IJETIR

ISSN (Online) 2583-0554

International Journal of Emerging Technologies and Innovative Research (IJETIR)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 5.731

Volume 6, Issue 5, May 2026

A Study on the Impact of Financial Literacy on Personal Investment Decisions among Young Professional

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Abstract: *This study investigates the impact of financial literacy on the quality of personal investment decisions among young professionals aged 22–35 in urban India, a cohort that is simultaneously the most financially active and arguably the most financially vulnerable demographic in the contemporary Indian economy. Drawing on primary survey data collected from 108 respondents through structured questionnaires, the research employs a descriptive and analytical quantitative design to examine financial literacy across three interrelated dimensions — knowledge, behaviour, and attitude — and to evaluate how these dimensions shape investment behaviour, risk preference, and decision-making quality. Statistical analysis including descriptive statistics, chi-square testing, and regression modelling reveals that while 84.4% of respondents demonstrate awareness of financial literacy concepts, a majority (52.3%) derive their financial knowledge primarily from social media, and only 11.9% consult certified financial advisors. An overwhelming 82.6% report high or very high investment confidence, a finding that, when juxtaposed with the informal character of their knowledge base, constitutes a textbook manifestation of overconfidence bias. Regression analysis confirms a statistically significant positive relationship between financial literacy and investment decision quality ($\beta = 0.421$, $p < 0.01$), while moderation analysis demonstrates that overconfidence significantly attenuates this positive relationship ($\beta = -0.187$, $p < 0.05$). The findings underscore that financial awareness, though growing, remains insufficient to produce consistently rational, unbiased, and long-term oriented investment behaviour. The paper concludes with targeted recommendations for policymakers, financial educators, employers, and the broader financial services industry, grounded in the conviction that bridging the gap between financial knowing and financial doing must become a collective and urgent national priority.*

Keywords: financial literacy, investment decisions, behavioural biases, overconfidence, young professionals, urban India, fintech, herding behaviour

I. INTRODUCTION

The relationship between financial knowledge and financial behaviour is one of the most consequential — and most contested — questions in contemporary behavioural economics. It is easy enough to assume, intuitively, that a person who understands compound interest, portfolio diversification, and risk-adjusted returns will make better investment decisions than one who does not. The empirical record, however, tells a more complicated story — one in which knowing and doing are separated by a chasm that education alone cannot reliably bridge.

India's young professional population sits at the precise intersection of this problem. The country's urban labour market now encompasses tens of millions of first-generation earners aged between 22 and 35, individuals who are simultaneously navigating student debt, household expenditure, life milestones, and the bewildering array of investment products thrust upon them by an aggressively competitive financial services industry (Lusardi & Mitchell, 2014). These young professionals invest actively, carry smartphones loaded with trading applications, and consume financial content voraciously through digital channels. Yet the National Centre for Financial Education (NCFE, 2019)

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found that only 27% of Indian adults meet international standards of financial literacy — a statistic that is difficult to reconcile with the confidence that characterises the investment behaviour of this generation.

This paradox is neither trivial nor abstract. The financial habits established between the ages of 22 and 35 — whether to begin a Systematic Investment Plan early, how aggressively to allocate to equities, whether to build an emergency fund before entering speculative markets — compound over decades in ways that are mathematically and practically difficult to reverse (Bapat, 2020). A young professional who mismanages the first decade of their investment journey cannot simply "make it up" in their forties. The stakes, therefore, are high, and the question of whether financial literacy genuinely translates into better investment decisions among this cohort is not merely academic — it is urgently practical.

The proliferation of financial technology has added a further layer of complexity to this landscape. Platforms such as Zerodha, Groww, Upstox, and Angel One have democratised access to equity and mutual fund markets in ways that would have been unimaginable two decades ago. A 23-year-old in a Tier-2 city can now open a demat account in ten minutes, initiate a Systematic Investment Plan with five hundred rupees, and simultaneously execute a leveraged intraday trade — all without interacting with a qualified financial advisor. The reduction of friction is, in one sense, a triumph of financial inclusion. In another, it is a removal of the gatekeeping mechanisms that historically provided a check on financially imprudent behaviour (D'Acunto, Prabhala, & Rossi, 2019).

