

IMPACT OF FINANCIAL LITERACY AND INVESTMENT SKILLS ON INVESTORS' BEHAVIOUR IN COLOMBO STOCK EXCHANGE - MEDIATING ROLE OF DIGITAL LITERACY

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ABSTRACT

Rationality among the investors in decision making is essence for the performance of Colombo stock exchange (CSE) and also to development of country's economy. Investor's behaviour is unpredictable by any economist and even by equity market experts. Investor in the CSE can exhibit rational or irrational behaviour due to the multiple factors affecting investment. Therefore, study of investors behaviour is vital for improve the rationality among investors. As reviewed from literatures of many article, researchers found that, the increasing level of financial literacy and high level of practice in investment skills can improve the rationality of investment decision. The Covid-19 pandemic has driven in the explosive growth of "Digital" Financial Services (DFS) and online trading in CSE. Therefore, it is vital for the investor to familiar with digital advancement. Accordingly, Present study amid to analyse the impact of financial literacy and investment skills on investors behaviour and further carried the mediation analyse of digital literacy. Researchers point of view is "financial literacy teach investor to use money efficiently while, investment skills provide the ability to track, collect, analyse and research data to make decision in order to select the most profitable portfolio in CSE. However digital literacy is vital to apply the knowledge of Finance and investment skills in making investment decision in CSE". This study conducted to identify the rationality of investor's behaviour from assessing the impact of financial literacy and investment skills level of investors in CSE, and find the mediating role of Digital literacy. A self-administrated questionnaire was issued to the investors in CSE and 227 responses were collected via online. Present study adopted descriptive and inferential statistics to measure the independent- dependent relationship and Mediation relationship of the study. The findings revealed that, financial literacy and investment skills have impact on investor's behaviour whereas digital literacy does not impact on investor's behaviour. Moreover, findings revealed that, primal mediation of the study was insignificant accordingly there is no mediation predicted in present study.

Keywords: Investors behaviour, Financial Literacy, Investment Skills, Digital Literacy and Colombo Stock Exchange

1. INTRODUCTION

1.1. Introduction to the Research

The performance of the CSE will significantly influence the development of the economy. Therefore, it is crucial to implement the most efficient investment strategy to attain financial stability through higher proficient investors. In the current context, making an investment choice is a complex and time-consuming process that entails risk to the investors. Moreover, the investment behaviour of investors can be affected by internal and external environmental factors. Therefore, it is vital to exploring investors' behaviour to achieve economic growth. Singh & Gupta (2021) and Tiwari, et al (2020), stated that the causes of irrational and biased behaviour can be built from the lack of education, knowledge, skills and ability in Finance, Investment and technological advancement. The financial literacy of an individual is crucial to achieving financial well-being. However, Investment skills provide the ability to Track, collect, analyse and research share prices to select the most profitable portfolio. Digital literacy is also vital to apply the knowledge of Finance and investment skills in making investment decisions in CSE. This study analyzed and concluded the impact of financial literacy and investments skills on investor's behaviour in CSE and the moderating role of digital literacy in order to measure how level of Financial & Digital literacy and Investor skills reduce the irrational behavioural pattern of investors.

1.2. Research Background

In current crisis context, increasing efficiency in money management and investment strategy is crucial for the contribution of GNP. Therefore, behavioural study will be a worthwhile study in financial and portfolio management that provides the knowledge to investors to invest in capital market which increases the financial well-being of the investors. Sri Lanka has a significant gap in financial literacy which is 65% (S & P, 2014). Further, Singh (2016), Weerasekara et al (2018), Weerawansa & Morage (2019), and Kumari (2020) revealed that Financial literacy significantly influences investor's behaviour in the stock market and highlighted that, increase in the financial literacy level of investors will increase the efficiency in capital market and further decrease the irrational decision in investment. Financial literacy teaches individuals to manage and save their fund for an investment. Although, investment skills crucial to make an efficient decision in CSE. In present, CSE operates in a Digital platform. Therefore, investors must able to handle the trading platform to research the company and make investment decision. This study examined influence level of financial literacy and investment skills of investors in CSE and emphasis the moderate role of digital literacy.

1.3. Research Gap

Investor's behaviour is complex to predict in capital and equity market due to the multiple factors affecting investment behaviour such as, personal factors, Income level, Educational level, Experience, technological advancement, risk attitude and

return perspective. Previous studies measured investment behaviour based on psychological dimension by using the theory of planned behaviour or by demographical factor such as age, gender, marital status and income level, or based on factors such as financial literacy, investment knowledge and digital knowledge. As per the previous studies, researchers found difficulty in measuring investor's behaviour in order to derive conclusion. Therefore, present study focuses on mitigate the complexity by predicting the investor behaviour through the multiple behavioural bias in previous study. In previous study most researchers haven't concern whole factors such as financial literary, investment skills and digital literacy to predict the investor's behaviour. Further, there is an empirical gap of digital literacy towards the financial literacy and investment skills to the investor's behaviour. Therefore, present study carried mediation analysis on digital literacy to analyse the impact on digital literacy as a mediator to financial literacy and investment skills in order to make a rational decision in CSE.

1.4. Problem Statement

In the current context, it is crucial for predicting the behaviours of investors in the CSE which may be affected by external environmental factors. Investors in the CSE exhibit a distinct irrational behavioural pattern which reduces rationality in decision-making. As from previous studies by scholars Lingsiya and Navaneethakrishnan (2014), Ullah (2019), Gamage, et al (2021), investors exhibit behavioural patterns and all of which enhance risk and trigger investors to make an inefficient investment decision. However, by exercising financial literacy, Investment skills and Digital Literacy to the investors of CSE, the rationality of investment decisions may be improved. As a result, this study is conducted to identify the existing behavioural pattern in CSE and study the level of Literacy and Skills. Further, this study explores the mediating role of digital literacy in CSE.

1.5. Research Questions

1. How financial literacy, investment skills and digital literacy influence on the behaviour of investor in CSE?
2. What are the investor's behavioural patterns in CSE?
3. How digital literacy mediates financial literacy, investment skills and investors behaviours?

1.6. Significance of the Research

This study is crucial for the investor to be aware of behavioural bias which may direct to an irrational decision in investment. Therefore, present study examined the behavioural patterns in CSE and the level of financial literacy, investment skills and digital literacy of investors in order to state that increasing literacy and skills in finance, investment and digitalization may decrease the irrational behaviour in capital market. The present crisis situation may increase spending and withdraw saving that may eventually decrease the total national investment. Therefore, the

study of investor’s behaviour is crucial, to understand the behavioural patterns in capital market to avoid irrational investment decisions. Further to inform the investors in CSE to behave in rational manner through the literacy and skills.

1.7. Research Objectives

1. To analyse the influence of the financial literacy, investment skills and digital literacy on investor’s behaviour in CSE.
2. To examine the main behavioural patterns of investors in CSE.
3. To evaluate how digital literacy mediates financial literacy, investment skills and investor’s behaviours in CSE.

