

THE ROLE OF FINANCIAL KNOWLEDGE IN EARLY AGE OF INVESTMENT

Mr. Anubhav Lamba¹ Prof. (Dr.) C. K.Shah²

¹Research Scholar, Department of Commerce and Management

Apex University Jaipur 302019 Rajasthan

²Research Supervisor, School of Commerce & Management

Apex University Jaipur 302019 Rajasthan

Email- anubhav.lamba@gmail.com

Abstract

The role of financial knowledge in the early age of investment is critical for building a strong foundation for financial security in the future. Developing financial literacy skills at a young age enables individuals to understand the importance of saving and investing, how to manage their money effectively, and how to make informed investment decisions. With the right financial knowledge, individuals can avoid costly mistakes and take advantage of investment opportunities that will help them achieve their long-term financial goals. Therefore, investing in financial education and empowering individuals to make informed financial decisions from a young age is essential for promoting financial wellness and security.

Introduction:

Investment is one of the most powerful tools that can help us achieve financial independence. It's never too early to start investing in yourself and your financial future, and in fact, the earlier you start, the better. By investing in your early age, you can set yourself up for a financially secure future and have the freedom to pursue your dreams without worrying about money.

In this article, we will explore the role of investment in early age for financial independence. We'll discuss why investing early is important, the benefits of investing, different investment options available, and some tips for successful investing.

Financial Literacy

Financial literacy will help an individual to improve their level of knowledge and understanding related to financial matters which entitles them to make financial decisions wisely and must have full knowledge regarding personal finance. Those people who have a low level of financial literacy face problem-related to personal finance such as borrowing, investment, saving and retirement plans. They didn't have any idea where to invest and how to invest. Nowadays financial knowledge and importance have increased the complexity with the introduction of new financial products in the market. It becomes difficult for an individual to understand the risk which is associated with financial products. It is necessary to have a little bit of understanding of financial literacy to know the risk and return associated with these financial products (Bhabha, et.al, 2014).

Hilgert, Hogarth and Beverley (2003) define “financial literacy as financial knowledge. They express that financial knowledge is statistically linked to financial practices: those who knew more were more likely to engage in recommended financial practices”. Financial literacy tends to improve the quality of financial services and it also helps in contributing to the economic growth and development of a country. Bhushan and Medury in 2013, has assessed the financial literacy level of salaried individuals in India. They found that financial literacy level gets affected by gender, education, income, nature of employment and place of work whereas it does not get affected by age and geographic region. It was found from the various researches that most of the people are not aware about the investment portfolios available with them and they also lack knowledge. They usually depend on financial advisors and take decisions according to them (Bumcrot, et.al, 2011).

For example, if we talk about salaried person then he will think of investing his money in gold, real estate or mutual fund but he will never think of investing ETF's, ULIP's or other financial instruments which is beneficial for him in creating wealth. Thus, it crucially helps people to save their income and provide adequate resources to invest in financial instruments with avoiding the high level of risk. In the Report of Economic Well-Being of U.S. Households 2019, Board of Governors of Federal Reserve System finds that many Americans are not prepared for retirement plans. One-fourth of the population shows that they have no retirement savings and few of them believe that it is necessary to have retirement plans (Kaiser &Menkhoff, 2017).

Why Invest in Early Age?

Investing in early age is crucial for financial independence because it allows you to take advantage of the power of compounding. Compounding is when your investment earns interest on top of the interest it has already earned. The longer you invest, the more time your money has to compound, and the greater your returns will be.

For example, let's say you invest Rs1,00,000 in a stock that has an average annual return of 10%. After 10 years, your investment would be worth Rs.2,59,400. After 20 years, it would be worth Rs. 6,72,700. After 30 years, it would be worth Rs.17,44,900-. As you can see, the longer you hold your investment, the greater your returns will be.

Benefits of Investing:

1. Investing in early age has many benefits. Here are some of the most significant ones:
2. Wealth creation: Investing allows you to create wealth over time. As your investments grow, so does your net worth.
3. Financial independence: Investing in early age can help you achieve financial independence, which means you have enough money to support yourself without having to work for a living.
4. Retirement planning: Investing is an essential part of retirement planning. By investing early, you can build a retirement nest egg that will provide you with a comfortable lifestyle in your golden years.
5. Diversification: Investing in different assets like stocks, bonds, and real estate can help you diversify your portfolio, which can reduce your risk.
6. Inflation protection: Investing can protect you from inflation, which can erode the value of your money over time.

