



Impact of Financial Literacy on Investment Decisions of Retail Investors in the Nepalese Stock Market: A Structural Equation Modeling Approach

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Abstract

Financial literacy is crucial for influencing an individual's financial behaviors, particularly concerning investment choices. The central objective of this study was to assess the impact of financial literacy dimensions on the investment decisions of retail investors in the Nepalese stock market. The current study applied a causal-comparative research design. The convenience sampling technique was used to select samples, and a total of four hundred twenty nine samples were collected from retail investors of the Nepal Stock Exchange using a structured survey questionnaire. The data was analyzed using IBM SPSS 26 and AMOS 22. The study employed a diverse array of statistical methods for data assessment, including reliability analysis, descriptive statistics, correlation analysis, exploratory factor analysis, confirmatory factor analysis, and structural equation modeling (SEM). SEM path analysis was applied to test the hypotheses. The study suggests that financial knowledge, financial behavior, and financial skills significantly impact retail investors' investment decisions. Thus, the findings indicated that retail investors who possess greater financial knowledge, exhibit positive financial behaviors, and have strong financial skills are more inclined to make well-informed and advantageous investment choices. However, the findings also indicate that financial attitude does not influence the investment decisions of retail investors. This study could potentially contribute to the academic discourse on behavioral finance and financial literacy, offering empirical evidence tailored to the Nepalese context. Future research can broaden their scope by examining additional variables such as personality traits, emotional intelligence, behavioural biases, and relationships among them in the Nepalese stock market.

Keywords: *financial literacy, financial knowledge, financial behavior, financial skill, investment decisions, retail investors, structural equation modeling*

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Introduction

Financial literacy incorporates financial actions such as saving, preparing for retirement, or choosing a portfolio, which have historically been correlated with people's knowledge of economics and finance (Kumari, 2020). Balagobei and Prashanthan (2021) stated financial literacy as a mix of financial knowledge, behaviour, and that helps people manage income and expenses, invest effectively, manage financial risks, and avoid debt. They highlighted the significance of financial literacy in today's complex financial scenarios. Investment decision-making is the act of an investor and how they interpret, predict, research, and evaluate the procedures and transactions for making a decision that includes investment risk, the concept, and procedure for making investments, etc (Alaaraj & Bakri, 2020).

Singh and Sharma (2016) and Aggarwal, Gupta and Singh et al. (2014) claimed that financial literacy is crucial for making well-informed decisions as it involves understanding financial concepts and managing financial resources effectively. Awais et al. (2016) suggested that financial literacy and investment experience significantly impact risk tolerance and investment decisions. Prasad, Kiran and Sharma (2021) focused on the significance of individual investors in contributing to the stock market as a means of promoting national socioeconomic progress and advancement. The scholars identified individual investors' financial literacy and investment decisions as this context's primary cause and effect. Research on financial literacy can help financial institutions and organizations create effective financial literacy programs and investment strategies to boost financial empowerment, opportunities, and market status locally and globally (Hussain et al., 2022).

Thapa and KC (2020) examined Nepalese stock market investors' financial literacy and raised the importance of financial education and empowerment for financial well-being. This study added to the growing body of research on financial literacy and its importance in making

good financial decisions. In a recent study of Shrestha et al. (2023), it was found that financial behavior, attitude, and skills play a crucial role in shaping individuals' decisions to participate in the stock market and make personal investments. The significance of comprehending financial literacy factors for making informed decisions is further emphasized by these findings.

This study aims to enrich the current discussion by integrating findings from prior research, providing a detailed comprehension of the interrelationships between financial literacy, investment decisions, and overall portfolio performance in the contemporary stock market environment. Existing literature affirms that financial literacy greatly influences the investment decisions of retail investors concerning the stock market. The study aims to assess the impact of financial literacy on the investment decisions made by retail investors in the stock market of Nepal.

Conceptual Framework

Establishing a coherent and logical structure for investigation is the purpose of the conceptual framework, which is responsible for shaping research questions, hypotheses, and the overall design of an investigation (Adhikari, 2024). The following framework has been crafted to provide a solid theoretical underpinning for the exploration.

