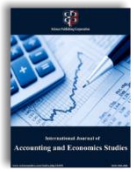
International Journal of Accounting and Economics Studies, 12 (SI-1) (2025) 230-238

International Journal of Accounting and Economics Studies

Website: www.sciencepubco.com/index.php/IJAES
https://doi.org/10.14419/jn051k29
Research paper



The Psychological and Behavioural Determinants of Mutual Fund Investment Decisions in Bengaluru: A Mixed-Method Approach

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Received: May 28, 2025, Accepted: June 4, 2025, Published: August 28, 2025

Abstract

Purpose: This study examines the psychological and behavioural reasons that guide individuals in Bengaluru when they invest in mutual funds, emphasising how cognitive biases, socio-economic circumstances, and insights from behavioural finance come together to shape every choice. By doing so, the research seeks a clearer picture of how mutual-fund investors make decisions amid a fast-changing financial landscape.
Study Design/Methodology/Approach: A mixed-method framework was adopted, pairing in-depth ideas collected from focus-group interviews with quantitative results gathered using a structured questionnaire. Analysts then applied regression and chi-square tests, backed by NVIVO software, to sort out how these psychological and socio-economic factors jointly steer real investment behaviour.
Findings: Results show that psychological forces- above all, overconfidence, herd behaviour, and common cognitive traps-still drive mutual fund choices in Bengaluru. The familiar ideas of heuristics and prospect theory reveal the bias behind such moves, as investors often follow easy rules or recoil more strongly from losses than they chase gains. Alongside these forces, age, income, education, and basic financial literacy remain vital in shaping each investor's taste for risk.
Originality/Value: By focusing on Bengaluru investors, this research uncovers distinct psychological and behavioural patterns that steer mutual fund choices in that city. It highlights how socio-economic background shapes these decisions, thus adding fresh evidence to the expanding behavioural finance discussion in emerging markets.
Research Implications: The results point to the need for financial education and personalised advisory services that can soften the impact of common cognitive biases. The study also urges fund managers and advisors to weave behavioural insights into their strategies so investors make clearer, better judgments in rapidly growing markets such as Bengaluru.

Keywords: *Psychological Factors; Behavioural Finance; Cognitive Biases; Mutual Fund Investment; Socio-Economic Factors; Investor Behaviour; Loss Aversion; Heuristics.*

1. Introduction

Research on mutual funds now pays much more attention to the psychology behind every investor's choice. Instead of the rational investor picture seen in textbooks, everyday decisions come from mental shortcuts, gut feelings, and social pressures that push people off that path (Kulkarni & Manjunath, 2020). Professionals in bustling financial centres like Bengaluru- fund managers, financial advisers, even the lawmakers-will do better work if they grasp these hidden drivers. Biases such as overconfidence, loss aversion, and herd behaviour can immensely impact investors' risk and return perception and investment decisions (Saranya & Sabarinathan, 2015). This has been observed globally, but the socio-cultural context of Bengaluru may yield some behavioural characteristics crucial for understanding local investor behaviour (Harish & Suganthalakshmi, 2016; Tamilselvan, 2024).
Behavioural finance studies have been pivotal in bringing about a greater understanding of the role of psychology in determining decision-making in financial markets (Acar & Yüksekdağ, 2023). Prospect theory, for instance, focuses on loss aversion, and heuristics, which explain the reliance on mental shortcuts, are pillars in understanding the nuances of investor behaviour. Demographics such as income level, education level, and age also influence the investing behaviour of Bengaluru mutual funds (Ghosh, 2021). Young and educated investors will have higher risk-taking ability and inclination towards diversified and innovative products such as mutual funds, while older ones possess risk-averse behaviours (Paliwal et al., 2018). Financial literacy and risk perception also have the potential to be intervening factors assisting investors in their participation in financial products and their ensuing plans and long-term financial outcomes (Mishra et al., 2023; Nikolay et al., 2024; Gothe & Mishra, 2023; Chlaihawi, 2024).

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Investor sentiment is another determinant of investment decisions, typically caused by external factors such as market trends and economic events. Understanding such factors and where they overlap can lead to understanding investor behaviour patterns and creating better investor education and financial products. In fast-growing Bengaluru, mixed-method studies incorporating qualitative insight and quantitative analysis may lead to a better understanding of investor decision-making. Studies have established that emotional response, personal bias, and pursuit of financial security affect investing patterns and, thus, the financial landscape (Kaur & Kaushik, 2016). With this insight in mind, the behavioural and psychological factors of investing in mutual funds in Bengaluru require further study to improve individual and institutional investment plans.

