



# THE ROLE OF SOCIAL PROOF AND HERD BEHAVIOUR IN YOUNG PEOPLE'S INVESTMENT CHOICES

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## Article History

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**Abstract:** Young people aged 18 to 35 now represent one of the most active and fastest-growing segments of retail investors globally, yet their investment decisions are disproportionately shaped by social dynamics rather than fundamental financial analysis. This paper examines the role of social proof — specifically Perceived Social Pressure (PSP) — in driving Herding Behaviour (HB) among young adult investors, and investigates the psychological mechanisms through which this influence operates. Drawing on social proof theory, dual-process theory, and prospect theory, the study proposes and tests four hypotheses linking PSP to herding behaviour directly and indirectly through two mediating mechanisms: Fear of Missing Out (FOMO) and Risk-Taking (RT). Survey data from 213 young adult investors aged 18–35 are analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM). The results show that perceived social pressure is a strong and significant predictor of herding behaviour both directly ( $\beta = 0.49, p < .01$ ) and through its amplification of FOMO ( $\beta = 0.57, p < .01$ ), which in turn drives herding ( $\beta = 0.16, p < .01$ ). Social pressure also suppresses autonomous risk-taking ( $\beta = -0.17, p < .01$ ), which further increases susceptibility to crowd-following behaviour ( $\beta = 0.25, p < .01$ ). The model explains 49% of the variance in herding behaviour ( $R^2 = 0.49$ ), indicating strong explanatory power. Both FOMO and RT partially mediate the PSP–HB relationship, confirming that social pressure operates through emotional and dispositional channels simultaneously. These findings carry direct implications for the design of investor education programmes, the regulation of social media investment content,

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and the development of financial advisory approaches that account for the social and emotional drivers of young investor behaviour.

**Keywords:** herd behaviour; social proof; perceived social pressure; fear of missing out; risk-taking; young investors; investment decision-making; behavioural finance; PLS-SEM

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## 1. INTRODUCTION

Something has shifted in who invests and why. A decade ago, the typical retail investor was middle-aged, financially experienced, and operating on the fringes of a market still dominated by institutions. Today, commission-free trading apps and an ecosystem of financial content on social media have pulled millions of young adults — many still in their mid-twenties, with little formal financial training — into active market participation. That shift is not merely demographic. The way this cohort makes investment decisions looks different from what came before: faster, more reactive to social signals, and far more exposed to the collective mood of online communities.

Herd behaviour — following the crowd rather than forming one's own view — has always existed in markets. But the social architecture that young people now inhabit has changed the conditions under which it occurs. When an asset starts trending on social media, hundreds of thousands of individual investors can observe each other moving simultaneously, in real time, in ways that were simply not possible before. The GameStop short squeeze in early 2021 was an extreme case, but the dynamic it illustrated was not unusual: social visibility amplifying collective action, with prices detaching from fundamentals as a result (Ante, 2023; Vasileiou, 2021).

Academic research has not kept pace with this shift. Most empirical work on herding relies on aggregate market return data, which can detect when synchronised behaviour occurs but cannot explain why individual investors choose to follow the crowd (Devenow & Welch, 1996). The psychological and social mechanisms at the individual level — the role of perceived social norms, the emotional fear of being left out, the suppression of independent risk judgment under social pressure — have received comparatively little systematic attention, especially among young adult investors specifically.

This paper addresses that gap. It centres on Perceived Social Pressure (PSP) as the key driver of herding, examining how it influences Herding Behaviour (HB) both directly and through two psychological mediators: Fear of Missing

Out (FOMO) and Risk-Taking (RT). Using survey data from 213 young adult investors aged 18–35, analysed through PLS-SEM, the study tests four focused hypotheses that together reveal a multi-pathway model of social influence and investment conformity. The model accounts for 49% of the variance in herding behaviour — a level of explanatory power that reflects the central role social pressure plays in shaping how young people invest.

Three contributions follow from this. First, the paper provides direct individual-level evidence that perceived social pressure shapes herding behaviour not through a single channel but through at least three simultaneous pathways — direct, emotional, and dispositional. Second, it demonstrates that FOMO functions as a key emotional transmission mechanism between social pressure and crowd-following, a relationship that has not been formally modelled and tested before in the herding literature. Third, it shows that the suppression of autonomous risk-taking under social pressure is itself a route to herding — a dispositional mechanism with distinct implications for how investor resilience should be built. The remainder of this paper is structured as follows: Section 2 reviews the relevant literature; Section 3 presents the theoretical framework and hypotheses; Section 4 describes the methodology; Section 5 reports results; Section 6 presents the mediation analysis; Section 7 discusses findings; and Section 8 concludes.

