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A critical review of FOMO behaviour among young investors

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Abstract

The fear of missing out (FOMO) is the emotional feeling of missing out on the opportunity to gain a fulfilling experience. FOMO is a behavioural trait that influences an individual's decisions such as utilising social media, adopting new technology, crowdfunding, and investing in the equity market. Young investors with FOMO behaviour might mimic what other investors do in fear of missing out on the opportunity for a higher return in the financial market. The purpose of this paper is to understand the concept of FOMO and review what researchers have discovered about FOMO behaviour among young investors. Based on these recent findings on FOMO behaviour, it can be concluded that a volatile market, risk-averse investors, and perceived market efficiency are critical factors of FOMO behaviour among young investors. The risk-averse attitude, subjective norms of perceived market efficiency and perceived control behaviour during market volatility could be examined based on the TPB model.

Keywords:

Herding behaviour;
FOMO;
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Equity market;
Fear of missing out.

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1. Introduction

The fear of missing out (FOMO) is the emotional feeling of missing out on the opportunity to gain a fulfilling experience. It is a "pervasive apprehension that others might be having rewarding experiences from which one is absent" (Przybylski et al., 2013). FOMO is a behavioural trait that influences an individual's emotional well-being (Stead & Bibby, 2017) in making decisions such as utilising social media, adopting new technology, crowdfunding, and making investment decisions. Students with high FOMO were found to be more likely to use Facebook during university lectures (Przybylski et al., 2013). Managers of small and medium enterprises adopt new technology in their business operations due to FOMO bias (Gartner et al., 2022). Chinese consumers were found to consume luxury cosmetics due to FOMO (Kang et al., 2019). FOMO is also an influential tool for crowd investors to attract crowdfunding ventures (Sabia et al., 2022).

In the case of the equity market, FOMO is the investment behaviour of following other investors' strategies for fear of losing the opportunity to invest and acquire stock returns (Gupta and Shrivastava, 2022). It is one of the reasons investors herd. Herding behaviour is a tendency to imitate other investors' strategies due to a lack of investment experience (Humayun Kabir & Shakur, 2018; Ahmad & Wu, 2022) in pursuit of higher profits in investments (Kumari et al., 2020). Sometimes known as "kiasu" behaviour, FOMO leads investors toward herding, mimicking what other investors do in fear of missing out on the opportunity of a higher return in the financial market.

FOMO is found to be highly significant in China, Hong Kong, Malaysian, Korean, and Indian stock markets during high volatility periods. The FOMO was found to drive herding behaviours during the Asian financial crisis in 1997 – 1998 (Humayun Kabir and Shakur, 2018), the global financial crisis in 2009 – 2010 (Humayun Kabir & Shakur, 2018; Ferreruela & Mallor, 2021) and the COVID-19 pandemic in 2020 – 2021 (Ferreruela & Mallor, 2021).

The International Monetary Fund recently announced that the global economic outlook would be challenging and “gloomy” for 2023, with a forecasted growth of 2.7 per cent in 2023, compared to 3.2 per cent in 2022 (World Economic Outlook Report October 2022). Although Malaysia has declared the COVID-19 endemic phase, the uncertainty of inflationary pressure, food security, and sluggish global expectations is apparent. Thus, will FOMO persist in the presence of rising prices and tension in the stock market?

The purpose of the paper is to bring to light the concept of FOMO behaviour among young investors and what researchers have discovered about FOMO behaviour influencing young investors. This paper reviews the influence of FOMO behaviour on young investors’ choice to invest in the equity market. Young investors mean young adults born from 1981 onwards. Those born between 1981 and 1996 (ages 26 to 41 in 2022) are commonly known as millennials, and those born from 1997 onward are known as generation Z, or Gen Z. FOMO behaviour is assumed to affect young investors of Gen Z, those aged 26 to 41 years old. Rahman and Gan (2020) argued that millennials were willing to invest in the financial market and embrace financial freedom. Young investors in Malaysia rely on reports and investment insights from the government, financial institutions, and central banks to make their investment decisions.

2. FOMO Investment Behaviour

In an efficient market, investors are assumed to be unbiased and rational in choosing their optimal investment portfolio. However, an efficient market tends to neglect several behavioural factors among investors, leading them to make irrational investment decisions. Charron (2017) refuted the rationality of investors as they ignored asset bubbles and financial crashes, which caused market inefficiency. Ahmad (2021) also argued that investors lacking confidence are inclined to psychological biases and sometimes make errors in their investment decisions. Underconfident investors have an adverse short and long-term decisions in the equity market.

