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Exploring the Financial and Behavioural Drivers of Investment Philosophy: The Path Analysis Approach

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<p>Dr. Fareeha Javed Qureshi Assistant Professor – Department of Management Sciences, University of Azad Jammu and Kashmir, Muzaffarabad-13100, AJ&K, Pakistan. fareeha.javed@ajku.edu.pk. https://orcid.org/0000-0002-8933-6963</p> <p>Khawaja Aftab Qadir Kant Assistant Professor – Department of Management Sciences, University of Azad Jammu and Kashmir, Muzaffarabad-13100, AJ&K, Pakistan. aftab.kant@ajku.edu.pk. https://orcid.org/0000-0003-3849-9401</p> <p>Dr. Mudassar Hussain Assistant Professor – Department of Management Sciences, University of Azad Jammu and Kashmir, Muzaffarabad-13100, AJ&K, Pakistan. mudassar.hussain@ajku.edu.pk. https://orcid.org/0009-0008-0638-8831</p>	<p>Abstract</p> <p>The study tends to delve into the complex interplay between financial literacy, self-assessed risk tolerance, income, and investment experience in shaping an investor’s philosophy—a multidimensional construct. Data of 554 respondents is collected through a structured questionnaire. Purposive sampling is used to select respondents. Structural path modelling is applied to assess the hypothesized relationships. Results indicate that financial literacy significantly and positively influences investment philosophy, both directly and indirectly through risk assessment and experience. Notably, self-assessed risk tolerance and investment experience proved to be stronger mediators than income in translating knowledge into behaviour. The significant correlation of Investment philosophy with all variables: self-assessed risk tolerance ($r = 0.497, p < 0.01$), income ($r = 0.405, p < 0.01$), Experience ($r = 0.393, p < 0.01$) and financial literacy ($r = 0.258, p < 0.01$), model fit indices (CFI = 0.99; TLI = 0.97; RMSEA = 0.058; SRMR = 0.020; CMINDF=2.862) along with chi square value ($\chi^2(01, N = 554) = 2.862, p = 0.091$) depict a good generalized model, confirming the importance of psychological and informational variables in financial decision-making. The findings also underscore the importance of personal reflection on risk and experience along with improved financial literacy. All the factors not only positively influence income but also help individuals to shape a clear and consistent investment philosophy. Such clarity could remove speculation in markets. These findings hold practical relevance for capital market participants, financial consultants, and policymakers in fostering sound investment behaviour in emerging markets.</p>
<p>Keywords:</p>	<p><i>Financial Literacy; Self-Assessed Risk Tolerance; Income Experience; Investment Experience.</i></p>



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Introduction

In today's fast-paced and technology-driven landscape, financial systems are undergoing profound transformations. The modern financial environment is becoming extraordinarily complex and dynamic, requiring more than just traditional techniques for effective triangulation (Campbell, 2006). It encompasses both physical infrastructure, such as stock exchanges and banking institutions, and digital platforms that facilitate the trading and management of financial assets (Klapper, Lusardi, & Van Oudheusden, 2015). As key stakeholders, investors play a pivotal role in shaping financial systems, leveraging their preferences, strategies, and risk perceptions to adapt markets to their evolving needs (Lusardi & Mitchell, 2014).

Investor behaviour has thus garnered significant attention, particularly considering emerging behavioural finance theories, which emphasize the influence of cognitive and emotional factors on financial decision-making (Barber & Odean, 2001). The deep understanding of what investors think, how they feel, and the strategies they employ to maximize returns has become crucial in predicting market trends and maintaining financial stability (Kahneman & Tversky, 1979). In this context knowing investor's philosophy that someone holds regarding his/her financial activities is particularly important. The concept also emerged as critical competency for navigating increasingly digital and complex investment environments.

