

# Financial Literacy and Investment Decision of Nepalese Investors in Share Market

Madan Kandel<sup>1</sup>, Kapil Shah<sup>2</sup>, Sushila Raut<sup>3</sup>

<sup>1</sup> Nepal Commerce Campus, T.U.  
Email: [kandelmadan15@gmail.com](mailto:kandelmadan15@gmail.com)  
<https://orcid.org/0009-0009-6103-227X>

<sup>2</sup> Nepal Commerce Campus, T.U.  
Email: [kapil.shah@ncc.edu.np](mailto:kapil.shah@ncc.edu.np)  
<https://orcid.org/0009-0003-8320-3312>

<sup>3</sup> Nepal Commerce Campus, T.U.  
Email: [susilaraut99@gmail.com](mailto:susilaraut99@gmail.com)  
<https://orcid.org/0009-0003-9077-4455>

Corresponding Author

Kapil Shah

Email: [kapil.shah@ncc.edu.np](mailto:kapil.shah@ncc.edu.np)

**Funding:** This research received no specific grant from any funding agency in the Public, commercial, or not-for-profit sectors.

**Copyright:** © 2024 The Author(s). This work is licensed under a Creative Commons Attribution 4.0 International License.

With the license CC-BY, authors retain the copyright, allowing anyone to download, reuse, re-print, modify, distribute, and/or copy their contribution. The work must be properly attributed to its author.



## Abstract

***Purpose:** This study examines the impact of financial literacy on the investment decisions of investors in Nepal's share market. It emphasizes the ability of individual investors to make informed financial choices, manage savings, assess risk tolerance, and select suitable investment opportunities.*

***Methodology:** A descriptive and causal-comparative research design was employed for this study. Data were collected via investment-related questionnaires distributed among individual investors in the Kathmandu Valley. Statistical analysis was conducted using regression and correlation analysis to explore the relationships between financial knowledge, personal savings, risk tolerance, investment options, and investment decisions, using SPSS software for data interpretation.*

***Results:** The findings indicate a positive correlation between financial literacy and investment decisions. Enhanced financial education alongside increased risk tolerance leads to more informed and strategic investment choices. Additionally, the study found that higher individual savings and a broader range of investment options contribute positively to financial outcomes.*

***Discussion:** The study highlights the critical role of financial literacy in empowering investors to manage their finances effectively and meet their investment goals. It suggests the development of policy frameworks aimed at instituting financial education schemes to foster a robust investment culture, enhance market participation, and spur economic growth in Nepal.*

***Conclusion:** The research underscores the necessity for increasing financial literacy among investors in Nepal, pointing to its significant impact on investment strategies and overall financial health. Implementing educational programs can facilitate better financial decision-making and contribute to a thriving economy.*

***Novelty:** This study uniquely explores the impact of financial literacy on investment decisions within the under-researched context of Nepal's share market. It employs strong methodological techniques to analyze the interrelationships between financial knowledge, risk tolerance, and savings management.*

**Keywords:** Financial literacy, investment, Risk tolerance, Personal savings, Nepali share market.

DOI: <https://doi.org/10.3126/depan.v7i1.89115>

**JEL Classification:** G3, G24, G40

**How to cite this article (APA):** Kandel, M., Shah, K., & Raut, S. (2025). Financial Literacy and Investment Decision of Nepalese Investors in Share Market. *DEPAN*, 7(1), 36-48.

## **Introduction**

The financial prospect in Nepal has advanced over the past few decades with the enormous lift in the number and diversity of financial intermediaries and the growth of various investment opportunities in financial sector. With this, it has also brought the individuals with the requirement of having knowledge regarding financing and its terms. The advancement also requires the individuals to know about the investment hurdles and risk associated with financing thus it also remains crucial for individuals to eliminate the difficulties of the financial markets by encompassing the knowledge of financial concepts and the ability to make informed financial decisions. Thus, this study emphasizes on the bit part of financial capability in shaping decision regarding investment among those investing in the Nepal's share market, exploring how knowledge in areas such as personal savings, risk tolerance, and investment options influences their financial behavior (Subedi, 2023).

Financial literacy in today's world is a major necessity as finance has been ruling the individual as well as a corporate body which has enhanced its focus on the necessity of society to understand and embrace the concept of financial capability to uplift the national economy and achieve sound along with sustainable development. The baseline survey by Nepal Rastra Bank shows that the financial literacy in Nepal has reached 57.9 percent which is a great height as compared to previous records. While strengthening the economy of the country, financial literacy has a special role to play as it has various benefits mentioned in the definition as above. It also sparks to increase the knowledge of people about economies and economic activities taking place in the society. This has been taken all around as a fundamental appliance for identifying and tackling the issues relating to budgeting, saving, mobilizing the fund, investing and risk administration which remains crucial for the households and businesses for their development and growth. This study also investigates the impact of financial literacy on investment decisions with the major objective of assessing the level of financial literacy and examining the relationship and impact of personal savings, risk tolerance, options of investment and financial knowledge on investment decisions along with identifying key areas where financial education can improve investor outcomes and contribute to better financial decision-making in Nepal.