Risk-averse investors typically analyse financial market trends before investing in their preferred stocks. However, Raut (2020) and Ahmad and Wu (2022) argued that investors would act irrationally and assume higher risks due to the influence of other investors. Raut (2020) questioned how individuals’ experience and influence from others might affect their investment decision in India’s stock market. Raut (2020) studied how psychological effects, social norms, and personal ability might affect individual investors’ intention to invest in India’s stock market. Ahmad and Wu (2022) studied the stimuli of herding behaviour of individual investors’ trading decisions on the Pakistan stock market. They questioned how herding behaviour might affect investors’ capability to manage their investment portfolio. Both Raut (2020) and Ahmad and Wu (2022) highlighted individuals’ indecisive investment behaviour in the stock market due to subjective norms (Raut, 2020) and herding behaviour (Ahmad and Wu, 2022).

Investors who have high FOMO may demonstrate herding behaviours. Herding behaviour may not be necessarily caused by FOMO alone. The herding effect of collective behaviour was driven by high FOMO (Kang et al., 2019). FOMO also mediates investors’ loss aversion and herding investment decisions. Investors with high FOMO will increase loss aversion and herd (Gupta & Shrivastava, 2022). Kumari et al. (2020) examined the herding behaviour in India’s stock market and discovered that social factors stimulate herding behaviour the most. FOMO, part of social

traits, affects herding behaviour among young investors, indicating that an individual's attribute leads to herding behaviour (Hodkinson, 2019).

Stocks traded online are subjected to trading restrictions when the equity market faces high volatility. During trade restrictions, investors are not allowed to buy or sell online. Investors with high FOMO was found to be more likely to react negatively during trade restriction (Potsaid & Venkataraman, 2022).

Entrepreneurs could leverage on FOMO and pressure potential crowd investors to invest in their businesses (Sabia et al., 2022). Some of the pressure includes a short deadline to decide as well as publishing potential earnings and past records. However, FOMO was insignificant in influencing US investors to hold of risky assets when the expected return on equity is low relative to the expected return on bonds (Perras & Wagner, 2020).

3. Theoretical Framework of FOMO Behaviour

The prospect theory and heuristic behaviour have been found to be the prime mover of herding behaviour among young investors. The prospect theory refers to the influence of subjective mental states such as regret, aversion (Goyal et al., 2021), and peer pressure when making investment decisions in the equity and mutual funds market. It can be applied to study FOMO behaviour among young investors as they evaluate their investments through herding.

Investors were also influenced by heuristic-related biases when they made their investment decisions. Most investors will invest in securities with readily available information on past financial returns and the companies' track records. This heuristic behaviour leads to irrational investment behaviour (Khan et al., 2020). Hence, FOMO may arise due to heuristic and prospect undertakings.

The Theory of Planned Behaviour (TPB) can be applied to study FOMO behaviour due to its effectiveness in assessing psychological variables and the effects of experience on decision-making (Raut, 2020). The TPB was developed by from the Theory of Reasoned Action (TRA) (Ajzen and Fishbein, 1981), which focuses on the intention to perform a specific behaviour (Ajzen, 1991). The TPB expands the TRA by examining individuals' attitudes, subjective norms and perceived behavioural control (Adil et al., 2022).

Attitude is an individual's approach towards a specific behaviour. Investment is how a person may behave during a bullish or bearish condition. Subjective norms are an individual's perception of another person's attitude. In the context of equity investment, it is investors' perception of how other investors might behave in a particular market. Perceived behavioural control refers to an investor's ease or difficulty in investing. It reflects an investor's skill and ability to make appropriate investment decisions. The risk-averse attitude, subjective norms of perceived market efficiency, and perceived control behaviour during market volatility can be examined based on the TPB model.

Through the fundamental investment concept of the Capital Asset Pricing Model, investors' financial preferences are based on the stock market's risk and return. The risk-averse attitude, subjective norms of perceived market efficiency, and perceived control behaviour during market volatility can be modelled based on the TPB model.

The FOMO herding behaviour is highly significant in China, Hong Kong, Malaysia, Korea, and India, mainly due to a high level of volatility, instead of low returns (Humayun Kabir and Shakur, 2018). There is also evidence of herding behaviour when there is a change in volatility and risk aversion (Nath and Brooks, 2020). Investors' FOMO behaviour negatively influences the Pakistan stock market's perceived efficiency and investment performance (Ahmad and Wu, 2022). Gupta and

Shrivastava (2022) have discovered that FOMO partially mediates loss aversion and herd behaviour on investors' decisions in the Indian stock market. A qualitative study on India's Security and Investment Board advisors also found evidence of cognitive disagreement and FOMO behaviour affecting investors' decisions during the COVID-19 pandemic (Misra et al., 2021).

4. Conclusion

Based on these recent findings on FOMO behaviour, it can be concluded that a volatile market (Humayun Kabir & Shakur, 2018; Nath & Brooks, 2020), risk-averse investors (Nath and Brooks, 2020; Gupta & Shrivastava, 2022) and perceived market efficiency (Ahmad and Wu, 2022) are critical factors of FOMO behaviour among young investors. The risk-averse attitude, subjective norms of perceived market efficiency and perceived control behaviour during market volatility could be examined based on the TPB model.

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