A sound Investment philosophy demands clarity regarding the purpose and objectives of investments. Given its strong psychological dimension, it is essential to educate investors about their financial goals, risk tolerance capacity and the effect of fluctuation of factors that directly or indirectly influence asset pricing. Being an important component of financial system, an informed investor can not only help him/herself to get out of the pitfall of behavioural biases but can eliminate unnecessary speculation in financial markets leading to a sound financial framework. The situational factors like culture also pose significant effect on investment philosophy (Xu. Et al., 2019).

Although financial literacy, investment experience, and self-assessment of risk have been recognized globally as key determinants of investment philosophy, empirical research integrating these variables in the context of Pakistan is scarce. Particularly, there is a lack of behavioural finance studies that examine how these factors jointly influence investment decision-making and portfolio orientation. Moreover, the impact of Self-assessment of risk factor to shape philosophies is also missing in literature regarding Pakistan. This study addresses this gap by exploring these relationships through a structured framework tailored to the socio-economic and cultural context of Pakistani investors. Existing literature either treats investment behaviour in a fragmented way or ignores the strategic orientation investors adopt in managing their finances.

The aim of this research is twofold. To propose a comprehensive measurement tool by combining previously validated scales of financial risk tolerance (Null & Hout, 2019), Investment philosophy (Great West Insurance, 2006) and self-risk assessment (Grable & Lyton, 1999) in Pakistani context to explore inventors' mindset to support the development of effective financial portfolio. The other purpose is to propose a parsimonious model to capture maximum explained variability in investment philosophy that ultimately results in shaping investment decisions. By highlighting the interconnected roles of financial, demographic and behavioural dimensions, this research advances the understanding of how investors develop and maintain philosophies that govern their investment behaviour.

Literature Review

Investment Philosophy emerged as one of the pivotal concepts in behavioural finance. It is considered as a reflection of attitudes, strategies and beliefs that an investor holds. It also provides guidelines to shape financial decisions. In behavioural finance the set of concepts like diversification, risk attitude, the time horizon of investment as well as investment returns are used as a proxy to measure investment philosophy. It is thus collection of guiding principles that shape investment decisions (Statman, 2008). By keeping in mind the situational factors and investment attitude, The West Insurance Investment Philosophy questionnaire was developed to measure the concept of investment philosophy. They concluded that investors could be classified into 4 different groups with two extremes i.e. conservative and aggressive investors based on their responses to situational and attitudinal questions (West Financial Group, 2006). It is considered as one of the effective tools that help consultants, wealth managers, financial analysts, advisors and researchers to shape investment strategies in harmony with client's values and their psychological profiles (Nofsinger, 2017; Thaler & Benartzi, 2004; Ricciardi & Simon, 2000). Its validity has made it popular among financial analysts and wealth managers seeking to personalize portfolio construction. It covers different dimensions like willingness to absorb market volatility, views on active vs. passive investing and preference for capital growth or preservation (Pompian, 2012). The questionnaire has also been used as a tool to segment investors and tailor advice (Baker & Ricciardi, 2014). Though not academically standardized, its structured framework allows meaningful comparison across investor groups. Further validation may enhance its robustness in academic contexts, but its current utility in client profiling is well-acknowledged (Nofsinger & Varma, 2014). In essence, investment philosophy tools like this bridge the gap between subjective preferences and rational portfolio theory.

Empirical findings unfold the importance of investment philosophy and revealed investment philosophy significantly influences portfolio allocation, investment holding period and response of investors towards markets' downturn (Pompian, 2006). Aggressive investors are those who are willing to absorb short term market shocks to get long term rewards whereas the conservative investors avoid risky investments such as equities and tend to invest in stable income generating assets (Keller & Siegrist, 2006). Demographic factors like age, income, and financial literacy are also significantly related to Investment philosophy (Lusardi & Mitchell, 2014). Finally, Mukhdoomi & Shah (2023) pointed out that personality traits likewise stimulate risk tolerance and explained that the investors who are financially well-versed display more coherent, philosophy-based investment strategies.

Therefore, getting deep understanding of the factors such as investment experience, financial literacy and risk tolerance etc. and their direct or indirect influence on investment philosophy is crucial.