However, the growth of the Nepalese financial sector also showcases a significant gap in financial literacy among Nepalese investors, which adversely affects their ability to make informed investment decisions. Many investors lack the necessary knowledge and skills to manage their finances effectively, leading to suboptimal investment outcomes and financial insecurity thus, this study seeks to identify the extent to which financial literacy effects the investment decisions in Nepalese share market and to identify the key areas where financial education can enhance investment returns. By assessing the level of financial literacy, examining the relationship between financial literacy components (personal savings, risk tolerance, investment options, and financial knowledge) and investment decisions, and analyzing the impact of these components on investment behavior, the study provide valuable insights into the financial behavior of investors. These insights guide the development of targeted financial education programs that address the specific needs of Nepalese investors, ultimately enhancing their investment decisions and financial outcomes.

## **Literature Review**

Financial literacy is considered an important adroitness that would be utilized in eliminating complex financial situations or affairs and make rational financial decisions, because financially capable investors would be able to understand the better investing options and make their choices accordingly leading them to avoid some obvious mistakes. This would also let them make optimal financial decisions (Subedi, 2023). Numerous studies have examined the idea of financial literacy; in one such study, it was shown that financial literacy influences an individual's behavior. Müller and Weber's (2010) research show that investing choices in low-cost funds are favorably impacted by financial literacy. Research on financial literacy and investing choices in Pakistan was carried out by Awais et al. (2016). The research came to the conclusion that investing choices are favorably impacted by financial literacy. In a similar vein, it demonstrated the noteworthy benefits of financial literacy for investment choices made in Kenya's real estate market.

Subedi and Bhandari (2024), in their study analyzes the influence of the psychological factors on the decision

regarding investment on Nepalese stock market with financial literacy acting as an intervening factor. The researchers through their study make it clear that financial literacy improves the investment decision by facilitating adequately informed process of decision making, eliminating biases, enhancing risk management and prioritizing long term financial planning that attempts to examine the influence of psychological factors on decision making while investing in Nepalese stock market.

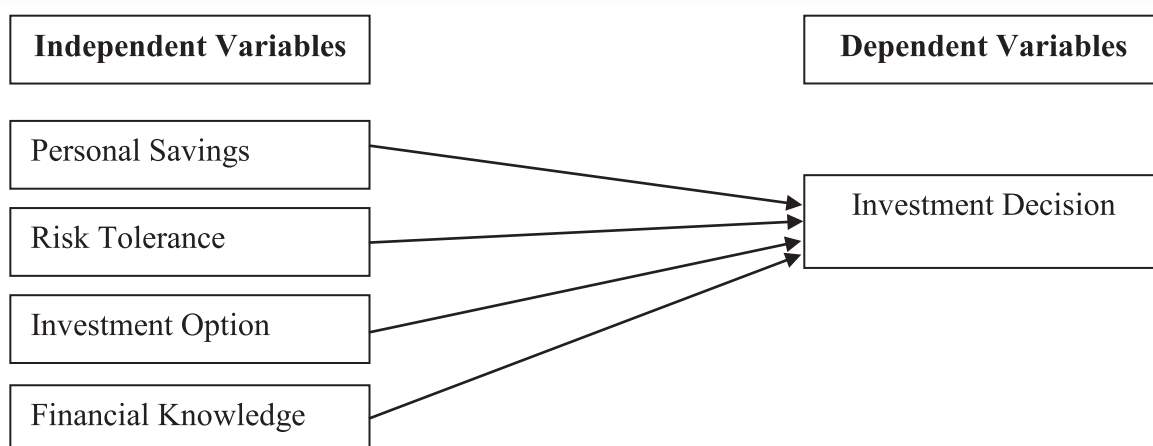
The capacity to use the financial services knowledge that is suggested by financial literacy is known as financial skills. Research indicates that a person's financial situation is significantly impacted by their level of financial literacy. Additionally, it was mentioned by Atkinson and Messy (2011) that financially savvy individuals gain wealth via accumulation. Nonetheless, other studies (Mahdzan and Tabiani, 2013, for example) contend that everyone with solid financial understanding can make wise investment choices. In order to optimize the advantages of financial choices, Chen. and Volpe (1998) in their research highlights that everyone must be capable enough to assess the new and sophisticated financial instruments. Saha (2016) goes on to say that if a person is competent and can show that they have used what they have learnt to make investment choices, they are deemed financially literate. Furthermore, one cannot be regarded as financially educated if they are unable to evaluate the alternatives that are open to them (Roy & Jane, 2018). As a result, having sound financial knowledge helps people manage their money wisely and reduces the likelihood that they have been duped. In light of this, an individual has to be knowledgeable and skilled in order to make wiser financial choices throughout their life (Singh & Kumar, 2017). Consequently, increasing one's financial literacy may be crucial for making wise financial and investing choices. More so, as Roy and Jane (2018) pointed out, individuals get more knowledgeable about money and are expected to become more financially competent as they gain experience in these areas. Nonetheless, in the current environment, youth possess financial literacy but lack the basic financial necessities required to create and manage a financial planning, comprehend credit, comprehend investment vehicles, or utilize the banking system (Lusardi, 2019; Rai, 2019; Sadiq 2019 and Saha, 2016)

