Peer Reviewed Article

ISSN: 2661-6408
Volume 7, Issue 1 2025

Financial Literacy and Investment Behavior of Nepalese Investors

Rajesh Gurung, Prabha Oli and Pramod Dahal*

Received 21 Oct. 2025
Revised 14 Nov. 2025
Accepted 21 Nov. 2025

Keywords:
Investment decisions, financial knowledge, financial skills, financial attitude, financial behavior, Investment confidence.

***Author's Info**
Rajesh Gurung, PhD
ORCID: https://orcid.org/0009-0009-4702-3465

Prabha Oli
E-mail: pravhaoli@gmail.com
ORCID: https://orcid.org/0009-0000-5305-0130

Pramod Dahal
E-mail: pramod.dahal.777@gmail.com
ORCID: https://orcid.org/0009-0002-2074-2418
Nepal Commerce Campus, Faculty of Management, Tribhuvan University

DOI : 10.3126/jnmr.v7i1.88987

ABSTRACT

This research assesses the linkage between financial literacy and investment choice among Nepalese individuals, addressing the growing complexity of financial markets in developing economies. The research explores how financial literacy, measured by financial knowledge, skills, attitude, and behavior, affects investment decisions, with a focus on the mediating role of investment confidence. A descriptive and causal-comparative research design was employed to analyze data from 397 participants, including the general public, investors, and financially literate individuals from diverse backgrounds. The results confirmed that all the facets of financial literacy positively influence investment decisions: financial knowledge ($\beta = 0.091$, $p < 0.05$), financial skills ($\beta = 0.099$, $p < 0.05$), financial attitude ($\beta = 0.192$, $p < 0.05$), and financial behavior ($\beta = 0.807$, $p < 0.05$), with financial behavior showing the strongest effect. While financial knowledge negatively impacted investment confidence ($\beta = -0.067$, $p < 0.05$), financial skills, attitude, and behavior had positive effects, with financial attitude having the most significant influence ($\beta = 0.723$, $p < 0.05$). Investment confidence significantly mediates the relationship between financial literacy and investment choices ($\beta = 0.832$, $p < 0.05$), suggesting that confidence strengthens individuals' ability to operationalize financial competencies in their decision-making process. The findings suggest important policy level implications, emphasizing the need to prioritize the market transparency and investor protection initiatives to enhance investor self-efficacy and reduce perceived risks. Future research could explore the negative association between financial knowledge and investment decisions, and longitudinal data can further reveal the dynamics of investment behavior over time.

1. INTRODUCTION

Financial literacy is increasingly recognized as a critical driver of individual investment decisions. Higher financial literacy enables individuals to make inform and responsible investment choices (Khaleda Nasrin, 2025), supports long-term financial planning, portfolio diversification, and enhanced investment performance (Kumar & Goyal, 2016), and is associated with greater participation in financial markets (Epaphra & Kiwia, 2021). Moreover, financial literacy can moderate how effectively financial knowledge translates into actual investment decisions (Widjayanti et al., 2025). Conversely, low degree of financial literacy often led to poor investment decisions, increased vulnerability, and suboptimal financial outcomes (Shrestha et al., 2023).

A lower degree of financial literacy increases people's vulnerability to misinformation and reduce their ability to critically evaluate financial choices, often leading to speculative trading and financial losses. Empirical research further supports that limited financial knowledge is associated with several behavioral biases like herding, overconfidence, and anchoring that contributing to poorer investment decisions (Agarwal et al., 2025). Moreover, insufficient financial literacy can lead to miscalibration, where individuals overestimate their financial abilities, resulting in inadequate retirement planning and emergency savings, while fostering a false sense of financial security that compounds long-term financial risks (Merter & Balcıoğlu, 2025).

Capital market of Nepal has experienced notable growth in recent years, evidenced by increasing stock market participation, adoption of digital platforms, growing number of retail investors (Gurung et al., 2024). The rapid expansion of Nepal's capital market presents a substantial opportunity for resource mobilization and long-term economic development. A well-functioning capital market not only diversifies financing sources beyond the traditional banking system but also strengthens economic resilience by channeling funds toward entrepreneurship, infrastructure, and corporate growth (Nepal Rastra Bank, 2024; Pandey, 2025). A sound and well-functioning stock market expands market capitalization and promotes integration into global market (Goetzmann et al., 2001; Pan & Mishra, 2018; Rousseau & Wachtel, 2000). Despite this progress, the Nepalese stock market continues to be characterized by high volatility and structural underdevelopment (Dhungana, 2023; Ghimire et al., 2025) and it attributes to multiple factors, including low financial and investor awareness, extensive market manipulation and insider dealing, regulatory deficiencies oversight and technological set up, and recurrent political instability (Aggarwal & Wu, 2003; Karmacharya, 2023).

