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FINANCIAL LITERACY AND COLLECTIVE INVESTMENT DECISIONS AMONG INVESTMENT CLUB MEMBERS IN UGANDA

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ABSTRACT

Financial literacy among different groups of people has been a subject of research from different perspectives. The literature about financial literacy and the decision-making of a group of people in the form of an investment club requires special attention since groups are used as special vehicles to spur saving and investment in a number of countries including Uganda. In the face of these developments, it becomes important to assess the financial literacy of individuals that constitute these groups and how the level of their financial literacy affects investment decision-making by the groups to which they belong. This study examines the foregoing with a focus on investment clubs in Uganda. The study used quota sampling techniques to reach out to 66 individuals belonging to investment clubs with a view of assessing their financial literacy levels based on financial literacy knowledge as the key dimension of financial literacy. The specific objectives were to assess the effect of three identified indicators of financial literacy knowledge (Knowledge of interest rate, knowledge of inflation, and knowledge of liquidity) on the investment decision-making by the investment club members. A financial literacy assessment tool was used to assess levels of financial literacy and later on correlations and regressions were conducted to respond to the specific objectives. All the indicators of financial literacy knowledge were found to have a positive albeit low and moderate relationship with investment decision-making. Other factors outside the identified three indictors were found to contribute substantially to the investment decision-making by the investment club members and this formed part of the recommendations that require stakeholders to pay attention.

KEYWORDS: Financial literacy, financial literacy knowledge, Investment clubs, Uganda, Investment decision making

1. INTRODUCTION

The changing nature of financial demands by consumers today (Egboro 2015) coupled with the complexity of financial instruments and products (Wieland 2015:117; Lusardia and Mitchel 2014) available in the market, necessitate one to be knowledgeable about financial literacy. Financial literacy has therefore gained increased focus as it has been reported to positively affect retirement planning

(Lusardia and Mitchel 2014) and Investment decisions (Huston 2012). The focus on financial literacy has led to the realization that financial literacy is a basic requirement for people to avoid financial related challenges over time especially in retirement. Generally financial literacy facilitates understanding of one's income, expenses, borrowing, savings and investment. All these aspects of financial literacy are important in defining one's livelihood on a day to day basis but critically important at the stage of retirement. The observed importance of financial literacy especially during retirement, has greatly contributed to the growing attention being paid to this concept. It is in line with this increasing importance that a number of measures have come up to improve decision making around the key components of financial literacy. Much as there is a tendency to pay attention to mainly three aspects of financial literacy; that is income, expenses and savings, increasing attention is being channeled towards other areas of financial literacy including borrowing and investment (Bucher-Koenen and Ziegelmeyer 2014). Perhaps the most relevant of these components for individuals preparing for retirement is the investment decision. Investment decision can be defined as expenditure made now to make gains in future (Avram, Savu, Avram, Ignat, Vancea, Horja, 2009). By the nature of the investment decision, one can easily notice its connection to planning for retirement since the resources are spend in the current environment but the benefits are expected over an extended period of time in future. Many individuals find it difficult to take this investment decision due to a number of reasons. Some of these reasons may be explained by inadequate financial literacy but others may be to factors such as inability to identify viable investment opportunities or inability to raise sufficient amounts to take up possible investment opportunities. Whatever the reasons for the aforementioned, a number of measures have been developed by different jurisdictions to streamline the investment decision among those who have funds to invest. One of such measure is the pooling of resources through investment vehicles commonly referred to as investment clubs. Investment clubs are defined as groups of people including colleagues, friends, family or clients coming together to pool money for purposes of investment (Ojijo, 2014). Given that the investment clubs are made up of a number of people who are members, the decisions taken by the club are based on the general decision-making process of the members. It is for this reason that the decision-making process of the individual members affects the general collective decision of the investment club.

2. LITERATURE REVIEW

Financial literacy among different groups of people has been a subject of research from different perspectives. The literature about financial literacy and decision-making of a group of people in the form of an investment club is reviewed in this section. The literature starts with a review of each of these two key concepts followed by how they relate to each other.

