

The Role of Social Media in Shaping Gen Z Retail Investors in Tier-2 Cities

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Abstract

This research investigates the pivotal role of social media in shaping investment behavior among Gen Z (age 20-21) in tier-2 Indian cities. The study analyzes 178 undergraduate students, examining how social media exposure, psychological factors (particularly FOMO), and behavioral patterns influence investment decisions and financial outcomes.

Key findings reveal that 67.4% follow finance-related content on social media, and 48.3% started investing due to SM influence. However, 25.3% experienced financial losses from misleading SM advice. The analysis employs five statistical methodologies—Descriptive Statistics, Likert Scale Analysis, Cross-Tabulation, Chi-Square Tests, and Correlation Analysis—to identify relationships between variables.

The most significant finding is the protective effect of verification before investing, which reduces loss rates from 58.3% to 20.1% (66% risk reduction). The study concludes that while social media effectively drives investment action, psychological vulnerabilities (FOMO affecting 62.9% of respondents) and lack of verification protocols create substantial financial risk, particularly among the 20-year-old demographic where investment rates peak at 28.6%.

Keywords: Gen Z, psychological factors, FOMO

Introduction

Gen Z (born 1997-2012) represents a digital-native generation that has grown up with unprecedented access to financial information through social media platforms. Unlike previous generations, their investment decisions are heavily influenced by influencers, algorithmic recommendations, and peer behavior visible on platforms like Instagram, YouTube, and WhatsApp. This shift in information sources presents both opportunities and risks for young investors.

The emergence of retail investing among Gen Z has been accelerated by several factors: (1) increased disposable income among college students in tier-2 cities, (2) accessibility of trading platforms with zero or minimal fees, (3) viral investment trends and memes promoting quick wealth-building, and (4) the normalization of investment discussions in peer groups. However, this democratization of investing comes

with significant risks. Many young investors lack formal financial training, make impulsive decisions driven by FOMO (Fear of Missing Out), and trust unqualified "finfluencers" as their primary information source.

Research context: Tier-2 cities in India (excluding metros) represent a critical demographic. These cities have growing fintech adoption but less regulatory oversight of finance content compared to metros. The study focuses on Ranchi and nearby tier-2 cities in Jharkhand, where college-going youth form a significant portion of SM-exposed population engaging in investment activities.

Research questions guiding this study:

1. What is the prevalence of SM-driven investment behavior among Gen Z in tier-2 cities?
2. Which demographic and psychological factors predict investment action?
3. What factors contribute to financial losses from SM-influenced investing?
4. What protective factors reduce investment losses?
5. Is there a relationship between specific SM behaviors and financial outcomes?

Literature Review

Social Media's Influence on Financial Decision-Making

Social media has fundamentally altered how financial information is consumed and shared. Unlike traditional finance channels (certified advisors, textbooks, formal education), SM operates through informal networks, algorithmic curation, and influencer endorsements. Research shows that Gen Z increasingly relies on social proof rather than expert opinion when making financial decisions. The "finfluencer" phenomenon—where individuals with large SM followings provide financial advice without formal credentials—has created a new category of financial information sources that often lack regulatory oversight.

Psychological Drivers: FOMO and Impulsive Investing

FOMO (Fear of Missing Out) is a documented psychological phenomenon particularly prevalent among young adults. In the investment context, FOMO manifests as urgency to invest in trending assets to "catch the wave" before prices rise. Studies show that FOMO-driven decisions often lack fundamental analysis and are primarily emotion-based. This research finds FOMO affecting 62.9% of respondents, suggesting it is a near-universal vulnerability in the Gen Z investing population.

Verification and Risk Mitigation

Decision-making literature emphasizes the importance of verification and due diligence before action. In the financial context, verification can include seeking second opinions, consulting with knowledgeable peers or advisors, reading original sources rather than summaries, and checking credentials of information sources. This study hypothesizes that verification behaviors would significantly reduce financial losses.

Age and Investment Behavior

The age range 20-21 is critical for understanding Gen Z financial behavior. This is typically the second or third year of undergraduate education in India, when students have had exposure to educational content about investing, access to disposable income (either earned or from family), and peak peer influence. The relationship between age and investment behavior is expected to be non-linear, with a peak in early college years followed by either stabilization or decline as students gain experience and wisdom.

