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The Role of Financial Literacy in Investment Decision: A Study in Kathmandu Valley

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Abstract

Background: Financial literacy plays a crucial role in how individuals make investment decisions, guiding them in managing risk, achieving returns, and pursuing long-term financial goals. In a rapidly evolving financial environment, limited financial knowledge can lead to poor decisions, while higher literacy enhances rational investment behavior and financial well-being.

Purpose: This research investigates financial literacy, investment decisions, and challenges faced by Nepalese families in Kathmandu Valley. Recognizing the crucial role of financial literacy in sound decision-making. The study examines the socio-demographic characteristics and challenges that influence investment choices. The objective of this study is to analyze the role of financial literacy in investment decisions.

Design/methodology/approach: Explanatory research design is used in this study. A total of 408 urban Nepalese families from the Kathmandu Valley were selected as a sample using the convenience sampling method. The Theory of Planned Behavior is used. To examine the data, both descriptive and inferential statistics were used. SEM was used to analyze the data.

Findings: According to this study, market volatility, lack of financial knowledge, emotional biases, and the difficulty in finding suitable investment opportunities are the major challenges faced when making investment decisions. Respondents recommend managerial remedies, including online resources and workshops on financial awareness. Investment decisions are significantly impacted by financial behavior, knowledge, skills, and money management, as confirmed by the structural model.

Conclusion: The study concludes that financial behavior, knowledge, skills, and money management have a significant impact on investment decisions, while financial attitude has no direct impact on investment decisions. The results provide complex insights into how urban Nepalese families make financial decisions.

Keywords: Theory of Planned Behavior**,** Financial Literacy, Investment Decision, Kathmandu Valley, Structural Equation Modeling

1. Introduction

Investment decision-making constitutes a fundamental dimension of personal and household financial management, reflecting how individuals allocate scarce resources among competing financial opportunities to achieve specific economic goals. Such decisions involve evaluating trade-offs between risk and return, time horizon, and liquidity preferences, and are often shaped by psychological and contextual factors. Within this decision framework, financial literacy emerges as a decisive element influencing how effectively individuals plan, save, and invest. Financial literacy, broadly defined as the ability to understand and apply key financial concepts in decision-making, enables individuals to make rational financial choices and manage resources efficiently across both short-term and long-term horizons (Nye et al., 2013; Mushafiq et al., 2023). It embodies not only knowledge of core principles such as interest rates, inflation, compounding, and diversification but also the confidence and behavioral capacity to apply this knowledge in real-world financial contexts (Pradana et al., 2021).

In today's increasingly complex financial environment, where the proliferation of financial products demands higher cognitive and analytical skills, the role of financial literacy has become even more crucial. Individuals and households are required to make informed choices about saving instruments, insurance plans, mutual funds, and participation in the capital market. Inadequate financial understanding may lead to poor asset allocation, excessive debt accumulation, or vulnerability to financial risks. Conversely, individuals with higher financial literacy tend to diversify their portfolios, plan effectively for retirement, and exhibit prudent investment behavior that enhances financial well-being and wealth accumulation (Hastings et al., 2013). Hence, financial literacy functions not merely as an individual competence but as a determinant of household resilience and, by extension, a contributor to national financial stability.

Globally, the literature documents significant disparities in financial literacy across demographic and regional lines. Lusardi and Mitchell (2011) demonstrated that financial illiteracy is widespread, even in advanced economies, with notable gaps across gender, age, and education levels. Younger and older populations generally exhibit weaker financial comprehension compared to middle-aged groups, while women tend to score lower in financial knowledge and confidence relative to men. Empirical studies also suggest that these knowledge gaps directly influence investment choices and retirement planning outcomes. For instance, individuals with stronger financial literacy are more likely to evaluate risk-return trade-offs rationally, diversify investments, and avoid speculative or impulsive financial decisions.

Empirical evidence from various countries highlights the significant role of financial literacy in influencing investment behavior. In Indonesia, Nidar and Bestari (2012) found that university students exhibited low financial literacy, particularly in areas such as investment, credit, and insurance, with education, parental background, and income being influential factors. Chu et al. (2017), analyzing Chinese household survey data, distinguished between basic and advanced financial literacy and concluded that higher literacy levels led to greater portfolio diversification through professional management, while less literate investors tended to pursue self-directed and riskier investment strategies. Lusardi and Mitchell (2007) highlighted in Japan that low financial literacy, especially among women and minorities, constrained effective retirement planning, calling for targeted and behaviorally informed financial education. Similarly, Boisclair et al. (2017) reported that in Canada, financial literacy levels were notably low among youth, the elderly, and less-educated individuals, including those in the college-educated population. Gallery et al. (2011) further observed that in Australia, literacy among superannuation fund members strongly influenced retirement investment choices. In South Asia, Biswas and Gupta (2021) established a positive relationship between financial literacy and saving and investment behavior in West Bengal. Meanwhile, Hussain et al. (2022) found that financial literacy in Pakistan, shaped by income, education, and family background, significantly improved investment decision-making. In the Nepalese context, Thapa and Nepal (2015) reported that while college students demonstrated basic financial knowledge, their understanding of complex concepts such as taxation, stock markets, and credit systems remained limited.

Although the global and regional evidence emphasizes the critical role of financial literacy in investment behavior, research within the Nepalese context remains limited in scope and depth. Most existing studies have focused on students rather than household decision-makers, providing only partial insight into how financial knowledge translates into actual investment behavior (Zang & Rosli, 2024). The financial landscape of Nepal has undergone substantial evolution in recent decades, characterized by the expansion of commercial banks, cooperative institutions, insurance markets, and increased exposure to capital market instruments. However, this expansion has not been accompanied by a proportional increase in financial capability. Many urban households continue to rely on traditional savings practices, such as fixed deposits and informal savings groups, and exhibit limited engagement with advanced investment options, including mutual funds and stock trading (Subedi, 2023). Even among highly educated urban residents, the application of financial knowledge often remains weak, reflecting the limited integration of financial education within formal academic curricula and the lack of accessible literacy programs (Czech et al., 2024).

