

Introduction

- **Financial Literacy is a life Skill.**
- **Growing sophistication of financial markets, increased variety of products and the instability of the global economy in twenty first century caused increasing complexity of financial decisions.**
- The importance of **financial management skills** in personal and work life has increased.

Defining Financial Literacy

- **Garman and forgue (2000)** have identified financial education as **understanding the principles and terminology** needed for a successful management of personal financial issues.
- **According to OECD 2006** Financial education is essential for the average **family** trying to decide **how to balance its budget, buy a home, fund the children's education and ensure an income** when the parents retire.
- According to **Remund (2010)**, financial literacy is a person's **ability to understand and use financial matters.**

Defining Financial Literacy

- **Huston (2010)** considers financial literacy as **awareness and knowledge in financial instruments and their application** in business and personal life.
- **(Xiao, 2020)** Financial literacy is the financial **capability of people to manage and take control of their finances.**
- **(Lusardi and Mitchell, 2014)** Financial literacy can be called as the skill or capability to analyze **economic information** and **make informed decisions** about **financial planning, wealth accumulation, debt, and pensions.**

In Sum Financial Literacy means

- Financial literacy includes
 - the ability to make a plan
 - Save from the income
 - budget preparation
 - Understanding the financial instruments and their applications
 - make good investment
 - learn strategies to manage debt and
 - Having a good Retirement plan.

Financial Education vs Financial Literacy

- The literature often uses these terms **interchangeably.**
- Both works towards the goal of **financial inclusion.**
- Ultimate objective is to improve individuals
 - **Financial Wellbeing** and
 - **Avoid Financial Concern.**

Lack of Financial Literacy Creates Financial Concern

Financial concern appears **when one cannot meet his financial needs** or his assessment of financial status is not good **(Friedman, 1991)**

The Effects of Financial Concerns

- (Tedeschi & Calhoun, 2004) Financial concerns **can severely negatively affect the human body.**
- Moser et al. (1984) showed that **employed men are 20 percent more susceptible to disease** as compared to **unemployed men.**
- Peirce et al. (2002) in their 02 year study on 756 Americans found that, **Financial concerns** and pressure **cause reducing physical health rank.**

The Effects of Financial Concerns

- **Luther et al. (1997)** found
- Financial concerns
 - **can result in lost productivity**
 - **reduced quality and efficiency** of worker
 - **cannot work with their full capacity**
 - increased **work-related accidents,**
 - **absenteeism** and
 - **chance of losing job in the organization.**

Significance of Financial Education

- Increased financial literacy has a **positive impact** on people's **personal and professional life.**
- People grown up in families with the higher financial knowledge and well-being are
 - **less depressed,**
 - show **less aggressive** and anti-social behavior and
 - have **more self-confidence (Fox et al., 2005).**
- In work life higher financial literacy will help employees to **better understanding the benefits** offered by the organization and **improve their satisfaction (Brennan, 1998)**

Significance of Financial Education

- Champoin (2001), **financial education cause reducing the absences in organization** and keeping valuable employees.
- Kim (2007), high financial literacy **decreases emotional stress and anxiety in the workplace.**
- Vitt et al. (2000), the greatest advantage of having financial literacy is
 - **reducing employees' financial problems** and
 - **encouraging them to be responsible for their own financing** and
 - eventually **increasing the efficiency of the organization**

Measuring Financial Literacy

- In practice it is difficult to explore
 - how people process economic information and
 - make informed decisions about household finances.
- **Few researchers** prior to 2000 **incorporated financial literacy into theoretical models** of saving and financial decision-making.
- US HRS (Health & Retirement Studies) 2004 considered three variables for measuring financial literacy
 - i) Interest compounding;
 - ii) Inflation; and
 - iii) Risk diversification.

Three Question

- 1) Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?
- 2) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?
- 3) Please tell me whether this statement is true or false. "Buying a single company's stock usually provides a safer return than a stock mutual fund."

These 3 questions were used

- **2004 HRS module** Sample Size: 1200, Respondents age: 50+ (Lusardi and Mitchell, 2011)
- National Longitudinal Survey of Youth (NLSY) 2007-08 Respondents age: 23-28 (Lusardi et al. 2010)
- **American Life Panel 2008**, an internet based panel data set (Lusardi and Mitchell, 2007).
- **Financial Capability Study (FINRA, 2010)**

Does Financial Literacy matter?

- 2004 HRS (Lusardi and Beeler, 2007) There was a question asking people **how much they thought about retirement?**
 - those who thought about retirement **had double the wealth** of those who **had not thought** about retirement.
- Similar findings were measured in 1992 HRS

Does Financial Literacy matter?

- A different question in the 2004 HRS module was asked
 - **whether people had even tried to calculate how much they needed to save for their retirement** in the Retirement Confidence Survey (Yakoboski and Dickemper, 1997) to assess whether they are forward looking or not?
 - Results showed that **those who planned for retirement accumulated 3 times as much wealth** as those who did not (Lusardi and Mitchell, 2011).

