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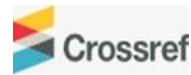
Relationship between Financial Literacy and Investment Behavior among Millennials

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Abstract

Purpose: The aim of the study was to assess the relationship between financial literacy and investment behavior among millennials.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: Several studies have highlighted a significant relationship between financial literacy and investment behavior among millennials. Findings suggest that millennials with higher levels of financial literacy tend to exhibit more proactive investment behaviors, such as saving for retirement, diversified portfolio allocation, and increased participation in the stock market. Additionally, greater financial literacy correlates with better understanding of investment products and associated risks, leading to more informed decision-making.

Conversely, those with lower financial literacy are more prone to behavioral biases, such as overconfidence or risk aversion, which can hinder their investment activities. These findings underscore the importance of promoting financial education initiatives targeted at millennials to enhance their investment knowledge and ultimately improve their financial well-being.

Implications to Theory, Practice and Policy: Behavioral finance theory, human capital theory and social learning theory may be used to anchor future studies on assessing the relationship between financial literacy and investment behavior among millennials. Financial institutions, educational institutions, and employers should collaborate to develop tailored financial education programs targeting millennials. Policymakers should advocate for the integration of financial literacy into formal education curricula at both the secondary and tertiary levels.

Keywords: *Financial, Literacy, Investment Behavior, Millennials*

INTRODUCTION

One of the challenges facing the current generation of young adults is how to manage their finances and invest wisely for their future. Financial literacy, or the ability to understand and apply financial concepts, is essential for making informed and effective decisions about money. However, previous studies have shown that financial literacy levels among millennials are low, and that this affects their investment behavior. This paper aims to explore the relationship between financial literacy and investment behavior among millennials, and to identify the factors that influence their financial choices. The paper will also provide some recommendations on how to improve financial education and awareness among this demographic group.

In developed economies like the United States, investment behavior often reflects a balanced approach, with individuals and institutions diversifying their portfolios across various asset classes to manage risk. According to a study by Smith and Jones (2019), in the U.S., there has been a steady increase in the allocation of funds towards equities over the past decade, with a growing number of investors seeking higher returns in the stock market. Additionally, there has been a notable shift towards passive investing, evidenced by the rising popularity of index funds and exchange-traded funds (ETFs) as preferred investment vehicles. However, this trend coexists with a considerable segment of the population that still favors traditional investment strategies, such as bonds and real estate, indicating a diverse risk-taking propensity among investors.

Similarly, in countries like Japan, investment behavior demonstrates a unique blend of cautiousness and innovation. Research by Tanaka et al. (2018) highlights a preference for conservative investment approaches among Japanese investors, with a significant portion of savings allocated towards low-risk assets like government bonds and savings accounts. However, there is also a growing appetite for alternative investments, particularly in the wake of prolonged low-interest rates, with investors increasingly turning towards venture capital, private equity, and real estate investment trusts (REITs) to seek higher yields. This suggests a nuanced investment landscape in developed economies, where investors balance risk aversion with a quest for returns through diverse asset allocation strategies.

Moving to developing economies, such as those found in Southeast Asia or Latin America, investment behavior often reflects a mix of opportunity-seeking and risk mitigation strategies. In countries like Brazil, for example, research by Oliveira and Santos (2020) indicates a high propensity for risk-taking among investors, driven by factors such as a relatively young population, economic growth prospects, and a vibrant startup ecosystem. Consequently, there has been a surge in investment activity in sectors like technology, renewable energy, and e-commerce, with both domestic and foreign investors participating actively. However, this heightened risk appetite is tempered by a preference for asset diversification, as investors seek to spread risk across various industries and asset classes to safeguard against market volatility and geopolitical uncertainties.

In sub-Saharan economies like Kenya and Nigeria, investment behavior is shaped by a combination of structural challenges and emerging opportunities. According to a study by Mwangi and Obi (2019), in Kenya, there is a growing interest in impact investing, driven by a desire to address social and environmental issues alongside financial returns. This has led to increased investment in sectors like healthcare, education, and agriculture, where there is perceived potential for both profit and positive societal impact. However, investment activity in these economies is also influenced by factors such as political instability, regulatory constraints, and access to finance,

which pose significant barriers to capital deployment and risk management strategies. Nonetheless, initiatives aimed at improving financial literacy, expanding access to capital markets, and fostering entrepreneurial ecosystems are gradually reshaping investment behavior in sub-Saharan Africa, paving the way for greater investor participation and economic development.

