

The Role of Risk Perception in Mutual Fund Investment Decision Making by North Indian Retail Investors

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ABSTRACT

Purpose: The perceptions of risk among investors form a core framework guiding their periodic evaluation and revisions in investment decisions, especially within the highly varied Indian financial market.

Design/Methodology/Approach: This study presents empirical observations on cash-management strategies among North Indian retail investors during recessions, integrating qualitative interviews with 50 respondents and quantitative surveys from 216 mutual fund holders.


Findings: Results indicate that risk perception significantly shapes investment decisions, with financial literacy, behavioral biases, and reaction to market conditions all playing pivotal roles. A strong association exists between higher financial knowledge and willingness to invest aggressively, as evidenced by survey and interview data.

Originality: Unlike previous literature, this study focuses specifically on risk perception within mutual fund selection by North Indian retail investors, offering new insights on how demographic and psychological factors uniquely affect investment behavior and decision frameworks in this context.

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Introduction

Equity-oriented Mutual Funds (MFs), in the last two and a half decades, gained popularity as one of the preferred vehicles among an extremely wide range of Indian consumers with an aim of gaining a steady pace of growth and future financial stability. The high attractiveness of MFs to such people is based on the symbiotic relationship which arises between high market performance and the long-term wisdom of a portfolio.

The story of MF industry in India explores the chronology of the Indian MF industry, which commenced in 1963 with the presentation of Unit trust of India (UTI) that formed the primary skeleton of collective investment scheme in India and highlighted the eventual evolution in the industry of MFs. During a bullish market condition, funds available had gained the goodwill of investors and MFs are used as the key vehicles to pool resources in the simmering stock markets and thus adding buoyancy to economic growth and bringing significant profit to the market players. On the other hand and when there is extreme volatility and bearishness investors are allowed to make detachments with the riskier equity positions through the same structures allowing them to salvage their capital and save their wealth when the markets are shrinking. This kind of flexibility has played a key role towards solidifying the popularity of MFs which makes them a must have tool in terms of diversification, hedges and long-term wealth creation.

There are multiple driver forces that are particularly worthy of mentioning in the context of the high maturation rate of the sector. To begin with, the high household savings rate in India which has reached around thirty per cent has availed sufficient capital to diversify assets. Second, the ever-changing financial marketplace has diversified the investment landscape of investable instruments and increased the amount of available liquidity. Third, competitive dynamics have led to the development of new distributions systems and product formations, which has granted potential customers with an even more balanced range of models in terms of the savings allocation. Last but not least, investor awareness, further encouraged by technology-enabled education vehicles, has further enforced the fact that MFs provide appealing and risk-adjusted sources of capital appreciation.

The consequence has been a high growth trend especially in the cases of salaried professionals and retirees who require steady revenues and preservation of capital. To this population group, the MFs are a steady channel of wealth creation and as such, they boost the purchasing power over the long periods notwithstanding the changes in the cycle. With the further development of the financial services sector on the ground in India, it can be assumed that MFs will remain the focus of the asset version of the financial planning calculation of both the institutional and retail investor.

Literature Review

Sound investment asset allocation requires access to relevant information that enables investors to direct capital toward opportunities offering optimal returns for a given level of risk. The empirical literature consistently demonstrates that investor behavior often deviates from the predictions of classical financial models and instead exhibits systematic and repeatable behavioral biases. Among the key factors influencing asset selection, risk tolerance occupies a central position, ranging from extreme risk aversion to pronounced risk-seeking behavior, depending on individual circumstances and temperament. The combination of convenience, accessibility, and built-in diversification has contributed to the growing preference for mutual funds among retail investors. An accurate understanding of risk perception is therefore essential, as it mediates the trade-off between expected gains and losses and significantly influences portfolio construction within a behavioral finance framework.

Risk perception refers to an investor's subjective assessment of the likelihood of potential portfolio losses rather than objective predictions of returns. This cognitive evaluation serves as a fundamental lens through which gains and losses are perceived, consistent with the principles of prospect theory, and consequently shapes investment choices. In the Indian context, the period following financial liberalization has been marked by privatization and regulatory reforms that have reshaped both institutional structures and investor mindsets. Accordingly, a comprehensive analysis of mutual fund holding patterns must examine risk perception alongside other influential variables such as financial literacy and prevailing market trends, which jointly shape household risk attitudes (Velmurugan et al., 2015).

The literature on risk perception can be broadly organized around several interrelated thematic strands. First, existing research on risk perception within financial decision-making is examined. Second, attention is given to the moderating role of financial literacy. Third, market-driven influences that guide asset allocation decisions are reviewed. Fourth, studies documenting retail investor preferences across equity, debt, and hybrid instruments are considered. Finally, cognitive, demographic, and psychological dimensions influencing portfolio strategy and risk tolerance are discussed.

