

## FINANCIAL LITERACY AND INDIVIDUAL INVESTMENT DECISION-MAKING IN EARLY ADULTHOOD

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### ABSTRACT

In today's world, managing money has become both easier and more complicated at the same time. Young adults, especially those in their early twenties and thirties, are now exposed to many financial choices, earning their first salary, paying their own expenses, and thinking about saving or investing for the future. While this stage of life brings excitement and independence, it can also feel confusing and overwhelming. Many young people are unsure about how to handle their money or where to invest, and this is where financial literacy becomes very important.

This study tries to understand how financial literacy affects the way young adults make investment decisions. It is based on information collected from different research papers, journals, and reports. By looking at these studies together, a clear pattern can be seen. People who understand financial concepts are more careful and thoughtful when investing. They do not rush into decisions. Instead, they compare options, think about risks, and plan for the future. On the other hand, those with less knowledge often feel confused and may make decisions without proper understanding, which can lead to mistakes or losses.

**Keywords:** Financial Literacy, Investment Decision-Making, Young Adults, Risk Awareness, Personal Finance

### INTRODUCTION

Early adulthood is a very important stage in life, during which individuals begin to take on their own responsibilities, especially when it comes to managing money. For many young adults, this is the first time they start earning, handling their own expenses, and making decisions about saving and investing. While this brings a sense of independence and excitement, it can also be confusing and stressful because financial decisions now have to be made without much experience or guidance.

In today's digital world, managing money has become easier but also more complex. With the help of mobile apps and online platforms, young adults can easily transfer money, pay bills, and invest in various options such as stocks or mutual funds. Although these tools provide convenience, they also increase the chances of making quick decisions without fully understanding the risks. Having many choices can sometimes make it difficult to decide what is right.

This is where financial literacy becomes very important. Financial literacy means understanding how money works in real life. It includes basic skills like budgeting, saving, controlling expenses, and making informed investment decisions. When young adults

have this knowledge, they feel more confident and are better prepared to manage their finances. However, many young people still lack practical financial knowledge, which can lead to poor decisions such as overspending or investing without proper understanding.

Family background, education, and social influence also play a role in shaping financial behaviour. Some individuals learn about money from their families, while others depend on friends or social media, which may not always provide correct guidance.

Therefore, understanding the role of financial literacy in investment decisions is important. It helps young adults build better financial habits and make smarter choices for a secure future.

## **LITERATURE REVIEW**

Financial literacy has become very important today, especially for young adults who are just starting to manage their own money. Many studies show that people who understand basic financial concepts like risk, return, inflation, and diversification are more confident and make better investment decisions. Parsai and Chandok (2025) explain that such individuals are able to plan properly, choose suitable investment options, and achieve more stable financial outcomes. On the other hand, people with low financial knowledge often feel confused, avoid taking risks, and depend on simple saving methods, which may not always be beneficial in the long run.

Decision-making is not only based on knowledge but also on experience. Strough and Bruine de Bruin (2020) point out that even though some mental abilities may reduce with age, experience and emotional understanding improve over time. This helps older individuals make thoughtful and balanced decisions. It shows that both learning and real-life experience are important when it comes to managing finances.

Financial education plays a major role in improving financial literacy. According to Adesina, Carnaghan, and Smith (2025), structured financial education helps young people understand important areas like budgeting, saving, investing, and managing debt. This leads to more responsible financial behaviour and better future planning. Similarly, Mancone et al. (2024) highlight that learning about money at an early stage helps build confidence and develop good financial habits. However, these programs work best when they focus on real-life applications rather than just theory.

In today's digital age, technology has made managing money much easier. Khurana and Sharma (2026) explain that digital financial literacy helps individuals use online platforms for investing and financial planning. However, Kovács and Terták (2024) warn that without proper knowledge, people may make quick and risky decisions. Social media and peer influence also affect how young adults invest, as they sometimes follow trends without proper understanding.