1.8. Research Hypothesis

- H1-Financial Literacy positively impact on investor’s behaviour
- H2-Investment skills positively impact on investor’s behaviour
- H3-Digital literacy positively impacts on investor’s behaviour
- H4-Financial Literacy positively impact on Digital literacy
- H5-Investment skills positively impact on Digital literacy
- H6-Digital literacy mediates the relationship between financial literacy and investor’s behaviour
- H7-Digital literacy mediates the relationship between investment skills and investor’s behaviour

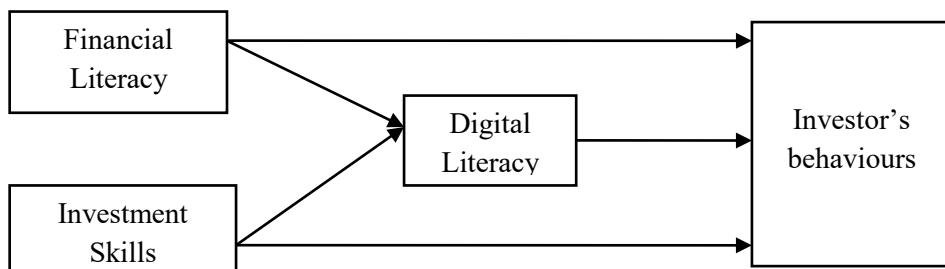


Figure 1: Conceptual framework and hypotheses formation

2. LITERATURE REVIEW

2.1. Empirical Review

2.1.1. Evolution of Behavioural Finance

Behavioural finance has evolved since the 1980s, after the criticism of traditional finance argued by Kahneman and Tversky (2014) and behavioural finance explores about the investor’s behaviour pattern in capital and equity market, which is an

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attempt to understand how emotions and bias influence investment decisions of the investors. Buddhika, (2020), Dayaratne, & Wijethunga, (2015), Gamage, et al (2021), Kengatharan, & Kengatharan, (2014), Rajeshwaran (2020) argued that investors in CSE pose behaviour bias in their investment decision namely anchoring, disposition bias, overconfidence, loss aversion, representativeness, availability heuristic, self-attributions prospect and market and risk perception. According to Ritter (2003), the limits of trade and fields of psychology are two basic concepts in behavioural finance. The term cognitive refers to the act of thinking. Many psychological researchers have found that individuals consistently think erroneously. Previous researchers measure the investors behaviour through the demographical, behavioural bias and based on theory of planned behaviour moreover present study attempt to measure the investors behaviour through the behavioural bias such as herding effect, anchoring effect, Disposition and over confidence exist in the capital market which is found in the previous study.

2.1.2. Financial Literacy

According to Edirisinghe et al (2017), financial literacy is an assessment of how well people recognize the fundamentals of financial concepts and has the skills and confidence to manage their financial well-being. Tennekoon, & Liyanage (2021), Weerawansa and Morage (2019), Kumari, et al (2020), S.S.R., &Kaushla (2021) and Madusanka (2016) empirically tested from the data collected and highlighted that financial literacy level of investors can influence the investment decision of investors. Weerawansa and Morage (2019) conducted a study on the degree of financial literacy as a deterministic factor in the investment decision of 372 investors and concluded that financial literacy moderates the relationship between behavioural finance and investment decision as demonstrated by the regression analysis and ANOVA test. Present study aimed to measure the impact on financial literacy level through the dimensions such as skills, knowledge, and experience and money management in order to predict the rationality of investors in CSE.

2.1.3. Investment Literacy (Skills)

Investments skills are the abilities of the investor which made them decide how, when, where, and how much capital will be spent on a particular investment portfolio. The decision can be taken by research to determine the cost and return on each option. Biwott, Sakataka&Wanyonyi,(2019). Kim &Kim (2022) investigate the retail investor's behaviour when the stock market crash happened in 2018 and it was proven analytically that investors with higher level of investment literacy were more likely to sell in stock market. Biwott et al (2019) stated that in regard to investment skills, the high level of practice of Investment skills and financial literacy can increase the long-term financial performance of an investment. Current study focuses to predict the investment skill level of the investors through the factors found from previous study such as Analytical, research, risk assessment and stock selection & trading skills to measure the investors' behaviour.

2.1.4. Digital Literacy

Digital literacy is the ability of the individual to understand and access digital platforms and digital products in the modern world. Since the CSE and SEC commence the digital transformation of trading and registering the investors needed to be required to pose a higher level of digital literacy. Colombage & Sapukotana, (2019) investigated the use of e-service in dealing with capital market services, as well as the moderating effect of computer literacy in Sri Lankan account holders of capital market securities moderates the relationships between factors influencing adoption of e-services and the level of adoption of e-service and findings revealed that, the respondents have relatively lower digital literacy in performing activities in capital market. Lyons and Kass (2021) investigated the relationship between financial literacy and financial decision-making, as well as the exploration relationship between financial literacy and digital literacy, and discovered that facilitating knowledge about financial literacy concepts is extremely crucial to the financial planning process, automaton services, and digital investment products such as financial securities and crypto - currencies. Present study tends to perform mediation analysis of digital literacy through the dimensions in order to measure the influence of digital literacy towards the financial literacy and investment skills on investors behaviour in CSE.

2.2. Theoretical Background

Traditional finance has core theories such as the capital asset pricing model, efficient market hypothesis, expected utility theory and modern portfolio theory that are argued by rationalists and behavioural finance has some key theories such as prospect theory, Bounded Rationality Theory, Cognitive Behavioural Therapy (CBT) and planned behaviour theory which is argued by a behaviourist.

2.2.1. Prospect Theory

According to Rajeshwaran (2020), prospect theory argues that losses and gains are evaluated differently, and that investors make decisions based on perceived gains rather than adjudicated losses. Losses have a stronger psychological impact than gains.

2.2.2. Bounded Rationality Theory (BRT)

The bounded rationality theory developed in 1955, by replace the rationality assumption of homo economic theory. According to Buddhika (2020), Bounded Rationality Theory implies that investors' decisions are restricted rational instead of fully rational. It also demonstrates that it investors prefer to make pleasing decisions rather than efficient decisions.

2.2.3. Cognitive Behavioural Therapy (CBT)

According to Beck (1967), Cognitive Behavioural Therapy (CBT) gives an underlying paradigm to comprehend the cause and effect of behavioural anomalies revealed by stock market participants. CBT is founded on the central

notion that how we think (cognition or thought), how we feel (emotion/feelings), and how we act (behaviour) all interact with one another. Specifically, our perceptions, in particular, influence our feelings and behaviour.

2.2.4. The Theory of Planned Behaviour

The theory of planned behaviour (TPB) is a behavioural theory used to investigate, predict, and analyze behaviour, which is a combination of three factors: attitude toward the behaviour, subjective norm, and perceived behavioural control. Firstly, Attitude of an individual can be viewed as a favourable and unfavourable evaluation of behaviour that performs. The attitude evaluation consists of two components namely, value of the action and pleasure from the action. Secondly, subjective norm refers to the perceived impact that other have individual on person’s intention and behaviour. Finally, the concept perceived behavioural control pertains to how simple or challenging a task is thought to be, and it is believed to be based on prior information and anticipating probable barriers and obstacles. Dayaratne and Wijethunga (2015) use the theory of planned behaviour to investigate behavioural intention in CSE investing, and they draw the conclusion that subjective norms such as family, close friends, job peers, investment advisors, and Medias have a significant influence on investor behaviour, whereas attitude and perceived control behaviour have no significant influence on behavioural intention.