With the rapid growth of the capital market of the country and increased opportunities, investors facing challenges in the decision-making process. Individual's psychological factors interact with financial literacy that influences how investors interpret information, perceive risk, and make financial choices. Global evidence provides a strong linkage of financial literacy inducing behavioral biases, and portfolio choices. However, in the emerging markets like Nepal, the contextual differences such as institutional framework, investor protection, and financial education when often in an embryonic stage, the interaction of financial literacy and behavioral issues becomes more crucial. This study adds to the existing literature by offering fresh empirical evidence from Nepal with the examination of relationship between components of financial literacy and investment behavior mediating with investment confidence of the individual investors of Nepal.

Literature Review

The real-world foundations of behavioral finance stem from the underlying assumptions that the people do not act fully the rational behavior and information processing is imperfect and psychological factors distort

the decision-making decisions leading to market anomalies (Barberis & Thaler, 2003; Kahneman & Tversky, 1979; Shiller, 2003). Moreover, investors' characteristics like financial knowledge, financial behavior, self-efficacy, and socio-demographic factors are responsible in shaping investment decisions. Empirical evidence exhibit that higher levels of financial literacy increase individual's likelihood of participating in financial markets, encourages investment in risky and more diversified assets, and improve the quality of overall financial decision-making (Calcagno & Monticone, 2015; Lusardi & Mitchell, 2014; Nasrin, 2025).

Leder and Betsch (2016) documented that multidimensional financial literacy, which includes knowledge, skills, attitudes and behaviors, positively interacts with investing in developing economies. The positive relationship between literacy and formal involvement in investments, the mediation proxy of investment self-efficacy (i.e. self-efficacy in decisions regarding financial investments) is evidenced in South Asian market (Bandura, 2010; Cole et al., 2011). A large number of literatures provide consistent argument regarding the role of financial knowledge in the promotion of equity market participants, and likelihood of investing in more risky financial assets to improve their portfolio choices. Financial knowledge has robust and independent effect on stock participation and investment choices across countries (Lusardi & Mitchell, 2014; Van Rooij et al., 2011).

The ability to transform investors' knowledge into actions has evidenced a positive impact when they are better at applying trading platforms, understanding instruments, forming portfolio, and grasping financial advice. The digital channels matter in predicting diversified investment in more active and effective ways (IOSCO & OECD, 2018). The financial attitudes motivate investors and increase their self-confidence and efficacy that tend towards savings and investment (OECD, 2018). Empirical evidence reported the increased market participation and proactive portfolio management due to positive attitude and opposite results due to negative attitude of the investors. The study argued that the positive attitude interacts with knowledge and self-efficacy, and thereby investment choices (Adekunle et al., 2025; Yamaguchi et al., 2025).

Financial behavior, the direct observable actions of the investors, that is jointly shaped by other components of financial literacy, is the investors' action to translate their actions into ultimate outcome (OECD, 2022). The higher knowledge and skills and constructive attitudes increase the likelihood of investing, increase investment in diversified portfolio, and the use of cost-effective financial services. However, behavioral biases often mediate and sometimes offset the beneficial effects of literacy on outcomes (Alhabsi et al., 2025). Libi et al. (2025) concluded that the financial literacy components and behavioral biases both matter for stock market intentions and actual participation.

Conceptual Framework: Several studies (Acharya & Hamal, 2022; Lamichhane, 2022; Sharma, 2025; Subedi, 2023) have evidenced to the extent the financial literacy is associated with investment behavior in the context of Nepal. However, the findings often vary across contexts that subject to sample characteristics, prevailing market conditions, and related behavioral aspects.

Figure 1 outlines the association between financial literacy and investment choices, with the mediating effects of investment confidence. The effect of financial literacy, measured by the core components: Financial Knowledge (FinK), Financial Skills (FinS), Financial Attitude (FinA), and Financial Behavior (FinB) are examined using multiple regression models with investment decisions as the dependent variable, mediated with investment confidence, and set forth hypotheses that suggest financial literacy positively influences investment decisions.