Financial literacy (FL) is a set of skills required to apply financial knowledge for effective use of financial resources in the real-life situation concerning financial matters (Lusardi & Mitchell, 2014). A significant relationship of investment behaviour and financial Literacy is evident from the literature (Qureshi et. al, 2025; Van Rooij, Lusardi, & Alessie, 2011). A substantial body of research unfold that high financial literacy leads to better assets allocation decisions, speed up market activities (in terms of market participation) and plays crucial part to execute financial planning in a successful manner (Lusardi & Tufano, 2015; Clark, Lusardi, & Mitchell, 2017). Whereas low financial literacy is usually linked up with suboptimal financial behaviours i.e. high debt levels and poor diversification (Cole, Sampson, & Zia, 2011).

Investment decisions are also influenced by someone's capacity to tolerate financial risks. Financial Risk tolerance (FLT) is a psychological attribute that describe the degree of accepting variability in returns that an investor can withstand easily. Risk tolerance is proved to be a significant predictor of investment strategy (Grable & Lytton, 1999). Numerous studies discovered a significant relationship of risk tolerance with demographic variables, investor's personality traits and key cognitive factors (Dohmen et al., 2011; Roszkowski & Grable, 2005). The ability to tolerate risk, casts its effect to shape investment strategies in a way that the investors who are resilient against risk appear to involve in more aggressive investment strategies (Faff, Mulino, & Chai, 2008).

Investment experience is usually conceptualized as the time frame from when the investor is engaged in investment activities i.e. length and his/her real-world experience in variety of financial products i.e. depth. Thus, investment experience plays a vital role in boosting markets activities and investors' participation in financial markets. Experienced investors usually stick to more rational investment philosophies, keep a safe distance from getting into the pitfall of behavioural biases and hold better financial judgments (Guiso & Sodini, 2013; Barber & Odean, 2001).

Income is widely recognized as a key demographic variable that seems to exert a significant influence on investment behaviours. High income gives a chance to individuals to hold more diversified portfolios and help them to display more pre-emptive investment approaches (Calvet, Campbell & Sodini, 2007; Campbell, 2006). Such investors are also willing to seek advice from financial professionals (Hung & Yoong, 2010).

Vast literature on behavioural finance reveals that Investment Philosophy, Financial literacy, Risk tolerance and demographic variables interplay significant role in shaping investment decisions. The Prospect Theory proposed by Kahneman and Tversky's (1979) highlights the role of heuristics and cognitive biases, while Shefrin and Statman's Behavioural Portfolio Theory (2000) provides a base for understanding the depth of structured goals in investor portfolios.

Financial literacy is further categorized into subjective and objective knowledge. The objective part comprises understanding of financial concepts that could be directly measured, while the subjective financial literacy covers self-judged trust of individuals on their skills to handle financial matters. In viewpoint of Lusardi and Mitchell (2014) objective financial literacy emphasizes on that part of financial knowledge which is related to financial concepts considered necessary for rational decision-making behaviour such as risk diversification, interest rates and knowhow about inflation. Conversely, subjective financial literacy reflects perceived competence of an individual not necessarily align with their actual knowledge (Allgood & Walstad, 2016). The literature let slip a substantial gap between subjective and objective measures, specifying over or under confidence (Xiao & Porto, 2017). Both significantly stimulates financial outcomes i.e. retirement planning, debt management as well as savings (Klapper et al., 2015). For instance, objective knowledge is often more relatable to investment choices, while subjective confidence drives financial commitments (Perry & Morris, 2005). Therefore, to get more holistic understanding of financial capabilities both dimensions should be assessed together (OECD, 2016). Interestingly, cross-cultural studies reveal variability in literacy levels. According to studies this variation is influenced mostly by socio-economic factors, quality of education and gender disparities of respondents (Lusardi & Tufano, 2015; Atkinson & Messy, 2012). Thus, there is a need to address both aspects, i.e. subjective and objective knowledge, to increase effectiveness of financial knowledge that will lead to substantial improvement in desire outcome (Hastings et al., 2013; de Bassa Scheresberg, 2013)

