# GENERATION- Z AND MENTAL ACCOUNTING: IMPLICATIONS FOR INVESTMENT BEHAVIOUR

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*Abstract :* This study explores the connection between Generation Z's investment conduct and mental accounting, looking at how this behavioural finance mechanism influences young, tech-savvy investors' financial choices. In order to comprehend how Gen Z's distinguishing traits digital nativeness, irregular or diverse income streams, and fluctuating financial priorities affect how people psychologically categorise, distribute, and assess money, the paper aims to synthesise available secondary research. The research is based on the literature on generational financial conduct, behavioural investing biases, and Thaler's mental accounting theory.

Using a secondary data review methodology, the study looks for new trends in Gen Z's financial decision-making by consulting institutional reports, peer-reviewed research, and behavioural finance studies. The results show that Gen Z prefers goal-based saving categories, has strong mental budgeting habits, and heavily relies on digital financial tools that support mental accounting systems. Their little practical financial experience, digitally mediated risk perceptions, and social media influences all contribute to their increased susceptibility to short-term gains and losses.

According to the analysis, Gen Z's long-term financial planning, risk-taking inclinations, and portfolio diversification are all significantly impacted by mental accounting. These tendencies may encourage disciplined saving and investing or result in fragmented and less-than-ideal decision-making, depending on how financial categories are set up. The study emphasises the necessity for financial advisors, educators, and fintech platforms to create digital tools and interventions that reduce mental accounting biases, promote long-term thinking, and promote more balanced investment behaviour. Overall, the article provides useful implications for improving Generation Z's financial outcomes and increases conceptual knowledge of their behavioural finance profile.

**Keywords:** Generation Z, Mental Accounting, Behavioural Finance, Investment Behaviour, Digital Financial Tools, Risk Perception

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## INTRODUCTION

Generation Z is rapidly emerging as a significant investor class, driven by their technological fluency, early access to digital financial tools, and evolving financial behaviours. Exposure to online financial platforms, investing apps tailored to their generation, and the growing popularity of cryptocurrencies has enabled them to invest small amounts of money with ease. Social influences, including family guidance and the fear of missing out on lucrative opportunities, further encourage Gen Z to actively participate in financial markets (Pew Research Center, 2020; Deloitte, 2021). Their size, digital competence, and early workforce entry position them to shape investment trends in ways previous generations did not.

The technological proficiency of Gen Z allows them to engage in self-directed investing, access real-time market information, and evaluate diverse financial opportunities independently (McKinsey & Company, 2022). Features such as commission-free trading and fractional shares have further democratized market participation, making financial engagement more accessible. Global events like the 2008 financial crisis and the COVID-19 pandemic have heightened their awareness of long-term wealth creation and financial resilience, influencing their preferences for digital, ethical, and personalized investment solutions (OECD, 2021; EY, 2021).

Behavioural finance provides crucial insights into such investment patterns by incorporating psychological and cognitive factors that traditional finance models often overlook. Investors frequently deviate from rationality due to biases and heuristics, including overconfidence, herd behaviour, and mental accounting, which affect decision-making, portfolio management, and market dynamics (Thaler, 1999; Kahneman & Tversky, 1979; Barberis & Thaler, 2003). Understanding these tendencies helps financial advisors, policymakers, and digital platforms design strategies and interventions that promote better financial choices and long-term planning.

Among these behavioural concepts, mental accounting is particularly influential. It explains how individuals mentally categorize money based on its source or intended purpose, leading them to treat funds differently despite identical objective value (Thaler, 1999). This concept clarifies behaviours such as separating "fun money" from savings, overreacting to small gains, or holding losing investments for too long. Recognizing these patterns enables the development of tools such as goal-based investing, automated savings, and behavioural nudges that align mental accounting habits with improved financial outcomes ((Thaler & Sunstein, 2008; Kahneman & Tversky, 1979).)Despite the growing interest in behavioural finance, there remains a significant lack of research specifically examining how mental accounting influences the investment behaviour of Generation Z. Most existing studies focus on older cohorts such as Millennials or Generation X, leaving the unique financial decision-making patterns of Gen Z largely unexplored. As a digitally native generation with distinct income structures, social influences, and financial priorities, their approach to categorizing, allocating, and evaluating money may differ substantially from prior generations, highlighting the need for focused research in this area.

Another notable gap lies in the context of digital finance and fintech platforms. Gen Z extensively uses mobile trading apps, micro-investment platforms, and cryptocurrency exchanges, yet little is known about how these tools interact with mental accounting tendencies. Furthermore, while mental accounting is often linked to goal-based financial behaviour, there is limited evidence on how Gen Z balances short-term spending, savings, and investment goals, or how mental accounting affects their risk perception and portfolio choices. The influence of social media and peer networks, which play a substantial role in shaping their investment decisions, has also been largely overlooked in existing literature.

