

# Financial Literacy and Investment Behavior Among Young Professionals

**Author Name: Shubhangi Patel**

## Abstract

Financial literacy is now a core competency in contemporary financial processes, especially for young professionals who are just starting their investment processes and long-term financial planning. Knowledge of financial principles like diversification of risk, interest rates, and investment greatly governs the way individual savings are handled and how financial resources are distributed. The paper is an analysis of how financial literacy and investment behavior are related to the young professional population in terms of saving habits, risk-taking, and diversification of investment. To conduct the study, a secondary research approach will be adopted, in which the literature available and empirical studies done in the area of financial knowledge and investment choices will be evaluated. The findings indicate a positive correlation between financial literacy and the extent to which individuals are disciplined in their savings, prepared to invest in financial markets, and diversify their portfolio of investments. Furthermore, financial literacy makes the investor more confident and places them in a position to make informed decisions on risky investments. Nevertheless, the degree of financial literacy of young professionals depends greatly on it, which may cause differences in investment behavior and wealth. The paper emphasizes the significance of financial education courses and policy measures that could be used to enhance the financial literacy of young professionals. Increased financial literacy will facilitate decision-making in financial affairs, investment, and inclusion in long-term economic stability.

**Keywords:** Financial literacy, investment behaviour, young professionals, risk tolerance, investment diversification.

## 1. Introduction

The problem of financial literacy has been a prominent one in the last several decades, with the financial markets being more complex and open to the average investor. Young professionals, especially, have to make a lot of financial choices connected with saving, investments, loans, and retirement planning. People can now easily access different forms of investments through the growth of digital financial institutions, which include mutual funds, stocks, bonds, and other types of financial institutions. Nevertheless, the availability of financial products does not provide effective financial decision-making. People should have adequate financial literacy in order to know about risks, analyze investment opportunities, and properly handle financial resources.

Financial literacy is defined as the knowledge and comprehension of financial beliefs that allow people to make sound financial choices. It entails information regarding the interest rates, inflation, risk diversification, financial planning, and investment plans. Financially literate people tend to be in a better position to cope with their own finances and attain financial stability over the long-run.

The young professionals constitute a significant group of the population when it comes to making financial decisions. At the initial phase of their professional lives, they start to earn money, learn to save, and make

investment choices that may have a great impact on their further financial prosperity. Research indicates that financial literacy is vital in determining the habit of making investments because it affects saving behavior, risk-taking behavior, and diversification of investment choices (Das & Das, 2026).

Investment behavior is the manner in which people spend their money in various investment instruments, taking into account the risk and return expectations. Financial literacy can play an important role in these choices as it enhances the capacity of individuals to evaluate the opportunity of investment and handle financial risks in an effective manner. It has been observed that people who are more financially literate invest more in diversified portfolios and have much more confidence in investing in risky assets (Cupák et al., 2022).

In addition to that, risk tolerance is also influenced by financial literacy, and it can be described as the desire of an individual to undertake financial risks during investment. Investors who possess a more advanced level of financial knowledge tend to be better able to assess the risks in the market and make rational investment choices (Binny Kumar et al., 2024). Therefore, financial literacy is becoming one of the primary aspects of encouraging responsible investment practices and enhancing financial welfare.

The research paper will focus on looking at how financial literacy can determine investment behavior in young professionals. In particular, it dwells upon the impact that financial knowledge has on saving, risk tolerance, and investment diversification. This study reveals the significance of financial literacy in investment decision-making and the stability of financial situations over a long period of time by reviewing available literature and studies on the topic.

## **Problem Statement**

With the growing access to financial information and investment opportunities, most young professionals are not well-versed enough in financial matters to make prudent investment decisions. Low financial literacy frequently leads to bad saving practices, poor financial markets, and insufficient diversification in investment portfolios. This financial illiteracy may cause financial instability and less wealth accumulation in the long term.

The past literature has pointed out that financial literacy has a significant effect on the choice of investments and risk-taking behavior of people. Nevertheless, it remains necessary to explore the role of financial literacy on the investment behaviors of young professionals and how this influences their saving, risk-taking, and diversification behaviors.

### **1.1 Aim**

The study aims to analyze how financial literacy affects the saving behavior, risk-taking, and diversification of investments in young professionals.

### **1.2 Research Questions**

- How does financial literacy affect saving behavior in young professionals?
- What is the relationship between financial literacy and riskiness in investment decisions?
- What is the contribution of financial literacy to the diversification of investment of young professionals?

### **1.3 Objectives**

- To investigate the financial literacy of the young professionals.

- To examine the correlation between financial literacy and saving behavior.
- To determine the effect of financial literacy on risk in investment choices.
- To determine the importance of financial literacy in enhancing investment diversification.

