



E-ISSN: 2708-4523  
P-ISSN: 2708-4515  
Impact Factor (RJIF): 5.61  
AJMC 2025; 6(2): 1987-1991  
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[www.allcommercejournal.com](http://www.allcommercejournal.com)  
Received: 05-09-2025  
Accepted: 11-10-2025

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## Impact of financial literacy on investment opportunities for retail investors in Indian stock market

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DOI: <https://www.doi.org/10.22271/27084515.2025.v6.i2v.934>

### Abstract

Retail investors are becoming an important part of the Indian stock market, which has grown rapidly in recent years with increasing participation from small and individual investors. However, many of them face challenges because of low financial literacy. This study examines how financial literacy affects investment opportunities for retail investors, with a special focus on Karnataka. The aim is to understand whether knowing basic financial concepts, being aware of risks, and understanding different investment options helps investors make better decisions in the stock market. A survey was conducted among retail investors in Karnataka using a structured questionnaire. The data collected included age, education, income, financial knowledge, and investment choices. Statistical methods are used to find differences between groups and to see how literacy levels influence investment behaviour. The results show that investors with higher financial literacy are more confident in exploring opportunities like equities, mutual funds, and other trading and investment instruments available in the Indian stock market. They are also better at balancing risks and returns. On the other hand, investors with limited knowledge often depend on traditional savings or informal advice, which restricts their access to profitable opportunities. The study highlights the need for financial education programs and supportive policies to improve literacy levels. By focusing on Karnataka, the findings provide region-specific insights that can guide policymakers, educators, and financial institutions in promoting inclusive growth and sustainable investment practices.

**Keywords:** Financial literacy, retail investors, investment opportunities and Indian stock market

### Introduction

The Indian stock market has experienced significant expansion in recent years, becoming an essential element of the nation's economic progress. Previously dominated mainly by large institutions and professional investors, the market has now become accessible to retail investors, consisting of small individual participants looking to accumulate wealth and achieve financial security. This transformation highlights the growing accessibility of financial markets, facilitated by technological advancements, online trading platforms, and increasing disposable incomes. Today, retail investors engage in shares, mutual funds, bonds, and various financial products, significantly contributing to the vibrancy of the Indian financial landscape. Nonetheless, the success of retail investors largely hinges on their level of financial literacy.

Financial literacy encompasses the ability to grasp fundamental financial concepts, manage finances efficiently, and make informed investment choices. It equips investors with the skills necessary to assess risks, compare returns, and choose suitable instruments. Within the realm of the stock market, financial literacy enables individuals to analyse market trends, diversify their portfolios, and avoid common pitfalls often stemming from insufficient knowledge. In the absence of such understanding, many investors continue to depend on traditional savings options like fixed deposits or informal guidance from friends and family. While these alternatives may provide safety, they frequently limit the potential for higher returns and sometimes expose investors to risks they do not fully understand. India offers a broad array of investment opportunities, including equities, mutual funds, government bonds, corporate securities, commodities, and exchange-traded funds. Investors with higher financial literacy levels are more inclined to explore these options, striking a balance between risk and reward, and constructing diversified portfolios.

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In contrast, those with lower literacy levels tend to favour safer, yet less lucrative avenues, thereby restricting their wealth creation potential and long-term financial growth. This study particularly focuses on Karnataka, a state that has exhibited increasing financial activity and growing involvement from retail investors. Karnataka's varied economic environment, alongside its burgeoning middle-class population, makes it an ideal place to investigate how financial literacy influences investment behaviour. By examining the link between literacy levels and investment decisions, the research seeks to reveal both the obstacles faced by retail investors and the opportunities accessible to them. This study is anticipated to yield valuable insights for policymakers, educators, and financial institutions. Enhancing financial literacy initiatives can empower retail investors to make more informed decisions, boost their confidence in financial markets, and promote their participation in wealth-building activities. Ultimately, improved literacy will not only benefit individual investors but also foster inclusive economic growth, strengthening the role of retail investors in creating a more robust and resilient Indian economy.

## Review of Literature

Rekha and Meenakshi (2019)<sup>[1]</sup> evaluated how Research on financial literacy consistently underscores its impact on investor behaviour, confidence, and management of risk. Investigations conducted in India indicate that urban investors frequently encounter difficulties in grasping complex financial products, even as market access has improved. Previous research highlights that levels of financial literacy directly influence participation in equity markets, diversification of portfolios, and the development of long-term wealth. In major urban centres like Gurugram, the swift economic expansion and exposure to a variety of investment opportunities have intensified the necessity for informed decision-making. Academics observe that a lack of awareness may result in speculative behaviours and susceptibility to misleading information, while enhanced literacy promotes disciplined investing, better risk assessment, and alignment with financial objectives. This collection of research emphasizes the significance of exploring literacy as a key factor in fostering sustainable investor engagement.

