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The Impact of Financial Literacy on Investment Decisions among Young Adults

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Abstract

This study explores the impact of financial literacy on investment decisions among young adults aged 18 to 35. By analyzing survey data, the research reveals a strong positive correlation between financial knowledge and investment confidence, risk tolerance, and decision-making quality. Findings indicate that individuals with higher financial literacy are more likely to make informed, diversified, and confident investment choices. The study underscores the critical role of financial education in fostering sound financial behavior and long-term stability. It highlights the need for targeted educational programs to empower young investors. The research contributes valuable insights for educators, policymakers, and financial institutions striving to enhance financial well-being.

Keywords: Financial literacy, investment decisions, young adults, risk tolerance, investment confidence, financial education, portfolio diversification, behavioral finance.

Introduction

There are a growing number of investing options available to young adults in today's fast-paced financial environment, ranging from equities and mutual funds to cryptocurrencies and real estate. However, having a firm grasp of financial concepts is necessary to make wise investment choices; access to financial markets is not enough. Risk management, investment behaviour, and long-term financial security are all significantly influenced by financial literacy, or the capacity to comprehend and apply financial knowledge.

Despite its significance, young persons' degrees of financial literacy continue to vary. Many young investors lack the skills essential to diversify their portfolios, evaluate risks, or even distinguish between short-term speculation and long-term wealth accumulation. Making bad financial judgments can therefore result in lost opportunities, monetary losses, or even long- term instability.

This study looks at the relationship between financial literacy and investment decisions among young adults aged 18 to 35. We aim to learn how financial knowledge-or lack thereof-influences investment decisions, risk tolerance, and portfolio diversification by collecting firsthand data through questionnaires. This study's findings can provide significant insights for educators, politicians, and financial institutions looking to enhance financial literacy and empower young adults to make better long-term investment decisions.

A. Background Information

In today's financial world, young adults have more investment options than ever before-stocks, mutual funds, cryptocurrencies, real estate, and more. However, having access to these opportunities doesn't automatically mean they make smart investment decisions. Financial literacy, which includes understanding concepts like risk, diversification, and long-term planning, plays a crucial role in shaping how young people manage their money and invest for the future.

Despite the growing importance of financial education, studies show that many young adults lack the necessary knowledge to make informed investment choices. Some may avoid investing altogether out of fear of losing money, while others might take high risks without fully understanding the consequences. Poor financial decisions at a young age can lead to long-term financial struggles, limiting wealth-building opportunities and financial security.

Recognizing the gap in financial literacy, this study aims to explore how young adults' knowledge of financial concepts influences their investment behaviours. By examining factors like risk tolerance, portfolio diversification, and decision-making patterns, this research seeks to highlight the importance of financial education in helping young people build a stable and prosperous financial future.

B. Research Problem

In today's constantly evolving financial market, young adults must make vital decisions that will affect their financial destiny. However, without a solid foundation in financial literacy, many people fail to explore investment opportunities, analyse risks, and make sound financial decisions. This study is crucial because it sheds light on the direct relationship between financial literacy and investment behaviour, allowing us to uncover key knowledge gaps that may prevent young adults from achieving long-term financial security.

By understanding how financial literacy impacts investment decisions, this study can provide valuable insights for educators, policymakers, and financial institutions. It emphasizes the need for improved financial education programs, better access to financial advisory services, and initiatives that empower young adults to make smarter investment choices. Ultimately, this research contributes to a broader effort to enhance financial well-being, reduce investment- related risks, and encourage responsible financial planning among the next generation of investors.

Literature Review

A. Overview

This study examines how financial literacy, financial behaviour, and attitudes shape investment choices. It highlights the importance of education in improving financial decision-making. The findings suggest that better financial knowledge leads to more rational investment decisions. (Gupta, 2025). The research investigates how financial literacy influences investment preferences in India. It finds that financially literate individuals are more likely to diversify their investments. The study also emphasizes the role of financial education in reducing investment risks. (M, 2023).

This paper explores how financial self-efficacy and risk tolerance impact young adults' investment decisions. It concludes that individuals with higher financial confidence are more willing to take risks. The study suggests integrating financial education into university curricula. (Budiyono, 2024). Using structural equation modelling, the study analyses how financial literacy affects investment behaviours in Nepal. It finds that well-informed investors make better financial choices. The research recommends targeted awareness programs for young investors. (Rana, 2024).

This study investigates the role of financial literacy alongside investor attitude and overconfidence. It finds that overconfident investors tend to take excessive risks. The paper suggests that financial education should also address behavioural biases. (Maheshwari, 2024).