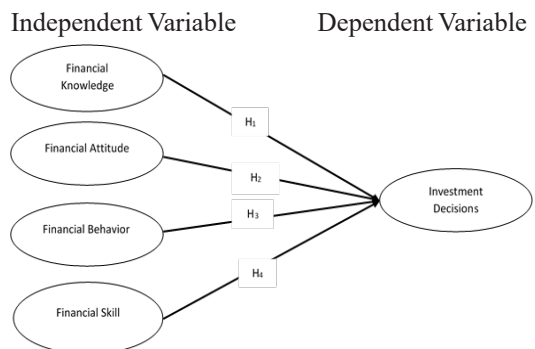


Figure 1: Conceptual Framework of the Study

Hypotheses Formulation

Financial Knowledge and Investment Decisions

Financial knowledge encompasses the

understanding of fundamental financial terminology and concepts that are crucial for everyday functioning (Bowen, 2002). Financial knowledge positively and significantly impacts investment decisions (Alaaraj & Bakri, 2020; Balagobei & Prashanthan, 2021). Thus, the hypothesis can be stated as follows:

H1: Financial knowledge significantly impacts the investment decisions of retail investors.

Financial Attitude and Investment Decisions

Financial attitude is crucial to investment decision-making. It includes personal financial planning opinions, beliefs, and perceptions (Balagobei & Prashanthan, 2021). Shrestha et al. (2023) demonstrated that financial attitude exerted a substantial influence on investment choices. Thus, this study has crafted and tested the following hypothesis:

H2: Financial attitude significantly impacts the investment decisions of retail investors.

Financial Behaviour and Investment Decisions

Financial behaviour describes how capable and knowledgeable a person is about things like borrowing, saving, and creating a budget. Nugraha, Eksanti and Haloho (2022) and Balagobei and Prashanthan (2021) asserted that financial behavior exerts a substantial impact on investment choices. So, the hypothesis is as follows:

H3: Financial behavior significantly impacts the investment decisions of retail investors.

Financial Skill and Investment Decisions

Kumari (2020) examined the student's level of financial literacy that influences investment decisions and revealed that financial skill significantly influences investment decisions. Moreover, Shrestha et al. (2023) and Alaaraj and Bakri (2020) supported this statement. Hence, the hypothesis is formulated as;

H4: Financial skill significantly impacts the investment decision of retail investors.

Literature Review

Financial literacy has a statistically significant effect on investors' investment decisions (Jariwala, 2015). Financial literacy is

essential in understanding financial issues, with demographic, economic, social, and psychological traits playing a key role (Janor et al., 2016). Singh and Sharma (2016) argued that by employing financial literacy and understanding certain financial goods, investors may make prudent decisions to protect their financial future and the future of their dependents. The study also revealed that while respondents were aware of several financial products, their understanding, familiarity, and interest level were all in doubt. Abdeldayem (2016) investigated the connection between Bahraini investors' investment decisions and their level of financial literacy and revealed that low levels of financial literacy among Bahraini investors, fall short of the necessary standard.

Dangol and Shakya (2017) found significant differences in investment patterns between financially literate and uneducated people. Investment preferences, objectives, advice sources, tenure, and awareness showed these differences. Sivaramakrishnan et al. (2017) found that financial literacy increases stock market participation and investment intention predicts stock investments. The positive impacts of financial literacy on involvement in the derivatives market are also shown to be generally unaffected by accessibility issues or measurement flaws (Hsiao & Tsai, 2018). Kalsum et al. (2018) showed that financial literacy positively and significantly impacts investment decisions. Mishra (2018) investigated the impact of financial literacy and risk tolerance on stock market investment decisions, revealing through logistic regression analysis that individuals with higher risk tolerance, financial literacy, and investing knowledge significantly influence these decisions. Krische (2019) discovered that having prior investment experience increases the effect of financial accounting disclosures on investment judgments, and having a high level of financial literacy further reinforces this influence.

Ademola et al. (2019) discovered a strong and meaningful correlation between financial knowledge, risk perception, and investment decisions, taking into account the moderating



influence of risk perception. Philippas and Avdoulas (2020) discovered that financial literacy significantly contributes to financial well-being. They found that male students who keep expense records are more financially literate. Moreover, financially literate students demonstrate enhanced resilience in managing unforeseen financial challenges.

