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Financial Literacy as a Determinant of Financial Strength among Retail Investors

[1]Dr. Alamelu PL., [2]Ms. M. Bhuvaneswari

[1]Assistant Professor, Department of Commerce, Soka Ikeda College of Arts and Science for Women, Chennai-600099.

[2]Assistant Professor & Head, Department of Corporate Secretaryship, Soka Ikeda College of Arts and Science for Women, Chennai-600099.

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Abstract

Financial understanding refers to the ability to comprehend and navigate financial systems. Strong financial literacy enhances a person's understanding of diverse opportunities, competencies, and investment alternatives. Investment is pursued to improve future outcomes, irrespective of the duration, whether it be short-term or long-term. This study seeks to explore the financial literacy of retail investors and its influence on their financial strength concerning retail investments. The survey included 149 participants who made investments in the retail sector within the Chennai. The justified sampling methodology, which is a non-probability sampling method, was utilized to select the samples. The questionnaire serves as a instrument for the study. The statistical techniques employed to achieve the objectives include descriptive statistics and multiple regression analysis. Cronbach's alpha serves as an indicator of reliability, noted at 84.6%. The analysis of the data was conducted using SPSS v 26. The results suggest that typical investors demonstrate a noteworthy level of financial understanding. Investors consistently focus on protecting their capital during their engagement in retail investing. Nonetheless, the investors acknowledged that they typically fail to assess the characteristics of all financial products prior to investing in the retail market, and they avoid pulling back their investments once they reach their financial goals. The findings indicate that financial understanding, behavior, and mindset positively influence the financial strength of retail investors. The financial attitude and knowledge pertaining to retail investments are more indicative of financial strength.

Introduction

Grasping financial literacy fundamentally requires an understanding of how money operates. This highlights the importance of investigating the ways in which people generate income, allocate their resources, handle their financial matters, and engage in investment activities. Understanding finances is crucial, as achieving success relies on making informed financial choices. Financial literacy encompasses efforts to improve individuals' understanding, confidence, and skills, thereby enabling more effective financial management. A recent global survey reveals that India represents approximately 20% of the global population, while a significant 76% of its adult citizens lack awareness of fundamental financial concepts. Understanding money is crucial for preventing financial challenges. A person commits resources at this moment with the objective of achieving greater returns in the forthcoming period. A wide array of investment opportunities is available, including direct equity in the stock market, equity markets, debt funds, the National Pension Scheme, public provident funds, provident funds, bank fixed deposits, life insurance, real estate, corporate deposits, chit funds, post office schemes, bonds, gold, precious stones, and similar options. Prior to making an investment, individuals assess the relationship between risk and return associated with various options. The psychological factors have a major impact on your investment choices. Harriet Beecher Stowe claimed that women are the true builders of society. In modern society, women demonstrate a work ethic that is on par with that of men. They engage in their professions, generate income, allocate resources, and provide for their family. Women typically prioritize saving for safety and security, as well as handling financial emergencies. Consistent investment will profoundly shape a person's future life experiences. The contribution of women is crucial to the comprehensive advancement of the family, encompassing economic growth.

Investment involves the strategic allocation of capital with the expectation of gaining advantages in the near future. Achieving long-term financial objectives is possible by analyzing various investment opportunities. It offers a variety of options in both monetary and physical assets. Investment carries inherent risks; typically, a higher level of risk is associated with the possibility of greater returns. Investing fundamentally involves engaging in initiatives that carry significant risk in the quest for considerable returns. The level of satisfaction they provide influences our choices. Expanding investment portfolios can enhance financial growth, both in the short term and over a longer period. It is essential to acknowledge the potential risk of financial loss as well. The effectiveness of currency and heightened satisfaction provide crucial support in making investment choices. A mutual fund presents an intriguing investment opportunity because of its approach to portfolio investing. While every investment carries inherent risks, engaging in long-term investing offers the advantage of generating income at a compounded rate. People who find themselves puzzled by their successful investments, particularly in mutual funds, often display the highest level of confidence in their choices. A skilled portfolio manager oversees investments in stocks, bonds, or the capital market, making sure that individual investors understand their options, especially based on lessons learned from past market disasters. Building a reliable relationship with retail investors is crucial for retail market investing, as individuals seek safe investment options in banks, despite return rates not keeping pace with inflation. The present is a timely chance to enhance and welcome them.