These realities highlight a persistent research gap. Despite urbanization, income growth, and increasing financial access, the capacity of Nepalese households, particularly those in metropolitan areas such as the Kathmandu Valley, to make informed investment decisions remains poorly understood (Ghimire & Dahal, 2024). Demographic variables, such as age, gender, income, and occupation, may further influence financial literacy outcomes, while institutional and behavioral barriers can exacerbate suboptimal financial choices. Understanding these dynamics is essential for designing evidence-based interventions to promote responsible investment practices and enhance household financial resilience.

Against this backdrop, the present study seeks to examine the role of financial literacy in shaping investment decisions among households in Kathmandu Valley. It aims to assess the level of financial knowledge, identify key determinants that influence investment behavior, and analyze the challenges individuals face in navigating financial markets. By doing so, the research not only contributes to the global discourse on financial literacy and investment behavior but also fills an empirical void in the Nepalese context. The findings are expected to provide practical implications for policymakers, educators, and financial institutions in developing targeted literacy programs and policies that foster informed financial decision-making. Strengthening financial literacy among urban households can enhance resource allocation efficiency, promote financial inclusion, and contribute to sustainable economic development (Iftikhar & Frimpong, 2024). Ultimately, the study aspires to advance both theoretical understanding and policy action by linking financial literacy to household investment outcomes in a rapidly transforming urban economy.

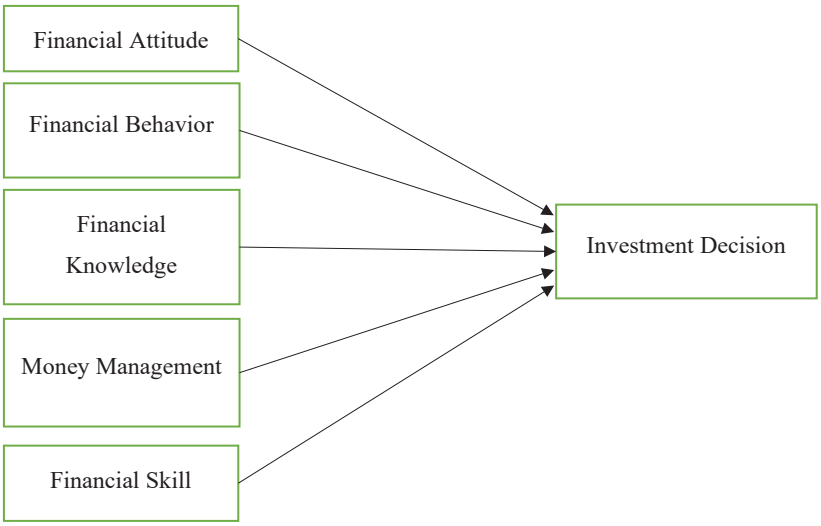
2. Literature Review

Conceptual Framework and Hypothesis Formulation

The conceptual framework of this study is grounded in the Theory of Planned Behavior (TPB), supported by insights from Prospect Theory, Behavioral Theory of Investment, Life Cycle Theory, and Social Cognitive Theory. The TPB provides a foundation for understanding how individual attitudes, behavioral control, and intentions influence financial actions. Building on this theoretical base, the framework integrates models developed by Lusardi and Mitchell (2011), Suppakitjarak and Krishnamra (2015), and Pradana et al. (2021), who examined investment behavior from a financial literacy perspective within the TPB framework. As illustrated in Figure 1, the conceptual model posits that financial attitude, financial behavior, financial knowledge, money management, and financial skill act as key dimensions influencing individuals' investment decisions. Financial attitude influences the willingness and confidence to invest; financial behavior encompasses practical actions such as saving and budgeting; financial knowledge facilitates an understanding of investment options; money management ensures the efficient allocation of resources; and financial skill enhances analytical and decision-making abilities. Together, these components of financial literacy form the cognitive and behavioral foundation that guides rational investment decisions, highlighting how individuals' psychological and skill-based attributes collectively determine their financial choices. Here, financial attitude, financial behavior, financial knowledge, money management, and financial skill are independent variables, and Investment Decision is the dependent

variable.

Figure 1: Conceptual Framework



Sources: Adapted from (D.A.T, 2020)

Hypotheses formulation

The study proposes five direct hypotheses grounded in financial attitude, financial behavior, financial knowledge, money management, and financial skills, each of which is elaborated in the sections that follow.

Financial Attitude and Investment Decision

Attitude finance emphasizes how financial principles are applied to create and maintain value through sound decision-making and resource allocation. A positive financial attitude shapes individuals' budgeting and investment behaviors, encouraging them to make well-informed and strategic decisions (Sorongan, 2022). Research shows that Singaporeans generally exhibit positive financial behaviors, such as saving, tracking expenses, and planning effectively, which reflects strong financial management habits. Moreover, a positive financial attitude strengthens the relationship between financial knowledge and investment decisions, as those with optimistic mindsets use their knowledge more effectively (Hassan Al-Tamimi & Anood Bin Kalli, 2009). Overall, this connection underscores the psychological and emotional aspects of financial decision-making, where optimism promotes proactive and diversified investment strategies (Daradkeh, 2023).

H_{01}: Financial Attitude has a significant impact on investment decisions.

