Naveen Shodh Sansar (An International Refereed / Peer Review Multidisciplinary Research Journal)
RNI No.- MPHIN/2013/60638, ISSN 2320-8767, E- ISSN 2394-3793, Scientific Journal Impact Factor (SJIF)- 8.054,
October to December 2025, E-Journal, Vol. I, Issue LII (52), ISO 9001:2015 - E2024049304 (QMS)

A Study on Behavioural Determinants of Individual Investor Preference For Equity Mutual Fund

Tara Singh* **Adarsh Bhalewadikar**** **Kaushal Yadav*****

*Junior Research Fellow (JRF), Institute of Management Studies, DAVV, Indore (M.P.) INDIA
** Junior Research Fellow (JRF), Institute of Management Studies, DAVV, Indore (M.P.) INDIA
*** Assistant Professor, Institute of Management Studies, DAVV, Indore (M.P.) INDIA

Abstract: The increasing participation of individual investors in equity mutual funds has grab attention to the behavioural factors influencing investment decisions. While theoretical finance assumes rational decision-making, behavioural finance highlights the role of psychological biases in shaping investor preferences. This study examines the behavioural determinants affecting individual investor preference for equity mutual funds, along with the influence of demographic variables. Primary data were collected from 272 individual investors through a structured questionnaire. The data were analyzed using descriptive statistics, Chi-square tests, and regression analysis. The results reveal a high level of awareness of equity mutual fund investments among respondents. Gender was found to have no significant association with equity mutual fund preference, whereas age showed a significant relationship. Regression results indicate that behavioural biases such as overconfidence, herd behaviour, and risk perception have a significant positive influence on equity mutual fund preferences. The study concludes that investor behaviour is shaped by both demographic and psychological factors, underscoring the importance of behavioural finance in explaining equity mutual fund investment decisions.

Keywords: Equity Mutual Funds, Preference for Equity Mutual Funds, Investor Preferences, Behavioural Biases.

Introduction - This is the era, where mutual funds have emerged as a popular investment instrument among individual investors due to their potential for higher returns, specifically equity mutual funds and these funds have professional fund management, and diversification benefits.investment theories assumed that investors are rational and make decisions based on complete information, risk-return analysis, and utility maximization(Von Neumann, J., & Morgenstern, O. 1944).however, actual investment behaviour often not as same from rationality. Behavioural finance explains these differencesby the influence of psychological, emotional, and social factors such as overconfidence, herd behaviour, loss aversion, and risk perception. Individual investors' preferences for equity mutual funds are therefore not determined solely byfinancial planningand information but are significantly evolve by behavioural determinants. Understanding these behavioural factors is significant for fund managers, and financial advisors, tomotivate informed investment decisions and enhance investor participation in equity mutual funds.

India's retail investor number in mutual funds has increased rapidly in recent years, a large number of first-time investors who may be vulnerable to behavioural biases. Due to Increased digital access and awareness initiatives like the "Mutual Funds Sahi Hai" campaign have driven participation in equity mutual funds, However, most of the investors continue to make decisions and influenced by psychological factors and external environment. Dave and Shah focus on identifying the most common bias among mutual fund investors. In their survey-based analysis, they consider a range of biases (overconfidence, mental accounting, anchoring, etc.) and classify investors accordingly Dave & Shah (2023). recent SEBI report found that over half of mutual fund units purchased in India are redeemed. This startling statistic suggests that many investors do not stay inform, potentially sacrificing the "compounding" benefits that mutual funds can offer. In fact, 73% of mutual fund units were redeemed within 2 years and only 3% of units stayed invested for more than 5 years . Such short hint at behavioural factors – perhaps investors panic at the first sign of loss or jump to new funds.

