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Financial Literacy and other Factors Influencing Investment Behaviour of Individual Investor: A Review of Literature

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Abstract:

The individual investor plays an important role in the financial market because of their big share of gross savings in the country. The individual investors buying behavior is influenced by various factors such as social, economic, psychological and demographic. Individual investor's investments are backed by benefits and money. Individual investor still prefers to invest in financial products which give risk free returns. The study also confirmed that Indian investors even if they are of high income, well-educated, salaried, and independent are conservative investors who prefer to play safe in the market. Indian investor's behavior has been changing drastically in the post-economic reforms era in investment activity, preferences in selecting various financial instruments, evaluating and in analyzing the investment avenues. In this paper the diverse literature available worldwide on individual investor behavior has been explored. Its main objective is to understand individual investor behavior. In order to review the literature, research papers have been collected from various referred journals related to individual investors' behavior. This study is designed as an extension to the existing body of knowledge and fills the gap for analyzing the individual investment behaviour.

Keywords: Individual Investors, Investment Avenues, Investor preference, Investor attitude, Investor awareness.

Introduction

The globalization of financial markets has been increasing the size of the community of retail investors' over the past two decades by providing a wide variety of market and investment options. Hence, it makes their investment decisions process more complex. In today's scenario it is important to investigate the factors which influence and effect individual investors trading behaviour in India. Within behavioural finance, it is supposed that information configuration and the features of capital market participants scientifically influence individuals' decisions regarding investments as well as market results. Individual route their saving into investment and rationale use of saving is determined by how quickly and efficiently information about investment reaches the investor, the income the individual will get and the level of risk. Likewise, proper pricing cannot be realized on the occasions that the

information accuracy in the markets is not reflected to the investors completely and transparently (Surana S., Sethi M., Vikram S., 2019).
The Behaviour of investors is influenced by many factors during the rational selection of investment such as attitudes, awareness, perception and willingness. An investor is a person who sacrifices the present in order to earn the benefit for the future. The benefits of the investors are in the form of dividends, capital appreciation, retirement benefits, bonus and other benefits. Sometimes individual investors choose irrational decisions about their investment out of psychological error called mental accounting (Kumar T., 2020) . There are different investment avenues available like share, bonds, debentures, mutual funds, real estate, FDs, Gold and bank deposits etc. In India people usually having a habit to save money so they do, but they are not able to make appropriate decisions regarding investment. Many people are not aware about the various alternative investment options as they only make investment in bank deposits or in gold. Those who are aware about the various investment options do not want to take risk as investment in stock market, equities and mutual funds are subject to market risk. The objective of every individual who make investment is to get good returns, but it is observed that there is a gap between individuals' perceived return and actual return. The mistake is done by people in making decisions regarding investment which influence by risk bearing capacity of an individual .the research indicates that sometimes people over estimate their risk tolerance level because in desire of high return and show of in society. This statement is very true in finance "High risk, high return and Low risk Low return '' therefore proper awareness and analysis should be required regarding risk and return before making investment in any product (Verma D., Sahni D., 2020). In this article author analyses the literature available to understand individual investment behaviour and factors affecting the same. This research aims to develop an overall understanding by reviewing earlier research related to individual investment behaviour and the factors which effect customer's investment decision.

Significance of the Study:
It is essential to understand the investment behaviour of individuals as it forms the base for the development of economy. The research will help the academician and future researchers to have clear understanding of individual investor behaviour. The study will contribute in detail understanding of impact of behavioural factors on investors decision making. It will highlight the investors' awareness regarding risk and return relating to different investment avenues. The study will not only be beneficial towards prospective investors but also to the policymakers and stakeholders to understand the fundamentals of the investment behaviour pattern of individuals.

Objectives of the Study:
- To identify the factors influencing the individual investor preference about the various investment avenues.
- To assess the investor's level of awareness on investment.

Research methodology:
The present study is based on secondary sources of the data. The researchers have reviewed a wide range of online data and research papers. The data also have been collected from various books, journals, magazines and authentic websites.

