

**Financial Literacy and Investment Practices of Individual Investors in Pokhara**Ram Sapkota<sup>1</sup><sup>1</sup>Corresponding Author: Adjunct Researcher and visiting faculty at Nepal Tourism and Hotel Management College and La Grandee International College, Pokhara,Email: [ram.sapkota32@gmail.com](mailto:ram.sapkota32@gmail.com)

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**Abstract**

This study empirically investigates the financial literacy and investment practices of individual investors in Pokhara. Through liberalization, privatization, and globalization, Nepal's economy has grown and financial markets have expanded, opening the door to an abundance of financial products that can be used as credit or as an investment alternative. This paper assesses the preference of the investment area by the investors. First this paper examines the differences in different investment aspects such as investment horizon, type of investors, investment objectives, expectation of return and their preference by demographic features of investors. Second this paper assesses the regress of financial literacy on investment horizon, investment objectives, expectation of return and their preference. According to the findings, Investor who has liquidity as investment objectives expect 10 to 50% return from their investment. Investors who have moderate and low risk taking objectives are expecting 5-10% return. From the study it is found that male respondent has high financial literacy than female respondent. It is found that individual investor who has high financial literacy they prefer to invest in short period of time and investors who have less financial literacy prefers long period of time as investment. Investor also shown good interest regarding the investment in business rather than other, but there is no significant relationship between gender, marital status and this opinion.

*Keywords:* Asset patterns, Financial Literacy, investment practice, individual investor

**Introduction**

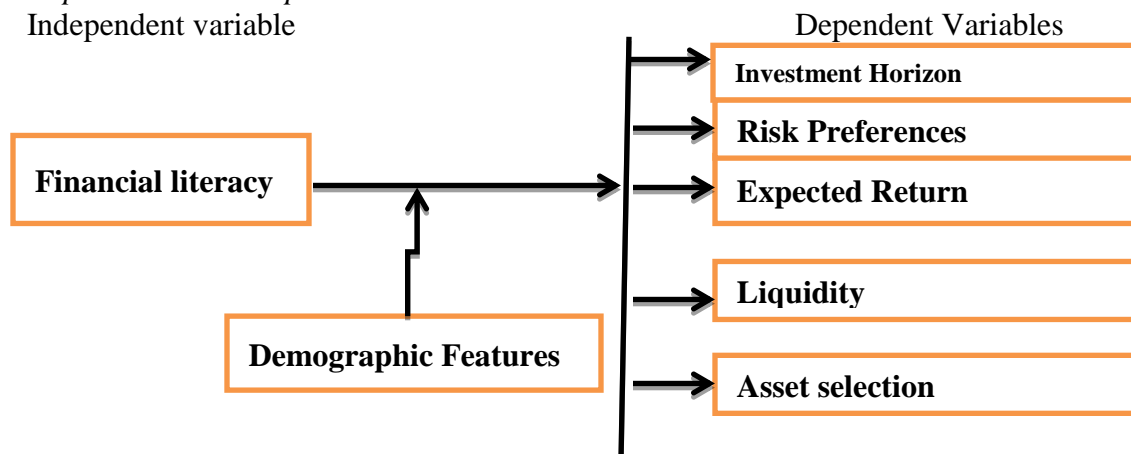
Through liberalization, privatization, and globalization, Nepal's economy has grown and financial markets have expanded, opening the door to an abundance of financial products that can be used as credit or as an investment alternative. However, in contrast, financial illiteracy or a low level of financial literacy prevents individuals from making sound financial decisions. As a result, individuals are unable to select the best investment option that can outperform the economy's inflation rate and provide a net positive return. For rational investors, Pokhara, a tourist destination, offers numerous investment opportunities. Various individuals from various expert foundation are putting resources into various regions according to their capacities and information. People are working in a variety of fields here, including banking, teaching, business, government work, and medicine, among others. Fundamentally, these individuals are from the adjoining locale like Syngja, Gorkha, Parbat, Baglung and so on.

