Financial Literacy and Investment Decision in Nepalese Share Market

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Abstract

This study investigates the role of financial literacy in shaping investment decisions in Nepal's share market, focusing on the growing influence of financial literacy as Nepal's stock market expands. The primary objectives were to explore the factors affecting investment decisions, analyze the relationship between these factors and financial literacy, and assess their impact on decision-making in Nepal's share market. A survey of 470 investors from Kathmandu Valley was conducted, collecting data through structured questionnaires. Regression analysis was used to evaluate the impact of financial knowledge and financial behaviors on investment decisions. The findings suggest that financial literacy significantly improves investors' ability to make informed choices, reducing investment risks and enhancing portfolio performance. The research highlights that financial knowledge contributes to better decision-making and market understanding, with more literate investors showing increased confidence in managing their investments. Additionally, the research found that while financial behavior is crucial, its influence on decision-making is more complex, with some correlations showing negative effects, particularly in managing market risks. This study underscores the importance of enhancing financial literacy to support informed investment decisions and foster a more stable and efficient market environment.

Keywords: *Financial literacy, Nepal share market, Investment decision, Financial knowledge.*

1. Introduction

In the business world, investors allocate their money to account for the time value of money, which is influenced by factors like inflation, interest rates, and return on investment. The minimum return expected by investors is to cover interest and inflation. Investors are aware that keeping money idle leads to a decrease in purchasing power, meaning that the value of money left unused diminishes over time. Musundi (2014) noted that investment decisions involve an awareness of various alternative investment opportunities, securities, and the benefits that come with making investments.

Investors who engage in securities investment analyze various factors related to the stocks. These factors include opportunity cost and the returns from investing in stocks. Opportunity cost refers to the return from an alternative investment, while actual return is based on the current investment. The difference between these returns is calculated to decide whether to proceed with the investment. Analyzing this difference requires knowledge of financial and accounting statement analysis. This body of knowledge is referred to as financial literacy. Financial literacy encompasses an investor's understanding of financial products and concepts, their ability to recognize financial risks and opportunities, make informed decisions, seek guidance when needed, and take effective actions to enhance their financial well-being (Madi & Yusof, 2018).

Investment decisions are based on selecting the best alternative from several options. In the investment process, investors are presented with various alternatives, and the decision is typically made in favor of the one offering the highest returns. This is known as an investment decision. Investors must assess how, when, where, and how much capital to allocate to investment opportunities, whether the decision is made individually or by the management of an organization (Bhalla & Chanda, 1982). One key tool in making such decisions is financial literacy, which enhances the decision-making process and helps achieve satisfactory returns. To make informed investment decisions, both fundamental and technical analysis are employed. The Nepalese share market is rapidly growing, with a rising number of new investors, as shown by recent Initial Public Offering reports. These investors, differing in age, education, profession, gender, income, and financial knowledge, are engaged in buying and selling shares and debentures in both primary and secondary markets. This study focuses on financial literacy and investment decisions in the Nepalese share market. Recently, Nepal's share market has been growing in terms of capitalization, investor participation, transaction volume, and technological advancements, with improved systems and investor-friendly environments. As the market expands, financial literacy plays a crucial role in investor decision-making. In Nepal, questions about investment decisions in the share market highlight the importance of financial literacy. This research addresses following questions related to financial literacy and investment decisions in the Nepalese market.

i. What are the factors which affect as financial literacy of investment decision in share market of Nepal?
ii. Is there any relationship between factors affecting the financial literacy of investment decision

and financial literacy in share market of Nepal?

iii. Is there any impact of factors affecting the financial literacy of investment decision and financial literacy in share market of Nepal?

2. Objective of the Study

i. To explores the factors affecting the investment decision of the share market in Nepal.

ii. To analyzed relationship between factors affecting the financial literacy of investment decision and financial literacy in share market of Nepal.

iii. To examine the impact of factors affecting the financial literacy of investment decision and financial literacy in share market of Nepal.

