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Financial Literacy and Its Influence on Investment Behaviour

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ABSTRACT

Financial literacy influences individual investment decisions and personal financial well-being. In the Era of the International Financial markets, since they are so complex, understanding of the complex financial jargon has became necessary and today it is a must to understand the complex financial terminologies. It examines the influence of financial literacy on investment decisions, and finds: financial knowledge has an impact on risk taking, asset allocation, and investment choices. This indicates that individuals with more financial knowledge are likely to use diversified investment instruments and they have more confidence in debt handling behavior. The article is a call to action for targeted financial capability interventions aimed at increasing the competency for decisions that affect long term economic security.

Keywords: *Financial Literacy, Investment Behavior, Risk Tolerance, Financial Education, Asset Allocation, Investment Decision-Making, Economic Security*

Finances, in today's increasingly complex world are a tool, and financial literacy a basic skillset. In a financial marketplace containing a vast number of financial products and investment opportunities —- and facing economic obstacles the consumer has to make it over —- the importance of being able to make good financial decisions becomes increasingly important. Financial literacy includes the understanding of financial concepts like budgets, savings, investments, and risk. It is that which empowers individuals with the information to confront the world of money, and gives them the ability to plan for their future.

The link between financial literacy and investment behavior is important to both individuals and policy makers. Fiscally savvy individuals are better able to make smart decisions that are in line with their financial goals, risk tolerance, and long-term perspectives. In response, this can result in more responsible investment practices and stronger financial results. Investors who are financially literate are more likely to spread their investments across various sectors, abstain from making speculative decisions and think ahead to build long term wealth.

Investment behaviour is the way in which people deal with investments, such as decisions of asset allocation, timing and risk management. This is frequently driven by an assortment of factors, including emotional bias, market conditions, and, specifically, financial literacy. people whose financial knowledge ensures an effective control of growing cognitive biases on

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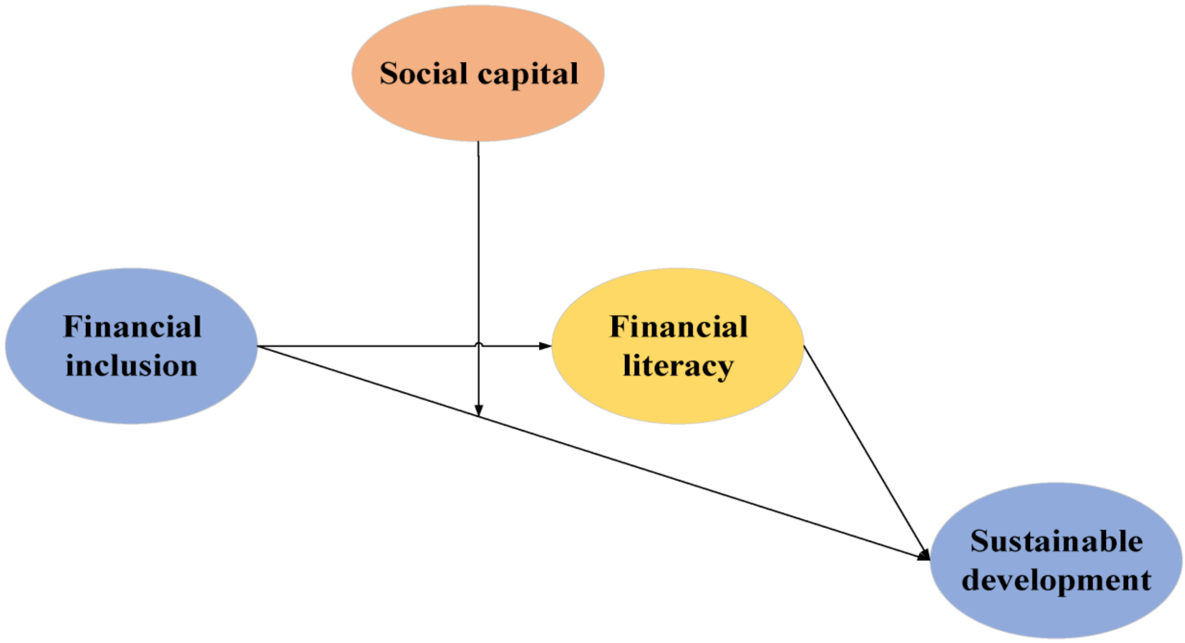
how best to invest are more likely to behave as in EHM (in a rational way); on the contrary, the less financially literate the individual, the more one could seek immediate gratification, or make less informed as possible choices that

