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THE IMPACT OF FINANCIAL LITERACY ON INVESTMENT DECISIONS AMONG MILLENNIALS AND GEN Z

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Abstract
Financial literacy has become an essential life skill in today's fast-changing financial environment. For Millennials and Generation Z, financial literacy is especially important because they are entering adulthood during an era of digital finance, online trading, and easy access to investment platforms. Young adults today have more opportunities to invest than ever before, yet much lack the foundational knowledge required to make informed decisions. As a result, they are often guided by social influence, short-term gains, or misinformation rather than by financial logic and planning. The purpose of this study is to examine how financial literacy influences investment decisions among Millennials and Gen Z, focusing on how knowledge, awareness, and attitudes impact market participation, portfolio diversification, and behavioral control.

Key Words: Financial literacy, Millennials and Generation Z, cross tabulation, correlation Analysis, Chi square analysis.

Introduction

Financial literacy refers to the ability to understand and use financial concepts for effective decision-making in saving, investing, borrowing, and managing personal finances. It plays a transformative role in shaping an individual's financial well-being. It empowers people to make informed decisions regarding savings, insurance, and investments, thereby reducing financial stress and promoting long-term economic stability. According to Edwin and Alok (2023), financial education increases confidence and self-efficacy, encouraging systematic investment habits such as monthly SIPs and retirement planning.

Financial literacy provides several important benefits for Millennials and Generation Z by enabling them to make informed financial decisions and achieve long-term financial well-being. It equips individuals with the knowledge to evaluate risk–return trade-offs before making investment decisions, helping them select financial products that align with their goals and risk tolerance. A sound understanding of concepts such as compounding and long-term investment returns promotes effective wealth creation by encouraging disciplined saving and investing over time. Financial literacy also enhances risk management by enabling individuals to diversify their investment portfolios, thereby reducing exposure to potential losses. Furthermore, it strengthens behavioural control by minimizing impulsive financial decisions driven by fear, greed, or social influence, leading to more rational and disciplined investment behaviour. In the Indian context, financial literacy plays a significant role in promoting inclusive economic growth, as informed investors contribute to broader participation in financial markets, improve market efficiency, and support the development of deeper and more stable capital markets.

Review of Literature

Dasani, L. (2024). Financial Literacy and Behavioural Biases among Young Investors.
Journal of Finance Studies, 11(1).This study found that higher financial literacy among Millennials and Gen Z enhances rational investment decision-making and reduces behavioural biases such as

herding, overconfidence, and impulsive trading. The study highlights the importance of structured financial education in promoting long-term investment discipline.

Edwin, P., & Alok, R. (2023). Impact of Financial Knowledge on Investment Patterns of Youth.EGJ Journal of Management, 7(2).The authors observed that financially educated young adults diversify portfolios more effectively and exhibit disciplined saving behaviour, such as systematic investment plans (SIPs). Lack of literacy was linked to concentration in low-risk, low-return instruments.

OECD (2022). Financial Literacy and Youth Planning: Global Insights. OECD Report. The report emphasizes that early exposure to financial education improves long-term financial planning among young adults. It also notes that financial literacy is directly linked to better market participation and risk management.

Tijer Journal (2025). Financial Access vs. Financial Literacy: Maximizing Returns in Emerging Markets. TIJER, 25(7).While access to financial markets has improved among Millennials and Gen Z, literacy remains a limiting factor. The study highlights that low literacy leads to uninformed decision-making and vulnerability to speculative investments.

SSRN Study (2025). Behavioural Finance and Young Investors: *The Role of Education.* SSRN Working Paper. This study confirms that financial literacy positively influences market participation, portfolio diversification, and risk comprehension, thereby promoting financial stability among young investors.

Dasani, L. (2024). Mitigating Overconfidence and Herding in Digital Investment Platforms. JMRA, 11(1).Explores how digital investing platforms can amplify biases if users are not literate. Financial literacy reduces tendencies toward overconfidence and following peers blindly.

