

Investor's Behaviour and Risk Perception in Mutual Funds – A Study of Retail Investors in Raipur City, C.G.

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Abstract- *The impact of risk perception, financial literacy, knowledge, and return expectations on the investment behavior of retail mutual fund investors in Raipur, an Indian tier-2 city, is investigated in this study. Purposive sampling was used to gather information from 100 retail investors, both current and prospective, using a standardized questionnaire. A 5-point Likert scale was used to measure the constructs, and Jamovi's multiple linear regression and descriptive statistics were used for analysis. Higher return expectations significantly enhance willingness to take risk ($\beta = 0.250, p = .013$), but risk perception has the biggest negative influence on risk-taking behavior ($\beta = -0.747, p < .001$). Both financial literacy ($\beta = 0.435, p < .001$) and mutual fund knowledge ($\beta = 0.405, p < .001$) significantly predict rational investment behavior. Rational behavior is nevertheless low (Mean = 2.75) despite relatively high awareness (Mean=3.85), suggesting a large knowledge-practice gap.*

The findings highlight how mutual fund investment decisions in developing urban India are primarily influenced by psychological and informational factors rather than demographic ones. To encourage disciplined, long-term investing, practical suggestions include mandated investor education, open risk information, and behavioral nudges on digital platforms..

Indexed Terms- *Investment Behaviour, Risk Perception, Financial Literacy, Awareness, Return Expectation, Behavioural Finance, Retail Investors, Mutual Funds, Tier-2 City.*

I. INTRODUCTION

As of September 2025, assets under management (AUM) exceeded ₹68 lakh crore, and monthly SIP inflows exceeded ₹24,000 crore, indicating the

tremendous growth of India's mutual fund industry (AMFI, 2025). Despite this increase, tier-2 cities like Raipur lag considerably behind due to behavioral biases, conservative attitudes, and low financial sophistication. Retail involvement is still concentrated in metropolitan areas.

According to behavioral finance theory, psychological elements like risk perception, financial literacy, awareness, and return expectations impact investing decisions in addition to logical calculations (Kahneman & Tversky, 1979). This study examines the relative impact of these four factors on two important aspects of retail investors' investment behavior in Raipur City, Chhattisgarh: risk-taking and rational investment behavior.

1.2 Statement of the Problem

Despite the advantages of diversification and professional management offered by mutual funds, retail penetration in tier-2 cities remains limited due to high perceived risk, unrealistic return expectations, and knowledge gaps.

1.3 Objectives

General Objective: To investigate how Raipur City's retail investors' investment behaviour is impacted by risk perception, financial literacy, awareness, and return expectations.

Specific Objective:

1. To evaluate how risk perception affects risk-taking behaviour
2. To assess how financial awareness and literacy contribute to sensible investing behavior
3. To establish how return expectations affect taking risks
4. To determine these factors' relative strengths

1.4 Importance

Regulators (SEBI, AMFI), asset management firms, and financial advisors can use the study's evidence-based insights to create tailored education initiatives and solutions for tier-2 city investors.

II. LITERATURE REVIEW

Extensive research into the factors influencing the behavior of ordinary investors has coincided with the mutual fund industry's explosive rise in India. Numerous studies have demonstrated the impact of psychological, cognitive, and informational elements in addition to economic variables on investment decisions. According to several research, the main factors influencing the choice of mutual funds include safety, liquidity, past performance, tax advantages, and fund house reputation (Factor Influencing Retail Investor 2024 Sen Gupta, n.d.). Perceived security and fund development potential are regularly ranked higher by investors than convenience or industry-level considerations (Gaurav et al., 2023). Long-term performance in mutual fund investing has also been found to be significantly correlated with discipline and emotional control; regular systematic investment plans (SIPs) produce better results when investors steer clear of panic selling or herd mentality (Iyer & Maria Benedict, n.d.). It has been repeatedly demonstrated that one of the biggest behavioral obstacles to equity-oriented investments is risk perception. (Palash Bairagi & Chakraborty, n.d.) discovered that subjective risk assessment, as opposed to objective risk measurements, influenced almost two-thirds of retail investment decisions in Delhi-NCR. Younger and male investors exhibit greater risk tolerance, whereas older investors and women display pronounced risk aversion (Arora & Chawla, n.d.; Gupta, 2020; Mittal, 2020). Age and income consistently moderate perceived risk, with higher-income and older investors viewing mutual funds as less threatening (Gupta, 2020).

