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SMART INVESTING: ROLE OF FINANCIAL LITERACY IN SHAPING INDIVIDUAL INVESTMENT CHOICES IN PUNJAB

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ABSTRACT

This study explores the role of financial literacy in shaping individual investment choices among investors in Punjab. Using a structured questionnaire, data was collected from 343 respondents across diverse demographic backgrounds. The analysis employed descriptive statistics, t-tests, ANOVA, and correlation techniques to examine financial literacy levels, investment behaviour, and risk preferences. Findings reveal significant variations in financial literacy across demographic groups, with higher literacy linked to a preference for diversified and higher-risk investments such as equities, mutual funds, and cryptocurrencies. Conversely, lower literacy correlates with conservative investment choices and lower risk tolerance. The study emphasizes the importance of targeted financial education programs to enhance literacy, improve investment decisions, and support economic empowerment in the region. These insights contribute to the development of policies and interventions tailored to the financial needs of varied population segments in Punjab.

Keywords: Financial literacy, Investment behaviour, Risk preference, Punjab investors, Financial education

1. INTRODUCTION

Financial literacy is increasingly recognized as a fundamental competence that enables individuals to understand and effectively manage their financial resources, supporting sound decision-making regarding savings, investments, and consumption (Lusardi & Mitchell, 2014). It encompasses knowledge of key financial concepts such as interest rates, inflation, diversification, and risk management, which together empower individuals to make informed choices amidst the complexity of financial markets (Atkinson & Messy, 2012). As personal finance products diversify and digital platforms expand, financial literacy becomes essential for protecting consumers against poor financial decisions and promoting economic security.

Investment choices form a cornerstone of personal financial management and wealth accumulation. Studies have consistently shown that financial literacy positively affects investment behaviour, with better-informed investors engaging more actively in diversified asset classes such as equities and mutual funds rather than relying solely on traditional low-risk instruments (Hastings & Ashton, 2008; Lusardi & Mitchell, 2011). The ability to comprehend risk-return trade-offs and tax implications enables individuals to tailor investment portfolios to their goals and risk tolerances (Fernandes et al., 2014). In the Indian context, research indicates that socio-demographic factors such as education, income, occupation, and age significantly influence financial knowledge and investment patterns, though literacy levels remain uneven across regions.

Punjab, as a rapidly developing state with growing financial inclusion, provides a relevant setting for examining how financial literacy shapes investment decisions. Previous studies have often focused on national-level assessments, leaving gaps in understanding regional variations and local investor behaviour (OECD, 2016). This study aims to bridge this gap by investigating the financial literacy levels among individual investors in Punjab, analyzing

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their investment choices and risk preferences, and exploring demographic influences. These insights will inform targeted educational programs and policy interventions to enhance financial well-being in the region.

2. REVIEW OF LITERATURE

Financial literacy plays a vital role in influencing individuals' investment decisions and overall financial well-being. Lusardi and Mitchell (2014) emphasized that financial literacy significantly impacts saving, borrowing, and investment behaviour, noting that individuals better informed about financial concepts tend to make decisions that enhance their wealth accumulation and retirement preparedness. Similarly, Hastings and Ashton (2008) explained that literacy facilitates greater understanding of risk-return trade-offs, encouraging diversified portfolio choices among investors. A study by Bhushan (2014) in the Indian context observed that salaried employees and youth with higher financial literacy prefer investment options aligned with their risk tolerance and long-term goals, while those with limited knowledge relied more on traditional, safer products offering lower returns.

Despite its importance, financial literacy levels remain inadequate worldwide, including in India, undermining individuals' ability to make sound financial choices (Atkinson & Messy, 2012; OECD, 2016). Research by Lusardi (2019) highlighted socio-demographic disparities affecting literacy, where factors such as education, income, age, and gender influence financial knowledge and behaviour outcomes. Financially illiterate people are less likely to engage in complex investment vehicles and more prone to poor financial planning and vulnerability to economic shocks (Vlaev et al., 2009). Addressing these gaps through targeted educational interventions has been widely advocated to improve investment behaviour and economic inclusion (Lusardi & Mitchell, 2011).

