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Building Wealth Safely: Analysis of the Factors Affecting Young Investors' Investment

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Abstract. Young investors can use risk management strategies to build long-term wealth in the stock market. Compared to previous age, young investors have more opportunities to enter financial markets today, such as mobile trading apps, online brokerage platforms, and social media, which all make investing more accessible. However, the younger age of access can create risks because of emotional trading, overconfidence, fear of missing out, and poor decision-making. This article argues that young investors should not treat the stock market as a shortcut to wealth, but as a long-term financial planning tool. Key strategies for youth to help reduce unnecessary losses, including financial literacy, understanding personal risk tolerance, diversification, long-term investing, and disciplined investing habits. While also explains that young investors may have more time to recover from market downturns, and age alone does not justify risk-taking. Overall, successful investing requires knowledge, patience, emotional control, and a balanced approach to risk. This paper provides suggestions for young investors' investment strategies.

Keywords: Youth, investment, stock, risk, wealth

1. Introduction

Young investors are experiencing the stock market at a time when investing is more accessible and more visible than ever before. Mobile trading apps and online brokerage platforms make investment a common choice for daily financial management. However, easy access is a double-edged sword, it is positive because it allows younger people to build wealth earlier in life, but this also amplifies the investment risk. Young investors may feel pressure when they are thinking about the stock market, or take risks that they do not fully understand. One second of heaven could be the next second of hell. According to the FINRA Investor Education Foundation and CFA Institute, many Gen Z investors are influenced by social media, crypto, fear of missing out, and family when making investment decisions [1]. The fact is that young investors are not only responding to traditional financial concepts; they are also easily influenced by emotional and social forces. Securities investment is not entertainment. Without a comprehensive trading framework, investment activities can easily devolve into blind, short-term speculation, which makes it impossible to realize long-term wealth planning goals.

Times are progressing, which means that traditional paths to wealth are less available than they were. De Jong McKenzie argues that young investors are entering financial markets because major

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assets such as property may feel unattainable, while financial assets such as stocks and crypto are much more accessible [2]. This is also why the stock market has become even more attractive to young investors. Trading stocks offer the hope of building wealth without a large amount of starting capital, so young investors can begin with a small brokerage account, buy fractional shares, or invest in exchange-traded funds. However, behind these opportunities, low barriers to entry also bring various investment risks. If young investors view the market as a shortcut to wealth, they may ignore the risks behind volatility, losses, and poor decision-making.

2. Factors affecting young investors' investment

2.1. Financial literacy

Financial literacy is the key standard for entering the market, and one of the first and most important risk management tools young investors can use. Unfortunately, according to three core financial literacy questions from the FINRA Foundation's 2021 National Financial Capability Study, the results were concerning: only 29% of Americans answered all three questions correctly, and of those, only 14% were under age 35. Financial literacy means understanding basic financial concepts such as risk, return, diversification, inflation, interest, volatility, and long-term planning. A young investor who does not understand these ideas may simply believe that a rising stock price always means a good investment or confusing luck with skill. Agarwal, Rao, and Nogueira explain that financial literacy is important in shaping investment decisions because it affects how strongly investors are influenced by behavioral biases [3]. This constraining effect is particularly important for young people, because they are constantly exposed to one-sided online rhetoric regarding investment, so that they may be prone to underestimating the complexity of the market. Many media outlets use sensational headlines to grab attention and teach young people how to invest through gimmicky, opportunistic methods. While young investors need to use their professional knowledge to distinguish and analyze.

Financial literacy also encompasses a core insight that risk itself does not inherently possess negative attributes. In the stock market, taking some risks are necessary because higher returns usually require accepting uncertainty. The problem is not risk itself, but without a detailed plan. Scholars studied the relationship between financial literacy, risk tolerance, and risky investment behavior among millennials [4]. Their research shows that financial literacy can change how investors respond to risk, which investors with limited financial literacy are unable to anticipate potential triggers when engaging in high-risk activities, but those with solid financial knowledge are comparatively prudently and strategically.

2.2. Risk tolerance

Understanding personal risk tolerance is always the first step before actually starting. It refers to how much uncertainty, volatility, or possible loss an investor can accept. This is both a financial and emotional issue. For example, two young investors may have the same income and age but very different reactions to market losses. One may remain calm during a downturn, while another may panic and sell at the worst possible time. Grable and Rabbani show that financial knowledge is connected to investment risk tolerance [5]. While both subjective and objective financial knowledge can affect how people understand financial risk, which basically means that young investors should not simply copy someone else's portfolio. Instead, investors should conduct a self-assessment based on their financial goals, income stability, emergency reserves, and psychological tolerance for loss.

