

| RESEARCH ARTICLE

The Impact of Financial Literacy on Investment Decisions: The Mediating Roles of Investment Strategy and Risk Management

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| ABSTRACT

This research paper aims to examine the effect of financial literacy on Investment decision. Financial literacy is one of the most influential factors in determining the investment decision and developing investment strategy and managing financial risk for the investors. A quantitative cross-sectional study was carried out among individual investors and future investors in Dhaka, Bangladesh. Survey data were collected by structured self-administrated questionnaire in offline and online surveys. For analysis of the proposed conceptual model, Partial Least Squares Structural Equation Modeling (PLS-SEM) was applied using SmartPLS 4 software. Reliability, convergent validity, discriminant validity, structural relationships, and mediating effect were tested in accordance with the standard PLS-SEM methods. Financial literacy had a highly significant direct influence on investment decision ($\beta = 0.512$, $p < 0.001$). Financial literacy had a highly significant effect on investment strategy ($\beta = 0.714$, $p < 0.001$) and risk management ($\beta = 0.655$, $p < 0.001$). Investment strategy ($\beta = 0.253$, $p = 0.012$) and risk management ($\beta = 0.574$, $p < 0.001$) positively influenced the investment decision. Mediating effect analysis has found highly significant indirect influence through investment strategy ($\beta = 0.181$, $p = 0.013$) and risk management ($\beta = 0.376$, $p < 0.001$). The aspect of financial literacy plays a vital role in improving investment decisions both directly and indirectly. Better financial education and risk management techniques can help individual investors in making better decisions on investing and adopting sustainable investment behavior.

| KEYWORDS

Financial literacy; Investment decision; Investment strategy; Risk management; PLS-SEM.

| JEL Classification

G11, G41, D81, D14, A20

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Introduction

The importance of financial literacy is evident as it has become an essential skill for individuals when dealing with complex financial markets and investment options. The skill involves knowledge and behavior needed to have a full understanding of financial terms and applying the knowledge in various aspects such as budgeting, saving, borrowing, investment and risk management (Raut, 2020; OECD, 2024). From the perspective of the Organization for Economic Co-operation and Development (OECD), financial literacy helps people make sound financial choices, thereby contributing to financial welfare. In today's interconnected world where individuals are more responsible for planning for retirement and creating wealth, financial literacy has been vital in determining appropriate investment behavior (OECD, 2024; Lusardi & Messy, 2023).

An investment decision involves allocating financial resources to various investment alternatives, including equities, bonds, mutual funds, real estate, exchange-traded funds, and others, with the goal of achieving higher returns while maintaining an acceptable risk level (Hassan and Kalil, 2029). Good investment decisions necessitate the assessment of expected returns, market conditions, investment periods, liquidity needs, diversification possibilities, and individual investment objectives. As investments

are usually uncertain, investors need to have adequate knowledge of finance in order to make a sound judgment on how to use the information and choose appropriate investment alternatives. This is why financial literacy has become one of the most important determinants of investment activity (OECD, 2022; Elsevier, 2026).

Previous empirical literature is unanimous that there exists a strong correlation between financial literacy and investment decisions. Financially literate people are more active participants in financial markets, diversifying their investments, accumulating wealth, and making effective arrangements for retirement planning. However, people who lack financial literacy usually follow informal recommendations, lack proper diversification of investments, fail to gauge risk associated with investments, and commit several financial blunders (Hasanuh and Putra, 2020). According to Lusardi and Mitchell (2011), financial literacy plays a major role in wealth creation through helping people analyze investment opportunities rationally. Furthermore, financially literate people are less prone to behavioral errors like overconfidence, herding, and loss aversion, among others.

Though financial literacy influences investment decisions, research suggests that this relationship is often mediated by factors such as investment strategy (Singh et al., 2026). Investment strategy refers to the systematic process of selecting, allocating, and managing financial assets in line with investors' financial goals and market expectations (OECD, 2019).

Risk management is yet another method through which financial literacy and investment decisions can be linked together. The process of investing always comes with uncertainties; therefore, proper risk management becomes very crucial for successful investing (Woods, 2026). Risk management involves the identification of financial risks, their evaluation, diversification of investments, and taking suitable steps that can minimize losses. Investors who are financially literate have better awareness about risk-return relationship, value of diversification, and skills to cope with market volatility. Consequently, such investors are more able to maintain investment discipline during times of economic uncertainty and make sensible investment decisions even amidst market volatility (OECD, 2023).

