

Impact of Herding and Overconfidence on Investment Decision by Gen Z in Sri Lanka

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Abstract

Behavioural finance has become increasingly significant in explaining how psychological biases shape investor behaviour in emerging markets. Despite global attention, limited research has examined how these dynamics affect Generation Z (Gen Z) investors in Sri Lanka. This group is digitally fluent, highly engaged in online trading, and particularly vulnerable to cognitive distortions. This study addresses this gap by investigating the impact of herding bias and overconfidence bias on Gen Z investment decisions, with risk perception tested as a mediating variable. Adopting a quantitative approach, primary data were collected from 150 Gen Z investors through a structured online questionnaire using a seven-point Likert scale. The sample size was considered sufficient for structural equation modelling and representative of the growing youth investor segment in Sri Lanka. Data were analysed, employing correlation, regression, and SEM techniques to assess direct and mediated relationships. The findings revealed that both herding bias and overconfidence bias exert significant positive effects on investment decisions. This study contributes to behavioural finance theory by providing empirical evidence on the mediating role of risk perception in an underexplored emerging market context. Practically, the results underscore the need for targeted interventions, such as financial literacy programmes, investor awareness campaigns, and regulatory guidelines, to mitigate the negative effects of cognitive biases among young investors. Contextually, it enriches the understanding of how Sri Lanka's Gen Z navigates investment decisions, offering insights for policymakers, educators, and financial institutions aiming to foster more informed and resilient market participation.

Keywords: behavioural finance, Gen Z, herding bias, investment decisions, overconfidence bias, risk perception