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It is really important for investors to build portfolios that match their real lives. If an investment strategy causes constant stress or panic selling, it is not a good long-term wealth management strategy, even if it looks profitable on paper.

Risk tolerance also protects young investors from overconfidence. These days, many young investors use technology comfortably, and they may believe they can quickly learn the market or outperform professional investors. However, confidence is needed, but not the same as skill. Behavioral economics research shows that investors often make irrational choices because of biases such as overconfidence, herding, and emotional reaction to market news. Abideen et al. [6] found that behavioral biases affect investment decision-making in the equity market, while financial literacy is a good scale for investors to measure their behaviors, which also supports that young investors must manage not only financial risk but also psychological risk. For example, a young investor may become overconfident after earning money from one successful stock. This overconfidence can lead investors to take heavy positions in that company and disregarding various market risk warning signals. The key is to understand that their purpose is not to prove they are smarter than the market, but to build wealth steadily while avoiding mistakes that can destroy capital.

2.3. Investing habits

A strong risk management strategy should include healthy investing habits. The fixed-amount average cost method is a very helpful method for beginners. Investors allocate assets by investing a fixed amount on a regular basis. This strategy helps to reduce the pressure to buy at the best time. Although average cost does not eliminate market risk, it helps young investors to establish discipline. At the same time, it is also related to long-term wealth management, because investors are concerned about consistent behavior rather than short-term prediction. Many young investors may think that successful investment needs to find the best stock or accurately grasp the market timing. However, this misunderstanding will aggravate psychological anxiety and lead to frequent occurrences. A more realistic way is to keep investing, diversify investment and let time play its role. This strategy is especially suitable for young investors, because they can use regular donations for many years to gradually accumulate wealth.

For those young investors with trading experience, the traditional dollar cost averaging method may be rigid. New investors need critical thinking and growth, rather than blindly following the model. Kapalczynski and Lien found that an augmented dollar-cost averaging strategy showed risk-reducing benefits in the U.S. stock market, suggesting that structured investing habits can help investors manage volatility more effectively [7]. Compared to traditional dollar-cost averaging, augmented dollar-cost averaging is a more flexible version. Investors no longer invest the same fixed amount in each period, but adjust their investment amount according to market conditions, which helps young investors to maintain self-discipline and cope with market risks more cautiously.

Some people may think that young investors should take more risks because they have more time to recover from losses. Since young investors with long-term investment vision can allocate a higher proportion of their portfolios to stock assets, while middle-aged and elderly investors may need to liquidate their stocks in a short time. It is also harmful to take no risks at all, because inflation will reduce the value of savings over time. However, this does not mean that young investors should take great risks. Young investors may have time, but they may not have high income, emergency savings or emotional experience of market crash. Early heavy losses will make them reluctant to invest at all. Therefore, a better argument is not that young investors should avoid risks, but that they should take fully analyzed, diversified and informed risks.

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3. Investment strategy of young investors

3.1. Diversification

Diversification is one of the clearest ways for young investors to manage stock market risks. It refers to the allocation of capital among different companies, industries, asset classes and geographical regions, seeking to prevent the loss of a single asset from dragging down the performance of the overall portfolio. For example, if a young investor invests all his money in a technology stock, he will face the unique risks of the company. If that company does not perform well, investors may suffer huge losses. However, investors with diversified index funds are less dependent on company performance. Sha, Zhang, and Lu studied household investment diversification during the COVID-19 pandemic, a period of major uncertainty [8]. Their research is of practical value, and an analytical framework linking diversified allocation with the impact of the real-world market has been established. In uncertain times, investors who concentrate on a few assets may be more vulnerable. Yaman and Tuncel studied 200 companies listed on Borsa Istanbul from January 2019 to August 2024, and they found that sectoral diversification can reduce risks connected to poor performance in one specific sector. While diversification benefits can be different depending on whether investors are more risk-averse or risk-tolerant [9]. Therefore, young investors have to understand that diversification is not just a textbook concept; it is a practical tool for protecting wealth when markets become unstable.

On the other hand, young investors may be attracted by stimulating assets that promise quick returns. Social media often spread some remarkable success stories, such as people making huge profits through meme stocks, cryptocurrencies or high-risk stocks. However, these stories usually ignore most investors who lose money. This is important because social media tends to be eye-catching rather than prudent risk management. Compared with the popular stock selection on the Internet, although the diversified portfolio lacks the hype brought by short-term speculation, it is more in line with the goal of long-term asset planning, helping young investors to participate in market growth without relying on a single trend, and also reducing the psychological pressure brought by a single stock affecting the entire portfolio.

