

Investment Preferences of Young Adults

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Abstract:

Young adults are an increasingly important segment of the investing population, bringing new attitudes, digital fluency, and distinct priorities to the way they save and invest. This study examines the investment preferences of young adults, focusing on the instruments they prefer, the factors that shape their choices, their risk appetite, and the sources of information and advice they rely upon. Adopting a descriptive and analytical research design supported by a structured questionnaire survey, the study measures preferences across traditional and modern investment avenues and relates them to demographic and behavioural factors such as income, financial literacy, risk tolerance, and investment goals. The findings indicate that young adults display a growing appetite for market-linked and digital investment avenues such as mutual funds, equities, and systematic investment plans, alongside continued reliance on traditional instruments such as bank deposits for safety and liquidity. Returns, safety, liquidity, and ease of access emerge as the leading factors influencing their choices, while financial literacy and risk tolerance significantly shape the willingness to take on market exposure

Keywords — Investment Preferences, Young Adults, Risk Tolerance, Mutual Funds, Financial Literacy, Savings, India

I. INTRODUCTION

Investment decisions are among the most consequential financial choices individuals make, shaping their ability to build wealth, meet life goals, and secure their future. Young adults, broadly those in their late teens through their mid-thirties, stand at the beginning of their financial journeys and are forming the habits and preferences that will influence their long-term financial wellbeing. Understanding how this group chooses to invest is therefore of considerable importance to investors themselves, to financial service providers, and to policy makers concerned with financial inclusion and literacy.

The investment landscape available to young adults has broadened and transformed. Alongside traditional avenues such as bank fixed deposits, recurring deposits, savings schemes, gold, and insurance, young adults now have ready access to market-linked instruments such as mutual funds, equities, exchange-traded funds, and systematic investment plans, as well as newer digital options. In India, the growth of smartphone penetration, digital payments, and low-cost online investment platforms has made these avenues far more accessible than they were for previous generations at the same age.

The investment preferences of young adults are shaped by a range of factors. Economic

considerations such as expected returns, safety of principal, liquidity, and tax benefits play a central role. Behavioural and personal factors, including risk tolerance, financial literacy, investment goals, and the influence of family, peers, and digital information, also exert significant influence. Young adults often balance a desire for higher returns and wealth creation against caution born of limited experience and modest, variable incomes.

Understanding these preferences helps financial service providers design suitable products and communication, helps educators target financial literacy efforts, and helps young adults themselves make more informed choices. This study investigates the investment preferences of young adults, examining which avenues they favour, what factors drive their choices, and how risk tolerance and financial literacy shape their behaviour.

II. OBJECTIVES OF THE STUDY

The present study is guided by the following objectives:

1. To study the various investment avenues available to young adults.
2. To examine the investment preferences of young adults across traditional and modern avenues.
3. To identify the factors that influence the investment choices of young adults.
4. To assess the risk tolerance and investment goals of young adults.
5. To examine the role of financial literacy and sources of information in shaping investment preferences.
6. To offer suggestions for investors, financial service providers, and educators.

III. REVIEW OF LITERATURE

The study of individual investment behaviour draws on both economic and behavioural traditions. Markowitz (1952), through modern portfolio theory, established the principle that investors seek to balance expected return against risk and benefit from diversification. This foundational idea frames the understanding of how investors, including young adults, weigh returns and safety in choosing avenues.

Kahneman and Tversky (1979), through prospect theory, showed that investors are influenced by cognitive biases such as loss aversion, and that their decisions depart from the predictions of purely rational models. This behavioural perspective is particularly relevant to young, less experienced investors whose choices may be strongly shaped by perceptions of risk and framing.

Research on financial literacy has consistently found it to be a key determinant of sound investment behaviour. Lusardi and Mitchell (2014) demonstrated that higher financial literacy is associated with greater participation in financial markets, better diversification, and more effective retirement planning. For young adults, financial literacy strongly influences the willingness and ability to use market-linked instruments.