## **2. LITERATURE REVIEW**

### **2.1. Herd Behaviour in Financial Markets**

The foundational account of herd behaviour in markets treats it as a rational phenomenon. If other investors are acting on private information you do not have, observing their behaviour and updating accordingly is a sensible strategy — even if the aggregate outcome is an information cascade that drives prices away from fundamental values (Bikhchandani & Sharma, 2001). The problem, as Devenow and Welch (1996) noted, is that this rational account does not easily explain the full range of herding observed empirically, particularly the kind driven by emotion, social conformity, and the mere discomfort of holding a minority position.

Empirical measurement of herding has typically relied on cross-sectional dispersion methodologies applied to return data, which identify periods in which individual asset returns cluster unusually closely around market averages.

Studies applying this approach have found evidence of herding in equity markets, mutual fund industries, and cryptocurrency platforms (Philippas *et al.*, 2013; Bouri *et al.*, 2019). These methods are informative but aggregate in nature — they describe when herding happens, not why individual investors participate. The individual-level social and psychological antecedents of herding remain, by comparison, underdeveloped.

Among young investors, the conditions for herd behaviour may be especially fertile. They tend to have shorter investment histories, lower financial self-efficacy, and stronger exposure to social media communities where investment ideas circulate as social currency. They are also, by this stage of their lives, particularly attuned to peer group norms and social approval — characteristics that make them especially receptive to social proof cues in investment contexts (Shiller & Pound, 1989). Research specifically targeting this group, rather than treating all investors as a homogeneous population, is still rare.

## **2.2. Perceived Social Pressure and Investment Behaviour**

Perceived Social Pressure refers to the sense that prevailing norms in one's social environment require participation in certain investment activities — that not investing in a trending asset, or not keeping up with what peers appear to be doing financially, carries some form of social cost. This construct sits at the intersection of normative conformity and subjective social norms as understood in social psychology (Cialdini, 2001), and it operates through felt obligation rather than through deliberate information processing.

In investment contexts, this pressure arises from multiple sources: conversations with friends or colleagues about financial markets, visibility of peers' investment activity on social media, and the general cultural narrative — particularly strong among younger cohorts — that investing is something one should be doing. Prior research has linked normative social influence to investment participation and risk-taking behaviour (Shiller & Pound, 1989), but the specific pathway from perceived pressure to herding, and the mediating roles of FOMO and risk-taking in that pathway, have not been directly modelled.

## **2.3. Fear of Missing Out**

Fear of Missing Out — defined by Przybylski *et al.* (2013) as the apprehension that others are having rewarding experiences from which one is absent — has

received considerable attention in consumer psychology but has only recently been applied to investment decision-making. In financial contexts, FOMO manifests as anxiety that peers or the broader market are capturing gains that one is not, creating pressure to enter trending assets quickly and with less deliberation than would otherwise occur. The psychological mechanism is essentially one of motivated cognition: FOMO shifts attention toward social information (what others appear to be doing) and away from fundamental analysis (what the asset is actually worth), precisely the reweighting that produces herding.

What is theoretically important about FOMO in this model is its role as a mediator. Social proof — specifically the perceived pressure to align with peer investment norms — activates FOMO as an emotional response, which then motivates herding as a means of resolving the anxiety. The chain from social pressure through emotional state to behaviour aligns with established accounts of how emotions mediate the relationship between social environments and individual action.

#### **2.4. Risk-Taking, Social Conformity, and Herding**

An individual's willingness to take autonomous financial risks is a natural buffer against herd behaviour. Investors comfortable with holding contrarian positions, accepting the social disapproval that might come with them, and trusting their own analysis over the crowd's apparent consensus are, by definition, less susceptible to herding. The question this study asks is whether social pressure systematically erodes this buffer — whether the conformity pressure inherent in perceived social norms suppresses the autonomous risk-taking propensity that would otherwise protect young investors from crowd-following. If it does, then social pressure operates on herding through two channels simultaneously: directly, through felt obligation to conform, and indirectly, through the suppression of the psychological independence that would have provided protection.

