

Financial Literacy and Investment Behavior of Millennials

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Citation: Anand, P. (2025). *Financial Literacy and Investment Behavior of Millennials*. *International Journal of Advanced Research in Commerce, Management & Social Science*, 08(04(II)), 207–213.
[https://doi.org/10.62823/IJARCMSS/8.4\(II\).8462](https://doi.org/10.62823/IJARCMSS/8.4(II).8462)

ABSTRACT

Financial literacy stands as the main factor determining personal financial health for millennials who face difficulties in understanding contemporary financial markets and rising costs of living and new investment options. The research investigates how financial literacy rates among millennials affect their market investment choices. People who belong to the millennial generation between 1981 and 1996 make up a major part of the workforce and today show increased interest in various financial products including mutual funds and equities and systematic investment plans and crypto currencies and retirement plans. People make financial choices based on different levels of financial understanding and risk preferences and consistent income and their ability to use digital technology. The primary objective of this research is to analyze the relationship between financial literacy and investment behavior among millennials. The study explores key components of financial literacy, including knowledge of savings, interest rates, inflation, risk diversification, and financial planning. The study examines investment behavior through researchers who identify preferred investment methods and their investment patterns and their level of risk tolerance and their financial objectives. A structured questionnaire-based survey method is adopted to collect primary data from millennial respondents. The researchers used percentage analysis together with comparative evaluation methods to discover data patterns and relationships between different variables. The research results show that people with higher financial literacy skills make better investment decisions because they understand how to build diversified portfolios and create plans for building their wealth over the long term. The research shows that millennials with advanced financial skills make more investments in market-based assets because they understand these assets better.

Keywords: *Financial Literacy, Investment Behavior, Millennials, Risk Tolerance, Financial Planning, Savings Patterns, Wealth Creation, Investment Decision-Making, Financial Awareness, Diversification Strategy.*

Introduction

Due to rapid financial innovation, globalization, and digitization, financial decision-making has grown more difficult in the current economic climate. A vast array of financial instruments, including mutual funds, equities, bonds, insurance plans, pension plans, cryptocurrencies, and digital investment platforms, are available to people today. Financial literacy is essential in this dynamic environment because it empowers people to make logical and well-informed financial decisions. Millennials are among the most economically active and influential generations among various demographic groups.

People born between 1981 and 1996 are commonly referred to as millennials. They are distinguished by their familiarity with fintech applications, digital banking, online trading platforms, and technology. Through social media, financial blogs, mobile apps, and online advisory services, millennials have more access to financial knowledge than earlier generations did. Access to information does not,

however, automatically equate to precise comprehension or wise decision-making. As a result, it becomes crucial to assess their degree of financial literacy and how it affects their investing behavior.

Investment behavior describes how people divide their money among various investment options according to their income level, financial objectives, risk tolerance, and market perception. Financial issues that millennials frequently deal with include school loans, growing housing expenses, unstable employment markets, and inflation. Their investment selections and saving habits are influenced by these characteristics.

The purpose of this study is to investigate how millennials' investment behavior and financial literacy relate to one another. It aims to determine whether improved risk management, investment diversification, and long-term wealth building are correlated with more financial literacy. The study also assesses how financial literacy affects investing confidence and decision-making styles. Economic stability, financial education initiatives, and policymaking can all benefit from an understanding of this link.

Background of the Study

Over the past 20 years, there has been a substantial change in the global financial scene. The way people handle their finances has changed as a result of market liberalization, the development of digital finance, the growth of capital markets, and the extension of banking services. The importance of financial literacy as a life skill that helps people successfully navigate this complicated environment has grown

The repercussions of bad financial decisions have been illustrated by a number of financial crises and economic concerns. Debt accumulation, financial stress, and poor retirement planning are frequently caused by a lack of understanding about inflation, interest rates, credit management, and investment diversification. Governments and financial institutions around the world have therefore placed a strong emphasis on financial education programs.

Millennials grew up in an era of economic instability and technological development. Their financial perspectives have been greatly impacted by events like the COVID-19 pandemic, fast digitization, and the global financial crisis. Millennials are more likely to invest in market-linked assets like stocks, mutual funds, and digital assets than previous generations, who mostly depended on conventional savings options like gold and fixed deposits.

However, studies show that many millennials lack basic financial skills even though they are technologically connected. Instead of using systematic financial planning, they can make investments based on social media advice, peer pressure, or trends. Empirical study is necessary because of this discrepancy between the availability of financial products and real financial knowledge.

This study's backdrop stems from the growing worry that long-term financial security and investment behavior are directly impacted by financial literacy. The study looks at millennials' investment habits and knowledge levels in an effort to find any holes in the market and provide ways to improve responsible investing and financial literacy.

