

An Analytical Study of Investment Decision-Making Behaviour among Youth in India

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ABSTRACT

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Increased involvement of youth in financial markets has turned investment decision making behaviour to a significant field of academic as well as policy-based studies in India. This paper was an attempt to critically discuss youth investment behaviour through determining the driving tablets behind their investment decision. It had an adopted descriptive research design, with primary data being gathered using a structured questionnaire sent to 384 youth respondents in India. A descriptive statistic and inferential analysis were used to evaluate the investment preferences, risk-taking, financial literacy, and behavioural variables. The results show that the most desirable investment channels among young people are equity shares and mutual funds, which means that there is an increasing tendency towards investment related to the market. Membered in aspect of expected returns and risk perception were found to be most important determinants of investment decisions with financial literacy being statistically significant source of association with investment behaviour. The more financially literate youth were found to be more engaged in growth-intensive means of investment, as less financially literate youth were engaged in less safe and more traditional means of investment. The research suggests the applicability of behavioural finance in the context of investigating youth investment behaviour as well as the need to impose specific financial education and policy programs that can help instil informed, balanced and sustainable investment behaviours among the Indian youth.

Keywords: Investment behaviour, Youth investors, Financial literacy, Risk perception, Investment decision-making, etc.

Introduction

Behavioural aspects relating to investment decision making by youth people have become one of the most important topics to be investigated regarding the changing financial ecosystem of India. India

also has a great potential of long term capital formation as the population of young educated and participating investors is a good demographic advantage. The growing access and ease of the financial market, growing levels of digitalization of investment platforms and the increasing variety of financial products have entirely changed how young people view their decisions toward savings and investments. Therefore, the behavioural trends, preferences and determinants affecting investment decisions among the youth have been crucial to the understanding of the policymakers, financial institutions and market actors.

The previous studies point to the fact that rational calculation of the risk and return correlates with investment behaviour only partially and that behavioural, psychological, and socio-economic aspects have a crucial impact on investment behaviour. Behavioural finance studies indicate that the role of biases during investment decision making is an important role not only in relation to younger (with less experience) investors, but also when it comes to overconfidence, herd behaviour, loss aversion, and mental accounting (Barber and Odean, 2001; Kahneman and Tversky, 1979). Young investors tend to have a hybrid decision-making process in the Indian set-up; they continue investing their funds in the traditional investment options, including bank deposits and gold, but also incorporate stock market ventures, including equities, mutual funds and exchange-traded funds (Chandra & Kumar, 2011).

Research on financial literacy has revealed it to be the determinant of investment engagement and diversifying portfolios amongst the youth. Statistically, it has been shown that an elevation of financial literacy increases risk appraisal skills and encourages more informed choices that will boost involvement in official financial markets (Lusardi and Mitchell, 2014). Nevertheless, the research devoted to the new economies, such as India, demonstrates that there are still gaps in financial literacy among the young demographic that could result in making ineffective investment choices or taking unnecessary risks (Agarwalla et al., 2015). Moreover, it has been observed that young investors are largely influenced by income, education, profession, and peer pressure when making investment choices and risk taking (Kumar and Goyal, 2015).

The high rate of digitalisation of financial services has also changed the behaviour of youths in regard to investment. Web trading sites as well as mobile apps and financial news on social media have reduced the barriers to entry and have also raised the exposure to volatility of the market and speculative conduct (Baker and Ricciardi, 2014). Although online availability has increased ease and involvement, the digital usage has increased behavioural biases because traders are overwhelmed by information and driven by in the moment market moods especially among the novices.

It is against this background that the current research will take an analytical approach of studying the investment decision-making behaviour amongst the youth in India. The study aims to provide insight into youth investment behaviour in a newly developed market economy by a systemic examination of behavioural, financial, and socio-demographic factors to add value to the available literature of youth investment behaviours. It is hoped that the findings will help in coming up with specific financial literacy programs, investor education programs and policy interventions that will help promote sustainable and informed investments among the youth of India.

Literature Review

The research on investment decision-making behaviour has been much publicized with the growth of financial markets and increased retail investment especially by young investors. Classical finance Theories like the Modern Portfolio Theory focus on rational behaviour in terms of risk-return

maximisation but empirical studies are showing again and again that actual investor behaviour is not rational because of cognitive and emotional factors. This change has resulted in a combination of the framework of behavioural finance to make a better clarification of investment decisions particularly among younger and relatively inexperienced investors.

Some studies have focused on determining the impact of behavioural factors to make investment decisions. Shefrin and Statman (2000) pointed out that certain psychological biases like overconfidence, regret aversion and representativeness are major factors that affect the portfolio choice of individual investors. In a similar vein, Statman (2002) stated that investors usually have to appeal to heuristics and subjective perceptions instead of objective financial data, making them create systematic errors in decision-making. The results are especially applicable to young investors who might not have long-term market experience and experience.

