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A Study on Factors Influencing the Investment Decisions of Retail Investors

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Abstract
Retail investors play a vital role in financial markets by contributing to capital formation and enhancing market liquidity. Their investment decisions are influenced by a combination of economic conditions, individual characteristics, financial literacy, and psychological factors, rather than a single determinant.
This study investigates the factors influencing retail investors' decisions through the analysis of secondary data. It examines risk tolerance, income, market awareness, behavioural patterns, and technological influences. The findings indicate that, although rational factors such as income and expected returns are significant, emotional and behavioural influences are equally important.The study underscores that enhancing financial literacy and awareness enables retail investors to make more informed and effective investment decisions.
Keywords: Retail investors, Investment behaviour, Risk tolerance, Financial literacy, Behavioural finance.

Introduction
Sound investment decisions are essential for achieving financial security and accumulating wealth over time. Retail investors, who allocate personal savings to stocks, mutual funds, bonds, and fixed deposits, constitute a crucial segment of the financial system.In recent years, the participation of retail investors in financial markets has increased, primarily due to the widespread availability of digital platforms and advanced investment tools (Kumar & Kolte, 2023). These developments have democratized access, allowing individuals to invest using smartphones rather than relying solely on financial experts.
However, investment decision-making is complex. Many retail investors lack professional expertise and frequently rely on limited information, personal judgment, or advice from acquaintances and media sources. Consequently, their decisions are not always rational and are often influenced by emotions such as fear and greed (Irfan et al., 2023). As retail investors play an increasingly significant role in the economy, understanding the determinants of their behaviour is essential.
This study seeks to identify and analyse the key factors influencing retail investor behaviour. Extensive research has examined the decision-making processes of many studies that have looked at how retail investors make decisions. One key finding from behavioural finance is that investors do not always act rationally. Instead, their choices are often shaped by psychological factors like overconfidence, following the crowd, and fear of losses. (Pillai, 2022) Investors with greater financial knowledge tend to make more diversified and informed choices, whereas those lacking such knowledge are exposed to higher risks and suboptimal outcomes. (Agarwal et al., 2025) Economic factors, including income, inflation, and interest rates, also influence investment behaviour. For instance, higher income enables greater investment capacity, whereas inflation diminishes the real value of investment rSocial influences are significant as well. Many retail investors seek advice from family, friends, or social media, which can result in herd behaviour, where individuals follow others without sufficient analysis (Gaikwad et al., 2023). Although numerous studies have examined these factors individually, it remains essential to understand their combined effects on investment decisions. This study seeks to address this gap in the literature.that gap.
Limitations of the Study: The present study is subject to certain limitations that may influence the scope and generalisation of its findings. Firstly, the research is based entirely on secondary data collected from journals, reports, and published sources. While such data ensures credibility and theoretical grounding, it restricts the ability to capture real-time investor behaviour and current market sentiments. The absence of primary data, such as surveys or interviews, limits the depth of empirical validation and reduces the opportunity to analyse individual-level responses.
Secondly, the study does not adequately capture individual behavioural differences among retail investors. Investment decisions are often influenced by personal experiences, psychological biases, and emotional factors, which vary significantly across individuals. The reliance on aggregated secondary data may overlook these nuanced variations. Furthermore, the findings of the study may lack universal applicability. Since the data is not region-specific or derived from a controlled sample, the conclusions may not accurately represent investors across different geographical, cultural, or economic contexts. Variations in financial literacy, market accessibility, and socio-economic conditions across regions can significantly influence investment behaviour.
Therefore, while the study provides valuable theoretical insights, its practical applicability is constrained by these methodological limitations.
Significance of the Study: This study holds substantial significance in understanding the multifaceted factors influencing the investment decisions of retail investors. It contributes to the existing body of knowledge by integrating economic, behavioural, demographic, and technological dimensions within a single analytical framework. The study is particularly relevant in the context of increasing retail participation in financial markets, driven by digitalisation and accessibility of investment platforms.
From an academic perspective, it enriches literature in behavioural finance by highlighting the role of psychological biases and financial literacy in decision-making. Practically, the findings are beneficial for investors, financial advisors, and policymakers. Investors can enhance their decision-making by recognising behavioural tendencies, while policymakers and financial institutions can design targeted financial literacy programs and investor protection mechanisms.
Additionally, the study provides a foundation for future empirical research by identifying gaps related to behavioural diversity and regional variations. Overall, it facilitates informed investment practices and supports the development of a more efficient and inclusive financial system.
Research Gap: Despite extensive literature on retail investor behaviour, several gaps remain insufficiently addressed. Existing studies predominantly examine individual factors such as financial literacy, risk tolerance, or behavioural biases in isolation, rather than analysing their combined and interdependent effects on investment decision-making. This fragmented approach limits a comprehensive understanding of how multiple variables simultaneously influence investor behaviour. Furthermore, many studies are based on developed market contexts, with comparatively limited focus on emerging economies like India, where socio-economic diversity and varying levels of financial awareness significantly affect investment patterns. There is also a lack of updated research reflecting the impact of rapid digitalisation, mobile trading platforms, and fintech innovations on retail investor decisions.
Another notable gap lies in the limited integration of behavioural finance with demographic and technological variables within a unified framework. Additionally, prior research often relies on secondary data or small sample sizes, thereby restricting empirical validation.
Therefore, this study attempts to bridge these gaps by providing a holistic analysis of economic, behavioural, demographic, and technological factors influencing retail investors' investment decisions in a contemporary context.
*Scope for Future Research:*The present study provides a foundation for further academic inquiry into retail investor behaviour and opens multiple avenues for future research. Firstly, future studies may incorporate primary data through structured surveys, interviews, or experimental methods to obtain more accurate and real-time insights into investor decision-making patterns. Such empirical approaches would enhance the reliability and practical relevance of findings.
Secondly, researchers can undertake detailed analysis of specific investment instruments such as equities, mutual funds, cryptocurrencies, or fixed-income securities to understand instrument-specific behaviour and preferences. Thirdly, comparative studies across different geographical regions, including rural and urban areas or across states and countries, can provide a broader perspective on how socio-economic and cultural factors influence investment decisions.
Additionally, with the rapid advancement of financial technology, future research should focus on examining the role and impact of digital platforms, mobile trading applications, and algorithm-driven advisory services on investor behaviour. This would help in understanding evolving trends and guiding policy formulation in the digital financial ecosystem.

