



A Study on Financial Literacy and Its Impact on Investment Decisions of Individual Investors

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Abstract – Financial literacy is important in shaping how people manage their finances and make investment decisions. As financial products and digital investment platforms grow rapidly, people need sufficient knowledge to manage their money effectively. This study examines how financially literate individual investors are and how this affects their investment choices, risk perceptions, and financial confidence. The research uses a descriptive design and gathers primary data from individual investors through a structured questionnaire. It applies statistical methods, such as percentage and correlation analyses, to examine the link between financial literacy and investment behavior. The results show that higher financial literacy leads to better decision-making, encourages diversification, improves risk assessment, and supports long-term financial planning. It offers insights for financial institutions, policymakers, and educators to create effective financial awareness programs that enhance individual investors' decision-making skills.

Keywords: Financial Literacy, Investment Decisions, Individual Investors, Financial Behaviour, Risk Perception, Personal Finance.

I. INTRODUCTION

Financial literacy is about understanding and using concepts such as savings, interest rates, inflation, risk, return, and diversification to manage your personal finances.

In today's financial world, people have many investment options, such as stocks, mutual funds, insurance products, fixed deposits, and government securities. With financial services, making financial decisions has become more complicated.

Financial literacy has three parts: knowledge, financial attitude, and financial behavior.

- Financial knowledge is understanding ideas.
- Financial attitude is your beliefs and mindset about managing money.
- Financial behaviour is what you actually do with your money, like saving and investing.

These three parts affect how you invest and your long-term financial stability.

This study examines how financial literacy affects the investments people prefer, the risk they can handle, and their confidence in their finances.

II. LITERATURE REVIEW

Previous studies show a connection between being good with money and how people invest. People who are good with money are more likely to spread their money and take smart risks. Research also shows that learning about money helps people invest and plan for the long term. In India, studies have found that people who know a lot about money are more likely to invest in assets such as funds and

stocks. Overall, we know that being good with money affects the investment decisions people make.

Research Gap: Financial literacy and investment behaviour are not well-connected in research that uses data and statistics. We also need to understand better how financial literacy helps people plan for the long term, spread out their investments, and build wealth. Financial literacy is very important for investors and plays a significant role in their investment decisions and financial planning. The relationship between literacy and investment behavior is complex, and individual investors need to understand how financial literacy affects their decisions. By studying literacy and investment behavior together, we can better understand how individual investors make decisions and how they can improve their financial planning and wealth-creation strategies. Financial literacy is key to making investment decisions, and individual investors need a strong understanding of it to achieve their long-term financial goals.

Objectives of the Study

- To analyze the investment preferences of individual investors.
- To identify factors influencing investment decisions.
- To examine the impact of financial literacy on investment behavior.
- To suggest measures for improving financial literacy.

Hypotheses

- H0: Financial literacy has no significant impact on individual investors' investment decisions.
- H1: Financial literacy significantly influences the investment decisions of individual investors.



III. RESEARCH METHODOLOGY

Research Design: This study uses an approach to examine how well individual investors understand financial matters and how this affects their investment choices. It looks at who investors are, what they know about money, and how they invest.

Nature of the Study: This study is like a puzzle because it seeks to understand how understanding money matters relates to investment choices and to identify the main factors that influence investor behaviour.

Data Collection: Primary data were collected via structured questionnaires, while secondary data were obtained from research journals, books, newspapers, websites of financial institutions, and Financial News.

Primary Data: The structured questionnaire collected data on essential aspects of investor decision-making.

- Risk perception
- Expected returns
- Investment preferences
- Financial awareness
- Demographic details

Data collection included both online and offline survey methods to reach respondents.

Secondary Data: Secondary data was collected from various sources, such as:

- Research journals
- Books and textbooks
- Financial newspapers and magazines
- Websites of mutual fund companies
- Reports of SEBI and AMFI

Sampling Design

- **Population:** The surveyed population comprises individual mutual fund investors.
- **Sampling Method:** Convenience sampling enabled the easy, timely selection of willing participants.
- **Sample Size:** The final sample consists of 100 selected respondents.
- **Justification of Sampling:** Convenience sampling was used because:
 - It is easy and time-saving.
 - Suitable for academic research
 - Limited resources and time constraints
 - Easy access to respondents

Instrument Design: A structured questionnaire served as the principal research instrument.

The questionnaire consists of:

- Close-ended questions
- Multiple-choice questions
- Likert scale questions

It is divided into two sections:

- Demographic details (age, gender, income, education, occupation)
- Investment-related questions (risk, return, awareness, preferences)

Data Analysis Techniques: Percentage analysis was the primary method for evaluating the collected data.

Used to analyze respondent distribution and investment behaviour.

$$\text{Formula: Percentage} = (\text{Number of respondents} / \text{Total respondents}) \times 100$$

Tabulation: Tabulation presented data for clear reading and interpretation.

Graphical Representation: Visual data representation, such as charts, aided the understanding of the results.

Comparative Analysis: Comparisons among variables like age and income provided deeper insights.

Hypothesis Testing Method: The study tested hypotheses by using the majority response method with percentage analysis.

- If the majority of responses support the factor → Reject H₀
- If not → Accept H₀

This approach is appropriate for descriptive studies without advanced statistics.

Scope of the Study: The study focuses on:

- Factors influencing mutual fund investment decisions
- Risk and return preferences
- Demographic impact on investment behaviour
- Awareness and financial literacy

The research focuses on individual investors within a specific geographic area.

Limitations of the Study: Study limitations include a small sample size, non-random sampling, a limited time span, self-reporting, and a narrow regional focus.

