Financial Literacy and Investment Behavior in Argentina

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Abstract- ***This study investigates financial literacy's impact on investment behavior among 310 self-directed investors in Argentina, of which 17.9% are female. A survey of 2000 respondents across five provinces used an 8-question test, scored from 0 to 40, to assess knowledge. Logistic and OLS regressions, significant at $p < 0.05$, analyzed investment preferences for Stocks, ETFs, and Bonds, along with literacy scores. Among the investors, 72.90% included Stocks, 43.23% included ETFs, and 22.58% were bond-only, averaging 25.6 out of 40 (SD 6.2). Bond-only investors averaged 6.6 out of 15 on stock/ETF questions (questions 1, 3, 6), indicating a knowledge gap. Córdoba scored highest at 28.7 out of 40. Targeted education could address disparities and enhance market participation.***

Indexed Terms- ***Financial literacy, Argentina, Behavioral Finances, Emerging markets***

I. INTRODUCTION

In today's world, making informed investment decisions is a key part of managing personal finances and building long-term wealth. The choice of whether to invest, and how to allocate resources among different financial instruments, can significantly influence a person's financial stability and future opportunities. Financial literacy has emerged as a central factor in shaping these decisions, as it involves the knowledge and skills needed to understand financial products, evaluate risks and returns, and make sound choices.

In developed countries, many studies have found that people with higher financial literacy are more likely to participate in capital markets, diversify their portfolios, and save for retirement. However, in emerging markets, this relationship has not been studied as extensively. These contexts often involve different economic realities, institutional frameworks, and cultural attitudes that can affect both financial knowledge and behavior.

Argentina presents a particularly relevant case. The country has experienced decades of economic volatility, including inflation, debt crises, and banking instability. These experiences have shaped public trust in financial systems and led many individuals to avoid formal investment channels. Although financial markets have become more accessible in recent years, especially through digital platforms, a large portion of the population remains unbanked or under-invested.

Understanding what drives investment behavior in this setting is essential. This study examines how financial literacy influences investment participation and portfolio diversification among self-directed investors in Argentina. It also explores how literacy levels vary across five provinces: Córdoba, Mendoza, Buenos Aires, Chubut, and Tucumán, each with its own economic characteristics and educational infrastructure.

The central hypothesis is that individuals with higher financial literacy are more likely to invest and to diversify their portfolios. A secondary hypothesis suggests that provinces with higher average literacy scores will show greater investment participation. These ideas are tested using survey data that include both a financial literacy assessment and self-reported investment behavior.

By addressing these questions, this research contributes to the broader literature on financial behavior in Latin America and offers practical insights for policy makers and educators. The results may help guide region-specific financial education programs and support initiatives aimed at promoting inclusive access to investment opportunities.

II. LITERATURE REVIEW

The relationship between financial literacy and economic behavior has been the focus of extensive research, particularly in high-income economies. Financial literacy, broadly defined, includes understanding key financial concepts such as interest

rates, inflation, risk diversification, and the time value of money. It also encompasses the ability to apply that knowledge in real-life financial decisions, including saving, borrowing, and investing. Lusardi and Mitchell (2014) argue that financial literacy is a critical tool for economic decision-making and a necessary component of effective participation in modern financial systems.

Multiple studies have confirmed that financial literacy influences investment behavior. Van Rooij, Lusardi, and Alessie (2011) showed that Dutch individuals with higher levels of financial literacy were significantly more likely to participate in the stock market. Similarly, in the United States, studies by Cole and Shastry (2009) and Bernheim and Garrett (2003) found that individuals with better financial knowledge were more likely to invest and save for retirement. These findings have been used to justify the inclusion of financial education in school curricula and workplace programs in many countries.

