Financial Literacy and Portfolio Diversification

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Abstract

We use a survey of individual investors disclosed by the Portuguese securities commission (CMVM) in May 2005 to study the impact of investors’ levels of financial literacy on portfolio diversification. We consider distinct aspects of financial literacy, and control for socioeconomic and behavioral differences among individual groups of investors. Our results suggest that investors’ educational levels, their financial knowledge and the information sources used by retail investors to gather information on markets and financial products have a significant impact on the number of different assets included in a portfolio.

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Keywords: Financial literacy, Portfolio allocation, Individual investor

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