

**Financial Risk Tolerance and Investment Behaviour among Young Investors: An Empirical Study**

Dr. Gaurav N. Mehta, Assistant Professor  
Shri GHG Commerce & Shri DDN BBA College, Jamnagar (Gujarat), India  
**Email:** mehtagaurav86@gmail.com

**Abstract**

Investment behaviour among young investors has attracted considerable attention in recent years due to increasing participation in financial markets, greater accessibility to digital investment platforms, and rising financial awareness. Despite the availability of diverse investment opportunities, young investors often exhibit varying investment behaviours because of differences in their financial risk tolerance, financial literacy, investment knowledge, income, and investment experience. The present study examines the influence of financial risk tolerance on investment behaviour among young investors while considering financial literacy, investment knowledge, income level, and investment experience as additional explanatory variables. A quantitative research design was adopted using a structured questionnaire administered to 320 young investors aged between 21 and 35 years. Convenience sampling was employed for data collection. Descriptive statistics, reliability analysis, Pearson correlation, and multiple regression analysis were proposed to examine the relationships among the study variables. The study is grounded in Modern Portfolio Theory, Expected Utility Theory, and Behavioural Finance Theory, which collectively explain investor decision-making under uncertainty. The findings indicate that financial risk tolerance significantly influences investment behaviour, while financial literacy and investment knowledge also demonstrate positive relationships with investment decisions. Income and investment experience further strengthen investment participation by enhancing confidence and decision-making ability. The study contributes to behavioural finance literature by providing empirical evidence on factors influencing investment behaviour among young investors in India. The findings may assist financial advisors, policymakers, educational institutions, and financial service providers in designing effective financial education programmes and investment products suited to the needs of young investors.

**Keywords:** Financial Risk Tolerance, Investment Behaviour, Young Investors, Behavioural Finance, Financial Literacy, Multiple Regression, India.

**1. Introduction**

Investment decisions are among the most important financial decisions made by individuals throughout their lives. Traditionally, investment theories assumed that investors are rational, possess complete information, and always make wealth-maximising decisions. However, practical observations reveal that investors frequently deviate from rational behaviour due to emotions, perceptions, cognitive limitations, and varying attitudes toward risk. Consequently, behavioural

finance has emerged as an important discipline that integrates principles of psychology with finance to explain actual investor behaviour.

Young investors constitute one of the fastest-growing segments of financial markets. Increasing internet penetration, smartphone usage, online trading applications, digital payment systems, and easy access to financial information have encouraged greater participation of young individuals in equity markets, mutual funds, exchange-traded funds, and other financial instruments. In India, the rapid expansion of retail investor participation after 2020 further accelerated the importance of understanding behavioural factors affecting investment decisions.

Investment behaviour is rarely determined by financial risk tolerance alone. Several demographic and behavioural characteristics influence investment decisions. Financial literacy improves investors' understanding of financial products, investment knowledge enhances analytical ability, investment experience develops confidence through practical exposure, while income determines the capacity to undertake financial risk. These variables collectively shape investment decisions among young investors.

The findings are expected to contribute to behavioural finance literature while providing practical recommendations for improving financial education, investment planning, and investor awareness among young individuals.

## **2. Literature Review**

Financial risk tolerance has long been recognised as a fundamental determinant of investment behaviour. Early theoretical contributions by Markowitz (1952) established that investors select portfolios based on their willingness to balance expected return against investment risk. This framework was later strengthened by Expected Utility Theory, which argued that investment decisions are influenced by individual preferences toward uncertainty.

Grable and Lytton (1999) developed one of the most widely accepted measures of financial risk tolerance and demonstrated that demographic characteristics significantly influence investors' willingness to undertake financial risk. Their findings suggested that younger investors generally possess relatively higher financial risk tolerance compared with older individuals because they have longer investment horizons and greater capacity to recover from temporary market losses.

Sitkin and Weingart (1995) argued that perceived risk differs from objective financial risk. Individuals often evaluate investment alternatives based on personal perceptions, previous experiences, and confidence rather than purely statistical probabilities. Consequently, investors facing identical investment opportunities may exhibit significantly different investment behaviours.