Kim (2001) states in Sabri (2011) that financial literacy is the fundamental information required for survival in contemporary society. The intricate concepts of investing, saving, and spending must be understood in order to possess this foundational knowledge. Meanwhile, financial literacy is defined by Lusardi & Mitchell (2007) as an individual's understanding of financial instruments, such as their understanding of investments, insurance, savings, and other financial products. In order to achieve wealth, financial literacy may be defined as having understanding of finances. Based on the above understanding, it can be said that financial literacy refers to a person's overall grasp of money, which encompasses debt, insurance, investments, savings, and other financial tools.

The study research framework as well as showing the hypotheses relationships between the constructs. The researcher has used the investment decision as the response variable and different dimensions of financial literacy as predictor variables. Financial literacy in the study is referred to the associated form of understanding, skill and attitude required to develop informed and sage decision relating to the use of fund and on the hit achieving financial growth. The methodology of the study involves assessing the form of financial literacy and exploring the relationship with investment decisions through empirical analysis. The findings suggest that enhancing financial literacy can lead to better financial decision-making, improved investment outcomes, and overall economic growth in Nepal (Subedi, 2023).

### **Conceptual Framework**

Subedi (2023) provided a comprehensive analysis of how financial literacy influences investment decisions among investors in Nepal. It highlights the significant gap in financial knowledge among the population, emphasizing the need for improved financial education. By examining key factors such as personal savings, risk tolerance, and understanding of investment options, the study underscores the critical impact these elements have on investment behavior.



H1: Personal Savings have a significant impact on Investment Decision.

Martin and Gonzalez (2023) in their study reveals that higher financial literacy is positively associated with higher saving rates, contributing to more stable financial behavior. Every financial decision either it be stock investment, real-estate investment or establishing a company, funds through savings allow investors engagement in the venture (Arianti, 2022). These studies confirm that enhanced financial literacy promotes better savings and investment strategies, which are key components of financial decision-making. Thus, the hypothesis H1 is formulated on the basis of same evidence.

H2: Risk Tolerance has a significant impact on Investment Decision.

According to Huang and Xu (2023), financial literacy is often associated with investors' risk tolerance capacity in investment decisions, which refers that investors literate about financial knowledge are more willing in taking risks associated with investment with the motive that higher risk leads to earning of higher return. With the growth in financial literacy, investors tend to be more confident in knowing the level of risks and adjusting their investment portfolios accordingly. With this, it can be hypothesized that higher risk tolerance leads to significant impacts on investment decisions, allowing investors to pursue higher-yielding investment option.

H3: Investment Option has a significant impact on Investment Decision.

Studies such as those by Garcia and Lopez (2023) and Lamichhane (2022) have demonstrated that greater financial literacy enables individuals to choose more strategic and diversified investment options. Findings from several studies suggest that investors with adequate financial knowledge of various products of investment including shares, debentures, bonds, and mutual funds make more informed and effective choices for investment leading higher earning. In context of emerging markets like Nepal, understanding the several investment options is particularly important for increasing returns and eliminating risks (Srinivasan & Lakshmanan, 2023). Therefore, individuals who are knowledgeable about a range of investment options are likely to make better investment decisions.

H4: Financial Knowledge has a significant impact on Investment Decision.

Garcia and Lopez (2023), Brown and Johnson (2023), and Chen and Wang (2021), in their study confirm that financial literacy enhances individuals' ability to make informed investment decisions. The study of Smith & Johnson, 2022 and Martinez & Sanchez, 2023 explains that financial literacy leads to improved financial behaviors i.e. budgeting, saving, mobilizing and investing which fosters investment decision of the investors. Increasing financial knowledge has remained critical in the emerging markets where financial knowledge is still in the phase

