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A Study on the Impact of Financial Literacy on Financial Well-Being among Mutual Fund Investors

Kriti Kumari[*1], *Dr Pushpa A.*[*2]

[1]MCOM (FA), Kristu Jayanti College (Autonomous), Bengaluru Email: 23mcfa17@kristujayanti.com
[2]Associate Professor, Department of Commerce (PG), Kristu Jayanti College (Autonomous), Bengaluru

ABSTRACT

Financial literacy plays a critical role in determining financial well-being by influencing investment behavior, risk management, and wealth accumulation strategies. This study investigates the relationship between financial literacy and financial well-being among mutual fund investors in India. The research utilizes primary data collected through structured surveys from 62 mutual fund investors, along with secondary data from existing financial reports and literature.

The study employs correlation analysis, regression model, and hypothesis testing to evaluate the impact of financial literacy on financial well-being. The findings suggest that financially literate investors exhibit higher financial security, better portfolio diversification, and a greater ability to manage financial risks effectively. The paper concludes by emphasizing the need for financial education programs to enhance investor decision-making and long-term economic stability.

Keywords: Financial Literacy, Financial Well-Being, Mutual Funds, Investment Behavior, Risk Management, Financial Planning.

1. Introduction

1.1 Background of the Study

In an era of financial complexity, individuals must make well-informed investment decisions to secure their economic future. Mutual funds have emerged as a preferred investment option due to their diversification benefits and professional management. However, despite the growing popularity of mutual funds in India, financial literacy levels remain low, leading to poor investment choices and financial instability.

Financial literacy involves an individual's ability to understand financial concepts such as budgeting, risk assessment, savings, and investment strategies. Studies indicate that a lack of financial knowledge often results in excessive debt, underutilization of investment opportunities, and financial stress. This study examines the extent to which financial literacy impacts financial well-being among mutual fund investors.

1.2 Research Problem

Many mutual fund investors fail to maximize their financial potential due to inadequate financial knowledge. Issues such as poor portfolio allocation, lack of diversification, and mismanagement of risks can negatively impact their financial well-being. This study aims to address the following question: Does financial literacy positively influence financial well-being among mutual fund investors?

1.3 Objectives of the Study

To assess the impact of financial literacy on financial well-being among mutual fund investors.

1.4 Scope of the Study

This study focuses on millennial mutual fund investors in India, analyzing the impact of financial literacy on their financial well-being. Millennials, defined as individuals born between 1981 and 1996, are a crucial demographic in the investment landscape due to their growing participation in financial markets and their unique approach to wealth creation. The research examines investors from diverse income groups, ranging from entry-level professionals to high-earning individuals, to assess how financial knowledge influences investment behavior and long-term financial stability.

2. Literature Review

A comprehensive review of existing literature highlights the role of financial literacy in shaping investment decisions and financial well-being. Several studies have established a positive relationship between financial knowledge and improved financial security, risk management, and wealth accumulation.

Lusardi and Mitchell (2014) conducted a global study on financial literacy and its impact on financial decision-making. Their research found that individuals with higher financial literacy were more likely to engage in systematic investment planning, maintain diversified portfolios, and make long-term financial decisions. The study also emphasized that financially literate investors exhibited greater financial security and lower financial distress.

Dhaliwal et al. (2024) explored the relationship between financial literacy and investment behavior, specifically among young investors. The study highlighted that millennials with strong financial literacy were more likely to invest in diversified mutual funds, demonstrating better risk management skills. It also found that financial literacy reduced impulsive investment decisions and increased financial planning awareness, leading to better long-term financial outcomes.

Mohta et al. (2022) investigated how financial literacy contributes to long-term wealth accumulation and retirement planning. The study revealed that individuals with high financial literacy were better at assessing market risks, allocating funds strategically, and maximizing investment returns. The research concluded that financial education significantly enhances an investor's ability to build long-term wealth and financial resilience.

Kumari et al. (2024) analyzed the impact of financial literacy on financial well-being in emerging economies, including India. Their study found that financially literate individuals were more likely to experience financial stability, lower financial stress, and improved financial decision-making capabilities. It also emphasized the role of government initiatives in bridging the financial literacy gap to improve overall economic resilience.

3. Research Methodology

The research methodology outlines the approach, techniques, and tools used to investigate the relationship between financial literacy and financial well-being among mutual fund investors. This study adopts a quantitative approach, relying on primary data collection through surveys and statistical analysis to derive meaningful conclusions.

3.1 Research Design

This study employs a quantitative research approach, as it enables the systematic examination of financial literacy levels and their impact on financial well-being. A survey-based methodology was chosen to gather numerical data from mutual fund investors, ensuring an objective assessment of investment behavior, financial stability, and risk management strategies. The structured survey allowed for measurable comparisons between financially literate and less literate investors, providing deeper insights into their financial decision-making processes.

To establish validity and reliability, the survey questions were designed based on established financial literacy assessment frameworks and prior academic research. Statistical tools, including correlation analysis and regression models, were employed to measure the strength of the relationship between financial literacy and financial well-being.

