Impact of Financial Literacy on Portfolio Diversification and Risk Management among Urban Gen Z Investors

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Abstract

This study examines the impact of financial literacy on portfolio diversification and risk management among Urban Gen Z investors aged 19-28 years. The research aims to understand whether young investors possess genuine financial awareness regarding investments, money management, and financial risk, or whether their investment decisions are influenced by social media trends, financial influence's, peers, family members, and short-term profit expectations. A quantitative research approach was adopted using a structured Google Forms questionnaire. The study collected 80 responses from Gen Z participants belonging to different educational and occupational backgrounds. The questionnaire evaluated respondents understanding of financial concepts such as diversification, inflation, compound interest, emergency funds, and risk-return relationships, along with their investment behaviour and decision-making patterns. The findings revealed mixed levels of financial literacy among respondents. While several participants demonstrated awareness regarding long-term investing, diversification, and were influenced by external trends and informal financial advice. Financial literate respondents were more likely to diversify investments, conduct personal research, maintain emergency funds, and make rational investment decisions during market fluctuations. The study highlights the growing participation of urban Gen Z individuals in financial markets and emphasizes the importance of financial education in promoting informed and responsible investment behaviour.

***Keywords**: Financial Literacy, Portfolio Diversification, Risk Management, Gen Z Investors, Risk Tolerance, Investment Decision Making*

Introduction

Financial literacy has become an increasingly important skill in today's rapidly evolving financial environment. With the rise of digital investment platforms, social media financial content, and easy access to online trading applications, Urban Gen Z individuals are entering investment markets at a much earlier age than previous generations. Young investors are now actively participating in financial activities such as stock market investing, mutual funds, gold investments, fixed deposits, and cryptocurrency trading.

Although investment participation among Gen Z is growing rapidly, financial knowledge and awareness among investors remain inconsistent. Many individuals invest based on social media trends, financial influence's, peers' recommendations, or fear of missing out [FOMO], without fully understanding financial risk, diversification strategies, inflation, or long-term wealth management. At the same time, some Gen Z investors demonstrate responsible investment behaviour through personal research, diversified portfolios, and long-term financial planning.

Portfolio diversification and risk management are essential components of successful investing. Diversification helps reduce unsystematic risk by spreading investment across multiple asset classes, while financial literacy enables investors to make informed decisions, manage financial uncertainty, and avoid emotional investment behaviour such as panic selling.

This study focuses on understanding whether Urban Gen Z investors are genuinely financially literate or are primarily influenced by trends and external opinions while making investment decisions. The research also examines how financial literacy affects portfolio diversification and risk management practices among young investors.

Problem Statement

The increasing participation of urban Gen Z individuals in financial markets has created concerns regarding the quality of their financial decision-making. Many young investors enter investment markets without adequate financial literacy and often rely on social media trends, influence's, friends, or family advice while making investment decisions. This may result in poor portfolio diversification, emotional investing behaviour, ineffective risk management, and financial losses.

The study seeks to examine whether urban Gen Z investors hold sufficient financial literacy to make informed investment decisions and how financial awareness influences portfolio diversification and risk management practices.

Objectives of the Study

- To assess the level of financial literacy among Urban Gen Z investors.
- To examine the relationship between financial literacy and portfolio diversification practices among young investors.
- To analyse the impact of financial literacy on risk management behaviour, including investment planning and responses to market fluctuations.
- To identify the extent to which investment decisions are influenced by financial knowledge, social media, influence's, peers, and family members.
- To study the investment behaviour and financial awareness of urban Gen Z investors.
- To understand the preferred investment route and digital platforms used by Gen Z investors.
- To evaluate whether financially literate investors demonstrate more informed and disciplined investment practices.

Hypothesis of the Study

$H_0$1 - There is no significant influence of financial literacy and investment decision-making among Urban Gen Z investors.

$H_0$2 - There is no significant influence of risk tolerance and investment behaviour among Urban Gen Z investors.

$H_0$3 - There is no significant influence of financial literacy and portfolio diversification practices among young investors.

$H_0$4 - There is no significant influence of social media on investment decisions among urban Gen Z investors.

$H_0$5 - There is no significant influence of financial awareness and panic-selling behaviour among young investors.

Literature Review

1. **Jurnal Ilmiah Akuntansi dan Bisnis [2025]**

   https://journal.undiknas.ac.id/index.php/akuntansi/article/view/6741/1802

This paper has examined how educational level, financial literacy, and Instagram content influence investment decisions among young investors. The study was done on a quantitative research using online questionnaires and found that financial literacy, educational attainment, and Instagram content all have a positive and significant impact on investment decision-making. The findings highlighted that social media platform play an important role in spreading financial awareness and shaping investment behaviour among millennial's and Gen Z.