of development, for improving financial outcomes, as evidenced by the findings of Lee, Kim, and Yoon (2023) and Patel and Singh (2023). Thus, it is justified to hypothesize that financial knowledge has a major influence on decision regarding investment, equipping investors with the tools necessary to make sound financial choices. The extensive research on Financial Literacy and its impact on Investment Decisions of investors does not remain free from significant gaps, particularly in context of Nepal. It can be seen that, while previous studies have explored the general influence of financial literacy, few have specifically investigated the relationship between individual components such as Personal Saving, Risk Tolerance, Investment Option, and Financial Knowledge on Investment Decisions. Most studies, like those conducted by Lamichhane and Kulshrestha (2022), have not disaggregated these factors to fully understand their distinct effects on investors' behavior. This oversight underscores the necessity for more nuanced research that examines how each variable influences investment choices individually. This study also fulfills the gap seen in previous studies by breaking down the financial literacy into four components- personal savings, risk tolerance, investment options and financial knowledge and examining their separate impacts on investment decisions.

## **Methodology**

Descriptive research design and causal comparative research design has been adopted in the study while it deals with the various types of independent variable and their relationship with the dependent variable. Primary data has been used for the study as the data has been generated through investors perspective. For this, structured questionnaire has been prepared and distributed to the respondents through online platform and have been then collected from the respondents, mostly through a personal network. The data generated through the response of questionnaire has been analyzed using mathematical tools and the result was presented in tables for in-depth understanding. The conclusions have been drawn based on the findings from the analysis of research and appropriate recommendations has been made accordingly. Both primary well as secondary sources have been used while doing this study. The questionnaire contained close-ended questions in order to eliminate burden regarding lengthy and time-consuming response. Five points Likert-scales has been used for most of the close-ended questions so that the responses are easy and unbiased. The scores for measurement in Likert scales vary from a low of 1 indicating Strongly Disagree to a high of 5 indicating Strongly Agree. The questionnaire method is used in the current study keeping in mind the method is quicker, less time consuming and cheaper than other methods and is also easy to use in case of a large sample. Hence, making questionnaire tools is thought to be more preferable in this type of research. Hair et al. (2011) explains that, for a social sciences research the size of 100-200 samples is considered to be sufficient and accordingly, the sample size 121 is taken for the purpose of study. The outcome generated from the sample is then analyzed through SPSS. Personal savings, risk tolerance, investment option and financial knowledge are taken as independent variable whereas investment decision is taken as dependent variable for the research for which, Linear and multiple regressions have been used in this study to determine their influence on one another. As, regression analysis provides detailed insights into the slope of relationship, same has been utilized to explain the characteristics of the relationship and establish a certain prediction. The regression equation for this study is;

$$ID = \alpha + \beta_1 PS + \beta_2 RT + \beta_3 IO + \beta_4 FK + e_j$$

Where, ID = Investment Decision

$\alpha$  = Constant Term

$\beta$  = Coefficient of Independent Variables

PS = Personal Savings

RT = Risk Tolerance

IO = Investment Option

FK = Financial Knowledge

$e_j$  = Error Terms



## Results and Discussion

### Respondent's Profile Analysis

The respondent's profile analysis shows a brief about the demographic characteristics of the sample investors studying about the key variables including; gender, marital status, age, education level and earning income, determining the composition of sample. The demographic information generated through profile analysis helps in establishing a foundation to know about the nature and responses of the participants within the context of the study. Total of 121 sample taken for study presents a diverse population across various demographic categories and is shown in Table.1. The Table presents the demographic data of 121 respondents among which 66 are male representing 54.5% of total population while 55 are female representing 45.5% of total population. The marital status reveals 68.6% unmarried to 31.4% of married population. The large group of population falls in between 21-30 age group (52.1%) followed by age group of 31 to 40(35.5%). It was further observed that majority of population hold bachelor degree (54.4%) while 39.7% has master's degree or higher. In terms of monthly income, the population is distributed as 43%earning in between 50,001 to 100000 and 28.9% earning in between 20,000 to 50000.

Table 1

Respondent's profile Analysis

Category	Subcategory	Frequency	Percentage
Gender	Male	66	54.5
	Female	55	45.5
Marital Status	Married	38	31.4
	Unmarried	83	68.6
Age	Below 20 years	5	4.1
	21-30 years	63	52.1
	31-40 years	43	35.5
	40 years above	10	8.3
Level of Education	Intermediate or below	7	5.8
	Bachelor	66	54.5
	Masters and above	48	39.7
Monthly Income	Below 20,000	23	19
	Rs. 20,001-50000	35	28.9
	50001 – 100000	52	43
	Above 100000	11	9.1
Total		121	100

Source: questionnaire response

### Reliability Statistics

The term reliability refers to the consistency of a measurement tool in yielding similar outcome under consistent condition. Cronbach's Alpha is generally used as a common measure of reliability, that assesses the evenness of a set of items within a survey or form of question. The value of 0.70 for a Cronbach's Alpha is normally thought to be acceptable which shows that the items within the scale reliably measure the underlying construct. (Field, 2013).