In emerging markets, however, the dynamics of financial literacy and behavior may differ due to institutional and structural factors. For instance, access to financial products, trust in financial institutions, and economic volatility all play roles in shaping behavior. Studies from countries such as India, Indonesia, and South Africa have found that limited financial literacy constrains the use of formal financial services, and that targeted educational interventions can improve outcomes (Cole et al., 2011; Lusardi & Mitchell, 2011).

Latin America, and Argentina in particular, has received relatively little attention in the financial literacy literature. Yet, the region presents unique challenges: frequent macroeconomic instability, inflation, informal labor markets, and significant disparities in education and income. These factors can amplify the consequences of financial illiteracy, making it harder for individuals to plan for the future or protect themselves against financial shocks.

In Argentina, the intersection of financial literacy and investment behavior is especially relevant given the growing availability of digital investment platforms. These platforms reduce physical barriers to market entry but do not necessarily address knowledge gaps. As a result, new investors may access markets without the tools to evaluate risk, understand products, or construct diversified portfolios. This makes financial literacy not just beneficial, but essential for safe and effective participation.

Behavioral economics provides additional insight into how literacy may influence investment choices. According to Prospect Theory (Kahneman & Tversky, 1979), individuals tend to be loss-averse and often misjudge probabilities, leading to overly conservative or erratic investment strategies. Financial literacy can help mitigate these cognitive biases by offering frameworks to interpret information and evaluate options more rationally. It can also increase self-efficacy—the belief in one's ability to manage finances—which has been shown to correlate with financial planning and investment (Lown, 2011).

Taken together, the literature suggests a robust link between financial literacy and investment behavior, but also indicates that context matters. Emerging market environments require localized studies to identify specific challenges and to design appropriate interventions. This study aims to fill that gap by focusing on Argentina and by considering both individual and regional factors that influence financial behavior.

III . THEORETICAL FRAMEWORK

The theoretical foundation for understanding the influence of financial literacy on investment behavior in Argentina draws from both classical financial theory and behavioral economics. Classical financial theory, rooted in rational choice models, assumes that individuals act as utility-maximizing agents who use all available information to make optimal financial decisions. Under this framework, investment behavior should align with objective measures of risk and return, and individuals should naturally diversify portfolios to minimize unsystematic risk, as per Markowitz's (1952) Modern Portfolio Theory.

However, empirical evidence suggests that real-world behavior often deviates from these theoretical predictions. Investors, particularly those with limited financial knowledge, are prone to biases, heuristics, and informational constraints. Behavioral economics addresses these deviations by incorporating

psychological factors into models of financial decision-making.

One of the central concepts in behavioral finance is bounded rationality (Simon, 1955), which posits that individuals make decisions not based on perfect optimization, but on satisficing—settling for decisions that are "good enough" given their cognitive limitations and incomplete information. Financial literacy can be understood as a factor that expands these bounds, allowing individuals to make better-informed and more deliberate choices.

Prospect Theory, developed by Kahneman and Tversky (1979), is another foundational element. It argues that individuals weigh losses more heavily than gains, often leading to suboptimal risk aversion. For example, individuals may avoid equity investments not because of their actual risk profiles, but due to a disproportionate fear of losing money. This bias can be particularly pronounced in volatile economies like Argentina, where recent history reinforces perceptions of financial instability. Financial literacy can mitigate this by providing a more accurate framework for evaluating long-term investment risk versus reward.

A related construct is financial self-efficacy, or the belief in one's ability to manage financial tasks and decisions. Financial self-efficacy has been shown to mediate the relationship between knowledge and behavior. That is, even if individuals have factual knowledge, they may not apply it unless they feel confident in doing so. Education that not only imparts knowledge but also builds confidence can be more effective in changing behavior.

The dual-process theory of cognition—dividing thinking into intuitive (System 1) and analytical (System 2) processes—offers another useful lens. Financial decisions often default to System 1, especially under stress or uncertainty. Financial literacy enhances the capacity for System 2 engagement, fostering deliberate and systematic thinking. In Argentina, where inflation, policy shifts, and currency fluctuations create high uncertainty, strengthening System 2 processes could be critical for sound investment decisions.

