



EFFECT OF FINANCIAL LITERACY ON THE STOCK MARKET PARTICIPATION AMONG THE INVESTORS OF THRISSUR DISTRICT

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ABSTRACT

This study will able to identify how much the financial literacy will influence on stock market participation of investors in Thrissur district. And study also put forward some ideas to improve financial education and knowledge among the youth. Financial literacy is a very important thing for the future development and growth of a person and society as a whole. All should give some importance to financial literacy for planning finance in the near future. Promoting financial education from the school level is also very important for building confidence among children. The study also able to understand that there are so many non-commercial or business background investors are making better profit.

KEYWORDS: *Financial Literacy, Stock Market, Investors*

INTRODUCTION

Lifelong learning should include developing financial literacy. value of financial literacy has grown significantly. These days, every one of us must make a variety of sophisticated financial decisions and even the simplest ones require a high level of awareness and expertise. Unfortunately, a large portion of our population dislikes the abilities needed to make judgments that affect investments and money. Everyday life requires a certain level of financial knowledge. People's capacity to meet their own financial objectives and their employment chances are both enhanced by understanding the fundamentals of finance.

Financial literacy is the ability to manage your finances effectively while considering your social and economic situations. Financial education, knowledge, instruction, training, and guidance all help to improve financial literacy. Individual consumers and their households can make better and more informed choices about whether to save money for a future retirement, college or home mortgage that they can repay within a reasonable amount of time. Making wise financial decisions increases a person's likelihood of reaching their financial objectives, which increases their propensity to protect themselves from financial risk and negative shocks and to promote economic growth. Understanding and using financial information in the parts of our life that depend on wise financial management that constitutes financial literacy, which goes beyond simply knowing financial facts. The OECD (2012) definition of financial literacy is "financial literacy is depending as the combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make some financial decision and ultimately achieve individual financial wellbeing". Financial literacy plays a crucial role in creating a demand-side response to the initiative of supply-side investors.

This study will able to identify how much the financial literacy will influence on stock market participation of investors in Thrissur district. And study also put forward some ideas to improve financial education and knowledge among the youth. Financial literacy is a very important thing for the future development and growth of a person and society as a whole. All should give some importance to financial literacy for planning finance in the near future. Promoting financial education from the school level is also very important for building confidence among children. The study also able to understand that there are so many non-commercial or business background investors are making better profit.



SIGNIFICANCE OF THE STUDY

There are various investment options available in the stock market. Managing the finance in a most appropriate and less risky investment avenue is very important. This study gives importance to how financial education will provide support and security for one's investment in stock market. Financial knowledge places an important role in the coming future. To understand whether the financial literacy is related with profitable earning.

SCOPE OF THE STUDY

The study mainly focuses on how the financial literacy effect on the stock market participation among the investors of Thrissur district. Financial literacy is considered to be one of the important aspects of a person's life. If a person acquires proper financial literacy will able to manage their income in a most stable way. It is also necessary to know how to improve the financial literacy among the coming generation. Nowadays stock market participation is increasing rapidly and the relevance of financial education is considered to be an important factor for investment.

REVIEW OF LITERATURE

Maarten Van Rooij, Annamaria Lusardi and Rob Alessie (2007), in their paper "Financial literacy and stock market participation" they show that lack of understanding of economics and finance is significant determinant to stock ownership. It also shows that lack of literacy prevents households from participating in stock market. They conduct the study among employees and examine relationship between financial literacy and retirement planning and assess whether financial literacy has an effect not only on portfolio choice but also on saving behaviour and whether those who display low literacy are less likely to accumulate wealth.

Cynthia Harter and John Harter (2010) in their study "Is financial literacy improved by participating in stock market game?" they investigate the effectiveness of stock market game (SMG) in improving students' course on a general multiple-choice test covering basic financial concepts. Teachers from the experimental groups who were used to instructing on the stock market were present in class and offered an additional curriculum. The results of the study show that having students play an SMG while being taught seven basic principles for the learning from the market syllabus improves their proficiency on all financial knowledge assessments. The study might aid teachers in using the syllabus and SMG in the future, expose more students to SMG than those who took part in the study, and aid students in making wiser financial decisions all throughout their life.

Joanne Yoong (2011) conducted a study "Financial literacy and stock market participation Evidence from Rand American life panel". In spite of having income, education and financial literacy that are significantly correlated with the general population, this study explores how ignorance of financial illiteracy or financial matters negatively impacts stock market involvement. The study contends that a lack of financial literacy can be a significant barrier to financial involvement, and that for those who are strongly averse to the unknown, developing a fundamental understanding of investing may have an impact on their capacity to accumulate wealth over the long run.