The studies in the Indian market have shown that a combination of financial literacy, the risk-taking propensity and socio-demographic factors affect youth investment behaviour. Bhatia and Bredin (2013) established that young investors in the emerging markets have a stronger risk appetite than the older generations although their investment decisions are usually limited by lack of financial knowledge. Similarly, Bairagi and Chakraborty (2018) reported that when Indian young people believe that market-oriented investments like equities and mutual funds have greater growth opportunities, they are willing to invest, but more often than not a peer group and market ethos influence their choices.

As it is discovered, financial literacy has turned out to be among the most important determinants of informed investment behaviour. Rooij et al. (2011) have demonstrated that financially literate individuals stand high probability of investment and diversification of investment to stock markets accordingly. Applying the identical argument to the developing economies, Bhushan and Medury (2014) recorded that the conservative investment behavior or the reliance on the informal advice typically by young investors in India is caused by a lack of financial awareness. This means that young people could be crippled in regards to their ability to evaluate risk and returns in an objective way because of insufficient financial training.

Digitalisation has also been extensively studied in relation to the impact it has on the youth on investment behaviour. According to Sharma and Gupta (2019), availability of online trading platforms and mobile-based investment application has played a key role in increasing the number of youths joining financial markets through accessibility and low transaction costs. But with this ease there comes more exposure to speculative investments and short term decision-making. The study conducted by Parab and Reddy (2020) showed that online financial materials and social media have a powerful influence on the decisions young investors make in the investment field and may result in a herd effect and hasty investments.

Income, education and occupation are other socio-economic factors that influence investment preferences. Arti, Julee and Sunita (2011) discovered that education level and income stability have a positive effect on the willingness to invest in high-risk instruments. Also, we have seen that regional and cultural variations in India have an influence on investment attitudes, which shows the heterogeneity in investment behaviour among the youth in India.

Altogether, the available sources highlight that the investment decisions among the young population is a complex process affected by behavioural biases, financial literacy, digital exposure, and socio-economic factors. Although there is increased studies in this field, there is still need to conduct

thorough analytical studies that assimilate these dimensions into the Indian setting. It is in this light that the current research is aimed at filling this gap by offering an empirical analysis into the determinants of investment decision-making behaviour among the youth in India.

Objective:

The aim of the research was to analytically discuss the investment decision making behaviour among young people in India by determining and analysing the significant behavioural, financial and socio-economic factors that triggered their decision to invest. To be specific, the study was also meant to evaluate the role of financial literacy and risk perception, incomes, and educational background, digital investment platforms, and behavioural biases in determining investment preferences, risk tolerance, and involvement in different investment opportunities in order to create empirical evidence to inform the policymaking process, the education of investors and financial inclusion initiatives being conducted among the youths.

Methodology:

The research design that the researcher employed was descriptive research design whereby the researcher wanted to know the youth investment decision-making behaviour in India. Data collection was conducted through the primary procedures as a structured questionnaire and this was done to help capture the information that seeks to aid in capturing data about demographic data and the solution in areas of investment preferences and risk perception, financial literacy and behavioural influences. This questionnaire is founded on multiple requirements as a form of statement answered at the five-point Likert scale in order to make the statements consistent and easily analyzed. The target population was the young people on the age bracket of 18-35 years having already undertaken the financial investment or having interest in it. The survey involved 384 participants to use the common formula of a large population to guarantee statistical satisficescence and trustworthiness of findings. A non-probability convenience methodology was employed to select the respondents, through the assistance of purposive screening to limit the sample to only eligible youth investors. Coded, tabulated and analysed data was then obtained to come up with meaningful interpretations to support the study objectives as far as appropriate descriptive and inferential statistical tools were used.

Result and Discussions:

Following section shows the findings from the data collected from 384 respondents

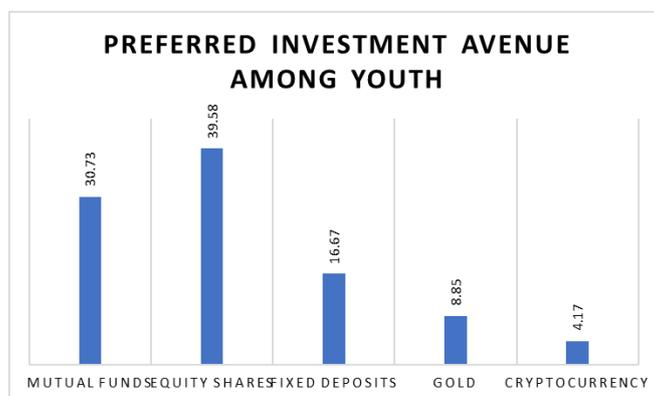


Fig. 1 Investment Avenue

As the table shows, most young people prefer investing in equity shares (39.58%) and this is which can be attributed to their strong interest in direct equity investments and investments that aim at higher returns. In second place (30.73), there is a large degree of adoption of professionally managed and more or less diversified investment products represented by mutual funds. A significant proportion of young investors have remained in the fixed deposits (16.67) category as the deposits have low risk and stable returns. Gold (8.85) is a classic option, which is mostly preferred by security and ensuring long-term wealth. Conversely, cryptocurrency (4.17) will be a low adopter implying careful investment in highly volatile and speculative investments. Comprehensively, the allocation is indicative of an increasing preference of youth in the market-related instruments although there is still a certain portion of allocation in traditional areas of investment to undertake risk mitigation.

