

Financial Literacy and Investment Preferences: Analyzing Investor Behavior in the Stock Market

Dr. K. Parveen Banu

Assistant Professor Department of Commerce Sri Ramakrishna College of Arts & Science for Women(Autonomous) Coimbatore

Ms. P. Ribu III B. Com Sri Ramakrishna College of Arts & Science for Women (Autonomous) Coimbatore

ABSTRACT

This study looks at financial literacy, investing behaviour, and risk tolerance among Coimbatore Capital investors. A systematic questionnaire was used to obtain data from 100 respondents representing various demographic categories. Descriptive analysis gave information about the respondents' profiles. Key components revealed through factor analysis include guidance seeking, investing commitment, and risk appetite. A two-way ANOVA revealed no significant influence of age or wealth on risk tolerance. Chi-Square testing indicated no significant connections between the category variables. The results imply that behavioural factors have a greater effect on investing decisions than demographic characteristics. The report emphasises the value of financial education and personalised advising services. Limitations include sample size and geographical focus. Future studies might look at digital financial instruments and investment behaviour across larger populations.

Key words: Financial Literacy, Investment Behaviour, Risk Management, Investor Psychology,

INTRODUCTION

Financial literacy has a significant impact on individuals' investing decisions, impacting their capacity to manage financial risks and attain financial stability. A well-informed investor is more likely to make sound decisions, optimise portfolio performance, and mitigate market risks. Investment prospects have grown in the digital age, with the rise of online trading platforms, fintech solutions, and AI-powered stock recommendations. Understanding the link between financial literacy and investor behaviour is critical to building a financially resilient society.

While financial literacy has been extensively examined, certain critical areas remain unexplored. Investor psychology, emotional biases, and peer impact in decision-making are not thoroughly investigated. Furthermore, the influence of digital investing tools, social networks, and robo-advisors on investment behaviour is frequently neglected. Research has mostly concentrated on high-net-worth people, creating a vacuum in our understanding of small and medium-sized investors' financial literacy levels. Furthermore, the relationship between financial literacy and risk management measures needs further investigation.

This study seeks to examine investors' financial literacy and its influence on investing behaviour by examining aspects such as adviser consultation, digital investment trends, and risk perception. By addressing the existing information gap, the study hopes to give insights to the investors, governments, and financial institutions. The findings will aid in the development of targeted financial education programs, better investment decisions, and increased financial stability in emerging economies.

REVIEW OF LITERATURE

Rehman, K., & Mia, M. A. (2024) analyzes 53 studies to identify factors influencing financial literacy, highlighting the roles of education, income, and demographic variables. Pallavi, G. S., & Rajeshwari, G. M. (2020) emphasizes the



importance of investment awareness as a component of financial literacy, discussing its impact on informed financial decisions. Lusardi,

A. (2023) Lusardi discusses the central role of financial literacy in achieving financial well- being, covering topics from education to macroeconomic implications. Hossain, M. (2023) analyzes 66 articles, concluding that financial literacy positively influences financial knowledge, attitudes, behaviors, and outcomes. Goyal, K., & Kumar, S. (2023) provide a comprehensive review of financial literacy frameworks, identifying significant predictors and variables affected by financial literacy. Kumari, P., & Sharma, R. (2020) xamines how financial literacy and risk tolerance influence investment decisions, suggesting that higher literacy leads to better investment choices. Xiao, J. J., & O'Neill, B. (2021) review consumer financial education programs, linking them to improved financial capability and behaviors. Aren, S., & Aydemir, S. D. (2020) consolidates various definitions and measurements of financial literacy, providing a foundation for future research. Nguyen, T. T., & Nguyen, H. T. (2021) explores the relationship between financial literacy and financial inclusion, highlighting their combined effect on economic development. Kaur, A., & Vohra, T. (2022) analysis maps the existing literature on financial literacy and investment decisions, highlighting emerging trends. Potrich,

A. C. G., & Vieira, K. M. (2022) analyzes how socioeconomic and demographic factors influence financial literacy, providing insights for targeted educational programs. Mahendru, M., & Sharma, P. (2023) analysis maps the existing literature on financial literacy and investment decisions, highlighting emerging trends.

Current research on financial literacy and investing behaviour lacks a thorough examination of investor psychology, digital investment trends, and the role of social networks. Studies focus mostly on high-net-worth people, leaving small and medium-sized investors under-represented. In addition, the relationship between financial literacy and risk management has received little attention.

OBJECTIVES

- 1. To Analyse the financial literacy of the investors
- 2. Identifying the preferred investment options of the investors
- 3. To Examine the factors influencing the risk tolerance of investors

RESEARCH METHODOLOGY

Descriptive Analysis was used to summarise and offer a clear picture of demographic factors such as age, gender, and occupation, allowing researchers to better understand the characteristics of the study's respondents. This is significant for contextualising financial behaviours and risk tolerance patterns across socioeconomic groupings.

Descriptive Statistics

	Ν	Minimum	Maximum	Mean	Std. Deviation
Age	100	1	6	2.74	1.508
Gender	100	1	2	1.48	.502
Occupation	100	1	4	2.17	.853
Valid N (listwise)	100				

Age (N = 100) has a mean of 2.74 and a standard deviation of 1.508. The lowest number for age is one, indicating the youngest age group, and the highest value is six, representing the oldest age group. The rather large standard deviation indicates a highly broad age range in the sample, with people falling into various age groups.