Concept of Financial Literacy

The capacity to comprehend and use a variety of financial skills, such as risk management, budgeting, saving, investing, and personal financial management, is referred to as financial literacy. Understanding basic financial ideas like interest rates, inflation, time value of money, diversification, and credit management is necessary.

Financial literacy encompasses more than just theoretical understanding; it also involves using financial principles in real-world decision-making. Planning for future financial needs, assessing risk-return trade-offs, comparing investment possibilities, and evaluating financial goods are all possible for someone who is financially literate. It enables people to make well-informed decisions that improve wealth building and financial stability.

Among the essential elements of financial literacy are:

- Knowledge of income, expenses, savings, and budgeting is known as basic financial knowledge.
- Knowledge of Savings and Investing: Understanding of various investment products and their risk-return profiles.
- Risk management includes understanding insurance, diversification, and backup plans.

- Understanding credit terms, interest rates, and loan commitments is essential to debt management.
- The capacity to establish both immediate and long-term financial objectives is known as financial planning.

Digital financial literacy, which includes using online banking, mobile payments, and digital investing platforms safely, is a component of financial literacy in the current digital era. As fintech services proliferate, people need to be able to distinguish between trustworthy financial advice and false information.

Financial literacy promotes effective resource allocation, profitable investments, and savings, all of which support economic growth. It enhances general well-being and lessens financial vulnerability at the individual level. Thus, assessing millennials' financial literacy is crucial to comprehending their investing habits and level of financial readiness.

Concept of Investment Behavior

The pattern and procedure by which people choose to divide their financial resources among different investment opportunities is referred to as investing behavior. It includes things like financial objectives, market perception, psychological effects, risk tolerance, and return expectations.

Both behavioral and rational variables play a role in investment decisions. Economic data, market conditions, financial literacy, and income level are examples of rational considerations. Emotions, peer pressure, overconfidence, herd mentality, and individual risk attitudes are examples of behavioral elements

Millennials' exposure to social media and technology frequently results in unique investment behavior. They like diversified portfolios, structured investment plans (SIPs), and online trading platforms. However, short-term market fluctuations and digital trends may also have an impact on their investing decisions.

Depending on risk tolerance, investment behavior can be divided into three categories: conservative, moderate, and aggressive. Low-risk investments like government bonds and fixed deposits are preferred by conservative investors. Moderate investors use balanced portfolios and mutual funds to strike a balance between risk and return. For greater profits, aggressive investors choose stocks and other high-risk investments.

Determining how financial literacy affects long-term financial security and changes decision-making patterns is made easier with an understanding of investment behavior.

The Value of Millennial Research

Because they make up a sizable and economically engaged portion of the population, millennials are worth studying. They are starting their prime earning years and making a substantial contribution to investments and national savings. Their financial choices have an effect on banking institutions, capital markets, and general economic expansion.

Because of their digital orientation, exposure to international markets, and changing financial objectives, millennials differ from earlier generations. They deal with particular financial issues like student loan debt, unstable employment, and shifting lifestyle choices. Their investing and saving behaviors are influenced by these elements.

Policymakers, financial institutions, and educators can create focused financial education programs by examining their investing behavior and financial literacy. Additionally, it encourages the creation of financial products that are easy to use and fit their risk tolerance and demands.

Objectives

- To assess millennials' degree of financial awareness
- To examine millennials' investment inclinations.
- To research how investment behavior and financial literacy are related
- To determine the elements impacting millennials' investment choices.
- To make recommendations for actions that will enhance investment practices and financial literacy.

The Study's Scope and Limitations

Scope

- Millennials are the study's target demographic.
- It looks at trends of investment behavior and financial literacy.
- It examines original data that was gathered via surveys.
- The results can be used to inform the creation of financial education programs.

Limitations

- The research could be restricted to a certain region.
- Self-reported information, which may contain bias, is the basis for the responses
- The sample size may be limited by time and resource restrictions.
- Market swings have the potential to alter investment behavior over time.

Review of Literature

In their study Financial Literacy Among Millennials, **Anu Mohta and V. Shunmugasundaram (2022)** concentrated on the Delhi-NCR area. According to the authors, millennials are often not very financially literate, particularly when it comes to complex financial ideas like bond pricing and the time worth of money. The study found that millennials' income and educational attainment had a substantial impact on their basic and advanced financial literacy, indicating a knowledge gap that may influence investing choices.

Tanaya Das and Sulagna Das (2025) investigated how financial literacy affected millennials' investment behavior in developing nations. Even though the authors' analysis covers a wider geographic area, it shows that millennials in developing nations like India frequently make poor investment choices due to behavioral biases and a lack of financial literacy.

