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THE EFFECT OF FINANCIAL LITERACY ON THE SELECTION OF INVESTMENT OPTIONS BASED ON AGE COHORTS

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Abstract:

A significant global shift has occurred in the landscape of retirement income, moving the responsibility of financial planning from traditional pension systems to individuals. This study investigates the influence of financial literacy on the selection of investment options for different age groups. The research employs a mixed-method approach, utilizing both primary data collected through a structured questionnaire from respondents like finance students, financial advisors, individual investors, corporate professionals, educators, policymakers, and individuals from underserved communities and secondary data sourced from various scholarly works. Through statistical analyses including Chi-Square, Cramer's V, Anova, and descriptive statistics, the study examines the relationship between financial literacy and investing choices, as well as the moderating effect of age. The findings emphasize the need for age-specific financial education, digital tools, advisor collaboration, targeted policies, practical training, and tailored products to enhance financial literacy and informed investment decisions across diverse demographics. This research highlighted the importance of tailored financial education programs to enhance investment outcomes for various age demographics.

Keywords: *Financial Literacy, Investment Options, Age Cohorts, Financial Education, Investment Decisions*

Introduction:

Financial literacy, or the ability to understand and manage financial concepts like budgeting, saving, and investing, has a significant impact on investment decisions across all age groups. While low financial literacy can result in decision-making inertia and have a detrimental effect on economic outcomes, particularly for those nearing retirement, higher financial literacy promotes knowledgeable, diverse investing options. While older people value stability, younger people typically favor high-risk investments. Understanding these processes is crucial in the context of a fintech-driven world, particularly in developing nations. Since many people find it difficult to make logical choices, the move away from traditional pension systems towards personal responsibility for retirement planning has increased the importance of financial literacy. Better financial literacy has been contributing to successful investment strategies like asset allocation and diversification, as per research. Financial literacy and investing practices are further influenced by socioeconomic factors, such as income and education. This study examines how financial literacy influences investing decisions across age groups with the aim of guiding specialized educational initiatives that enhance people's financial stability and well-being.

Impact of Financial Literacy on Investment Decisions:

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- Informed Investment Decisions: Higher financial literacy leads to better asset allocation and risk management, promoting effective portfolio diversification.
- Socioeconomic Factors: Factors like education level, income, and access to financial information affect financial literacy and investment choices.
- Age Cohort Variability: Financial literacy levels differ among age groups due to varying life experiences and exposure to financial education.
- Importance of Financial Advice: Professional guidance is crucial for individuals with lower financial literacy to make informed investment decisions.
- Retirement Planning: Financial literacy is essential for effective retirement planning, impacting long-term savings and adaptability to economic changes.
- Longitudinal Insights: Longitudinal studies can track the evolution of financial literacy over time, identifying trends and informing educational strategies.
- Policy Development: Understanding financial literacy across age cohorts can help policymakers create targeted financial education initiatives for diverse populations.

Research Methodology:

Both primary and secondary data served as the foundation for the study. The primary data is collected through a structured questionnaire from various age groups through Google Form. A Voluntary response sampling method is used. The sample size is 324. The respondents are finance students, financial advisors, individual investors, corporate professionals, educators, and individuals from underserved communities. For data analysis Chi-Square, Cramer's V, Anova, and descriptive statistics is applied. Secondary data is retrieved from a broad range of study-relevant sources such as scholarly books, journals, theses, websites, and reports.

a) Research Questions:

- Is there a significant relationship between financial literacy and investment choices across different age groups?
- How does financial literacy vary among age cohorts, and what is its impact?
- What is the relationship between age cohorts and their investment choices?

b) Objectives:

- To examine how financial knowledge affects investment choices for people of all ages.
- To determine the influence of financial literacy levels on various age cohorts.
- To analyze how age cohorts affect investment choices and decision-making.

c) Hypothesis:

- H_0: There is no noticeable relationship between financial literacy and investment choices.
  H_1: There is a noticeable relationship between financial literacy and investment choices.
- H_0: There is no significant relationship between financial literacy and age cohorts.
  H_1: There is a significant relationship between financial literacy and age cohorts.
- H_0: There is no noticeable relationship between investment choices and age cohorts.
  H_1: There is a noticeable relationship between investment choices and age cohorts.

d) Significance:

- Practical Significance: Delivers actionable insights into how financial knowledge shapes investment choices and risk propensity. Aids financial advisors and institutions in crafting investment strategies suited to various age demographics.

