



## A Kaleidoscopic View on the Impact of Financial Knowledge on Investment Decision of Individual Investors

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**ABSTRACT:** The study was directed to know the individual investor's behavior with the primary objective of exploring the role of financial knowledge on decisions of investment in the Chennai city of Tamil Nadu. For the purpose of study exploratory research design deployed to get required data by having convenient non-probability sampling method and analyzed using PSPV Version 1.0.1, and the statistical tools such as descriptive statistics, reverse weighted average mean ranking, factor analysis & multiple regression analysis statistical techniques used to draw significant answers to study objectives. The empirical evidence reveals that the underlying dominant dimensions of financial knowledge variables are grouped into nine dominant factors and investment decision variables are significantly grouped into seven independent factors. Further, the awareness factor has the significant influence on investment decisions of individual investors followed by interest factor, Risk & Return Factor, Portfolio Management Factor, and information factor in their order of influence. This study find that the individual investors are shown positive intend towards the investment decision and need to develop in many aspects related to the enrichment for betterment in their financial knowledge to gain more awareness information before making their investment decisions.

**Keywords:** Behavioral Finance, Investment Decisions, Financial Knowledge, Individual Investors, and Investment Avenues.

### I. INTRODUCTION

In recent years, investor's behavior has been investigated extensively to understand the behavior towards various investment avenues. The behavioral investigation in the realm of investment is need of the hour to direct the investors in the right path and right direction towards profitability [3, 19]. Every investor has different methods and calculations to make right decision on investment on the basis of assessments and predictions [2, 8, 13, 23]. The risk-taking ability of investors is the imperative aspect to understand the investment role, investor's willingness, values and beliefs towards their investment [11]. The portfolio decisions and risk-taking behavior are the significant components that determine the behavior of investors [17]. The role of demographic factors is inevitable to predict and differentiate the retail investor's behavior [15]. The family member representation and inducement in the investment decision plays a vital role among the hereditary investors, and they represent the family behavior in the spending and savings decisions [5]. There are several parameters that contradict the investment decision among the investors [1, 7, 12, 16, 22]. This study primarily aims to explore the behavioral characteristics of investors towards various investment avenues. The role of financial knowledge in determining the investment decision of the investors also needed to be explored in this investigation.

### II. LITERATURE REVIEW

Meier *et al.*, (1999) attempted to explore the savings and investment decisions of the private household to examine their spouse domination in determining the investment decisions across various investment avenues. The researcher implemented the survey method to gather investment behavior of households and the questionnaire method was adopted to examine the role of spouses in inducing the decisions related to various investment avenues [18].

The results indicate that egalitarian partnerships, wife domination is higher as compared to the husband's influence in investment decisions. Moreover, the study concluded that partners are high expertise than their spouses have huge dominance in decisions of investment.

Pla-Barber *et al.*, (2010) carried an empirical study to examine the choice of the investors towards investment and control decisions concerning foreign market service industries. The researchers have adopted an experimental research design and survey method to collect responses from the investors understanding the explanatory capacity through the adoption of a hierarchical model of investment [21].

The result shows that capital intensity, degree of customization are the significant components that determine the investment and control decisions in service industries of foreign markets.

Jerzy Dudzinski (2011) pointed out the evolution of financial investors' engagement towards commodity markets in the post-crisis period. The researcher adopted the survey method and structured questionnaire aimed at the exploration of the financial investor's engagement in the commodity market. The trend among the investors in the commodity market shows an increasing trend in the year from 2001 to 2011, and the dynamics observed by the researcher proves that commodity-based derivatives have rapidly increased over the period. Further, the regulators are suggested to relook and restructure the investor's activity in the light of market regulation initiatives [10]. Nwibo and Alimba (2013) explored the investment behavior of southeast, Nigerian investors towards their investment determinants in the agribusiness. The researcher has adopted a questionnaire method to collect the data from the agribusiness investors in the study area by deploying the multi-stage purposive sampling, and both descriptive and inferential statistics have been applied by researchers in order to get desired findings related to the research objectives of the study. The result shows that demographic factors have a significant and moderate effect on the behavior of investors towards agribusiness avenues. The researchers concluded that the conducive investment environment in agribusiness would attract more investment in the agribusiness among south-east, Nigerian investors [20]. Gichuki *et al.*, (2016) made an empirical investigation among Kenyan pensioner's investment decision determinants through the adoption of the questionnaire method. The researchers have adopted a descriptive research design and survey method for the exploration of findings, and the result indicates that pensioners who participated in the research survey are shown positive intent towards savings and investment in their day-to-day life. The study concludes that investment decisions have significant influence among Kenyan pensioners, and further, the researchers suggested to undertake significant savings and investment activities to enhance better returns towards their investments [14].