The role of investment strategies and risk management as mediating factors allows for a more profound comprehension of the relationship between financial literacy and investment decisions. While financial literacy does not only work through gaining knowledge, but also through enhancing the strategic thinking of an investor and his/her ability to manage financial risks. These mediating factors can explain why people with comparable incomes or education might demonstrate dissimilar investment behavior based on their financial literacy and strategic decision-making skills. Financial literacy has also been found to increase confidence of an investor, reduce emotions, and allow him/her to accumulate money in a sustainable way (Vrdoljak et al., 2026). Despite increasing awareness concerning financial education, there is still an inadequacy of financial literacy in numerous developing countries, which negatively affects people's involvement in the formal financial market and the effectiveness of their personal investments (Bongomin et al., 2017; OECD, 2022). The lack of financial literacy leads to bad asset allocation, poor diversification, high investment risks, and susceptibility to financial scams. The problems stated above make it necessary to investigate the effect of financial literacy on investments, taking into account the role of investment strategy and risk management as mediator variables. Thus, the research is aimed at investigating the impact of financial literacy on investment decisions through mediator variables – investment strategy and risk management. The contribution of the study will be to provide empirical evidence that can be helpful for policymakers, financial education specialists, and financial institutions in the design of efficient financial education programs. The purpose of this research is to explore the effect of financial literacy on investment decisions through mediator variables – investment strategy and risk management.

Literature Review:

Financial literacy has been acknowledged universally as a key determinant of sound financial behavior and investment. Financial literacy implies one's capability to apply his/her financial knowledge and understanding in making financial decisions such as budgeting, saving, borrowing, investments, and risk management (Sabri, 2016; Eko, 2022). Through the development of good financial behavior, financial literacy helps in ensuring sound finances through the creation of suitable investment portfolio (Janor et al., 2016). In a more complicated financial world, financially literate individuals are able to make evaluations on financial products and invest in financial markets. Therefore, financial literacy has become a key determinant of sound investments and financial well-being.

Financial Literacy: There is a significant amount of empirical literature that links increased literacy to superior investment returns. According to Abdeldayem (2016), there exists a positive and strong connection between individual financial knowledge and quality investment decisions. Similarly, other studies from the same sources have proven that even sophisticated individuals benefit from their high level of literacy, which leads to making sound investment choices (Amisi, 2012). With reference to the trends witnessed in the retail markets, Ahmed et al. (2021) reveal that financial literacy along with risk tolerance improves stock-market performance. The other manner in which literacy appears to be functional is in management of money on daily basis. Financially educated people will be inclined toward healthier financial behaviours as Andarsari and Ningtyas (2019) note, which in its turn will make investment decisions healthier. It is revealed by Arianti (2018) that literacy in interaction with both behaviour and income is a significant factor in the way investors make decisions. In line with these processes, Baihaqqy et al. (2020) prove

that risk and diversification knowledge coincides with better capital-market decisions, and Maheshwari et al. (2025) also add that literate investors are less likely to take unduly risky positions, which have better overall results.

H_{1A}: There is no significant direct impact of Financial Literacy on Investment Decision of individuals.

H_{1B}: There is a positive and significant direct impact of Financial Literacy on Investment Decision of individuals.

Investment Decisions: There is yet another piece of evidence that provides the rationale for why higher literacy results in actions. When people develop higher literacy goals mostly owing to systematic studies or training, implementation of investment techniques is done in a more efficient way, risk management gets organized, and decisions are taken according to the predefined goals (Adil et al., 2022). Cognitive structure improves as well (Hadi, 2017). As per the viewpoint of Suresh (2024), the higher the literacy level is, the lower behavioral and cognitive biases are, and decisions are taken better. In long-term planning, literacy helps to make more detailed judgments about retirement vehicles and accumulation strategies: Nguyen et al. (2019) record higher-literacy investors make more informed retirement investments, such as the choice of pensions and IRA, and Sabri (2016) also emphasizes the similar benefits when it comes to maintaining savings and portfolios.

