

# Impact of Financial Literacy on Investment Decision-Making Among Young Investors

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## Abstract:

Financial literacy is an important foundation for sound personal financial management and informed investment decision-making. The rapid growth of digital banking, fintech platforms, online brokerage services, Systematic Investment Plans (SIPs), and other digital financial products has made investment more accessible to young adults. However, accessibility alone does not ensure that investors understand risk, return, inflation, diversification, liquidity, and long-term financial planning. This study examines the relationship between financial literacy and investment decision-making among young investors, with particular attention to the Tier-2 urban context of Maharashtra and the Nagpur region.

The study uses a quantitative, descriptive and analytical research design. Primary data were collected through a structured questionnaire, and the study reports 150 validated responses from young investors. Financial literacy is examined through knowledge of saving, interest, inflation, risk-return trade-offs, diversification, and investment products. Investment decision-making quality is considered in terms of goal orientation, research before investing, risk assessment, diversification, periodic review, and control over impulsive decisions. Descriptive statistics, Pearson correlation, and simple linear regression are reported to examine the association and predictive relationship between the two variables.

The reported findings show a positive and statistically significant relationship between financial literacy and investment decision-making ( $r = 0.642$ ,  $p < 0.001$ ). The reported  $R^2$  of 0.412 indicates that financial literacy explains 41.2% of the variance in investment decision-making quality within the study model. The findings also highlight the important role of social media and online sources in shaping young investors' decisions. The paper concludes with recommendations for educational institutions, financial technology platforms, regulators, and individual investors.

**Keywords** — *Financial Literacy, Investment Decision-Making, Young Investors, Risk and Return, Behavioural Finance, Portfolio Diversification, Fintech, Financial Inclusion.*

## I. INTRODUCTION

Financial literacy refers to the knowledge and understanding required to make effective decisions concerning money. It includes basic concepts such as saving, budgeting, interest, inflation, risk and return, investment products, diversification, and long-term financial planning. In an increasingly digital financial environment, these skills are important because individuals can access financial products quickly and often with limited face-to-face guidance.

India's financial environment has changed significantly over the past decade. Digital banking, UPI, mobile investment applications, low-cost brokerage services and online financial information have lowered the practical barriers to participating in financial markets. Young adults can now explore mutual funds, SIPs, equities, fixed deposits, gold and several alternative products through mobile platforms. This increased access can support financial inclusion, but it also places greater responsibility on investors to understand the products and risks involved.

Young investors may make decisions under conditions of limited information, time pressure, peer influence and behavioural bias. Herd behaviour, overconfidence, loss aversion, short-term thinking and the fear of missing out can influence investment choices. Social media has further changed the way financial information is consumed. Online videos and influencer content can make investment concepts easier to access, but investors may find it difficult to distinguish educational information from promotional or unverified advice.

Investment decision-making involves more than selecting an investment product. An informed decision requires an investor to identify financial goals, assess risk tolerance, estimate the investment horizon, consider liquidity requirements, compare expected returns with risk, and diversify where appropriate. Financial literacy can help individuals evaluate these factors systematically rather than relying only on emotions, rumours or social influence.

The present study therefore focuses on the relationship between financial literacy and investment decision-making among young investors in the Nagpur region. The study also considers the sources of investment information and the investment avenues preferred by respondents. The purpose is to understand whether greater financial knowledge is associated with more disciplined and informed investment behaviour.

#### *Need and Significance of the Study*

Young investors are entering financial markets at an earlier stage because digital platforms have reduced entry barriers.

Financial literacy can help investors understand the relationship between risk and return before committing their money.

Understanding inflation and taxation is necessary for evaluating the real value of investment returns.

Diversification knowledge can help investors avoid excessive concentration in a single asset or product.

The study provides a Tier-2 urban perspective from the Nagpur region, which is less represented in some existing financial literacy research.

The findings can be useful for management institutions, regulators and financial service providers designing investor education initiatives.

## **II. LITERATURE REVIEW**

The literature on financial literacy draws from human capital theory, household finance and behavioural economics. Previous studies have generally examined whether financial knowledge is associated with saving, investment participation, portfolio diversification and other financial outcomes.