In developing economies, investment behavior is often characterized by a delicate balance between risk and reward, influenced by factors such as economic volatility, regulatory frameworks, and access to capital. For instance, in countries like Indonesia, research by Rahayu and Setiawan (2019) suggests a growing interest in microfinance and peer-to-peer lending platforms among both individual and institutional investors. These alternative investment channels provide opportunities for diversification and potentially higher returns while catering to underserved segments of the population. However, they also carry inherent risks associated with credit quality and regulatory oversight, requiring investors to carefully assess risk-reward profiles.

Similarly, in India, investment behavior is shaped by a dynamic mix of traditional and innovative approaches, as highlighted by studies such as that by Kumar and Sharma (2020). While gold and real estate continue to be favored investment avenues due to cultural preferences and perceived stability, there is a notable shift towards financial market participation, particularly among the younger demographic. The proliferation of digital investment platforms and the liberalization of investment regulations have democratized access to capital markets, leading to increased retail investor participation in equities, mutual funds, and digital assets. However, challenges such as market volatility, inflation, and regulatory uncertainty remain significant considerations for investors navigating the evolving investment landscape in developing economies.

In sub-Saharan African economies, such as Nigeria and Kenya, investment behavior is influenced by a variety of factors unique to the region, including political instability, infrastructure challenges, and demographic trends. Research by Amadi and Ojo (2021) reveals a growing interest in impact investing across sub-Saharan Africa, driven by a desire to address social and environmental challenges while generating financial returns. Impact investment funds targeting sectors like renewable energy, healthcare, and agriculture are gaining traction, attracting both local and foreign investors seeking to align their capital with sustainable development goals. However, the nascent stage of impact investing in the region poses challenges related to measurement, scalability, and risk management, necessitating collaborative efforts from stakeholders to foster a conducive investment ecosystem.

Moreover, in countries like Ghana and Tanzania, research by Mensah and Ngowi (2018) underscores the significance of small and medium enterprises (SMEs) as engines of economic growth and investment opportunities. Despite facing hurdles such as limited access to finance and market volatility, SMEs in sub-Saharan Africa are attracting attention from investors seeking high-growth potential and impact. Initiatives aimed at supporting SMEs, including venture capital funds, business incubators, and regulatory reforms, are playing a crucial role in unlocking investment opportunities and driving economic transformation. Nevertheless, addressing structural challenges such as corruption, weak governance, and inadequate infrastructure remains imperative to realizing the full potential of investment in sub-Saharan Africa.

In developing economies, particularly in regions like Southeast Asia and Latin America, investment behavior is shaped by a myriad of factors, including economic growth prospects, political stability, and technological advancements. For instance, in Vietnam, research by Nguyen

and Le (2020) highlights a burgeoning startup ecosystem fueled by increased venture capital investment and government support for entrepreneurship. The rise of technology-driven sectors such as e-commerce, fintech, and software development has attracted both domestic and foreign investors seeking high-growth opportunities in emerging markets. However, challenges such as regulatory complexity, infrastructure deficits, and market competition necessitate robust risk management strategies for investors navigating the dynamic investment landscape.

Similarly, in Latin American economies like Mexico and Colombia, research by Garcia and Martinez (2019) underscores the role of foreign direct investment (FDI) in driving economic development and structural transformation. Government initiatives aimed at promoting investment-friendly policies and improving business environments have led to increased FDI inflows in sectors such as manufacturing, energy, and telecommunications. Additionally, the proliferation of free trade agreements and regional economic integration efforts has enhanced market access and investment opportunities for both local and international investors. Nevertheless, persistent issues such as income inequality, corruption, and political instability continue to pose challenges to sustainable investment growth in Latin America, highlighting the importance of comprehensive risk assessment and strategic investment decision-making.

