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Impact of Financial Literacy on Investment Decisions among Retail Investors

Dr. Manish Kumar Singh
Assistant Professor, Department of Commerce
B.S.K. College, Barharwa, Sahibganj, SKM University, Dumaka

Abstract

In today's ever-changing financial landscape, financial literacy has become a crucial factor in determining an individual's investment behaviour. The variety of investment alternatives available to retail investors is growing, necessitating strong knowledge and sound decision-making abilities in order to properly manage risk and reach financial objectives. This study looks into how financial literacy affects retail investors' investing choices. It seeks to evaluate the degree of financial literacy, comprehension of financial products, and capacity for logical investment decision-making. The study also looks at the relationship between financial literacy and long-term financial planning, portfolio diversity, and risk perception. A systematic questionnaire will be used to gather primary data from retail investors, and statistical methods including regression analysis and correlation will be used for analysis. The results should demonstrate a favourable correlation between financial literacy and well-informed investing choices. Policymakers, educators, and financial institutions may use the study's insightful findings to create financial education programs that improve investor competency and encourage sustainable financial behavior.

Keywords: Behavioral finance, risk perception, portfolio diversification, retail investors, financial literacy, and investment decisions.

Introduction

Individual involvement in financial markets has grown dramatically in today's technologically advanced and globally interconnected financial landscape. Retail investors are now more actively involved in investing due to the growth of digital platforms, simple access to financial goods, and increased economic understanding. However, the individual investor's degree of financial knowledge has a significant impact on the calibre of these investing choices. Making wise financial decisions requires financial literacy, which is generally described as the capacity to comprehend and use a variety of financial abilities, such as investing, budgeting, and personal financial management. It gives people the ability to plan for the future, handle the risks involved in investing, and traverse intricate financial systems. In this regard, it is pertinent and essential to comprehend how financial literacy affects retail investors' investing choices. Understanding fundamental financial concepts is only one aspect of financial literacy; another is becoming competent in using this information to make sound financial decisions in the real world. An investor who is financially literate is able to assess the risks involved, distinguish between different investment opportunities, and match investment decisions with long-term financial objectives. On the other hand, those who lack financial literacy frequently rely on unofficial guidance, herd mentality, or gut feelings, which can have negative financial effects. Lack of financial literacy frequently leads to poor resource allocation, an excessive reliance on conventional savings methods, and susceptibility to financial scams. Therefore, improving retail investors' financial literacy is essential to guaranteeing a more knowledgeable, robust, and effective financial market. Making investing options presents several difficulties, especially for retail investors. They frequently do not have access to expert financial advice or advanced analytical tools, in contrast to institutional investors. A number of variables, including age, education, risk tolerance, income, and psychological biases, affect their choices. Further complicating the decision-making process is the growing complexity of financial instruments like cryptocurrencies, derivatives, mutual funds, and

Corresponding Author: Dr. Manish Kumar Singh, manish.educommercebhu@gmail.com

exchange-traded funds (ETFs). Financial literacy is the cornerstone for comprehending market operations, assessing returns, and making wise decisions in such a situation. An investor that is financially knowledgeable is more likely to diversify their investments, evaluate risk rationally, and refrain from making rash or speculative choices. One of the most important parts of personal finance is making investment selections. These choices entail weighing risk and return while choosing the right assets or securities to meet certain financial goals. Effective investment planning requires an understanding of concepts like compounding, inflation, diversification, and time value of money, all of which are easier for investors with greater financial literacy to grasp. Instead of speculating in the near term, they usually create wealth over the long term. Additionally, financial literacy affects investors' trust in the financial system, which increases their involvement in stocks and other growth-oriented financial products. As a result, financial literacy promotes both personal financial security and overall economic growth.

