GYANBODH
An International Multidisciplinary Peer Reviewed Journal

ISSN:3048-9792
Volume: 3
Issue: 3
May - June: 2026

The Influence of Financial Literacy on Individual Investment Behaviour

Nirav P. Chaudhary
Ph.D. Research Scholar
Saurashtra University, Rajkot.

Dr. Ramesh A. Dangar
Associate Professor
J. H. Bhalodiya Woman's College, Rajkot.

Abstract

This study investigates the intricate relationship between behavioural and financial factors influencing individual investors' intentions to invest. Utilizing a sample of 352 individual investors in Gujarat, the research identifies key behavioural factors such as overconfidence, anger, and herding, alongside financial factors including financial awareness, capability, and behaviour. The findings reveal that overconfidence and anger significantly impact behavioural factors, leading to higher risk-taking and impulsive decisions. Herding behaviour also plays a crucial role, with investors often following the actions of others in uncertain market conditions. On the financial side, awareness and capability are essential for making informed decisions, while responsible financial behaviour contributes to achieving investment objectives. The study underscores the importance of financial education programs to enhance investors' literacy and mitigate behavioural biases. By addressing these factors, investors can make more rational and informed decisions, ultimately leading to better financial outcomes. The research provides valuable insights for financial institutions and policymakers to develop strategies that promote responsible investment behaviour and financial literacy among individual investors.

Keywords:

Financial Literacy, Investment Behaviour, Individual Investors, Financial Decision-Making, Investment Awareness

1. Introduction

Financial literacy has emerged as a critical factor influencing individual investment behaviour in modern economies. It refers to the knowledge, skills, and confidence required to make informed financial decisions, including saving, borrowing, and investing. As financial markets become more complex and diversified, individuals are increasingly responsible for managing their own financial futures. According to Lusardi and Mitchell (2014), financial literacy is a form of human capital that directly affects economic decision-making, including savings, retirement planning, and investment choices. Individuals with higher levels of financial knowledge are better equipped to evaluate risks, understand financial products, and build diversified portfolios, which ultimately improves their long-term financial well-being.

In recent years, the growth of digital financial platforms, stock market participation, and alternative investment options has increased the need for financial awareness among individuals. Studies have shown that financial literacy significantly influences investment decisions, risk tolerance, and asset allocation. For example, research on young investors in India indicates that individuals with higher financial knowledge demonstrate more rational investment behaviour and better financial planning. Conversely, individuals with limited financial literacy often rely on informal advice or emotional decision-making, which may lead to poor investment outcomes or susceptibility to financial scams.

Real-world developments further highlight the importance of financial literacy. The increasing influence of social media “finfluencers” has led many young investors to make decisions based on unverified information or fear of missing out. A recent report noted that a majority of young adults rely on social media for investment advice, even when the sources are unregulated or biased. Such trends demonstrate how inadequate financial knowledge can expose individuals to high-risk or misleading investment opportunities. In response, governments, educational institutions, and financial organizations have started promoting financial literacy programs. For instance, initiatives in India, such as training programs by institutions like IIM Shillong, aim to improve financial awareness and empower individuals to make better investment decisions.

Despite growing awareness, significant gaps remain in the level of financial literacy across different demographic groups. Many individuals still lack basic knowledge of interest rates, inflation, risk diversification, and financial planning, which affects their investment behaviour. Studies have shown that financially literate individuals are more likely to participate in financial markets, make informed choices, and avoid behavioural biases. Therefore, understanding the influence of financial literacy on individual investment behaviour is essential for policymakers, financial institutions, and educators aiming to promote financial inclusion,

ISSN:3048-9792
Volume: 3
Issue: 3
May - June: 2026

economic stability, and long-term wealth creation. This study seeks to examine the relationship between financial literacy and investment behaviour, highlighting how financial knowledge shapes investment decisions and outcomes.

