

FINANCIAL LITERACY AND PERSONAL INVESTMENT DECISIONS AMONG YOUNG PROFESSIONALS

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ABSTRACT

The role of financial literacy in influencing personal investment decisions cannot be overstated, particularly among young professionals who are in a stage of financial independence. In the current dynamic financial environment, individuals are called upon to make complex financial decisions in saving, investing, and planning. The current study aims to investigate the relationship that exists between financial literacy and personal investment decisions among young professionals. In addition, this study seeks to understand the impact of risk tolerance in influencing investment decisions.

The current study was based on both primary and secondary data collection methods. The primary data was collected from more than 200 respondents using a structured questionnaire via Google Forms. In addition, descriptive statistics and percentage analysis were used to interpret the data. Secondary data was also used to support the findings and provide a theoretical background to the study.

The results show that financial literacy has a strong positive impact on investment behaviour. People with high levels of financial literacy are more likely to show better financial planning skills, are more confident in investment decisions, and are more rational in dealing with risks. However, there are gaps in understanding complex financial concepts, which show the need to improve financial education. The study concludes that improving financial literacy can contribute to better financial decisions and better financial stability among young professionals.

Keywords: Financial Literacy, Investment Behaviour, Risk Tolerance, Young Professionals, Financial Decision-Making

1. INTRODUCTION

In the contemporary financial environment, financial literacy has emerged as an essential concept due to the increasing complexity of financial instruments and investment opportunities. Individuals are expected to take various financial decisions regarding savings, investments, and financial planning, which have a direct impact on their financial future. However, this may lead to poor financial decisions and decreased financial stability.

Young professionals are an essential part of society who are expected to take various financial decisions regarding their income, savings, and investments. They are exposed to various financial instruments, which have a direct impact on their financial future. Despite

the availability of financial information and digital platforms, young professionals are unable to take rational investment decisions due to poor financial literacy.

Another significant factor that influences investment decisions is risk tolerance. Risk tolerance refers to an individual's willingness to take financial risks. Financial literacy helps an individual take rational investment decisions.

2. LITERATURE REVIEW

The existing literature will be reviewed to understand the impact of financial literacy on investment behavior among young professionals. Additionally, the role of risk tolerance, behavioral aspects, and demographic factors will be discussed.

Researchers have already established a strong correlation between financial literacy and investment behavior. For instance, in their study, Lusardi & Mitchell (2014) concluded that financial literacy is of critical importance in improving individuals' capacity to plan for their retirement and participate in financial markets. According to their study, individuals with higher financial knowledge are more likely to invest in diversified financial instruments.

Similarly, Sekita et al. (2022) conducted a study to examine the impact of financial literacy on investment participation. They concluded that financially literate individuals are more confident and proactive in their investment decisions. According to their study, financial knowledge reduces uncertainty for individuals in evaluating investment options.

Klapper, Lusardi, and Panos (2013) also found that financial literacy has a significant impact on financial planning behavior, including savings, borrowing, and investing. The study revealed that if an individual has low financial literacy, he or she will not invest in formal financial instruments but will prefer to invest through informal means.

Furthermore, Rooij, Lusardi, and Alessie (2011) emphasized that financial literacy has a positive impact on stock market participation and reduces financial mistakes. The study revealed that if an individual has higher financial literacy, he or she will be able to understand complex financial products as well as avoid financial mistakes regarding investment.

According to the literature, it has been confirmed that financial literacy is an important factor that affects investment behavior, as it increases the ability of an individual to analyze financial information, consider different investment options, and make rational financial decisions.

In addition to financial knowledge, behavioural and psychological factors also significantly contribute to investment decision-making. Kumar et al. (2023) emphasized in their study that emotions, cognitive biases, and psychological characteristics affect financial decisions. The study revealed that financially knowledgeable individuals can also make irrational decisions due to overconfidence, herding, and loss aversion.

In their study, Barber and Odean (2001) reported that due to overconfidence, investors trade too frequently, which impacts their financial performance. Kahneman and Tversky (1979) proposed a theory called Prospect Theory, which explains how individuals make decisions under uncertainty. According to their theory, individuals tend to avoid losses more than they desire gains. Shefrin (2000) has also emphasized the role of behavioral biases, which include mental accounting and regret aversion, in financial decision-making. These biases result in suboptimal financial decisions, even when individuals have enough financial knowledge.