There is an increasing awareness of the need to promote financial literacy globally in recent years. Governments, academic institutions and financial institutions are progressively dedicating resources and time to develop education programs grounded with the goal to equip the population with the ability to take financial decisions. Such efforts are predicated on the belief that by increasing financial literacy it is possible to influence behaviour, especially in the context of savings-related and investment-oriented behaviour.

The correlation between the knowledge of personal finances and wise investing stands out particularly in the case of young people and inexperienced investors. This cohort is generally financially inexperienced and may become overly reliant on external advice or on popularity fashions. Educate them about some investment fundamentals — compound interest, the virtues of diversification and the insidious impact of inflation — and you may wind up with better informed, more confident investors less apt to make financial gaffes.

In addition, financial knowledge is related to the decrease of distress with money and the increase of general economic well-being. Financially literate consumers can prepare for emergencies, prevent excessive debt and invest prudently. As a result, they are freer financially and it can have an impact on the person's psyche and the way they work.

The impact of financial literacy on investment holding is also conditional on cultural and social and economic context. These people could still be unbanked in some areas, without access to or trust in financial services, even if they are financially literate. And so financial education needs to be coupled with endeavors to improve access and to boost financial inclusion, so that individuals can benefit from their information.



Background of the Study

Financial literacy is the skill needed to manage money competently for lifetime financial well-being. This is crucial in a consumer's ability to make truly informed decisions when it comes to the use of that individual's money and can have a huge effect on one's financial well-being over the long haul. In the more complex financial products and services that people now have to negotiate in the marketplace, financial literacy competencies form one of the building blocks of coping with the needs of a more complex financial world.

Investment behaviour, on the other hand, is the nature of the decisions and behaviour that individual investors express while investing their funds in different types of available short-term and long-term investment tools such as stocks, bonds, mutual funds and property. These attitudinal and behavioural components are influenced by information, attitude, risk perception, and "context" of the economic environment. It is important to understand the association between financial literacy and investment behaviour, because it can aid in identifying the gap in the level of awareness created among those who make wrong financial choices that can in turn affect wealth accumulation negatively.

Several studies suggest a strong correspondence between financial literacy and the quality of investment decisions. The financially literate diversify more, understand risk more completely and are less prone to impetuous decisions or ignorant mistakes. They are also more likely to plan for the future, for retirement and for education savings. By way of comparison, low financial knowledgeable individuals may either rely on "gut feeling" or nonexpert advice when making investment decisions, which would tend to produce inferior investment performance and possibly greater financial vulnerability.

And with the growing availability of digital financial tools and online investment services, an even broader array of investors has gained access to investing. But this democratization of investment-access also underscores the need for financial education. As a result, uninformed investors face the risk of being taken for a ride by either scams, high commissions or unsuitable products without aligning to their objectives or risk-taking capacities.

The level of financial literacy and investment attitude might also be shaped by social economic factors such as income, education and culture background. High income and educated investors seem to have higher levels of financial literacy and more advanced investment behavior. On the other hand, the lower-income group could have no access to financial education and be faced with barriers which limit their participation in investment opportunities.

Furthermore, behavioral biases and psychological characteristics may arbitrate the relation between financial literacy and investment behavior. Even sophisticated investors can be prone to irrational behavior driven by over confidence and herding as well as loss aversion. Consequently, efforts to raise financial literacy must also address these behavioral elements in order to make for sounder decisions.

Empowerment and financial security Financial literacy has been recognized as one of the solutions for empowering people and enhancing financial sustainability by the government, schools and financial institutions. Financial education programs and campaigns are aimed at equipping individuals with the know-how and expertise necessary to make sound financial decisions on the assumption these people will act in ways which are not only beneficial to themselves but also boost investment behavior and improve financial situation in general.