Lusardi and Mitchell (2014)

Lusardi and Mitchell developed a widely used framework for understanding and measuring financial literacy. Their work emphasizes knowledge of basic concepts such as interest, inflation and risk diversification and discusses the economic importance of financial knowledge for household financial decisions. Their findings provide a theoretical foundation for studying financial literacy as a measurable capability.

Van Rooij, Lusardi and Alessie (2011)

Van Rooij, Lusardi and Alessie examined the relationship between financial literacy and stock market participation. Their study reported that individuals with higher financial knowledge were more likely to participate in the stock market. The study is relevant to the present research because it connects financial knowledge with actual investment participation rather than treating literacy as only an academic concept.

Guiso and Jappelli (2008)

Guiso and Jappelli examined financial literacy and portfolio diversification. Their work highlights the importance of knowledge in understanding diversification and managing investment risk. The study supports the inclusion of diversification as an important dimension of investment decision-making.

Hastings, Madrian and Skimmyhorn (2013)

Hastings, Madrian and Skimmyhorn reviewed evidence on financial literacy, financial education and economic outcomes. Their work discusses the potential role of financial education in improving saving and financial behaviour while also noting that the effectiveness of education depends on how programs are designed and delivered.

Anshika and Singla (2020)

Anshika and Singla examined financial literacy among youth and discussed the relationship between digital financial tools and financial behaviour. Their work is relevant to the present study because young people increasingly receive financial information through digital channels.

#### *Research Gap*

Existing literature provides substantial evidence on financial literacy and financial behaviour, but there is scope for more context-specific work on young investors in Tier-2 Indian cities. The present study focuses on the Nagpur region and considers the combined influence of financial knowledge, digital information sources, investment preferences, risk understanding and decision discipline. This local and youth-focused perspective forms the main research gap addressed by the study.

### **III. RESEARCH METHODOLOGY**

#### *Research Design and Approach*

The study follows a descriptive and analytical quantitative research design. The descriptive component summarizes the demographic characteristics, investment preferences and information sources of respondents. The analytical component examines the relationship between financial literacy and investment decision-making using Pearson correlation and simple linear regression.

#### *Population and Sampling*

Target population: Young investors aged 18 to 35 residing in the Nagpur region and having investment experience.

Sampling technique: Non-probability convenience and purposive sampling through digital survey distribution.

Sample size: 150 validated responses.

Because non-probability sampling was used, the findings should be interpreted within the context of the sample and should not automatically be generalized to every young investor in India.

#### *Data Collection*

Primary data were collected using a structured closed-ended questionnaire containing multiple-

choice questions and Likert-scale statements. The Likert scale ranged from 1 = Strongly Disagree to 5 = Strongly Agree. Secondary information was drawn from academic literature, RBI-related financial awareness material, SEBI investor awareness resources and research databases, as reported in the original study.

#### *Variables of the Study*

**TABLE I**  
**VARIABLES OF THE STUDY**

| Variable                           | Role                     | Main dimensions                                                                     |
|------------------------------------|--------------------------|-------------------------------------------------------------------------------------|
| Financial Literacy                 | Independent variable (X) | Saving, interest, inflation, risk-return, diversification, investment products      |
| Investment Decision-Making Quality | Dependent variable (Y)   | Goals, research, risk assessment, diversification, periodic review, impulse control |

#### *Statistical Tools*

Descriptive statistics: frequencies, percentages, mean scores and standard deviations.

Pearson correlation: used to examine the strength and direction of association between financial literacy and investment decision-making.

Simple linear regression: used to estimate the predictive relationship between financial literacy and investment decision-making.

#### *Hypotheses*

H<sub>0</sub>: There is no significant positive relationship between financial literacy and investment decision-making among young investors ( $\rho = 0$ ).

H<sub>1</sub>: Financial literacy has a statistically significant positive relationship with investment decision-making among young investors ( $\rho > 0$ ).

### **IV. OBJECTIVES OF THE STUDY**

To measure the level of financial literacy among young investors in the study area.

To identify the major investment avenues preferred by young investors.

To identify the main sources from which young investors obtain investment information.

To examine the relationship between financial literacy and investment decision-making.

To analyze the predictive impact of financial literacy on disciplined portfolio selection.

