Financial Literacy and Investment Patterns among Youth: An Empirical Study

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Abstract

In a fast changing financial world, financial literacy has gained relevance in influencing investment behaviour of the young generation especially in areas involving financial matters. This paper set out to look at the literacy level of youths towards financial avenues and how their it impacts their decision towards the options of investment. This research demonstrates that most respondents had moderate level of literacy with a large number being under poor financial literacy. The regression outcomes affirmed a positive and strong correlation was present between literacy towards financial products and behaviour towards investment behavior such that as literacy is high, preference to market-related investments, better diversification, and informed investment decisions are likely to be more desirable. The research reveals the essential importance of literacy towards encouraging rational and sustainable investment behaviour among young people and the necessity of special literacy programs. The results have practical implications to educators, policymakers and financial institutions in creating successful literacy programmes to increase the level of participation of the youth in formal investment markets.

Keywords: Financial literacy, Investment patterns, Youth, Investment behaviour and Financial decision-making, etc.

Introduction

Financial literacy has become a major factor of individual financial health especially among the youthful adults who are in the tender and incipient phases of their economic situations. Young people are one of such segments that are increasingly active in using complex financial products including mutual funds, equities, insurance products, and electronic investment systems, still, in many cases, their ability to make sound investment choices is insufficient. Poor financial literacy at this point may result in poor choice of assets, taking more risk than necessary and financial fragility over the long run (Lusardi and Mitchell, 2014).

At the border between the traditional savings tools and the investment products linked to the market, the move has gained momentum in the recent ten years because of the liberalisation of financial markets, advances in fintech, and ubiquitous use of the Internet. There are a slew of investment options available to young investors but often they cannot analytically assess the risk and reward trade-offs that are present, the benefits of diversification and wealth accumulation plans over the long-term (Van Rooij, Lusardi, and Alessie, 2011). The empirical evidence has always shown that people with a low literacy level have less chances of engaging in the stock markets and are more likely to be involved in in suboptimal behaviour towards the finance.

Immaturity: the young demographic is especially prone to the biases related to behavioural factors, including overconfidence and behavioural herd, consumption of source of information sometimes informal, which may include peers and social media platforms. Research indicates that financial literacy enhances technical knowledge, as well as reduces behavioural distortions in the process of making various investment decisions (Aren and Zengin, 2016). Such a development is therefore important to create operative programs to promote financial education and programs to provoke intervention of the policy because it is crucial to understand how financial learning relates to the patterns of the investment among the youth.

This paper investigates the level of literacy towards the finances among young people, and examines how this literacy affects the choice of investments, portfolio make-up and decision-making behaviour of the youth. By targeting the young investors, the study also adds to the increasing literature concerning the relationship of capability to sustainable financial inclusion and long-term economic stability.

Literature Review

The first level meaning of financial learning is usually the knowledge and use of financial skills so as to make fruitful financial choices. Primer studies conducted by Lusardi and Mitchell (2007) determined that a substantial percentage of the population is considerably low in terms of financial learning, with young adults having low levels of comprehension as far as the basic concepts are concerned. Their results show that there is a very close connection between financial learning and involvement in formal investment markets.

This has been reinforced through studies that have come on the heels of this relationship. According to the information of the survey of households conducted by Rooij et al. (2011) who established that monetarily smart individuals are more likely to invest in equities and diversified asset. The study came up with a rationale that financial illiteracy is an impediment of entry into the stock market of an income and education condition.

The same has been highlighted in studies conducted on the youth, particularly. According to Curto et al. (2010) the young adults who were more literate stood a better opportunity of engaging in long term financial planning and investments. The researchers also found that exposure to financial education at a young age has a positive correlation with future investments behaviour which implies that financial capability at a young age has long term effects.

The literature on behavioural finance also describes the nature of interaction between psychological factors and financial literacy to formulate investment decisions. Aren and Zengin (2016) empirically showed that financially literate investors have lesser behavioural bias measures like loss aversion and overconfidence. Their results are that not only does literacy improve the rationality of the decision, but the portfolio is also better.

The influence of literacy towards the behaviour of individuals for investments is a more important issue in emerging economies because of increasing financial inclusion and aspect digitisation. Varma et al. (2015) studied the literacy among young professionals and they discovered that the more the literacy the better the financial planning and informed investment decisions. Nevertheless, the research also found significant education- and socioeconomic background transformations in the levels of literacy.

Recent researches also highlighted the importance of subjective financial acquaintance. Walstad et al. (2016) claimed that perceived financial understanding has its effect on financial behaviour regardless of whether good knowledge is there or not. The overconfidence of youth investors may result in over exposure to risk especially in the speculative areas of investments hence the importance of quantifying the objective and self-esteemed literacies.

