knowledge on the investment preferences of individual professionals

5. To examine the relationship between actual financial awareness score and self-perceived financial knowledge.

**Literature Review**

Many studies have been conducted across the world to identify the level of financial knowledge and financial behavior. Most of these studies were conducted among high school and college students to know the level of understanding basic financial concepts.

Study by Beal and Delpachitra (2003) to study financial literacy amongst Australian students at University of Southern Queensland suggest low level of financial literacy due to lack of financial education at the school level. This research includes questions on five basic skill areas and includes basic concepts on interest, Markets and Instruments, Planning, Analysis and Decisions with regards to financial matters and Insurance. The results are segregated on median of the outcome of the every section of questionnaire to get two groups for each skills and knowledge area. Result shows higher scores for participants being male, having longer work experience, studying business discipline and having higher income level. Cragg-Uhler R2 test is used for analysis and indicates the above five independent variables affecting positively to the financial knowledge and skills.

In past few decades, researchers have been trying to find the effect of demographic factors on individual investment decisions. Most of this research considers age, gender, income level, marital status, profession, education, and financial knowledge as the factors affecting individual’s portfolio and investment behavior. Number of studies has been done to understand factors affecting investment decisions of retail investor and household.

Study by Geetha and Ramesh (2011) was conducted to find investor’s behavior about investment preferences. Lack of awareness and lack of knowledge about the securities were affecting their investment portfolios to traditional products. The analysis is done on the basis of qualification, nature of profession, level of income etc. Random sample was collected from small town to reach at results.
Samudra and Burghate (2012) in their research tries to know the objectives of investment and preferred instruments by middle class households. In their study they identify the preference of bank deposits followed by insurance by middle class investors in Nagpur. The third preference is given to PPF, post office savings and the factors affecting investment decision was rate of return. The study also establishes that the investment choice was affected by age and income.

The ANZ survey of Adult financial literacy in Australia (2013) surveys 3400 randomly selected adults in Australia. There study includes financial attitudes to determine person’s financial literacy. The finding highlights their attitude towards savings, use and understanding of credit, financial control, investing and superannuation, finance information and advice, use of digital, insurance etc. The survey was done through telephonic interview. For every component, regression analysis was applied to compute personal and household scores for results. Challenges are found with certain groups with lower incomes, lower education and working at lower levels.

Sam Allgood and William B. Walsad (2013) in their paper relate actual financial literacy with perceived financial overall financial literacy. A survey was conducted on large sample size of more than 28000 respondents on five areas related to their behavior on credit cards, investments, loans, insurance, and financial advice. Questions are tested on correct or incorrect answers in traditional way to measure the level of financial literacy. In the second part self-assessment question was asked for subjective judgment on their perceived financial knowledge. Researchers uses both actual test score and perceived financial knowledge score to analyze their impact on financial behaviors. Probit regression model is used to get the results of the effect of perceived and actual literacy level on 22 financial behaviors. The results shows perceived financial literacy affects their financial behavior more than their actual financial literacy.

Lusardi and Mitchell in their paper “the economic importance of financial literacy: Theory and Evidence” (2014) highlighted the need to invest in financial knowledge. The objectives of the paper includes the assessment of preparedness and financial knowledge of household to take complex decisions in changing economic and financial environment with introduction of new products in retail financial market. Student’s loans, mortgages, credit cards, pension accounts, and annuities etc. have been difficult products to understand by
unsophisticated households. In their work they determined humped shaped financial knowledge
over the life cycle. Apart from investing in financial products, the investment in financial
knowledge by individuals is also emphasized. The paper also highlighted the impact of the social
security by government and the need of financial knowledge. There is cost associated with
getting financial knowledge and where the consumptions are covered by transfer programs, it
may not be beneficial to incur cost on knowledge. The paper determines the literacy on three
parameters understanding the i) application of interest rates ii) inflation and iii) risk
diversification.

Questionnaire was designed on four principles of simplicity, relevance, brevity and
capacity to differentiate. Three basic question were used in number of researches across the
countries and ages to check basic financial literacy including the 2007-2008 National
Longitudinal Survey of youth for young respondents (age 23-28)(Lusardi, Mitchell, and Curto
2010); the RAND American Life Panel (ALP) covering all ages (Lusardi and Mitchell 2009; and
2012)

In subsequent studies more questions were added on concepts like mortgages, asset
pricing to determine the additional gaps. In further studies Lusardi, Mitchell and Curto(2010)
found lack of financial sophistication with older respondents. In addition, the paper examines the
financial literacy differences by sex, education and ability, income levels, employment type and
family background.

There have been studies to indicate the relation between financial literacy and
participation in capital markets. PunneetBhushan (2014) analyzed that whether the financial
literacy level of individuals affects their choice of the financial products or not. The objective of
the study was to analyze the awareness of salaried individuals in the terms of financial literacy,
which in turn guides them to choose among the different investment preferences selected by
them. The study was conducted in state of Himachal Pradesh with sample size of 500
respondents. Through primary data the financial literacy score is obtained by applying t-test and
chi square test using SPSS. The research is indicative of the fact that the respondents with high
financial literacy have higher awareness level of all the financial products. The study concluded
with the respondents with low financial literacy are still investing their money in the traditional financial products which offers low return as compared to new age financial products.

Kashif Arif (2015) analyzed the impact of financial literacy and other factors on the investment decisions of individual investors in Karachi Stock Exchange in Pakistan. Besides financial literacy, being the most prominent factor there are several other factors which influence investment decisions of Individual Investor. The study was conducted in Pakistan with sample size of 154 respondents. Annova was used to determine the significant difference in the financial literacy among the respondents regarding age, gender, employment status, education and the work activity. A significant difference in the financial literacy is found among the respondents regarding age, gender, and marital status. The overall literacy level is weak indicated by low financial literacy score. The study proves higher literacy is found with higher age group. Males are found to be more financially aware. Married are found to be more participative in investment decisions. Respondents from banking tend to be more financially literate than individuals working in other fields.

Study by Deerajen Ramasawmy, Savila Thapermall, S. Anoop Dowlut and Mootooganagen Ramen is done amongst the management student to depict any impact of demographic variables on level of financial literacy. A survey was conducted at university of Mauritius through questionnaire. Results showed medium level of financial literacy amongst management students with no significant difference at 5% level between male and female respondents and no impact is found of demographic variables on financial literacy. Recommendation for more exposure of basic economics and finance to the student is given to demonstrate financial proficiency at young age.

Many studies have been conducted on the impact of financial literacy on the savings of individuals (Mahdzan, N.S., Tabiani, S.-2013). The study was done on Malaysian individuals on the questionnaire designed based on Lusardi (2008). Methodology included is the same used by Lusarsi to segregate respondents to two groups based on their scores. The hypothesis assumed positive relation between financial literacy level and individual savings. Results shows regularity of savings leads to positive savings. Relationship between gender, number of children, income