An intriguing conclusion is derived by Van Rooij et al., (2011). Their work pointed out that the individuals who rate high on subjective financial literacy despite having less actual knowledge are likely to be more active participants in financial markets. The gap thus creates a situation that can lead to irrational decisions, such as exorbitant risk-taking or avoiding favourable investments (Calcagno & Monticone, 2015). Subjective financial literacy often mediates the relationship between actual knowledge and investment behaviour (Lusardi & Mitchell, 2007). For this reason, the studies that are meant to evaluate individuals on psychometric scales should also consider self-assessment questions to get better know how of their knowledge related to finance (Knoll & Houts, 2012). Furthermore, different demographic variables like income, age and education also influence the domain of financial knowledge differently, highlighting the importance for customized policy development (OECD-INFE, 2020). In low-income economies, such as Vietnam or Pakistan elevating subjective literacy alone may enhance market depth, yet real knowledge gaps persist (Nguyen et al., 2021). Education system can play its part to fill this gap by equipping individuals with essential skills and enhancing their confidence level in financial settings (Gallery et al., 2011). Summing up, both subjective and objective financial literacy are indispensable for designing effective financial education and inclusion strategies.

In emerging markets, the picture is getting more complicated due to the presence of cultural and institutional factors. Studies conducted in countries such as Malaysia (Sabri & MacDonald, 2010), India (Agarwalla et al., 2015), and Pakistan (Mahmood et al., 2021), pointed out distinctive constraints such as access to financial tools, trust, and modernistic investment activities. This study builds upon this rich literature by examining how these factors interact to influence investor philosophy in the context of a developing economy.

In risk tolerance (RT) studies, self-assessment is getting popularity. In behavioural research, numerous studies opt for single item measure of self-risk tolerance because of its ease to understand and practicality. Grable and Lytton, in late 1990s, introduced the self-assessment measure of risk i.e. how the investor rate itself on 4 levels of risk attitude covering the subjective aspect of RT. The U.S. Survey of Consumer Finances (SCF) also used a single question measure to classify investors (Yao et al., 2005). It is still used in many studies due to established validity and simplicity (Smith et al.; 2023, Lown and Ju, 2020). The research work of Kwak and Grable (2024); Calvo-Pardo et al., (2021); Husin et al. (2021); Olivier and Botha (2020); Anwar and Raza (2025) also revealed that single-item risk questions are powerful in behavioural research due to practicality, ease of use and high reliability.

This single-item style has shown moderate correlation with actual investment behaviour (Van Rooij et al., 2011). Despite its limitations in psychometric assessment, it is still considered a valid proxy specifically in large-scale surveys (Hanna & Lindamood, 2004). The method is not effective only to get quick insights into an individual's risk preference but also useful in time-sensitive or field contexts (Kapteyn & Teppa, 2011). It is cost effective in terms of time and have high completion rate. Another advantage is that self-assessment questions turn as a psychological filter through which investment beliefs are shaped (Mukhdoomi & Shah, 2023).

However, critics claims that a single question may oversimplify the complexity of measured construct and thus is not a perfect measure due to the possibility of cognitive or emotional or biases (Gibson, Michayluk, & Van de Venter, 2013). Moreover, the way Individual interpret and perceive the meaning of the question can vary significantly especially across cultures and demographics that may lead to inconsistent results (Lusardi & Mitchell, 2011). Despite the arguments, the importance of this approach cannot be undermined. In combination with other variables like experience and financial literacy, this simple measure can significantly improve the predictive power of models (Grable & Joo, 2004) and is a sensible compromise between depth and feasibility (Van Rooij et al., 2011). For these reasons, the current study rely on the single item self-assessment question about risk tolerance introduced by Grable and Lytton in late 1990s.