Literature Review

Resky Cyntia Mawarni and Ernie Hendrawaty (2025) investigate the influence of financial literacy and financial knowledge on the investment choices of Generation Z investors, considering financial behavior as a mediating variable. The study employs purposive sampling with 160 respondents aged 18–28, revealing that both financial literacy and knowledge have a significant and positive impact on financial behavior and investment decisions. It is important to note that financial behavior serves as a mediator in the relationship between financial literacy and knowledge and investment outcomes, emphasizing that literacy ultimately shapes decisions through its influence on behavior. **F. Darwish (2025)** examines the impact of financial literacy on investment choices made by stock market participants in Palestine, emphasizing the moderating effect of overconfidence. The findings indicate that although investors have a fundamental understanding of financial concepts that enhances their investment choices, overconfidence plays a crucial role in amplifying the connection between this understanding and the quality of their investments. This study highlights the relationship between cognitive biases and literacy in influencing decision-making outcomes in emerging markets. **Kumar and Rao (2025)** emphasize that financial literacy is crucial in influencing the investment behavior of university students and early-career professionals who are increasingly taking charge of their personal financial health. This study explores the connection between financial literacy and investment decision-making in higher-education students, revealing that those with enhanced financial knowledge, attitudes, and skills exhibit more rational and goal-directed investment behavior. The findings emphasize that understanding financial concepts enhances awareness of various financial tools and boosts confidence in assessing risk and return, ultimately aiding in making wise investment choices and ensuring long-term financial stability. **Patel and Shah (2024)** emphasize the importance of financial literacy in fostering economic development, as it empowers individuals to access financial services, manage risks efficiently, and make use of various investment products. This empirical study examines how financial literacy impacts the decision-making behavior of investors and the satisfaction they gain from their investment choices. The examination of primary data collected through a structured questionnaire reveals a significant positive correlation between financial literacy and informed investment behavior. The results indicate that investors who know a lot about finance tend to save money regularly, think carefully about their investment options, and be happier with their financial decisions. The authors propose that improving financial literacy may bolster the efficacy of financial institutions and foster sustainable economic growth. **Manshi Dhiran et al. (2024)** emphasize that in the current fast-paced financial environment, marked by a multitude of complex products and market dynamics, the importance of financial literacy has reached unprecedented levels. The topic holds significant importance for university students, as they are on the brink of entering the workforce and taking on increased responsibility for their financial well-being. This study investigates the important connection between financial literacy and the investment behaviors of university students, seeking to elucidate how financial knowledge and comprehension affect their investment choices. The investigation addresses the complex relationship between these two concepts. The aim is to improve the formulation of effective strategies that promote financial understanding, determine the impact of financial knowledge, attitudes, and skills on investment decisions, and pinpoint the factors that lead to wise and responsible investment choices. This information will empower students to make informed investment choices, thereby promoting a more stable financial future. The study by **Mehta and Kulkarni (2024)** investigates postgraduate management students and analyzes the factors that affect their investment decisions. The investigation addresses the connection between financial literacy and investment behavior, indicating that individuals with greater financial understanding are more likely to engage in informed and diversified investment decisions. The study highlights significant barriers that hinder investment involvement, such as apprehension regarding financial loss, restricted disposable income, and insufficient comprehension of financial markets. The results indicate that stocks and mutual funds are the top choices for young, educated investors, with online platforms serving as the main source of investment information, followed by financial advisors and peer networks. The investigation firmly emphasizes the necessity for organized financial literacy education to foster informed investment practices among young individuals. **Suresh G. (2024)** examines the interplay between financial literacy and behavioral biases in shaping investment decisions. The findings indicate that although literacy provides investors with the necessary knowledge for informed decision-making, behavioral biases such as herding and framing still play a crucial role in influencing outcomes. This illustrates the value of tackling psychological factors in conjunction with literacy education.