Family and social background also influence financial behaviour. Ndou (2023) found that young adults who learn about money from their parents tend to have better financial understanding. Factors like education and income also play a role in shaping financial decisions.

## **THEORETICAL FRAMEWORK**

The theoretical framework of this study is based on the idea that financial literacy plays a very important role in shaping how individuals make investment decisions, especially young adults. Financial literacy simply means having the knowledge and skills to manage money effectively, such as understanding saving, budgeting, investing, and handling risk. When

individuals are financially aware, they feel more confident and are able to make better financial choices. In contrast, those with less knowledge often feel unsure and may avoid investing or make poor decisions.

This study is supported by Behavioral Finance Theory, which explains that people do not always make perfectly logical financial decisions. Their choices are often influenced by emotions, fear, overconfidence, or social pressure. For example, some people may avoid investing because they fear losing money, while others may invest without proper knowledge just by following trends. Financial literacy helps reduce these mistakes by improving understanding and encouraging more thoughtful decision-making.

Another important concept in this framework is the Life-Cycle Theory. This theory explains that people make financial decisions based on different stages of their life. For instance, young adults may focus more on saving and investing for future goals, while older individuals may focus on financial security and retirement. Financial literacy helps individuals plan better at each stage and manage their income wisely.

The framework also includes the Capacity–Willingness–Opportunity (CWO) Model, which gives a simple way to understand financial behaviour. According to this model, three things are necessary for making good financial decisions. First is capacity, which means having the knowledge and skills to understand financial matters. Second is willingness, which refers to the motivation or interest to take financial decisions. Third is opportunity, which means having access to financial tools and platforms like banks or digital apps. Financial literacy improves capacity, builds willingness by increasing confidence, and, along with digital access, creates better opportunities for individuals to invest.

In addition, the Antecedents–Decisions–Outcomes (ADO) Model helps explain the full process of financial decision-making. Antecedents include factors like education, income, financial literacy, and social influence. These factors affect the decisions individuals make, such as saving, investing, or taking risks. The outcomes of these decisions can be seen in their financial stability, wealth creation, and overall well-being. This model clearly shows how different factors lead to specific financial results.

The framework also considers the role of social influence, where individuals learn financial behaviour from family, friends, and society. Along with this, digital financial literacy is becoming increasingly important as more people use online platforms for financial activities.

Overall, this framework shows that financial literacy, along with behavioural, social, and technological factors, strongly influences investment decision-making. Improving financial knowledge can help individuals make smarter choices and build a secure financial future.

## **DATA ANALYSIS AND FINDINGS**

The data analysis is based on a detailed review of existing research papers, journals, and reports related to financial literacy and investment behaviour among young adults. Instead of simply summarising individual studies, this section focuses on identifying common patterns, relationships, and real-life implications.

A key observation from the analysis is the strong relationship between financial literacy and investment decision-making. Young adults who possess knowledge of basic financial concepts such as saving, interest, risk, and returns tend to make more informed and confident investment decisions. They are more likely to diversify their investments across different options like mutual funds, stocks, and long-term plans, which helps in reducing risk and

improving returns. In contrast, individuals with limited financial knowledge often feel uncertain, depend on external advice, and may make poor or risky financial decisions.

Education emerges as another significant factor influencing financial behaviour. Individuals with higher levels of education generally demonstrate better financial awareness and decision-making ability. Education enhances understanding of financial concepts and improves analytical thinking. However, financial literacy is not limited to formal education alone. Many young adults acquire financial knowledge through digital platforms, social media, and personal experiences, although formal education provides a stronger foundation.

Income level also plays an important role in shaping investment behaviour. Individuals with higher income levels have greater financial flexibility and are more likely to invest, as they have surplus funds after meeting their basic needs. They are also more open to taking calculated risks. On the other hand, individuals with lower income levels tend to prioritise saving over investing due to financial constraints. This indicates that financial literacy alone is not sufficient; financial capacity is equally important.

