

Financial Literacy and Its Influence on Investment Decisions among Young Professionals

Dr. Laura K. Bennett

Department of Finance and Behavioral Economics,
University of Manchester, Manchester, United Kingdom.

Received :10/08/2025

Accepted :05/01/2026

Published :15/03/2026

Abstract

One of the most important factors that influences the investment behavior of young professionals is their level of financial literacy. This is because young professionals are increasingly exposed to a diverse array of financial products and digital investment platforms. The influence of financial literacy on investment decisions made by young professionals, with a particular emphasis on their comprehension of fundamental financial concepts, risk–return trade-offs, diversification, and long-term financial planning. The research investigates the ways in which different levels of financial knowledge influence investment decisions, preferences for various asset classes, and risk-taking behavior. The research is conducted through the use of a structured questionnaire. A higher level of financial literacy among young professionals is associated with a greater likelihood of making well-informed decisions regarding investments, demonstrating a larger level of participation in formal financial markets, and adopting diverse investment portfolios. On the other hand, having a limited knowledge of finance is linked to relying on traditional savings vehicles and being susceptible to making decisions that are prejudiced or that are short-term in nature. For the purpose of enhancing investing competence among young professionals, the significance of tailored financial education programs and workplace-based financial awareness campaigns is emphasized. The development of financial literacy at an early stage in one's career can not only help to the financial well-being of the person, but it can also contribute to the stability of the economy as a whole by facilitating the more effective deployment of capital.

Keywords: Financial literacy; Investment decisions; Young professionals; Financial awareness;

Introduction

More and more, people in today's economy need to rely on themselves to ensure their financial security. Financial decision-making has become more complex due to rapid market developments, the proliferation of digital investment platforms, and the increasing range of financial products. Investment decisions have far-reaching effects on asset accumulation, financial stability, and retirement planning; hence, they are especially crucial for young professionals in the early stages of their professions and income generation to make wise choices. The capacity to comprehend and make good use of financial information, including ideas like saving, investing, risk management, and financial planning, is known as financial literacy. The ability to assess investment opportunities, comprehend risk-return correlations,

and sidestep typical financial pitfalls are all hallmarks of a financially literate individual. Still, many young professionals, even with more knowledge and more information at their fingertips, may not have a good grasp of personal finance. This might cause them to make poor investment choices, take unnecessary risks, or rely too much on old-fashioned savings methods that do not provide much return. There is no more important demographic segment for the economy than the young working class. They are more prone to try out different kinds of financial products, trade stocks and mutual funds online, and use technological resources like mobile trading apps. Student indebtedness, employment uncertainty, inflationary pressures, and a lack of practical financial knowledge are just a few of the obstacles they must overcome. Whether or not they invest and how they divide up their capital across various asset classes are both affected by their level of financial literacy in this setting. Investment choices made by young professionals in relation to their level of financial literacy. The study's overarching goal is to demonstrate the value of financial education in encouraging prudent and well-informed investing practices by examining the relationship between financial literacy and variables like risk tolerance, decision-making patterns, and investment preferences. Legislators, schools, and businesses must grasp this connection if they want to create financial literacy initiatives that help young professionals financially in the long run and boost the economy.

Investment Decisions and Investment Behaviour

When people want to reach their long-term financial goals and earn returns, they make investing decisions on how to allocate their capital across various financial and real assets. Optional selections include investment timeframe, investment amount, risk assessment, and investment channels. When people make investment decisions, it is a reflection of their actual behavior and attitude, which is shaped by both psychological factors and rational evaluation.

Factors Influencing Investment Choices

Investment decisions typically have a strategic and long-term focus since they have a direct impact on an individual's capacity to build wealth and maintain financial security. Given the impossibility of accurately predicting future returns, such decisions are undertaken in an unpredictable environment. Investors need to think about their income, their financial objectives, and how long they have to make a decision before weighing the pros and drawbacks of risk and return. Some people choose more conservative assets like fixed deposits or government securities because of their comfort level with risk, while others choose more dynamic options like stocks or mutual funds that are linked to the market.

Investment decisions encompass more than just numbers; they are also influenced by human behavior. How people view investing prospects is frequently influenced by their personal views, experiences, and expectations regarding the market's performance. These decisions are more challenging for young professionals due to their limited experience and developing financial responsibilities. It is important for them to have financial knowledge and to make informed judgments.

Factors Influencing Individual Investment Choices

Personal, monetary, social, and psychological considerations are only a few of the many aspects that impact people's investment decisions. Age, salary, education, employment, and

long-term financial objectives are all examples of personal factors. Because of their greater risk tolerance and longer investing horizons, young professionals may favor growth-oriented assets. Investment choices are also heavily influenced by economic variables like interest rates, inflation, market circumstances, and general economic stability. Generally speaking, investors are more likely to put their money into fixed-income instruments when interest rates are high, and into the stock market when conditions are good.

Additionally, investment behavior is impacted by social and psychological aspects. A lot of people, particularly first-time investors, listen to the advice of their friends, family, and financial consultants when making investing decisions. A person's biases or irrational decisions may be influenced by psychological factors like risk perception, overconfidence, fear of loss, and herd behavior. Individuals with higher levels of financial literacy are better able to make sensible investment decisions by reducing emotional biases, objectively evaluating information, and operating within their means.

Knowledge, economic conditions, and behavioral variables interact intricately to shape investment decisions and behavior. Thus, improving young professionals' financial literacy can result in their investing behavior being more educated, disciplined, and goal-oriented.

Relationship Between Financial Literacy and Investment Decisions

The quality of people's investing decisions is directly and significantly impacted by their level of financial literacy. It helps people achieve their financial goals by teaching them how to comprehend financial products, assess market data, and match investment decisions with those objectives. Because they are only starting to build their money and have less life experience to draw on when making difficult financial decisions, young professionals should prioritize improving their financial literacy.

