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Understanding the Indian Retail Investor: A Study on Mutual Funds and Investment Behaviour

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Abstract- Mutual funds have become one of the most accessible gateways for ordinary people to participate in financial markets, offering professional management and instant diversification without the burden of tracking individual stocks. This article examines how everyday investors think about, choose, and engage with mutual funds, drawing on a primary survey of 100 respondents alongside a review of academic literature on investor psychology and fund performance. The study finds that while awareness of mutual funds is now widespread, genuine financial sophistication still lags behind, and that returns, more than any other single factor, drive investment choices. The findings point to clear opportunities for asset managers and policymakers to deepen financial literacy, widen participation among under-represented groups, and make small, consistent investing the default habit for a new generation of investors.

I. INTRODUCTION

For the average saver, building a well-balanced portfolio of stocks, bonds, and cash used to require time, expertise, and capital that most people simply did not have. Mutual funds changed that equation. By pooling money from many investors and handing it to a professional portfolio manager, they let a small saver enjoy the same diversification and oversight once reserved for large institutions, while sharply cutting the risk of betting everything on a single company.

Behind every unit purchased or redeemed lies a decision shaped by psychology as much as by arithmetic. Investor behaviour research looks at how personal attributes — an individual's comfort with risk, financial knowledge, income, and life goals — interact with external forces such as market trends and expected returns. Asset management companies and financial services firms need this understanding to design products that genuinely serve real people's needs rather than an idealised, purely rational investor.

India's mutual fund industry is currently experiencing what can fairly be called explosive growth, driven by a favourable combination of rising financial literacy and increasingly user-friendly mobile investment platforms. This article situates that growth story alongside primary survey evidence to build a grounded picture of who is investing, why, and what still holds many people back.

II. THE MUTUAL FUND INDUSTRY LANDSCAPE

The Securities and Exchange Board of India (SEBI) oversees the mutual fund industry and safeguards the interests of the everyday investors who buy into it. Funds on offer span several broad categories: equity funds, debt funds, hybrid funds, index funds, Equity Linked Savings Schemes (ELSS) for tax-saving investors, sectoral or thematic funds, and exchange-traded funds (ETFs).

2.1 A Snapshot of SBI Mutual Fund

SBI Mutual Fund, established in 1987 as a joint venture between the State Bank of India and Amundi Asset Management, is among the country's premier asset management companies. Its stated ambition is to earn investors' trust by helping them reach their financial goals, underpinned by a mission built on superior investment performance, long-term wealth creation, transparency, and investor education. The company's product suite covers equity, debt, hybrid, index, and solution-oriented funds, ETFs, and ELSS schemes, supported by services such as portfolio

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management, SIP facilities, an online investment platform, and investor education programmes. It operates across metropolitan, tier-II, and tier-III cities as well as institutional and digital channels, competing with players such as HDFC Mutual Fund, ICICI Prudential, Nippon India, Kotak Mahindra, and Aditya Birla Sun Life.

The broader outlook for the industry remains promising, underpinned by rising financial literacy, growing SIP participation, expansion into rural and semi-urban markets, ongoing digital transformation, and a rising middle-class income base.

2.2 Growth Drivers: Technology, SIPs, and Reach

Three forces stand out in explaining the industry's rapid expansion. First, Systematic Investment Plans (SIPs) have turned mutual fund investing into a habit rather than a one-time decision, letting even small savers commit modest, regular sums instead of large lump sums they may not have. Second, mobile applications and online investment portals have dramatically lowered the friction of opening an account, completing KYC, and tracking a portfolio, bringing first-time investors in from cities that previously had little access to organised financial advice. Third, asset managers are actively pushing into tier-II and tier-III cities, recognising that the next wave of retail participation will come from outside the metros where the industry has traditionally concentrated its efforts.

These three drivers reinforce each other: digital platforms make it easier to start a SIP, SIPs make investing affordable for people with modest and irregular incomes, and affordability, in turn, is what makes expansion into smaller towns commercially viable. Understanding this interplay matters because it directly shapes the profile of today's typical new investor — younger, increasingly digital-first, and often investing small amounts as a first step rather than a large one.

III. WHY INVESTOR BEHAVIOUR MATTERS: A CONCEPTUAL VIEW

The academic grounding for this study draws on investment behaviour theory, portfolio diversification, the risk–return trade-off, and behavioural finance. Because mutual funds are held by such a broad cross-section of the population, they offer a particularly useful lens on how ordinary psychology shapes financial decision-making.

Classical Expected Utility Theory holds that investors weigh the expected benefits and risks of each option and choose the one offering the greatest satisfaction relative to their goals. Prospect Theory, developed by Daniel Kahneman and Amos Tversky, complicates this picture: investors do not treat gains and losses symmetrically, and the sharper sting of loss compared to the pleasure of an equivalent gain shapes how people react to market swings. Layered on top of these are demographic factors (age, gender, education, income), economic factors (return expectations, inflation, market conditions), psychological factors (risk perception, confidence, emotion), and social factors (family, peer groups, and financial advisors) — all of which combine to steer real-world investment decisions.