Different Investment Options:

There are many investment options available to investors, including stocks, bonds, mutual funds, real estate, and more. Here are some of the most popular investment options:

1. Stocks: Stocks are shares of ownership in a company. When you invest in stocks, you are buying a piece of that company. Stocks can be a high-risk, high-reward investment option.

2. Bonds: Bonds are loans to companies or governments. When you invest in bonds, you are essentially lending your money to these entities. Bonds are a lower-risk, lower-reward investment option.
3. Mutual funds: Mutual funds are a type of investment that pools money from many investors to buy a diverse portfolio of stocks, bonds, and other assets.
4. Real estate: Real estate is another popular investment option. Real estate investing can be done by buying rental properties, investing in real estate investment trusts (REITs), or flipping properties.
5. Exchange-traded funds (ETFs): ETFs are similar to mutual funds, but they are traded like stocks. ETFs can provide investors with a low-cost, diversified investment option.

There are numerous advantages to having financial knowledge, including:

- Improved personal financial management: Financial knowledge helps you make informed decisions about your finances, such as budgeting, saving, investing, and managing debt. This can lead to better financial stability and security for you and your family.
- Better investment decisions: With financial knowledge, you can evaluate investment options and make informed investment decisions that align with your financial goals and risk tolerance.
- Increased earning potential: Financial knowledge can help you understand the value of your skills and knowledge in the job market, negotiate better salaries and benefits, and pursue career advancement opportunities.
- Enhanced entrepreneurship: Financial knowledge is essential for starting and managing a successful business. With financial literacy, you can create and implement effective business plans, manage cash flow, and make informed financial decisions that can lead to long-term success.
- Improved understanding of economic issues: Financial knowledge can help you understand economic trends and issues, which can help you make informed decisions about your personal finances, investments, and career.
- Overall, financial knowledge is essential for achieving financial security, building wealth, and making informed decisions about your financial future

Tips for Successful Investing:

Investing can be challenging, especially if you are new to it. Here are some tips to help you become a successful investor:

Here are some tips for successful investing:

1. **Set clear investment goals:** Know why you are investing and what you want to achieve. Set clear and realistic goals for your investments, such as saving for retirement or buying a house.
2. **Diversify your portfolio:** Don't put all your eggs in one basket. Diversify your portfolio by investing in different assets, industries, and countries. This helps reduce risk and increase potential returns.
3. **Invest for the long term:** Investing is a long-term game. Don't try to time the market or chase short-term gains. Stay focused on your long-term goals and invest regularly.
4. **Be patient:** Investing can be volatile, and markets can fluctuate in the short term. Be patient and don't panic when markets are down. Stay focused on your long-term goals.
5. **Do your research:** Before investing in any company or asset, do your research. Read financial reports, study market trends, and seek expert advice if necessary.
6. **Monitor your investments:** Regularly review your portfolio and monitor your investments. Keep track of any changes in the market or the economy that could affect your investments.
7. **Manage risk:** Every investment comes with risk. Manage your risk by diversifying your portfolio, investing in quality assets, and using stop-loss orders to limit your losses.
8. **Control your emotions:** Investing can be an emotional rollercoaster. Don't let fear, greed, or other emotions drive your investment decisions. Stick to your plan and stay disciplined.
9. **Invest in what you understand:** Don't invest in assets or companies that you don't understand. Stick to investments that you are familiar with and have confidence in.
10. **Seek professional advice:** If you are not confident in your investing abilities, seek professional advice. A financial advisor can help you develop a sound investment strategy and manage your portfolio

References

1. Bhabha, J. I., Khan, S., Qureshi, Q. A., Naeem, A., & Khan, I. (2014). Impact of financial literacy on saving-investment behavior of working women in the developing countries. *Research Journal of Finance and Accounting*, 13(5), 118-122.
2. Bumcrot, C. B., Lin, J., & Lusardi, A. (2011). The geography of financial literacy.
3. Bhushan, P., & Medury, Y. (2013). Financial literacy and its determinants. *International Journal of Engineering, Business and Enterprise Applications*, 4(2), 155–160
4. Hilgert, M.A., Hogarth, J.M. and Beverly, S.G. (2003) Household Financial Management: The Connection between Knowledge and Behavior. *Federal Reserve Bulletin*, 89, 309-322.
5. Kaiser, T., & Menkhoff, L. (2017). *Does financial education impact financial literacy and financial behavior, and if so, when?*. The World Bank.
6. Nofsinger, J. R. (2017). *The psychology of investing*. Routledge.
7. Pompian, M. M. (2012). *Behavioral finance and investor types: managing behavior to make better investment decisions*. John Wiley & Sons.