As a result of developments in information and communication technology, the ever-evolving state of financial markets, a wide range of investment products and services, and a myriad of financial market features. The speed with new monetary portfolio have arose and additionally number of establishments go into the monetary market with the more intricate venture. In the financial services industry, technological advancements play a role in marketing and delivering financial investments and/or services. This not only gives customers more options, but it also makes it harder for them to understand the benefits and costs of investments. Hilgert, Hogarth and Beverly (2011), examined how financial knowledge appears to be directly correlated with self-beneficial financial behavior. Financial literacy appears to have a positive impact on financial behavior, but the long-term effects of financial education on financial behavior are less clear. A person's ability to effectively manage money, credit, and debt can be improved through personal financial literacy. Consumers who are better informed make decisions that are more appropriate and effective. Here, the researcher is less likely to be conned into buying products or services they don't need. When consumers lack the skills necessary to effectively manage their finances, both market operations and competitive forces are compromised. Consumers who are financially savvy demand products that cater to both their immediate and long-term financial requirements. As a result, it contributes to the development of a financial market that is more effective and competitive. Sreeja Radhakrishna (2014) have said that India's level of financial literacy is unsatisfactory. People are unaware of financial goods and services, particularly in rural regions. People in rural areas tend to store their savings in their houses, where they run the danger of theft and receive little interest. They take out loans from neighborhood money lenders, who impose exorbitant interest rates. The goal of the article is to determine India's degree of financial literacy. Agarwal, Gupta and Singh (2014) have attempted to learn about Punjabi farmers' financial literacy. According to the researcher, merely including people in the mainstream financial system will not be beneficial until they are financially educated. The study also found a strong positive correlation between a business's annual income, land holding size, and level of financial literacy.

In this research various aspects of investment are tried to be analyzed. This research specially focused on financial literacy, investor's demographic feature, their investment preferences, objective of the investment, return expectation and so on.

**Table 1**

*Dependent and Independent Variables*



Overall, studies concentrated their studies only to know the return from the stock but they are not concerning about the literacy of the investor while selecting the stock and investment. This study tires to examine the financial literacy and investment practices based on investment horizon, investing objective, expected returns and their preferences. After reviewing the literature none of the researcher tries to know whether individual investment decisions are affected by various associated factor or not is the main concentration of the study. In this study, major investment aspects are analyzed to know their investment behavior and practices. Various demographic feature of the respondent and financial literacy are investigated on the investment behavior of the investor Consequently, after reviewing the literature the researcher has the following questions in the mind:

- What are the major investment preferences of the individuals?
- Whether financial literacy affects the investment objective of the individual or not?
- What is comparative relation between financial literacy and other demographic feature?

### **Objectives of the study**

The main objective of this research are:

- To assess the preference of the investment area by the investors.
- To examine the differences in different investment aspects such as investment horizon, type of investors, investment objectives, expectation of return and their preference by demographic features of investors.
- To assess the regress of financial literacy on investment horizon, investment objectives, expectation of return and their preference.

### **Research methodology**

The study was conducted to identify investor investment preference and practices in Pokhara. The design of this study is descriptive and analytical as it describes the investors financial literacy and analyze study of the different investors opinion and their financial literacy condition and demographic feature of investors. This study used quantitative and numeric nature data. Primary data were collected through structured questionnaire and those data analyzed by constructing a statistical model which explains what has been observed regarding the investors investment behavior. To conduct this research initially 200 questionnaires were distributed among total population. But due to the investment practices and its information are confidential so many of them did not fill the questionnaire and 153 questionnaires was collected from the different professionals via various methods so that it covers different demographic and the different employment background of the people. The questionnaire was distributed to different employed profession working in Pokhara by visiting them and after few days it was collected.

Descriptive statistics like frequency distributions, graphs, charts, cross-tabulations, hypothesis testing, ANOVA, Cramm's v and inferential statistics used to elicit meaningful information. Microsoft Excel and SPSS were used for analysis of the data.

### **Hypotheses of the Study**

**H<sub>1</sub>**= There is significant impact of financial literacy on investment horizon.

**H<sub>2</sub>**= There is significant impact of financial literacy on risk preferences.

**H<sub>3</sub>**= There is significant impact of financial literacy on expected return.

**H<sub>4</sub>**= There is significant impact of financial literacy on liquidity.

**H<sub>5</sub>**= There is significant impact of financial literacy on assets selection.

### Data Analysis

To assess the preference of the investment area by the investors, this study analyze their profession, marital status, gender age, income and experience of the respondent.