Lavina, D. (2024). Financial Literacy and Its Effect on Investment Decisions of Millennials and Gen Z. IPS Journal of Finance, 5(2).Highlights that higher literacy improves disciplined behaviour and systematic planning while low literacy increases susceptibility to misinformation and speculative trading. Suggests integrating financial education into schools and colleges.

Abacademies (2024). Evaluating the Impact of Financial Literacy on Young Adults in Developing Economies**.**ABAC Journal of Finance, 9(1).Finds that literacy improves confidence and reduces behavioural biases. However, gaps remain in digital and ESG investment awareness among Millennials and Gen Z.

NCFE (2024). Financial Literacy Impact on Society. National Council for Financial Education Report. Reports that financial literacy enhances market participation, long-term savings, and responsible investment behaviour. Low literacy correlates with financial stress and suboptimal investment choices.

Springer Link (2024*). Financial Literacy, Behavioral Biases, and Wealth Building in Youth. Springer Finance Studies.* The study highlights the role of financial literacy in counteracting biases such as loss aversion and the disposition effect. Emphasizes that literacy leads to more rational, goal-oriented investment decisions.

Friede, G., Busch, T., & Bassen, A. (2015). *ESG and Sustainable Investing.* Journal of Sustainable Finance & Investment, 5(4)**.**Although not youth-specific, the study underlines that awareness of ESG

(Environmental, Social, Governance) factors influences investment choices, which is increasingly relevant for Millennials and Gen Z..

Research Gap: From the extensive literature studyit is identified that Few studies focus specifically on Millennials and Gen Z, but only Limited research on behavioural biases alongside financial literacy.

Objectives of the Study

1. To assess the financial literacy level of Millennials and Gen Z.
2. To analyze the impact of financial literacy on investment behavior, including participation and diversification.
3. To identify behavioral biases and how literacy mitigates them.
4. To explore trends in digital and ESG investing among these groups.

Research Methodology

Hypothesis:

H_0 : Financial literacy does not significantly influence investment decisions among Millennials and Gen Z.

H_1: Financial literacy significantly and positively influences investment decisions among Millennials and Gen Z.

Cross-tabulation: to study relationships between financial literacy and investment participation/diversification.

Likert-scale analysis: to assess behavioural biases, confidence, and the role of financial literacy in decision-making.

Correlation

Correlation is a statistical technique used to measure the strength and direction of the relationship between two continuous variables.

$$r = \frac{n\sum XY - (\sum X)(\sum Y)}{\sqrt{[n\sum X^2 - (\sum X)^2]\,[n\sum Y^2 - (\sum Y)^2]}}$$

Chi-square Test

The Chi-square test is a non-parametric statistical test used to determine whether there is a significant association between two categorical variables.

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Data Analysis and Interpretations

Table No: 1 Age of Respondents

Age	No.of Respondents	Percentage
18–22	26	24.3%
23–27	28	26.2%
28–32	24	22.4%

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32–44	23	21.5%
Total	101	100%

Interpretation: The majority of respondents belong to the 23–27 age groups (26.2%), followed by the 18– 22 group (24.3%). This indicates that most participants are young adults.

Table No: 2Gender of the Respondents

Gender	No. of Respondents	Percentage
Male	53	52.5%
Female	48	47.5%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, males slightly outnumber females (52.5% vs 47.5%). This shows a fairly balanced participation of both genders.

Table No: 3 Educational Qualification of Respondents

Educational Qualification	No. of Respondents	Percentage
Undergraduate	18	17.8%
Postgraduate	30	29.7%
Professional Course	25	24.8%
Others	28	27.7%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, the largest group consists of postgraduates (29.7%), followed by others (27.7%) and professional course holders (24.8%). The smallest group comprises undergraduates (17.8%). This shows that most respondents have attained higher education levels.

