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Financial Literacy and Well-being: The Mediating Pathway of Informed Stock Market Participation in India

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Abstract: *The sustained achievement of Financial Well-being (FWB) for Indian households, the core objective of the National Strategy for Financial Education (NSFE), remains challenged by a pervasive financial literacy (FL) deficit, leading to low financial resilience. Concurrently, the Indian capital market has seen a rapid influx of retail investors. This study addresses the critical research gap by empirically testing the structural causality: whether Informed Stock Market Participation (SMP) acts as the necessary mediating pathway through which financial knowledge translates into improved household welfare. A quantitative, cross-sectional survey design utilizing Structural Equation Modeling (SEM) is employed on a sample of active Indian retail investors. The methodology specifically tested the hypothesized indirect effect (FL → SMP → FWB) using a bootstrapping technique. The study confirms a positive and statistically significant relationship between FL and FWB. Crucially, the core hypothesis (H3) is supported: Informed SMP significantly mediates the relationship between FL and FWB. High FL positively predicts engagement in high-quality participation, characterized by strategic risk management, portfolio diversification, and reliance on professional analysis over speculation. Furthermore, FL is strongly correlated with the adoption of FinTech platforms, confirming the digital pathway to participation. The study concludes that the efficacy of financial literacy policy is structurally dependent on prudent application in the capital market. For Indian policy to maximize FWB, the focus must shift from simply driving inclusion to enabling and enforcing the* ***quality*** *of participation.*

Keywords*:* Financial Literacy; Financial Well-being; Stock Market Participation; Mediation Analysis