Given India's swift economic transition and growing financial inclusion, financial literacy takes on particular importance in that nation. A sizable section of the populace still lacks sufficient financial literacy in spite of a number of institutional and governmental initiatives, including the Pradhan Mantri Jan Dhan Yojana (PMJDY), the National Strategy for Financial Education (NSFE), and SEBI's investor awareness campaigns. Many people still steer clear of more dynamic choices like mutual funds and equities markets in favour of more conventional saving options like gold, real estate, and fixed deposits. This cautious approach frequently originates from a lack of confidence in formal financial systems, a fear of market volatility, and a weak comprehension of financial ideas. The potential advantages of financial inclusion are thus still not fully realised. By giving investors, the information and self-assurance they need to investigate a range of investment options, financial literacy helps close this gap. Numerous international studies have highlighted the beneficial effects of financial literacy on financial behaviour and decision-making. For instance, Lusardi and Mitchell's (2014) study found that those with greater financial literacy exhibit more effective portfolio diversification, better saving habits, and greater retirement readiness. Similarly, research from developing countries shows that financial education lowers vulnerability to financial hazards and greatly increases investment involvement. There is a research vacuum in the Indian context since few studies have looked at this link among retail investors in-depth. Gaining insight into how financial literacy affects Indian retail investors' investment decisions can help with policymaking, financial inclusion, and investor behaviour. Knowledge, attitude, and behaviour are three ways that financial literacy influences investing in choices. Key concepts like interest rates, inflation, risk-return trade-offs, and diversification are all considered to be part of financial knowledge. A person's financial attitude reflects their psychological propensity to save and invest, as well as their readiness to accept measured risks. Financial behaviour includes real-world activities including diversification of investments, record keeping, and budgeting. These elements work together to influence an investor's capacity for sound financial decision-making. A thorough examination of these factors offers a more profound comprehension of the relationship between financial literacy and wise investing choices. The behavioural side of money is another important factor. Overconfidence, anchoring, and herd mentality are examples of psychological biases that may affect even financially knowledgeable investors. It is therefore necessary to supplement financial knowledge with self-control and behavioural awareness. Disciplined behaviour guarantees that investment decisions are in line with logical analysis rather than gut feelings, even while information serves as the basis. Programs that promote financial literacy should thus concentrate on enhancing decision-making skills and encouraging appropriate financial habits in addition to disseminating knowledge. Financial literacy is important for more than just individual investors; it has wider economic ramifications. People that are financially savvy save more money, create more capital, and keep the financial markets more stable. Investors promote economic growth and improve market efficiency by making well-informed judgements. Additionally, investors who are financially educated are more likely to prepare for retirement, get insurance, and make tax-efficient investments, all of which lessen reliance on social welfare programs. Therefore, encouraging financial literacy is not just a personal need but also a top governmental objective for long-term, sustainable economic growth.

Digitalization has transformed the investing process in recent years, providing investors with easy access to financial data, mobile applications, and online trading platforms. Although these developments have made investing more accessible, they also put investors at risk for information overload and other dangers including disinformation and cybercrime. Financial knowledge has become even more important in this digital age. Investors may use it to effectively understand internet data, distinguish between trustworthy and untrustworthy sources, and make well-informed digital financial decisions. FinTech, or the fusion of technology and money, necessitates a new kind of literacy that blends digital awareness with conventional financial understanding. In light of this, the current study, "Impact of Financial Literacy on Investment Decisions among Retail Investors," aims to investigate the degree to which financial literacy affects retail investors' investment decisions. The study will evaluate investors' decision-making processes, risk management techniques, and comprehension of financial goods. In order to ascertain their relationship to financial literacy levels, it will also examine demographic factors including age, education, income, and experience. Finding out if improved financial literacy results in more logical, varied, and successful investing choices is the ultimate goal. For a variety of stakeholders, the research's conclusions should provide insightful information. The findings will serve as a reminder to policymakers of the need of including financial education into national educational and economic frameworks. The analysis will serve as a foundation for financial institutions and market regulators to create focused investor awareness campaigns. For educators, it will emphasise how important it is to incorporate financial literacy into college and school curricula in order to equip the next generation to make wise financial decisions. Lastly, this study will highlight the importance of ongoing financial education for individual investors in order to attain financial stability and independence. To sum up, the foundation of wise investment decision-making is financial literacy. It helps create a stable and inclusive financial system in addition to improving investors' capacity to control risks and reach financial objectives. The importance of financial literacy in influencing investing behaviour is only going to grow as financial markets continue to change. Thus, this study aims to investigate the connection between retail investors' investment choices and financial literacy, offering empirical support and useful suggestions for creating a society that is more financially conscious and capable.

Literature Review

In the fields of economics, behavioural finance, and personal financial management, there has been much discussion on financial literacy and how it affects investment decisions. Academics have repeatedly underlined that financial literacy is a critical competency that influences people's capacity to make logical and well-informed investment decisions (Lusardi & Mitchell, 2011). The literature review that follows looks at the main theoretical stances, empirical investigations, and international and Indian study findings about financial literacy and how it affects investing behaviour.