Historical context: The Indian mutual fund industry began in year 1963 with the establishment of Unit Trust of India (UTI), a government-sponsored fund. For many decades, UTI and a few public sector financial institutions dominated the market. The industry opened up in the 1990s when private sector and foreign asset management companies (AMCs) were allowed, leading to the launch of many new

mutual fund schemes. The Securities and Exchange Board of India (SEBI) introduced regulations in 1996 to standardize operations and protect investors.Growth of the industry: In recent years, India's mutual fund industry has seen explosive growth in assets under management (AUM). To illustrate, the industry's AUM has grown from Rs.12.02 trillion in February 2015 to Rs.64.53 trillion in February 2025, a more than five-fold increase in ten years. This reflects a compound annual growth rate (CAGR) of roughly 18–20% over the decade, outpacing many other segments of the financial sector. Particularly, the five-year period from 2020 to 2025 saw AUM more than double (from about Rs.27.2 trillion to Rs.64.5 trillion) .

Although equity mutual funds are considered exciting long-term investment instruments, many individual investors still hesitate to invest or do wrong investment decisions. Emotional biases, lack of financial literacy, and psychological perceptions often more powerful than rational evaluation. There is a need to empirically examine the behavioural determinants that influence individual investors' preference for equity mutual funds.

Review of Literature

Comprehensive review of recent literature on behavioral factors affecting individual investment decisions, with a focus on equity mutual fund investors. Kahneman and Tversky (1979).Prospect Theory explains that individuals evaluate gains and losses asymmetrically, resulting in deviations from rational decision-making. Investors commonly display loss aversion, wherein the psychological impact of losses is stronger than the satisfaction derived from comparable gains.Shefrin (2000). emphasized that cognitive and emotional biases significantly affect financial decisions, leading to deviations from rational investment behaviour.Ullah et al. (2024).Ullah explainedin behavioural finance theory by examining the role of artificial intelligence–based tools in investment decision-making. Their study investigates the influence of AI applications, such as ChatGPT and other analytical platforms, on investors' decisions and explores whether financial literacy moderates this relationship. The findings indicate that advanced analytical tools can support more informed investment decisions by enhancing data interpretation and return prediction. This implies that technology has the potential to move investor behaviour closer to the rational assumptions of traditional finance. However, the authors emphasize that inadequate financial literacy may limit the effective use of such tools or lead to misinterpretation of AI-generated insights. Overall, the study contributes to behavioural finance literature by suggesting that although behavioural biases remain, the combined effect of technological support and financial education can help reduce irrational decision-making.Karki & Bhatia (2024)Karki and Bhatia present an extensive review of overconfidence bias in investment behaviour by examining 92 studies published over the last twenty years. Their analysis shows that overconfidence often overlaps with related biases such as hindsight and confirmation bias, leading investors to overestimate their forecasting and decision-making abilities. The review highlights that overconfidence can produce both beneficial and harmful outcomes. At moderate levels, it may enhance investors' psychological confidence and encourage greater investment in research and development by managers or entrepreneurs who believe strongly in their projects.

However, excessive overconfidence is frequently associated with negative consequences, including excessive trading activity, manipulation of financial information, and a tendency to rely on internal financing due to underestimated risks. The authors recommend measures such as stricter forecasting standards, improved transparency with stakeholders, and cognitive reflection practices to reduce the adverse effects of overconfidence. Overall, the review emphasizes that overconfidence is a widespread behavioural bias with complex implications for decision-making, requiring focused strategies to manage its impact. Pillai & Savitha (2024)**.** This empirical study examines how biases drive the churn rate (frequency of switching funds) in mutual fund portfolios, using a survey of 499 Indian investors . One major finding is that overconfidence bias significantly increases mutual fund churning . Overconfident investors trade in and out of funds more frequently, believing in their ability to time the market or select winners, which can lead to suboptimal returns.

