

The Digital Stampede: A Comparative Analysis of Herd Behavior and Information Cascades in Mutual Fund Selection Across Gen Z and Baby Boomer Demographics

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Abstract: *Traditional finance operates under the Efficient Market Hypothesis, asserting that asset prices reflect all available information and that markets operate rationally. Yet the historical record reveals persistent market bubbles, crashes, and anomalies that directly contradict this framework. This study investigates how psychological biases, particularly herd behavior and information cascades influence mutual fund selection decisions across two distinct demographic cohorts: Generation Z and Baby Boomers. Using a mixed-methods approach incorporating behavioral finance theory with empirical market data, we examine how information sources, decision-making speed, and social proof mechanisms differ between these generations and how such differences affect portfolio composition and turnover rates. Our findings reveal fundamental divergences in the channels through which financial information travels, the speed at which decisions occur, and the intensity with which herding occurs. Generation Z demonstrates significantly higher reliance on digital platforms and social proof mechanisms, leading to elevated portfolio turnover but paradoxically improved risk-adjusted returns. Baby Boomers, despite lower turnover, show greater adherence to conventional wisdom and institutional guidance. We propose that the mechanism of the "digital stampede" rapid information cascades amplified by real-time connectivity represents a new behavioral phenomenon distinct from traditional herding. This research contributes to behavioral finance literature by bridging generational theory with information cascade dynamics and offers practical implications for financial advisors, fund managers, and policymakers seeking to understand investor behavior in an increasingly digitalized financial ecosystem.*

Keywords: Financial Awareness, Gen Z, Baby Boomers, Behavioural Finance

Introduction

The foundations of modern finance rest upon the Efficient Market Hypothesis, formulated by Eugene Fama in the 1960s. This framework posits that financial markets incorporate all available information into security prices and that rational agents make optimal decisions based on expected returns and risk profiles. Were this true, market bubbles would not occur, market crashes would be unpredictable random walks, and professional fund managers could not consistently outperform market indices. Yet reality presents a different picture. The dot-com bubble of 1999–2000 saw the Nasdaq collapse nearly 80 percent as investors rushed en masse into unprofitable technology companies driven by collective optimism rather than fundamental analysis. The 2008 financial crisis demonstrated how widespread herding in mortgage-backed securities created systemic fragility. More recently, the cryptocurrency volatility of 2021–2022 and the meme-stock phenomenon of 2021 showcase how digital platforms accelerate the spread of investment fashions among retail investors.

These deviations from market efficiency demand explanation. Behavioral finance offers one such framework: markets operate below theoretical efficiency because investors, being human, suffer from cognitive biases, emotional responses, and susceptibility to social influence. Among these behavioral patterns, herd behavior stands as particularly consequential. When investors observe others' decisions and adjust their own behavior accordingly, sometimes ignoring their own private information, information cascades can develop. Such cascades can drive assets to valuations unmoored from fundamentals and create vulnerability to sudden reversals.

What remains less studied is how such behavioral phenomena operate differently across generational cohorts separated by fundamentally different technological contexts. Generation Z, the first truly digitally native generation, accesses financial information through real-time social media, instantaneous trading platforms, and peer networks on messaging applications. Baby Boomers, conversely, grew up in an era where information traveled through institutional channels newspapers, financial advisors, institutional recommendations and where the pace of information dissemination was measured in days rather than seconds. These contextual differences create distinct opportunities for herding to manifest.

This study addresses that gap by conducting a comparative analysis of herd behavior and information cascades in mutual fund selection between Generation Z and Baby Boomers. We examine three central questions: (1) Do generational differences in information sources create qualitatively different patterns of herding behavior? (2) How do differences in the speed of information transmission and decision-making between digital natives and non-digital natives affect portfolio turnover and performance? (3) What distinguishes the "digital stampede" phenomenon from traditional herd behavior documented in classical finance literature?

Literature Review

2.1 The Efficient Market Hypothesis and Its Limitations

The Efficient Market Hypothesis, in its most rigorous form, claims that security prices at any time reflect all available information. This proposition exists in three forms: weak form efficiency (prices reflect all past price and volume data), semi-strong efficiency (prices reflect all publicly available information), and strong-form efficiency (prices reflect all information, public and private). The theoretical elegance of EMH lies in its parsimony if markets are efficient, then active management cannot systematically outperform passive indices, and anomalies must reflect either data mining or risk factors not yet properly specified.

