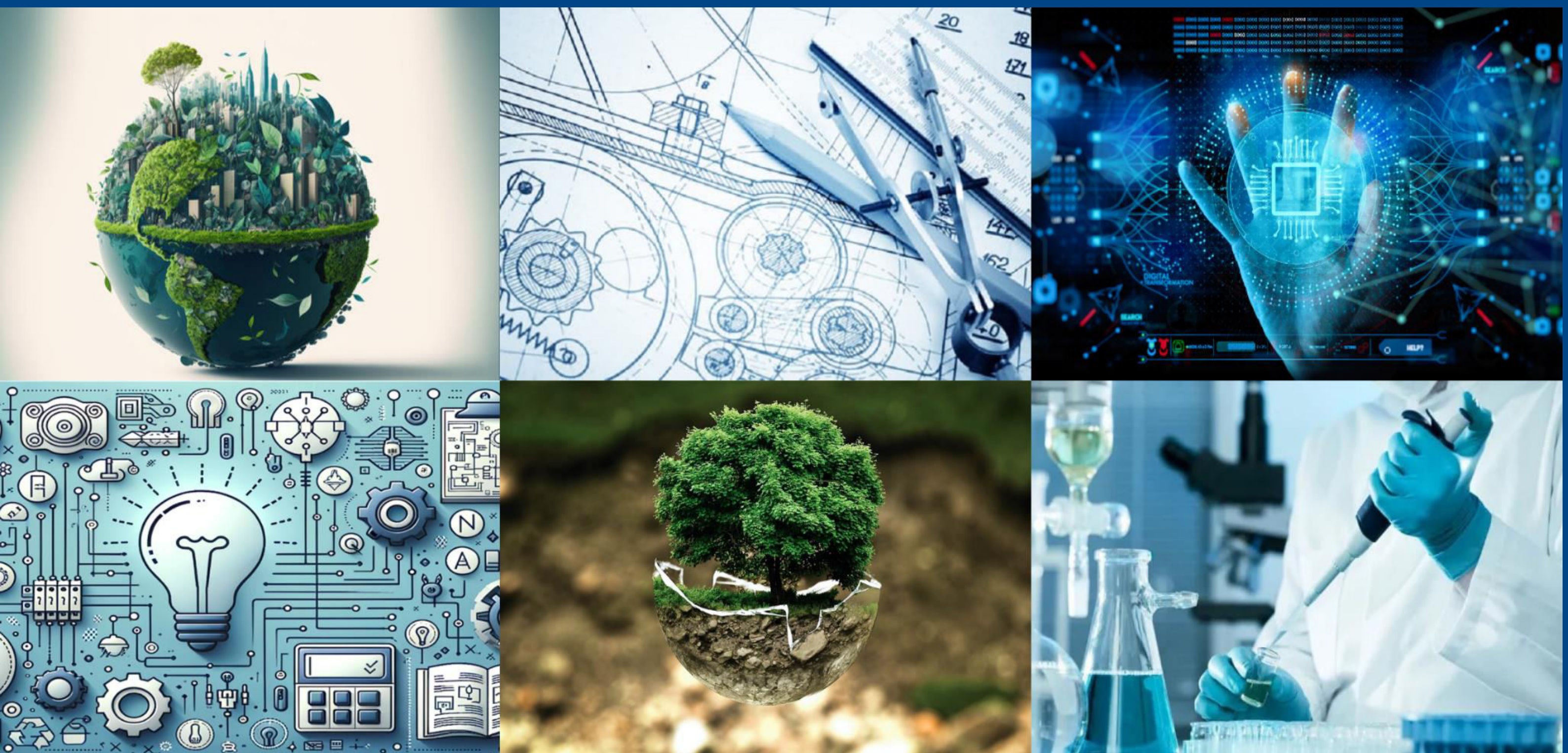
ISSN: 2582-7219

International Journal of Multidisciplinary Research in Science, Engineering and Technology

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)



Impact Factor: 9.864

Volume 9, Issue 8, August 2026

ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 9.864| ESTD Year: 2018|

International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

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Financial Literacy and Cryptocurrency Investment Decisions among Young Retail Investors

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ABSTRACT: The rapid expansion of cryptocurrency has created new investment opportunities for young retail investors while simultaneously increasing concerns about financial knowledge, risk perception, and investment decision-making. This study examines the relationship between financial literacy and cryptocurrency investment decisions among young retail investors using secondary published data. The study synthesizes peer-reviewed research and institutional publications concerning financial knowledge, investment experience, risk-taking, behavioural biases, and cryptocurrency participation. Existing evidence indicates that financial literacy is an important factor in cryptocurrency investment, although its relationship with participation is not uniform. Research has found positive associations between financial literacy and cryptocurrency participation, while other studies distinguish between objective and subjective financial literacy and identify investment experience and overconfidence as important factors. The study further identifies volatility, speculative motivation, social influence, and risk perception as factors interacting with financial literacy. The findings suggest that financial literacy programmes for young investors should include cryptocurrency-specific knowledge covering volatility, diversification, security, fraud risks, and regulatory uncertainty. The study concludes that financial literacy can support informed cryptocurrency investment decisions when combined with investment experience, risk awareness, and behavioural control.