2.3. Conceptual Background

2.3.1. Models used to measure the Investors Behaviour in CSE

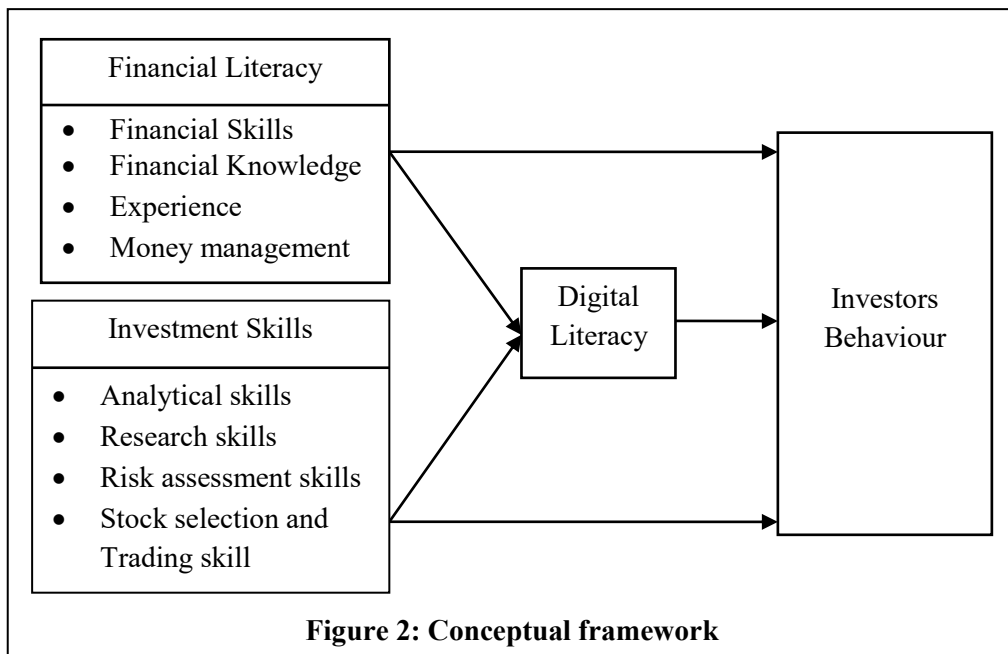


Figure 2: Conceptual framework

Table 1: Operationalization of the research

| Variables | Dimensions | Items to measure dimensions | Source | Scale |
|----------------------------|---------------------|---|---------------------------------------|-------------------------|
| Investors Behaviour | Herding Effect | <ul style="list-style-type: none"> • Buying & selling decisions of others • Other's choice of stock types • Other's choice of stock volume | Weerawansa and Morage (2019), Buddhik | Five point Likert Scale |
| | Anchoring Effect | <ul style="list-style-type: none"> • Present Characteristics of security such as share price, ownership and management • Past Characteristics of security such as share price, ownership and management | ^a (2020). Murithi (2014), | |
| | Disposition | <ul style="list-style-type: none"> • Emotions or feelings or Thoughts • Behaviour or experience • Gender | | |
| | Overconfidence | <ul style="list-style-type: none"> • Return on investment • Firm performance • Education qualification • Experience | | |
| Financial Literacy | Financial Skills | <ul style="list-style-type: none"> • Financial data analysing • Financial management • Reviewing Financial statements and audit reports. | Weerawansa and Morage (2019), | Five point Likert Scale |
| | Financial Knowledge | <ul style="list-style-type: none"> • Comparing and analysing financial data • Weighting alternative options of trading • Risk awareness | Kumari, et al (2020), Ullah, (2019). | |
| | Experience | <ul style="list-style-type: none"> • Past experience • Experience of others | | |
| | Money management | <ul style="list-style-type: none"> • Cost accounting • budgeting | | |
| Investment Skills | Analytical skills | <ul style="list-style-type: none"> • analysing share prices • variance analysis of debt & equity and price per share ratios | Chen et al (2017). Lakonis | Five point Likert Scale |

| | | | | |
|-------------------------|-------------------------------------|---|---|-------------------------|
| | Research skills | <ul style="list-style-type: none"> • Industry and nature of business • Ownership of company • Management of company • SWOT analysis of decided company | hok, &Sougi annis (1999), Ariswati et al (2021) | |
| | Risk assessment skills | <ul style="list-style-type: none"> • Beta value • Systematic and unsystematic risk • Market risk • Sharp ratio | | |
| | Stock selection and Trading skills | <ul style="list-style-type: none"> • Past trends in earning growth • Debt-equity ratio • Price earnings ratios • Dividend issued | | |
| Digital Literacy | Knowledge to use digital technology | <ul style="list-style-type: none"> • Analysing Financial data through excel sheet such as share price and ratio analysis. • Analysing financial data's from online trading software | Lyons &Kass (2021) | Five point Likert Scale |
| | Knowledge to assess digital product | <ul style="list-style-type: none"> • Accessing mobile phone • Accessing Computer • Accessing online trade software | | |

Source: Author constructed

3. METHODOLOGY

3.1. *Sampling Profile, Procedures and Techniques*

The population of this study was the individual investors of CSE. As per CSE annual report (CSE 2021) investors were 675,309. In addition, based on Krejcie and Morgan table, the researcher chose a sample size of 384 due to the population of investors being more than 75,000 and less than 1,000,000 however only 227 responses were collected. Convenient sampling technique employed ensure that there was lower level of sampling errors exist in this study. Correspondingly, this research adopts descriptive approach in order to test the hypotheses developed in order to measure the existence of level of financial literacy, investment skill and Digital literacy and also to find the behaviour of investors in CSE.

3.2. *Sampling Accuracy*

The researcher formulated the investors as Institutional and retail investors in order to maintain the accuracy of data by assuming institutional investors have poses the high level of professional knowledge and experience in portfolio selection, analysis of company and investment decision making.

3.3. Validity and Reliability of Data

Similar to content validity, sampling validity makes ensuring that, a significant proportion of the research area is covered by the measure. Because no measure can capture all things and elements inside the occurrence, significant items and elements are picked using a specific pattern of sampling methods based on the study's goals and objectives. In addition, there are four types of validity that researcher needs to justify. Namely construct validity, face validity, Criterion validity, and content validity. According to Downing (2004), reliability refers to the consistency of assessment findings, and the specific form of consistency of greatest interest relies on the type of assessment, its objective, and the subsequent use of the data. Cronbach alpha is a reliability coefficient that will measure the positive correlation with one another.

3.4. Research Model Development

According to Jabareen (2009), a conceptual framework is an empirical assumption connected to "how things really are" and "how things actually work" in an assumed reality. The empirical assumptions are concerned with the process of developing the conceptual framework and determining what it can tell us about the real world. Initially researcher found that, the influence of financial literacy led to irrational things of investors that emphatically proved by the Weerawansa & Morage (2019), Kumari (2020), and Ullah (2019).

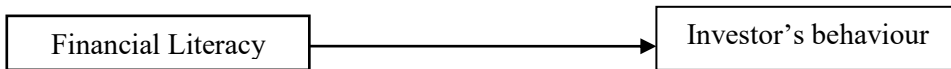


Figure 3: Financial literacy Vs Investors behaviour in CSE

Correspondingly, researcher empirically found that the financial literacy not vacuum in influencing investors behaviour in CSE. Chen, et al (2017)., Lakonishok & Sougiannis (1999)., Ariswati et al (2021) emphasized that, the investment skills and strategy playing vital role in capital and equity market. Therefore, this study assesses the impact of financial literacy and Investment skills of investors in CSE.

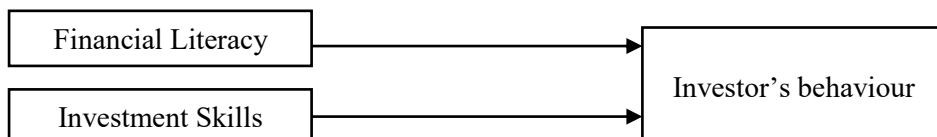


Figure 4: Financial literacy and Investment Skills Vs Investors behaviour in CSE

This study assessing impact of literacy of the investors moreover the CSE and SEC digitalization has opened the new era of digitalized trading in CSE. Therefore, it is vital to carry out the study on Digital literacy (Lyons & Kass, 2021).

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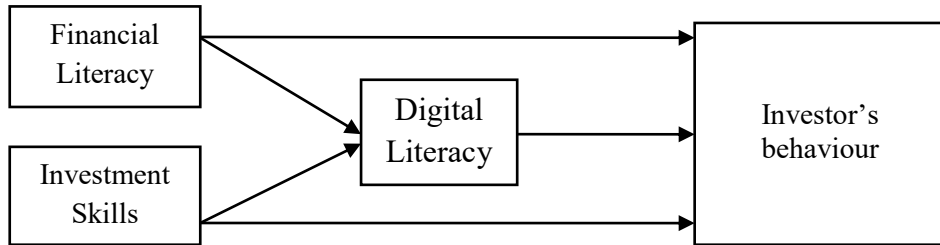


Figure 5: Financial literacy and Investment Skills Vs Investors behaviour in CSE; Mediating role of Digital literacy

3.5. Method of Data Analysis

This study uses descriptive survey research design to collect and analyse answers from investors from self-administrated questionnaires as primary source. The researcher chose sample size of 227 investors including institutional investors and retail investors in CSE. In addition, descriptive statistic was applied to collect and analyse the data in order to formulate the relationship between dependent, independent and mediating variable, which make easier to the users to understand and interpret the implication of the study. The data will be entered into SPSS statistical software. Likert scale questions are mainly used to measure the responses for the structured questionnaires. There are 20 statements under 4 variables. The Likert scale has been accepted from “strongly disagree”, “Disagree”, “Neutral”, “Agree” and “Strongly Agree”. Further data collected will be analyzed by correlation, Estimation of the “P” value.