Risk perception research constitutes a substantial body of evidence within behavioral finance. Experimental studies indicate that individuals tend to overweight low-probability outcomes and underweight medium-probability outcomes, resulting in asymmetrical risk evaluation. This tendency is commonly associated with loss aversion and plays a critical role in shaping investor responses to potential portfolio losses. Parallel research on risk disclosure suggests that judgment is influenced by the mode of information presentation—whether graphical, numerical, or probabilistic—with



probability expressions on a percentage scale exerting the strongest effect (Bruhin et al., 2009).

Risk perception, however, is neither fixed nor context-independent. Financial knowledge and numeracy exert a significant moderating influence. Prior studies show that individuals with higher levels of financial literacy demonstrate more rational risk assessment patterns and rely more heavily on empirical probability estimates. In contrast, lower levels of literacy are associated with overconfidence, misjudgment of magnitudes, and overly optimistic expectations, thereby increasing vulnerability to adverse outcomes (Velmurugan et al., 2015). These findings are consistent with Mohamed Abdeldayem (2015), who reports that financial literacy significantly influences risk attitudes toward mutual fund investments in India.

Market dynamics further shape risk-taking behavior. Periods of strong equity market performance typically attract inflows from even traditionally conservative investors, while bearish market conditions tend to prompt withdrawals from equity-oriented investments. Such patterns are evident in the Indian context, where heterogeneity among investor cohorts leads to variation in asset-class preferences. A survey of retail investors by Narayan Mahamuni (2017) highlights the importance of tax considerations, perceived safety, past performance, peer influence, and financial awareness in shaping asset allocation decisions.

Integrating these dimensions enables a behavioral finance-based explanation of investor decision-making. The framing and evaluation of gains and losses depend on risk perception, which in turn affects loss aversion and reward sensitivity. Higher levels of financial literacy reduce distortions in risk judgment and support decisions grounded in empirical probabilities. At the macro level, market conditions influence aggregate risk tolerance, with bullish phases encouraging capital reallocation toward growth-oriented assets and bearish phases leading to retrenchment.

Retail investors constitute a heterogeneous group, and demographic variables such as age, income, occupation, and location significantly influence investment horizons and liquidity preferences. Narayan Mahamuni (2017) observes that equity exposure tends to increase with age, while allocations to debt instruments are inversely related to income levels. These empirical patterns collectively illustrate how incentive structures, psychometric traits, demographic characteristics, and socio-cultural influences interact to shape portfolio composition in the retail investment landscape.

Overall, the literature provides a strong foundation for examining risk perception in the Indian mutual fund market. However, the interaction between risk tolerance (T), risk perception (P), financial literacy (L), and market trends (M) in shaping portfolio decisions among North Indian retail

investors remains insufficiently explored. By adopting a mixed qualitative–quantitative approach, the present study seeks to address this gap and offer clearer insights into these interrelationships.

Research Methodology

The present study examines how risk perception influences the choice of mutual fund instruments among North Indian retail investors. A survey-based research design was adopted, and data were collected from 216 mutual fund investors. The study employs descriptive analysis along with inferential statistical techniques, including the Friedman test, Chi-square test, analysis of variance (ANOVA), and factor analysis. Data were obtained using a structured questionnaire.

Mutual funds have gained considerable visibility among salaried individuals, business owners, and institutional participants and are regulated by the Securities and Exchange Board of India (SEBI). In the Indian context, retail investors constitute the primary participants in equity mutual funds; approximately 46 per cent of respondents in the sample expressed a positive attitude toward such investments. This trend reflects an increasing level of awareness regarding alternative investment avenues and the long-term potential of mutual fund schemes (Narayan Mahamuni, 2017).

Findings

Understanding Risk Perception

Academically, risk perception refers to an investor's ability to assess, interpret, and evaluate potential losses, gains, and sources of uncertainty inherent in financial decision-making. Empirical evidence consistently demonstrates that risk perception significantly influences portfolio management practices and is moderated by psychological, financial, behavioral, demographic, and educational factors (Mohamed Abdeldayem, 2015). The role of risk perception within the investment decision-making continuum therefore requires a precise definition and an understanding of the mechanisms through which investors form and process such beliefs.

As investment analysts frequently evaluate alternative asset classes, investment strategies, or timing decisions, risk perception assumes heightened importance, particularly when expected returns are predetermined or subject to relatively low uncertainty. Under such conditions, the perception of insufficient incremental returns may discourage investors from undertaking certain investment opportunities.

Factors Influencing Investment Decisions

Investment decisions among stock market participants are influenced by a range of psychological, socio-economic, and market-related factors. Financial literacy and general awareness remain critical challenges, particularly in developing

economies such as India, where household savings must be allocated prudently. In this context, a systematic examination of the personal traits that shape investor behavior has become increasingly important (Velmurugan et al., 2015).

