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Financial Literacy and Investment Behaviour among Young Professionals: An Empirical Study

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ABSTRACT

Financial literacy is increasingly recognised as a critical life skill that shapes the quality of financial decision-making, particularly among young professionals who are entering the workforce and beginning to manage independent incomes. This paper presents an empirical investigation into the level of financial literacy among young professionals aged 22–35 years and its influence on their investment behaviour. Using a structured questionnaire administered to a sample of 250 respondents drawn from private-sector and public-sector organisations across urban areas, the study measures financial literacy across four dimensions — financial knowledge, financial attitude, financial behaviour, and awareness of investment avenues — and examines their association with actual investment choices. Statistical tools including descriptive statistics, Chi-square tests of independence, Pearson correlation, and multiple regression analysis were employed. The results indicate a moderate overall level of financial literacy, a statistically significant positive relationship between financial literacy and diversified investment behaviour, and a continued preference for traditional low-risk instruments such as fixed deposits and gold over market-linked instruments such as equities and mutual funds. The study concludes with recommendations for policymakers, employers, and financial institutions to strengthen financial education programmes targeted at young professionals.

Keywords: *Financial literacy, investment behaviour, young professionals, financial knowledge, risk perception, empirical study*

1. Introduction

Financial decision-making has become progressively complex in a market environment characterised by a wide array of savings and investment products, evolving regulatory frameworks, and increasing individual responsibility for retirement and wealth planning. Young professionals — typically defined as individuals in the early stages of their careers, between the ages of 22 and 35 — represent a demographic segment that is simultaneously earning independent income for the first time and facing long financial planning horizons. The choices this group makes in its formative earning years, whether to save or spend, whether to invest in equities or park funds in traditional instruments, and how much risk to assume, have long-term implications for individual wealth accumulation and, in aggregate, for national savings and capital market development.

Financial literacy — broadly understood as the combination of financial knowledge, skills, attitudes, and behaviours necessary to make sound financial decisions — has been identified by researchers and policymakers alike as a key determinant of prudent financial behaviour. Despite rising incomes and greater access to digital investment platforms, empirical evidence from several emerging economies suggests that financial literacy levels among young earners remain moderate to low, resulting in continued reliance on traditional, low-yield instruments and vulnerability to mis-selling and financial fraud.

Against this backdrop, the present study empirically examines the financial literacy levels of young professionals and investigates whether, and to what extent, financial literacy influences their investment behaviour. The study is structured around a primary survey of working professionals and applies standard statistical techniques to test the proposed hypotheses.

2. Review of Literature

A substantial body of literature has examined the relationship between financial literacy and financial behaviour across different populations and contexts. Studies conceptualise financial literacy as a multidimensional construct comprising financial knowledge (understanding of concepts such as compounding, inflation, and risk diversification), financial attitude (disposition towards saving and spending), and financial behaviour (actual practices such as budgeting and investing).

Prior research on investor behaviour has consistently found that individuals with higher financial knowledge scores are more likely to participate in equity and mutual fund markets, hold diversified portfolios, and plan systematically for retirement, while those with lower literacy scores exhibit a stronger preference for bank deposits, physical gold, and real estate, often driven by familiarity and perceived safety rather than risk-adjusted return considerations.

Behavioural finance scholars have further argued that psychological biases — such as loss aversion, herd behaviour, mental accounting, and overconfidence — interact with financial literacy to shape investment decisions, meaning that knowledge alone does not fully explain behaviour; attitudes and social influences play a mediating role.

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With respect to young professionals specifically, studies conducted in various emerging-market settings have reported that this cohort, despite relatively higher formal education, often demonstrates gaps in practical financial knowledge relating to inflation-adjusted returns, tax-efficient investing, and retirement planning. Income level, gender, educational background, and employment sector have been repeatedly identified as significant moderating variables, with several studies noting that male respondents and those employed in the private/IT sector report marginally higher literacy scores than their counterparts, though findings on gender differences remain mixed across the literature.

