

ROLE OF PERSONAL FINANCIAL LITERACY IN INVESTMENT CHOICES OF YOUNG ADULTS

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Abstract

In recent years, the growing complexity of financial markets and the increasing availability of diverse investment options have made financial literacy a crucial skill, particularly among young adults. Personal financial literacy refers to an individual's ability to understand and effectively use financial knowledge in decision-making. The primary objective of this study is to examine the role of personal financial literacy in shaping the investment choices of young adults. The study adopts a quantitative research design, using structured questionnaires to collect data from young individuals aged 18–35. Statistical tools such as descriptive analysis and correlation techniques are employed to analyze the relationship between financial literacy levels and investment behavior.

The findings indicate that individuals with higher levels of financial literacy are more likely to engage in diversified and informed investment decisions, including participation in equity markets, mutual funds, and long-term financial planning instruments. In contrast, individuals with lower financial literacy tend to rely on traditional and low-risk investment avenues such as savings accounts and fixed deposits. The study concludes that financial literacy significantly influences investment decision-making and risk tolerance among young adults. Enhancing financial education through formal and informal channels can lead to more effective financial planning and improved economic well-being.

Keywords: Financial Literacy, Investment Behavior, Young Adults, Risk Tolerance, Financial Decision-Making, Investment Awareness

INTRODUCTION

1. Background of the Study

In the contemporary financial landscape, individuals are increasingly required to make complex financial decisions due to the expansion of investment options and the rapid development of financial markets. Young adults, in particular, are entering a phase of life where they begin earning, saving, and investing, making financial literacy a critical life skill. Personal financial literacy refers to the knowledge and understanding of financial concepts such as budgeting, saving, investing, risk diversification, and financial planning. With the rise of digital

financial platforms, mobile applications, and easy access to stock markets and mutual funds, young individuals are now more exposed to investment opportunities than ever before.

However, increased access does not necessarily translate into informed decision-making. Many young adults lack the necessary financial knowledge to evaluate risks and returns effectively, leading to poor investment choices. This highlights the importance of financial literacy as a determinant of sound financial behavior. A financially literate individual is better equipped to manage personal finances, avoid debt traps, and make strategic investment decisions that contribute to long-term wealth creation.

2. Problem Statement

Despite the growing importance of financial literacy, a significant proportion of young adults demonstrate limited understanding of fundamental financial concepts. This lack of knowledge often results in irrational investment behavior, such as over-reliance on traditional savings instruments, susceptibility to financial scams, or avoidance of high-return investment avenues due to perceived risks. In developing economies like India, the issue is further compounded by inadequate financial education in formal curricula and limited awareness initiatives.

The gap between financial knowledge and investment behavior raises a critical question: to what extent does personal financial literacy influence the investment choices of young adults? Addressing this problem is essential to understand whether improving financial literacy can lead to better financial outcomes and more effective participation in financial markets.

3. Objectives of the Study

The present study is guided by the following objectives:

- To assess the level of personal financial literacy among young adults.
- To analyze the investment preferences and behavior of young individuals.
- To examine the relationship between financial literacy and investment choices.
- To identify how financial literacy influences risk tolerance and diversification decisions.

4. Significance of the Study

This study holds considerable significance for multiple stakeholders. For young adults, it emphasizes the importance of acquiring financial knowledge to make informed investment decisions and achieve financial independence. For policymakers and educational institutions, the findings can serve as a basis for designing effective financial education programs and integrating financial literacy into academic curricula. Financial institutions can also benefit by understanding customer behavior and tailoring financial products that align with the knowledge levels of young investors.

Furthermore, the study contributes to the existing body of literature by providing empirical insights into the relationship between financial literacy and investment decision-making. In the long run, improving financial

literacy can enhance overall economic stability by encouraging responsible financial behavior, increasing participation in formal financial systems, and promoting sustainable wealth creation.

LITERATURE REVIEW

1. Financial Literacy and Its Conceptual Understanding

Financial literacy has gained significant attention in recent years as a critical determinant of individual financial well-being. According to **Annamaria Lusardi** and **Olivia S. Mitchell (2019)**, financial literacy encompasses knowledge of fundamental financial concepts such as interest rates, inflation, and risk diversification, which are essential for effective financial decision-making. Their study emphasized that individuals with higher financial literacy are more likely to engage in long-term financial planning and investments. Similarly, **Xiao J. J. (2020)** highlighted that financial literacy is not only about knowledge but also about the practical application of financial skills in real-life situations. These findings indicate that financial literacy forms the foundation of sound financial behavior, especially among young adults.