Behavioural Finance Theory received substantial support through the work of Kahneman and Tversky (1979), whose Prospect Theory challenged the assumption of complete investor

rationality. The theory proposed that individuals evaluate gains and losses differently and often become risk-averse while facing gains but risk-seeking when attempting to recover losses. This behavioural tendency significantly influences portfolio selection and investment decisions.

Hallahan, Faff, and McKenzie (2004) found that financial risk tolerance positively influences investors' portfolio diversification. Investors demonstrating greater willingness to accept uncertainty generally allocate a larger proportion of their investments to equities compared with conservative investors.

Financial literacy has emerged as another important determinant of investment behaviour. Lusardi and Mitchell (2014) argued that financially literate individuals are better equipped to evaluate investment alternatives, understand financial products, and manage investment risk effectively. Their findings indicated that financial education improves long-term financial planning and investment participation.

Van Rooij, Lusardi, and Alessie (2011) reported that individuals possessing greater financial knowledge participate more actively in stock markets. Investors lacking financial literacy often avoid capital market participation because of uncertainty and lack of confidence.

Research conducted by Weber, Blais, and Betz (2002) suggested that financial risk-taking behaviour differs across demographic groups based on age, education, income, and professional background. Individuals with higher educational attainment generally demonstrated better understanding of financial markets and greater willingness to diversify investment portfolios.

Aren and Zengin (2016) examined the relationship between financial literacy, risk perception, and investment preferences. Their study concluded that financially literate individuals exhibited higher confidence while selecting investment alternatives and demonstrated greater willingness to undertake calculated financial risks.

Overall, previous literature establishes that financial risk tolerance, financial literacy, investment knowledge, investment experience, and income collectively influence investment behaviour. However, empirical evidence simultaneously examining these variables among young Indian investors remains relatively limited, thereby justifying further investigation.

### **3. Research Gap**

The review of previous studies reveals that most behavioural finance research has primarily examined individual determinants of investment behaviour, such as financial literacy, behavioural biases, or demographic characteristics, independently. Comparatively fewer studies have integrated financial risk tolerance with financial literacy, investment knowledge, investment experience, and income within a single empirical framework focusing specifically on young investors in India. Furthermore, the increasing participation of young retail investors in Indian financial markets after the COVID-19 pandemic has altered investment patterns, creating the need

for updated empirical evidence. Therefore, the present study attempts to bridge this gap by examining the combined influence of these variables on investment behaviour using multiple regression analysis.

#### 4. Problem Statement

Despite increased financial awareness and growing participation in capital markets, considerable variation exists in the investment behaviour of young investors. While some individuals actively invest in equities and diversified financial assets, others remain conservative despite possessing similar demographic characteristics. Identifying the factors responsible for these differences is essential for promoting informed investment decisions and improving financial well-being.

#### 5. Objectives

1. To examine the influence of financial risk tolerance on investment behaviour among young investors.
2. To analyse the impact of financial literacy on investment behaviour.
3. To determine the influence of investment knowledge on investment behaviour.
4. To examine the effect of investment experience on investment behaviour.
5. To assess the influence of income level on investment behaviour.

#### 6. Hypotheses

**H1:** Financial risk tolerance has a significant positive influence on investment behaviour among young investors.

**H2:** Financial literacy has a significant positive influence on investment behaviour among young investors.

H3: Investment knowledge has a significant positive influence on investment behaviour among young investors.

H4: Investment experience has a significant positive influence on investment behaviour among young investors.

H5: Income level has a significant positive influence on investment behaviour among young investors.

## **7. Research Methodology**

### **7.1 Research Design**

The study adopted a descriptive and quantitative research design to examine the relationship between financial risk tolerance and investment behaviour among young investors. A cross-sectional survey method was used, as it allows the collection of data at a single point in time and is well suited for testing relationships among behavioural variables.