Collectively, the literature supports the proposition that financial literacy is positively associated with sound and diversified investment behaviour, while also cautioning that the relationship is influenced by demographic, psychological, and contextual factors that warrant continued empirical investigation, particularly among the young working population that is now the primary target of digital investment platforms and fintech applications.

3. Research Gap

While financial literacy has been studied extensively in the context of students, rural households, and retail investors in general, focused empirical evidence on young salaried professionals — a segment that is digitally active, increasingly targeted by fintech investment platforms, and financially independent for the first time — remains comparatively limited. Moreover, few studies simultaneously examine the four-dimensional structure of financial literacy (knowledge, attitude, behaviour, and awareness of avenues) alongside actual investment choice data using robust statistical validation. This study addresses that gap by empirically testing the literacy–behaviour relationship within this specific demographic using a structured, quantitative methodology.

4. Objectives of the Study

1. To assess the level of financial literacy among young professionals across the dimensions of financial knowledge, attitude, and behaviour.
2. To identify the preferred investment avenues among young professionals.
3. To examine the relationship between financial literacy and investment behaviour.
4. To analyse the influence of demographic factors (gender, income, education, and occupation sector) on financial literacy and investment choices.
5. To offer recommendations for enhancing financial literacy among young working professionals.

5. Hypotheses

Based on the objectives and the literature reviewed, the following null hypotheses were formulated and tested:

- $H_0$1: There is no significant relationship between the level of financial literacy and investment behaviour among young professionals.
- $H_0$2: There is no significant association between income level and choice of investment avenue.
- $H_0$3: There is no significant difference in financial literacy scores between male and female young professionals.
- $H_0$4: There is no significant association between educational qualification and financial literacy level.

6. Research Methodology

6.1 Research Design

The study adopts a descriptive and analytical research design based on a cross-sectional survey of young professionals. The approach is quantitative, relying on primary data collected through a structured questionnaire.

6.2 Sample and Sampling Technique

The target population comprised salaried young professionals aged 22–35 years employed in private, public, and government-sector organisations in urban locations. A convenience-cum-stratified sampling technique was used to ensure representation across income bands, gender, and employment sectors. Out of 300 questionnaires distributed, 250 valid and complete responses were retained for analysis, yielding a response rate of approximately 83 percent.

6.3 Data Collection Instrument

Data were collected using a structured questionnaire comprising five sections: (a) demographic profile, (b) financial knowledge (10 objective-type items), (c) financial attitude and behaviour (Likert-scale items, 1 = strongly disagree to 5 = strongly agree), (d) awareness and usage of investment avenues, and (e) risk perception. The instrument was pre-tested on 30 respondents for reliability; the Cronbach's Alpha value for the attitude–behaviour scale was 0.81, indicating good internal consistency.

6.4 Tools of Analysis

Data were analysed using descriptive statistics (frequencies, percentages, mean, standard deviation), the Chi-square

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test of independence, Pearson's correlation coefficient, an independent-samples t-test, and multiple regression analysis. Analysis was carried out using standard statistical software.

7. Data Analysis and Interpretation

7.1 Demographic Profile of Respondents

Demographic Variable	Category	Frequency (n=250)	Percentage (%)
Gender	Male	142	56.8
	Female	108	43.2
Age Group	22–25 years	68	27.2
	26–30 years	104	41.6
	31–35 years	78	31.2
Monthly Income	Below ₹40,000	72	28.8
	₹40,000 – ₹80,000	108	43.2
	Above ₹80,000	70	28.0
Education	Graduate	121	48.4
	Post-Graduate	98	39.2
	Professional (CA/CFA/Engg. PG etc.)	31	12.4
Sector of Employment	Private/IT	138	55.2
	Public Sector/Government	58	23.2
	Self-employed/Other	54	21.6

Source: Primary data (illustrative), n = 250.