Clark-Murphy and Soutar (2013) argue that individual investors' behaviour is shaped by various market-related factors and the structure of available information. Similarly, Iyer and Bhaskar (2012) emphasize that investor behaviour in financial markets is largely driven by psychological decision-making processes, which help explain why individuals choose to buy or sell stocks.Gaurav Kabra (2010) conducted a study titled *"Factors Influencing Investment Decision of Generations in India: An Econometric Study"* with the objective of identifying the key factors that influence individual investment behaviour and examining how these factors affect risk tolerance and decision-making across different age groups and genders. The study sought to analyse variations in investors' perceptions and investment decisions based on age and gender. Standard statistical tools such as factor analysis, regression analysis, and other basic statistical techniques were employed for data analysis. The findings revealed that age and gender play a significant role in determining investors' risk tolerance.Goetzmann (1993) and Gruber (1996) examined investors' ability to select mutual funds and provided evidence suggesting that active fund investors possess some degree of fund selection ability. In contrast, Malhotra and Robert (1997) argued that investors' heavy reliance on past performance as a selection criterion is often misguided, as return volatility may result either from superior fund management or from random chance, making it difficult to distinguish skill from luck. Similar conclusions were drawn

by Ferris and Chance (1987), Trzeinka and Zwing (1990), and Chance and Ferris (1991), who also questioned the effectiveness of performance-based fund selection. Further, Lu Zheng (1998) analyzed mutual fund investors' selection behaviour and found that investment decisions tend to be influenced by short-term performance expectations, with investors relying on fund-specific information when choosing mutual funds.

Gupta L. C. (1993) conducted a household investor survey aimed at understanding investor preferences for mutual funds and other financial assets. Madhusudhan V. Jambodekar (1996) examined the level of mutual fund awareness among investors, identified key information sources influencing purchase decisions, and analyzed factors affecting the selection of specific mutual fund schemes. The study found that, under prevailing market conditions, investors showed a stronger preference for income and open-ended schemes over growth and close-ended schemes. Safety of principal, liquidity, and capital appreciation were ranked as the most important investment considerations. Newspapers and magazines emerged as the primary sources of information about mutual fund schemes, while quality of investor service was identified as a major differentiating factor in fund selection.Sujit Sikidar and Amrit Pal Singh (1996) conducted a survey to examine the behavioural characteristics of investors in the North-Eastern region of India with respect to equity and mutual fund investments. Their findings revealed that salaried and self-employed individuals constituted the majority of mutual fund investors, largely motivated by tax benefits. At the time of the study, schemes offered by UTI and SBI were particularly popular in the region, while other fund houses had limited acceptance.Raja Rajan (1997, 1998) emphasized the segmentation of investors based on personal characteristics, investment size, and the relationship between an investor's life-cycle stage and investment behaviour.

Tversky & Kahneman's Prospect Theory (contextualized by Dam & Kulkarni, 2025). – The concept of loss aversion, a key element of Prospect Theory, underpins many recent studies. Simply put, investors feel the pain of losses about twice as strongly as the pleasure of equivalent gains. Dam and Kulkarni's (2025) work (discussed earlier) applies this to mutual fund disclaimers, finding that investor experience influences how loss aversion affects decisions . Experienced investors are less prone to the fear induced by loss-focused disclaimers, whereas inexperienced investors, anticipating regret, may shy away from investments or panic-sell upon seeing warnings. This suggests that loss aversion can be tempered by learning and familiarity over time. Leena & Singh (2025)This experimental study had investors imagine various market scenarios (upward surge, downturn, flat market) and decide whether to reallocate their mutual fund investments. The researchers manipulated the scenarios to invoke anticipated regret (e.g., "imagine you switch out of Fund A and it later performs extremely well – how would you feel?"). They found that participants often stuck with the status quo (no change) in order to avoid potential regret of a wrong move, a phenomenon known as the status quo bias, closely linked to regret aversion. Those who did switch funds tended to be individuals scoring low on regret sensitivity in personality tests. The authors conclude that regret aversion can lead to inertia – investors hold on to funds not because of fundamentals but to avoid feeling remorse if a change proved suboptimal. This contributes to understanding why some investors stay with underperforming funds (it overlaps with the disposition effect, but rooted in decision regret, not just loss pain).