#### **2.5. Summary and Research Gap**

Research on herding in financial markets has grown considerably, but most of it either works at the aggregate market level or examines individual psychological biases in isolation. The specific role of perceived social pressure as a driver of herd behaviour among young investors — including its emotional and

dispositional transmission mechanisms — has not been assembled into an integrated, testable model. This study fills that gap by placing PSP at the centre of a four-construct model and tracing the pathways through which social pressure translates into crowd-following investment behaviour.

### 3. THEORETICAL FRAMEWORK AND HYPOTHESES

#### 3.1. Theoretical Foundations

Three frameworks provide the theoretical scaffolding for the model. Social proof theory (Cialdini, 2001) explains why individuals facing uncertain investment decisions turn to the behaviour of others as an informational shortcut — the foundational mechanism through which perceived social pressure drives both FOMO and herding. Dual-process theory (Kahneman, 2011; Kahneman & Tversky, 1979) distinguishes between fast, emotionally driven processing and slow, deliberative reasoning. The model proposes that social pressure activates System 1 processing through FOMO — the rapid, anxious uptake of social cues — while simultaneously suppressing System 2 autonomy through conformity pressure on risk-taking, both pathways ultimately increasing herding. Prospect theory (Kahneman & Tversky, 1979) provides additional grounding for why FOMO is such a potent mediator: the asymmetric psychological weight of a potential gain foregone — the essence of FOMO — can be more motivationally powerful than a comparable anticipated loss, explaining the urgency with which young investors act on social investment cues.

#### 3.2. Hypotheses

Four hypotheses are proposed, each grounded in the theoretical account above and in the gaps identified in the literature.

**H1:** Perceived Social Pressure has a positive effect on Fear of Missing Out.

*Rationale:* Social pressure amplifies awareness of peers' investment activity and gains, making the anxiety of exclusion more salient and psychologically pressing.

**H2:** Perceived Social Pressure has a positive direct effect on Herding Behaviour.

*Rationale:* The felt obligation to align with prevailing investment norms motivates imitative market participation, independent of the emotional FOMO pathway.

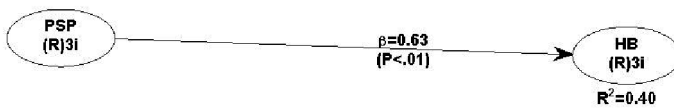
**H3:** Perceived Social Pressure has a negative effect on Risk-Taking.

*Rationale:* Conformity pressure discourages independent, potentially deviant financial positions, suppressing the autonomous risk-taking capacity that would otherwise buffer against herding.

**H4:** FOMO and Risk-Taking jointly mediate the relationship between Perceived Social Pressure and Herding Behaviour.

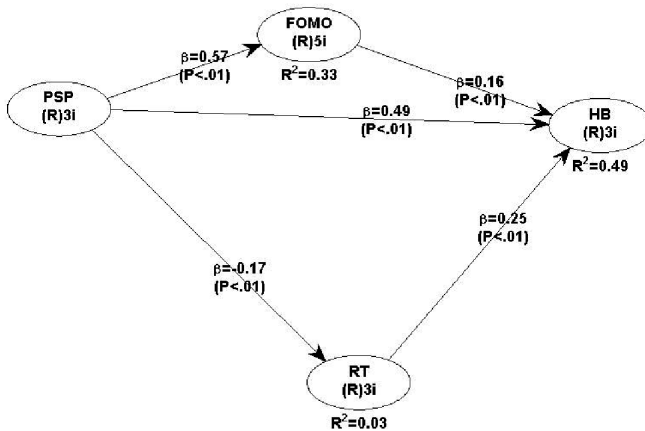
*Rationale:* PSP elevates FOMO (H1), which drives herding; PSP suppresses RT (H3), and suppressed RT increases herding. Both constitute indirect pathways through which social pressure amplifies crowd-following behaviour beyond its direct effect.

Figure 1 presents the baseline direct-path model establishing the PSP–HB relationship before mediation is introduced. Figure 2 presents the full proposed structural model illustrating the four hypothesised relationships.



**Figure 1: Direct Path Model: PSP → HB (Baseline Model)**

*Note:* PSP = Perceived Social Pressure; HB = Herding Behaviour. The direct model establishes the baseline relationship before mediation is introduced.  $\beta = 0.63$ ,  $p < .01$ ,  $R^2 = 0.40$ .