There is no universally agreed-upon definition of financial literacy but generally, it can be looked at as an individual's competency in managing money. Remund (2010) defined financial literacy as a

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measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions. The same author argues that financial literacy has five specific components; Knowledge of financial concepts, communication of financial concepts, aptitude in managing personal finance, making appropriate financial decisions, and confidence to plan for future financial needs. Given that financial literacy affects the knowledge, skills, and attitude of individuals, any level exhibited by an individual is expected to influence financial behaviors and or decisions taken. To improve the level of competency of individuals in the above areas, several scholars have recommended improvement in financial education (Lusardi and Mitchell 2007; Morton 2005; Hilgert, Hogarth and Beverly 2003). The motivation behind the increasing recommendation for financial education is the hope that with improved financial knowledge, individuals will develop the necessary skills to take appropriate decisions necessary in ensuring positive financial behaviour. This is in line with how financial literacy can be looked at as an individual’s ability to utilize financial knowledge and skills to effectively manage financial resources for their lifetime general wellbeing. Looking at financial literacy from this perspective implies that an individual must focus attention on the financial resources that are at their disposal (usually in the form of income earned or inherited) to meet both their current financial requirements in the form of expenditure while at the same time putting into consideration future financial needs. To address future financial needs, an individual must consider savings for possible investments that may promise future income that can be used in retirement. To meet the investment requirements, an individual may find him or herself opting for other sources of financing other than their savings. This brings in borrowing and management of debt in the concept of financial literacy. The foregoing is the main reason why several studies use socioeconomic data on house income, household expenditure, household debt holdings, Household savings, and household assets/ investments as proxies for financial literacy (Remund 2010). The OECD provides a clear definition of financial literacy that brings out the knowledge, skills, and attitude aspects of the concept while linking the same to financial behaviour. It defines financial literacy as a combination of awareness, knowledge, skills, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing (OECD-INFE 2011).

Generally, financial literacy has been known to cover four broad areas; financial planning or budgeting, Savings, investment, and borrowing (Chen and Volpe 2002) all of which are behaviors aspects expected from one possessing general knowledge of finance. Huston (2012) argues that financial literacy goes beyond an understanding of budgeting, savings, borrowing, and investing to include the ability to apply knowledge appropriately to financial decisions. It would therefore not offend scholars if one concluded that financial literacy should be looked at right from how it links financial Knowledge, skills, and attitudes to how it manifests into positive financial behaviour for the well-being of an individual today and in the future. It is possible for the above that some scholars have broadened the coverage of financial literacy to include Insurance or risk management and planning for retirement (Chen and Volpe 2002; Morton 2005 and Hogarth 2006).

Building on the above understanding of financial literacy, one would need a clear understanding of the components and these can be summarized as financial knowledge and awareness, financial planning and budgeting, Savings, Investment, borrowing, insurance, and planning for retirement. The following sections, expound on these components in detail to build a basis for the analysis in this study.

Financial knowledge and awareness are vital in building financial literacy. According to Fernandes, Lynch, and Netemeyer. (2013), Financial literacy is most commonly viewed as a specialized kind of consumer expertise about how one manages one's financial affairs successfully. The authors also argue that even if conceptually, financial literacy refers to skills, existing measures of financial literacy are dominated by measures of objective knowledge. This refers to first and foremost the knowledge that is possessed by an individual usually through education, training, and experience. Remund (2010) confirms the foregoing by arguing that most basic definitions of financial literacy relate to a person's competency in managing money. This by implication means that one must be aware and possess knowledge about the management of money before they can be competent about the same. According to Braunstein and Welch 2002) lack of working knowledge of financial concepts by consumers, makes it challenging for them to make decisions that are most advantageous to their wellbeing. This affects consumer decision-making in day-to-day money management as well as saving and investing for future consumption and financing retirement. If consumers lack financial knowledge, they are likely to take wrong financial decisions in their money management including investing in financial products that are pushed upon them by the sellers of such products rather than based on their individual interests. On the contrary, if consumers of financial products have the requisite knowledge and are aware of the different products on the market, providers of such products will have no choice but to tailor or customise financial products to the needs of the consumers as exhibited by MSMEs in Uganda (Mugambe 2017). Looking at the decision-making part of financial literacy, it leaves no doubt in anyone's mind that the appropriate application of financial management skills can only be realized by those with financial literacy knowledge (Fox, Bartholomae, and Lee 2005). It is important to note that authors such as Johnson and Sherraden (2007) clearly explain that financial knowledge alone cannot define financial literacy, instead, they argue that individuals should also have the chance or opportunity to act or apply that knowledge towards solving their well-being challenges.