2. **Samudra Ekonomi dan Bisnis [2025]**

https://ejurnalunsam.id/index.php/jseb/article/view/10814/5058

This paper has examined how financial literacy, overconfidence bias, herd behaviour, risk tolerance, and demographic factors influence investment decisions among young investors. The study used a quantitative approach with online questionnaires collected from Gen Y and Gen Z investors across major cities in Java. The research highlighted that psychological biases and emotional behaviour play an important role in shaping financial decisions, especially among younger investors who are more exposed to digital investment trends and FOMO driven investing.

3. **Renu Bala [2025]**

https://acr-journal.com/article/financial-literacy-and-its-influence-on-youth-investment-decisions-1540/

This paper has examined the impact of financial literacy on investment behaviour among Indian youth aged 18-30 years. Using the data collected from 400 respondents across urban, semi-urban and rural regions, the study found that financially literate youth were more likely to participate in market-linked investment products such as mutual funds and equities. The findings also revealed that portfolio diversification and SIP adoption were significantly higher among respondents with stronger financial literacy levels, indicating the importance of financial awareness in promoting disciplined and long term investment behaviour.

4. **COGENT ECONOMICS & FINANCE[2025]**

https://www.tandfonline.com/doi/full/10.1080/23322039.2025.2476090#abstract

This paper examined how financial knowledge, financial attitude, and financial behaviour influence panic selling among investors during market downturns. Using a large-scale analysis, the study found that financial knowledge, positive behaviour and disciplined financial attitudes significantly reduce the tendency of investors to engage in panic selling during market crises.

Identification of Research Gaps:

Existing studies mainly focus on financial literacy and investment behaviour among general investors. However, limited research specifically examines whether Urban Gen Z investors possess genuine financial awareness regarding portfolio diversification and risk management or whether their investment decisions are influenced by social media trends, influence's, peers, and family members.

The growing popularity of digital investment platforms and online financial content has encouraged many young individuals to invest at an early age.

However, the level of financial understanding among Gen Z investors makes informed investment decisions based on financial literacy or whether they are primarily trend-driven investors.

Scope of the Study

This study focuses on understanding the investment behaviour and financial awareness of Urban Gen Z investors. The research examines the influence of financial literacy, risk tolerance, portfolio diversification, panic selling behaviour, and external factors such as social media, competitors, and influence's on investment decision-making among young investors. The study primarily converses with individuals belonging to Generation Z who actively participate in investment activities such as stocks, mutual funds, Sip's, cryptocurrency, gold, and other financial instruments.

The research is based on survey responses collected through questionnaires and is limited to the selected sample population of young investors. The study aims to analyse behavioral and financial factors affecting investment decisions and risk management practices among Gen Z investors in the urban context.

Area of the Study

The present study is focused on urban Gen Z investors aged 18-28 years and examines their financial literacy, investment behaviour, risk tolerance, portfolio diversification, and investment decision-making patterns. It also analyses the influence of social media and external factors on their investment choices.

Hypothesis of the Study: Null Hypothesis (H_0)

There is no significant relationship between financial literacy and portfolio diversification and risk management among Urban Gen Z investors.

Alternative Hypothesis (H_1)

There is a significant relationship between financial literacy and portfolio diversification and risk management among Urban Gen Z investors.

Research Methodology

The study is descriptive and analytical in nature and focuses on understanding the investment behaviour, financial literacy, and risk tolerance of Urban Gen Z investors. The study is primarily based on primary data collected through a structured questionnaire circulated using Google Forms. A total of 80 respondents participated in the study, and the respondents were selected using the convenience sampling method.

The questionnaire included questions related to investment preferences, risk tolerance, financial awareness, panic selling behaviour, leverage usage, emergency fund management, and research behaviour. Secondary data was collected through published research papers and journals related to financial literacy and investment behaviour.

The collected data was analyzed using Google Sheets. Analytical tools such as pivot tables, percentage analysis, score-based analysis, charts, and frequency distribution tables were used to interpret the responses and identify investment behaviour patterns among the Urban Gen Z investors.

Data Collection

The data required for the study were collected from both primary and secondary sources.

Primary Data:

Primary data was collected directly from respondents through a structured questionnaire circulated using Google Forms among Urban Gen Z investors.

Secondary Data:

Secondary data was collected from published research papers, journals, and articles related to financial literacy, investment behaviour, behavioral finance, and investment decision-making.