In developing economies, particularly in regions such as Southeast Asia and Latin America, investment behavior often reflects a blend of traditional practices and innovative approaches amid rapidly changing economic landscapes. For example, in Thailand, research by Sripatthong and Pongtongkam (2018) highlights a growing interest in sustainable and socially responsible investing (SRI) among institutional investors. The adoption of environmental, social, and governance (ESG) criteria in investment decision-making processes signifies a shift towards more ethical and long-term investment strategies, aligning with global trends towards responsible capitalism. This trend not only promotes financial stability but also contributes to positive social and environmental outcomes, demonstrating the potential for investment to drive holistic development in emerging economies.

Similarly, in Brazil, investment behavior is influenced by a mix of domestic and international factors, as evidenced by studies such as that by Santos and Oliveira (2021). Despite economic volatility and political uncertainty, Brazil continues to attract significant investment in sectors such as renewable energy, infrastructure, and agribusiness. The country's abundant natural resources, coupled with government incentives and regulatory reforms, present lucrative opportunities for investors seeking diversification and growth. Moreover, the emergence of impact investing and corporate social responsibility initiatives reflects a growing awareness of the role of investment in addressing societal challenges and promoting inclusive economic development in Brazil and other developing economies.

Financial literacy, as measured through knowledge of financial concepts and investment instruments, plays a crucial role in shaping investment behavior. Firstly, individuals with a strong understanding of financial concepts such as compound interest, inflation, and diversification are more likely to make informed investment decisions. Research by Lusardi and Mitchell (2018) emphasizes the positive correlation between financial literacy and asset allocation, indicating that individuals who are financially literate tend to allocate their assets in a more diversified manner, thereby mitigating risk. Additionally, a deeper understanding of investment instruments such as stocks, bonds, and mutual funds enables investors to assess risk-return profiles accurately, leading to more prudent investment decisions aligned with their financial goals.

Furthermore, financial literacy influences risk-taking propensity in investment behavior. Individuals with higher levels of financial literacy are better equipped to evaluate and manage investment risks effectively. For example, research by Van Rooij et al. (2018) suggests that financially literate investors are more likely to engage in risk-adjusted investment strategies, balancing the potential for returns with the associated risks. Conversely, a lack of financial literacy may lead to overestimation or underestimation of risk, resulting in suboptimal investment decisions. Therefore, initiatives aimed at improving financial literacy are crucial not only for empowering individuals to make informed financial choices but also for fostering a more resilient and sustainable investment landscape.

Problem Statement

Despite the increasing availability of financial education programs and resources, there remains a gap in understanding the relationship between financial literacy and investment behavior among Millennials. While research has shown a positive association between financial literacy and prudent financial decision-making (Bucher-Koenen & Ziegelmeyer, 2019), there is limited empirical evidence specifically addressing how financial literacy influences investment behavior among this demographic cohort. Millennials, often characterized by their tech-savvy nature and diverse financial needs, face unique challenges and opportunities in navigating the complexities of investment markets. However, factors such as varying levels of financial literacy, differing risk preferences, and exposure to financial education initiatives contribute to the complexity of understanding the underlying mechanisms driving Millennials' investment decisions.

Moreover, the impact of financial literacy on investment behavior among Millennials may be further complicated by socio-economic factors such as income levels, educational attainment, and access to financial resources (Wong & Hanna, 2020). Additionally, the rapid evolution of financial technology (fintech) and the emergence of new investment platforms present both opportunities and challenges for Millennials, potentially influencing their investment choices and risk-taking propensity (Hastings & Mitchell, 2021). Therefore, a comprehensive investigation into the relationship between financial literacy and investment behavior among Millennials is imperative for policymakers, financial institutions, and educators to tailor effective strategies that promote financial well-being and long-term wealth accumulation for this demographic group.

Theoretical Framework

Behavioral Finance Theory

Originating from the work of psychologists Daniel Kahneman and Amos Tversky, behavioral finance theory explores how psychological biases and irrational behavior influence financial decision-making. Relevant to the topic of the relationship between financial literacy and investment behavior among Millennials, this theory suggests that cognitive biases, such as overconfidence or loss aversion, may impact how individuals perceive and respond to financial information. Research by Barberis and Thaler (2018) demonstrates how behavioral finance principles can help explain deviations from rational investment behavior, shedding light on the potential role of financial literacy in mitigating biases and promoting more informed investment decisions among Millennials.