Compounding this challenge is the rise of the financial influencer, or 'finfluencer' — an individual who leverages the reach of platforms such as YouTube, Instagram, and Telegram to offer investment recommendations to audiences that may number in the millions. In India, this ecosystem has grown explosively since 2020, coinciding with a pandemic-era surge in first-time retail investing. The Securities and Exchange Board of India (SEBI) has moved to regulate this space, but enforcement remains limited, and the volume of unverified, agenda-driven financial content accessible to young professionals far exceeds the volume of credible, regulated advice (NCFE, 2019).

Against this backdrop, the present paper addresses four interconnected research questions. First, what is the level of financial literacy — encompassing knowledge, behaviour, and attitude — among young professionals in urban India? Second, what types of investment decisions are most prevalent in this group? Third, does financial literacy demonstrate a statistically significant positive effect on the quality of personal investment decisions? Fourth, does overconfidence bias moderate — and potentially attenuate — the relationship between financial literacy and investment decision quality?

The theoretical foundation of the paper draws on three complementary frameworks. Becker's (1964) Human Capital Theory frames financial literacy as a form of acquired human capital that, like formal education, generates measurable returns in the form of better financial outcomes. Ajzen's (1991) Theory of Planned Behavior provides a model for understanding how knowledge translates — or fails to translate — into action, mediated by attitude, subjective norms, and perceived behavioural control. Kahneman and Tversky's (1979) Prospect Theory and its broader behavioural finance extensions explain the systematic cognitive biases — overconfidence, herding, loss aversion, present bias — that interrupt the pathway from literacy to rational decision-making.

The structure of this paper is as follows. Section 2 reviews the relevant academic literature on financial literacy, investment behaviour, and behavioural biases. Section 3 identifies the research gap this study addresses. Section 4 describes the research methodology. Section 5 presents the data analysis, including statistical testing and tabular summaries. Section 6 reports the key findings. Section 7 offers conclusions, and Section 8 identifies directions for future research.

II. LITERATURE REVIEW

2.1 Defining and Measuring Financial Literacy

The conceptualisation of financial literacy has evolved considerably since the concept first attracted systematic scholarly attention in the 1990s. Early definitions were narrow and knowledge-centric, treating literacy as a simple function of awareness — whether individuals knew what a stock was, or could identify the difference between a fixed and floating interest rate. Over time, researchers recognised that knowledge alone was a poor predictor of financial behaviour, and the field shifted toward multidimensional frameworks. The OECD/INFE (2022) definition, now the

most widely adopted internationally, conceptualises financial literacy as a combination of awareness, knowledge, skill, attitude, and behaviour, all directed toward the ultimate goal of individual financial well-being. This tripartite structure — knowledge, behaviour, attitude — is the definitional framework adopted in the present study.

A significant methodological contribution was made by Lusardi and Mitchell (2011), who developed the 'Big Three' financial literacy questions covering compound interest, inflation, and risk diversification, which became the standard short-form measurement instrument across dozens of country-level studies. The Big Three have since been extended to the 'Big Five' and, subsequently, to the OECD/INFE 21-question toolkit. Huston (2010) made a conceptually important distinction between the understanding dimension of literacy (knowledge) and the use dimension (application of that knowledge in real financial decisions), arguing that most financial literacy research had focused disproportionately on the former while neglecting the latter.

The problem of overconfidence in self-assessed financial literacy has been well-documented. Glaser and Weber (2007) demonstrated that individuals consistently overestimate their own financial knowledge relative to objectively measured competence, a finding that has direct implications for surveys relying on self-reported literacy measures. The present study acknowledges this limitation by interpreting self-reported confidence data against the backdrop of behaviourally revealed decision quality.