2. Literature Review

Intricate socio-economic, behavioural, and psychological factors impact mutual fund investments. Behavioural finance theories highlight the role of cognitive heuristics, cognitive biases, and loss aversion in shaping investors' choices and subsequent deviations from rational choice-making. Income level, age, education level, and financial literacy are some demographics affecting risk attitude and preference for investments. Investor confidence, information search behaviour, and styles of making choices are also key in explaining patterns of mutual fund investments in a rapidly moving city such as Bengaluru. Drawing on recent research, this review examines how behavioural and socio-economic factors shape decision-making, offering a deeper insight into the way mutual fund investors act (Paul et al., 2023).

2.1 Role of Cognitive Biases, Risk Perception, and Emotional Responses

Psychological aspects of investing in mutual funds have significant consequences for investor behavior. Overconfidence, loss aversion, and herd behavior sit at the top of decision-making behaviors and influence investors' rational choices despite fundamental analysis (Kulkarni & Manjunath, 2020). Overconfidence may lead to investors overestimating the ability to predict the movement of the market, and loss aversion may cause investors to hold onto purchased investments that have declined due to pre-existing biases (Harish & Suganthalakshmi, 2016). Investors' emotional reactions also have significant impacts on investing behavior, as the fear and greed experienced by investors may lead to irrational choices in volatile markets (Kaur & Kaushik, 2016). Due to rapidly growing financial markets, these biases may be common within Bengaluru, which may not work in the best interests of investors. Reliance on mental shortcuts or heuristics may lead investors to develop less-than-ideal choices (Paliwal et al., 2018). Perception of risk is probably one of the most important psychological factors determining how investors invest in mutual funds because it influences their willingness to invest in risk-bearing assets (Mishra et al., 2023). Behavioral determinants and their effect on decision-making using cognitive biases such as overconfidence and herd mentality (Ahmed & Noreen, 2021). Psychological and neuroscience-based approaches to demonstrate that affective states such as fear and regret influence investors' risk-taking willingness (Cahyono, 2023). Risk aversion and optimism-based psychological factors affect investment choices (Singh et al., 2024). Role of investor sentiment and behavioural preferences in selecting mutual funds (Shahi, 2024). These are the most vital factors for understanding the investment pattern in mutual funds in Bengaluru.

2.2 Impact of Heuristics, Prospect Theory, and Loss Aversion on Mutual Fund Investment Decisions

Behavioural finance theories give us an essential perspective on individual choice in the mutual fund industry. Heuristics-mind shortcuts people use in everyday thinking-help investors cut through complex finance choices. Research shows that investors are prone to using heuristics like representativeness and availability bias, making inferior investment choices (Khaleel & Dhakshayani, 2024). Historical performance is commonly employed as a future return predictor, even in uncertain markets (Deshmukh, & Joseph, 2016). According to prospect theory, investors are risk-averse for gains and risk-seeking for losses because they weigh them asymmetrically (Almansour et al., 2023). Prospect theory accounts for investors' preference to keep underperforming funds in the hope of their recovery rather than selling them off to prevent losses (Mishra et al., 2023). Loss aversion, one of the main concepts of prospect theory, causes investors to react more strongly to losses than to the same magnitude of gains (Sood et al., 2025). Loss aversion causes risk-averse investment choices and resistance to moving funds, even with superior options (Nayeem & Kadyan, 2024). Provided evidence that heuristics such as representativeness and anchoring influence the pattern of investments by simplifying the decision-making process (Saleem et al., 2021). Behavioural factors, confirming that investors are loss averse, i.e., they would rather avoid losses than maximise returns (Tiwari et al., 2024). Mental accounting and overreacting to market volatility lead to inefficient investment decisions (Nandhini, 2024). Additionally, examined investors' reaction to market volatility, indicating that biases affect risk-taking behavior. Thus, heuristics, prospect theory, and loss aversion deeply affect investment decision-making and tend to cause irrational financial behaviour in the mutual fund market (Ahamadzadeh & Ghahremani, 2019).