Research Design

Objectives:

1. To identify the behavioural determinants influencing individual investor preference for equity mutual funds.
2. To analyse the impact of demographic variables on investor behaviour.
3. To examine the relationship between behavioural biases and equity mutual fund investment decisions.

Research Methodology: This Study is Descriptive in nature deductive approach has been adopted for this study, for collection of data under the non-probability sampling (convenient sampling method was used), Primary data collected through survey method, sample size of study 300 response rate was approx. 90% therefore, 272 filled response was collected, Area of sampling Indore district of Madhya Pradesh urban Indore, Sampling unit of this study is individual investor of Indore. Self-Structure questionnaire was formed. Interval Itemized rating scale was developedfor measurement(5-point Likertscale, strongly disagrees to strongly agree).Questionnaire has two-part First part related to demographic information and second gather the data through scale about abstract information of consumer decision making 15 statements was derived by extensive review of literature. KMO, reliability and validity were checked.

Variables of the Study

Independent Variables: Overconfidence, herd behaviour, loss aversion, risk perception, financial literacy, Dependent Variable: Preference for equity mutual funds

Tools for Data Analysis: Percentage analysis**,** Mean and standard deviation**,** Correlation analysis**,** Regression analysis**,** Chi-square test**,** Data analysis was carried out using SPSS.

Hypothesis:

- HypothesisH_{01}–There is no significant association between gender and equity mutual fund preferences
- Null Hypothesis (H_{02}): There is no significant association between age and equity mutual fund preferences.
- Null Hypothesis (H_{03}): There is no significant relationship between behavioural biases and equity mutual

fund investment decisions.

Sub Hypothesis:

- H_1a: Overconfidence significantly influences equity mutual fund preference.
- H_1b: Herd behaviour significantly influences equity mutual fund preference.
- H_1c: Risk perception significantly influences equity mutual fund investment decisions.

Analysis and Interpretation: Analysis initially, we proceeded with the general characterization of the respondents and we applied Frequency analysis and chi-square analysis to assess the significant association. The survey questions,included in the scale, were tested through, T testand chi test was applied to understand significant difference among gender and education towards equity mutual fund preference behavior. Regression analysis applied for to find out impact on choosing equity mutual fund buying behavior and impact of Independent Variables: Overconfidence, herd behaviour, loss aversion, risk perception, financial literacyDependent Variable: Preference for equity mutual funds.

Demographic Analysis: Total no. of respondent 272 out of 272,52% of people male and 47.4 was female in this sample 19.6% respondent was 18-25 age group 29.3 % respondent come from 25-35 age group, 24.4% respondent 35-45age group 18.9% of respondents from 45 to 60 age group.

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	144	52.6	52.6	52.6
Female	128	47.4	47.4	100.0
Total	272	100.0	100.0	

Total no of respondent 272 out of 272,52% of people male and 47.4 was female

Age	Frequency	Percent	Valid Percent	Cumulative Percent
18-25	53	19.6	19.6	19.6
25-35	79	29.3	29.3	48.9
35-45	66	24.4	24.4	73.3
45-60	52	18.9	18.9	92.2
60+	22	7.8	7.8	100.0
Total	272	100.0	100.0	

Out of 272 respondents 83.7%of people aware about investing in equity mutual fund where are 4.4% people were not aware aboute quity mutual fund, and 11.9% people were not constructive knowledge and about investing in equity mutual fund scheme. Its hows that most of respondent have awareness and knowledge about equity mutual fund investment and very few people are not aware about it.