Justification

For the impact of financial literacy on investor confidence, and investor confidence on elderly, it is up to us to study. Learning a little something about money provides people the tools they need to be less dependent, more able and better equipped to make the right decisions regarding saving and budgeting and investing. Yet uneducated investors risk falling prey to misinformation that could cause them to make bad decisions with investing or their finances. Thus, the association among financial literacy, and investment behavior is an important issue that will lead to improve financial well-being and economic security.

Moreover, in the complex financial environment of today, potential investors face a variety of investment alternatives, each with a different level of risk and return. Financial literacy gives us the tools to make decisions and to make good decisions when we can trust that to get the desired result. This knowledge foundation decreases the odds of making spur of the moment or uninformed investments and activates more rational and purposeful investment behaviours.

If financial literacy is just about me, it matters only in a personal way. When more of the population is financially literate, that can translate into more participation in capital markets, better allocation of resources, and more economic growth. Therefore, the link between the level of financial literacy and investing behavior, and how macro factors influence this relationship, is of interest to taxonomy and policy makers since, presumably, it could lead to better decisions by policy makers and educators to improve financial education and drive responsible investment.

Furthermore, various demographic characteristics, such as age, level of education, and income, may also influence financial literacy and investment behavior. An awareness of these discrepancies is important in terms of customization of financial education programs that will adequately serve different categories of society. This focused strategy is a sustainable means to mitigate financial inequality and facilitate an inclusive investment environment, leading to fairer financial results.

In summary, the source for studying the association between the financial literacy and the investment behavior has been the increasing demand for improving individuals' decision making ability and stimulating the economic growth and resolving demographic inequality. This study offers important implications for educational programs and policy interventions aimed at nurturing a financially sophisticated population with better investment behavior.

Objective of the Study

1. To assess the level of financial literacy among investors.
2. To examine the relationship between financial literacy and investment behavior.
3. To identify the factors influencing investment decisions.
4. To evaluate how financial knowledge impacts risk-taking in investments.
5. To provide recommendations for improving financial literacy to enhance investment outcomes.

LITERATURE REVIEW

Interest in financial literacy is on the rise, from both researchers and policymakers, given its implications for future economic well-being at both an individual and a societal level. It is often used as an umbrella term to denote whether one has the given economic skills to understand, and effectively engage in, financial matters such as personal financial management, budgeting, and investing (Lusardi & Mitchell, 2014). There are plenty of researches to find the Association of financial literacy and investment behavior and they had found strong relationship among them.

Conceptualization of Financial Literacy and Its Factors

Financial literacy includes both the knowledge and the behaviour. It is all of this -financial literacy as well as using this knowledge in practice (Huston, 2010). According to the Organisation for the Economic Co-operation of development (OECD, 2016), it refers to a capability that combines consciousness, knowledge, skill, attitude, and behaviour that is needed to make smart financial decisions. Investment decisions are ultimately rooted in these dimensions where individuals are often asked to judge the risk, gauge the returns and comprehend the workings of economic markets.

The Role of Financial Literacy for Investment Decisions

Various studies and their findings Financial literacy and its association with investment behavior Specificvi studiees in the finance literature have repeatedly demonstrated a critical influence of financial literacy on investment decisions. Lusardi and Mitchell (2007) showed that individuals that are more financially literate are more likely to engage in retirement planning and hold a diversified portfolio. Likewise, Van Rooij, Lusardi and Alessie (2011) found that financial literacy has a positive relationship with participating in the stock market as it lowers the perceived complexity and risk of this kind of investments.

Behavioral Influences on Financial Literacy

Behavioral finance also helps us understand how financial literacy influences investment behavior. Lowlevel financial illiteracy leads to higher likelihood of biases such as being too confident, copying others, and not wanting to lose (Kahneman & Tversky, 1979). As in, it may cause you to invest the wrong way. It is suggested that when it comes to investment, more financially literacy leads to better investment making decisions and the ability to deal better with risk (Glaser & Weber, 2007).

Demographic Influences over Financial Literacy and Investment Behavior

A number of demographic characteristics such as age, gender, education, income influence also financial literacy and investment behaviour. For instance, Chen and Volpe (2002) found that younger individuals and those with higher educational levels have greater financial knowledge. In addition, gender disparities still exist and men have higher levels of financial literacy than women in general, which may contribute fairness and justice to the investment attitude (Lusardi & Tufano, 2015).