**Table 2**

*Financial Literacy and Socio Demographic Variables*

Variables	chi-square	Df	sig.@95%	phi.	Cramers v
<b>Financial literacy and gender</b>	9.186	3	0.027*	0.245	0.245
<b>Financial literacy and Profession</b>	11.669	15	0.704	0.276	0.159
<b>financial literacy and marital status</b>	5.05	3	0.168	0.182	0.182
<b>Financial literacy and Age</b>	6.469	9	0.692	0.206	0.119
<b>financial literacy and experience</b>	8.102	6	0.231	0.23	0.163
<b>Financial literacy and income</b>	11.896	12	0.454	0.279	0.161

Financial literacy and gender of the respondent has the significance relationship that means gender of the respondent impacts the financial literacy of the investors. On the case of other demographic features like marital status, profession, age, experience and income does not have association with financial literacy of the investor. That means other demographic feature of the investor does not determine the financial literacy level of the investor. By referring the table, we can see that there is very high financial literacy is more of female respondent and male respondent. But in the case of high financial literacy male investor has more than the female, so it can be concluded as overall there is more male investor has more financial literacy, because of male dominated society, male investor also works as breadwinner for their family, they have authority to investment in various sectors hence their financial knowledge will be higher than female investors.

To examine the differences in different investment aspects such as investment horizon, type of investors, investment objectives, expectation of return and their preference by demographic features of investors, this study test the significant of financial literacy on demographic variables at 95% confidence interval level.

**Table 3**

*Relationship between Different Investment Aspects*

Variables	Chi-square	df	sig.@95%	phi.	Cramer's V
Type of investor and investment objective	32.545	16	0.008*	0.461	0.231
Type of investor and return expectation	102.698	16	0*	0.819	0.41
Type of investor and investment horizon	34.8	16	0.004*	0.477	0.238
Investment objective and investment horizon	40.288	16	0.001*	0.513	0.257
Investment objective and return expectation	40.022	16	0.001*	0.511	0.256

### **Type of Investor and Investment Objective**

Different types of investor show different types of objectives. Since p-value is less than 0.05, there is significant relationship between types of investor and investment objectives.

### **Type of Investor and Major Investment Objectives**

All types are preferred by moderate risk taker investor whereas high risk taker prefers high return and moderate return. Low risk taker investor generally prefers the liquidity as their investment objectives. Because low risk taker generally prefers the liquidity in their hands because they cannot wait for the long period of time.

### **Type of Investor and Return Expectation**

There is significant relationship between investor type and their return expectation. Therefore, investor types affect the expectation of return from investment.

**Table 4**

*Investor Type and their Return Expectation*

Expectation	Type of investor
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on return from investment	High risk Taker	Opportunistic risk taker	Moderate Risk Taker	Low risk taker	I don't like taking risk
50-100 %	76.5%	11.5%	13.3%	3.2%	11.8%
40-50 %	23.5%	34.6%	46.7%	28.6%	11.8%
20 - 40 %		42.3%	23.3%	55.6%	11.8%
10- 20%		11.5%	16.7%	12.7%	52.9%
5 - 10 %					11.8%

### Type of Investor and Investment Horizon

High risk taker investor has more preferences on more return that is 50 to 100 percent return from their investments. Similarly, opportunistic risk taker moderate risk taker, low risk taker and investors they do not like to risk have low expectation from their investments. That means high risk taker prefers higher return and low risk taker prefers lower return and there is significant relationship between type of investor and their expectation from investment. To assess the regress of financial literacy on investment horizon, investment objectives, expectation of return and their preference, this study test the significant of financial literacy on above mentioned variables at 95% confidence level interval.