Financial Behavior and Investment Decision

Responsible financial behavior is a significant determinant of effective investment decision-making. Individuals who exhibit prudent financial behaviors, such as budgeting, disciplined saving, and informed spending, are more likely to make sound and informed investment choices (Rogers, 2010). Responsible financial behavior provides a foundation for strategic and goal-oriented investment decisions, minimizing impulsive actions and enhancing the overall effectiveness of an individual's investment approach (Kumar et al., 2023). Practicing financial responsibility is associated with a reduced tendency to spend money on non-essential items impulsively. (Kaur & Sharma, 2020).

H_{02}: Financial behavior has a significant impact on investment decisions.H_{02}: Financial behavior has a significant impact on investment decisions.

Financial Knowledge and Investment Decision

Financial knowledge is a central component of financial literacy that enables individuals to make informed, strategic investment decisions by understanding market dynamics and assessing risks (Merton & Bodie, 1995; Liebi, 2020). Studies have shown that individuals with higher financial literacy demonstrate stronger decision-making abilities and are less prone to financial mismanagement or planning errors (Musundi, 2014). Thus, financial knowledge not only empowers investors to align their decisions with long-term goals but also enhances confidence in navigating complex financial environments (Hung et al., 2012; Neupane, 2021).

H_{03}: Financial knowledge has a significant impact on investment decisions.

Money Management and Investment Decision

Proficient money management skills directly contribute to the achievement of investment goals (Kibui, 2013). Individuals with strong money management skills are adept at allocating resources effectively, optimizing risk, and ensuring a sustainable investment strategy (Basak et al., 2007). Effective money management minimizes the likelihood of financial setbacks, enhances portfolio performance, and ensures a balanced and strategic approach to investment decision-making (Swensen, D.F., 2009).

H_{04}: Money management skills have a significant impact on investment decisions.

Financial Skill and Investment Decision

Advanced financial skills have a significant impact on the overall success of investment portfolios (De Reyck et al., 2005)**.** Individuals with advanced financial skills possess the capability to analyze complex financial data, implement sophisticated investment strategies, and adapt to dynamic market conditions (Carnahan et al., 2010). Individuals with high financial skills have a significant impact on investment decisions (Aren & Aydemir, 2015).

H_{05}: Financial skills have a significant impact on investment decisions.

Table 1 presents the operationalization of all variables used in the study. Each construct is listed alongside its observed variables, specific indicators, detailed explanations, and corresponding sources. This structure ensures clarity in how each theoretical concept is measured and provides transparency regarding the development of the measurement items. By aligning every construct with validated indicators drawn from established literature, the table provides a comprehensive overview of the study's measurement framework, thereby supporting the reliability and validity of subsequent empirical analyses.

Table 1: Variable Construct

Construct	Observed Variables	Indicator	Explanation	Source
Financial Attitude	Positive Attitude Toward Financial Matters	FA1	Belief in the essential role of a positive attitude for achieving financial well-being.	(Djajadikerta, 2018).
	Positive View of Financial Education	FA2	Positive perception of financial education and its role in managing money effectively.	(Remund, 2010)
	Belief in the Impact of Financial Knowledge	FA3	Recognition of the positive impact of improving financial knowledge on overall financial outcomes.	(Hastings et al., 2013)

	Confidence in Financial Decision-Making	FA4	Confidence in one's ability to make effective financial decisions.	(Lusardi & Mitchell, 2007)
	Positive View of Financial Education Programs	FA5	Positive perception of financial education programs and resources as tools for improving financial attitudes.	(Lusardi & Tufano, 2019)
	Link Between Financial Attitude and Responsibility	FA6	The belief that individuals with a good financial attitude are more likely to make informed and responsible financial choices.	(Shim et al., 2009)
Financial Behavior	Savings Habits	FB1	Regularity and consistency in saving money. Examines the habitual saving practices and routines of an individual.	(Klontz et al., 2011)
	Extensive Research and Planning	FB2	Undertaking extensive research and planning when making significant financial decisions, such as investments.	(Grable, 2000)
	Investment Activity.	FB3	Actively investing in financial assets like stocks, bonds, or mutual funds in the past year.	(Joo & Grable, 2004)
	Seeking Advice from Financial Professionals	FB4	The likelihood of seeking advice from financial professionals or experts when making financial decisions.	(Robb & Sharpe, 2009)
	Expense Tracking and Budgeting	FB5	Frequent tracking of expenses and practicing budgeting habits.	(Hira & Loibl, 2005)
	Effective Problem Solving in Financial Challenges	FB6	Demonstrating adaptability and effective problem-solving when faced with financial challenges or unexpected expenses.	(Norvilitis et al., 2006)
Financial Knowledge	Understanding of Complex Financial Concepts	FK1	Confidence in understanding complex financial concepts, such as investments and interest rates.	(Lusardi & Mitchell, 2011)
	High Level of Knowledge about Common Financial Terms	FK2	Possession of a high level of knowledge about common financial terms, including assets, liabilities, and diversification.	(Joo & Grable, 2004)
	Active Information Seeking about Financial Topics	FK3	Actively seeking information or educating oneself about various financial topics.	(Lusardi, 2011)