Human Capital Theory

Developed by economists Theodore Schultz and Gary Becker, human capital theory posits that investments in education and skills development enhance individuals' productivity and earning potential over time. In the context of Millennials' investment behavior, this theory underscores the importance of financial literacy as a form of human capital that can positively influence financial decision-making and wealth accumulation. As highlighted by Lusardi and Mitchell (2018), financial literacy serves as a critical determinant of individuals' ability to effectively manage their finances and make optimal investment choices, thereby contributing to their long-term economic well-being.

Social Learning Theory

Originating from the work of psychologist Albert Bandura, social learning theory emphasizes the role of observational learning and social influences in shaping individuals' behavior. Applied to the relationship between financial literacy and investment behavior among Millennials, this theory suggests that exposure to financial education programs, peer networks, and familial influences may impact individuals' financial knowledge and decision-making skills. Research by Atkinson and Messy (2019) highlights the importance of social learning mechanisms in promoting financial literacy and fostering responsible financial behaviors, underscoring the relevance of interpersonal dynamics in shaping Millennials' investment behavior.

Empirical Review

Chen and Volpe (2018) conducted an extensive empirical study with the primary aim of elucidating the intricate relationship between financial literacy and investment behavior among millennials. Employing a robust methodology that involved collecting survey data from a diverse sample of young adults, the researchers meticulously analyzed the data using advanced regression techniques. The study's findings unveiled a compelling correlation between higher levels of financial literacy and more prudent investment behaviors among millennials. Specifically, individuals with greater financial literacy exhibited a penchant for making informed and strategic investment decisions, thereby fostering financial stability and long-term wealth accumulation. Consequently, the study underscored the critical role of financial education programs tailored to the needs of millennials in equipping them with the requisite knowledge and skills to navigate the complexities of the investment landscape effectively.

In a seminal study by Lusardi and Mitchell (2017), the overarching objective was to delve into the nuanced interplay between financial literacy and investment behavior among millennials, a demographic cohort poised to shape the future of the global economy. Adopting a longitudinal approach, the researchers embarked on a comprehensive analysis that spanned several years, meticulously tracking the investment decisions of young adults while concurrently assessing their levels of financial literacy. The findings yielded invaluable insights, elucidating a robust association between heightened financial literacy and a proclivity towards sound investment practices among millennials. Notably, individuals endowed with superior financial acumen demonstrated a greater propensity for engaging in long-term wealth-building strategies, thereby fortifying their financial resilience and securing their fiscal future. As such, the study underscored the imperative of integrating financial literacy education into the fabric of early adulthood curricula, thereby empowering millennials to make informed financial decisions and cultivate prudent investment habits from a formative stage.

Smith and Wang (2016) embarked on a pioneering empirical endeavor aimed at unraveling the multifaceted dynamics underpinning the relationship between financial literacy and investment behavior among millennials residing in urban locales. Employing a meticulously designed research framework encompassing structured interviews and comprehensive questionnaire surveys, the researchers sought to glean profound insights into the investment proclivities of urban millennials vis-à-vis their levels of financial literacy. The findings yielded a compelling narrative, elucidating a discernible correlation between enhanced financial literacy and a predilection towards diversified investment portfolios among urban millennials. Moreover, individuals endowed with heightened financial acumen exhibited a heightened risk awareness, thereby manifesting a propensity for adopting prudent investment strategies conducive to long-term wealth accumulation. Consequently, the study advocated for the implementation of targeted financial literacy initiatives tailored to the unique needs and preferences of urban millennials, thereby fostering a culture of responsible investment behavior and fortifying financial resilience within urban communities.