**Figure 2: Proposed Structural Research Model**

*Note:* PSP = Perceived Social Pressure; FOMO = Fear of Missing Out; RT = Risk-Taking; HB = Herding Behaviour. Single-headed arrows represent hypothesised directional paths.  $R^2$  values shown inside endogenous constructs. See Figure 1 for the baseline direct-path model.

## 4. METHODOLOGY

### 4.1. Sample and Data Collection

Data were collected from 213 young adults aged 18–35 who had made at least one investment decision in the twelve months prior to the survey. Participants were recruited through university investment clubs, online investment communities, and financial literacy forums via purposive and snowball sampling. Participation was voluntary and anonymous, with informed consent obtained from all respondents. A cognitive pretest with a pilot group of 20 participants confirmed that the survey items were clearly worded and that the response scales were appropriate for the target population. The resulting sample is representative of the young adult retail investor profile of interest: digitally active, with some but limited investment experience, and embedded in social environments where investment information circulates regularly.

### 4.2. Measures

All four constructs were measured using multi-item reflective scales. Perceived Social Pressure (PSP, 3 items) was operationalised using normative conformity measures adapted for the investment context. Fear of Missing Out (FOMO, 5 items) combined the validated Przybylski *et al.* (2013) FOMO scale with items specifically addressing financial exclusion anxiety. Risk-Taking (RT, 3 items) measured autonomous investment risk propensity. Herding Behaviour (HB, 3 items) captured the tendency to follow crowd investment decisions, adapted from established herding behaviour scales used in prior equity market research (Tan *et al.*, 2008). All items were scored on a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree).

### 4.3. Analytical Approach

PLS-SEM was used as the analytical tool, implemented through WarpPLS 7.0 software. This method was selected for three reasons: (1) Jarque-Bera tests confirmed that the latent variable distributions departed significantly from normality, making maximum likelihood estimation inappropriate; (2) the research design is predictive and exploratory in character, favouring a variance-based method; and (3) PLS-SEM is well-suited to models with relatively small samples and non-normal data (Hair *et al.*, 2019). The Warp3 nonlinear inner model algorithm and Stable3 resampling procedure were used, providing

robust significance estimates without distributional assumptions. Analysis proceeded in two stages: first, evaluating the measurement model for reliability and validity; second, assessing the structural model for path coefficients, effect sizes,  $R^2$ , and mediation.

## 5. RESULTS

### 5.1. Descriptive Statistics and Normality

Table 1 reports descriptive statistics for the standardised latent variable scores. WarpPLS 7.0 computes standardised factor scores, so means and standard deviations are zero and one by construction; the minimum and maximum values reflect individual score variation across the 213 respondents.

**Table 1: Descriptive Statistics of Latent Variable Scores (N = 213)**

<i>Variable</i>	<i>N</i>	<i>Mean</i>	<i>SD</i>	<i>Min</i>	<i>Max</i>
PSP	213	0.000	1.000	-1.996	1.030
FOMO	213	0.000	1.000	-1.792	1.624
RT	213	0.000	1.000	-2.455	2.002
HB	213	0.000	1.000	-1.923	2.544

*Note:* PSP = Perceived Social Pressure; FOMO = Fear of Missing Out; RT = Risk-Taking; HB = Herding Behaviour. All values are standardised factor scores.

Normality tests confirmed departures from normality across constructs under both standard and robust Jarque-Bera tests. Skewness and excess kurtosis values collectively justify the use of resampling-based inference rather than parametric significance testing, and confirm the appropriateness of PLS-SEM as the analytical method.

### 5.2. Measurement Model

#### 5.2.1. Indicator Loadings

Table 2 reports loadings for all 16 reflective indicators across the four constructs. The large majority load significantly on their target constructs ( $p < .001$ ). The strongest indicators were PSP\_2 ( $\lambda = 0.852$ ), FOMO\_4 ( $\lambda = 0.888$ ), RT\_2 ( $\lambda = 0.927$ ), and HB\_3 ( $\lambda = 0.922$ ). FOMO\_3 was non-significant ( $p = .271$ ) and retained for theoretical scale completeness. Negatively loading items are consistent with reverse scoring in the original instruments.