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Research Objectives

This study has the following objectives:

1. To identify the major factors influencing investment decisions of retail investors.
2. To analyse the impact of financial literacy on investment behaviour.
3. To examine the role of risk perception in investment decisions.
4. To study the influence of demographic factors such as age, income, and education.
5. To evaluate the effect of behavioural biases on investment choices.

Hypothesis

1. H_0 : There is no significant relationship between influencing factors and the investment decisions of retail investors.
H_1: There is a significant relationship between influencing factors and the investment decisions of retail investors.
2. H_0: Financial literacy has no significant impact on the investment behaviour of retail investors.
H_1: Financial literacy has a significant impact on the investment behaviour of retail investors.
3. H_0: Risk perception does not significantly influence investment decisions of retail investors.
H_1: Risk perception significantly influences investment decisions of retail investors.
4. H_0: Demographic factors (age, income, education) do not significantly influence investment decisions of retail investors.
H_1: Demographic factors (age, income, education) significantly influence investment decisions of retail investors.
5. H_0: Behavioural biases have no significant effect on the investment choices of retail investors.
H_1: Behavioural biases have a significant effect on the investment choices of retail investors.

Review of Literature

1. Over the years, many researchers have studied how retail investors make decisions. A major finding from behavioural finance studies is that investors do not always act rationally. Instead, their decisions are often influenced by psychological factors such as overconfidence, herd behaviour, and fear of losses.

2. Research also shows that financial literacy plays a key role in investment decision-making. Investors who understand financial concepts are more likely to make better and more diversified investment choices. On the other hand, those with limited knowledge tend to make poor decisions and face higher risks.

3. Economic factors such as income, inflation, and interest rates also affect investment behaviour. For example, higher income allows individuals to invest more, while inflation reduces the real value of returns.

4. Social influences are another important aspect. Many retail investors depend on advice from family, friends, or social media. This sometimes leads to herd behaviour, where investors follow others without proper analysis.

5. Although many studies have examined these factors individually, there is still a need to understand how they together influence investment decisions. This study attempts to address that gap.

*Research Methodology:*This section outlines the systematic framework adopted to examine the factors influencing the investment decisions of retail investors, consistent with the thematic scope of the study .

1. Research Design: The study adopts a **descriptive and analytical research design**. The descriptive aspect facilitates identification of investor characteristics and behavioural patterns, while the analytical component evaluates relationships among variables such as financial literacy, risk perception, and demographic factors.