	Frequency	Percent	Valid Percent	Cumulative Percent
Validyes	226	83.7	83.7	83.7
No	12	4.4	4.4	88.1
notmuch	34	11.9	11.9	100.0
Total	272	100.0	100.0	

Hypothesis H_{01}–There is no significant association between gender and equity mutual fund preferences

Cross tabulation shows that out of 144 male respondents 116 respondents preference equity mutual fund and 110 females prefer equity mutual fund about out of128 females. And Chi – Square value .530 which is more. than.5 significance value,Therefore,fail to reject null hypothesis it shows that there is no association

Chi-Squarevalue	df	Asymp.Sig.(2-sided)
474.218		0.530

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.801		
BartlettsTestofSphericity	Approx. Chi-Square		474.218
PearsonChi-Square	1.270[a]	2	.530
LikelihoodRatio	1.294	2	.524
Linear-by-Linear Association	.547	1	.460
N of Valid Cases	270		

Null Hypothesis (H_{02}): There is no significant association between age and equity mutual fund preferences.

It is proved that through this result there is significant association between age and equity mutual fund preferences. Significance value of chi - square is less than .05. Therefore, null hypothesis was rejected.19.6% respondent was 18-25 age group 29.3% respondent come from 25-35 age groups, 24.4% respondent 35-45age group 18.9% of respondents from 45 - 60 age groups.

	Value	df	Asymp.Sig. (2-sided)
PearsonChi-Square	28.040[a]	8	.000
LikelihoodRatio	29.689	8	.000
Linear-by-LinearAssociation	14.887	1	.000
N of Valid Cases	270		

H_1a: Over confidence significantly influences equity mutual fund preference.

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		
overcon	.567	.119	.859	4.785	.000
-fidence	.885	.032		27.454	.000

Dependent Variable:mutual fund preference

The Coefficients of mutual fund being. 859 represent the effect of over confidenceon mutual fund preferences.The p value is significant less than .05 at 5% level and therefore, null hypothesis not supported and alternative hypothesis accepted.Its hows that there is effect of over confidence on mutual fund preference,this positivecoefficient explains that 1 unit enhance in overconfidence there is .859 units will enhance in consumer buying behavior of mutual fund equity scheme.

H_2a: Heard Behaviour significantly influences equity mutual fund preference.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		
Heard	.727	.127	.829	5.737	.000
Behaviour	.834	.034		24.243	.000

Dependent Variable:mutual fund preference

The Coefficientsofmutual fund being .859 represent the effect of heard behavioron mutual fund preferences.The p value is significant less than .05 at 5% level and therefore, null hypothesis not supported and alternative hypothesis accepted. Its hows that there is effect of heard behavior on mutual fund preference,this positive coefficient explains that 1 unit enhance in heard behavior there is .859 units will enhance in buying behavior of mutual fund equity scheme.

H_{03}: Risk perception significantly influences equity mutual fund investment decisions.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		
(Constant)	1.882	.190		9.923	.000
Risk	.454	.057	.433	7.895	.000
perception	.175	.050	.194	3.537	.000

Dependent Variable:mutual fund preference

The Coefficients of mutual fund being.859 represent the effect of risk perceptionon mutual fund preferences.The p value is significant less than .05 at 5% level and therefore, null hypothesis not supported and alternative hypothesis accepted. Its hows that there is effect of risk perceptionon mutual fund preference,this positive coefficient explains that 1 unit enhance in risk perception there is .859 units will enhance in buying behavior of mutual fund equity scheme.

Findings: The analysis of data collected from 272 respondents provides several important insights into the demographic and behavioural characteristics influencing equity mutual fund preferences. The sample consisted of a relatively balanced gender composition, with male respondents accounting for 52 per cent and female respondents for 47.4 per cent, ensuring adequate representation of both groups.

Age-wise distribution revealed that a majority of respondents belonged to the economically productive age segments. Specifically, 29.3 per cent of respondents were in the 25–35 age group, followed by 24.4 per cent in the 35–45 age group. Younger investors aged 18–25 constituted 19.6 per cent of the sample, while 18.9 per cent of respondents were in the 45–60 age group. This distribution suggests active participation of working-age individuals in equity mutual fund investments.