**Table 5**

*Investment Objectives and Investor Expectation Return*

Major investment objectives	Expectation on return from investment				
	50-100 %	40-50 %	20 - 40 %	10- 20%	5 - 10 %
High return	29.2%	6.4%	5.5%		
Moderate return	33.3%	8.5%	10.9%	20.0%	50.0%
Liquidity	33.3%	68.1%	65.5%	68.0%	
Low risk	4.2%	4.3%	10.9%	4.0%	50.0%
Safety		12.8%	7.3%	8.0%	

Investor who has liquidity as Investment objectives expect 10 to 50% return from their investment. Investors who have moderate and low risk taking objectives are expecting 5-10% return.

**Table 6**

*Investment Objectives and Investors Professions*

Variables	chi-square	df	sig.@95%	phi.	Cramer's v
<b>Profession and investment objectives</b>	36.194	20	0.015*	0.486	0.243

Since p value is less than 5%, there is significant relationship between investors profession and their investment objectives.

**Table 7**

*Investment Objectives and Investors Professions*

Investment objectives	Profession					
	Teaching	Doctor	Bankers	Lawyers	Businessman	Government Employee
<b>High return</b>	4.2%		14.3%		12.9%	
<b>Moderate return</b>	33.3%	20.0%	10.7%	7.1%	6.5%	30.8%
<b>Liquidity</b>	41.7%	80.0%	55.4%	85.7%	67.7%	53.8%
<b>Low risk</b>			12.5%		6.5%	15.4%
<b>Safety</b>	20.8%		7.1%	7.1%	6.5%	

By analyzing the above table, it is seen that all the profession teaching, doctors, bankers, lawyers, businessman and government employees' profession investors have set the objective of liquidity and most of the lawyers are found to set the liquidity as an investment objectives than other profession. After that, businessman and banker set their objectives as a high return from the investments, and remaining all the profession that is teaching, doctors, lawyers and government employee prefers as moderate return as investment objectives.

## Results and findings

Among the male respondent 80.5% have high financial literacy, 9.8% has very high financial literacy. On the other hand, among the female respondent 56.7% have high financial knowledge, 16.7% have very high.

On the basis of profession of the investor it is cleared that bankers have very high financial literacy than other profession and that is 17.9%. Investor who have very high financial literacy they prefer more return from their investment that is 50 to 100 percent. In the case of high financial literacy, they prefer more investment in such assets where they get the average return.34.2% Married respondent strongly agreed and 60.3% agreed for investment in gold and silver whereas 18.8% unmarried respondent are strongly agreed and 66.3% agreed for investment in gold and silver. High risk taker investor has more preferences on more return that is 50 to 100 percent return from their investments

It is found that individual investor who has high financial literacy they prefer to invest in short period of time and investors who have less financial literacy prefers long period of time as investment. Who has high as well as low financial literacy they prefer more return expectation

from their investment. It is identified that there is significant relationship between financial literacy and gender. Male respondent has higher financial literacy rather than female respondent. It is found that individual investor who has high financial literacy they prefer to invest in short period of time and investors who have less financial literacy prefers long period of time as investment. Who has high as well as low financial literacy they prefer more return expectation from their investment. It is identified that there is significant relationship between financial literacy and gender. Male respondent has higher financial literacy rather than female respondent. In the case of Investing in gold and silver male respondent are agreed rather than female respondent, similarly married investor has high degree of agreement rather than unmarried respondents.

There is significant relationship between investment in gold and silver and gender and marital status of the investors. In the statement of share is more secure than fixed deposit investors are seen slightly agreed, on the other hand married and unmarried both investor give same kind of opinion that is agreed and there is no significant relationship with gender and marital status of the investor.

It is found that financial literacy has significant relationship to set up the investment objectives by the investors. And it is found that who have high financial literacy they prefer high return as their investment objectives and who has low level of financial literacy they prefer low risk and liquidity as their investment objectives.

The study is aimed to identify investor's financial literacy and its impact on investment decisions in Pokhara. The employed people in the Pokhara are mostly bankers, employees working for public, private or nongovernmental organizations, businessman, retired person, lawyer, doctor and medical person etc and all of them are defined as population of the study. Hence, the study population constitutes of all the stock market investors of various profession living in Pokhara.

To conduct this research initially 200 questionnaires were distributed but due to the investment practices and its information are confidential so many of them did not fill the questionnaire and 153 questionnaires was collected from the different professionals via various methods so that it covers different demographic and the different employment background of the people.