Investor psychology constitutes a crucial determinant of stock market movements. While various external factors contribute to market volatility, investor sentiment often plays a decisive role in triggering fluctuations. Consequently, understanding investor mindset at a given point in time is of considerable significance in explaining market behavior (Narayan Mahamuni, 2017).

Equity investment inherently involves risk due to market volatility and uncertainty, which are further amplified by information asymmetry and limited investor knowledge. As a result, the study of investor risk perception assumes heightened importance in understanding investment behavior and market dynamics

Profile of North Indian Investors

A systematic analysis of the demographic profiles of North Indian investors reveals significant relationships between demographic variables—such as age, educational attainment, annual income, and marital status—and investment behavior (Velmurugan et al., 2015). In particular, socio-economic status influences preferences for diversified investment vehicles. Investors with higher levels of financial knowledge and greater risk tolerance are more inclined to allocate assets across multiple asset classes, consistent with effective risk diversification strategies. In contrast, investors with lower levels of financial literacy tend to prefer traditional investment instruments such as fixed deposits, recurring deposits, gold, and real estate, which are perceived to offer safety, liquidity, stability, and lower risk exposure (Narayan Mahamuni, 2017).

Investment Patterns in Mutual Funds

In examining the investment behavior of North Indian investors, it is evident that investment decisions are influenced by a cluster of factors, including age, educational attainment, income level, marital status, expected returns, liquidity requirements, flexibility preferences, affordability constraints, and perceptions of transparency. Beyond these factors, demographic characteristics—particularly educational background, occupational structure, and media consumption patterns—also shape investment preferences. At the same time, access to updated financial information through various media channels has been consistently shown to play an important role in influencing investment decisions.

Collectively, these determinants underscore the need to analyze the investment strategies adopted by retail investors in the region. Insights derived from existing literature on asset allocation, risk mitigation, and investment product selection,

supported by appropriate analytical models, can provide valuable understanding of investment patterns specific to the Indian context. Equipping retail investors with such insights not only facilitates more informed asset allocation decisions but also emphasizes the importance of financial literacy as a critical prerequisite for effective participation in the mutual fund market. The inclusion of financial literacy within the analysis of investment behavior therefore significantly enhances the contribution of the academic literature.

Role of Financial Literacy

Financial literacy forms the foundation of effective investment decision-making and is therefore central to an investor's ability to assess risk. The distinction between conventional and non-conventional investment choices is largely influenced by the level of financial literacy, as financially informed investors are more likely to explore alternative asset classes. In academic terms, financial literacy refers to an individual's ability to assess personal financial needs and apply relevant financial knowledge to understand investment instruments and evaluate appropriate responses.

The literature indicates that higher levels of financial literacy are associated with improved investment performance among a substantial proportion of investors, while overall levels of financial literacy remain relatively low at the global level. Consequently, education emerges as a key driver of financial literacy, with continued financial education significantly enhancing individuals' capability to manage financial resources effectively (Narayan Mahamuni, 2017).

Impact of Market Trends

Capital market trends continue to exert a significant influence on the decision-making processes of both retail and institutional investors. Retail investors tend to be more active during periods of market expansion, whereas institutional investors are often more responsive during phases of market contraction. Mutual fund managers, in turn, allocate analytical resources to monitoring economic indicators and market developments in order to identify favorable entry and exit points across products and sectors that are sensitive to macroeconomic changes (Narayan Mahamuni, 2017).

Historical evidence indicates a clear tendency among investors to increase allocations to equity mutual funds during favorable market conditions, as reflected in net systematic inflows into such instruments (Duggimpudi et al., 2010). Empirical findings further suggest that market volatility and returns move in cycles, alternating between phases of high volatility accompanied by superior returns and periods of lower volatility associated with comparatively weaker returns. These patterns are consistent with theoretical explanations of mutual fund investment behavior (Mohamed Abdeldayem, 2015).



Behavioral Finance and Risk Perception

Behavioral finance situates investment decision-making within the broader discourse of financial cognition by examining the psychological factors underlying market behavior and investor outcomes. Traditional portrayals of market participants suggest that, in the absence of structured and disciplined decision frameworks, many investors tend to follow prevailing market trends, adjusting their judgments in response to market sentiment, hype, and extreme price movements. Such behavior often leads to suboptimal capital allocation. A substantial body of research within behavioral finance has focused on explaining and predicting persistent stock market anomalies. Despite these advances, uncertainty in investment judgment continues to prevail, particularly in the context of mutual fund investment decisions. An important question arising in this context concerns why a large proportion of individuals commit their savings to mutual funds. As highlighted by Mohamed Abdeldayem (2015), this question extends beyond a single cultural or institutional setting. Although the literature on behavioral finance and risk perception is extensive, misperception of risk remains a persistent issue that continues to shape academic debate. Across disciplines—including economics, social sciences, public policy, and education—risk perception is consistently recognized as a critical determinant of mutual fund investment decisions. It is within this broader context that the relevant literature is reviewed.