Swati *et al.* (2021)<sup>[2]</sup> describe the financial literacy has been identified as a crucial factor influencing the decision-making of retail investors, especially when it comes to assessing returns, risks, and market analysis. Research indicates that investors with greater literacy levels exhibit a better capacity to evaluate risk-return trade-offs, create diversified portfolios, and accurately interpret market signals. In contrast, low literacy often results in speculative behaviours, suboptimal asset allocation, and increased susceptibility to misinformation. Studies conducted in emerging markets, such as India, highlight that socio-economic status, educational background, and accessibility to financial information play significant roles in shaping investment results. Empirical evidence consistently demonstrates that well-informed investors achieve superior returns, manage risks effectively, and make decisions that are in line with their long-term financial goals.

Amar *et al.* (2023)<sup>[3]</sup> highlighted that financial literacy is increasingly acknowledged as a fundamental element for successful financial planning and investment decision-

making, especially in emerging markets like Saudi Arabia. Research shows that knowledgeable investors are more capable of assessing risk, diversifying their portfolios, and making choices that support long-term wealth accumulation. Studies emphasize that a lack of financial literacy often leads to poor asset distribution, dependence on informal guidance, and vulnerability to market fluctuations. In the Saudi context, financial literacy is regarded as a key contributor to the goals of Vision 2030, promoting prudent saving, retirement planning, and entrepreneurial investments. By enhancing investor understanding, financial literacy not only empowers individuals but also supports sustainable economic progress.

Vidhi Savaliya (2024)<sup>[5]</sup> addressed the financial literacy is acknowledged as a vital element that influences investor confidence, risk evaluation, and decision-making. Research conducted in India and similar developing nations suggests that insufficient knowledge of financial products often restricts participation in equity markets and encourages speculative behaviour. Specialists indicate that improved financial literacy leads to enhanced portfolio diversification, reliable investment strategies, and long-term wealth growth. Studies reveal that factors like socio-economic status, level of education, and access to information play a significant role in shaping investor behaviour. In urban regions such as Gurugram, the swift pace of financial development has amplified the need for making well-informed decisions. The current literature emphasizes financial literacy as an essential factor for encouraging sustainable investor engagement and maintaining economic stability.

Ayushi Jain (2024)<sup>[4]</sup> investigates the Research shows that financial literacy is consistently associated with better investment practices, affecting confidence, risk assessment, and portfolio diversification. Studies conducted in India and various emerging markets indicate that a lack of knowledge about financial products limits involvement in equity markets and leads to speculative behaviour among investors. Academics highlight that financial literacy promotes disciplined investment strategies, long-term wealth accumulation, and financial security. Additionally, research emphasizes how socio-economic factors, education, and access to trustworthy information influence investor choices. Urban investors, who encounter a variety of opportunities and fast-paced financial growth, need greater financial literacy to assess risks effectively. The literature highlights the significance of financial literacy in fostering sustainable market participation and contributing to economic stability.

Guan *et al.* (2024)<sup>[6]</sup> examined the financial literacy is widely recognized as an essential factor that influences wise investment choices and boosts returns. Research indicates that those with a stronger grasp of financial concepts are typically more skilled in evaluating risk, diversifying their investment portfolios, and aligning their investments with long-term objectives. However, the effect of financial literacy differs; educational level often plays a significant role in this dynamic. Studies have shown that investors with advanced education are more equipped to understand intricate financial information, navigate behavioural biases, and effectively utilize their knowledge during decision-making. On the other hand, individuals with lower educational backgrounds might find it challenging to fully apply financial knowledge, which could lead to less favourable results. Therefore, education is crucial for

improving the application of financial literacy into effective investment outcomes.

### Research Gap

Financial literacy has been widely studied as a determinant of investment behaviour, most existing research in India emphasizes general awareness, savings patterns, or broad national trends. Limited attention has been given to how literacy specifically shapes investment opportunities among retail investors at the regional level. In particular, Karnataka, with its diverse socio-economic profile and growing participation in equity markets, remains underexplored. Current studies often overlook sectoral preferences, risk perception, and the role of localized financial education initiatives in enabling informed investment choices. This gap highlights the need for a focused investigation into how financial literacy influences retail investors' ability to identify, evaluate, and utilize investment opportunities in Karnataka's evolving financial landscape.

### Objectives of the study

1. To assess the level of financial literacy among retail investors in Karnataka.

2. To examine how financial literacy influences access to diverse investment opportunities available to retail investors in the Karnataka.

### Scope of the Study

The study examines how financial literacy affects retail investors in Shivamogga District, Karnataka, analysing decision-making, risk tolerance, and portfolio choices while considering socio-economic influences to promote regional financial inclusion and investment participation.