4. RESULTS AND DISCUSSIONS

4.1. Reliability Analysis- Cronbach’s Alpha

The reliability analysis measures the internal consistency of the subject matter that ensures the same result can be achieved consistently. The consistency of items assessing a topic matter reveals how well something works collectively. Cronbach alpha is a correlation coefficient to measure the readability of the subjected concept of study. Taber (2018) empirically found that over 20 years, it was common for authors to assume that alpha above 0.70 was sufficient to consider no additional scale development was needed.

Table 2: Results of Cronbach’s Alpha

| No | Variable | Number of statements | Cronbach’s Alpha |
|----|---------------------|----------------------|------------------|
| 1 | Financial Literacy | 4 | 0.724 |
| 2 | Investment Skills | 4 | 0.700 |
| 3 | Digital Literacy | 3 | 0.724 |
| 4 | Investors Behaviour | 4 | 0.705 |

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The table clearly demonstrates that Cronbach's alpha values of the variables of the study indicate values more than 0.70 ($\alpha > 0.70$), which is within the acceptable range from the responses collected numbered 227.

4.2. Validity of the Research

The validity measure how selected subject matters accurate with the actual corresponding concept. The high level of validity reflects real characteristics and relationship of variables. The sample validity was maintained through collecting samples between the ranges 200-384 that cover high portion of populations with the limited timeframe. Correspondingly, there are four type of validity namely Construct validity, Face validity, Criterion validity and Content validity. The face validity was ensuring by carefully constructed self-administrative questionnaire under the expert supervision. The content validity was censured by literature support stated in literature review and selection of multiple valid dimensions from research articles. The construct validity was ensuring by a measurement of dimensions and by constructed Operationalisation through the literature review under the supervision of expert. Finally, criterion validity, ensures by the correlation analysis presented in results and discussions, that reflect that the there is a relationship positive and significant relationship between dependent and independent variables of the study as stated in conceptual framework.

4.3. Demographical Analysis

The demographical analysis represents individual investors' demographical factors such as Type of investors, Age, Income, Education, and Experience in investment in CSE related to the data collected. Demographical analysis is represented through the frequency table below.

Table 3: Result of Frequencies of demographical characteristics

| | | Frequency | Percent % |
|------------------|----------------------------|-----------|-----------|
| Investors in CSE | Institutional Investors | 60 | 26.4% |
| | Retail Investors | 167 | 73.6% |
| Age | Between 18-30 Years | 140 | 61.7% |
| | Between 31-40 Years | 35 | 15.4% |
| | Between 41-60 Years | 35 | 15.4% |
| | Between 61-80 Years | 13 | 5.7% |
| | Above 80 Years | 4 | 1.8% |
| Monthly Income | Rs.20,000.- Rs.50,000 | 88 | 39.3% |
| | Rs.50,000.- Rs.100,000 | 58 | 25.9% |
| | Rs.100,000.- Rs.250,000 | 38 | 17.0% |
| | Above Rs.250,000 | 40 | 17.9% |

| | | | |
|--------------------------|----------------------|-----|-------|
| Education Level | Ordinary Level (O/L) | 5 | 2.2% |
| | Advance Level (A/L) | 41 | 18.1% |
| Experience in Investment | Certificate/Diploma | 77 | 33.9% |
| | Graduate | 73 | 32.2% |
| | Post Graduate | 31 | 13.7% |
| | Less than 3Years | 145 | 64.2% |
| Experience in Investment | 5 Years | 44 | 19.5% |
| | 10 Years | 13 | 5.7% |
| | Over 10 Years | 24 | 10.6% |

4.4. Descriptive Statistics

According to McHugh and Villarruel (2003), Descriptive statistics facilitate in the process of arranging and interpreting results; they may form the end destination in data analysis, as with purely descriptive studies, or they may be the starting point before testing hypotheses with statistical analysis in scientific investigation.

Table 4: Result of Descriptive statistics

| | N | Min | Max | Mean | Std. Deviation |
|--------------------------|-----|------|------|--------|----------------|
| Investors Behaviour (IB) | 227 | 1.00 | 5.00 | 3.5319 | 0.82770 |
| Financial Literacy (FL) | 227 | 1.50 | 5.00 | 3.5400 | 0.82783 |
| Investment skills (IS) | 227 | 1.00 | 5.00 | 3.6248 | 0.80830 |
| Digital Literacy (DL) | 227 | 1.00 | 5.00 | 4.2805 | 0.76691 |

Descriptive statistics for DL demonstrate an overall mean score of 4.2805 that shows positive perception of DL among the investors in CSE or investors agree to the statements of DL. Mean scores of FL and IS represents score not more than 4 also not less than 3, which can be shows us the investors only neutrally agreed to the statements related to FL and IS. Mean scores of FL, IS and DL represents that, Investors possessing more knowledge and skills on DL than FL and IS. IS represent lowest mean score 3.5319, that shows us the irrational behaviour being decreased or rational behaviours of investors in CSE improved due to the combination of FL, IS and IB in CSE.

4.5. Correlation Analysis

According to Kozhan (2012), Correlation is a method of analyzing a possible two-way linear relationship between two variables, and correlation is assessed by a statistic called the correlation coefficient, which indicates the strength of the putative linear connection between the variables in question. Correlation can be measured through correlation coefficient (r) and significant level (p value). The correlation coefficient takes form from -1 to +1. Higher the positive coefficient has greater impact on subjected variables. Generally, p value less than 0.05 considered

to be as statistically significant while p value 0.01 demonstrate highly statistically significant relationship between variables.

Table 5: Result of Correlation analysis

| | | Pearson’s Correlation-coefficient. (r) | | | |
|----|---------------------|---|--------|--------|--------|
| | | FL | IS | DL | IB |
| FL | Pearson correlation | 1 | .777** | .324** | .579** |
| | Sig (2-tailed) | | 0.000 | 0.000 | 0.000 |
| IS | Pearson correlation | .777** | 1 | .446** | .553** |
| | Sig (2-tailed) | .000 | | 0.000 | 0.000 |
| DL | Pearson correlation | .324** | .446** | 1 | .184** |
| | Sig (2-tailed) | .000 | .000 | | .005 |
| IB | Pearson correlation | .579** | .553** | .184** | 1 |
| | Sig (2-tailed) | 0.000 | 0.000 | 0.005 | |

Table 5 represents the Pearson’s correlation-coefficients for this research model. The results of table explore the positive relationship with each other variables. Correlation matrix of each p value passed two tailed test that show over all p value represent the significant score less than 0.05.

Table 6: Result of Correlation-coefficient for Independent and dependent Relationship

| | | Pearson’s Correlation-coefficient. (r) | |
|----|---------------------|---|--|
| | | Investors Behaviour | |
| FL | Pearson correlation | .579** | |
| | Sig (2-tailed) | 0.000 | |
| IS | Pearson correlation | .553** | |
| | Sig (2-tailed) | 0.000 | |
| DL | Pearson correlation | .184** | |
| | Sig (2-tailed) | .005 | |

Independent-dependent relationship of study represents positive and statistically significant level by passing two tailed test. FL and IB have higher correlation coefficient value (r) 0.579, Next higher coefficient (r) value 0.553 generated from relationship between IS and IB. Lower correlation coefficient recorded for relationship between DL and IB for r value 0.184.