The study highlights the link between financial literacy and investment choices, with risk tolerance as a mediator. It finds that those with higher financial knowledge are more likely to engage in diversified investments. The research suggests personalized financial advisory services for young investors. (Miyya, 2024).

This research explores the impact of financial literacy and gender on retirement savings. It finds that women generally have lower financial literacy, which affects their investment decisions. The study calls for gender-focused financial education programs. (García Mata, 2021).

The paper discusses how financial literacy directly and indirectly affects investment behavior. It finds that financial education significantly improves investment confidence. The study suggests incorporating investment simulations in financial literacy programs. (Gupta S. e., 2024).

This study reinforces the idea that financial behaviour and attitude are crucial in shaping investment choices. It suggests that young adults with a positive attitude towards financial planning make better decisions. The findings emphasize the need for interactive financial education. (Megha, 2025).

The study focuses on the relationship between financial literacy and investment risk-taking. It finds that financial confidence helps young adults make informed investment choices. The paper recommends practical financial training programs for students and young professionals. (Fiesta Clara Shinta Budiyono, 2024).

The study reviews current AI and ML methodologies used in automating routine accounting tasks, such as transaction processing, auditing, and financial forecasting. By analyzing case studies and recent developments, the article demonstrates how AI-driven systems reduce human error, ensure regulatory compliance, and provide real-time insights into financial data. Additionally, the study addresses the difficulties and moral issues pertaining to the application of AI and ML in financial accounting, such as security concerns, data privacy, and the possible loss of accounting jobs (Tandan, 2024)

Gaps in the Literature Review

While previous research shows the link between financial literacy and investment decisions, significant gaps remain. The majority of research focuses on general investment behaviour, but there is little systematic investigation of how financial literacy effects individual investment decisions among young adults. Furthermore, behavioural biases such as overconfidence and emotional decision-making are highlighted, but their direct impact on financially competent people is not thoroughly investigated. Furthermore, many studies focus on financial education but do not evaluate the efficiency of other learning methods, such as digital tools or experiential learning. Finally, there is little research on how financial literacy influences investment decisions in diverse economic and cultural contexts. Addressing these gaps will provide a more complete picture of financial literacy's influence in moulding young adults' investment behaviour.

Research Objectives

1. To examine the relationship between financial literacy and investment decision-making among young adults.
2. To analyse how financial literacy influences risk tolerance and investment behaviour.
3. To explore the role of financial education in shaping investment confidence and decision- making.

Research Design

The researcher intends to investigate the overall impact of financial literacy on investment decisions among young adults using an exploratory research approach. Various influencing factors, such as financial knowledge, risk tolerance, and investment behaviour, will be measured to assess the study's objectives. The research design employs a mixed-method approach, incorporating both primary and secondary data sources to comprehensively explore investment decision-making among young adults. A survey method with structured questionnaires will be used to collect primary data, while secondary data will be gathered through a literature review of academic publications and financial market reports.

B. Data Collection Methods
Data collection will be conducted through online and offline channels to ensure broader representation and inclusivity. Survey responses will be analyzed to identify key variables influencing consumer purchasing decisions, including trust, engagement, and brand perception.
This methodological approach ensures a robust examination of how e-media influencers shape consumer decisions on wellness products, providing valuable insights for brands, marketers, and policymakers.

C. Sampling Method
For this study on the impact of financial literacy on investment decisions among young adults, a random sampling methodology will be utilized. Participants will be selected from the general population, particularly individuals who actively engage with financial education content and make investment decisions based on their financial knowledge.
The study aims to gather data from young investors who frequently interact with financial literacy resources to understand how financial awareness influences their investment behaviour. By identifying key factors affecting investment decisions, this approach enables a comprehensive analysis necessary for drawing meaningful conclusions from the research.

Key Theories
Financial literacy significantly influences investment decisions among young adults through the interplay of behavioural, psychological, and economic factors. The Theory of Planned Behaviour suggests that financial knowledge shapes attitudes, confidence, and decision- making intentions. Prospect Theory explains how risk perception impacts investment choices, with financially literate individuals better assessing risks and rewards. Meanwhile, the Life- Cycle Hypothesis highlights how financial literacy aids in long-term financial planning, enabling young adults to allocate resources effectively across their lifetime. Together, these theories underscore the crucial role of financial education in fostering informed and strategic investment behaviours.

