

The Role of Financial Literacy in Shaping Investment Strategies for Gen Z Investors

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Abstract:

This study examines the role of financial literacy in shaping investment strategies among Gen Z investors. It focuses on understanding how financial knowledge influences investment decisions and risk-taking behavior. Primary data were collected from 100 Gen Z respondents using a structured questionnaire. A descriptive research design and simple random sampling technique were adopted. Data were analyzed using percentage analysis, correlation, regression, and ANOVA.

The findings show that most respondents possess a moderate level of financial literacy.

Mutual funds were identified as the most preferred investment avenue among Gen Z investors.

Financial literacy was found to improve confidence, independent decision-making, and investment diversification. A strong positive relationship was observed between financial literacy and investment strategy ($r = 0.68$). The study concludes that financial literacy is essential for informed investing, effective risk management, and long-term wealth creation.

Keywords: Financial Literacy, Gen Z Investors, Investment Strategies, Financial Education, Investment Decision-Making, Risk-Taking Ability.

1. Introduction:

Financial markets have experienced significant growth and transformation due to technological advancements and digital investment platforms. These developments have increased access to financial products and services for individuals across different age groups. Among them, Generation Z (Gen Z) has emerged as an active participant in investment activities. The availability of mobile trading applications, online investment platforms, and digital financial resources has encouraged young investors to enter financial markets at an early age.

At the same time, the increasing complexity of financial products and market fluctuations has created new challenges for investors. Young investors are often exposed to large volumes of information through social media, online forums, and digital platforms, making it difficult to distinguish reliable information from misinformation. Therefore, financial literacy has become an essential skill for making informed and effective investment decisions.

Financial literacy refers to the knowledge and understanding of financial concepts such as budgeting, saving, investing, risk management, and financial planning. It enables individuals to evaluate investment opportunities, understand risks and returns, and make decisions that support their long-term financial goals. Higher levels of financial literacy generally lead to better financial behavior and more effective investment strategies.

The investment behavior of Gen Z is influenced by several factors, including financial education, technological exposure, risk perception, and access to financial information. Financially literate investors are more likely to diversify their portfolios, assess risks carefully, and avoid impulsive investment decisions. In contrast, a lack of financial knowledge may result in poor investment choices and increased financial vulnerability.

2. Review of literature:

Lusardi (2023)

Annamaria Lusardi conducted a comprehensive review of financial literacy research and found that financial literacy is a crucial determinant of sound financial decision-making. The study highlighted that individuals with higher financial knowledge are more likely to make informed investment choices, manage risks effectively, and achieve better financial outcomes. The findings provide a strong theoretical foundation for understanding the importance of financial literacy among Gen Z investors.

Susanto (2025)

K. P. Susanto examined the effects of financial literacy, technological progress, and financial attitudes on the investment decisions of Gen Z investors. Using a quantitative survey and PLS-SEM analysis, the study found that financial literacy had a significant positive influence on investment decisions. The research concluded that financially literate investors make more rational and strategic investment choices.

G. Suresh (2024)

G. Suresh investigated the combined impact of financial literacy and behavioural biases on investment decision-making. The study revealed that financial literacy improves investment quality by reducing the influence of behavioural biases such as overconfidence and herd behaviour. The findings suggest that financial education helps investors adopt more disciplined and analytical investment strategies.

Mishra (2024)

D. Mishra analyzed the impact of digital financial literacy on financial decision-making among Indian investors. The study found that individuals with higher digital financial literacy demonstrated better investment planning, improved risk assessment, and more effective utilization of digital investment platforms. The research emphasized the growing importance of financial education in the digital era.

Prasad (2025)

K. D. V. Prasad examined factors influencing cryptocurrency investment intentions among Gen Z and millennial investors. The study found that financial literacy significantly affects risk perception and investment behaviour. Investors with higher financial knowledge were more capable of evaluating risks and making informed investment decisions, highlighting the relationship between financial literacy and risk-taking ability.

Research gap:

Although existing studies have established that financial literacy positively influences investment decision-making, several gaps remain in the literature. Most research has focused on the general relationship between financial literacy and investment behaviour, with limited attention given to how financial literacy shapes the overall investment strategies of Gen Z investors. Previous studies have mainly examined financial knowledge, behavioural biases, digital financial literacy, and risk perception as separate factors, rather than analyzing investment preferences, decision-making patterns, and risk-taking ability within a single framework. Additionally, many studies have been conducted in international settings, making their findings less applicable to the Indian context, where cultural, economic, and technological factors may influence investment behaviour differently. There is also limited empirical evidence focusing exclusively on Gen Z investors, who represent a rapidly growing segment of market participants. Therefore, there is a need for a comprehensive study that examines the relationship between financial literacy, investment preferences, investment decision-making, and risk-taking behaviour among Indian Gen Z investors. The present study seeks to address this gap by providing a holistic analysis of how financial literacy influences investment strategies among Gen Z investors.