Rational decision-making and risk perception are significantly influenced by financial literacy and product-specific knowledge. Improved allocation to market-linked instruments, reduced perceived risk, and improved confidence are all correlated with higher financial literacy (Lal, n.d.; Professor of Commerce, 2023). On the other hand, despite their lower inflation-

adjusted returns, investors favor traditional assets like gold and fixed deposits due to a lack of knowledge about fund mechanics, fees, and risk-return correlations (Mahankal & Singh, n.d.; Naik & Pramodgoudar, n.d.).

Despite improvements, awareness levels are still inconsistent among demographic groups and geographical areas. Due to their lack of experience with mutual fund schemes, investors in rural and smaller cities continue to rely on tangible assets and bank deposits (Manjunath & Bankar, 2021; Sathyanarayanan Associate Professor et al., 2020). Investors frequently fail to convert information into disciplined habits like goal-based allocation, frequent portfolio review, or long-term commitment, even when awareness is there (Batra et al., n.d.; Deepak et al., n.d.).

(Factor Influencing Retail Investor 2024 Sen Gupta, n.d.)—few have combined all four antecedents inside a single explanatory framework. Moreover, the overwhelming majority of empirical study has been conducted in metropolitan centres (Delhi-NCR, Chennai, Hyderabad, Kolkata, Punjab) or state capitals, leaving tier-2 and rising urban centres such as Raipur largely under-researched. These cities' socioeconomic characteristics, information availability, and cultural perspectives on financial risk are significantly different from those of metro areas, indicating that conclusions drawn from larger cities might not be entirely applicable.

By concurrently analysing the relative impact of risk perception, financial literacy, awareness, and return expectations on two different aspects of investment behavior—risk-taking propensity and rational investment practices—among retail investors in Raipur, Chhattisgarh, the current study fills these gaps.

III. RESEARCH METHODOLOGY

3.1 Research Design

Quantitative cross-sectional design that is both descriptive and explanatory.

3.2 Hypotheses

H1: Investment behaviour (risk-taking) is strongly influenced by risk perception.

H2: Investment behaviour (risk-taking) is strongly influenced by return expectations.

H3: Rational investment behaviour is strongly influenced by financial literacy.

H4: Rational investment behaviour is strongly impacted by awareness.

3.3 Population and Sample

Population: Raipur City's current and prospective retail investors who understand mutual funds. Purposive sampling is the method of sampling. Sample size: 100 respondents.

3.4 Data Collection

A structured questionnaire (Google Forms) with demographic questions and statements on a 5-point Likert scale was used to gather primary data. Journals, AMFI, and SEBI reports were the sources of secondary data.

3.5 Analytical Tools

Jamovi software: Multiple Linear Regression ($p < 0.05$), Cronbach's α , and Descriptive statistics.

IV. DATA ANALYSIS AND FINDINGS

4.1 Reliability

Sr. No.	Construct	Cronbach's Alpha	Remark
1	Risk Perception	0.862	Very Good
2	Financial Literacy	0.833	Very Good
3	Awareness about Mutual Funds	0.838	Very Good
4	Return Expectations	0.803	Very Good
5	Risk-Taking Behaviour	0.826	Very Good
6	Rational Investment Behaviour	0.941	Excellent

Five of the six scales fell into the "very good" range (0.80–0.89), and all six were above the commonly accepted threshold of 0.70. The items evaluating methodical and goal-oriented decision-making were quite coherent, as evidenced by the remarkably high alpha of 0.941 for Rational Investment Behaviour, which demonstrates extraordinary internal consistency.