Alaaraj and Bakri (2020) established a direct and statistically significant correlation between financial literacy and investment decision-making, implying that greater levels of financial literacy was connected with better informed and favorable investment decisions among investors. Ahmed et al. (2021) established that financial literacy exerts a beneficial and substantial influence on individual investment choices, with risk tolerance serving as a mediating factor. The study suggests that policymakers should strive to enhance the levels of financial literacy among individual investors.

Prasad et al. (2021) found that investors' decisions are more influenced by risk and return analytics than by market analytics. Additionally, they contributed to the field by emphasizing the significance of financial literacy in investment decision-making and highlighting the need for more awareness programs to enhance financial literacy among investors. Balagobei and Prashanthan (2021) found a strong correlation between the level of financial literacy and the investment choices made by individual investors in the Jaffna district. Similarly, Acharya and Hamal (2022) found a strong correlation between stock market involvement and financial literacy in Nepal. Moreover, the findings suggested that student participation in the stock market and financial literacy levels are positively correlated and that gender has a considerable impact on land market involvement but no moderating influence on financial literacy.

Pantha (2023) claimed that financial literacy positively influences personal financial planning in Nepal. The findings revealed a positive influence, indicating that financial literacy is positively to personal financial planning. This underscores the importance of a comprehensive

understanding, awareness, positive mindset, confidence, and social connections in enhancing the effectiveness of personal financial planning in the Nepalese context. Subedi (2023) used a causal-comparative research design to assess the impact of financial literacy on investment decisions in the Nepalese stock market, revealing that financial literacy influences personal saving, risk tolerance, investment opportunities, and financial understanding. Similarly, Shrestha et. al. (2023) examined the impact of financial literacy on personal investment choices in Kathmandu Valley, illustrating that financial behavior, attitude, knowledge, and skills significantly influenced investing decisions.

Research Methodology

Research Design

This study applied a causal-comparative research design. Saunders et al. (2015) stated that a quantitative approach should be employed when addressing research problems that require identifying the factors that influence outcomes, assessing the effectiveness of an intervention, understanding the most accurate predictors of outcomes, or testing a hypothesis. Thus, this study investigates the influences of financial literacy dimensions on retail investors' investment decisions. The study design included empirical data analysis, which utilized statistical tools such as SPSS 26 and AMOS 22. The statistical techniques like descriptive statistics, factor analysis and structural equation modeling (SEM) were applied to fulfill the research objectives.

Sampling, Data Collection and Analysis

The population under this study comprises individual retail investors participating in the Nepal Stock Exchange (NEPSE) which is the national stock market operator of Nepal. Specifically, the research population is defined as individual investors at NEPSE, encompassing all retail investors engaged in primary and secondary market trading. Convenience sampling was employed to pick the study's sample. A questionnaire survey was



administered to obtain primary data. As it is challenging to determine the precise number of retail investors in NEPSE, the research utilized Cochran's formula to calculate the minimum necessary sample size for the unknown target population. Hence, Cochran (1977) created the following procedure to determine a proportional representative sample:

$$n = \frac{z^2 \hat{P}(1 - \hat{P})}{(\epsilon)^2}$$

Where,

n = Sample size

ε = Desired level of precision/margin of error, ε = 5% or 0.05.

z = the value in the Z-table (z-value=1.96 for a confidence level of 95%)

P̂ = Estimated desired population proportion

So, by applying the above formula, we get,

$$n = \frac{1.96^2 \times 0.50(1 - 0.50)}{0.05^2}$$

n = 384.16 or 384 (Approx.) respondents

Therefore, the minimum required sample size was 384 respondents. However this study collected 429 samples from retail investors, demonstrating that the sample size exceeded the minimum threshold for statistical adequacy. This sample size is considered sufficient based on a review of relevant studies conducted in different contexts.

Structural Equation Modelling (SEM)

SEM is a statistical method employed in research to explore and construct complex relationships between variables. It empowers researchers to investigate and assess theoretical models that encompass both directly observed (measured) and underlying, unobserved (latent) variables (Bowen & Guo, 2011). In this study, SEM is applied to validate the impact of financial literacy factors, derived through EFA and assessed for reliability using Cronbach's alpha test in previous steps.