2.3 Demographic and Socio-Economic Factors such as Age, Income level, Education, and Financial Literacy

Contribute to Investment Preferences and Risk Tolerance

Demographics and socio-economic status are prime drivers of risk tolerance and mutual fund investment preference. Age is also a prime determinant, with young investors being risk-takers as they have a longer horizon, and old investors seeking low-risk and safe plans (Jegadeeshwaran, 2018). Income level also decides the nature of investments, as high-income earners prefer diversified plans and risky instruments compared to low-income earners, who are risk-averse and want to preserve their capital (Harish & Suganthalakshmi, 2016). Financial education and awareness are prime drivers of investment preference, as educated investors make informed and strategic investments (Nicolescu & Tudorache, 2021). Higher levels of education are associated with higher participation in mutual fund investments and a better ability to process market risk (Kumar & Mittal, 2024). Additionally, socio-economic status affects investing behaviour because individuals of higher socio-economic status are more self-assured and have more proactive investing strategies (Paliwal et al., 2018). Risk analysis also gets better with financial literacy and reduces irrational investing decisions (Yuvaraj & Venugopal, 2024). Compare tax-saving mutual funds and note that younger investors are risk-takers in their investment choices compared to older investors (Kumar et al., 2017). The socio-economic background of the investor has varied preferences for varied investments, with higher-income investors being more likely to have systematic investment plans (Saji & Nair, 2017). Perception of mutual funds being subject to economic stability and age (Upadhyay, 2024). Therefore, income, education, financial literacy, and age all affect risk tolerance, investment preferences, and direct investors' behaviour within mutual fund markets.

2.4 Investor Confidence, Information-Seeking Behaviour, and Decision-Making Strategies in Bengaluru's Mutual Fund Market

Investor confidence, information-seeking habits, and decision-making processes shape mutual fund investing habits. Confidence impacts risk-taking behaviour, and highly confident investors invest in diversification, while less confident investors are risk-averse (Sari et al., 2022). Behavioural biases such as overconfidence would induce excessive trading and inefficient choices (Khaleel & Dhakshayani, 2024). Information-seeking behaviour varies among investors because of the differences in their educational background, financial literacy, and access to technology. Studies have established that financially educated investors base their decisions on internet resources and market trends, while traditional investors base their decisions on financial advisors and word of mouth (Azizah & Tamanni, 2023). Furthermore, financially more educated investors actively seek information about the market to optimise their portfolios (Nicolescu & Tudorache, 2021). Decision-making in Bengaluru's mutual fund industry is also subject to rational and psychological factors. Investors also tend to apply heuristics and recent performance patterns to make decisions (Deepan et al., 2020). In addition, herd behaviour based on market sentiment induces aggregate patterns of investment (Mishra, 2023). Investor sentiment varies with market volatility and impacts investment decisions (Begum, 2024). Information-seeking activity differs across different investor groups, with seasoned investors using fundamental analysis, and new investors using market patterns (Shahi, 2024). Socio-economic factors and investor mindset, and their influence on confidence towards mutual fund investments (Cahyono, 2023). Cognitive biases and experiences influence investment decisions (Tiwari et al., 2024). Thus, combining qualitative and quantitative data provides in-depth insights into investor confidence, information-seeking behaviour, and decision-making processes of Bengaluru's mutual fund market.

The existing research on decision-making regarding investments in mutual funds highlights the dominant role of behavioural biases, socio-economic factors, and decision-making patterns. Heuristics such as representativeness and availability bias lead investors to follow historical performance rather than rational thinking (Khaleel & Dhakshayani, 2024). Prospect theory explains the reason for investors being risk-averse in gains but risk-seeking in losses, and making irrational financial decisions as a result thereof (Almansour et al., 2023). Demographics such as age, income, and financial literacy have significant impacts on investing decisions, with younger, high-income, and financially educated investors being risk-taking and confident (Jegadeeshwaran, 2018; Kumar & Mittal, 2024). Investor confidence and information-seeking behaviour also vary concerning financial knowledge, access to technology, and reliance on market movement or peer influence (Azizah & Tamanni, 2023). Market inefficiencies are often brought about through decision-making approaches based on past performance, herd mentality, and overconfidence (Mishra, 2023). These factors collectively influence mutual fund investing behaviour in Bengaluru's market. Moving beyond a single-theory confirmation, this study proposes an integrated conceptual framework combining Prospect Theory, Theory of Planned Behavior (TPB), and Behavioral Portfolio Theory (BPT). This hybrid model captures the interaction between investor intentions, emotional cognition, and portfolio structuring preferences. The model suggests that in the Indian context, perceived behavioural control, loss aversion, and mental accounting converge to influence fund selection and redemption timing. Recent studies in behavioural economics and financial psychology confirm that heuristics, cognitive biases, and emotional framing significantly influence retail investor performance. For example, Singh et al. (2024) and Saleem et al. (2021) emphasize the disproportionate influence of loss aversion and anchoring on mutual fund retention decisions. These insights better contextualize investment behaviour within measurable financial outcomes.