Table 1 Factors Influencing Decision to Invest

Influencing Factor	Mean Score	Rank
Expected Return	4.28	I
Risk Perception	4.05	II
Financial Literacy	3.92	III
Peer Influence	3.46	IV
Online Platforms & Apps	3.38	V
Media & Social Media	3.12	VI

As shown by the table 1, the expected return is the strongest variable that has an impact on investment decisions made by the youths, and its largest mean is 4.28, which shows that young investors are returns-oriented. In the second position, the risk perception with a mean score of 4.05 is used to describe an emphasis on the calculation of possible losses and returns, which is quite a rational and cautious attitude towards investing. On the third position, there is a concept known as financial literacy that emphasizes the importance of knowledge and awareness in making informed investments. The influence concept of peers, as well as online platforms and applications, have an intermediate effect, which indicates that social networks and internet access are the facilitators of investment findings but not the primary drivers. The least influential ones are the media and social media with the lowest mean score which connotes that although there is informational exposure, youth investors are more likely to apply personal judgment and financial factors than being influenced radically by media during making investment decisions.

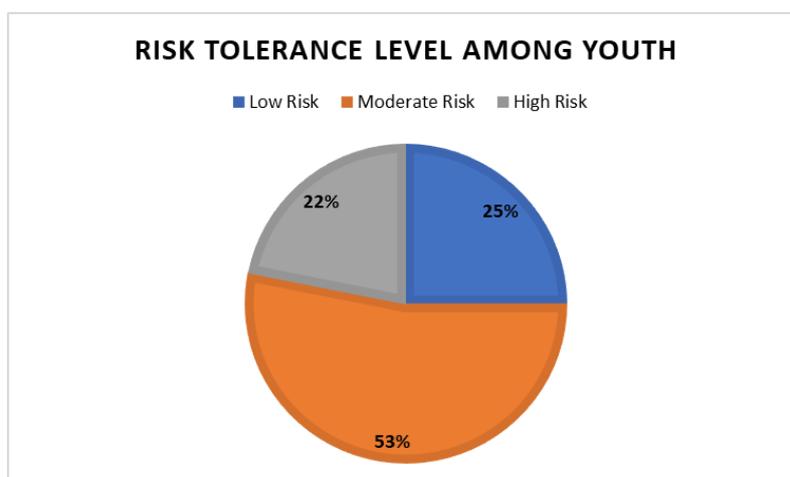


Fig. 2 Risk Tolerance Level

Greater than half of the respondents exhibited a moderate level of risk tolerance, which represents an investment approach that is balanced because of safety and growth. The percentage rate of those with high risk-taking propensity was lower but one-fourth of the youth investors was found to be low risk takers as well, which represents a risk aversion tendency among a group of youth investors.

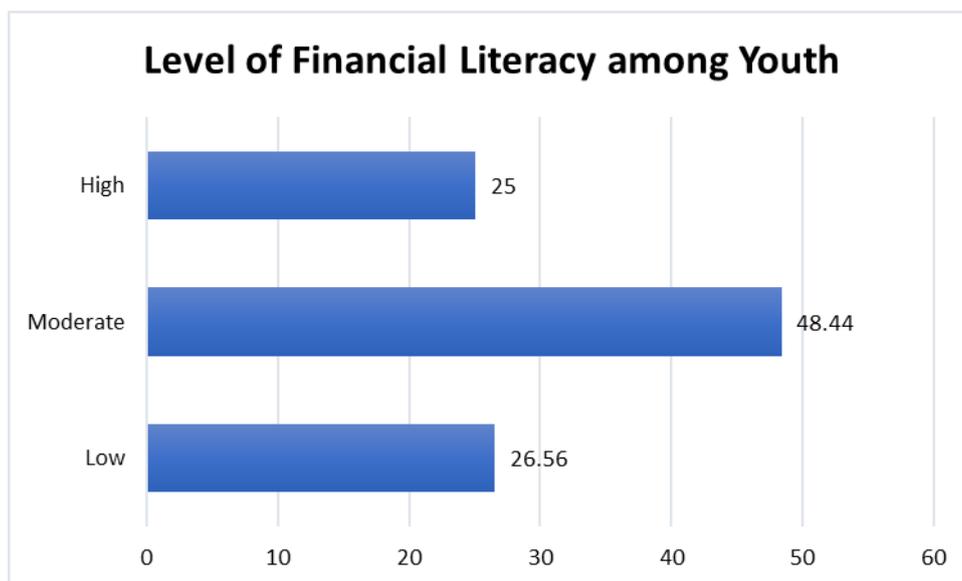


Fig. 3 Literacy Level

The results have shown that almost 50 percent of the respondents had a moderate level of financial literacy and only a quarter of them showed high knowledge of money. This explains the necessity of tailored financial education in order to enhance informed decision-making with regard to investment among the young population.