Yet empirical challenges to EMH mount steadily. Richard Thaler's research on closed-end funds demonstrates violations of the law of one price: identical securities trade at different prices simultaneously, which EMH cannot accommodate. His work on stock market overreaction shows that past extreme overperformers tend to substantially underperform in subsequent periods, contradicting EMH's claim that past returns cannot predict future performance. Robert Shiller's volatility paradox demonstrates that stock price movements exceed what fundamentals and dividend expectations would justify. These findings suggest that psychological factors systematically move markets away from intrinsic value.

Despite these challenges, EMH retains influence in academic finance and investment practice. The Adaptive Markets Hypothesis offers a reconciliation: markets demonstrate efficiency over long horizons but display inefficiencies in the short term due to behavioral factors. This framework acknowledges that while human psychology creates temporary mispricings, competition and learning eventually restore alignment with fundamentals. This study operates within this middle ground accepting that markets generally trend toward efficiency while recognizing that behavioral biases create meaningful deviations, particularly in the short to medium term.

2.2 Herd Behavior in Financial Markets

Herd behavior occurs when investors ignore their own information or analysis and instead choose actions that prior investors have taken. Bikhchandani and Sharma's foundational 1992 theoretical work distinguished between two mechanisms. First, information-based herding occurs when rational agents with imperfect information observe others' actions and infer that those others possess superior information. If an agent sees others investing in a security, and that agent's private signal is weak or ambiguous, Bayesian rationality might counsel following the herd rather than trusting one's limited information. Second, reputation-based herding occurs when agents fear being judged as poor decision-makers if they deviate from consensus. An investment manager might select securities similar to peer institutions because deviating from consensus, should returns disappoint, invites criticism of poor judgment.

Information cascades represent a specific manifestation of herd behavior. In a cascade, each decision-maker observes all prior decisions. If these prior decisions align, an agent's privately

optimal choice, conditional on their private signal, may contradict what the cascade of prior actions suggests. If the threshold number of prior decisions points in one direction, the agent rationally cascades onto that direction regardless of their private information. The key insight is that cascades can become locked in: once started, subsequent agents will cascade regardless of any countervailing evidence. This makes cascades particularly pernicious they can persist despite private information pointing toward a different conclusion and despite the original decision-maker possibly having poor information.

Recent empirical work confirms herding's prominence. Wermers (1999) found that mutual fund managers' trading decisions correlate with those of peers, suggesting herding among sophisticated institutional actors. Hong, Kubik, and Stein (2005) demonstrated that individual investors' participation in stock markets is influenced by whether others in their social circle participate. Zheng et al. (2021) found that herding behavior creates systematic volatility spikes and can trigger rapid unwinding in related asset classes. This body of work establishes herd behavior as an empirical regularity, not a theoretical curiosity.

2.3 Social Proof and Information Sources in the Digital Age

The concept of social proof derives from social psychology: people use others' behavior as evidence of appropriateness, particularly in uncertain situations. In financial contexts, social proof manifests as the observation that increased visibility of others' investment choices increases one's own propensity to make similar choices. Recent research by Wesemann Lekkas and colleagues (2025) quantified this effect in angel investing: higher amounts of social proof increased investment likelihood, with the effect being stronger for external social proof (decisions visible to a broader audience) than internal social proof. Notably, investor experience moderated this effect experienced investors showed weaker responses to social proof.

The digital transformation has fundamentally altered how social proof operates in financial markets. In traditional finance, social proof operated through institutional channels: if major pension funds or recognized mutual fund managers adopted a strategy, this was taken as evidence of its merit. Information traveled slowly; the decision-making process was deliberative; professional gatekeepers filtered information. Modern digital platforms have inverted these dynamics. Social media platforms, fintech trading applications, and messaging services collapse distance and time. Information about investment opportunities spreads instantaneously. Decisions that might once have taken weeks to disseminate through institutional channels now spread globally in minutes through Twitter, TikTok, and Discord.

Gen Z's investment behavior reflects this transformation. Survey data indicates that 39 percent of consumers aged 22–64 receive financial advice from social media, blogs, or online publications, with Gen Z disproportionately relying on such sources. For Gen Z specifically, TikTok and Instagram rank among the top platforms for consuming financial content, alongside YouTube. The attraction of these sources lies not in credentialed expertise but in peer relatability, real-time accessibility, and alignment with values and aesthetic preferences. This represents a fundamental shift from Baby Boomers, of whom 82 percent own mutual funds

outside employer-sponsored retirement plans and report that investment professionals constitute their primary source for fund selection decisions.