IV. DATA ANALYSIS AND INTERPRETATION

Table 1: Age Distribution

Below 25	42	42%
25–35	33	33%
35–46	15	15%
46-55	9	9%
Above 55	1	1%



Section A : Demographic Profile 1. Age Group
100 responses

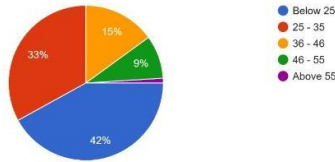


Fig. 1: Age Distribution

Interpretation: The data indicate that a significant proportion of respondents are in the younger age groups, particularly those under 35. This suggests that younger individuals are more actively participating in mutual fund investments.

Table 2: Gender

Gender	No. of Respondents	Percentage
Male	49	49.5%
Female	50	50.5%

2. Gender
99 responses

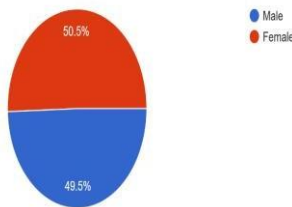


Fig. 2: Gender

Interpretation: Female respondents (50%) outnumber male respondents, indicating a higher literacy rate in females.

Table 3: Education

Education Qualification	No. of Respondents	Percentage
Up to Higher Secondary	24	24%
Graduate	35	35%
Post Graduate	30	30%
Professional Degree	11	11%

3. Education Qualification
100 responses

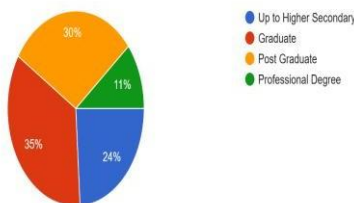


Fig. 3: Education

Interpretation: The majority of respondents are graduates and postgraduates, reflecting a relatively well-educated sample. This implies a higher level of financial awareness and informed decision-making among participants.

Table 4: Income

Monthly Income	No. of Respondents	Percentage
Below ₹25,000	37	37%
₹25,000 – ₹50,000	40	40%
₹50,000 – ₹75,000	18	18%
Above ₹75,000	5	5%

5. Monthly Income
100 responses

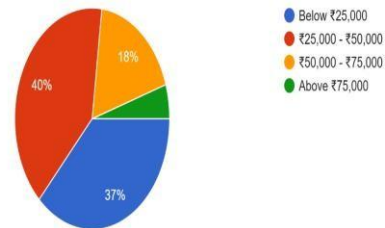


Fig. 4: Income

Interpretation: Most respondents belong to the ₹25,000–₹50,000 income group, followed by those in the ₹0–₹25,000 income group. This indicates a predominantly low to middle-income sample, likely preferring safer investment options.

Table 5: Investment options

Investment Option	No. of Respondents	Percentage
Yes	60	60%
No	40	40%

7. Are you aware of different investment options (shares, mutual funds, bonds, etc.)?
100 responses

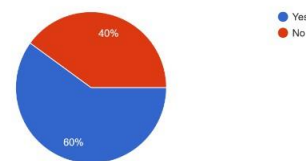


Fig. 5: Investment options

Interpretation: A majority (60%) of respondents invest in mutual funds, indicating high awareness and acceptance.

Table 6: Preferred Investment Avenues

Investment Option	Percentage	No. of Respondents (Approx.)
Mutual Funds	30.30%	30
Insurance	29.50%	30
Gold / Real Estate	20.50%	21
Bank Deposits	19.70%	20



12. Preferred investment avenue
100 responses

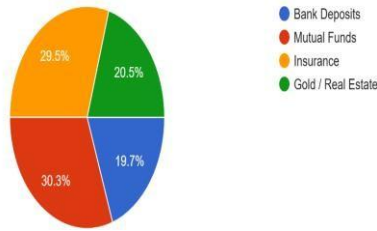


Fig. 6: Preferred investment avenues

Interpretation: Mutual funds are most preferred (30.3%), showing that investors are more risk-averse.

Table 7: Investment Horizon

Investment Horizon	Percentage	Count
Short-term	38%	38
Medium-term	38%	38
Long-term	24%	24

14. Investment time horizon
100 responses

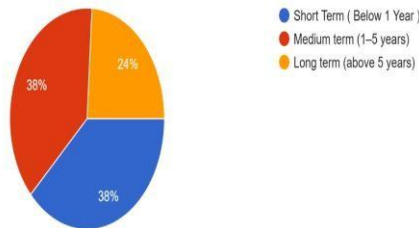


Fig. 7: Investment Horizon

Interpretation: Most respondents prefer medium- and short-term investments (38%), indicating a balance between risk and return.

Hypothesis Testing (Percentage-Based)

- H1.1: 60% respondents invest in mutual funds → indicates financial awareness
- H1.2: 30.3% prefer mutual funds (highest preference)
- H1.3: 29.5% prefer insurance → shows risk consideration
- H1.4: 76% (short + medium term) investors show planned investment behavior
- H1.5: The majority of respondents show informed and diversified investment choices.

Final Result

Since the majority of the findings support the impact of financial literacy, H_0 is rejected.

- H_1 is Accepted

Findings

- Financial literacy helps investors make better and smarter investment decisions.
- Investors with more knowledge understand risk and returns more clearly.
- They prefer safe and diversified investments and plan for the long term.
- Less financially aware investors depend on others and may make wrong decisions.

V. CONCLUSION

Financial literacy is a fundamental driver of effective investment decision-making. The study confirms that individuals with greater financial awareness demonstrate better risk management, more informed investment selection, and better long-term financial planning. Strengthening financial literacy can enhance economic stability at both the individual and Societal levels.

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