4.2 Demographic Profile

Variable	Category	n	%
Age	< 25 years	16	16.0
	25–35 years	39	39.0
	36–45 years	26	26.0
	46–60 years	19	19.0
Gender	Male	73	73.0
	Female	27	27.0
Annual Income (₹)	< 3,00,000	16	16.0
	3,00,000 – 6,00,000	40	40.0
	6,00,001 – 12,00,000	29	29.0
	> 12,00,000	15	15.0
Education	Up to Graduation	63	63.0
	Professional Degree	19	19.0
	Post-Graduation & Above	18	18.0
Occupation	Salaried	47	47.0
	Business / Professional	24	24.0
	Retired	13	13.0
	Others	16	16.0
	< 2 years	26	26.0
	2–5 years	31	31.0
	> 5 years	43	43.0

The demographic profile of the respondents (N = 100) is presented in the table. 73% of the sample is made up of male investors, 65% are between the ages of 25 and 45, and 69% earn between ₹3 and ₹12 lakh annually. Most have at least a graduate degree (63%), work for

a salary (47%), and have invested in mutual funds for more than two years (74%), with 43% having done so for more than five years. This profile, which is typical of the growing urban investor base in tier-2 cities of

India, represents a reasonably young, educated, middle-class, and fairly experienced part of Raipur's retail investors.

4.3 Descriptive Statistics

	N	Mean	Median	SD	Minimum	Maximum
Risk Perception	100	3.42	3.63	1.056	1.00	5.00
Financial Literacy	100	3.04	3.00	0.837	1.50	5.00
Awareness	100	3.85	3.75	0.634	2.50	5.00
Return Expectation	100	3.62	3.67	0.718	2.33	4.67
Risk Taking	100	3.09	3.00	1.067	1.00	5.00
Rational Behaviour	100	2.75	2.50	1.443	1.00	5.00

The essential constructions' descriptive statistics are shown in the table. The highest level of mutual fund awareness ($M = 3.85$, $SD = 0.63$) and relatively high return expectation ($M = 3.62$, $SD = 0.72$) were stated by respondents. While actual risk-taking behaviour stayed near neutral ($M = 3.09$, $SD = 1.07$), risk perception was above the scale midpoint ($M = 3.42$, $SD = 1.06$). Rational Investment Behaviour scored the

lowest ($M = 2.75$, $SD = 1.44$), and Financial Literacy was only moderate ($M = 3.04$, $SD = 0.84$), suggesting that systematic and disciplined investment methods are not yet common among Raipur's retail investors. Significant variation in the sample's level of disciplined decision-making is also suggested by the remarkably large standard deviation for rational investment behaviour.

4.4 Regression Results

Model 1 – Predictors of Risk-Taking Behaviour ($R^2 = 0.612$, Adj. $R^2 = 0.604$)

Predictor	Estimate	SE	t	p	Stand. Estimate
Intercept	5.760	0.363	15.884	<.001	
Risk Perception	-0.755	0.087	-8.639	<.001	-0.747
Return Expectation	0.250	0.099	2.526	0.013	0.258

The table provides the findings of the multiple linear regression analysis predicting Risk-Taking Behaviour. The model is highly significant and explains 61.2% of the variance in risk-taking ($R^2 = 0.612$, $p < .001$). Risk perception was found to be the strongest predictor ($\beta = -0.747$, $p < .001$), meaning that risk-taking behaviour is reduced by 0.747 standard deviations for every standard deviation increase in perceived risk.

Additionally, return expectations had a significant positive effect ($\beta = 0.258$, $p = .013$), indicating that investors are more willing to take on risk when their expectations for returns are higher. As a result, Risk Perception is by far the most important factor, supporting both H1 and H2.

Model 2 – Predictors of Rational Investment Behaviour ($R^2 = 0.590$, Adj. $R^2 = 0.581$)

Predictor	Estimate	SE	t	p	Stand. Estimate
Intercept	-3.088	0.581	-5.31	<.001	
Financial Literacy	0.750	0.151	4.96	<.001	0.435
Awareness	0.922	0.200	4.62	<.001	0.405

The findings of the multiple linear regression predicting rational investment behaviour are displayed in the table. 59.0% of the variation is explained by the highly significant model ($R^2 = 0.590$, $p < .001$). Rational behaviour is strongly positively and almost equally influenced by both Financial Literacy ($\beta = 0.435$, $p < .001$) and Awareness ($\beta = 0.405$, $p < .001$). Adopting disciplined, goal-oriented, and systematic investment strategies is considerably more common among investors with greater financial literacy and a deeper comprehension of mutual fund mechanics. H3 and H4 are hence well supported.

V. DISCUSSION

The current study offers solid proof of the psychological and cognitive factors influencing retail investors' mutual fund investment behavior in Raipur, a typical tier-2 city. There are subtle implications for theory and practice because two unique behavioural dimensions—risk-taking inclination and rational investment practice—are controlled by quite different mechanisms.