Research gaps

In spite of the comprehensive research, there are still gaps in the knowledge about how financial literacy leads to certain investment patterns among young people in the modern financial context. Numerous literature provide in general savings behaviour or the adult population, and empirical research into the specific investment preferences of younger generations and new digital investment opportunities is absent. This research fills this gap since the relationship between financial understanding and investment patterns among young people is examined through empirical research techniques thus developing up on previous works and insights into specific financial education measures.

Objectives:

The main research aim of the study was to test the literacy levels of the youth and to assess how it affects the investment pattern of the youth. In particular, the study set about to determine the knowledge of youths regarding basic financial concepts, the nature of investment options, which they choose; to the extent that financial literacy would influence investment choices, the level of risk perception as well as portfolio adaptation. The study also aimed at establishing the correlation between financial literacy and demographic, and behavioural variables in investment behaviour among the young people.

Methodology:

The research design used in the study was descriptive in form as it empirically tested the relationship that existed between financial literacy and the trends of investment among the youth. The structured questionnaire that was used to collect primary data was to determine the level of financial literacy and the decision-making behaviour, risk perception, and investment preferences. This survey questionnaire included a combination of both the closed-ended and Likert scale questions and was given to 200 youth survey respondents. The sample was chosen based on non-probability convenience sampling method by taking into account the accessibility and the desire of the participants to be interviewed. The data obtained were coded and analysed with the help of the relevant statistical packages, such as descriptive and inferential statistics, to make the appropriate conclusions concerning the impact of financial information on the investment behaviour of the young generation.

Results and Discussion:

The analysis of the data gathered using the structured questionnaire among 200 young respondents was coded and analysed using statistical tools of descriptive statistics. The analysis dwells on demographic profile of the respondents, financial literacy level, choice of investment avenues, and linking financial literacy and investment behaviour.

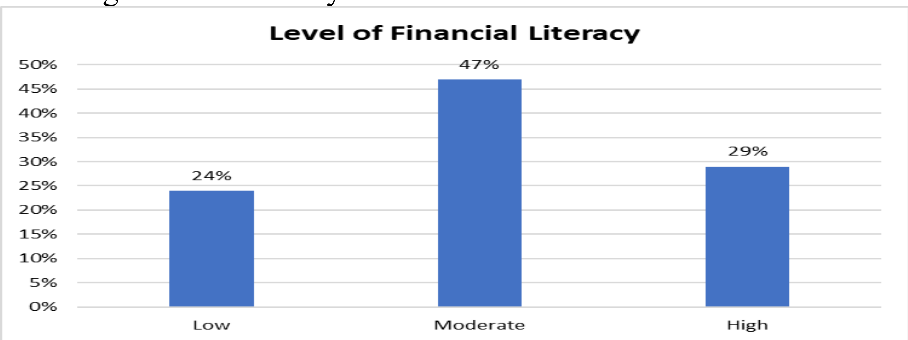

Fig. 1 Level of FL

It is found that 47 percent of the respondents had moderate literacy and 29 percent had high literacy as shown in the table. Nevertheless, a large percentage (24) showed low literacy which is a sign of a lack of knowledge in the simple financial concepts among a large number of young people. This creates a necessity of specific financial education programs.

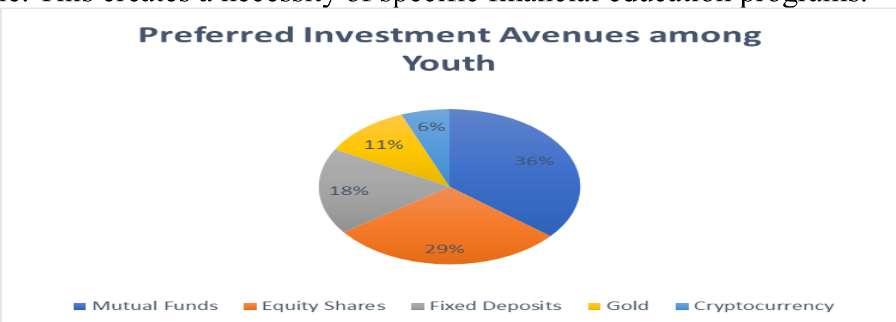

Fig. 2 Avenues

It is clear that mutual funds were the popular form of investments with the young generation (36%), followed by equity share (29%). Risk-averse instruments like fixed deposits were used by 18 per cent, and alternative investment schemes like cryptocurrency attracted only 6 per cent of the respondents. The implication of this is a slow movement to market-based investments by young people, but with reserved investment in risky instruments.

