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How Financial Literacy Moderate the Relationship Between Psychological Factors and Investors' Risk-Taking Behaviour?

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ABSTRACT

Purpose- Investor behavior is shaped by both cognitive dispositions and financial competencies. Among the psychological factors influencing investment decisions, risk aversion and locus of control have been widely recognized as critical determinants of risk-taking behavior. The present study investigates how financial literacy moderates the relationship between psychological factors specifically risk aversion and locus of control and investors' risk-taking behavior. ***Design/methodology/approach***- The questionnaire was divided into two segments where first segment includes demographics and second segment include questions related to financial literacy, risk aversion, locus of control and risky investment intention. Convenience and snowball via broker branches/online group is used to collect the data from investors residing in Delhi NCR region. A structural equation modeling (SEM) approach was employed and for this purpose, AMOS software (version 31.0) was used owing to its efficiency in handling measurement and structural models. ***Findings***-The findings revealed that risk aversion, locus of control has a negative impact on risky investment intention. Further, financial literacy has a positive and significant influence on risky investment intention. Also, financial literacy as a moderating variable affects significantly the relationship between risk aversion, locus of control and risky investment intentions. Research implications- Based on this present research finding, the study is more productive for the portfolio manager and policymakers at the time of making an investment portfolio for the investors based on their psychological factors. The study recommends that investors need training programmes, workshops and seminars that enhance financial literacy and financial knowledge of investors which helps them to overcome the effect of psychological factors while making an investment decision. ***Originality/value-*** The current study aims to explore whether several psychological factors can affect investors risky intention behaviour. Moreover, the author would like to examine whether these associations are moderated by financial literacy.

Keywords: Financial literacy, Risky Investment Intention, Risk Aversion, Locus of control and Structural equation modeling.

INTRODUCTION

Standard finance, based on the assumption of rational behavior, has dominated the academic and research frontiers for quite a long period. Over time, however, researchers have demonstrated that individuals often deviate from rationality when making decisions, which has led to the emergence of the behavioural finance paradigm that emphasizes the role of psychology and sociology in financial decision-making (Shiller, 2003; Statman, 2019). Proponents argue that they do not reject the fundamental principles of classical finance theory; rather, they extend them by acknowledging that individuals are not fully rational, that deviations from rationality are systematic, and that probabilities are subjectively perceived (Kahneman & Tversky, 1979; Barberis & Thaler, 2003). This shift has encouraged finance researchers to integrate psychological theories into financial contexts. Consequently, scholarly attention has increasingly focused on psychological or attitudinal factors, reflecting the subjective nature of investor behaviour (Shefrin, 2000; Ricciardi & Simon, 2000).

According to Bodie and Kane (2014), behavioural finance integrates finance, economics, and psychology to explain market inefficiencies that arise from systematic cognitive biases influencing investor decisions (Thaler, 1999). Investor behaviour, therefore, reflects how individuals perceive, interpret, and respond to financial information under uncertainty, often shaped by heuristics, emotions, and attitudes toward risk (Kahneman & Tversky, 1979; Barberis & Thaler, 2003). Research has shown that investors do not always behave rationally; instead, they exhibit biases such as overconfidence, loss aversion, and herding, which significantly influence portfolio construction and risk-taking behaviour (Shefrin, 2000; Statman, 2019). A person's ability to manage their own finances strongly determines their financial well-being, and financial decision-making skills are enhanced when individuals are aware of their risk tolerance, financial literacy, and locus of control (Lusardi & Mitchell, 2014; Pompian, 2012). Investor behaviour is shaped not only by demographic and economic characteristics but also by psychological dispositions that influence decision-making under uncertainty. Thus, understanding investor behaviour in light of psychological factors and financial literacy is crucial to explaining why individuals often deviate from the predictions of traditional finance theory.

The risk aversion and locus of control have been identified as critical determinants of how investors evaluate opportunities and manage risk (Kahneman & Tversky, 1979; Pompian, 2012). Risk-averse individuals tend to avoid uncertainty and prefer safer investments, whereas those with lower risk aversion may pursue riskier portfolios with the expectation of higher returns (Strydom et al., 2019). Similarly, locus of control reflects the extent to which individuals perceive investment outcomes as a function of their own actions (internal locus) or as determined by external forces such as luck or market volatility (Rotter, 1966; Jain et al., 2020). Investors with an internal locus of control are generally more confident in their ability to influence outcomes and may take greater risks, while those with an external locus of control tend to be more conservative in financial decisions (Rahman & Gan, 2020).