Table 7: Result of Pearson’s Correlation-coefficient for Mediation relationship

| | | Pearson’s Correlation-coefficient. (r) | |
|----|---------------------|---|--|
| | | Digital Literacy | |
| FL | Pearson correlation | .324** | |
| | Sig (2-tailed) | 0.000 | |
| IS | Pearson correlation | .446** | |
| | Sig (2-tailed) | 0.000 | |

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Mediations relationship of study represents positive and statistically significant level by passing two tailed test. IS and DL have higher correlation coefficient value (r) 0.446, Next correlation coefficient recorded for relationship between FL and DL for r value 0.324. Overall Table demonstrate that financial literacy and Investment skill have a significant and positive relationship with DL level of investors.

4.6. Regression Analysis

Regression analysis used as statistical tool in research, that measuring the relationship between two or more variables. Regression analysis is measuring linear relationship between variables in conceptual model. This study adopts two type of linear relationship namely, independent dependent relationship and mediation relationship.

4.6.1. Independent Dependent Relationship- Multiple regression

This study conceptualized through Independent-Dependent relationship from hypotheses one (H1) to hypotheses five (H5). Accordingly, H1 to H3 illustrate impact of FL and IS (independent variable) on IB (Dependent variable). Impact FL and IS (independent variable) on DL (Dependent variable) illustrated through H4 and H5.

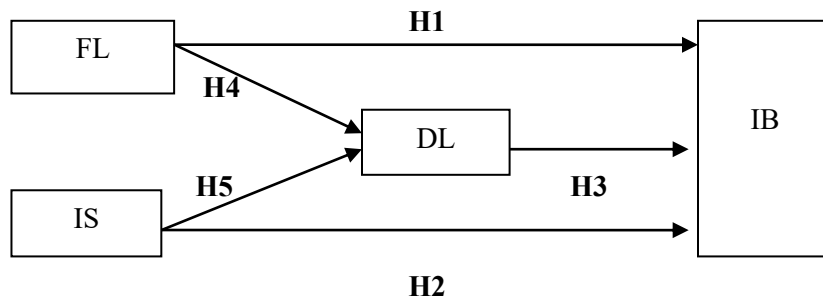


Figure 7: Conceptual model of Independent and Dependent variable Relationship H1-H5

Table 8: Result of Regression analysis for Independent and dependent relationship

| | | Coefficient ^a (H1-H3) | | | | |
|----|----------|----------------------------------|--------------------------|-------|--------|------|
| No | Variable | Un-standardized Coefficient | Standardized Coefficient | t | Sig | |
| | | B | Std. Error | B | | |
| H1 | FL | .373 | .085 | .374 | 4.404 | .000 |
| H2 | IS | .300 | .092 | .293 | 3.265 | .001 |
| H3 | DL | -.072 | .064 | -.067 | -1.124 | .262 |

DV: IB

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The result of the analysis of coefficient table 8 for the Independent and dependent variable reflected, the positive un-standardized beta value for the independent variable namely FL and IS respectively .373 and .300 and P-value of FL and IS generate value less than 0.05. Result of Impact of FL and IS on investor’s behaviour is positive and statistically significant. DL generating -.072 Beta value and insignificant p-value.262. Accordingly, the impact of DL on IB is not statistically significant.

Table 9: Overall model summary

| Model Summary (H1-H3) | | | | |
|------------------------------|----------|-------------------|----------------------------|------|
| R | R Square | Adjusted R Square | Std. Error of the Estimate | Sig |
| .605 ^a | .366 | .358 | .66343 | .000 |

IB (DV)
FL & IS (IV)

Model summary table 9, generates 0.605 R value for our all conceptual model from H1 to H3 R square value is 0.366 and it demonstrate that IV (FL, IS & DL) generating 36.6% impact on DV (IB). Adjusted R square predicts more accurate information about overall fitness of the model. Above table showing adjusted R Square value 0.358, that means this model reflect 35.8% accounted for DV.

Table 10: Result of Regression analysis for Independent and dependent relationship

| Coefficient ^a (H4-H5) | | | | | | |
|---|----------|-----------------------------|------------|--------------------------|-------|------|
| No | Variable | Un-standardized Coefficient | | Standardized Coefficient | t | Sig |
| | | B | Std. Error | B | | |
| H1 | FL | -.054 | .088 | -.058 | -.608 | .544 |
| H2 | IS | .466 | .090 | .491 | 5.167 | .000 |

DL (DV)

Table 10 illustrates, result of the analysis of coefficient table for the Independent and dependent variable reflected, the positive un-standardized beta value 0.466 with significant P-value less than 0.01. This illustrate that Impact of IS on DL was positive and statistically significant. FL generating -.054 Beta value and insignificant p-value 0.544. Accordingly, the impact of FL on DL is not statistically significant.

Table 11: Overall model summary

| Model Summary (H4-H5) | | | | |
|------------------------------|----------|-------------------|----------------------------|------|
| R | R Square | Adjusted R Square | Std. Error of the Estimate | Sig |
| .447 ^a | .200 | .193 | .68893 | .000 |

DL (DV)
FL & IS (IV)

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Table 11, generates 0.447 R value for our all conceptual model from H4 to H5. R square value is 0.200 and it demonstrates that IV (FL & IS) generating 19.3% impact on Dependent variable (DL). Adjusted R square predicts more accurate information about overall fitness of the model. Above table showing adjusted R Square value 0.193, that means this model reflect 19.3% accounted for DV.

4.6.2. Mediation Relationship

Mediation part of the study was conducted to examine impact financial literacy and investment skills on investor’s behaviour mediated by digital literacy. It was hypothesized (H6 and H7) and DL will positively predict IB and mediate the relationship with FL and IB. Series of Regression analyses were carried out through process by Andrew.F written program on SPSS and Linear Regression analysis (manually). Two models were developed in order to demonstrate the Mediation relationship from the main conceptual framework illustrated in illustration 4.6.1. Mediation relationship was predicted through series of regression analysis to test Hypotheses (H6 and H7).

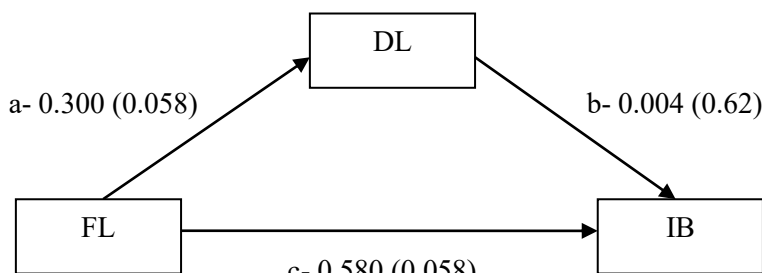


Figure 8: Model 1 (H6)

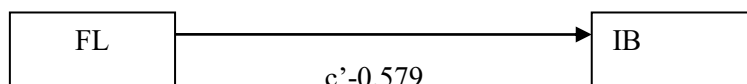


Figure 9: Model 1.1(H1)

Table 12: Result of Regression analysis for Mediation relationship (FL Vs DL Vs IB)

| Effect | Variable Relationship | Coefficient ^a (H6) | | t | Sig |
|--------|-----------------------|-------------------------------|------------|---------|------|
| | | Un-standardized Coefficient | | | |
| | | B | Std. Error | | |
| (a) | FL Vs DL | .2999 | .0584 | 5.1327 | .000 |
| (b) | DL Vs IB | -.0037 | .0621 | -.0603 | .952 |
| (c) | FL Vs IB | .5805 | .0575 | 10.0874 | .000 |
| (c') | FL' Vs IB' | .579 | .0540 | 10.665 | .000 |

Total Effect = Direct Effect + Indirect Effect

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$$C' = c + (a \times b)$$

$$C' = 0.580 + (0.300 \times -0.004)$$

$$C' = 0.580 + -0.0012$$

$$C' = 0.579$$

Table 12 illustrates the Mediations relationship of DL between FL and IB. The direct effect (c) of Dependent (IB) and Independent (FL) variables generates positive B value 0.5805 and its P value is less than 0.05, that means model generate significant and positive direct effect. The Indirect effect computed through multiplying relationship between effect “a” (FLVs DL) and effect “b” (DL Vs IB). Effect “a” is a part of indirect effect and it generate positive B value 0.2999 with P value less than 0.05, while Effect “b” is the primal relationship of mediating model and it generate negative B value -0.0037 with P value 0.952. It assumed that, indirect effect not statistically significant. Since there is no significant between primal relationships (b), there is no mediation imposed by DL between FL and IB.