Vernacular Content and Accessibility

An understudied aspect of SM-driven investing is the role of local language (vernacular) content. Hindi finance content on YouTube and other platforms has grown substantially but receives less regulatory attention than English-language finance media. This creates a potential vulnerability: content creators who don't meet English-language compliance standards can reach millions through local language channels. This study explores the differential effectiveness and risk profiles of vernacular versus English finance content.

Results and Discussion Analysis

Overview of Sample and Descriptive Statistics

The study analyzed 178 respondents from tier-2 Indian cities (primarily Ranchi, Jharkhand), aged 18-25, with 52.8% female and 97.2% undergraduate students. The age distribution is highly concentrated (Mean=20.09, Median=20, Mode=20, SD=1.93), indicating a homogeneous Gen Z college cohort. This concentration allows for focused analysis of a specific life stage but limits generalizability to other age groups.

Table 1: Descriptive Statistics of Key Variables

Variable	Value/Finding	Interpretation
Age Distribution	Mean=20.09, Median=20, Mode=20	Perfectly symmetric, concentrated Gen Z cohort
Standard Deviation	1.93 years	Tight clustering (50% within 1 year: 20-21)
Sample Size	n=178	Adequate for all statistical analyses
Gender Distribution	52.8% Female, 47.2% Male	Balanced gender representation
Educational Status	97.2% Undergraduate	College students in investment context
Location	80% from Ranchi, Jharkhand	Tier-2 city focus (non-metro urban)
Data Quality	No missing values in key variables	Ready for comprehensive analysis

Finding 1: High Social Media Exposure with Selective Investment Action

- 67.4% (120/178) follow finance-related content on SM
- 48.3% (86/178) cite SM as influencing their decision to start investing
- However, only 23.6% (42/178) have actually invested after seeing SM content
- 25.3% (45/178) have lost money from SM advice

This pattern reveals a funnel effect: high exposure → selective action → significant loss rate. The gap between content following (67%) and actual investment (24%) suggests that while SM content reaches most

respondents, it converts only a portion. More critically, the loss rate (25.3%) among those who invested indicates substantial financial harm.

Finding 2: FOMO is a Near-Universal Vulnerability

Likert Scale Analysis of FOMO (Q20: "Have you felt FOMO seeing others profit?"):

- Mean: 3.01 (exactly "Sometimes")
- 62.9% (112/178) feel FOMO at least "Sometimes"
- Distribution is perfectly symmetric (Skewness=0.002)
- No concentration at extremes—affects all types equally

This near-perfect symmetry and high mean indicate that FOMO is not a niche psychological vulnerability but a majority experience. The perfectly balanced distribution means that interventions must address all population segments, not just "high-risk" individuals.

Finding 3: Age 20 is Peak Investment Vulnerability Window

Age vs Investment Cross-Tabulation:

- Age 18-19: 12.8% invest
- Age 20: 28.6% invest ← PEAK (2.2x higher than 18-19)
- Age 21: 27.5% invest
- Age 22+: 20.7% invest

Pattern: Inverted U-shape (peaks then declines)

The 28.6% peak at age 20 coincides with the second year of undergraduate education in India—typically when students have completed foundational financial education, have access to disposable income, and face maximum peer influence. This creates a critical intervention window where educational programs could reach the population at highest risk.

Finding 4: Verification Provides 66% Risk Reduction (Strongest Finding)

Cross-Tabulation: Verification Before Acting vs Losses

- Among 24 respondents who DON'T verify: 58.3% (14) lost money
- Among 154 respondents who DO verify: 20.1% (31) lost money
- Effect: 2.9x risk reduction
- Protective factor: 66% reduction in loss rate

Chi-Square Verification: $\chi^2=14.08$, $p=0.0002$ (✓✓✓ HIGHLY SIGNIFICANT)

This is the single strongest evidence-based finding in the entire study. A simple behavior (verifying before acting) reduces loss risk by two-thirds. This suggests that behavioral interventions focused on encouraging verification could have substantial protective effects.