Statistical Tools

The collected data was analyzed using Google Sheets through the following analytical and statistical tools:

- Percentage Analysis
- Pivot Table Analysis
- Frequency Distribution Tables
- Score-Based analysis
- Charts and Graphical Representation

Data Analysis & Interpretation

- **Investment Type Analysis**

Investment Preference by occupation Fig: 1

Investment Type	Equity (Stocks)	Mutual Funds	Gold	Real Estate	Bonds	Fixed Deposits	Crypto	Others
Self-employed			2	2				
Student	11	12	7	2	1	7	1	1
Working Professional	4	5	2	1	2	2		1

➢ Students showed the highest preference towards equity stocks and mutual funds, indicating stronger participation in market-linked investments.

➢ Working professionals demonstrated comparatively diversified investment preferences across multiple investment avenues.

Interpretation

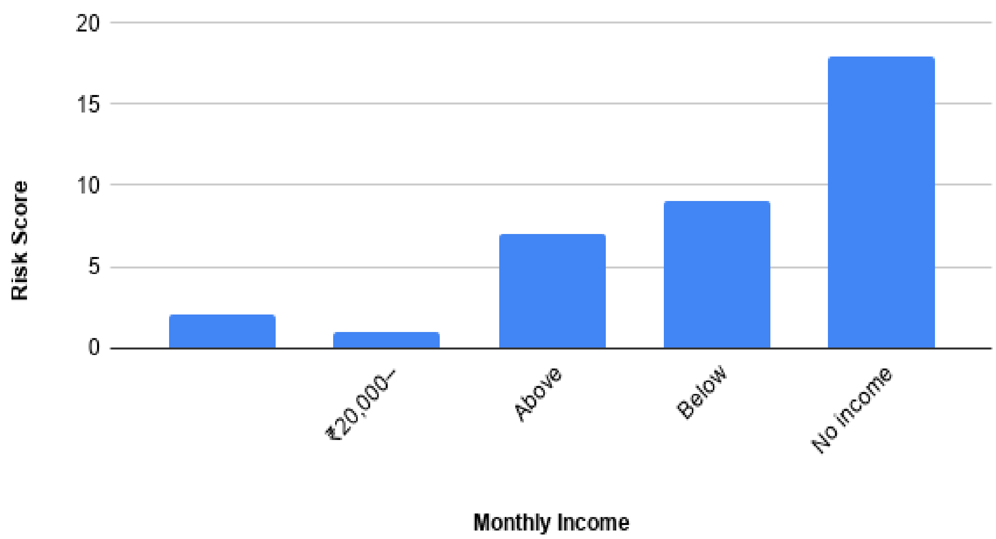
The analysis indicates that students constituted the majority of respondents and showed higher preference towards equity oriented and mutual fund investments. Working professionals demonstrated comparatively diversified investment preferences, while self employed respondents showed limited but market linked investment participation. Overall, the findings reflect increasing inclination of Urban Gen Z investors towards growth oriented investment avenues.

- **Risk Analysis**

Risk preference by Monthly Income Fig: 2

Monthly Income	₹20,000–₹50,000	Above ₹50,000	Below ₹20,000	No income
Risk Score	1	7	9	18

- Respondents with no personal income demonstrated comparatively higher risk preference towards market-linked investment avenues.
- Higher income respondents showed relatively lower risk preference compared to financially dependent participants.
- The findings indicate increasing risk-taking behaviour among Urban Gen Z investors despite limited income stability



Interpretation

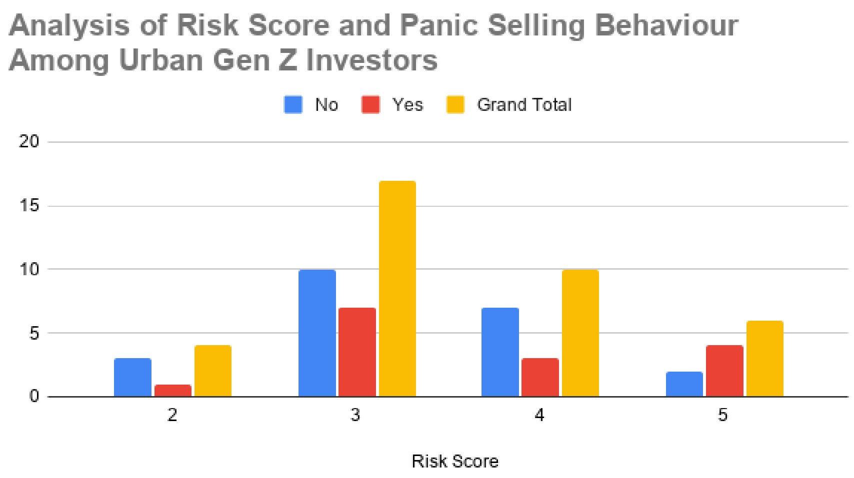
The analysis indicates that financially dependent respondents, particularly those with no personal income, demonstrated comparatively higher risk preference than earning respondents. This reflects increasing participation and risk taking attitude among Urban Gen Z investors towards market linked investment avenues.