Johan Almenberg and Olof Widmark (2011) in their study "Numeracy, financial literacy and participation in asset markets". They claim that to measure the population's level of numeracy and financial literacy in Sweden and link these two factors to involvement in two important asset markets, such as the stock and property markets. Given the strong correlation between financial literacy and numeracy, acquiring financial knowledge is probably supported in large part by numeracy skills. Their findings support the idea that lack of participation is a common reaction to numeracy and financial literacy shortcomings and highlight significant variations between the stocks and housing markets.

Dimitri's Geogarkos and Roman Inderst (2011) conducted a study "Financial advice and stock market participation". According to their individual financial capacity, this shows that various households need to depend on financial advice to different degrees. Financial advice is widely available and a major factor in determining whether a household would invest in risky assets. The outcomes might have an impact on how to rebuild investor trust in the financial system. According to the findings, trust in advice is a crucial asset for encouraging stock ownership among households with limited financial resources.

Faegh Ahmadi (2014) in his study "Financial Market Interdependence and empirical study on stock, bond, currency and commodity markets in India". During the years 2000 to 2012, he made an effort to investigate the differences between the four main financial markets in India, including the stock, bond, and currency markets. In order to assess the effects of the recent financial crisis, he divides the entire sample period into three subperiods. Through the assessment of the findings, evaluate the impact of financial liberalisation in India as well as the effects of the 2008 global financial crisis on the Indian financial markets.



Pierre Sindambiwe (2014) attempted to study “Financial literacy, stock market awareness and capital market participation of an emerging stock market”. The study's key results include that directors apply their financial literacy in their daily work to a great degree, even though organizational involvement in the Rawandan stock market is only limited. However, the organisation participates in the stock market in a minimal manner. The study also revealed that commercial banks and insurance companies both had the greatest stock market participation rates and the highest stock market awareness. The stock market involvement and stock market knowledge are lowest among manufacturing and trade enterprises.

Amari Mouna and Ansi Jarboui (2015) attempted to study “Financial literacy and portfolio diversification: An observation from the Tunisian stock market”. This study's main objective is to highlight financial illiteracy as one likely explanation for the low degree of portfolio diversification. They investigate the relationship between portfolio diversification and the social and economic traits of the individual investors, with a key emphasis on the impact of financial literacy on portfolio diversification. According to their findings, the biggest factor predicting a lack of portfolio diversification is financial illiteracy. Additionally, they discover that familiarity bias, younger households, persons with lower incomes, and people with less experience likely to be less financially knowledgeable and have less diversification.

John Almenberg and Anna Drever (2015) in their study “Gender, stock market participation and financial literacy” they then after that women participate less than men in stock market and score lower on financial literacy. They also discover that adjusting for fundamental financial literacy minimises the participation difference between men and women in the stock market. Give advanced financial literacy its own control. Even after accounting for four financial literacy factors, the gender disparity in risk-taking is still substantial. Results also influence risk attitudes, and even after accounting for financial knowledge, the gender disparity is still very large. The effect of gender on risk taking is greatly diminished when investor knowledge is taken into account.

Patrick M Mwangi (2015) conducted a study “The relationship between financial literacy and stock market participation by retail investors in Kenya”. 10 The primary goal of the study was to determine the nature of the association amongst financial literacy and Kenyan retail investors' stock market involvement. According to the report, retailing is preferred to having a high level of financial literacy. The findings showed that a variety of economic factors, including anticipated dividends, capital gains, share affordability, and changes in market indices, among others, had an impact on investors' decisions to buy in stocks. The study also identifies the influences of gender, age, income, and financial literacy on stock market involvement. According to the study's findings, Kenyan retail investors' stock market involvement and financial literacy are positively correlated.

OBJECTIVES

- Factors affecting financial literacy and profitmaking
- To analyse the relation of buying stocks and understanding of the economy.

RESEARCH METHODOLOGY

In this study a structured questionnaire is used to collect data from the stock market participants. Descriptive research design is used for collecting, processing and analysing of data. Population The population of the study is total investors of Kerala. Approximately 1954657 investors are registered with BSE. Snowball sampling is used for collecting data. Sources of data collection Primary data The term "primary data" refers to information that has been collected directly by the researcher. In this study primary data is collected by using a well structure questionnaire. Secondary data Secondary data means data collected by someone else earlier. It may be from published or unpublished source. These data are collected through books, journals and websites etc. and these data may already pass through statistical process. Data analysis tools Chi square. Chi-Square is a statistical test commonly used to compare observed data with data we would expect to obtain based on a particular hypothesis. In this study we compare the basis for buying stocks and understanding of the economy by the investors. Mean analysis The mean is the average of the numbers given and is calculated by dividing the sum of the numbers given by the total number of respondents. In this study mean is used to measure the confidence level, about the risk tolerance and other factors affecting financial literacy. One-way ANOVA One-way ANOVA is used to determine is there any significant difference between means of three or more independent groups. In this study ANOVA is used to test the year of investment in stock market and barriers affecting stock market participation. Independent sample t-test The independence sample t-test is a statistical test to compare the means of two independent groups to determine if there is a significant difference between those groups. In this study t-test is applied to test the relationship between investment of income and gender. Percentage analysis A percentage analysis of distribution is a display of data that indicates the percentage of observations that exist for each data point or grouping of data points. It is a useful way of expressing the relative frequency of survey responses and other data. Pictorial representation Pictorial representation is a graphical or visual depiction of numerical data. It is by using simple bar chart, pie diagram etc.