Review of Existing Literature on Financial Literacy of Individual Investors

Author	Year	Title	Finding
Shreshtha S. K., Manandhar B., Bhattarai P., and Shrestha N.	2023	Impact of Financial Literacy on Personal Investment Decisions in Kathmandu Valley	The study found that financial behaviour, financial attitude, financial awareness, financial skill have a significant impact on investment decisions
Cavezzali E., Gardenal G., andRigoni U.	2012	Risk Taking, Diversification Behavior and Financial Literacy of Individual Investors	The study Found that financial literacy plays a role in risk taking decisions, positively affecting how much risk individuals are willing to take. Moreover, only those who are literate in terms of diversification select less risky portfolios; the others merely increase their risk exposure without managing it.
Swati, Kiran R., and Sharma R. K.	2017	Impact of Financial Literacy on Investment Decisions of Retail Investors': Evidence from Indian Financial Market	The four factors that influenced financial literacy include: accounting information, , market information, broad overview, and technical knowledge. These four factors explained 77.133 percent of variation. Return analysis, and market analytics were the main factors influencing investment decision. Financial literacy explained 83.8 percent of variation in the model.
Yildirim M., Bayram F., Oguz A, and Gunay G.	2017	Financial Literacy level of Individuals and its Relationships to Demographic Variables	The statistical analysis displayed that from demographic variables only education and monthly income was important.determinant, both of basic and advantage financial literacy.
Agarwal S., Amromin G., David I. B., Chomsisengphet S., Evanoff D. D.	2010	Financial Literacy and Financial Planning: Evidence from India	The study found that number of relationships between literacy and socioeconomic variables, notably, the probability of getting all the survey questions correct is higher for male respondents, and generally increases with education

			level and the aggressiveness of the investor.
Rasool N. and Ullah S.	2019	Financial literacy and behavioural biases of Individual investors: empirical evidence of Pakistan stock exchange.	The study found that there is a adverse association between financial literacy and behavioural biases of individual investors. It means, with an increase in the level of financial literacy, the likelihood of investor facing behavioural biases reduces. It also appeard that male respondents have more financial literacy than female respondents.
Gupta, S.	2023	Financial literacy, Savings and Investment behaviour of IT professionals: An empirical investigation.	From the study it has been found that financial literacy is reliable indicator of young people's saving and investing habits.

Review analysis and Discussion:

There is a significant difference in awareness level has been found for bank fixed deposits, saving account, public provident fund, mutual funds, stock market investment and bonds. Respondents having low financial literacy primarily invest in traditional and safe financial products (Bhusan, 2014). Financial literacy does have a statistically significant effect on the investment decision of investors (Jariwala, 2015). Financial literacy and cognitive biases can be significant determinants of the individual portfolio diversification and detailed socio- economic data. Lack of financial literacy can be considered as the main variable that predicts the lack of portfolio diversification (Moura and Jarboui, 2015). Lack of financial literacy, even in some of the world's most well- developed financial markets, is of acute concern and needs immediate attention (Lusardi, 2019). The investors must make use of digital and social media support for imparting financial literacy. The sites like moneycontrol.com, moneycrashers.com, asktechteachers.com etc. must be completely utilized (Kangasabai and Aggarwal, 2019). Financial literacy leads to better investment decision awareness of all or main aspects of investment, risk factors mainly affect investor's rationality towards suitable investment decision (Alaaraj and Bakri, 2020).

Review of Literature:

This paper analyses the previous studies done by the researchers in relation to the various factors influencing investment decision of individual investors.

Factors affecting investment decisions: Psychological biases influencing the investment behaviour