Even after adjusting for return expectations, risk perception was found to be the single most important factor impacting risk-taking behavior ($\beta = -0.747$, $p < .001$), explaining a significant amount of variance. The Protection Motivation Theory (Rogers, 1975), which maintains that protective avoidance behaviours are triggered by perceived threat severity and vulnerability, is consistent with this substantial negative association. Increased risk perception in the mutual fund industry shows up as a strong inclination toward debt and liquid schemes and a reluctance to keep equity exposure during market downturns. The results support previous research in metro and semi-urban environments (Gupta, 2020; Mittal, 2020; Palash Bairagi & Chakraborty, n.d.), demonstrating

the continued dominance of subjective risk assessment over objective risk measurements in Indian retail decision-making.

Nevertheless, this aversion was somewhat offset by return expectation ($\beta = 0.258$, $p = .013$). Investors with higher expected returns were much more prepared to put money into growth-oriented products and tolerate volatility. This finding provides empirical evidence for the traditional risk-return trade-off (Markowitz, 1952) and implies that, although risk perception continues to be the main obstacle, conservative retail cohorts may be psychologically motivated to take appropriate risks by realistic but optimistic return aspirations.

On the other hand, knowledge-based antecedents were nearly the only factors influencing rational investing behaviour. Together, financial literacy ($\beta = 0.435$, $p < .001$) and mutual fund-specific awareness ($\beta = 0.405$, $p < .001$) explained 59% of the variance, with almost comparable predictive power. These findings support the body of research emphasising investor education as the cornerstone of methodical, goal-oriented investing (Lal, n.d.). Increased understanding of fund mechanics, expenses, taxes, and risk-return dynamics seems to reduce cognitive biases and encourage methodical approaches like SIP persistence and goal-based allocation.

There was a startling paradox: logical behavior had the lowest mean ($M = 2.75$) despite having the highest mean awareness score ($M = 3.85$). This clear intention-behavior gap shows that behavioral inertia, overconfidence, or the lack of formal responsibility cannot be resolved by informational knowledge alone. Recent research has shown similar gaps (Batra et al., n.d.; Iyer & Maria Benedict, n.d.), highlighting the necessity of active behavioral interventions in addition to passive education. The study fills important gaps in

the literature, which has mostly concentrated on metropolitan areas, by combining all four dimensions into a single model and evaluating it in an understudied tier-2 city context. The discovered behavioral profile, which includes strong risk aversion, poor rationality, high general awareness, and middling literacy, seems typical of developing urban India.

In India's rapidly growing secondary cities, targeted strategies that (a) lower perceived risk through clear, jargon-free communication, (b) anchor return expectations to historical realities, and (c) close the awareness-to-action gap through mandatory onboarding education and digital nudges can greatly improve investment quality and participation rates.

VI. CONCLUSION

The most powerful behavioral barrier to taking risks, according to this study of Raipur's retail mutual fund investors, is risk perception, which has a considerably greater detrimental impact than the moderating effect of return expectations. Elevated perceptions of loss probability continue to motivate conservative allocation patterns and early redemptions during market downturns, even when investors expect better returns. On the other hand, financial literacy and product-specific awareness are primarily responsible for rational and disciplined investment behavior, which is typified by goal-based planning, SIP persistence, and evidence-based decision-making. Despite the fact that respondents' awareness levels were comparatively high, the noticeably low scores on logical behavior point to a continuous awareness-practice gap that restricts the conversion of knowledge into methodical action.

These results highlight that solvable psychological and cognitive problems, rather than only demographic limitations, are the main causes of inadequate mutual fund membership in tier-2 locations. An obvious route to increased retail engagement is to close this gap through organized investor education programs, open risk-return communication, reasonable expectation setting, and behavioural nudges. In order to strengthen capital market development in India's rapidly expanding secondary cities, regulators, asset management firms, and financial advisors can greatly

improve the depth and quality of mutual fund participation among emerging urban investors by addressing these antecedents.

VII. SUGGESTION

1. Short investor education modules should be required by regulators and AMC's at onboarding.
2. Risk calculators, goal trackers, and behavioural nudges must be integrated into digital platforms.
3. Risk-adjusted returns rather than absolute returns should be the focus of awareness programs.
4. To convert awareness into methodical investing plans, financial advisors must receive training.

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