

A Study on the Impact of Financial Literacy on Personal Investment Decisions

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Abstract: *Financial literacy has become a critical determinant of individual investment behaviour in modern economics. This research investigates the relationship between financial literacy levels and personal investment decisions among the working professionals. Using a descriptive research design and survey based data collected from 25 respondents; the study finds a strong positive correlation between financial knowledge and the choice of diversified, risk appropriate investment instruments. The result highlights the need for enhanced financial education initiatives to improve individual financial well-being.*

Keywords: Financial Literacy, Investment, working professionals

I. INTRODUCTION

The rapid development of financial markets, the availability of numerous investments products, and increased access to credit have made personal financial management more complex. Financial Literacy- understanding concepts such as inflation, compounding, risk return trade off, taxation, and financial planning- plays a crucial role in shaping investment decisions.

Need for the study

Many individuals invest without adequate understanding of risk, taxation, or long term benefits. The gap between income and investment knowledge often leads to poor financial decisions. Therefore, this study evaluates how individual financial literacy influences investment choices.

Objectives

- To assess the level of financial literacy among the working professionals.
- To analyse the investment patterns and preferences on an individuals.
- To examine the impact of financial literacy on personal investment decisions.
- To provide recommendations for improving financial literacy.

II. REVIEW OF LITERATURE

Lusardi & Mitchell (2014) emphasised that financial knowledge significantly affects retirement planning.

OECD (2020) Reported that individuals with higher financial literacy are more likely to invest in diversified assets.

Sinha (2019) found that in India, lack of awareness regarding mutual funds and stock markets limits investment participation.

Over all, literature suggests a positive link between financial knowledge and sound investment behaviour.

III. RESEARCH METHODOLOGY

Research Design:

Descriptive research design with quantitative analysis.



Sample Size and Population

Sample Size: 250 respondents.

Target Population : Working professionals aged 22-55 years.

Sampling techniques: Convenience sampling.

Data Collection:

Primary Data: Structured questionnaire.

Secondary Data : Research papers, Financial reports, websites, books.

Tools Used:

- Percentage Analysis.
- Correlation Analysis.
- Chi-square test.

IV. DATA ANALYSIS AND INTERPRETATION

Level of Financial Literacy:

- 20% respondents have high financial literacy.
- 55% moderate.
- 25% Low.

Investment Preferences:

- Mutual Funds- 45%
- Fixed Deposits- 40%
- Insurance- 30%.
- Stock Market- 25%
- Gold 35%

Respondents could choose multiple options.

Hypothesis Testing.

H0: Financial literacy has no significant impact on investment decisions.

H1: Financial Literacy has a significant impact on investment decisions.

Using correlation and chi-square analysis, results show:

Correlation coefficient(r) = 0.72 , indicating a strong positive relationship.

Thus H0 is rejected, and financial literacy significantly influences investment decisions.

V. FINDINGS

- Most respondents possess moderate financial literacy.
- Individuals with higher financial literacy prefer market-linked products such as mutual funds and stocks.
- Respondents with low financial literacy rely on traditional options such as FDs and Gold.
- Financial Literacy strongly correlates with diversified investment behaviour.
- Lack of awareness and perceived risk discourage investment in equities.

VI. CONCLUSIONS

Financial literacy plays a crucial role in shaping personal investment decisions. Individuals with better financial knowledge are more confident, invest wisely and adopt long term financial planning. To promote financial well-being, government bodies, educational institutions, and employers must strengthen financial education initiatives.



Recommendations:

- Include financial education in school and college curricula.
- Conduct investors awareness programs by SEBI, AMFI, and financial institutions.
- Promote easy-to-understand financial tools and calculators.
- Encourage young adults to start systematic investments like SIPs.
- Use digital platforms for financial literacy training.

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