KEYWORDS: financial literacy, cryptocurrency, investment decisions, young investors, retail investors, investor behaviour, digital assets

I. INTRODUCTION

The development of digital financial technologies has significantly changed the investment environment. Cryptocurrency has emerged as an important category of digital assets, attracting retail investors because of its potential returns, technological innovation, accessibility, and global availability. At the same time, cryptocurrency markets are characterized by substantial price volatility, information asymmetry, cybersecurity risks, regulatory uncertainty, and speculative behaviour.

Young retail investors represent an important segment of the emerging digital investment ecosystem. Their familiarity with smartphones, online platforms, social media, and digital payment systems may facilitate access to cryptocurrency markets. However, digital familiarity does not necessarily imply financial literacy. Financial literacy includes financial knowledge, behaviour, and attitudes that enable individuals to make informed financial decisions (OECD, 2023).

The importance of financial literacy becomes particularly relevant when individuals invest in complex and highly volatile assets. A financially literate investor may be better positioned to evaluate risk, understand diversification, distinguish investment from speculation, and assess the implications of losses. However, cryptocurrency investment decisions may also be affected by investment experience, overconfidence, social influence, and risk-taking tendencies.

Zhao and Zhang (2021), using data from the U.S. National Financial Capability Study Investor Survey, found that both financial literacy and investment experience were positively associated with cryptocurrency investment, while investment experience was more influential. Fujiki (2021) similarly found that Japanese crypto-asset owners tended to be younger and had higher financial literacy than nonowners. Ardoğan et al. (2023) reported a positive relationship between advanced financial literacy and crypto-market participation.

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Against this background, the present study examines the relationship between financial literacy and cryptocurrency investment decisions among young retail investors through secondary published evidence.

II. STATEMENT OF THE PROBLEM

Cryptocurrency platforms have made investment increasingly accessible to retail investors. Young investors can obtain market information, open digital-asset accounts, and purchase cryptocurrencies with relatively few barriers. However, accessibility may encourage investment without adequate understanding of market risks.

A key concern is whether financially literate investors make fundamentally different cryptocurrency investment decisions from investors with limited financial knowledge. Existing research does not provide a completely uniform answer because cryptocurrency participation can be influenced simultaneously by financial literacy, investment experience, overconfidence, risk tolerance, social influence, and market conditions.

III. OBJECTIVES OF THE STUDY

1. To examine the relationship between financial literacy and cryptocurrency investment decisions among retail investors.
2. To analyse the role of financial knowledge in cryptocurrency investment participation.
3. To examine the influence of investment experience on cryptocurrency investment decisions.
4. To identify the role of behavioural factors such as overconfidence and risk-taking in cryptocurrency investment.
5. To examine the importance of financial education for young retail cryptocurrency investors.
6. To develop recommendations for improving responsible cryptocurrency investment behaviour among young investors.

IV. RESEARCH QUESTIONS

1. How does financial literacy influence cryptocurrency investment decisions?
2. Does investment experience influence cryptocurrency participation independently of financial literacy?
3. How do objective and subjective financial literacy differ in their influence on cryptocurrency investment?
4. What behavioural factors affect cryptocurrency investment decisions among retail investors?
5. How can financial education improve responsible cryptocurrency investment behaviour among young investors?

V. LITERATURE REVIEW

Financial literacy is generally associated with the ability to understand and apply financial concepts when making financial decisions. The OECD/INFE framework considers financial knowledge, financial behaviour, and financial attitudes as important dimensions of financial literacy **(OECD, 2023).** Financial literacy can influence saving, borrowing, investment, diversification, and risk management. However, knowledge alone does not guarantee rational financial behaviour.

Zhao and Zhang (2021) investigated whether financial literacy or investment experience was more influential in cryptocurrency investment. Using the 2018 National Financial Capability Study Investor Survey, the authors employed hierarchical logistic regression and mediation analysis. They found that both financial literacy and investment experience were positively associated with cryptocurrency investment, but investment experience was more influential.

Ardoğan et al. (2023) examined financial literacy, overconfidence, and risk-loving tendencies in crypto-asset participation. Their logistic regression results indicated that financial literacy had a positive and significant relationship with crypto-market participation, with advanced financially literate individuals more likely to participate than basic financially literate individuals.