The analysis also highlights the growing influence of technology. Digital platforms such as mobile applications and online trading systems have made investing more accessible and convenient for young adults. This has increased participation in financial markets. However, the ease of access has also led to impulsive decision-making, often influenced by social media trends and online opinions, which may not always be reliable.

Social influence is another important factor affecting financial decisions. Many young adults rely on advice from friends, family, and online communities. While such guidance can be helpful, excessive dependence can lead to herd behaviour, where individuals make decisions based on others rather than independent analysis. This increases the risk of financial losses.

Overall, the analysis suggests that effective financial decision-making is a result of a combination of financial knowledge, education, income, technological exposure, and social influence.

## **RESEARCH FINDINGS**

The findings of the study clearly indicate that financial literacy has a significant impact on the investment behaviour of young adults. Individuals with higher financial literacy levels tend to make well-informed, rational, and confident financial decisions. They carefully evaluate different investment options and avoid making impulsive choices.

Another key finding is that financially literate individuals prefer diversification in their investments. They distribute their funds across multiple financial instruments, reducing risk and ensuring better financial stability. In contrast, individuals with low financial literacy tend to rely on traditional and safer options, often resulting in lower returns.

The study also reveals that financial awareness among young adults is still limited. Despite the availability of digital tools and platforms, many individuals lack the knowledge required to use them effectively. This often results in poor decision-making, especially when influenced by social media trends or peer pressure.

Education is found to play a crucial role in improving financial literacy. Individuals with higher education levels demonstrate better understanding and financial behaviour. However, informal sources such as online learning and personal experiences also contribute to financial awareness.

Income level significantly influences investment capability. Higher-income individuals are more likely to invest and take calculated risks, while lower-income individuals focus

primarily on saving. This highlights the importance of both financial knowledge and financial resources.

Technology has made financial activities more accessible, but it has also increased the chances of impulsive decisions. Similarly, social influence plays a major role, often leading individuals to follow others without proper analysis.

In conclusion, the study finds that financial literacy is a key factor in shaping investment decisions among young adults. However, it works in combination with other factors such as education, income, technology, and social influence. Improving financial literacy through proper education and awareness is essential for promoting better financial behaviour and ensuring long-term financial stability.

## QUALITATIVE INSIGHTS

The study gives a clear understanding of how young adults actually think and behave when it comes to managing money and making investment decisions. These insights focus more on real-life behaviour rather than just theory.

One of the most important insights is that financial literacy builds confidence. When young adults understand basic financial concepts, they feel more comfortable making their own decisions instead of depending on others.

- They feel more confident while investing
- They take time to compare different options
- They avoid making quick or emotional decisions

On the other hand, individuals with less financial knowledge often feel confused and unsure, which affects their decision-making.

Another important point is that knowledge is useful only when it is applied. Many individuals may know about finance, but they do not always use that knowledge in real situations.

- Practical use of knowledge improves decision-making
- Experience helps in handling financial situations better
- Learning through real-life situations is more effective

Technology has also changed the way young adults invest. It has made financial activities much easier and more accessible.

- Investing can be done anytime using mobile apps
- Easy access to online platforms and tools
- More young people are participating in investments

However, technology also creates some problems. Many people get influenced by what they see online without proper understanding.

- Social media strongly influences decisions
- People follow trends without proper knowledge
- This can lead to quick and risky investments

Social influence is another important factor. Young adults often take advice from friends, family, or online communities.

- Decisions are influenced by others' opinions
- People sometimes follow what others are doing
- This can lead to herd behaviour

While advice can be helpful, depending too much on others can lead to wrong decisions.

Income level also affects how people invest. Even if someone has knowledge, their financial situation plays a big role.

- Higher income allows more investment opportunities
- People with more money are willing to take risks
- Lower income individuals focus more on saving

Lastly, there is still a gap in financial awareness. Even though many tools and platforms are available, not everyone knows how to use them properly.