	Formal Financial Education or Training	FK4	Having received formal financial education or training in the past, such as workshops or courses.	(Lusardi & Mitchell, 2014)
	Seeking Clarification in Unfamiliar Financial Decisions	FK5	Likelihood of seeking clarification or looking up information when faced with financial decisions that are not understood.	(Lusardi & Tufano, 2009)
Money Management	Budgeting Skills	MM1	Effective allocation of monthly budget to cover essential expenses.	(LeBaron et al., 2001)
	Prioritizing Savings for Unexpected Needs	MM2	Prioritizing the building of a savings fund for unexpected financial needs.	(Ameriks et al., 2011)
	Optimizing Spending Habits	MM3	Actively seeking ways to optimize spending habits for financial well-being.	(Gathergood, 2012)
	Confidence in Handling Financial Emergencies	MM4	Confidence in the ability to handle financial emergencies.	(Yuen & Lee, 2011)
	Regular Review and Adjustment of Financial Goals	MM5	Regularly reviewing financial goals and adjusting them as needed.	(Chatterjee & Ghosh, 2014)
Financial Skill	Knowledge of Investment Options	FS1	Knowledge about a variety of investment options available in the market.	(Haliassos & Bertaut, 1995)
	Understanding Risks in Financial Instruments	FS2	Understanding potential risks associated with different financial instruments.	(Campbell, 2006)
	Active Pursuit of Financial Knowledge	FS3	Actively seeking to enhance financial knowledge through various sources.	(Lusardi, 2012)
	Confidence in interpreting economic indicators	FS4	Confidence in interpreting economic indicators and their impact on investments.	(Malmendier & Nagel, 2011)
	Belief in Possessing Financial Decision-Making Skills	FS5	Belief in possessing the skills necessary to make effective financial decisions.	(Lusardi & Mitchell, 2011)

	Seeking Professional Advice in Investment Management	FS6	Actively seeking professional advice or using financial tools in managing investments.	(Mullainathan & Thaler, 2000)
Investment Decisions	Thorough Research and Analysis of Investment Opportunities	ID1	Thoroughly researching and analyzing potential investment opportunities before deciding.	(Barber & Odean, 2001)
	Diversification of Investment Portfolio	ID2	Diversifying the investment portfolio to manage and spread risk effectively.	(Markowitz, 1952)
	Consideration of Short-Term and Long-Term Factors	ID3	Consider both short-term and long-term factors when making investment decisions.	(Cocco, 2005)
	Comfort with Risk Level in Investment Portfolio	ID4	Being comfortable with the level of risk associated with the investment portfolio.	(Benartzi & Thaler, 2001)
	Regular Adjustment of Investment Strategy	ID5	Regularly adjusting the investment strategy based on changing market conditions.	(Statman, 2014)

Note: The items fa6, fb5, fb6, fk5, fk6, mm6, fs1, and id6 were dropped after performing measurement modeling, as they had the lowest factor loading, in order to achieve an AVE above 0.5.

3. Methods

This study follows the research onion framework (Saunders et al., 2019). It adopts a post-positivist philosophy, acknowledging that objective reality exists but can only be partially understood through observation and measurement. Using a deductive approach and a mono-method quantitative design, the study employs an explanatory research design to examine the causal relationship between financial literacy and investment decisions (Basnet et al., 2024). Data is collected from both primary and secondary sources, with structured questionnaires serving as the primary instrument for gathering responses. Descriptive statistics are used to summarize the data, while inferential analysis is applied to test hypotheses and explore correlations between variables. This design enables the study to assess how different levels of financial literacy influence individual investment behavior, ensuring empirical rigor and alignment with theoretical expectations (Asenahabi, 2019; Saunders et al., 2019).

Study Area and Population

The study focuses on the Kathmandu Valley, located in Province 3 of Nepal, which encompasses the districts of Kathmandu, Bhaktapur, and Lalitpur (Lawaju et al., 2023). Situated at an average elevation of 1,300 meters and covering roughly 395 square kilometers, the valley serves as Nepal's economic, cultural, and administrative hub, reflecting the nation's diverse socio-economic and demographic landscape. Its urban complexity, marked by varied income levels, education, and access to financial institutions, makes it an ideal setting to examine how financial literacy influences investment decisions among urban Nepalese families. The study employs a non-probability sampling approach, specifically convenience sampling, to

gather data efficiently from individuals based on availability and willingness to participate. This method supports in-depth exploration of financial behavior within the time and resource constraints, enabling a nuanced understanding of investment decision-making in Kathmandu's dynamic urban context.

Sampling, Data Collection, and Analysis

The sample size for the study was determined using the following formula. $n= z^2pq/l^2$ (Maharjan et al., 2022) . where n_0= sample size required for study, Standard tabulated value for 5% level of significance (z) = 1.96. p= prevalence or proportion of an event 50 % = 0.50. So, P= 0.5 and q = 1-p = 0.5. Allowable error that can be tolerated (e) = 5 %. Thus, the sample size required for the study was (384.16 + 19.21) = 403.36 (≈403). The study received responses from 408 respondents.

A structured questionnaire, combined with interviews, served as the primary research instrument (Lawaju et al., 2024). The questionnaire was pretested with 15 respondents, and revisions were made based on their feedback before final deployment. Data collection was conducted through both online and offline modes using Kobo Toolbox, allowing respondents to complete the survey conveniently. The collected data was entered and organized in Microsoft Excel, while SmartPLS 4.0 was employed for advanced statistical analysis, including structural equation modeling. Both descriptive and inferential analyses were conducted to interpret the data, with results presented through charts, tables, and figures, focusing first on respondents' socio-demographic characteristics.

4. Results

Socio-Demographic Characteristics

General information, such as age, location, gender, education level, marital status, occupation, monthly household average income, and family type, is included under the socio-demographic characteristics. Primary data from 408 participants were collected through a questionnaire survey, which is discussed below.