In addition, Thaler (1999) has also emphasized the role of psychological factors in financial decision-making, as individuals do not act rationally in financial markets. Financial literacy

can help individuals avoid some of these biases, but behavioral biases also remain a crucial factor in financial decision-making.

Thus, behavioral finance theories also suggest that financial literacy is not enough, and psychological factors also have to be taken into account when analyzing financial decisions.

Risk tolerance is another factor that influences investment decisions. Risk tolerance is the willingness of an individual to take financial risks to achieve higher investment returns. According to research, financial knowledge and risk tolerance are positively related.

In their study, Grable & Lytton (1999) concluded that individuals with higher financial knowledge have a better understanding of risk and are capable of making more balanced investment decisions. The study also concluded that risk tolerance depends on income, education, and experience. Hallahan, Faff, & McKenzie (2004) argued that risk tolerance is a critical factor that influences investment decisions. For instance, individuals with higher risk tolerance invest in equities, whereas individuals with low risk tolerance invest in fixed deposits.

Research Gap

The existing body of literature suggests that financial literacy plays an important role in affecting investment behavior. Various studies have already been conducted to assess the impact of financial knowledge on savings behavior, stock market participation, and financial planning. Further, existing research has also attempted to assess the role of various behavioral factors such as risk tolerance, psychology, and demographics on financial behavior.

Despite the significant amount of research that has already been done on this topic, there are still some gaps that need to be addressed. Firstly, most of the existing studies have concentrated on general investors, students, or households. Young professionals have not been given much emphasis. Young professionals are an important segment of society as they are at an early stage of their professional lives, moving towards financial independence. They are at an important phase of their lives where they are developing financial behavior that could be significantly different from others.

Objective

The objective of the present study is to analyse the relationship between financial literacy and personal investment decisions. Additionally, the study will attempt to understand the influence of risk tolerance on this relationship.

Methods for Data Collection and Variables

The current study is based on the premise that financial literacy is an important determinant in shaping personal investment decisions among young professionals.

The premise states that “financial literacy can play an important role in shaping personal investment decisions in a complex financial environment.”

In this study, financial literacy is treated as an independent variable that directly influences personal investment decisions, which is treated as a dependent variable. Individuals with high levels of financial literacy are likely to exhibit better financial planning abilities.

Risk tolerance is treated as a mediating variable because it reflects an individual’s willingness to take financial risks. Financial literacy helps individuals better understand concepts related to risk-return trade-offs.

Demographic variables like age, education level, income level, and professional experience are treated as supporting variables because they impact both financial literacy and investment decisions.

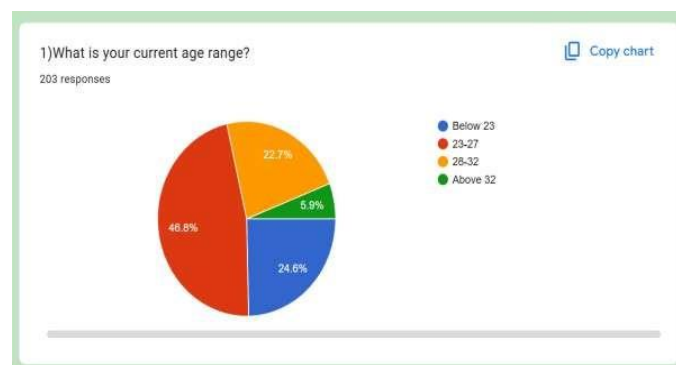
The conceptual framework suggests that financial literacy directly and indirectly influences investment decisions via an individual's risk tolerance levels. Additionally, demographic factors are important in understanding individual differences.

3. DATA ANALYSIS AND INTERPRETATION

The study is based on primary data collected from 203 respondents and analysed using descriptive statistical techniques and correlation and regression.