- Lack of proper understanding of financial tools
- Limited awareness despite easy access
- Need for better financial education

## DISCUSSION

The findings of this study clearly show that financial literacy plays an important role in shaping how young adults make investment decisions. It is seen that individuals who understand basic financial concepts like risk, return, and diversification are more confident and make better financial choices. They are able to think carefully before investing and are less likely to make mistakes compared to those who lack financial knowledge.

The study also highlights that financial literacy improves decision-making by reducing dependence on others. Young adults with good financial knowledge do not blindly follow advice but try to understand and analyse their options. However, it is also important to note that having knowledge alone is not enough. The real benefit comes when individuals apply this knowledge in practical situations. Those who actively use what they learn tend to manage their finances more effectively.

Education is another important factor that supports financial literacy. Individuals with higher education levels generally have better understanding and awareness of financial matters. At the same time, many young adults are now learning through digital platforms, social media, and personal experiences, which are becoming important sources of financial knowledge.

Income level also affects investment behaviour. Individuals with higher income are more likely to invest and take risks, while those with lower income focus more on saving due to financial limitations. This shows that both knowledge and financial capacity are important.

Technology has made investing easier and more accessible, but it has also led to quick and sometimes careless decisions, especially when influenced by social media. Similarly, social influence plays a strong role, as many young adults follow others without proper understanding.

Overall, the study shows that financial literacy, along with education, income, and awareness, helps young adults make better and more responsible financial decisions.

## RECOMMENDATIONS

The following practical recommendations can help improve financial literacy and investment behaviour among young adults:

- Educational institutions should introduce basic financial education in their curriculum to help students understand saving, budgeting, and investing from an early stage.
- Financial institutions should simplify financial products and services so that young adults can easily understand and make informed decisions.
- There should be a focus on practical learning methods such as workshops, case studies, and simulations to help individuals apply financial knowledge in real-life situations.
- Awareness about digital financial platforms should be increased, including guidance on safe usage and protection from online fraud and misinformation.
- Efforts should be made to provide reliable and accurate financial information, especially on social media, to reduce the impact of misleading trends.
- Financial services should be customized according to different income levels, making investment opportunities accessible to a wider group of individuals.
- Young adults should be encouraged to develop independent decision-making skills instead of relying completely on others for financial advice.

## LIMITATIONS AND FUTURE RESEARCH

This study is based on secondary data from existing research, so it may not fully reflect current real-life financial behavior. Since no primary data like surveys or interviews were conducted, individual experiences are not directly captured. The study focuses only on young adults, so the findings cannot be applied to other age groups. It is also conceptual in nature and does not include statistical testing, which limits the measurement of relationships between variables. Additionally, differences in regions and the fast-changing financial environment may affect the relevance of the findings. Despite this, the study provides useful insights into financial literacy and investment behavior.

## CONCLUSION

In conclusion, this study shows that financial literacy plays a very important role in shaping how young adults make investment decisions. In today's fast-changing financial world, where many options and digital platforms are easily available, having basic financial knowledge has become essential.

The study clearly highlights that individuals who understand financial concepts are more confident and make better decisions. They are able to think logically, understand risks, and plan for the future. On the other hand, those who lack financial knowledge often feel confused and may depend on others or follow trends, which can lead to poor decisions.

The study also shows that factors like education, income, technology, and social influence affect investment behaviour. However, financial literacy is the key factor that connects all of these. Even if a person is educated or earns well, without proper financial knowledge, they may still make wrong investment choices.

Technology has made investing easier and more accessible, especially for young people. But at the same time, it has increased the chances of making quick and impulsive decisions.

Many people follow social media trends without fully understanding the risks. This makes financial awareness even more important.

Overall, the study suggests that improving financial literacy is necessary for making better financial decisions and achieving long-term financial stability. Efforts should be made by educational institutions, policymakers, and financial organizations to spread awareness and provide practical financial education.

In simple words, understanding money is the first step towards managing it wisely. When young adults are financially aware, they are more likely to make smart investment decisions and build a secure future.

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