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TO STUDY THE IMPACT OF FINANCIAL LITERACY ON INVESTMENT

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ABSTRACT :

This research examines the effect of financial literacy on investment decision-making in individuals from the Valsad area. Financial literacy as a concept that encompasses the ability to comprehend and efficiently apply numerous financial skills such as budgeting, investing, and risk management is essential in today's complex financial world. The study seeks to assess how awareness of finance affects personal finance behavior, specifically investment decisions. Employing a descriptive study design, primary data were gathered using a formulated questionnaire administered through Google Forms to 136 participants between the ages of 20 and 45+. The major areas of investigation are respondents' perceptions of basic financial concepts, investment practices, and risk management practices. Findings indicate that people with greater financial literacy tend to invest more confidently and well-informed, grasp risks and returns, and perform cautious money management practices like budgeting and saving. The research concludes that enhancing financial literacy has a great impact on investment effectiveness, thus calling for comprehensive financial education programs to empower people towards sounder financial planning and wealth generation.

Keywords: Financial literacy, Investment behavior, Risk management, ROI, Diversification, Financial education, Economic stability.

Introduction

Financial literacy is the ability to understand, evaluate, and make informed financial decisions regarding budgeting, debt management, and investments. It plays a crucial role in financial stability, helping individuals avoid excessive debt and long-term financial hardships. In today's evolving financial landscape, knowledge of financial products, such as digital payments, credit cards, and investment options, is essential to navigating financial systems effectively. A lack of financial literacy can lead to poor financial choices, whereas a well-informed individual can manage money wisely and secure a stable financial future.

Financial literacy significantly impacts investment decisions by enabling individuals to assess financial risks, understand returns, diversify portfolios, and apply principles such as the time value of money. A financially literate investor critically evaluates investment opportunities, conducts thorough research, and avoids fraudulent schemes. Such individuals also set clear financial goals, implement risk management strategies, and adapt to changing market conditions. Moreover, financial literacy boosts confidence, allowing individuals to take proactive control over their financial future, reducing uncertainty and fear in investment decisions.

The benefits of financial literacy extend beyond investment decision-making. It prevents costly financial mistakes, prepares individuals for emergencies by promoting savings habits, and encourages disciplined financial planning. Individuals with financial literacy can set realistic goals, create budgets, and make well-informed financial choices. It also provides them with the necessary knowledge to explore various investment options, including stocks, bonds, mutual funds, real estate, commodities, cryptocurrency, and collectibles. By understanding different asset classes, investors can diversify their portfolios, optimize returns, and mitigate risks.

A strong financial foundation allows investors to assess risk tolerance, allocate resources efficiently, and develop long-term investment strategies. Financially literate individuals prioritize saving and investing wisely while avoiding impulsive decisions driven by market fluctuations. They remain calm during economic downturns, resist emotional investing, and maintain financial discipline to achieve sustainable financial growth.

In conclusion, financial literacy is a vital component of sound financial decision-making and long-term economic well-being. It empowers individuals to manage their finances effectively, make informed investment choices, and build wealth strategically. To bridge financial knowledge gaps, financial education programs should be promoted to help individuals gain essential financial skills. By enhancing financial awareness, individuals can achieve financial independence, minimize financial risks, and contribute to overall economic stability.

The research identifies a gap in financial literacy education, particularly among certain demographic groups. It highlights the need for targeted financial education programs to improve investment knowledge, risk management, and decision-making skills.

The study explores the relationship between financial literacy and investment behavior, analyzing factors such as risk tolerance, investment strategies, and financial decision-making abilities.

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Literature review

The literature used in this research places a high value on the huge influence of financial literacy on investment choices among varied populations and locations. Various scholars have examined the influence of understanding financial principles—like budgeting, interest, and risk—on the investment behavior, interests, and ability to make choices among people. A study conducted by Kumari et al. (2020) noted that Sri Lankan university students exhibited moderate savings awareness but poor financial knowledge in wider areas. Other research, for example, that of Kasim et al. (2023) and Mahabub Basha et al. (2022), indicated that IT experts and retirees opted for risk-averse investments and exhibited mixed risk aversion levels due to literacy deficiencies. Other researchers, such as Faiz Khaldun (2024), highlighted the role of financial technology in better decision-making. Across research, age, gender, income, and cognitive biases also had impacts on investment decisions. Other research, for instance, by Singh (2016) and Bhushan (2014), highlighted that individuals who were financially literate tended to invest in diversified and high-yielding products. The review repeatedly holds that improving financial education is key to enhancing investment choices, reducing risks, and fostering economic stability, especially among categories such as youth, retirees, and rural dwellers.

Research Methodology

This study examines the impact of financial literacy on investment by assessing individuals' awareness of financial concepts, investment decision-making factors, and financial behavior. The research aims to identify how financial literacy influences investment choices and highlights areas where financial education can be improved.