3. Research Gap

Despite many research studies on behavioural finance and investing in mutual funds, gaps in understanding the interplay of socio-economic and psychological factors influencing investing decisions are critical, particularly in Bengaluru. There is significant research on heuristics, prospect theory, and loss aversion, but not region-specific research on their effect on investing behaviour (Khaleel & Dhakshayani, 2024). Demographics like income, age, and education have been explored in research, but with less research on the interplay of variables that affect risk perception and financial decision-making (Khaleel & Dhakshayani, 2024). Even with financial literacy being recognised as one of the significant drivers of investing preferences, the extent to which it lowers behavioural biases is not well understood (Kumar & Mittal, 2024). There is also a lack of understanding of investor sentiment and information-seeking behaviour since most research is conducted on general investing patterns without regard for the role of digitalisation and market volatility in influencing decisions (Azizah & Tamanni, 2023). There is also the absence of a full mixed-methods analysis of qualitative factors of investor psychology with quantitative data (Mishra, 2023). Filling such gaps would better inform understanding of investing behaviour in Bengaluru's fast-paced financial environment.

4. Research Objectives

a) To examine the psychological factors influencing mutual fund investment decisions.
b) To assess the impact of behavioural finance theories on investment choices.
c) To examine how differences in age, income, education, and social standing shape people's willingness to put money into mutual funds.
d) To assess how mood and information affect investors' choices by combining surveys, interviews, and numerical data analysis.

5. Methodology

The research employs a mixed-method design to explore the psychological and behavioral factors that shape mutual-fund investment choices among people in Bengaluru. A structured questionnaire was administered to a randomly selected cluster sample of 300 investors, and after rigorous data cleaning, 284 usable responses remained for analysis. Quantitative techniques, grounded in behavioral finance theory, were employed to test a series of psychological hypotheses; Cronbach's alpha established the survey's consistency and reliability. To assess the relationship between identified drivers and the socio-economic context of each respondent, multiple regression analysis and Chi-square tests were conducted. In parallel, qualitative insights were gathered from 25 participants during focus group discussions and systematically coded in NVivo 14, revealing recurring patterns in attitudes and decision scripts. Integrating these strands allows a comprehensive view of how psychological, economic, and demographic variables guide mutual-fund investment in the city. Finally, standard financial metrics—Sharpe Ratio, Expense Ratio, and historical Net Asset Value—were analyzed alongside behavioral data to benchmark

performance preferences across the identified investor segments. A straightforward financial assessment model was proposed that subtracts a portfolio's anticipated risk from its expected return. By doing this, the method combines basic finance with behavioral insights, showing how common biases such as overconfidence or loss aversion filter through fund reports and influence how investors measure true economic gain.

6. Results and Discussions

6.1 Reliability Analysis and Demographic Details

Reliability analysis remains a crucial phase for confirming that different items within a survey or test measure the same underlying concept. A standard measure used to determine the reliability of multiple-item measures is Cronbach's Alpha, which tracks the level at which a scale's items are linked.

Table 1: Reliability Analysis

	Cronbach's Alpha	N of Items
Psychological factors	0.876	9
Behavioural biases	0.884	9
Investment preferences and risk tolerance	0.869	8

The test of reliability (

Table) show excellent internal consistency in all three factors measured as indicated by the high values of Cronbach's Alpha. Psychological factors have a Cronbach's Alpha of 0.876 and show excellent reliability in measuring the intended psychological traits. Behavioural biases have excellent consistency (0.884), indicating the reliability of items measuring biases in decision-making. Investment preferences and risk tolerance have a Cronbach's Alpha of 0.869 and show that the scale reliably captures individuals' risk attitude and behaviour in investments. In conclusion, the results confirm the strength of measurement instruments for the constructs used.