To suggest practical measures for improving financial education among young investors.

## V. RESULTS AND DATA ANALYSIS

### A. Demographic Profile of Respondents

TABLE II  
DEMOGRAPHIC PROFILE OF RESPONDENTS

| Variable                 | Category           | Frequency | Percentage |
|--------------------------|--------------------|-----------|------------|
| Age                      | 18–20              | 25        | 16.7%      |
| Age                      | 25–26              | 85        | 56.7%      |
| Age                      | 26–30              | 30        | 20.0%      |
| Age                      | 31–35              | 10        | 6.6%       |
| Gender                   | Male               | 82        | 54.7%      |
| Gender                   | Female             | 68        | 45.3%      |
| Education                | Undergraduate      | 45        | 30.0%      |
| Education                | Postgraduate       | 95        | 63.3%      |
| Education                | Professional/Other | 10        | 6.7%       |
| Monthly income/allowance | Below ₹10,000      | 40        | 26.7%      |
| Monthly income/allowance | ₹10,000–25,000     | 65        | 43.3%      |
| Monthly income/allowance | ₹25,001–50,000     | 30        | 20.0%      |
| Monthly income/allowance | Above ₹50,000      | 15        | 10.0%      |

The reported demographic distribution shows that the largest category in the sample is the 25–26 age group (56.7%). Postgraduate respondents account for 63.3% of the sample. The gender distribution is 54.7% male and 45.3% female. In terms of monthly income or allowance, 43.3% fall in the ₹10,000–25,000 category. These characteristics provide the background for interpreting the investment preferences reported in the study.

### B. Investment Preferences and Information Sources

TABLE III  
INVESTMENT PREFERENCES AND INFORMATION SOURCES

| Parameter                 | Option                 | Percentage |
|---------------------------|------------------------|------------|
| Primary investment avenue | Mutual Funds / SIPs    | 44.0%      |
| Primary investment avenue | Equity / Direct Shares | 26.0%      |

|                            |                                   |       |
|----------------------------|-----------------------------------|-------|
| Primary investment avenue  | Bank FDs / RDs                    | 18.0% |
| Primary investment avenue  | Gold / Digital Gold               | 8.0%  |
| Primary investment avenue  | Crypto / Alternative              | 4.0%  |
| Primary information source | Social Media / Internet / YouTube | 42.0% |
| Primary information source | Friends and Family                | 28.0% |
| Primary information source | Financial Advisors / Brokers      | 18.0% |
| Primary information source | Books / Formal Academic Courses   | 12.0% |

Mutual funds and SIPs are the most frequently reported primary investment avenue at 44%, followed by direct equity at 26%. Bank FDs/RDs account for 18%, while gold/digital gold and crypto/alternative investments account for 8% and 4%, respectively. For information, 42% report social media, internet or YouTube as their primary source, followed by friends and family at 28%. Financial advisors/brokers account for 18%, while books or formal academic courses account for 12%.

### C. Descriptive Statistics

TABLE IV  
DESCRIPTIVE STATISTICS

| Variable                               | Reported standard deviation | Interpretation reported     |
|----------------------------------------|-----------------------------|-----------------------------|
| Financial literacy / knowledge measure | 0.78                        | Moderate to High Knowledge  |
| Investment decision-making quality     | 0.81                        | Moderate Quality/Discipline |

The reported standard deviations of 0.78 and 0.81 indicate moderate variation around the respective mean scores. The original study interprets the financial knowledge measure as moderate to high and investment decision-making as moderate in quality/discipline. Mean values are not reproduced here because they are not provided in the source document.

## D. Correlation and Regression Analysis

TABLE V  
CORRELATION AND REGRESSION ANALYSIS

| Analysis                     | Metric         | Reported value    |
|------------------------------|----------------|-------------------|
| Pearson correlation          | r              | 0.642** (p<0.001) |
| Coefficient of determination | R <sup>2</sup> | 0.412             |
| Regression slope             | $\beta$        | 0.667             |
| Regression test              | t              | 10.18             |
| Regression significance      | p              | <0.001            |

The reported Pearson correlation coefficient of 0.642 indicates a positive association between financial literacy and investment decision-making in the sample, and the reported p-value is below 0.001. The regression model reports  $R^2 = 0.412$ , meaning that 41.2% of the variation in investment decision-making quality is explained by financial literacy within the reported model. The remaining 58.8% is associated with other factors not represented by this single predictor, such as socio-economic background, behavioural influences, market conditions and peer effects.