### **7.2 Sampling and Data Collection**

The target population comprised young investors aged between 21 and 35 years who had made at least one investment in financial market instruments such as equities, mutual funds, or systematic investment plans. Data were collected during the period of January 2022 to June 2022 through a structured questionnaire administered both physically and online (Google Forms) using a convenience sampling technique. A total of 350 questionnaires were distributed, of which 320 were found complete and usable, yielding an effective response rate of 91.4 per cent.

### **7.3 Research Instrument**

The questionnaire consisted of two sections. Section A captured demographic information such as age, gender, education, occupation, and income. Section B measured the study constructs — financial risk tolerance, financial literacy, investment knowledge, investment experience, and investment behaviour — using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Items for financial risk tolerance were adapted from Grable and Lytton (1999), items for financial literacy from Lusardi and Mitchell (2014), and items for investment behaviour were developed based on established behavioural finance literature.

### **7.4 Variables of the Study**

The independent variables of the study were financial risk tolerance, financial literacy, investment knowledge, investment experience, and income level. Investment behaviour served as the dependent variable, operationalised through indicators such as investment frequency, portfolio diversification, and preference for growth-oriented instruments.

## 7.5 Tools for Data Analysis

Data were analysed using SPSS software (version 25). Descriptive statistics were used to summarise the demographic profile of respondents. Cronbach's alpha was computed to test the reliability of the measurement scales. Pearson correlation analysis was used to examine the strength and direction of association among variables, while multiple regression analysis was employed to test the proposed hypotheses and determine the relative contribution of each independent variable to investment behaviour.

## 8. Data Analysis and Interpretation

### 8.1 Demographic Profile of Respondents

Table 1 presents the demographic characteristics of the sample. The majority of respondents were male (58.1 per cent) and belonged to the 26–30 years age group (38.4 per cent). Most respondents were postgraduates (46.3 per cent) and salaried employees (52.5 per cent), with a monthly income ranging predominantly between ₹25,000 and ₹50,000 (41.6 per cent).

| Demographic Variable | Category                   | Frequency | Percentage (%) |
|----------------------|----------------------------|-----------|----------------|
| Gender               | Male                       | 186       | 58.1           |
|                      | Female                     | 134       | 41.9           |
| Age Group            | 21–25 years                | 108       | 33.8           |
|                      | 26–30 years                | 123       | 38.4           |
|                      | 31–35 years                | 89        | 27.8           |
| Education            | Undergraduate              | 142       | 44.4           |
|                      | Postgraduate               | 148       | 46.3           |
|                      | Professional Qualification | 30        | 9.3            |
| Occupation           | Salaried Employee          | 168       | 52.5           |
|                      | Self-employed / Business   | 94        | 29.4           |
|                      | Student / Others           | 58        | 18.1           |
| Monthly Income (₹)   | Below 25,000               | 76        | 23.8           |
|                      | 25,000 – 50,000            | 133       | 41.6           |
|                      | Above 50,000               | 111       | 34.7           |

### 8.2 Reliability Analysis

The internal consistency of the measurement scales was assessed using Cronbach's alpha. As presented in Table 2, all constructs recorded alpha values above the acceptable threshold of 0.70 (Nunnally, 1978), confirming that the scales used in the study were reliable.

| Construct                        | Number of Items | Cronbach's Alpha |
|----------------------------------|-----------------|------------------|
| Financial Risk Tolerance         | 6               | 0.812            |
| Financial Literacy               | 5               | 0.789            |
| Investment Knowledge             | 5               | 0.774            |
| Investment Experience            | 4               | 0.756            |
| Investment Behaviour (Dependent) | 6               | 0.831            |

### 8.3 Descriptive Statistics

Table 3 presents the mean and standard deviation of the study variables. Financial risk tolerance recorded the highest mean score ( $M = 3.68$ ,  $SD = 0.71$ ), indicating a moderately high willingness among young investors to accept financial risk, followed by investment knowledge ( $M = 3.54$ ,  $SD = 0.68$ ) and financial literacy ( $M = 3.47$ ,  $SD = 0.74$ ).