However, psychological tendencies alone cannot fully explain variations in risk-taking behaviour, as the ability to interpret financial information and make rational choices is equally important. This is where financial literacy acts as a moderating factor. Financial literacy, defined as the knowledge and skills required to effectively manage financial resources (Lusardi & Mitchell, 2014), equips investors with the capacity to evaluate risks more accurately and reduce the influence of behavioural biases (Hung et al., 2009). Higher financial literacy enables risk-averse individuals to diversify portfolios and manage risk without completely avoiding opportunities, thereby balancing caution with rational decision-making (van Rooij et al., 2011). Likewise, financially literate individuals with an internal locus of control are better positioned to align their confidence with informed investment choices rather than overconfidence-driven risks (Nguyen & Rozsa, 2019).

Thus, financial literacy plays a crucial moderating role by strengthening or weakening the effect of psychological traits on risk-taking behaviour. In other words, while risk aversion and locus of control shape the fundamental attitudes toward risk, financial literacy determines whether these tendencies translate into conservative, rational, or excessively risky investment decisions (Sivaraman & Anbarasu, 2021).

Therefore, this study explored the association between psychological factor (risk aversion, locus of control) and risky investment intention with financial literacy as a moderator. The proposed relationship was explored specially for financially independent investors.

REVIEW OF LITERATURE

Risk aversion and risky investment intention

Risk aversion is a central psychological construct in explaining investor behaviour, as it reflects an individual's reluctance to engage in uncertain financial activities with the possibility of loss (Kahneman & Tversky, 1979). Investors with high risk aversion are more likely to prefer safe and stable investment avenues, such as fixed deposits or government securities, rather than risky instruments like equities or derivatives (Strydom et al., 2019; Adil et.al.,2021; Mohta & Shunmugasundaram 2023). Conversely, individuals with lower risk aversion demonstrate a higher willingness to invest in volatile assets, motivated by the potential for superior returns (Charness & Gneezy, 2012). Prior studies have highlighted that risk aversion directly influences risky investment intention, with highly risk-averse investors showing lower propensity to engage in high-risk, high-return portfolios (Grable, 2000; Hallahan et al., 2004; Aydemir & Aren, (2017). Moreover, factors such as personality traits, income levels, and financial knowledge further interact with risk aversion to shape investors' willingness to undertake risky investments (Sjöberg & Engelberg, 2009). Empirical evidence also suggests that risk aversion is negatively associated with stock market participation, as investors' perceptions of risk strongly affect their intention to allocate resources into equity markets (van Rooij, Lusardi, & Alessie, 2011). Thus, the literature consistently shows that risk aversion is a key determinant of risky investment intentions, constraining individuals from engaging in high-risk financial opportunities despite the potential for wealth maximization. Based on the literature review, the following hypothesis is formed:

H1: There is a significant relationship between risk aversion and risky investment intentions of investors.

Locus of control and risky investment intentions

Locus of control (LoC) is a psychological construct that reflects the extent to which individuals believe that

outcomes are contingent upon their own actions (internal LoC) or external factors such as luck, fate, or market forces (external LoC) (Rotter, 1966). According to Rotter (1966), the effect of a reinforcement on a behavior could show divergency between individuals in terms of the degree to which an individual discerns that this reward stems from his or her behavior. Accordingly, if any reinforcement or reward is perceived by the individuals as a result of their actions, these individuals are deemed as having internal locus of control (Chelariu et al., 2008; Schjoedt & Shaver, 2012; Al-Habib, 2012; Jain & Ali, 2013).. Yet, if any reinforcement or reward is discerned by the individuals as a result of outside forces such as luck, chance, destiny, these individuals are called as having external locus of control. Research in behavioural finance suggests that locus of control significantly influences financial decision-making and investment preferences (Nguyen & Rozsa, 2019). Investors with an internal locus of control are generally more confident in their ability to influence financial outcomes, and this confidence often translates into a greater willingness to engage in risky investments (Rahman & Gan, 2020). By contrast, individuals with an external locus of control tend to attribute outcomes to uncontrollable factors, leading to cautious or conservative behaviour and reduced intention to pursue risky investments (Cobb-Clark, Kassenboehmer, & Sinning, 2016). Studies also show that locus of control interacts with financial literacy and risk tolerance, further shaping investment intentions and behaviours (Pompian, 2012; Jain et al., 2020). Empirical findings consistently highlight that internal LoC is positively associated with stock market participation and speculative investment choices, whereas external LoC reduces investors' willingness to assume risk (Brown & Taylor, 2014). Therefore, locus of control plays a critical role in determining the degree to which individuals exhibit risky investment intentions. Based on the literature following hypothesis is framed:

H2: There is a significant relationship between locus of control and risky investment intention of investors.