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- Policy Implications: Provides evidence-based suggestions for policymakers to create financial literacy initiatives aimed at distinct age groups. Promotes government efforts to bridge literacy divides to enhance economic decision-making.
- Scholarly Contribution: Enriches the existing body of research by examining the relationship between financial literacy, investment behaviors, and age-related challenges. Establishes a foundation for future investigations into age-oriented financial decision-making.

e) Methodology:

The study aims to provide empirical insights into how the differences in financial literacy among different age groups impact their investment choices in order to better understand financial behavior across demographics. Based on accepted theories and empirical research, hypotheses are formulated, taking into account variables that may influence financial literacy and investment decisions, such as age cohorts, financial literacy, and investment options. The research challenge is determined by carefully reviewing the literature, analyzing demographic trends, and speaking with subject-matter experts. Primary and secondary sources from which data is collected include academic publications and a systematic questionnaire given to a variety of respondents. A mixed-method approach is employed, combining qualitative data and quantitative analysis through various scholarly works.

f) Limitations:

- Sample Bias: Using convenience sampling can create bias, which impacts generalizability. Some age groups or demographic segments may be either overrepresented or underrepresented.
- Validity and Reliability: Data derived from self-reporting can result in inaccuracies. Issues with memory recall and the influence of social desirability may distort the outcomes.
- Response Bias: Participants might provide answers that conform to societal expectations or misinterpret the questions, thereby skewing the results.

Review of Literature:

1) Gallery, N., Newton, C., Queensland University of Technology, & Palm, C. (2010) The research provides a comprehensive framework for evaluating financial understanding in retirement savings, highlighting areas of ignorance and behavioral trends, emphasizing the need for improved educational initiatives.
2) Korniotis, G. M., Jr., Kumar, A., Board of Governors of the Federal Reserve System, & McCombs School of Business, University of Texas at Austin (2009) This study contributes to behavioral finance research. Cognitive decline diminishes financial decision-making benefits of age and experience, emphasizing the need for ongoing financial education.
3) Varghese, A. M. (2024) The research indicates that Generation X possesses a moderate to high level of financial literacy, which is connected to successful investment approaches. It emphasizes the impact of socio-demographic elements such as income and education on financial practices.
4) Fong, J. H., Koh, B. S. K., Mitchell, O. S., Rohwedder, S., & The Author(s). (2021) The study explores the impact of financial literacy on older adults' decision-making, suggesting legislative measures to enhance their ability to manage assets and plan for retirement.
5) Eranová, M., Šíma, J., & Navrátilová, M. (2021) The article explores the global link between financial literacy and investment decisions,

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emphasizing the significance of understanding financial products and promoting the integration of financial literacy into educational programs.

6) Savaliya, V. (2024) The research highlights deficiencies in financial literacy, particularly among inexperienced and younger investors, and underscores the impact of demographic variables on investment behavior. It suggests implementing focused financial education programs to enhance decision-making skills and close the literacy gaps.

7) Uddin, M., Ali, M. A., Alhumoudi, H., Habib, S., Vivek, V., & Khan, M. A. (2024) The study highlights the importance of cultural and economic factors by demonstrating a positive correlation between financial literacy and investment success in Saudi Arabia. In order to improve literacy and make better decisions, it suggests regional financial education initiatives.