Table 2

Reliability Test

Cronbach's Alpha	No. of Items
.854	5

Source: SPSS Software

The reliability test conducted through SPSS yielded a Cronbach's Alpha value of 0.854 for 5 items, suggesting

that the scale used to measure these constructs is highly reliable. This value exceeds the recommended threshold, indicating strong unity internally among the items and affirming the robustness of the instrument in capturing the variables of interest. The reliability of this scale ensures that the conclusions drawn from the data are based on stable and consistent measurements.

### Descriptive Statistics

Conducting this descriptive analysis is essential for identifying trends and patterns in financial behaviors, which can inform more targeted and effective investment strategies. By summarizing the central tendencies and variability of key variables, this analysis gives valuable perception into the slant and practices of stock investors in NEPSE, aiding in the development of strategies that cater to their specific needs and preferences. The Table.3 provides relevance into the descriptive statistics of the variables based on 121 respondents providing insights into financial behavior and decision making. Personal saving exhibited the average score to 3.798, and a standard deviation to 0.5450. The higher mean score with a lower standard deviation resembles high and consistent saving habits among the surveyed population.

Further, it was observed that the finance knowledge had average score of 3.5312, and a standard deviation 0.6099 that suggests a moderate level of financial understanding. Average risk tolerance of the population was summarized as varying levels of willingness to take financial risks as the mean of risk tolerance was 3.494 with a Standard deviation of 0.7367. The population has a moderate preference for different investment choices, as the average risk score and standard deviation of the investment score were 3.514 and 0.6826, respectively. Lastly, the mean of investment decision-making was 3.615, and the standard deviation of the same is shown 0.7029, resembling a fairly positive approach toward making investment decisions. The sample was consistent across all variables, highlighting the reliability of the collected data.

Table 3

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Standard Deviation
Personal Saving	121	2	4.8	3.798	0.545
Financial Knowledge	121	1.4	4.6	3.512	0.6099
Risk Tolerance	121	1	5	3.494	0.7367
Investment Option	121	1	5	3.514	0.6826
Investment Decision	121	1	5	3.615	0.7029
Valid N (listwise)	121				

Source: SPSS Software

### Correlation Analysis

Table.4 presents the correlation analysis between various factors influencing investment decisions: Personal savings (PS), Risk Tolerance (RT), Investment Options (IO), Financial Knowledge (FK) and Investment Decision (ID). The Table shows the strength and significance of relationships between these factors, which are crucial for understanding investor behavior in Nepalese Share market.

Table 4

#### Correlation Analysis

		Personal Saving	Financial Knowledge	Risk Tolerance	Investment Option	Investment Decision
Personal Saving	Pearson Correlation	1	.543**	.258**	.422**	.480**
	Sig.(2-tailed)		0	0.004	0	0
	N	121	121	121	121	121

		Personal Saving	Financial Knowledge	Risk Tolerance	Investment Option	Investment Decision
Financial Knowledge	Pearson	.543**	1	.507**	.721**	.715**
	Correlation					
	Sig.(2-tailed)	0		0	0	0
	N	121	121	121	121	121
Risk Tolerance	Pearson	.258**	.507**	1	.499**	.555**
	Correlation]					
	Sig.(2-tailed)	0.004	0		0	0
	N	121	121	121	121	121
Investment Option	Pearson	.422**	.721**	.499**	1	.722**
	Correlation					
	Sig.(2-tailed)	0	0	0		0
	N	121	121	121	121	121
Investment Decision	Pearson	.480**	.715**	.555**	.722**	1
	Correlation					
	Sig.(2-tailed)	0	0	0	0	
	N	121	121	121	121	121

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

Source: SPSS analysis

The test of Correlation in the study reveals that various factors show the influences on Nepalese share market investors' investment decision. Financial literacy is most strongly positively correlated with investment decisions (0.715), which confirms the role of financial education in the process of decision-making. Investment options follow with a correlation of 0.722, which indicates that knowledge and application of multiple investment options enhance decision making. Risk tolerance correlates positively moderately (0.555), which suggests that risk taking investors are more determined. Habitual savings assist in improving the investment decisions.

Overall, the finding emphasizes on the importance of financial literacy, risk tolerance, and investment diversification in improving the investment decision

### Model Summary

The model summary shows a framework of how dependent variables are explained by an independent variable in regression analysis. The study result can be shown in Table.5 where the R value of 0.798 amplifies the overall strength and path of linear relationship in between the variables showing a strong positive correlation. The R-square value of 0.637 as seen in the Table, shows a bit portion of variance in respondent variable to same as clarified by the predictor variables. The adjusted R-Square provides a more refined assessments of the true population R-square by accounting for the number of independent variables which also calibrates R-square for the various predictors in the model. The standard deviation of the residuals or errors in prediction is represented by the Standard error of estimate (0.4309). The Table also show about R-square change indicating by what level R-square rises when new predictors are added to the model. The study does not show any change R-square with R-square (i.e. 0.637), as all predictors were entered simultaneously. The F-Change value (50.819) tests whether the increase of the independent variables significantly enhance the model compared to having no predictors. The sig. F change (.000) indicates that the model is statistically significant, providing an information that independent variables as a whole have a significant impact on investment decision.