Financial literacy and risky investment intentions

Financial literacy, defined as the ability to understand and apply financial concepts for effective decision-making (Lusardi & Mitchell, 2014), is a crucial determinant of investor behaviour. As per OECD (2005) financial literacy consists of three components- financial knowledge, financial attitude and financial behaviour where financial knowledge is ascertained by financial concepts clarity such as interest rate, inflation, diversification, time value of money, risk and return concept knowledge. Lusardi and Mitchell (2007a/b) indicate that financially illiterate households are less likely to plan for retirement and to accumulate wealth. Moreover, Van Rooij et al. (2011) provide evidence of financial illiteracy as the reason for inadequate stock participation. In other words, people with lower financial knowledge are less likely to attend in stock market which is known as risky investing in the literature.

Individuals with higher levels of financial literacy are generally more confident in evaluating complex financial products and assessing risk-return trade-offs (Hung, Parker, & Yoong, 2009). Research indicates that financially literate investors are more likely to diversify their portfolios and participate in financial markets, including risky assets such as equities and mutual funds, compared to those with lower financial knowledge (Van Rooij, Lusardi, & Alessie, 2011). Furthermore, financial literacy reduces the likelihood of irrational behaviours such as herding and panic selling, thereby fostering informed risk-taking intentions (Al-Tamimi & Kalli, 2009). Empirical evidence also suggests that individuals with better financial knowledge perceive investment risks more accurately, which enhances their willingness to invest in high-risk, high-return instruments (Nguyen & Rozsa, 2019). Conversely, limited financial literacy often leads to conservative investment behaviour, avoidance of stock markets, and a preference for low-risk instruments (Clark, Lusardi, & Mitchell, 2021). Hence, financial literacy plays a pivotal role in shaping risky investment intentions by equipping investors with the knowledge and confidence to manage uncertainty in financial decision-making. The following hypothesis is framed based on the review:

H3: There is a significant relationship between financial literacy and risky investment intention of investors.

Financial literacy, risk aversion, locus of control and risky investment intentions

The relationship between psychological factors and risky investment intention is complex, and research suggests that financial literacy plays a critical moderating role. The moderation analysis examines the dependence between dependent variable and an independent/predictor although directionally and magnitude wise is also a factor of a moderation variable (Baron and Kenny, 1986). Moderation test is regarded to play an important role in the sphere of research in social sciences (Akhtaretal.,2018) because it describes exactly which kind of the causal relationship exists between the independent and dependent variables. It may be conducted in two formats, i.e. (1) interaction moderation and (2) multi-group moderation.

Risk aversion and locus of control strongly shape how investors perceive and respond to financial risks. Highly risk-averse investors generally avoid uncertain assets, while those with an internal locus of control are more likely to take risks because they believe outcomes depend on their own decisions (Rotter, 1966; Kahneman & Tversky, 1979). However, these tendencies do not always directly translate into actual investment intentions, this is where financial literacy intervenes.

Financial literacy is the ability to process economic information and make informed financial decisions

(Lusardi & Mitchell, 2014). When investors possess high financial literacy, they can correctly assess probabilities, manage risk through diversification, and distinguish between short-term volatility and long-term returns (Van Rooij, Lusardi, & Alessie, 2011). This knowledge helps risk-averse individuals overcome excessive fear of losses and engage in rational risk-taking, such as investing in equities with hedging or diversification strategies. Without financial literacy, the same risk-averse individuals may completely avoid risky assets, leading to missed wealth-creation opportunities (Nguyen & Rozsa, 2019).

Similarly, locus of control interacts with financial literacy. Investors with an internal locus of control often believe they can influence financial outcomes, but in the absence of financial knowledge, this may lead to overconfidence bias and imprudent risky investments. However, when coupled with financial literacy, their confidence translates into calculated and rational investment intentions (Rahman & Gan, 2020). Conversely, individuals with an external locus of control those who attribute outcomes to chance or market forces, may avoid risky investments altogether. Yet, if they are financially literate, they may gain the confidence to participate in financial markets, since literacy reduces their reliance on luck and increases trust in informed decision-making (Brown & Taylor, 2014).

Therefore, financial literacy does not act as a direct predictor of risky investment intention alone but rather conditions the strength and direction of the relationship between psychological traits and investment behaviour (Adil et.al.,2021; Mohta & Shunmugasundaram 2023). High levels of financial literacy can weaken the negative impact of risk aversion and external locus of control, while strengthening the positive influence of internal locus of control on risky investment intentions. This makes financial literacy an essential moderating variable in understanding investor behaviour within the framework of behavioural finance. Therefore, financial literacy has emerged as an important cognitive factor that can strengthen or weaken the effects of these psychological traits on risky investment intention.