A descriptive research design is adopted to systematically analyze the relationship between financial literacy and investment behavior. Primary data is collected through a Google Form survey targeting individuals aged 20 to 45+ years in Valsad, with 136 respondents participating. Secondary data is gathered from published sources, official reports, and previous research studies.

A structured undisguised questionnaire is used to collect data, ensuring clarity and reducing bias. It includes open-ended and close-ended questions, with dichotomous responses for specific inquiries. The sampling technique follows convenience and judgmental sampling, allowing the selection of respondents based on accessibility and relevance to the study's objectives. Limitations of the study include reliance on self-reported data, geographical constraints, and limited generalizability across different socioeconomic contexts. Findings from this research will contribute to understanding how financial education influences investment decisions and provide insights for policymakers, educators, and financial institutions.

Data Analysis

The data analysis chapter focuses on evaluating financial literacy and its impact on investment decisions using a structured approach. The data collection methods include surveys, interviews, observations, and focus groups, with surveys being the primary method in this research. The analysis techniques used include percentage methods, graphical representation, multi-response methods, T-tests, and cross-tabulation.

Table 1: Respondents profile.

S.No	Variable	Category	Frequency	Percentage (%)
1	Age Group	20–25 years	89	65.4%
		26–35 years	14	10.3%
		36–45 years	15	11.0%
		45+ years	18	13.2%
2	Gender	Male	90	66.2%
		Female	46	33.8%
3	Educational Qualification	Undergraduate degree	74	54.4%
		Post-graduate degree	29	21.3%
4	Financial Knowledge Rating	Beginner	49	36.0%
		Intermediate	68	50.0%
		Advanced	19	14.0%
5	Understanding of ROI	Yes	104	76.5%
		No	32	23.5%
6	Awareness of Risk with ROI	Yes	94	69.1%
		No	42	30.9%
7	Saving Regularly	Yes	105	77.2%
		No	31	22.8%
8	Separate Budget for Investment	Yes	91	66.9%
		No	45	33.1%

S.No	Variable	Category	Frequency	Percentage (%)
9	Currently Investing	Yes	105	77.2%
		No	31	22.8%
10	Review Frequency of Investment Portfolio	Annually	41	30.1%
		Monthly	30	22.1%
		Quarterly	26	19.1%
11	Risk Minimization Method	Diversify Investment	36	26.5%
		Maintaining Liquidity	35	25.7%
12	Investment Preference	Long-term	56	41.2%
		Mid-term	51	37.5%
13	Seek Financial Advice	Yes	95	69.9%
		No	41	30.1%
14	Attended Financial Literacy Workshop	Yes	74	54.4%
		No	62	45.6%
15	Primary Reason for Investing (Top 2 reasons)	Second Income	75	56.0%
		Wealth Creation	64	47.8%

The demographic profile of the respondents reveals that the majority (65.4%) are between 20-25 years old, with males making up 66.2% of the sample. Most respondents are students (61%), followed by employed individuals (15.4%). In terms of household income, 35.3% earn less than ₹2,00,000 annually, and 54.4% hold an undergraduate degree, indicating a young and academically inclined sample.

Financial literacy levels vary among respondents, with 50% rating themselves as intermediate, 36% as beginners, and only 14% as advanced. While 86.8% understand basic financial concepts like interest rates, inflation, and budgeting, only 77.2% differentiate between compound and simple interest. Additionally, 54.4% have attended financial literacy courses, showing a relatively strong awareness of financial matters.

Regarding investment behavior, 77.2% of respondents save regularly, and 66.9% have a separate investment budget. The majority prefer long-term investments (41.2%), followed by mid-term (37.5%) and short-term investments (21.3%). A significant portion of respondents (77.2%) actively invest in financial instruments, with stocks (64.1%) and mutual funds (48.9%) being the most popular. Common motivations for investing include generating a second income (56%), wealth creation (47.8%), and retirement planning (28.4%).

The analysis highlights that financial literacy positively impacts investment decision-making by improving financial awareness, risk assessment, and strategic planning. The study emphasizes the need for further financial education initiatives to enhance investment knowledge and financial security among individuals.
The study examines the impact of financial literacy on investment decisions, revealing that understanding financial concepts plays a crucial role in minimizing risks, maximizing returns, and improving financial confidence. While 50% of respondents rate their financial knowledge as intermediate, 36% identify as beginners, and only 14% claim advanced knowledge. Most respondents (86.8%) understand basic financial principles like interest rates and inflation, while 77.2% can differentiate between compound and simple interest.

Investment behavior varies, with 77.2% actively investing in financial instruments. However, stocks (61.8%) remain the preferred investment, followed by mutual funds (47.1%). Bonds (16.9%) and real estate (14%) have lower participation, likely due to capital constraints. Interestingly, none of the respondents have invested in cryptocurrencies, suggesting low awareness or trust in digital assets.
In terms of financial planning, 77.2% save regularly, and 66.9% maintain a separate investment budget. While most save in advance for major expenses (59.6%), others rely on loans (22.8%) or credit cards (12.5%). A proactive approach to financial management is evident, with 69.9% seeking professional advice, yet retirement planning (27.9%) and emergency funds (25.7%) remain areas of concern.