Research Methodology
This chapter primarily addresses the strategies and tactics used in problem-solving.
The questionnaire approach is the main technique for gathering data. Using social media and a link to a Google Form, the researcher made contact with the responders. Random sampling technique using the in-person questionnaire method. It took multiple follow-ups to eventually receive 50 responses. Data analysis software: Excel are used for exploratory factor analysis and statistical data analysis for the initial formatting of the data.

Data Analysis and Techniques
Data will be analysed using regression analysis, correlation analysis, financial literacy impact assessment, and pivot table comparisons to understand the impact of financial literacy on investment decisions among young adults. Pivot tables will summarize survey responses, comparing financial knowledge levels, risk tolerance, and investment behaviour across different demographics.
Correlation analysis (Pearson's coefficient) will examine relationships between financial literacy, risk tolerance, and investment decision-making. Regression analysis will be used to determine the extent to which financial literacy influences investment choices while controlling for factors such as income, education, and financial experience. These methods provide a comprehensive insight into how financial knowledge affects young adults' investment behaviours.

Result
A. Data Analysis and Interpretation
1. Analysis of the Relationship between Financial Literacy and Investment Decision-making among Young Adults.

Correlation between Financial literacy and investment decision-making
0.7263

Table 1: Shows the average investment decisions made across different financial literacy levels.

Financial Literacy	Average of Investment Decisions
1	1.0
2	2.0
3	3.1
4	4.0
5	4.3
Grand Total	3.6

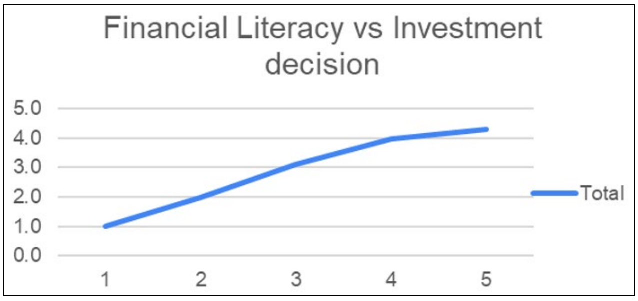

Fig 1: Graphically represents the correlation between financial literacy and investment decisions.

The data clearly shows that higher financial literacy leads to better investment decisions among young adults. Those with low financial literacy (1-2) make fewer investment choices, while individuals with higher literacy levels (4-5) are more active investors. The steady increase in investment decisions as financial literacy improves highlights the importance of financial education in building confidence and smart investing habits. However, the slight slowdown at the highest level suggests that while knowledge helps, other factors may also influence investment behaviour. This reinforces the need for practical financial training to empower young adults in making informed investment choices. The correlation coefficient of 0.7263 further supports this strong positive relationship. A correlation above 0.7 signifies a significant association, meaning that financial literacy plays a crucial role in shaping investment behaviour.
While other factors might also influence decision-making, the data highlights that improving financial literacy can enhance an individual's ability to assess and engage in investment opportunities. These findings emphasize the importance of financial education in empowering young adults to make confident and informed financial choices. Encouraging financial literacy programs could be a key strategy in promoting smarter investment decisions and overall financial well-being.

2. Analysing how Financial Literacy Influences Risk Tolerance and Investment Behaviour

Correlation between Financial literacy and risk tolerance
0.75512

Table 2: Displays the relationship between financial literacy, investment decisions, and risk assessment.

Financial Literacy	Average of Investment_Decisions	Average of Assess Risks
1	1.0	2.0
2	2.0	2.4
3	3.1	3.4
4	4.0	4.1
5	4.3	4.5
Grand Total	3.6	3.9

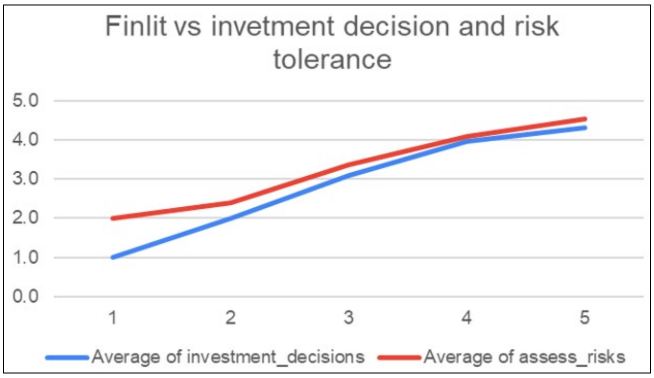

Fig 2: Depicts how financial literacy influences both risk tolerance and investment behaviour.

