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Review Article

A study on financial literacy and investment behaviour among investors: An empirical study

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A R T I C L E I N F O

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A B S T R A C T

Financial service plays a crucial role in facilitating economic growth by providing individuals and businesses with access to capital, risk management and financial products. In this context, understanding the ned and awareness about financial literacy is essential for the growth of financial sector. This article presents a descriptive research study focused on understanding the financial literacy and impact of it on the investment decision made by investors. This research aims to investigate the relation between the financial literacy investors have and the impact of it on investment pattern of investment as well as satisfaction level of the investment made by investors. The study employs a convenience sampling method to collect primary data through a structured questionnaire administrated to 100 respondents, the finding from this research provides valuable insights for financial institutions and financial planner as well as to investment advisors to enhance public awareness and encourage for financial literacy ultimately boosting the better financial decision by individuals and corporates and to showcase the growth of the backbone of economy.

1. Introduction

The financial service industry encompasses a wide variety of activities including banking, insurance, investment management and more. It plays a crucial role in facilitating economic growth by providing individuals and businesses with access to capital, risk management and financial products.

Financial literacy is the understanding of various financial concepts and the ability to make informed and effective financial decisions. Individuals need to manage their finance, plan and navigate the complexities of the financial world.

Investment is a significant aspect of financial services the allocation of funds with expectation of generating returns. There are various types of investment vehicles, such as stocks, bonds, mutual funds, real estate, and alternative investments. Understanding investment principles is crucial for building wealth and achieving financial goals.

Promoting financial literacy is essential to help individual make informed investment decisions. It involves educating people about concepts like risk and return, diversification, compound interest and the different investment options available. Improving financial literacy can lead to better financial planning, increased savings, and ultimately more successful investment strategies.

2. Literature Review

Prasad, Swati. (2021). Determinants of Retail Investors' Behaviour in Investment Decisions: An Empirical Analysis. (prasad, April 2021)

This study was taken for analysis among sample of 600 respondents with the objective of to design a model relating retail investor behaviour and investment decisions. The present study integrated all three dimensions viz.,

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behavioural factors, socio-economic factors, and financial literacy to understand their impact on investment decisions. This study revealed that behavioural factors and socio-economic factors have a significant direct and indirect impact on investment decisions through the meditation of financial literacy. Financial literacy and risk have also a positive impact on investment decisions. [1–3]

How financial literacy moderate the association between behaviour biases and investment decision? 2021 (Mohd Adil, 2021)

This research was taken into consideration for the purpose of examining the impact of behaviour biases on investment decisions amongst gender. This survey was done amongst 253 individual investors amongst Delhi NCR region. This study concluded that amongst investors the effect of risk aversion and herding on investment decision was negative and statistically significant.

Study on Investor Buying Behavior and Financial Literacy in Urban India (agarwal, November 2020)

This study treads on to explore these topics by developing a unique financial index based upon research-backed literature suited for the respondents residing in the urban cities of India and understanding investor behaviour through a series of questions. The study finds that 43% of the respondents are financially literate while almost 10% are financially illiterate. The study observes the relationships between age, gender, residence types, occupation, educational background, investment sizes, income, and financial literacy scores.

Bhushan, P. (2014). Relationship between financial literacy and investment behavior of salaried individuals. Journal of Business Management & Social Sciences Research (JBM&SSR), 3(5), 82-87.

An attempt has been made through this paper to examine the relationship between financial literacy of salaried individuals and their awareness regarding financial products among 516 respondents. Also, the relationship between financial literacy and investment behaviour of salaried individuals is studied. The results of the study suggests that financial literacy level of individuals affects the awareness as well as investment preferences of salaried individuals towards financial products.

3. Financial Literacy and Investment Behaviour

Financial literacy refers to the knowledge and understanding of various financial concepts, tools, and systems that individuals need to make informed and effective decisions about their financial resources. It involves the ability to use financial skills to manage one's financial resources, including budgeting, saving, investing, and understanding financial risks. A financially literate individual is equipped to make sound financial decisions, plan for the future, and navigate the complexities of the financial world.

Investment behavior, on the other hand, refers to the actions and choices individuals make when it comes to investing their money. This includes decisions about asset allocation, risk tolerance, portfolio diversification, and the selection of specific investment vehicles such as stocks, bonds, mutual funds, real estate, and more. Investment behavior is influenced by various factors, including financial goals, time horizon, risk appetite, market conditions, and individual preferences.

Financial literacy encompasses a comprehensive understanding of fundamental financial concepts. This includes proficiency in areas such as budgeting, savings, debt management, inflation, and interest rates. Additionally, a well-versed individual should possess knowledge about investment principles, such as risk and return dynamics, diversification strategies, compounding effects, and the impacts of market fluctuations. The ability to make informed investment decisions hinges on this crucial knowledge.

