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Impact Of Financial Literacy On Personal Investment Decision

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ABSTRACT :

This study investigates the impact of financial literacy on personal investment decisions, emphasizing its critical role in the modern financial environment. Conducted as part of a Bachelor of Business Administration program, the research adopts a descriptive design and surveys 100 individuals from Songadh and Bardoli, examining their financial literacy, demographic influences, and investment behavior. Findings reveal that financial literacy significantly enhances individuals' confidence and ability to make informed investment decisions, with younger, educated, and middle-income individuals favoring low-risk investments like fixed deposits and gold. Barriers identified include financial illiteracy, resource constraints, and skepticism toward financial advisors. The study underscores the need for accessible financial education initiatives to empower individuals, improve financial stability, and foster economic growth. It concludes that enhancing financial literacy is essential for smarter investment strategies and broader economic benefits.

Keywords: Financial literacy, personal investment decisions, financial behavior, investment confidence, risk management, financial education, economic growth, demographic influence, financial stability, investment strategies.

Introduction :

A comprehensive financial understanding allows any individual to allot resources efficiently, build diversified portfolios, and align investments properly with long-term financial goals. Moreover, financially educated investors are better at monitoring market dynamics, interpreting economic indicators, and revising their strategies as per them. Financial ignorance, on the contrary, invites poor investment decisions in excess of risk-taking and financial instability. The purpose of this research paper is, therefore, to assess the relationship of financial literacy with personal investment decisions; how the knowledge about finances does affect investment behaviour, risk tolerance, and portfolio diversification. Based on all its aspects, this study intends to outline the relation of financial education with investment decision-making, steering towards intelligent and responsible financial management.

Literature Review :

A more detailed review of the **total** findings of these studies allows for the identification of a rich fabric of findings that encapsulate the multi-dimensionality of financial literacy and its far-reaching impacts on investment behaviour and financial performance. Beyond the mere establishment of a positive association, the studies identify the specific mechanisms through which financial literacy operates, as a key mediator and moderator in the complex dynamics among education, experience, and personal financial choices. For instance, the application of Structural Equation Modelling (SEM) across studies reveals the sophisticated channels through which financial information is translated into tangible investment outcomes, demonstrating how financial literacy reinforces the interlinks between educational achievement, gained experience, and the propensity to make well-informed investment choices. In addition, the focus of the research within different demographic segments, such as women, students, and rural communities, mirrors the diversity of financial literacy and the need for education strategies specifically tailored. Research among women, for example, highlights the need to overcome specific barriers to financial participation, such as risk aversion and a perceived lack of confidence, through specially designed financial education programs. Similarly, research among students highlights the paramount role of early initiation of financial education to shape long-term financial habits and an investment culture of well-educated investing.

In addition, the study goes beyond the immediate investment decision context by looking at the broader implications of financial literacy on individual financial well-being and overall societal development. The results consistently highlight the relationship between financial literacy and higher financial satisfaction, shedding light on the psychological benefits inherent in the ability to effectively manage one's finances. This then has broader societal implications, as individuals with financial literacy are likely to engage in sound financial practices, thus contributing to economic stability and growth. The research also throws more light on the changing investment dynamics, especially on the increasing demand for Shariah-compliant investments and environmentally friendly investments. The findings indicate that financial literacy is instrumental in the uptake of such new investment instruments, which allows investors to harmonize their financial choices with their moral and environmental considerations. This underscores the dynamic nature of financial literacy, which must evolve to respond to the changing needs and priorities of investors.

In addition to the quantitative findings, the study puts the importance of qualitative information on investors' perceptions and attitudes into perspective. The research finds that while investors have increasingly come to realize financial literacy as a critical tool, there remains ambiguity and uncertainty regarding complex financial products and investment strategies. This goes to highlight the need for ongoing efforts at financial simplification as well as providing simple, easy-to-use educational content on finance. In conclusion, this collection of research provides a holistic and profound insight into the role of financial literacy in investment decisions and financial well-being. It emphasizes the importance of individualized financial education programs, research, and intersectoral collaboration between policymakers, teachers, and financial institutions to promote financial literacy and empower individuals to make informed financial decisions. This holistic insight is crucial in building a financially inclusive and stable society, where individuals are well-positioned to grasp the intricacies of the modern financial system and achieve their financial goals.