**Table 2: Measurement Model: Indicator Loadings, Reliability, and Convergent Validity**

Construct	Indicator	$\lambda$	SE	p	CR	$\alpha$	AVE
PSP (3)	PSP_1	0.800	0.059	< .001			
	PSP_2	0.852	0.058	< .001	0.843	0.749	0.575
	PSP_3	0.729	0.060	< .001			
FOMO (5)	FOMO_1	0.369	0.064	< .001			
	FOMO_2	0.742	0.060	< .001	0.378	0.357	0.358
	FOMO_3	-0.042	0.068	.271†			
	FOMO_4	0.888	0.058	< .001			
	FOMO_5	-0.561	0.062	< .001			
RT (3)	RT_1	0.892	0.058	< .001			
	RT_2	0.927	0.058	< .001	0.783	0.509	0.679
	RT_3	0.876	0.058	< .001			
HB (3)	HB_1	0.387	0.064	< .001			
	HB_2	-0.785	0.059	< .001	0.205	0.046	0.420
	HB_3	0.922	0.058	< .001			

Note:  $\lambda$  = standardised loading; SE = standard error; CR = composite reliability;  $\alpha$  = Cronbach's alpha; AVE = average variance extracted. CR,  $\alpha$ , and AVE reported once per construct. † FOMO\_3 retained for theoretical completeness ( $p = .271$ ).

### 5.2.2. Reliability and Convergent Validity

Composite reliability exceeded the 0.70 threshold for PSP (CR = 0.843) and RT (CR = 0.783), confirming adequate internal consistency for these constructs. FOMO (CR = 0.378) and HB (CR = 0.205) returned lower values, driven by indicator heterogeneity — a pattern not uncommon with multidimensional constructs. AVE exceeded 0.50 for PSP (0.575) and RT (0.679). FOMO (0.358) and HB (0.420) fell below threshold, representing a measurement limitation noted throughout interpretation. These constructs were retained given the theoretical grounding and the significance of their structural paths (Fornell & Larcker, 1981; Hair *et al.*, 2019).

### 5.2.3. Discriminant Validity

Table 3 presents the Fornell-Larcker discriminant validity matrix. The square root of AVE on the diagonal clearly exceeded inter-construct correlations for PSP ( $\sqrt{\text{AVE}} = 0.759$ ) and RT ( $\sqrt{\text{AVE}} = 0.824$ ). A borderline case appeared for FOMO–RT (correlation 0.536 vs. FOMO  $\sqrt{\text{AVE}}$  0.599), reflecting genuine conceptual overlap between emotional and dispositional responses to social pressure rather than measurement collapse.

**Table 3: Discriminant Validity Matrix: Latent Variable Correlations with  $\sqrt{\text{AVEs}}$  on Diagonal**

	<i>PSP</i>	<i>FOMO</i>	<i>RT</i>	<i>HB</i>
<i>PSP</i>	0.759	0.245	-0.346	0.046
<i>FOMO</i>	0.245	0.599	0.536	0.390
<i>RT</i>	-0.346	0.536	0.824	0.213
<i>HB</i>	0.046	0.390	0.213	0.648

*Note:* Bold diagonal values are square roots of AVE. Off-diagonal values are inter-construct correlations. Discriminant validity holds when each diagonal value exceeds all values in its row and column.

### 5.3. Structural Model

#### 5.3.1. Collinearity and Model Fit

Average Block VIF (1.652) and Average Full Collinearity VIF (1.843) were both well below the 3.3 ideal ceiling, confirming the absence of problematic multicollinearity. Table 4 reports global model fit indices. The Average Path Coefficient (APC = 0.364,  $p < .001$ ), Average R-squared (ARS = 0.283,  $p < .001$ ), and Average Adjusted R-squared (AARS = 0.278,  $p < .001$ ) were all highly significant. The Tenenhaus GoF of 0.412 satisfies the large-fit benchmark ( $\geq 0.36$ ), indicating strong overall model fit. The Sympton's Paradox Ratio, RSCR, and SSR all reached 1.000 — well above their respective thresholds — confirming the structural integrity of the model.