3. Literature Review

Mirosea and Hajar (2023) conducted research on effect of financial literacy and behaviors on investment decisions. The objectives of research were to examine the effect of financial literacy and financial behavior on investment decisions. This study focused on 365 investors who were listed as Southeast Sulawesi Representatives on the Indonesia Stock Exchange. According to the findings of this study, financial behavior and literacy have a big impact on investing choices. The factor that most accurately represents financial literacy is investment knowledge. Meanwhile, "familiarity" is the financial behavior indicator that most accurately captures financial behavior. Wijayanto et al. (2023) conducted research on “Financial Literacy and Behavioral Bias of Individual Investors: Empirical Research in Indonesia”. The objectives of research were to identify financial literacy relationships and behavioral biases (overconfidence, representatives, and illusion of control) which can lead to irrational behavior in investment decision making. Individual investors that use Java make up the population of this study's research data. The sample consisted of 83 respondents who completed a questionnaire using the purposive sampling methodology. The data collected passed all validity and reliability checks as well as the multiple regression analysis and classical assumption test. Behavioral biases are negatively impacted by financial literacy, according to hypothesis testing, which means financial literacy should be increased.

Alaaraj and Bakri (2020) explored the impact of financial literacy on investment decision-making in Southern Lebanon. The study aimed to assess the relationship between financial knowledge and investment behavior, focusing on risk assessment and portfolio management. Using a quantitative approach, the researchers surveyed 250 investors and analyzed the data through regression and correlation techniques. The study highlighted that financial literacy enables investors to make informed decisions, reduce risks, and improve market understanding. The findings revealed that higher financial literacy is linked to better investment decisions and more effective risk management. Hastings and Mitchell (2020) studied the impact of financial literacy and impatience on retirement wealth and investment behavior. Using a survey and econometric models, they analyzed how financial knowledge and impatience affect retirement savings. The study highlights that financial literacy improves decision-making and retirement planning, while impatience hampers long-term wealth accumulation. The findings show that financially literate individuals save more for retirement and make better investment choices, whereas those with higher impatience invest less and withdraw savings early. Mbwambo et al. (2022) examined the study on the role of financial literacy in influencing investment and savings decisions among workers in government institutions in Mwanza, Tanzania. The objective was to examine how financial knowledge affects individuals' financial behavior, specifically in making savings and investment decisions. A survey-based methodology was used, collecting data from 200 government employees. The study found that financial literacy is positively correlated with better savings habits and more informed investment decisions. However, limited financial knowledge was shown to hinder individuals from making optimal investment choices. The research highlights the importance of financial education in improving workers' financial well-being. Pastor et al. (2022) examined the factors influencing young professionals' savings and investment behavior. The objective was to identify the key factors that affect their financial decisions, especially in terms of saving and investing. The research employed a survey methodology, gathering data from 300 young professionals. The findings indicate that financial knowledge, income level, and financial goals significantly affect savings and investment behavior. The study highlights the need for financial literacy programs to improve the financial decision-making of young professionals. It concludes that enhancing financial awareness can lead to more effective savings and investment strategies.