Table 2: Socio-Demographic Characteristics

Title	Category	Number	Percentage (%)
Gender	Male	221	54.17%
	Female	182	44.61%
	Others	5	1.23%
Age	18-29	173	42.4%
	30-39	95	23.28%
	40-49	86	21.08%
	50-59	47	11.52%
	above 60 years	12	2.94%
Location	Kathmandu	190	46.57%
	Bhaktapur	134	32.84%
	Lalitpur	90	22.06%
Marital Status	Married	137	33.58%
	Unmarried	163	39.95%
	Divorced	68	16.67%
	Widow	31	7.6%
	Other	11	2.7%

Education Level	SLC/SEE	29	7.11%
	Higher Secondary	92	22.55%
	Bachelors	198	48.53%
	Masters and above	91	22.3%
	Housewife	26	6.37
	Farmer	55	13.48
	Government sector	81	19.85
	Private Services	136	33.33
	Banker	26	6.37
	Student	63	15.44
	Others	43	10.54
Nature of Employment	Full Time	183	44.85
	Part Time	85	20.83
	Unemployed	80	19.61
	Retired	52	12.75
	Student	26	6.37
Monthly Household Average Income	Below 2 lakhs	73	17.89
	2-3 lakhs	89	21.81
	3-4 lakhs	105	25.74
	4-5 lakhs	65	15.93
	More than five lakhs	81	19.85
Family Type	Nuclear	190	46.57
	Joint	145	35.54
	Extended	73	17.89

The socio-demographic characteristics of the 408 participants in this study, as illustrated in Table 6, were gathered through a comprehensive questionnaire survey, providing a detailed profile of the sample population. The gender distribution showed a slight majority of male participants at 54.17%, while 44.61% were female, and a minor 1.23% identified as belonging to other groups. The age composition revealed a significant portion of participants within the 18-29 age bracket, constituting 42.4% of the sample, followed by 23.28% in the 30-39 age group. Geographically, participants were dispersed across Kathmandu (46.57%), Bhaktapur (32.84%), and Lalitpur (22.06%), reflecting a diverse urban landscape.

Marital status was represented in a varied manner, with 33.58% of participants being married, 39.95% unmarried, 16.67% divorced, 7.6% widowed, and 2.7% falling into the 'other' category. Education levels displayed a spectrum of attainment, ranging from 7.11% with SLC/SEE completion to 22.3% holding a Master's degree or above. The occupational distribution showcased a diverse workforce, including housewives (6.37%), farmers (13.48%), government sector employees (19.85%), individuals in private services (33.33%), bankers (6.37%), students (15.44%), and others (10.54%).

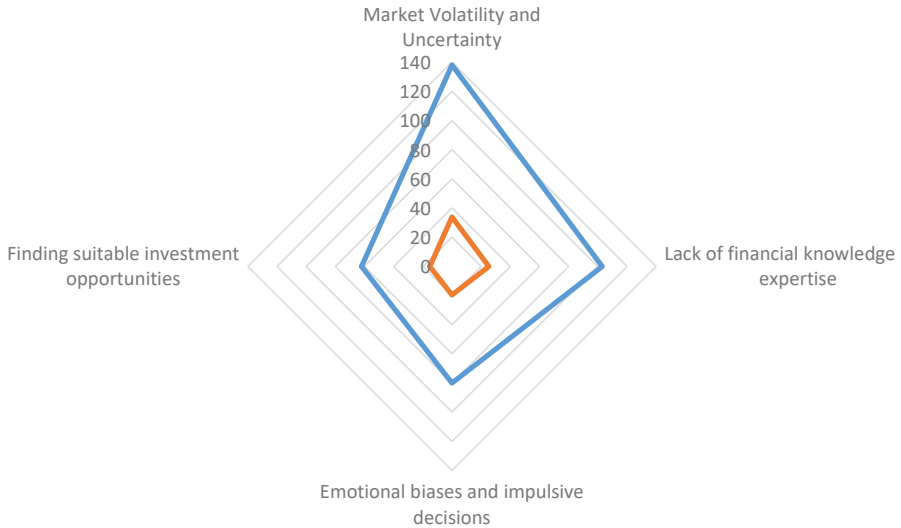
Further detailing the nature of employment, 44.85% of participants were engaged in full-time work, 20.83% in part-time positions, 19.61% were unemployed, 12.75% were retired, and 6.37% identified as students. The monthly household average income exhibited economic diversity, with 17.89% earning below Rs 2 lakhs, 21.81% between Rs 2 and Rs 3 lakhs, 25.74% between Rs 3 and Rs 4 lakhs, 15.93% between Rs 4 and Rs 5 lakhs, and 19.85% earning more than Rs 5 lakhs.

Family types were categorized as nuclear (46.57%), joint (35.54%), and extended (17.89%), providing insights into the social structure of the participants. This rich socio-demographic profile provides a comprehensive foundation for understanding the participants' diverse backgrounds, which is crucial for contextualizing and interpreting the study's findings in relation to their demographic characteristics.

Challenges faced by Nepalese families in making investment decisions

Respondents were asked whether they had faced any managerial challenges. The result shows that the majority of respondents, i.e., 58.09%, have faced challenges while making investment decisions, whereas the remaining 41.91% do not face any obstacles. Moreover, 33.82% of respondents faced the problem of Market Volatility and Uncertainty, 25.25% faced the issue of a lack of financial knowledge and expertise, 19.61% faced the problem of Emotional biases and impulsive decisions, and 15.2% of respondents faced the problem of finding suitable investment opportunities. The significant challenges include market volatility and Uncertainty, a Lack of financial knowledge and expertise, Emotional biases, and impulsive decisions.