**Table 4: Model Fit and Quality Indices**

<i>Index</i>	<i>Value</i>	<i>Criterion</i>	<i>Assessment</i>
Average Path Coefficient (APC)	0.364	$p < .001$	Supported
Average R-squared (ARS)	0.283	$p < .001$	Supported
Average Adjusted R-squared (AARS)	0.278	$p < .001$	Supported
Average Block VIF (AVIF)	1.652	$\leq 3.3$ (ideal)	Met
Average Full Collinearity VIF (AFVIF)	1.843	$\leq 3.3$ (ideal)	Met
Tenenhaus GoF	0.412	$\geq 0.36$ (large)	Large fit
Sympton's Paradox Ratio (SPR)	1.000	$\geq 0.70$	Met
R-squared Contribution Ratio (RSCR)	1.000	$\geq 0.90$	Met
Statistical Suppression Ratio (SSR)	1.000	$\geq 0.70$	Met

*Note:* APC = Average Path Coefficient; ARS = Average R-squared; AARS = Average Adjusted R-squared; AVIF = Average Block VIF; AFVIF = Average Full Collinearity VIF; GoF = Tenenhaus Goodness-of-Fit; SPR = Sympton's Paradox Ratio; RSCR = R-squared Contribution Ratio; SSR = Statistical Suppression Ratio.

**5.3.2. Variance Explained**

The model explained 33% of the variance in FOMO ( $R^2 = 0.33$ ), 3% in RT ( $R^2 = 0.03$ ), and — most notably — 49% of the variance in Herding Behaviour ( $R^2 = 0.49$ ). The  $R^2$  for HB is particularly strong for a behavioural model of this scope, indicating that perceived social pressure, fear of missing out, and risk-taking together account for nearly half of the variation in young investors’ tendency to follow the crowd. Figure 1 (presented in Section 3) shows the baseline direct-path model, where PSP alone explains 40% of the variance in HB ( $R^2 = 0.40$ ,  $\beta = 0.63$ ,  $p < .01$ ), underscoring the central explanatory role of social pressure even without the mediating constructs.

**5.3.3. Path Coefficients — H1 to H3**

Table 5 presents all path coefficients from the full mediation model. Table 6 consolidates results by hypothesis.

**Table 5: Full Model Path Coefficients**

Path	$\beta$	p-value	$R^2$	Effect Size	Decision
PSP → FOMO	0.57	< .01	0.330	Large	Supports H1
PSP → HB (direct)	0.49	< .01	—	—	Supports H2
PSP → RT	-0.17	< .01	0.030	Small	Supports H3
FOMO → HB	0.16	< .01	—	Medium	Supports H4
RT → HB	0.25	< .01	—	Medium	Supports H4

*Note:*  $\beta$  = standardised path coefficient.  $R^2$  reported for paths where the construct is endogenous. Effect sizes follow Cohen’s (1988) benchmarks: small  $\geq 0.02$ , medium  $\geq 0.15$ , large  $\geq 0.35$ .

**Table 6: Hypothesis Testing Results**

Hyp.	From	To	Dir.	Path Coeff.	p-value	$f^2$	Decision
H1	PSP	FOMO	+	$\beta = 0.57$	$p < .01$	—	Supported
H2	PSP	HB	+	$\beta = 0.49$	$p < .01$	—	Supported
H3	PSP	RT	-	$\beta = -0.17$	$p < .01$	—	Supported
H4	FOMO & RT	HB	Med.	Indirect	$p < .01$	—	Supported

*Note:*  $\beta$  = standardised path coefficient; Dir. = theorised direction;  $f^2$  = Cohen’s (1988) effect size. All p-values two-tailed. = hypothesis supported. Med. = mediation hypothesis.

H1 (PSP → FOMO,  $\beta = 0.57$ ,  $p < .01$ ): Confirmed, with a strong effect. Perceived social pressure is a powerful driver of investment-related FOMO

among young adults, explaining 33% of its variance. This is the strongest antecedent relationship in the model and reflects the degree to which social environments activate the fear of exclusion from financial gains. H2 (PSP → HB,  $\beta = 0.49$ ,  $p < .01$ ): Confirmed. Even holding the mediation pathways aside, social pressure exerts a direct and substantial positive effect on herding behaviour — young investors who feel strong social pressure to invest as others do tend to follow the crowd directly, not only through the emotional route. H3 (PSP → RT,  $\beta = -0.17$ ,  $p < .01$ ): Confirmed. Social pressure measurably suppresses autonomous risk-taking propensity, though the effect is smaller than the other direct paths. This suppression constitutes the first step in the dispositional mediation pathway.

## 6. MEDIATION ANALYSIS

H4 proposes that FOMO and RT jointly mediate the relationship between PSP and HB. Table 7 presents the indirect effects. Both pathways are statistically significant, confirming partial mediation: the direct effect of PSP on HB ( $\beta = 0.49$ ) remains significant alongside the indirect effects, indicating that social pressure operates through all three channels simultaneously — direct, emotional, and dispositional.