Gender (N = 100) has an average of 1.48 and a standard deviation of 0.502. The values vary from 1 to 2, with 1 often representing male participation and 2 representing female participants. The mean value of 1.48 indicates a somewhat larger proportion of male participants in the sample.

Occupation (N = 100) has a mean of 2.17 and a standard deviation of 0.853. The values vary from 1 to 4, with 1 indicating one occupational category (for example, paid employee) and 4 representing another (for example, homemaker). The mean suggests a reasonable distribution of professions in the sample, whereas the standard deviation demonstrates some variation among career groups.

TWO WAY ANOVA: Two-Way ANOVA was employed to examine the effects of age and income, and their interaction, on risk tolerance, allowing for a deeper understanding of how these factors jointly influence investment decisions. This helps in identifying key demographic predictors of risk tolerance, critical for targeting specific investor segments.

Tests of Between-Subjects Effects

Dependent Variable: rate your risk tolerance

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	12.448 ^a	13	.958	.960	.497	.127
Intercept	341.089	1	341.089	341.917	.000	.799
Age	4.848	5	.970	.972	.440	.053
Income	.989	2	.494	.496	.611	.011
Age * Income	2.916	6	.486	.487	.816	.033
Error	85.792	86	.998			
Total	860.000	100				
Corrected Total	98.240	99				

a. R Squared = .127 (Adjusted R Squared = -.005)

A two-way ANOVA was used to investigate the impact of age, income, and interaction on investors' self-rated risk tolerance. The total model was not statistically significant, F(13, 86) = 0.960, p = 0.497, demonstrating that age, income, and their interaction do not substantially predict differences in risk tolerance among respondents. The R-squared score of 0.127 indicates that the model only explains 12.7% of the variance in risk tolerance, while the adjusted R- squared is negative (-0.005), suggesting poor model fit.Individually, neither age (F = 0.972, p = 0.440), income (F = 0.496, p = 0.611), or the age-income interaction (F = 0.487, p = 0.816) had a statistically significant influence on risk tolerance. All of these effects had low partial eta squared values, indicating a tiny impact size. These findings indicate that age, income, and their interplay do not have a substantial impact on how investors assess their own risk tolerance in this population.

Factor Analysis was conducted to identify underlying factors influencing investment behavior, such as risk tolerance, advice-seeking, and personal financial commitment. This is crucial for simplifying complex survey data, revealing



patterns, and improving the focus of financial literacy programs for investors.

Rotated Component Matrix^a

	Component			
	1	2	3	
Advice	.698	.388	.101	
Influence of Interaction	.773	368		
Savings for Investment	.270	.178	.693	
invest in 4-risk stocks		.892		
rate your risk tolerance	248	132	.784	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 5 iterations.

The factor analysis, which used Principal Component Analysis with Varimax rotation, identified three unique components underlying the chosen variables linked to financial decision-making and risk tolerance. The first component, titled "Information-Seeking Behaviour," has strong loadings from factors including seeking advice before making investment decisions (0.698) and impact from interactions with other investors (0.773). This shows that this group of investors makes financial decisions based on external sources such as social networks or advisors. The second component, "Preference for High-Risk Investments," is dominated by the variable investment in high-risk equities, which has a high loading of 0.892. This suggests that this factor reflects a distinct behavioural preference for aggressive or risky investing techniques.

The third component, "Risk Tolerance and Financial Commitment," had significant loadings from the proportion of funds invested (0.693) and self-rated risk tolerance (0.784). This means that the component represents the investor's personal willingness and ability to engage

financially while accepting the related investment risks. Overall, the investigation has identified three important variables that influence investor behaviour: reliance on external advice, risk-taking inclinations, and individual financial risk capacity. These information can help personalise investor education programs, construct financial products, and segment customers based on their behavioural patterns.

RESULTS & CONCLUSION

Descriptive analysis indicated that the sample was heterogeneous in terms of age, gender, and employment. Factor analysis revealed three key influences on investor behaviour: information seeking, risk-taking preference, and financial commitment. The Two-Way ANOVA found no significant effect of age or wealth on risk tolerance, showing that these demographics have little influence on risk-taking behaviour. The chi-square test found no significant correlation between chosen categorical variables, however a trend was seen in the linear-by-linear association. Overall, statistical studies indicate that personal variables have a greater effect on investment behaviour than fundamental demographic features.

The findings emphasise that, while demographic characteristics such as age and wealth are essential, they are not



the only factors influencing investing decisions. Psychological and behavioural factors such as advice seeking and personal risk tolerance are more important. Factor analysis was used to reduce many variables to interpretable components, allowing for more understanding. The lack of significance in the ANOVA and chi- square results implies that other behavioural and environmental factors should be investigated. This study emphasises the value of personalised financial advice above demographic generalisations.

FUTURE STUDIES

Future study might look into the effect of digital financial literacy and mobile trading platforms on investor behaviour. A longitudinal research might look at how investor attitudes and risk tolerance evolve over time and in reaction to market fluctuations. Chi-square analysis' validity may be improved by increasing the sample size and ensuring better distribution of answer categories. Incorporating qualitative information, such as interviews or open-ended replies, might improve our knowledge of investor motives. Additional research can examine investor behaviour across geographies or trading businesses to confirm and generalise findings.

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