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A behavioral analysis of retail investor preferences in mutual fund selection in India

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Abstract
This study investigates how investor perception influences the selection of mutual funds in India with regard to behavioral aspects such as financial literacy, risk-taking capability, and demographic variables. A standardized survey tool was used, and answers from 103 retail investors were garnered through random sampling. Significant statistical measures such as chi-square tests, ANOVA, and correlation analysis were applied to derive relationships among perception factors and investment decisions. Results indicate that experience, risk behavior, and past performance are significant determinants of fund choice. This study offers valuable insights to fund managers, advisors, and policymakers to tailor strategies according to investor psychology.

Keyword: Mutual funds, investor perception, financial literacy, risk-taking behavior, demographic variables, investment decisions, behavioral finance

Introduction
Mutual fund investor behavior in financial markets is usually motivated by considerations other than rational economic principles. Psychological considerations like emotions, perceived risk, and financial literacy are key determinants of decision-making. Diversified and professionally managed mutual fund products are retail investor's best-selling items. However, there is a vast gap between availability and knowledgeable participation, particularly among Indian new investors. This study endeavors to examine the most significant behavioral considerations affecting mutual fund choice and determine the extent to which demographic and psychological considerations are aligned with investment decisions.

1.2. Problem statement
Although mutual funds are well-liked, investor participation is uneven. This is due in part to an inability to appreciate how fund selection is influenced by heterogeneity among individuals, especially psychological and demographic factors. The problem is that decision variables such as past performance, web access, risk levels, and money awareness are ordered in a fragmented way that differs substantially among investor groups.

1.3. Objectives of the study
The primary objective of this study is to analyze investor perception towards mutual fund investments and identify the major factors influencing fund selection. In addition to this, the study seeks to understand how demographic variables such as age, income, and education affect investment behavior. It also aims to assess the role of financial literacy and emotional behavior in shaping fund choices.
Furthermore, the study intends to determine the impact of investment experience and market volatility on investor decisions, providing a comprehensive view of the dynamics that drive mutual fund investment behavior.

2. Review of literature
The review literature emphasizes that investment in mutual funds is not a function of purely monetary considerations but an interplay of psychological, emotional, social, and demographic inputs.

Gupta (2016) [10] emphasized cognitive heuristics and biases like anchoring and confirmation bias playing a strong role in fund choice, while Sharma (2018) [25] emphasized psychological biases like loss aversion and herd behavior resulting in irrational decision-making, particularly in volatile markets. Conversely, Jones and Brown (2019) [1] identified high financial literacy to enhance rational investment decisions and lower impulsiveness. Social and cultural influences were examined by Kim and Patel (2020) [15], who identified peer group and collectivist norms influencing investment decisions, while Park and Lee (2023) [21] emphasized the important role played by trust in financial advisors and institutions in influencing investor trust. In addition, Li and Wu (2021) [18] emphasized the growing role played by Environmental, Social, and Governance (ESG) considerations, particularly among young educated investors. Emotional drivers like fear, greed, and regret were identified by Chen and Wang (2019) [3] to play a strong role in investor choice in volatile markets, and Smith and Johnson (2018) [27] illustrated how personality traits like openness and conscientiousness play a role in risk-taking and fund choice. These studies cumulatively reinforce that mutual fund decisions are less than purely rational and emphasize the requirement for the incorporation of behavioral inputs in fund design, marketing, and advisory services. Umamaheswari *et al.* (2024) [29] emphasize the growing role played by artificial intelligence (AI) in strategic decision-making through market trend analysis, competitive analysis, and internal data. While AI has immense value potential, its use remains challenging. In mutual fund investment, this implies a future where investor behavior could be shaped by AI and data analytics, and thus the need for digital as well as financial literacy. Umamaheswari (2013) [30, 31] examined salaried-class investor saving behavior using factor analysis to determine the salient motives such as protection against inflation, wealth accumulation, and future security. The study emphasized early as well as goal-directed planning for investment, again highlighting the role of behavioral as well as economic considerations in contributing to investment decisions together. Kowsalya, Valarmathi, and Akshaya (2024) [16] analyzed stock performance of ten companies involved in the Chandrayaan-3 Project using tools like Tobin's Q ratio, RSI, and MACD. The study highlighted strong investment potential and showed how technical analysis aids decision-making. It also reflected how investor behavior can be influenced by national achievements and market sentiment. Umamaheswari and Ashok Kumar (2013) [30, 31] conducted a study on the investment patterns of salaried-class investors in Coimbatore, highlighting how investor attitude is shaped by factors such as income stability, future security, and risk perception. Their findings emphasized the importance of understanding behavioral tendencies in shaping investment preferences among working professionals.