Previous studies on the relationship between Financial Experience and Investment Philosophy provide some mixed results. Experience tends to give a road map by allowing investors to evaluate their investment options based on their investment philosophy (Trutmann et al., 2021). Similarly, past experiences of investors shape their intentions to make future investments. The intensity of this influence seems to vary among different age groups and by the nature of investment tools. Young investors tend to get more upset by financial shocks as compared to old investors especially when there is high unemployment in the society (Malmendier, 2021). Some suggest that investment experience is a psychological factor that influences present decisions of investors in the light of the results obtained in the past (Mak & Ip, 2017a). Similarly, others found that experience affects investment decisions (Senda et al., 2020). Level of overconfidence tends to decrease, as investors get more experience (Gervais and Odean 2016). It happens due to two factors; the time spent in stock markets and amount of investments. Experienced investors are more prone to the disposition effect than the inexperienced investors (Da Costa et al. 2013). Literature also elaborates that when taking decisions about investments, novice investors search more for information and are more careful in gathering information. Investors with more experience rely mostly on their past experiences and thus consider limited but more relevant factors which they consider important (Alrabadi, Al-Gharaibeh, and Ziad 2011).

The relationship of financial literacy, individuals' investment philosophy and risk tolerance is also evident from literature. Baveja & Verma (2024) confirmed the relationship of financial knowledge with improved stock market participation and high growth-oriented investment attitudes. Financial literacy sometimes acts as a moderator between investment decisions and behavioural biases. That's why those with high financial literacy seem to follow consistent moves, propagate conservative philosophies and tend to take calculated risk (Adil et al., 2022). In a cross-country analysis, high financial literacy was found helpful in choosing more stable investment and enhances risk tolerance among investors (Petra Christian University, 2020). Same results were found by a research carried out in New Zealand in the year 2021. It showed that higher financial literacy not only increases the capacity to tolerate risk but also reduces debt anxiety. Ultimately such investors usually follow clear and consistent growth-oriented investment philosophies (Charles and McDonalds, 2021).

A study conducted in Saudi Arabia on equity market highlights that risk perception and financial literacy when act as mediator, influence investment philosophies through the lens of investors' values and behavioural biases (Almansour et al., 2025). In Pakistan, Khan Rahies et al. (2022) integrate risk tolerance and financial literacy into the Theory of Planned Behaviour. Their findings suggest that literacy strengthens investors' philosophical alignment with capital markets participation.

Financial literacy contributes to improve individuals' understanding towards financial system, market risks, and long-term planning, resulting in more growth oriented as well as balanced investment approach (Baveja & Verma, 2024). Financially-savvy investors not only make rational decision but also avoid cognitive biases. Thus, proceed with a balance approach with realistic risk–return expectations (Adil et al., 2022). The literature thus urges to develop a multi-dimensional approach to unfold the relationship wherein financial literacy and risk perception jointly predict one's investment worldview as propagated by the Theory of Planned Behaviour and Prospect Theory. Both theories advocate that investment philosophy is a dynamic concept and revamp with experience, knowledge and expected risk (Almansour et al., 2025). Financially educated Investors evaluate investments in logical manner with mainly focused on long-term strategies and demonstrate higher endurance during negative market fluctuations (Hendarto et al., 2020). Summing up, financial knowledge is only one element of equation that is to be paired with other factors to develop robust and sound investment strategies.

From this discussion, the hypothesis developed are:

H₁: Financial literacy indirectly influences investment philosophy through income, investment experience, and risk tolerance.

H₂: Financial literacy has a direct effect on investment philosophy.

H₃: Income has both direct and indirect effect on investment philosophy.

H₄: Investment experience and risk tolerance significantly predict investment philosophy.

H₅: The overall model explains a significant proportion of variance in investment philosophy.

Methodology

To check the hypotheses, data of 554 respondents was collected through an online structured questionnaire by using purposive sampling technique. The target audience consists of the persons who have at least some exposures to investment activities. The target population includes individual investors still or previously involved in investment activities such as stock trading, mutual funds, bank accounts, savings certificates, or other financial instruments. The sample size meets the requirement for SEM analysis, which recommends a minimum sample size of 10–20 respondents per estimated parameter (Hair et al., 2014).