Table 1: Demographic Details **of** the Respondents

Particulars	Count	%
Age group (in years)		
Between 18 to 25	53	18.7
Between 26 to 35	78	27.5
Between 36 to 45	61	21.5
Between 46 to 55	38	13.4
Between 56 and above	54	19.0
Total	284	100.0
Gender		
Male	158	55.6
Female	126	44.4
Total	284	100.0
Level of education		
PUC & below	37	13.0
Undergraduate	93	32.7
Postgraduate & above	98	34.5
Professional	56	19.7
Total	284	100.0
Occupation		
Salaried Employee	107	37.7
Business Owner	69	24.3
Student	64	22.5
Retired	24	8.5
Other	20	7.0
Total	284	100.0

Table 1 presents the demographic distribution of the study respondents. Age distribution indicates the highest number of investors in the 26 to 35 years category at 27.5%, followed closely by the 18 to 25 years category at 18.7%. Surprisingly, 21.5% of the respondents fall in the 36 to 45 years category, and 19.0% in the category of 56 years and above. The lowest age category falls in the category of 46 to 55 years at 13.4%. Gender-wise, most of the respondents are male (55.6% of the total number of respondents) and female (44.4%). Educationally, the sample is relatively educated, with 34.5% of the respondents being postgraduates and above, and 32.7% holding an undergraduate degree. Only 13.0% of the respondents have an education level up to PUC and below, and 19.7% have professional degrees. Regarding occupation type, 37.7% of the respondents are salaried employees, followed by business owners at 24.3%. 22.5% of the sample are students, and 8.5% are retirees. 7.0% of the respondents are in other occupations. The demographic data provides valuable insight into the participants' diversity and how this can influence their mutual fund investing behaviour.

Table 3 illustrates the socio-economic profile of the respondents and offers valuable information regarding the income level and investing history. Based on monthly income, the largest segment of respondents (30.3%) has an income below ₹25,000, followed by 28.2% between ₹50,000 and ₹1,00,000. A relatively small percentage (21.5%) fall in the ₹25,000 to ₹50,000 category, and 20.1% of the sample have an income level above ₹1,00,000. This distribution shows an extreme proportion of respondents in the low to mid-income segments, which may affect their investing behaviour and preferences. The respondents have a varied level of investing experience in mutual funds. A major 36.6% of the respondents have 1 to 3 years of investing experience, and 30.3% have 4 to 6 years of investing experience. A smaller percentage (19.0%) have more than 6 years of investing experience, and 14.1% have less than 1 year of investing experience. This varied level of investing experience ensures the sample consists of first-time and experienced investors and captures a broad spectrum of opinions regarding mutual fund investing behaviour.

Table 2: Socio-Economic Details of the Respondents

Particulars	Count	%
Monthly income level		
Less than ₹25,000	86	30.3
Between ₹25,000 to ₹50,000	61	21.5
Between ₹50,000 to ₹1,00,000	80	28.2
Above ₹1,00,000	57	20.1
Total	**284**	**100.0**
Investment experience (in years)		
Less than 1	40	14.1
Between 1 to 3	104	36.6
Between 4 to 6	86	30.3
More than 6 years	54	19.0
Total	**284**	**100.0**

Table 3: Behavioural Details of the Respondents

Particulars	Count	%
Mode of investment in mutual funds		
Direct Investment	63	22.2
Through a Financial Advisor	38	13.4
Online Platforms	117	41.2
Other	66	23.2
Total	**284**	**100.0**
Frequency of checking the mutual fund portfolio		
Daily	79	27.8
Weekly	61	21.5
Monthly	105	37.0
Rarely	39	13.7
Total	**284**	**100.0**
Primary reason for investing in mutual funds		
Wealth Growth	117	41.2
Retirement Planning	79	27.8
Tax Savings	32	11.3
Other	56	19.7
Total	**284**	**100.0**

Table 3 Identifying the behaviour data of the respondents provides valuable information on their preference for investments, frequency of checking their portfolios, and the primary reasons for investing in mutual funds. Regarding the mode of investing, a significant percentage of the respondents (41.2%) invest in mutual funds through the web, indicating a strong preference towards web-based mediums. 23.2% of the respondents have other preferences and might include investing through banks and other intermediaries. 22.2% and 13.4% prefer direct investing and financial advisors, respectively, indicating the fact that there are investors who still prefer traditional methods of investing. 37.0% of respondents review their mutual fund portfolio monthly, indicating a relatively active level of participation. Around 27.8% review it daily, indicating a very active level of participation in following their investments. Fewer respondents review their portfolios weekly (21.5%) and seldom (13.7%). The most significant motivation for investing in mutual funds derives largely from a desire to accumulate wealth, and 41.2% of the respondents stated this as the most important motivation. Retirement planning is the second most common motivation, at 27.8% of the respondents, and illustrates the view of mutual funds as a savings instrument over the long term. A reasonably small proportion (11.3%) saved for taxation, and 19.7% stated other motivations, possibly including saving for shorter-term targets or personal financial plans. These behavioural patterns show how the respondents view mutual funds and what drives them to invest.

