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Evaluation of Financial Literacy and Investment Preferences among Individual Investors

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ABSTRACT: Financial Literacy (FL) has surfaced as an important factor influencing investment-related decision-making among individuals. This study observes the relationship between Financial Literacy (FL), Investment Preferences (IB), and Risk Perception (RP) among individual investors using primary data collected from 154 respondents using a structured questionnaire. The data were evaluated using IBM SPSS Statistics software. Techniques such as descriptive statistics, reliability analysis, correlation, and regression analysis. Results obtained from the analysis indicate that respondents with higher financial literacy demonstrated comparatively better investment behaviour. Regression analysis further confirmed that FL significantly influences IB, explaining nearly 79% of the variance in investment behaviour. The study concludes that improving financial literacy can promote better investment behaviour and risk understanding among individual investors.

KEYWORDS: Financial Literacy, Investment Behaviour, Risk Perception, Individual Investors, Behavioural Finance

I. INTRODUCTION

Due to technological innovations, the emergence of digital financial services and products and a plethora of investment opportunities, the financial environment has experienced a revolutionary transformation. With this increased need for FL having surfaced, which plays an important role in influencing Financial Decision Making and Investment-related behaviours of people. Financially literate people tend to exhibit better capability to judge investment products, handle financial risks and take better financial decisions (Yadav & Sharma, 2024). Investment Behaviour (IB) refers to the ways an individual deals with investment decision-making. On the other hand, Risk Perception (RP) refers to how an individual perceives financial uncertainties and risks associated with investment. Zahera and Bansal (2023) state that financially literate people invest and behave more rationally and responsibly.

The study is grounded in Behavioural Finance Theory, which suggests that financial decisions are influenced by behavioural and psychological factors alongside rational considerations. Although previous studies have examined financial literacy and investment behaviour independently, limited research has simultaneously explored the relationship between FL, IB, and RP among individual investors in the Indian context. Therefore, the present study attempts to examine these relationships through empirical analysis.

II. REVIEW OF LITERATURE

This study is grounded in Behavioural Finance Theory, which suggests that financial decisions are influenced by psychological and cognitive factors rather than pure economic rationality. Within this framework, FL plays an important role in shaping individuals' ability to understand financial information, evaluate market uncertainties, and make informed investment decisions, thereby influencing RP and IB.

Existing studies indicate that financially literate individuals are more likely to make informed investment decisions and manage financial risks effectively. Mohta and Shunmugasundaram (2023) reported that financial literacy improves individuals' understanding of investment-related risks and rational financial decision-making. Similarly, the study conducted by Nag and Shah (2022) particularly emphasized the role of financial knowledge in shaping investment intentions among Gen Z investors in India. Rani and Siwach (2023) emphasised that financially literate individuals are more capable of understanding financial products and evaluating investment opportunities effectively. Maurya et al. (2023) further highlighted that financial literacy positively influences investment participation, financial planning, and

risk management behaviour among investors. Savaliya (2024) also established that financial literacy significantly affects investment decisions and investment behaviour among individuals.

The reviewed literature indicates that financial literacy plays an important role in shaping investment behaviour and improving understanding of financial risks. However, limited studies have simultaneously examined the relationship between FL, IB, and RP among individual investors in the Indian context. Therefore, the present study attempts to address this gap through empirical analysis.

III. RESEARCH GAP

Although several studies have examined financial literacy and investment-related behaviour, limited research has focused on how financial literacy influences investment behaviour and risk perception simultaneously among individual investors in the Indian context. Therefore, the present study attempts to examine the influence of financial literacy on investment behaviour and risk perception through empirical analysis.

Objectives of the Study

1. To assess the level of financial literacy among individual investors.
2. To examine the relationship between financial literacy and investment behaviour among individual investors.
3. To analyse the association between financial literacy and risk perception among individuals.

Hypotheses Development

- H1: Financial literacy has a significant positive relationship with investment behaviour among individual investors.
H2: Financial literacy is positively associated with risk perception among individuals.

IV. RESEARCH METHODOLOGY

The present study adopted a quantitative cross-sectional research design to examine the relationship between FL, IB, and RP among individual investors. Primary data were collected from 154 respondents through a structured questionnaire using a 5-point Likert scale and a convenience sampling technique. The collected data were analysed using IBM SPSS Statistics software with the help of descriptive statistics, reliability analysis, Pearson correlation, and regression analysis. The study evaluates how financial literacy influences investment behaviour and individuals' perception regarding investment-related risks.

Data Analysis and Interpretation

Demographic Profile of Respondents

Table 1: Respondents Statistics

Variable	Category	Frequency	Percentage
Gender	Male	90	58.4%
	Female	63	40.9%
Age Group	18–25 years	125	81.2%
	26–35 years	23	14.9%
	36–45 years	5	3.2%
	Above 45 years	1	0.6%
Occupation	Student	107	69.5%
	Working Professional	36	23.4%
	Homemaker	2	1.3%
	Self-employed / Business Owner	8	5.2%
	Retired / Senior Citizen	1	0.6%
Area of Residence	Rural	39	25.3%

	Semi-urban	32	20.8%
	Urban	41	26.6%
	Metropolitan City	42	27.3%

The demographic analysis of the 154 respondents indicates a predominantly young and male-oriented sample, with 58.4% males and 81.2% respondents belonging to the 18–25 years age group. A majority of the participants were students (69.5%), followed by working professionals (23.4%). The study also achieved balanced geographic representation across metropolitan, urban, rural, and semi-urban areas, enhancing the diversity and relevance of the findings.