Inferential Analysis

This study employed SPSS and SEM methodologies to analyze data and derive results. Initially, SPSS version 26 was used for

exploratory factor analysis to determine factor structure by principal component analysis. Afterward, a two-stage methodology utilizing Amos version 22 was utilized to analyze the study model. Exploratory factor analysis and a structural model were used to assess each structural parameter's significance, direction, and magnitude.

Exploratory Factor Analysis (EFA)

An EFA employing Varimax rotation determined that the measuring scales utilized in this research were suitable for assessing the study components. This study used this analysis to see whether the hypotheses and results correctly described the phenomena. KMO test values over 0.6 indicate strong sample adequacy, as the research revealed 0.843. Factor analysis is possible with these data. Bartlett's Test of Sphericity was very significant ($\chi^2 = 2150.178$, $df = 210$, $p < 0.05$). This considerable result validates the factorability of the correlation matrix, confirming that factor analysis is a reliable approach for identifying dataset components. The rotated matrix shows that factor loadings for all obtained constructs exceed 0.5, meeting study conditions. This shows that the selected constructs are resilient and significant, confirming their inclusion in future studies.

Measurement Model

The measurement models were tested using AMOS 22 using confirmatory factor analysis (CFA). This research primarily uses convergent and discriminant validity to evaluate measuring instrument strength and reliability. Convergent validity suggests that assessments that concentrate on comparable or closely related concepts should show meaningful relationships. The Composite reliability (CR) number proposed by Fornell should exceed 0.7 (Nunnally, 1978). Discriminant validity assesses the strength of the correlation between the components in the model using MSV and AVE. Conducting an analysis of variance (AVE) and examining the correlation between variables ($AVE > r$) is essential to ensure discriminant validity.

Fornell and Larcker Criteria

The Fornell and Larcker Criteria was used to

assess discriminant validity, which confirms construct uniqueness. The square root of the AVE for each construct must be greater than its correlation with other constructs in the study to establish discriminant validity. When the square root of the AVE for a construct exceeds its correlation with the other constructs in the study, the Fornell and Larcker criterion establishes discriminant validity.

Results and Discussion

Socio-demographic Characteristics of Respondents

The sample's respondents were primarily 16 to 25 years old, accounting for 50.8 percent of the total participants. The age group between 26 and 35 constitutes 29.8 percent of the sample, followed by 36 to 45 years old, 13.8 percent, and 5.1 percent. The age group above 55 makes up only 0.5 percent of respondents. This indicates that a significant proportion of retail investors at the NEPSE are aged 16 to 45. The occupational profile of respondents indicated that the most significant portion of respondents (48.3 percent) were employed. Students constituted a significant group (40.6 percent), while entrepreneurs, unemployed individuals, and retirees made up smaller proportions at 8.4 percent, 2.1 percent, and 0.7 percent, respectively. These data reveal that a substantial proportion of the respondents are part of the workforce, with employment and student status being the most prevalent categories. At the same time, entrepreneurial and retired participants are comparatively fewer in number. The study shows that 54.1 percent had a bachelor's degree, 31.7 percent had a master's degree, 5.1 percent had intermediate or lower qualifications, and 9.1 percent had an M. Phil/Ph.D. degree. Most surveyed individuals had a bachelor's degree, and a significant number had a master's degree.

Findings reveal insights into respondents' monthly income and investment preferences. Notably, 44.9 percent earn below Rs. 25,000, 30.4 percent earn between Rs. 25,000 and Rs. 50,000, while smaller proportions fall into the income ranges of Rs. 50,001 to Rs. 100,000 (17.5 percent) and above Rs. 100,000 (7.2

percent). Regarding investment portfolios, most respondents (63.0 percent) have less than Rs. 100,000 invested. In comparison, a smaller proportion have investments in the ranges of Rs. 100,001 to Rs. 500,000 (18.3 percent), Rs. 500,001 to Rs. 1,000,000 (10.3 percent), and above Rs. 1,000,000 (8.4 percent). These findings provide a snapshot of the financial circumstances and investment preferences of the surveyed individuals, with a significant portion having lower incomes and smaller investment portfolios (see Table 1).