Fujiki (2021) compared Japanese crypto-asset owners with nonowners. The study reported that average crypto-asset owners were younger and more likely to be male than nonowners, and that owners tended to have higher financial literacy and greater use of cashless payment methods.

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VI. CONCEPTUAL FRAMEWORK

The proposed conceptual framework treats financial literacy as the principal explanatory variable and cryptocurrency investment decision as the outcome variable. Investment experience, risk tolerance, overconfidence, social influence, and perceived returns are considered related factors.

Financial Literacy → Risk Perception → Cryptocurrency Investment Decision

Related factors: Investment Experience; Risk Tolerance; Overconfidence; Social Influence; Market Information; Perceived Returns.

VII. RESEARCH METHODOLOGY

7.1 Research Design

The study adopts a descriptive and analytical secondary-data research design. No primary questionnaire or interview data were collected.

7.2 Sources of Data

Data were obtained from peer-reviewed journal articles and institutional publications dealing with financial literacy, cryptocurrency investment, investor behaviour, and digital financial literacy.

7.3 Research Tools

The study uses the following research tools for secondary-data analysis: systematic literature review, thematic analysis, comparative analysis, conceptual framework analysis, and evidence-mapping matrix. The studies were compared on variables including financial literacy, cryptocurrency ownership or participation, investment experience, age, behavioural biases, risk perception, and investment decision-making.

7.4 Data Analysis Procedure

The selected studies were reviewed and coded according to recurring variables and findings. Evidence was grouped into themes: financial literacy, investment experience, behavioural biases, demographic characteristics, risk perception, and responsible investment behaviour. Findings were then compared to identify convergence and differences among studies.

7.5 Scope

The study focuses on young retail investors and cryptocurrency as an investment asset. It does not attempt to estimate cryptocurrency prices or evaluate the intrinsic value of a particular cryptocurrency.

7.6 Limitations

The findings depend on the methodologies, samples, geographical locations, and measurement approaches used in existing studies. Differences in definitions and measurement of financial literacy and cryptocurrency investment limit direct statistical comparison.

VIII. FINDINGS AND DISCUSSION

8.1 Financial Literacy Is an Important Determinant

The reviewed evidence indicates that financial literacy is relevant to cryptocurrency investment behaviour. Ardoğan et al. (2023) found a positive relationship between advanced financial literacy and crypto-market participation. This suggests that financial knowledge may increase confidence in evaluating a new asset class rather than simply discouraging participation.

8.2 Investment Experience Has a Significant Role

Zhao and Zhang (2021) found that investment experience was more influential than financial literacy in explaining cryptocurrency investment. Practical experience may help investors understand market volatility, trading mechanisms, and emotional responses to gains and losses.

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8.3 Behavioural Biases Can Distort Decisions

Overconfidence and risk-taking tendencies can influence cryptocurrency investment decisions. Young investors may overestimate their ability to predict prices or interpret online information. Therefore, financial education should address behavioural biases in addition to technical knowledge.

8.4 Financial Literacy Does Not Necessarily Reduce Participation

The evidence indicates that financial literacy should not be interpreted as a mechanism that automatically prevents cryptocurrency investment. Financially literate investors may participate while applying diversification, risk assessment, and portfolio-allocation principles.

8.5 Digital-Financial Literacy Is Necessary

Young investors require knowledge beyond conventional financial concepts. Relevant areas include cryptocurrency wallets, private-key security, exchange risks, volatility, fraud, transaction fees, regulatory uncertainty, and diversification.

IX. MAJOR FINDINGS

- Financial literacy is associated with cryptocurrency investment behaviour, although the strength and direction of the relationship differ across studies.
- Investment experience is an important determinant and may sometimes be more influential than financial literacy.
- Objective financial knowledge and perceived financial knowledge should be distinguished.
- Behavioural factors such as overconfidence and risk-taking can influence cryptocurrency participation.
- Young investors require both traditional financial literacy and digital-asset-specific knowledge.
- Financial literacy can support responsible participation rather than simply discourage cryptocurrency investment.
- Risk perception, diversification, and evaluation of information sources are essential for responsible investment decisions.

X. RECOMMENDATIONS

- Develop cryptocurrency-specific financial literacy programmes for young investors.
- Promote risk-awareness education covering cryptocurrency volatility and potential capital losses.
- Teach portfolio diversification and asset allocation.
- Include behavioural finance topics such as overconfidence, herd behaviour, and fear of missing out.
- Improve digital-security awareness concerning wallets, exchanges, phishing, and scams.
- Encourage critical evaluation of social-media and online financial information.
- Use case studies and investment simulations to combine financial knowledge with practical experience.