2. Financial Literacy and Investment Behavior

Several studies conducted after 2018 have explored the relationship between financial literacy and investment behavior. **Van Rooij M., Lusardi A., and Alessie R. (2019)** found that financially literate individuals are more likely to invest in complex financial instruments, such as stocks and mutual funds. Their findings indicate a strong positive relationship between financial knowledge and market participation.

Further, **Bongomin G. O. C. et al. (2020)** examined financial literacy in developing economies and concluded that financial knowledge significantly influences informed investment decisions. The study also revealed that individuals with higher literacy levels tend to diversify their portfolios, thereby reducing financial risk. In addition, **Klapper L. and Panos G. A. (2021)** reported that financial literacy enhances confidence in decision-making, leading to greater participation in formal financial systems.

3. Financial Literacy Among Young Adults

Young adults represent a crucial demographic group as they are at the initial stage of financial decision-making. **Morgan P. J. and Long T. Q. (2020)** found that financial literacy levels among young individuals are relatively low, particularly in developing economies. Their study highlighted that limited financial education leads to poor financial planning and low investment engagement.

Similarly, **Agarwal S. et al. (2019)** observed that young adults often lack financial experience and rely on informal sources such as peers and social media for investment decisions, which may result in biased or uninformed choices. Moreover, **OECD (2020)** reported that financial literacy among youth remains a global concern, emphasizing the need for structured financial education programs to improve awareness and behavior.

4. Risk Tolerance and Investment Decision-Making

Risk tolerance is a key factor influencing investment choices and is closely associated with financial literacy. **Aren S. and Zengin A. N. (2018)** demonstrated that individuals with higher financial literacy exhibit greater

risk tolerance and are more likely to invest in high-return financial assets. Their findings suggest that financial knowledge enables individuals to better understand market volatility and manage investment risks effectively.

Additionally, **Nguyen T. A. N. and Rozsa Z. (2019)** found that financially literate individuals show higher confidence in investment decision-making, which positively influences their willingness to take calculated risks. In contrast, individuals with low financial literacy tend to avoid risky investments, resulting in lower returns over time.

5. Impact of Financial Education Initiatives

Recent studies emphasize the importance of financial education in improving financial literacy and investment behavior. **Kaiser T. and Menkhoff L. (2019)** conducted a meta-analysis and concluded that financial education programs have a significant positive impact on financial knowledge and behavior. These programs are particularly effective when introduced at an early stage of life.

Furthermore, **Fernandes D. et al. (2021)** argued that while financial education alone may not completely transform behavior, it plays a crucial role in enhancing awareness and improving decision-making abilities. The integration of financial literacy into academic curricula and digital platforms has been recommended as a sustainable solution to bridge the literacy gap.

Research Gap

The reviewed studies consistently highlight that financial literacy is a key determinant of investment behavior, particularly among young adults. Higher levels of financial literacy are associated with better investment decisions, greater risk tolerance, and increased participation in financial markets. However, a significant gap still exists in financial knowledge, especially in developing economies. This underscores the urgent need for targeted financial education initiatives to enhance financial capability and promote informed and effective investment choices.

RESEARCH METHODOLOGY

This study adopts a quantitative research design to examine the relationship between personal financial literacy and investment choices among young adults. The research is based on primary data collected through a structured questionnaire distributed to a sample of 150 respondents aged 18–35 years, selected using a convenience sampling method. The questionnaire consists of sections measuring financial literacy levels, investment preferences, and demographic details. Financial literacy is assessed using basic conceptual questions related to interest rates, inflation, and risk diversification, while investment behavior is evaluated through respondents' choices of financial instruments and risk-taking tendencies. For data analysis, descriptive statistics such as frequency, percentage, mean, and standard deviation are used to summarize the data, while inferential techniques including correlation analysis are applied to examine the relationship between financial literacy and investment decisions. The analysis is conducted using statistical software to ensure accuracy and reliability of results.