Table 1: Monthly Income and Investment Portfolio of Respondents

| Variable | Categories | Frequency (Percentage) |
|----------------------|-----------------------------|------------------------|
| Monthly Income(Rs) | Below 25,000 | 192(44.9%) |
| | Rs. 25,000 – Rs. 50,000 | 130(30.4%) |
| | Rs. 50,001 – Rs. 100,000 | 75(17.5%) |
| | Above Rs. 100,000 | 31(7.2%) |
| Investment Portfolio | Less than Rs. 100,000 | 269(63%) |
| | Rs. 100,001 – Rs. 500,000 | 78(18.3%) |
| | Rs. 500,001 – Rs. 1,000,000 | 44(10.3%) |
| | Above Rs. 1,000,000 | 36(8.4%) |

Source: Calculation based on Author Survey, 2023

General Information about Respondent's Financial Behaviors and Preferences

Results reveals that most respondents, i.e., 69.9 percent, are not attending any workshops or seminars related to stock market investment. In comparison, around 30.1 percent of respondents attend workshops or seminars. Moreover, a significant portion (45.0 percent) of respondents feel comfortable using financial tools and software, while 22.4 percent do not, and 32.6 percent feel somewhat comfortable. Furthermore, most respondents (78.6 percent) actively seek financial education materials and resources, with 12.1 percent not engaging in such activities and 9.3 percent being uncertain or not knowing. The data underscores the need for improved access to financial education, as many participants do not engage in relevant workshops. It also highlights

a keen interest in boosting financial knowledge through resource-seeking and varying comfort levels with financial tools (see Figure 2). Respondents' Perception about the Most Influential Factor for Enhancing Financial Literacy in Investment Decisions.

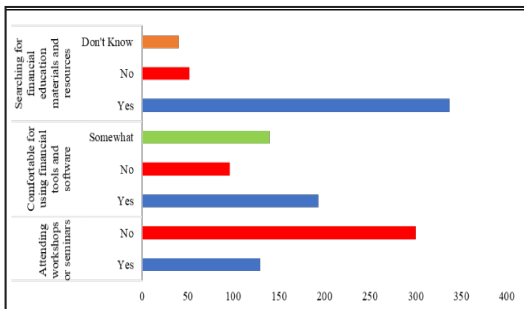


Figure 2: Respondent's Financial Behaviors and Preferences

Respondent's Perception about Factor Influencing Financial Literacy in Investment Decision

The results show that 50.2 percent of respondents find financial literacy programs and workshops the most influential source for making investment decisions, which highlights the importance of structured educational initiatives in shaping financial acumen. Additionally, 24.3 percent of respondents believe that the formal education system is pivotal in improving financial literacy, emphasizing the value of traditional academic settings. Online resources and tutorials also hold significant importance, with 13.6 percent of respondents indicating their influence, reflecting the prominence of digital platforms for self-directed learning. Furthermore, 11.4 percent place their trust in investment advisors and professionals, underscoring the role of expert guidance in shaping financial knowledge for investment decisions. Only a tiny minority of 0.5 percent of respondents indicated "none of the above," suggesting a preference for alternative, unlisted sources. The above mentioned findings demonstrate the diverse landscape of financial literacy sources and indicate a preference for structured educational programs and digital resources in shaping financial acumen for investment decision-making (See Figure 3).

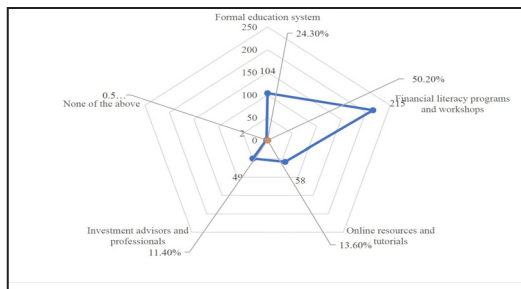


Figure 3: Influential factor for enhancing financial literacy in investment decisions