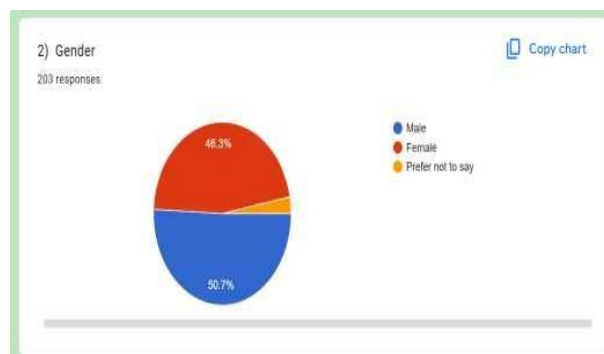
Demographic Analysis

Age Distribution of Respondents



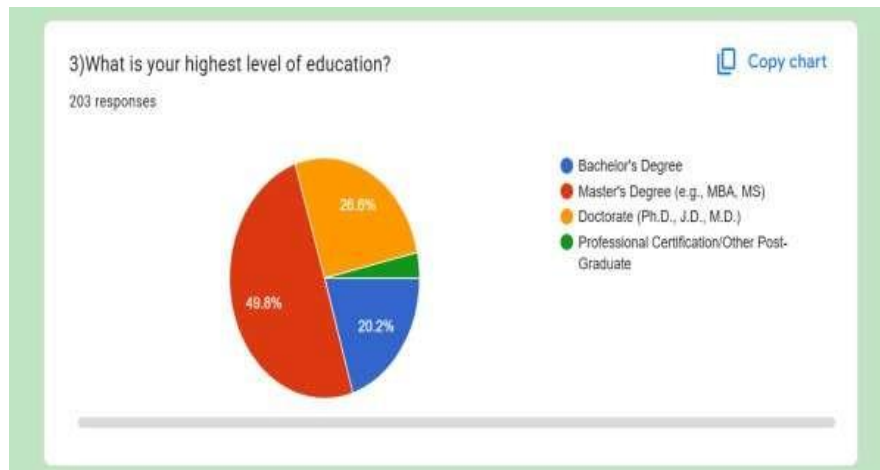
The majority of respondents (around 46%) belong to the 23–27 age group, indicating that the sample mainly consists of early-career professionals. This suggests that financial decision-making begins actively at this stage. Hence, this group is highly relevant for analysing financial literacy and investment behaviour.

Gender Distribution



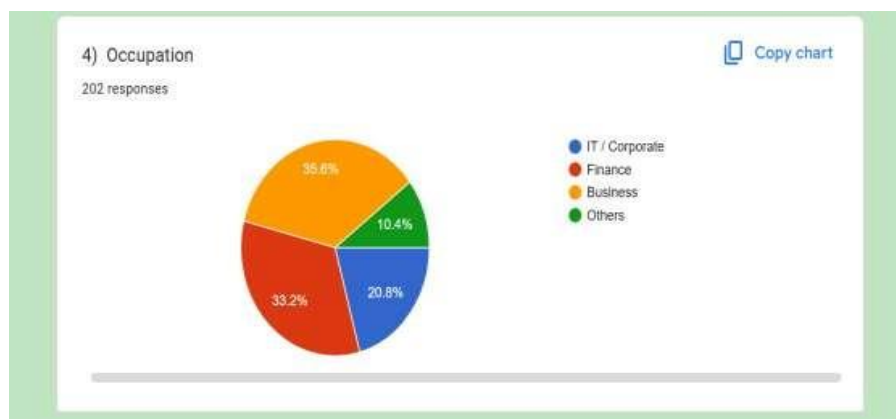
The sample shows a nearly equal distribution of male and female respondents, ensuring balanced representation. This reduces gender bias and improves the reliability of the study findings.