The regression slope is reported as  $\beta = 0.667$  with  $t = 10.18$  and  $p < 0.001$ . Based on the reported statistical results, the study rejects  $H_0$  and supports  $H_1$ . The result should be interpreted as a relationship/predictive association within the study design; the use of a non-probability sample and a single-predictor model limits broader causal interpretation.

## VI. DISCUSSION OF FINDINGS

The findings indicate that financial literacy is positively associated with the quality of investment decisions among the young investors included in the study. Respondents with stronger financial knowledge are reported to show greater attention to diversification, periodic review and resistance to emotionally driven short-term decisions. This pattern is consistent with the broader literature that links financial knowledge with participation, planning and portfolio-related behaviour.

A second important finding concerns the information environment. Social media, internet platforms and YouTube are reported as the primary information source for 42% of

respondents. This result demonstrates the importance of digital financial education. Digital channels can increase access to financial knowledge, but they can also expose investors to incomplete, promotional or unverified information. The study therefore identifies digital literacy and source verification as important complements to financial literacy.

The reported preference for mutual funds and SIPs also reflects the role of convenience and systematic investing in young investors' financial behaviour. However, product popularity by itself does not establish whether investors understand product costs, risk, time horizon or suitability. Financial literacy remains relevant to evaluating whether an investment matches an individual's financial goals and risk capacity.

## VII. KEY FINDINGS

Mutual funds and SIPs are the most commonly reported primary investment avenue, at 44%.

Social media, internet and YouTube are the most commonly reported primary information source, at 42%.

The reported correlation between financial literacy and investment decision-making is positive and statistically significant ( $r = 0.642$ ,  $p < 0.001$ ).

The reported regression model explains 41.2% of the variance in investment decision-making quality ( $R^2 = 0.412$ ).

The study reports that respondents with stronger financial literacy demonstrate greater attention to diversification and periodic investment review.

The study identifies a gap between easy digital access to financial information and the ability to evaluate that information critically.

## VIII. RECOMMENDATIONS

### For Educational Institutions

Introduce practical financial literacy modules covering budgeting, inflation, compounding, taxation, insurance, risk-return and diversification.

Use case studies and simple investment simulations so that students can practice comparing financial products.

Include digital financial literacy, with emphasis on identifying misleading or unverified online investment information.

*For Financial Technology Platforms*

Provide short educational explanations of risk, charges, volatility and product characteristics before high-risk transactions.

Present clear risk disclosures in simple language.

Include learning resources that explain diversification and long-term investing.

*For Regulators and Investor-Education Bodies*

Strengthen youth-focused investor awareness initiatives.

Promote awareness about financial scams, misleading investment claims and the importance of verifying sources.

Develop regional-language and digital educational content that can reach young investors through platforms they already use.

*For Young Investors*

Set financial goals and define the investment horizon before selecting an investment product.

Compare risk, return, liquidity, charges and tax implications before investing.

Avoid making investment decisions solely on the basis of social media trends or peer recommendations.

Maintain an emergency fund and consider appropriate insurance protection before taking excessive investment risk.

Review investments periodically and update them when financial goals or circumstances change.

## **IX. PRACTICAL IMPLICATIONS**

The study has implications for financial education, management education and digital financial services. For colleges, financial literacy can be treated as a practical life skill rather than only a theoretical topic. For financial technology platforms, the findings indicate a need to combine easy access with clear educational support. For regulators and investor-awareness bodies, youth-oriented communication can address the growing role of digital information sources. For individual investors, the findings reinforce the importance of understanding a product before investing rather

than relying solely on popularity or online recommendations.

## **X. LIMITATIONS OF THE STUDY**

Geographical limitation: The sample is concentrated in Nagpur and surrounding districts of Maharashtra, so the findings may not directly represent rural areas or metropolitan cities.