Financial advisor need to be more cautious about suggesting changes which are unusual for the investors as they tend to regret more for such out of character recommendations. Another important documentation is that the investors who regret errors of omission tend to take more risk than those who regret failed attempts **(**Kahneman and Riepe, 1998). The study revealed that respondents of Kurumbalur had medium knowledge about various investment avenues and did not aware of the stock market, equity, bonds, and debentures. The study revealed that all age group people give more importance to make an investment in insurance, NSC, PPF, and bank deposits (Ramesh and Geetha, 2011). The herd behavior is prevailing in the foreign institutional investors in Taiwan. That creates the industrial herding, to test the cause and effect of herding the writer used regression models and gave the evidence that in Taiwan, the foreign institution's investor show the herd behavior while investing (Chen, Yang, & Lin, 2012). The main intention of the research was to examine the factor influencing investment behavior. Data of 60 respondents were collected through probability sampling. Regression and Correlation analysis has been adopted for data analysis. Five independent variables were taken by researchers such as financial literacy, high experience, and use of accounting information, the importance of analyzing financial statements, and age that might affect the investment decision of any individual. Five different dependent variables were chosen from the questionnaire to reach any conclusion they were: risk-taking, preference investment in shares (risky investment), risk aversion, information asymmetry, and shares investment. The researcher concluded that financial literacy and accounting information helped investors to low information asymmetry and allowed the investor to invest in risky instruments. But as age and experience increase investor preferences were moved to less risky investments. It did not mean that investor was no more interested to invest in shares but he had in that attention to get regular returns rather than capital gains (Lodhi, 2014). The study examined on the effect of behavioral biases on investment decisions of individual investors in Kenya. A sample size of 30 respondents was selected through the snowball sampling technique. The data was analyzed through Regression Analysis with the help of SPSS. It is found that individual investor decision was influenced by several behavioral biases which opposed them to being rational. The factors that were most prevalent among individual investors manifested in the form of representativeness bias, an illusion of control bias, Herd instinct Bias, Hindsight Bias. However, individual investors were not susceptible to self-attribution bias, regret aversion bias, over-optimism, and loss aversion bias. The study recommended to manage excessive behavioral influences to investment decision making, training programs should be organized that create investor awareness and the ability to identify and guard against behavioral biases. The study also recommends that there should be a need for financial management knowledge for individual investors such as their capacities in managing funds (Athur, 2014). Herding is the Bias that is combined stimulation in the financial market, which leads to action. There is evidence of empirical and descriptive studies from the last two decades and stated that both types of studies give proper significant insight into herding behaviour (Spyro, 2015). Cognitive dissonance is the mental discomfort experienced when a person holds conflicting beliefs or when newly acquires information contradicts existing understanding. It is a concept commonly used in behavioural finance to analyze financial decision-making (Yu Zhang and Xiaosong Zheng, 2015). In overconfidence bias a person is overconfident, he over estimates his skills, knowledge, beliefs and judgments and show more confidence than needed in a situation. This overconfidence makes investors think that the investment decisions of other persons are caused by their emotions, perceptions, feelings and moods. But they take their own decisions a result of purposeful and sensible ideas. This attitude leads them to such a level that they find all the stuff in their support but opinions of others as illogical and insensible (Gill S. (2018). Availability bias can be observed when investors prefer to invest in local companies where investors are familiar or where information about the assets can be easily be obtained. Investors would rather invest an instrument that has more information provided than do a complete analysis (Hesniati and Lasmiyanto, 2020).

Investment Pattern of Individual Investors

Researcher conducted an empirical study on a study of investment pattern & gender difference in investment behavior of the Residents in and around Mohali and where they preferred to invest whether in equity, fixed deposits, post office, insurance policies, bond, mutual fund, etc. A sample of 200 respondents was selected through simple random sampling. The study concluded that a majority of respondents indulge in long term investments like fixed deposits and traditional investments and people invest 15-30 percent of their income in investment activities. 22.5 percent of people did not have a formal budget and all were unmarried and students. The study further concluded that most people invest in a low-risk investment. The study also revealed that women investor was less confident than men about their financial future and financial knowledge (Singh and Kaur, 2018). Mental accounting refers to the tendency for people to separate their money into separate accounts based on a variety of subjective criteria like the source of money and intent for each account (Renu Isidore and P. Christie, 2018).

Investment Preferences and Behavioural of Individual Investor

Researcher explored on investor's preferences of salaried personnel towards different investment avenues. The study revealed that age and income had a significant relationship, while gender and education did not have a significant relationship with the investment so it clearly stated that both males and females tended to invest and respondents with any education background invest but the amount may vary as per the proportion of their income. The study revealed different respondents invest in diverse avenues. The study found fixed deposits, post office schemes, and gold/ silver respectively were the main investment avenues in which they invested their money. Further, it revealed that the mass of respondents invested in to purchase of a home and for long term growth. Further, it observed that friends/relatives and financial advisors had a greater impact (Shukla, 2016). It has been found that the investor's preference reason in investment was depended upon the investment objectives such as risk, return, and the safety of liquidity of the investment. The study found that most investors enter the share market to take the risk and got good returns periodically. Further, it revealed that risk aversion investors preferred to invest in mutual funds for future needs (Krishna , 2019).