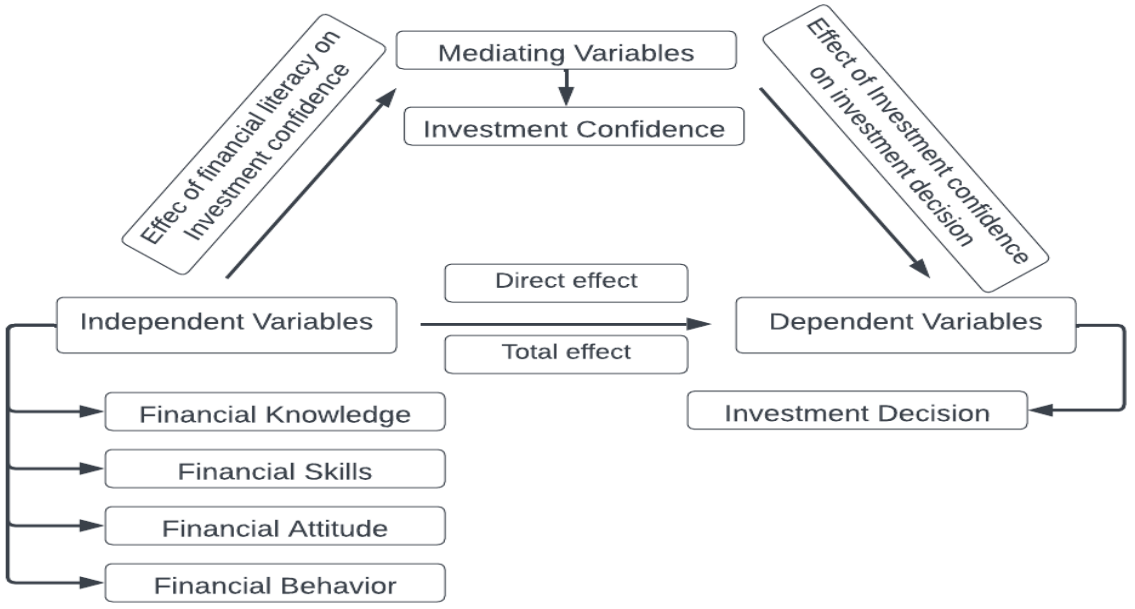

Fig. 1: Conceptual framework *Source: Author's own works*

Investment Decisions (ID): Investment decisions in the study are the dependent variable, and it refers to the choices of individual regarding alternatives to allocate their financial resources to generate future incomes (Barber & Odean, 2013). More particularly, it involves evaluating risk, return, length of time, and financial goals before committing their money to different alternatives available. Investment decision has crucial role in creating wealth, financial security, and overall well-being of the people.

Financial Knowledge (FinK): Financial knowledge is argued to shape the investment alternatives. Better knowledge enables investors enable individuals to understand financial products, evaluate risk, and make informed decisions (Lusardi & Mitchell, 2014; OECD, 2020). Financially literate individuals are also capable of interpreting financial information about company reporting and market trends and making rational and evidence-based decisions.

H11: There is a significant effect of financial knowledge on investment decisions.

Financial Skills (FinS): Financial skills enhance an individual's ability to analyze financial information, investment options, and make rational judgements (Fernandes et al., 2014). Decision makers with stronger financial skills are better at understanding risks and returns, assessing market opportunities, and selecting suitable financial instruments. Hence, higher financial skills are expected to positively influence investment decisions (Leder & Betsch, 2016).

H12: Financial competencies have a beneficial effect on the investment decision

Financial Attitude (FinA): An individual's beliefs, values, and mind-set regarding savings, spending, and investment can cause the investor's choices. This psychological orientation of an individual to managing money and bears the features of future-time perspective, risk tolerance, and commitment to goals, should

enhance the investment decision-making process of the investors (Grable & Joo, 2004; Xiao & O'Neill, 2018).

H13: Financial attitude has a significant effect on investment decisions.

Financial Behavior (FinB): Financial behavior is concrete mechanisms of illustrating a fiscal discipline, such as frequent saving, monitoring of expenses, and avoiding unnecessary debt (Barber & Odean, 2013; Van Rooij et al., 2011). These habits make literacy work by making it compatible with long-term economic good health and increase the likelihood of engaging in well-planned and informed investments.

H14: Financial behavior has a significant impact on the investment decision.

Investment Confidence (IC): Investment confidence implies self-efficacy on financial judgement: that person can take into account the ability to invest financial resources on analyzing market, risk minimization and goal achievement (Barberis & Thaler, 2003; Ccole et al., 2011). FinK, FinS, FinS, and FinB all contribute to building the investors' confidence. Higher investment confidence encourages individuals to participate more in investment activities and make assertive, informed decisions. Thus, the investment confidence is expected to have indirect effect in establishing the relation of financial forces on portfolio formation decisions.

H15: Investment confidence has a significant effect on investment decisions

2. METHODS

This study employes the descriptive, correlational, and causal-effect methods to ensure relationship between the attributes of financial literacy and investment behavior among Nepalese individual investors. The descriptive design presents general characteristics of the dataset.

The correlational approach is applied to examine the strength and direction of relationships between variables and to provide the initial evidence for potential causal relationships of the variables considered. The multiple regression models are utilized to examine causal-effect to examine whether the independent variable has direct cause to change the dependent variable, investment decision.