Figure 2: Challenges Faced by Nepalese families while making investment decisions



Similarly, respondents were also asked the question, "How often do you face these challenges?" Among them, 36.27% of respondents always face these challenges, 44.61% of respondents often face these challenges, and 19.12% of respondents rarely face these challenges. Respondents were asked if the challenges they faced were manageable or not, and if manageable, what management strategies they used to address those challenges. This can contribute to better management of challenges while making investment decisions. By analyzing the respondents' responses, it is found that the majority of respondents, i.e., 187 respondents, agreed that the challenges can be managed, while 50 respondents agreed that the challenges can't be managed. Out of 237 respondents who believe that the challenges can be managed, 12.01% respondents believed that by conducting financial literacy workshops and seminars, problems can be solved. Similarly, 11.76% of respondents said that providing free online financial education resources is necessary to overcome the problems. Additionally, 8.09% of respondents believed in collaborating with schools and community centers for financial education, 7.6% believed in offering simplified and user-friendly account statements, and 0.98% believed in other reasons.

Inferential Analysis

Common Method Bias: The common method bias is tested using the full collinearity test. According to Kock (2015) in order to exclude common technique bias from the data, the VIF number must be less than 5. All the VIF values in Table 3 are less than 5, indicating that the data are suitable for further analysis and are not affected by common method bias

Table 3: VIF for Common Method Bias

Financial Attitude	Financial Behavior	Financial Knowledge	Money Management	Financial Skill	Investment Decision
1.404	1.867	1.903	1.427	2.034	1.026

The relationship between an indicator or item and a construct or latent variable is explained by the measurement model, also known as the outer model (Diamantopoulos et al., 2008)the use of formative indicators for construct measurement in empirical studies is still scarce. This paper seeks to encourage the thoughtful application of formative models by (a. The validity and reliability of the model are assessed during the measurement process. A reflective measurement model is used in this investigation. Internal Consistent Reliability, Convergent Validity, and Discriminant Validity are noted in the reflective model.

Cronbach's Alpha (CA) and Composite Reliability (CR) tests are used to determine Internal Consistent Reliability. The data must meet the requirement of CA > 0.7 in order to demonstrate internal consistency reliability (Bujang et al., 2018). Likewise, there are some requirements that composite reliability must meet. Higher CR readings frequently indicate better levels of reliability. For example, Composite Reliability ratings between 0.70 and 0.90 are considered "satisfactory to good," while levels between 0.60 and 0.70 are considered "acceptable." Values of 0.95 and above, however, pose a problem since they suggest that the items are redundant (Agus Purwanto & Yuli Sudargini, 2021).

Table 4: Internal Consistent Reliability

Construct	Cronbach's alpha	Composite reliability
fa	0.917	0.918
fb	0.894	0.894
fk	0.851	0.855
fs	0.798	0.824
id	0.89	0.896
mm	0.918	0.919

Table 4 illustrates the reporting of internal consistency reliability (CA and CR) in empirical studies. All the above criteria of Cronbach's alpha (CA) and Composite reliability (CR) are satisfied. As a result, the model of this study has internal consistency reliability.

In this study, some indicators have a loading of less than 0.7, and some constructs achieved values of less than 0.5 for the AVE (Dhakal et al., 2023), which is unacceptable for convergent validity. Therefore, the items of the corresponding construct with lower factor loading are dropped. Items fa6, fb5, fb6, fk5, fk6, mm6, fs1, and id6 were dropped to achieve an AVE of value 0.5 or above, as their loading values were the lowest.

Table 5: Convergent Validity

Construct	Indicators	Outer Loading	Average variance extracted (AVE)
Financial Attitude	fa1	0.872	0.752
	fa2	0.873	
	fa3	0.882	
	fa4	0.866	
	fa5	0.841	
Financial Behavior	fb1	0.874	0.758
	fb2	0.870	
	fb3	0.877	
	fb4	0.861	

Financial Knowledge	fk1	0.845	0.691
	fk2	0.827	
	fk3	0.841	
	fk4	0.812	
Money Management	mm1	0.857	0.753
	mm2	0.879	
	mm3	0.893	
	mm4	0.872	
	mm5	0.836	
Financial Skill	fs2	0.839	0.621
	fs4	0.832	
	fs5	0.802	
	fs6	0.668	
Investment Decision	id1	0.683	0.700
	id2	0.852	
	id3	0.876	
	id4	0.869	
	id5	0.884	

The HTMT ratio, Fornell and Larcker criteria, and cross-loading are used to test the discriminant validity. All factor loading indications on the designated construct must be greater than any other loading on other constructions in order to be considered for cross-loading (Ab Hamid et al., 2017). The cross-loading values fulfill the criteria of having a larger factor loading than any other loading on other constructs. The Fornell and Larcker criterion is also satisfied. This criterion checks if the squared correlation between the two constructs is bigger than any of the AVEs of the two constructs (Henseler et al., 2015)such as partial least squares, the Fornell-Larcker criterion and the examination of cross-loadings are the dominant approaches for evaluating discriminant validity. By means of a simulation study, we show that these approaches do not reliably detect the lack of discriminant validity in common research situations. We therefore propose an alternative approach, based on the multitrait-multimethod matrix, to assess discriminant validity: the heterotrait-monotrait ratio of correlations. We demonstrate its superior performance by means of a Monte Carlo simulation study, in which we compare the new approach to the Fornell-Larcker criterion and the assessment of (partial. Moreover, Table 10 shows the HTMT values to test discriminant validity. Generally, values less than 0.9 for the HTMT criterion are widely accepted (Franke and Sarstedt, 2018). All constructs HTMT values lie below 0.9. Hence, the data is considered valid according to the criterion of discriminant validity.