Investment Strategy: Financial literacy is another factor that influences investment strategy design and implementation. Seraj et al. (2022) emphasize that risk and diversification knowledge can enhance the choice of instruments and construction of a portfolio to allow investors to avoid excessively risky postures. Expanding on these observations, Senda et al. (2020) posit that the profound understanding of asset classes, market behaviour, and principles of portfolio management will increase the skill to develop consistent strategies. Investors with literacy will determine the appropriateness of the instruments in accordance to risk and objective fit and pick the products that are aligned with their goals (Yanti and Endri, 2024). The behavioral stability is developed by literacy in turbulent times, more knowledgeable investors can stick to their plans, not to give in to their emotions, and follow behavioral patterns such as regular saving, periodic rebalancing, and reviewing the performance of objective indicators (Sharma, 2020).

H_{2A}: The indirect effect via Investment Strategy is not significant.

H_{2B}: Financial Literacy has a positive indirect effect via Investment Strategy on Investment Decision.

Risk Management: Risk management is among the aspects where improvement in the level of literacy leads to better outcomes. According to Raut (2020), individuals with financial literacy can assess risk-reward relationships better, thus limiting losses. A canonical risk management tool, diversification is performed in a more regular manner by more literate people (Sabri, 2016). The asset-allocation choices also pay off: Waheed et al. (2020) conclude that literate investors diversify their instruments in a way that offers more stable payoffs. To these results, Khan (2016) notes that literacy enhances risk perception and awareness in all types of products and Suresh (2024) demonstrates that literate investors are more effective at hedging portfolios against volatility, even in a recession. Collectively, these works paint literacy as an effective damping mechanism to market noise and unfavorable events.

H_{3A}: The indirect effect via Risk Management is not significant.

H_{3B}: Financial Literacy has a positive indirect effect via Risk Management on Investment Decision.

Methodology

This quantitative cross-sectional study was carried out amongst individual investors and potential investors in Dhaka, Bangladesh, from January 2026 to June 2026. Data were collected from investors attending licensed brokerage firms in Dhaka as well as through an online survey distributed via Google Forms among investor networks and financial communities. Eligible respondents were recruited using a combination of convenience and snowball sampling techniques after obtaining informed consent.

A total of 119 respondents were included in the study through convenience and snowball sampling. Participants were eligible for inclusion if they were 18 years of age or older and had either previous experience investing or an intention to invest in financial assets, including stocks, mutual funds, bonds, or other securities. In addition, all participants were required to be willing to participate voluntarily in the study and provide informed consent before completing the questionnaire. Individuals were excluded from the study if they were younger than 18 years of age, had no knowledge of or interest in financial investment, or failed to provide informed consent. Questionnaires that were incomplete, contained inconsistent responses, exhibited invalid response patterns (such as straight-lining), or represented duplicate submissions were also excluded from the final analysis to ensure the quality and reliability of the data.

The structured self-administered questionnaire was employed for data collection. The four major constructs that were evaluated by the questionnaire include Financial Literacy, Investment Strategy, Risk Management, and Investment Decision. Financial Literacy is comprised of nine items covering respondents' financial knowledge and educational exposure. Investment Strategy includes four items related to planning and investment practice. Risk Management covered four items evaluating respondents' risk assessment and risk management practices. Investment Decision included five items indicating the quality of the investment decision-making process. Financial Literacy covers two sub-concepts: objective financial literacy and financial education. All constructs except objective financial literacy were measured on a five-point Likert scale from 1 (Strongly Disagree) to 5 (Strongly Agree). The objective financial literacy items were scored based on respondents' correct knowledge responses and combined with the financial education component to form the second-order Financial Literacy construct. Higher scores indicated greater financial literacy, stronger investment strategy, better risk management practices, and higher-quality investment decisions.

Statistical Analysis: The data were reviewed for their completeness and consistency prior to analysis. The software package Microsoft Excel was used for data coding and initial data screening, and SmartPLS version 4 was used for Partial Least Squares Structural Equation Modelling (PLS-SEM). Continuous variables were reported as mean and standard deviation (SD), while categorical variables were presented in terms of frequency and percentage. For evaluating the measurement model, indicator reliability, internal consistency reliability through Cronbach's alpha, Composite Reliability (CR), convergent validity through Average Variance Extracted (AVE), and discriminant validity through Heterotrait–Monotrait ratio (HTMT) was performed. For evaluating the structural model, variance inflation factor (VIF) was used for checking the multicollinearity problem, path coefficients (β), coefficient of determination (R^2), and mediation analysis were performed. The statistical significance of direct and indirect relationships was established through the bootstrapping technique of 5,000 replications. The level of significance in two-tailed test was set at <0.05 .