Taken together, this framework suggests that an investor's behaviour toward mutual funds is shaped by risk perception, expected returns, financial awareness, investment objectives, income level, fund performance, the presence of professional management, and prevailing market conditions.

IV. REVIEW OF LITERATURE

A wide body of research, spanning Indian and international contexts, converges on a small number of recurring themes.

4.1 Psychology, Confidence, and Financial Self-Efficacy

Studies by Vishnani, Singh, and Srivastava, and separately by Faizan and Kuril, find that an investor's ultimate choice is steered heavily by personal attitude, confidence in managing their own money, and anticipated emotional outcomes, alongside more conventional variables like risk tolerance, income, and education. Both sets of researchers converge on the same prescription: stronger, more accessible financial education is essential to help investors move past surface-level awareness.

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4.2 Trust, Transparency, and Track Record

Work by Verma, Jana, and Mallick shows that investors gravitate toward funds with a history of consistent performance, and that sustained trust depends on transparency as much as returns. This is echoed by Li and Zheng, whose research on fund flows finds that a strong track record anchors investor confidence and that clear, accessible performance disclosure is essential for attracting long-term capital. Barber, Huang, and Odean similarly argue for full transparency in the operational disclosures mutual funds provide to the public.

4.3 Cognitive Biases and the Case for Financial Literacy

Banerjee's research into psychological barriers identifies the everyday cognitive traps that push investors toward decisions that depart from rational behaviour, and recommends financial literacy as a primary defence. Gouthami and Varghese, studying systematic withdrawal plans, likewise find that ongoing investor education is critical to using such tools confidently. Milind and Mittal, examining the relationship between capital markets and investor psychology more broadly, conclude that higher financial literacy acts as a shield during volatile periods, and call for expanded structured investor education.

4.4 Scale, Geography, and Demographics

Vidal, Vidal-García, and colleagues, looking at international capital flows, find that smaller funds often earn the greatest rewards when they deliver superior risk-adjusted returns relative to larger peers, reinforcing that consistent performance is a universal draw for capital. Closer to home, Uma Maheswari, Kowsalya, and Kumaraguru, along with Sukanya R.'s collaboration with the University of Brandeis, find that Indian retail investors' decisions are shaped by local demographic and social structures, and both studies call for grassroots, regionally targeted investor education.

4.5 Fund Management Skill and Active versus Passive Strategies

Berk and van Binsbergen develop methods to measure genuine managerial skill, concluding that skilled managers deliver real value over what an average investor could achieve alone. Barras, Gagliardini, and Scaillet find that experienced fund managers help anchor investor confidence and deliver healthier long-term returns, while Amihud and Goyenko show that investors consistently favour managers who can demonstrate performance consistency over simple index-tracking. Agarwal, Pradhan, and Saxena's more recent work on liquidity management in Indian funds, and Puopolo's literature review of mutual fund performance drivers, both reinforce that skilled, efficient portfolio management remains central to attracting and retaining investor capital. Malmendier, Pouzo, and Vanasco add a longer-term dimension, showing that an individual's own financial history leaves a lasting imprint on their present investment behaviour.

Across this literature, one conclusion recurs with striking consistency: financial literacy, transparent disclosure, and demonstrable performance are the three pillars on which investor trust and participation are built.

V. RESEARCH DESIGN AND METHODOLOGY

This study set out to understand how investors make decisions about mutual funds, what factors most influence those decisions, and how well investors actually understand the products they hold. It followed a descriptive, quantitative research design, drawing on a structured questionnaire and direct interaction with respondents as primary data sources, supplemented by secondary material from books, research journals, company reports, SEBI publications, and AMFI reports.

A convenience sample of 100 respondents was surveyed, and the resulting data was analysed using percentage analysis, tables, and bar and pie charts. As with any study of this scale, the findings should be read with some caveats: the sample size is modest, responses may carry some personal bias, the geographic and time scope is limited, and investor behaviour can shift as market conditions change.

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VI. FINDINGS FROM THE FIELD

6.1 Who Responded: A Demographic Snapshot

The sample skewed young: 55% of respondents were between 25 and 35 years old, with the 36–55 bracket accounting for a further 25%, and the youngest (under 20) and oldest (55 and above) groups each making up 10%. Men made up 75% of respondents against 25% women — a gap that suggests the study's conclusions, like much of the industry's current customer base, are shaped disproportionately by male perspectives, and that there is real room to widen participation among women investors.

Demographic	Category	Share of Respondents
Age	25–35 years	55%
Age	36–55 years	25%
Age	Below 20 / 55 and above	10% each
Gender	Male	75%
Gender	Female	25%
Occupation	Students	55%
Occupation	Working professionals	25%
Occupation	Business owners / others	10% each
Monthly income	Below ₹20,000	55%
Monthly income	₹20,000–₹40,000	25%
Monthly income	₹40,000 and above	20%

Occupationally, students formed the largest single group at 55%, followed by working professionals at 25%, with business owners and other occupations each contributing 10%. On income, a majority (55%) reported monthly earnings below ₹20,000, reflecting the student-heavy composition of the sample; 25% earned between ₹20,000 and ₹40,000, and the remaining 20% earned above that.