Table 5

## Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R-Square Change	F Change	DF1	DF2	Sig. F Change
1	.798 <sup>a</sup>	0.637	0.624	0.4309	0.637	50.819	4	116	0

a. Predictors: (Constant), Investment Option, Personal Saving, Risk Tolerance, Financial Knowledge

Source: SPSS analysis

**Analysis of Variance (ANOVA)**

ANOVA, known as Analysis of Variance is used to check the overall fit of regression model. It examines whether or not the independent variables as a whole have any statistically significant relationship with the dependent variables.

Table 6

## Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37.751	4	9.438	.000 <sup>b</sup>
	Residual	21.543	116	0.186	
	Total	59.293	120		

a. Dependent variable: Investment Decision

b. Independent Variables: Investment Option, Personal Saving, Risk Tolerance, Financial Knowledge, (Constant)

Source: SPSS Analysis

The Table 6 shows the analysis of variance. The sum of squares shows regression of 37.751 which represents the variation in regressand explained by predictors and residual (21.543) shows the variation that is not clarified by the independent variables or the error. Df in the figure shows degrees of freedom where, Regression (4) indicates the number of independent variables or predictors and Residual (116) indicates the total number of observations subtracting the total of variables along with the intercept. Mean square seen in the table is simply calculations done by splitting the sum of squares by its corresponding df. The F-statistic (50.819) examines the significance of the regression model, which high indicates that the data is well fitted in regression model. Finally, sig. in the table stands for significance level, p-value (.000) shows chance of getting the observed results if the null hypothesis remains true. Here, the model is statistically significant at 1% significant level is understood when the p-value obtained is less than 0.05, confirming that the independent variables as a whole impact significantly on investment decisions of Nepalese stock investors.

**Regression Coefficients**

Regression coefficient provides detailed information about the effect of individual independent variable on the dependent variable in a regression model. The Table displays both unstandardized and standardized coefficients and statistical tests that assess the significance of each independent variables.

Table 7

Regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-0.113	0.306		-0.37	0.712
Personal Saving	0.154	0.086	0.119	1.788	0.076
Financial Knowledge	0.329	0.104	0.285	3.173	0.002
Risk Tolerance	0.187	0.064	0.196	2.943	0.004
Investment Option	0.379	0.085	0.368	4.44	0

Dependent Variable: Investment decision

Source: SPSS analysis

B in unstandardized coefficient shows the amount of change in respondent variable for each unit change in independent variable, keeping other variables constant. (-0.113) constant resembles the intercept, which shows the forecasted value for the dependent variable when all independent values are not statistically significant or at zero. Personal saving (0.154) shows it is not statistically significant ( $p=0.076$ ); financial knowledge (0.329) and risk tolerance (0.187) indicates a significant positive effect and Investment option (0.379) has a p-value 0.000 which makes it the most influential variable. The Table also shows about standardized coefficients which indicate the adequate importance of every independent variable in the model, standardized to have a mean and a standard deviation equal to 0 and 1 respectively. The largest Beta (0.368) corresponds to investment option, showing that it has the strongest effect on investment decisions. The t-value seen in the Table tests whether the regression coefficient is significantly different than zero. Higher t-value indicates stronger relationships. The sig. in the Table refers to significance level which shows the P-value for each independent variable. P-value if found smaller than or equal to 0.05 signifies that the variable affects the dependent variable.

In overall, the analysis of regression coefficient shows that Investment option positively influence investment decision the most, followed by financial knowledge and Risk Tolerance, both of which are statistically significant. Personal saving positively but insignificantly affects it. The model further focuses on the importance of financial knowledge and broader investment options in making more informed investment decisions by Nepalese stock market investors.

## Discussion

The study focuses on the significance of Financial Literacy in outlining Investing Decisions for Nepalese stock market investors. Through the use of correlation and regression analysis it determines that all the independent variables; Financial Literacy, Risk Tolerance, and Investment Choices have a significant impact on investment decisions in Nepalese stock market. Of these studied variables, investment choice was found to be the most determined predictor, indicating that most aware the investors are about different investment relevant trend to make better financial decisions and strategies. This study also suggests investors to chase risks in their investment decisions in order to earn higher profit. Greater experiences of investment and financial education leads to greater ability of risk tolerance and investors are said to choose risky investment securities to rival with their level of risk tolerance experienced investors to have a portfolio combined of good and bad experience, similar to the decision as shown by the study of Awais et.al, (2016).