The research instrument is divided into five parts:

1. Demographic variables: Includes age, gender, education level, occupation, and monthly income.
2. Financial literacy: Measured using a scale developed by Knoll and Houts (2020). The items cover both conceptual and practical knowledge of financial matters.
3. Investment philosophy: Assessed through 5 items developed by Great West Insurance company to capture psychological and behavioural preferences. Items are based on existing literature.
4. Investment experience: Measured using three binary or ordinal items capturing whether the respondent has previous investment experience, the frequency of investing, and knowledge of different asset classes.
5. Self-Assessed risk tolerance: Measured with a single-item or short-scale self-rating reflecting the individual's willingness to take financial risks.

The collected data is analysed using IBM SPSS 26 for descriptive statistics and AMOS 24 for SEM-based path analysis. Model Fit indices such as CFI, RMSEA, and SRMR are used to assess model adequacy. Path analysis is applied to check the hypothesis i.e. the direct and indirect effects among variables. R² (squared Multiple Correlations) values are used to examine the amount of variance explained by the model.

Results and Discussion

The descriptive statistics of main variables are displayed in Table 1. The sample size is robust for generalizing trends. Almost all variables are displaying a reasonable spread, indicating useful variation for further analysis (e.g., regression or correlation). There are no major signs of extremely skewed data or values etc.

Table 1: Descriptive Statistics of Main Variables

	N	Minimum	Maximum	Mean	Std. Deviation
Philosophy	554	5.00	21.00	12.50	3.94
Financial Literacy	554	0.00	9.00	5.34	2.13
Experience	554	1.00	8.00	5.18	2.09
Income	554	1.00	4.00	2.14	0.82
Self-Assessment of Risk	554	1.00	3.00	2.54	0.84

The scale reliability and AVE values of Philosophy, Financial literacy and Experience variables are presented in the Table 2. Initially, the scale reliability of 10 items literacy scale was found to be 0.57. However, after observing the items one by one, Item 7 (related to insurance) was identified contextually inconsistent with the Pakistani environment (having an extremely low loading). It was observed that its removal improved the scale's Average Variance Extracted (AVE) from 0.57 to 0.70, thereby enhancing construct validity. Consequently, this item was excluded from the final analysis. This adjustment is further justified by the fact that insurance engagement and awareness is extremely low in Pakistan, as pointed out by Competition Commission of Pakistan (2023), a Govt. institute, which reported that less than 1% of the population in Pakistan engages with or shows interest in insurance products.

Table 2: Reliability Statistics and AVE values of Main Variables

Variables	Cronbach's Alpha (α)	Standardized Cronbach's Alpha	N of Items	Average Variance Extracted (AVE)	Composite Reliability (CR)
Financial Literacy	0.708	0.680	9	0.50	0.93
Investment Philosophy	0.748	0.760	5	0.52	0.81
Investment Experience	0.678	0.690	7	0.48	0.84

The correlation between philosophy and Self-assessment of risk is moderately significant.

Table 3 presents the Pearson correlation coefficients among the key variables of the study: investment philosophy, financial literacy, income, and self-assessed risk tolerance. The results indicate several statistically significant relationships.

Investment philosophy is positively and significantly correlated with all other variables: self-assessed risk tolerance ($r = 0.497, p < 0.01$), income ($r = 0.405, p < 0.01$), Experience ($r = 0.393, p < 0.01$) and financial literacy ($r = 0.258, p < 0.01$). The strongest association is observed between investment philosophy and risk tolerance, suggesting that individuals with higher risk-taking attitudes tend to have a more developed or assertive investment philosophy. This aligns with prior research indicating that risk perception is a key determinant of investor behaviour (Grable & Lytton, 1999).