### III. METHODOLOGY

#### A. Significance and scope of the research

This empirical research will help the investors to explore various essential investment avenues need to be more focused for the investment in the study area, and this study provides various insights to effectively determine the various investment decision of the investors in the high volatility market conditions. This study is only limited to investors residing in Chennai city, and the scope of the findings of this research is limited since; to get data collection used non-probability convenience sampling technique. Financial knowledge and investment decision are alone considered for this behavioral research.

The present marketing research was aimed to explore the critical determinants of investment decisions concerning the various investment avenues in the highly volatile market conditions. This study is needed for the hour to explore the investor's behavior in the Indian Stock market environment.

The following research objectives are designed

- To understand demographic profiles of the investors in the study area.
- To identify the underlying dominant dimensions of the Financial Knowledge (FK) and Investment Decision (ID) variables.
- To explore the influence of Financial Knowledge (FK) factors on Investment Decision of the Investors.

#### B. Sample design

This behavioral research was descriptive and empirical [9]. The convenience non-probability sampling method was adopted and (Bryman 2016) disadvantages of this sampling technique will be discussed in addressing the limitations. The target population of the study was Individual Investors residing in Chennai, India [4].

A total of 200 questionnaires were circulated to the respondents in the one wave from December 2018 to March 2019, and they returned only 176 filled questionnaires. In those 176 responses, incomplete and response possess extreme values were rejected, and finally, 140 responses are considered for this empirical study.

#### C. Statistics used of the study

The collected data for the study was analyzed by using PSPSS Version 1.0.1. The statistical tools such as descriptive statistics and analysis, reverse weighted average mean ranking, factor analysis and multiple regression analysis were implemented to extract meaningful answers for objectives.

The percentage analysis used to understand the demographic profiles of the individual investors. Factor analysis used to understand the various dimensions of financial knowledge and investment decision variables, and multiple regression analysis has been applied to explore the influence financial knowledge factors on total investment decisions of individual investors.

#### D. Research instrument design

The questionnaire with three parts has been finalized to collect responses from individual investors in the study area. Section one deals with demographic details such as gender, marital status, educational qualification, occupational status, nature of family and monthly family income. Section two contains thirty variables related to the financial knowledge of individual investors. Section three comprises of twenty-three variables related to the investment decision of retail investors.

#### E. Reliability

To know the internal consistency of the questionnaire, the variables were measured using 5 point Likert scales such as financial knowledge and investment decision variables were subjected to Cronbach's Alpha reliability coefficient. The value being 0.920 for financial knowledge variables and 0.926 for investment decision variables indicate that scale more relevant [6].

### IV. RESULTS AND DISCUSSION

Percentage method has been applied to understand the demographic profiles of the respondents, and the results are presented in Table 1.

Table 1 displays that the most of the respondents are males (72.9%), married (57.1%), private employees (71.4%), hailing from nuclear families (72.9%), and earning below Rs. 30,000 (51.4%) as monthly family income. Further, the sizeable portion of the respondents

is post-graduates (40.0%). Reverse Weighted Average Mean Ranking has been applied to explore the importance among the respondents concerning different available investment avenues to make their investment and the results displayed in Table 2.

**Table 1: Demographic Profile of the Respondents.**

Demographic Profiles	Frequency	Percent
<b>Gender</b>		
Male	102	72.9
Female	38	27.1
<b>Educational Qualification</b>		
Higher Secondary	22	15.7
UG	42	30.0
PG	56	40.0
Professional	20	14.3
<b>Occupational Status</b>		
Government Employee	8	5.7
Private Employee	100	71.4
Own Business	32	22.9
<b>Monthly Income(Rs)</b>		
Below 30,000	72	51.4
30,001-60,000	46	32.9
60,001-1,00,000	16	11.4
Above 1,00,000	6	4.3
<b>Marital Status</b>		
Single	60	42.9
Married	80	57.1
<b>Family Type</b>		
Joint Family	38	27.1
Nuclear/Small Family	102	72.9

**Table 2: Reverse Weighted Average Mean Ranking of Importance of Investment Avenues.**

Importance of Investment Avenues	Mean (Std. Deviation)	Rank
Shares	5.23 (2.585)	7
Debentures/Bonds	5.34 (2.344)	5
Mutual Funds	5.73 (2.275)	4
National Saving Certificate/Public Provident Fund/Provident Fund	5.21 (2.091)	8
Fixed Deposits	6.27 (2.035)	2
Insurance Policies	5.26 (1.976)	6
Real Estate/Land	6.07 (2.377)	3
Gold/Silver	6.33 (2.509)	1
Others	2.50 (2.355)	9