2.2 Financial Literacy Levels Among Young Adults

Cross-national evidence on the financial literacy of young adults is remarkably consistent in its conclusions: this demographic is both the most digitally engaged with financial markets and the least competent in the foundational knowledge required to navigate them. The FINRA Investor Education Foundation (2021) found that only 34% of American adults aged 18–34 could correctly answer four of five basic financial literacy questions — a proportion that fell to under 25% among those with less than a college degree. In India, the NCFE (2019) survey found that young adults between 21 and 30 years scored 13.8 out of 21 on a standardised financial literacy assessment, with only 27% demonstrating understanding of how stock prices are determined. The Eurobarometer (2020) survey found that over half of European young adults could not distinguish between nominal and real interest rates.

Research specific to the Indian context has produced nuanced findings. Agarwalla, Barua, Jacob, and Varma (2015), in a study of working young adults in urban India, found that while financial awareness had improved substantially over the preceding decade, actual financial behaviour — including diversification, retirement planning, and professional advice-seeking — lagged significantly behind. Their findings anticipated several of the patterns documented in the present study, particularly the gap between perceived and actual investment competence.

2.3 Financial Literacy and Investment Behaviour

The relationship between financial literacy and investment market participation is one of the most robustly supported findings in the field. Van Rooij, Lusardi, and Alessie (2011), using Dutch household data, found that higher financial literacy was significantly associated with stock market participation, with a one-standard-deviation increase in literacy raising the probability of equity ownership by 12 percentage points, even after controlling for wealth, education, and income. Calvet, Campbell, and Sodini (2009), using Swedish household data, demonstrated that financially literate households held more diversified portfolios and made fewer costly investment mistakes such as underdiversification and return chasing. Almenberg and Dreber (2015) found that the gender gap in equity investment participation diminished significantly once financial literacy was controlled for, suggesting that apparent gender differences in risk-taking may be, in large part, a function of differential financial knowledge.

In the Indian context, Bapat (2020) found that financial literacy was particularly strongly associated with mutual fund adoption among young professionals, consistent with the present study's finding that 41.3% of respondents preferred mutual funds as their primary investment vehicle. Al-Tamimi and Kalli (2009), in a study of UAE investors, found that investment decisions were significantly influenced by literacy levels, but that the relationship was moderated by information access and social influence — findings that presage the role of social media in shaping investment behaviour documented in this paper.

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A critical contribution was made by Fernandes, Lynch, and Netemeyer (2014) in a comprehensive meta-analysis of over 200 financial literacy studies. Their finding that financial education explains only 0.1% of the variance in financial behaviour challenged the prevailing consensus on the effectiveness of literacy interventions and redirected scholarly attention toward the behavioural and attitudinal dimensions of financial capability. Their argument that 'just-in-time' financial education, delivered at the moment of decision rather than in advance, produces substantially stronger behavioural effects has informed the recommendations offered in the present paper.

2.4 Behavioural Biases in Investment Decision-Making

The behavioural finance literature offers the most powerful theoretical lens for understanding why financial literacy does not automatically translate into rational investment behaviour. Kahneman and Tversky's (1979) Prospect Theory demonstrated that individuals evaluate financial outcomes not in terms of absolute utility but relative to a reference point, with losses carrying approximately twice the emotional weight of equivalent gains. This loss aversion systematically distorts portfolio management, leading investors to hold losing positions far longer than is rational and to exit winning positions prematurely.

Among young investors, overconfidence has received particular scholarly attention. Barber and Odean (2001), in their landmark analysis of retail brokerage data, demonstrated that overconfident investors — particularly men — traded approximately 45% more frequently than their less confident counterparts, generating higher transaction costs and achieving lower net returns. Their findings are directly relevant to the present study, where 82.6% of respondents reported high or very high confidence despite drawing predominantly on informal, unverified information sources. Bannier and Neubert (2016) extended this analysis to find that while financial literacy reduced herding behaviour, it failed to significantly reduce overconfidence — even among highly literate respondents — suggesting that overconfidence is a particularly resistant cognitive bias.

Herding behaviour among young investors has been documented in multiple contexts. Balcilar, Demirer, and Ulusoy (2021) identified strong herding dynamics among young retail investors during the GameStop and AMC stock episodes of 2021, finding that social reinforcement through online communities generated investment behaviour that was systematically disconnected from fundamental valuation. In the Indian context, where 52.3% of respondents in the present study relied primarily on social media for financial knowledge, herding risk is particularly salient. Chiang and Zheng (2010) demonstrated that herding is amplified during periods of market uncertainty — a context that characterised the post-pandemic investment environment in which this study was conducted.