Effective financial management involves the adept creation and management of budgets to allocate income efficiently and to save for both short-term and long-term objectives. The connection between savings habits and financial literacy is integral, as individuals must comprehend the significance of saving for emergencies, education, retirement, and various other financial goals.

Being financially literate equips individuals with the skills to assess diverse investment options and make decisions aligned with their financial objectives. This includes a deep understanding of the risks and potential returns associated with various investments, facilitating informed decision-making.

Risk management, a vital aspect of financial literacy, encompasses an understanding of risk and the ability to evaluate one's risk tolerance. This understanding plays a crucial role in making investment decisions that align with an individual's comfort level regarding uncertainty. Investment behavior is inherently influenced by how individuals perceive and manage risks within their portfolios.

Long-term financial planning, which includes retirement and estate planning, is a hallmark of financial literacy. Investment behavior often aligns with these long-term financial goals, necessitating decisions that correspond with the individual's time horizon.

Staying informed about economic conditions, market trends, and financial news is part of financial literacy, as it enables individuals to make informed decisions. Investment behavior is frequently influenced by market conditions and individuals' perceptions of the economic environment.

Financial literacy is a dynamic concept that requires continuous learning and adaptation to evolving financial landscapes. Investment behavior stands to benefit significantly from ongoing education, ensuring individuals stay informed about new investment opportunities and strategies.

Financial literacy and investment behavior are interconnected aspects of an individual's financial well-being. A solid understanding of financial concepts empowers individuals to make informed decisions, while investment behavior reflects the practical application of that knowledge in managing and growing financial resources. Both are essential components of achieving financial goals and building long-term financial security.

4. Need for a Study on Financial Literacy and Investment Behaviour Among Investors:

Study on financial literacy and investment behavior among investors is important for several reasons:

5. Informed Decision-Making

Financial literacy helps investors make more informed and educated decisions about their investments. Understanding financial concepts, risks, and investment products enables investors to choose options that align with their financial goals and risk tolerance.

6. Risk Management

Financial literacy is crucial for effective risk management. Investors who are aware of the risks associated with different investments are better equipped to assess and manage those risks. This can lead to more balanced and diversified investment portfolios.

7. Preventing Financial Fraud

Financial literacy plays a role in protecting investors from financial scams and fraud. Knowledgeable investors are less likely to fall victim to misleading investment schemes or fraudulent activities.

8. Long-Term Financial Planning

A study on financial literacy helps investors understand the importance of long-term financial planning. This includes retirement planning, saving for major life events, and creating a sustainable financial future.

9. Market Participation

Financial literacy encourages broader participation in financial markets. When investors have a better understanding of how financial markets work, they may be more willing to invest, which can contribute to the overall development and efficiency of financial markets.

10. Behavioral Finance Insights

Understanding investors' behavior is crucial for both individual investors and policymakers. A study on investment behavior provides insights into psychological factors that influence decision-making, such as risk aversion, overconfidence, and loss aversion.

11. Policy Implications

Research on financial literacy and investment behavior can inform policymakers about the effectiveness of existing financial education programs and identify areas where improvements are needed. This information can guide the development of policies aimed at promoting financial literacy.

12. Educational Programs

The findings of such studies can be used to tailor financial education programs to address specific gaps in knowledge and behavior among investors. This can enhance the impact of educational initiatives and improve overall financial literacy levels.

13. Wealth Creation

Financial literacy is a key factor in wealth creation. Knowledgeable investors are better positioned to make sound investment decisions that contribute to the growth of their wealth over time.

14. Economic Stability

A population with higher financial literacy is generally more economically stable. Informed investors are less likely to make impulsive or uninformed decisions that could have negative consequences for both individual financial well-being and the broader economy.

In conclusion, a study on financial literacy and investment behavior is essential for fostering a financially literate population, promoting responsible investing, and contributing to the overall economic well-being of individuals and society.

15. Research Methodology

15.1. Statement of problem

In India, only 27% are financial literate. There is a such sizable gap between financial literacy and the impact of its level on investment made by investors. This shows how much more financial awareness is required nationwide, but particularly in Tier 2/3 cities and beyond.

16. Research Objectives

1. To measure the financial literacy of investors in the region of Saurashtra
2. To investigate the relationship between demographic variables with financial literacy
3. To measure the relation between the financial literacy investors, have and the impact of it on investment pattern of investment
4. To examine the influence of financial literacy on investment alternatives and financial advice seeking.
5. To ascertain the relationship between the financial literacy about various investment alternatives and investment in that alternative
6. To measure the satisfaction level of the investment made by investors

16.1. Scope of study

The goal of research study on level of financial literacy and its impact on investment behaviour is to examine in detail how people's attitudes, knowledge and behaviour relate to investment decision making.