Quality Assurance: Standardized questionnaire was used for collecting data. Questionnaire was verified prior to the data collection process to avoid any problems related to its comprehensiveness. All completed questionnaires were verified prior to conducting analyses, and all statistical tests were conducted using standardized methods in SmartPLS 4.

Result

Figure 1: Structural Equation Model

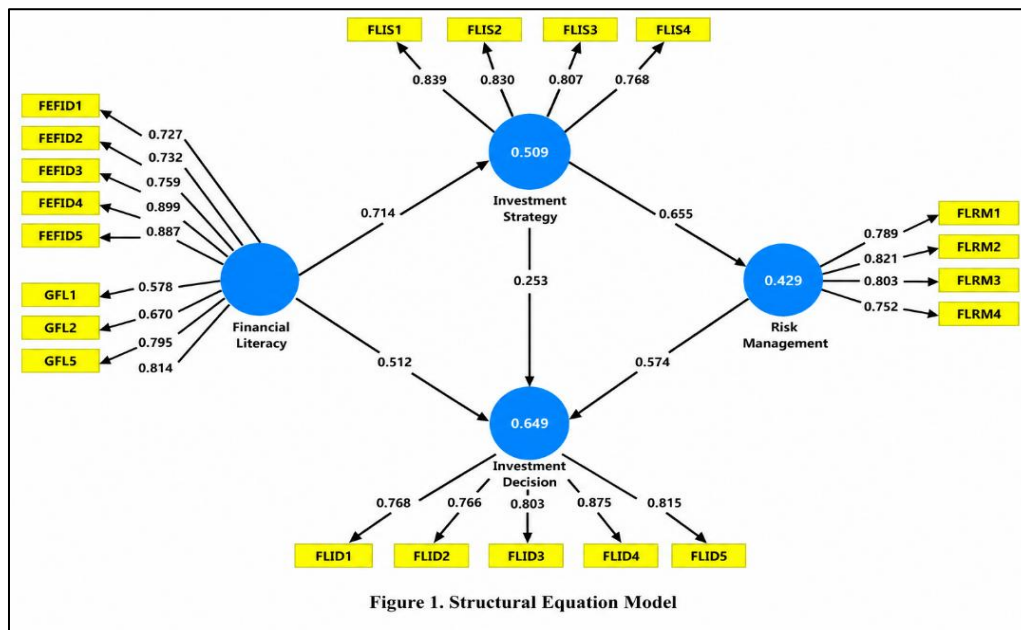


Table 1. Descriptive Statistics of the Study Variables

Construct	Items	Mean	SD	Minimum	Maximum
Financial Literacy	9	2.392	0.665	1	3
Investment Strategy	4	4.414	0.637	1	5
Risk Management	4	4.338	0.684	1	5
Investment Decision	5	4.38	0.633	1	5

Table 1 presents the descriptive statistics of the study variables. Financial Literacy had a mean score of 2.392 (SD = 0.665) on a three-point scale, indicating a moderate level of financial literacy among the respondents. Investment Strategy recorded the highest mean score (4.414 ± 0.637), followed by Investment Decision (4.380 ± 0.633) and Risk Management (4.338 ± 0.684), all measured on a five-point Likert scale.

Table 2. Reliability and Convergent Validity of the Measurement Model

Construct	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Financial Literacy	0.705	0.78	0.79	0.521
Investment Strategy	0.704	0.736	0.79	0.505
Risk Management	0.707	0.762	0.772	0.515
Investment Decision	0.751	0.762	0.834	0.502

Table 2 shows the reliability and convergent validity of the measurement model. The reliability assessment indicated satisfactory internal consistency across all study constructs, with Cronbach's alpha coefficients ranging from 0.704 to 0.751. Composite Reliability (CR) values varied between 0.772 and 0.834, all exceeding the recommended cutoff value of 0.70. In addition, the Average Variance Extracted (AVE) ranged from 0.502 to 0.521, confirming adequate convergent validity for the measurement model.