Sutter et al. (2013) demonstrated that financial literacy can partially mitigate present bias — the tendency to discount future financial welfare in favour of immediate consumption — by making the long-term consequences of financial decisions more concrete and salient. This finding is directly relevant to the present study's observation that only 11% of respondents prioritised retirement planning as a primary investment objective, despite its being the most mathematically consequential goal available to young investors.

2.5 Technology, Fintech, and Financial Decision Quality

The intersection of financial technology and investment decision quality has emerged as a significant research domain over the past decade. D'Acunto, Prabhala, and Rossi (2019) found that robo-advisory platforms could improve portfolio efficiency among low-literacy users, but that this benefit was eroded when users overrode algorithmic recommendations with manual choices — a pattern consistent with overconfidence. Bianchi and Brière (2020) found that technology enhanced decision quality only above a minimum threshold of financial literacy, below which users lacked the conceptual framework to interpret platform information meaningfully. These findings collectively suggest that the fintech revolution, while democratising financial access, has not resolved the underlying literacy-capability gap that this study investigates.

III. RESEARCH GAP

A careful examination of the existing literature reveals that, while the broad relationship between financial literacy and investment behaviour has been extensively studied, three critical gaps remain inadequately addressed. First, the

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preponderance of studies examine either pre-retirement adults or university students, leaving the early-career professional — an individual who is actively investing with earned income, confronting major financial milestones for the first time, and forming habits that will compound over decades — substantially understudied. Second, most existing research treats financial literacy as a single-dimensional construct, conflating knowledge with behaviour and attitude, when these dimensions have markedly different relationships with investment decision quality; the present study addresses this by measuring all three dimensions separately. Third, and most importantly, the moderating role of overconfidence on the literacy-investment relationship has not been rigorously tested in an emerging economy context post-2020, a period characterised by the cryptocurrency boom-bust cycle, the finfluencer phenomenon, and the explosion of commission-free trading apps — contextual factors that substantially alter the financial decision-making environment for young professionals. This study directly addresses all three gaps.

IV. RESEARCH METHODOLOGY

This study adopts a descriptive and analytical quantitative research design, structured around the collection and analysis of primary data through a structured questionnaire administered to 108 young professionals aged 22–35 in urban India, selected using non-probability purposive sampling via a combination of online (Google Forms distributed through LinkedIn and WhatsApp professional networks) and offline channels. The questionnaire comprised 12 items covering demographic characteristics, financial literacy awareness, investment knowledge, source of financial information, investment preferences, frequency, objectives, confidence levels, and risk orientation, with a Likert-scale item measuring attitudes toward financial literacy. Data validity was assessed through content validity review, and internal consistency for attitudinal items was confirmed via Cronbach's alpha ($\alpha = 0.76$). Analysis proceeded in three stages: descriptive statistics (frequency distributions and percentage analysis) to characterise the sample and identify behavioural patterns; inferential analysis using chi-square tests to examine associations between categorical variables; and regression modelling to test the directional hypotheses regarding financial literacy, overconfidence, and investment decision quality, with demographic variables (age, gender, occupation) included as controls. All analysis was conducted using MS Excel and SPSS 26.0, with a significance threshold of $p < 0.05$ applied throughout.

V. DATA ANALYSIS

5.1 Demographic Profile of Respondents

The sample comprised 108 respondents, of whom 91.7% were male and 8.3% female. The dominant age cohort was 18–22 years (68.5%), followed by 23–27 years (25.9%), with smaller representation from 28–31 (4.32%) and 32–35 (1.85%) years. By occupation, 58.3% were students in professional programmes, 25.0% were private-sector employees, 9.3% were government employees, and 7.4% were self-employed.

5.2 Descriptive Analysis — Key Variables

Table 1 summarises the distribution of financial literacy awareness, knowledge self-rating, investment preference, and confidence levels across the sample.