2. Literature Review

Sumantri et al. (2023) focuses on three key components of financial literacy financial awareness, financial capability, and financial behavior and examines how these variables influence investment decisions in MSMEs in Indonesia. The findings emphasize that better financial knowledge among business managers leads to improved financial decision-making and a broader understanding of available financial options. As a result, financially literate MSMEs are more likely to survive and grow, although challenges in accessing development capital continue to slow their progress.

According to **Rahman and Gan (2020)**, several psychological traits shape the investment behaviour of individuals, including trait anger, trait anxiety, overconfidence, herding effect, and self-monitoring. The study indicates that individuals with high levels of trait anger tend to make overly optimistic risk assessments, which may lead to impulsive or aggressive investment decisions. Trait anxiety, on the other hand, influences perceptions of investment attractiveness, as both very high and very low levels of anxiety are associated with reduced confidence in investment opportunities.

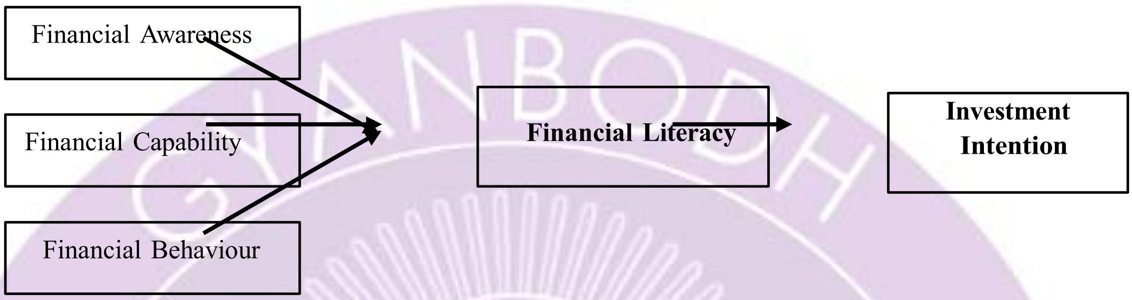
Long She, Ratneswary Rasiah, Marc Arul Weissmann, and Harpaljit Kaur, 2024 examines the determinants of financial behaviour among working adults by applying an extended Theory of Planned Behavior (TPB) model. The research focuses on key variables such as financial knowledge, attitudes towards retirement, perceived behavioural control, subjective norms, behavioural intention towards retirement planning, and overall financial behaviour.

Maria Christantia Ardhiani and Yunia Panjaitan, 2023 examines the influence of financial literacy on investment decision-making among Indonesia's millennial generation. The research focuses on key variables including financial knowledge, financial awareness, financial attitude, family influence, and investment decisions. Financial literacy is described as the understanding of financial concepts, awareness of personal financial conditions, and the development of a responsible money mindset. Financial knowledge refers to an individual's understanding or

ISSN:3048-9792
Volume: 3
Issue: 3
May - June: 2026

experience with financial matters, while financial awareness involves recognizing one's financial position and managing money effectively to avoid financial problems. Financial attitude reflects an individual's mindset toward money management and investment behaviour.

Proposed Research Model



Hypothesis

H1: Financial Awareness positively influences the Financial Factor.

H2: Financial Capability positively influences the Financial Factor.

H3: Financial Behaviour positively influences the Financial Factor.

H4: Financial Literacy positively influences Investment Intention.

3. Methodology

Research Gap

The purpose of conducting this study is to investigate the complex role of behavioral and financial factors that's influence the individual investors investment intentions. Future, this research is trying to explore what's the impact of behavioral factors such as Overconfidence, anger and herding factors and financial factors such as financial awareness, financial capability and financial behavior on Investment intention. That can help the policy makers, financial institutions and investors to increase their financial knowledge and behavioral biases that impact on Investment decisions.

Research objectives

- To Know the relationship between overconfidence and Investment intention.
- To examine how anger impacts on decision making process of investment.
- To explore the influence of herding factors on Investment choices.
- To know the effect of financial awareness for shaping the investment intentions.