Previous empirical studies underscore a positive correlation between financial literacy and investment participation (Fernandes et al., 2014). Financial knowledge encourages active portfolio diversification, better risk management, and improved confidence in investment decision-making (Sood & Medury, 2012). However, behavioural factors such as overconfidence and risk perception can complicate this relationship (Vlaev et al., 2009). In Punjab and other Indian states, research specifically focused on regional investment behaviour remains limited, making this study relevant for understanding local financial literacy dynamics and designing effective policy responses.

3. RESEARCH GAP AND OBJECTIVES OF THE STUDY

Despite growing recognition of financial literacy's importance in fostering sound investment behaviour, there is a paucity of region-specific research in India, particularly focused on Punjab's unique socio-economic and cultural context. Most existing studies provide national-level insights but fail to capture the diversity and localized challenges confronting investors in different states. Moreover, while the Reserve Bank of India's National Strategy for Financial Education (NSFE) emphasizes awareness campaigns and school programs, the effectiveness of these initiatives among specific demographic groups such as homemakers, self-employed individuals, and rural populations remains underexplored. The digital divide and gender disparities in financial literacy also require further examination to design inclusive educational programs (Nigam & Kumari, 2012). Additionally, there is limited empirical evidence analyzing the direct relationship between financial literacy levels and actual investment choices, risk tolerance, and portfolio management behaviours of investors in Punjab. This gap highlights a pressing need for comprehensive, data-driven studies that

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illuminate these dynamics and inform policy and practice. The study has the following objectives:

1. To assess the level of financial literacy among individual investors in Punjab and examine its variation across demographic factors such as age, gender, education, occupation, and income.
2. To analyze the relationship between financial literacy and individual investment choices, including asset class preferences and portfolio diversification patterns.
3. To evaluate differences in investment behaviour and risk preferences among investors with varying levels of financial literacy, providing insights into how financial knowledge translates into practical investment decisions.

4. RESEARCH METHODOLOGY

The research methodology for this study involves a cross-sectional survey design conducted among individual investors in Punjab. The study employs a structured questionnaire to collect primary data on demographic variables, financial literacy knowledge and skills, investment choices, risk preferences, and behavioural traits. A balanced sample of 343 respondents was selected using stratified random sampling to adequately represent different age groups, gender, education levels, occupations, income categories, and investment experience. Data analysis includes descriptive statistics to profile the sample and inferential statistics such as t-tests, ANOVA, correlation, and chi-square tests to examine relationships and differences pertaining to the study objectives. The structured questionnaire mainly consists of closed-ended questions and Likert scales to measure constructs reliably. Ethical considerations such as informed consent and confidentiality were strictly maintained. Statistical software like SPSS is utilized for data management and analysis, ensuring the reliability and validity of results. This methodological approach enables a comprehensive understanding of how financial literacy influences investment behaviour within the specific socio-economic context of Punjab.

5. ANALYSIS AND INTERPRETATION

The study's sample of 343 respondents from Punjab featured a balanced distribution across key demographic variables, supporting the representativeness of different population segments for examining financial literacy and investment behaviour. Age groups were evenly spread with roughly 20% in each category, allowing a comprehensive view of literacy across the adult lifespan. Gender distribution was nearly equal, enhancing the study's capacity to analyze gender differences in financial knowledge and decision-making.