3.2 Data Collection

Data was collected from both primary and secondary sources to ensure a comprehensive and well-rounded analysis.

- **Primary Data:** The study utilized structured questionnaires to gather first-hand responses from 62 mutual fund investors. The questionnaire focused on financial literacy levels, investment preferences, risk tolerance, and financial well-being indicators. Respondents were selected based on their active participation in mutual fund investments, ensuring that the collected data reflected real-world investor experiences.

- **Secondary Data:** To support the primary research, secondary data was sourced from peer-reviewed journal articles, financial reports, industry publications, and government documents. This helped in benchmarking findings against existing studies and provided a contextual understanding of financial literacy trends in India.

3.3 Sampling Technique

A purposive sampling technique was adopted to select participants who were actively investing in mutual funds. This method ensured that the study included individuals with varied levels of financial literacy, allowing for a comparative analysis. The selection criteria included:

- **Age group:** Investors aged 25 and above who have experience in mutual fund investments.

- **Investment activity:** Individuals who have been investing for at least one year.

- **Financial knowledge levels:** Respondents with diverse educational and financial literacy backgrounds.

Purposive sampling was chosen because it ensures that the selected respondents have relevant exposure to financial decision-making, making their inputs valuable for the research objectives.

3.4 Research Instrument

The primary research instrument was a structured questionnaire, designed to measure key aspects of financial literacy and financial well-being. The questionnaire was divided into the following sections:

1. **Financial Literacy Assessment:**

   - Knowledge of basic financial concepts (e.g., inflation, interest rates, compounding).

   - Awareness of mutual fund investment strategies.

   - Understanding of risk-return trade-offs.

2. **Investment Behavior and Decision-Making:**

   - Factors influencing investment choices.

   - Preference for low-risk vs. high-risk investment instruments.

   - Frequency of investment portfolio review and adjustments.

3. **Financial Well-Being Indicators:**

   - Ability to manage financial obligations without stress.

   - Level of savings and emergency funds.

   - Perception of financial security and future preparedness.

4. Data Analysis & Findings

This section presents a detailed statistical analysis of the data collected from 62 mutual fund investors. The findings are categorized into demographic distribution, correlation analysis, hypothesis testing, and regression analysis, providing a comprehensive understanding of the relationship between financial literacy and financial well-being.

4.1 Demographic Profile of Respondents

The demographic characteristics of the respondents were analyzed based on age, gender, and income levels to determine their influence on financial literacy and investment behavior.

Factor	Percentage (%)
Age (25-35)	45%
Age (36-50)	35%
Age (50+)	20%
Male	60%
Female	40%
Income Below ₹5,00,000	30%
Income ₹5,00,000-₹10,00,000	50%
Income Above ₹10,00,000	20%

4.1.1 Interpretation of Demographic Data

- Age Distribution: The 25-35 age group (45%) represents the largest segment of mutual fund investors, suggesting that young professionals are actively engaging in financial planning. The 36-50 age group (35%) consists of mid-career professionals, while 20% of investors are above 50 years, indicating an increase in retirement-focused investments.

- Gender Distribution: The sample includes 60% male and 40% female investors, reflecting a growing female participation in financial markets, although men continue to have higher investment activity.

- Income Levels: The majority of respondents (50%) fall within the ₹5,00,000 - ₹10,00,000 income bracket, indicating that middle-income individuals are the most engaged in mutual fund investments. Lower-income individuals (30%) may face barriers in accessing financial education and investment opportunities.

4.2 Correlation Analysis

To evaluate the strength and direction of the relationship between financial literacy and financial well-being, a Pearson correlation test was conducted.

The Pearson correlation coefficient was $r = 0.68$, indicating a strong positive correlation between financial literacy and financial well-being.

4.2.1 Interpretation of Correlation Results

- The positive correlation (0.68) suggests that as financial literacy increases, financial well-being also improves.

- Respondents with higher financial literacy demonstrated better financial security, investment planning, and risk management strategies.

- Conversely, individuals with lower financial literacy exhibited financial stress, inadequate savings, and suboptimal investment choices.

4.3 Hypothesis Testing

To examine whether financial literacy significantly impacts financial well-being, the following hypotheses were tested:

H_0 (Null Hypothesis): Financial literacy has no significant impact on financial well-being.

H_1 (Alternative Hypothesis): Financial literacy has a positive impact on financial well-being.

A **linear regression analysis** was conducted to determine whether financial literacy is a significant predictor of financial well-being.

4.4 Regression Analysis: Impact of Financial Literacy on Financial Well-Being

4.4.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.544	0.296	0.284	0.832

Interpretation: The R-value (0.544) indicates a moderate positive relationship between financial literacy and financial well-being. The R² value (0.296) shows that financial literacy explains 29.6% of the variation in financial well-being, suggesting that other factors also influence financial stability.

