



Financial Literacy and Investment Decisions Among Young Investors in India: A Secondary Data Analysis

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DOI: <https://doi.org/10.63680/ijstate062674.79>

Abstract

Financial literacy has emerged as a crucial determinant of investment behaviour in the rapidly evolving financial landscape of India. The increasing accessibility of financial products, digital investment platforms, and government initiatives promoting financial inclusion have significantly influenced the participation of young investors in financial markets. This study examines the relationship between financial literacy and investment decisions among young investors in India using secondary data obtained from reports published by the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), National Centre for Financial Education (NCFE), Association of Mutual Funds in India (AMFI), and relevant academic literature.

The study explores how financial knowledge affects investment choices, risk tolerance, portfolio diversification, and long-term wealth creation among young individuals. The findings reveal that higher levels of financial literacy positively influence informed investment decisions, encourage participation in diversified financial instruments, and reduce susceptibility to financial fraud and impulsive investment behaviours. The study further identifies challenges such as inadequate financial education, behavioural biases, and limited awareness regarding advanced financial products.

The paper concludes that strengthening financial literacy through educational institutions, government initiatives, and digital learning platforms can significantly enhance investment competence among young investors. The findings contribute to the growing body of literature on financial behaviours and offer practical implications for policymakers, educators, and financial service providers.

Keywords: Financial Literacy, Investment Decisions, Young Investors, Financial Awareness, Investment Behaviour, India

1. INTRODUCTION

The financial environment in India has undergone remarkable transformation during the last decade. Technological innovations, increased internet penetration, digital payment systems, and online investment platforms have made financial products more accessible than ever before. Young individuals now have

unprecedented opportunities to participate in financial markets through mutual funds, equity investments, exchange-traded funds, bonds, and retirement planning instruments.

Despite increased accessibility, effective participation in financial markets requires a sound understanding of financial concepts. Financial literacy refers to the ability to understand, evaluate, and utilize financial information for making informed financial decisions. It encompasses knowledge of savings, budgeting, investment planning, risk management, and wealth creation strategies.

India possesses one of the largest youth populations in the world. This demographic advantage presents significant opportunities for economic growth and capital market development. However, inadequate financial literacy among young adults often leads to poor investment choices, excessive dependence on informal financial advice, and vulnerability to fraudulent investment schemes.

The growing popularity of digital investment applications has simplified investment processes. Nevertheless, accessibility alone cannot ensure effective investment outcomes. Investors must possess sufficient knowledge to evaluate risk-return relationships, diversify portfolios, and align investment decisions with long-term financial goals.

The present study investigates the influence of financial literacy on investment decisions among young investors in India. By analysing existing reports, surveys, and scholarly studies, the paper seeks to understand the extent to which financial knowledge affects investment behaviours and financial well-being.

2. OBJECTIVES OF THE STUDY

1. To examine the concept and importance of financial literacy among young investors in India.
2. To analyse the relationship between financial literacy and investment decision-making.
3. To identify major factors influencing investment behaviours among young investors.
4. To evaluate the challenges faced by young investors due to inadequate financial knowledge.
5. To provide suggestions for improving financial literacy and investment awareness.

3. RESEARCH METHODOLOGY

The study is based entirely on secondary data. Information has been collected from published reports, academic journals, government publications, SEBI reports, RBI publications, NCFE surveys, AMFI reports, and other credible sources.

Sources of Data: The present study is based entirely on secondary data collected from reliable and authentic sources. Information was gathered from publications and reports issued by the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), National Centre for Financial Education (NCFE), and Association of Mutual Funds in India (AMFI). These sources provide comprehensive data on financial literacy, investor awareness, financial inclusion, and investment trends in India. In addition, relevant research articles published in peer-reviewed national and international journals were reviewed to understand the theoretical and empirical aspects of financial literacy and investment behaviour. Government policy documents, financial education initiatives, and official statistical reports were also examined to obtain insights into the current status of financial literacy among young investors. The use of these diverse and credible sources ensured the

reliability and validity of the study and facilitated a comprehensive analysis of the relationship between financial literacy and investment decisions among young investors in India.

Research Design: The study adopts a descriptive and analytical research design. The collected information is systematically reviewed and analysed to understand patterns and relationships between financial literacy and investment decisions among young investors.

