

Financial Literacy about Stock Market among the Participants of Bombay Stock Exchange

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Abstract –

Financial mistakes made at any stage of life can be costly. To avoid such mistakes, financial literacy is very important. Financial literacy is buzzword now days, and its importance has accepted all over the world. Financial literacy is required for any financial decision making. But his term is subjective in nature. So it varies according to investors. Investing in stock market is still not so popular in India because of its complicated nature and lack of financial literacy. This paper attempts to find out the literacy levels of stock market participants of Bombay Stock Exchange. Stock market participation is strongly related to financial literacy. Previous research was focused on financial literacy and reasons behind less stock market participation. In this study, stock market participant's financial literacy regarding stock market functions has been assessed. Those who participate in stock market are considered to be a risk taking investors, and it is expected that investor must have basic knowledge about stock market. BSE is one of the oldest stock market in world. So the participants of BSE will be the great population to test financial literacy levels. This study is based on primary data collected through a survey from BSE participants as well as on secondary data.

Keywords - Financial Literacy, Stock Market Participation, Bombay Stock Market.

I. INTRODUCTION

Financial literacy has gained importance in all over the world. As many people are investing in financial market, they have to be financially literate. Stock market participants are considered to be financially literate and they assumed to be well aware about the different factors and functions related to stock market. Financial literacy is very broad term and it includes information and behavior related to financial matters. Stock market related literacy includes different functions of stock market, different tools of stock market, and different sources of information of stock market and knowledge with practical application of above points.

Financially illiterate investors, who constantly take undesired financial decisions, can suffer from adverse conditions in long term. They neither get successful in accumulating wealth, nor do they get wealthy life and welfare. This paper focuses attention on stock market participants (BSE) financial literacy regarding stock market.

This paper makes contribution to the previous literature in two ways. First, combination of different questions (previously used and with new questions) on stock market regarding literacy and knowledge have been developed, which will allow to understand the financial literacy levels of Pune city's stock market participants. Second, this research contributes to the existing research of stock market participation, on the basis of other variables like age, education, income, nature of employment, no. of years' experience in stock market and its role in stock market participation. Further to this Knowledge of stocks, workings of stock market are some of the focused area for this research.

As stated before, stock market considered to be complex and risky investment avenue. So those who are participants in stock market, their stock market related literacy will allow to draw a conclusion about the participation puzzle. This will help to understand that stock ownership is correlated with stock market related literacy.

II. RESEARCH OBJECTIVE

“To study the stock market related financial literacy among the participants of Bombay Stock Exchange”

III. RESEARCH METHODOLOGY

This research is based on primary data collected from Bombay Stock Exchange investors located in Pune city, India. Sample collected for this study was 69 respondents. Convenient sampling method was used as only stock market investors were focused as a population study. The main objective of this research is to study the financial literacy level of stock market participants, accordingly the questionnaire was designed for the same.

Four different groups were created according to their scores of financial literacy. These four groups were Highly Financially illiterate, financially illiterate, Financially literate and Highly Financially literate. Other information like demographic factors was also assessed to support the objective. For secondary data various journals, books, newspaper, reports and websites were referred.

IV. REVIEW OF LITERATURE

According to **Joanne Yoong (2010)** ignorance of financial matters or financial illiteracy, negatively hampers stock market participation, even for those people who have wealth, education and financial literacy.

Thomas Ashok ,Spataro Luca (2015) build a perfect framework in which financial literacy, human capital savings and stock market are shown as interconnected. Countries or individuals with proper education system that perform better in accumulating human capital should also exhibit higher levels of financial literacy and high stock market participation rates.

According to **Maarten van Rooij ,Annamaria Lusardi , Rob Alessie (2007)** lack of knowledge and understanding of finance as well as economics is a significant problem in stock ownership. The different financial measures people have exhibited at their work prove that lack of financial literacy is a major obstacle for household in participating in the stock market.

Cocco, Gomez and Maenhout (2005) argued that non participation in stock market can lead to sizable welfare loss. For this reason the role of financial literacy should not be under estimated. When the responsibility is given to workers to decide how much to save for retirement and how to invest their retirement wealth , it also should be considered that their financial knowledge should be enhanced by various ways. As well as they should be guided for proper financial decision. According to **Van Rooij et al. (2011)** higher sophistication is positively associated with higher wealth and higher probability to invest in stocks. They confirmed that lack of understanding of economics and finance is a major obstacle in stock ownership. They arrived on this result by following different measures of financial

V. DATA ANALYSIS AND RESULTS

As mentioned above in research methodology, four groups were created according to their literacy score. And this literacy score has been drawn from the results of financial literacy questions regarding stock market. Data analysis is given below.

