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Original Article

Impact of Financial Literacy on Investment Decision-Making Among Gen Z Investors

Dr. Vipul V. Nimbalkar
Associate Professor, Maharashtra Institute of Management, Kalamb-Walchandnagar

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Correspondence Address:
Dr. Vipul V. Nimbalkar
Associate Professor, Maharashtra Institute of Management, Kalamb-Walchandnagar
Email: nimbalkarvipul@gmail.com

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Abstract

Financial literacy has become a critical determinant of investment behaviour among young investors in the digital era. Generation Z investors increasingly participate in financial markets through digital platforms, yet their financial knowledge varies significantly. This study investigates the impact of financial literacy on investment decision-making among Gen Z investors in India. A structured survey was conducted among 220 Gen Z respondents aged between 18 and 26. Using regression analysis and correlation techniques, the study evaluates the relationship between financial knowledge, risk tolerance, and investment diversification. The results reveal that higher financial literacy significantly improves investment decision quality, risk management, and portfolio diversification. The findings highlight the importance of financial education initiatives for young investors.

Keywords: *Financial Literacy, Gen Z Investors, Investment Behaviour, Risk Tolerance, Portfolio Diversification*

Introduction

Financial markets have witnessed a substantial increase in participation from young investors due to technological advancement and increased accessibility of trading platforms. Generation Z, defined as individuals born between 1997 and 2012, represents a digitally savvy demographic group that increasingly engages in investment activities.

Despite their enthusiasm for investing, many Gen Z investors lack adequate financial literacy. Financial literacy refers to the ability to understand financial concepts such as risk, return, diversification, and asset allocation. Research suggests that individuals with higher financial literacy tend to make better investment decisions (Lusardi & Mitchell, 2014).
This study explores how financial literacy influences the investment decisions of Gen Z investors.

Literature Review

Financial literacy plays an essential role in shaping investment behaviour.
According to Lusardi and Mitchell (2014), individuals with strong financial knowledge are more likely to participate in financial markets and diversify investments effectively.
Van Rooij et al. (2011) found that financially literate individuals are more confident in managing investment risks.
Similarly, Xiao and Porto (2017) suggested that financial education improves long-term financial decision-making.
Studies focusing on young investors highlight the role of digital learning platforms and social media in improving financial awareness (Baker & Ricciardi, 2014).
However, many Gen Z investors rely on informal sources such as online influencers rather than formal financial education, which may lead to risky investment decisions.

Research Objectives

1. To analyse the level of financial literacy among Gen Z investors.
2. To examine the relationship between financial literacy and investment decisions.
3. To evaluate the impact of financial knowledge on risk tolerance.
4. To determine whether financial literacy improves portfolio diversification.

Research Hypotheses

H1: Financial literacy positively influences investment decision-making among Gen Z investors.
H2: Financial literacy significantly increases risk tolerance among young investors.
H3: Financial literacy leads to higher levels of portfolio diversification.

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Research Methodology

Research Design
The study adopts a **quantitative research design** using survey data.

Data Collection
Primary data was collected through structured questionnaires distributed among Gen Z investors.

Sample Size
220 respondents.

Sampling Technique
Convenience sampling.

Variables
Independent Variable
Financial Literacy
Dependent Variables
Investment Decision Quality
Risk Tolerance
Portfolio Diversification

Data Analysis

Table 1: Financial Literacy Level of Respondents

Literacy Level	Respondents	Percentage
High	72	33%
Moderate	104	47%
Low	44	20%

Table 2: Correlation Analysis

Variables	Correlation Coefficient
Financial Literacy – Investment Decision	0.62
Financial Literacy – Risk Tolerance	0.55
Financial Literacy – Diversification	0.58

Interpretation:
Strong positive relationships exist between financial literacy and investment behaviours.

Regression Model
Investment Decision = $\beta 0 + \beta 1$(Financial Literacy) + ε

Table 3: Regression Results

Variable	Coefficient	t-value	Significance
Financial Literacy	0.64	7.41	0.000

$R^2 = 0.41$
Interpretation:
Financial literacy explains **41% variation in investment decision quality**.

Table 4: ANOVA

Source	F Value	Significance
Regression Model	54.12	0.000

Interpretation:
Model is statistically significant.

Discussion
The results confirm that financial literacy significantly influences investment behaviour among Gen Z investors.
Financially knowledgeable individuals demonstrate higher risk tolerance and better portfolio diversification. These findings align with previous research indicating that financial education improves financial outcomes.
Furthermore, digital platforms can play a key role in improving financial literacy through accessible learning tools.

Conclusion
Financial literacy is a crucial factor shaping investment decision-making among Gen Z investors. Individuals with higher financial knowledge exhibit better investment strategies, improved risk management, and diversified portfolios.
The study recommends integrating financial education programs into academic curricula and promoting investor awareness campaigns to enhance financial literacy among young individuals.

Practical Implications
Educational institutions should incorporate financial education programs.
Financial institutions should develop youth-focused investment education initiatives.
Government regulators should promote financial literacy campaigns.

Limitations of the Study
The study focuses on a limited sample size.
Results may vary across different geographic regions.
Future studies may incorporate behavioural finance factors.

Future Research Directions
Future studies can examine:
Digital financial literacy
Cryptocurrency investments among Gen Z
Behavioural biases in young investors

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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