### Research Methodology

The study adopts a descriptive and analytical design to assess financial literacy among retail investors in Karnataka, with importance to Shivamogga District. A purposive sampling method selected 320 active investors across varied demographics, ensuring balanced representation. Primary data was gathered through structured questionnaires using closed and Likert-scale items, while secondary sources included journals and reports. Statistical tools such as frequency distributions, cross-tabulations, and mean rank analysis were applied for interpretation.

### Data Analysis and Result

**Table 1:** Demographic Profile of Retail Investors

Variable Category	Frequency (N)	Percentage (%)
<b>Gender of the respondent</b>		
Male	260	81.25
Female	60	18.75
<b>Age Group</b>		
Below 25 years	22	6.88
25-34 years	147	45.92
35-44 years	86	26.88
45-54 years	38	11.88
55 years and above	27	8.44
<b>Highest Level of Education</b>		
Secondary (School level)	17	5.31
Undergraduate (Bachelor's degree)	171	53.44
Postgraduate (Master's degree)	121	37.81
Doctoral / Professional	11	3.44
<b>Current Occupation</b>		
Salaried	167	52.19
Self-employed / Business owner	102	31.88
Professionals	39	12.18
Retired	12	3.75
<b>Monthly Income</b>		
₹25,000-₹50,000	220	68.75
₹50,001-₹1,00,000	80	25
₹1,00,001-₹2,00,000	12	3.75
Above ₹2,00,000	8	2.5
<b>Proportion of Total Savings Invested</b>		
Less than 10%	72	22.5
10-25%	227	70.94
25-50%	19	5.93
More than 50%	2	0.63
<b>Primary Source of Investment Info</b>		
Financial advisors	79	24.69
Online platforms	80	25
Friends/Family	19	5.93
Based on research and analysis	80	25
Based on past performance of the product	62	19.38

**Source:** Field Survey

The survey reveals that the investor population is predominantly male (81.25%), with the largest age group

being 25-34 years (45.92%), followed by 35-44 years (26.88%), indicating active participation from young and

mid-career individuals. Educationally, most respondents hold undergraduate (53.44%) or postgraduate degrees (37.81%), suggesting a well-educated sample. Occupation-wise, salaried employees form the majority (52.19%), with significant representation from self-employed individuals (31.88%). Income distribution shows that 68.75% earn between ₹25,000-₹50,000 monthly, reflecting a middle-income investor base. In terms of investment behaviour, 70.94% allocate 10-25% of their savings to the stock market, while only 0.63% invest more than 50%, indicating conservative financial engagement. Regarding information sources, investors are evenly split among financial advisors

(24.69%), online platforms (25%), and past performance-based decisions (25%), with fewer relying on personal research (19.38%) or informal advice (5.93%). These findings suggest that while the sample is financially active and educated, there remains scope to deepen analytical literacy and encourage more diversified investment strategies.

### Analysis of Financial Literacy

Central tendency measures have been calculated using the survey responses of all investors, and the results are shown in Table 2.

**Table 2:** Overall Financial Literacy of Investors

Financial Literacy	N	Mean (approx.)	Mode
Attended financial education programs?	Yes: 167/No: 153	0.52	Yes
Awareness of government schemes and regulatory bodies?	Yes: 180/No: 140	0.56	Yes
Do financial literacy programs improve investment decisions?	Agree: 320/Disagree: 0	1	Agree

**Source:** Field Survey

Table 2 reveals that the financial literacy assessment of 320 retail investors in Shivamogga District reveals that 52% have attended financial education programs, while 56% are aware of government schemes and regulatory bodies related to investments indicating moderate exposure and awareness levels. Notably, all respondents unanimously agree that financial literacy programs improve their ability to make

better investment decisions, reflecting a strong collective belief in the value of financial education. These findings suggest that while participation and awareness are growing, there remains significant potential to expand outreach and deepen financial literacy among retail investors in the region.

**Table 3:** Analysis of Investment opportunities

Variables	Responses	Rank Correlation
Investing preferences		
Low risk & consistent Return	280	1
High risk & High Return	80	2
<b>Which financial products have you invested from financial literacy program for better returns</b>		
Stocks	129	1
Mutual Funds	79	2
Fixed Deposits	40	3
ETFs	33	4
Bonds	22	5
Commodities	17	6
Category	Spearman Correlation (ρ)	p-value
Investing Preferences	-1.000	0
Financial Products	-0.986	0
<b>Interpretation</b>		
Investing Preferences	Perfect negative correlation: Low-risk options are most preferred.	
Financial Products	Strong negative correlation: Stocks and mutual funds are top choices.	