H4: financaial literacy significantly moderates the relationship between psychological factors and risky investment intentions of investors.
H4a: Financial literacy significantly moderates the relationship between risk aversion and risky investment intentions of investors
H4b: Financial literacy significantly moderates the relationship between locus of control and risky investment intentions of investors

METHODOLOGY

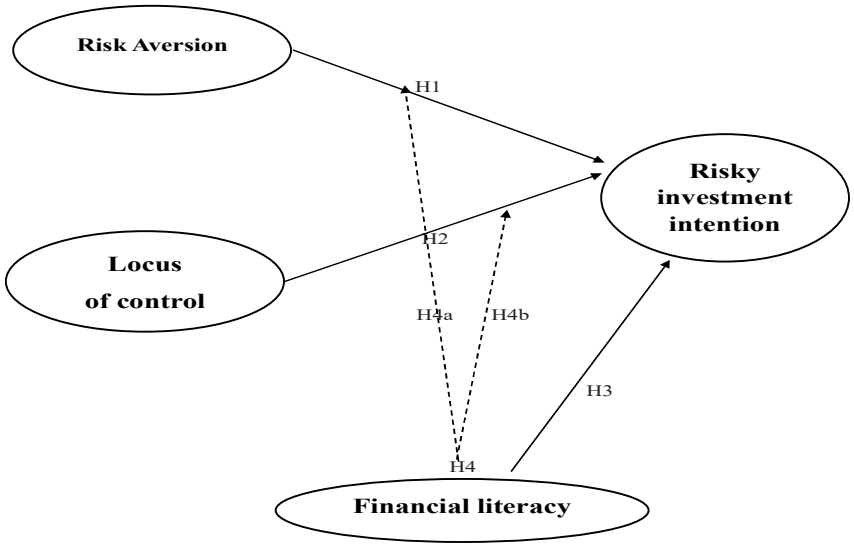
Convenience and snoweball sampling is employed to acquire data from the Delhi NCR region because the total study population was unknown. Previous literature also states that convenience sampling enables the selection of respondents who are readily available to furnish detailed topic-specific information (Gravetter and Forzano, 2018; She et al., 2023). The data for the research was gathered over six months from January 2025 to june 2025. Overall, 550 questionnaires were disseminated via both online and offline methods, of which 400 were given back. Subsequently, the unengaged and incomplete responses were deleted. The final sample size included 342 complete and usable responses that were complete in all respects. A five-point Likert scale was used to ascertain the responses to each statement. The risk aversion and locus of control acted as the predictor variable, and to measure the same fourteen items were selected from a scale formerly used by Aydemir and Aren (2017). Financial literacy acted as the moderating variable that is measured using a questionnaire developed by Van Rooij et al. (2011). The questionnaire measured these aspects of finance: compound interest, inflation, the function of the stock market, risk diversification and bond prices, interest rate and Time Value of Money. Risky investment intentions acted as the outcome variable for the research and to measure the same fours items were selected from a scale previously used by Aydemir and Aren (2017). The scale items used in this questionnaire are mentioned in table 1.

Briefly, our study contributes to the literature in three ways. First, it incorporates both some individual factors and also financial literacy, strong resource in financial decision making into financial behavior context. Risk averseness in general reflects an individual's general attitude into risk taking while locus of control represents an individual's enduring trait. Second, it detects both direct and also indirect or systematic influences (i.e., moderation effect) of financial literacy on the relationships between these factors and risky investment intention. Third, our results regarding financial literacy highlight a new research question of whether another indirect effect type (i.e., moderated mediation) could occur.

The conceptual framework (Figure 1) illustrates the relationships between psychological factors, financial literacy, and investors' risky investment intentions. Risk Aversion and Locus of Control (independent variable) where risk aversion is an individual's reluctance to engage in uncertain financial outcomes and locus of control reflects whether investors perceive financial outcomes as a result of their own actions (internal locus) or external factors such as luck or market volatility (external locus). Further, Risky investment intention (dependent variable) refers to the likelihood that an investor chooses to invest in high-risk, high-return assets such as equities, derivatives, or cryptocurrencies. Financial Literacy (Independent and Moderating Variable) is positioned as both a direct predictor and a moderator in the framework. As a moderator, financial literacy shapes the strength and direction of the relationships between psychological traits and risky investment intention.

Thus, the model integrates behavioural finance theory by acknowledging psychological influences while also highlighting the role of financial literacy as a cognitive resource that can either weaken or strengthen these effects.