Early contributions by Shafi et al. (2011) identify risk perception as a decisive factor in investment decision-making. Investors who place greater emphasis on potential losses tend to favor lower-risk instruments, whereas those who assign less weight to loss probabilities are more inclined toward higher-risk investments. Furthermore, the effectiveness of portfolio management depends significantly on the extent to which investors and managers accurately assess individual risk components. Without a clear understanding of risk tolerance, asset allocation strategies remain inherently constrained.

Building on this perspective, descriptive models in financial theory conceptualize risk perception as a foundational element of expected utility theory. Risk reflects uncertainty regarding potential outcomes, while risk perception represents an individual's subjective evaluation of outcome probabilities. Rational investors are therefore assumed to maximize expected utility by weighing the utilities associated with different states of the world. Within this framework, risk perception is as influential as expected return in shaping investment choices.

At the aggregate level, market prices reflect collective attitudes toward risk. An increase in perceived risk leads to a reduction in demand-side utility and, consequently, to a

decline in asset prices. Conversely, a decrease in perceived risk enhances overall utility and supports asset price appreciation. In this sense, investor decisions are fundamentally guided by risk perception, which plays a critical role in security valuation.

While such models provide valuable analytical insights, they necessarily rely on abstraction. Behavioral research, particularly insights derived from *Thinking, Fast and Slow* by Kahneman and Tversky, underscores that investment decisions are rarely the result of deliberate, step-by-step rational calculation. Instead, investors frequently rely on heuristics and cognitive shortcuts, which can bias judgments toward familiarity, salience, or perceived convenience. From this perspective, the widespread adoption of mutual funds may partly reflect psychological comfort rather than objective assessment of value. Consequently, behavioral finance frameworks must be sufficiently flexible to accommodate both formal analytical models and the cognitive and emotional biases that influence real-world decision-making.

In conclusion, the behavioral finance literature has significantly advanced understanding of the cognitive mechanisms underlying market behavior, reduced the perceived paradox of financial anomalies, and established financial cognition as an interdisciplinary field intersecting psychology, economics, and related disciplines. At the same time, continued theoretical and empirical scrutiny remains essential to refine its explanatory foundations and address normative and methodological challenges.

Qualitative Analysis of Investor Interviews

Primary interviews conducted with a group of North Indian investors yielded rich qualitative insights that helped explain the reasoning underlying mutual fund investment choices. Recurrent themes emerged from discussions on risk perception. Despite market volatility, geopolitical uncertainty, and periodic price fluctuations, respondents demonstrated a relatively high propensity to take calculated risks. As a safeguard against potential future losses, many investors maintained diversified portfolios and expressed strong confidence in the professional expertise of financial intermediaries.

Mutual fund investments were largely perceived as instruments for meeting important long-term financial goals, offering relative security comparable to physical assets, along with the potential for superior returns. A clear emphasis on financial goal-setting and goal-oriented investing emerged as a defining characteristic among respondents, reflecting a multidimensional decision-making framework (Narayan Mahamuni, 2017).

Quantitative Analysis of Survey Data

Analysis of survey data collected from retail investors residing in Delhi, Haryana, and Punjab identified self-reported risk tolerance as a key quantitative variable, measured on a scale ranging from 1 to 10. Within the sample, 11.5 per cent of respondents classified themselves at the higher end of the risk tolerance spectrum, indicating a willingness to engage in aggressive investment activities. Approximately 32.8 per cent reported moderate risk tolerance, 25.7 per cent identified as somewhat risk-averse, and 9.8 per cent classified themselves as risk-averse.

Statistical analysis further indicates a positive relationship between perceived risk and the frequency of mutual fund investments. In particular, stronger relationships between investors and financial intermediaries appear to facilitate higher levels of investment activity. Evaluation of demographic variables suggests that factors such as marital status, duration of residence, and housing tenure do not exert a significant influence on monthly household income, while occupation exhibits only a marginal positive association.

These quantitative findings are corroborated by the qualitative interview data. Respondents generally expressed a cautious approach toward mutual fund investments while acknowledging their willingness to accept measured levels of risk in pursuit of returns unattainable through conventional investment avenues. Moreover, interactions with financial intermediaries were found to support decision-making by reinforcing a more nuanced understanding of the risk–return trade-off that underpins mutual fund investing.

