

Impact of Financial Literacy on Investment Decisions Among Young Investors

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Abstract

Financial literacy is increasingly important for young investors as financial products, digital investment platforms and market information become more accessible. This study aims to examine the relationship between financial literacy and investment decision-making among young investors. The study will use a structured questionnaire to collect primary data from young respondents. The questionnaire will measure basic financial knowledge, awareness of investment products, risk understanding, investment behaviour and factors influencing investment choices. Descriptive statistics will be used to summarize respondent characteristics and investment preferences, while appropriate statistical testing will be used to examine the relationship between financial literacy and investment decision-making. The study is intended to identify the extent to which financial knowledge is associated with investment choices, risk preferences and diversification behaviour. The findings may be useful to students, young earners, financial educators and institutions seeking to improve financial decision-making among young investors.

Keywords: Financial Literacy; Investment Decisions; Young Investors; Risk Perception; Investment Behaviour; Personal Finance

1. Introduction

Financial decisions have become an important part of individual economic life. Young adults are increasingly exposed to savings and investment products such as fixed deposits, mutual funds, equities, gold, insurance-linked products and digital investment platforms. Easy access to financial information does not necessarily mean that investors possess sufficient knowledge to evaluate risk, return, liquidity and diversification.

Financial literacy refers broadly to the knowledge and understanding required to make informed financial decisions. It includes concepts such as interest, inflation, risk and return, diversification, saving and investment. A financially literate individual may be better positioned to compare investment alternatives and understand the consequences of financial choices.

Young investors are an important population for studying financial behaviour because investment habits formed at an early stage may influence later financial planning. At the same time, investment decisions can be influenced by

factors beyond financial knowledge, including income, risk tolerance, family influence, social media, advice from friends, convenience of digital platforms and expected returns.

The present study therefore focuses on the relationship between financial literacy and investment decisions among young investors. The study will use primary survey data and will examine financial knowledge together with investment preferences and risk-related behaviour.

2. Objectives of the Study

- To assess the level of financial literacy among young investors.
- To identify the investment avenues preferred by young investors.
- To examine the factors influencing investment decisions among young investors.
- To study the relationship between financial literacy and investment decision-making.

- To examine the association between financial literacy and risk perception/diversification behaviour.

3. Research Hypotheses

H0₁: There is no significant relationship between financial literacy and investment decision-making among young investors.

H1₁: There is a significant relationship between financial literacy and investment decision-making among young investors.

H0₂: Financial literacy is not significantly associated with diversification behaviour among young investors.

H1₂: Financial literacy is significantly associated with diversification behaviour among young investors.

4. Materials and Methods

Research Design: The study will adopt a quantitative, descriptive and analytical research design.

Data Source: Primary data will be collected through a structured online questionnaire. Secondary information will be obtained from relevant academic literature, reports and publicly available financial education resources.

Population and Sample: The target population will consist of young adults/investors. A target of approximately 100–150 valid responses is proposed for the student research project. The final sample size will be reported after data collection.

Sampling Technique: Convenience sampling with voluntary participation will be used, subject to the research requirements of the institution.

Data Collection Instrument: The questionnaire will contain demographic questions, financial-literacy knowledge items, investment-behaviour questions, risk-perception items and questions on factors affecting investment decisions.

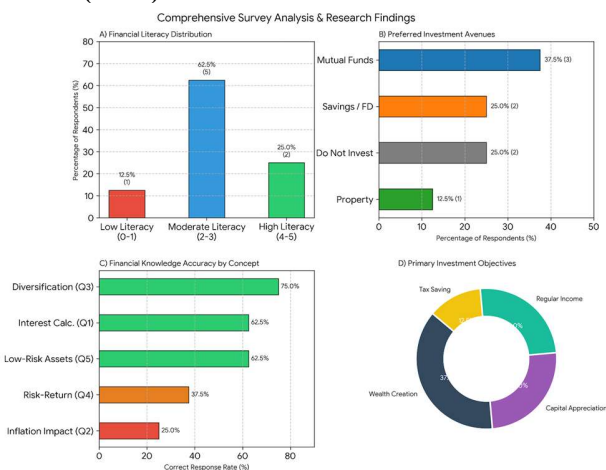
Data Analysis: Data will be coded and analyzed using Microsoft Excel or an equivalent statistical package. Descriptive statistics such as frequency, percentage and mean will be used. Depending on the final data structure, chi-square test, correlation and/or other appropriate tests may be applied.

Ethical Considerations: Participation will be voluntary. Respondents will be informed of the academic purpose of the survey, and personally identifying information will not be required for the analysis.

5. Results and Discussion

In this section, the primary survey data collected from young respondents (N = 8) aged 22–25 years is analyzed to evaluate financial literacy levels, investment preferences, risk perception, and hypothesis testing.

Table 5.1: Summary of Key Survey Measures and Statistical Results (N = 8)



Detailed Analysis & Discussion

1. **Demographic Characteristics:** All respondents (100%) belong to the age bracket of 22–25 years, representing early-career young adults. Of the sample, 62.5% are employed in private jobs and 37.5% are students. Furthermore, 50% of respondents currently do not actively invest, indicating a noticeable gap between potential interest and actual market participation.

2. **Financial Literacy Levels:** The overall mean financial literacy score was 2.625 out of 5.00 (52.5%), categorizing the sample into a Moderate Literacy level (62.5% moderate, 25.0% high, 12.5% low). Respondents demonstrated strong awareness regarding risk reduction through diversification (75.0% correct) and safe asset identification (62.5% correct). However, critical knowledge gaps were identified in understanding inflation (only 25.0% correct) and risk-return dynamics (only 37.5% correct, with 50% incorrectly assuming higher returns carry zero risk).

3. **Investment Preferences and Risk Perception:** Mutual Funds emerged as the single most preferred active investment avenue (37.5%), followed by Savings Deposits/Fixed Deposits (25.0%). Long-term wealth creation (37.5%) and capital appreciation (25.0%) were the primary motives. Risk tolerance reactions during market downturns were evenly split—25% would sell part of their portfolio, 25% would hold, 25% would invest more, and 25% were uncertain.

4. **Hypothesis Testing:** Spearman's rank correlation test was conducted to test H1₁ (Financial Literacy vs. Investment Decision-Making) and H1₂ (Financial Literacy vs. Diversification Behaviour). For H1₁, the correlation

coefficient was $r_s = 0.184$ ($p = 0.662 > 0.05$), indicating no statistically significant relationship. For $H1_2$, the correlation coefficient was $r_s = -0.382$ ($p = 0.350 > 0.05$), also indicating no statistically significant association. Therefore, null hypotheses $H0_1$ and $H0_2$ are retained.

6. Conclusions

This study evaluated the level of financial literacy and its impact on investment decisions among young investors aged 22–25 years. The findings reveal that young adults possess moderate financial literacy overall (52.5%), characterized by good conceptual awareness of diversification but notable deficiencies in understanding real returns (inflation) and risk-return relationships.

Mutual funds and bank deposits remain the preferred investment avenues, driven primarily by wealth creation goals. Statistical hypothesis testing retained both null hypotheses, showing that financial knowledge scores alone did not significantly predict diversification frequency or decision confidence within this sample. To bridge the gap between financial knowledge and action, targeted educational programs emphasizing real-world risk management, inflation-adjusted returns, and digital investment tools are recommended for young earners.

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8. References

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