Need of the study:

This study is needed to:

- To assess the level of financial literacy among Gen Z investors and understand their knowledge of financial concepts and investment products.
- To examine the influence of financial literacy on investment decisions, as informed investors are more likely to make rational and profitable choices.
- To identify the investment preferences of Gen Z investors and understand the factors that influence their selection of investment avenues.
- To analyze the relationship between financial literacy and risk-taking ability, helping determine whether financial knowledge leads to informed risk management.
- To understand the impact of digital financial platforms and online information sources on the investment behavior of young investors.

Statement of the problem:

The increasing participation of Gen Z investors in financial markets has highlighted the importance of financial literacy in making informed investment decisions. Although digital investment platforms have made investing more accessible, many young investors lack adequate financial knowledge to evaluate investment opportunities, assess risks, and manage their portfolios effectively. This often leads to impulsive decisions, poor investment choices, and increased financial vulnerability. Moreover, the influence of social media, peer networks, and online information can further affect investment behaviour. Despite the growing interest of Gen Z in investing, there is limited understanding of how financial literacy influences their investment strategies, preferences, and risk-taking ability. Therefore, this study seeks to examine the role of financial literacy in shaping investment strategies among Gen Z investors and to determine whether financial education contributes to more informed, rational, and effective investment decisions.

Objectives of the study:

- To measure the level of financial knowledge among Gen Z investors.
- To study how financial education influenced their investment decisions.
- To identify the common investment options preferred by Gen Z investors.
- To examine the relationship between financial education and risk-taking ability of Gen Z investors.

Scope of the study:

The present study focuses on examining the role of financial literacy in shaping investment strategies among Gen Z investors. It covers the assessment of financial knowledge, investment behaviour, investment preferences, and risk-taking ability of young investors. The study is limited to Gen Z individuals who are either actively investing or interested in investment activities. It explores how financial education influences investment decision-making and the selection of various investment avenues such as mutual funds, stocks, fixed deposits, and other financial products. The research is based on primary data collected from 100 respondents through a structured questionnaire within a specific time period. The study also analyzes the relationship between financial literacy and investment strategy using statistical tools. However, its scope is confined to selected variables related to financial literacy and investment behaviour and does not include broader economic, psychological, or demographic factors that may influence investment decisions.

Limitation of the study:

- The study is limited to a sample size of 100 respondents, which may not fully represent the entire Gen Z population.
- The research is confined to a specific geographical area, limiting the generalization of the findings.

- The study is based on primary data collected through a questionnaire, which may be subject to respondent bias.
- The accuracy of the results depends on the honesty and understanding of the respondents while answering the questionnaire.
- The study follows a cross-sectional approach, collecting data at a single point in time and not capturing changes in behaviour over time.

Research design:

The study uses a descriptive research design.

Data collection method:

Primary data: surveys and questionnaires format for the study.

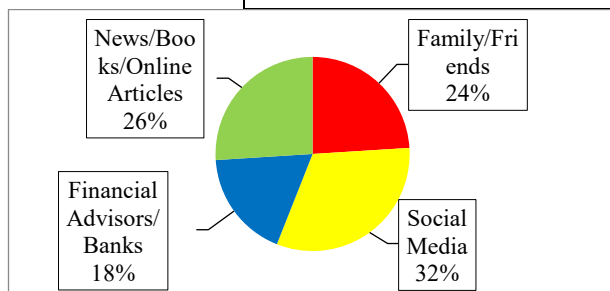
Secondary data: These sources included academic journals, research articles, books, conference papers, government publications, financial reports, websites of financial institutions, and online databases. Information related to financial literacy, investment behavior, Gen Z investors, risk-taking ability, and investment strategies was gathered from these sources.

Tools used: pie charts, surveys, tables

Data analysis and interpretation:

What had been your primary source of financial information?