The component of financial personal planning and budgeting lies in between financial knowledge and financial behaviour. According to Surendar and Subramanya (2017), personal financial planning

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allows individuals to control their financial position through the setting of spending priorities. This implies that in addressing the personal financial planning and budgeting component of financial literacy, an individual must prioritize their current expenditure and accordingly make provisions for savings and investments that may ease or finance future financial needs.

In terms of savings as a component of financial literacy, it is critical to note that talking about savings presupposes that an individual can control his or her expenditure to a level that is less than their income. It has been observed that saving is a habit that can be developed and as such efforts have been focused on ingraining this among citizens right from a tender age. It is from this perspective that financial literacy curricula with a focus on saving have been developed for those who are still in school (Lerman & Bell 2006; Morton 2005). It is, therefore, important that savings are given appropriate attention as they directly affect other behaviour components of financial literacy including; investing, borrowing and planning for retirement. Additionally, the savings component of financial literacy must be supported by personal financial planning as lack of financial planning is tantamount to lack of savings (Lusardi and Mitchell, 2006).

Investing as a component of financial literacy is highly affected by one's savings and borrowing let alone financial knowledge. For an individual to invest, they first and foremost need to be aware of the investment opportunities at their disposal. Secondly, there are two common alternatives to raising the amount for investment; savings and borrowing. This creates a connection between financial knowledge, personal financial planning, and investing (Koenig 2007). Other authors such as Calvert, Campbell, and Sodini (2005) concluded that more financially sophisticated households are more likely to buy risky assets and invest more efficiently. Lewis and Messy (2012) argued that Savings and investments by individuals are as vital to personal financial well-being and security as to a healthy economy. The authors further argued that people with savings are better able to withstand economic shocks like loss of income, be in a position to accumulate assets, and may be less reliant on credit to meet unexpected expenses.

Borrowing as a component of financial literacy is important in situations where an individual has to raise resources for investment that may be beyond the amount saved at that time or where there is a need for immediate, especially emergency form of expenditure that may not be accommodated by the individual's income and or savings. For one to be financially literate, there is no doubt that the skills and personal values they should possess are adequate for the successful management of debt (Stone, Wier, and Bryant 2008). To build these skills and values, there is need for the individual to have financial knowledge that can facilitate interpretation of key parameters like interest rate. According to Lerman & Bell (2006), it is not that information is lacking, but rather the ability to interpret the information, indeed many people even seem unable to recognize the high future burden they will

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experience by borrowing at very high-interest rates. As far as the effect of financial literacy knowledge is concerned, the financially illiterate usually make poor borrowing decisions causing them financial problems with over-indebtedness (Lusardi and Tufano 2015). This is confirmed by Nkundabanyanga, Kasozi, Nalukenge, and Tauringana (2014), who indicated that less-educated individuals do not make effective financial choices. Similarly, Stango and Zinman (2009), argue that there is a strong connection between financial illiteracy and debt accumulation.

Just like the other behavioral components of financial literacy, planning for retirement is dependent on financial knowledge, financial awareness, and financial planning. Planning for retirement also has a direct connection with saving. Indeed, according to Fisher and Montalto (2010), individuals saving for emergencies and retirement are likely to be regular savers. According to Lusardi and Mitchell (2006) in the US, consumers are not adequately informed about mortgages and interest rates. Additionally, the majority seem to know little about social security and pensions, which are two of the most important components of retirement wealth. It is in the same line, that Lusardi and Mitchell, (2008) concluded did their study that financial literacy is strongly and positively associated with retirement planning. Adams and Rau (2011) made a clear conclusion that financial literacy plays a key role in financial preparation for retirement. This puts forward a clear argument for improved financial literacy creation among consumers.

3. RESEARCH GAP AND OBJECTIVES

There is no doubt that financial literacy affects the well-being of consumers and this has been confirmed by a number of studies including several and Subramanya (2017), Chen and Volpe (1998), and Robb (2011) among others in terms of the different components of financial literacy. With this in mind, individuals who come together to form investment clubs, which are a means of pooling resources among like-minded individuals with a view of jointly undertaking investments would be expected to not only possess high financial literacy levels but also find it easy to make investment decisions. A review of the literature shows that studies have been undertaken to assess financial literacy levels among different groups of individuals most especially college students (Chen and Volpe 1998), entry-level employees (Surendar and Subramanya 2017), and households (Calvert, Campbell and Sodini 2005). However, there seems to be a gap for a homogeneous group where the motive of coming together is to undertake joint investments. This study sought to contribute toward generating data in the above area by meeting the research objectives below;

(i) Assess the level of financial literacy among investment club members

(ii) Determine the effect of the financial literacy knowledge of interest rates on investment decision-making of the investment club members

(iii) Establish how financial literacy knowledge of inflation affects the investment decision-making of the investment club members.