The data shows a strong correlation (0.75512) between financial literacy and risk tolerance, indicating that individuals with higher financial knowledge are more comfortable taking investment risks. The line graph further highlights that as financial literacy increases, both investment decision-making and risk assessment improve steadily. This suggests that young adults who understand financial concepts are more likely to make informed investment choices and assess risks effectively. The findings emphasize the importance of financial education in fostering confidence and strategic decision-making in investments.

3. To Explore the Role of Financial Education in Shaping Investment Confidence and Decision-Making

Correlation between Financial education and investment confidence
0.8027

Table 3: Illustrates the impact of financial education on investment confidence and decisions.

Financial Education	Average of Investment Confidence	Average of Investment Decisions
1	1.3	3.3
2	2.4	3.4
3	3.4	3.8
4	4.3	3.4
5	4.4	3.9
Grand Total	3.6	3.6

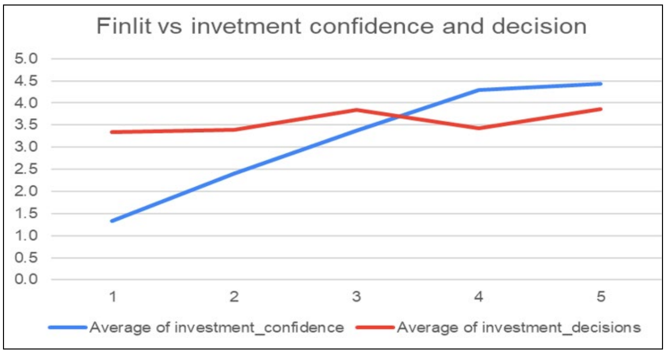

Fig 3: Shows the trend of rising investment confidence with increasing financial education.

The data clearly shows a strong link between financial education and investment confidence, with a correlation of 0.8027. This means that as financial education increases, so does confidence in making investment decisions. The trend in the table and graph supports this, as individuals with higher financial education levels report greater confidence. Interestingly, while investment confidence consistently rises, investment decisions show a slight fluctuation, suggesting that while knowledge boosts confidence, external factors may still influence actual decision-making. Overall, the findings reinforce the importance of financial education in empowering young adults to make informed investment choices.

B. Support for Research Question or Hypothesis

1. Hypothesis 1: The Relationship between Financial Literacy and Investment Decision-Making among Young Adults.

Null Hypothesis (H_0): There is no relationship between financial literacy and investment decision-making among young adults.

Alternate Hypothesis (H_1): There is a significant relationship between financial literacy and investment decision-making among young adults.

Correlation between Financial literacy and investment decision-making
0.7263

Interpretation

The correlation between financial literacy and investment decision-making is 0.7263, which indicates a strong positive relationship. This means that as financial literacy increases, young adults tend to make better investment decisions.

To test the hypothesis, we compare this correlation to the null hypothesis (H0), which states that there is no relationship between financial literacy and investment decision-making. However, since the correlation is significantly high (close to 1), we have strong evidence to reject H0 and accept the alternative hypothesis (H1), which suggests that financial literacy does influence investment decisions. The data shows that financially literate individuals are more likely to make informed investment choices. This proves that enhancing financial education can play a key role in improving investment behaviours among young adults.

2. Hypothesis 2: How Financial Literacy Influences Risk Tolerance and Investment Behaviour

Null Hypothesis (H_0): There is no relationship between financial literacy and risk tolerance and investment behaviour.

Alternate Hypothesis (H_1): There is a significant relationship between financial literacy and risk tolerance and investment behaviour.

Correlation between Financial literacy and risk tolerance
0.75512

Interpretation

The correlation between financial literacy and risk tolerance is 0.75512, indicating a strong positive relationship. This means that as financial literacy increases, individuals are more likely to tolerate investment risks and make informed investment decisions.

To test the hypothesis, we compare this correlation with the null hypothesis (H_0), which states that there is no relationship between financial literacy and risk tolerance. However, the high correlation value suggests otherwise. Since 0.75512 is close to 1, it strongly supports the alternate hypothesis (H_1)-that financial literacy significantly influences both risk tolerance and investment behaviour.

The data suggests that people who understand financial concepts better are more comfortable taking risks and making investment decisions. This proves that financial education plays a crucial role in shaping how young adults approach investments, ultimately rejecting the null hypothesis.

3. **Hypothesis 3: The Role of Financial Education in Shaping Investment Confidence and Decision-Making**

Null Hypothesis (H_0): There is no relationship between financial education and investment confidence and decision-making.

Alternate Hypothesis (H_1): There is a significant relationship between financial education and investment confidence and decision-making.