Table No: 4 Employment Status of Respondents

Employment Status	No. of Respondents	Percentage
Student	26	25.7%
Employed	29	28.7%
Self-employed	19	18.8%
Unemployed	27	26.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, the majorities are employed (28.7%), followed closely by unemployed individuals (26.8%) and students (25.7%). A smaller portion of respondents are self-employed (18.8%).

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Table No: 5 Monthly Incomes of Respondents

Monthly Income Range (₹)	No. of Respondents	Percentage
Below ₹10,000	41	40.6%
₹10,001–₹25,000	25	24.8%
₹25,001–₹50,000	17	16.8%
Above ₹50,000	18	17.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, the largest group earns below ₹10,000 (40.6%), followed by those earning ₹10,001–₹25,000 (24.8%). A smaller proportion earns above ₹50,000 (17.8%) and ₹25,001–₹50,000 (16.8%).

Table No: 6 Respondents Overall Financial Knowledge

Financial Knowledge Level	No. of Respondents	Percentage
Very High	21	20.8%
High	20	19.8%
Moderate	15	14.9%
Low	21	20.8%
Very Low	24	23.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, most rated their financial knowledge as Very Low (23.8%), Low (20.8%), or Very High (20.8%), showing a mixed level of awareness. Only 19.8% considered their knowledge High, while 14.9% rated it Moderate. This distribution indicates a significant portion of respondents have low to very low financial literacy, while a smaller segment feels highly knowledgeable.

Table No: 7 Understanding of Basics of Investment Concept

Response	No. of Respondents	Percentage
Yes	36	35.6%
Somewhat	37	36.6%
No	28	27.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 36.6% have a partial understanding (Somewhat) of basic investment concepts, while 35.6% responded Yes, indicating good awareness. However, 27.8% admitted they do not understand these concepts, showing a noticeable knowledge gap.

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Table No: 8 Frequency of Tracking Financial News or Market Trends

Response	No. of Respondents	Percentage
Regularly	20	19.8%
Occasionally	31	30.7%
Rarely	21	20.8%
Never	29	28.7%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 30.7% track financial news occasionally, while 19.8% follow it regularly. Significant portions, 28.7%, never track financial trends, and 20.8% do so rarely. This suggests that although some young adults are proactive in staying informed, a large group lacks consistent engagement with financial information.

Table No: 9 Attendances of Financial Literacy Courses, Seminars or Workshops

Response	No. of Respondents	Percentage
Yes	52	51.5%
No	49	48.5%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 51.5% have attended a financial literacy course, seminar, or workshops, indicating a slight majority are proactive in seeking financial knowledge. However, 48.5% have never attended such programs, highlighting a significant gap in formal financial education participation among young adults.

Table No: 10 Confidences in Making Financial Decisions Independently

Response	No. of Respondents	Percentage
Very confident	26	25.7%
Confident	25	24.8%
Neutral	26	25.7%
Not confident	24	23.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, nearly equal proportions reported being very confident (25.7%), confident (24.8%), and neutral (25.7%) in making financial decisions independently. 23.8% admitted they are not confident, indicating a significant portion of young adults still feel hesitant or uncertain when making financial choices on their own.

Table No: 11 Current Investments in Financial Decisions

Response	No. of Respondents	Percentage
Yes	46	45.5%
No	55	54.5%
Total	**101**	**100%**

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Interpretation: Out of 101 respondents, 45.5% are currently investing in financial instruments, indicating that nearly half of the Millennials and Gen Z respondents actively participate in investment activities. However, 54.5% are not investing, showing that a significant portion has yet to enter the investment space, possibly due to lack of knowledge, confidence, or resources.

Table No:12 Preferred Investment Options

Investment Option	No. of Respondents	Percentage
Mutual Funds	6	13.0%
Stocks/Equity	5	10.9%
Fixed Deposits	5	10.9%
SIPs	7	15.2%
Cryptocurrency	8	17.4%
Real Estate	8	17.4%
Others	7	15.2%
Total	**46**	**100%**

Interpretation: Among the 46 respondents who invest, Cryptocurrency (17.4%) and Real Estate (17.4%) are the most preferred investment options, followed by SIPs (15.2%) and other instruments (15.2%). Mutual Funds (13.0%), Stocks/Equity (10.9%), and Fixed Deposits (10.9%) are slightly less popular. This shows a diverse investment preference among Millennials and Gen Z, with interest in both traditional and emerging instruments.