2.4 Generational Differences in Investment Behavior

Demographic analysis reveals stark generational differences in investment participation, asset allocation, and decision-making processes. According to the Investment Company Institute's 2024 research on mutual fund ownership, 58 percent of Baby Boomer households own mutual funds compared to just 35 percent of Generation Z households. Baby Boomers hold 49 percent of total household mutual fund assets despite comprising only 35 percent of mutual fund-owning households, reflecting their longer accumulation period. Generation Z and Millennials, though constituting 30 percent of mutual fund-owning households, hold only 12 percent of household mutual fund assets.

The distribution channels for fund acquisition differ markedly. Sixty-one percent of Baby Boomer households accessing mutual funds outside retirement plans rely on investment professionals as their primary source. For Millennials, this figure drops to 17 percent. Younger generations predominantly access funds through direct online platforms, with robo-advisors gaining particular traction. The Australian investment platform Openmarkets' analysis of nearly 100,000 accounts revealed that Generation Z and Millennials achieved higher 12-month returns (6.15 percent) compared to Baby Boomers (5.06 percent) despite significantly lower portfolio diversity. Baby Boomers made 26.1 trades annually on average, while Gen Z made 13.4 trades. This suggests that Baby Boomers' higher turnover contrary to portfolio performance reduced returns through transaction costs and timing errors.

Asset allocation preferences diverge substantially. Generation Z demonstrates median equity allocation of 89 percent compared to Baby Boomers' 61–65 percent. Within equity holdings, the composition differs: 90 percent of Gen Z's equity holdings are small-cap stocks compared to just 30 percent for Baby Boomers. Gen Z shows particular affinity for alternative assets. Cryptocurrency exchange-traded fund adoption among Gen Z doubled from 26 percent in 2023 to 59 percent in 2024. Private equity interest reaches 26 percent among millennials compared to 15 percent for Boomers. ESG-aligned investing appeals to 72 percent of Gen Z and Millennials, versus substantially lower proportions of older cohorts.

Risk tolerance, too, differs generationally. Though one might expect younger, less experienced investors to be more loss-averse, empirical research indicates the opposite. A Jönköping University study found that Generation Z exhibits significantly lower loss-aversion than Generation X and Baby Boomers, though this does not translate to greater herding behavior. A 2020 E-Trade survey found that 51 percent of Gen Z and millennial investors increased risk tolerance during the 2020 crisis, 23 percentage points above the general population average. Gen Z investors, having entered the market after the 2008 crisis, appear to view volatility as opportunity rather than danger. This behavioral pattern suggests that generational formative experiences the Great Recession for Gen Z versus the generally prosperous 1980s–1990s for Boomers shape risk perception.

Overconfidence represents another area of divergence. Studies consistently find that younger investors exhibit greater overconfidence in their investment abilities than older investors. The Indian mutual fund study by Farugia (2024) found significantly higher overconfidence among investors below age 30 compared to those aged 40–50. A Jönköping University study confirmed that Generation Z exhibited substantially greater overconfidence than Generation X, though this did not translate to herding behavior. This suggests that while Gen Z may overestimate their abilities, they may not blindly follow others instead, they may be overconfident in their own judgment.

2.5 Behavioral Biases and Mutual Fund Selection

Portfolio theory predicts that rational investors should hold diversified, rebalanced portfolios aligned with their risk tolerance and time horizon. Yet actual investor behavior deviates systematically. Bailey et al. (2011), in a study cited over 800 times, identified distinct behavioral phenotypes among mutual fund investors: the Gambler (chasing performance), the Smart investor (overconfident and active trader), the Overconfident investor (excessive diversification), the Narrow Framer (subject to mental accounting biases), and the Overall Irrational investor. Behaviorally biased investors made poor decisions regarding fund style, expense ratios, trading frequency, and market timing, resulting in returns significantly below their fund holdings' actual performance.

The mechanisms driving poor performance are well-established. Loss aversion the tendency to feel losses roughly twice as acutely as equivalent gains causes investors to sell winning positions too quickly to lock in gains and hold losing positions hoping for recovery. This disposition effect reduces returns, particularly when held positions subsequently decline. Representativeness bias causes investors to select funds based on superficial similarity to past winners rather than forward-looking analysis. Recency bias leads investors to overweight recent performance, causing them to buy near market peaks and sell near troughs.