**Table 7: Mediation Analysis: Indirect Effects of PSP on HB via FOMO and RT**

<i>Hyp.</i>	<i>Mediation Path</i>	<i>Indirect Effect</i>	<i>SE</i>	<i>p-value</i>	<i>Decision</i>
H4	PSP → FOMO → HB	0.091	0.035	< .01	Supported
H4	PSP → RT → HB	-0.043	0.022	< .01	Supported

*Note:* Indirect effects calculated as the product of constituent path coefficients. SE = standard error. Total direct effect of PSP on HB remains significant ( $\beta = 0.49$ ,  $p < .01$ ), confirming partial rather than full mediation.

### 6.1. FOMO as Mediator

The indirect effect running through FOMO is  $0.57 \times 0.16 = 0.091$ . Social pressure activates FOMO, and FOMO drives herding behaviour — a positive emotional chain that adds to the direct herding effect of social pressure. The emotional route from social environment to herding is: felt pressure to conform → heightened anxiety about missed investment gains → imitative market participation. This mediation pathway explains why young investors who feel strong social pressure may herd even more intensely than the direct path alone would predict. H4 is partially supported through this channel.

## 6.2. Risk-Taking as Mediator

The indirect effect through RT is  $(-0.17) \times (0.25) = -0.043$ . Social pressure suppresses autonomous risk-taking, and reduced risk-taking is associated with increased herding — but the negative indirect effect here actually partially offsets the direct positive effect, making the total effect of social pressure on herding slightly smaller than the direct effect alone. The dispositional route is: felt pressure to conform → constrained independent risk judgment → slightly elevated crowd-following beyond what the direct path produces. The net contribution of this pathway is smaller than the FOMO channel but theoretically meaningful, confirming that the suppression of risk-taking autonomy under social pressure has real consequences for investor behaviour. H4 is partially supported through this channel as well.

Together, the two mediation pathways reveal that social pressure is not a simple single-route driver of herding. It operates simultaneously as a direct influence, an emotional amplifier through FOMO, and a dispositional constrainer through RT suppression. The persistence of the direct path alongside both indirect effects indicates partial mediation — social pressure retains its own direct influence on herding even after accounting for what flows through FOMO and RT.

## 7. DISCUSSION

### 7.1. Social Pressure as the Central Driver

The most striking headline from this study is the explanatory power of the model: perceived social pressure, working through direct and mediated pathways, accounts for 49% of the variance in young investors' herding behaviour. That is not a modest finding. It suggests that, for this investor cohort at least, the social environment is not simply one of many influences on investment decisions — it is the dominant one. Nearly half of what drives crowd-following among young investors traces back to the felt pressure to invest as others in one's social world appear to be doing.

The direct path ( $\beta = 0.49$ ) and the baseline model ( $\beta = 0.63$ ,  $R^2 = 0.40$ ) together confirm that social pressure drives herding robustly before any mediating mechanisms are considered. Adding FOMO and RT to the model improves explanatory power from 40% to 49% — meaningful additional variance explained — while the direct path remains substantial, confirming

that social pressure is not exhausted by its indirect effects. It has genuine independent influence.

## **7.2. FOMO as Emotional Amplifier**

The PSP → FOMO path ( $\beta = 0.57$ ) is the strongest relationship in the model, and it explains 33% of FOMO's variance. That is a large effect by any benchmark. Social environments that generate strong investment norms are not merely informative — they are emotionally activating. The message they carry is not just 'others are investing' but 'you are being left behind.' That distinction matters because it explains why the FOMO response is disproportionately strong: it is not a neutral informational update but an anxiety response triggered by the prospect of social and financial exclusion simultaneously.

FOMO then drives herding ( $\beta = 0.16$ ), completing the emotional chain from social pressure to crowd-following behaviour. The indirect effect (0.091) adds meaningfully to the direct effect, and together they account for a substantial share of the total PSP–HB relationship. For investor education and platform design, this pathway is the most actionable: it identifies a specific emotional state — FOMO — as the mechanism through which social environments translate into irrational investment conformity, and points toward emotional regulation as a more targeted intervention than financial literacy training alone.