Research Methodology :

1. **Problem Statement: -**

"IMPACT OF FINANCIAL LITERACY ON PERSONAL INVESTMENT DECISION."

2. **The objective of the study: -**

- Evaluate the respondents' degree of financial literacy.
- Assess how different demographic factors affect the financial literacy of the respondents.
- To Analyze how investing behavior is influenced by financial literacy.

3. **Research design: -**

There are three types of research design:

- **Exploratory Research Design:** Exploratory research focuses on the discovery of ideas and is generally based on primary data. It is preliminary investigation which does not have rigid design. This is because of research engaged in an exploratory study may have to change its focus because of new ideas and relationship among the variables.
- **Descriptive Research Design**: Descriptive research is a type of research that aims to systematically describe a phenomenon, population, or situation. It focuses on answering questions like what, who, where, and when.
- **Causal Research Design:** Causal research is undertaken when the researcher is interested in knowing the cause-and-effect relationship between two or more variables. Such studies are based on reasoning along well tested lines.

For this research study Descriptive Research Design is used because; in this research Design, the research has got very specific objectives, clear-cut data requirement.

4. **Data collection method: -**

Primary & Secondary Data

- **Primary data:** It is type of information that is collected specifically for the purpose of the research project an advantage of primary data is that it is specifically tailored to research needs.
- **Secondary data:** It refers to data that was collected by someone other than the user. Common sources of secondary data for social science include censuses, information collected by government departments, organizational records and data that originally collected for other research purposes.

For this research study, the Primary Data is used because Primary data is original information collected directly from firsthand sources to address specific research questions or hypotheses.

5. **Sampling methods: -**

There are two types of sampling method.

1. Probability sampling
2. Non-probability sampling

Probability Sampling Method:

A probability sampling method is any method of sampling that utilizes some form of random selection.

Non-probability Sampling Method:

A non-probability sampling is a sampling technique where the samples are gathered in a process that does not give all the individuals in the population equal chances of being selected.

Here, for this research study non-probability sampling method (judgmental method) will be used.

Population: - Residents of the Songadh and Bardoli regions.

A. **Sampling frame:**

Sampling in this context involves choosing a diverse group of individuals with different levels of financial literacy, including both current and potential investors. By examining their behaviors and preferences, we can gain insights into how financial literacy shapes their investment decisions. The goal is to understand the relationship between financial knowledge and personal investment choices.

B. **Sample size: For this research study, 100 persons will be randomly given the questionnaire for this research**

6. **Hypothesis:**

Based on objectives of the study, the following hypotheses are formed:

- Ho : Financial literacy has no significant impact on personal investment decisions.
- H1: Financial literacy has a significant impact on personal investment decisions.

7. Tools & techniques used: -

By using test such as Descriptive statistics, frequency statistics, T-test, Pearson correlation.

8. Limitations of the study: -

- Participants might provide socially desirable answers rather than honest responses.
- Difficulty in reaching a sufficient number of participants, especially those with varying levels of financial literacy.
- External economic conditions influencing investment decisions may not be accounted for.

9. Scope of the study:-

- Financial literacy can make a world of difference when it comes to investing. People with higher financial knowledge tend to see better returns and diversify their portfolios more wisely. They also handle investment risks much more effectively. On the flip side, those lacking financial literacy often find themselves overwhelmed by complex financial products and live in fear of potential losses. This underscores just how essential financial education is for making smart investment decisions and achieving financial success.

10. Research plan: -

- To know the impact of financial literacy on personal investment decision.
- Review existing research and identify gaps.
- Use mixed-methods (quantitative and qualitative) approach.
- Collect data through surveys, questionnaire etc.
- Define target population and sample size.
- Use statistical analysis for data interpretation.
- Prepare a comprehensive report with findings and recommendations.