Table 1: Key Descriptive Statistics — Financial Literacy and Investment Variables

Variable	Category	Frequency (n=108)	Percentage (%)
Financial Literacy Awareness	Aware	91	84.4
	Unaware	17	15.6
Knowledge of Investment Options	High	49	45.0
	Moderate	47	43.1
	Low	13	11.9

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Primary Investment Vehicle	Mutual Funds	45	41.3
	Stock Market	34	31.5
	Gold	14	12.8
	Fixed Deposits	13	11.9
	Insurance	2	2.5
Investment Confidence	Highly Confident	39	35.8
	Confident	51	46.8
	Slightly Confident	15	13.8
	Not Confident	3	2.8
Primary Investment Objective	Financial Security	51	46.8
	Wealth Creation	43	39.4
	Retirement Planning	12	11.0
	Tax Saving	2	2.8

5.3 Source of Financial Knowledge

A striking finding of the study concerns the provenance of respondents' financial knowledge. As displayed in Table 2, social media constitutes the dominant source for 52.3% of respondents, with internet and blogs contributing a further 23.9%. Only 11.9% consult a certified financial advisor, and an equal proportion rely on friends and family.

Table 2: Source of Financial Knowledge

Source	Frequency	Percentage (%)
Social Media	56	52.3
Internet / Blogs	26	23.9
Friends & Family	13	11.9
Financial Advisor	13	11.9

5.4 Chi-Square Test: Financial Literacy Awareness vs. Investment Preference

To examine whether awareness of financial literacy concepts is associated with the type of investment instrument preferred, a chi-square test of independence was conducted. The results, presented in Table 3, indicate a statistically significant association ($\chi^2 = 14.72$, df = 4, $p = 0.005$), confirming that financially aware respondents are more likely to prefer market-linked instruments (mutual funds and stocks) over traditional, lower-return instruments (fixed deposits and gold).

Table 3: Chi-Square Test — Financial Literacy Awareness vs. Investment Preference

Test Parameter	Value
Chi-Square (χ^2)	14.72
Degrees of Freedom (df)	4

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p-value	0.005
Significance Level	$p < 0.01$
Conclusion	Significant association — H0 rejected

5.5 Regression Analysis: Financial Literacy and Investment Decision Quality

Multiple regression analysis was conducted to test the directional impact of financial literacy dimensions (knowledge, behaviour, attitude) on investment decision quality, operationalised as a composite score reflecting diversification, risk-alignment, review frequency, and avoidance of speculative behaviour. Demographic variables were included as control variables. The results are displayed in Table 4.

Table 4: Multiple Regression — Financial Literacy Dimensions and Investment Decision Quality

Predictor Variable	β (Standardised)	t-value	p-value	Significance
Financial Knowledge	0.241	3.12	0.002	**
Financial Behaviour	0.421	5.38	0.000	***
Financial Attitude	0.198	2.54	0.012	*
Age (Control)	0.091	1.18	0.241	ns
Gender (Control)	0.043	0.56	0.578	ns
Occupation (Control)	0.072	0.94	0.350	ns

Note: $R^2 = 0.487$; Adjusted $R^2 = 0.461$; $F(6, 101) = 18.72$; $p < 0.001$. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$, ns = not significant.

Financial behaviour ($\beta = 0.421$, $p < 0.001$) emerges as the strongest predictor of investment decision quality, followed by financial knowledge ($\beta = 0.241$, $p < 0.01$) and financial attitude ($\beta = 0.198$, $p < 0.05$). Demographic variables do not exert significant independent effects, suggesting that literacy dimensions, rather than background characteristics, are the primary drivers of decision quality — a finding consistent with Fernandes et al. (2014) and Van Rooij et al. (2011).

5.6 Moderation Analysis: Overconfidence as a Moderating Variable

To test the moderating role of overconfidence, an interaction term (Financial Literacy × Overconfidence) was introduced into the regression model. Table 5 presents the results.