Research Models: The study employes the multiple regression technique to assess the effect of financial literacy components for the Nepalese investors on the investment decision, with the mediating effect of investment confidence. The relationship is tested using three models. Model 1 presents direct linear effect of financial literacy components on the investment decisions, Model 2 presents the direct linear effect of components of financial literacy on the investment confidence, the mediating variable, and Model 3 presents the total effect of components of financial literacy and investment confidence on investment decision.

$$\text{Model 1: } ID = \beta_0 + \beta_1 FinK_i + \beta_2 FinS_i + \beta_3 FinA_i + \beta_4 FinB_i + \varepsilon_i \quad (1)$$

$$\text{Model 2: } IC = \beta_0 + \beta_1 FinK_i + \beta_2 FinS_i + \beta_3 FinA_i + \beta_4 FinB_i + \varepsilon_i \quad (2)$$

$$\text{Model 3: } ID = \beta_0 + \beta_1 FinK_i + \beta_2 FinS_i + \beta_3 FinA_i + \beta_4 FinB_i + \beta_5 IC_i + \varepsilon_i \quad (3)$$

Sampling and Data Collection: The targeted respondents were financially literate Nepalese individuals from diverse geographic and demographic backgrounds. Because of the large population, the appropriate sample size was determined as per the model suggested by (Cochran, 1977), and total of 397 respondents

were included in the study. Five-point Likert scale structured questionnaires were administered, physical and electronic form, to measure perceptions and their response diversity of the individual investors on the variables taken into consideration. Internal reliability was confirmed using Cronbach's Alpha (i.e., $\alpha \geq 0.7$), minimum threshold suggested by (Nunnally, 1978).

Data Reliability Test: Table 1 presents the results of assessment of internal reliability of the six major constructs, and the Cronbach Alpha (r) values of each of the 6-items under each construct. The reliability analysis showed that all constructs demonstrated acceptable internal consistency: FinA (α =0.761), FinS (α =0.746), IC (α =0.733), and ID (α =0.707) exhibited a good reliability; FinK (α=0.675) and FinB (α=0.658), however, showed slightly below the conventional threshold of 0.7.

Table 2: Reliability Test

Variables	Cronbach's Alpha	N of Items
FK	0.675	6
FS	0.746	6
FA	0.761	6
FB	0.658	6
IC	0.733	6
ID	0.707	6

3. RESULTS

The results section presents demographics of the respondents, correlational analysis between key variables, and regression results to examine the influence of explanatory variables of investment decisions.

Demographic Profile: Table 2 reports the demographic profile of 397 respondents measured by their gender, age, education level, and monthly income. Male respondents comprised a majority of the sample, resulting in an approximately male-to-female ratio of 2:1. Among the 397 respondents, 190 (i.e., 47.9%) belonging in the 20-29 age group, indicating that the sample represented a younger group. In terms of education, respondents with a Bachelor's degree holds highest (44.3%, n = 176), and a total of 73.6% (n = 280) have at least a Bachelor's degree. With respect to their income, one-third of respondents (33%, n = 131) earn less than NPR 20,000 per month, while 17.4% (n = 69) rely on savings, indicating limited financial security for about half of the sample. These imbalances, particularly in gender and income, may limit the study to generalized the findings, especially for female and older populations.

Table 2: Demographic Profile of Respondents

Factor	Category	Frequency (n)	Percent (%)
Gender	*Male*	*265*	*66.8*
	Female	*132*	*33.2*
	Total	**397**	**100**
Age	*20–29*	*190*	*47.9*
	30–39	*99*	*24.9*
	40–49	*48*	*12.1*
	50 and above	*60*	*15.1*
	Total	**397**	**100**

	+2 Level	*89*	*22.4*
	Bachelor's Level	*176*	*44.3*
Education	*Master's Degree*	*104*	*26.2*
	Above Master's Degree	*28*	*7.1*
	Total	**397**	**100**
	Below 20,000	*131*	*33*
	20,000 to below 30,000	*72*	*18.1*
	30,000 to below 40,000	*58*	*14.6*
Monthly Income	*40,000 to below 50,000*	*31*	*7.8*
	50,000 and above	*36*	*9.1*
	Other (Savings)	*69*	*17.4*
	Total	397	100

Correlation Analysis: Table 3 reports the results of correlation that were carried out to assess the associations between the FinK, FinS, FinA, FinB, IC, and ID. The correlation matrix supports the statistically significant positive relationship of all the six financial constructs at $p < 0.01$, and has higher interconnection among the variables. The correlation between FA and IC exhibits an exceptional strong relationship ($\rho = 0.959$), and follows between the FB and ID ($\rho = 0.927$). Other variables also exhibited strong associations, suggesting the collective impact of key variables on investment outcomes. Results provide preliminary evidence of relationships among the research variables and justify further investigation through regression analysis to assess the predictive power of explanatory variables to explain investment decisions, in the presence of the mediating role of investment confidence.

Table 3: Results of Correlation Analysis

Variable	FK	FS	FA	FB	IC	ID
FK	1.000	-	-	-	-	-
FS	0.844**	1.000	-	-	-	-
FA	0.780**	0.877**	1.000	-	-	-
FB	0.782**	0.778**	0.847**	1.000	-	-
IC	0.764**	0.868**	0.959**	0.852**	1.000	-
ID	0.758**	0.746**	0.832**	0.927**	0.852**	1.000

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

Regression Analysis: Multiple linear regression techniques are applied to assess the influence of the independent variables and the mediating role of investment confidence on investment decisions, segmenting the analysis into three Models, and each of them are reported in the following section.