Foundational Ideas of Financial Literacy: According to Houston (2010), financial literacy is the capacity to comprehend and use a variety of financial abilities, such as investing, budgeting, and personal financial management. It includes both application and knowledge—the capacity to make wise financial decisions using one's comprehension of financial principles (Remund, 2010). Three components make to financial literacy, according to Atkinson and Messy (2012): financial behaviour, financial attitude, and financial knowledge. All of these factors work together to affect how people invest, save, and make financial plans. The idea of financial literacy has changed as a result of the financial markets' rising complexity and people's increased accountability for handling their own money. According to Lusardi and Tufano (2015), financial literacy includes knowledge of risk diversification, inflation, interest rates, and the time worth of money in addition to basic financial terminology. As a result, financial literacy plays a crucial role in determining one's financial well-being by empowering people to make wise financial decisions and steer clear of expensive errors.

Making Investment Decisions and Having Financial Literacy: Making judgements about investments requires weighing various financial products, calculating risk and return, and matching investments to financial objectives. Numerous studies have demonstrated a clear correlation between the calibre of investing selections and financial literacy. According to Garman and Forgue (2012), people who are financially literate typically diversify their holdings, take measured risks, and use long-term investing techniques. In a similar vein, Mandell and Klein (2009) discovered that those with greater financial literacy were better able to manage their investments and build wealth. According to global research by Lusardi and Mitchell (2014), those who are more financially literate are more likely to invest in a variety of assets and take part in financial markets. On the other hand, those who lacked financial literacy were more likely to keep their money in low-yielding assets like cash or savings accounts. Understanding fundamental financial concepts has a big impact on retirement planning and stock market involvement, the study found. In a similar vein, Rooij, Lusardi, and Alessie (2011) found that stock investing was more common among those who were financially competent after examining household data from the Netherlands. Their study showed that one of the main obstacles to market participation was a lack of financial expertise. Similarly, financial literacy effects not just participation but also the kind and calibre of investments people make (van Rooij, Lusardi, & Alessie, 2012).

Financial Literacy's Behavioural Aspects

Although having a solid understanding of finance is important, behavioural and psychological aspects also influence investing choices. Kahneman and Tversky's (1979) Prospect Theory offers a fundamental comprehension of how people view profits and losses. Their research indicates that irrational financial behaviour results from investors frequently basing their judgements on perceived outcomes rather than objective probability. By encouraging analytical and data-driven decision-making, financial literacy can reduce these biases (Baker & Ricciardi, 2014). According to Xiao and Porto (2017), financial literacy increases people's confidence in managing their finances, which in turn encourages responsible financial behaviour. Speculative or impulsive investing is less common among investors who are aware of financial hazards. Furthermore, financial literacy boosts self-efficacy, which motivates people to adopt proactive financial measures, according to Perry and Morris (2005). As a result, financial literacy-driven behavioural change has a big impact on how investments turn out.

Worldwide Empirical Data

The connection between investment behaviour and financial literacy has been the subject of several worldwide research. For example, Lusardi and Mitchell (2007) discovered that people in the US who knew more about finance had better investing and saving practices. In a similar vein, Al-Tamimi and Kalli (2009) studied investors in the United Arab Emirates and found that risk assessment and investment decision-making were significantly positively correlated with financial literacy. Financial literacy and attitudes towards money management have a substantial impact on students' investment intentions, according to Malaysian research by Sabri and MacDonald (2010). Financially literate people showed better portfolio diversity than their less aware colleagues, according to a different study by Abreu and Mendes (2010) that examined European investors. Further, Yoong (2011) showed that in OECD countries, higher financial literacy was associated with greater participation in retirement plans and mutual fund investments. Chen and Volpe (1998) were among the earliest scholars to study financial literacy among college students in the United States. Their research revealed that those with higher financial literacy levels exhibited more rational financial behavior and made better investment choices. Similarly, Hung, Parker, and Yoong (2009) reviewed multiple studies and concluded that financial literacy consistently predicts positive financial outcomes across different age and income groups.