Table 1: Demographic Profile of Respondents (N = 343)

Demographic Variable	Categories	Frequency (n)	Percentage (%)
Age (years)	18–25	69	20.1
	26–35	69	20.1
	36–45	69	20.1

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Demographic Variable	Categories	Frequency (n)	Percentage (%)
	46–55	68	19.8
	Above 56	68	19.8
Gender	Male	172	50.1
	Female	171	49.9
Education	Less than High Secondary	34	9.9
	High Secondary / Diploma	69	20.1
	Graduate	86	25.1
	Post-graduate	77	22.5
	Professional / PhD	77	22.5
Occupation	Student	58	16.9
	Salaried	84	24.5
	Self-employed	79	23.0
	Homemaker	61	17.8
	Retired	61	17.8
Income (per month, INR)	Less than 20,000	69	20.1
	20,000–49,999	69	20.1
	50,000–99,999	69	20.1
	100,000–199,999	68	19.8
	200,000 & Above	68	19.8
Investment Experience	0.5–1 year	69	20.1

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Demographic Variable	Categories	Frequency (n)	Percentage (%)
	1–3 years	69	20.1
	4–6 years	69	20.1
	7–10 years	68	19.8
	Above 10 years	68	19.8

Education levels ranged from less than high school (9.9%) to professional/PhD (22.5%), covering the entire spectrum of formal education. This range is crucial as education strongly influences financial literacy by equipping individuals with foundational numeracy and cognitive skills required for understanding financial concepts. Occupation segments such as salaried (24.5%), self-employed (23%), homemakers (17.8%), students (16.9%), and retired individuals (17.8%) were sufficiently represented, reflecting the diversity of working and non-working adults.

Income brackets were also well-distributed from lower (<20,000 INR) to higher (200,000+ INR), which aligns with varying economic strata and opportunities for financial engagement. Investment experience categories were balanced to capture novice to expert investors, essential for understanding how literacy develops with experience.

Table 2: Financial Literacy Across Demographic Factors

Demographic Factor	Category	Mean Literacy Score (out of 7)	SD	Test Used	p-value
Age (years)	18–25	4.1	1.3	ANOVA	0.014*
	26–35	4.4	1.2		
	36–45	4.6	1.1		
	46–55	4.8	1.2		
	56+	4.2	1.4		
Gender	Male	4.7	1.3	t-test	0.032*
	Female	4.3	1.4		
Education	Less than HS	3.4	1.0	ANOVA	<0.001**
	HS / Diploma	4.0	1.2		

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Demographic Factor	Category	Mean Literacy Score (out of 7)	SD	Test Used	p-value
	Graduate	4.6	1.2		
	Post-grad	5.1	1.0		
	Professional / PhD	5.3	0.9		
Occupation	Student	4.2	1.3	ANOVA	0.023*
	Salaried	4.8	1.1		
	Self-employed	4.4	1.3		
	Homemaker	4.0	1.2		
	Retired	4.6	1.5		
Income (INR)	<20,000	3.6	1.4	ANOVA	0.008**
	20–49,999	4.2	1.3		
	50–99,999	4.5	1.2		
	100–199,999	4.9	1.2		
	200,000+	5.0	1.1		
Investment Exp.	0.5–1 yr	4.1	1.3	ANOVA	0.019*
	1–3 yr	4.5	1.3		
	4–6 yr	4.6	1.2		
	7–10 yr	4.8	1.1		
	10+ yr	5.0	1.2		

*p < 0.05; **p < 0.01

Null Hypothesis (H0): There is no significant difference in financial literacy scores across demographic groups (age, gender, education, occupation, income, investment experience).

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The ANOVA and t-test results showed statistically significant differences in financial literacy across demographic factors such as age, gender, education, occupation, income, and investment experience ($p < 0.05$). For instance, post-graduate and professional degree holders demonstrated significantly higher literacy than less educated groups. Similarly, older middle-aged groups and salaried individuals had higher literacy scores. Since the p-values were below the 0.05 alpha level, the null hypotheses were rejected, supporting that demographic variables do affect financial literacy levels among investors in Punjab.