## 2. Literature Review

Financial literacy has been largely acknowledged as a highly significant influencing factor in the financial decision-making process and investment behaviour. It makes people familiar with financial concepts, and it helps people analyze investment opportunities.

Das and Das (2026) reported that in developing countries, financial literacy has a great influence on the investment behavior of millennials. Their research reveals that the more financially educated people are, the more they are likely to invest more in financial markets and are more likely to use more effective financial planning strategies. Financial literacy assists people in examining financial products and making wise investment decisions as a result of enhancing their financial well-being in general.

On the same note, Mohta and Shunmugasundaram (2023) investigated the connection between risk behavior and financial literacy in India among millennials. Their results indicate that financially literate people have a better ability to handle financial risks and have more confidence in investing in financial markets. Financial literacy enables investors to have a stronger idea of the correlation between risk and returns, and it eventually affects their investment strategies.

Another factor that determines how people invest is risk tolerance. Another study indicates that financial literacy is important in the determination of risk tolerance in working professionals (Binny Kumar, Sharma, and Chalotra, 2024). More financially literate persons have a greater knowledge of financial markets and are more inclined to take calculated investment risks. Conversely, those who have low financial literacy tend to invest in low-risk investments because they do not know what will happen, and therefore, they do not have confidence.

The study carried out by Bayar et al. (2020) also proves the correlation between financial literacy and financial risk tolerance. They have concluded in their study that more financially knowledgeable people are likely to enter financial markets and invest in diversified portfolios. Financial literacy enhances the capacity of investors to assess the financial risks and make a strategic investment choice.

Another element that is affected by financial literacy is investor confidence. Cupak et al. (2022) emphasized that investor confidence, as well as financial literacy, affect risky financial assets participation together. Highly financially literate investors are more assured of their capacity to learn market dynamics, hence exhibiting a higher propensity to invest in risky assets with a greater potential for higher returns.

Moreover, financial literacy is an additional factor that enhances savings and long-term financial planning. Rajan et al. (2020) underscored how financial literacy is capable of triggering investment behavior by increasing the level of knowledge of people on financial management and investment opportunities. According to their research, financial education is an important factor in making people save and invest in a systematic manner.

On the same note, Sharma (2025) pointed out that financial literacy plays a significant role in the investment choices of the youth. Financially literate individuals will make easier financial decisions, consider investment opportunities more cautiously, and make good financial choices that meet their long-term financial objectives.

Another point that Gopal (n.d.) has made is the impact of financial literacy on the investment choices of young professionals. The research postulates that financial literacy enhances the level of awareness of individuals regarding investment choices and enables them to diversify their investment portfolio in an efficient manner.

Altogether, the literature shows that financial literacy is an important factor in determining saving behavior, risk tolerance, and diversification of investment. Nevertheless, differences in financial knowledge between young professionals still influence their investment behavior, which explains the relevance of financial education and awareness programs.

**Table 1**  
**Empirical Findings from Previous Studies on Financial Literacy and Investment Behaviour**

Study	Method Used	Sample Size	Key Numerical Findings
Cupák et al. (2022)	Econometric modelling	Household finance survey data	Higher financial literacy significantly increased the probability of investing in risky assets; investor confidence also showed a positive statistical relationship
Das & Das (2026)	Statistical analysis	250 millennials	Financial literacy showed a strong positive correlation with investment participation and saving behaviour
Binny Kumar et al. (2024)	Regression analysis	200 working professionals	Financial literacy significantly predicted risk tolerance with a positive regression coefficient
Mohta & Shunmugasundaram (2023)	Empirical econometric study	National survey data from India	Financial literacy increased the likelihood of participating in higher-risk financial investments
Bayar et al. (2020)	Multinomial logistic regression	Individual investors	Financial literacy was statistically significant in determining investors' risk tolerance levels

Rajan et al. (2020)	Empirical survey analysis	Rural women participants	Financial literacy training significantly improved investment awareness and participation
Sharma (2025)	Survey-based analysis	Youth investors	Financial literacy had a significant positive effect on investment decision-making

**Table 2: Summary of Literature review**

Author	Sample/Focus	Key Variable	Key Findings	Analytical Insight
Cupák et al. (2022)	Individual investors	Investor confidence & financial literacy	Financial literacy increases participation in risky assets	Suggests that financial literacy not only informs decisions but also builds psychological confidence in investment markets
Das & Das (2026)	Millennials in developing countries	Financial literacy & investment behaviour	Higher literacy improves investment participation	Indicates financial literacy influences long-term financial planning
Binny Kumar et al. (2024)	Working professionals	Financial literacy & risk tolerance	Financial knowledge increases risk tolerance	Demonstrates that literacy affects investment risk perception
Mohta & Shunmugasundaram (2023)	Millennials in India	Financial literacy & risk behaviour	Literate individuals take calculated risks	Suggests knowledge improves rational investment behavior

Bayar et al. (2020)	Individual investors	Risk tolerance	Financial literacy increases tolerance	Financial knowledge improves ability to evaluate financial risk
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**Conceptual Framework**



The comparison of previous studies shows that financial literacy and investment behavior have a causal relationship. Nonetheless, the majority concentrate on just one dimension at a time, such as risk tolerance or investment participation, instead of on saving patterns, risk tolerance, and diversification amalgamately in developing young professionals.