Table 6: Inter-Construct Correlations, the Square Root of AVE, and HTMT results

	Fornell-Larcker Criterion						HTMT					
	fa	fb	fk	fs	id	mm	fa	fb	fk	fs	id	mm
fa	0.867											
fb	0.595	0.871					0.658					
fk	0.582	0.598	0.831				0.658	0.685				
fs	0.046	-0.085	0.027	0.788			0.06	0.097	0.052			
id	0.596	0.708	0.602	-0.116	0.836		0.658	0.797	0.689	0.135		
mm	0.628	0.584	0.553	0.001	0.654	0.868	0.684	0.645	0.622	0.04	0.72	

The square root of AVE, HTMT ratios, and inter-construct correlations, taken together, demonstrate the excellent discriminant validity of the study's measurement tools. It is repeatedly confirmed that each concept has a stronger association with its indicators than with other constructs when the square root of AVE values surpasses inter-construct correlations. Furthermore, the HTMT ratios, which are significantly below the threshold, confirm that the instruments can efficiently differentiate between various constructions.

These results strengthen the validity and reliability of the measurements, enhancing the study's legitimacy in examining the role of financial literacy in investment decisions.

The NFI value should be within 0-1 (Hair et al., 2010), and the SRMR value should be less than 0.1 (Stone, 2021) to ensure a decent model fit to the data. The SRMR value is 0.044, and the NFI value is 0.882, both of which exceed the necessary threshold value and indicate a good fit. The appropriateness of the model in capturing the observed data is reflected in its goodness of fit, as measured by the Standardized Root Mean Square Residual (SRMR) and Normed Fit Index (NFI). The model's accuracy is highlighted by the small average difference between the observed and predicted covariances, with an SRMR of 0.044 below the suggested threshold of 0.1. Furthermore, a favorable fit is indicated by the NFI value of 0.882, which is higher than the acceptable threshold of 0.6. A low SRMR indicates a strong model fit, and the model's overall robustness is reinforced by a higher NFI value.

Structural Model

Using structural equation modeling, the study tests its hypotheses and evaluates the model's ability to explain variations in endogenous variables influenced by external factors (Rajbhandari et al., 2022). The R^2 value of 0.612 surpasses the acceptable threshold of 0.20, indicating a strong model fit and validating its predictive power (Hair et al., 2011). Bootstrapping in Smart PLS4 further estimates path coefficients and t-values for direct and mediated relationships, visually represented through a path diagram that confirms the conceptual linkages among the study's five hypotheses.

Figure 3: Path Analysis

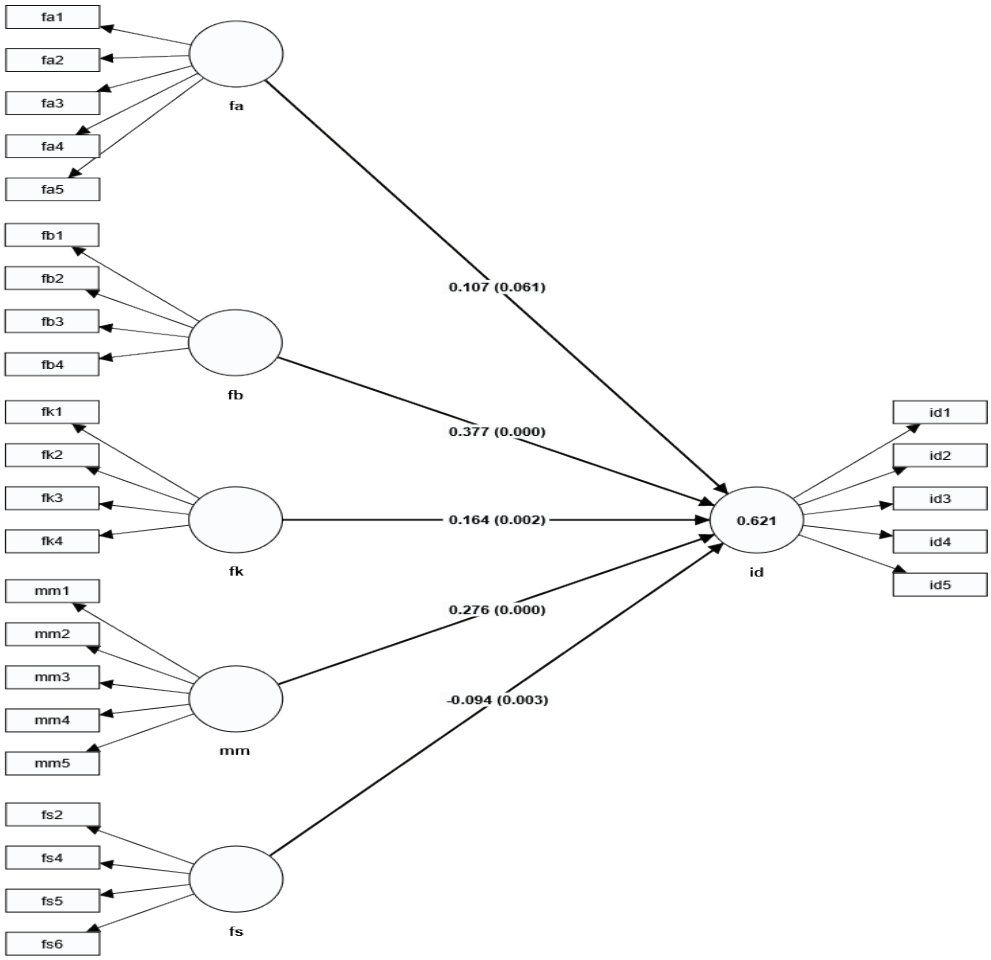


Table 8: Hypothesis Test

Hypothesis		Beta	SD	T values	P values	CI		Decision
						LL	UL	
H_{01}	fa -> id	0.107	0.057	1.872	0.061	-0.006	0.22	Not supported
H_{02}	fb -> id	0.377	0.055	6.81	0.000	0.268	0.484	Supported
H_{03}	fk -> id	0.164	0.053	3.095	0.002	0.064	0.27	Supported
H_{04}	fs -> id	-0.094	0.032	2.952	0.003	-0.149	-0.023	Supported
H_{05}	mm -> id	0.276	0.049	5.634	0.000	0.179	0.371	Supported