4. REVIEW OF LITERATURE

Lusardi and Mitchell (2014) examined the role of financial literacy in personal financial management and found that individuals with higher financial knowledge were more likely to engage in retirement planning, savings accumulation, and informed investment decision-making. The study highlighted financial literacy as a crucial factor in achieving long-term financial well-being. **OECD (2023)** reported that financial education significantly improves individuals' ability to understand financial products, assess risks, and make responsible financial decisions. The study emphasized that financial literacy contributes to greater financial inclusion and economic stability. **Agarwal and Mazumder (2013)** investigated the relationship between cognitive abilities and financial decision-making. Their findings revealed that financially knowledgeable individuals tend to participate more actively in investment activities, accumulate greater wealth, and make rational investment choices compared to less informed individuals. **Chen and Volpe (1998)** assessed financial literacy among college students and found that inadequate financial knowledge often resulted in poor financial decisions. The study recommended integrating financial education into academic curricula to enhance financial competence among young adults. **Bhushan and Medury (2013)** explored the impact of financial literacy on investment behaviour in India and concluded that financially literate individuals exhibited greater awareness of investment opportunities and demonstrated better investment planning practices. **Sharma and Gupta (2021)** examined investment behaviour among young Indian investors and observed a growing preference for mutual funds, equities, and digital investment platforms. However, the study identified significant gaps in understanding investment risk and portfolio diversification. **National Centre for Financial Education (NCFE, 2023)** reported that although financial awareness among Indian youth has improved, overall financial literacy levels remain moderate. The study recommended strengthening financial education programs to improve investment decision-making capabilities. **Securities and Exchange Board of India (SEBI, 2024)** highlighted that investor education initiatives have positively influenced investment awareness and participation in formal financial markets. The report emphasized the need for continuous financial education to protect investors from fraudulent schemes and uninformed investment decisions.

5. CONCEPTUAL FRAMEWORK

Financial literacy influences investment decisions through multiple channels. Knowledge regarding financial products enhances awareness, improves risk assessment capabilities, and promotes rational decision-making. Higher financial literacy levels contribute to greater confidence in selecting investment instruments aligned with financial objectives.

Young investors possessing strong financial knowledge tend to diversify investments across multiple asset classes. They are more likely to invest in mutual funds, equities, and retirement products while maintaining balanced portfolios. Conversely, limited financial literacy often results in excessive reliance on traditional savings instruments and speculative investment behaviours.

6. FINANCIAL LITERACY AND YOUNG INVESTORS IN INDIA

Financial literacy has become increasingly important in the contemporary economic environment. The rapid expansion of financial markets and technological innovations has provided young investors with numerous investment opportunities. However, the availability of investment options alone does not guarantee sound financial decisions. Investors must possess adequate knowledge to evaluate risks, returns, and investment suitability.

Young investors generally fall within the age group of 18 to 35 years. This segment represents a significant portion of India's workforce and contributes substantially to economic development. Their investment decisions have long-term implications for personal wealth creation and national capital formation.

Financial literacy enables young individuals to understand fundamental concepts such as inflation, compounding, diversification, risk management, and asset allocation. These concepts form the foundation of effective investment planning. Investors who understand these principles are more likely to make informed financial choices and avoid common investment mistakes.

The increasing penetration of smartphones and internet services has facilitated access to online trading and investment platforms. While digital platforms have simplified investing, they have also increased exposure to misinformation, market speculation, and fraudulent schemes. Financial literacy acts as a protective mechanism by enabling investors to critically evaluate investment opportunities.

7. FACTORS INFLUENCING INVESTMENT DECISIONS OF YOUNG INVESTORS

Investment decisions are influenced by a combination of personal, economic, social, and psychological factors.

7.1 Financial Knowledge: Financial knowledge is one of the most important determinants of investment behaviour. Individuals possessing greater understanding of financial products are more likely to participate in diversified investment activities.

7.2 Income Level: Income significantly affects investment capacity. Higher income levels provide greater opportunities for savings and investments. Young professionals with stable earnings generally demonstrate higher investment participation.

7.3 Risk Tolerance: Risk tolerance refers to an individual's willingness to accept uncertainty in pursuit of higher returns. Financially literate investors are better equipped to assess and manage investment risks.

7.4 Technological Accessibility: Digital investment platforms have increased convenience and reduced transaction costs. Mobile applications enable investors to monitor portfolios and execute transactions efficiently.

7.5 Social Influence: Family members, friends, financial advisors, and social media significantly influence investment decisions. Young investors often seek guidance from trusted sources before making financial commitments.

7.6 Economic Conditions: Inflation rates, interest rates, market performance, and economic stability affect investor confidence and investment choices.

8. ANALYSIS AND DISCUSSION

Recent developments indicate a significant increase in financial market participation among young Indians. The growth of Systematic Investment Plans (SIPs), digital trading platforms, and financial technology applications has encouraged greater investment activity.