Chi-Square Test Results and Explanation

The Chi-Square test for independence determines if two categorical variables are significantly related ($p<0.05$). A significant chi-square indicates that the observed relationship is not due to random chance. In this study, four chi-square tests were performed on key relationships.

Table 2: Chi-Square Test Results Summary

Relationship Tested	χ^2 Value	P-Value	Significant?	Interpretation
Finance Content ↔ Investment	11.97	0.0005	✓ YES	Content followers definitely invest more
Finance Content ↔ Losses	2.35	0.1256	✗ NO	Pattern too weak to be statistically certain
Verification ↔ Losses	14.08	0.0002	✓ YES	Verification SIGNIFICANTLY reduces losses
SM Influence ↔ Losses	1.68	0.1946	✗ NO	Pattern exists but not statistically reliable

Interpretation of Results

Relationship 1: Finance Content → Investment ($\chi^2=11.97$, $p=0.0005$)

FINDING: ✓ HIGHLY SIGNIFICANT RELATIONSHIP

Cross-tabulation showed:

- Finance content followers: 31.7% invest (38/120)
- Non-followers: 6.9% invest (4/58)
- Effect size: 4.6 times higher for followers

The chi-square test ($p=0.0005$) confirms this 4.6x relationship is not due to chance. This strong evidence suggests that following finance content on SM is a powerful predictor of investment action.

The mechanism likely involves:

1. increased exposure to investment concepts,
2. algorithmic promotion of finance content to interested users,
3. normalization of investing through peer behavior, and
4. persuasive messaging by influencers.

Relationship 2: Finance Content → Losses ($\chi^2=2.35$, $p=0.1256$)

FINDING: ✗ NOT STATISTICALLY SIGNIFICANT

Cross-tabulation showed:

- Finance followers' loss rate: 30.8% (35/120)
- Non-followers' loss rate: 13.8% (8/58)
- Apparent difference: 17 percentage points

However, the chi-square test ($p=0.1256$) indicates this pattern could occur by random chance 12.6% of the time. While followers do show higher loss rates descriptively, we cannot reliably conclude from this data that followers lose more money. This may be because: (1) followers take more investment actions (thus more opportunities to lose), or (2) the sample size is insufficient to establish statistical certainty.

IMPLICATION: While descriptive data suggests followers have higher losses, the statistical evidence is insufficient. Further research with larger samples is needed.

Relationship 3: Verification ↔ Losses ($\chi^2=14.08$, $p=0.0002$)

FINDING: ✓✓✓ HIGHLY SIGNIFICANT RELATIONSHIP (STRONGEST IN STUDY)

Cross-tabulation showed:

- Non-verifiers' loss rate: 58.3% (14/24)
- Verifiers' loss rate: 20.1% (31/154)
- Effect size: 2.9x higher risk for non-verifiers
- Risk reduction through verification: 66%

The chi-square test ($p=0.0002$) provides extremely strong evidence that verification significantly reduces losses. This is the single most robust finding in the entire study. The practical significance is enormous: a simple behavioral change (verifying before acting) reduces loss risk from 58% to 20%.

MECHANISM: Verification likely works by: (1) introducing a pause that reduces impulsive decisions, (2) providing reality-checks through peer feedback, (3) allowing time for emotional cooling-off, and (4) increasing likelihood of identifying obvious scams. Even though 20% of verifiers still lose money, this is substantially better than the 58% loss rate for non-verifiers.

Relationship 4: SM Influence → Losses ($\chi^2=1.68$, $p=0.1946$)

FINDING: ✗ NOT STATISTICALLY SIGNIFICANT

Cross-tabulation showed:

- SM-influenced starters' loss rate: 30.2% (26/86)
- Others-influenced starters' loss rate: 20.7% (19/92)
- Apparent difference: 9.5 percentage points

The chi-square test ($p=0.1946$) indicates this pattern could occur by random chance 19.5% of the time. While SM-influenced investors show numerically higher losses, the relationship is not statistically reliable.

IMPLICATION: We cannot confidently say that being influenced by SM to start investing causes higher losses. The similar loss rates suggest that once someone starts investing (regardless of the catalyst), they face similar risk profiles.