3.2. Long-term investing

Long-term investment is the key strategy to accumulate wealth. Young investors have one obvious advantage: time. They usually have decades of retirement time, so they can benefit from the long-term growth and compound interest effect of the market. However, this advantage can only play a role if they insist on investing and avoid unnecessary short-term transactions. Short-term speculation focuses on making quick profits from price fluctuations, while long-term investment aims to hold assets that can increase in value over time. A young person who often checks the stock price may feel anxious when the market falls normally. In contrast, long-term investors are more likely to regard market adjustment as part of the investment process. A complete wealth planning system is inseparable from three key elements: trading discipline, long-term patience and standardized operation framework. This is not only a question of choosing which stocks to buy, but also a question of establishing a system that can cope with market changes. Long-term investment is also closely related to financial literacy and asset diversification. Young investors who understand the risks and have diversified portfolios may be more willing to hold investments during the market downturn. The fundamental reason is that investors regard price fluctuation as a normal phenomenon, and short-term book loss does not mean the failure of investment structure. Therefore,

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long-term investment is not just waiting; It requires knowledge, self-control, and a patient portfolio structure. Anarkulova et al. found that even diversified long-term stock investors may face a real chance of losing purchasing power over a 30-year period, which shows that young investors still need diversification and risk management rather than relying only on time [10].

3.3. Avoid emotional trading

Emotional trading is one of the greatest threats to young investors because it turns the stock market into a reaction-based activity. Emotional trading happens when investors buy or sell because of fear, excitement, regret, or FOMO. Annapurna et al. directly connects emotional intelligence, behavioral biases, and portfolio churning [11]. Using the data of 499 mutual fund investors, they found that emotional intelligence is related to behavioral deviations, such as herding behavior, overconfidence and disposition effect, which can affect the frequency of investors changing their portfolios. For example, a young investor may see the trend of a stock on social media and buy it because they don't want to miss it. Later, if the stock falls, they may panic and sell at a loss. This pattern can be repeated many times, slowly damaging wealth. Behavior deviation can affect investors' decision-making, which supports the view that risk management must include emotional discipline. A stable and standardized trading framework can restrain emotional trading and establish trading constraints in advance. They are ready for the changes in the market. A clear plan can create rules before emotions appear. These rules may include investing regularly, limiting the proportion of risky assets, avoiding making decisions only based on social media, and reviewing investments according to a planned schedule instead of reacting every day.

Young people need to look at the investment content on social media platforms rationally, because the general atmosphere of showing returns can easily lead to emotional transactions. Young investors may compare themselves with influential people or other investors who claim to make high profits. In fact, online investment generally shows profitable transactions, conceals loss cases, and induces investors to form unrealistic income expectations. Young investors need to cultivate critical thinking when using online financial information. Social media can be used to learn basic concepts, but it should not replace research, professional guidance or personal financial planning. A young investor should always ask whether the person giving advice is qualified, whether they are promoting a product, and whether the strategy is in line with the investor's own goals and risk tolerance. In this way, media literacy becomes a part of financial risk management.

4. Conclusion

Although this paper explains several important risk management strategies, young investors, important restrictions should be mentioned. The discussion is mainly based on second-hand research rather than original data. This paper uses journal articles, financial reports and existing research to support and analyze this argument, but it does not include surveys or interviews with young investors, so this paper cannot fully measure how real young investors personally understand risks, choose stocks or make emotional reactions during market changes. In addition, this paper discusses young investors as a general group, but in reality, young investors are not all the same. Their investment behavior may vary according to income, education, family background, culture, country and access to financial resources. For example, a young investor with stable income and emergency savings may take more risks than a student with limited income. Therefore, the strategies discussed in this paper may not be applicable to every young investor. Another important concept that the audience needs to know is that the stock market is constantly changing. New technologies,

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economic conditions, interest rates, inflation and social media trends can quickly change the behavior of young investors, which means that this study may not be able to fully predict future investment risks. For example, new financial products or online investment platforms may generate risks that are not fully covered in current research.

In short, this paper believes that young investors can build long-term wealth in the stock market by using risk management strategies, rather than relying on luck or short-term speculation. Five key concepts that young investors begin with: financial knowledge helps investors understand risks, returns, diversification, avoid emotional trade and long-term planning. Risk tolerance helps young investors to choose strategies suitable for their personal financial situation and emotional comfort. Diversification reduces the risk of over-reliance on a company, an industry or a risky asset. Long-term investment allows young investors to benefit from time and compound interest, while disciplined habits such as regular investment can reduce the pressure of trying to seize market opportunities and avoid emotional trading. Young investors must manage psychological risks, not just financial risks. Overconfidence, panic selling, herd behavior and social media influence can all damage investment decisions. Therefore, emotional control and critical thinking are necessary parts of wealth management. Young investors may have more time to recover from losses, but age itself does not justify extreme risk. A well-thought-out investment strategy should balance opportunity and protection.

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