Saving Behaviour of Individual Investor

The paper aimed to contribute to the body of knowledge that exists in the area of saving by examining household saving behavior and the reason for saving in Sunyani Township. A sample of 185 respondents was selected with the use of a convenient sample method. Primary data was collected through a self-designed questionnaire. Tools were used for the analysis of the data were descriptive and inferential statistics and presented through tables and charts with the help of SPSS software. The study found respondents had good saving behavior and save for various reasons with three important reasons these were for business reasons, old age, and for a peaceful mind. The study also found that Demographic variables and social variables such as age, gender, family size, years in employment, sector of employment, and education level all influenced the saving decision and behavior level of respondents. The researchers suggested that policies to induce saving should be taken into consideration these variables so that there will be enough savings for investment which will lead to economic growth (Samuel, 2012). Researcher investigated on the relationship of saving motives for saving habits. The study examined how saving motives were related to saving habits. Using Katona‟s (1975) psychological class satisfaction of saving, where household saved regularly (discretionary), save irregularly (residual), or do not save. Of the 3,822 non-retired households in the 2007 Survey of Consumer Finance stated that 46 percent saved regularly, 32 percent saved irregularly and 22 percent did not save. Chi-square and ANOVA test revealed significant differences among the three saver group. Precautionary and retirement motives increased the likelihood of saving regularly or irregularly as compared with not saving, but only the retirement motives separated the regular savers from irregular savers. The study suggested that a long term planning horizon or higher income increased the propensity for regular or irregular saving as compared with not saving, and for saving regularly as compared irregularly, while low-risk tolerance had the opposite effect. The study also suggested that financial advisors, educators, and policymakers should facilitate short to long-term goal-seeking with frequent savings by individuals and families (Fisher and Anong, 2012).

Key Observations:

- It is observed from the study that psychological and behavioural factors influence investment behaviour of individual investors.
- Behavioural biases like cognitive dissonance, availability bias, and herd behavior influence investment decision.
- Investors are generally risk averse.
- Investors are mostly interested in saving NSC, PPF, fixed deposits.
- Youngsters mostly prefer risky investment avenues, as they believe' more risk more return'.
- Individual investors' investment patterns are influenced by various demographic factors like, age, gender, income, marital status, education, employment, no. of dependents.
- Other factors like life style, peer influence, social interaction, risk bearing abilities, liquidity preferences also have an impact on investor's decision making.

Limitations:

- The main focus of the study is on financial literacy and behavioural aspects of investors and other variables are not included in this paper.
- There might be presence of personal bias of the researchers while collecting previous studies for the review.

Conclusion:

After reviewing the research papers, it has been observed that, people lack awareness towards investment options available in the market like equities, bonds, mutual fund etc. as they do not have enough financial knowledge about risk and return from these avenues, they are prone to invest in traditional mode of investment like gold, bank deposit or investment in land. Most of the investors do not consult a financial advisor because they only invest in the avenues like fixed deposit account, gold and health insurance which give moderate risk. In the financial market we can consolidate various influencing factors such as demographic, psychological biases, over confidence, anchoring prospect, herding and market conditions. Investment is a pivotal decision that involves risk, investors cannot control risk but they can manage risk by making themselves financially aware and by adopting appropriate investment method that is according to their risk bearing capacity and income. Investors can also take guidance from financial advisors regarding investment decision making. Policy makers interested in encouraging saves and investment behaviour among citizens, particularly those from developing nations where savings and investment culture is weak, should consider the findings presented in the study (Gupta S., 2023). Rational investors can not only contribute to their own wealth, but also contribute towards the development of the economy.

Scope for further Research:

Further research can be done on educative measures for investors to aware and literate them about volatility of financial market, options available, risk and return and rationality while making investment decisions.

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2. Parag Parikh, "Value Investing And Behavioural Finance: Insights Into Indian stock Market Realities"