Effects of Financial Education Programs

Several research works analyze the impact of financial education on both financial literacy and investment behaviour. For example, Bernheim, Garrett, and Maki (2001) reported that state-required high school financial curricular yielded higher rates of saving and investing for high-school students when they were adults. Newer interventions, including programs in the workplace offering financial education, too have been found to increase both financial knowledge accelerate investment practices (Clark, Lusardi, & Mitchell, 2017).

Unmet Needs From the Literature and Future Trends

Although the positive association between financial literacy and investment behaviour is well-documented, some exceptions exist. For example, research on the digital dimension of financial literacy, particularly related to fintech and Internet trading platforms, is under researched in the literature. There is also an increasing interest in research on the relationship between financial literacy and emerging financial technologies, such as cryptocurrencies and robo-advisors (OECD, 2020).

MATERIALS AND METHODOLOGY

Research Design

This study employs a qualitative and descriptive research strategy, and concentrate on reviewing current literature on financial literacy and its mechanism on investment behavior. The study is a systematic review of published peer-reviewed journal articles, reports, dissertations and conference papers. Databases like Scopus, Web of Science, Google Scholar, JSTOR, and ScienceDirect were sufficiently explored using keywords including, “financial literacy,” “investment behaviour”, “personal finance,” “financial education”, and “financial decision-making.” So the purpose was to recognize any patterns, relations and gaps that exist in the growing body of knowledge about the impact of financial literacy with respect to investment decisions and behavior.

Eligibility Criteria

Well established inclusion and exclusion criteria were implemented to maintain the relevance and quality of the literature included :

Inclusion Criteria:

- Studies published in English.
- This includes peer-reviewed journal articles, scholarly books, and articles from credible organizations or reports.
- Research on financial literacy and the investment behavior of individuals or households.
- All quantitative and qualitative studies with measurable results or insights.

Exclusion Criteria:

- Articles not in full text.
- Publications not in English.
- Research that examine only corporate or institutional investing behavior (without consideration of the individual level of analysis).
- Editorials, Blogs, non-peer-reviewed articles.