Studies focusing on young investors have found a gradual shift in preferences from purely traditional, safety-oriented instruments toward market-linked avenues, driven by rising awareness, digital access, and the search for higher returns. At the same time, this research notes that safety and liquidity remain important, especially for those with limited income or experience, resulting in a mixed portfolio of traditional and modern instruments.

In the Indian context, industry reports and academic studies have documented the sharp rise in participation by young investors, reflected in the growth of demat accounts and systematic

investment plans, much of it driven by individuals in their twenties and thirties using digital platforms. Studies of young Indian investors have found that returns, safety, liquidity, and ease of access are leading decision factors, and that financial literacy and the influence of family, peers, and digital information shape preferences.

A recurring theme in the literature is that young adults are not a homogeneous group; their preferences vary with income, education, financial literacy, and risk tolerance. The present study builds on this body of work by empirically examining the investment preferences of young adults and the factors that shape them.

IV. RESEARCH METHODOLOGY

Research design. The study adopts a descriptive and analytical research design. It combines primary data collected through a structured questionnaire with secondary data from regulatory and industry sources to contextualise the findings.

Nature and sources of data. Primary data are collected from young adults through a structured questionnaire covering their investment avenues, decision factors, risk tolerance, goals, and sources of information. Secondary data are drawn from the Securities and Exchange Board of India, Reserve Bank of India, industry association reports, and reputable publications on investment and financial literacy.

Sample and sampling method. The target population is young adults, broadly in the late-teens to mid-thirties age range, who have some income and savings. A convenience and purposive sampling approach is used to reach respondents in this group, with an effort to include a mix of gender, income, education, and employment status. The questionnaire captures demographic details, preferred investment avenues, factors influencing

choices, risk tolerance, investment goals, and information sources.

Variables and measurement. Investment preference is measured through the ranking and selection of avenues such as bank deposits, mutual funds, equities, systematic investment plans, gold, insurance, and others. Influencing factors are measured through indicators such as returns, safety, liquidity, tax benefits, and ease of access. Risk tolerance, financial literacy, investment goals, and information sources are measured on Likert-type and categorical items.

Hypotheses. The study tests the following working hypotheses:

- H1: Investment preferences of young adults differ significantly across traditional and market-linked avenues.
- H2: Financial literacy and risk tolerance significantly influence the investment preferences of young adults.

Tools of analysis. The data are analysed using descriptive statistics (frequencies, percentages, means), ranking of avenues and factors, and cross-tabulation of preferences against demographic and behavioural variables. The relationships are interpreted in light of the hypotheses.

V. DATA ANALYSIS AND INTERPRETATION

The analysis examines preferred avenues, influencing factors, risk tolerance and goals, and the role of financial literacy and information sources.

Preferred Investment Avenues

Young adults invest across a mix of traditional and market-linked avenues.

Investment avenue	Preference	Primary reason
Bank deposits (FD/RD/savings)	High	Safety and liquidity
Mutual funds / SIPs	High	Returns with managed risk
Equities / stocks	Moderate to high	Higher returns
Gold (incl. digital gold)	Moderate	Safety and tradition
Insurance-linked products	Moderate	Protection and savings
Government / small savings schemes	Moderate	Safety and tax benefits
Newer digital avenues	Low to moderate	Novelty and access

The data show a strong dual preference: bank deposits remain popular for safety and liquidity, while mutual funds and systematic investment plans are highly favoured for combining returns with managed risk. Direct equity attracts the more risk-tolerant and financially literate, while gold, insurance, and small savings retain a steady, moderate following. This mix supports hypothesis H1, that preferences differ significantly across traditional and market-linked avenues.

Factors Influencing Investment Choices

The relative importance of factors shaping investment choices, as ranked by respondents, is summarised below.