In their study Financial Literacy and Fintech: A Double-Edged Sword for Millennial Investors' Behavioral Biases, **Sunil N. & Sathish Kumar B. (2025)** examined how financial literacy influences heuristic decision-making among Indian millennial investors. They came to the conclusion that, while fintech by itself is insufficient to effectively reduce heuristic biases, financial literacy has a substantial impact on millennial investors' behavioral biases and aids in their better management.

The Comparative Study of Investment, Savings, and Spending Habits of Indian Digital Natives/Millennials by T. Narayanaswamy, **A. Shubha, R. Gokilavani, and N. P. Ajay (2022)** reveals that Indian millennials have different preferences for saving and investing than other age groups. The study highlights how millennials' saving and investing behaviors are greatly influenced by their income level and level of financial literacy.

According to a study published in the International Review of Economics by Anu Mohta and **V. Shunmugasundaram (2023)**, millennials in India have a generally low level of financial literacy, and their degree of financial knowledge has a big impact on their risk behavior, including risk capacity and risk propensity. This suggests that risk-related investment attitudes and financial knowledge are directly associated, influencing how millennials engage in the financial markets.

Higher financial literacy is linked to longer investment horizons among youth (including millennials), diversification across asset **Prof. V. N. Sharma's (2025)** classes, and increased participation in formal financial markets, according to **Prof. V. N. Sharma's (2025)** study Financial Literacy and Its Influence on Youth Investment Decisions. This study highlights the value of financial literacy in influencing the investment behavior of India's younger population, despite its wider age range.

Research Methodology

• Research Design

The study adopts a descriptive and analytical research design. The research uses descriptive design to assess how financial literacy and investment behavior patterns exist among millennials. The analytical approach helps in examining the relationship between financial literacy and investment decisions. The study utilizes primary data which researchers collected through a structured questionnaire. Percentage analysis method is used to interpret responses without applying advanced statistical tools.

- **Sample Size and Sampling Technique**

Target Population: Millennials (aged 25–40 years)

- Sample Size: 120 respondents
- Sampling Technique: Convenience sampling method
- Area of Study: Urban and semi-urban areas

The sample consists of working professionals, self-employed individuals, and postgraduate students who belong to the millennial age group.

- **Data Collection Method**

The study is based on:

Primary Data

- Structured questionnaire
- Close-ended question
- Sections covering demographic profile, financial literacy level, and investment behaviour

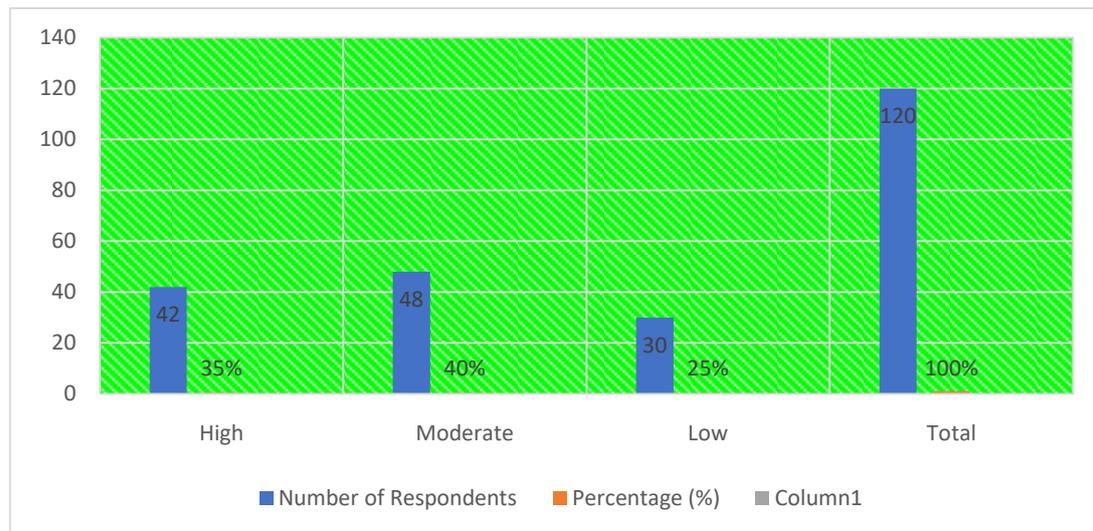
Secondary Data

- Research papers
- Journals
- Government reports
- Financial publications

Data Analysis

Table 1: Level of Financial Literacy Among Millennials (N = 120)