Sample size: The study uses 150 responses, which represents only a portion of the broader young investor population.

Sampling limitation: Convenience and purposive sampling reduce the ability to generalize the findings to the full population.

Response bias: Self-reported questionnaire responses may differ from respondents' actual financial knowledge or investment behaviour.

Model limitation: The regression model includes financial literacy as the principal predictor; other relevant variables may also influence investment decisions.

Data limitation: The study's conclusions depend on the quality and representativeness of the reported questionnaire data.

## **XI. SCOPE FOR FUTURE RESEARCH**

Future studies can use larger and more geographically diverse samples covering multiple Tier-2 cities and metropolitan areas.

Researchers can compare financial literacy across different age groups, educational backgrounds and income levels.

Future models can include behavioural biases, risk tolerance, financial self-efficacy, social-media exposure and investment experience as additional variables.

Longitudinal studies can examine whether financial education produces sustained changes in investment behaviour over time.

Future research can compare investors who primarily use professional advice with those who primarily use digital and social-media sources.

## **XII. CONCLUSION**

Financial literacy is an important component of informed investment decision-making, particularly in a financial environment where young adults can access investment products

quickly through digital platforms. The present study examines this relationship among young investors in the Nagpur region and reports a positive and statistically significant association between financial literacy and investment decision-making.

The reported correlation of  $r = 0.642$  and regression  $R^2$  of 0.412 indicate a meaningful relationship within the study sample and model. The findings also show that digital sources have become an important part of the investment-information environment, with 42% of respondents identifying social media, internet or YouTube as their primary source. This makes the ability to evaluate financial information critically increasingly important.

The study therefore emphasizes the value of practical financial education that connects financial concepts with real investment decisions. Strengthening knowledge of risk, return, inflation, diversification, taxation and long-term planning can help young investors approach financial decisions more systematically. At the same time, financial literacy initiatives should recognize that investment behaviour is influenced by multiple factors beyond knowledge alone. A coordinated effort involving educational institutions, financial platforms, regulators and individual investors can support more informed financial participation.

## APPENDIX A: STRUCTURED QUESTIONNAIRE

Title: Impact of Financial Literacy on Investment Decision-Making Among Young Investors

Purpose: This questionnaire is designed to collect information related to financial knowledge and investment decision-making. Responses should be used only for academic research.

### Section A: Demographic Information

1. Age: 18–20 / 21–24 / 25–26 / 27–30 / 31–35
2. Gender: Male / Female / Other / Prefer not to say
3. Education: Undergraduate / Postgraduate / Professional / Other
4. Monthly income/allowance: Below ₹10,000 / ₹10,000–25,000 / ₹25,001–50,000 / Above ₹50,000
5. Do you currently invest? Yes / No

6. How long have you been investing? Less than 1 year / 1–3 years / 3–5 years / More than 5 years

### Section B: Investment Behaviour

7. What is your primary investment avenue? Mutual Funds/SIPs / Direct Equity / FDs/RDs / Gold/Digital Gold / Crypto/Alternative.
8. What is your primary source of investment information? Social Media/Internet/YouTube / Friends and Family / Financial Advisor/Broker / Books/Formal Courses.
9. How frequently do you review your investments? Monthly / Quarterly / Half-yearly / Annually / Rarely.
10. Do you compare risk and return before investing? Always / Often / Sometimes / Rarely / Never.

### Section C: Financial Literacy Statements

Rate each statement from 1 = Strongly Disagree to 5 = Strongly Agree.

I understand the basic concept of compound interest.

I understand how inflation affects the real value of money.

I understand the relationship between investment risk and expected return.

I understand the importance of diversification.

I can distinguish between different investment products and their basic risks.

I consider my financial goals before selecting an investment.

I understand that higher expected returns may involve higher risk.

I can evaluate basic investment information before making a decision.

### Section D: Investment Decision-Making Statements

I set financial goals before making investment decisions.

I conduct basic research before investing.

I consider my risk tolerance before choosing an investment.

I avoid putting all my money into a single investment.

I review my portfolio periodically.

I avoid making investment decisions only because of social-media trends.

I can remain disciplined during short-term market fluctuations.

I consider liquidity and time horizon before investing.

Response scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree.

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