Source of Financial Information	Frequency	Percentage
Family/Friends	24	24.00%
Social Media	32	32.00%
Financial Advisors/Banks	18	18.00%
News/Books/Online Articles	26	26.00%
Total	100	100.00%

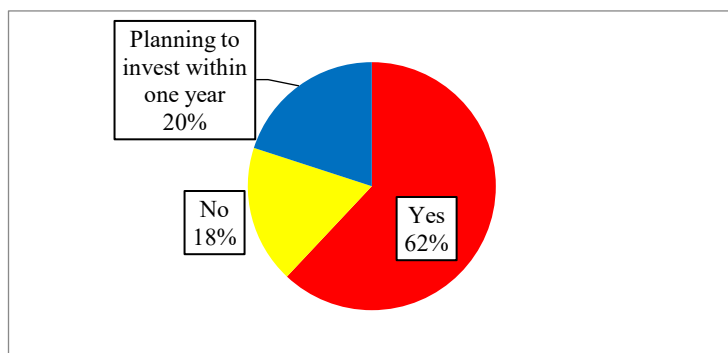


Interpretation:

The table indicated that social media was the most frequently reported source of financial information, accounting for 32.00% of respondents, followed by news, books, and online articles at 26.00%. Family and friends contributed 24.00%, while financial advisors and banks were cited by only 18.00%. Statistically, this pattern suggested that Gen Z investors had relied more heavily on informal and digital sources than on professional advisory channels.

Had you ever invested in any financial product?

Investment Experience	Frequency	Percentage
Yes	62	62.00%
No	18	18.00%
Planning to invest within one year	20	20.00%
Total	100	100.00%

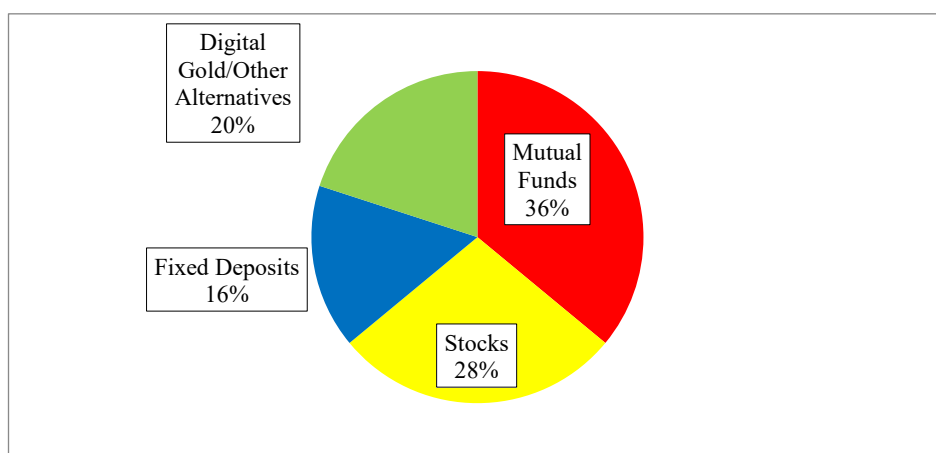


Interpretation:

The data showed that 62.00% of the respondents had already invested in financial products, whereas 20.00% had been planning to invest within one year. Only 18.00% had not invested at all. This indicated that the majority of Gen Z respondents had already entered the investment domain, which strengthened the relevance of the study.

Which investment avenue had you preferred most?

Preferred Investment Avenue	Frequency	Percentage
Mutual Funds	36	36.00%
Stocks	28	28.00%
Fixed Deposits	16	16.00%
Digital Gold/Other Alternatives	20	20.00%
Total	100	100.00%

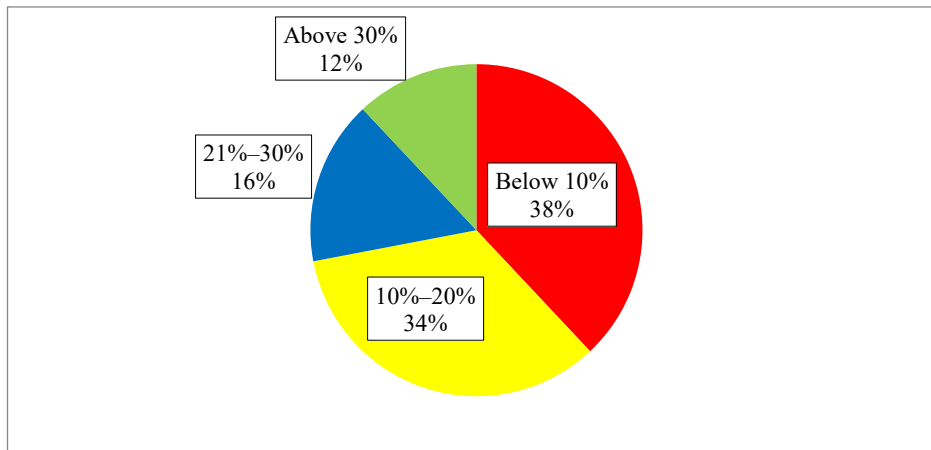


Interpretation:

The table revealed that mutual funds were the most preferred investment avenue at 36.00%, followed by stocks at 28.00%. Digital gold and other alternatives accounted for 20.00%, while fixed deposits were preferred by 16.00% of the respondents. This pattern suggested that Gen Z investors had shown a moderate appetite for market-linked instruments rather than solely conservative savings products.