Education Level



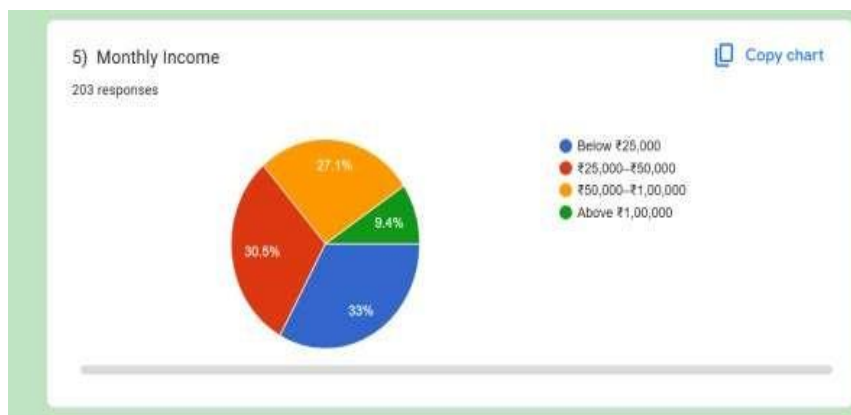
Most respondents hold postgraduate degrees, indicating a well-educated sample. However, higher education does not necessarily guarantee financial literacy, highlighting the need for financial education.

Occupation



A majority of respondents fall under lower to middle income levels (below ₹50,000), suggesting early career stages. This indicates limited investment capacity but highlights the importance of financial literacy for better financial planning.

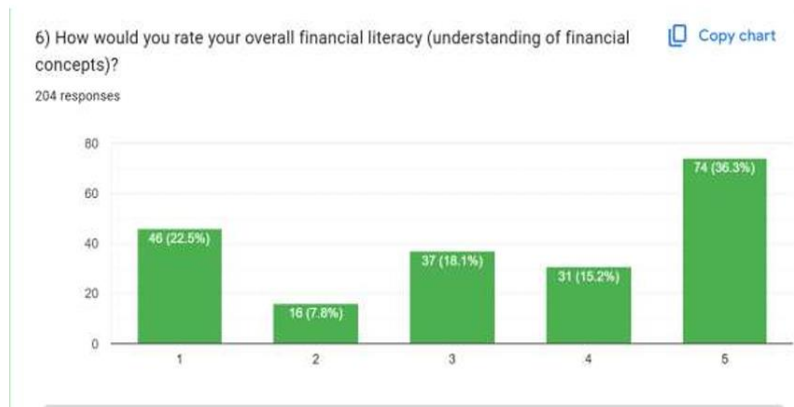
Monthly Income



A majority of respondents fall under lower to middle income levels (below ₹50,000), suggesting early career stages. This indicates limited investment capacity but highlights the importance of financial literacy for better financial planning.

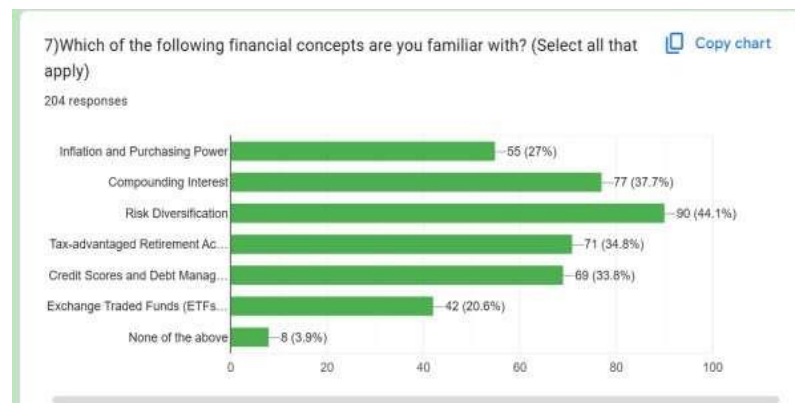
Financial Literacy Analysis

Financial Literacy Rating



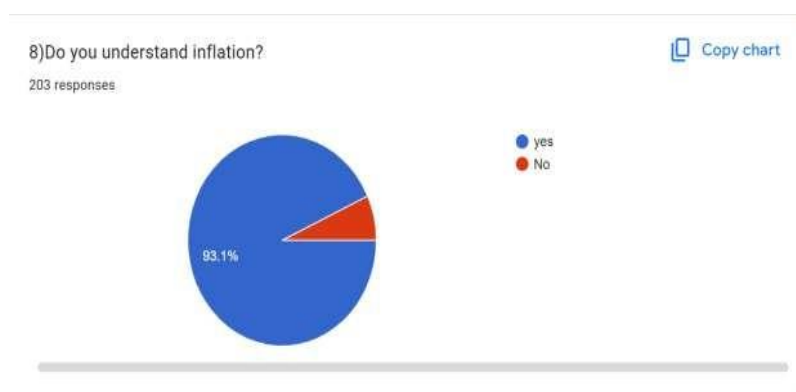
Most respondents rated themselves at a moderate level of financial literacy. This indicates basic awareness but also highlights gaps in deeper financial understanding.