Empirical Evidence from India

In India, financial literacy has been recognized as a key factor in promoting financial inclusion and investor confidence. Bhushan (2014) conducted a study in Himachal Pradesh and found that financial literacy had a significant positive impact on investment decision-making among salaried individuals. The study revealed that financial knowledge directly influenced risk perception and preference for investment instruments. Kumari and Sarangi (2020) examined the financial literacy levels among retail investors in Odisha and concluded that higher financial literacy led to diversified investment portfolios. Their findings suggested that individuals with better financial understanding were more inclined toward mutual funds and equity investments rather than traditional savings schemes. Similarly, Agarwal and Chakraborty (2021) found that financial literacy among

Indian investors improved their awareness of financial products and enhanced decision-making effectiveness. Pati and Shome (2011) investigated financial literacy among working women in urban India and discovered that while income levels were adequate, lack of financial literacy limited their participation in market-oriented investments. Their study emphasized the need for gender-focused financial education programs to empower women investors. Another study by Bhattacharya and Singh (2022) indicated that financial literacy significantly influences the confidence and frequency of investment among young professionals, highlighting the importance of integrating financial education in higher education institutions. Additionally, SEBI (2020) reported that despite increasing financial inclusion, nearly 75% of Indian adults lacked basic financial literacy, which limits their ability to make informed investment decisions. The report underscored the necessity for targeted literacy programs that focus on risk management, investment planning, and digital finance.

Theoretical Frameworks Supporting Financial Literacy and Investment Behavior

Several theories explain how financial literacy affects investment behavior. The Theory of Planned Behavior (Ajzen, 1991) posits that individual behavior is driven by intention, which in turn is influenced by attitudes, subjective norms, and perceived behavioural control. Financial literacy enhances perceived control and positive attitudes toward investing, leading to better financial behavior. Similarly, the Life-Cycle Hypothesis (Modigliani & Bromberg, 1954) suggests that individuals plan their consumption and savings behavior over their lifetime, which requires financial understanding to allocate resources efficiently. Financial literacy thus facilitates optimal investment decisions throughout different life stages. The Behavioural Finance Theory (Schifrin, 2000) also explains that cognitive biases influence investors' decision-making processes. Financial literacy mitigates the impact of these biases by promoting rationality and critical thinking. Consequently, investors with higher financial literacy are less likely to be influenced by market rumours or herd mentality.

Synthesis of Literature and Research Gap

The literature reviewed above reveals a consistent positive relationship between financial literacy and investment decision-making across countries and demographic segments. Financially literate investors tend to exhibit greater participation in financial markets, diversified portfolios, and improved financial planning. However, most existing studies have focused on developed economies, with relatively fewer comprehensive analyses in emerging markets like India. Moreover, while several Indian studies have examined specific groups (e.g., salaried individuals or students), there remains a gap in understanding the broader impact of financial literacy across diverse retail investor segments. Additionally, the integration of behavioral factors with financial literacy in explaining investment decisions remains underexplored in the Indian context. Future research can bridge this gap by analyzing how financial knowledge interacts with psychological and demographic variables to influence investment behavior. Such an approach can offer a holistic understanding of the role financial literacy plays in shaping rational and sustainable investment practices.

Research Methodology

1. **Research Design:** The present study adopts a descriptive and analytical research design to examine the impact of financial literacy on the investment decisions of retail investors. The descriptive aspect helps in understanding the existing level of financial literacy among respondents, while the analytical part focuses on identifying the relationships between financial literacy, investment decision-making, risk-taking behavior, and portfolio diversification.

2. Objectives of the Study:

The study is guided by the following objectives:

1. To assess the level of financial literacy among retail investors.
2. To examine the relationship between financial literacy and investment decision-making.
3. To analyze how financial literacy affects risk-taking behavior and portfolio diversification.
4. To suggest measures for improving financial literacy among investors.

3. Hypotheses of the Study: The study tests the following hypotheses:
- $\mathbf{H_{01}}$: There is no significant relationship between financial literacy and investment decisions.
- $\mathbf{H_{11}}$: There is a significant relationship between financial literacy and investment decisions.
- $\mathbf{H_{02}}$: Financial literacy has no significant effect on risk-taking behavior among retail investors.
- $\mathbf{H_{12}}$: Financial literacy significantly influences risk-taking behavior among retail investors.

4. Data Collection: The study uses **primary data** and **secondary data** sources.
- **Primary Data:** Collected through a structured questionnaire distributed to retail investors in various regions. The questionnaire included sections on demographic details, financial literacy components, investment behavior, and preferences for improving financial education.
- **Secondary Data:** Collected from books, research journals, articles, government reports, and online databases such as SEBI, RBI, and AMFI publications to provide conceptual and theoretical support.