Demographic factors influence these biases differentially. Age emerges as a consistent predictor: younger investors exhibit higher overconfidence, while older investors show greater loss aversion. Gender differences appear: male investors demonstrate higher overconfidence, while female investors show stronger loss aversion and home-country bias. Education and income correlate with better decision-making, suggesting that cognitive and informational resources reduce behavioral distortions. Investment experience similarly moderates biases, though experience does not eliminate them experienced institutional investors still demonstrate herding behavior.

Fear of Missing Out (FOMO) deserves particular attention given its prominence in Gen Z investment discussions. FOMO is defined as the anxiety arising from the perception that others are enjoying opportunities or experiences that oneself is missing. In investment contexts, FOMO manifests as the fear that others are capturing gains one is overlooking. A 2024 SSRN study examining millennials' FOMO found that the phenomenon encourages initial investment participation but typically accompanies impulsive decisions lacking adequate risk analysis. Social media amplifies FOMO through constant visibility of others' gains, real-time market

movements, and influencer promotion of trendy assets. While FOMO clearly drives investment action, it correlates with poor outcomes: instruments selected due to FOMO (particularly cryptocurrencies and volatile stocks) typically underperform, and investors often use emergency funds or incur debt to pursue FOMO investments, worsening financial stability.

Notably, financial literacy moderates many behavioral biases. A study on information cascades in real estate investment found that financial literacy significantly weakened the negative relationship between information cascades and investment decisions. Investors with higher financial literacy maintained greater reliance on private information even when cascades suggested alternative choices. This moderation effect matters for generational analysis: while Gen Z demonstrates higher digital literacy, its financial literacy remains lower due to less accumulated investment experience and education.

3. Methodology

This analysis employs a mixed-methods approach integrating behavioral finance theory, quantitative market data, and qualitative evidence from empirical studies. The research design capitalizes on existing large-scale datasets and peer-reviewed studies rather than conducting primary data collection.

3.1 Data Sources

We synthesize findings from multiple established research initiatives. The Investment Company Institute's 2024 Annual Mutual Fund Shareholder Tracking Survey provides demographic breakdowns of mutual fund ownership, sources of purchase, and asset allocation across generational cohorts based on a nationally representative sample. Vanguard's 2023 study on generational changes in 401(k) behaviors provides detailed equity allocation data across automatic enrollment and non-automatic enrollment plan participants. Openmarkets' analysis of approximately 100,000 trading accounts provides granular data on trading frequency, asset composition, and returns by generation. Academic studies on behavioral biases provide quantitative measures of effect sizes for various psychological phenomena.

3.2 Analytical Framework

The analysis proceeds through three stages. First, we document descriptive differences in investment behaviors across generations: participation rates, information sources, asset allocation, turnover, and returns. Second, we examine the theoretical mechanisms driving these differences: how information architecture, decision speed, and social proof intensity differ between digital and non-digital natives. Third, we advance a typology distinguishing "digital stampedes" from traditional herding, emphasizing mechanisms unique to contemporary financial markets.

Findings: Generational Divergence in Investment Behavior

4.1 Information Source Architecture and Implications

The most fundamental divergence between Gen Z and Baby Boomers lies in the architecture of information sources. Baby Boomers rely predominantly on professional intermediaries: investment advisors, financial planners, brokers, and established media publications. This represents a hierarchical information model where credentialed professionals occupy a gatekeeping role. The pace of information dissemination is deliberate; clients meet with advisors quarterly or semi-annually; major shifts in recommendations take weeks to disseminate through institutional networks.

Gen Z, conversely, operates within a horizontal information architecture. Investment ideas originate not from institutional gatekeepers but from peers, social media personalities, and online communities. A trading idea posted on Reddit or TikTok spreads to thousands instantaneously. Influencers without formal credentials accumulate massive followings for sharing investment opinions. Community Discord servers feature real-time trading discussions and decision-making. The distinction is not merely one of channel but of epistemology: authority derives not from credentials or institutional position but from perceived alignment with one's own values, aesthetic preferences, and peer network.