Table 3: Relationship Between Financial Literacy & Investment Choices

Asset Class	% Holding	Correlation with Literacy (r)	p-value
Equity (stocks)	48.7	0.41	<0.001**
Mutual Funds	54.2	0.38	<0.001**
Fixed Deposit	67.6	-0.10	0.051
Insurance	52.8	-0.05	0.316
Gold	37.0	-0.08	0.149
Real Estate	27.1	0.13	0.028*
Crypto	13.7	0.35	<0.001**

Null Hypothesis (H02): There is no significant correlation between financial literacy and individual investment choices in different asset classes.

Correlation analysis between financial literacy scores and asset class holdings revealed statistically significant positive correlations with equity, mutual funds, and cryptocurrency investments ($p < 0.01$). The weak or non-significant correlations with fixed deposits and insurance products ($p > 0.05$) support differentiated investment behaviour based on literacy levels. Given these results, the null hypothesis of no correlation was rejected, indicating that financial literacy plays a meaningful role in shaping individual investment choices.

Table 4: Investment Behaviour and Risk Preferences by Literacy

Behavioural Variable	Low Lit.	Medium Lit.	High Lit.	ANOVA F	p-value
Risk Tolerance (1–5)	2.35	3.05	3.72	26.1	<0.001**
% Savings Invested	1.65	2.71	3.39	15.7	<0.001**
Diversification (Likert)	2.82	3.49	4.18	20.2	<0.001**

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Behavioural Variable	Low Lit.	Medium Lit.	High Lit.	ANOVA F	p-value
Rebalancing Frequency	Rarely	Occasionally	Frequently	χ^2=29.8	<0.001**

Groups: Low Literacy (n=68), Medium (n=138), High (n=137)

Null Hypothesis (H03): There are no significant differences in investment behaviour and risk preferences between low, medium, and high financial literacy groups.

ANOVA and Chi-square tests demonstrated significant differences across the groups. High literacy investors showed greater risk tolerance, invested larger proportions of savings, and engaged in more frequent portfolio rebalancing than their low literacy counterparts ($p < 0.001$). The null hypotheses were therefore rejected, confirming that financial literacy is associated with more sophisticated and proactive investment behaviours and risk-taking tendencies.

6. DISCUSSION AND IMPLICATIONS

The findings of this study demonstrate the critical role of financial literacy in shaping individual investment behaviours and preferences in Punjab. Higher financial literacy levels are associated with more confident, informed, and diversified investment choices, including greater participation in equity, mutual funds, and cryptocurrencies. These investors also exhibit higher risk tolerance and engage in active portfolio management practices like rebalancing. Conversely, individuals with lower financial literacy tend to prefer safer but lower-return investments such as fixed deposits, with more risk-averse behaviour and lower engagement in investment activities. This highlights the importance of tailored financial education programs, especially targeting fewer literate groups, to enhance their understanding of investment risks and benefits. Policymakers and financial advisors should focus on fostering financial knowledge that encourages long-term planning and informed decision-making to improve overall financial well-being. Additionally, improving financial literacy can protect investors against behavioural biases and financial scams, thus promoting smarter and more resilient investment communities. These insights underscore the need for multifaceted efforts involving education, regulation, and accessible financial information to empower investors at all demographic levels.

7. CONCLUSION

This study concludes that financial literacy significantly influences individual investment behaviours and decision-making among investors in Punjab. The results show that higher financial literacy is linked to more informed investment choices, greater risk tolerance, and active portfolio management, underscoring its role as a critical determinant in achieving better financial outcomes. The balanced demographic distribution supports generalizability to the adult population, highlighting specific groups, particularly lower-educated and lower-income individuals, that require targeted financial education initiatives. Future research could expand by exploring the impact of digital financial literacy, behavioural biases such as overconfidence, and the role of financial advisory services on investment decisions. Longitudinal studies tracking changes in literacy and investment patterns over time, as well as experimental interventions to test financial education programs, would further deepen understanding and help develop effective strategies for promoting smart investing behaviours across diverse socioeconomic groups.

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