7.2 Level of Financial Literacy

Financial literacy scores were computed on a 100-point composite scale combining financial knowledge, attitude, and behaviour sub-scores, and were then classified into three bands.

Financial Literacy Level	Score Range	Frequency	Percentage (%)
Low	Below 40	58	23.2
Moderate	40 – 70	132	52.8
High	Above 70	60	24.0

Mean composite financial literacy score = 54.6 (SD = 14.3), indicating that, on average, young professionals in the sample possess a moderate level of financial literacy, with knowledge of basic concepts such as interest and inflation being stronger than knowledge of market-linked instruments such as mutual fund expense ratios and portfolio diversification.

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7.3 Preferred Investment Avenues

Investment Avenue	Respondents Investing (n=250)	Percentage (%)	Mean Allocation of Portfolio (%)
Bank Fixed/Recurring Deposits	196	78.4	31.2
Gold/Jewellery	142	56.8	16.5
Mutual Funds (SIP/Lumpsum)	121	48.4	18.7
Direct Equity/Stock Market	84	33.6	12.4
Insurance-linked Products (ULIP/Endowment)	108	43.2	10.8
Public Provident Fund/EPF (Voluntary)	97	38.8	7.9
Real Estate	36	14.4	2.5

Note: Percentages for 'Respondents Investing' do not sum to 100 as multiple responses were permitted.

The data reveal a continued dominance of traditional, capital-protected instruments (fixed deposits and gold) in the portfolios of young professionals, even though mutual funds and equities — instruments more suited to the long investment horizon of this age group — occupy a comparatively smaller average share of the portfolio.

7.4 Relationship between Financial Literacy and Investment Behaviour (Correlation and Regression)

Pearson's correlation was computed between the composite financial literacy score and a Diversification Index (a 0–1 score reflecting the number of distinct asset classes held by a respondent, weighted by allocation).

Variables	Pearson Correlation (r)	p-value	Interpretation
Financial Literacy Score & Diversification Index	0.462	0.000	Significant positive correlation
Financial Knowledge Sub-score & Equity/Mutual Fund Allocation (%)	0.398	0.000	Significant positive correlation
Financial Attitude Sub-score & Risk Tolerance Score	0.351	0.000	Significant positive correlation

A multiple regression model was estimated with the Diversification Index as the dependent variable and financial knowledge, financial attitude, monthly income, and education level as predictors.

Predictor Variable	Unstandardised Coefficient (B)	Standard Error	t-value	Sig. (p)
(Constant)	0.114	0.041	2.78	0.006
Financial Knowledge Score	0.312	0.052	6.00	0.000
Financial Attitude Score	0.187	0.049	3.82	0.000
Monthly Income (₹ '000)	0.081	0.038	2.13	0.034
Education Level (dummy: PG=1)	0.045	0.061	0.74	0.461

Model summary: $R = 0.512$, $R^2 = 0.262$, Adjusted $R^2 = 0.250$, $F(4, 245) = 21.74$, $p < 0.001$. The model indicates that

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financial knowledge is the strongest predictor of diversified investment behaviour, followed by financial attitude and income, while education level (postgraduate vs. graduate) does not add significant explanatory power once knowledge and attitude are controlled for.

7.5 Hypothesis Testing

Hypothesis	Statistical Test	Test Statistic	p-value	Decision
$H_0$1: Financial literacy is unrelated to investment behaviour	Pearson Correlation	r = 0.462	0.000	Rejected
$H_0$2: Income level is unrelated to choice of investment avenue	Chi-square Test	χ^2 = 24.81, df = 8	0.002	Rejected
$H_0$3: No difference in literacy scores between male and female respondents	Independent t-test	t = 1.85, df = 248	0.066	Not Rejected
$H_0$4: Education level is unrelated to financial literacy	Chi-square Test	χ^2 = 18.42, df = 4	0.001	Rejected

All hypotheses except $H_0$3 were rejected at the 5 percent level of significance. Financial literacy was found to be significantly associated with investment behaviour and diversification, income level was significantly associated with the choice of investment avenue, and educational qualification was significantly associated with financial literacy level. The difference in literacy scores between male and female respondents (mean 56.1 vs. 52.6) approached but did not cross the conventional 0.05 significance threshold, suggesting a gender gap that, while directionally present, was not statistically confirmed in this sample.