Survey evidence confirms this divergence. Of mutual fund-owning Baby Boomer households, 61 percent report investment professionals as their primary source for fund selection. For millennials, this figure drops to 17 percent. Gen Z demonstrates even lower reliance on traditional advisors. Simultaneously, financial advice consumption via social media, blogs, and online publications reaches 39 percent among younger cohorts compared to lower levels among older generations. Gen Z specifically identifies TikTok and Instagram as major platforms for financial content consumption, alongside YouTube.

This architectural difference creates distinct mechanisms for herd behavior. In traditional hierarchies, herding occurs when numerous advisors converge on similar recommendations due to observing a consensus among peer professionals or responding to similar market signals. The dissemination of herding recommendations then proceeds through existing client relationships. In horizontal peer networks, herding mechanisms operate through visibility, virality, and real-time social dynamics. A trading idea gains traction not through professional endorsement but through rapid accumulation of social media engagement, comment threads, and community adoption.

4.2 Decision Speed and Information Cascades

A second divergence concerns decision-making speed. Traditional mutual fund investment involves deliberative processes: clients meet advisors, discuss objectives and risk tolerance, review fund materials, and commit capital. The timeline spans weeks to months. Market conditions are largely static during this window; the investor's private information and the market consensus both remain relatively fixed.

Contrast this with digital platforms where investment decisions occur in minutes or seconds. A Gen Z investor identifies an investment opportunity on social media, opens a trading application, and executes a transaction in under five minutes. The velocity of decision-making aligns with the velocity of information spread: both operate on minute or hour timescales rather than day or week timescales.

This acceleration has profound implications for information cascade dynamics. In Bikhchandani, Hirshleifer, and Welch's classic cascade model, agents decide sequentially, observing all prior decisions and their outcomes. The cascade locks in once a threshold of consistent prior decisions is reached. In their theoretical framework, cascades develop over multiple decision-makers, each observing the cumulative prior history. Yet the critical assumption is that information about prior decisions is available and correctly interpreted.

Digital markets create a paradox: information about prior decisions becomes hypervisible (one can literally watch trading volume and price action in real-time), yet its interpretation becomes murkier. What does a rapid price spike indicate? Superior information possessed by prior traders? Or a cascade already underway? The real-time visibility of price and volume creates an illusion of information density that may actually obscure underlying rationales. An investor observing a stock surge 40 percent in a day sees salient evidence of others' enthusiasm but cannot distinguish genuine new information from cascading momentum.

Moreover, decision-making speed in digital markets compresses the window during which private information can be meaningfully analyzed. In traditional settings, an investor has time to research a mutual fund's holdings, fees, historical performance, and manager tenure before committing capital. This deliberation provides opportunity for private information to exert its rational weight. In compressed timescales, analysis becomes impossible; the investor must rely on heuristics reputation, recency, peer adoption. This shifts the balance away from private information toward observable cascades.

4.3 Portfolio Turnover and Performance Implications

An unexpected finding emerges from comparative portfolio data: Gen Z demonstrates lower turnover yet higher returns, while Baby Boomers show higher turnover despite lower returns.

The Openmarkets data reveals that Baby Boomers make 26.1 trades annually on average, while Gen Z and Millennials make 13.4 trades. Despite Baby Boomers' higher trading frequency, Gen Z and Millennial investors achieved 12-month returns of 6.15 percent compared to Baby Boomers' 5.06 percent. The differential is approximately 110 basis points annually substantial over decades. This paradoxical relationship higher turnover associated with worse returns is consistent with the behavioral finance literature on transaction costs, market timing errors, and the disposition effect.

Why does Baby Boomers' higher turnover yield worse returns? Several mechanisms likely operate. First, higher turnover incurs greater transaction costs. Even in an era of commission-free trading, bid-ask spreads and market impact costs remain. These frictions directly reduce

returns. Second, higher turnover suggests greater responsiveness to market fluctuations, increasing vulnerability to market timing errors. Selling during downturns or buying during peaks is a pervasive investor error; higher turnover increases exposure to such errors. Third, Baby Boomers' reported trading focus on individual stocks (technology, lithium, consumer goods) versus Gen Z's focus on diversified small-cap holdings suggests different risk management approaches. Gen Z's smaller universe of repeated holdings may provide better portfolio discipline.

Yet the result is counterintuitive: Baby Boomers' higher turnover, ostensibly reflecting active engagement and judgment, produces worse performance than Gen Z's lower turnover. This may reflect survivorship bias in transaction selection Baby Boomers may be more reactive, trading after price movements have already occurred, thereby locking in losses.

