



## To Study the Impact of Financial Literacy on Investment decision making.

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### Abstract—

Financial literacy plays a significant role in shaping individuals' investment decisions in today's complex financial environment. It refers to the ability to understand financial concepts such as savings, budgeting, risk-return relationship, inflation, interest rates, diversification, and portfolio management. This study aims to examine how financial literacy influences investment decision-making among individuals. The research focuses on understanding whether financially literate individuals make better investment choices compared to those with limited financial knowledge. Primary data was collected from 50 respondents using a structured questionnaire. The findings reveal that individuals with higher financial literacy are more confident, better at evaluating risks, and more likely to choose suitable investment avenues such as mutual funds, fixed deposits, insurance, and stock markets. Out of 50 respondents, 40 respondents (80%) agreed that financial literacy is very important before making any investment decision, while 10 respondents (20%) had limited awareness about its importance. Financial literacy also reduces the chances of poor financial decisions and financial fraud. The study concludes that financial literacy has a positive and significant impact on investment decision-making and should be promoted through education and awareness programs. Recent review studies also consistently report that higher financial literacy improves investment choices, diversification, and long-term planning.

### Keywords-

Financial Literacy, Investment Decision Making, Financial Awareness, Investment Behavior, Risk Management, Savings, Financial Planning, Investor Behavior, Portfolio Diversification, Wealth Creation



## I. INTRODUCTION

In the modern financial world, individuals are presented with numerous investment opportunities such as savings accounts, mutual funds, fixed deposits, stock markets, insurance policies, pension plans, and digital investment platforms. Making the right investment decision requires proper financial knowledge and understanding. Financial literacy helps individuals manage money efficiently and make informed decisions regarding saving, borrowing, investing, and retirement planning.

Financial literacy includes understanding basic financial concepts like inflation, interest rates, tax planning, budgeting, and risk management. People with strong financial literacy are generally more capable of selecting suitable investment options according to their financial goals and risk appetite. On the other hand, lack of financial literacy may lead to poor investment decisions, financial losses, and dependence on informal financial advice.

With increasing financial products and market complexity, financial literacy has become essential for personal financial well-being and economic stability. Studies show that financially literate investors demonstrate better portfolio diversification and stronger risk assessment capabilities. Therefore, this study focuses on analysing the impact of financial literacy on investment decision-making among investors.

## II. LITERATURE REVIEW

Many researchers have studied the relationship between financial literacy and investment decisions.

Lusardi and Mitchell (2014) found that financial literacy improves financial planning and helps individuals make better retirement and investment decisions. They concluded that financial knowledge directly affects wealth creation and long-term financial stability.

Garg and Singh (2024) highlighted that financial literacy empowers individuals to make informed financial decisions and reduces behavioural biases such as overconfidence and herding behaviour. Their systematic review found a consistent positive

relationship between literacy and investment quality.

Parsai and Chandok (2025) found a positive correlation between financial literacy and investment decision-making. Their study showed that financially literate individuals are more likely to invest confidently and manage financial risks effectively.

Vishwakarma (2026) stated that investors with strong financial knowledge show better diversification, improved risk assessment, and greater preference for long-term investment strategies.

These studies clearly indicate that financial literacy is a major factor influencing investment decision-making and financial success.

## III. METHODOLOGY

This study is based on both primary and secondary data. Primary data was collected through a structured questionnaire from 50 respondents belonging to different age groups, occupations, and income levels. The respondents were selected using convenient sampling method. The questionnaire included questions related to financial knowledge, awareness of investment options, risk-taking ability, and investment preferences.

Secondary data was collected from research papers, journals, books, and online financial reports related to financial literacy and investment behaviour. The collected data was analysed using percentage analysis and simple interpretation methods. The objective was to identify the relationship between financial literacy and investment decision-making behaviour among individuals.

## IV. RESULTS AND DISCUSSION

The study found that most respondents believe financial knowledge is important before making any investment decision. A majority of respondents preferred safe investment options such as fixed deposits, insurance, and mutual funds over high-risk investments like direct stock market trading.

It was observed that respondents with better understanding of financial concepts like inflation, interest rates, and diversification were more



confident in making investment decisions. They also compared multiple investment options before investing and showed better long-term financial planning.

Some respondents with low financial literacy depended heavily on family suggestions or informal advice rather than financial analysis. This often resulted in poor decision-making and low awareness of risk factors.

The overall findings indicate that financial literacy positively affects investment decision-making by improving confidence, reducing uncertainty, and promoting better financial discipline. Similar findings are supported by recent literature showing stronger investment behaviour among financially literate individuals.

## V. CONCLUSION

Financial literacy is an essential factor in improving investment decision-making among individuals. It helps investors understand financial products, evaluate risks, and choose appropriate investment options based on their goals and financial capacity. The study confirms that financially literate individuals are more likely to make rational, informed, and profitable investment decisions.

Lack of financial literacy can lead to poor financial choices, low savings, and financial insecurity. Therefore, financial education should be promoted through schools, colleges, workplaces, and public awareness programs. Government institutions and financial organizations should also conduct awareness campaigns to improve financial knowledge among the public.

In conclusion, improving financial literacy is not only beneficial for individual investors but also contributes to the overall economic development of the country.

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