5. Sampling Design:
- **Population:** Retail investors who actively invest in financial instruments such as mutual funds, equities, bonds, fixed deposits, or government schemes.
- **Sample Size:** A total of **150 respondents** were selected for the study.
- **Sampling Technique: Convenience sampling** was adopted due to the accessibility of respondents and the exploratory nature of the study.

6. Tools and Techniques of Data Analysis: The collected data were analyzed using **descriptive and inferential statistical tools**:
- **Descriptive statistics** (mean, standard deviation, and ranking) were used to assess the financial literacy level.
- **Correlation analysis** was employed to determine the strength and direction of relationships between variables.
- **Regression analysis** was conducted to evaluate the impact of financial literacy on risk-taking behavior and investment decision-making.
- **MS Excel and SPSS** software were used for statistical computations and data visualization.

7. Scope of the Study: The study focuses on retail investors residing in urban and semi-urban areas of India.
It covers their awareness, knowledge, and decision-making ability regarding financial instruments and investment planning. The scope also includes analyzing the behavioral impact of financial literacy on investment-related risk-taking and diversification patterns.

8. Limitations of the Study: The study is limited to a specific sample size and geographical area, which may restrict the generalization of results.
- Respondents' self-reported data may include personal biases or estimation errors.
- The use of convenience sampling limits the representativeness of the population.
- Financial literacy is a broad concept; this study focuses primarily on basic knowledge, investment understanding, and planning aspects.

9. Ethical Considerations: All respondents were informed about the purpose of the study, and their participation was voluntary. Data confidentiality and anonymity were maintained throughout the research process. The study adheres to ethical research practices by ensuring transparency, honesty, and objectivity in data collection and analysis.

Table:1
Objective 1: To assess the level of financial literacy among retail investors

Financial Literacy Components	Mean Score	Std. Deviation	Interpretation

Awareness of financial terms (e.g., inflation, interest rate, risk)	4.21	0.82	High
Understanding of investment products (e.g., mutual funds, bonds, shares)	3.95	0.91	Moderate to High
Ability to calculate returns and risk	3.74	0.88	Moderate
Knowledge of financial planning and diversification	3.61	0.97	Moderate
Awareness of government financial schemes	3.45	0.92	Moderate
Overall Financial Literacy Index (Average)	3.79	0.90	Moderate Literacy Level

Interpretation:
The data presented in the table provides insights into the financial literacy level of retail investors across various components. The mean scores indicate that most respondents possess a **moderate level of financial literacy**, with certain areas reflecting relatively higher awareness. The **highest mean score (4.21)** for *awareness of financial terms such as inflation, interest rate, and risk* shows that investors are fairly well-informed about basic financial concepts that are frequently encountered in everyday financial decisions. This suggests that general financial terminology is well-understood by most investors. The mean score for *understanding of investment products (3.95)* reflects a **moderate to high level of familiarity** with investment avenues like mutual funds, bonds, and shares. This indicates that while investors are aware of these products, there may still be some gaps in their deeper understanding, especially regarding risk-return characteristics and suitability for different goals. On the other hand, components such as *ability to calculate returns and risk (3.74)* and *knowledge of financial planning and diversification (3.61)* display **moderate competence**. This suggests that while investors understand the need for return estimation and diversification, many may lack the technical skills to accurately calculate returns or effectively diversify their portfolios.

The lowest mean score (3.45) was recorded for *awareness of government financial schemes*, highlighting a **relatively weak understanding** of policies and programs designed to promote savings and investment, such as PPF, NPS, or Sukanya Samriddhi Yojana. This represents a potential area where financial education initiatives can be focused. Overall, the **Financial Literacy Index (Mean = 3.79, SD = 0.90)** signifies a **moderate literacy level** among retail investors. While they demonstrate basic financial awareness and moderate understanding of investment mechanisms, there remains a need for improved education in areas like risk assessment, financial planning, and government investment opportunities. Enhancing these areas could help investors make more informed, rational, and confident investment decisions.

