in which purchasers' decisions are influenced by loss aversion, advancing our knowledge of behavioural finance phenomena and their consequences for funding exercises.

# OBJECTIVES

* To examine how loss aversion have an effect on investor decision-making.
* To study the have an effect on of loss aversion bias on traders' perceptions of chance.
* To assess how a demographic issue impacts an investment preference.

# METHODOLOGY

With an empirical approach, the study focuses on the researcher's firsthand observations and measurements of phenomena. Information collection Dealers situated in Bangalore provide the best records. A comprehensive survey is carried out using a well-structured questionnaire. Numerous subjects are covered in this poll, including risk preferences, demographics, and the level of risk tolerance displayed when making financing decisions. A complete sample size of one hundred participants is the goal of convenience sampling. The practicality and accessibility of this sampling strategy in gathering data from dealers inside the target location led to its selection. The management of the questionnaire is the only method used to collect information.

Research Instruments:

Numerous financial tools, like ANOVA, correlation analysis, and T-examinations, are used to analyze the gathered records. These statistical techniques are used to identify trends, connections, and broad variances within the dataset. The Statistical Bundle for the Social Sciences (SPSS) program is used to conduct the evaluation, allowing for a methodical and environmentally friendly analysis of the data gathered.

**Results and Discussion**

The worry of losing plutocrat has been tested across distinctive companies. The f- cost of two.225 shows that there are probably some variations among these corporations in phrases of the fear of dropping plutocrat. Still, the importance position(sig.) Of zero.090 shows that this end result is not statistically extensive on the traditional threshold of zero.05. Consequently, we fail to reject the null thesis that there may be no difference within the fear of dropping plutocrat between the groups. Also, the belief of threat has been anatomized throughout specific companies. The f- fee of zero.844 and the significance function of zero.473 imply that there's no statistically vast difference in notion of chance among these organizations. The evaluation of amenability to take financial pitfalls exhibits an f- price of two.039 with a significance function of 0.113. Despite the fact that the f- value shows a few distinctions between the agencies, the importance role shows that this difference is not statistically enormous.in precis, grounded at the exceeded anova table, none of the face- bluffs (worry of dropping plutocrat, belief of chance, funding time horizon, and inclined- ness to take fiscal pitfalls) show statistically considerable differences among the agencies on the traditional significance function of 0.05.

show statistically significant differences between the groups at the conventional significance level of 0.05.

Table 1: Analysis of Factors Influencing Investment Decisions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Sum of Squares | df | Mean Square | F | Sig. |
| Between Groupsthe fear of losingmoney influence in Within Groups | 5.65382.130 | 397 | 1.884.847 | 2.225 | .090 |
| investment decisionsTotal | 87.782 | 100 |  |  |  |
| Between Groups | 1.990 | 3 | .663 | .844 | .473 |
| risk in investment Within Groups | 74.637 | 95 | .786 |  |  |
| portfolioTotal | 76.626 | 98 |  |  |  |
| Between Groups | 1.023 | 3 | .341 | .662 | .577 |
| investment time Within Groups | 48.937 | 95 | .515 |  |  |
| Total | 49.960 | 98 |  |  |  |
| Between Groups | 7.078 | 3 | 2.359 | 2.039 | .113 |
| financial risks in Within Groups | 112.248 | 97 | 1.157 |  |  |
| Total | 119.327 | 100 |  |  |  |

horizon

investments

# CONCLUSION

Compared to older generations, Gen Z traders may be far less inclined to make risky trades. They may avoid opportunities that have better implicit rewards but also better threat scenarios because of a fear of losing money. They will so lose out on potentially lucrative funding opportunities. Gen Z investors may choose short-term funding motors where the possibility of losses is viewed as lesser because they are averse to losses. They will come to a conclusion about instruments that offer additional instant liquidity and are thought to be less predictable, such as savings accounts or short-term bonds.

Social and contextual factors may also be recalled by Gen Z traders when forming funding opinions. It may be desirable to invest in organizations or price ranges that share their beliefs, such as those centred on sustainability or social responsibility, in order to mitigate the perceived losses associated with moral or reputational issues. Overall, Gen Z purchasers must combine risk management with staking on growth opportunities, even while loss aversion may cause them to adopt a more cautious approach to investing. Gaining comprehensive knowledge about their funding pretensions, chance tolerance, and the larger request geography can assist Gen Z investors in navigating the challenges of investing and successfully controlling the effect of loss aversion on their choice- making techniques.

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