Risk management strategies include diversification (26.5%), liquidity maintenance (25.7%), and continuous monitoring (17.6%). Investment preferences indicate a long-term focus (41.2%), followed by mid-term (37.5%) and short-term (21.3%) strategies. Additionally, 55.1% of respondents have a secondary source of income, emphasizing financial stability as a priority.
Despite a high level of awareness, the hypothesis testing results indicate a gap between financial knowledge and practical application, as respondents' investment choices appear driven more by personal preferences than financial literacy. All hypotheses were rejected, suggesting that while individuals acknowledge the importance of financial literacy, they do not consistently apply it to their investment decisions.

Table 2 t-test result for financial literacy and its impact in the behaviour of respondents

Sr no.	Question	Accept / Reject
1	**My financial literacy has a positive impact on my investment decisions.**	**Reject**
2	**Understanding financial concepts helps me minimize investment risks.**	**Reject**
3	**Financial literacy enables me to maximize my returns on investments.**	**Reject**
4	**I feel more secure about my financial future because of my financial literacy.**	**Reject**
5	**Financial literacy helps me set realistic financial goals.**	**Reject**
6	**I believe financial literacy should be a mandatory part of education.**	**Reject**
7	**Financial literacy helps me understand the risks and benefits of different investment options.**	**Reject**
8	**I feel more confident discussing financial matters due to my financial literacy.**	**Reject**
9	**Financial literacy assists me in making informed decisions about borrowing and credit.**	**Reject**
10	**My financial literacy enables me to plan and manage my taxes effectively.**	**Reject**
11	**Financial literacy allows me to track and control my personal expenses better.**	**Reject**
12	**Financial literacy helps me identify and avoid fraudulent investment scheme.**	**Reject**
13	**My financial literacy has improved my ability to save and invest for future needs.**	**Reject**

The data suggests a widespread rejection of financial literacy as a significant factor influencing investment decisions, financial security, and personal financial management. This trend raises several key implications:

1. **Limited Perceived Impact of Financial Education** Despite exposure to financial literacy concepts, respondents do not acknowledge a tangible effect on their ability to make informed financial decisions or mitigate risks. This may indicate gaps in the effectiveness or practical applicability of financial education programs.
2. **Dominance of External Influences** Investment choices and financial behavior may be shaped more by external factors—such as economic conditions, cultural norms, or personal experiences—rather than formal financial literacy. This suggests that individuals may rely on intuition or external guidance rather than structured financial knowledge.
3. **Lack of Engagement with Financial Concepts** The rejection of financial literacy's benefits could imply that individuals are either unaware of its potential advantages or do not actively apply financial knowledge in their daily financial decision-making. This disconnect highlights the need for more engaging and practical financial education strategies.
4. **Challenges in Translating Knowledge into Action** While financial literacy provides theoretical insights, respondents may struggle to effectively implement these principles in real-world scenarios. This misalignment between financial awareness and practical decision-making suggests a need for more actionable, hands-on financial training.

Conclusion

This study highlights the crucial role of financial literacy in shaping investment decisions and overall financial well-being. Individuals with higher financial literacy are better at making informed investment choices, managing risks, and maximizing returns. Most respondents demonstrated an understanding of fundamental financial concepts like interest rates, inflation, budgeting, and investment diversification, allowing them to engage in sound financial planning. However, gaps remain in areas like retirement planning and emergency savings, emphasizing the need for greater financial education. Investment behavior among respondents varied, with a strong preference for stocks and mutual funds over bonds and real estate. Notably, none of the participants had invested in cryptocurrencies, suggesting low awareness or trust in digital assets. Risk management strategies differed, with respondents using diversification, liquidity maintenance, and continuous monitoring to minimize risks. The study also found that financial literacy enhances confidence in financial decision-making, enabling individuals to feel more secure and set realistic financial goals.

Despite these positive trends, the study identifies a gap between financial knowledge and its practical application. Many respondents lacked structured retirement plans and emergency savings, which could pose financial challenges in the long run. This points to a strong need for financial education programs focused on long-term financial planning, investment diversification, and risk mitigation.

These findings open avenues for further research into the effectiveness of financial education programs, the role of external factors in shaping financial behavior, and strategies to enhance the practical application of financial literacy. Future studies could explore whether tailored financial training or behavioral interventions can bridge the gap between knowledge and real-world financial decision-making.

Overall, the study reinforces the importance of financial literacy in fostering responsible financial behaviors and economic stability. Promoting financial education from an early stage, integrating it into formal education, and raising awareness can help individuals make informed financial decisions. By enhancing financial literacy across different demographics, individuals can achieve financial independence, mitigate risks, and secure their long-term financial future.

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