Table 3. Discriminant Validity of the Measurement Model Based on the Heterotrait–Monotrait (HTMT) Ratio

Constructs	Financial Literacy	Investment Strategy	Risk Management	Investment Decision
Financial Literacy	—			
Investment Strategy	0.952	—		
Risk Management	0.864	1.128	—	
Investment Decision	0.727	0.954	1.092	—

Table 3 presents the discriminant validity of the measurement model using the HTMT ratio. The HTMT analysis produced values ranging from 0.727 to 1.128 across the study constructs. The relationship between Financial Literacy and Investment Decision showed the lowest HTMT value (0.727), whereas the highest value was observed between Investment Strategy and Risk Management (1.128).

Table 4. Coefficient of Determination (R²) for the Endogenous Constructs

Endogenous Variable	R ²	Adjusted R ²
Investment Strategy	0.509	0.505
Risk Management	0.429	0.424
Investment Decision	0.649	0.633

Table 4 presents the coefficient of determination (R^2) for the endogenous constructs. Financial Literacy explained 50.9% of the variance in Investment Strategy ($R^2 = 0.509$) and 42.9% of the variance in Risk Management ($R^2 = 0.429$). In addition, the proposed structural model explained 64.9% of the variation in Investment Decision ($R^2 = 0.649$), suggesting that the model possesses strong explanatory capability for predicting investment decision-making.

Table 5. Direct Effects of the Structural Model

Hypothesized Relationship	β	Standard Error	t-value	p-value	Decision
Financial Literacy → Investment Decision	0.512	0.065	7.846	<0.001	Supported
Financial Literacy → Investment Strategy	0.714	0.043	16.697	<0.001	Supported
Financial Literacy → Risk Management	0.655	0.052	12.578	<0.001	Supported
Investment Strategy → Investment Decision	0.253	0.101	2.513	<0.012	Supported
Risk Management → Investment Decision	0.574	0.1	5.752	<0.001	Supported

Table 5 shows the direct relationships among the study constructs. Financial Literacy had a significant positive effect on Investment Decision ($\beta = 0.512$, $t = 7.846$, $p < 0.001$). In addition, higher levels of Financial Literacy were associated with significant improvements in both Investment Strategy ($\beta = 0.714$, $t = 16.697$, $p < 0.001$) and Risk Management ($\beta = 0.655$, $t = 12.578$, $p < 0.001$). Investment Strategy was also found to positively contribute to Investment Decision ($\beta = 0.253$, $t = 2.513$, $p = 0.012$). Moreover, Risk Management showed a comparatively larger positive influence on Investment Decision ($\beta = 0.574$, $t = 5.752$, $p < 0.001$), indicating that effective risk management practices play a prominent role in shaping investment-related decisions.

Table 6. Indirect Effects of Financial Literacy on Investment Decision through Investment Strategy and Risk Management

Mediation Path	Indirect Effect (β)	Standard Error	t-value	p-value	Decision
Financial Literacy → Investment Strategy → Investment Decision	0.181	0.073	2.477	<0.013	Supported
Financial Literacy → Risk Management → Investment Decision	0.376	0.072	5.223	<0.001	Supported
Total Indirect Effect	0.557	—	—	—	Partial Mediation

Table 6 presents the mediation analysis of the proposed model. Financial Literacy demonstrated significant indirect associations with Investment Decision through both mediating variables. The mediation pathway via Investment Strategy was statistically significant ($\beta = 0.181$, $t = 2.477$, $p = 0.013$). Similarly, Risk Management significantly mediated the relationship between Financial Literacy and Investment Decision, with a stronger indirect effect ($\beta = 0.376$, $t = 5.223$, $p < 0.001$). Overall, the combined indirect effect was 0.557, suggesting that Investment Strategy and Risk Management jointly play an important role in explaining how Financial Literacy influences Investment Decision.

Table 7. Summary of Hypothesis Testing

Hypothesis	Proposed Relationship	β	t-value	p-value	Decision
H1	Financial Literacy → Investment Decision	0.512	7.846	<0.001	Supported
H2	Financial Literacy → Investment Strategy → Investment Decision	0.181	2.477	<0.013	Supported
H3	Financial Literacy → Risk Management → Investment Decision	0.376	5.223	<0.001	Supported

Table 7 summarizes the hypothesis testing results. The results showed that there was a significant positive direct relationship between Financial Literacy and Investment Decision (H1). Furthermore, Investment Strategy played a significant mediating role between Financial Literacy and Investment Decision (H2), as did Risk Management (H3). Hence, all three proposed hypotheses have been validated.

