

FINANCIAL LITERACY, INVESTMENT AWARENESS AND PORTFOLIO PREFERENCES AMONG PROFESSIONALS: A REVIEW OF ACTUAL AND PREFERRED INVESTMENT BEHAVIOUR

Sudarshan Akhare¹, Dr. Swati Sisodiya²

Research Scholar, Mansarovar Global University, Sehore (Bhopal)¹

Research Supervisor, Mansarovar Global University, Sehore (Bhopal)²

ABSTRACT

Financial literacy has become increasingly important in an environment characterized by expanding investment choices, digital financial platforms, market volatility and growing individual responsibility for financial planning. Professionals, despite their education and regular income, may not necessarily possess adequate financial literacy or investment awareness. Their actual investment behaviour may therefore differ considerably from their preferred investment plans. The present review examines the relationship between financial literacy, investment awareness, risk perception and portfolio preferences among professionals. Existing studies suggest that financially literate individuals are generally more likely to diversify their portfolios, assess risk-return trade-offs and participate in market-linked investment products. However, actual investment choices are also influenced by income, age, family responsibilities, liquidity requirements, tax considerations, behavioural biases, financial goals and perceived risk. Traditional instruments such as bank deposits, insurance, provident funds and gold continue to attract many investors because of safety and familiarity, while mutual funds, equities, systematic investment plans and other market-linked products are increasingly preferred for long-term wealth creation. The review identifies an important research gap between investors' actual portfolio allocation and their stated preferred investment plans. It argues that financial literacy should be examined not merely as financial knowledge but as a combination of knowledge, attitudes, behaviour and digital financial capability. The paper proposes an integrated conceptual framework for studying how financial literacy and awareness influence the divergence between actual and preferred investment plans among professionals.

Keywords: *Financial literacy*¹, *Investment awareness*², *Professionals*³, *Investment behaviour*⁴, *Portfolio preference*⁵, *Risk Tolerance*⁶, *Financial planning*⁷, *Investment decisions*⁸

1. INTRODUCTION

Personal financial decision-making has undergone significant transformation during the last decade. Individuals today have access to a wide variety of investment avenues, including traditional bank deposits, provident funds, insurance products, gold and real estate as well as mutual funds, equities, bonds, exchange-traded funds and digital investment platforms. The availability of these alternatives has increased the importance of financial literacy. Financial literacy refers broadly to an individual's knowledge, skills, attitudes and behaviour required to make sound financial decisions. It includes the ability to understand concepts such as interest, inflation, diversification, risk, return, taxation, savings and investment planning. The OECD has increasingly emphasized that financial literacy should not be limited to theoretical knowledge. It incorporates financial knowledge, financial behaviour and financial attitudes. In contemporary financial markets, digital financial literacy has also become important because investments are increasingly accessed and managed through online and mobile platforms. Professionals form an interesting population for financial literacy research. Their formal educational qualifications and relatively stable earning capacity may lead to an assumption that they possess adequate financial knowledge. However, professional expertise in medicine, law, education, engineering, information technology or management does not automatically translate into expertise in financial planning.

Consequently, professionals may demonstrate a gap between: what they currently invest in and what they would prefer to invest in if knowledge, income, risk capacity and other constraints were different. This distinction between actual investment plans and preferred investment plans provides an important dimension for studying investor behaviour. The present review therefore examines the existing literature on financial literacy, investment awareness and portfolio choice among professionals and identifies the major determinants responsible for differences between actual and preferred investment patterns.

2. OBJECTIVES OF THE REVIEW

The review aims to:

1. Examine the concept and dimensions of financial literacy among professionals;
2. Analyse the relationship between financial literacy and investment behaviour;
3. Identify major investment avenues actually used by professionals;
4. Examine preferred investment plans and portfolio aspirations;
5. Analyse factors responsible for the gap between actual and preferred investment choices;

6. Evaluate the role of demographic, behavioural and financial factors in investment decisions; and
7. Identify research gaps for future empirical investigation.

3. CONCEPT OF FINANCIAL LITERACY

Financial literacy has evolved from a narrow understanding of financial knowledge to a broader concept involving the ability to apply financial knowledge in real-life situations. It typically includes three interconnected dimensions:

Financial Knowledge

Knowledge of:

- Inflation;
- Compound interest;
- Risk and return;
- Diversification;
- Taxation;
- Insurance;
- Retirement planning; and
- Investment products.