Table 4 reports the output from Model 1, that examines the direct effect with investment decision as the dependent variable of the four financial literacy components on investment decision. Overall model is highly significant (F-statistics=651.638; p =0.000) that accounts for a high proportion on the variance in ID. The independent variables included in the model explain 86.8 percent (R-squared = 0.868) variations in investment decision, the dependent variable. All explanatory variables are statistically significant to explain the investment decision. Two independent variables, FinB and FinA demonstrate the strongest positive

influence on Investment Decision (ID), followed by FinK and FinS, and thereby supporting the priori hypotheses.

Table 4: Regression Coefficient of Financial Literacy and Investment Decision

Variable	Coefficients	Std. Error	t-statistics	Prob.
C	0.021	0.072	0.294	0.769
FK	0.091	0.038	2.368	0.018
FS	0.099	0.043	2.292	0.022
FA	0.192	0.042	4.556	0.000
FB	0.807	0.039	20.650	0.000
R-squared	0.869	Adj R-Squared		0.868
F-statistics	651.638	Prob (F-statistics)		(0.000)

Table 5 presents the results of Model 2, that assess the effect of four explanatory variables on the mediating variable, Investment Confidence (IC). The model has strong and highly significant (F-statistics = 1281.809, p = 0.000), accounting an overall significant of the model. R-squared value suggests that the 92.9 percent of the variance (Adj R-squared = 0.929) in investment confidence is accounted by the sum of predictors included in the model. The coefficients of independent variables are highly significant, indicating that the financial factors have a strong power to explain the investment confidence of the investors. The FinK, however, revealed a negative and significant effect on the investment confidence of the investors.

Table 5: Regression Coefficient of Financial Literacy and Investment Confidence

Variable	Coefficients	Std. Error	t-statistics	Prob.
C	0.192	0.054	3.536	0.000
FK	-0.067	0.029	-2.329	0.020
FS	0.136	0.032	4.191	0.000
FA	0.723	0.032	22.737	0.000
FB	0.160	0.030	5.436	0.000
R-squared	0.929	Adj R-Squared		0.928
F-statistics	1281.809	Prob (F-statistics)		0.000

Dependent variable: Investment Confidence

Table 6 presents the results of Model 3, which includes investment confidence along with other indicators of dependent factors to measure their explanatory power over investment decisions. F-statistics indicate the best fit of the model (F-statistics = 1046.982, p = 0.000). The investment confidence alone explains 72.6 percent (Adjusted R-square = 0.726) of the variance in investment decision and this shows high predictive power. The beta coefficient is highly significant, and indicates for 1percentage point rise in investment confidence leads to approximately 0.832 percentage point increase in investment decisions, ceteris paribus. This outcome strongly confirms the hypothesis (H15) that investment confidence has a positive impact on investment decisions.

Table 6: Regression Coefficient of Investment Confidence and Investment Decision

Variable	Coefficients	Std. Error	t-statistics	Prob.
C	0.499	0.095	5.281	0.000
IC	0.832	0.026	32.357	0.000

R-squared	0.929	Adj R-Squared	0.928
F-statistics	1281.809	Prob (F-statistics)	0.000

Table 7 reports the total effect of four primary indicators of literacy on portfolio choice after accounting for the mediating effect of investment confidence, using a bootstrapping method. The results indicated significant total effect of key on investment decision, as the confidence intervals for each effect do not include zero.

Moreover, results revealed a strong connection between Financial Skills and Investment Decision through Investment Confidence, with an effect size of 0.6914. The indirect effect when considering the mediating variable is statistically significant, as shown by the bootstrap confidence interval (LLCI = 0.5773, ULCI = 0.8132), which does not include zero. This simply indicates that an increase in financial skills increases investment choices mainly through the increase in confidence in investment, strongly supporting the hypothesis H12 that financial skills have a strongly positive impact on investment decisions of the investors.

Table 7: Mediating effects of Investment Confidence between Financial Literacy and Investment Decision

Variables	Effect	BootSE	BootLLCI	BootULCI
FK	0.5226	0.0466	0.4269	0.6093
FS	0.6914	0.0590	0.5773	0.8132
FA	0.6077	0.1397	0.3529	0.9050
FB	0.2050	0.0454	0.1170	0.2971

The financial attitude also portrays a strong and significant mediating effect of 0.6077 on investment decisions through investment confidence. The bootstrap confidence interval (LLCI = 0.3529, ULCI = 0.9050) indicates greater variability in the effect, supporting the hypothesis H13 that states that the financial attitude with favorable effect on the investment decision. Likewise, FinK and FinB also exhibit important effects on the investment decision, as indicated by their bootstrap confidence intervals, which fall entirely within the positive range of the estimated coefficients, supporting the hypotheses H11 and H14.