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(iv) Find out how financial literacy knowledge of liquidity affects the investment decision-making of the investment club members.

4. HYPOTHESES

In the conceptualization of this study financial literacy was limited to the dimension of financial knowledge which is indicated by three of the basic factors of financial knowledge including; interest rate, inflation, and liquidity. The hypotheses of the study are formulated based on these three indicators as summarised in figure 1 which follows

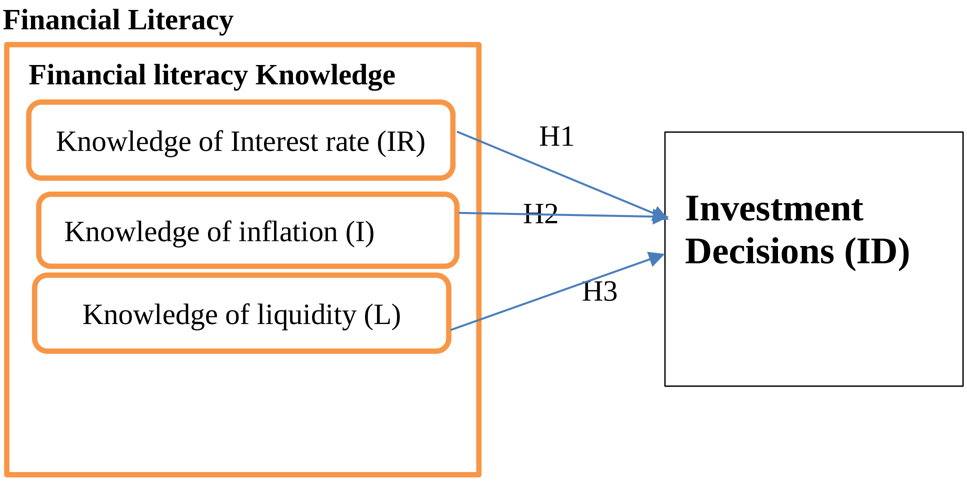

Figure1: Conceptual framework

Source: developed by research from a review of literature

The specific hypotheses were formulated in line with the indicators of financial literacy knowledge as indicated in the figure above.

H1: Knowledge of interest rates by investment club members significantly affects their investment decisions

H2: Knowledge of inflation by investment club members significantly affects their investment decisions

H3: Knowledge of liquidity by investment club members significantly affects their investment decisions

5. METHODOLOGY AND DATA ANALYSIS

A cross-sectional design was deployed for this study. Data were obtained from members of three distinct investment clubs using the survey method of data collection. A questionnaire combining financial literacy measures as well as financial behaviour statements was administered to a total of eighty members randomly selected to fill the required targeted quota of 66 filled instruments. A total of 69 filled instruments were received and after the data cleaning mainly focused on those with missing data, the original targeted number of 66 instruments could not be achieved instead a total of 63 filled instruments were processed to conclude the objectives of the study. Table 1 below shows a summary of the target population and the responses before and after data cleaning.

Table 1: Questionnaire target population and response rate

Target	Responses		Response rate	
	Before data cleaning	After data cleaning	Before data cleaning	After data cleaning
80	69	63	86%	79%

To complement the data from the survey, Interviews with six investment club executive committee members were also conducted. The interviews focused on probing financial literacy levels depicted by the outcome of the survey and the ease or difficulty, associated with investment decision-making among the investment club members. Data generated from the interviews were analysed using thematic analysis. The data obtained were analysed using the Statistical Package for Social Sciences (SPSS Version 27). This helped in the presentation of data in the form of frequency tables and the descriptive statistics presented below and also in the analysis to make conclusions based on the objectives defined earlier.