GYANBODH
An International Multidisciplinary Peer Reviewed Journal
ISSN:3048-9792
Volume: 3
Issue: 3
May - June: 2026

- To evaluate the impact of financial capability on investment intention of individual investors.

Research Design

This study uses a descriptive research design. A variety of surveys and fact-finding investigations are included in descriptive research. In this study, a questionnaire is employed to gather data using a descriptive research method. Through the use of a survey, the respondents were asked questions, and after receiving their replies, the data was examined.

Sampling method

The strategy which was used in the problem was the convenience sampling method, which means a population is selected due to the convenience of them being in the study. A convenience population is a subset of the probability sampling population that is chosen based on convenience.

Research instrument

The data collection involved developing a Google Form questionnaire which was circulated to persons who have engaged in meme marketing and interested in meme culture.

Sampling frame

The following qualities of the ideal population were relevant to the research:

- Age: Individuals aged 18 and above;
- Individual investors who actively participate or intend to participate in financial investment activities;
- Existing investors (mutual funds, stocks, bonds, insurance, fixed deposits, etc.);
- Potential investors with saving or investment intentions.

Sample size

Hair et al. (1998) suggested a preferred degree of 15-20 observations for each focused variable for determining the sample size for this study. 10 cases/observations per pointer variable in setting can be used as a general guideline (Nunnally, 1967). This research comprises a 352-sample size.

Data Analysis Plan

Version 27.0 of the Statistical Package for Social Sciences will be used for data analysis. Various statistical tests will be conducted based on the variables being examined.

GYANBODH
An International Multidisciplinary Peer Reviewed Journal
ISSN:3048-9792
Volume: 3
Issue: 3
May - June: 2026

Research instrument

The data collection involved developing a Google Form questionnaire which was circulated to persons who have engaged in meme marketing and interested in meme culture.

4. Data Analysis

The analysis and interpretation including the statistical analyses performed on the data are described. For this chapter, several data and statistical analyses were presented. The analysis of the data is carried out in accordance with the mathematical methods based on SPSS 27 program.

Description	Total	Percentage
Gender		
Male	234	66.50
Female	118	33.50
Age		
18-24	206	58.5
25-34	40	11.4
35-44	86	24.4
45 & above	20	5.7
Occupation		
Student	53	15.10
Service	63	17.90
Employed (Full time)	209	59.40
Employed (Part time)	16	4.55
Self-employed	11	3.14

The statistical profile of the entire cohort comprising 352 participants is outlined in Table 1. The distribution indicates that 66.50% of respondents were male, while 33.50% were female. Furthermore, information about the participants' occupations was gathered. Of the respondents, 03.14% were self-employed, 59.40% were Employed (Full time), 04.55% were Employed (Part

GYANBODH
An International Multidisciplinary Peer Reviewed Journal
ISSN:3048-9792
Volume: 3
Issue: 3
May - June: 2026

time), 15.10% were students, and the remaining 17.90% identified as were engaged in public sector or government positions.

Variable	Cronbach's Alpha	No. of items
Financial Awareness	0.819	4
Financial Capability	0.916	4
Financial Behaviour	0.771	4
Financial Literacy	0.799	4
Investment Intention	0.804	5

The table presents the reliability analysis of three different survey variables AI personalization, Trust and Purchase Intent using Cronbach's Alpha, a measure of internal consistency. The Cronbach's Alpha values for all variables exceed 0.7, ranging from 0.771 for Financial Behaviour to 0.916 for Financial Capability. This indicates that all variables demonstrate acceptable to high reliability, meaning the items associated with each construct consistently measure the intended concept. These results collectively suggest that the measurement scales used for these variables are robust and valid for research purposes.