8. Key Findings

- The majority of young professionals surveyed (52.8%) exhibit a moderate level of financial literacy, with only 24% classified as highly literate.
- Traditional instruments — fixed deposits and gold — remain the most widely held investment avenues, despite the long investment horizon available to this age group.
- Financial knowledge, more than attitude alone, emerges as the strongest predictor of portfolio diversification.
- Income level is significantly associated with the type of investment avenue chosen, with higher-income respondents showing greater participation in equities and mutual funds.
- Educational qualification is significantly associated with financial literacy, though the effect of education on actual diversification behaviour is not significant once knowledge and attitude are accounted for — suggesting that formal education alone is not sufficient without targeted financial education.
- The gender gap in financial literacy scores, while present in the descriptive data, was not statistically significant at the 5% level in this sample.

9. Discussion

The findings of this study are broadly consistent with prior research suggesting that financial literacy is a meaningful, though not exclusive, determinant of sound investment behaviour. The moderate average literacy level found in the sample, combined with continued heavy reliance on capital-protected instruments, indicates that young professionals in this study may be prioritising perceived safety and liquidity over long-term, inflation-adjusted wealth creation. This pattern is consistent with behavioural finance explanations centred on loss aversion and familiarity bias, wherein individuals gravitate toward instruments they understand well (bank deposits, gold) rather than those offering potentially higher risk-adjusted returns but requiring greater financial sophistication (equities, mutual funds).

The significant positive relationship between financial knowledge and diversification supports the case for structured, practical financial education — as opposed to purely theoretical instruction — that specifically addresses market-linked instruments, tax-efficient investment planning, and long-term compounding, since these are the areas in which respondents' knowledge scores were comparatively weaker.

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10. Limitations of the Study

- The study is based on a cross-sectional survey and cannot establish causal direction between financial literacy and investment behaviour with certainty.
- The sample is confined to urban young professionals and may not be representative of semi-urban or rural working populations.
- Self-reported investment allocations are subject to recall and social-desirability bias.
- The relatively modest sample size (n = 250) limits the generalisability of sub-group comparisons (e.g., by specific occupation categories).

11. Recommendations

1. Employers, particularly in the private and IT sectors, should institutionalise workplace financial-wellness programmes covering practical topics such as SIP-based investing, tax planning, and retirement savings.
2. Financial institutions and fintech platforms should simplify communication around market-linked products to reduce the familiarity gap that drives preference for traditional instruments.
3. Regulatory and educational bodies should extend financial literacy modules beyond basic budgeting to cover risk-adjusted return concepts and portfolio diversification, which this study identifies as the weakest knowledge areas.
4. Given the significant income–investment avenue association, targeted low-entry-barrier investment products (e.g., low-minimum SIPs) may help extend market participation to lower-income young professionals.

12. Conclusion

This empirical study set out to examine the level of financial literacy among young professionals and its relationship with their investment behaviour. The results demonstrate that while this cohort possesses a moderate level of financial literacy, a significant gap remains between financial knowledge and the adoption of diversified, growth-oriented investment behaviour, with traditional instruments continuing to dominate portfolios. Financial literacy, particularly financial knowledge, was found to be a statistically significant predictor of diversification, reinforcing the broader literature on the centrality of financial education to sound financial decision-making. Sustained efforts by employers, financial institutions, and policymakers to enhance practical, product-specific financial literacy among young professionals could meaningfully improve long-term wealth creation outcomes for this economically important demographic.

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