6.2 Awareness and Knowledge

Awareness of mutual funds was high: 78% of respondents said they were familiar with the concept, against 22% who were not. Knowledge, however, told a more nuanced story. When asked to rate their own understanding, 45% described it as basic, 35% as intermediate, and only 20% as advanced — suggesting that awareness has spread faster than deep financial literacy, a gap consistent with the literature review's recurring call for stronger investor education.

6.3 Investment Behaviour and Preferences

Sixty percent of respondents said they currently invest, while 40% do not, pointing to a generally positive but incomplete adoption of mutual fund investing within this sample. Among those who do invest, purposes varied: retirement planning was the leading motivation, cited by 40% of respondents, followed by children's education and regular income generation (20% each), and wealth creation and tax-saving (15% each).

Investment Purpose	Share of Respondents
Retirement planning	40%
Children's education	20%
Regular income	20%
Wealth creation	15%
Tax saving	15%

When it came to fund choice, hybrid funds were the clear favourite at 30%, reflecting a preference for a blended risk-return profile that combines equity growth potential with debt-market stability. Equity funds and money market funds tied at 20% each, while debt funds and ELSS schemes were each preferred by 15% of respondents.

Most respondents are still relatively new to investing: 40% had been investing for less than a year, 25% for one to three years, another 25% for three to five years, and only 10% for more than five years. Investment amounts were correspondingly modest — 40% invest below ₹1,000 a month, 25% invest between ₹1,000 and ₹5,000, 20% invest between ₹5,000 and ₹10,000, and only 15% invest more than ₹10,000 monthly.

6.4 What Drives the Decision to Invest

When asked what matters most when choosing a mutual fund, returns dominated the response, cited by 55% of respondents as the single most important factor. Liquidity followed at 15%, while risk, tax benefits, and fund management reputation were each cited by 10% of respondents. This finding echoes the literature's emphasis on performance and track record as primary drivers of investor confidence, even though experienced researchers consistently caution that a narrow focus on returns, without attention to risk and cost, can lead to poorly balanced portfolios.

6.5 Advocacy and Sentiment

Overall sentiment toward mutual funds was positive: 65% of respondents said they would recommend mutual funds to others, 20% were undecided, and only 15% said they would not. This level of advocacy suggests a generally favourable, if not yet fully confident, relationship between this investor cohort and the mutual fund industry.

VII. LIMITATIONS OF THE STUDY

- The sample of 100 respondents, drawn through convenience sampling, cannot be assumed to represent the full diversity of India's mutual fund investors.
- Self-reported measures — particularly of financial knowledge — reflect how confident respondents feel rather than an independently verified level of understanding.
- The survey captures a single point in time; investor sentiment and behaviour shift as markets, interest rates, and personal circumstances change.
- The geographic scope of the study was limited, and findings may not generalise fully to regions with different income levels, financial infrastructure, or cultural attitudes toward investing.
- The study focuses solely on mutual funds and does not benchmark investor behaviour against other investment avenues such as equities, fixed deposits, insurance-linked products, or real estate.

VIII. DISCUSSION AND CONCLUSION

Taken as a whole, the survey paints a picture of an industry gaining ground, particularly among young adults, but still doing the work of converting broad awareness into deep financial literacy. Most respondents know what a mutual fund is and a majority already invest, yet the prevalence of only basic self-assessed knowledge indicates that many investors are participating without fully understanding what they own.

Returns clearly dominate as the deciding factor in fund selection, and hybrid funds — offering a middle path between growth and stability — are the most preferred vehicle, aligning with a broadly long-term outlook centred on retirement planning. At the same time, the high share of investors who are new to the market and contributing small monthly sums signals substantial room for growth, provided the industry continues to invest in investor education, financial literacy campaigns, and simplified, accessible investment services.

There is also a subtler pattern worth naming: the gap between awareness and understanding is where much of the industry's future work lies. Seventy-eight percent awareness paired with only 20% advanced self-assessed knowledge means that most investors are not yet equipped to critically evaluate the products they hold — they know mutual funds exist and broadly trust them, but may struggle to compare expense ratios, assess a fund manager's track record, or judge whether a scheme's risk profile actually matches their own goals. Closing this gap is arguably a more valuable long-term investment for the industry than acquiring new customers, since financially literate investors are also more likely to stay invested through market downturns rather than redeeming at the worst possible time.

IX. SUGGESTIONS

- Boost financial literacy: Expand investor education programmes that go beyond basic awareness, helping investors build a genuine understanding of risk, return, and fund mechanics — particularly for those just starting out.
- Promote inclusivity: Design marketing and outreach that specifically engages women and other under-represented groups, building a more diverse and balanced investor base.
- Encourage micro-investing through SIPs: Position systematic investment plans as a manageable habit, allowing investors with limited funds to build wealth through small, consistent contributions rather than large lump sums.
- Commit to full transparency: Communicate risks, potential returns, management fees, and historical performance in clear, accessible language rather than dense disclosures.
- Engage the next generation: Focus product design and marketing on the 25–35 age group, who show the strongest interest in longer-horizon investing, while continuing to modernise mobile and digital investment experiences.

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