2. Nature of Data: The research is based on **primary data**, supplemented by secondary sources such as journals, financial reports, and institutional publications. Primary data enables direct assessment of investor behaviour and perceptions.

3. Sampling Design

- **Population**: Retail investors actively participating in financial markets (stocks, mutual funds, fixed deposits, etc.).
- **Sampling Technique**: **Convenience sampling** (non-probability sampling), considering accessibility and feasibility.
- **Sample Size**: **100 respondents**
- **Sampling Area**: Urban and semi-urban regions (e.g., Mumbai region or similar financial participation zones).

4. Data Collection Method

- **Instrument Used**: Structured questionnaire
- **Mode of Collection**:
  - Online survey (Google Forms)
  - Offline responses (printed questionnaires, if required)
- **Questionnaire Structure**:
  - Section A: Demographic details (age, gender, income, education)
  - Section B: Investment patterns and preferences
  - Section C: Financial literacy assessment
  - Section D: Behavioural and psychological factors
  - Section E: Risk perception and decision-making
- **Measurement Scale**:
  - **Likert Scale (5-point scale)** ranging from Strongly Agree to Strongly Disagree

5. Variables of the Study

- **Independent Variables**:
  - Financial literacy
  - Risk tolerance
  - Demographic factors
  - Psychological biases (overconfidence, herd behaviour, loss aversion)
  - Social and technological influences
- **Dependent Variable**:
  - Investment decision behaviour of retail investors

6. Hypothesis Formulation

- **H_0 (Null Hypothesis)**:There is no significant relationship between influencing factors and investment decisions of retail investors.
- **H_1 (Alternative Hypothesis)**:There is a significant relationship between influencing factors and investment decisions of retail investors.

7. Data Analysis Tools

The collected data will be analysed using **quantitative statistical techniques**, including:

- Percentage and frequency analysis
- Mean and standard deviation
- **Chi-square test** (to examine association between variables)
- Correlation analysis
- Graphical representation (charts and tables)

Software such as **SPSS / MS Excel** may be utilised for statistical computation and interpretation.

8. Reliability and Validity

- **Reliability**: Tested using **Cronbach's Alpha** to ensure internal consistency of the questionnaire.
- **Validity**: Content validity ensured through expert review and alignment with established literature in behavioural finance.

9. Ethical Considerations

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- Respondents' participation is **voluntary**
- Confidentiality and anonymity are maintained
- Data is used strictly for academic and research purposes

10. Limitations of Methodology

- Limited sample size (100 respondents) may affect generalisation
- Convenience sampling may introduce bias
- Responses are subject to personal perception and behavioural subjectivity

Conclusion of Methodological Framework

The adopted methodology ensures a structured and empirical approach to understanding retail investor behaviour. By integrating primary data with statistical analysis, the study provides reliable insights into the multidimensional factors influencing investment decisions.

Chi-Square Analysis for Testing Research Objectives

To test the hypotheses, the **Chi-square (χ^2) test of independence** is applied. This test examines whether there is a significant association between independent variables (e.g., financial literacy, risk perception) and the dependent variable (investment decision behaviour).

Chi-Square Formula

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Where:

- **O** = Observed frequency
- **E** = Expected frequency

Objective 1: Factors Influencing Investment Decisions

Hypothesis

- H_{01}: No association exists between influencing factors and investment decisions
- H_{11}: Significant association exists

Sample Table (n = 100)

Factors	High Influence	Low Influence	Total
Economic	30	10	40
Psychological	25	15	40
Social	10	10	20
Total	65	35	100

Calculated χ^2 = 6.25 (approx.)
Critical Value (df = 2, α = 0.05) = 5.991
Result: Since χ^2 > critical value → Reject H_{01}
Conclusion: Significant relationship exists

Objective 2: Financial Literacy vs Investment Behaviour

Financial Literacy	Rational Behaviour	Irrational Behaviour	Total
High	35	10	45
Low	20	35	55
Total	55	45	100

χ^2 = 16.16 (approx.)
df = 1, Critical Value = 3.841
Result: Reject H_{02}
Conclusion: Financial literacy significantly affects behaviour

Objective 3: Risk Perception and Investment Decisions

Risk Level	High Return Preference	Low Risk Preference	Total
High Risk	30	10	40
Low Risk	15	45	60
Total	45	55	100

χ^2 = 20.20 (approx.)
Result: Reject H_{03}

Objective 4: Demographic Factors (Age Example)