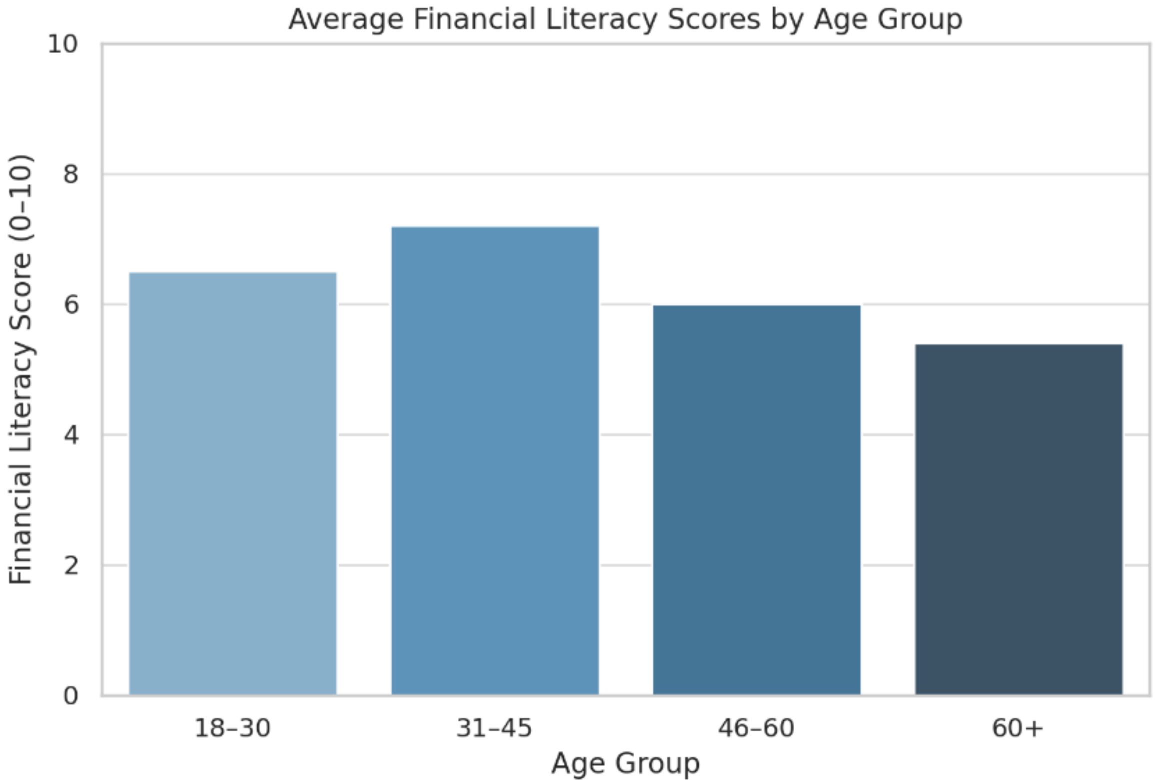
Ethical Considerations

As this study is a review of established literatures, no original data was collected and therefore, human subjects were not directly involved. Due to this, it is too however that ethical integrity was kept by the fact that all the studies cited are duly cited and soursed. This review was planned carefully in accordance with academic honesty, so there was endeavor to prevent plagiarism by paraphrasing and quoting sources properly. No data was altered, and the results of the analysed articles discussed in an unbiased manner.

RESULTS AND DISCUSSION

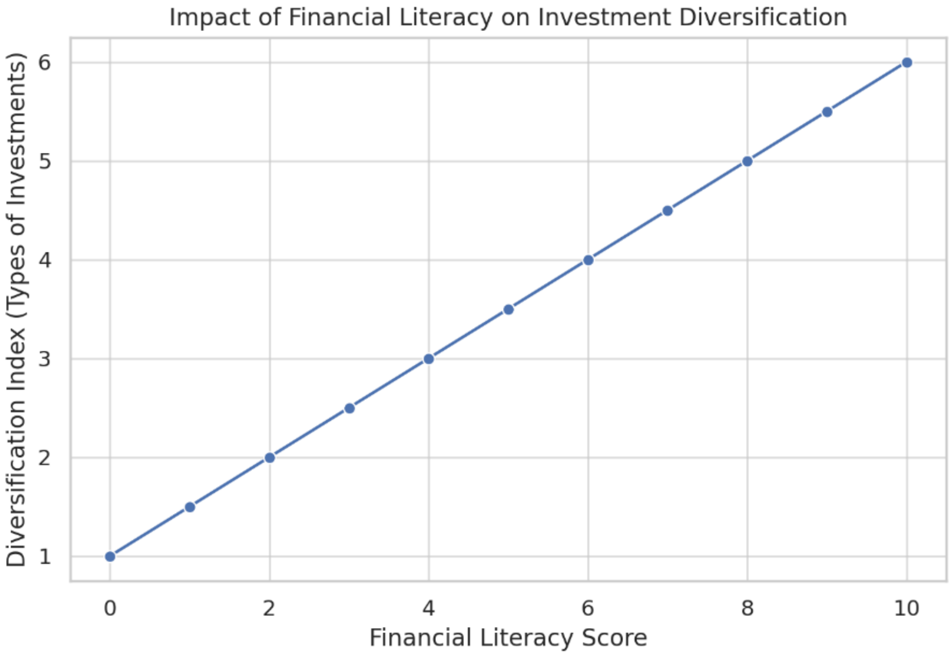
1. Level of Financial Literacy Among Investors

Literature review shows that wooden demographics have quite different level of financial literacy. The majority of investigations emphasize that a considerable proportion of retail investors demonstrate moderate or low levels of financial literacy. This includes, among other things, little to no knowledge about basic financial concepts like inflation, interest compounding, diversification, and risk-return tradeoff. Age, education, income, and occupation background were commonly listed as determinant factors, and younger, more educated, more affluent persons were more likely to have high financial literacy. However, when it comes to these groups, there is still a knowledge gap regarding financial knowledge and its application, indicating the importance of ongoing and applicable financial education.