Table 2 proves that respondents are giving importance to gold/silver (Mean = 6.33; Rank = 1) as an investment avenue followed by fixed deposits (Mean = 6.27; Rank = 2), Real Estate/Land (Mean = 6.07; Rank = 3), Mutual Funds (Mean = 5.73; Rank = 4), Debentures/Bonds (Mean = 5.34; Rank = 5), Insurance Policies (Mean = 5.26; Rank = 6), Shares (Mean = 5.23; Rank = 7), National Savings Certificates/Public Provident Fund/Provident Fund (Mean = 5.21; Rank = 8) and others (Mean = 2.50; Rank = 9) in their order of importance among the investors.

**Dimensions of Financial Knowledge and Investment Decision Variables:** The data reduction technique of exploratory factor analysis calculated to understand the dimensions of financial knowledge variables and investment decision variables. The results of exploratory factor analysis have been discussed in the Table 3 and 4.

Table 3 shows that Financial Knowledge (FK) variables with their communality values ranging from 0.494 to 0.754 have goodness of fit for factorization. In the value of Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO-MSA) value of 0.772 and values of chi-square 1562.604 with df 435 and value of P0.000 reveal factor analysis is required for factorization of thirty Financial Knowledge (FK) variables. Nine dominant independent Financial Knowledge (FK) factors explaining 65.436% of total variance can be extracted out of 30 FK Variables.

From them the most dominant factor is awareness factor that followed by Information factor, Investment Avenues Factor, Risk & Return Factor, Portfolio Management Factor, Maintenance Factor, Interest Factor, Diversification Factor and Budget Factor in the order of their dominance.

**Table 3: Factorisation of Financial Knowledge (FK) Variables.**

Dimensions	Items	Mean (SD)	Communalities	Variance (Eigen)	Loadings
Awareness Factor (0.771)	Concept of Portfolio Investment (IFK29)	3.79 (1.083)	0.669	9.092% (2.728)	.733
	Foreign Institutional Investors (IFK28)	3.69 (1.137)	0.757		.722
	Clearing and Settlement Procedures (IFK27)	3.71 (1.063)	0.697		.682
	Primary Market Instruments (IFK26)	3.78 (1.067)	0.540		.614
	Investors rights and responsibilities (IFK30)	3.65 (1.211)	0.578		.592
Information Factor (0.706)	Money Market Instruments (IFK25)	3.66 (1.191)	0.731	8.131% (2.439)	.744
	Debt Instruments (IFK24)	3.77 (0.984)	0.703		.711
	Foreign Exchange Rate (IFK22)	3.84 (1.077)	0.678		.587
	Credit Rating Concepts (IFK21)	3.78 (1.106)	0.671		.544
Investment Avenues Factor (0.714)	Derivatives (IFK9)	3.76 (1.017)	0.713	8.024% (2.407)	.678
	Financial Instruments (IFK6)	3.81 (0.993)	0.704		.645
	Cost-Benefit Relation (IFK5)	3.77 (0.984)	0.657		.604
	Volatility (IFK17)	3.76 (1.143)	0.639		.550
	Mutual Funds (IFK8)	3.83 (1.099)	0.494		.455
Risk & Return Factor (0.753)	Risk-Return Concept (IFK15)	3.65 (1.181)	0.647	7.982% (2.395)	.703
	Bonus Share (IFK14)	3.84 (1.129)	0.645		.689
	Risk Exposures (IFK16)	3.62 (1.056)	0.520		.525
	Dividend (IFK13)	3.73 (1.038)	0.606		.476
Portfolio Management Factor (0.735)	Concepts of Diversification (IFK11)	3.58 (1.145)	0.746	7.763% (2.329)	.794
	Asset Allocation (IFK12)	3.82 (1.034)	0.698		.743
	Function of Stock Exchange (IFK10)	3.97 (0.996)	0.663		.644
Maintenance Factor (0.677)	Regulatory Bodies (IFK19)	3.73 (1.072)	0.730	6.688% (2.006)	.749
	Demat and Trading Account (IFK18)	3.86 (1.074)	0.706		.695
	Functions of Regulatory Institutions (IFK20)	3.81 (1.063)	0.615		.570
Interest Factor (0.601)	Time Value of Money (IFK1)	4.15 (0.936)	0.675	6.496% (1.949)	.777
	Simple Interest Calculation (IFK2)	4.02 (0.925)	0.599		.680
	Equities (IFK7)	3.89 (0.914)	0.540		.592
Diversification Factor (0.609)	Diversification (IFK4)	3.82 (1.061)	0.754	5.897% (1.769)	.838
	Risk, Return Relation (IFK3)	3.74 (1.062)	0.595		.662
Budget Factor	Knowledge about Budget (IFK23)	3.81 (1.070)	0.661	5.363% (1.609)	.708