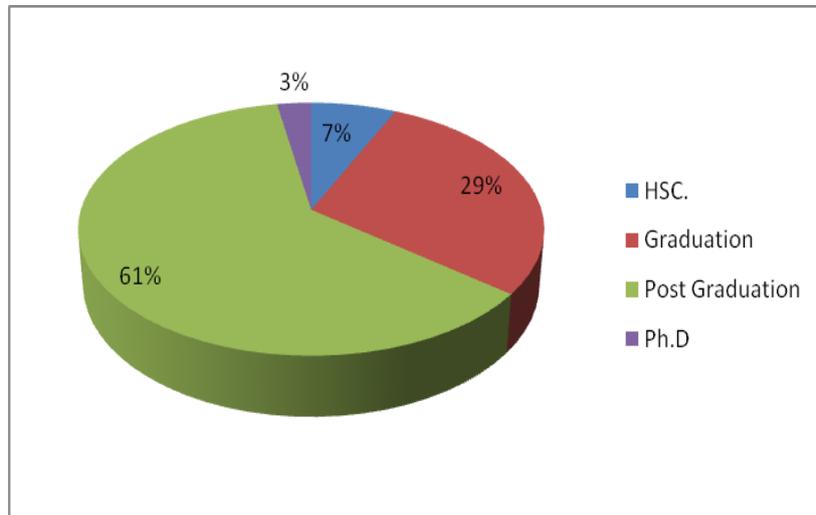


Figure No. 1 Educational Qualifications of respondents.

Findings: The findings show that 61% of participants are having Post Graduate degree followed by Graduated degree i.e. 29%. This indicates that people who invest in stock market are highly educated. As the education level decreases, participation decreases.

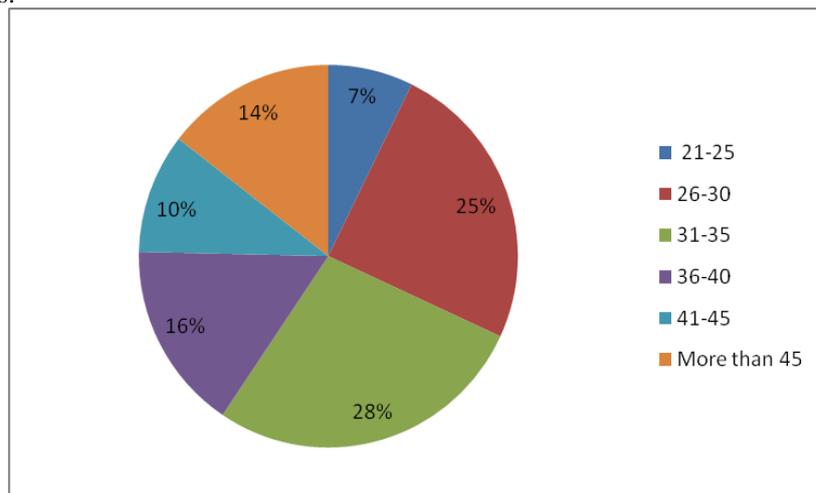


Figure No. 2 Age group of the respondents.

Findings: A finding shows that majority investors are from the age group of 31-35 years followed by 26-30 years of age. This indicates that people from the age group of 31-35 year consider stock market as a good investment avenue and ready to invest in it.

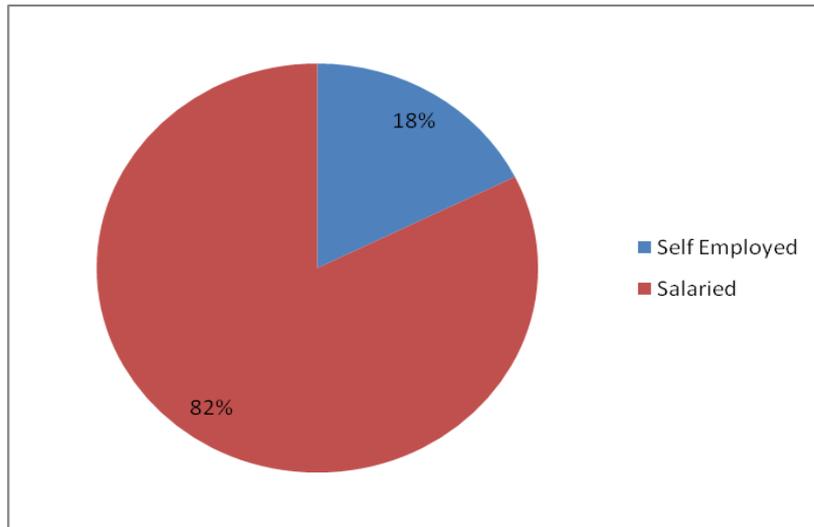


Figure No. 3 Nature of employment of Respondents

Finding: finding shows that 82% investors are salaried. This indicates that investment in stock market is a subject to regular and fixed income.

