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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 essential in shaping an individual's financial behaviors, especially regarding investing decisions. The central objective of this study is to assess the impact of financial literacy dimensions on the investment decisions of retail investors in the Nepalese stock market. Furthermore, the research explores the relationship between financial literacy dimensions and investment decisions. The present study adopted a causal-comparative research design. The convenience sampling technique was used to select samples, and a total of 429 samples were collected from retail investors of NEPSE utilising a structured survey questionnaire. The study employed a diverse array of statistical methods for data assessment, including reliability analysis, descriptive statistics, correlation analysis, exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and structural equation modeling (SEM). SEM path analysis was applied to test the hypotheses. The data was analysed using IBM SPSS 26 and AMOS 22. The study suggests that financial knowledge, financial behavior, and financial skills significantly impact retail investors' investment decisions. Thus, these results revealed that retail investors with higher financial knowledge, positive financial behavior, and financial skills are more likely to make informed and favorable investment decisions. However, the result also reveals that financial attitude does not affect 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, behavioral biases, and relationships among them in the Nepalese stock market, i.e., NEPSE.

Keywords: *financial behavior, financial knowledge, financial literacy, financial skill, investment decisions, structural equation modeling formation, women's participation*