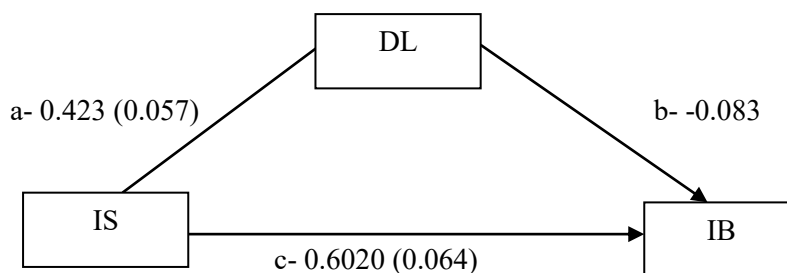


Figure 10: Model 2 (H7)

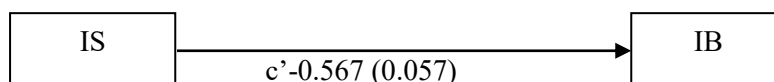


Figure 11: Model 2.1(H2)

Table 13: Result of Regression analysis for Mediation relationship (IS Vs DL Vs IB)

| Effect | Variable Relationship | Coefficient ^a (H7) | | t | Sig |
|--------|-----------------------|-------------------------------|-------------|---------|-------|
| | | Un-standardized | Coefficient | | |
| | | B | Std. Error | | |
| (a) | IS Vs DL | 0.4231 | 0.0566 | 7.4727 | 0.000 |
| (b) | DL Vs IB | -0.0838 | 0.0669 | -1.2534 | 0.211 |
| (c) | IS Vs IB | 0.6020 | 0.0635 | 9.4881 | 0.000 |
| (c') | IS' Vs IB' | 0.5670 | 0.0570 | 9.9630 | 0.000 |

Total Effect = Direct Effect + Indirect Effect

$$C' = c + (a \times b)$$

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$$C' = 0.6020 + (0.4231 \times -0.0838)$$

$$C' = 0.6020 + -0.0355$$

$$C' = 0.567$$

Table 13 illustrates the Mediations relationship of DL between IS and IB. The direct effect (c) of Dependent (IB) and Independent (IS) variables generates positive B value 0.6020 and its P value is less than 0.05, that means model02 generate significant and positive direct effect. The Indirect effect computed through multiplying relationship between effects “a” (IS Vs DL) and effect “b” (DL Vs IB). Effect “a” is a part of indirect effect and it generate positive B value 0.4231 with P value less than 0.05, while Effect “b” is the primal relationship of mediating model and it generate negative B value -0.0838 with P value 0.211. It assumed that, indirect effect not statistically significant. Since there is no significant between primal relationships (b), there is no mediation imposed by DL between IS and IB. In addition, even though developed model not having mediation with DV, there is a chance to improve the mediation in model 2, which generate P value 0.211 (less than model 01) by increasing sample size.

4.7. Hypotheses Testing

The conceptualisation of the research model requires seven (07) to achieve the research objectives.

Table 14: Hypothesis Test results

| No | Statement | Supported or Not supported | Significance (95% Confidence) |
|----|--|----------------------------|-------------------------------|
| H1 | Financial Literacy positively impact on investor’s behaviour | Supported | Significant |
| H2 | Investment skills positively impact on investor’s behaviour | Supported | Significant |
| H3 | Digital literacy positively impact on investor’s behaviour | Not Supported | Not Significant |
| H4 | Financial Literacy positively impact on digital literacy | Not Supported | Not Significant |
| H5 | Investment skills positively impact on digital literacy | Supported | Significant |
| H6 | Digital literacy mediates the relationship between financial literacy and investor’s behaviour | Not Supported | Not Significant |
| H7 | Digital literacy mediates the relationship between investment skills and investor’s behaviour | Not Supported | Not Significant |

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Above table demonstrate that, model acceptance by testing hypotheses. The end results found that, seven out of three hypotheses were supported to the linear relationship between Dependent and independent variables in conceptualization.

5 CONCLUSION

5.1. Summary of Data Analysis Results

This study conceptualized through the empirical findings of the scholar’s stated in Operationalization Table and Seven Hypotheses were developed to attain the Research objective in expected manner. 227 responses are collected and initially, cronbach’s alpha tested to find the reliability of the variables being tested. Study’s Independent and dependent variables passed in reliability test by scored Cronbach alpha value over 0.7.

Further, Independent and dependent variable relationship and Mediation Relationship assess and it shows that, Independent variables positively and significantly correlated to the Dependant variables. As shown on Table 15 and Table 16.

Table 15: Result of Correlation Test (Independent and dependent Relationship)

| Pearson’s Correlation-coefficient. (r) | | |
|--|---------------------|---------------------|
| | | Investors Behaviour |
| FL | Pearson correlation | .579** |
| | Sig (2-tailed) | 0.000 |
| IS | Pearson correlation | .553** |
| | Sig (2-tailed) | 0.000 |
| DL | Pearson correlation | .184** |
| | Sig (2-tailed) | .005 |
| IB (DV) | | |

Table 16: Result of Correlation test (Mediation relationship)

| Pearson’s Correlation-coefficient. (r) | | |
|--|---------------------|------------------|
| | | Digital Literacy |
| FL | Pearson correlation | .324** |
| | Sig (2-tailed) | 0.000 |
| IS | Pearson correlation | .446** |
| | Sig (2-tailed) | 0.000 |
| DL (DV) | | |

Correlation matrix only represents the strength, direction significance level of the linear relationship while Regression analysis predicts the value of impact of IV on DV. The Regression analysis results were represented by Table 17 and Table 18, as follows.

Table 17: Result of Regression Analysis (Independent and dependent Relationship)

| Dependent variable | Independent Variable | P value | Supported |
|--------------------|----------------------|---------|-----------------|
| IB | FL | 0.000 | Supported to H1 |
| | IS | 0.001 | Supported to H1 |
| | DL | 0.262 | Supported to H0 |
| DL | FL | 0.544 | Supported to H0 |
| | IS | 0.000 | Supported to H1 |

Table 18: Result of Regression Analysis (Mediation relationship)

| Mediating variable | Independent and Dependent Variable | Effect | P value | Supported |
|--------------------|------------------------------------|--------------|---------|-----------------|
| DL | FL Vs IB | Direct (c) | 0.000 | Supported to H0 |
| | | Indirect (a) | 0.000 | |
| | | Indirect (b) | 0.952 | |
| | | Total (c') | 0.000 | |
| | IS Vs IB | Direct (c) | 0.000 | Supported to H0 |
| | | Indirect (a) | 0.000 | |
| | | Indirect (b) | 0.211 | |
| | | Total (c') | 0.000 | |

Above table 17 and 18, represents series of multiple regression analysis with hypotheses test results. The Regression results were contrasted to the correlation test result.