4. DISCUSSIONS

The regression analyses provide strong support for the established hypotheses regarding the direct association between measures of literacy and asset choice decisions. The results confirmed that investment confidence successfully mediates the relationship for all financial literacy components to impact on the investment decisions among Nepalese investors.

The research results strongly confirm the critical role of investment confidence to determine the financial asset choice decision of investors. The beta coefficients of psychological factor, investment confidence, is experienced exceptionally higher and significant with each of the components of financial literacy (Table 5) and with the investment decision (Table 6), implying as a powerful to explain the investment decision of the investor. The finding aligns with the prevailing literature asserting that individual's confidence impacts their financial choices (Cole et al., 2011). A notable finding with significant negative relation of financial knowledge with investment confidence suggesting higher levels of financial knowledge might correlate with a reduction in overconfidence that leads to a greater awareness of market complexity and risk potentiality. It aligns with the psychological aspect of individuals in investment decisions such as evidenced by (Gupta et al., 2025; Hakim et al., 2025).

Total effect of each of the components of financial literacy in the investment decision with the pathway through investment confidence taking into account (Table 7) further evidence the positive impact of investors' financial literacy on their investment decisions. The financial competencies have the largest overall influence that working through investment confidence to affect investment decisions, then subsequently by FinA and FinK. Financial behavior, however, has the smallest total effect in this mediation model, that has the largest direct effect on investment decisions in Model 1.

The positive relation of financial knowledge with investment decisions indicates that individuals with higher knowledge can better equipped to evaluate financial products, assess risks, and benefit from informed decisions. This aligns with the prior literature suggesting that literacy enhances decision-making quality by reducing errors and increasing confidence in financial contexts ;Atkinson & Messy, 2012: Lusardi & Mitchell, 2014).

Theoretically, the investors' skills in proper budgeting, financial planning, and overall resource management, and thereby the optimal investment choices, enhance the financial well-being of the individual investors (Huston, 2010) and finding is consistent with earlier findings by (Atkinson & Messy, 2012). A positive relation of financial attitudes with investment decision is linked to achieve long-term financial goals of individual investors, as it is argued that good investment decisions are shaped by personal beliefs and money value. (Ajzen, 1991) and (Pankow, 2012) concluded that a positive financial attitude is connected to a higher level of financial responsibility and goal-oriented financial behavior. Disciplined financial habits of investors are more inclined to involve regular investment practices, and their behavior in managing income, expenses, and savings improves the investors' investment ability (Ajzen, 1991; Xiao & O'Neill, 2018)

5. CONCLUSIONS

This study examined the relationship between the key indicators of financial literacy: financial knowledge, financial skills, financial attitude, and financial behaviour on investment decisions of the Nepalese investors, with the mediating role of investment confidence. As the informed and capable investors are better equipped to analyze, manage, and implement investment plans to have the benefits from informed decisions. The study tested the hypotheses H11 through H15, applying the multiple regression analysis across the distinct models: Model 1, Model 2, and Model 3.

Results of Model 1 strongly demonstrate the all-measured components of financial literacy, FinK, FinS, FinA, and FinB have a positive impact on investment decisions. This confirms the hypotheses H11, H12, H13, and H14. Among the variables, financial behavior emerged as the strongest predictor of investment decision with the largest value of coefficient and significance values. Model 3 demonstrated that investment confidence has a significant positive impact on investment decisions, thereby supporting hypothesis H5. The investment confidence functions a good mediator in the establishing association between all indicators of financial literacy and investment decision; however, the impact of literacy on financial asset choices is partially challenged through the investor's level of confidence.

The study provides several important implications that hold value for financial institutions, investors, and policymakers. Financial institutions should blend the traditional theoretical contents with practical educational initiatives, healthy, and systematic savings and investment habits, focusing on investors' participation to build self-efficacy and confidence. Investors benefit on developing a proactive financial attitude, confidence, and sound investment habits to enhance decision-making and mitigate risk-driven errors.

Balancing financial knowledge with market competencies through effective training and applied educational programs is a central priority from policymakers' perspective. Moreover, ensuring market transparency and strong investor protection mechanisms is fundamental at the policy level in building trust and reducing perceived risks, and enhancing confidence of market participants.

Future research could explore the adverse association between financial knowledge and investment decisions, against prior expectations, by incorporating other possible factors like socio-cultural, demographic, accessibility of technology, and regulatory changes to enhance the generalizability of the research findings. Longitudinal data can further reveal the dynamics of investment behavior over time.