Correlation Analysis: Strength of Relationships

Correlation analysis measures how strongly two variables move together, on a scale from -1.0 (perfect negative) to +1.0 (perfect positive). Spearman's Rho is used for ordinal data (like Likert scales). Strength interpretation: $|\rho| < 0.3$ =Weak, $0.3-0.5$ =Moderate, $0.5-0.7$ =Strong, >0.7 =Very Strong.

Table 3: Spearman Correlation Analysis Results

Variables	ρ Value	P-Value	Strength	R ² (Variance)	Interpretation
FOMO Investment ↔	0.158	0.035	Weak	2.5%	Higher FOMO slightly predicts investing
SM Dependence ↔ Losses	0.171	0.022	Weak	2.9%	More SM reliance predicts more losses

Trust ↔ Vernacular ↔ Act	0.123	0.101	Weak	1.5%	Not significant—trust ≠ action
Age ↔ Investment	Non-linear	N/A	Inverted U	Peak at 20	Relationship is non-linear (not simple correlation)

Key Insight from Correlations: Multiple Weak Factors = Need for Multi-Factor Approach

- All significant correlations are WEAK ($p < 0.3$), meaning they explain only 2-3% of variance each. This indicates that investment behavior and losses are NOT driven by single factors. Instead, multiple factors combine:
- FOMO explains 2.5% of investment variance (97.5% from other factors)
- SM dependence explains 2.9% of loss variance (97.1% from other factors)
- Age explains investment non-linearly
- Trust in vernacular (1.5%) alone doesn't predict action

IMPLICATION: Interventions must be comprehensive, addressing multiple factors simultaneously. Single-focus programs (e.g., "just reduce FOMO" or "just improve financial literacy") will likely have limited impact. Effective interventions should address: emotional factors, behavioral patterns, information quality, verification practices, and age-specific vulnerabilities.

Conclusion

This comprehensive statistical analysis of 178 Gen Z investors in tier-2 Indian cities reveals a complex ecosystem where social media drives investment action through multiple pathways while creating substantial financial risk through psychological vulnerabilities and information quality issues.

Summary of Key Findings

1. HIGH PREVALENCE OF SM-DRIVEN INVESTING

- 67.4% follow finance content; 48.3% cite SM influence
- Yet only 23.6% actually invest (suggests content reach exceeds conversion)

2. UBIQUITOUS FOMO VULNERABILITY

- 62.9% feel FOMO at least "sometimes"
- Perfectly symmetric distribution means all demographic groups affected equally
- FOMO correlates with investment ($p = 0.158$, $p = 0.035$)

3. CRITICAL AGE 20 VULNERABILITY WINDOW

- Investment peaks at 28.6% for 20-year-olds (2.2x higher than 18-19)
- This is the second year of undergraduate education—optimal for intervention
- Pattern is inverted U-shape (not linear decline with age)

4. VERIFICATION IS PROVEN PROTECTIVE FACTOR

- 66% risk reduction through verification (58.3% → 20.1% loss rate)
- $\chi^2 = 14.08$, $p = 0.0002$ (✓✓✓ highest statistical evidence)
- Even with verification, 20% still lose money (imperfect protection)

5. SIGNIFICANT FINANCIAL HARM DOCUMENTED

- 25.3% experienced losses from SM advice (real monetary damage)
- Loss rates suggest inadequate due diligence among retail investors
- Vernacular content (Hindi) reaches 21.2% of bilingual users with less oversight

6. CONTENT EFFECTIVENESS VERIFIED

- Content followers invest 4.6x more than non-followers
- $\chi^2=11.97$, $p=0.0005$ (highly significant relationship)
- Finfluencers are effective at driving action (benefit or harm depends on content quality)

7. MULTIPLE WEAK FACTORS, NOT SINGLE DOMINANTS

- All significant correlations are weak ($p<0.3$)
- FOMO, age, SM dependence each explain $<3\%$ of variance
- Indicates multi-factorial causation requiring comprehensive interventions

Implications for Different Stakeholders**FOR REGULATORS:**

- Implement mandatory disclaimers on finance content (especially Hindi)
- Create specific regulations for "finfluencer" category
- Enforce verification requirements for investment platforms
- Increase monitoring of tier-2 city finance content (less regulation than metros)

FOR FINANCIAL INSTITUTIONS:

- Target 18-22 age group with financial literacy programs
- Create bilingual (Hindi/English) education content
- Implement verification tools/reminders in trading platforms
- Counter FOMO with calm, long-term investing messages

FOR EDUCATORS/PARENTS:

- Emphasize verification practices in financial education
- Teach FOMO recognition and resistance
- Discuss survivorship bias (winners post, losers silent)
- Create safe spaces to discuss investment mistakes

FOR YOUNG INVESTORS:

- Always verify before acting (proven 66% protection)
- Recognize FOMO triggers (affects 63% of population)
- Diversify information sources beyond SM
- Consider working with human advisors, not just content creators

Final Outcomes and Recommendations

- OUTCOME 1: Social Media is Effective Catalyst for Investment, But Quality Control is Essential
Social media has successfully democratized access to investment information and inspired millions of

Gen Z to invest. However, this accessibility has a dark side: lack of credential verification, algorithmic amplification of sensational (often false) claims, and absence of regulatory oversight for local-language content.

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RECOMMENDATION:

- Establish a "verified finfluencer" certification system
- Require disclaimers on all investment content
- Platform algorithms should de-prioritize unqualified sources
- Create tier-2 city-specific regulatory frameworks

OUTCOME 2: Psychological Vulnerabilities (FOMO) Are Near-Universal, Requiring Population-Level Intervention with 62.9% experiencing FOMO, this is not a niche problem but a population-level vulnerability. Standard financial education alone doesn't address emotional decision-making. The perfect symmetry of FOMO distribution means that interventions cannot target "high-risk" individuals; instead, they must reach everyone.

RECOMMENDATION:

- Integrate behavioral finance into school curricula
- Create public awareness campaigns about FOMO in investing
- Design investment platforms with "cooling-off periods" before large transactions
- Use behavioral nudges (e.g., "Think before investing" prompts)

OUTCOME 3: Age 20-21 Represents Critical Intervention Window with Peak Vulnerability The inverted U-shape of investment by age, peaking at 28.6% for 20-year-olds, identifies a specific demographic window. This is late enough that students understand investment concepts but early enough that they lack experience and risk awareness.

- **RECOMMENDATION:**

- Target college sophomore populations specifically
- Partner with educational institutions for integrated programs
- Provide resources before peak vulnerability period
- Create peer mentorship programs with experienced investors (25+)

OUTCOME 4: Verification is Proven Protective, But Insufficient Alone While verification reduces losses from 58% to 20%, the 20% residual loss rate indicates that verification (often just social proof from peers) cannot replace expert judgment. However, the 66% risk reduction is substantial and statistically proven.

RECOMMENDATION:

- Actively promote verification practices (low barrier to adoption)
- Educate on verification methods beyond just "ask friends"
- Encourage consultation with financial advisors or professionals

- Implement platform-level verification requirements (e.g., mandatory second reviews)

OUTCOME 5: Multiple Weak Factors Suggest Multi-Pronged Intervention Approach
Since no single factor dominates (all correlations <0.3), single-issue solutions will fail. Instead, effective policy requires simultaneous attention to information quality, psychological support, regulatory oversight, and behavioral design.

RECOMMENDATION:

- Create integrated programs addressing content quality, FOMO, verification, and age-appropriate education
- Avoid one-size-fits-all solutions
- Combine regulatory, educational, technological, and behavioral approaches
- Measure multi-factor impact rather than isolated interventions

Long-Term Vision

The goal is not to discourage Gen Z from investing—retail investment is valuable for wealth-building and financial engagement. Rather, the goal is to transform SM-driven investing from a potentially harmful, chance-based activity into a thoughtful, informed financial practice.

This requires:

1. Quality control of financial information on social media(SM),
 2. Population-level psychological education about FOMO and impulsive decision-making,
 3. Targeted programs for peak-vulnerability age groups,
 4. Accessible tools and practices (like verification) that reduce risk, and
 5. Continuous monitoring of new risks in the rapidly evolving SM financial ecosystem.
- The statistical evidence from this study provides a foundation for evidence-based policymaking, allowing stakeholders to prioritize interventions based on demonstrated impact (like verification's 66% risk reduction) rather than intuition.