Total Variance = 65.436%; Cronbach's Alpha = 0.888  
(Bartlett's Test of Sphericity - Approx. Chi-Square = 1562.604; df: 435; Sig. = 0.000)

**Table 4: Factorisation of Investment Decision (ID) Variables.**

Dimensions	Items	Mean (SD)	Communalities	Variance (Eigen)	Loadings
Benefits Factor (0.771)	Tax Benefits (ID16)	3.84 (1.129)	0.665	12.873% (2.832)	0.771
	Rights Shares (ID15)	3.72 (1.157)	0.564		0.723
	Safety of Principal (ID17)	3.92 (1.119)	0.565		0.650
	Bonus Shares (ID14)	3.69 (1.100)	0.695		0.649
	Dividend (ID13)	3.71 (1.083)	0.490		0.449
Growth Factor (0.709)	Future Expenses (ID21)	4.07 (0.979)	0.696	12.174% (2.678)	0.795
	Wealth Creation (ID20)	3.76 (1.129)	0.676		0.722
	Progressive Value (ID19)	3.86 (1.081)	0.673		0.694
	High Returns (ID1)	4.14 (0.899)	0.478		0.438
Governance Factor (0.571)	Change in government policy (ID23)	3.80 (1.158)	0.628	8.701% (1.914)	0.752
	Advice of brokers (ID7)	3.79 (1.049)	0.656		0.621
	Best Long-Term Returns (ID22)	3.91 (1.045)	0.582		0.566
Counseling Factor (0.651)	Advice of websites (ID9)	3.73 (1.105)	0.776	8.652% (1.903)	0.748
	Diversification (ID18)	3.79 (1.154)	0.744		0.650
	Advice of dailies/periodicals (ID8)	3.80 (1.170)	0.616		0.567
Security Factor (0.565)	Safety/Liquidity (ID4)	4.17 (0.873)	0.666	8.299% (1.826)	0.710
	Retirement Plans (ID6)	3.94 (0.961)	0.598		0.698
	For Children's Education (ID5)	4.11 (0.965)	0.636		0.600
Market Condition Factor (0.609)	Market sentiments (ID11)	3.60 (1.065)	0.757	7.942% (1.747)	0.827
	Capital Appreciation (ID12)	3.72 (1.138)	0.769		0.704
	Movement of indices (ID10)	3.73 (1.079)	0.615		0.495
Reserve Factor	Emergency Requirement (ID3)	4.08 (0.937)	0.599	5.646% (1.242)	0.681

Total Variance = 64.287; Cronbach's Alpha = 0.855  
(Bartlett's Test of Sphericity - Approx. Chi-Square = 955.835; df: 231; Sig. = 0.000)

Table 4 displays about the Investment Decision (ID) variables by having range from 0.478 to 0.7776 that have goodness of fit for the items. The values of 0.763 of KMO-MSA of sample adequacy and the values of chi-square 955.85 with df 231 and P-value of 0.000 reveal that calculation of factor analysis for factorization of twenty-three Investment Decision (ID) variables. Seven dominant independent Investment Decision (ID) explaining factors 64.287% of variance of total have been obtained out of 23 Investment Decision (ID)

Variables. Of them the most dominant factor is Benefits Factor followed by Growth Factor, Governance Factor, Counseling Factor, Security Factor, Market Condition Factor and Reserve Factor in the order of their dominance.

**Influence of Financial Knowledge (FK) on Investment Decision (ID) of Investors:** Calculated multiple regression analysis to explore the influence of financial knowledge factors on investment decision and outcomes are shown in Table 5.

