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Impact of Financial Knowledge of Investors Investment Making Decisions

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ABSTRACT
The objective of the study is to find the impact of financial knowledge of investors on their investment making decisions. Investors are said to rational but due to the human nature, biasness comes into picture while making investment decisions. Financial literacy and financial knowledge are taken as an imperative terms for regulating human nature of investors while making essential investment decisions The study was conducted on 150 investors in the city of PUNE. The data was collected through structured questionnaire & data so obtained was analyzed with the help of SPSS software.

KEYWORDS: *Investors, Financial Literacy, Financial knowledge, Investment Decision*

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1. INTRODUCTION:

Investors select various financial products available in the market based on their needs and risk appetite. Investors investment decisions are influenced by the financial knowledge they possess & its proper applicability, while selecting the financial products. Currently various financial products are available in the market & its selection generally depends on risk & return criterion associated with it. Judicious selection is only possible if the investors are financially literate. Investment decision rest on the nature and behavior of investors to the market situation. Absence of financial literacy is the most imperative reason in financial decision making. Generally investors make investments unconsciously without having any experience and interest in financial investment.

Financial Knowledge and Investment decision:

The organization of Economic Cooperation & Development (2005) defines financial education as "It is the process by which investors improves their understanding of financial products & concepts through information instruction and /or objective advice, develop the skills& confidence to become more aware of financial risks & opportunities to make more aware of financial risks & opportunities to make informed choices to know where to go for help & to take other effective actions to improve their financial well-being". Most of the people lack the knowledge necessary to make the right financial decisions. People, irrespective of their age, formal education, and what they do for a living, have rarely think beyond bank deposits and other avenues for wealth accumulation. Their reasons pointed to the fear of capital erosion, in addition to the lack of knowledge about basic financial concepts like risk diversification, inflation, and compound interest that made them stick to traditional investment avenues. While the investors today have more apprehensive about the various financial products available, behavioral biases, and preconceived notions about certain products may prevent them from exploring those options. Generally due to lack of financial literacy, investors end up parking their money in the investment whose yield is low or take on high interest loans to fulfill their obligations. Mostly, they get into investment traps by jeopardizing their well-being. So a lack of financial education impacts wealth-building capacity of investors and finally ends up with a lower corpus various goals or incurs losses.

2. OBJECTIVES

To study the impact of financial knowledge on investors investment decision making of investors.

3. MATERIALS AND METHODS

Hypothesis: Ho1: There is no significant positive relationship between financial Knowledge and investment decision making.

Methodology: The study is descriptive in nature, based on survey method.

Data Collection: Primary data was collected by administering questionnaire to the investors in, Pune. While, secondary data was collected from internet and various journals.

Sample and Statistical Tools: A total of 150 samples were collected through convenience sampling method. The data was analyzed using SPSS:

A. Correlation
B. Linear Regression

Scope of the Study: The study was confined to investors in Pune City.

Limitations: The study was based on data collected only from 150 respondents in Pune city. Interpretation is arrived based on the assumption that the respondent has given correct information.