DATA ANALYSIS

MEAN ANALYSIS

Table No. 1: Factors affecting financial literacy and profitmaking

Factors	To a great extent (3)	Somewhat (2)	Not at all (1)	Total	\bar{x}	Rank
Parents 'financial background	33	36	21	90	1.8	4
Wealth and income	75	26	8	109	2.18	3
Economic conditions	78	24	8	110	2.2	2
Mindset towards stock market	42	52	20	114	2.28	1

Source: Primary data

Interpretation

- Table No. 1 shows the extent to which the factors affecting financial literacy. Mindset towards stock market has the 1st rank, Economic conditions has 2nd rank, Wealth and income has the 3rd rank and parents financial background has 4th rank.
- A person's mind set or attitude towards stock market has an important factor that determines the profit-making capacity of an individual. Optimistic person can earn more in this field.
- The second factor that effect stock market is economic condition. If the economy has inflation it will affect the trading and standard of living of an individual.
- The third factor is wealth and income, through this we can understand that wealth and income have some sort of relation between persons profit making ability. Iseperson has less income can also able to make profit by investing some amount of money. That is start from some amount of money also can able to attain more profit.
- The fourth factor is parents financial background, there is no such relation between parent's financial background and earning capacity of the investor. If parents are rich or poor it doesn't affect trading. If a person has the skill and ability to trade can able to achieve better profit.

MEAN ANALYSIS

Table No. 2: About Risk Tolerance

Items	S A (5)	A (4)	N (3)	D (2)	SD (1)	Total	\bar{x}	Rank
Willing to face the consequences of losses for maximum returns	60	88	36	6	1	191	12.7	1
Very much concerned about losses along with returns	25	92	42	14	1	174	11.6	2
Person who completely avoid loss for more profit	15	52	48	22	7	144	9.6	3

Source: Primary data

Interpretation

Table No 2 shows the level of risk tolerance about the respondents. Here Mean analysis is used to know the risk tolerance of the respondents. The factor Willing to face the consequences of loss for maximum returns has the 1st rank (Mean 12.7), the factor very much concerned about losses along with returns got 2nd rank (Mean 11.6) and the factor person who completely avoid loss for more profit got 3rd rank (Mean 9.6). From this we can understand that many of the investors are willing to take risk for more return. They are ready to move according to the market fluctuations.



MEAN ANALYSIS

Table No 3: About confidence level

Items	SA (5)	A (4)	N (3)	D (2)	SD (1)	Total	\bar{x}	Rank
Experienced investor	20	52	21	30	11	134	2.68	3
More confident in self-researched investment options	100	64	15	16	1	199	3.98	1
Consult others for advice	95	64	18	14	2	193	3.86	2

Source: Primary data

Interpretation

Table no 3 shows the confidence level of the respondents. Here Mean analysis is used to know the confidence level of the respondents. The factor experienced investor has the 1st rank (Mean 3.98), the factor more confident in self-research investment options got 2nd rank (Mean 3.86) and the factor consult others for advice got 3rd rank (Mean 2.68). Most of the investors are beginners but they are confident of self-researched investment options. But they don't much experience and consult others for advice.

ANOVA

H₀: There is no relationship between year of investment in stock market and barriers of stock market participation

H₁: There is relationship between year of investment in stock market and barriers of stock market participation.

Table no 4: Year of investment in stock market and Barriers of stock market participation

	N	\bar{x}	SD	Std. Error	95% Confidence Interval for Mean		Min	Max
					Lower Bound	Upper Bound		
less than 1 year	26	2.2404	.68732	.13479	1.9628	2.5180	1.00	4.25
1-3 years	17	2.3333	.58926	.14292	2.0304	2.6363	1.50	3.50
3-5 years	7	1.7857	.76959	.29088	1.0740	2.4975	1.00	3.00
Total	50	2.2083	.67706	.09575	2.0159	2.4008	1.00	4.25

Source: Primary data



ANOVA TABLE

	Sum of squares	df	Mean Square	F	sig
Between groups	1.543	2	.771	1.733	0.188
Within groups	20.919	47	.445		
Total	22.462	49			

Source: Primary data

Interpretation

Higher the f-value (1.733) means lower the significant so accept the null hypothesis. The significant difference is 0.188 it is great than 0.05 so we can conclude that there is no significant relationship between year of investment in stock market and barriers of stock market participation. The mean values of the test are 2.2404, 2.3333 and 1.7857 there is slight deviation from total mean (2.2083).