Table No: 13 Motivations for Investing

Motivation	No. of Respondents	Percentage
Wealth Creation	15	14.9%
Saving for Future Goals	29	28.7%
Peer Influence	21	20.8%
Tax Benefits	21	20.8%
Others	15	14.9%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, the majority (28.7%) invest primarily for saving for future goals, highlighting a long-term financial planning mindset. Peer influence and tax benefits (both 20.8%) are also significant motivators, while wealth creation and other reasons (14.9%) play a smaller role. This indicates that young adults are motivated by a mix of personal financial goals and external factors.

Table No: 14 Frequency of Reviewing or Rebalancing Investments

Response	No. of Respondents	Percentage
Regularly	26	25.7%
Occasionally	24	23.8%
Rarely	20	19.8%

Never	31	30.7%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 30.7% never review or rebalance their investments, indicating a lack of active portfolio management among many young adults. Regular review (25.7%) and occasional review (23.8%) are practiced by a smaller proportion, while 19.8% rarely engage in this activity. This suggests that consistent monitoring of investments is limited, which may impact long-term financial outcomes.

Table No: 15 Seeking Professional Advice Before Investment

Response	No. of Respondents	Percentage
Always	39	38.6%
Sometimes	30	29.7%
Never	32	31.7%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 38.6% always seek professional advice, while 29.7% do so sometimes. A notable 31.7% never consult professionals before investing, indicating that a significant portion of young adults rely on personal judgment or informal sources for financial decisions.

Table No: 16 Influence of Social Media or Friends on Investment Decisions

Response	No. of Respondents	Percentage
Always	26	25.7%
Rarely	27	26.7%
Never	22	21.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 25.7% invest always or sometimes based on social media trends or friends' suggestions, while 26.7% rarely and 21.8% never follow such influences. This indicates that peer and social media influence moderately affects investment decisions among young adults.

Table No:17 Impulsive Investment Decisions Without Proper Analysis

Response	No. of Respondents	Percentage
Yes	49	48.5%
No	52	51.5%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 48.5% admitted to making impulsive investment decisions without proper analysis, while 51.5% do not engage in such behaviour. This shows that nearly half of the young adults may occasionally act on emotion or speculation rather than informed judgment.

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Table No:18 Belief That Higher Financial Literacy Reduces Emotional or Biased Decisions

Response	No. of Respondents	Percentage
Strongly Agree	24	23.8%
Agree	23	22.8%
Neutral	19	18.8%
Disagree	14	13.9%
Strongly Disagree	21	20.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 46.6% (Strongly Agree + Agree) believe that higher financial literacy can reduce emotional or biased decisions, while 34.7% (Disagree + Strongly Disagree) are sceptical or unconvinced. 18.8% remain neutral. This suggests that while many young adults recognize the importance of financial literacy in improving decision-making, a significant portion is still uncertain or doubtful.

Table No:19 Financial Literacy Helps in Understanding and Managing Investment Risks

Response	No. of Respondents	Percentage
Strongly Agree	22	21.8%
Agree	20	19.8%
Neutral	19	18.8%
Disagree	19	18.8%
Strongly Disagree	21	20.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 41.6% (Strongly Agree + Agree) believe that financial literacy helps in understanding and managing investment risks, while 39.6% (Disagree + Strongly Disagree) do not perceive significant benefit. 18.8% remain neutral. This indicates that although financial literacy is recognized as valuable by many, a substantial portion of young adults either doubts its effectiveness or remains indifferent.