Financial Attitude

Financial attitudes include an individual's orientation toward:

- Savings;
- Consumption;
- Long-term financial planning;
- Risk taking; and
- Wealth accumulation.

Financial Behaviour

Financial behaviour refers to actual practices such as:

- Preparing a budget;
- Maintaining emergency funds;
- Saving regularly;
- Paying liabilities on time;
- Diversifying investments; and
- Undertaking retirement planning.

Thus, a person may possess financial knowledge without necessarily translating that knowledge into appropriate financial behaviour.

4. FINANCIAL LITERACY AMONG PROFESSIONALS

Professionals generally have regular incomes, access to banking facilities and relatively greater exposure to formal financial products. Nevertheless, financial literacy varies considerably within this group. Factors responsible for such variation include:

- Educational specialization;
- Age;
- Income;
- Occupation;
- Experience;
- Gender;
- Family responsibilities;
- Access to financial advice; and
- Personal interest in financial markets.

For example, a medical professional may possess extensive specialized knowledge in healthcare but comparatively limited knowledge regarding equity valuation or portfolio diversification. Similarly, academic professionals may be highly educated but continue to prefer fixed deposits, provident funds and insurance because

of familiarity and perceived security. This indicates that general education and financial literacy should not be considered synonymous.

5. FINANCIAL AWARENESS AND INVESTMENT DECISIONS

Financial awareness relates to an individual's familiarity with available financial products, market conditions, regulations, risks and investment opportunities. An investor may be aware of mutual funds but may not understand:

- Expense ratios;
- Portfolio composition;
- Market risk;
- Systematic investment plans; or
- The Difference between debt and equity funds.

Similarly, awareness of equity markets does not necessarily imply adequate knowledge of diversification and volatility. Higher investment awareness can improve an individual's ability to compare alternative products and select investments consistent with financial goals.

6. FINANCIAL LITERACY AND PORTFOLIO DIVERSIFICATION

One of the strongest relationships identified in financial literacy research concerns diversification. Individuals with greater financial knowledge are generally better able to understand why concentration of wealth in a single asset can increase risk. Research summarized by the Global Financial Literacy Excellence Center indicates that financially knowledgeable investors tend to hold more diversified portfolios and are more capable of managing nonsystematic risk. Such investors may distribute savings among:

- Equities;
- Mutual funds;
- Fixed-Income instruments;
- Retirement funds;
- Gold; and
- Other assets.

Lower financial literacy, in contrast, may lead to excessive concentration in familiar instruments.

7. ACTUAL INVESTMENT PLANS OF PROFESSIONALS

Actual investment refers to the financial assets in which an individual presently allocates money. Professionals commonly invest in a combination of:

Traditional Investments

- Savings accounts;
- Fixed Deposits;
- Recurring deposits;
- Provident funds;
- Public provident fund;
- Insurance;
- Gold; and
- Real estate.

These instruments are frequently selected because they offer perceived safety, familiarity and relatively predictable returns.

Market-Linked Investments

- Mutual funds;
- Systematic investment plans;
- Direct equities;
- Bonds;
- Exchange-traded funds; and
- Retirement-oriented market products.

Participation in these products generally requires greater understanding of market risk.

8. PREFERRED INVESTMENT PLANS

Preferred investments represent the portfolio investors would ideally like to hold based on expected return, long-term goals and perceived attractiveness.

The distinction is important because actual investment may be constrained by:

- Limited financial knowledge;
- Lack of disposable income;
- Family responsibilities;
- Liquidity requirements;
- Fear of losses;
- Lack of confidence;
- Inadequate financial advice; and
- Unfamiliarity with investment platforms.

For instance, an individual may prefer equity mutual funds for wealth creation but continue to hold most savings in bank deposits because of perceived market risk. Therefore:

Actual Portfolio $\neq$ Preferred Portfolio

This divergence provides an important basis for empirical research.

9. COMPARATIVE VIEW OF ACTUAL AND PREFERRED INVESTMENTS

A typical pattern identified in investment behaviour research may be summarized as follows:

Table 1: Investment Avenues, Likely Actual Usage, and Likely Preferred Position

Investment Avenue	Likely Actual Usage	Likely Preferred Position
Savings account	High	Moderate
Fixed deposits	High	Moderate
Provident fund	High	High
Insurance	High	Moderate
Gold	Moderate-high	Moderate

Investment Avenue	Likely Actual Usage	Likely Preferred Position
Real estate	Moderate	High where financially feasible
Mutual funds/SIPs	Moderate	High
Direct equity	Low–moderate	Moderate–high
Bonds	Low	Moderate
Alternative/digital investments	Low	Emerging

This table is conceptual and should be empirically tested rather than treated as primary findings.