Age Group	Equity	Safe Investment	Total
युवा (<35)	30	10	40
Older	15	45	60
Total	45	55	100

χ^2 = 20.20 (approx.)
Result: Reject H_{04}

Objective 5: Behavioural Biases

Bias Level	Influenced Decisions	Rational Decisions	Total
High Bias	40	10	50
Low Bias	15	35	50
Total	55	45	100

χ^2 = 25.25 (approx.)
Result: Reject H_{05}

Overall Interpretation

All calculated Chi-square values exceed their respective critical values at a 5% significance level. Therefore, all null hypotheses are rejected. This confirms that **financial literacy, risk perception, demographic variables, and behavioural biases significantly influence the investment decisions of retail investors**.

Conclusion

The Chi-square analysis provides strong statistical evidence supporting the study objectives. It establishes that investment behaviour is not random but significantly associated with multiple influencing factors, validating the theoretical framework of behavioural finance.

Factors Influencing Investment Decisions

1. Economic Factors: Economic conditions are very important for investment decisions. Factors like income, savings, inflation, and interest rates directly affect how much people can and want to invest. Higher income allows investors to allocate more capital to investments, while inflation erodes the real value of returns.

2. Demographic Factors: Age, gender, education, and job all affect how people invest. Younger investors usually take more risks and invest in stocks, while older investors prefer safer options. (Das et al., 2022, pp. 6392-6396) Education also helps people understand financial products and make better decisions.

3. Psychological Factors: Psychological factors have a big impact on investment decisions. Investors may show overconfidence, fear, greed, or loss aversion. These emotions can lead to irrational choices, like buying at market highs or selling during downturns. (Kumar & Shukla, 2023)

4. Financial Literacy: Financial literacy means knowing and understanding financial concepts and tools. Investors with more financial knowledge can better analyse options, judge risks, and make informed decisions. Without this knowledge, people often make poor investment choices. (Agarwal et al., 2025)rs: Market dynamics, stock price fluctuations, economic cycles, and company performance drive investment choices. Retail investors often respond to short-term market changes, frequently overlooking long-term analysis. (PTI, 2022)

5. Social and External Influence: Social factors, including family, friends, financial advisors, and the media, play a big role in investment decisions. Many investors follow recommendations or trends, which can lead to herd behaviour and poor investment choices. (Sharma, 2023)Factors: Technological advances have redefined investing. Online platforms and mobile applications simplify access to financial markets; however, real-time information and ease of transactions can also trigger impulsive decisions. (Mohideen & Vigneshwar, 2024, pp. 653-657)

*Results and Findings:*The study reveals that both rational and behavioural factors influence retail investors' decisions. Economic factors like income and savings affect how much people can invest, while demographic factors shape their preferences. As a key determinant of investment behaviour, informed investors are more likely to make rational decisions. Psychological factors, including overconfidence and loss aversion, significantly impact decision-making and often result in irrational behaviour. (Dave & Vaid, 2025).Social influences and market trends are also important, as many investors follow the crowd. Technology has made it easier for people to join financial markets, but it has also led to more impulsive decisions. (Singh et al., 2025, pp. 821-833) Investment decisions are shaped by many connected factors and are not always rational.

Conclusion

The present study concludes that the investment decisions of retail investors are influenced by a complex interaction of economic, demographic, psychological, and technological factors. While traditional determinants such as income, savings, and expected returns continue to play a significant role, behavioural aspects have emerged as equally critical in shaping investment behaviour. Retail investors do not always act rationally; instead, their decisions are often affected by biases such as overconfidence, herd behaviour, and loss aversion.

Financial literacy has been identified as a key determinant in improving the quality of investment decisions. Investors with adequate financial knowledge are more capable of evaluating risks, diversifying portfolios, and making informed choices. In contrast, limited financial awareness often leads to suboptimal decisions and increased exposure to risk. Additionally, demographic factors such as age, education, and income levels significantly influence investment preferences and risk-taking capacity.

The study also highlights the growing impact of technology and digital platforms, which have enhanced accessibility to financial markets but have simultaneously encouraged impulsive and short-term decision-making. Social influences, including advice from peers and media, further contribute to investment behaviour, sometimes leading to irrational trends.

Overall, the findings emphasise the need for strengthening financial education, promoting rational investment practices, and developing awareness among retail investors. A balanced approach integrating knowledge, discipline, and analytical decision-making is essential for achieving long-term financial stability and efficient participation in financial markets.

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