Data analysis :-

The survey reveals that most respondents are young (46% aged 20-30), predominantly male (63%), and unmarried (58%). Education levels vary, with 37% being graduates and 19% postgraduates. Professionally, 43% are students, while 24% are employed in service roles. Income distribution shows a majority (43%) earning up to ₹3 lakh annually, reflecting a middle-class demographic. Financial awareness is high, with 96% having a savings account, but borrowing at 3% interest is acceptable to 54%. Investment preferences indicate a strong inclination towards gold (68%), mutual funds (63%), and shares (55%), while corporate bonds (7%) and government savings schemes (22%) are less popular.

Investment Participation by Type

Investment Type	Participation (%)
Mutual Funds	63%
Shares	55%
Government Savings	22%
Corporate Bonds	7%
Gold/Silver	68%
Real Estate	34%

Risk appetite varies, with 41% preferring low-risk investments and only 4% opting for high-risk assets. Investment decisions are primarily influenced by personal research (33%) and financial advisors (31%), though online tools play a minor role (5%). Despite strong insurance adoption (72%), retirement planning is weak, with 70% lacking a retirement account. Financial literacy programs receive strong support (60%), but 44% remain neutral about seeking professional advice.

The t-test results confirm significant differences in financial behaviours, reinforcing a preference for safer investments. Barriers such as lack of financial knowledge and trust in advisors impact investment decisions, but financial literacy programs are associated with greater confidence and improved financial planning.

Key Correlation Insights

1. **Demographics & Financial Decisions**

- Age negatively correlates with marital status (-0.766), showing changes in marital trends with age.
- Profession is positively correlated with age (0.565) but negatively with marital status (-0.649), indicating career-life balance influences.
- Family income and inflation concerns weakly correlate with savings account choices (0.207 and 0.283), showing economic influence on financial behaviour.

2. **Investment Behaviour & Financial Products**

- Mutual funds strongly correlate with stock market investment (0.631) and D-Mat account usage (0.479).
- Life insurance is linked with investment monitoring (0.240) and investor type (0.209).
- Government savings options like post office schemes correlate with fixed deposits (0.598) and pension plans (0.762), reflecting stability preference.

Financial Factor	Correlation
Mutual Funds & Stock Market	0.631
Mutual Funds & D-Mat Accounts	0.479
Life Insurance & Investment Monitoring	0.240
Government Savings & Pension Plans	0.762
Fixed Deposits & Post Office Savings	0.598

3. **Financial Literacy & Investment Decisions**

- Financial literacy negatively correlates with shares (-0.366) and mutual funds (-0.403), suggesting cautious investment behaviour.
- Trust in financial advisors has weak correlations with financial literacy (0.124) and investment objectives (0.095).
- The strongest correlation (0.650) exists between financial literacy and confidence in financial decisions, reinforcing the importance of financial education.

Overall, investors prefer stability but show an interest in diversification. Financial literacy plays a vital role in investment choices, emphasizing the need for better financial education to enhance decision-making and confidence.

Conclusion :-

The survey results indicate that the respondents are predominantly young, educated, and male, with students and professionals forming the majority. Their financial behaviour reflects a preference for secure and stable investment options, such as mutual funds, precious metals, and traditional banking, suggesting a cautious and well-balanced approach to financial security.

While financial literacy and professional financial advice are valued, the respondents exhibit varying levels of confidence and understanding in making investment decisions. This indicates that while they recognize the importance of informed financial choices, their actual investment knowledge and self-assurance differ across individuals.

Health and life insurance are widely adopted, reflecting a strong inclination toward financial security. However, retirement planning appears to be a lower priority, suggesting either a lack of immediate concern or a tendency to focus on short- to medium-term financial goals rather than long-term wealth accumulation.

The survey also highlights a significant preference for diversified investment options, though respondents generally display risk-averse behaviour. This suggests that while they are open to different financial instruments, they tend to favour those perceived as stable and secure rather than high-risk, high-reward opportunities.

Overall, the findings portray a financially conscious group that prioritizes security and well-informed decision-making. Their preference for professional advice and financial literacy programs further underscores a broader trend of valuing education and guidance in financial planning. This reflects a growing awareness of financial management while maintaining a conservative approach to investment.

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