This study will also look at how much level of financial literacy the investors have for the particular investment alternative in which they prefer to invest. This reveals the potential gaps in investors financial education and preference of investment alternatives.

16.2. Sources of data

This research study is based on primary and secondary data over the current time period. The primary data has been collected from questionnaire and secondary data has been collected through literature review, research paper, websites, and articles.

16.3. Tool of analysis

The primary and secondary data collected for the study has analysed practically and logically to find a conclusion. the statistical tools applied for data analysis are graphs, various test like ANOVA, Chi-Square etc.

17. Data Analysis

17.1. Level of basic financial literacy

1. **H_0 :** Respondents' do not agree with commonly held notions about financial literacy.
2. **H_1 :** Respondents' do agree with commonly held notions about financial literacy.

Result: Respondents' do not agree with commonly held notions about financial literacy. Hence, investors have basic financial literacy.

17.2. Relation between the percentage of income invested and the expected rate of return on investment

1. **H_0 :** There is no significance impact of the percentage of income invested on the expected rate of return on investment.
2. **H_1 :** There is significance impact of the percentage of income invested on the expected rate of return on investment.

Result: we can interpret that there is no significance corelation between the percentage of income invested by individuals and the expected rate of return on investment by individual.

17.3. The financial literacy level of respondents for different investment alternatives

- **Hypothesis for investment type (Factor A):**

1. **H_0**: There is no significance difference in financial literacy among different investment types (Equity, Preference stock, Mutual Funds, Life Insurance, Bonds).
2. **H_1**: There is significance difference in financial literacy among different investment types (Equity, Preference stock, Mutual Funds, Life Insurance, Bonds).

- **Hypothesis for Statement Veracity (Factor B):**

1. **H_0**: There is no significance difference in financial literacy among different statement veracities (True, False, do not know).
2. **H_1**: There is significance difference in financial literacy among different statement veracities (True, False, do not know).

- **Hypothesis for interaction:**

1. **H_0**: There is no interaction effect between investment type and statement veracity on financial literacy.
2. **H_1**: There is interaction effect between investment type and statement veracity on financial literacy.

In summary, the null hypothesis is rejected for the investment types and interaction sources of variation, suggesting that there is significance difference in financial literacy based on the type of investment and an interaction effect between investment type and statement veracity.

18. Gender and the tenure of the investment

Expected values

X^2= 0.805336

So, X^2 = 0.805336

Result: Here, the X^2 tabulated is greater than X^2statistics. So, the null hypothesis is accepted.

As per the result, we can say that there is no significance between the tenure of investment and gender.

Table 1:

ANOVA						
Source of Variation	**SS**	**Df**	**MS**	**F**	**P-value**	**F crit**
Between Groups	1832.1455	10	183.21455	0.0293402	0.999999253	2.053901
Within Groups	274757.2	44	6244.4818			
Total	276589.35	54				

Table 2:

ANOVA						
Source of Variation	**SS**	**Df**	**MS**	**F**	**P-value**	**F crit**
Between Groups	1717.7	4	429.425	0.694919	0.607052	3.055568
Within Groups	9269.25	15	617.95			
Total	10986.95	19				

Table 3:

ANOVA: Two-Factor with Replication						
ANOVA						
Source of Variation	**SS**	**Df**	**MS**	**F**	**P-value**	**F crit**
Sample	1533.667	3	511.2222	0.817338	0.496975	3.008787
Columns	110829.4	2	55414.69	88.59657	8.3E-12	3.402826
Interaction	9654.167	6	1609.028	2.572501	0.045562	2.508189
Within	15011.33	24	625.4722			
Total	137028.6	35				

Result: F critical value is less than the F statistic value, hence the hypothesis is rejected.

Table 4:

	What is the tenure of the investment?			
Gender	**Up to 1 year (Short term)**	**1-3 year (Medium term)**	**Above 3 years (Long term)**	**Grand total**
Female	22	9.2	8.8	40
Male	33	13.8	13.2	60
Grand total	55	23	22	100

Table 5:

Observed	**Expected**	**Difference**	**(O-E)2**	**X2 = (O-E)2/E**
23	22	1	1	0.045455
32	33	-1	1	0.030303
10	9.2	0.8	0.64	0.069565
13	13.8	-0.8	0.64	0.046377
7	8.8	-1.8	3.24	0.368182
15	13.2	1.8	3.24	0.245455

19. Conclusion

As per the above research, the financial literacy is must for any individual to achieve their goal and awareness should be made to increase the level of financial literacy. In India, the financial literacy is low as compare to developed countries. This clearly shows the urgent need to create financial literacy so that investors can invest confidently. This research shows that the return on investment is favourite factor to consider while making investment and there is no significance relation of demographic factor such as age, gender, income and so forth on the level of financial literacy and hence, the financial literacy should be achieved at all level.

20. Source of Funding

None.

21. Conflict of Interest

None.

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