8) Baihaqqy, M. R. I., Disman, D., Nugraha, N., Sari, M., & Ikhsan, S. (2020) The study reveals a positive correlation between financial literacy and investment success in Saudi Arabia, suggesting regional financial education initiatives to enhance investment decisions and economic stability.

9) Atkinson, A., Messy, F.-A., Rabinovich, L., Yoong, J., & OECD. (2015) The OECD is in charge of reviewing research on financial education for long-term savings and investments, emphasizing its importance for making wise financial decisions.

10) Kumari, D. A. T. (2020) The study emphasizes the need for improved financial education to empower young and promote economic growth by showing a favorable correlation between undergraduates' investment decisions in Sri Lanka and their level of financial literacy.

Research Gap:

There is a study vacuum in the ways that varying financial literacy levels influence investing preferences among specific age groups. Previous research on investment decisions and financial literacy typically overlooks the minor differences in decision-making processes that are impacted by generational factors, digital adaptability, and economic goals. In addition, the effectiveness of tailored financial education programs in addressing these cohort-specific problems is not given enough consideration, leaving policymakers and educators without relevant data.

Data Analysis & Discussions:

Hypothesis 1:

H_0: There is no noticeable relationship between financial literacy and investment choices.

H_1: There is a noticeable relationship between financial literacy and investment choices.

Financial Literacy	Very high	High	Moderate	Low	Very low	Total	Chi-square	df	P
Real Estate, Gold/Commodities	2	31	48	24	3	108	0.61	1	0.4348
Stocks	0	26	49	22	12	109	Cramers V	Nan	
Mutual Funds	2	30	19	15	9	75			
Bonds	1	3	7	6	5	22			
Cryptocurrency	1	1	3	2	3	10			
Total	6	91	126	69	32	324			

Table: 1– Source: Primary Data Analysis Tool: Chi-Square

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Findings: A total of 324 sample size is collected and the Chi-square test is applied. The p-value is more than 0.05.

Interpretation: As the p-value is more than 0.05 so the null hypothesis is failed to reject and concluded that there is no noticeable relationship between financial literacy and investment choices.

Hypothesis 2: H_0: There is no significant relationship between financial literacy and age cohorts.

H_1: There is a significant relationship between financial literacy and age cohorts.

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
financial literacy	324	1208	3.728395062	0.433742308
Age	324	748	2.308641975	0.876581432

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	326.5432099	1	326.5432099	498.4160784	2.8759E-82	3.855893847
Within Groups	423.2345679	646	0.65516187			
Total	749.7777778	647				

Table: 2– Source: Primary Data Analysis Tool: Anova

Findings: A total of 324 samples are used for the Anova test. The p-value is less than 0.05.

Interpretation: As the p-value is less than 0.05 so the null hypothesis rejected and concluded that there is a significant relationship between financial literacy and age cohorts.

Hypothesis 3:

H_0: There is no noticeable relationship between investment choices and age cohorts.

H_1: There is a noticeable relationship between investment choices and age cohorts.

Age	Very High	High	Moderate	Low	Very Low	Total	Chi-square	df	P
18-30	22	19	17	7	6	71	19.75	12	0.072
31-40	39	45	22	10	2	118	Cramers V	0.1425	
41-50	35	29	29	5	1	99			
51 & above	12	16	7	0	1	36			
Total	108	109	75	22	10	324			

Table: 3– Source: Primary Data Analysis Tool: Chi-Square

dings: A total of 324 sample size is collected and the Chi-square test is applied. The P-Value is more than 0.05.

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Interpretation: As the p-value is more than 0.05 so the null hypothesis is failed to reject and concluded that there is no noticeable relationship between investment choices and age cohorts.

Descriptive statistics:

The information incorporates 324 people's investment option preferences. A somewhat low average preference level is shown by the mean score of 2.13. Since the mode and median are both 2, it can be shown that the majority of replies fall within this range. A range of answers from a minimum of 1 to a maximum of 5 is represented by range (4).