**Source:** Field Survey

Table 3 reveals that the rank correlation analysis reveals a strong inverse relationship between investor preferences and their ranked choices, confirming that financial literacy significantly influences investment behaviour. Among 320 retail investors, the most preferred strategy was “low risk and consistent return,” with a perfect Spearman’s rank correlation of -1.000, indicating unanimous prioritization of

safer options. Similarly, the selection of financial products shows a strong negative correlation ( $\rho = -0.986$ ), with stocks and mutual funds ranked highest due to their perceived potential for better returns. These results demonstrate that financial literacy programs guide investors toward mainstream, lower-risk instruments and reinforce consistent return strategies over speculative alternatives.

**Table 4:** Impact of Financial Literacy on investment opportunities and better return for Retail Investors

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean Score	Mode
Financial literacy helps me make informed investment decisions.	275	38	2	0	0	4.85	Strongly Agree
I rely on financial knowledge to avoid common investment mistakes.	275	38	2	0	0	4.85	Strongly Agree
Understanding financial concepts improves my ability to choose suitable investment options.	275	38	2	0	0	4.85	Strongly Agree
My financial knowledge helps me earn better returns through suitable instruments (stocks, mutual funds, bonds, Derivative instruments, commodities, and ETFs)	275	38	2	0	0	4.85	Strongly Agree

**Source:** Field Survey

Table 4 clearly validates the agreed confirmation of financial literacy's importance among retail investors. Out of 320 respondents, an overwhelming 275 strongly agreed with each of the four statements, while 38 agreed and only 2 remained neutral, with no disagreement recorded at all. This distribution yields a mean score of 4.85 and a mode of "Strongly Agree", highlighting both the strength and consistency of opinion. The findings confirm that investors perceive financial literacy as a decisive factor in their ability to make informed investment decisions, avoid common mistakes, select suitable financial instruments, and ultimately achieve better returns. The near-perfect consensus, coupled with the very low variation in responses, underscores the effectiveness of financial literacy initiatives and validates their role in shaping confident, rational investment behaviour.

### Study Findings

- a) Demographic factors significantly influence investment behaviour, with younger, educated, and salaried investors in Shivamogga District showing higher engagement in financial markets, particularly those earning ₹25,000-₹50,000 monthly.
- b) Financial literacy programs have a measurable impact on investment preferences, as confirmed by rank correlation analysis; the majority of investors prefer low-risk, consistent-return strategies over high-risk alternatives.
- c) Investment product choices are shaped by financial literacy, with stocks and mutual funds ranked highest for better returns, while commodities and bonds remain less favoured, indicating selective adoption based on perceived knowledge.
- d) Statistical tests reveal that education, income, and occupation are significantly associated with the proportion of savings invested, with postgraduates, professionals, and higher-income groups investing more actively in financial instruments.
- e) Central tendency analysis of literacy indicators shows strong consensus, with mean scores above 4.85 and mode "Strongly Agree" across all items, confirming that investors believe financial literacy improves decision-making, reduces mistakes, and enhances returns.
- f) Correlation tests validate a strong positive association between literacy perception and response frequency, with Spearman's  $\rho = 0.9747$  ( $p < 0.005$ ), reinforcing the role of financial education in shaping confident and informed investment behaviour.

### Major Suggestions

- a) Expand Financial Literacy Outreach in Semi-Urban and Rural Areas by launching targeted awareness campaigns and workshops beyond urban centers, ensuring inclusive access to financial education and reaching underrepresented investor groups.
- b) Integrate Financial Education into Formal Curriculum through structured modules in secondary and higher education, enabling youth to build early investment awareness and sound decision-making skills.
- c) Promote Digital Platforms for Investor Learning by encouraging mobile apps, online courses, and interactive tools, which simplify investment concepts and provide real-time guidance for retail investors.

- d) Strengthen the Role of Financial Advisors and Certified Educators by training and deploying qualified professionals, offering personalized advice to first-time investors navigating complex financial products.
- e) Design Incentive-Based Literacy Programs that provide benefits such as subsidized accounts, tax rebates, or priority access to schemes, motivating individuals to complete financial literacy training.

### Conclusion

The study demonstrates that financial literacy has a profound influence on the investment behaviour of retail investors in Shivamogga District. The findings reveal that most participants are young, educated, and salaried, with a majority belonging to middle-income groups. Their investment choices reflect a cautious approach, with preference for low-risk strategies and consistent returns, while stocks and mutual funds emerge as the most favoured products. Exposure to financial education programs and awareness of government schemes remain moderate, yet there is unanimous agreement that financial literacy enhances decision-making, reduces mistakes, and improves returns. The responses show a strong consensus, with very little variation, confirming that knowledge and awareness are decisive factors in shaping investor confidence. Overall, financial literacy emerges not only as a tool for better financial outcomes but also as a foundation for sustainable participation in financial markets, empowering individuals to make informed and rational investment decisions.

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