XI. CONCLUSION

Cryptocurrency has created a new dimension of investment for retail investors, particularly younger individuals who are comfortable with digital technologies and online financial platforms. However, accessibility does not necessarily imply adequate financial knowledge.

The secondary evidence reviewed indicates that financial literacy plays an important but complex role in cryptocurrency investment decisions. Investment experience, overconfidence, risk tolerance, and social influence also contribute to investor behaviour. The findings suggest that financial literacy should not be viewed simply as knowledge that prevents cryptocurrency participation. Instead, it can enable investors to understand risk, evaluate information, diversify portfolios, and recognize behavioural biases.

For young retail investors, traditional financial literacy should therefore be complemented by digital financial literacy and cryptocurrency-specific knowledge. Educational institutions, financial educators, regulators, and investment platforms can contribute to responsible investment by improving access to reliable information and practical financial education.

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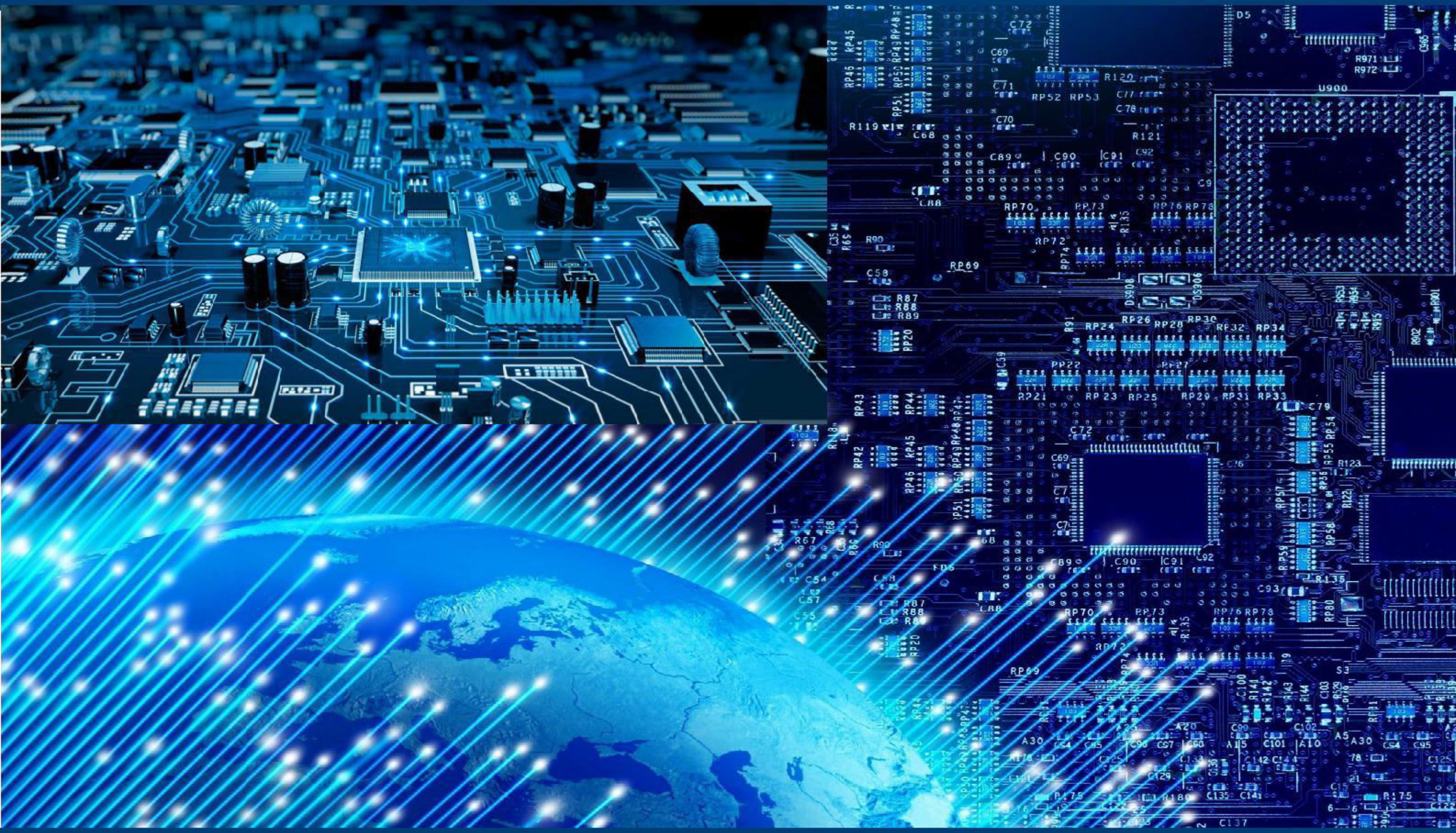

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