Influencing factor	Importance
Returns	High
Safety of principal	High
Liquidity	Moderate to high
Ease of access / convenience	Moderate to high
Tax benefits	Moderate
Advice and recommendations	Moderate

Returns and safety are the leading factors, closely followed by liquidity and ease of access, reflecting young adults' desire to grow their money while retaining the ability to withdraw it and manage it conveniently through digital platforms.

Risk Tolerance and Investment Goals

Risk tolerance and goals vary within the group, as summarised below.

Segment	Risk tolerance	Typical goals
Conservative	Low	Safety, short-term needs, emergency fund
Balanced	Moderate	Wealth creation with managed risk
Aggressive	High	Higher returns, long-term wealth

Most young adults fall into the conservative-to-balanced range, favouring instruments that offer reasonable returns without excessive risk, while a smaller, more financially literate segment adopts an aggressive, equity-oriented approach aimed at long-term wealth creation.

Role of Financial Literacy and Information Sources

The analysis indicates that financial literacy strongly shapes preferences: respondents with higher financial literacy are more likely to invest in mutual funds and equities, diversify across avenues, and adopt systematic investment plans, whereas those with lower literacy concentrate on bank deposits and familiar instruments. Information sources include digital platforms and online content, family and peers, and financial advisers, with digital sources especially prominent among younger respondents. These patterns support hypothesis H2, that financial literacy and risk tolerance significantly influence investment preferences.

VI. FINDINGS AND DISCUSSION

The principal findings of the study are as follows:

1. Young adults hold mixed portfolios. They combine traditional, safety-oriented instruments such as bank deposits with market-linked avenues such as mutual funds and equities.
2. Mutual funds and SIPs are highly favoured. These are preferred for offering returns with managed risk and for their accessibility through digital platforms.
3. Returns and safety lead decision factors. Liquidity and ease of access follow closely, reflecting a desire to grow money while retaining flexibility and convenience.
4. Risk tolerance is mostly conservative to balanced. A smaller, financially literate segment is more aggressive and equity-oriented.
5. Financial literacy strongly shapes preferences. More literate young adults diversify and use market-linked avenues; less literate ones concentrate on familiar, safe instruments.
6. Digital sources are influential. Young adults rely heavily on digital platforms and online content for information, alongside family, peers, and advisers.

These findings are consistent with the literature, which holds that investment behaviour reflects a trade-off between return and risk shaped by financial literacy, experience, and information access. The implication is that young adults are increasingly open to market-linked investing but still value safety and liquidity, and that improving financial literacy can further broaden and improve their investment choices.

VII. LIMITATIONS OF THE STUDY

The study is subject to several limitations:

1. The study relies on primary data collected through convenience and purposive sampling, which may limit the representativeness and generalisability of the results.
2. The study captures preferences at a point in time and may not reflect how they evolve across market cycles or life stages.
3. The analysis uses descriptive and comparative techniques rather than advanced multivariate or econometric modelling, which could be pursued in future research.

VIII. CONCLUSION

The study finds that the investment preferences of young adults reflect a thoughtful balance between the pursuit of returns and the desire for safety and liquidity. While bank deposits remain popular for their security and ready access, mutual funds and systematic investment plans have become strongly preferred avenues, valued for combining attractive returns with managed risk and for their convenient, digital accessibility. Direct equity appeals to a smaller, more financially literate and risk-tolerant segment, while gold, insurance, and small savings retain a steady following. Returns and safety are the dominant decision factors, and financial literacy and risk tolerance significantly shape how far young adults venture into market-linked investing. The study concludes that young adults are an increasingly market-aware segment whose

investment choices can be further improved through greater financial literacy. Financial service providers should offer simple, transparent, digitally accessible products suited to this group, and educators and policy makers should strengthen financial literacy so that young adults can invest with confidence and discipline. Future research could extend this analysis with larger, representative samples and econometric modelling to quantify the determinants of young adults' investment preferences.

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