**Table 5: Regression Results of Financial Knowledge Dimensions on Investment Decision.**

Dependent Variable	Significant Predictors	Mean (SD)	F-Value	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	β (t-Value)	Sig.
Investment Decision		84.87 (11.56)	35.613	0.755	0.571	0.555		
	Awareness Factor	18.62 (4.02)					0.338 (4.900)	<0.001**
	Interest Factor	12.06 (2.07)					0.234 (3.774)	<0.001**
	Risk & Return Factor	14.84 (3.34)					0.195 (2.670)	<0.001**
	Portfolio Management Factor	11.37 (2.57)					0.170 (2.493)	0.014**
	Information Factor	15.05 (3.18)					0.146 (2.261)	0.025**
	Investment Avenues Factor	18.93 (3.58)					0.093 (1.350)	0.179
	Maintenance Factor	11.41 (2.50)					0.055 (0.803)	0.423
	Diversification Factor	7.56 (1.80)					0.106 (1.772)	0.079
	Budget Factor	3.81 (1.07)					0.064 (1.035)	0.303
Constant with t value of 5.033 at P Value of <0.001* - (Investment Avenues Factor, Maintenance Factor, Diversification Factor and Budget Factor are Not significantly influencing the Investment Decision)								
Note: ** Significant at 5% level								

Table 5 indicates that R = 0.755, R Square = 0.571, Adjusted R square = 0.555. This implies that the independent variables of Awareness Factor, Interest Factor, Risk & Return Factor, Portfolio Management Factor and Information factor are have 57.1% influence over the dependent factor of Investment Decision of investors. Table 5 also found that F = 35.613 and P = 0.00 are statistically significant at the 5% level. Therefore it is concluded that independent variables are good enough to have an explorative power investment decision of investors. The good regression fit indicates the existence of individual influence over the total investment decision. Table 5 further explores that the Coefficients value of Awareness Factor (t = 4.900, β = 0.338, p = < 0.001), Interest Factor (t = 3.773, β = 0.234, p = <0.001), Risk & Return Factor (t = 2.669, β = 0.195, p = < 0.001), Portfolio Management Factor (t = 2.493, β = 0.170, p = 0.014) and Information Factor (t = 2.261, β = 0.146, p = 0.025), are statistically significant at 5% level and linear combination of these factors have significant positive influence on total investment decision whereas, Investment Avenues Factor, Maintenance Factor, Diversification Factor and Budget The factor have not significant influence on investment decision.

**A. Major outcomes**

(i) After the perusal of the empirical evidences, following are the major findings and suggestions for the various stake

holders in stock market and investment participation in India.

(ii) Majority of the respondents are males, married, private employees, hailing from nuclear families and earning below Rs. 30,000 as monthly family income. Further, the sizeable portion of the respondents is post-graduates.

(iii) Individual investors are giving importance to gold/silver as an investment avenue followed by fixed deposits, Real Estate/Land, Mutual Funds, Debentures/Bonds, Insurance Policies, Shares, National Savings Certificates/Public Provident Fund/Provident Fund and others in their order of importance among the investors.

(iv) Thirty Financial Knowledge variables are significantly grouped in nine meaningful factors namely, Awareness Factor is the most dominant one followed by Information Factor, Investment Avenues Factor, Risk & Return Factor, Portfolio Management Factor, Maintenance Factor, Interest Factor, Diversification Factor and Budget Factor in the order of their dominance.

(v) Twenty three investment decision variables are significantly grouped in seven meaningful factors namely, Benefits Factor is the most effect one followed by Growth Factor, Governance Factor, Counseling Factor, Security Factor, Market Condition Factor and Reserve Factor in the order of their dominance.

(vi) The awareness factor has the significant influence on investment decision of individual investors followed by interest factor, Risk & Return Factor, Portfolio Management Factor and information factor in their order of influence.

## V. IMPLICATIONS AND CONCLUSION

The present behavioral research was transmitted to explore the various determinants of investment decision among individual investors in the Chennai city. The empirical evidence proves that financial knowledge dimensions have significant and positive effect on the investment decision of the individual investors. Even though, there are several investment avenues are available for the individual investors, they primarily prefers to invest in gold, silver, mutual funds, real estate rather, shares, bonds and debentures. The individual investors are suggested to focus on the investment avenues such as, shares, bonds and debentures to inculcate more stock market participation.

The individual investors should focus on enriching the financial knowledge with respect to investment avenues, stock market participation, analyzing the market volatility conditions and risk & return analysis before making investment decisions. They are also opined that diversification and budget are the least imperative dimensions as far as the financial knowledge is concern. So, the individual investors are suggested to develop diversification of their investment to mitigate the risk and also effectively determine the budget of investment before making investment decisions. To conclude, the individual investors are shown positive intend towards the investment decision whereas, they need to develop in many aspects related to the enrichment and betterment in their financial knowledge to gain more awareness and information before making their investment decisions.

## VI. LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

The study has limitations, the sample size 140, that to collected in the Chennai city only. The behavioral research can proceed for long period of time due to behavioral, cultural and socio-economical changes among the various societies. The present study developed convenient non-probability sampling for the study. The study can be extended to the other cities, in other part of India, by using different sample size.

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