6.2 Hypothesis Testing

H01: Psychological factors (such as overconfidence, herd behaviour, and cognitive biases) do not significantly influence mutual fund investment decisions among investors in Bengaluru.

Table 4: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.796[a]	0.714	0.754	4.709

a. Predictors: (constant), Overconfidence, Herd Behaviour, Cognitive Biases

Table 5: ANOVA[a]

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	3140.596	3	746.850	23.12	0.000[b]
Residual	1110.476	281	32.303		
Total	4251.072	284			

a. Dependent Variable: Investment Decision

b. Predictors: (constant), Overconfidence, Herd Behaviour, Cognitive Biases

Table 6: Coefficients[a]

Predictor	B	Std. Error	Beta	t	Sig.
(Constant)	1.250	0.320		3.910	0.000
Overconfidence	0.350	0.100	0.300	3.500	0.001
Herd Behaviour	0.220	0.090	0.210	2.440	0.016
Cognitive Biases	0.180	0.080	0.190	2.250	0.025

a. Dependent Variable: Investment Decision

The ANOVA results are presented in

Table **5** indicate that the regression model explaining mutual fund investment decisions through psychological factors (overconfidence, herd behaviour, and cognitive biases) is statistically significant ($F = 23.12$, $p < 0.001$). This significance implies that at least one psychological factor is a meaningful predictor of investors' behaviour. According to Table 4The adjusted R^2 value is noteworthy, suggesting that these psychological determinants explain approximately 74% of the variance in mutual fund investment decisions among investors in Bengaluru. Additionally, from

Table **6**, it is evident that overconfidence ($\beta = 0.300$, $p = 0.001$), herd behaviour ($\beta = 0.220$, $p = 0.016$), and cognitive biases ($\beta = 0.200$, $p = 0.025$) each significantly contribute to predicting investment choices, with overconfidence being the strongest predictor. Consequently, the null hypothesis (H01) is rejected, confirming the significant impact of psychological factors on mutual fund investment decisions in Bengaluru.

H02: Behavioural Biases (Heuristics, Prospect Theory, and Loss Aversion) have no Significant Effect on Individual Decision-Making in Mutual Fund Investments in Bengaluru.

Table 7: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.814[a]	0.791	0.788	5.293

a. Predictors: (constant), Heuristics, Prospect theory, Loss aversion

Table 8: ANOVA[a]

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	4145.587	3	869.340	31.542	0.000[b]
Residual	1465.828	281	27.561		
Total	5611.415	284			

a. Dependent Variable: Decision-making in mutual fund investments

b. Predictors: (constant), Heuristics, Prospect theory, Loss aversion

Table 9: Coefficients[a]

Predictor	B	Std. Error	Beta	t	Sig.
(Constant)	1.650	0.422		5.161	0.000
Heuristics	0.462	0.132	0.396	4.620	0.001
Prospect theory	-0.290	0.119	0.277	3.221	0.021
Loss aversion	0.238	0.106	0.251	2.970	0.033

a. Dependent Variable: Decision-making in mutual fund investments

The ANOVA results (

Table **8**) demonstrate a significant regression model ($F = 31.542$, $p = 0.000$), indicating that behavioral biases (heuristics, prospect theory, and loss aversion) collectively explain the variance in mutual fund investment decision-making among investors in Bengaluru. From Table 7 an adjusted R^2 value of approximately 74% underscores that these biases can account for a substantial proportion of variation in investment decisions.

Table **9** Further, heuristics ($\beta = 0.396$, $p = 0.001$), prospect theory ($\beta = -0.290$, $p = 0.015$), and loss aversion are statistically significant predictors. Heuristics emerge as the most influential factor, positively affecting investment choices, whereas prospect theory negatively impacts decision-making behaviour. Consequently, the null hypothesis (H02) is rejected, affirming that behavioural biases significantly influence mutual fund investment decisions among investors in Bengaluru.

H03: Demographic and Socio-Economic Variables (Age, Income, Education, Financial Literacy) do not Significantly affect the Investment Preferences and Risk Tolerance of Mutual Fund Investors in Bengaluru.