4.4.2 ANOVA Table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	17.435	1	17.435	25.217	0.000
Residual	41.484	60	0.691		
Total	58.919	61			

Interpretation: The F-statistic (25.217) and significance level (p = 0.000) confirm that the regression model is statistically significant, leading to the rejection of the null hypothesis (H_0). This establishes that financial literacy has a meaningful impact on financial well-being.

4.4.3 Coefficients Table

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.	95% Confidence Interval for B
(Constant)	1.792	0.338		5.306		
Financial Literacy	0.444	0.088	0.544	5.022	0.000	(0.267 to 0.621)

Interpretation: The regression coefficient (B = 0.444, p = 0.000) indicates that for every one-unit increase in financial literacy, financial well-being improves by 0.444 units. Since the 95% confidence interval (0.267 to 0.621) does not include zero, financial literacy is confirmed as a significant predictor of financial well-being.

4.5 Inference

The results of the analysis indicate a moderate positive correlation (r = 0.544) and an R² value of 0.296, suggesting that financial literacy plays a significant role in determining financial well-being, though other factors may also contribute. The ANOVA results (F = 25.217, p = 0.000) confirm the statistical significance of the regression model, leading to the rejection of the null hypothesis (H₀) and establishing that financial literacy has a direct and positive impact on financial well-being. Furthermore, the regression coefficient (B = 0.444, p = 0.000) reinforces the idea that an increase in financial literacy leads to better financial decision-making, improved financial stability, and enhanced investment confidence. These findings emphasize the importance of financial education programs in equipping individuals with the necessary knowledge and skills to make informed financial choices, optimize investment portfolios, and secure long-term financial well-being.

4.6 Key Findings

- Financial literacy significantly enhances financial well-being, leading to better financial planning, risk management, and investment decision-making.

- Higher financial literacy is linked to lower financial stress, increased savings, and more strategic investment behavior.

- Young professionals (25-35 years) are increasingly investing in mutual funds, highlighting the need for early financial literacy programs.

- Financial literacy disparities exist among income groups, with middle-income investors exhibiting higher financial awareness than lower-income groups.

- Women's participation in mutual fund investments is rising, indicating that targeted financial education initiatives can further strengthen their financial confidence and decision-making skills.

5. Findings, Conclusion & Recommendations

5.1 Key Findings

The study confirms that financial literacy plays a significant role in shaping financial well-being, influencing investment behavior, risk management, and financial decision-making. The analysis of data collected from 62 mutual fund investors revealed the following insights:

- Financial literacy significantly enhances financial well-being, leading to better financial planning, risk management, and investment diversification. Investors with higher financial knowledge tend to make more informed decisions, reducing financial stress and improving long-term security.

- A moderate positive correlation (r = 0.544) exists between financial literacy and financial well-being, indicating that financial knowledge explains approximately 29.6% of variations in financial well-being (R² = 0.296). This confirms that while financial literacy is an important factor, other variables also contribute to financial well-being.

- The regression analysis (B = 0.444, p = 0.000) establishes that an increase in financial literacy leads to an improvement in financial well-being, reinforcing the importance of financial education in personal finance management.

- Young professionals (25-35 years) actively invest in mutual funds, demonstrating a growing interest in market-linked financial instruments. This highlights the need for early financial literacy programs to build strong financial decision-making skills from an early stage.

- Financial literacy disparities exist across income groups, with middle-income investors showing higher financial awareness than lower-income groups. Additionally, the increasing participation of women in investment activities indicates that targeted financial education initiatives can further enhance their confidence and decision-making skills.

5.2 Recommendations

To enhance financial literacy and improve financial well-being among mutual fund investors, the following recommendations are proposed:

- **Integrate Financial Literacy into Educational Curricula:** Introducing financial literacy as a subject in schools and colleges can equip individuals with essential financial management skills from an early age.

- **Promote Workplace Financial Education Programs:** Organizations should implement employee financial wellness programs that educate professionals on investment strategies, tax planning, and retirement savings.

- **Leverage Digital Platforms for Financial Awareness Campaigns:** The use of social media, mobile apps, and digital courses can enhance awareness about mutual fund investments, financial risk assessment, and wealth management strategies.

- **Encourage Personalized Investment Advisory Services:** Banks, financial advisors, and mutual fund houses should provide personalized financial guidance to help individuals understand their risk tolerance and optimize investment portfolios.

- **Targeted Financial Education for Women and Lower-Income Groups:** Customized financial literacy programs should be developed for women and economically disadvantaged groups to enhance their financial decision-making capabilities and encourage informed investment choices.

5.3 Conclusion

This study establishes that financial literacy has a direct and positive impact on financial well-being among mutual fund investors. Investors with greater financial knowledge are better equipped to manage financial risks, diversify their investment portfolios, and make well-informed investment choices. The strong statistical significance ($p = 0.000$) of the regression model confirms that financial literacy is a crucial determinant of financial well-being.

Additionally, the study highlights challenges related to financial education. A lack of formal financial literacy programs and reliance on informal investment advice hinder many individuals from optimizing their financial strategies. The findings emphasize the need for structured financial literacy initiatives to bridge knowledge gaps and improve financial stability.

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