Financial literacy is significantly associated with income ($r = 0.269, p < 0.01$) and risk tolerance ($r = 0.145, p < 0.01$). These findings imply that financially literate individuals are not only more likely to earn higher incomes but also to exhibit greater confidence in assuming financial risks. This supports earlier studies suggesting that financial knowledge enhances individuals' ability to navigate complex investment environments and make informed decisions (Lusardi & Mitchell, 2014).

Income also demonstrates a modest but significant correlation with self-assessed risk tolerance ($r = 0.209, p < 0.01$), indicating that individuals with higher income levels may possess a higher willingness to take financial risks—possibly due to greater financial security and investment capacity.

Table 3: Correlations of Main Variables

Variables	Philosophy	Financial Literacy	Income	Self-Assessment of Risk	Experience
Philosophy	1	0.258**	0.405**	0.497**	0.393**
Financial Literacy		1	0.269**	0.145**	0.322**
Income			1	0.209**	0.494**

Self-Assessment of Risk
Experience

1

0.176**

1

** Correlation is significant at the 0.01 level (2-tailed).

Table 4 is about the model fit indices that depicts the quality of model under consideration. All the values are within the range reflecting a significant model fit. Moreover, the chi square value $\chi^2 (01, N = 554) = 2.862, p = 0.091$ further support the goodness of fit ($p > 0.05$) is the cutoff point to check the generalization of results.

Table 4: Model Fit Measures

Measure	Estimate	Threshold	Interpretation
CMIN	2.862	--	--
DF	1	--	--
CMIN/DF	2.862	Between 1 and 3	Excellent
CFI	0.996	>0.95	Excellent
SRMR	0.020	<0.08	Excellent
RMSEA	0.058	<0.06	Excellent
PClose	0.305	>0.05	Excellent

The table 5 is about standardized total effects showing notable impact of financial literacy across the model, particularly influencing income (0.269), investment experience (0.322), and indirectly shaping investment philosophy (0.187). However, the strongest total effect on investment philosophy was observed from risk tolerance (0.470), underscoring the behavioural nature of investment decisions. Income also had a strong impact on both experience (0.439) and philosophy (0.308), highlighting the role of financial capacity in shaping investment behaviours. These findings align with the behavioural finance literature, which emphasizes the combined influence of knowledge, income level, and psychological traits on investment strategy (Pompian, 2012; Grable & Lytton, 1999).

Table 5: Standardized Total Effects

Variables	Financial Literacy	Self-Assessment of Risk	Income	Experience
Self-Assessment of Risk	0.145	0.000	0.000	0.000
Income	0.269	0.174	0.000	0.000
Experience	0.322	0.076	0.439	0.000
Philosophy	0.187	0.470	0.308	0.216

The regression weights, Table 6, reveal several significant linkages between investment philosophy, financial literacy, income, self-assessed risk tolerance and investment experience. Financial literacy significantly influences both income and risk tolerance, which in turn impact investment experience and philosophy. Income and risk tolerance show strong direct effects on investment philosophy, with risk tolerance having the greatest standardized impact (Estimate = 1.945, $p < 0.001$). These findings support the theoretical framework that financial knowledge and behavioural traits jointly influence investment behaviours and strategies (Pompian, 2012; Hair et al., 2010).

Table 6: Regression Weights

Links		Estimate	C.R.	P
Self-Assessment of Risk	<--- Financial Literacy	0.057	3.453	0.001
income	<--- Self-Assessment of Risk	0.171	4.262	0.001
income	<--- Financial Literacy	0.095	5.991	0.001
Experience	<--- Income	1.109	11.749	0.001

Table 6: Regression Weights

Links			Estimate	C.R.	P
Experience	<---	Financial Literacy	0.199	5.441	0.001
Philosophy	<---	Experience	0.405	5.568	0.001
Philosophy	<---	Income	1.008	5.406	0.001
Philosophy	<---	Self-Assessment of Risk	1.945	12.084	0.001

The squared multiple correlation explains the variance of each endogenous variable. According to the figures presented in Table 7, the model is explaining 37.7% of variance in Investment philosophy, which is a persuasive level of explanatory power in behavioural finance. The results indicates that the predictors in the study (including financial literacy, experience, and risk tolerance) are meaningfully associated with how individuals develop their investment approach, preferences, and long-term goals. The results thus support the theoretical proposition that financial awareness and experience influence investment decisions and philosophical orientation (Pompian, 2012).