5.2. Conclusion

The study was conducted to examine investor's behaviour in order to identify the level of Financial Literacy, Investment skills and digital literacy of investors in making investment decision in CSE. In addition, this study was analysing the mediation impact of Digital Literacy with financial literacy and investment skills. The core Research problem of the study is unpredictable investor behaviour. The preliminary test of correlation produced a positive and significant relationship between the variables, in spite of that, the result was at odds with regression analysis results. On that account, financial literacy skills have a positive and significant impact on investors' behaviour as proved by scholars namely Tennekoon

& Liyanage (2021), Weerawansa and Morage (2019), Kumari et al (2020), S.S.R & Kaushla (2021) and Madusanka (2016). Investment skills have a positive and significant impact on investors' behaviour that supported to the finding of scholars namely Biwott, Sakataka & Wanyonyi (2019). Kim & Kim (2022). Digital literacy has a negative nevertheless no significant relationship with Investors' behaviour which is contradictory from the findings of scholars namely Colombage & Sapukotanage (2019), Galstyan, Metal (2020), and Lyons and Kass (2021). By the same token, financial literacy has no positive and significant relationship with Digital literacy. Furthermore, the direct effect of mediation analysis of both mediation relationships generates statistical significance and a positive relationship between the Independent and dependent variables. Even though, the primal relationship between mediating variable and the dependent variable was not statistically significant. That being the case, there was no mediation relationship deducted in the present study.

The study concluded by providing the answers for the research questions. First question is how Literacy and Skills Influence the investor's behaviour in CSE. Investors in CSE exhibit, the high level of Digital literacy than financial literacy and investment skills according to the descriptive analysis. In contrary, regression analysis reveals that, Digital literacy has no significance influence on investor's behaviour while financial literacy and investment skills have significance influence on investor's behaviour. Second question is what type of behavioural pattern that investors in CSE exhibits? The descriptive analysis reveals that, Rational behavioural pattern was displayed through increased level of Financial literacy, Investment skills and digital literacy. Final research question was how digital literacy mediates financial literacy and investors skills on investor's behaviour? The regression analysis results revealed that, digital literacy does not pose significant influence between financial literacy, investment skills and investors behaviour in CSE. The results revealed that, Financial literacy, Investment skills and Digital literacy significantly influence in investors behaviour by 35.8% and financial literacy and investment skills significantly influences the digital literacy by 19.3%. Anyhow there was no significance mediation posed by Digital literacy. Finding the impact of literacy and skills on investor's behaviour is crucial to improve the rationality in investment decision in order to participate informally in investment decision. Further behavioural study is vital to predict the investor's behaviour in CSE in order to implement the efficient strategy towards to the investor and to improve their knowledge and skills of investments through the campaigns and seminars and rationality in investors behaviour can increase the completion in the CSE which attract the foreign investors eyes to make the investment in CSE which is crucial for the current context of the country.

5.3. Recommendations

Current research used 227 valid responses to arrive conclusion further researcher suggested to obtain the largest number of responses to eliminate errors. Researcher suggests that, dimensions can be well established in order to obtain the mediation

effect for both financial literacy and investment skills. Moreover, researcher recommends obtaining the various valid dimensions of each independent and dependent variable to find the solid behavioural intension. Finally, the researcher found that the demographical factors can significantly influence and also can mediate the study's dependent variable. Therefore, it is advisable to conduct a mediation or moderation study on demographical factors.

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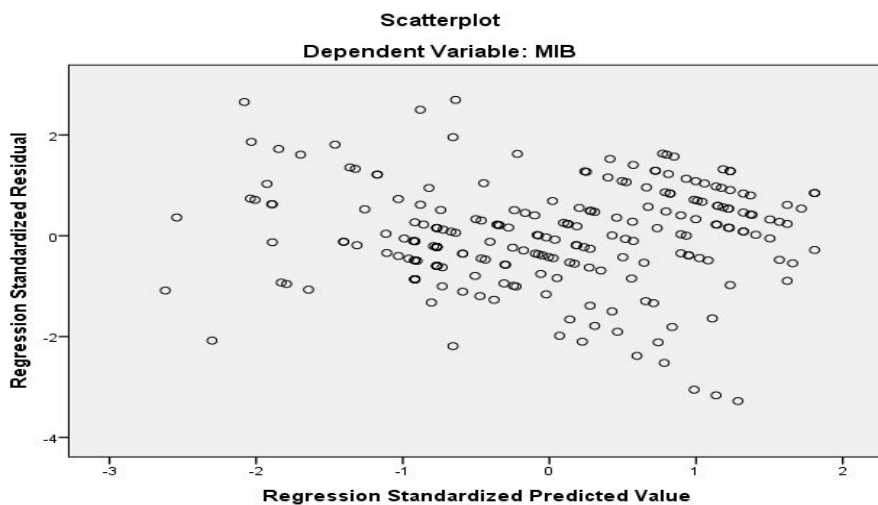
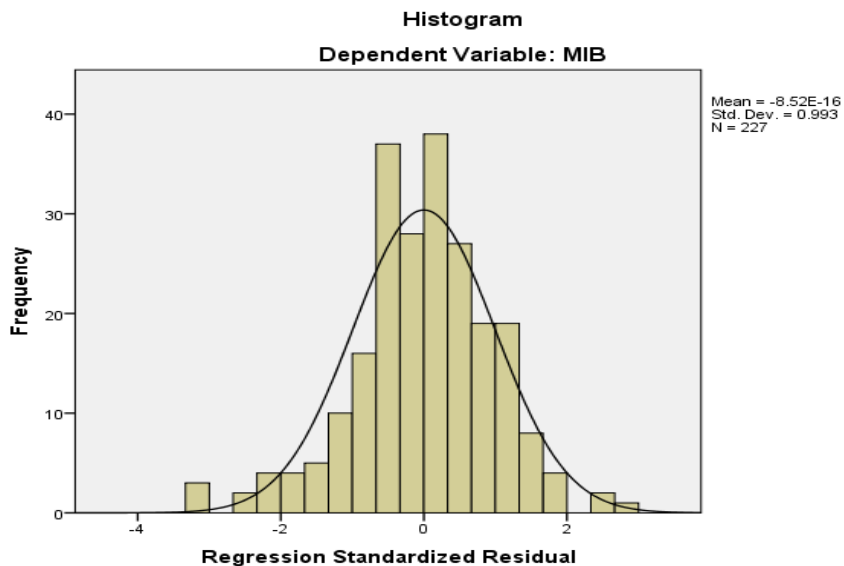
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APPENDICES

Appendix 01

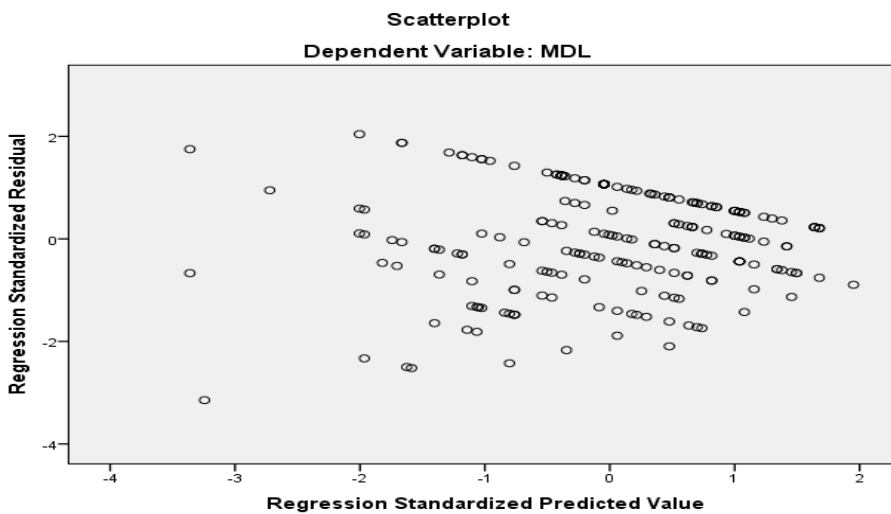
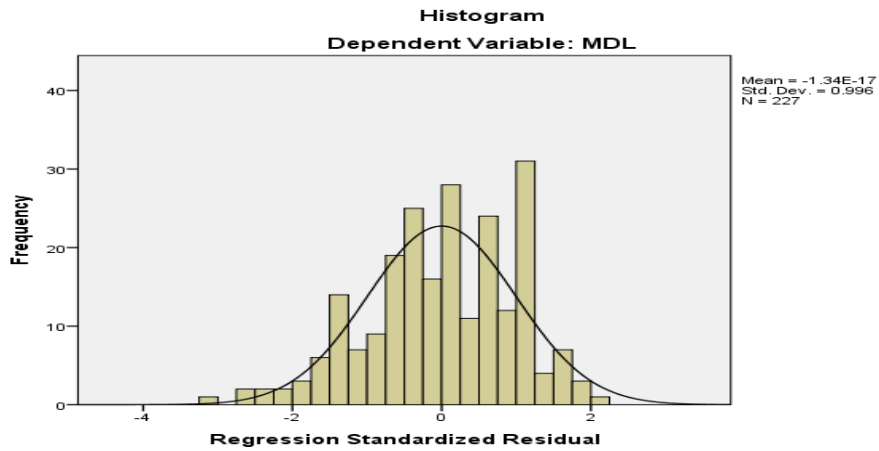
Histogram and scatter plots represent the Relationship between FL, IS, DL, and IB in CSE.