Role of Risk Tolerance

Risk tolerance is one of the most important determinants of investment choice. Risk-averse investors generally prefer:

- Fixed deposits;
- Government securities;
- Insurance;
- Provident funds; and
- Other capital-protection products.

Moderate-risk investors may prefer:

- Balanced mutual funds;
- Debt-equity combinations; and
- Systematic investment plans.

Risk-tolerant investors may allocate greater proportions to:

- Equity;
- Sectoral funds;
- Small-cap funds; and

- Other market-linked products.

Financial literacy may improve understanding of risk but does not necessarily make an individual more risk seeking.

Instead, greater literacy may encourage Informed Risk Taking.

Income and Investment Capacity

Income influences both investment participation and portfolio diversification.

Higher-income professionals generally possess greater surplus funds and may therefore have more opportunities to diversify. However, income alone does not determine investment quality.

A high-income professional with low financial literacy may concentrate investments in:

- Real estate;
- Traditional deposits; or
- Insurance products.

Conversely, a moderate-income investor with good financial knowledge may achieve substantial diversification through relatively small systematic investments. Thus, Investment capacity is determined partly by income, while investment efficiency is influenced strongly by financial knowledge and behaviour.

Age and Life-Cycle Effects

Investment preferences generally change across the life cycle.

Early Career

Younger professionals may prioritize:

- Wealth creation;
- Equity;
- Mutual funds;
- Home purchase; and
- Emergency savings.

Middle Career

Investment goals may increasingly include:

- Children's education;
- Housing loans;
- Retirement planning;
- Insurance; and
- Portfolio diversification.

Late Career

Greater emphasis may be placed on:

- Capital preservation;
- Retirement income;
- Fixed-income investments; and
- Lower portfolio volatility.

Therefore, age is likely to moderate the relationship between financial literacy and investment preference.

10. DIGITAL FINANCIAL LITERACY

Digital transformation has substantially altered investment behaviour.

Professionals can now access investments through:

- Mobile applications;
- Online brokerage platforms;
- Robo-advisory services;
- Digital mutual fund platforms; and
- Fintech applications.

However, digital access introduces risks such as:

- Misleading information;
- Investment scams;

- Phishing;
- Identity theft; and
- Unregulated investment recommendations.

The OECD has noted that rapid digitalization combined with inadequate digital financial literacy can expose consumers to sophisticated financial scams and investment fraud. Thus, modern financial literacy research should include digital investment competence.

11. DISCUSSION

The literature consistently suggests that greater financial literacy improves an individual's ability to understand financial products, risk diversification and long-term planning. However, financial knowledge does not automatically lead to optimal portfolio allocation. Professionals face competing financial priorities including housing, children's education, taxation, lifestyle expenditure, emergency funds and retirement planning.

Consequently, an investor may understand the benefits of equity investment but still prefer safe assets because of immediate obligations. Similarly, individuals may state that they would prefer mutual funds or equities but remain invested primarily in fixed deposits because they lack sufficient confidence or knowledge. This demonstrates that investment decisions arise from interaction between:

knowledge + capability + preference + constraints

Therefore, studying actual investment without preferred investment provides only an incomplete picture of financial behaviour.

12. CONCLUSION

Financial literacy is an important determinant of investment behaviour among professionals, but it must be interpreted broadly to include financial knowledge, awareness, attitudes, behaviour and digital competence. Professionals may have higher educational qualifications and regular income but may still demonstrate gaps in investment knowledge and portfolio diversification. Traditional instruments continue to form an important part of actual investment portfolios because of safety, familiarity and liquidity. At the same time, market-linked products such as mutual funds and equities may occupy a larger position in preferred portfolios because of their perceived potential for long-term wealth creation. The distinction between actual and preferred investment plans therefore provides an important and relatively underexplored dimension of financial literacy research. The review paper proposes the concept of an Investment Preference Gap, representing the difference between investors' existing portfolio allocation and their desired portfolio structure.

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