Additionally, most studies are concentrated in Western economies, leaving cultural and regional variations underexplored. How mental accounting manifests among Gen Z investors from diverse socio-economic and cultural backgrounds remains unclear. Finally, while understanding mental accounting has practical potential for guiding financial education, advisory services, and fintech design, there is limited research translating these insights into actionable strategies tailored for Gen Z. Addressing these gaps will provide a more comprehensive understanding of the behavioural finance profile of Generation Z and its implications for investment behaviour.

**Objectives:**

1. To evaluate the array of research on young investors' mental accounting.
2. To explore how Generation Z's investment preferences and biases are influenced by mental accounting.
3. To describe the consequences for regulators, fintech companies, and financial consultants.

**REVIEW OF LITERATURE**

Generation Z, born roughly between 1997 and 2012, is distinguished by its deep immersion in digital technology, which has profoundly shaped its financial habits. Research indicates that this cohort is highly tech-savvy, leveraging smartphones, social media, and online platforms for both information and transactions ((Seemiller & Grace, 2016)). Their comfort with technology has enabled early engagement with financial tools, including digital wallets, micro-investing applications, and trading platforms, allowing them to experiment with investing and financial planning at a younger age than previous generations (Deloitte, 2021). Despite this digital proficiency, studies reveal that many Gen Z individuals still exhibit low financial literacy, often lacking formal education in investment concepts and long-term financial planning, which can influence their risk-taking behaviour and investment choices (CFPB, 2020)

In addition to technology, social influences play a central role in shaping Gen Z's financial decisions. Peer networks, family guidance, and online communities contribute to both spending habits and investment preferences, with social media platforms acting as significant channels for financial information and investment trends (EY, 2021).The preference for digital apps and interactive platforms not only reflects convenience but also aligns with a behavioural tendency to seek quick, visual, and gamified financial experiences. Early exposure to such tools, combined with social reinforcement, encourages habitual investing and micro-savings, even in the absence of extensive financial knowledge. Collectively, these characteristics suggest that Gen Z exhibits a distinct blend of technological fluency, evolving financial literacy, and socially influenced decision-making, making them an important cohort for examining the behavioural aspects of investment.

Generation Z's investment patterns reflect the principles of mental accounting, as their financial decisions are often shaped by how they categorize and frame money in their minds (Thaler, 1999; Shefrin & Statman, 1985).Growing up in a digital environment, this generation frequently uses apps and online platforms that reinforce the creation of mental accounts, such as separate categories for savings, discretionary spending, and investment goals (Deloitte, 2021) (McKinsey & Company, 2022). For instance, they may treat returns from cryptocurrency trading or "windfall" gains differently from regular income, allocating these funds more freely toward speculative investments while maintaining cautious behaviour with earned money (Kahneman & Tversky, 1979; EY, 2021). Their approach to risk is similarly segmented, often taking higher risks in one mental account while preserving stability in others, and the sunk-cost effect can influence their persistence with certain investments despite diminishing returns (Thaler, 1999; Barberis & Thaler, 2003). Additionally, Gen Z tends to adopt goal-based budgeting for investments, setting aside specific amounts for short-term targets versus long-term growth, which demonstrates the practical application of mental accounting in their financial decision-making (Thaler & Sunstein, 2008 ). These behaviours suggest that mental accounting not only guides how Gen Z allocates funds across various financial goals but also shapes their perception of risk, gains, and losses, highlighting the importance of understanding these cognitive frameworks to effectively engage and guide this emerging cohort of investors (CFPB, 2020; EY, 2021).

According to (Thaler, 1999) and (Deloitte, 2021), Generation Z exhibits a unique approach to money management that is closely aligned with mental accounting concepts. They frequently classify assets according to their source, such as salary, gig earnings, cryptocurrency gains, or designated savings. Their investment conduct is influenced by these mental distinctions, which result in cautious management of more predictable income streams, selective risk-taking, and the prioritisation of short-term gains in certain accounts (Thaler, 1999; Shefrin & Statman, 1985). By providing goal-oriented investment tools and bucket-based saving features, fintech platforms and micro-investing apps have strengthened these trends by encouraging Gen Z to mentally divide money into distinct categories while monitoring progress towards predetermined goals (McKinsey & Company, 2022; EY, 2021). This way of organising savings and investments highlights the interaction between technology, behavioural tendencies, and the financial habits of this new generation of investors. It also makes mental accounting biases more noticeable, directing decision-making in ways that may both promote financial discipline and result in suboptimal portfolio diversification.

## RESEARCH METHODOLOGY

This study uses a secondary research technique by carefully reviewing the body of existing literature to examine the influence of mental accounting on Generation Z's investment behaviour. To find significant patterns, themes, and insights from previous research, a narrative synthesis of findings was conducted rather than collecting raw data. This study used a wide range of materials, including books, government documents, financial institution reports, peer-reviewed journal papers, and trustworthy online sources. This vast amount of information guarantees a comprehensive understanding of the behavioural finance framework and the evolving financial practices of Generation Z.