Table 7: Squared Multiple Correlation: r^2

Variables	Estimate
Financial Literacy	0.000
Self-Assessment of Risk	0.021
Income	0.102
Experience	0.283
Philosophy	0.377

The structural model demonstrates varying degrees of explanatory power across the dependent constructs. The Financial literacy is an exogeneous variable so is not shown in the R^2 table because it's not predicted by any other variable in the model. Investment philosophy showed the highest explained variance ($R^2 = 0.37$), followed by investment experience ($R^2 = 0.28$), income ($R^2 = 0.10$), and risk tolerance ($R^2 = 0.02$). These results are consistent with the behavioural finance literature, which highlights the complexity of investor behaviour and the interplay between financial literacy, psychological traits, and socioeconomic factors (Lusardi & Mitchell, 2014; Hair et al., 2010; Grable & Lytton, 1999).

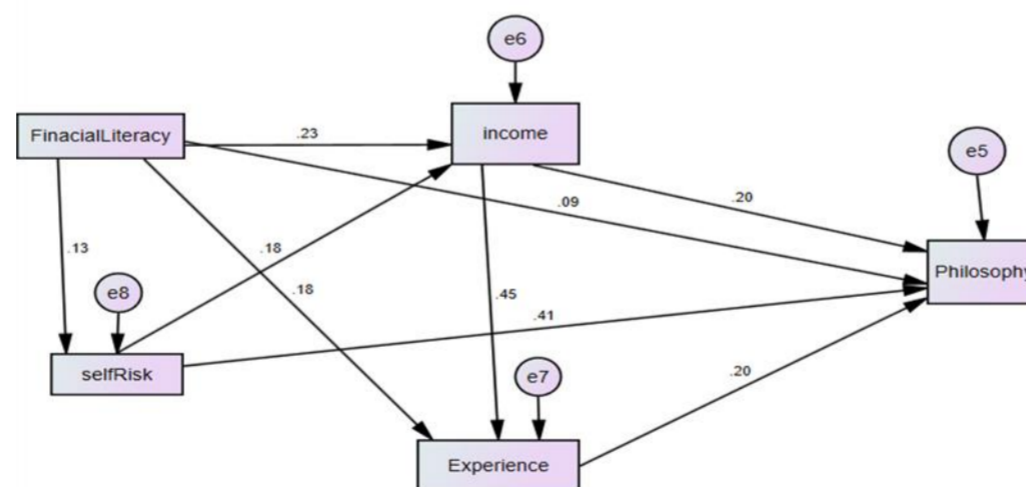


Figure 1. The Path Diagram of Financial Literacy, Income Self-Assessment of Risk, Investment Experience and Investment Philosophy

From the model it is derived that financial literacy needs an indirect path to cast a significant strong impact on other variables under study. Its direct effect is weak ($\beta = 0.09$), but it contributes indirectly through risk perception, income, and experience. Model emphasizes behavioural components in a sense that it is aligns with behavioural finance theory, suggesting that psychological awareness (risk perception) and practical exposure (experience) shape investment thinking.



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Limitations and Future Implications

The research work has included only objective aspects of financial literacy, incorporating subjective measures may provide a comprehensive and nuanced understanding of investment behaviour. Future research may apply Segmented Analysis to Investigate variations in investment philosophy across different demographic segments (e.g., occupation, gender, region) to offer more targeted insights. Adding Islamic finance aspect can further help the policy makers and consultants to get a meaningful insight of investors' philosophy. Incorporating additional behavioural variables such as overconfidence, loss aversion, and anchoring to build more robust models that capture the full spectrum of investor behaviour can make the study more meaningful.

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