From a macro perspective, regions or populations with lower average financial literacy may experience lower capital market participation, which in turn affects wealth accumulation and economic inclusion. This creates a feedback loop in which financially excluded individuals remain uninformed, and uninformed individuals remain financially excluded. Understanding and interrupting this loop is a key aim of the present research.

Thus, the theoretical framework of this study integrates rational choice, behavioral finance, self-efficacy, and dual-process cognition to explain why financial literacy matters and how it operates within an Argentine context. This multidisciplinary perspective provides a robust foundation for analyzing the empirical data presented in the subsequent sections.

IV. DATA

4.1 Survey Design

From 3128 individuals approached between 24 July 2024 and 2 May 2025, 2000 completed the survey. Of these, 324 (16.2%) were investors, with 310 self-directed and 14 advisor-reliant. The 14 advisor-reliant investors were excluded to avoid bias in responses, leaving 310 self-directed investors for analysis. Non-investors (1676) cited barriers: 86.2% (1444) mentioned lack of knowledge, 13.8% (232) cited funds, time, or other reasons (Allgood & Walstad, 2016). The 310 self-directed investors completed an 8-question financial literacy test (scored 0-40) covering Stocks, ETFs, and Bonds. Investment preferences were multi-select (Stocks, ETFs, Bonds, Others).

4.2 Dataset

The dataset includes ID, Province, Literacy_Score, Stock_Investment, ETF_Investment, Bond_Investment, and Other_Investment, available at: https://zenodo.org/records/15378269

4.3 Financial Literacy Test

The 8-question financial literacy test, scored out of 40 points (5 points per correct answer), was used to assess knowledge. The questions and sample answers are as follows:

- Question 1 (Stock/ETF): What is the primary difference between a stock and an ETF?
    - Sample Answer: A stock represents ownership in a single company, while an ETF (Exchange-Traded Fund) is a fund that holds a basket of stocks or other assets and trades like a stock.
- Question 2 (General): What does diversification mean in investing?
    - Sample Answer: Diversification means spreading investments across various assets to reduce risk.
- Question 3 (Stock/ETF): How are ETF prices determined during trading hours?
    - Sample Answer: ETF prices are determined by supply and demand on the stock exchange, closely tracking the value of the underlying assets.
- Question 4 (Bond): What is the relationship between bond prices and interest rates?
    - Sample Answer: Bond prices move inversely to interest rates; when rates rise, bond prices fall, and vice versa.
- Question 5 (General): What is the purpose of a financial literacy test?
    - Sample Answer: To assess an individual's understanding of financial concepts for better investment decisions.
- Question 6 (Stock/ETF): What risk is associated with investing in individual stocks compared to ETFs?
    - Sample Answer: Individual stocks carry higher risk due to lack of diversification, while ETFs spread risk across multiple assets.
- Question 7 (Bond): What is a bond's maturity date?
    - Sample Answer: The date when the bond's principal is repaid to the investor.
- Question 8 (General): What is the benefit of compound interest?
    - Sample Answer: Compound interest allows earnings to grow exponentially over time by earning interest on both the initial principal and accumulated interest.

V METHODS

5.1 Model

The financial literacy score for each individual is based on the 8-question test, with a maximum total of 40 points. Questions 1, 3, and 6 assess stock/ETF knowledge, where bond-only investors demonstrate limited engagement, averaging 6.6 out of 15 points, reflecting their focus on bond-related content in the remaining questions. I test whether a higher score predicts investment participation using logistic regression, where the outcome is whether an individual invests (yes/no), and the predictor is their literacy score. Additionally, I use OLS regression to examine if the score increases market awareness, measured as a continuous outcome (Bernheim et al., 2001).

5.2 Statistical Analysis

Logistic regression tested if literacy predicts investing, and OLS regression assessed its impact on awareness, both with $p < 0.05$ significance. Analyses were conducted using R software (version 4.4.1).