Figure1: Conceptual framework



Source: compiled by researcher

Table-1 Scale items

Scale items	Wordings
Risk Aversion	
R1	I don't like to take risks Compared to most people I know
R2	I like to live life on the edges.
R3	I have no desire to take unnecessary chances on things.
R4	Compared to most people I know, I like to gamble on things.
R5	I would rather be safe than sorry.
R6	I want to be sure before I purchase anything.
R7	I avoid risky things
Locus of control	
L1	My key factor for becoming rich is careful investment.
L2	I suffer investment losses due to my own idelness.
L3	I can pretty much determine what will happen in my investments.
L4	I am usually able to protect my investment interests.
L5	When I get what I want, it is usually because I worked hard for it.
L6	When I make my investment plans, I am almost certain to make them work.
L7	Whether or not I have desired returns from my investment depends upon my abilities.
Financial literacy	
Fl1	The stock market helps to predict stock prices
Fl2	Considering a long-term period (e.g. 10–20 years) stocks normally give the highest return
Fl3	Normally, stocks display highest fluctuation over time.
Fl4	When diversifying investments among a variety of assets, the chance of losing money rises.
Risky Investment Intention	
RII1	While making investment decision, I generally prefer risky alternatives
RII2	If I were going to make an investment, I would consider risky investment alternatives
RII3	The likelihood of buying risky investments is high
RII4	My willingness to buy risky investment is high

Data analysis

The present study employed a two-stage analytical approach to examine the hypothesized relationships between psychological factors, financial literacy, and investors' risky investment intentions. Data analysis was conducted using both SPSS (Statistical Package for the Social Sciences) and Structural Equation Modeling AMOS software to ensure robustness of results. Initially, SPSS was used for data screening, descriptive statistics, and preliminary analyses. This

included checking for missing values, outliers, normality, and demographic profiling of respondents. Reliability of measurement instruments was also assessed through Cronbach's alpha and item-total correlations to establish internal consistency.

Subsequently, AMOS was employed to test the measurement model and the structural model. AMOS was chosen because it is particularly suitable for complex models with multiple constructs, smaller to medium sample sizes, and situations where data meet the stringent normality assumptions of covariance-based SEM and questionnaire is based on reflective scale (Hair, Hult, Ringle, & Sarstedt, 2017). The measurement model assessment involved testing indicator reliability, composite reliability, convergent validity, and discriminant validity, while the structural model assessment examined the path coefficients, effect sizes, predictive relevance, and moderating effects of financial literacy.

This dual-method approach ensures both the statistical soundness of the data and the rigorous testing of theoretical relationships, making the findings both reliable and generalizable within the context of behavioural finance research.

RESULTS AND DISCUSSION

Demographic profile of the respondent

The table 2 shows a reasonably balanced gender distribution, with 51.5% female, 47.1% male, and a small portion identifying as Other (1.5%). The age breakdown indicates a predominantly young cohort, as 80.4% are between 21 and 30 years, followed by 11.7% aged 31-40, 5% aged 41-50, and only 2.9% aged 51 and above. Regarding education, over half of the respondents hold postgraduate degrees (57%), while 27.2% are graduates, 4.1% have a high school education or less, and 11.7% reported other educational backgrounds. Regarding annual income, the majority (61.7%) earn less than 200,000, with 24.3% earning between 200,000 and 500,000. Only a tiny portion of the sample falls into higher income brackets, with 9.4% earning between 500,001 and 1,000,000 and 4.7% earning over 1,000,000. This data highlights a young, educated population with moderate incomes, which could affect their investment behavior and financial decisions.

Table 1. Frequency Distribution of Demographic Variables

Attributes	Frequency	Percent	Valid Percent
Gender			
Male	161	47.1	47.1
Female	176	51.5	51.5
Other	5	1.5	1.5
Age			
21-30	275	80.4	80.4
31-40	40	11.7	11.7
41-50	17	5	5
51 and above	10	2.9	2.9
Education			
High school or less	14	4.1	4.1
Graduate	93	27.2	27.2
Postgraduate	195	57	57
Other	40	11.7	11.7
Income (annual)			
Less than 200000	211	61.7	61.7
200000-500000	83	24.3	24.3
500001-1000000	32	9.4	9.4
1000000 and above	16	4.7	4.7

Reliability analysis is deemed to examine the inner consistency of the observed factors. The alpha test of Cronbach is said to test the reliability of the construct. Cronbach's alpha is a test of reliability which is employed to identify the relation of various items to one. another. The research studies indicate that to exhibit consistency, instruments need to provide the. This is due to a coefficient of reliability of 0.5 to 0.8 (Pedhazur, 1982). In order to test the relationship. amongst all study variables. We calculated Cronbach alpha through SPSS and reported results in Table 3.