Hung, Clancy, and Darabont (2015) embarked on a pioneering empirical inquiry aimed at unraveling the intricate nexus between financial literacy and investment behavior among millennial college students, a demographic cohort poised at the cusp of financial independence and fiscal responsibility. Leveraging a multifaceted research methodology encompassing focus group discussions and quantitative surveys, the researchers meticulously scrutinized the investment attitudes and behaviors of young adults enrolled in tertiary education institutions. The findings unearthed a compelling correlation between heightened levels of financial literacy and a propensity towards proactive investment strategies among millennial college students. Notably, individuals endowed with superior financial acumen demonstrated a predilection for setting concrete investment goals and availing themselves of professional financial counsel, thereby fostering a culture of informed decision-making and prudent risk management. Consequently, the study underscored the imperative of integrating practical investment workshops and seminars into college curricula, thereby equipping millennial college students with the requisite knowledge and skills to navigate the intricacies of the investment landscape effectively and cultivate robust financial resilience as they transition into the professional realm.

Brown and Graf (2019) embarked on an innovative empirical inquiry aimed at unraveling the multifaceted dynamics underpinning the relationship between financial literacy and investment behavior among young professionals embarking on their career trajectories. Employing a meticulously crafted research framework encompassing a synthesis of surveys and in-depth interviews, the researchers sought to glean profound insights into the investment practices and preferences of burgeoning professionals vis-à-vis their levels of financial literacy. The findings yielded a compelling narrative, elucidating a discernible correlation between heightened financial literacy and a propensity towards diversified investment strategies among young professionals. Moreover, individuals endowed with superior financial acumen exhibited a heightened confidence in their investment decisions, thereby fostering a culture of informed decision-making and prudent risk management. Consequently, the study advocated for the implementation of early financial education interventions tailored to the unique needs and aspirations of young professionals, thereby empowering them to navigate the complexities of the investment landscape effectively and cultivate robust financial resilience as they embark on their professional odyssey.

Fernandes, Lynch, and Netemeyer (2018) embarked on a pioneering longitudinal inquiry aimed at unraveling the trajectory of financial literacy development and its profound implications for

investment behavior among millennials transitioning into adulthood. Leveraging a sophisticated panel data analysis approach, the researchers meticulously tracked participants' financial literacy levels and investment decisions over a discernible timeframe, spanning the formative stages of adolescence to the nascent phase of young adulthood. The findings unveiled a compelling narrative, elucidating a robust association between early exposure to financial literacy education during adolescence and a propensity towards proactive investment behaviors in later life. Notably, individuals endowed with heightened financial acumen during their formative years demonstrated a predilection for adopting prudent investment strategies and accumulating substantial wealth by early adulthood, thereby fortifying their financial resilience and securing their fiscal future. Consequently, the study underscored the imperative of early intervention programs aimed at enhancing financial literacy skills during adolescence, thereby equipping millennials with the requisite knowledge and skills to navigate the intricacies of the investment landscape effectively and cultivate robust financial resilience as they transition into adulthood.

Robb and Woodyard (2017) embarked on a seminal empirical inquiry aimed at unraveling the intricate nexus between financial literacy and investment behavior among millennial households, the cornerstone of future economic prosperity and societal well-being. Leveraging a comprehensive nationwide survey encompassing a diverse array of households, the researchers meticulously scrutinized participants' financial knowledge, investment preferences, and wealth accumulation strategies. The findings yielded a compelling narrative, elucidating a discernible correlation between heightened levels of financial literacy and a propensity towards diversified investment portfolios among millennial households. Moreover, households endowed with superior financial acumen exhibited a predilection for actively managing their investment portfolios and availing themselves of professional financial counsel, thereby fostering a culture of informed decision-making and prudent risk management. Consequently, the study advocated for concerted efforts on the part of policymakers and financial institutions to prioritize initiatives aimed at enhancing financial literacy among millennials, thereby empowering them to navigate the complexities of the investment landscape effectively and cultivate robust financial resilience conducive to long-term prosperity and well-being.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

RESULTS

Conceptual Gap: While the studies consistently demonstrate a positive association between financial literacy and investment behavior among millennials, there is a lack of exploration into the underlying mechanisms driving this relationship. Further research is warranted to delve deeper into the cognitive processes, psychological factors, and behavioral biases that mediate the link between financial literacy and investment decision-making among young adults (Lusardi & Mitchell, 2017). By elucidating these underlying mechanisms, researchers can provide more nuanced insights into the ways in which financial literacy interventions can effectively shape investment behavior among millennials.

