



Financial Literacy and Its Influence on Investment Choices of Young Investors

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ABSTRACT

Financial literacy plays a pivotal role in shaping the investment decisions of individuals, particularly among young investors who are at the early stages of wealth accumulation and financial independence. This study aims to identify the key financial literacy factors that significantly influence investment choices, assess the current level of financial literacy among young investors, and analyze the relationship between financial knowledge and investment behavior. As financial markets grow increasingly complex, the ability of young investors to make informed decisions is largely dependent on their understanding of fundamental financial concepts such as budgeting, risk management, diversification, and return expectations. Through a structured survey and data analysis, the study evaluates the awareness and practical application of financial literacy among young individuals. The findings reveal that higher levels of financial literacy correlate positively with sound investment behavior, including diversified portfolios and long-term planning. Conversely, low financial awareness often results in impulsive or uninformed decisions, potentially leading to financial instability. The study underscores the need for enhanced financial



education programs targeted at youth to foster responsible investing habits. Ultimately, improving financial literacy can empower young investors to make more rational and strategic investment choices, contributing to their financial well-being and economic growth at large.

Introduction

In today's dynamic financial environment, financial literacy has become an essential life skill, especially for young investors navigating an increasingly complex range of financial products and investment options. As financial markets evolve and digital investment platforms expand, the need for sound financial knowledge becomes even more critical. Financial literacy encompasses an individual's ability to understand, analyze, and apply financial concepts in making informed decisions related to budgeting, saving, investing, and risk management.

Young investors, particularly those aged 20 to 40, are at a crucial stage in life where they begin earning, saving, and investing toward future goals. Their financial decisions during this phase significantly influence their long-term financial security and economic well-being. However, research indicates that despite high education levels, many young individuals lack the practical financial skills required to make effective investment decisions.

Several factors such as income level, educational background, awareness of financial products, risk tolerance, and even parental financial behaviour play a vital role in shaping investment choices. Moreover, behavioural traits like overconfidence or risk aversion further impact financial decisions. Understanding these dynamics is crucial for promoting financial empowerment among youth.

This study aims to assess the level of financial literacy among young investors and identify key factors influencing their investment behaviour. It also seeks to explore the relationship between financial knowledge and actual investment choices to provide insights that can inform targeted financial education initiatives and policy interventions. Through this, the study contributes to building a financially aware and economically secure generation of investors.

Key Financial Literacy Factors

- **Knowledge of Financial Products:**



Understanding of shares, bonds, mutual funds, insurance, derivatives, etc. helps investors make informed choices.

- **Budgeting and Money Management Skills:**

Ability to plan income, expenses, and savings affects the capacity to invest regularly.

- **Understanding of Risk and Return:**

Awareness of the trade-off between risk and potential return shapes investment preferences.

- **Awareness of Inflation and Time Value of Money:**

Recognizing that money loses value over time encourages investors to prefer growth-oriented investments.

- **Taxation Knowledge:**

Awareness of tax benefits, exemptions, and liabilities influences investment choices (e.g., tax- saving mutual funds, insurance).

- **Awareness of Financial Institutions and Markets:**

Familiarity with banks, stock markets, and regulatory authorities (SEBI, RBI) builds trust and participation.

- **Awareness of Digital Financial Tools:**

Knowledge of online platforms, like Trading view, Demat, Angel Investor, makes investing more accessible.

- **Behavioural Aspects of Literacy:**

Self-control, avoidance of herd mentality, and rational decision-making play a role in successful investing.

Literature Review:

1. GP Pallavi, K Thantry Dsa (2025)



This case study explores the relationship between financial literacy and investment decision-making among young professionals aged 20 to 40. Using primary data collected through simple random sampling, it identifies key influences on investment behavior such as income, financial goals, risk tolerance, and economic conditions. The findings reveal that education, income, and awareness of investment avenues significantly impact financial literacy. The study emphasizes the need for targeted financial education to empower young professionals, improve investment decisions, and foster long-term financial well-being, addressing a crucial yet often overlooked demographic in financial research.

2. Pooja Parsai, Arpita Kelkar chandok (2025)

This research explores about how Financial literacy plays a vital role in shaping investment decision-making by equipping individuals with the knowledge and confidence needed to make informed choices. Those with higher financial literacy are more likely to engage in investments

and manage risks effectively, while those with lower literacy often avoid financial risk. The study highlights that a blend of financial knowledge and moderate overconfidence leads to improved investment outcomes. Factors such as age and education also influence financial behavior, emphasizing the need for widespread financial education to enhance economic well-being and promote informed financial planning.