The involvement of financial literacy has also been observed, wherein more knowledgeable investors can assess risk, diversify and gain maximum returns. Risk tolerance has also been seen as influencing, wherein investors with a risk-tolerance capacity for making calculated risks are more likely to make better financial investments. Among all these variables, personal savings positively but statistically insignificantly impacted, which interprets that although saving culture is important, it might not directly influence investment decisions without being supported by financial literacy. Similar to the study (Subedi,2023), the study reveals based on the analysis that financial literacy and its components used in the present study, i.e. Financial Knowledge, Personal Saving, risk taking

tendency, and investment choices, exerts a significant and strong positive impact on the investment decision of individual investors in Nepalese Share Market.

The study findings highlight the importance of financial literacy in promoting quality investment behavior. The findings of the study show that without knowing about how the users of financial reports consider risk, it is quite difficult for individuals who manage and regulate to understand either risks related information behaving on the way predicted or they perform in unforeseen manner (Gomes et.al, 2007). The positive connection between financial literacy and investment choice shows the requirement for a specialized financial literacy program that assist individuals in comprehending better financial markets, risk management and investment options. Furthermore, encouraging a diversified culture of investment can allow the Nepalese stock investors to make better choices and gain better financial outcomes. In consistent with the previous study, (Dahal, 2022) this study has shown its' significance to a better understanding of what factors contribute to provide a foundation to the investment behavior of individual investors.

The study also highlights several common pitfalls such as emotional biases, lack of data analysis and herd mentality that can lead to inappropriate investment decisions. Kahneman and Tversky (1979), show that emotional decision-making often results in poor outcomes because emotions can cloud judgement and lead to impulsive actions. To avoid this, investors, should critically evaluate their investment choices rather than applying the heard behavior. More than 50% of the respondents responded to seeking professional advice or relying on the appropriate sources while making investment, which is also supported by the study of Dahal, N.P. (2024) as he mentions, investors should evaluate their portfolios while taking decisions from reliable sources based on present and future potential rather than herd mentality.

## **Conclusion**

The study reveals that the level of Financial Literacy among the investors in Nepalese share market is notably robust as the investors are found to have a satisfied level of understanding on financial concepts and fundamentals of finance such as budgeting, saving, investment principles and risk management. It is also found that the investors understand personal finance planning and making good investment decisions. This wide financial knowledge is evident through their capacity to navigate financial markets successfully, understanding various investment rides and adopting appropriate financial measures in a bid to achieve investment goals. Financial literacy of this nature means investors will be more strategic and informed in their investments, which means enhanced financial performance. The study also shows strong correlation between investment decisions, risk tolerance, financial knowledge, investment options, and personal savings. Thus, the study brings into highlight the fact that Financial Literacy acts a crucial factor in influencing the Financial decisions of investors more over in an emerging economy as of Nepal.

The article underscores the essential role of financial literacy programs to enable investors to obtain the knowledge of the financial market and take decisions in their interest motive. The research findings agree with previous studies in validating that high financial literacy enables investors to deal in the investment sector more wisely, earn greater returns, and effectively deal with the risk and return strategies. Along with this, the positive correlation between investment decisions and risk tolerance validates the principle that investors who are able to handle calculates risk are more likely to seek out successful investment ventures which suggests that encouraging risk management skills also helps to boost investors' confidence in strategic investment decisions.

In conclusion, the study calls for the integration of financial literacy in national policy and education systems in order to bridge the financial literacy gap among Nepalese investors where regulatory bodies and financial institutions are required to collaborate and develop comprehensive literacy programs covering the particular needs of different investor groups. This can further build a financial educated society with the capacity to make wise investment decisions.