| Variable                          | Mean | Std. Deviation |
|-----------------------------------|------|----------------|
| Financial Risk Tolerance          | 3.68 | 0.71           |
| Financial Literacy                | 3.47 | 0.74           |
| Investment Knowledge              | 3.54 | 0.68           |
| Investment Experience             | 3.31 | 0.79           |
| Income Level (Standardised Score) | 3.22 | 0.82           |
| Investment Behaviour              | 3.59 | 0.70           |

### 8.4 Correlation Analysis

Pearson correlation analysis was conducted to examine the relationship between the independent variables and investment behaviour. As shown in Table 4, all independent variables demonstrated a statistically significant positive correlation with investment behaviour at the 0.01 level, with financial risk tolerance showing the strongest association ( $r = 0.541$ ).

| Variable                 | Correlation with Investment Behaviour (r) | Significance (p) |
|--------------------------|-------------------------------------------|------------------|
| Financial Risk Tolerance | 0.541**                                   | 0.000            |
| Financial Literacy       | 0.463**                                   | 0.000            |
| Investment Knowledge     | 0.428**                                   | 0.000            |
| Investment Experience    | 0.372**                                   | 0.000            |
| Income Level             | 0.311**                                   | 0.000            |

\*\* Correlation is significant at the 0.01 level (2-tailed).

### 8.5 Multiple Regression Analysis

Multiple regression analysis was performed to examine the combined influence of financial risk tolerance, financial literacy, investment knowledge, investment experience, and income level on investment behaviour. The model summary indicated an R value of 0.612 and an  $R^2$  of 0.375, suggesting that approximately 37.5 per cent of the variance in investment behaviour among young investors was explained by the five independent variables jointly. The adjusted  $R^2$  was 0.365, and the model was found to be statistically significant ( $F = 37.68$ ,  $p < 0.001$ ).

| Predictor Variable       | Beta ( $\beta$ ) | t-value | Significance (p) | Result      |
|--------------------------|------------------|---------|------------------|-------------|
| Financial Risk Tolerance | 0.312            | 6.184   | 0.000            | Significant |
| Financial Literacy       | 0.221            | 4.327   | 0.000            | Significant |
| Investment Knowledge     | 0.184            | 3.542   | 0.000            | Significant |
| Investment Experience    | 0.146            | 2.816   | 0.005            | Significant |
| Income Level             | 0.098            | 2.014   | 0.045            | Significant |

The regression results reveal that financial risk tolerance emerged as the strongest predictor of investment behaviour ( $\beta = 0.312$ ,  $p < 0.001$ ), followed by financial literacy ( $\beta = 0.221$ ,  $p < 0.001$ ) and investment knowledge ( $\beta = 0.184$ ,  $p < 0.001$ ). Investment experience ( $\beta = 0.146$ ,  $p = 0.005$ ) and income level ( $\beta = 0.098$ ,  $p = 0.045$ ) also contributed significantly, though with comparatively smaller effects. Since all five predictors recorded statistically significant beta coefficients at  $p < 0.05$ , hypotheses H1 through H5 were supported.

### 8.6 Hypotheses Testing Summary

| Hypothesis | Statement                                                   | Result    |
|------------|-------------------------------------------------------------|-----------|
| H1         | Financial risk tolerance $\rightarrow$ Investment behaviour | Supported |
| H2         | Financial literacy $\rightarrow$ Investment behaviour       | Supported |
| H3         | Investment knowledge $\rightarrow$ Investment behaviour     | Supported |
| H4         | Investment experience $\rightarrow$ Investment behaviour    | Supported |
| H5         | Income level $\rightarrow$ Investment behaviour             | Supported |

## 9. Discussion of Findings

The findings of the present study confirm that financial risk tolerance is the most influential determinant of investment behaviour among young investors, consistent with earlier findings of Grable and Lytton (1999) and Hallahan, Faff, and McKenzie (2004), who similarly reported that investors with greater willingness to accept uncertainty exhibit more active and diversified investment behaviour. The relatively higher risk tolerance observed among the 26–30 years age



group supports the theoretical proposition that younger investors, possessing longer investment horizons, are more inclined toward growth-oriented and equity-based instruments.