Hypothesis Testing

In order to determine the importance of FL in causing investment decision-making behaviour among the youth, an inferential statistical test was used. Depending on the type of variables used in the research namely the categorical level of financial literacy and the categorical level of investment preference behaviour, a X² test of independence was used. The test assists in establishing the existence of a statistically significant relationship between the degree of financial literacy and avenues of investments youth investors prefer.

Table 2 Cross Tabulation

Financial Literacy Level	Mutual Funds	Equity Shares	Fixed Deposits	Gold	Cryptocurrency	Total
Low (n = 102)	28	22	32	15	5	102
Moderate (n = 186)	62	74	32	14	4	186
High (n = 96)	28	56	0	5	7	96
Total	118	152	64	34	16	384

Table 3 Chi-Square Test

Test Statistic	Value
Chi-Square (χ^2)	32.47
Degrees of Freedom	8
Significance (p-value)	0.000
Level of Significance	0.05

The above test has the X^2 value of 32.47 and the degrees of freedom is 8 and p-value is below 0.05 which means that it is significant. Therefore, the H_0 is not accepted. This finding supports the fact that there is a strong correlation between the level of FL and investment decision-making behaviour among young people in India. The cross-Tabulation results have revealed that the high financial literate respondents reflect a greater preference of equity shares and mutual funds, which is comparatively more risky and a market-linked instrument. On the other hand, lowly financially literate respondents are more likely to prefer fixed deposit and gold as a form of investment which depicts the conservative investment pattern. The results indicate that having better financial information will promote the ability to assess the risks and indulge in growth oriented investment outlets. This highlights the role of financial education programs as a strategy of enhancing qualified and informed investment behaviour among the young Indian population.

Discussion:

The research results indicate that a motivating factor of investment decision-making behaviour among the youths living in India is the complex of rational attitude and behavioural factors. The pre-eminence of mutual funds and equity shares as the favorite courses of investment reveals the development of an increasing tendency to invest him/herself in the market-related instrumentation and the wealth development on the long-term horizon, with an average level of risk tolerance. The findings also show that, the expected returns and risk perception are the main determinants of investment choices, and this supports the fact of a relatively informed and return-based attitude towards investment amid the youth investors. The test of hypothesis substantially attests to the reliability between financial literacy and investment behaviour and that more financial literacy stimulates investment intentions in equities and diversification instruments whereas lesser levels relate to conservative investment investments. Also, it has middle effects of peer groups and digital platforms, meaning that social and technological factors contribute to the participation in investment without entirely undermining the personal judgment of financial decisions. On balance, this discussion supports the applicability of the behavioural financial theory to the determination of youth investment behaviour in India and acknowledges that dedicated financial literacy intervention is crucial in encouraging informed, well- balanced and sustainable investment decisions.

Conclusions

The research finds that the behaviour by young people in India as an investor is becoming more and more inclined towards market-related instruments, specifically equity shares and mutual funds, by an increment in the cognition of potential returns and long-term wealth generation. The expected payoff and risk attitude became the most effective variables that led to investment decisions, which meant that young investors are rational and analytical decision-makers. The results also confirm that financial literacy is an important factor in the determination of investment behaviour since young

people who are more financially literate tend to be more confident and are more likely to invest in more risk-taking and growth-oriented ventures. Nevertheless, even the middle level of risk tolerance and the reliance of some population groups on conservative tools like fixed deposits and gold demonstrate the lack of financial literacy and risk evaluation skills.

Recommendations

The study suggests, basing on the findings, to enforce financial literacy and investor education program specifically to young people in order to make a better decision and take responsibility with value in risk-taking. Schools, financial supervisors, and investment brokers must work together in instilling effective financial education, which entails risk management, diversification of pyramid and investment planning in the long run. Moreover, online investment platforms ought to offer necessary transparent information, risk disclosures and teaching aids that would then instruct young investors on sustainable investment processes. The policymakers can also stimulate youth interest in formal financial markets by simplifying investment products and creating awareness and also influence the youths to join formal financial markets in order to end up with a generation that is financially enlightened to help India in its development strategies of capitalism market.

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