Does Financial Literacy matter?

- Lusardi and Tufano (2009) found that low Financial literacy individuals are more likely to carry **high-cost debt** and **to have problems with debt**.
- More financially literate individuals **tend to include stocks in their portfolios** as they better understand the **principle of risk diversification** (Van Rooij et al. 2011; Christelis et al. 2010).

Does Financial Literacy matter?

- For emerging economies like **Bangladesh**, **financially educated consumers/investors** can help ensure that the financial sector makes an **effective contribution to real economic growth and poverty reduction**.
- Stock market crash of 1996 or 2010 may not appear again as one of the reason was lack of financial literacy.

Financial Literacy Around The World

- Firstly, **financial illiteracy is widespread**
- Secondly **where people score high on math and science, score high also on questions measuring numeracy**.
 - Example: Sweden, Netherlands (OECD, 2005)
- Thirdly, people are **more knowledgeable** about inflation **if their country has experienced it recently**.
- Fourthly, even in country having developed financial markets, many respondents state **they do not know about risk diversification**;
 - Example: USA

Financial literacy around the world

- Age patterns are notable in financial literacy where it follows an **inverted U-shaped pattern**, being lowest for the young and the older groups, but peaks in the middle of the life cycle.
- Another remarkable finding in gender: in most cases, **women are less financially literate than men are.**
- Russia and East Germany both women and men are equally financial **illiterate**.
- But those living in the West Germany are most financially **literate**, however **women in west also are less financially literate than west German men.**

Financial literacy around the world

- Race does matter.
 - For example, in the U.S., **Whites and Asians** are **consistently more** likely to be **financially knowledgeable** compared to **African Americans and Hispanics.**
- There are also urban/rural differences: people living in urban areas in Russia tend to be more financially literate than those living in rural areas.
- In an Australian survey, **67% of those taking part claimed to understand the concept of compound interest** but **only 28% could find the correct answer** to a problem using the concept

Financial Literacy Rate Around The World

Rank	Country	Financial Literacy Rate
1	Denmark	71%
	Norway	71%
	Sweden	71%
2	Canada	68%
	Israel	68%
3	UK	67%
4	Germany	66%
	Netherlands	66%
5	Australia	64%
6	Finland	63%
7	USA	57%
8	Bhutan	54%
9	Myanmar	52%
10	India	24%
11	Pakistan	26%
12	Bangladesh	24.6%

S&P Fin Lit Survey (2014): Key Findings

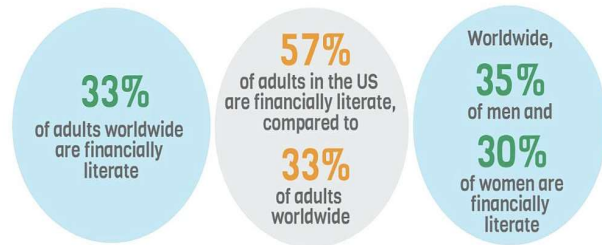
Highlights

- world's largest and most comprehensive global measurement of financial literacy.
- 150,000 adults in over 140 countries.
- It probes four basic financial concepts:
 - Risk diversification,
 - Inflation,
 - Numeracy, and
 - Interest compounding.

Findings

- Low levels of financial literacy around the world
- Numeracy and inflation are the *most* understood concepts
- Risk diversification is the *least* understood concept
- Women's financial literacy levels are lower than men's
- The young are a vulnerable group and an important target for financial education programs

S&P Fin Lit Survey: Key Findings



Source: S&P survey

Current Scenario of FL in Bangladesh

- Research in Bangladesh regarding financial literacy is **non-existent** and the current scenario is the one and only survey conducted by S&P.
- On August and September 2021, **RPDC conducted two rounds of surveys** throughout Bangladesh on financial literacy.
- With a random sampling technique used, **3,120 responses** were recorded.
- Respondents were asked basic questions relating to knowledge of numeracy, interest, inflation, and risk diversification.

	Number of Respondents	Average Financial Literacy Scores	Standard Deviation
GENDER			
Male	2271	25.2%	23.6%
Female	849	22.0%	23.6%
AGE GROUP			
Less than 20	150	20.9%	22.5%
Between 21 and 30	1347	26.8%	23.8%
Between 31 and 40	869	23.6%	23.3%
Between 41 and 50	456	23.3%	23.5%
More than 50	298	18.8%	23.0%
EDUCATION			
Below SSC	928	15.1%	20.2%
SSC or Equivalent	502	22.7%	22.1%
HSC or Equivalent	632	25.9%	22.6%
Bachelor's or Equivalent	710	33.1%	24.6%
Master's and above	348	30.8%	24.6%
BUSINESS EDUCATION			
None	2613	23.2%	23.0%
Less than 1 year	248	29.8%	24.6%
1 year to 2 years	85	28.9%	26.1%
More than 2 years	159	31.9%	27.5%
COMMUNITY TYPE			
A village or rural area	993	19.7%	21.3%
A small city	1188	30.5%	24.3%
A large city (with over 500,000 people)	722	22.5%	23.4%
Native to Dhaka	217	18.3%	23.0%