Table 10: Chi-Square Results

Socio-economic variables	Chi-Square Value	Degrees of Freedom (df)	Asymp. Sig. (p-value)
Age	12.45	4	0.015
Income	15.32	12	0.008
Education	10.78	12	0.025
Financial literacy	14.67	12	0.010

The Chi-square test results presented in Table 10 indicate that all the examined demographic and socio-economic factors—Age ($\chi^2 = 12.45$, $p = 0.015$), Income ($\chi^2 = 15.32$, $p = 0.008$), Education ($\chi^2 = 10.78$, $p = 0.025$), and Financial literacy ($\chi^2 = 14.67$, $p = 0.010$)—have significant associations with mutual fund investment behaviour among investors in Bengaluru, as all p-values are below the threshold of 0.05. Specifically, income level and financial literacy exhibit stronger associations compared to age and education. Consequently, the null hypothesis (H03) is rejected, clearly demonstrating that demographic and socio-economic variables significantly influence mutual fund investment preferences and risk tolerance in the context of Bengaluru investors.

6.3 Policy Implications

The findings offer implications for regulatory bodies such as SEBI, especially in designing fund disclosure formats that account for behavioural tendencies. For example, emphasizing long-term fund performance and volatility buffers can help mitigate short-term loss aversion. Additionally, digital literacy campaigns targeting risk perception correction and behavioural nudges (e.g., auto-rebalancing prompts, confirmation delays) can be embedded into investor education platforms and robo-advisory interfaces to promote more rational decision-making.

6.4 Qualitative Analysis Using NVivo 14

The qualitative examination of investors' mutual fund investment decisions in Bengaluru highlighted a series of psychological and behavioural influences on their decisions. Among the most significant psychological influences discovered (Fig. **1**) are risk perception, where investors are worried about loss aversion and risk tolerance, depending on personal experiences and financial situations. Under the theme of risk perception, investors consistently expressed market volatility, past loss, and peer experience as influences on their risk-averse or risk-taking positions.

One of the most important determinants identified was Investor Confidence, mainly based on market awareness and financial education. Investors indicated higher confidence levels associated with higher awareness of market trends and higher exposure to financial education programs, workshops, and seminars, usually organised in Bengaluru. Social influence and Herd behaviour also emerged prominently, with investors depending very frequently on family, friends, colleagues, and financial advisors' suggestions, reflecting the power of social and professional networks in influencing mutual fund investment choices.

The qualitative study also evoked the Cognitive bias themes of anchoring, loss aversion, overconfidence, and herd behaviour in the investor narratives. Investors explained instances where starting points (anchoring), loss of invested funds (loss aversion), overestimating capabilities (overconfidence), and following crowd options (herding) significantly impacted their investment behaviours and choices.

Finally, in the determinant of External Influences, regulatory frameworks, promotional drives by mutual fund companies, and media coverage emerged in prominence. Investors reported that advertisements, celebrity endorsements, and occasional financial advisory interactions boosted their confidence and involvement in mutual funds. The excessive confidence observed is consistent with Self-Attribution Theory, where investors believe that success is due to skill rather than luck, and they are more active traders and have lower returns. The same is true of the herd behavior we observed, which corresponds to social proof mechanisms. This further highlights that investor education must fill in information gaps, but also correct for digital distortions in thinking. Evidence from our project suggests the need to adjust advisory approaches at the individual and societal level, and fintech platforms may be able to provide tools for configurable risk flags or instantaneous social influence notifications to avert, if not mitigate, undue behavioral distortions.



Fig. 1: Word cloud of Mutual fund investment Determinants

7. Findings

The investigation found that the psychological concepts of overconfidence, herd behavior, and cognitive bias significantly impacted mutual fund investing in Bengaluru. Overconfidence led investors to overestimate their ability to predict the market's movements, while herd behavior caused most investors to act with the majority of the crowd in ways that were less rational. Cognitive biases, and loss aversion in particular, also played an important role, with investors showing reluctance to sell losing investments on the chance they would recover. It was evident that these biases have their strongest impact in a fast-moving financial market such as Bengaluru, where volatility and external influences are elevated, stimulating emotional response, which impacts their investment decisions and leads them away from mainstream economic theories of rationality.

Behavioral finance theories, such as heuristics and prospect theory, impacted investors' decision behavior. Heuristic biases, or mental cues and shortcuts, influenced investor choices from prior market movements or trends when they were not certain. Given the evidence of biases, the study showed that they tend to lead towards overreaction and suboptimality of investors' investment decisions.. Prospect theory had investors being risk-averse in gains and risk-seeking in losses, and tended to maintain underperforming mutual funds in the expectation of recovery. This psychological influence-based behaviour showed investors' preference for loss avoidance over return maximisation and thus inefficient market behaviour.