Descriptive Statistics

Table 2: Descriptive Statistics of Study Variables

| Variables | Mean | SD | Skewness | Kurtosis |
|---------------------|-------|-------|----------|----------|
| Financial Knowledge | 4.068 | 0.490 | 0.059 | -0.529 |
| Financial Attitude | 4.320 | 0.480 | 0.013 | -0.784 |
| Financial Behavior | 4.226 | 0.451 | -0.043 | -0.477 |
| Financial Skill | 3.944 | 0.482 | -0.004 | 0.068 |
| Investment Decision | 4.119 | 0.482 | -0.928 | 4.705 |

Source: Calculation based on Author Survey, 2023

The results show concise descriptive statistics for the range of study factors, encompassing financial knowledge, attitude, behavior, skill, and investment decisions which have average values of 3.944 to 4.320 and standard deviations of 0.451 to 0.490. These findings indicate a consensus among respondents regarding the influence of financial issues on investing choices. Furthermore, the mean response for investment decisions is 4.119, suggesting a consensus among the participants.

Hair et al. (2010) and Byrne (2010) defined normal data as skewness between -2 and +2 and kurtosis between -7 and +7. The skewness and kurtosis readings in this study are within the acceptable ranges, indicating that there is no deviation from the normalcy assumptions. Therefore, the data is considered appropriate for studies under the assumption of multivariate normality (see Table 2).

Results show the composite reliabilities exceeded 0.70 at 0.718 to 0.850 (Hair et al.,



2010). Thus, the study established the reliability of each construct (see Table 3).

Table 3: Loadings, Reliability, and Convergent Validity

| Items | Loadings | Alpha | CR | AVE | MSV |
|----------------------|----------|-------|-------|-------|-------|
| Financial Knowledge | | 0.676 | 0.718 | 0.587 | 0.235 |
| FK2 | 0.622 | | | | |
| FK3 | 0.572 | | | | |
| FK7 | 0.571 | | | | |
| FK8 | 0.581 | | | | |
| Financial Attitude | | 0.766 | 0.766 | 0.722 | 0.203 |
| FA1 | 0.698 | | | | |
| FA2 | 0.735 | | | | |
| FA3 | 0.733 | | | | |
| Financial Behavior | | 0.677 | 0.719 | 0.588 | 0.242 |
| FB6 | 0.595 | | | | |
| FB7 | 0.604 | | | | |
| FB8 | 0.610 | | | | |
| FB9 | 0.543 | | | | |
| Financial Skill | | 0.703 | 0.734 | 0.611 | 0.242 |
| FS7 | 0.576 | | | | |
| FS8 | 0.653 | | | | |
| FS9 | 0.612 | | | | |
| FS10 | 0.604 | | | | |
| Investment Decisions | | 0.759 | 0.850 | 0.585 | 0.216 |
| ID1 | 0.647 | | | | |
| ID2 | 0.605 | | | | |
| ID3 | 0.567 | | | | |
| ID4 | 0.578 | | | | |
| ID8 | 0.608 | | | | |
| ID9 | 0.503 | | | | |

Source: Calculation based on Author Survey, 2023

Cronbach’s alpha and average variance explained (AVE) are the foundations of composite reliability, also known as construct reliability (CR), used to assess convergent validity. The constructs’ AVE values exceeded the 0.50 threshold established by (Fornell & Larcker, 1981), indicating $AVE > 0.5$ and $CR > AVE$. Therefore, the scales employed in this study demonstrate the necessary convergent validity.

Table 4: Fornell and Larcker criterion for Discriminant Validity

| Constructs | AVE | MSV | MaxR(H) | FK | FA | FB | FS | ID |
|------------|------|------|---------|-------|------|-------|------|------|
| FK | 0.59 | 0.24 | 0.23 | 0.766 | | | | |
| FA | 0.72 | 0.20 | 0.20 | 0.33 | 0.85 | | | |
| FB | 0.59 | 0.24 | 0.242 | 0.33 | 0.31 | 0.767 | | |
| FS | 0.61 | 0.24 | 0.242 | 0.29 | 0.28 | 0.35 | 0.78 | |
| ID | 0.58 | 0.21 | 0.216 | 0.29 | 0.16 | 0.33 | 0.35 | 0.76 |

Source: Calculation based on Author Survey, 2023

In the present research, the square root of the AVE for each construct ($FK = 0.766$, $FA = 0.850$, $FB = 0.767$, $FS = 0.782$, and $ID = 0.765$) is higher than the correlation with the other constructs in the study. In addition, the average variance explained is higher than the maximum shared variance, namely $AVE > MSV$. Therefore, the research has verified the discriminant validity by demonstrating that the Average Variance Explained (AVE) is higher than the Maximum Shared Variance (MSV) for all constructs ($AVE > MSV$) (see Table 4).