Rasool and Ullah (2020) investigated the relationship between financial literacy and behavioral biases among individual investors in the Pakistan Stock Exchange. The main objective was to understand how financial literacy influences investors’ susceptibility to biases such as overconfidence and loss aversion. The research employed a survey-based methodology, gathering data from 350 individual investors. The findings revealed that higher financial literacy reduced the impact of behavioral biases, leading to more rational investment decisions. The study emphasizes the importance of enhancing financial knowledge to mitigate irrational investment behaviors. The results highlight that financial literacy plays a crucial role in improving investment decision-making. Thapa and Raju (2020). examined the level of financial literacy among investors in the Nepalese stock market. The objective was to assess how financial literacy impacts investment decision-making and market participation. The research utilized a survey methodology, collecting data from 300 stock market investors in Nepal. The findings show that a significant portion of investors have limited financial knowledge, which affects their investment strategies and risk management. The study suggests that improving financial literacy could lead to more informed investment choices and increased market participation. It concludes that financial education is vital for enhancing investors' decision-making and market stability. Vaidya (2021) investigated the factors influencing investment decisions among Nepalese stock market investors through a qualitative approach. The main objective was to understand how various psychological, social, and financial factors affect investors' decision-making in Nepal. The research used in-depth interviews with 30 individual investors to gather insights. The findings revealed that investors' decisions are influenced by a mix of financial knowledge, personal experiences, and social factors such as peer influence and media. The study emphasizes the need for improving financial literacy and understanding behavioral biases to enhance decision-making. It concludes that emotional and cognitive factors also play a significant role in shaping investment choices in Nepal. Filippini, Kumar and Srinivasan, (2020) investigated the link between energy-related financial literacy and household attitudes towards replacing energy-inefficient appliances in urban areas of Nepal’s eastern lowlands. It highlights the challenge of improving energy efficiency amidst growing energy demand and climate change concerns. The research finds that households have low energy-related financial literacy, which impacts their willingness to invest in energy-efficient technologies. Higher literacy levels are associated with more rational attitudes toward appliance replacement. The findings emphasize the need to improve energy-related financial literacy to enhance energy efficiency in developing countries.

4. Methodology

The research methodology employed in this study follows a systematic approach to answer the research questions and test the hypothesis. The research design combines descriptive and explanatory methods. Descriptive design is used to portray the current financial literacy levels and investment decisions in Nepal's share market, while explanatory design helps to examine the relationships between variables, such as financial knowledge and behavior, and investment decisions. The study focuses on a random sample of 470 respondents who are share market investors from Kathmandu Valley, selected through convenience sampling. Data collection is primarily through questionnaires, which gather both demographic and relevant financial information from the respondents. The data for this study is obtained from primary sources, collected via questionnaires. The data analysis includes measures like mean, standard deviation, and coefficient of variation to summarize and assess variability in financial knowledge and investment behaviors. Furthermore, Pearson correlation analysis is used to explore relationships between financial literacy and investment decisions, while multiple regression analysis is applied to understand how different variables, such as financial knowledge and behavior, predict investment decisions in the share market. The multiple regression equation can be as follows:

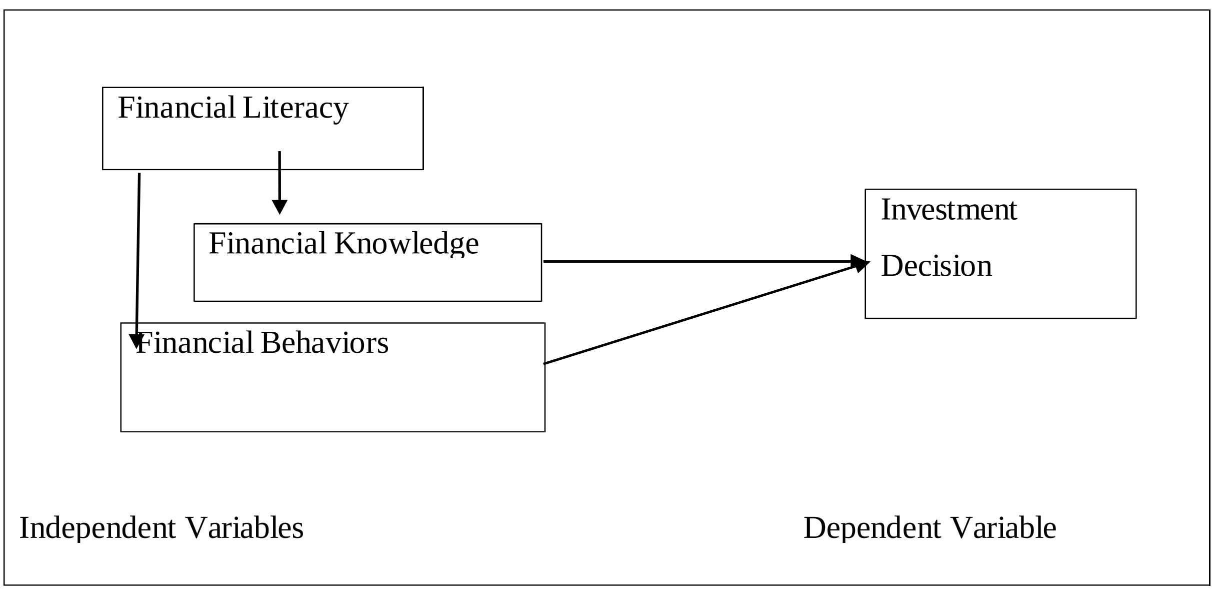
Model:

$$\mathbf{ID} = \beta_0 + \beta_1 (FK) + \beta_2 (FB) + \varepsilon_i$$

Where,

ID =Investment Decision, FK = Financial Knowledge, FB = Financial Behavior

Conceptual framework



(Sources: Alaaraj and Bakri, 2020)

Figure 1. Conceptual framework

Research Hypothesis

The following presents the hypothesis statement for the research.

Hypothesis:1 There is the significant relation between factors affecting the financial literacy of investment decision and financial literacy in share market of Nepal.

Hypothesis:2 There is the significant impact of factors affecting the financial literacy of investment decision and financial literacy in share market of Nepal.

5. Results

Demographic Characteristics

Table 1: Demographics Characteristics of Respondents

	Respondents	Frequency	Percent
Age	Between 18-25	67	14.3
	26-45	151	32.1
	46-55	130	27.7
	above 56	122	26
	Total	470	100
Gender	Male	142	30.2
	Female	328	69.8
	Total	470	100
Education	Below SLC	111	23.6
	Having SLC	155	33
	Intermediate	95	20.2
	Bachelor and above degree	109	23.2
	Total	470	100
Income Level	Monthly Up To 15000	130	27.7
	15000-20000	164	34.9
	20001-50000	50	10.6
	Monthly earning more than 50000	126	26.8
	Total	470	100
Profession	Student	84	17.9
	Bankers	105	22.3
	Employees	81	17.2
	Business person	200	42.6
	Total	470	100

(Source: *Primary data,2024)*

Table 1 displays information about the respondents' age, gender, education, income level, and profession. Among the respondents, 67 individuals (14.3%) fall in the age group of 18- 25, 151 individuals (32.1%) in the age group of 26-45, 130 individuals (27.7%) in the age group of 46-55, and 122 individuals (26%) are above 56. In terms of gender, there are 142 male respondents (30.2%) and 328 female respondents (69.8%). Education-wise, 111 respondents (23.6%) have education below SLC, 155 respondents (33%) have SLC, 98 respondents (20.2%) have intermediate education, and 109 respondents (23.2%) have a bachelor's degree or above. Regarding income, 126 respondents (28%) earn up to 15000 monthly, 130 respondents (27.7%) earn below 15000, 164 respondents (34.9%) earn between 15000-20000, 50 respondents (10.6%) earn between 20001-50000, and 126 respondents (26.8%) earn more than 50000 monthly. In terms of profession, 84 respondents (17.9%) belong to the student group, 105 respondents (22.3%) are in the banker's group, 81 respondents (17.2%) belong to the employees' group, and 200 respondents (42.6%) are in the business person group.

5.2 Descriptive Statistics

Descriptive statistics are the statistical tools for measurement of the various variables in mean, medium, minimum, maximum, standard deviation etc. descriptive statistic revealed to the dependent and independent variables.