- **Panic Selling Analysis**

Risk Preference and Panic Selling Analysis Fig: 3

Risk Score	No	Yes	Grand Total
2	3	1	4
3	10	7	17
4	7	3	10
5	2	4	6

- Respondents with moderate risk scores constituted the majority of participants in the study.
- Panic-selling behaviour was observed across different risk levels, indicating the influence of emotional factors on investment decisions.



Interpretation

The analysis indicates that respondents with moderate risk scores formed the majority of participants. While a considerable number of respondents did not engage in panic selling, instances of panic selling were observed across different risk levels, highlighting the influence of emotional and behavioral factors on investment decisions during market fluctuations

Results / Findings

- Students constituted the majority of respondents, indicating increasing participation of young individuals in investment activities at an early age.
- Equity stocks and mutual funds were the most preferred investment avenues, reflecting higher interest towards growth-oriented and market-linked investments.

- The findings are consistent with previous literature studies which suggest that financial literacy positively influences diversification practices and investment participation.
- Social media trends, influence's, friends, and family members significantly affected investment decisions among respondents, indicating herd mentality and FOMO behaviour among Gen Z investors.
- Financially dependent respondents with no personal income demonstrated comparatively higher risk-taking preference toward market-linked investment, reflecting overconfidence and attraction towards high returns.
- Emotional factors and panic-selling behaviour influenced investment decisions during market uncertainty, highlighting the role of behavioral finance factors in investor decision-making

Suggestions / Recommendations

1. **Conduct Financial Literacy Workshops**

   Financial literacy workshops should be conducted to improve awareness regarding investing, diversification, and risk management among young investors.

2. **Encourage Responsible Investing Education**

   Young investors should be encouraged to focus on informed and long-term investment decisions rather than short-term profits and trend-based investing.

3. **Regulate Misleading Financial Influence Content**

   Misleading financial content on social media should be mentioned to reduce herd mentality, FOMO, risky investment behaviour among Gen Z investors.

Limitations

- The Study was limited to 80 respondents only, which may not fully represent the financial behaviour and investment patterns of the entire Urban Gen Z population.
- The research focused only on Urban Gen Z investors aged 19-28 years. Therefore, the findings may differ from the investment behaviour of rural or semi-urban populations.
- Limited time availability restricted broader data collection, deeper statistical analysis, and inclusion of larger respondent base for the study.
- The study adopted convenience sampling through online Google Forms, which may result in response bias and limit the overall generalization and accuracy of the findings.

Discussion

The study revealed mixed levels of financial literacy among Urban Gen Z investors. While several respondents demonstrated awareness regarding diversification, long-term investing, and risk management, others were influenced by social media trends, financial influence's, friends, and family members while making investment decisions.

Equity oriented investment, such as stocks and mutual funds, were highly preferred among respondents, reflecting increasing risk appetite and wealth creation objectives. Financially aware investors showed lower panic-selling behaviour and better investment decision-making fluctuations.

The findings indicate that financial literacy positively influences portfolio diversification and risk management practices among young investors. The study also highlights the growing impact of investor psychology and social media influence on Gen Z investment behaviour.

Conclusion

The study concludes that financial literacy, risk tolerance, behavioral factors, and social media influence significantly affect the investment behaviour of Urban Gen Z investors. The findings indicate increasing participation of young investors in market-linked and diversified investment avenues such as equities and mutual funds, reflecting growing interest towards wealth creation and financial independence.

The study also revealed mixed levels of financial awareness among respondents. While financially literate individuals demonstrated better understanding of diversification, long-term investing, and risk management practices, some respondents were influenced by social media trends, financial influence, peers, and short-term profit expectations while making investment decisions.

Behavioural fiance factors such as heard mentality, Fear Of Missing Out [FOMO], overconfidence, emotional investing, and panic selling behaviour were found to influence investment decisions during periods of market uncertainty higher risk-taking preference towards market-linked investment products.

Overall, the study emphasizes the importance of financial literacy, responsible investing education, and informed financial decision-making in promoting disciplined, rational, and sustainable investment behaviour among Urban Gen Z investors.

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