Table 8. Summary of the Direct and Indirect Effects of Financial Literacy on Investment Decision

Relationship	Path Coefficient (β)	Statistical Significance	Interpretation
Financial Literacy → Investment Decision	0.512	Significant ($p < 0.001$)	Positive direct effect
Financial Literacy → Investment Strategy	0.714	Significant ($p < 0.001$)	Positive effect
Financial Literacy → Risk Management	0.655	Significant ($p < 0.001$)	Positive effect
Investment Strategy → Investment Decision	0.253	Significant ($p = 0.012$)	Positive effect
Risk Management → Investment Decision	0.574	Significant ($p < 0.001$)	Positive effect
Financial Literacy → Investment Strategy → Investment Decision	0.181	Significant ($p = 0.013$)	Partial mediation
Financial Literacy → Risk Management → Investment Decision	0.376	Significant ($p < 0.001$)	Partial mediation

Table 8 summarizes the structural model findings. In particular, the direct effects of financial literacy on investment strategy, risk management, and investment decision are found to be significant and positive. The same is true for the effects of investment strategy and risk management on investment decision. Moreover, the mediation analysis showed that investment strategy and risk management partially mediated the effect of financial literacy on investment decision, with risk management mediating stronger than investment strategy.

Discussion

This study explored the influence of financial literacy on investment decision-making of individual investors, especially the mediation role played by investment strategy and risk management. The results revealed that there was a significant positive effect of financial literacy on investment decision-making ($\beta = 0.512$, $p < 0.001$). Moreover, the results further indicated that there was a significant mediation effect of both investment strategy and risk management on the aforementioned relationship, in which the mediation effect of risk management was much stronger than the mediation effect of investment strategy. Based on the descriptive analysis, the findings suggest that the respondents rated the investment strategy, risk management, and investment decision quality as relatively high (Mean = 4.41, Mean = 4.34, and Mean = 4.38, respectively). This indicates that the respondents considered themselves financially responsible investors. The score for financial literacy was moderately high (Mean = 2.39 on a 3-point scale). This shows that even though the respondents have good financial literacy, there is always room for improvement. In a similar study carried out by Lusardi and Mitchell (2014), the authors noted that despite being active investors, financial literacy among the population is still low (Lusardi and Mitchell, 2007). Moreover, Van Rooij et al. (2011) found that financially literate people take part in the financial market more actively and make good investment decisions.

The results of the reliability and validity test showed that the measurement model met the suggested values of internal consistency and convergent validity. All main concepts had Cronbach's alpha, composite reliability, and AVE greater than 0.70 and 0.50, respectively, which indicated the validity and reliability of the measurements. Such characteristics of the measurements have been previously found in other PLS-SEM studies on financial literacy and investment behavior (Hair et al., 2017).

One of the main results from the current study is that there is a strong positive correlation between financial literacy and investment decisions ($\beta = 0.512$, $p < 0.001$). The result clearly shows that investors with higher financial literacy are better able to make evaluations and rational financial decisions regarding investment alternatives. Similar results were obtained in a study carried out by Aren and Dinç Aydemir (2015). According to Aren and Dinç Aydemir, financial literacy decreases irrational behavior of investors when it comes to their decisions (Aren and Dinç Aydemir, 2015). Jaya et al. (2024) also showed that financially literate investors performed better at investments because they could analyze financial data before making investment decisions (Jaya et al., 2024).

Financial literacy was also observed to have a very high positive effect on the investment strategy ($\beta = 0.714$, $p < 0.001$). It means that financially literate individuals tend to set the objectives for their investments, analyze markets, diversify investments, and plan for investment in the long term. This observation was also made by Bianchi (2018) where financially literate people make disciplined investment strategies and have diversified portfolios (Bianchi, 2018). In addition, it was observed by Calcagno and Monticone (2015) that financial literacy greatly enhances the strategic financial planning of investors.