Table 1 Factors Influencing Investment Decisions

Influencing Factor	Mean Score	Rank
Expected Return	4.32	I
Risk Perception	4.08	II
Financial Literacy	3.94	III
Peer Influence	3.45	IV
Online Platforms & Apps	3.28	V
Media & Social Media	3.12	VI

The most influential factor in the decision making in the investment was expected return with a mean score of 4.32 and this was succeeded by risk perception (4.08). Financial literacy followed in the third place, which means that it has a considerable influence on investment behaviour development. Have less rank in terms of peer influence and media indicate that decisions are influenced by external sources, however the irrational financial factors are the most influential when it comes to investing among young people.

Hypothesis Testing

A linear regression analysis was performed as an attempt to empirically inspect the effects of financial learning on the investment choices of the young individuals. The regression analysis will be suitable because it will enable determining the predictive importance of financial learning on investment behaviour and determine the strength and direction of the correlation.

H0: Financial literacy does not have a significant impact on investment patterns among youth.

Table 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.684	0.468	0.465	0.512

Table 3 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	48.36	1	48.36	184.27	0.000
Residual	54.94	198	0.277		
Total	103.30	199			

Table 4 Coefficients

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t-value	Sig.
(Constant)	1.214	0.108	—	11.24	0.000
Financial Literacy	0.587	0.043	0.684	13.57	0.000

Regression Equation:

Investment Pattern=1.214+0.587(Financial Literacy)

The results indicate that there is a significant connection between financial learning and behaviour of investment amongst the youth. The discussion shows that financial learning describes a significant amount of the difference in investment behaviour. Further statistical data confirms that the correlation is significant at traditional level proving the strength and the overall trustworthiness of findings.

The financial learning coefficient is positive and strong, meaning that the higher the financial learning, the greater the investment behaviour of the young people. In particular, a financial literacy level is increased, which helps to choose more typically market-linked investment instruments, better diversion in the portfolio, and more effective investment decisions. Given that the level of significance is within acceptable parameters, the null hypothesis is then rejected resulting in the conclusion that financial literacy has a significant effect on the investment behavior of the young generation.

Conclusions

The results of the empirical research of the research paper definitely prove that financial learning has a huge, if not the dominant influence on developing the investment pattern in young people. The study of the data shows that most young people have an average degree of financial learning, and a significant number of people still lack the basic knowledge of financial principles. The regression findings affirm that the connection between financial learning and behaviour of individual towards investments is positive and strong, suggesting that financially literate youths have more vitality towards market associated investment opportunities, have better skills in risk assessment, and take a comparatively diversified investment portfolio. Another point presented by the study is that anticipated returns and the perception of risk continue to be the influential factors in their investment choices, whereas financial literacy is also a vital enabling factor in converting these factors to informed decisions. In general, the results highlight the fact that further enrichment of financial literacy among young people can be used to bring a meaningful contribution towards more rational, growth, and sustainable investment behaviour.

Recommendations

The study, in its findings, proposes that structured and practical financial literacy programmes have to be effected to direct specific youths with their preference focused to the planning of investments, risk management, and long-term wealth generation. Financial education must be introduced as a course in educational institutions at both undergraduate and post-graduate stages to make long time exposure to financial concepts. Financial institutions and fintech platforms can work together with policymakers and financial advisors to develop educational devices and campaigns that can be easily accessed by users and help them make informed choices regarding investments. Moreover, the platforms used in investments must have role models and reduced risk reporting measures to aid young investors. The current study can be further developed by longitudinal design, more and more diverse samples, and more variables concerning behaviour, which will enable a better understanding of how youth investment patterns are changing.

Limitations of the Study

Although the study yields useful information in establishing the connection between financial learning and the patterns of the investment among the youth, the study has its limitations, which need to be highlighted.

- First, the research was based on a comparatively small sample size and used non-probability convenience sampling method that can limit the applicability of the study results to the overall youth group.
- Second, it relied on self-reported data gathered using a questionnaire which can be affected by the response bias, social desirability bias or the lack of self-evaluation of their financial knowledge and investment behaviour by the respondents.
- Third, the cross-sectional research design prevents the determination of the causation of financial literacy and investment patterns as time goes by.

- Also, the research was limited to the coverage of chosen areas of investments and failed to represent the whole range of emerging financial products and platforms.
- Lastly, there was no real analysis of other potential factors that could have influenced investment decisions among the youth as these could have included the macroeconomic conditions, psychological factors, and cultural factors.

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