Financial Concepts Awareness



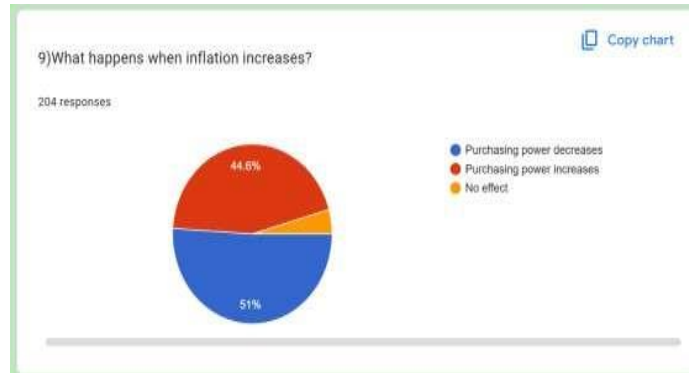
The data shows that respondents have strong awareness of basic financial concepts such as interest and diversification, while knowledge of advanced instruments like ETFs is comparatively low. This indicates a gap between basic and advanced financial literacy.

Understanding Inflation



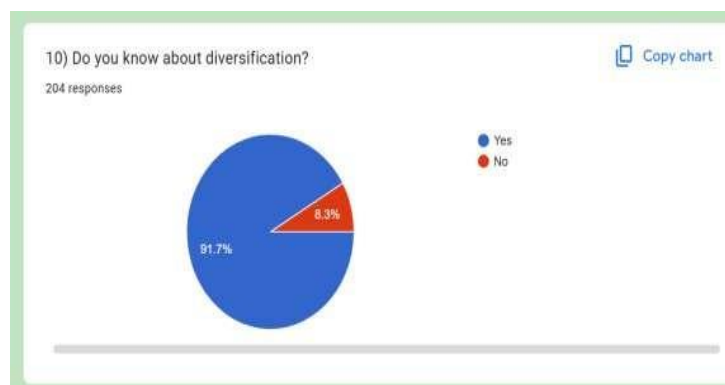
A large majority of respondents reported that they understand inflation, indicating good basic financial awareness. However, this does not necessarily reflect their ability to apply this knowledge in real-life financial decisions.

Impact of Inflation



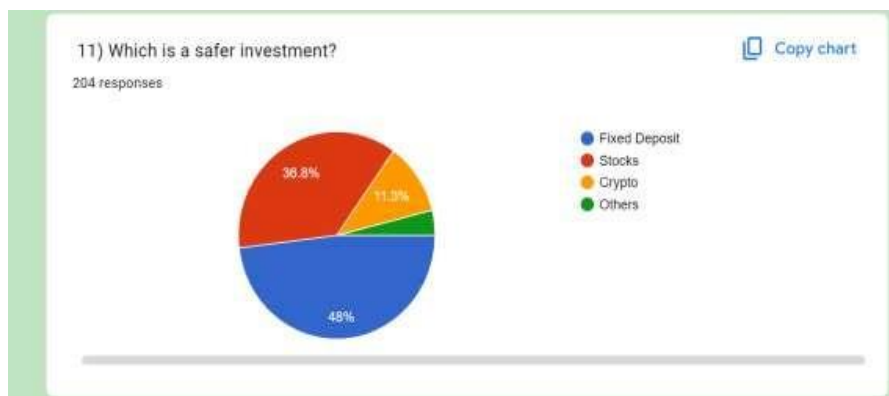
Although most respondents correctly identified that inflation reduces purchasing power, a notable portion selected incorrect answers. This suggests a gap between perceived knowledge and actual understanding of financial concepts.