Correlation between Financial education and investment confidence
0.8027

Interpretation

The correlation between financial education and investment confidence is 0.8027, indicating a strong positive relationship. This suggests that as financial education increases, investment confidence also rises significantly. To test the hypothesis, we compare this correlation with the null hypothesis (H_0), which states that there is no relationship between financial education and investment confidence. However, the high correlation value strongly supports the alternate hypothesis (H_1), which claims a significant relationship exists.

Since a correlation above 0.8 is considered very strong, we can confidently reject the null hypothesis. This means that financial education plays a crucial role in shaping investment confidence and decision-making. Individuals with better financial knowledge are more likely to feel secure in their investment choices. These findings highlight the importance of promoting financial education to empower individuals with the skills needed for informed investment decisions.

Interpretation of Results

The overall analysis of the data strongly supports the idea that financial literacy significantly impacts investment decisions among young adults. The correlations between financial literacy, risk tolerance, investment confidence, and decision-making are all positive and strong, with values above 0.7, indicating a clear relationship. As financial knowledge increases, young adults show higher confidence, better risk assessment, and improved investment decisions.

The findings reject the null hypothesis and confirm that financial literacy plays a crucial role in shaping investment behaviour. This highlights the need for targeted financial education programs to equip young adults with essential skills for informed decision-making. Given the strong correlation, policymakers, educators, and financial institutions should focus on enhancing financial literacy to promote better investment outcomes. Overall, the research emphasizes the importance of financial education as a key factor in improving investment confidence and decision-making among young adults, ultimately leading to more financially secure futures.

Implications and Limitations of the Study

Implications

This study highlights the crucial role of financial literacy in shaping young adults' investment decisions. The strong correlation between financial education, risk tolerance, and investment confidence suggests that better financial knowledge leads to smarter investment choices. These findings emphasize the need for financial literacy programs in schools, universities, and workplaces to empower young individuals with the skills to manage risks and build wealth. Financial institutions and policymakers can also use these insights to design targeted educational campaigns that promote informed financial behaviour.

Limitations

Limitation of this study is its focus on young adults, allowing for a clear understanding of how early financial education influences long-term financial behaviour. Additionally, while the study highlights strong correlations, future research can explore causal relationships through experimental designs. Expanding the study across diverse demographics and economic backgrounds can further validate the findings and enhance their applicability on a larger scale.

Summary of Key Findings

This study confirms that financial literacy plays a major role in shaping young adults' investment decisions. The data shows a strong positive correlation between financial education and both investment confidence (0.8027) and investment decision-making (0.7263). This means that individuals with higher financial knowledge tend to make better-informed investment choices and feel more confident in assessing risks.

Additionally, risk tolerance increases as financial literacy improves, indicating that educated investors are more comfortable taking calculated risks. The findings also highlight that financial education directly boosts decision-making skills, reinforcing the need for structured financial training. Overall, the results suggest that young adults who receive financial education are more likely to invest wisely and plan for their financial future. These insights emphasize the importance of promoting financial literacy programs to enhance financial well-being and long-term investment success among young people.

Contribution to the Field

This study adds valuable insights into the growing field of financial literacy and investment behaviour, particularly among young adults. By demonstrating a strong correlation between financial education, investment confidence, and risk tolerance, it reinforces the importance of early financial education. The findings provide evidence that increasing financial knowledge can lead to more informed and confident investment decisions, which is crucial in today's complex financial environment.

For educators, policymakers, and financial institutions, this research serves as a foundation for developing targeted financial literacy programs. It also bridges the gap between theory and practice, showing how education translates into real-world financial behaviour. Additionally, this study encourages further exploration into how different levels of financial literacy influence long-term wealth accumulation and financial security. Overall, it contributes to a better understanding of how financial knowledge shapes economic well-being, making it a key resource for future financial education initiatives.

Recommendations for Future Research

This study provides strong evidence that financial literacy plays a crucial role in shaping young adults' investment decisions. However, future research can explore additional factors that influence investment behaviour, such as social influences, technology, and behavioural biases. A longitudinal study tracking individuals over time could provide deeper insights into how financial education impacts long-term financial stability.

Additionally, expanding the research to different age groups, income levels, and cultural backgrounds can help determine whether these findings apply universally or if they vary based on specific demographics. Future studies could also investigate the effectiveness of various financial education programs to identify the most impactful teaching methods

Lastly, exploring the role of emerging financial tools, such as robot-advisors and digital investment platforms, could provide valuable insights into how technology is shaping modern investment behaviours among young adults.

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