3. Research methodology

This study adopts a descriptive research design to analyze investor behavior and preferences in mutual fund investments. Data was collected using structured questionnaires from 103 respondents selected through random sampling, ensuring representation across age, education, and occupational backgrounds. The study was conducted over the period from February to April 2025. Primary data was gathered directly from investors, while secondary data was sourced from journals, financial websites, and research publications. Statistical tools such as frequency analysis, descriptive statistics, chi-square tests, ANOVA, and correlation were used to interpret the findings effectively.

4. Data analysis

Table 4.1: shows Investor Demographics, Behavior, Financial Literacy, and Statistical Insights

Category	Variable	Finding
Demographics	Age	57.3% of respondents were below 25 years
Demographics	Gender	59.2% of respondents were female
Demographics	Education	96% had at least a Bachelor's degree
Demographics	Income	48% earned less than ₹1,00,000 annually
Investment Behavior	Investment Experience	61% had less than 1 year of experience
Investment Behavior	Fund Preference	50% preferred equity funds
Investment Behavior	Risk Exposure (Portfolio)	Only 10.7% chose 100% high-risk stock portfolios
Investment Behavior	Investment Participation	66% were active investors
Investment Behavior	Return Preference	44% aimed for higher returns despite risks
Financial Literacy & Risk	Investment Knowledge	52% rated their knowledge as below average
Financial Literacy & Risk	Risk Tolerance	Only 6.8% were comfortable with high-risk investments
Financial Literacy & Risk	View on Past Performance	40.8% believed past performance is useful but not sufficient alone
Statistical Insights	Chi-Square Tests	Significant associations found between investment tenure and fund selection, market volatility response, and past performance reliance ($p < 0.001$)
Statistical Insights	ANOVA	No significant difference in online access/fund performance perception across age, income, or education levels ($p > 0.05$)
Statistical Insights	Correlation	Positive correlation between investment experience and risk tolerance

Interpretation and Key Findings

Investor response analysis yields useful data about demographic profile, behavior, financial awareness, and statistical correlation that drives the choice towards mutual funds. The demographic profile of the mutual fund investors is characterized by an extremely high youth population, with 57.3% of the sample being below 25 years of age and an extremely high female proportion (59.2%). Educational level is extremely high-96% of the sample having a Bachelor's degree or higher-while income levels are low, with nearly half the sample earning less than ₹1,00,000 per annum. This suggests that mutual fund investment is attracting an extremely educated but relatively low-income and early-career group of individuals.

Behaviorally, one finds that most investors are novices, and 61% of them have less than one year of experience. The most popular choice is equity products (50%), and only a negligible percentage (10.7%) is at ease with purely high-risk portfolios. An astonishing 66% of the sample is already active investors, an indication of increasing participation by new entrants. In addition, 44% of them are repeat investors, ready to bear risk for higher returns, an indication of increasing demand for wealth creation techniques.

With regard to risk awareness and investment literacy, 52% of the sample graded their knowledge of fund investing as poor, and 6.8% were confident in handling high-risk investments. Although investors do consider past performance when selecting between funds, only 40.8% consider it a significant but not determinative factor, meaning a growing understanding of risk-reward analysis in the sense of going beyond raw history of returns.

Statistical tests also established a number of significant relationships. Chi-square tests established significant relationships ($p < 0.001$) between investing experience and major variables such as selecting funds, responding to market volatility, and use of past performance. This means that the duration of investing experience affects the way investors think and respond to investing scenarios. ANOVA findings, however, revealed no significant difference in the ease of access to the internet or perception of fund performance along age, income, or education levels ($p > 0.05$), which means that the variables are general regardless of demographic variation. Correlation tests also established a positive relationship between investing experience and risk tolerance, supporting the fact that the more experience an investor has, the more confident the investor is regarding handling risk.

Overall, the study emphasizes the importance of experience, education, and behavioral awareness in driving investment in mutual funds. The results are most applicable to financial planners, fund managers, and policymakers who want to create effective policy to encourage investor engagement and financial performance.

5. Conclusion

Investor attitudes toward mutual fund options recognize that investment decisions are shaped by a combination of demographic traits, financial knowledge, risk tolerance, and behavioral concepts. The findings recognize that mutual fund investors are young adults, well-educated but financially unsophisticated, conservative but more open to equity-based and return-based investment products. Risk and performance measures are not well understood, but financial knowledge is moderate, recognizing the significance of greater investor education. Statistical tests confirm that investment experience has a strong effect on decision-making, specifically regarding market volatility and dependence upon past fund performance. Income and education do not seem to have a strong effect in terms of ease of access perceptions or fund evaluation, and this indicates a general desire for easy-to-use platforms and consistent performance statistics. To a large extent, the study recognizes the growing importance of behavioral finance in Indian investment markets. It demands more investor-friendly behaviors from mutual fund providers such as customized advice, informative disclosures, and investor education. By aligning products and communication approaches with investor psychology, stakeholders can foster trust, improve participation, and generate improved and stronger investment behavior in the mutual fund market.

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