References

Acharya, A., & Hamal, J. B. (2022). Relationship between financial literacy and student's stock market participation. *Nepalese Journal of Business and Management Studies*, *1*(1), 1–16. https://doi.org/10.3126/njbms.v1i1.66167

Adekunle, I. A., Williams, T. O., Maialeh, R., & Adegbenro, M. A. (2025). Knowledge, attitude or risk? What drives the financial literacy gaps of university staff? *Borsa Istanbul Review*, *25*, 192–200. https://doi.org/10.1016/j.bir.2025.10.032

Agarwal, A., Rao, N. V. M., & Nogueira, M. C. (2025). Financially savvy or swayed by biases? The impact of financial literacy on investment decisions: A study on Indian retail investors. *Journal of Risk and Financial Management*, *18*(6), 322. https://doi.org/10.3390/jrfm18060322

Aggarwal, R. K., & Wu, G. (2003). Stock market manipulation - theory and evidence. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.474582

Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, *50*(2), 179–211. https://doi.org/10.1016/0749-5978(91)90020-T

Alhabsi, Z. S., Pandurengan, V., Harthy, S. A. (2025). Evaluating the effect of financial literacy on investment decision- meta-analysis. *Lex Localis-Journal of Local Self-Government*, *23*(s6), 2951–2971.

Atkinson, A., & Messy, F.-A. (2012). *Measuring Financial Literacy: Results of the OECD / International Network on Financial Education (INFE) Pilot Study (OECD Working Papers on Finance, Insurance and Private Pensions, No. 15*. https://doi.org/10.1787/5k9csfs90fr4-en

Bandura, A. (2010). Self-Efficacy. In *The Corsini Encyclopedia of Psychology* (pp. 1–3). Wiley. https://doi.org/10.1002/9780470479216.corpsy0836

Barber, B. M., & Odean, T. (2013). *The behavior of individual investors* (pp. 1533–1570). https://doi.org/10.1016/B978-0-44-459406-8.00022-6

Barberis, N., & Thaler, R. (2003). *A survey of behavioral finance* (pp. 1053–1128). https://doi.org/10.1016/S1574-0102(03)01027-6

Calcagno, R., & Monticone, C. (2015). Financial literacy and the demand for financial advice. *Journal of Banking & Finance*, *50*, 363–380. https://doi.org/10.1016/j.jbankfin.2014.03.013

Cochran, W. G. (1977). *SamplingTechniques* (3rd ed.). John Wiley & Sons.

COLE, S., SAMPSON, T., & ZIA, B. (2011). Prices or knowledge? What drives demand for financial services in emerging markets? *The Journal of Finance*, *66*(6), 1933–1967. https://doi.org/10.1111/j.1540-6261.2011.01696.x

Dhungana, B. R. (2023). Stock market development and economic growth of Nepal. *Journal of Business and Social Sciences Research*, *8*(2), 31–50. https://doi.org/10.3126/jbssr.v8i2.62132

Epaphra, M., & Kiwia, B. P. (2021). Financial literacy and participation in the financial markets in Tanzania: An application of the logit regression model. *Journal of Economic and Financial Sciences*, *14*(1). https://doi.org/10.4102/jef.v14i1.545

Fernandes, D., Lynch, J. G., & Netemeyer, R. G. (2014). Financial literacy, financial education, and downstream financial behaviors. *Management Science*, *60*(8), 1861–1883. https://doi.org/10.1287/mnsc.2013.1849

Ghimire, A., Miya, R., Guragain, S., Upreti, S., Poudel, S., & Okheda, S. B. (2025). Impact of macroeconomic variables on stock market capitalization in Nepal. *Economic Review of Nepal*, *8*(1), 82–101. https://doi.org/10.3126/ern.v8i1.80746

Li, L., & Rouwenhorst, K. G. (2001). Long-term global market correlations. *NBER Working Paper No. W8612,*

Grable, J. E., & Joo, S. (2004). Environmental and biopsychosocial factors associated with financial risk tolerance. *Journal of Financial Counseling and Planning, 15*(1), 73–82.

Hakim, M. S., Setyaningrum, R. V., Yunita, R. D. S., & Nareswari, N. (2025). Mitigating overconfidence bias in investment behavior: The roles of financial literacy and digital financial literacy. *EKUITAS (Jurnal Ekonomi Dan Keuangan)*, *9*(1), 82–96. https://doi.org/10.24034/j25485024.y2025.v9.i1.6959

HUSTON, S. J. (2010). Measuring financial literacy. *Journal of Consumer Affairs*, *44*(2), 296–316. https://doi.org/10.1111/j.1745-6606.2010.01170.x

IOSCO & OECD. (2018). The application of behavioral insights to financial literacy and investor education programs and initiatives. *International Organization of Securities Commissions & Organization for Economic Co-operation and Development.*

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, *47*(2), 263. https://doi.org/10.2307/1914185

Karmacharya, B. (2023). Determinants of investor awareness in Nepalese capital market. *The Journal of Business and Management*, *7*(1).