Objectives

- To evaluate the financial literacy of retail investors in Chennai
- To assess the impact of financial literacy on financial strength in retail investment

Hypothesis of the study

H_0: There is no significant impact of financial literacy on retail investment's financial strength.

Methodology

This study investigates the financial literacy of retail investors and how it impacts their financial strength concerning retail investments. A total of 149 participants were selected for the study, all of whom engaged in retail investments in Chennai. The judgmental sampling technique, a form of non-probability sampling, was employed to select the samples. A questionnaire functions as an instrument for gathering data in a study. The questionnaire consists of three distinct sections: the initial section collects personal information from the respondents, the subsequent section incorporates scales that evaluate financial literacy, and the final section presents scales pertaining to financial strength. The study centers on exploring the financial literacy levels of retail investors using descriptive statistics. Multiple regression analysis investigates the impact of financial literacy on financial strength. Cronbach's alpha acts as a measure for evaluating reliability. The analysis of the data was conducted utilizing SPSS v26.

Analysis and results

The findings reveal a reliability of 84.6%, as demonstrated by a Cronbach's alpha of 0.846. The findings indicate that 60.8% of investors are male. A total of 36.9% are within the age range of 31 to 40 years. Furthermore, 30.5% possess a graduate degree, whereas 60.4% were married. Additionally, 32.8% are employed in the private sector, while 36.2% receive monthly earnings ranging from Rs.50,000 to 1 lakh. This section begins with an understanding of financial concepts, behaviors, and attitudes associated with investing in the retail market. Descriptive statistics assess the level of financial literacy, and Tables A, B, and C present the findings.

Table A: Perception on Financial knowledge

Statement	Mean	SD
I possess extensive knowledge regarding investments in financial securities	3.94	1.156
I possess the capability to discern and invest in financial instruments that align with my short- and long-term financial goals	3.51	0.998
I possess extensive knowledge regarding the various services provided by financial stocks	3.97	0.789
I possess sufficient understanding of financial securities investments that can assist in attaining my short- and long-term financial goals	3.47	1.029
I am conscious of the risks associated with investing	3.76	1.196

Note: Mean score ranges from 1 (Strongly disagree) to 5 (Strongly agree)

Table A demonstrates the perceptions of retail investors regarding their financial knowledge. The average values indicate that these investors have a profound understanding of the different services offered by financial stocks, which is a crucial element of the financial literacy of retail investors. Moreover, the investors recognized their proficiency in investments related to financial securities. They possess the ability to identify and invest in financial instruments that correspond with my short- and long-term financial objectives, and they have a solid understanding of the financial securities investments that can aid me in achieving these goals. Nonetheless, the participants acknowledged their awareness of the risks involved in investing.

Table B: Perception on Financial behaviour

Statement	Mean	SD
Always prefer safety investment	4.03	1.025
Savings is one of the motive of my investment	3.34	1.272
I agree that the stocks I invested are a good way to get regular income	3.64	1.409
I am well aware that spreading out my investments lowers my risk of losing money	3.67	0.974
I think this is the best way to put my investments cash out of all the options I've looked at	3.16	0.958
I desire to attain Financial freedom	2.89	1.012

Note: Mean score ranges from 1 (Strongly disagree) to 5 (Strongly agree)

Table B illustrates the perceptions of retail investors regarding their financial behavior, with the mean values indicating that these investors demonstrate commendable financial practices. Investors collectively recognized that the main goals of their investments center on savings and safety, highlighting their significance in financial behavior. Moreover, the investors indicated that their emphasis on invested stocks is to ensure a consistent income, and they recognize that diversifying their investments mitigates the risk of financial loss. However, they acknowledged that mere investment will not lead to financial freedom.