Notably, Gen Z's lower turnover is consistent with low herding behavior. If Gen Z demonstrated classic herding rapidly piling into hot stocks and out of unfavored ones we would expect turnover to match Baby Boomers' or exceed it. Instead, Gen Z shows lower turnover, suggesting either greater conviction in initial selections or different psychological dynamics. One interpretation: Gen Z's peer networks provide sustained social consensus around selections, reducing the need for frequent rebalancing. Alternatively, Gen Z's embrace of index funds and diversified platforms (robo-advisors, automatic enrollment) may mechanically reduce active trading.

4.4 Asset Allocation and Risk Preferences

Gen Z's median equity allocation of 89 percent versus Baby Boomers' 61–65 percent reflects a substantive difference in risk orientation. This differential cannot be attributed solely to life-cycle investing theory, which predicts younger investors should take greater risk. The magnitude exceeds what standard life-cycle theory would suggest, pointing toward behavioral differences.

One interpretation draws on generational formative experiences. Baby Boomers came of age during the prosperous 1980s and 1990s, with strong stock market returns and low volatility. They may have experienced stocks as relatively safe. Gen Z, entering the market after 2008, experienced immediate familiarity with volatility and catastrophic losses. Paradoxically, this may have reduced loss aversion: having witnessed crises yet seen markets recover, Gen Z may perceive long-term equity risk as manageable. A 2020 E-Trade survey found that 51 percent of Gen Z and millennial investors increased risk tolerance during the 2020 pandemic crash versus 28 percent for the general population, supporting this interpretation.

The composition of equity holdings differs equally dramatically. Gen Z allocates 90 percent of equity holdings to small-cap stocks versus 30 percent for Baby Boomers. This preference aligns with Gen Z's documented interest in alternative assets: cryptocurrency, private equity, fintech startups. Small-cap stocks provide exposure to emerging companies and disruptive sectors. The preference may reflect both generational values (interest in innovation and disruption) and

information availability (small-cap companies are heavily discussed on social media and fintech platforms).

Notably, mutual fund ownership itself differs less than one might expect between generations. While 35 percent of Gen Z households own mutual funds versus 58 percent of Baby Boomers, this reflects partly different life stages. Among Gen Z investors who own funds, asset allocation is markedly more aggressive. The question is whether this reflects herding into fashionable small-cap and alternative assets or reasoned risk preferences. The answer likely involves both: younger investors may rationally prefer higher equity allocation given longer investment horizons, while simultaneously being pulled toward trendy assets through social proof mechanisms.

The Digital Stampede: A New Behavioral Phenomenon

We propose the concept of the "digital stampede" as distinct from classical herd behavior documented in finance literature. Whereas traditional herding involves investors observing peers' decisions and rationally or reputationally cascading onto those decisions, digital stampedes involve mechanisms unique to contemporary market structure.

5.1 Defining the Digital Stampede

A digital stampede occurs when real-time visibility of others' aggregate trading activity, amplified through social media commentary and community dynamics, creates rapid, self-reinforcing momentum where information about the fundamental quality of an asset becomes secondary to observable evidence of peer participation. Four elements characterize digital stampedes:

First, Hypervisibility of Aggregate Activity: Retail trading platforms display real-time aggregate buy/sell ratios, community sentiment dashboards, and trending symbol rankings. These aggregate indicators become primary information sources, sometimes displacing fundamental analysis. An investor observing that a stock is ranked first on Robinhood's trending list updates her belief about the stock's quality not through analysis but through inference from others' revealed preferences.

Second, Temporal Compression: The time between information visibility and decision-making compresses from days or weeks to minutes or seconds. This compression prevents deliberative analysis and forces reliance on heuristics particularly social proof. When one can execute a trade before the market closes on the day one learns of an idea, thorough research becomes impossible.

Third, Social Media Amplification: Trading activity generates social media content tweets, TikTok videos, Reddit posts, Discord messages creating a feedback loop where observable trading activity generates commentary that increases visibility, which drives more trading. This is distinct from traditional information dissemination, where a sell-side analyst report would

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disseminate once. In digital markets, commentary on aggregate activity continuously regenerates, sustaining momentum beyond what the underlying information would justify.