Table 2. Reliability, Factor Loadings, and Average Variance Extracted (AVE) for Constructs

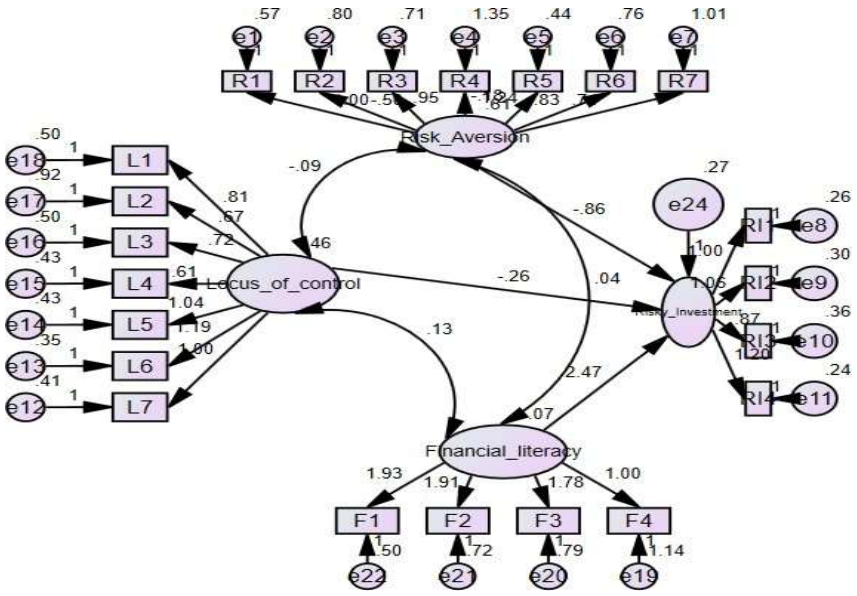
Construct	Item	Cronbach's Alpha	FL	AVE
Risk Aversion	R1	0.701	0.763	0.55
	R2		0.576	
	R3		0.765	
	R4		0.783	

	R5		0.837	
	R6		0.675	
	R7		0.629	
Locus of Control	L1	0.819	0.686	0.6
	L2		0.547	
	L3		0.657	
	L4		0.589	
	L5		0.771	
	L6		0.812	
	L7		0.784	
Financial Literacy	F1	0.75	0.767	0.65
	F2		0.576	
	F3		0.741	
	F4		0.838	
Risky Investment Intention	RI1	0.916	0.892	0.8
	RI2		0.906	
	RI3		0.853	
	RI4		0.926	

Source-compiled by researcher

The table 2 showcases the reliability, factor loadings (FL), and Average Variance Extracted (AVE) values for each construct, all of which exhibit strong measurement properties. Risk Aversion (RA) shows high factor loadings ranging from 0.576 to 0.837, with a satisfactory Cronbach's Alpha of 0.701, indicating good internal consistency, and an AVE of 0.55, demonstrating that the items adequately capture the construct's variance. Locus of Control (LOC) achieves strong reliability with a Cronbach's Alpha of 0.819, factor loadings between 0.547 and 0.812, and an AVE of 0.60, indicating good convergent validity. Financial Literacy (FL), despite moderate loadings from 0.576 to 0.838, maintains a high Cronbach's Alpha of 0.750, reflecting solid internal consistency, and an AVE of 0.65, showing the items effectively explain the construct's variance. Finally, Risky Investment Intention (RI) exhibits excellent reliability with a Cronbach's Alpha of 0.916, strong factor loadings from 0.853 to 0.926, and a high AVE of 0.80, underscoring both its reliability and validity. Overall, each construct surpasses the recommended thresholds for reliability and validity, ensuring that the items consistently and accurately measure the intended constructs.

Figure 2- Path model of Psychological Factors, Financial Literacy, and Risky Investment Intentions



Source- Compiled by researcher

The study explores how psychological factors, specifically risk aversion and locus of control, influence risky investment intentions, with financial literacy as a moderating variable. The figure 2 represents the path model of Psychological Factors, Financial Literacy, and Risky Investment Intentions using survey data and AMOS for analysis and the significant findings emerged as shown in Table 3. The results indicate that the model has a good overall fit. Although the chi-square test is significant (as expected with larger sample sizes), other indices such as CFI (0.92), TLI (0.91), NFI (0.91), GFI (0.90), RMSEA (0.07), and SRMR (0.07) suggest the model fits the data reasonably well. Minor improvements could be explored (since AGFI = 0.87 is a bit low), but overall, the model provides a valid representation of the data and can be used for hypothesis testing and interpretation.