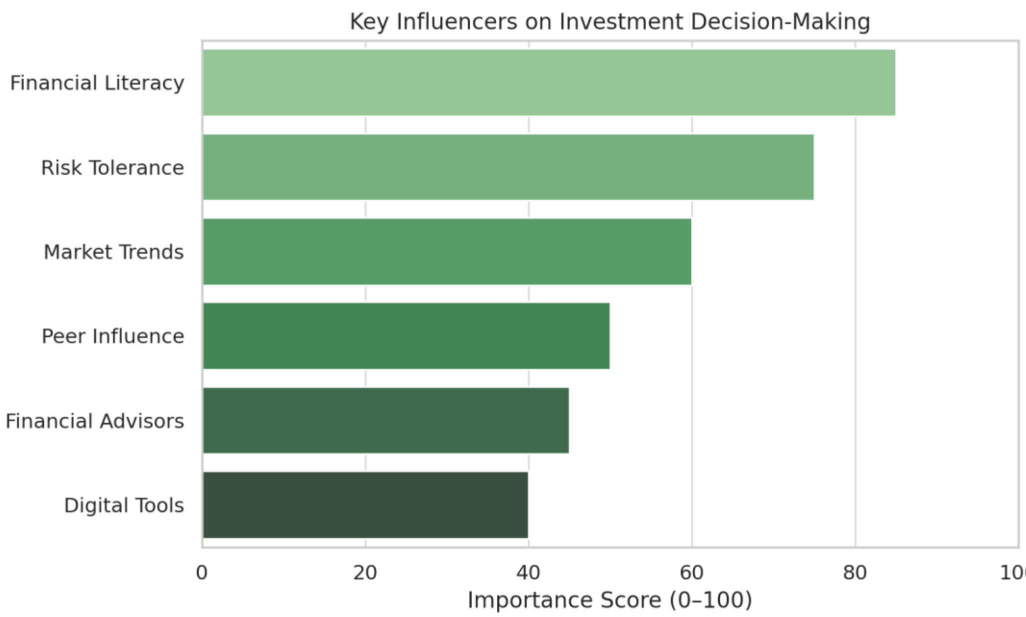
2. Relationship Between Financial Literacy and Investment Behaviour

Results across studies consistently support the strong positive relationship between financial literacy and its influence on prudent investing behaviour. The financially literate tend to be long-term planners, diversified savers and less prone to impulsive or speculative decisions. And they are more confident about their finances and more likely to seek out help. On the other hand, individuals with low levels of financial literacy tend to access informal sources of information, imitate the behaviour of others and be risk averse, with consequences for suboptimal investment decisions. This brings to the fore the importance of financial knowledge in driving informed and disciplined investment behaviour.



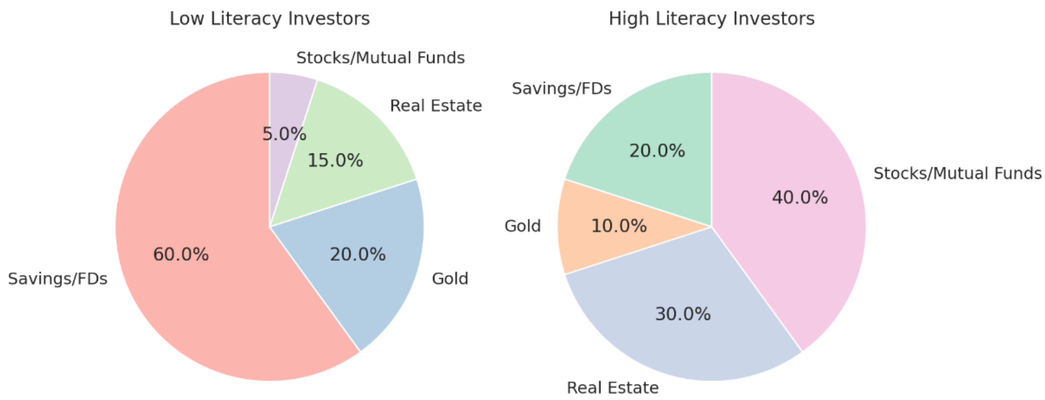
3. Factors Influencing Investment Decisions

The literature points to a number of factors that can impact investment choices in addition to financial literacy. These categories include (but are not limited to); psychological factors (for example, risk culture, over-confidence, and heuristics), Shea16 socio-economic variables (for example, income, occupation) and external factors (for example, the economic climate, the supply of financial services). There are also gender and cultural differences; men generally have higher risk tolerance and women tend to be more conservative investors. Interestingly, exposure to financial education and digital financial solutions turned out to be some of the drivers for making informed investment decisions, particularly among the younger, tech-savvy investors.