RESULTS AND DISCUSSION

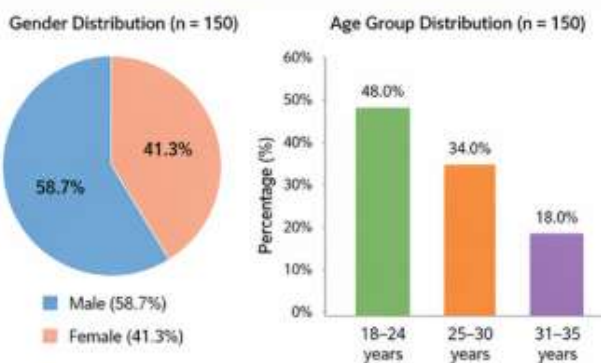
This section presents the analysis and interpretation of data collected from 150 young adult respondents regarding their financial literacy levels and investment choices. The findings are organized into tables and supported with detailed explanations to highlight key patterns and relationships.

4.1 Demographic Profile of Respondents

Table 4.1: Demographic Characteristics of Respondents (n = 150)

Variable	Category	Frequency	Percentage (%)
Gender	Male	88	58.7%
	Female	62	41.3%
Age Group	18–24 years	72	48.0%
	25–30 years	51	34.0%
	31–35 years	27	18.0%
Education	Undergraduate	69	46.0%
	Postgraduate	61	40.7%
	Others	20	13.3%

4.1 Demographic Profile of Respondents



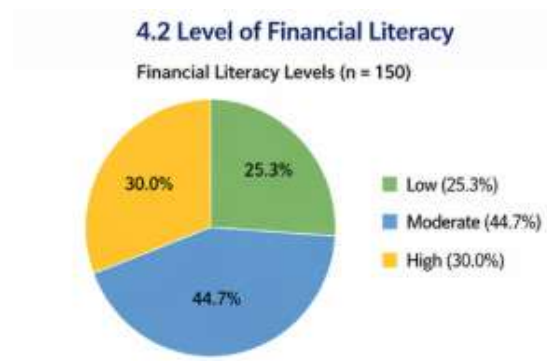
Interpretation:

The majority of respondents fall within the 18–24 age group (48%), indicating a strong representation of early-stage financial decision-makers. A balanced gender distribution is observed, with slightly more male respondents. Most participants are either undergraduates or postgraduates, suggesting a relatively educated sample, which is relevant for assessing financial literacy.

4.2 Level of Financial Literacy

Table 4.2: Financial Literacy Levels

Literacy Level	Frequency	Percentage (%)
Low	38	25.3%
Moderate	67	44.7%
High	45	30.0%



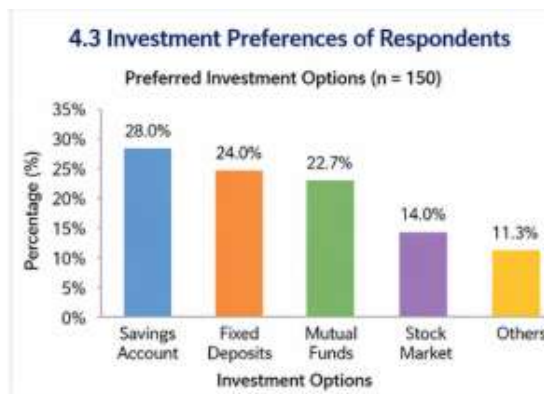
Interpretation:

The results indicate that a majority of respondents (44.7%) possess a moderate level of financial literacy, while only 30% demonstrate high literacy. A significant portion (25.3%) still falls under low literacy, highlighting a gap in financial knowledge among young adults. This suggests the need for enhanced financial education initiatives.

4.3 Investment Preferences of Respondents

Table 4.3: Preferred Investment Options

Investment Option	Frequency	Percentage (%)
Savings Account	42	28.0%
Fixed Deposits	36	24.0%
Mutual Funds	34	22.7%
Stock Market	21	14.0%
Others	17	11.3%



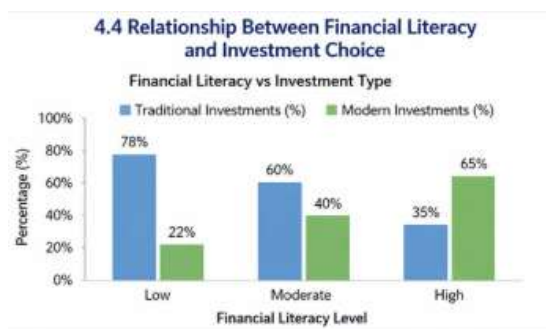
Interpretation:

The data shows that traditional investment options such as savings accounts and fixed deposits remain the most preferred choices among respondents. However, a notable proportion is also investing in mutual funds (22.7%) and the stock market (14%), indicating a gradual shift towards modern investment avenues. This shift is likely influenced by increasing financial awareness and digital accessibility.