Knowledge of Diversification



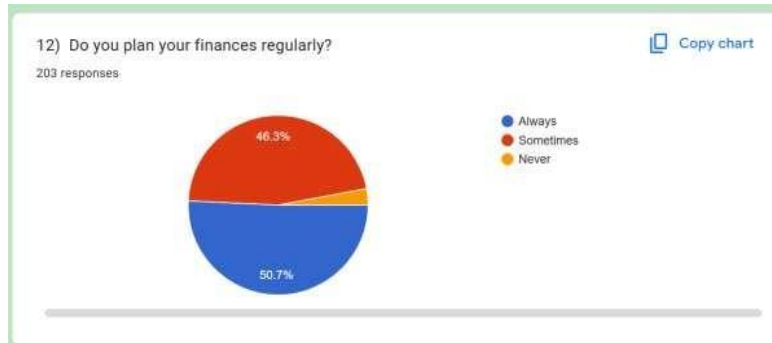
Most respondents are familiar with the concept of diversification, indicating awareness of risk management strategies. However, awareness alone may not ensure effective implementation in investment decisions.

Safer Investment Option



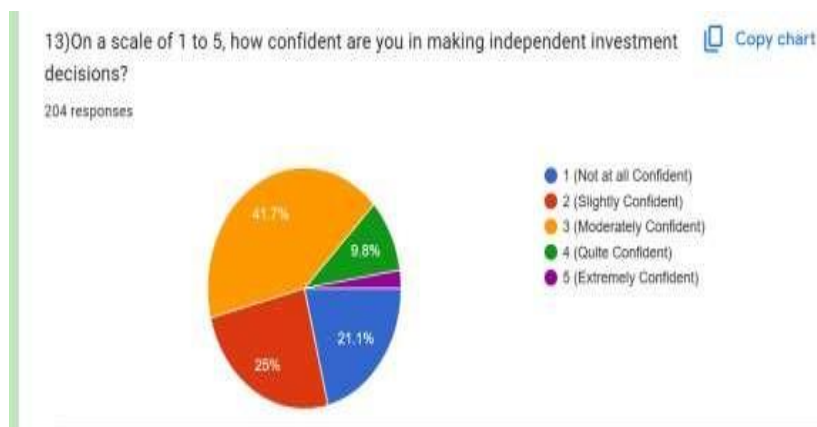
While many respondents correctly identified fixed deposits as a safer investment, some selected high-risk options like stocks and cryptocurrency. This highlights confusion regarding risk-return relationships among certain respondents

Financial Planning Habit



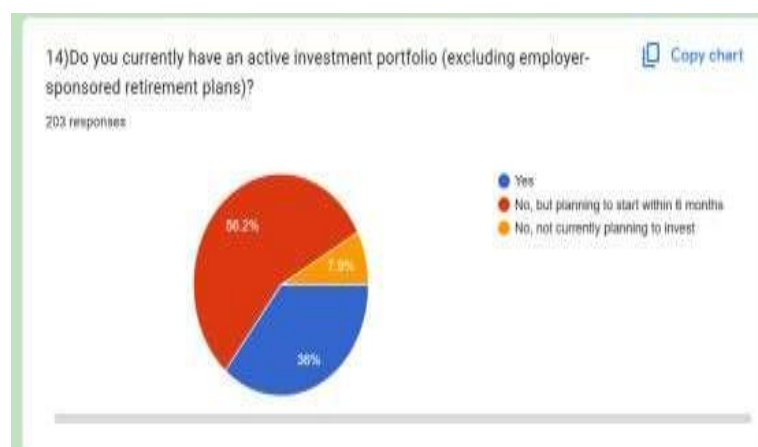
A majority of respondents either always or occasionally engage in financial planning, reflecting a positive attitude towards managing finances. However, inconsistency in planning indicates the need for improved financial discipline.