Fourth, Flattened Authority Structure: Information sources are not credentialed experts but peers with whom the decision-maker identifies. A message from a relatable peer on social media may carry more persuasive weight than a traditional financial advisor's recommendation, even if the peer possesses less expertise. This flattened authority structure removes a traditional brake on herd behavior: the concern about appearing foolish to an expert. Instead, conformity with peer perception becomes the concern.

The result is a behavioral phenomenon where traditional information company earnings, economic data, valuation metrics becomes less determinative than observable evidence of peer participation and social media amplification. This can drive asset prices substantially away from fundamentals for extended periods.

5.2 Empirical Manifestations

The meme-stock phenomenon of 2021 exemplifies the digital stampede. Stocks like GameStop and AMC became focal points not because of changed fundamentals but because communities organized around them on social media. Retail investors on Reddit and Discord coordinated purchases, share what they termed a "movement," and used social media to amplify their activity. Traditional financial analysis suggested both companies were in structural decline; their valuations became extreme by any fundamental metric. Yet prices sustained at elevated levels for months because the social momentum, visible to participants in real-time, made continued participation seem rational if others were sustaining the position, perhaps value existed one couldn't yet perceive.

A second example: the cryptocurrency boom of 2021 and early 2022. Price spikes became viral on social media, attracting new participants. Influencers promoted specific coins, their followers purchased, prices continued rising, prices generated more social media content, more followers converted. When fundamental information about regulatory risks or macroeconomic headwinds eventually reversed sentiment, the cascade inverted with equal violence. Investors who had positioned based on observable peer momentum suddenly fled, creating the 2022 crypto crash.

These examples differ from 1999 dot-com bubble in informational architecture. During the dot-com era, herd behavior operated through analyst research, institutional recommendations, and business media. The herd had gatekeepers. Today's digital stampedes operate through instantaneous, decentralized social media dynamics without traditional gatekeepers. This makes stampedes faster and more volatile.

5.3 Resistance Mechanisms and Moderators

Not all investors participate equally in digital stampedes. Several factors moderate susceptibility. Financial literacy emerges as consequential: studies demonstrate that financially

literate investors maintain greater reliance on private information even when cascade pressure is intense. Education and investment experience both correlate with reduced susceptibility to peer influence.

The institutional context similarly matters. Investors within automatic enrollment 401(k) plans subject to target-date fund defaults show more balanced allocations and lower herding propensity than self-directed investors. The friction of active choice selection appears to reduce stampede participation. Conversely, fractional share investing and zero-commission trading reduce the friction of entry, potentially increasing stampede participation by lowering psychological barriers.

Demographic factors show surprising patterns. While Gen Z exhibits lower loss aversion and higher overconfidence, actual herding behavior between Gen Z and Baby Boomers shows no significant difference according to a Jönköping University study. This suggests that overconfidence, rather than producing herding, may substitute for it overconfident investors trust their own analysis rather than cascading onto others' decisions.

Discussion and Implications

6.1 For Behavioral Finance Theory

This analysis advances behavioral finance understanding in three ways. First, it documents that the mechanisms of herd behavior have evolved with technological change. The theoretical models of Bikhchandani, Hirshleifer, and Welch remain valid for understanding information cascades, yet their application requires adaptation to the digital context where information visibility is instantaneous and asymmetric across populations.

Second, the finding that generational information source differences drive distinct herding patterns suggests that behavioral biases are not purely psychological but are also environmentally mediated. An investor's susceptibility to cascades depends not only on her internal psychology but on the information architecture within which she operates. Changing the architecture shifting from hierarchical professional gatekeeping to horizontal peer networks changes cascade propensities.

Third, the distinction between digital stampedes and traditional herding provides a more granular understanding of behavioral market dynamics. Not all rapid consensus-building represents information cascades in the classical sense. Sometimes rapid trading momentum reflects visibility effects and social media dynamics rather than actual updating of beliefs about fundamental value.

6.2 For Investment Practice

For financial advisors and investment managers, these findings suggest several practical adjustments. First, understanding clients' information sources becomes as important as understanding their risk tolerance and investment timeline. A client receiving financial

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information primarily from social media requires different advisory approaches than a client relying on professional analysis.

Second, advisors should recognize that digital platforms, while democratizing access to investments, may accelerate herding propensities. The real-time visibility of trading data and aggregate positioning may push clients toward momentum-based decisions. Advisors might provide value by helping clients filter real-time noise and maintain focus on long-term fundamentals.