Table 3. Impact of Psychological Factors and Financial Literacy on Risky Investment Intentions: SEM Results

Aspect	Values
Sample Size	342
Total Variables	49
Degrees of Freedom	203
Chi-Square (χ^2)	600
CMIN/DF	2.5
RMSEA	0.07
CFI	0.92
TLI	0.91
GFI	0.90
AGFI	0.87
NFI	0.91
SRMR	0.07

Source- compiled by researcher

Risk Aversion and Risky Investment Intentions

A negative relationship was found between risk aversion and risky investment intentions with (β=-.86, P<0.05). This aligns with Hypothesis 1 (H1), which posits that a significant relationship between risk-aversion and risky investment intentions, which aligns with the well-established theoretical foundations of behavioural finance. Risk aversion, a key psychological factor, reflects an individual's preference for certainty over uncertainty (Kahneman & Tversky, 1979). The negative association observed in this study indicates that investors with high levels of risk aversion are less likely to exhibit intentions to engage in risky investments such as equities, derivatives, or speculative assets. Conversely, individuals with lower risk aversion demonstrate greater willingness to allocate resources toward high-risk, high-return opportunities.

These results are consistent with prior empirical research. Grable (2000) and Hallahan et al. (2004) found that highly risk-averse individuals prefer low-risk financial products such as fixed deposits and government bonds, whereas less risk-averse investors are inclined toward stock market participation. Similarly, Strydom et al. (2019) emphasized that risk tolerance plays a crucial role in portfolio construction, with more risk-tolerant investors seeking higher returns despite uncertainty. The findings of the present study support this body of literature by confirming that risk aversion is a strong predictor of investment intentions.

Locus of Control and Risky Investment Intentions

The analysis shows a significant negative relationship between locus of control and risky investment intention (β = -0.26, p<0.05). This suggests that investors with a stronger internal locus of control, who believe that outcomes are determined by their personal abilities, effort, and careful planning, tend to avoid high-risk investment opportunities. Such investors attribute financial success or failure to their own responsibility, and therefore they prefer cautious, well-planned, and controlled investment strategies over speculative or highly risky ventures. This aligns with prior studies (e.g., Rotter, 1966; Pompian, 2012), which highlight that individuals with higher internal control are more disciplined and rational in financial decision-making. Thus, an internal locus of control appears to act as a protective psychological factor, discouraging excessive risk-taking in investment intentions.This finding resonates with prior research in behavioural finance. Rotter's (1966) locus of control theory posits that individuals with an internal orientation perceive themselves as capable of influencing outcomes through their choices, thereby fostering proactive behaviours, including investment in risky assets. Empirical studies by Perry and Morris (2005) and Pompian (2012) similarly emphasized that internally controlled investors demonstrate higher confidence in their decision-making ability, which translates into a greater willingness to pursue riskier financial opportunities. Conversely, those with an external locus of control, who attribute outcomes to luck, fate, or uncontrollable market forces, are generally less inclined toward risky investments due to perceived lack of control.

The observed positive β coefficient in this study underscores that investors with an internal locus of control not only perceive themselves as capable decision-makers but also tend to trust their judgment in uncertain market conditions. This reinforces the behavioural finance paradigm by showing that psychological orientation significantly drives

investment behaviour beyond traditional rational-choice models.

The study revealed a significant relationship between locus of control and risky investment intentions, supporting Hypothesis 2 (H2).

Financial Literacy and Risky Investment Intentions

The analysis indicates that financial literacy positively influences risky investment intentions, affirming Hypothesis 3 (H3). The positive but relatively small coefficient ($\beta = 0.07$) indicates that financial literacy has a weak positive effect on risky investment intentions. This suggests that as investors' financial literacy increases, they are slightly more inclined to consider riskier investments. Financially literate investors have better knowledge of financial products, markets, and risk-return trade-offs, which gives them more confidence to evaluate and undertake investments that may involve higher risk but potentially higher returns (Lusardi & Mitchell, 2014). Although literacy provides knowledge and confidence, it does not guarantee risk-seeking behavior. Other psychological factors (such as risk aversion, locus of control, or behavioral biases) may play stronger roles in determining whether an investor ultimately engages in risky investments. Hence, the effect of financial literacy alone is modest. However, the relatively small effect size suggests that while financial literacy enhances awareness and ability, it is not the primary determinant of risky investment behavior. Instead, psychological traits such as risk aversion and locus of control appear to play a more dominant role in shaping investors' risk-taking intentions.