With respect to awareness levels, the study found that a substantial proportion of respondents (83.7 per cent) were aware of equity mutual fund investments. Only a small percentage (4.4 per cent) reported complete lack of awareness, while 11.9 per cent indicated partial or insufficient knowledge. This indicates a generally high level of awareness among investors, although gaps in depth of understanding remain.

The Chi-square analysis examining the association between gender and equity mutual fund preference revealed no statistically significant relationship, as the significance value exceeded the 0.05 threshold. This finding indicates that investment preference for equity mutual funds is not influenced by gender differences. In contrast, the association between age and equity mutual fund preference was found to be statistically significant, suggesting that investors' preferences vary across different age groups.

Regression analysis results demonstrate that behavioural biases significantly influence equity mutual fund preferences. Overconfidence exhibited a strong and positive effect on investment preference, indicating that investors with higher confidence in their judgment are more inclined towards equity mutual fund investments. Herd behaviour was also found to have a significant positive influence, reflecting investors' tendency to follow the actions of others while making investment decisions. Additionally, risk perception emerged as a significant determinant, suggesting that investors' assessment and tolerance of risk play a vital role in shaping their preference for equity mutual funds.

Conclusion: The present study aimed to examine the behavioural determinants influencing individual investor preference for equity mutual funds. The findings provide strong empirical evidence supporting the relevance of behavioural finance in explaining investor decision-making. Although a high level of awareness regarding equity mutual fund investments was observed among respondents, investment preferences were significantly shaped by psychological and behavioural factors rather than purely rational evaluation.

References :-

1. Agnew, J. R., & Pasricha, P. (2022). Anchoring in 401(k) mutual fund choices. *Journal of Pension Economics & Finance, 21*(4), 563–580. https://doi.org/10.1017/S1474747221000283
2. Atmaramani. (1996). Restoring investor confidence. *The Hindu Survey of Indian Industry*, 435–437.
3. Festinger, L. (1957). *A theory of cognitive dissonance*. Stanford University Press.
4. Goetzmann, W. N. (1993). *Cognitive dissonance and mutual fund investors* (Working paper). Columbia Business School.
5. Kansal, R., & Singh, V. (2022). Risk aversion vs. loss aversion: What drives retail investor behavior? *Indian Journal of Economics and Business, 21*(1), 1–18.
6. Leena, A., & Singh, M. (2025). Emotions and investment: The role of anticipated regret. *Financial Planning Review, 6*(1), e1234.
7. Montenegro, R., & Gupta, V. (2024). Framing and risk-taking: The moderating role of investor personality traits. *Asian Journal of Behavioral Finance, 6*(1), 43–58.

8. Nair, A., & Thomas, R. (2023). Anchoring and framing biases: Evidence from mutual fund investors. *Indian Journal of Economic Behaviour, 9*(2), 115–129.
9. Pillai, S., & Kumar, N. (2022). Psychological factors and mutual fund investment behavior: A structural equation modelling approach. *Journal of Behavioral Economics and Finance, 8*(1), 40–55.
10. Qureshi, S., Ansari, H., & Baig, R. (2023). Loss aversion in retirement planning: Evidence from Indian mutual fund investors. *Asia-Pacific Journal of Economics & Finance, 12*(2), 45–60.
11. Shukla, A., & Raheja, R. (2023). Anchoring effects in mutual fund selection: An Indian experiment. *Journal of Behavioral Finance & Economics, 3*(1), 30–42.
12. Singh, A. K., & Rani, S. (2024). Behavioral biases and investment decision: A study of individual investors in Indian context. *International Journal of Research in Economics and Social Sciences, 12*(2), 91–102.
13. Sundaravadivelu, P., & Sankaran, M. (2023). Behavioral aspects influencing mutual fund decisions: Evidence from South India. *Journal of Management Research and Analysis, 10*(1), 18–25.
14. Yuvaraj, S., & Sudha, R. (2023). Impact of digital platforms on investor decision-making in Indian mutual funds. *Indian Journal of Commerce and Management Studies, 14*(3), 101–110.

****