T-TEST

H0: There is no significant relationship between investment of income and gender.

H1: There is significant relationship between investment of income and gender.

Table No. 5: Relation between investment of income and gender

Gender	N	Mean	SD	t value	P value	Remarks
Male	36	3.2917	.68007	2.944	0.093	Equal variance assumed
Female	14	3.1250	.45731			
Total	50	6.4167	1.1374			

Source: Primary data

Interpretation

From the table no. 5 it shows relation between investment of income and gender. As per the data the mean score of relation between investment of income and male is (3.2917) differing from female (3.1250) since the P value of the t test is more than 0.05, so accept the null hypothesis that there is no significant relationship between investment of income and gender.

CHI SQUARE

H0: There is no association between basis of buying stocks and understanding of the economy.

H1: There is association between basis of buying stocks and understanding of the economy.

Table no 6: Basis for buying stocks and understanding of the economy

Basis	Understanding of the economy			Total	Chi-Square	Sig
	Good	Fair	Poor			
Technical analysis	10	20	2	32	3.926 (df 2)	0.140
Technical analysis	12.8	16.6	2.6	32.0		
Fundamental analysis	10	6	2	18		
Fundamental analysis	7.2	9.4	1.4	18.0		

Source: Primary data

Interpretation

Table no 6, shows the association between basis of buying stocks and understanding of the economy with chi square value 3.926. The significant difference is 0.140 it is great than 0.05 so accept the null hypothesis is that there is no association between basis of buying stocks and understanding of the economy.

FINDINGS

- Males have more interest in stock market because male investors are more confident to take risk and face the consequences of risk.



- The age category of 20 to 30 are more which means most of the investors are youngsters. The main reason for the immense growth of young investors is they need more profit in short period.
- In the case of employment status private employees are more and students is also there. The education qualification is also one of the factors that influence on stock market participation.
- Majority of respondents are unmarried.
- There is an increasing trend of investors from non-business background.
- The period of starting their investment is less than 1 year, so the investors are beginners.
- Investors prefer intraday trading and swing trading. They are trying to minimize risk and maximize profit.
- Most of the respondents prefer discount brokers. Some investors don't need any advice from stock broker.
- Some (26%) prefer full service brokers, HDFC securities.
- In discount brokers increasing number of investors prefer Upstox.
- Most of the investors don't need any advice from stock brokers.
- Internet is considered to be the major source of information provided about listed companies and market fluctuations.
- Majority (more than 50%) of the respondents believe in diversification
- The investors took less than one week to recover from losses of investment.
- Investors will be spent less to overcome the expenses or losses.
- Majority (94%) has the opinion that high risk taker has the chance of high returns.
- The investors prefer more fluctuating investments (42%).
- There is gender gap existing among stock market participants (92%).
- Males are more active in stock market participation (84%).
- Investor mindset and attitude has a significant role in stock market participation. Mean value 2.28.
- The investors are ready to take risk for more return. Mean value 12.7.
- Investors are more confident in self-researched investment options. Mean value (3.98).
- There is no relationship between year of investment in stock market and barriers affecting stock market participation. F value is 1.733 and significant difference 0.1888.
- There is no relationship between investment of income and gender. T value is 2.944 and P value is 0.093.
- Basis of buying stocks and understanding of the economy has no relation. Significant difference is 0.140 and Chi square value 3.926.

CONCLUSION

The objective of the study is identified how financial literacy will influence on stock market participation and to know who is making more profit whether financial literate or not. It can be identified there is a great influence of financial literacy in stock market participation. Well financially educated persons are making more profit than others. There is also gender gap in stock market participation. And the study can able to get an idea about how to create an awareness about the importance of financial literacy among coming generation. Finance and financial management are so relevant area in all fields, not only the business background but also every fields like IT field, Engineering and other science fields. It is also found out that financial education is one of the important things that got relevance in day by day. Through this study we reach a conclusion that more are interested in the area of stock market, but lack of financial will reduce the stock market participation. SEBI should consider giving more classes.

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SJIF Impact Factor (2023): 8.574 | ISI I.F. Value: 1.241 | Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)

EPRA International Journal of Research and Development (IJRD)

Volume: 8 | Issue: 7 | July 2023

- Peer Reviewed Journal

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