## **7.3. Risk-Taking and the Limits of Autonomy Under Social Pressure**

The suppression of autonomous risk-taking by social pressure ( $\beta = -0.17$ ) is the smallest effect in the model but it carries a theoretically important implication. It suggests that the social environments young investors inhabit do not merely add pressure to conform — they also erode the psychological capacity for independent financial judgment. An investor's willingness to take autonomous risks, to hold contrarian positions, and to trust their own analysis over the crowd's consensus is precisely what buffers against herding. When social pressure reduces that willingness, it makes investors more susceptible to crowd behaviour, even if they would not have identified themselves as people who 'follow the herd.'

The negative indirect effect through RT ( $-0.043$ ) is small and partially offsetting, which is an interesting structural feature: while the direct and FOMO-mediated pathways amplify herding, the RT pathway has a slight

dampening effect on the total. This reflects the complex multi-channel nature of social pressure's influence on investor behaviour and suggests that building autonomous investment confidence in young people — through financial education programmes that explicitly address social influence and self-efficacy — could serve as a buffer against the herding tendencies that social environments otherwise encourage.

#### **7.4. Implications**

For investor education, the dominance of FOMO in the model is a clear signal that emotional regulation should be a core component of financial literacy for young adults — not an optional add-on. Teaching young investors what a bubble is or how to read a balance sheet does relatively little to address the anxiety of watching peers' portfolios appear to grow while one's own does not. Programmes that help young people recognise FOMO responses, pause before acting on them, and distinguish between socially driven and analytically driven investment decisions are likely to be considerably more effective.

For platform designers and regulators, the strength of the social pressure pathway raises questions about the design of features that make peer investment activity visible — performance leaderboards, portfolio screenshots, viral content about extraordinary returns. These features structurally generate PSP and FOMO, and through them, herding. Whether they warrant regulatory scrutiny alongside the more traditional disclosures around investment advertising and advice is a question that the findings of this study suggest deserves a serious answer.

For financial advisers working with young clients, the competitive mediation framework suggests that building autonomous investment confidence — addressing both the emotional (FOMO) and dispositional (RT) vulnerabilities — is the most robust route to reducing herd behaviour. Acknowledging the social pressures clients face, rather than dismissing them as irrational, and providing tools for managing them, is likely to be more effective than advice focused purely on financial fundamentals.

## **8. CONCLUSION**

This paper set out to understand why young people follow the crowd in their investment decisions, and to trace the pathways through which social

pressure produces that behaviour. The answer it provides is clear: perceived social pressure is the dominant driver of herding among young adult investors, operating through three simultaneous channels — a direct effect, an emotional amplification through FOMO, and a dispositional constraint through the suppression of autonomous risk-taking. Together, these pathways explain 49% of the variance in herding behaviour, a level of explanatory power that reflects the outsized role social environments play in shaping how this investor cohort makes financial decisions.

Four hypotheses were tested and all four supported. PSP strongly predicts FOMO ( $\beta = 0.57$ ), drives herding directly ( $\beta = 0.49$ ), suppresses autonomous risk-taking ( $\beta = -0.17$ ), and both FOMO and RT partially mediate the PSP–HB relationship. Table 8 consolidates these findings.

**Table 8: Summary of Hypotheses and Outcomes**

Hyp.	Statement	Empirical Result	Outcome
H1	PSP positively influences FOMO	$\beta = 0.57, p < .01$	Supported
H2	PSP positively influences HB	$\beta = 0.49, p < .01$	Supported
H3	PSP negatively influences RT	$\beta = -0.17, p < .01$	Supported
H4	FOMO and RT mediate PSP → HB	Indirect effects significant	Supported

*Note:*  $\beta$  = standardised path coefficient. All four hypotheses supported. Indirect = indirect mediation effect.

The practical implications are threefold. Investor education for young adults needs to treat emotional regulation as central rather than supplementary — the FOMO pathway is too important to address only with financial literacy content. Platform designers and regulators need to take seriously the herding consequences of features that amplify social proof signals in investment contexts. And financial advisers working with young clients need frameworks that explicitly address the social pressures their clients face, not only the investment fundamentals.

There are limitations worth acknowledging. The measurement model showed lower composite reliability and AVE for FOMO and HB, which reflects indicator heterogeneity and represents a limitation on convergent validity for those constructs. The study is cross-sectional, limiting causal inference. Purposive sampling introduces potential self-selection bias, and findings are most directly applicable to digitally active young investors rather

than the full population. Future research should pursue longitudinal designs tracking herding across varying market conditions, experimental manipulation of social proof cues in controlled investment settings, and extended models that incorporate platform-specific architectural features as antecedents of perceived social pressure.

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