Third, given that Baby Boomers' higher turnover correlates with worse returns, advisors might explore whether older clients are overtrading in response to market volatility. Increasing rebalancing discipline and reducing reactive trading could improve outcomes.

For portfolio managers of mutual funds and institutional products, these findings suggest that understanding retail investor flows is increasingly important for understanding price dynamics. Retail capital has grown substantially; to the degree that retail decisions are susceptible to digital stampedes, institutional managers must account for these behavioral dynamics in their trading and positioning.

6.3 For Regulators and Policymakers

The digital stampede phenomenon presents novel regulatory questions. Should regulators limit the visibility of aggregate trading data (e.g., trending symbols, aggregate buy/sell ratios) that may amplify herd dynamics? European markets restrict such data visibility more strictly than US markets; this represents a policy choice with behavioral implications. Should platforms be required to include friction in trading (e.g., confirmation screens, mandatory waiting periods) to reduce impulsive cascade participation?

A second policy question concerns financial literacy and investor protection. If digital platforms are inherently more conducive to herding, should regulatory requirements for investor education increase? Should fin-tech platforms be required to provide financial literacy resources as a condition of licensing?

A third consideration: the role of influencers and financial content creators on social media. Unlike registered investment advisors, these individuals face minimal regulatory constraints yet exert substantial influence over millions of followers. Regulatory frameworks may need to evolve to establish baseline standards for financial content creators while preserving the democratization benefits of social media.

Limitations and Future Research

This analysis faces several limitations. First, our synthesis relies on existing published research rather than primary data collection. While this provides access to large, rigorous datasets, it precludes analysis of specific hypotheses through controlled experiments. Future research

should conduct behavioral experiments comparing decision-making under traditional versus digital information architectures.

Second, the analysis focuses on mutual fund selection and general equity investing. The dynamics may differ for other asset classes (fixed income, commodities, derivatives) with different information structures and participant bases.

Third, our comparative analysis treats generational cohorts as monolithic. Within Generation Z, substantial heterogeneity exists some members actively engage with social media for investment, others do not. Within Baby Boomers, some are digitally savvy, others are not. Future research should employ within-generation analysis examining individual variation in digital engagement and its relationship to herding propensities.

Fourth, this study is contemporaneous with rapid evolution in financial technology and retail investing participation. The patterns documented may not persist if platforms evolve, regulatory frameworks shift, or generational characteristics change.

Future research directions include longitudinal analysis tracking cohorts as they age, experimental investigation of digital stampede dynamics, analysis of international markets with different platform architectures, and study of how financial education can inoculate against digital stampedes.

Conclusion

The Digital Stampede research reveals fundamental divergences in how Generation Z and Baby Boomers approach mutual fund selection and equity investing. These divergences arise not primarily from differences in individual psychology though generational differences in overconfidence and loss aversion do exist, but from differences in information architecture, decision-making speed, and the role of social proof in contemporary markets.

Generation Z operates within a horizontal, peer-network information architecture with rapid decision-making timescales and real-time visibility of aggregate market activity. This environment appears conducive to digital stampedes: rapid, self-reinforcing consensus-building where observable peer participation becomes the primary decision-driver. Baby Boomers, conversely, operate within hierarchical professional gatekeeping, deliberative decision timescales, and indirect evidence of peer activity. These structural differences create distinct herding dynamics.

Yet paradoxically, Gen Z's documented susceptibility to herding channels does not translate into worse investment outcomes. Gen Z investors achieve higher returns with lower turnover, suggesting either that their cascades are less consequential or that they are employing different strategies better suited to their environment. This may reflect Gen Z's greater comfort with volatility, stronger convictions in initial selections sustained by peer networks, or alignment between their asset preference (small-cap, growth-oriented, alternative assets) and subsequent market performance.

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The concept of the digital stampede provides a framework for understanding how behavioral phenomena evolve with technological change. While classical information cascade models remain theoretically valid, their manifestation in markets with instantaneous information, visible aggregate activity, and social media amplification differs meaningfully from historical herding patterns. This distinction matters for understanding price dynamics, advising clients, and shaping regulatory frameworks.

As retail investing continues its digital transformation and younger generations accumulate greater wealth, understanding these behavioral patterns becomes increasingly important for market efficiency and investor outcomes. This research provides a foundation for future investigation of how technological change, generational characteristics, and psychological biases interact to shape financial market dynamics in the twenty-first century.

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