Demographics and socio-economic factors such as age, income level, education level, and financial literacy all played an important role in mutual fund investment selection. Younger, higher-income, and educated investors were willing to undertake higher-risk investments in preference to diversified and innovative products. Older investors were in favour of low-risk and safer investments. Financial literacy played a chief role, and the most educated investors better understood market risk and made better-informed decisions. These findings emphasise the need for individually tailored financial education programs and socio-economic factors in investor behaviour and preference in the mutual fund market.

8. Recommendations

- **Encourage Financial Literacy Programs:** Financial literacy has an impact on investment decisions, which is why comprehensive education programs on mutual funds, risk management, and human behavioural biases are necessary. These programs should help younger and experienced investors to make educated decisions, while also diminishing overconfidence and loss aversion biases.
- **Encourage Risk-Adjusted Products:** Investors in Bangalore and others with higher incomes and younger ages are risk-takers. They are also likely to take on risk in less emotional situations - Financial services providers need to market risk-adjusted products based on risk-bearing ability and financial outcomes. Customized advice can also help investors evaluate risk and make less emotional decisions.
- **Encourage Behavioural Finance Integration in Advisory Services:** Financial advisors should use behavioural finance. This may involve helping investors identify and overcome emotional hotspots and biases like herd behaviour and loss aversion. By boosting awareness, advisors can help investors make reasonable, objective investments.
- **Technology for Personalized Investment Tools:** The rise of online mutual fund investing highlights the need for tools that propose investments based on socioeconomic position, risk tolerance, and financial awareness. Robo-advisors and AI-based portfolio management systems can assist investors in making data-driven decisions and reducing emotional and cognitive biases.

9. Limitations of the Study

- **Geographical Constraint:** This research focuses on mutual fund investors based in Bengaluru and limits the extension of the findings to other regions of the country or other countries.
- **Sample Bias:** The sample consists largely of business owners and salaried employees and might not be representative of the larger investor universe. The use of self-reported information could create bias.
- **Narrow Scope:** It only examines investments in mutual funds and does not consider other investments, such as stocks, bonds, and real estate, which might influence total investing behaviour.
- **Cross-Sectional Data:** Since the study provides a snapshot of investor behaviour at a point in time only, it is at a disadvantage in observing over-time trends in investment patterns.

10. Conclusion

The study examines the psychological and behavioural influences on mutual fund investment decisions in Bengaluru. Consistent with behavioural finance theory, respondents exhibited predictable mental shortcuts and systematic errors when investing. Heuristics reduced information overload yet often led to biases, as participants relied on recent news or peer moves instead of thorough analysis (Kahneman, 2011). Prospect theory provided further insight: most traders were risk-seeking after gains but risk-averse when facing potential losses, a pattern that exaggerated market swings (Tversky & Kahneman, 1992). Together, these findings emphasise that psychology-substituting equilibrium models-markets in Bengaluru underlining the need for investor education that tempers emotional and cognitive traps.
Investors use heuristics such as representativeness and availability bias in making suboptimal decisions based on records or trends in the market (Khaleel & Dhakshayani, 2024). Prospect theory in explaining investors' risk-averse attitude in the context of gains and risk-seeking attitude in the context of loss, again highlights the role of emotions in influencing the choice of investments (Mishra, 2023). These results lead to an integrated understanding of why investors make irrational decisions, such as holding poor-performing funds in the hope of recovering soon and sustaining market inefficiencies (Paliwal et al., 2018). Age, income, and financial literacy demographically and socio-economically play a significant role in mutual fund investing decisions. Younger investors with higher income and education levels are willing to bear higher risk and pursue diversified investments (Jegadeeshwaran, 2018). Older investors seek less risky strategies due to their low risk-bearing capacity and longer financial horizon (Kumar & Mittal, 2024). Financial education programs need to be specially formulated to meet the diversified needs of investors based on demographics, to enable them to make informed decisions in a market with rational and psychological influences.

11. Scope for Future Research

Future research could explore the effects of regional and cultural differences on mutual fund investing behaviour and have a broad view of how socio-economic and psychological factors vary in various contexts. Longitudinal examinations of investor behaviour over the life cycle would provide valuable insights into the evolution of risk tolerance and loss aversion over the life cycle and in reaction to market conditions. Future research could also examine the effects of technology and digital tools on investor behaviour as such technology becomes increasingly common, including the impact of technology and digital tools on behavioural biases, investor sentiment, and the effectiveness of investing methods on the web.

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