Moderating Role of Financial Literacy

Moderation tests whether the strength or direction of the relationship between a predictor (Risk Aversion or Locus of Control) and the outcome (Risky Investment Intention) changes depending on the level of Financial Literacy. If significant, Financial Literacy strengthens or weakens the predictor outcome relationship. If not significant, then the predictor works independently, regardless of literacy levels. The results provide strong evidence for the moderating role of financial literacy in the relationship between psychological factors and risky investment intentions. The interaction between risk aversion and financial literacy ($\beta = 0.13$) suggests that financial literacy mitigates the restrictive influence of risk aversion. Typically, risk-averse individuals are less inclined to pursue risky investment opportunities due to fear of loss and uncertainty. However, when such investors possess higher levels of financial literacy, they are able to rationalize risks, evaluate potential returns, and apply strategies such as diversification to reduce perceived uncertainty. Consequently, financial literacy buffers the negative effect of risk aversion, allowing evean risk-averse investors to approach risky investment options with greater confidence and rationality.

In contrast, the interaction path between LoC and financial literacy is strongly positive ($\beta = 0.46$), showing that financial literacy counterbalances the negative direct effect of LoC on risky investment intentions. In other words, when investors with a strong internal locus of control also possess higher levels of financial literacy, they are better equipped to evaluate risks, understand investment instruments, and apply informed strategies. This financial knowledge enables them to translate their sense of responsibility and control into proactive risk-taking rather than avoidance.This highlights financial literacy's role as an enhancer, ensuring that psychological dispositions like internal control are channeled into rational and calculated risk-taking instead of conservative avoidance. Investors with both a strong internal locus of control and high financial literacy are, therefore, more likely to engage in risky investments, as their confidence is reinforced by knowledge and skills.

Overall, these findings highlight that financial literacy not only plays a direct role in shaping risky investment intentions but also conditions the effects of psychological traits. It reduces the negative influence of risk aversion and amplifies the positive impact of locus of control, thereby acting as both a buffer and enhancer in the decision-making process. This underscores the importance of financial education initiatives, as improving literacy can help investors align their psychological dispositions with more rational and informed investment choices.

In essence, financial literacy functions as a cognitive resource that allows investors to critically evaluate financial information, weigh risks, and recognize the potential of different investment opportunities. This conditioning effect means that psychological tendencies, such as risk aversion or locus of control, do not operate in isolation but are filtered through the lens of financial awareness and understanding.

The findings conclude that psychological factors significantly shape investors' risky investment intentions. Risk aversion shows a negative relationship with RII, confirming that highly risk-averse individuals avoid risky opportunities. Interestingly, locus of control also demonstrates a negative association with RII, suggesting that even when investors believe outcomes depend on their own abilities, they may adopt a more cautious stance and refrain from risky investments. However, these effects are conditioned by financial literacy. Higher financial literacy weakens the negative effect of risk aversion, allowing cautious investors to evaluate risks more rationally, while it also reduces the adverse impact of locus of control by enabling individuals to convert their confidence into informed, calculated choices. Thus, financial literacy emerges as a vital moderating factor that helps balance psychological tendencies and promotes more rational investment behaviour.

Implications

Theoretical Implications

The study extends behavioral finance literature by confirming that psychological factors like risk aversion and locus of control significantly affect investment behavior and that financial literacy can moderate these effects.

It contributes to the debate on rationality in finance by demonstrating that even rational constructs like risk aversion are not absolute; an individual's financial knowledge level can modulate them.

Practical Implications

For policymakers and financial educators, this study underscores the importance of promoting financial literacy to enhance investors' confidence and decision-making capabilities, potentially leading to a more diversified investment portfolio. Financial literacy programs could target different psychological profiles, addressing the needs of risk-averse individuals and those with a more robust external locus of control. Financial advisors could use this information to tailor their recommendations, particularly for clients with lower risk tolerance or an external locus of control, by focusing on financial literacy to make more informed investment choices.

CONCLUSION

The study concluds that the demographic profile of the sample, characterized by younger, educated, and moderately earning individuals and suggests that investment behaviors may vary based on demographic variables, affecting their financial choices. The study is significant for the finance literature because it illustrates how general risk averse and locus of control are related with risk taking intentions. The study reinforces the importance of financial education, as improving financial literacy could empower individuals to make more confident and diversified investment decisions, even when faced with psychological barriers. The study contributes to behavioral finance literature by emphasizing the role of financial literacy in shaping investment behavior. It offers practical implications for policymakers and financial educators seeking to enhance financial decision-making skills within different population segments. Policymakers and financial intermediaries might benefit more from these findings about the moderating effect of financial literacy since they suggest that an improvement in people's financial literacy level may have a significant impact on their investment decisions. Their views towards taking financial risks or their plans to invest in riskier assets might change if they had greater economic literacy. The research underscores that while psychological traits influence investment behavior, financial literacy can play a transformative role, helping individuals navigate complex financial decisions and potentially leading to greater financial well-being.

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