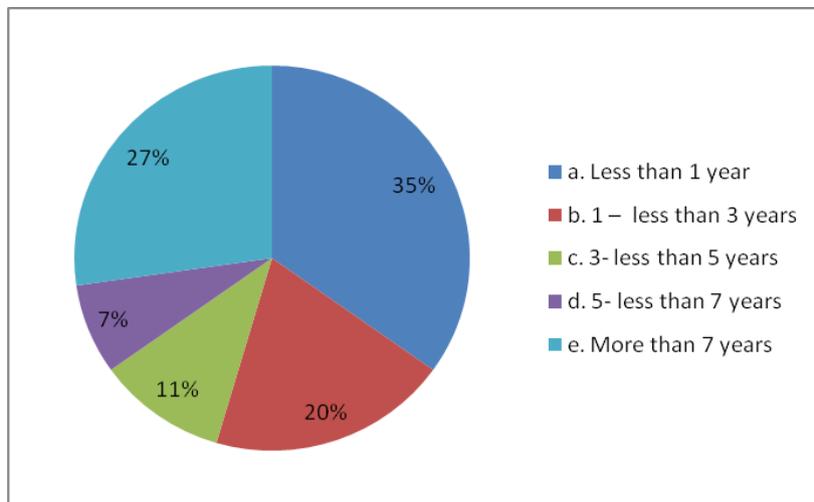


Figure No.4 How long you have been investing?

Findings: it shows that 35% of investors are investing in stock market from less than 1 year followed by more than 7 years i.e. 27%. It indicates that fresh investors are having more interest in stock market rather than experienced one.

Table No. 1 Tabular presentation of stock market related literacy question

Questions	correct answer	wrong answer	don't know
1. Which of the following statements describes the main function of the stock market?	58%	32%	10%
2. Which of the following statements is correct? If somebody buys the stock of firm B in the stock market:	68%	23%	9%
3. Which of the following statements is correct? If somebody buys a bond of firm B	56%	28%	16%
4. Normally, which asset displays the highest fluctuations over time?	90%	6%	4%
5. Stocks are normally riskier than bonds. True or false?	87%	10%	3%
6. If the interest rate falls, what should happen to bond prices?	25%	59%	16%
7. If you know the term Fundamental analysis then, choose one of the following options which precisely describe the	48%	43%	9%
8. If you know the term Technical analysis then, choose one of the following options which precisely describe the	49%	42%	9%

Findings: it can be clearly observed that financial literacy levels are good but it starts decreasing as the complexity of question rises. Investors are well aware about the basic concepts of stock market related terms. But when it comes to interest rates or pricing methodology, investors failed to answer it correctly. Even in the case of Fundamental analysis, less than 50% people are aware about this concept, where as this is a basic and necessary term in stock market participation. Same is the case with Technical Analysis. But here, it can be said that technical analysis is quite complicated compared to fundamental analysis.

VI. FINDINGS

1. Many different determinants are responsible for stock market participation but financial literacy is important phenomenon.
2. Education, cognitive ability also play an important role. It also suggests that Family background and education of parents do determine financial literacy index of their children. And this financial literacy index determines the stock market participation of an investor.
3. Those who have low financial literacy are significantly less likely to invest in stocks. Apart from this, investors from the age group of 31-35 year are more in numbers in stock market investment. This is a combination of young and middle age group investors.
4. There is a correlation between number of years in stock market investment and stock market participation. Majority of stock market investors are new or fresh investors who are investing in stock market not more than 1 year.
5. People are not aware about basic economic concepts related to inflation and interest rate compounding. Apart from this it also revealed that they have limited knowledge of stocks and bonds, the concept of risk diversification, and the working of financial markets.
6. There is a correlation between financial knowledge and behavior, although the way of the causality is unclear. It is also found that those who score higher on financial literacy tests are more likely to follow recommended financial practices while investing in stock market.
7. It has been proven, that financial literacy is an active process, in which transmission or communication of information is only the beginning. Consumer empowerment to take efforts to improve their financial wellbeing is the ultimate goal.
8. Empirical evidence has proved the importance of financial literacy programs and also suggested further points to be researched by other contributors like most effective financial literacy tools, programs and public policies especially in the context of developing countries.
9. In India, the area of geographical region and employment, it has been observed that financial literacy is associated with nature of income. It is dependent upon the nature of employment. The salaried employees were found to be more active in stock market rather than self employed people.

VII. CONCLUSIONS

The main objective of this research was to assess the role of financial literacy in stock market participation by stock market participants from Pune city. According to the findings of the study, it can be concluded that there is an association and correlation between financial literacy and stock market participation. It was also observed that respondents were found financially literate in majority of the areas.

This research also tried to establish the effect of other variables such as nature of employment, educational qualifications, age and number of years experience in stock market and financial knowledge on the stock market participation.

Findings suggest that level of financial literacy is not so high because of the fact that 35% of the investors were having less than 1 year of experience in the stock market. From the findings, it is also revealed the 28% of the stock market participants are from the age group of 31-35 years which indicates that the youth participation in stock market. This is a growth indicator of stock market. as the number of young people will increase the productivity and economic growth will increase. Apart from this young generation does have the capability to understand and perform the stock market related activities more efficiently.

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