

The Investment Journey of Indian Investors: from Diversification to Portfolio Concentration

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Abstract: There has been rapid participation in the stock market by the young generation over the last few years, specifically the Gen Z group. Due to the introduction of online trading platforms and the wide access of financial information on various social media channels, young people find themselves investing at a relatively young age, while they are still schooling. The reasons for their investment are to earn passive income, be financially independent, and gain practical financial knowledge. During the first stages of investment, Gen Z investors try out various options like Initial Public Offering (IPOs), intraday trading, short-term trading, and long-term stock investment. The investment behavior of Gen Z investors is usually risky and associated with good technology literacy levels and a willingness to learn through hands-on experience in the market. Nevertheless, various studies in behavioral finance have shown that psychological biases play a critical role in shaping the decision-making process of the investors. As investors become experienced and start making stable income, their investment decisions will become more organized and disciplined. Investors often diversify their portfolios with various financial assets like stocks, mutual funds, ETFs, and bonds. Such diversification is consistent with Behavioral Portfolio Theory, which states that investors form a portfolio with several financial objectives and personal psychological preferences. In some cases, as investors' professional and personal obligations grow, they might consider simplifying their portfolios with fewer but more convincing assets. Generally speaking, the behavior of investors in the capital market is affected by both financial and psychological factors as well as economic environment conditions.

Keywords: Gen Z, Behavioral Portfolio Theory, Psychological Preferences & Biases

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