Table :2 Descriptive Statistics of Respondents

	Minimum	Maximum	Mean	Std. Deviation
Investment Decision	3.75	5	4.53	0.38
Financial knowledge	3.75	5	4.54	0.48
Financial Behaviors	4	5	4.55	0.49
N	470			

(Source: *Primary data,2024)*

Table 2 outlines the descriptive statistics for a sample of 470 investors in the stock market. The study centers on the investment decision as the dependent variable, with financial knowledge and financial behavior as independent variables. The calculations encompass key metrics such as minimum, maximum, mean, and standard deviation. These metrics are computed based on the data collected through respondents' responses to the questionnaire. Specifically, for investment decisions, the minimum, maximum, mean, and standard deviation are 3.75, 5.00, 4.53, and 0.38,

respectively. Likewise, for financial knowledge, the corresponding values are 3.75, 5.00, 4.54, and 0.48, and for financial behavior, they are 4.00, 5.00, 4.55, and 0.49, respectively.
On the basis of the result the current situation of the variables of the research is consistence nature the consistency show by the minimum value and maximum value has a very less amount of different, same way the minimum and mean and maximum and mean is very few only different. Like the way the standard deviation is less so the variables are less fluctuating or called consistency.

Correlation Analysis

Table 3: Correlation Matrix

	Investment Decision	Financial Knowledge	Financial Behaviors
Investment Decision	1	.940**	.905**
Financial knowledge		1	.976**
Financial Behaviors			1

*****. Correlation is significant at the 0.01 level (2-tailed).***

(Source: *Computation by SPSS)*

Table 3 displays the correlation among various variables, utilizing data from 470 investor respondents. The correlation analysis involves the dependent variable, Investment Decision, and the independent variables, Financial Knowledge and Financial Behaviors. The data collection method employed was a questionnaire survey, and the ensuing analysis supports the research findings. The correlation between Investment Decision and Financial Knowledge demonstrates a consistently positive and significant relationship, affirming the hypothesis. The correlation coefficient of 0.940 is not only positive but also statistically significant, with a p-value of 0.000, indicating significance at the one percent level. Similarly, the correlation between Investment Decision and Financial Behaviors exhibits a perfectly positive and significant relationship, corroborating the hypothesis. The correlation coefficient of 0.9905 is positive and highly significant, with a p-value of 0.000, signifying significance at the one percent level. Furthermore, the relationship between Financial Knowledge and Financial Behaviors is positively correlated and statistically significant. The correlation coefficient of 0.976 is positive, and the associated p-value of 0.000 is less than 0.01, indicating significance at the one percent level.

Multiple Regression Analysis

The aim of multiple regression analysis is to forecast variations in the dependent variable based on changes in the independent variables. This can be understood as an assessment of how effectively multiple regressions can predict outcomes. Additionally, the determination of multiple regression can be interpreted as the proportion of variability in the dependent variables that can be accounted for by the regression equation.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.941[a]	0.886	0.886	0.129

Predictors: (Constant), Financial Behaviors, Financial knowledge

Table 4 provides the model summary for 470 observations across diverse groups of individuals. The R^2 value of 0.886 indicates that 88.6% of the total variations in Investment Decision are accounted for by the independent variables, namely, Financial Behaviors and Financial Knowledge. However, 11.4% of the total variation in the Investment Decision remains unexplained and is attributed to other factors. The adjusted R^2, standing at 0.886, serves as a measure of the model's goodness of fit, representing the cumulative variations in investment decision explained by the independent variables, Financial Behaviors and Financial Knowledge.

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.572	2	30.286	1815.232	0.000
	Residual	7.792	467	0.017		
	Total	68.364	469			

Table 5 presents the results of the ANOVA for 470 observations from respondents in the stock market. The dependent variable is the investment decision, while the independent variables are Financial Behaviors and Financial Knowledge. The regression values are found to be significant, with a significance level of 0.000, which is less than 5%. This indicates a robust regression, signifying a strong relationship between the dependent variable (investment decision) and the independent variables (Financial Behaviors and Financial Knowledge).