VI RESULTS

6.1 Investment Preferences

A. Of the 310 self-directed investors, 226 (72.90%) included Stocks, 134 (43.23%) included ETFs, and 133 (42.90%) included Bonds, with 70 (22.58%) exclusively investing in Bonds. The bond-only group averaged 6.6 out of 15 points on stock/ETF questions (questions 1, 3, 6), reflecting

their limited knowledge in these areas, while their overall literacy score averages 23.5 out of 40, driven by stronger performance on bond-related questions (Lusardi et al., 2010). A group of 14 investors in the "Others" category also invested in options, futures, and other instruments not listed, contributing to their higher literacy score due to broader investment knowledge.

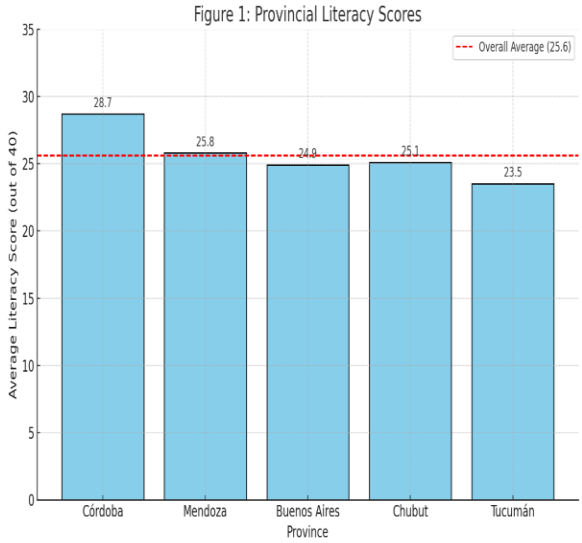
Table 1: Investment Preferences and Literacy Scores

Preference	Count (%)	Literacy Score (Mean)
Stocks Only	92 (29.68)	24.5
Stocks + ETFs	71 (22.90)	26.5
Stocks + ETFs + Bonds	63 (20.32)	27.0
Bond-Only	70 (22.58)	23.5
Others	14 (4.52)	28.0

Note: Percentages reflect the proportion of 310 investors. Categories are mutually exclusive. "Stocks Only" includes investors with only Stocks. "Stocks + ETFs" excludes Bonds and Others. "Others" includes investors who also invest in options, futures, and other instruments not listed, explaining their higher literacy score due to broader investment knowledge.

6.2 Literacy Scores

The overall literacy score averaged 25.6 out of 40 (SD 6.2), with 22 (7.1%) scoring Low (8-20), 248 (80.0%) Medium (21-32), and 40 (12.9%) High (33-40). Provincial averages were: Córdoba 28.7, Mendoza 25.8, Buenos Aires 24.9, Chubut 25.1, Tucumán 23.5.



6.3 Statistical Findings

Logistic regression confirmed higher literacy increases the likelihood of investing ($p < 0.05$), and OLS regression showed it boosts market awareness ($p < 0.05$), consistent with Allgood and Walstad (2016).

CONCLUSION

The results confirm that higher literacy drives investment participation and awareness ($p < 0.05$), aligning with Cole and Shastry (2009). The bond-only group's low stock/ETF knowledge (6.6 out of 15 on questions 1, 3, 6) suggests risk aversion, as noted by Hastings and Mitchell (2020), with their overall score of 23.5 out of 40 reflecting stronger bond-related literacy. Provincial gaps (Córdoba vs. Tucumán) highlight the need for targeted education, supported by Bernheim et al. (2001) and Xiao and O'Neill (2016). Willis (2011) cautions that financial education alone may not suffice, suggesting broader systemic interventions. Limitations include the lack of specific regression coefficients and provincial investor counts, which future research should address (Lusardi & Mitchell, 2011). Fernandes et al. (2014) suggest education could mitigate these gaps.

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