To find relevant information, the following keywords were used in database and search engine queries: "mental accounting," "Gen Z investing," "behavioural finance Gen Z," "digital investing Gen Z," "micro-investing apps," and "financial behaviour young adults." The review employed explicit inclusion and exclusion criteria: authoritative reports and peer-reviewed articles were prioritised, and only studies published between 2000 and 2025 were included to ensure contemporary relevance. Sources that lacked empirical support or did not specifically address Generation Z, mental accounting, or investment behaviour were excluded in order to maintain focus and rigour. This methodology allows the study to identify gaps in the area, synthesise existing knowledge, and offer evidence-based insights on the relationship between mental accounting and Gen Z investment behaviours.

## ANALYSIS AND DISCUSSION

Mental accounting inclinations are evident in Generation Z's approach to money, as they frequently categorise various forms of income and savings objectives, which influences their investing decisions. For instance, even though the total financial value is identical, many Gen Zers handle each bucket differently when making decisions, setting aside money for daily expenses, savings objectives, and investment endeavours like stocks or cryptocurrencies. Recent research demonstrates that young adults prioritise structured financial planning and save with specific goals in mind, with an increasing percentage prioritising defined savings over frivolous spending. ((Santander Bank 2025 Gen Z data). Furthermore, this generation finds it simpler to psychologically separate money thanks to the widespread use of fintech technologies that enable labelled goal tracking and segmented accounts, which reinforces behavioural distinctions between "safe money" and "investment money" in real life (Gen Z fintech usage patterns) . Gen Z's perception of high-risk investments is frequently influenced by these account distinctions. Funds designated for experimentation, particularly in fields like cryptocurrency or speculative platforms, are mentally separated from necessary savings, which increases their willingness to tolerate volatility in one mental account without endangering overall financial security (World Economic Forum Gen Z investment trends). These trends show that, in today's digitally driven investment environment, mental accounting actively influences how Gen Z allocates resources, perceives risk, and chooses financial products.

Younger generations' investment behaviour, especially that of Generation Z, is increasingly influenced by digital and psychological factors that depart from traditional financial presumptions. According to recent studies, Gen Z investors, who spend a lot of time on social media and online platforms, frequently have elevated levels of overconfidence that is, they overestimate their trading skills and financial knowledge which is correlated with more frequent trading and risk-taking behaviour. This pattern is consistent with more extensive behavioural finance research that indicates overconfidence considerably skews investment choices by promoting excessive risk preference and underestimating possible losses. (Trunojoyo Journal+1) Additionally, by dividing money into distinct "buckets," digital budgeting and investment apps reinforce mental accounting practices that may cause investors to handle money in isolated silos rather than evaluating their overall financial situation. This cognitive partitioning is nevertheless a crucial lens for comprehending how young investors allocate resources in ways that may compromise diversity and overall portfolio efficiency, even though some evidence indicates the direct impact of mental accounting on choice outcomes varies by circumstance. ( Jurnal Manajemen)

Furthermore, investors' risk-taking stance is greatly influenced by how they conceptualise financial results, particularly losses. Recent empirical research shows that loss framing and loss aversion can lead to significant changes in investor behaviour, such as a reluctance to acknowledge losses or rash choices meant to break even, which eventually impact long-term investing success. (Investigate Gate )These psychological dynamics highlight a more general behavioural pattern when paired with the reinforcing effect of budgeting tools that emphasise category-based thinking: Gen Z and other retail investors are influenced by emotional reactions and cognitive shortcuts in addition to market fundamentals.

As a result, improving financial literacy and integrating bias awareness into digital platforms become crucial tactics for reducing poor choices and promoting more smart investment practices. (MDPI)

Due in large part to their intense digital immersion and social media influence, recent research indicates that Generation Z's investment behaviour differs from that of Millennials and Generation X. A shift towards digitally enabled investment participation is highlighted by the fact that Gen Z tends to start investing earlier and more actively than older cohorts, with a significant share starting investment activities in early adulthood nearly twice as high as Millennials and more than three times higher than Generation X at similar life stages.