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Appendix 02

Histogram and scatter plots represent the Relationship between FL IS, and DL in CSE.



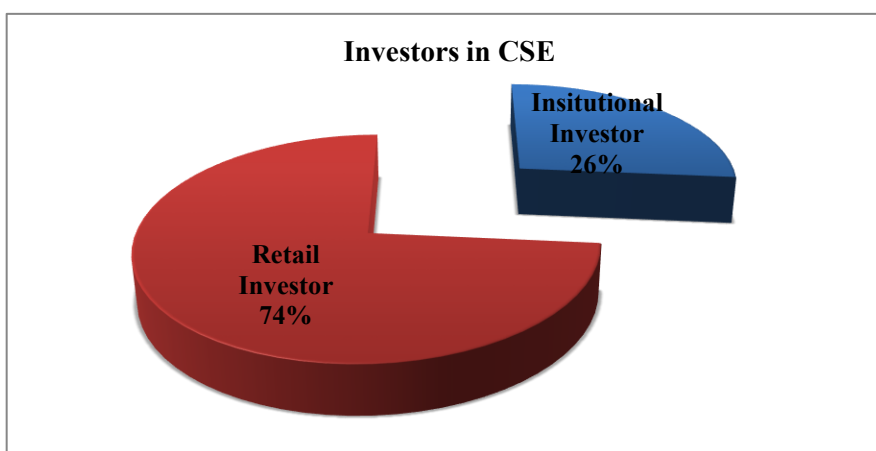
Appendix 03

Table representing KMO and Bartlett’s Test

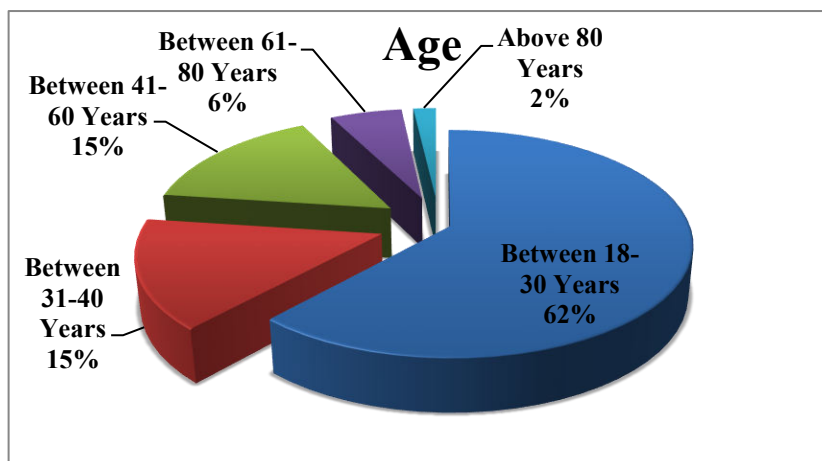
| | |
|--|----------|
| Kaiser –Meyer-Olkin measure of sampling Adequacy | .866 |
| Bartlets’s Test of Approx.chi-square | 1247.434 |
| Sphericity Df | 105 |
| Sig | .000 |

Appendix 04

Pie Charts-Demographical Variables

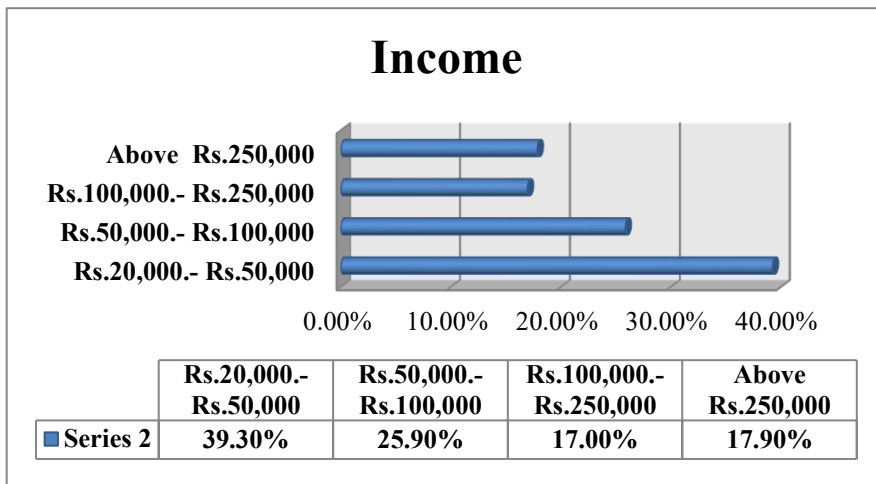


Graph 1: Institutional and Retail Investors representation of the Investors

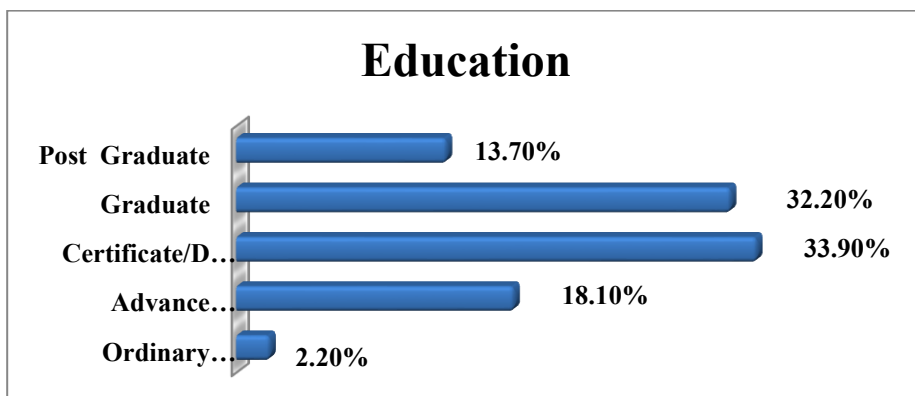


Graph 2: Age of the Investors

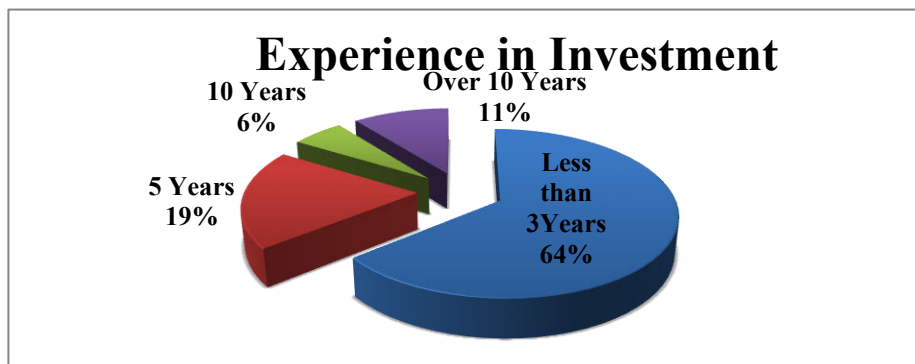
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Graph 3: representation of the Investors income level



Graph 4: representation of the Investors education level



Graph 5: representation of years of investment in CSE