Another critical observation was that of the high impact of financial literacy on risk management ($\beta = 0.655$, $p < 0.001$). Investors with better financial literacy were better able to evaluate risks associated with investments, diversify portfolios and develop risk control systems. This observation is similar to the conclusion made by Grohmann et al. (2018) that financial literacy improves the ability of individuals to manage financial risks (Grohmann et al., 2018). Similar conclusions were made by Soumya and Padmavathi (2025), where the researchers noted that financially literate investors were better at-risk evaluation and did not participate in risky investments.

In addition to that, the current study highlighted the fact that investment strategy had a significant impact on investment decisions ($\beta = 0.253$, $p = 0.012$). While the size of the impact was less compared to the impact of risk management, it once again supports the fact that strategic planning is a critical factor in determining the success of investment decisions. The investors who plan their investment systematically and follow predetermined goals in investing are likely to have consistent performance in terms of finance. Raut (2020) reported similar results for retail investors.

The mediator with the highest direct impact on investment decisions was found to be risk management ($\beta = 0.574$, $p < 0.001$). This suggests that investors who are able to properly assess the risks involved and diversify their investment portfolio can make much better investment decisions. Similar conclusions were drawn in the Prospect Theory developed by Kahneman and Tversky (2013), where it was stated that proper risk assessment plays an important role in the financial decision-making process (Kahneman and Tversky, 2013). Moreover, Barber and Odean (2013) found that investors who successfully control their investment risks exhibit superior performance.

One of the key findings of the current study is the mediation analysis. The investment strategy played a significant role as a mediator between financial literacy and investment decisions ($\beta = 0.181$, $p = 0.013$), meaning that financial literacy positively affects investment decisions through effective strategic investment. The same kind of mediatory effect was noted by Bongomin et al. (2017), who found that financial literacy leads to improved financial outcomes through improved financial behavior and planning.

Importantly, risk management showed a more significant mediating effect ($\beta = 0.376$, $p < 0.001$) than the investment strategy itself. Such results indicate that the level of financial literacy has a greater impact on investments by helping people manage risks better. It is also worth mentioning that such conclusions were drawn by Nugraha et al. (2022), as they suggested that risk management can be viewed as one of the key ways through which financial literacy impacts better investments (Nugraha et al., 2022).

The structural model accounted for about 64.9% of the variance in investment decisions ($R^2 = 0.649$), showing significant explanatory ability in line with the recommendations of Hair et al. (2017). The finding shows that financial literacy, investment strategies, and risk management account for a large percentage of investors' decision-making process. Significant explanatory ability was noted in other financial literacy studies that used the PLS-SEM technique (Hair et al., 2017; Pérez et al., 2025).

Generally, all these findings demonstrate the validity of the theoretical assumptions about financial literacy being a basis for reasonable investing behavior. People with greater financial literacy are able to develop an adequate investment strategy, manage the financial risks, and consequently, make better investment decisions. At the same time, the stronger mediating role of risk management indicates that education programs aimed at developing skills in evaluating the risks of investing, portfolio diversification, and developing investment plans, might be quite effective in enhancing decision-making processes among investors.

Conclusion

In conclusion, this research showed that financial literacy had a significant positive impact on investment decisions through direct impact as well as via mediation by investment strategy and risk management. Financially literate individuals made good investment decisions due to their good investment strategy and proper risk management techniques. While risk management had a stronger mediating role than investment strategy, both of these mediating variables were found to play an important part in the influence of financial literacy on investment decision-making. It should be noted, though, that there are certain limitations which need to be considered while interpreting the results of this study. First of all, the research was carried out using cross-sectional methodology and convenience and snowball sampling techniques. Besides, it only considered investors from Dhaka, used self-reporting data, and did not take into account such factors as market conditions, psychological aspects, and other economic determinants of investment decisions. In spite of these limitations, it is important to pay more attention to financial education and awareness among investors in order to foster responsible investing practices.

Future work

Future research may use a longitudinal or prospective research design in order to demonstrate causality between financial literacy and investment decision-making. It would be better for generalization purposes if future research used larger samples geographically distributed throughout Bangladesh. In addition, future models should include other variables such as financial attitude, psychological attributes, market situation, digital financial literacy, and biases to get a comprehensive understanding of the phenomenon of investment behavior. Moreover, the research on various investor categories and the effectiveness of financial education programs is also advised.

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Ethical approval: The study was approved by the Institutional Ethics Committee.

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