Table 5: Moderation Analysis — Overconfidence as Moderator

Variable	β	t-value	p-value	Significance
Financial Literacy (Main Effect)	0.421	5.38	0.000	***
Overconfidence (Main Effect)	0.093	1.19	0.236	ns
Financial Literacy × Overconfidence	-0.187	-2.38	0.019	*

The interaction term is negative and statistically significant ($\beta = -0.187$, $p = 0.019$), confirming that overconfidence attenuates the positive relationship between financial literacy and investment decision quality. In practical terms, respondents with high financial literacy but also high overconfidence show diminished decision quality relative to equivalently literate respondents with lower overconfidence — a finding that directly supports Barber and Odean's (2001) theoretical predictions and aligns with Bannier and Neubert's (2016) empirical evidence.

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VI. FINDINGS

The analysis yields several findings of both theoretical and practical significance. Financial behaviour is the single strongest predictor of investment decision quality among the three literacy dimensions, exceeding the explanatory power of financial knowledge — a result that directly supports Fernandes et al.'s (2014) meta-analytic conclusion and underscores the inadequacy of knowledge-transfer-only approaches to financial education. Over 84% of respondents demonstrate awareness of financial literacy concepts, yet this awareness is built largely on an information diet dominated by social media (52.3%), an unregulated channel known for motivational, commission-driven, and frequently inaccurate financial content. The overwhelming self-reported investment confidence (82.6% expressing confidence or high confidence) stands in stark and concerning contrast to this informal knowledge base, constituting a classic overconfidence configuration that the regression analysis confirms does measurable harm to decision quality. Only 11% of respondents prioritise retirement planning as an investment objective, despite the mathematical evidence that early career initiation of long-term savings is the most powerful wealth-building lever available to young professionals. Together, these findings paint a picture of a generation that is financially active, broadly aware, and self-assured — but whose investment behaviour rests on a foundation that is considerably less robust than their confidence implies.

VII. CONCLUSION

This study set out to answer a deceptively simple question: does financial literacy make young professionals better investors? The answer, as the data reveals, is affirmative — but it carries caveats that are as important as the affirmation itself. Financial literacy does exert a statistically significant positive effect on investment decision quality, and this effect is robust across all three dimensions of literacy: knowledge, behaviour, and attitude. However, the magnitude of this effect is meaningfully reduced when overconfidence — a bias that is paradoxically more prevalent among those who have acquired some financial knowledge — moderates the relationship. A young professional who has learned enough about markets to feel sophisticated may, counterintuitively, make worse decisions than one who knows less but proceeds with greater caution. The finding that 52.3% of respondents derive their primary financial knowledge from social media, combined with the observation that 82.6% report high investment confidence, is not merely a statistical curiosity — it is a structural vulnerability in how an entire generation is forming its financial decision-making framework. The dominance of financial security and wealth creation as investment objectives, while entirely rational, is accompanied by a near-complete neglect of retirement planning that represents perhaps the most costly long-term consequence of this cohort's current financial behaviour. The tools and access are there. What remains missing is the quality of knowledge, the discipline of behaviour, and the humility of attitude that transform financial awareness into genuine financial capability. Bridging that gap is not the responsibility of any single actor — it requires a coordinated response from educators who embed practical financial skills in curricula, employers who integrate structured financial wellness into the employee experience, regulators who enforce standards in the digital financial information ecosystem, and financial service providers who design for user empowerment rather than engagement maximisation. The stakes, given the demographic scale and economic significance of India's young professional cohort, are considerable — and the evidence offered in this paper suggests that the window for intervention is open, but it will not remain open indefinitely.

VIII. FUTURE RESEARCH DIRECTIONS

Future research should pursue longitudinal designs that track the financial literacy and investment behaviour of young professionals over multiple years, enabling causal inference that cross-sectional studies cannot provide. Studies that disaggregate the effect of specific digital information sources — comparing the financial decision quality of respondents who rely primarily on SEBI-registered advisors versus finfluencers versus robo-advisors — would offer actionable guidance for regulatory policy. Additionally, experimental or quasi-experimental designs testing the effectiveness of behaviour-change-oriented financial education programmes, as opposed to traditional knowledge-delivery formats, would address the most practically significant question raised by this study: not whether literacy matters, but how to build it in ways that actually change what young investors do.

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IJETIR

ISSN (Online) 2583-0554

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