Additional insights were obtained through heteroscedasticity-adjusted quantile regression analysis. The results indicate that, holding other factors constant, investors with higher levels of general knowledge and financial literacy—particularly with respect to equity markets—exhibit a stronger inclination toward mutual fund investment. These findings underscore the central role of informational adequacy in promoting informed participation in the mutual fund market among retail investors.

Table 1: Risk Tolerance Levels Among North Indian Retail Mutual Fund Investors

Risk Level	Percentage (%)
Moderate	32.8
Somewhat risk-averse	25.7
High/aggressive	11.5
Risk-averse	9.8

Risk Tolerance Levels Among Investors

Risk tolerance is widely recognized as a central conditioning factor in financial decision-making. In essence, the ability to withstand uncertainty represents a key psychological requirement for investment activity; the greater the level of risk an individual is willing to assume, the higher the potential return profile of the portfolio. Existing research confirms that risk tolerance is multifactorial and influenced by demographic characteristics such as age, gender, income, educational attainment, family background, and occupation (Thanki, 2014). Consequently, any empirical analysis of investor behavior must begin with an assessment of observable risk tolerance levels.

When investors are categorized according to their levels of risk tolerance, three primary archetypes emerge: conservative investors, moderate investors, and aggressive investors (Mohamed Abdeldayem, 2015). Conservative investors allocate a minimal proportion of their capital to risky assets and are relatively unaffected by short-term market fluctuations. Moderate investors occupy an intermediate position, demonstrating a willingness to assume risk while avoiding excessive exposure to speculative instruments. Aggressive investors, by contrast, exhibit a strong preference for volatile assets and are prepared to tolerate temporary declines in portfolio value in pursuit of higher returns.

Collectively, these classifications define a continuum of risk tolerance in contemporary investment behavior and provide a conceptual foundation for risk-based decision-making frameworks.

Decision-Making Framework

The influence of subjective risk perceptions on investment behavior constitutes a central concern within the field of behavioral finance. Accordingly, a decision-making framework is proposed to explain this interaction (Mohamed Abdeldayem, 2015). The process begins with the development of an individual’s attitude toward risk, which shapes subsequent investment considerations. Prior to making an investment decision, investors typically engage in a phase of information gathering and careful evaluation. Once relevant information is analyzed, the final decision is determined by the extent to which the investment aligns with predefined objectives and the investor’s level of risk acceptance.

The framework further categorizes investors according to common risk tolerance profiles and identifies the criteria each group emphasizes when allocating capital. The positioning of investors within this framework is interpreted using empirical evidence derived from interviews and large-scale survey data collected as part of the broader study.



Case Studies of Successful Investments

The role of risk perception in shaping investment behavior can be effectively examined through empirical case studies drawn from the successful investment experiences of North Indian retail investors in mutual funds. Such cases translate abstract concepts of risk perception and behavior into practical contexts, illustrating how individuals make financial decisions.

In the first case, an investor with a balanced portfolio and moderate risk appetite selected a diversified equity-linked savings scheme (ELSS) aligned with long-term wealth creation objectives. Although initial concerns regarding market volatility were present, the investor recognized that diversification within the ELSS would mitigate perceived risk (Narayan Mahamuni, 2017). In the second case, a medium-income investor residing in a medium-sized city initially identified volatility as the primary source of risk. Subsequent analysis revealed that equity risk, broader market risk, and overall market conditions were key factors influencing investment decisions (Mohamed Abdeldayem, 2015). This enhanced understanding facilitated the development of an investment strategy that effectively balanced risk and expected returns within the selected mutual fund scheme.

Collectively, these cases highlight the importance of adopting a structured decision-making model that accounts for the complexity of risk perception in mutual fund investment decisions among North Indian retail investors. They underscore the practical value of incorporating investor-specific risk assessments to achieve favorable investment outcomes.

Challenges Faced by Investors

Investment decision-making involves the deliberate selection of financial instruments through which capital is allocated to achieve predefined objectives. This process is inherently complex and requires continuous monitoring and evaluation of multiple sources of information prior to the adoption of a specific course of action. In recent years, mutual funds have emerged as one of the most prominent discretionary investment avenues. The mutual fund industry offers a wide range of schemes designed to accommodate diverse investor preferences within a heterogeneous market.

As a result, investors must consider both macroeconomic factors and microeconomic considerations, including scheme selection and the expertise of the fund manager. While macroeconomic conditions tend to exert a relatively limited influence on day-to-day portfolio management, micro-level factors often play a decisive role in immediate investment decisions.

The Indian mutual fund industry has experienced substantial growth, leading to a proliferation of schemes offered by numerous asset management companies (AMCs). For example, Reliance Mutual Fund commenced operations in 1995 with a single open-ended scheme, Reliance Growth Fund, and by 2018 offered forty-nine open-ended and five close-ended schemes across multiple categories (Narayan Mahamuni, 2017). Similar expansion across other AMCs has resulted in a highly diversified product landscape. This extensive range of investment options presents a significant challenge for investors in selecting schemes that align closely with their financial objectives and risk preferences.