Table No:20 Financial Literacy Influencing Portfolio Diversification

Response	No. of Respondents	Percentage
Strongly Agree	22	21.8%
Agree	19	18.8%
Neutral	16	15.8%
Disagree	21	20.8%
Strongly Disagree	23	22.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 40.6% (Strongly Agree + Agree) indicate that their financial knowledge encourages portfolio diversification, while 43.6% (Disagree + Strongly Disagree) do not

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see diversification as a result of their financial knowledge. 15.8% remain neutral. This shows that while financial literacy influences investment strategy for some, a large portion of young adults may not effectively apply their knowledge to diversify investments.

Table No: 21 Impact of Financial Education on Investment Confidence and Discipline

Response	No. of Respondents	Percentage
Strongly Agree	22	21.8%
Agree	15	14.8%
Neutral	19	18.8%
Disagree	24	23.8%
Strongly Disagree	21	20.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 36.6% (Strongly Agree + Agree) feel that financial education has enhanced their investment confidence and discipline, while 44.6% (Disagree + Strongly Disagree) do not perceive significant improvement. 18.8% remain neutral. This indicates that while financial education positively impacts a segment of young adults, a larger portion has not experienced tangible benefits in their investment behaviour.

Table No:22 Impact of Lack of Financial Knowledge on Participation in High-Return Investments

Response	No. of Respondents	Percentage
Strongly Agree	14	13.9%
Agree	29	28.7%
Neutral	23	22.8%
Disagree	17	16.8%
Strongly Disagree	18	17.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 42.6% (Strongly Agree + Agree) feel that lack of financial knowledge limits their participation in high-return investments, while 34.6% (Disagree + Strongly Disagree) do not perceive such a limitation. 22.8% remain neutral. This suggests that insufficient financial literacy is a barrier to engaging in potentially lucrative investment opportunities for a significant portion of young adults.

Table No:23 Impact of Financial Literacy Programs on Youth Investment Behaviour:

Response	No. of Respondents	Percentage
Strongly Agree	19	18.8%
Agree	20	19.8%
Neutral	21	20.8%
Disagree	22	21.8%

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Strongly Disagree	19	18.8%
Total	**101**	**100%**

Interpretation: Out of 101 respondents, 38.6% (Strongly Agree + Agree) believe that financial literacy programs in schools/colleges can positively influence youth investment behaviour, while 40.6% (Disagree + Strongly Disagree) are sceptical. 20.8% remain neutral. This reflects a mixed perception, suggesting that while some young adults see the value of formal financial education early in life, a significant portion is uncertain or unconvinced.

Cross-Tabulation Analysis and Hypothesis Testing: Chi-Square Test and Correlation for Financial Literacy and Investment Decisions.

Table No:24, The relationship between respondents' financial literacy levels and their participation in financial investments was examined using cross-tabulation in Excel.

Financial Literacy Level	**Invest = Yes**	**Invest = No**	**Total**	**Expected Yes**	**Expected No**
Very High	15	6	21	9.56	11.44
High	11	9	20	9.11	10.89
Moderate	10	5	15	6.83	8.17
Low	6	15	21	9.56	11.44
Very Low	4	20	24	10.93	13.07
Total	46	55	101		

Interpretation: The table shows that respondents with Very High and Moderate literacy levels exhibit higher investment participation. Those with Low and Very Low literacy levels participate less, suggesting that financial literacy positively influences investment participation. However, some low-literacy respondents still invest, possibly due to peer influence or digital platforms.

Chi-Square Test:

- p-value = 0.0006
- Since $p < 0.05$, H_0 is rejected → financial literacy significantly influences investment Participation.

Table No: 25 Financial Literacy vs. Preferred Investment Options

To examine diversification patterns, cross-tabulation was conducted between literacy levels and preferred investment instruments.