What proportion of your income had you usually invested?

Share of Income Invested	Frequency	Percentage
Below 10%	38	38.00%
10%–20%	34	34.00%
21%–30%	16	16.00%
Above 30%	12	12.00%
Total	100	100.00%

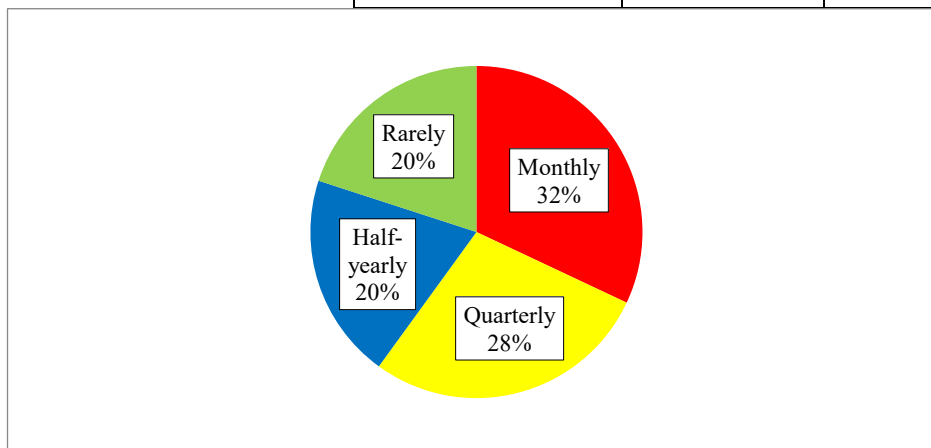


Interpretation:

The data indicated that 38.00% of respondents invested below 10% of their income, while 34.00% invested 10%–20%. A smaller proportion invested 21%–30% or above 30%, at 16.00% and 12.00% respectively. Statistically, this revealed that investment commitment had generally been cautious and manageable rather than highly intensive.

How often had you reviewed your investment portfolio?

Review Frequency	Frequency	Percentage
Monthly	32	32.00%
Quarterly	28	28.00%
Half-yearly	20	20.00%
Rarely	20	20.00%
Total	100	100.00%



Interpretation:

The table indicated that 32.00% of respondents reviewed their portfolio monthly and 28.00% did so quarterly, while 20.00% reviewed it half-yearly and another 20.00% rarely did so. This suggested a mixed level of monitoring discipline among Gen Z investors. The practical significance was notable because regular review behaviour often reflected stronger financial awareness and engagement with portfolio performance.

Hypothesis Testing

H0: Financial literacy had no relationship with investment strategy among Gen Z investors.

H1: Financial literacy had a relationship with investment strategy among Gen Z investors.

Table 1: Correlation coefficient

Variable	1	2
1. Financial literacy	1.00	
2. Investment strategy	0.68*	1.00

Note. * Significant at $p < .05$.

Interpretation

The correlation table indicated a strong positive relationship between financial literacy and investment strategy, with a correlation coefficient of 0.68, which had been statistically significant at the 0.05 level. This meant that respondents who had shown higher financial literacy also tended to report more disciplined and strategic investment behaviour. Practically, the relationship had implied that financial education was not merely informational but behaviourally consequential.

Findings:

- The study found that a majority of Gen Z investors possess a moderate level of financial literacy, indicating a reasonable understanding of basic financial concepts.
- Most respondents had already participated in investment activities, showing a growing interest in financial markets among Gen Z investors.
- Mutual funds emerged as the most preferred investment avenue, followed by stocks, digital gold, and fixed deposits.
- Wealth creation was identified as the primary objective of investment for most respondents.
- Social media and digital platforms were found to be important sources of financial information for young investors.
- Financial education significantly improved respondents' confidence in making investment decisions.

Conclusion:

The study concludes that financial literacy plays a significant role in shaping the investment strategies of Gen Z investors. Financially literate individuals are better equipped to make informed investment decisions, assess risks, and select suitable investment avenues. The findings indicate that higher levels of financial knowledge contribute to greater confidence, improved decision-making, and effective portfolio diversification. Mutual funds emerged as the most preferred investment option among respondents, while wealth creation was identified as the primary investment objective. The study also found a positive relationship between financial literacy and risk-taking ability, suggesting that financially educated investors are more capable of managing investment risks. Furthermore, financial literacy helps reduce impulsive investment behaviour and encourages long-term financial planning. Overall, the study highlights the importance of financial education in promoting responsible investment practices and enhancing the financial well-being of Gen Z investors. It also provides valuable insights for educators, financial institutions, and policymakers to develop effective financial literacy programs for young investors.

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