Table 6: Coefficient of Variable

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.192	0.056		21.295	0.000
	Financial knowledge	0.919	0.056	1.174	16.507	0.000
	Financial Behaviors	-0.184	0.055	-0.24	-3.37	0.001

(Dependent Variable: Investment Decision)

Table 6 presents the coefficients for investors, with financial knowledge and financial behaviors as the independent variables and investment decision as the dependent variable. The table shows the variations of each independent variable and its relationship with the dependent variable, along with their accuracy and significance levels. The results indicate that financial knowledge has a positive and significant impact on investment decisions, confirming the hypothesis. The beta coefficient for financial knowledge is 0.919, meaning that a 1% increase in financial knowledge leads to a 0.919% increase in investment decisions. Despite a low accuracy value of 0.056, the coefficient's significance level of 0.00 (below 0.05) supports the statistical significance of this relationship. Similarly, the impact of financial behaviors on investment decisions is negative and significant. The beta coefficient for financial behaviors is -0.184, indicating that a 1% change in financial behaviors results in a 0.184% decrease in investment decisions. With a significance value of 0.01 (less than 0.05), the negative impact of financial behaviors is statistically significant, confirming the hypothesis.

6. Discussion

The first objective of research is to explore the factors affecting the financial literacy of the share market in Nepal. It is found that the literature review, correlation regression analysis, the factors which affect financial literacy are the factors of financial literacy which affect the investment decision are financial knowledge and financial behavior. The result is consistent with the result of (Mirosea & Hajar, 2023) and the result is not consistent with the result of (Wijayanto et al., 2023).

The second objective of research is to analyzed relationship between factors affecting the financial literacy of investment decision and financial literacy in share market of Nepal. It is found that the correlation between Investment Decision and Financial Knowledge demonstrates a consistently positive and significant relationship, affirming the hypothesis. The result is consistence with the result of (Mbwambo et al., 2022) and the result is not consistence with the result of (Pastor et al., 2022). The correlation coefficient is not only positive but also statistically significant. Similarly, the correlation between Investment Decision and Financial Behaviors exhibits a perfectly positive and significant relationship, corroborating the hypothesis. The result is consistent with the result of (Vaidya, 2021) and the result is not consistent with the result of (Hastings & Mitchell, 2020). The correlation coefficient is positive and highly significant, with a p-value significance at the one percent level. Furthermore, the relationship between Financial Knowledge and Financial Behaviors is positively correlated and statistically significant. The result is consistence with the result of (Alaaraj & Bakri, 2020) and the result is not consistence with the result of (Rasool & Ullah, 2020). The correlation coefficient is positive, and the associated p-value indicating significance at the one percent level. The result is consistent with the result of (Kumari, 2020) and the result is not consistent with the result of (Thapa & Raju, 2020). The third objective of research is to examine the impact of factors affecting the financial literacy of investment decision and financial literacy in share market of Nepal. It is found that regression values are found to be significant, this indicates a robust regression, signifying a strong relationship between the dependent variable (investment decision) and the independent variables (Financial Behaviors and Financial Knowledge). The result is consistent with the result of (Filippini, Kumar & Srinivasan, 2020) and the result is not consistent with the result of (Hamza & Arif, 2019). The impact of financial knowledge on the investment decision is positive and significant and the hypothesis is true. The result is consistent with the result of (Mirosea & Hajar, 2023) and the result is not consistent with the result of (Wijayanto et al., 2023). The impact of financial behaviors on the investment decision is negative and significant and the hypothesis is true. The result is consistence with the result of (Mbwambo et al., 2022) and the result is not consistence with the result of (Pastor et al., 2022).

7. Conclusion

In conclusion, this research has examined the key factors influencing financial literacy and its impact on investment decisions in Nepal’s share market. The study found that financial knowledge and financial behavior are the primary factors affecting financial literacy, which in turn influences investment decisions. The relationship between financial knowledge and investment decisions was found to be strongly positive and significant, confirming the hypothesis. Similarly, the relationship between financial behavior and investment decisions was also positively correlated and significant, further supporting the hypothesis. Regarding the impact of these factors, the study concluded that financial knowledge has a positive and significant impact on investment decisions, while financial behavior has a negative yet significant impact. Overall, the research highlights the crucial role of financial literacy in shaping investment decisions, with both financial knowledge and behavior significantly influencing the decision-making process in Nepal's share market.

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