Among the male respondent 80.5% have high financial literacy, 9.8% has very high financial literacy. On the other hand, among the female respondent 56.7% have high financial knowledge, 16.7% have very high. On the basis of profession of the investor it is cleared that bankers have very high financial literacy than other profession and that is 17.9%. Investor who have very high financial literacy they prefer more return from their investment that is 50 to 100 percent. In the case of high financial literacy, they prefer more investment in such assets where they get the average return. 34.2% Married respondent strongly agreed and 60.3% agreed for investment in gold and silver whereas 18.8% unmarried respondent are strongly agreed and 66.3% agreed for investment in gold and silver. High risk taker investor has more preferences on more return that is 50 to 100 percent return from their investments. Similarly, opportunistic risk taker moderate risk taker, low risk taker and investors they do not like to risk have low expectation from their investments. Investor who has liquidity as investment objectives expect 10 to 50% return from their investment. Investors who have moderate and low risk taking



objectives are expecting 5-10% return. From the study it is found that male respondent has high financial literacy than female respondent.

It is found that married respondent have overall high financial literacy rather than unmarried respondent. It is seen that young age group has more financial literacy than the older age group. By viewing the overall financial literacy of banker respondent have higher than other profession of the respondent.

It is found that individual investor who has high financial literacy they prefer to invest in short period of time and investors who have less financial literacy prefers long period of time as investment. Who has high as well as low financial literacy they prefers more return expectation from their investment. It is identified that there is significant relationship between financial literacy and gender. Male respondent has higher financial literacy rather than female respondent. The significant of association is not found on financial literacy and profession. Also there is no relationship between marital status, age, experience and income with financial literacy.

In the case of Investing in gold and silver male respondent are agreed rather than female respondent, similarly married investor has high degree of agreement rather than unmarried respondents. There is significant relationship between investment in gold and silver and gender and marital status of the investors. In the statement of share is more secure than fixed deposit investors are seen slightly agreed, on the other hand married and unmarried both investor give same kind of opinion that is agreed and there is no significant relationship with gender and marital status of the investor.

Investor also shown good interest regarding the investment in business rather than other, but there is no significant relationship between gender, marital status and this opinion. Unmarried investors have high level of agreement rather than married investors. Investor have believed that investment in foreign currency is riskier and there is no significant difference between gender, marital status and opinion.

Investment as a providing loan to neighbor, in that case investors are agreed but there is no significant relationship between gender, marital status and this opinion. It is found that financial literacy has significant relationship to set up the investment objectives by the investors. And it is found that who have high financial literacy they prefer high return as their investment objectives and who has low level of financial literacy they prefer low risk and liquidity as their investment objectives.

### **Conclusion**

Investors believe that investment in share is riskier comparing with investment in land and building either they are male or female and married and unmarried. There is no significant relationship between gender, marital status and opinion of the investment. There is no significant relationship between financial literacy and other investment aspects such as investment horizon return expectation from investment and type of investors. There is high degree of significance between investment objective and type of investors. Moderate risk taker investor prefers all kind of investment objectives, but they have setup investment objective as to get moderate return from their investment. There is also significant relationship between type of investor and their return

expectation. It is found that high risk taker investors expect high return and low risk taker investment prefers average return from the investments. We found that there is also significant relationship between type of investor and investment horizon of the investments. Generally high risk taker investor prefers to make the investment in short period whereas low risk taker, opportunistic risk taker prefers average period of time as investment period. The opinion regarding investing in land and building, male respondent has shown high degree of agreement rather than female respondent and similarly married investor are more agreed than unmarried investors. There is significant relationship between gender, marital status and that opinion.

## Recommendations

### Suggestions for Investors and Investment Agencies

From the study it was observed that there are more preferences to investment in land and building rather than other investments. Investors must increase their financial knowledge because who have more financial literacy they tend to be high risk taker than having low financial literacy.

### Directions for Future Research

The primary objective of this research is to study the investor investing practices and financial literacy and impact of profession on investment objective of the investor and so on. This research is conducted in Pokhara city so that for further research can be done in other cities of Nepal. There can be more investment aspects can be added more profession individual investors can be included in future research.

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