Assessing Levels of Financial Literacy

Table 2: Levels of Financial Literacy among Individual Investors (N=154)

Financial Literacy Level	Mean Score Range	Frequency (n)	Percentage (%)
Low	1.00 – 2.33	14	9.1%
Moderate	2.34 – 3.67	49	31.8%
High	3.68 – 5.00	91	59.1%
Total		154	100.0%

Interpretation

The descriptive analysis indicates that a majority of respondents possess high financial literacy, with 59.1% categorized under the high literacy level and 31.8% under the moderate level. The findings suggest strong financial awareness and confidence among investors in managing investment-related decisions.

Reliability and Descriptive Assessment of Study Constructs

The reliability analysis confirms that the measurement items used in the study demonstrate acceptable internal consistency and are suitable for further statistical analysis. Descriptive statistics were further employed to examine the mean values and dispersion levels of the study constructs.

Table 3: Reliability Statistics and Descriptive Statistics of Study Constructs

Variable	No. of Items	Cronbach's Alpha	Mean	Std. Deviation	Interpretation
Financial Literacy (FL)	11	0.923	3.66	0.94	Excellent
Investment Behaviour (IB)	7	0.886	3.55	0.94	Good
Risk Perception (RP)	3	0.688	3.36	0.95	Acceptable

Source: SPSS Output

Interpretation

The reliability analysis produced Cronbach's Alpha values ranging from 0.688 to 0.923, confirming acceptable reliability of the study constructs. The descriptive findings indicate a moderate to high level of financial literacy ($M = 3.66$) and positive investment behaviour ($M = 3.55$) among respondents. However, the comparatively lower mean for risk perception ($M = 3.36$) suggests a relatively cautious attitude toward investment-related risks and market uncertainties.

Influence of Financial Literacy on Investment Behaviour

To examine the influence of FL on IB among individual investors, Pearson correlation analysis and regression analysis were conducted.

Table 4: Correlation between FL and IB

Variables	FL	IB
FL	1	.889**
IB	.889**	1

Note: Correlation is significant at the 0.01 level (2-tailed). *Source: SPSS Output*

The obtained correlation coefficient indicates that higher financial literacy levels are associated with more responsible investment-related behaviour among respondents FL and IB ($r = .889, p < 0.01$). The findings suggest that individuals possessing higher levels of financial literacy are more likely to demonstrate informed and responsible investment behaviour. Financially aware individuals are generally better equipped to evaluate investment alternatives, understand financial opportunities, and make rational investment decisions.

To further examine the predictive influence of FL on IB, regression analysis was conducted.

Table 5: Regression Results for FL and IB

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate
1	.889	.791	.790	.42894

Table 6:

Predictor	Unstandardized β	Std. Error	Standardized β	t-value	Sig. (p)
(Constant)	0.316	.139		2.273	.024
FL	0.882	.037	.889	23.991	.000

Source: SPSS Output

The regression analysis reveals a strong positive relationship between the variables ($R = .889$), with financial literacy explaining **79.1% of the variance** in investment behaviour ($R^2 = .791$). The significant coefficient ($\beta = 0.882, p < .001$) indicates that a one-unit increase in financial literacy leads to a 0.882-unit improvement in investment

behaviour. With a t-value of 23.991, the study provides robust evidence to reject the null hypothesis, confirming that financial literacy is a primary driver of proactive investment decisions. Therefore, **H1 is accepted.**

Association between Financial Literacy and Risk Perception

Pearson correlation analysis was conducted to examine the association between FL and RP among respondents.

Table 7: Correlation between FL and RP

Variables	FL	RP
FL	1	.742**
RP	.742**	1

Note: Correlation is significant at the 0.01 level (2-tailed). *Source: SPSS Output*

The findings demonstrated a positive and statistically significant association between FL and RP ($r = .742, p < 0.01$). The analysis suggests that respondents with higher financial knowledge possess greater awareness and understanding regarding investment-related risks and financial uncertainties. Individuals with higher financial knowledge are generally more capable of evaluating the relationship between risk and return while making investment decisions. Therefore, **H2 is accepted.**

V. DISCUSSION OF FINDINGS

The empirical findings suggest that respondents possessing better financial knowledge tend to make more structured and informed investment decisions. One possible reason could be their greater familiarity with financial products and market-related information. The findings revealed that respondents with higher financial knowledge demonstrate more informed investment behaviour and a better understanding of investment-related risks. The results are consistent with the studies conducted by Sharma (2024), Nag and Shah (2022), and Mohta and Shunmugasundaram (2023), while also supporting the principles of Behavioural Finance Theory.

Limitations of the Study

The present study is subject to certain limitations. The study adopted a convenience sampling technique and was based on a limited sample size of 154 respondents, which may affect the generalizability of the findings. Further, the study focused only on selected constructs such as FL, IB, and RP, while other behavioural and economic factors influencing investment decisions were not considered. Additionally, the cross-sectional nature of the study restricts the analysis of behavioural changes over time.

Future Scope of Research

Future research may examine additional behavioural and psychological factors influencing investment-related behaviour among individuals using larger and more diverse sample sizes. Further studies may also explore the role of digital financial literacy, behavioural biases, financial technology adoption, and investment experience in shaping investment decision-making behaviour. Additionally, longitudinal studies may provide a deeper understanding of changes in financial behaviour and risk perception over time.

VI. CONCLUSION

The current study looked at the relationship between FL, IB, and RP among individual investors. It found that financial literacy plays a significant role in influencing how people invest and how they understand financial risks. The results showed a strong positive link between financial literacy and investment behaviour, as well as a significant positive connection between financial literacy and risk perception. This means that financially literate individuals tend to make more informed investment decisions and have a better understanding of risks. The study highlights the increasing importance of financial literacy in encouraging responsible financial behaviour and improving decision-making among individual investors.

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