6. FINDINGS AND RESULTS

Descriptive statistics

Table 2 indicated below presents a high-level summary of the descriptive statistics about the respondents focusing on the demographic characteristics

Variable	Classification	Frequency	Percentage
Gender	Female	30	47.6%
	Male	33	52.4%
	Total	**63**	**100.0%**
Age	Less than 25	1	1.6%
	26- 35	21	33.3%
	36-45	31	49.2%

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	46-55	7	11.1%
	56-65	3	4.8%
	66 and more	0	0.0%
	Total	**63**	**100.0%**
Highest academic qualification	Ordinary Diploma	5	7.9%
	Bachelor's Degree	24	38.1%
	Master's degree	24	38.1%
	PhD	9	14.3%
	Others	1	1.6%
	Total	**63**	**100.0%**
Period of membership in years	less than 1 year	9	14.3%
	Between 1 to 3 years	25	39.7%
	Between 3 to 5 years	21	33.3%
	Between 5 to 7 years	1	1.6%
	More than 7 years	7	11.1%
	Total	**63**	**100.0%**
Individual work experience in years	1 to 5 years	10	15.9%
	6 to 10 years	13	20.6%
	11 to 15 years	15	23.8%
	16 to 20 years	17	27.0%
	More than 20 years	8	12.7%
	Total	**63**	**100.0%**

Source: Primary data

From the table above, the males were slightly more than the female respondents. The majority of the respondents were below the age of 45 with most of them having at least a first degree in terms of general literacy as reflected by their academic qualifications. A very small proportion of the respondents 5% were the only ones with less than a college degree. In terms of membership in an investment club, only 14% of the respondents had been members for less than a year with the 86% of them having been members of an investment club for more than one year. In terms of individual work experience, a dominant percentage of 84% had work experience over five years.

Assess the level of financial literacy among investment club members

From the results of the study, the collective average score for financial literacy knowledge among members of investment clubs was 53%. This score compares with other scores by students which were

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also 53% according to Chen and Volpe (1998) but above the score by young adults in Lusardi Annamaria- Mitchell, Olivia S. Curto and Vilsa (2010) of approximately 33%. More analysis of the individual areas of financial literacy indicates varying levels of financial literacy with individual scores varying substantially among the areas of financial literacy for the members of investment clubs. Details of the individual scores are indicated in the table below.

Table 3: Individual correct scores by financial literacy questions

Literacy question number	Area of assessment	Correct Response
L1	Simple interest rate	62%
L2	Effect of inflation	72%
L3	Investment	67%
L4	Liquidity	78%
L5	Compound interest	56%
L6	Investment and borrowing combined	22%
L7	Debt	38%
L8	Time Value of money	30%
Simple Average		**53%**

Source: Primary data

From the table above, the majority of members of investment clubs were able to correctly respond to financial literacy questions in the areas of liquidity, inflation, investment, simple interest rate, and compound interest rate. However, the majority scored miserably in the financial literacy areas of Debt management. Time value of money as well as where Investment was combined with borrowing in line with Bucher-Koenen and Ziegelmeyer (2014).

Knowledge of interest rate, knowledge of inflation, knowledge of liquidity and investment decision making by investment club members

Before establishing the effect of financial literacy knowledge indicators on the investment decision making by investment club members, a correlation analysis was run to test the hypotheses stated earlier. The output table is indicated below

Table 4: Correlation

	Investment Decision	Knowledge of interest rate	Knowledge of inflation	Knowledge of liquidity
Investment Decision	1			
Knowledge of interest rate	.346**	1		
Knowledge of inflation	.234**	.311**	1	
Knowledge of liquidity	. 409**	.063	.049**	1

**. Correlation is significant at the 0.05 level (2-tailed).

Pearson product correlation of knowledge of interest rate and investment decision-making by investment club members was found to be positive, weak but statistically significant ($r=346$, $p<0.05$). Hence H1 is supported. This means that as knowledge of interest rate increases among investment club members, the level of investment decision-making also improves.

On the second hypothesis, H2; the Pearson product correlation of knowledge of inflation rate and investment decision-making by investment club members was also found to be positive, weak but statistically significant ($r=234$, $p<0.05$). Hence H2 is also supported. This means that as knowledge of the inflation rate increases among investment club members, the level of investment decision-making also improves

On the third specific hypothesis, H3; the Pearson product correlation of knowledge of liquidity and investment decision-making by investment club members was found to be moderately positive and statistically significant ($r=409$, $p<0.05$). Hence H3 is also supported. This means that as knowledge of liquidity increases among investment club members, the level of investment decision-making also improves

Responding to the objectives of the study that required an analysis of the effect of the indicators of financial knowledge (Knowledge of interest rate, knowledge of inflation rate, and knowledge of liquidity) on the investment decision-making by investment club members, regression analysis was employed.

