

# Financial literacy and its influence on millennial investment decisions.

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## Introduction

Financial literacy has emerged as a pivotal determinant in shaping the economic behavior of individuals, especially in an era characterized by rapid technological evolution, dynamic financial markets, and a wide array of investment options. Among the many demographic groups, millennials—those born between 1981 and 1996—occupy a unique position due to their upbringing in a digital world and their exposure to unprecedented economic shifts, including the 2008 financial crisis and the economic impact of the COVID-19 pandemic. These events, coupled with the proliferation of digital financial tools, have shaped a generation that is both curious about investing and cautious of its risks. Financial literacy, defined as the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing, plays a critical role in how millennials approach their investment decisions [1].

Millennials, more than previous generations, are faced with complex financial landscapes. The disappearance of traditional pension systems, increased student loan burdens, and rising costs of living have necessitated a more proactive approach to financial planning. Yet, despite their high levels of formal education and tech-savviness, many millennials report feeling underprepared when it comes to managing their finances. The root cause often lies in the lack of comprehensive financial education during their formative years. Many school curriculums did not include financial education, leaving young adults to navigate the intricacies of credit, debt, investment, and insurance on their own. As a result, even though the tools and platforms for investing are more accessible than ever, the knowledge required to use them effectively remains unevenly distributed [2].

Research indicates a positive correlation between financial literacy and sound investment behavior. Millennials with higher levels of financial knowledge are more likely to engage in diversified investments, understand risk-return trade-offs, and avoid common financial pitfalls such as high-interest debt or speculative investing. They are more inclined to set long-term financial goals, invest in retirement accounts, and utilize tax-advantaged instruments. In contrast, those with limited financial knowledge often fall prey to short-termism, following trends without understanding fundamentals, and may be more susceptible to financial scams or high-risk ventures [3].

The advent of financial technology has been a double-edged sword in this context. On one hand, apps and platforms such as

Robinhood, Acorns, and Coinbase have democratized access to the financial markets, allowing millennials to trade stocks, invest spare change, or buy cryptocurrency with just a few taps on their smartphones. These innovations have brought previously exclusive financial products within reach of the average user, encouraging greater participation in investment activities. On the other hand, the gamification of finance—exemplified by flashy interfaces, push notifications, and the social aspect of trading—can mislead inexperienced investors into treating investing like a game, often to their detriment. Without a solid foundation in financial principles, millennials may mistake speculation for strategy and risk for opportunity [4].

Moreover, social media has added a complex layer to millennial investment decisions. Influencers, online forums, and viral trends now play a considerable role in shaping investor behavior. While these sources can provide useful insights and democratize information sharing, they also contribute to the spread of misinformation and herd mentality. The GameStop short squeeze in 2021 is a prime example of how online communities can drive mass participation in financial events without necessarily reflecting sound investment principles. Financial literacy acts as a filter in such scenarios, enabling individuals to distinguish between hype and substantive advice [5].

Gender also plays a role in how financial literacy influences investment decisions among millennials. Studies have shown that while women tend to be more cautious investors, they often underestimate their financial capabilities and refrain from investing due to a perceived lack of knowledge or confidence. In contrast, men may overestimate their abilities and take on higher risks, sometimes without sufficient understanding. Closing the gender gap in financial literacy could lead to more balanced and effective investment behaviors across the board, empowering all millennials to make informed financial choices [6].

Cultural and socioeconomic factors further complicate the landscape. Millennials from lower-income backgrounds or marginalized communities may have limited access to quality financial education and fewer opportunities to engage with financial institutions. Trust in traditional financial systems may be low, leading some to seek alternative investment routes such as cryptocurrency or peer-to-peer lending. While these can be viable options, they also carry higher risks that may not be fully understood without adequate financial knowledge.

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Targeted educational initiatives and inclusive financial services are essential to bridging this gap and ensuring that all millennials, regardless of background, have the tools needed to build financial security [7].

One promising development is the rise of financial education programs aimed at young adults. Universities, non-profit organizations, and even some employers are recognizing the importance of financial literacy and offering workshops, courses, and resources to fill the knowledge gap. Additionally, social media platforms now host a growing number of credible financial educators who break down complex topics into digestible content. These efforts are beginning to pay off, as more millennials report increased interest in investing and improved confidence in managing their finances. However, the effectiveness of these initiatives often hinges on their ability to engage users in a meaningful and relatable way [8].

Millennials' investment behavior also reflects their values. This generation places a strong emphasis on ethical and sustainable investing. Environmental, social, and governance (ESG) factors often play a significant role in determining where millennials choose to put their money [9]. Financial literacy enables them to scrutinize investment portfolios, assess corporate sustainability claims, and align their investments with their personal values. This intersection of ethics and economics is a distinctive feature of millennial investing and highlights the need for financial education that goes beyond numbers to include critical thinking and value-based decision-making [10].

## Conclusion

In conclusion, financial literacy is a critical driver of millennial investment decisions. It not only influences the type and quality of investments but also affects broader economic behaviors and financial well-being. As millennials continue to assume greater economic responsibility, their ability to make informed and strategic investment choices will have long-term implications for both their personal futures and the global financial ecosystem. Increasing access to quality financial

education, tailoring content to diverse needs, and leveraging technology responsibly are key strategies to enhance financial literacy. Empowered with the right knowledge and tools, millennials are well-positioned to lead a new era of informed, responsible, and values-driven investing.

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