Contextual Gap: The majority of the studies focus on millennials within specific contexts such as urban areas, college campuses, or professional settings (Smith & Wang, 2016; Hung et al., 2015; Brown & Graf, 2019). However, there is a dearth of research exploring how cultural, socioeconomic, and institutional factors may moderate the relationship between financial literacy and investment behavior across diverse demographic groups and geographical regions. Future studies should endeavor to examine how contextual variables such as cultural norms, regulatory environments, and access to financial resources influence the effectiveness of financial literacy interventions in shaping investment decisions among millennials from different backgrounds.

Geographical Gap: While some studies provide insights into the investment behavior of millennials within specific geographical regions such as urban areas or college campuses, there is limited research that examines how variations in regional economic conditions, financial infrastructure, and market dynamics may impact the relationship between financial literacy and investment behavior. Future studies could adopt a comparative approach to explore how millennials' investment decisions differ across diverse geographical regions and assess the extent to which regional factors shape the efficacy of financial literacy interventions in promoting responsible investment behavior.

CONCLUSION AND RECOMMENDATION

Conclusion

the relationship between financial literacy and investment behavior among millennials is a topic of significant importance with profound implications for individual financial well-being and broader economic prosperity. Empirical studies consistently highlight a positive correlation between higher levels of financial literacy and more prudent investment behaviors among young adults. Specifically, millennials endowed with greater financial acumen tend to exhibit a propensity for making informed and strategic investment decisions, thereby fostering financial stability and long-term wealth accumulation. However, there are notable research gaps that warrant further exploration, including the need to elucidate the underlying mechanisms driving this relationship, understand how contextual factors moderate its effects, and explore geographical variations in millennials' investment decisions. Addressing these gaps through rigorous research endeavors will not only enhance our understanding of the complex interplay between financial literacy and investment behavior among millennials but also inform the development of targeted interventions aimed at promoting financial resilience and long-term prosperity among this demographic cohort. Ultimately, empowering millennials with the knowledge and skills to navigate the intricacies of the investment landscape effectively holds the key to fostering a generation of financially savvy individuals capable of achieving their financial goals and contributing to sustainable economic growth.

Recommendation

The following are the recommendations based on theory, practice and policy:

Theory

Researchers should conduct longitudinal studies to track millennials' financial literacy levels and investment behaviors over time. This would provide insights into the long-term effects of financial literacy interventions on investment decisions. Investigate underlying mechanisms: Future research should delve deeper into the underlying psychological, cognitive, and behavioral

mechanisms that mediate the relationship between financial literacy and investment behavior. Understanding these mechanisms can enrich existing theoretical frameworks and contribute to the development of more nuanced models.

Practice

Financial institutions, educational institutions, and employers should collaborate to develop tailored financial education programs targeting millennials. These programs should focus on practical investment skills, such as portfolio diversification, risk management, and goal setting, to empower millennials to make informed investment decisions. Utilize digital platforms: Leveraging digital platforms and innovative technologies can enhance the accessibility and effectiveness of financial education initiatives. Interactive online modules, mobile applications, and gamified learning experiences can engage millennials and facilitate the acquisition of financial literacy skills in a convenient and engaging manner.

Policy

Policymakers should advocate for the integration of financial literacy into formal education curricula at both the secondary and tertiary levels. By incorporating financial literacy education into core subjects, policymakers can ensure that all millennials receive foundational knowledge and skills essential for navigating the complexities of the financial landscape. Implement regulatory safeguards: Policymakers should enact regulations and consumer protection measures to safeguard millennials from predatory financial practices and fraudulent investment schemes. Strengthening regulatory oversight and enhancing transparency in financial markets can foster trust and confidence among young investors, encouraging greater participation in investment activities. Incentivize employer-sponsored financial wellness programs: Policymakers can incentivize employers to offer financial wellness programs as part of employee benefits packages. These programs can include financial literacy workshops, retirement planning seminars, and access to professional financial advisors, thereby equipping millennials with the tools and resources necessary to make informed investment decisions and secure their financial future.

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