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Regression	Standardized Beta Coefficient	Adjusted R^2	t-value	p-value	Hypothesis
IR → ID	0.362	0.107	3.529	0.003	H1 Supported
I → ID	0.253	0.041	2.228	0.048	H2 Supported
L → ID	0.426	0.151	3.006	0.000	H3 Supported

Figure 2: regression table output

Based on the above output table, the dependent variable investment decision making was regressed on the predictor variables; knowledge of interest rate, knowledge of inflation, and knowledge of liquidity and the results can be interpreted as follows;

When investment decision-making is regressed on the predictor variable of knowledge of interest rate, the results indicate that interest rate has a significant effect on the investment decision-making by members of an investment club ($b=0.362$, $p <0.05$). Additionally, $r2 =0.107$, predicts that knowledge of interest rate explains 10.7% of the variance in investment decision-making by investment club members.

When investment decision-making is regressed on the predictor variable of knowledge of inflation, the results indicate that knowledge of inflation has a significant effect on the investment decision-making by members of an investment club ($b=0.253$, $p <0.05$). Additionally, $r2 =0.041$, predicts that knowledge of inflation explains 4.1% of the variance in investment decision-making by investment club members.

When investment decision-making is regressed on the predictor variable of knowledge of liquidity, the results indicate that knowledge of liquidity also has a significant effect on the investment decision-making by members of an investment club ($b=0.426$, $p <0.05$). Additionally, $r2 =0.151$, predicts that knowledge of liquidity explains 15.1% of the variance in investment decision-making by investment club members.

Combining the above findings from the quantitative analysis with the qualitative findings from the interviews, it was surprising that investment clubs with high academic qualified members were not necessarily finding it any easier to take investment decisions at the investment club level. Much as the study did not categorize the kind of qualifications of such members, the financial literacy assessment results indicated that clubs with members having high academic qualifications also had high financial literacy levels. Qualitative data to probe this scenario brought out dominant themes that could partly explain this challenge. Among the dominant themes for the complexity in investment decision making the following factors were noticed. The themes regarding the challenges were generated through thematic analysis.

Table… The challenges associated with investment decision-making by investment club members

No	Theme	Dominance
1.	Low participation by members	High
2	Failure to reach consensus	High
3	Leadership inadequacies	High
4	Low investment opportunities	Moderate
5	Tax policy	Moderate
6	Financial literacy	low

The thematic analysis brought out three dominant challenges in making investment decisions by the investment club with the low participation and laid-back nature of members being the most dominant. In most investment clubs, the members leave all decision-making to the executive members who at times find it difficult to make investment decisions that are not blessed by the club members. This was also followed by an inability to reach consensus among members while making the investment decisions. This is caused by differences in opinion either among all members of the investment clubs or those members of the investment committee. Investment opportunities may be identified, but making the final decision gets either delayed or abandoned due to failure to reach a consensus on the attractiveness of the identified investment opportunity. Another dominant factor affecting investment decision-making among the investment club members was the inadequacies within the leadership of these clubs. At the point of electing the executives, the majority of the club members do not put into consideration the capacity of the leaders they elect. Instead, they vote members as part of the executive largely based on popularity. This comes back to haunt them when it comes to making investment decisions when they find that the leaders may not measure up to the task. Other factors that came up included lack of investment opportunities, the unfavourable tax policy, and low levels of financial literacy among members.

7. CONCLUSION AND RECOMMENDATIONS

There is no doubt that the level of financial literacy by the individual members of the investment club directly affects the ability of the entire club to take investment decisions. Based on the three indicators of financial literacy knowledge; Knowledge of interest rate, knowledge of inflation, and knowledge of liquidity, it is important for actors within the investment clubs including, the government, regulators, and associations that bring together investment clubs in Uganda as well as the investment clubs themselves to build the financial literacy of investment club members if they are to realize the objectives for which they are set up.

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However, it is also important to note that much as financial literacy contributes towards improving investment decision-making by the members of the investment clubs, several other factors should be paid attention to. These factors may include addressing the cohesion of members so that investment clubs are largely made up of like-minded individuals to ease decision-making. Other considerations may include capacity building for leaders of these clubs as well as the members since leadership keeps on changing over time. Others and stakeholders may also lobby for favourable tax laws to stimulate the growth and prosperity of these clubs.

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