Financially literate investors generally exhibit the following characteristics:

- Regular investment habits.
- Diversified investment portfolios.
- Long-term wealth creation orientation.
- Better understanding of risk-return relationships.
- Greater participation in formal financial markets.
- Reduced susceptibility to financial fraud.

Conversely, individuals with lower financial literacy often display:

- Dependence on informal financial advice.
- Preference for traditional savings instruments only.
- Limited portfolio diversification.
- Higher vulnerability to speculative investments.
- Inadequate retirement planning.
- Poor risk management practices.

The analysis of secondary data suggests a strong positive relationship between financial literacy and investment decision quality. Individuals possessing higher financial literacy levels demonstrate greater confidence in evaluating financial products and making informed investment choices.

The increasing popularity of mutual funds among young investors reflects growing awareness regarding professionally managed investment options. Similarly, participation in equity markets has increased due to enhanced financial education and technological accessibility.

However, knowledge gaps continue to exist regarding advanced financial instruments, retirement planning, taxation, and risk diversification. Addressing these gaps is essential for improving overall financial well-being.

9. CHALLENGES FACED BY YOUNG INVESTORS

Despite improvements in financial awareness, several challenges continue to affect investment decision-making among young investors.

9.1 Inadequate Financial Education: Financial education remains insufficient within formal educational curricula. Many students enter the workforce without adequate knowledge of personal finance and investment management.

9.2 Behavioural Biases: Psychological biases such as overconfidence, herd behaviour, and loss aversion frequently influence investment decisions. These biases can result in irrational financial behaviour.

9.3 Information Overload: The digital environment provides access to vast quantities of financial information. Distinguishing credible information from misleading content remains a challenge for many investors.

9.4 Fraudulent Investment Schemes: The emergence of unauthorized investment schemes and online scams poses significant risks to inexperienced investors.

9.5 Short-Term Orientation: Many young investors focus excessively on short-term gains rather than long-term wealth creation strategies.

10. FINDINGS OF THE STUDY

Based on the analysis of secondary data, the following findings are identified:

1. Financial literacy positively influences investment decision-making among young investors.
2. Financially literate individuals demonstrate higher participation in diversified investment instruments.
3. Knowledge regarding risk and return improves investment confidence.
4. Digital financial platforms have increased investment accessibility among youth.
5. Inadequate financial education remains a major challenge.
6. Behavioural biases continue to affect rational investment decisions.
7. Financial literacy reduces vulnerability to fraudulent investment schemes.
8. Young investors with higher financial awareness exhibit stronger long-term financial planning behaviour.
9. Financial education initiatives contribute significantly to investment awareness.
10. Continuous financial learning is essential for adapting to changing market conditions.

11. SUGGESTIONS

The following recommendations may enhance financial literacy and investment effectiveness among young investors:

1. Introduce financial education as a compulsory component of higher education curricula.
2. Conduct regular financial awareness programs in educational institutions.
3. Strengthen collaboration between educational institutions and financial regulators.
4. Encourage practical financial learning through investment simulations and workshops.
5. Promote digital financial literacy through online educational platforms.
6. Enhance awareness regarding investment fraud prevention.
7. Encourage systematic investment and long-term financial planning.
8. Increase accessibility of reliable financial advisory services.
9. Strengthen investor protection mechanisms.

10. Encourage continuous learning regarding emerging financial products and technologies.

11. CONCLUSION

Financial literacy has emerged as a fundamental requirement for effective participation in modern financial markets. The increasing complexity of financial products and growing accessibility of digital investment platforms make financial knowledge more important than ever before.

The findings of this study demonstrate that financial literacy significantly influences investment decisions among young investors in India. Financially informed individuals are better positioned to evaluate investment opportunities, manage risks, diversify portfolios, and achieve long-term financial goals.

While substantial progress has been made in promoting financial inclusion and investment awareness, challenges related to financial education, behavioural biases, and information asymmetry continue to exist. Addressing these challenges requires coordinated efforts from educational institutions, policymakers, financial regulators, and industry participants.

Enhancing financial literacy among young investors will not only improve individual financial well-being but also contribute to broader economic development by fostering responsible investment behaviour and strengthening capital market participation. As India continues its journey toward economic advancement, financial literacy will remain a critical driver of sustainable financial growth and wealth creation.

Declaration of Conflicting Interests

The authors declare no potential conflicts of interest with respect to the research, authorship and publication of this article.

Funding

The author received no financial support for the research, authorship and publication of this article.

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