	Fit Indices						
	χ^2	χ^2/df	IFI	CFI	TLI	PNFI	RMSEA
Actual Value	412.385	2.184	0.932	0.928	0.915	0.621	0.056

The fitness of the measurement model was evaluated using both absolute and incremental goodness-of-fit indices, including the chi-square value over degrees of freedom (χ^2/df), Root Mean Square Error of Approximation (RMSEA), Comparative Fit Index (CFI), Incremental Fit Index (IFI), Tucker–Lewis Index (TLI), and Parsimony Normed Fit Index (PNFI). The χ^2/df value of 2.184 is below the recommended threshold of 3.0, indicating an acceptable model fit. The RMSEA value of 0.056 is below 0.08, suggesting a good approximation of the model to the data. Furthermore, the incremental fit indices demonstrate strong model adequacy, with IFI (0.932), CFI (0.928), and TLI (0.915) exceeding the recommended benchmark of 0.90. The

GYANBODH
An International Multidisciplinary Peer Reviewed Journal
ISSN:3048-9792
Volume: 3
Issue: 3
May - June: 2026

PNFI value of 0.621 is above the acceptable level of 0.50, indicating satisfactory model parsimony. Overall, these goodness-of-fit indices confirm that the measurement model demonstrates a good fit with the data set and is statistically reliable.

5. Implications

For Investors: Understanding the impact of behavioral and financial factors on investment decisions can help investors make more informed and rational choices. By recognizing their own biases and improving financial literacy, investors can enhance their investment outcomes. Self-Awareness: Individual investors should be aware of their own behavioural biases and take steps to manage them. Financial Planning: Individual investors should develop a financial plan that takes into account their investment goals, risk tolerance, and time horizon.

For Financial Institutions: Financial institutions can use these findings to develop better investment advisory services and educational programs. By addressing the behavioral biases and enhancing financial capability among investors, institutions can help clients achieve better investment results. Risk Management: Financial institutions should develop risk management strategies that take into account the behavioural biases of individual investors. Investor Profiling: Financial institutions should use investor profiling techniques to identify individual investors' behavioural biases and provide personalized investment advice.

For Policymakers: Policymakers can use these insights to design regulations and policies that promote financial literacy and responsible investment behavior. Encouraging financial education and awareness can lead to a more stable and efficient financial market. Financial Literacy Programs: Policymakers should develop and implement financial literacy programs that focus on enhancing financial awareness, financial capability, and financial behaviour among individual investors. Regulatory Frameworks: Regulatory frameworks should be designed to protect individual investors from the negative impacts of behavioural biases, such as overconfidence and herding factors.

Limitations and Future Research

The study's sample size is relatively small, with only 352 valid responses. This may limit the generalizability of the findings to a broader population. Additionally, the sample is geographically concentrated in Gujarat, which may not represent the diverse investment behaviours across different regions of India or other countries. The study relies on self-reported data collected through questionnaires. This method is subject to biases such as social desirability bias, where respondents may provide answers, they believe are socially acceptable rather than their true feelings or behaviours. Additionally, recall bias may affect the accuracy of the responses. The research design is cross-sectional, meaning data was collected at a single point in time. This limits the ability to establish causality between the variables. Longitudinal studies, which collect data over an extended period, would provide more robust insights into the causal relationships between behavioural and financial factors and investment intentions.

6. Conclusion

This study provides a comprehensive analysis of the factors influencing investment intentions among individual investors, focusing on both behavioral and financial aspects. The findings reveal that overconfidence, anger, and herding behavior significantly impact investors' behavioral factors, while financial awareness, capability, and behavior play crucial roles in shaping financial factors. The integration of these behavioral and financial factors collectively influences investment intentions. The study highlights the importance of understanding the psychological biases and financial literacy of investors to enhance their decision-making processes. Overconfidence and anger can lead to impulsive and risky investment choices, whereas herding behavior shows the tendency of investors to follow the crowd, which can result in suboptimal investment outcomes. On the financial side, awareness and capability are essential for making informed investment decisions, and responsible financial behavior contributes to better investment outcomes. The research underscores the need for financial education programs to improve investors' financial literacy and awareness. By addressing behavioral biases and enhancing financial capability, investors can make more rational and informed investment decisions. Financial institutions and policymakers can use these insights to develop strategies and policies that promote responsible investment behavior and financial literacy among individual investors. Overall, this study provides valuable insights into the complex interplay between behavioral and financial factors in shaping investment intentions.