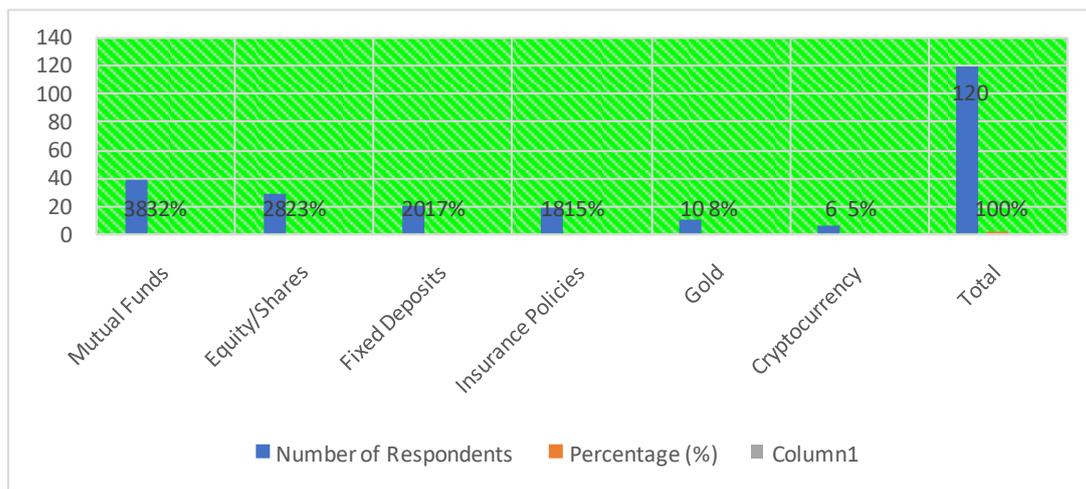
Level of Financial Literacy	Number of Respondents	Percentage (%)
High	42	35%
Moderate	48	40%
Low	30	25%
Total	120	100%



The table reveals that 40% of respondents have a financial literacy proficiency that falls between basic and advanced levels while 35% show high financial literacy skills. However, 25% of millennials demonstrate low financial literacy. The results show that most people understand financial concepts yet some people lack essential financial knowledge which impacts their ability to invest.

Table 2: Preferred Investment Avenues of Millennials

Investment Avenue	Number of Respondents	Percentage (%)
Mutual Funds	38	32%
Equity/Shares	28	23%
Fixed Deposits	20	17%
Insurance Policies	18	15%
Gold	10	8%
Cryptocurrency	6	5%
Total	120	100%



The data shows that 32% of millennials choose mutual funds as their preferred investment option while 23% select equities as their preference. The traditional investment options of fixed deposits and insurance receive selection from 17% and 15% of investors respectively. Only 5% of people allocate their funds to cryptocurrency. The research shows that millennials with moderate to high financial literacy prefer to invest in market-linked products which provide better returns than traditional investment methods.

Discussion

Millennials show a direct connection between their financial literacy and their investment practices. People who possess advanced financial literacy skills tend to invest in both mutual funds and equities which represent diversified and market-related investment options. They display an ability to handle greater investment risks while developing their strategies for financial success over extended periods.

People with basic financial knowledge tend to choose fixed deposits and insurance policies which provide traditional and low-risk investment options. This demonstrates that people choose to handle money matters with extreme caution because they lack understanding and they want to avoid losing money. The research shows that modern financial products now reach higher recognition among millennials because of their access to digital platforms and financial technology services Millennials use their financial understanding to make wiser investment choices which help them build their wealth.

Conclusion

The study shows that financial literacy works as a main factor which determines how millennials choose to invest their money. The majority of respondents display financial literacy skills which exceed moderate levels and this enables them to make better investment choices. Millennials who possess superior financial knowledge show increased confidence to invest in various financial products including mutual funds and stocks. They display an ability to manage investment risks while developing plans for their future financial needs.

A significant group of respondents continues to show low financial literacy skills which prevent them from accessing more sophisticated investment options. Such individuals tend to rely on traditional and low-risk investment options. The study shows the need for better financial education programs which will help people understand contemporary financial products and methods for managing investment risks.

The research findings show that educational institutions and workplaces should include financial literacy training in their academic programs and employee development courses. Digital financial literacy programs can further empower millennials to make informed and strategic investment decisions.

The process of enhancing financial literacy skills among millennials will lead to improved investment practices which will create better financial outcomes and drive economic development. Financial institutions and educational organizations should work with policymakers to create specific financial awareness programs which will serve this particular demographic.

Suggestion

- Schools and colleges need to implement financial literacy programs as a requirement.
- Workplaces should organize financial awareness workshops for their employees.
- Digital financial education should be developed through mobile applications as an educational resource.
- Millennials should be encouraged to establish their investment plans through systematic investment planning.
- The government should establish financial awareness campaigns which will receive public funding support.

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