4. LITERATURE REVIEW

Rooij, Lusardi and Alessie (2007) revealed that financial knowledge is related to financial instrument differentiation and portfolio risk diversification. This study also concludes that financial knowledge be imparted to make wise financing decisions. Financial knowledge influences what will be stored and what will be invested. **Robb and Sharpe (2009)** sampled undergraduate and graduate students electronically on financial knowledge in credit card use decisions. The results showed that financial knowledge is the main factor that determines how credit card decisions are, the results of **Müller and Weber (2010)** indicated a significant correlation of investments in low cost with financial literacy. However, the it revealed that even the most complicated investor selects properly managed funds instead of less expensive exchange-traded funds. They noted that even finance professors do not build their portfolio based on the knowledge despite being highly financially literate. **M. van Rooij et al (2011)** research found that most of the respondents have knowledge about finance while remaining go beyond this basic financial concept. Many respondents are differing some capital market products due to their risk appetite. The research found that financial literacy is related to the financial decision making and low literacy makes them to avoid stocks. **Tabiani and Mahdzan (2012)** explored the influence of financial knowledge on saving in Malaysia. The results indicated that there is a significant positive association of financial literacy with the decision to save. **Ramakrishnan, (2012)** concluded that financial knowledge plays important part for individual, society& to overall economy. Financially educated investors make better choices for their well-being which finally leads to their overall prosperity. **Chinen et al (2012)** explains how financial literacy influences one's financial behaviour especially during decision making. the sound financial behaviour helps to decide between wants &needs while making decisions. **Bhushan (2014)** examined people earning money by their level of understanding in financial products. The researcher concluded that respondents' awareness of new financial products was lower than traditional and safer products. through traditional and safe investment methods .so people should be more aware of the new investment opportunities available in the market. **Prawitz, Aimee D (2014)** explored whether financial education can influence financial behavior that helps people to balance spending and savings to maximize spending over a lifetime. Specifically, financial and non-financial education participants are compared to good financial health, savings rates, frequency of financial misconduct, and the opportunity to perform certain financial functions, including budgeting, reviewing asset plans, retirement contributions, obtaining or renewing life insurance plans, and acquiring or renewing asset planning documents. **Narula (2015)** examined the impact of various human factors on financial literacy and understanding the differences between the individual investment decision of various levels of financial literacy with short, medium and future significance. The study found that overall; investors had a moderate level of data and skills in financial learning. Significant differences were observed between financial literacy between different age groups. The study also revealed that investment decisions were based on a fundamental basis because the preference for investors of the same level of financial literacy has been different over time. **Prawitz, Aimee D (2014)** examined whether financial education can influence financial behavior that helps people to balance spending and savings to increase long-term spending. Specifically, academic and non-financial stakeholders are compared to good financial health, savings rates, frequency of financial misconduct, and the opportunity to perform certain financial functions, including budgeting, reviewing asset plans, retirement contributions, acquisition or renewal of life insurance schemes, and acquisition or renewal of property documents. **San (2015)** investigated the different levels of financial education and its effect on financial literacy and self-confidence about this topic. The outcome of financial literacy on the financial instruments diversity of choice has also been identified. The logistic regression in the model was used for data analysis. Findings indicated that variability of preferred financial instruments increases with financial literacy. Also financial literacy increases with the gain of financial knowledge.

5. RESULTS AND INTERPRETATION

Correlations			
		Investment Decisions	Financial Knowledge
Investment Decisions	Pearson Correlation	1	.573**
	Sig. (2-tailed)		.000
	N	150	150
Financial Knowledge	Pearson Correlation	.573**	1
	Sig. (2-tailed)	.000	
	N	150	150

**. Correlation is significant at the 0.01 level (2-tailed).

From the above table it can be concludedthatthereispositivecorrelationbetweenfinancialknowledge and investment decision at.573

Regression Analysis

Ho1: There is no significant positive relationship between financial knowledge and investment decision making.

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.573[a]	.329	.324	.39266	.329	72.532	1	148	.000	1.613
a. Predictors: (Constant), Financial Knowledge										
b. Dependent Variable: Investment Decisions										

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.183	1	11.183	72.532	.000[b]
	Residual	22.819	148	.154		
	Total	34.002	149			
a. Dependent Variable Investment Decisions						
b. Predictors: (Constant), Financial Knowledge						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.597	.256		6.238	.000
	EFA3	.550	.065	.573	8.517	.000
a. Dependent Variable: ID1						

Y = a +bx + error

Y = 1.597 +.550 x + error

Y= investment decision (dependent variable)

X= financial Knowledge (independent variable)

The value R square of 32.9% that indicates that independent variable financial knowledge explains 32.9% variance in investment decision. In another words financial knowledge contributes 32.9% to investment decision. The relationship between financial knowledge as independent variable and investment decision as dependent variable is indicated by standardized coefficient beta with a value of .573 Hence the null hypothesis is rejected stating that there is a positive impact of financial knowledge on investment decision making.

6. Conclusion:

From the study so conducted, it can be concluded that there exists positive relationship between financial knowledge and investment decision which shows that financial knowledge plays one of the important role in investment decision. Investors due to lack of financial knowledge, cannot take effective investment decisions properly. Investors with no or less financial knowledge are more prone to poor investment decision; hence the financial literacy of investors needs to be enhanced by imparting proper training.

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