Role of Financial Knowledge in Risk Assessment

An individual's ability to understand and evaluate investment risk is heavily influenced by their level of financial expertise. A more financially knowledgeable investor would know that there is a direct correlation between risk and return, and that taking on more risk typically yields greater results. Before making financial selections, these people are better equipped to analyze economic indicators, market volatility, and interest rate changes.

Contrarily, those who lack financial literacy frequently make poor risk assessments, which leads them to either completely forego market-based investments out of fear of loss or to take unnecessary risks. A young professional's ability to objectively evaluate risk, choose investments that are in line with their risk tolerance, and keep a long-term view in the face of market changes is directly correlated to their level of financial literacy. As a result, being financially literate helps people feel more secure and encourages them to take calculated risks.

Impact of Literacy on Asset Allocation and Diversification

A person's level of financial literacy has a substantial impact on the way they distribute their assets among several asset classes, including stocks, bonds, mutual funds, property, and fixed-income instruments. In general, investors that are well-versed in the ins and outs of the financial markets use asset allocation methods that are methodical and take into account things like investment horizon, income stability, and financial objectives. They also have a better grasp on how diversity can lower portfolio risk as a whole.

Diversification, which entails spreading investments over numerous assets, industries, or instruments, is more typically undertaken by financially savvy persons. Young professionals with proper financial education are more inclined to move beyond typical savings alternatives and invest in diversified portfolios that balance growth and stability. On the other side, insufficient financial literacy typically results in concentrated investments, overreliance on familiar tools, or replication of others' investment choices without proper examination.

Better asset allocation and more educated risk assessment are two ways in which financial literacy improves decision-making. By encouraging diversity and long-term planning, financial literacy contributes to improved investment outcomes and increased financial security among young professionals.

Conclusion

There is a significant impact that financial literacy has on the decisions that young professionals make about their investments. Young professionals, who are also persons who are in the early stages of their professions, are confronted with significant financial decisions that have long-term ramifications for the creation of wealth and the maintenance of financial stability. The degree to which these individuals are financially literate has a substantial impact on how they evaluate risk, choose investment opportunities, and conduct portfolio management for their investments. Those young professionals who are financially literate exhibit a greater awareness of the links between risk and return, and they are more capable of evaluating investment risks in a manner that is reasonable and informed. Because of this information, they are able to make decisions regarding investments that are well-balanced, to avoid making choices that are influenced by emotions or impulses, and to keep a long-term investment perspective. On the other hand, a lack of financial literacy frequently results in investment behavior that is either conservative or inadequately diversified. This behavior can severely limit prospective returns and raise the likelihood of financial fragility. The findings of the study also indicate that higher levels of financial literacy have a positive influence on asset allocation and diversification strategies. It is more likely that individuals who have a greater understanding of finance will diversify their investments across a variety of asset classes. This will result in a reduction in the overall risk of the portfolio and would promote stability. All of these behaviors help to a more effective utilization of one's income and savings, which in turn supports long-term financial growth that is sustainable. Enhancing the level of financial literacy among young professionals is absolutely necessary in order to encourage responsible investment behavior and to ensure long-term financial well-being. Young professionals should be equipped with the knowledge and skills necessary for good investment decision-making, and policymakers, educational institutions, and employers should place an emphasis on structured financial education and awareness initiatives. It is possible that increasing financial literacy at this time will result in individuals who are more resilient, as well as a financial system that is more stable and include more people.

Bibliography

- Agarwal, S., Driscoll, J. C., Gabaix, X., & Laibson, D. (2009). The age of reason: Financial decisions over the life cycle and implications for regulation. *Brookings Papers on Economic Activity*, 40(2), 51–117.
- Atkinson, A., & Messy, F. A. (2012). Measuring financial literacy: Results of the OECD / International Network on Financial Education (INFE) pilot study. *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 15. OECD Publishing.
- Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *Quarterly Journal of Economics*, 116(1), 261–292.
- Bhushan, P., & Medury, Y. (2014). An empirical analysis of inter linkages between financial literacy and investment behaviour of salaried individuals. *Journal of Business Management & Social Sciences Research*, 3(5), 82–87.
- Guiso, L., & Viviano, E. (2015). Financial literacy and stock market participation. *Review of Finance*, 19(3), 1205–1245.
- Huston, S. J. (2010). Measuring financial literacy. *Journal of Consumer Affairs*, 44(2), 296–316.
- Klapper, L., Lusardi, A., & van Oudheusden, P. (2015). *Financial literacy around the world: Insights from the Standard & Poor's ratings services global financial literacy survey*. World Bank.
- Lusardi, A., & Mitchell, O. S. (2011). Financial literacy and planning: Implications for retirement wellbeing. *National Bureau of Economic Research Working Paper*, No. 17078.
- Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5–44.
- Mishra, K. C., & Metilda, M. (2015). A study on the impact of investment experience, risk preference, and financial literacy on investment behaviour. *International Journal of Economics and Financial Issues*, 5(4), 1019–1025.
- Rooij, M. V., Lusardi, A., & Alessie, R. (2011). Financial literacy and stock market participation. *Journal of Financial Economics*, 101(2), 449–472.
- Sekita, S. (2011). Financial literacy and retirement planning in Japan. *Journal of Pension Economics and Finance*, 10(4), 637–656.
- Shinde, J., & Zanvar, N. (2014). Impact of financial literacy on investment decisions. *International Journal of Scientific Research*, 3(4), 360–362.
- Xiao, J. J., & Porto, N. (2017). Financial education and financial satisfaction: Financial literacy, behavior, and capability as mediators. *International Journal of Bank Marketing*, 35(5), 805–817.