Role of Financial Advisors

There is growing consensus that financial advisors play a critical role in shaping investment decision-making. One of their primary responsibilities is to reduce information asymmetry through direct, personalized interaction, thereby enhancing investors' financial literacy. The importance of this professional role has increased substantially alongside the expansion of asset management companies (AMCs) and other financial intermediaries, which has, in turn, encouraged greater retail participation in mutual fund investments.

In developing economies, where financial literacy levels remain relatively low, financial advisors often serve as the primary and sometimes sole source of reliable financial information and guidance (Narayan Mahamuni, 2017). Given the inherent complexity of mutual fund transactions, meaningful investor participation is frequently dependent on intermediary support throughout the investment process. Moreover, mutual funds may be classified as credence goods, as investors are often unable to directly assess service quality prior to or even after consumption. In such contexts, professional advice functions as an important signal of service quality and trustworthiness (Mohamed Abdeldayem, 2015).

Regulatory Environment

The regulation of mutual funds across jurisdictions is primarily intended to protect investors from malpractice and financial misconduct. Regulatory frameworks are designed to ensure market efficiency, safeguard stakeholder interests, and enforce strict oversight of asset management firms, trustees, and custodians. Adherence to these regulatory standards reduces the likelihood of losses arising from fraudulent practices.

Despite regulatory safeguards, investors may still incur losses due to insufficient due diligence or limited understanding of the complexities associated with underlying securities and their risk–return profiles. In some cases, regulatory supervision may inadvertently encourage passive

or uncritical investment behavior, leading investors to rely on mutual funds as indirect investment instruments without fully assessing associated risks.

Technological Influence on Investment Decisions

Computer-mediated communication has substantially transformed the way individuals gather information and make decisions over the past few decades, establishing a clear connection between online behavior and adoption processes. The pervasive influence of technological systems suggests that even traditionally conservative purchasing and investment decisions are increasingly shaped by digital environments. Consequently, individuals frequently consult search engines, online forums, and blogs both before and during consumption, and later share evaluations of satisfaction or perceived value on these platforms.

The investment domain operates in a similar manner. Modern investors possess the capability to conduct extensive, data-driven analysis using a wide range of online resources, while also narrowing down investment alternatives within a short period. Decision-makers commonly rely on financial journalism, online investor discussion boards, and social networking platforms when selecting markets and investment instruments. The expansion of online and self-directed investing—accounting for approximately 43 per cent of SIPP sales in the United Kingdom—has further democratized investment activity by enabling round-the-clock trading and enhancing investor autonomy. These developments raise an important question regarding whether insights from online consumer behavior can improve understanding of investor behavior in digital financial contexts (Mohamed Abdeldayem, 2015).

Comparative Analysis with Other Regions

As noted by several finance scholars, it is important to examine investor attitudes toward alternative investment channels across regions. Evidence from a study conducted in Vellore, Tamil Nadu, indicates that older and higher-income groups prefer to allocate a substantial portion of their wealth to post-office savings schemes and bank deposits due to security concerns (Velmurugan et al., 2015). These findings confirm that such investors tend to avoid investment instruments perceived as risky, including mutual funds.

At the same time, the mutual fund sector continues to expand actively within the Indian investment market (Narayan Mahamuni, 2017). While equity markets offer a wide range of investment opportunities, prevailing risk aversion has led many investors to favor more conservative alternatives. Market observations suggest that mutual funds have emerged as a preferred alternative to insurance products, direct stock market investments, post-office savings, fixed-income securities, and even precious metals such as gold and

silver (Duggimpudi et al., 2010). Investors are particularly attracted to mutual fund schemes designed to reduce risk while offering relatively higher returns, alongside capital preservation. These preferences are reinforced by systematic financial planning, as mutual funds provide the potential for regular income streams and higher yield prospects compared to many other asset classes. Overall, behavioral analysis indicates that psychological biases exert a decisive influence on mutual fund demand, affecting investment decisions at multiple levels. These insights highlight the need for a more comprehensive and analytically rigorous approach to understanding mutual fund investment decisions among North Indian investors.

Future Trends in Mutual Fund Investments

The outlook for mutual fund investments appears encouraging, supported by several interrelated factors contributing to steady and sustainable growth. One key driver is the increasing demand from corporate treasurers seeking portfolio diversification, risk mitigation, and stable returns. Another significant factor is the expansion of round-the-clock online access to investment support and advisory services, which has broadened investor participation while enhancing access to professional guidance. Additionally, the growing integration of investment managers into service networks offering administrative and advisory support has further strengthened the mutual fund ecosystem. Collectively, these developments suggest that mutual funds will continue to remain an attractive and accessible investment option as investor awareness and familiarity increase (Narayan Mahamuni, 2017).