Table C: Perception on Financial Attitude

Statement	Mean	SD
Before I buy something, I carefully look at all of its features and compare them	2.72	1.251
Before I put money into a certain type of financial products, I look at other types that are related	4.23	0.971
One reason I want to spend is to lower my income tax	3.42	0.784

I redeem, or take back, my capital investment when I reach my financial targets or goals	4.12	0.983
I carefully look over all the details of the financial products that are being offered for investment, and I give myself enough time before making the investment	3.89	0.951
It's possible that my long-term financial goals will be met, but I'm willing to take a fair amount of risk	2.81	1.149
I usually buy stocks or mutual funds when I have extra money to spend	3.57	1.019

Note: Mean score ranges from 1 (Strongly disagree) to 5 (Strongly agree)

Table C illustrates the perspectives of retail investors concerning their financial mindset, with the average values indicating that these investors uphold a positive financial outlook. The respondents have invested in a specific category of financial products, which are expected to yield relative returns. The participants concurred that they reclaim their capital investment upon achieving their financial objectives or targets. They expressed that they would consider investing in a mutual fund if they had surplus funds, and they consistently aim to minimize their tax liabilities. However, the respondents are not inclined to take significant risks, even when they achieve their long-term financial goals.

This section examines the impact of financial literacy, which includes knowledge, behavior, and attitude, on the financial strength of retail investors. A multiple regression analysis was performed to investigate the impact of financial literacy on financial strength concerning mutual fund investments, with the results displayed in Table D.

H_0: There is no significant effect of financial literacy towards retail investment on financial strength

Table D: Impact of Financial literacy on financial strength

Financial literacy	**R^2**	**Beta**	**F-statistics**	**t- value**
(Constant)	0.569	0.238	33.214**	3.394**
Financial knowledge		0.236	(p=.000)	6.351**
Financial behaviour	**Adjusted R^2**	0.189		4.073**
Financial attitude	0.561	0.331		9.236**

** p<.01

Table D shows an F-value of 33.214, indicating the importance of the regression model and the dismissal of the null hypothesis H_0. The coefficient of determination of 0.569 indicates that the factors related to financial literacy account for 56.9% of the variability in financial strength. The findings suggest that understanding, actions, and perspectives regarding finance positively influence financial resilience. An increase of one unit in financial knowledge, financial behavior, and financial attitude has resulted in improvements in financial strength of 0.236, 0.189, and 0.331 units, respectively. Findings indicate that financial knowledge, behavior, and attitude have a positive impact on the financial strength of retail investors. The methodology regarding finances, along with a solid understanding of financial principles, are key factors in assessing financial robustness in retail market investments.

Conclusion

This study analyzed the financial literacy levels among retail investors. An analysis has been conducted on how financial literacy impacts the financial resilience of retail investors. The findings indicated that the financial literacy level among retail market investors is considered strong. Investors' understanding has validated that their ability to choose appropriate investments for achieving long-term objectives is a crucial component of their financial knowledge. Investors recognized the essential importance of savings and security as the primary objectives of their investments, highlighting their vital role in financial conduct. Nonetheless, several investors recognized that, on occasion, the investment could turn into a liability for them. Investors consistently highlight the importance of protecting their capital in retail market investments. Nevertheless, the investors agreed that they frequently overlook the assessment of the attributes of various financial products prior to making investments in the retail market, and they tend not to divest their interests once they achieve their financial goals. Studies indicate that understanding of finance, perspectives on money, and overall mindset significantly impact the financial strength of retail market participants. The approach to finances and understanding of financial principles in retail market investments are important factors that influence overall financial strength. Strong financial understanding bolsters the financial capabilities of retail investors.

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