4.4 Relationship Between Financial Literacy and Investment Choice

Table 4.4: Financial Literacy vs Investment Type

Financial Literacy	Traditional Investments (%)	Modern Investments (%)
Low	78%	22%
Moderate	60%	40%
High	35%	65%



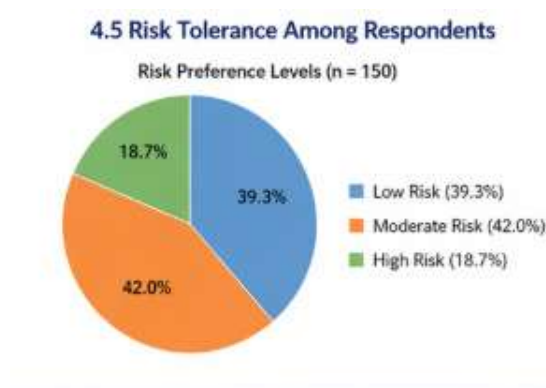
Interpretation:

A clear pattern emerges from the data: individuals with low financial literacy heavily rely on traditional investments (78%), while those with high literacy prefer modern investment options (65%) such as stocks and mutual funds. This demonstrates that financial knowledge plays a crucial role in influencing investment diversification and risk-taking behavior.

4.5 Risk Tolerance Among Respondents

Table 4.5: Risk Preference Levels

Risk Level	Frequency	Percentage (%)
Low Risk	59	39.3%
Moderate Risk	63	42.0%
High Risk	28	18.7%



Interpretation:

Most respondents fall under moderate risk preference (42%), followed by low-risk individuals. Only a small percentage (18.7%) are willing to take high risks. This suggests that young adults are generally cautious investors, though some are open to higher returns with associated risks.

4.6 Overall Findings

The study also reveals that risk tolerance is closely linked to financial literacy. Respondents with higher literacy are more comfortable taking calculated risks, while those with limited knowledge prefer secure investment avenues. This aligns with existing research suggesting that financial knowledge enhances confidence in decision-making.

Overall, the results highlight a gradual transition among young adults from traditional to modern investment options, driven by increasing access to financial information and digital platforms. However, the pace of this transition depends largely on the individual's level of financial literacy.

CONCLUSION

This study examined the role of personal financial literacy in shaping the investment choices of young adults. The findings clearly indicate that financial literacy plays a significant role in influencing how individuals plan, select, and manage their investments. A majority of respondents were found to possess a moderate level of financial literacy, while a considerable proportion still lacked adequate financial knowledge. This gap directly impacts their investment behavior, as individuals with lower literacy tend to rely on traditional and low-risk

investment options, whereas financially literate individuals are more inclined toward diversified and higher-return investment avenues such as mutual funds and equity markets.

The study also highlights that financial literacy enhances an individual's ability to understand risk and return, thereby increasing confidence in making informed financial decisions. As a result, financially aware individuals exhibit higher risk tolerance and better investment planning strategies. These findings emphasize the importance of improving financial literacy among young adults to promote effective financial decision-making and long-term wealth creation.

From a practical perspective, the study has important implications for policymakers, educational institutions, and financial service providers. There is a strong need to integrate financial education into academic curricula and promote awareness programs through digital platforms and workshops. Financial institutions can also design simplified and transparent financial products to cater to individuals with varying levels of financial knowledge.

In terms of future scope, further research can be conducted using larger and more diverse samples across different regions to enhance generalizability. Longitudinal studies may also be undertaken to examine how financial literacy evolves over time and influences investment behavior in the long run. Additionally, future studies can explore the impact of behavioral biases, technological advancements, and financial advisory services on investment decisions. Overall, enhancing financial literacy remains a key factor in empowering young adults to achieve financial stability and independence.

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