## **Bibliography**

Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems. *Journal*

- of *Financial and Quantitative Analysis*, 31(3), 377–397. Doi:10.2307/2331397
- Alesina, A., & La Ferrara, E. (2002). Who trusts others? *Journal of Public Economics*, 85(2), 207–234.
- Arianti, B. F. (2022). Influence of financial literacy, financial behavior and income on investment decisions. *Economics and Accounting Journal*, 1(1), 1–10. 10.32493/eaj. v1i1.y2018.p1-10
- Awais, M., & Laber, M., Rasheed, N. & Khursheed, A. (2016). Impact of Financial Literacy and Investment Experience on Risk Tolerance and Investment Decisions: Empirical Evidence from Pakistan. *International Journal of Economics and Financial Issues*. 6. 73-79.
- Bernheim, D. B., & Garrett, D. M. (1996). The determinants and consequences of financial education in the workplace: Evidence from a survey of households. *Journal of Public Economics*, 61(1), 37–67.
- Bonte, W., & Filipiak, U. (2012). Financial literacy, information flows, and caste affiliation: Empirical evidence from India. *Journal of Banking & Finance*, 36(12), 3399–3414.
- Chen, H., & Volpe, R. P. (1998). An analysis of personal financial literacy among college students. *Financial Services Review*, 7(2), 107–128.
- Chen, L., & Wang, Q. (2021). Financial Literacy and Its Impact on Investment Decisions of Investors in Kavreplanchowk District-making: An empirical review. *Journal of Behavioral Finance*, 18(3), 201–220.
- Choi, J. J., Laibson, D., & Madrian, B. C. (2011). Regularizing 401(k) contributions: The effect of automatic versus voluntary contributions on retirement savings. *Journal of Finance*, 66(4), 1465–1497.
- Dahal, R. K. (2022). Individual investors in the Nepalese securities market: What they know and what they like. *Nepal Journal of Multidisciplinary Research*, 5(4), 71–81. doi:10.3126/njmr. v5i4.49837
- Field, A. (2013) *Discovering Statistics Using IBM SPSS Statistics: And Sex and Drugs and Rock “N” Roll*, 4th Edition, Sage, Los Angeles, London, New Delhi.
- Gomes, A. & Gorton, G. & Madureira, L. (2007). "SEC Regulation Fair Disclosure, information, and the cost of capital," *Journal of Corporate Finance, Elsevier*, vol. 13(2-3), pages 300-334, June.
- Hair, J. F., Ringle, C. M., & Sarstedt, M. (2011). PLS-SEM: Indeed, a silver bullet. *Journal of Marketing Theory and Practice*, 19(2), 139-151.
- Hilgert, M. A., Hogarth, J. M., & Beverly, S. G. (2003). Household financial management: The connection between knowledge and behavior. *Federal Reserve Bulletin*, 89(7), 309–322.
- Huang, S., Lu, X.S., & Xiang, H., Remeasuring Scale in Active Management (October 11, 2023). Doi:10.2139/ssrn.4599484.
- Lusardi, A., & Mitchell, O. S. (2024). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5-44. Doi: 10.1257/ jel.52.1.5
- Müller, S., & Weber, M. (2010). Financial literacy and mutual fund investments: Who buys actively managed funds? *Schmalenbach Business Review*, 62(2), 126–153.
- Roy, B., & Jane, R. (2018). A study on the level of financial literacy among Indian women. *IOSR Journal of Business and Management*, 20(5), 19–24.
- Sadiq, M. N., & Khan, R. A. A. (2019). Impact of personality traits on investment intention: The mediating role of risk behavior and the moderating role of financial literacy. *Journal of Finance and Economics Research*, 4(1), 1–18.
- Sharpe, W. F. (1964). Capital asset prices: A theory of market equilibrium under conditions of risk. *The Journal of Finance*, 19(3), 425–442.
- Shrestha, S. K., Manandhar, B., Bhattarai, P., & Shrestha, N. (2023). Impact of Financial Literacy on Personal Investment Decisions in Kathmandu Valley. *INTELLIGENCE Journal of Multidisciplinary Research*, 2(1), 25–34. Doi:10.3126/ijmr.v2i1.53618
- García, J., & López-García, X. (2025). Innovative innovation in journalism. *Journalism*, 26(1), 65-88. Doi: 10.1177/14648849231219359
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the Econometric Society*, 47(2), 263-291. Doi: 10.2307/1914185
- Lamichhane, M., & Kulshrestha, S. (2022). Factors influencing the performance of Nepalese stock market. *Nepal Journal of Multidisciplinary Research*, 5(3), 37–46. Doi:10.3126/njmr.v5i3.47358

- Subedi, D.P & Bhandari, D.R., (2024). Impact of psychological factors on investment decisions in Nepalese share market: A mediating role of financial literacy. *Investment Management and Financial Innovations*, 21(3), 317-329. Doi:10.21511/imfi.21(3).2024.26
- Subedi, D. P. (2023). Financial literacy and investment decisions in Nepalese share market. *Management Dynamics*, 26(1), 11-20. Doi: 10.31 26/md. v26i1.59147
- Subedi, N. P. (2024), Exploring the Investment Decision-Making Behavior of Nepalese Stock Market Investors: Role of Financial Literacy. Doi: 10.2139/ssrn.4971748
- Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science*, 185(4157), 1124–1131.
- Van Rooij, M., Lusardi, A., & Alessie, R. (2007). *Financial literacy and stock market participation*. Paper presented at the Italian Congress of Econometrics and Empirical Economics, Rimini, January 25–26.
- Wagland, S., & Taylor, S. M. (2009). When it comes to financial literacy, is gender really an issue? *Australasian Accounting Business and Finance Journal*, 3(1), 13–25.