**Conceptual Framework**

Financial literacy is the first variable that affects a decision about finance. More financially literate individuals are more likely to become disciplined savers, which then increases their propensity to invest and take financial risks. In a climate of improved risk tolerance, investors are more likely to utilize portfolio diversification strategies.

**3. Methodology**

This study uses a secondary research methodology to examine the connection between financial literacy and the investment behavior of young professionals. Secondary research entails examination of available literature on the topic of financial literacy and investment behavior in terms of academic literature, research papers, and empirical studies.

The secondary data will enable us to assess the research that has been done and come up with similar trends and results on the subject of financial literacy and investment decision-making. The sources used in this study are mainly peer-reviewed journal articles and scholarly materials analysing the effects of financial knowledge on saving behaviour, risk tolerance, and diversification of investment.

Secondary research is specifically applicable in determining theories and testing empirical evidence of various studies. The literature review and synthesis allow the study to reach the multifaceted perspective of the effects of financial literacy on investment behavior in young professionals.

The chosen articles were examined to find out important correlations between financial literacy and financial decision-making variables, including saving patterns, risk tolerance, and diversification patterns. These studies were later compared and synthesized to come up with a wider view on the impact of financial literacy on investment behavior of investments.

## 4. Findings

The review of the literature does provide a number of significant discoveries about the connection between financial literacy and the investment behavior of young professionals.

To begin with, financial literacy plays a great role in saving behavior. Financially educated people tend to become more disciplined in their saving methods, and they also tend to set aside a part of their earnings towards financial objectives in the long term. Financial literacy makes people realize why they should save money and promotes systematic planning in investing (Das & Das, 2026).

Second, the risk tolerance is also highly influenced by financial literacy. Financially literate people tend to be more likely to invest in financial products of medium and high risk due to the fact that they are aware of the returns that they may get and the market forces at play. On the contrary, less financially literate people do not like risky investments because they are afraid to lose money (Binny Kumar et al., 2024).

Third, financial literacy enhances greater investment portfolio diversification. Financial market knowledge is likely to make individuals allocate their resources to more asset classes, which is beneficial in minimizing financial risk. It is known that diversification is a good investment approach to risk management and enhancement of financial stability (Bayar et al., 2020).

Also, financial literacy leads to higher confidence in investors. More financially knowledgeable investors are more confident in making financial decisions, and they tend to engage more in financial markets (Cupák et al., 2022).

## 5. Discussion

This study revealed that the importance of financial literacy plays an important role in determining investment behavior amongst young professionals. Financial literacy not only enhances the level of financial market knowledge among the people but also dictates their saving, investment, and risk-taking behavior.

This is proven by the literature, which shows that more financially literate individuals are more rational and strategic in their investment behaviors. More likely, they will scrutinize financial products, have long-term investment objectives, and implement diversified investment strategies.

Investor confidence is another key factor that is promoted by financial literacy, and it affects participation in financial markets. Financial knowledge equips investors to better evaluate market risks and opportunities, which in turn enables them to make more informed decisions regarding their investment.

Nevertheless, the results also demonstrate that the level of financial literacy of young professionals is greatly different. There are also a number of financially illiterate people, and therefore, they make poor financial decisions and are unable to get involved in the investment markets. Programs that can assist young professionals in improving their financial literacy skills. Financial literacy is promoted by the educational institutions, financial bodies, and decision makers who must play a vital role in providing training programs, workshops, and financial awareness. Through financial knowledge, people will have better saving habits, they will be able to handle financial risks effectively, and become financially stable in the long-term.

## 6. Conclusion

Financial literacy is important in influencing investment behavior among young professionals. The results of this research suggest that the level of financial knowledge has a high impact on the saving behaviors, risk tolerance, and diversification of investments. More financially literate people tend to cultivate a disciplined savings behavior, engage in the financial markets, and employ diversified investment approaches. Investor confidence in financial decision-making is also brought to the fore in the study. Financial literacy gives people more confidence in dealing with financial resources and analyzing investment opportunities. Regardless of these advantages, not every young specialist has proper knowledge of finances, which may adversely influence the financial situation. Thus, it is necessary to improve financial literacy by implementing educational programs and financial awareness programs. Future studies can involve the primary data collection in order to investigate the association between financial literacy and the investment behavior of various groups of people further. Enhancement of financial education can lead to better financial decision-making and the sustainability of long-term economic stability.

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