GYANBODH
An International Multidisciplinary Peer Reviewed Journal
ISSN:3048-9792
Volume: 3
Issue: 3
May - June: 2026

References

Adiputra, I. G., Bangun, N. A., & Graceilla, B. (2024). The Influence of Financial Socialization, Overconfidence, and Mental Accounting on Investment Decisions. Jurnal Manajemen, 28(1), 200-221. http://dx.doi.org/10.24912/jm.v28i1.1792

Ardhiani, M. C., & Panjaitan, Y. (2023). Analysis of Financial Knowledge, Financial Awareness, and Financial Attitude on Investment Decisions in the Capital Market by Indonesian Millennial Generation. Journal of Economics, Finance and Management Studies, 6(5), 2042-2049. https://doi.org/10.47191/jefms/v6-i5-22

Al-Qenae, R, Li, C, and Wearing, B 2002, 'The information content of earnings on stock prices: The Kuwait Stock Exchange', Multinational Finance Journal, Volume 6, No. 3, 197-221

Al-Tamimi, H. (2006), "Factors influencing individual investor behavior: an empirical study of the UAE financial markets", The Business Review, Vol. 5 No. 2, pp. 225-32.

Baker, M., and J., Wurgler. 2006, 'Investor sentiment and the cross-section of stock returns', Journal of Finance, Volume 61, Pp. 1645-1680

Barber, B. M., & Odean, T. (2013). The Behavior of Individual Investors. Handbook of the Economics of Finance, 2, 1533-1570. https://doi.org/10.1016/B978-0-44-459406-8.00022-6

Hossain, T., & Siddiqua, P. (2022). Exploring the influence of behavioral aspects on stock investment decision-making: A study on Bangladeshi individual investors. PSU Research Review. https://doi.org/10.1108/PRR-10-2021-0054

Kadariya, S 2012, 'Factors affecting investor decision making: A case of Nepalese capital market', Journal of Research in Economics and International Finance (JREIF), Volume 1, No.1, Pp. 16-30

Merikas, A. A., Andreas. G, Vozikis, G. S., & Prasad, D 2004, 'Economic Factors and Individual Investor Behavior: The Case of the Greek Stock Exchange', Journal of Applied Business Research, Vo. 20, No. 4, Pp. 93-98.

Pranajaya, E., Alexandri, M. B., Chan, A., & Hermanto, B. (2024). Examining the influence of financial inclusion on investment decision: A bibliometric review. Heliyon, 10(e25779). https://doi.org/10.1016/j.heliyon.2024.e25779

Rahman, M., & Gan, S. S. (2020). Generation Y investment decision: an analysis using behavioural factors.Managerial Finance, 46(8), 1023-1041. https://doi.org/10.1108/MF-10-2018-0534

She, L., Rasiah, R., Weissmann, M. A., & Kaur, H. (2024). Using the Theory of Planned Behaviour to Explore Predictors of Financial Behaviour Among Working Adults in Malaysia. FIIB Business Review, 13(1), 118-135. https://doi.org/10.1177/23197145231169336

Sumantri, D., Fahmi, R., & Sari, M. (2024). Evaluation of the effect of financial literacy (financial awareness, financial capability, and financial behavior) on investment decisions in micro, small, and medium enterprises (MSMEs) in Indonesia. Mantik Journal, 7(4), 3203-3216. https://doi.org/10.1080/20430795.2018.1429148