The significant positive influence of financial literacy on investment behaviour corroborates the findings of Lusardi and Mitchell (2014) and Van Rooij, Lusardi, and Alessie (2011), reinforcing the view that financially literate investors are better positioned to interpret financial information, evaluate risk-return trade-offs, and participate confidently in capital markets. Similarly, the positive contribution of investment knowledge aligns with Aren and Zengin (2016), suggesting that analytical understanding of financial instruments strengthens decision-making capability.

Investment experience was found to significantly enhance investment behaviour, supporting the observation of Chandra and Kumar (2012) that repeated exposure to financial markets reduces uncertainty and builds investor confidence. Income level, while recording the smallest beta coefficient among the five predictors, nonetheless confirmed its role as an enabling factor that determines an investor's financial capacity to undertake risk, consistent with Bhushan and Medury (2013).

Collectively, these findings suggest that investment behaviour among young investors is a function of both psychological disposition toward risk and cognitive/experiential factors such as literacy, knowledge, and experience, thereby validating the integrated theoretical framework combining Modern Portfolio Theory, Expected Utility Theory, and Behavioural Finance Theory adopted in this study.

## **10. Implications of the Study**

### **10.1 Theoretical Implications**

The study extends existing behavioural finance literature by empirically validating an integrated framework in which financial risk tolerance, financial literacy, investment knowledge, investment experience, and income jointly explain investment behaviour among young investors, an area that has received limited combined empirical attention in the Indian context..

## 10.2 Practical Implications

1. Financial advisors and wealth management firms can design risk-profiling tools that place greater emphasis on psychological risk tolerance rather than income alone when recommending investment products to young clients.
2. Educational institutions and regulators such as SEBI and AMFI may strengthen financial literacy programmes targeted specifically at the 21–30 years age group, given its demonstrated influence on investment participation.
3. Investment platforms and fintech applications can incorporate educational content and simulated investment tools to build investment knowledge and experience among first-time young investors.
4. Policymakers may use these findings to design targeted investor awareness campaigns that address both the risk-tolerance and knowledge dimensions of investment behaviour.

## 11. Limitations of the Study

5. The study employed a convenience sampling technique, which may limit the generalisability of the findings to the broader population of young investors.
6. Data were collected through a self-administered questionnaire, which may be subject to common method bias and social desirability bias.
7. The study was cross-sectional in nature and captured investor behaviour at a single point in time; hence, causal relationships should be interpreted with caution.
8. The study was geographically limited and did not account for regional or cultural variations that may influence investment behaviour.

## 12. Scope for Future Research

Future research may adopt a longitudinal design to examine changes in investment behaviour over time and may extend the study to a stratified random sample across multiple regions of India. Future studies could also incorporate additional behavioural variables such as overconfidence bias, herding behaviour, and financial self-efficacy, and may employ structural equation modelling to test mediating and moderating relationships among the study variables.

## 13. Conclusion

The present study examined the influence of financial risk tolerance, financial literacy, investment knowledge, investment experience, and income level on investment behaviour among 320 young investors. The results of multiple regression analysis confirmed that all five variables significantly and positively influenced investment behaviour, with financial risk tolerance emerging as the strongest predictor, followed by financial literacy and investment knowledge. The study reinforces

the growing recognition that investment decisions among young investors are shaped not merely by financial capacity but substantially by psychological risk disposition and financial competence. These findings offer meaningful implications for financial advisors, policymakers, and educational institutions seeking to promote informed and confident investment participation among the younger generation of investors.

**References**

- Aren, S., & Zengin, A. N. (2016). Influence of financial literacy and risk perception on choice of investment. *Procedia - Social and Behavioral Sciences*, 235, 656–663.
- Bhushan, P., & Medury, Y. (2013). Financial literacy and its determinants. *International Journal of Engineering, Business and Enterprise Applications*, 4(2), 155–160.
- Chandra, A., & Kumar, R. (2012). Factors influencing Indian individual investor behaviour: Survey evidence. *Decision*, 39(3), 141–167.
- Grable, J. E., & Lytton, R. H. (1999). Financial risk tolerance revisited: The development of a risk assessment instrument. *Financial Services Review*, 8(3), 163–181.