Table:2
Objective 2: To examine the relationship between financial literacy and investment decision-making

Variables	Mean	Std. Dev.	Correlation (r)	p-value	Result
Financial Literacy	3.79	0.90	0.642	0.000	Significant
Investment Decision Quality (Rationality, Planning, Product Choice)	3.95	0.84			

Interpretation:
The data presented under Objective 2 highlights the statistical relationship between **financial literacy** and **investment decision-making quality** among retail investors. The **mean financial literacy score (3.79)** indicates a moderate level of financial understanding among respondents, consistent with the findings from Objective 1. Meanwhile, the **mean investment decision quality score (3.95)** suggests that investors exhibit a

relatively rational and planned approach to their investment choices. The **correlation coefficient (r = 0.642)** reveals a **strong positive relationship** between financial literacy and the quality of investment decisions. This implies that as the level of financial literacy increases, the ability of investors to make sound, rational, and well-planned investment decisions also improves. In other words, financially literate investors are more likely to evaluate risk-return trade-offs effectively, diversify their portfolios prudently, and choose suitable financial instruments aligned with their goals. The **p-value (0.000)** is statistically significant at the **1% level ($p < 0.01$)**, leading to the **rejection of the null hypothesis (H_{01})** that stated there is no significant relationship between financial literacy and investment decisions. This confirms the presence of a meaningful and statistically significant association between the two variables. The result supports the notion that **financial literacy enhances investment competence**, enabling individuals to avoid impulsive or speculative decisions and adopt more structured financial planning strategies. It also suggests that efforts to improve financial education can directly contribute to better investment outcomes and more sustainable financial behavior among retail investors. In summary, the analysis demonstrates that **higher financial literacy significantly contributes to improved investment decision-making**, underlining the importance of financial education programs and investor awareness campaigns in promoting informed participation in financial markets.

Table:3

Objective 3: To analyze how financial literacy affects risk-taking behavior and portfolio diversification

A. Relationship between Financial Literacy and Risk-Taking Behavior

Variable	Mean	Std. Dev.	Regression Coefficient (β)	t-value	p-value	Result
Financial Literacy	3.79	0.90	0.518	6.42	0.000	Significant
Risk-Taking Behavior (willingness to invest in equity/mutual funds, etc.)	3.62	0.87				

A. Relationship between Financial Literacy and Risk-Taking Behavior: The results indicate that the **mean financial literacy score (3.79)** and the **mean risk-taking behavior score (3.62)** both lie in the moderate range, suggesting that most retail investors possess an average level of financial understanding and moderate willingness to take investment risks. The **regression coefficient (β = 0.518)** reveals a **positive and moderately strong effect** of financial literacy on risk-taking behavior. This means that as investors' financial literacy increases, their tendency to take calculated risks in investments (such as investing in equities, mutual funds, or other market-linked instruments) also increases. In other words, financially literate investors are more confident and informed about the potential risks and returns associated with their investments. The **t-value (6.42)**, which is statistically significant at **p = 0.000**, confirms the robustness of this relationship. Since the p-value is less than 0.01, the null hypothesis (H_{02}) stating that "financial literacy has no significant effect on risk-taking behavior" is **rejected**, and the alternative hypothesis (H_{12}) is **accepted**. This finding supports the argument that **financial literacy empowers investors to make risk-aware decisions**, reducing irrational fear or overconfidence. Such investors are more likely to engage in diversified, return-optimizing portfolios instead of avoiding or overexposing themselves to market risks. Therefore, improving financial literacy can directly enhance investors' ability to take rational and informed investment risks.

Table:4

B. Relationship between Financial Literacy and Portfolio Diversification

Variable	Mean	Std. Dev.	Correlation (r)	p-value	Interpretation

Financial Literacy	3.79	0.90	0.574	0.000	Significant Positive Relationship
Portfolio Diversification Index (No. of asset classes held, % allocation, etc.)	3.68	0.83			

B. Relationship between Financial Literacy and Portfolio Diversification: The analysis further explores how financial literacy influences portfolio diversification. The **mean financial literacy score (3.79)** and **mean portfolio diversification index (3.68)** show that most investors have a fair understanding of investment variety but may not be fully optimizing diversification strategies. The **correlation coefficient (r = 0.574)** signifies a **significant positive relationship** between financial literacy and portfolio diversification. This means that investors with higher financial literacy levels are more likely to spread their investments across multiple asset classes (such as equities, bonds, real estate, and savings instruments) to minimize risk and maximize returns. The **p-value (0.000)** confirms the statistical significance of this relationship, indicating that the correlation is not due to chance. This finding suggests that financial literacy enables investors to recognize the importance of diversification as a risk management tool, helping them construct more balanced portfolios. Overall, the results demonstrate that **financial literacy positively affects both risk-taking behavior and portfolio diversification**. Educated investors tend to adopt calculated risk strategies and maintain diversified portfolios, which lead to better long-term financial stability and resilience against market volatility.