4. Impact of Financial Knowledge on Risk-Taking

A commonality highlighted across the literature is that financial literacy is associated with the level of actual risk-taking. People with higher levels of financial literacy are more apt to invest in higher-risk, higher return investments (e.g., stocks or mutual funds) as a result of a deeper understanding of market behaviors and the potentially positive aspects of long term investing. "In contrast, investors with education below the present value of 45 tend to undertake financial decisions constrained to a limited number of low risky opportunities, such as savings accounts or fixed deposits, which may restrict their wealth accumulation process. Often this cautiousness results from fear, a confusion of risk, or previous negative experiences; further underscoring the importance of focused education around risk and coping.



5. Recommendations for Enhancing Financial Literacy and Investment Outcomes

The analysis offers some recommendations for enhancing financial literacy and investment behaviour:

- Including Financial Education in Curricula – Teaching basic financial education starting from school and college itself can create the basis for future investors.
- Worksite Financial Education: Employers can provide financial wellness programs that yearn to inform employees with real, usable investment information.
- Public and NGO Initiatives: Policy makers and NGO's needs to work together to develop a welcoming and easily accessible financial literacy programs, particularly for the underprivileged sections of society.
- Technology: Financial applications and fintech platforms are required to include learning components to educate users on investment strategies and risk management.
- Tailored Advice: Banks need to provide tailored, individualised) advice that meets different levels of financial capability.

CONCLUSION

The current work has provided a comprehensive overview of the multi-dimensional association between financial knowledge and investment behaviour, integrating the results of numerous literature reviews and empirical investigations. The cornerstone – the financial literacy serves as one of the key determinants of sound investment behavior – has been reaffirmed in the literature.

Apart from that the examination of the financial skills showed that although there is increasing acknowledgement of the financial knowledge, there are still large gaps of awareness between different demographic groups. More-younger educated or higher income people tend to know more, but they don't necessarily a pply that knowledge." The difference underscores the importance of consistent, pervasive financial education.

Secondly, there is compelling evidence that increases in financial literacy are positively related with effective investment behaviour. Those who are financially literate are also more likely to embrace long-term investment, diversify their investments and not fall prey to typical investment psychology and behavior, such as following the crowd, overconfidence and impulsive trading. Comparatively, subjects with lower financial literacy make less informed decisions, seek informal advice and are characterized by risk aversion resulting in inefficient investment decisions.

The review also found that investment decisions are driven by a mix of factors that are not limited to financial knowledge, such as psychological characteristics, socio-economic background, and external market conditions. Nevertheless, Financial Literacy is an anchoring force, which will enable Investors to process information and make informed decisions in a stock market environment where the value of an investment should rise and fall at an unpredictable rate.

In addition, the study pointed to a strong role of financial literacy in risk behaviour. high literacy means there is greater awareness of risk-reward balance and so better capability to make investments with greater fit to financial their profile. It is this finely tuned risk-taking that is crucial to building investment for the long-term, particularly in an increasingly technical and technology-driven financial landscape.

These findings underscore that increasing financial literacy is not only desirable but imperative to enhance the financial well-being of individuals and contribute to greater economic stability. To achieve this, the paper proposes a multipronged approach across educational institutions, employers, public authorities, financial services providers and digital platforms. Targeted financial services are needed to meet the distinct requirements of various population sections especially women, rural investors, and the elderly, to ensure inclusive financial empowerment.

Finally, financial literacy forms the bottom line for the rational investors' behavior. This skill building can result in more confident and informed investors who remain more resilient, leading to better personal financial outcomes and healthier capital markets. There is a need for further research and policy developments to concentrate on entrepreneurial ways of financial education which amends with financial products and investor demands and is scalable and inclusive.

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Conflict of Interest
The author declared no conflict of interest.

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