3. Rajdeep Kumar Raut (2020)

The investment preferences of young adults are shaped by a combination of financial literacy and risk attitudes. Research in Romania shows that financial literacy—basic or advanced—reduces risk aversion and encourages selection of bonds and funds, while stock preferences are driven more by self-assessed risk tolerance. Parental financial behaviour also plays a role. Complementing this, a study from India highlights that past investor behaviour indirectly affects investment intentions via attitudes, with social pressure significantly influencing decisions. Both studies emphasize that financial literacy enhances rational investment choices and mitigates behavioral and social biases among young investors.

4. Neha Garg, Shveta singh (2018)

The literature reveals that financial literacy among youth remains low globally, posing significant concerns for policymakers. Studies indicate that socio-economic and demographic factors—such as age, gender, income, education, and marital status—strongly influence financial literacy levels.



Furthermore, there is a notable interrelationship between financial knowledge, attitude, and behaviour. These three components collectively shape youth's financial decisions, highlighting the need for targeted financial education to improve overall financial well-being and decision-making capabilities among young individuals.

5. Mahendra S Sharma (2013)

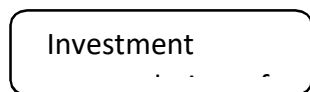
This literature reveals that India has experienced notable structural and fundamental changes in its financial markets. As the economy grows, there is a strong consensus that sustainable development requires deepening of the financial sector, which is only achievable through enhanced financial literacy among individuals and households. Globally, financial literacy is now seen as a critical pillar for building a robust financial system. Policymakers, regulators, and governments have taken significant steps to promote financial awareness by launching various financial education initiatives aimed at empowering people to make informed financial decisions.

Research Gap

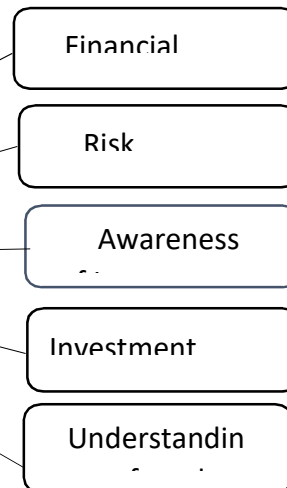
The significant research gap that is understanding of practical impact of financial literacy on investment behaviour, especially considering modern investment options and behavioral traits like digital awareness. While prior studies address general influences or demographic trends. This research highlights the key financial literacy factors which is impact on investments decisions of youths, and also there is a need for analyse the relationship between financial literacy and investment behaviour.

Conceptual Model

Dependent Variable



Independent Variables



**Statement of the problem:**

In today's dynamic financial environment, young investors are increasingly faced with multiple investment choices extending from traditional instruments such as fixed deposits and bonds to modern options like mutual funds, equities, and digital assets. However, the ability to select appropriate investment avenues depends greatly on their level of financial literacy. Many young investors lack adequate knowledge of financial concepts such as risk, return, diversification, and long-term planning, which often results in poor decision-making and missed opportunities for wealth creation. This gap between financial literacy and investment choices raises concern about their financial security and highlights the need to study financial literacy and its influence investment choices of young investors.

Need for the Study

With increasing access to diverse financial products, young investors face complex decisions requiring sound financial knowledge. Despite rising awareness, many lack the practical financial literacy needed for effective investment. This study is essential to bridge the gap by understanding how financial literacy shapes real-world investment behaviour among young Indian investors.

Scope of the Study

The study focuses on young investors in India, aged 20–40, examining how financial knowledge, behavioural traits, and awareness influence their investment decisions. It evaluates literacy levels, identifies key influencing factors, and explores behavioural links to investment choices, offering insights for policymakers, educators, and financial institutions to design targeted financial literacy initiatives.

Objectives:

- To identify the key financial literacy factors that significantly impact investment decisions.
- To assess the level of financial literacy among young investors.
- To analyze the relationship between the financial literacy and investment behaviour.

Research methodology

Type of Research: Descriptive research

Type of Sampling: Non-probability



Sample frame: The sampling framework for this study here collecting data from youth investors.

Sample size: Collecting data from 110 youths from Bangalore.

Statistical tools: Chi-square test

Data collection method:

Primary method: Through Questionnaires and survey method.

Secondary method: websites.Hypothesis

H0: There is no significant relationship between financial literacy and investment behaviour of young investors.

H1 - There is a significant relationship between financial literacy and investment behaviour of young investors.

Limitations of the Study

- The study focuses only on young investors aged 20–40, excluding older and younger age groups.
- Findings are based on self-reported data, which may include biases or inaccuracies.
- The research is limited to a specific geographic area, mostly urban or semi-urban regions, and may not reflect rural financial behaviour.
- It does not account for long-term investment outcomes or changes in behaviour over time.