Model Fit Indices

The model’s goodness of fit was assessed using the model-fit metrics CMIN/df, GFI, CFI, TLI, SRMR, and RMSEA, which all fell below their standard acceptable criteria (Bentler, 1990; Hu & Bentler, 1998; Ullman, 2001). The five-factor model (FK, FA, FB, FS, and ID) provided a satisfactory match for the data. The GFI, TLI, and CFI all exceed 0.90, indicating that the model fits. The CMIN/df values are smaller than the suggested range (1–3). Furthermore, the SRMR is less than the 0.08 threshold value, as is the RMSEA, which is less than 0.06.

Table 5: Model Fit Indices of Measurement Model

| Measure | Estimate | Threshold | Interpretation |
|---------|----------|-------------|----------------|
| CMIN/DF | 1.578 | > 1 and < 3 | Excellent |
| GFI | 0.937 | >0.90 | Excellent |
| CFI | 0.944 | >0.95 | Acceptable |
| TLI | 0.939 | >0.90 | Excellent |
| SRMR | 0.052 | <0.08 | Excellent |
| RMSEA | 0.037 | <0.06 | Excellent |
| PClose | 0.998 | >0.05 | Excellent |

Source: Calculation based on Author Survey, 2023

Note: GFI = Goodness of a fit index, CFI = Comparative fit index, TLI = Tucker-Lewis's index, SRMR = Standardized root mean squared residual, and RMSEA = Root mean square error of approximation.

A structural model was constructed using AMOS software to assess relationships. A model was considered to have a satisfactory fit if the values of CMIN/df, GFI, TLI, and CFI were equal to or greater than 0.90 (Hair et al., 2010; Bentler, 1990). In addition, a fit was considered satisfactory if the SRMR determined by AMOS was less than 0.05 and the RMSEA was between 0.05 and 0.08 (Hair et al., 2010). The model's fit indices in Table 4.9.2.1 satisfied the following criteria: CMIN/df = 1.578, GFI = 0.937, TLI = 0.939, CFI = 0.944, SRMR = 0.052, and RMSEA = 0.037.

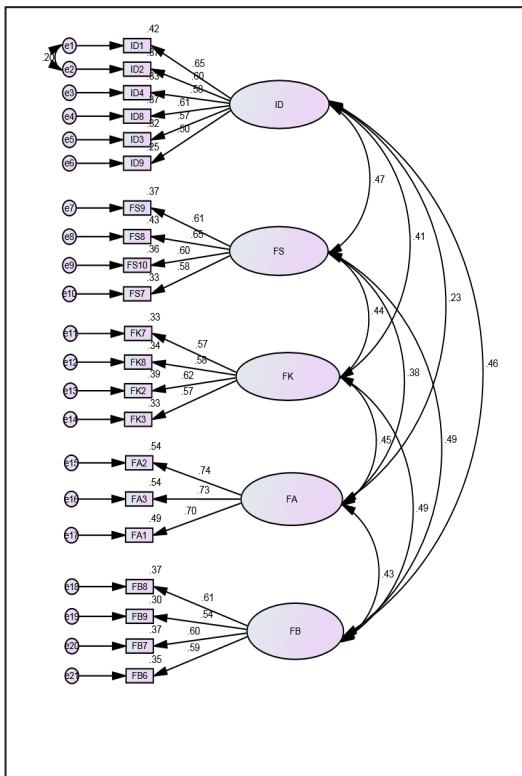


Figure 4: Measurement Model or CFA – Standardized

Note: ID = Investment Decisions, FS = Financial Skill, FK = Financial Knowledge, FA = Financial Attitude, and FB = Financial Behavior.

Structural Model

The structural model using Amos program has been computed to understand the route analysis inside the graphics (see Figure 8).

