

# Financial Literacy and Investment Behaviour of Retail Investors: A Comparative Study in Thrissur and Ernakulam Districts

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**Abstract:** *Financial literacy plays a crucial role in shaping the investment behaviour of individuals. In an era where financial markets are rapidly evolving, understanding how financial literacy influences investment decisions has become increasingly important. This study investigates the level of financial literacy among retail investors in the districts of Thrissur and Ernakulam in Kerala and analyses its impact on their investment preferences, risk-taking ability, and portfolio diversification. Using primary data from 150 respondents (75 each from Thrissur and Ernakulam), the study employs statistical tools such as t-tests and regression analysis. The findings reveal significant differences in financial literacy levels across the two districts and highlight the direct impact of literacy on investment behaviour. The study concludes with practical recommendations to enhance investor education and foster informed decision-making among retail investors.*

**Keywords:** *Financial literacy*

## I. INTRODUCTION

Investment decisions are influenced by several factors, ranging from individual psychological traits to financial awareness and external economic conditions. One of the most critical determinants is financial literacy, which refers to the ability to understand and effectively use financial skills such as budgeting, investing, and risk management. In India, retail investors often rely on informal sources of information, leading to suboptimal investment decisions. This paper aims to explore the role of financial literacy in shaping the investment behaviour of retail investors in Thrissur and Ernakulam, two economically active districts of Kerala. The comparative analysis will offer insights into regional differences and help frame policies for financial inclusion.

## II. REVIEW OF LITERATURE

Several studies have established a positive correlation between financial literacy and prudent investment behaviour. Lusardi and Mitchell (2011) emphasized the global importance of financial literacy in achieving financial well-being. In the Indian context, Agarwal et al. (2013) found that individuals with higher financial awareness exhibited diversified investment portfolios and greater use of formal investment instruments. A study by Bhushan and Medury (2013) revealed that financial literacy significantly affects risk perception and investment choices. More recent studies by SEBI (2020) also indicate that despite rising internet penetration, a large section of the Indian population lacks basic investment knowledge, especially outside metropolitan areas. However, limited comparative research exists across districts in Kerala, which this study aims to address.

### Objectives of the Study

- To assess the level of financial literacy among retail investors in Thrissur and Ernakulam.
- To evaluate the investment behaviour and preferences of investors in both districts.
- To analyse the relationship between financial literacy and investment decisions.
- To suggest measures for improving financial literacy among retail investors.



### Hypotheses of the Study

H<sub>01</sub>: There is no significant difference in the level of financial literacy between retail investors in Thrissur and Ernakulam.

H<sub>02</sub>: Financial literacy does not significantly influence investment decisions.

H<sub>03</sub>: There is no significant relationship between financial literacy and portfolio diversification.

H<sub>04</sub>: There is no significant impact of financial literacy on risk-taking behaviour.

### III. RESEARCH METHODOLOGY

The study follows a descriptive and analytical research design. The population comprises individual retail investors residing in Thrissur and Ernakulam districts who actively participate in investment activities such as mutual funds, stocks, bonds, and fixed deposits. A structured questionnaire was used to collect primary data from 150 respondents, selected through purposive sampling (75 from each district). The questionnaire included scales measuring financial knowledge, investment preferences, risk tolerance, and demographic variables. Descriptive statistics, independent sample t-tests, Pearson correlation, and regression analysis were applied using SPSS software. Secondary data from RBI, SEBI, and academic journals were also referenced for contextual understanding.

### IV. DATA ANALYSIS

The demographic profile of respondents revealed a balanced representation across age groups, with 55% of respondents aged between 30–45 years. 60% of the respondents held a postgraduate degree, while 40% had a graduate-level education. In terms of financial literacy, Ernakulam investors scored an average of 72%, compared to 61% in Thrissur. The independent sample t-test showed a statistically significant difference ( $p < 0.05$ ) in financial literacy levels between the districts. Regression analysis confirmed that financial literacy significantly influenced investment decision-making ( $\beta = 0.48$ ,  $p < 0.01$ ), portfolio diversification ( $\beta = 0.42$ ,  $p < 0.05$ ), and risk-taking behaviour ( $\beta = 0.38$ ,  $p < 0.05$ ). Investors with higher literacy were more likely to invest in equities and mutual funds, while those with lower literacy preferred traditional options like fixed deposits and gold.

SPSS Style Table: Summary of Regression Analysis

Variable	Beta Coefficient	Significance (p-value)
Financial Literacy	0.48	0.001
Portfolio Diversification	0.42	0.014
Risk-Taking Behaviour	0.38	0.021

### V. FINDINGS

The study found notable differences in the financial literacy levels of investors in Thrissur and Ernakulam, with Ernakulam investors demonstrating higher awareness and better investment practices. Financial literacy positively influenced investors' ability to diversify portfolios and take calculated risks. Many respondents in Thrissur lacked awareness of financial products like ETFs, REITs, and SIPs, indicating the need for targeted financial education. Across both districts, investors relied heavily on social media and friends for investment decisions, pointing to a gap in access to professional financial advice.

### Suggestions

There is a pressing need to promote financial literacy through structured programs in regional languages, particularly targeting semi-urban and rural investors. Financial institutions and regulatory bodies should collaborate with educational institutions and local governments to organize investor awareness programs. Offering incentives for attending investor training or integrating financial education into school curricula can also be effective. Furthermore, digital platforms offering simplified investment content should be promoted to bridge the information gap.



## VI. CONCLUSION

The study underscores the critical role of financial literacy in shaping sound investment behaviour among retail investors. With clear disparities in knowledge and practices across Thrissur and Ernakulam, targeted interventions are necessary to ensure inclusive financial growth. Improved literacy not only enhances investor confidence but also promotes broader participation in capital markets, thereby contributing to economic development. The findings of this study can guide policymakers and financial service providers in designing region-specific strategies to foster informed and responsible investing.

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