Investment Confidence



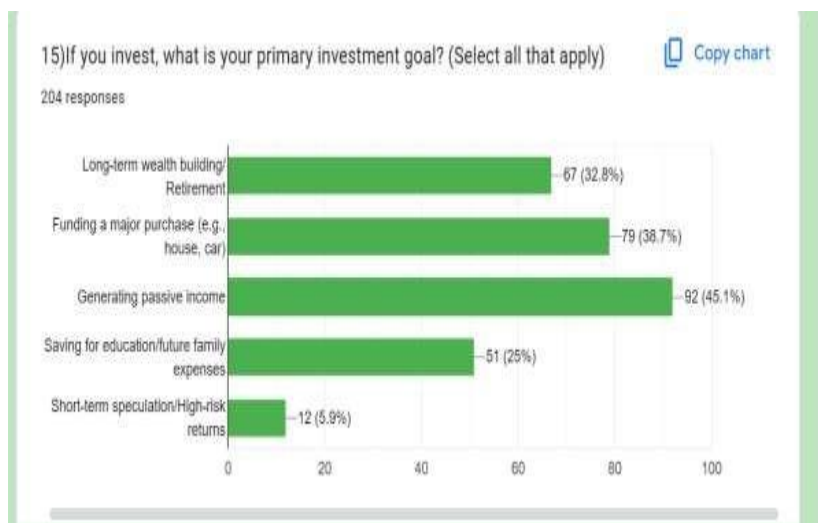
Most respondents reported a moderate level of confidence in making investment decisions. This suggests basic awareness but also indicates a lack of strong knowledge or experience in independent investing.

Investment Portfolio



While some respondents currently invest, a majority plan to start investing in the future. This reflects growing interest but also indicates barriers such as lack of knowledge or confidence.

Investment Goals



The majority of respondents identified wealth creation, passive income, and funding future expenses as their primary investment goals. This indicates a shift towards goal-oriented and long-term financial planning rather than short-term speculative behaviour. It reflects a growing level of financial awareness among young professionals.

Secondary Data

Secondary data supports the study findings by confirming that financial literacy positively influences investment behaviour and decision-making. It also highlights that financially literate individuals are more confident and better at managing risk. Overall, both primary and secondary data show a strong link between financial knowledge and improved investment practices.

4.FINDINGS

The analysis of the collected data from young professionals has led to a number of important findings on the relationship between financial literacy and personal investment behavior.

Firstly, it has been observed from the study that financial literacy among young professionals is average. Although young professionals are aware of basic financial concepts like inflation, compound interest, and diversification, their understanding of advanced financial products like ETFs and market-linked products is limited. This reveals the fact that individuals, even if they have basic financial knowledge, lack in-depth financial understanding.

Secondly, it has been observed from the study that financial literacy has a significant impact on investment behaviour. It has been observed that young professionals who possess high financial literacy also have good financial planning skills, more confidence in their financial decisions, and a more systematic approach towards managing their finances. This supports the assumption that financial literacy has a positive impact on financial decision-making.

Thirdly, it has been observed from the study that a majority of young professionals do not possess an active investment portfolio, but a majority of them plan to start investing in the near future.

Another important finding is related to the concept of risk tolerance. The majority of respondents prefer a moderate amount of risk, which indicates a balanced attitude towards

investment decisions. This means that people are willing to take some amount of risk for better returns, but they are not willing to invest in high-risk areas.

Another important finding of the study is related to the source of financial information, which indicates that the majority of respondents depend on informal sources of financial information, including social media, financial news, family, and friends. The study further indicates that the majority of respondents do not depend on financial advisors, which might result in incorrect financial information.

Moreover, the study indicates that demographic factors, including education and income levels, are important factors that affect financial behaviour. Although higher education levels result in better financial awareness, it does not necessarily result in higher financial literacy. In a similar manner, income levels affect investment, but they do not result in better financial behaviour.

Overall, the study indicates that financial literacy, risk tolerance, and behavioural factors are interconnected, which affects investment decisions of young professionals.

CONCLUSION

The study concluded that financial literacy plays an important role in shaping personal investment behavior among young professionals. Individuals who have strong financial literacy skills show positive financial planning behavior, are confident, and have a systematic approach to investment.

The study also revealed that there are gaps in terms of financial knowledge, especially related to advanced financial concepts. Improving financial literacy skills through education will help to enhance investment behavior.

Overall, the study emphasizes the significance of financial literacy skills to enhance financial decision-making behavior.

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