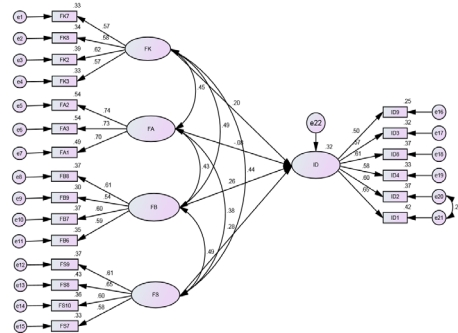


Figure 5: Structural Model

Table 6: Result of Structural Model

| Path | Estimate | S.E. | C.R. | P-value |
|-----------|----------|-------|--------|---------|
| ID <---FK | 0.205 | 0.087 | 2.368 | 0.018 |
| ID <---FA | -0.079 | 0.072 | -1.086 | 0.278 |
| ID <---FB | 0.290 | 0.097 | 3.001 | 0.003 |
| ID <---FS | 0.283 | 0.082 | 3.448 | *** |

Source: Calculation based on Author Survey, 2023

The results indicate that, among the four constructs of financial literacy, three dimensions - financial knowledge, financial behavior, and financial skill demonstrate a significant and positive impact on the investment decisions of retail investors supporting hypotheses 1, 3, and 4. These findings aligned with Shrestha et al. (2023), Pantha (2023), Nugraha et al. (2022), Lamichhane (2022), and Prasad et al. (2021). Moreover, Alaaraj and Bakri (2020) and Awais et al. (2016) have explored the impact of financial literacy on investment decisions, emphasizing the critical role of financial knowledge and skills. Consistent with their findings, this study underscores the positive influence of financial skill and knowledge on retail investors' decisions. However, financial attitude is found to be insignificant in this context rejecting hypothesis 2 (see Table 6).

The observed positive influence of financial behavior on investment decisions aligns with



the emphasis by Hamza and Arif (2019) and Prasad et al. (2021). Furthermore, Rai et al. (2019) and Shrestha et al. (2023) have examined the influence of financial literacy on investment choices within the Nepalese stock market. The collective insights from the above mentioned studies, combined with our discoveries, emphasize the importance of financial literacy in influencing investor behavior and results. The synthesized knowledge emphasizes the need for targeted interventions to enhance financial literacy for individual retail investors and the broader financial ecosystem in Nepal.

Conclusion

The findings reveal a remarkable level of comfort among a significant proportion of respondents in utilizing financial tools and software, with 45.0 percent expressing confidence in their use. However, there is room for improvement, as 22.4 percent do not feel comfortable, and 32.6 percent feel somewhat comfortable. The study highlights a positive trend in financial education engagement, as 78.6 percent actively seek financial education materials and resources. The immense majority, constituting 93.2 percent of respondents, advocate for integrating financial literacy into the education curriculum, underscoring its perceived importance. Financial literacy programs and workshops significantly influence investment decisions, with 50.2 percent of respondents recognizing them as the most influential source. These findings emphasize the importance of financial literacy in education and targeted programs to boost confidence, decision-making, and financial well-being.

Moreover, the results of inferential analysis highlight a substantial and favorable influence of financial literacy aspects on the investment decisions made by retail investors, which suggest that retail investors with more financial knowledge, positive behavior, and skills make better investment decisions. However, the findings also indicate that the financial attitude of retail investors does not have an impact on their investment decisions. The insights from current study significantly contribute to our comprehension of the complex dynamics

involved in financial decision-making, which highlight the need to enhance financial literacy in the Nepalese stock market, offering practical insights for policymakers, educators, and market participants to aid retail investors in making informed decisions.

This study has identified financial knowledge, behavior, and skills as significant factors that have an impact on investment decisions. The findings of this study have practical implications for a wide range of stakeholders, including retail investors, policymakers, educators, and market participants. Specifically, it is suggested that financial literacy programs have the potential to enhance the range of information available to investors, thereby facilitating more informed decisions in the stock market. Furthermore, it is recommended that educators adopt interdisciplinary approaches that integrate financial literacy dimensions across different subjects. By doing so, it is believed that students can develop a comprehensive understanding of financial concepts and their practical application. Finally, policymakers are encouraged to develop and implement comprehensive financial literacy programs that encompass different aspects, such as financial skills, knowledge, and behavior.

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