MARITAL STATUS	Number of Respondents	Average Financial Literacy Scores	Standard Deviation
Single	1137	28.2%	24.1%
Married	1922	22.4%	23.0%
Separated/Divorced	35	19.4%	23.5%
Widowed	26	10.4%	20.3%
OCCUPATION			
Unemployed	98	17.1%	21.9%
Housewife	302	11.7%	19.5%
Student	529	29.5%	23.8%
Self-employed/ farmer	440	19.3%	22.6%
Private Job Holder	497	29.3%	25.3%
Government Job Holder	133	33.8%	23.2%
Business	1121	24.7%	22.3%
INCOME			
Unemployed	641	22.0%	23.3%
Less than 15,000 Taka	1207	20.5%	22.7%
15,001 to 30,000 Taka	897	28.7%	23.8%
30,001 to 50,000 Taka	286	29.9%	24.1%
50,001 Taka or more	89	32.7%	21.7%

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4	Germany	66%
	Netherlands	66%
5	Australia	64%
6	Finland	63%
7	USA	57%
8	Bhutan	54%
9	Myanmar	52%
10	India	24%
11	Pakistan	26%
12	Bangladesh	24.6%

Financial Education and its Application in Capital Market
[investment triple schem.xlsx](#)

Rule of Investment

Core Satellite Strategy

What do we need?

1. Investment Knowledge
2. Trading Knowledge
3. Control of the Emotion and Avoid of rumor
4. Give more time to analyze the stock



What Should We Look Into Before Buying A Stock



Indicators of Financial Education in Capital Market



Some key important Fundamental aspects for Initial Screening

- **CAGR of Price** (one of the most important tool)
- Share holding pattern: Promoters portion (50% & above is better)
- Management Quality
- Revenue growth & Operating profit CAGR
- **Beta** (having low beta is safer even when market crash)
- **Alpha** (having higher alpha shows the capacity outperforming the market)
- **Current ROCE and Average ROCE** (last 5 year) (management efficiency)
- **EPS and its growth** (last 5 year)
- NOCFPS /FCFPS (last 5 year)
- P/E and **PEG ratio**
- ROE ratio
- **Debt to Equity ratio**
- **Dividend Yield**
- Dividend payout ratio & its history
- Reserve & Surplus
- Total number of securities, Authorised and Paid up Share Capital
- 52W HL

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Example of having a positive CAGR



Example of having a positive CAGR



Example of having a positive CAGR



Trading Knowledge

- Reading the market: Demand and Supply
- Understanding the trend
 - Trend of market
 - Trend of stock
- By value, By volume, by % gain, Top gainer, Top loser
- Applying different Technical Tools
 - Price volume theory, Support Resistance, Breakout, Volume analysis, MFI, Trend, candles pattern, Trend.

Rules From the World's Top Investors

- Warren Buffett believes in the philosophy of **'Do the Research'**
- Buffett gives two key pieces of advice when evaluating a company:
 - First, **look at the quality of the company**,
 - then at the **price**.

If a company isn't a quality company, don't buy it just because the price is low.

From Graham's Diary

Graham provides several tips for investing in stocks:

- **Avoid day trading** as it is extremely risky.
- **IPOs are not a good investment** as they are often overpriced.
- **A great company is not an excellent investment** if you are overpaying for the stock.
- **Big firms grow slower**; therefore, avoid companies with price/earnings ratios over 25-30.
- **Look out for temporary unpopularity**. The market quickly forgets, and this stock will probably rebound if you get it at a reasonable price.

Rules From the World's Top Trader

Dennis Gartman

- Gartman is an **accomplished trader** and a **frequent guest on financial networks**.
- Dennis Gartman began publishing **The Gartman Letter** in 1987.
- It is a daily commentary of global capital markets that is delivered to different financial institutions around the world each morning.

"Be patient with winning trades; be enormously impatient with losing trades. Remember it is quite possible to make large sums trading/investing if we are 'right' only 30% of the time, as long as our losses are small and our profits are large."

He points out, you don't have to be right a majority of the time. What is more important is to let a winning trade run and get out of a losing trade quickly.

Concluding Remark

- While financial education is important, **it is only one pillar of an Adequate Financial Policy**
- **Financial education can complement, but can never replace, other aspects** of successful financial policy such as
 - **consumers/ investors protection** and the
 - **regulations of financial institutions**.
- One important findings of OECD is
 - **financial education should be better start from schools**.
- Financial institutions also have their own role in providing financial education, not only to clients but also to their own staff.