(World Economic Forum) Surveys reveal that a greater percentage of Gen Z than Millennials and Gen X rely on social media for financial education and trends, which influences their risk perceptions and decision frameworks. This increased engagement is accompanied by a strong reliance on online and social platforms for financial information. (GlobeNewswire) In addition to contributing to behavioural inclinations like mental framing effects and segmented mental accounting when allocating cash across digital budgeting tools, these trends promote cognitive biases like overconfidence, which are exacerbated by quick, dopamine-driven exposure to market "success stories." ( Jurnal Manajemen) Millennials and Generation X, on the other hand, typically exhibit more traditional and cautious investment behaviours. According to research, older investors Gen X in particular have a lower risk tolerance and frequently stick to traditional asset classes and well-established financial advising channels. This is indicative of a status quo mindset that has been cultivated by years of experience with legacy financial systems. (MDPI) Although Millennials embrace technology as well, their usage of digital platforms for investing is typically less widespread than that of Gen Z and is frequently balanced with conventional advice sources. (Fisglobal.com/investor )Therefore, Gen Z's digital fluency increases accessibility and early market entrance, but it also increases susceptibility to social contagion effects and framing biases, which can result in impulsive risk-taking and inadequate diversification.

The significance of customised financial education and platform design that takes into account both technological engagement and behavioural vulnerabilities is highlighted by this generational divide. (GlobeNewswire)

**Findings and Conclusion:**

The results of this study show that Generation Z's investment behaviour is significantly shaped by mental accounting, which affects how this generation views risk and distributes financial resources. According to research on Gen Z's financial behaviour, exposure to fintech platforms and digital engagement have a substantial impact on money management practices. This reinforces segmented financial thinking, which can result in risk preferences and compartmentalised decision-making that differ from more conventional, holistic portfolio approaches. In addition to making financial items more accessible, digital tools and social media provide visual cues and categorisation features that may intensify cognitive divisions and influence investment decisions.

This pattern of conduct is in accordance with more extensive research demonstrating that Gen Z's dependence on peer narratives and digital advice, which are frequently found online, raises the risk of biases including overconfidence and rash decisions. (The ASPD+1)

Fintech platforms, however, seem to have a dual effect: they can increase engagement and democratise access to investing opportunities, but they can also amplify behavioural biases if they are not combined with organised educational support. While technology makes it easier for younger investors to participate in the financial markets, low financial literacy increases the impact of cognitive biases, which may result in less-than-ideal diversification and increased vulnerability to social influence, according to conceptual and empirical research.

Further research demonstrates the moderating influence of financial education in lowering bias-driven errors and enhancing decision quality, underscoring the necessity of focused literacy programs adapted to the digital environment of Generation Z. All things considered, the data points to the possibility that better financial education combined with well-thought-out investment tools could help young investors make more resilient and informed decisions, enabling them to take advantage of digital platforms without succumbing to behavioural distortions. (ejournal.uinsaid.ac.id+1)

**RECOMMENDATIONS**

***For Policymakers:***

The creation and execution of focused financial literacy initiatives targeted at Generation Z should be given top priority by policymakers. Key ideas like diversification, risk assessment, long-term planning, and the cognitive biases that frequently impact young investors such as mental accounting and overconfidence should all be covered in these courses. Additionally, by encouraging Gen Z to critically assess financial content from social media, online trading forums, and other digital sources, public awareness efforts about digital investments might lessen the impact of peer pressure and impulsive decision-making. Policymakers can encourage this cohort to make more educated and disciplined investing decisions by combining education with awareness campaigns.

***For Financial Advisors:***

With incorporating goal-based investing tools into their advisory processes, financial advisors may assist Gen Z clients. By assisting investors in connecting financial decisions to well-defined personal goals, these tools promote decisions that are more in line with long-term financial well-being than with immediate needs. Behavioural nudges, like as warnings for portfolio rebalancing, reminders to examine overall asset allocation, or prompts emphasising overexposure in particular categories, can also be used by advisors. By encouraging clients to adopt more logical and varied investment methods, these prods help lessen the negative impacts of mental accounting.

***For Fintech Platforms*:**

By creating dashboards and user interfaces that prioritise long-term success over immediate, account-specific benefits, Fintech companies can significantly contribute to the development of wiser investment practices. Additionally, platforms ought to integrate diversification recommendations, danger alerts, and instructional advice right into the app experience. By encouraging consumers to think about their entire portfolio holistically rather than concentrating only on specific accounts or quick returns, these tools can assist combat cognitive biases and support wise decision-making. Fintechs can encourage sustainable investing practices by incorporating behavioural insights into platform design.

## LIMITATIONS

This study's limitations stem from its exclusive dependence on secondary sources, which means that results are derived on previously published research rather than first-hand empirical evidence. Because of this, the results could not accurately represent Generation Z's real investment habits and decision-making styles in modern environments. Additionally, the analysis does not take into account perspectives that are culturally or regionally particular, which restricts the potential to generalise findings across various nations or socioeconomic contexts where financial practices and digital adoption may vary. Lastly, selection bias may be introduced by the breadth of available literature, since conclusions may be disproportionately influenced by studies that are easier to access or often referenced. These drawbacks highlight how crucial it will be to carry out primary research in the future to confirm the trends seen and offer a more complex, context-sensitive understanding of Gen Z investing habits.

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