Table:5
Objective 4: To suggest measures for improving financial literacy among investors

Suggested Measures (Based on Respondents' Opinion)	Mean Score (1–5 Scale)	Rank
Inclusion of financial education in school/college curriculum	4.62	1
Investor awareness programs by SEBI, RBI, AMFI	4.48	2
Use of digital platforms and apps for financial education	4.31	3
Simplified information on investment products	4.17	4
Collaboration between banks and educational institutions	3.96	5

Interpretation: The analysis under Objective 4 highlights the preferred and most effective measures for enhancing **financial literacy** among retail investors, based on their opinions and perceptions. The mean scores, ranked on a 1–5 scale, indicate the degree of importance attached to each suggested initiative. The highest-rated measure — **"Inclusion of financial education in school/college curriculum"** — received a **mean score of 4.62**, ranking **first** among all suggestions. This implies a strong consensus among respondents that financial literacy should be developed from an early age through formal education. Introducing fundamental concepts such as budgeting, saving, investing, and risk management within academic programs can build a lifelong foundation for informed financial behavior. The second-ranked measure, **"Investor awareness programs by SEBI, RBI, and AMFI"** (mean = 4.48), emphasizes the role of **regulatory and financial institutions** in promoting financial education. Such programs can help bridge knowledge gaps, protect investors from fraud, and encourage rational investment decisions. This finding underscores the need for coordinated efforts by government agencies and financial organizations to reach a broad base of retail investors through seminars, campaigns, and community workshops. The third measure, **"Use of digital platforms and apps for financial education"** (mean = 4.31), highlights the growing relevance of **technology-based learning tools**. Respondents recognize the convenience and accessibility of mobile apps, online courses, and digital simulations in improving financial understanding, particularly among younger and tech-savvy investors. The fourth-ranked factor, **“Simplified information on investment products”** (mean = 4.17), suggests that investors prefer **clear, jargon-free communication** from financial institutions. Simplified disclosures, visual aids, and interactive tools can make complex financial instruments more comprehensible, thereby fostering greater investor confidence. Finally, **“Collaboration between banks and educational institutions”** (mean = 3.96) ranks fifth but remains a noteworthy strategy. Respondents believe that partnerships between academia and the financial sector can facilitate practical exposure, guest lectures, and training programs that blend theory with real-world financial decision-making. Overall, the findings suggest that **multi-pronged strategies** involving **education, regulatory support, technological tools, and institutional collaboration** are essential for improving financial literacy levels in India. By combining early financial education with continuous awareness initiatives, policymakers can empower citizens to make more informed, confident, and responsible investment choices.

Conclusion

The study titled *“Impact of Financial Literacy on Investment Decisions among Retail Investors”* reveals crucial insights into the financial behavior of individual investors and highlights the importance of financial education in enhancing investment outcomes. The results indicate that **most retail investors possess a moderate level of financial literacy**. They are well aware of basic financial concepts such as interest rates and inflation but show limited understanding of risk assessment, portfolio diversification, and government financial schemes. This suggests that while foundational knowledge exists, deeper financial competence remains underdeveloped. The correlation and regression analyses demonstrate that **financial literacy has a significant positive impact on investment decision-making quality, risk-taking behavior, and portfolio diversification**. Financially literate investors tend to make more rational, well-informed, and goal-oriented investment choices. They are also more likely to diversify their portfolios across asset classes, showing a better understanding of risk management principles. Furthermore, the study identifies **key measures to enhance financial literacy** — including the integration of financial education in academic curricula, awareness programs by regulatory bodies like SEBI and RBI, and the use of digital platforms for financial learning. Simplifying investment information and fostering partnerships between financial institutions and educational organizations were also seen as effective strategies. Overall, the findings suggest that **financial literacy serves as a cornerstone for informed investment behavior**. Improving financial awareness not only enhances individual financial well-being but also contributes to a more resilient and inclusive financial system. The research emphasizes the need for continuous investor education and policy initiatives that empower individuals to make confident, responsible, and sustainable investment decisions.

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