Underlying this trend is a noticeable inclination among corporate treasurers to diversify portfolios through a combination of mutual funds, bonds, and equity instruments. Such diversification strategies are shaped by organizational cultures, which may range from conservative to aggressive in their risk orientation. Nevertheless, diversification remains a central operational priority (Velmurugan et al., 2015). Future developments are also likely to include increased use of forward contracts and other financial instruments aimed at stabilizing cash flows and managing corporate liquidity.

Recommendations for Investors

In evaluating investment decisions, understanding the role of risk perception is essential. Empirical research consistently demonstrates that investors, regardless of experience, may underestimate uncertainty and overestimate return predictability, thereby underscoring the importance of effective risk management in informed decision-making (Velmurugan et al., 2015). Mutual fund investment behavior reflects this pattern, as many investors adopt relatively conservative strategies. The existing discourse therefore



provides valuable guidance for individuals considering mutual fund investments.

Implications for Financial Institutions

Effective management of investor risk perceptions, asset allocation decisions, and stakeholder engagement requires a comprehensive understanding of the psychological factors underlying financial behavior. Moving beyond purely quantitative approaches, existing research demonstrates that risk tolerance and investment preferences are strongly influenced by non-rational psychological factors (Narayan Mahamuni, 2017; Velmurugan et al., 2015; Mohamed Abdeldayem, 2015).

Evidence from surveys of North Indian retail investors indicates that investment decisions are primarily guided by financial goals rather than the sole objective of return maximization. Investors often diversify across asset classes to mitigate risk exposure and rely on both digital platforms and traditional financial advisors. Within diversified portfolios, liquid assets tend to dominate shorter investment horizons of up to three years, while less liquid assets are favored for longer-term horizons. These findings challenge the long-held assumption that rational risk–return evaluation alone adequately explains investor behavior.

Limitations of the Study

The present study examining the behavior of retail investors toward risky mutual fund investments is subject to several limitations. First, the reliance on 10–12 months of secondary data restricts the temporal scope of the analysis and may underrepresent long-term investment trends. Second, although qualitative methods are employed to examine investor behavior, the absence of complementary quantitative measurement within these methods limits the depth of behavioral inference. Third, the sample is intentionally confined to small-, medium-, and large-sized funds, thereby excluding other asset classes that may form part of retail investors' portfolios.

Fourth, the geographically restricted sample of only 40 investors from the city of Jalandhar, Punjab (India), constrains the generalizability of the findings. Fifth, the study captures only three financial crises over a 15-year period (up to 20 April 2019), which limits longitudinal interpretation. Finally, although perceived fund risk is identified through qualitative analysis, additional measurement approaches could further strengthen and validate the findings. Taken together, these limitations indicate avenues for future research, including larger and more geographically diverse samples, broader asset coverage, extended time-series analysis, and mixed-methods designs to deepen understanding of mutual fund risk perceptions.

Future Research Directions

Mutual fund investment behavior among North Indian retail investors presents a fertile area for future academic inquiry. Subsequent studies may examine the extent to which socio-economic characteristics—such as income, educational attainment, and occupational type—influence risk tolerance and mutual fund selection. Longitudinal research designs could track changes in investor risk perceptions and behavior in response to evolving market conditions, regulatory reforms, and socio-political developments.

Comparative studies may also investigate differences in risk attitudes and investment behavior between urban and rural populations or across cultural groups. Expanding analytical scope to include other financial instruments—such as equities, bonds, and derivatives—may provide further insight into risk evaluation and portfolio diversification strategies. Additionally, examining the influence of emerging technologies, including online investment platforms, robo-advisory services, and algorithmic trading, could enhance understanding of their impact on investor decision-making and perceived risk. Collectively, these research directions can inform policymakers and financial institutions seeking to promote market development and financial inclusion.

Practical Applications of Findings

The study's sample of North Indian retail investors provides valuable insights into the relationship between risk perception and mutual fund investment behavior. The findings hold practical relevance for investors, financial advisors, mutual fund companies, and regulatory authorities. From an investor perspective, the results clarify how perceived risk influences financial decisions, enabling individuals to select investment schemes aligned with their risk preferences and financial objectives.

The study also identifies key determinants of perceived risk, including financial literacy, investment experience, prevailing market conditions, and behavioral biases. These insights support more informed scheme evaluation and comparison. For financial advisors, understanding investor risk-perception profiles allows for more tailored financial planning, advisory services, and product recommendations. Mutual fund managers can utilize these findings to align product design and marketing strategies with investor risk appetites, thereby improving client acquisition and retention. Regulators may apply the insights to enhance investor protection, transparency, and financial education through improved disclosure frameworks and targeted awareness programs (Narayan Mahamuni, 2017; Velmurugan et al., 2015).