Data analysis and Interpretation

Details		No. of Respondent	Percentage
How familiar are you with basic financial concepts (interest, inflation, risk-return)?	Very unfamiliar	12	10.9%
	Unfamiliar	3	2.7%
	Somewhat familiar	26	23.6%
	Familiar	50	45.5%
	Very familiar	19	17.3%
How likely are you to take	Very unlikely	8	8.2%



financial risks for higher returns	Unlikely	9	10.9%
	Neutral	42	47.3%
	Likely	31	20.9%
	Very unlikely	20	12.7%
How aware are you of different investment options such as stocks, bonds, mutual funds, and digital assets?	Very unaware	8	7.3%
	Unaware	10	9.1%
	Neither aware or unaware	42	38.2%
	Aware	28	25.5%
	Very aware	22	20%
How often do you compare multiple investment options before deciding?	Never	15	15.5%
	Rarely	16	14.5%
	Sometimes	41	37.3%
	Often	13	11.8%
	Always	23	20.9%
How aware are you of the impact of economic changes (inflation, interest rates) on your investments?	Very unaware	9	8.2%
	Unaware	11	10%
	Neutral	42	38.2%
	Aware	29	26.4%
	Very aware	19	17.3%

Source: Primary Data

Hypothesis Testing:

Statistical Tool Used: Chi-Square

Is Financial Literacy Influence on Investment Choices among Young Investors

Particulars	No .of Respondent	Percentage
Strongly disagree	12	10.9%
Disagree	3	2.7%
Neutral	26	23.6%
Agree	50	45.5%



Strongly agree	19	17.3%
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Parameters	O	E (110/5)	(O-E)	(O-E) ²	(O-E) ² / E
Strongly Disagree	12	22	-10	100	4.55
Disagree	3	22	-19	361	16.41
Neutral	26	22	4	16	0.73
Agree	50	22	28	784	35.64
Strongly agree	19	22	-3	9	0.41
Total (Responses)	110				57.73

Degree of freedom: $k-1=5-1=4$ Level of significance = 0.05

Table value at 5% Level of significance and 4DF = 9.488 Calculated value = 57.73

Interpretation

Here the calculated value is greater than the table value, i.e, $57.73 > 9.488$

Hence, Null Hypothesis (H₀) is rejected. This study concludes there is a significant relationship between financial literacy and investment choices of young investors.

FINDINGS

- Most respondents (45.5%) are familiar, while only a small fraction (13.6%) remain unfamiliar or very unfamiliar. A fair portion (23.6%) are somewhat familiar. This indicates that young investors have a decent foundation in financial concepts, but many still lack deeper knowledge. Strengthening financial education can enhance better decision-making.



- Nearly half (47.3%) are neutral, while 20.9% are likely to take risks. Around 19% are unlikely or very unlikely. Young investors show cautious behaviour toward risk-taking. Risk appetite is moderate, suggesting they prefer safer investment avenues unless guided properly.
- A majority (38.2%) are *neutral*, while 45.5% fall under *aware* or *very aware*. Only 16.4% are *unaware*. Awareness levels are average, showing exposure to investment avenues but with knowledge gaps. More targeted awareness programs could increase confidence in exploring diverse options.
- About 15.5% *never* and 14.5% *rarely* compare investment options, while the rest do so at varying frequencies. Many young investors do not actively evaluate alternatives, which may lead to uninformed decisions. Encouraging comparison behaviour could improve investment outcomes.

SUGGESTIONS

➤ Enhance Financial Literacy Programs

- Organize workshops, webinars, and short courses in colleges, workplaces, and community centers.
- Focus on core financial concepts like risk–return, diversification, and inflation impact.

➤ Improve Risk Management Awareness

- Provide training modules on risk profiling and goal-based investing.
- Encourage simulated investment platforms (demo trading apps) for practical risk-handling experience.

➤ Increase Awareness of Investment Avenues

- Financial institutions and regulators should launch campaigns to spread knowledge about stocks, bonds, mutual funds, and digital assets.
- Use simple, youth-friendly formats like infographics, reels, and gamified apps.

➤ Promote Investment Comparison Behaviour



- Introduce comparison tools/apps that allow young investors to evaluate returns, risks, and charges of multiple products.
- Encourage financial advisors to educate clients on evaluating alternatives before committing.

CONCLUSION:

The study highlights that financial literacy significantly shapes the investment behaviour of young investors in India. Findings reveal that while a majority of respondents are familiar with basic financial concepts, many still remain neutral or cautious in areas like risk-taking and awareness of diverse investment avenues. Young investors tend to lack consistent comparison habits before making investment decisions, which may limit their ability to maximize returns.

The analysis further shows that financial knowledge, risk tolerance, awareness of investment options, behavioural traits, and understanding of market trends are closely linked to investment

choices. Although digital awareness and exposure to multiple products are improving, the gap between theoretical knowledge and practical application persists. In this research have used Chi-square test to know the significant relationship.

Thus, the study concludes that enhancing financial literacy through targeted education, digital tools, and advisory support is crucial for empowering young investors. Strengthening financial awareness and encouraging informed decision-making will not only improve personal wealth management but also contribute to broader financial inclusion and economic growth.

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