Khaleda Nasrin. (2025). Financial literacy and its effect on investment decisions: A review of recent literature. *Business & Social Sciences*, *3*(1), 1–10. https://doi.org/10.25163/business.3110268

Kumar, S., & Goyal, N. (2016). Evidence on rationality and behavioral biases in investment decision making. *Qualitative Research in Financial Markets*, *8*(4), 270–287. https://doi.org/10.1108/QRFM-05-2016-0016

Lamichhane, P. (2022). Financial literacy and individual investors' stock market participation in Nepal. *Tribhuvan University Journal*, *37*(02), 89–103. https://doi.org/10.3126/tuj.v37i02.51653

Leder, J., & Betsch, T. (2016a). Risky choice in interpersonal context: Do people dare because they care? *Journal of Economic Psychology*, *52*, 1–23. https://doi.org/10.1016/j.joep.2015.11.003

Leder, J., & Betsch, T. (2016b). Risky choice in interpersonal context: Do people dare because they care? *Journal of Economic Psychology*, *52*, 1–23. https://doi.org/10.1016/j.joep.2015.11.003

Libi, S. K. , Sapkota, M. P., & Poudel, J. (2025). (2025). Financial literacy, behavioral biases and stock investment decisions among college students. *BIC Journal of Management,* 2(1), 167–181.

Lusardi, A., & Mitchell, O. S. (2014a). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, *52*(1), 5–44. https://doi.org/10.1257/jel.52.1.5

Merter, A. K., & Balcıoğlu, Y. S. (2025). Financial literacy and decision-making: The impact of knowledge gaps on financial outcomes. *Borsa Istanbul Review*, *25*, 101–108. https://doi.org/10.1016/j.bir.2025.07.010

Nasrin, K. (2025). Financial literacy and its effect on investment decisions: A review of recent literature. *Business & Social Sciences*, *3*(1), 1–10. https://doi.org/10.25163/business.3110268

Nepal Rastra Bank. (2024). *Financial stability Report*.

Nunnally, J. C. (1978). *Psychometric theory* (2nd ed.). McGraw-Hill.

OECD. (2018). *OECD/INFE Core competencies framework on financial literacy for MSMEs*.

OECD. (2020). *OECD/INFE toolkit for measuring financial literacy and financial inclusion. OECD Publishing.*

OECD. (2022). *OECD/INFE Toolkit for measuring financial literacy and financial inclusion.*

Pan, L., & Mishra, V. (2018). Stock market development and economic growth: Empirical evidence from China. *Economic Modelling*, 661–673.

Pandey, P. (2025). Nexus between capital market development and economic growth: Evidence from Nepal. *Quest Journal of Management and Social Sciences*, *7*(1), 21–33. https://doi.org/10.3126/qjmss.v7i1.82004

Pankow, D. (2012). *Financial values, attitudes, and goals. North Dakota State University.*

Rousseau, P. L., & Wachtel, P. (2000). Equity markets and growth: Cross-country evidence on timing and outcomes. *Journal of Banking & Finance*, *24*(12), 1933–1957.

Senduk, F. F. W., Djatmika, E. T., Wahyono, H., Churiyah, M., & Arjanto, P. (2025). A phenomenological perspective on financial education: The lived experiences of high school students. *Educational Process International Journal*, *17*(1). https://doi.org/10.22521/edupij.2025.17.391

Sharma, B. M. (2025). Financial literacy and its impact on investment decision in Nepalese share market. *Journal of Janta Multiple Campus*, *4*(1), 58–72. https://doi.org/10.3126/jjmc.v4i1.77992

Shiller, R. J. (2003). Efficient markets theory to behavioral finance. *Journal of Economic Perspectives*, *17*(1), 83–104. https://doi.org/10.1257/089533003321164967

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. https://doi.org/10.3126/ijmr.v2i1.53618

Subedi, D. P. (2023). Financial literacy and investment decisions in nepalese share market. *Management Dynamics*, *26*(1), 11–20. https://doi.org/10.3126/md.v26i1.59147

van Rooij, M., Lusardi, A., & Alessie, R. (2011a). Financial literacy and stock market participation. *Journal of Financial Economics*, *101*(2), 449–472. https://doi.org/10.1016/j.jfineco.2011.03.006

van Rooij, M., Lusardi, A., & Alessie, R. (2011b). Financial literacy and stock market participation. *Journal of Financial Economics*, *101*(2), 449–472. https://doi.org/10.1016/j.jfineco.2011.03.006

Widjayanti, C. E., Adawiyah, W. R., & Sudarto. (2025). Financial literacy innovation is mediated by financial attitudes and lifestyles on financial behavior in MSME players. *Journal of Innovation and Entrepreneurship*, *14*(1), 57. https://doi.org/10.1186/s13731-025-00525-5

Xiao, J. J., & O'Neill, B. (2018). Propensity to plan, financial capability, and financial satisfaction. *International Journal of Consumer Studies*, *42*(5), 501–512. https://doi.org/10.1111/ijcs.12461

Yamaguchi, M., Ogura, K., Himeno, Y., Shiiku, A., Nagahama, H., Nabeshima, H., Kuramoto, Y., Khan, M. S. R., & Kadoya, Y. (2025). The association of financial knowledge, attitude, and behavior with investment loss tolerance: Evidence from Japan. *Risks*, *13*(10), 204. https://doi.org/10.3390/risks13100204