Table 8 illustrates that the P-value is less than 0.05 for all hypotheses except for hypothesis 1, which means that there is a significant relationship between the variables in all hypotheses except for those in hypothesis 1. Result supported at significance level: ***P<0.05 and not when beta value lies within confidence interval (Du Prel et al., 2009). This indicates that Financial Behavior, Financial Knowledge, Financial Skills, and money management have a significant impact on investment decisions.

5. Discussion

This research aims to analyze the investment decision of urban Nepalese Families in the Kathmandu Valley. Various variables are used for analyzing investment decisions. Such factors are financial attitude, financial behavior, financial knowledge, money management, and financial skill (Hao et al., 2021). To develop the link between the construct, SEM is used. Measurement and structural analysis are done for this. Several hypotheses were developed as per the conceptual framework. The study accepts hypotheses 2, 3, 4, and 5, as their p-values are below 0.05, indicating a relationship between the variables. In contrast, hypothesis 1 is rejected because its p-value is greater than 0.05, i.e., 0.06.

Hypothesis 1 is rejected, stating that the financial attitude has no significant impact on the Investment Decision. This means that Financial Attitude has no direct impact on Investment Decision. In contrast, Sorongan (2022) in their study revealed that financial attitude has a positive impact on investment decisions. Additionally, Khurram et al. (2019) in their study revealed that financial attitude has a significant impact on investment diversity. Moreover, Wangi & Baskara (2021) in their study results revealed that Financial Attitude has a positive effect on investors' investment decisions.

Likewise, hypothesis 2 is accepted, indicating that financial behavior has a significant impact on investment decisions. This result aligns with the study by Wangi and Baskara (2021). Additionally, Wangi and Baskara (2021) found that financial behavior has a positive and significant effect, indicating that the better a person's financial behavior, the more effective their individual investment decisions. Hypotheses 3, 4, and 5 are also accepted, suggesting that financial knowledge, money management, and financial skills have a significant impact on investment decisions. At the same time, Ademola et al. (2019) stated that financial knowledge has no impact on investment decisions. Americans often lack financial literacy and struggle to make sound financial decisions, particularly in retirement planning (Peterson, 2007). However, financial knowledge is a critical factor in financial decision-making (Kozup, Pagano, & Creyer, 2011). Likewise, D.A.T. (2020) stated that basic money management behavior affects investment decisions.

This study contributes theoretically by advancing our understanding of financial decision-making, specifically in the context of investment choices among Nepalese urban families. The incorporation of variables such as financial attitude, behavior, knowledge, skill, and money management in a Structural Equation Model (SEM) provides a nuanced theoretical framework. The study refines existing financial decision-making theories by highlighting the distinct impact of financial behavior, knowledge, and skills, thus contributing to the theoretical evolution of this field. The detailed socio-demographic

analysis enriches the theoretical foundation by linking individual characteristics to financial decision-making. Understanding how factors like age, gender, education, and occupation influence investment choices contributes to the development of a more comprehensive theoretical framework. This nuanced approach can serve as a valuable reference for future researchers examining the interplay between socio-demographics and financial decision-making.

The findings of this study hold practical implications for policymakers and financial institutions in Nepal. By identifying challenges faced by Nepalese families in investment decisions, policymakers can design targeted interventions. For instance, initiatives to enhance financial literacy, especially addressing challenges related to market volatility and emotional biases, can be formulated. Policymakers can leverage these insights to create policies that promote a more informed and resilient investor community. The study's recommendation for financial literacy workshops, collaboration with educational institutions, and providing free online resources offers practical pathways for financial institutions and educators. Implementing these suggestions can contribute to bridging the financial knowledge gap and empower individuals to make informed investment decisions. Practical steps, such as simplifying account statements, align with the needs identified in the study, facilitating easier comprehension for investors. Financial service providers can leverage the insights into challenges and managerial solutions to tailor their services. Understanding the concerns related to market volatility, emotional biases, and the search for suitable investment opportunities, financial institutions can design products and communication strategies that address these specific pain points. The study's recommendations, such as collaboration with community centers, can guide corporate social responsibility initiatives.

6. Conclusion

This study delves into the multifaceted realm of investment decision-making among urban families in Nepal. Through a meticulous examination of socio-demographic characteristics, challenges, and managerial solutions, the study offers valuable insights into the factors that shape financial choices. The diverse participant profile, encompassing a range of age groups, genders, and occupations, underscores the need for a nuanced understanding of the financial behaviors prevalent in the Nepalese urban landscape. Notably, the findings challenge conventional wisdom by revealing that while financial behavior, knowledge, skill, and money management significantly influence investment decisions, financial attitude does not emerge as a direct driver in this context.

The implications of this research extend beyond theoretical refinement, offering practical guidance for policymakers, financial institutions, and educators. By addressing the identified challenges, enhancing financial literacy, and tailoring services to the specific needs of urban families, stakeholders can foster a more informed and resilient financial landscape. While the study contributes to the current understanding of financial decision-making, it also acknowledges its limitations and suggests avenues for future research, emphasizing the importance of cultural factors, technology, and longitudinal studies to further enrich our comprehension of financial behaviors in diverse contexts.

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