Summary of Key Findings

Mutual funds can be characterized as a broad and diversified class of financial instruments offering varied risk–return profiles. Flexibility in investment choice and the convenience of online account access have contributed significantly to their attractiveness among North Indian investors. Within this context, risk perception emerges as a primary determinant of investment allocation decisions. Accordingly, the present study examines the role of risk perception, the factors influencing its formation, and the manner in which behavioral elements shape investor decision-making.

Recognition of the multidimensional nature of risk is essential, as it fundamentally informs investor expectations and preferences. By integrating qualitative and quantitative approaches, the study combines complementary strands of evidence within a unified research design. Qualitative findings provide deeper insight into investor attitudes toward specific mutual fund categories, while quantitative analysis captures observable investment behavior. The interpretive synthesis of these data forms the basis for a framework explaining the reciprocal relationship between risk perception and investment behavior (Velmurugan et al., 2015).

Conclusion

Seminal work by Paul Slovic offers a foundational definition of risk perception, describing it as an individual's assessment of uncertainty combined with the perceived negative consequences of engaging in a risky activity. Early research established the critical role of risk perception in shaping investor behavior, a conclusion that has been reinforced by subsequent empirical studies demonstrating its influence on investor responses to market developments.

Consistent with this evidence, empirical findings indicate that the frequency with which investors purchase financial instruments is closely linked to perceived risk levels. More broadly, risk perception extends beyond financial markets and operates across diverse domains such as public safety, health, environmental protection, and social behavior. In each context, institutional arrangements both shape and filter individual risk perceptions, which are constructed and continually reconfigured through social structures and agency.

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Annexure 17.3.2

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Reviewers Memorandum



Reviewer's Comment 1: The manuscript addresses an important and timely issue by examining the role of risk perception in mutual fund investment decisions among North Indian retail investors. The integration of behavioral finance concepts with empirical evidence is a notable strength. However, the paper would benefit from a clearer articulation of its theoretical contribution in the introduction. Specifically, the authors may consider explicitly stating how the study extends existing literature on risk perception and mutual fund investment behavior, particularly within the Indian context, to enhance the manuscript's scholarly positioning.

Reviewer comment 2: The mixed-methods approach combining survey data and qualitative interviews adds depth to the analysis and strengthens the empirical foundation of the study. The use of multiple statistical techniques is appropriate for the research objectives. That said, the methodology section could be improved by providing additional justification for sample selection and explaining the rationale for the chosen analytical tools. Clarifying how the qualitative and quantitative findings are integrated would further enhance methodological transparency and rigor.

Reviewer comment 3: The manuscript is generally well-structured and logically organized, with a clear progression from theory to empirical analysis and implications. Minor improvements in language clarity and conciseness—particularly in longer sections discussing behavioral finance and technological influences—would improve readability. Additionally, ensuring consistent terminology (e.g., risk perception, risk tolerance) throughout the manuscript would strengthen coherence.

Sanjeev Singh and Gyan Prakash Yadav
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Conflict of Interest: Author of a Paper
had no conflict neither financially nor academically.

Editorial Excerpt



The article has 3% of plagiarism which is the accepted percentage as per the norms and standards of the journal for publication. As per the editorial board's observations and blind reviewers' remarks the paper had some minor revisions which were communicated on a timely basis to the authors (Sanjeev and Gyan Prakash), and accordingly, all the corrections had been incorporated as and when directed and required to do so. The comments related to this manuscript are noticeably related to the theme "**The Role of Risk Perception in Mutual Fund Investment Decision Making by North Indian Retail Investors**" both subject-wise and research-wise. From an editorial perspective, the manuscript addresses a highly relevant and well-aligned topic within the scope of the journal, particularly given the growing scholarly interest in behavioral dimensions of financial decision-making and investor psychology in emerging markets. The focus on risk perception and mutual fund investment behavior among North Indian retail investors offers context-specific insights that are likely to be of interest to both academic researchers and practitioners in public and nonprofit marketing, financial inclusion, and consumer behavior. After comprehensive reviews and editorial board's remarks the manuscript has been categorized and decided to publish under "**Empirical Research Paper**" category.

Acknowledgement



The acknowledgment section is an essential part of all academic research papers. It provides appropriate recognition to all contributors for their hard work and effort taken while writing a paper. The data presented and analyzed in this paper by (Sanjeev and Gyan Prakash) were collected first handily and wherever it has been taken the proper acknowledgment and endorsement depicts. The authors are highly indebted to others who facilitated accomplishing the research. Last but not least, endorse all reviewers and editors of GJEIS in publishing in the present issue.

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