Financial Literacy Level	Cryptocurre	Fixed Deposits	Mutual	Others	Real Estat e	SIPs	Stocks/ Equity	Total	Liker t Scale Score
Very High	2	0	2	2	5	1	3	15	5
High	3	1	1	3	0	3	0	11	4
Moderate	1	2	1	1	2	2	1	10	3

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Low	2	1	1	1	1	0	0	6	2
Very Low	0	1	1	0	1	1	0	4	1
Total	8	5	6	7	8	7	5	46	

Correlation: 0.987

Interpretation: The table shows that respondents with higher financial literacy tend to invest in Mutual Funds, SIPs, and Stocks/Equity, reflecting awareness of risk-return trade-offs and portfolio diversification. Respondents with lower literacy prefer Fixed Deposits and Real Estate, indicating risk-averse behavior. Crypto currency investment appears across all literacy levels, suggesting curiosity and influence of digital platforms.

The high correlation (0.987) indicates a strong positive relationship between financial literacy and diversified investment behavior.

Major Findings

1. Most respondents were aged 23–27 years, representing young, financially active adults and the gender distribution was nearly equal, ensuring balanced viewpoints.
2. Majority were postgraduates or pursuing higher education, showing an educated sample base. The Employment status varied, with many being students or early-career professionals.
3. A large portion earned below ₹25,000 per month, reflecting limited financial capacity.
4. Overall financial literacy levels were moderate to low among respondents and around one-third had only partial understanding of key financial concepts like risk and diversification.
5. Nearly half had attended a financial literacy workshop or seminar. The confidence in financial decisions was moderate, with hesitation among less literate participants.
6. 45.5% were currently investing, mainly in digital and emerging options. Cryptocurrency and real estate were the most preferred investment options.
7. Saving for future goals was the strongest motivation for investing. Many respondents rarely reviewed their portfolios or sought professional advice.
8. Social media and peers moderately influenced investment decisions. Nearly half admitted to impulsive decisions without proper analysis.
9. Emotional attachment to losing investments affected more than half of respondents.
10. Almost half agreed that financial literacy helps reduce biases and emotional decisions.
11. Hypothesis Outcome: The H_0 was rejected. Financial literacy significantly and positively influences investment decisions among Millennials and Gen Z.
12. Behavioral Insights: Respondents with higher financial literacy displayed greater confidence, better risk management, and more diversified portfolios.
13. Challenges Identified: Many participants still lack deep understanding of financial instruments and do not seek professional advice, leading to emotional or impulsive choices.
14. Overall Interpretation: Improving financial literacy leads to disciplined, confident, and wel informed investment behavior among youth, helping them make better financial plans and reduce risk.

Statistical Findings

Chi-square test: $p = 0.0006$ → Financial literacy and investment participation are significantly related.
Correlation: $r = 0.987$ → Strong positive link between financial literacy and diversification behavior.

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Recommendations

1. The educational institutions need to introduce financial literacy modules in schools and colleges and also to organize regular workshops and seminars on budgeting, saving, and investing to improve awareness.
2. The Government and Policymakers have to provide incentives or tax benefits for attending certified financial education programs.
3. Collaborate with banks and universities to promote nationwide financial awareness campaigns can help in increasing financial literacy.
4. The Individuals and Young Investors need to
5. Review portfolios regularly to maintain discipline and track performance.
6. Follow a systematic investment plan (SIP) and diversify across instruments.
7. Seek certified financial advice before making major investment decisions.
8. Focus on long-term financial goals rather than short-term trends.
9. The Financial Institutions need to develop mobile-based financial education tools for young customers.

Conclusion

The results clearly show that financial literacy strongly influences investment confidence, participation, and diversification among Millennials and Gen Z. Respondents with higher literacy levels demonstrated better understanding of risk, made more rational decisions, and were less prone to emotional or impulsive actions. However, a noticeable knowledge gap remains among those with limited exposure to financial education. Many young investors rely on social media, peers, or trends, which increases the risk of poor financial outcomes. The findings also reveal that financial literacy not only enhances confidence but also promotes long-term goal setting and systematic investment behavior. Thus, the study supports the conclusion that financial literacy is a key factor in building responsible and informed investors, essential for financial well-being and economic growth.

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