There is moderate variety in the selections, as indicated by the variance (1.10) and standard deviation (1.05). A little concentration of answers on the lower end is indicated by a positive skewness (0.75), but a normal distribution of data is indicated by a kurtosis around 0. In general, these measures offer valuable information on the data distribution's shape, dispersion, and central tendency.

Selection of Investmment choices	
Mean	2.12654321
Standard Error	0.058309103
Median	2
Mode	2
Standard Deviation	1.049563861
Sample Variance	1.101584298
Kurtosis	0.013929066
Skewness	0.747064083
Range	4
Minimum	1
Maximum	5
Sum	689
Count	324

Table: 4 – Source: Primary Data Analysis Tool: Descriptive Statistics

Research Findings:

SR NO	Hypotheses	Test applied	P-value	Failed to Reject/rejected	Inferences
1	Null Hypothesis H0: There is no noticeable relationship between financial literacy and investment choices.	Chi-Square, Cramer's V, and Lambda	0.4348	Accepted	There is no noticeable relationship between financial literacy and investment choices.
	Alternate Hypothesis H1: There is a noticeable relationship between financial literacy and investment choices			Rejected	
2	Null Hypothesis H0: There is no significant relationship between financial literacy and age cohorts.	Anova: Single Factor	2.8759E-82	Rejected	There is a significant relationship between financial literacy and age cohorts.
	Alternate Hypothesis H1: There is a significant relationship between financial literacy and age cohorts.			Accepted	
3	Null Hypothesis H0: There is no noticeable relationship between investment choices and age cohorts.	Chi-Square, Cramer's V, and Lambda	0.072	Accepted	There is no noticeable relationship between investment choices and age cohorts.
	Alternate Hypothesis H1: There is a noticeable relationship between investment choices and age cohorts.			Rejected	

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Suggestions:

Several recommendations for raising financial awareness and boosting investment possibilities surfaced as a result of the findings:

- Programs for Improved Financial Education: Age-specific financial literacy initiatives should be created by policymakers and educational institutions to cater to the particular requirements and difficulties of various age groups.
- Leverage Digital Tools: Provide individualized financial literacy information and investment advice by leveraging easily available digital platforms.
- Cooperation with Financial advisers: Promoting alliances between people and licensed financial advisers can aid in filling in knowledge gaps regarding money, especially for middle-aged and older populations.
- Tailored Policy Initiatives: To improve financial literacy among vulnerable populations, such as low-income earners or those with limited access to education, governments and financial institutions should develop tailored policies and campaigns.
- Reward for Learning: For those who take part in financial literacy classes or programs, financial institutions may provide incentives, such lowered rewards.
- Encourage campaigns for financial awareness: Create advertisements that highlight how crucial financial literacy is to making wise investing choices.
- Work together with financial organizations: To increase financial literacy, cooperate with financial institutions to provide workshops, training, and resources.
- Create Customized Financial Products: Create investment solutions that suit various age groups' tastes, risk tolerances, and reading skills.
- Emphasis on Real-World Use: To close the gap between theoretical understanding and real-world decision-making, offer practical instruction and realistic simulations.
- Fill up the Gaps in Financial Literacy: Make efforts to increase financial literacy among economically disadvantaged or underrepresented populations a top priority for all age groups.

Conclusions:

In conclusion, this study offers a comprehensive examination of the impact of financial literacy on investment decisions across various age cohorts. The research uses a mixed-method approach to examine the complex relationship between age and financial literacy as well as how it affects investing behaviors. The findings imply that while financial literacy does not directly influence investment decisions, age cohorts demonstrate substantial disparities in their financial literacy levels, which in turn influences their decision-making processes. The study underscores the requirement for age-specific financial education programs, the relevance of engagement with financial advisers, and the establishment of tailored legislation to increase financial literacy across all demographics.

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