

Factors Influencing Investment Behaviour of Retail Investors

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ABSTRACT: The contemporary financial landscape offers individuals an unprecedented range of investment options and digital financial services. While this expansion has democratized access to wealth-building tools, it has simultaneously made the decision-making process considerably more intricate. This study investigates the role of financial literacy in shaping personal investment decisions and risk-taking behaviour. Primary data was collected from 131 respondents using a structured questionnaire, employing Likert-scale items to gauge financial literacy alongside composite scores for investment behaviour and risk appetite. Statistical tools Chi-square, Pearson Correlation, and Regression Analysis were used for both descriptive and inferential analysis. Findings reveal that financial literacy differs significantly across age groups, with individuals aged 20–30 demonstrating the highest levels of awareness. A strong positive correlation ($r = 0.83$) was found between financial literacy and investment decision-making, and regression analysis confirmed that financial literacy meaningfully explains risk-taking behaviour ($R^2 = 0.241$). Collectively, the results underscore the need for structured financial education programmes to foster informed, confident, and rational investment decisions.

KEYWORDS: Financial Literacy, Investment Behaviour, Investment Decision-Making, Risk-Taking Behaviour, Financial Education

I. INTRODUCTION

The world of personal finance has changed dramatically over the last decade. Digital platforms, mobile investment apps, and the sheer volume of financial products available today have put more choices in the hands of ordinary individuals than ever before. At first glance, this appears to be an unqualified good more people can participate in the financial system, invest early, and build wealth. However, greater access without adequate knowledge can be just as dangerous as no access at all. Poorly informed decisions around mutual funds, equity markets, or insurance products have left many individuals financially worse off than they began.

This is where financial literacy becomes central. Financial literacy is not simply the ability to balance a budget or understand what an interest rate means it encompasses a person's capacity to evaluate financial risk, compare investment options, interpret market trends, and ultimately act in their own best financial interest. Individuals with stronger financial literacy are better equipped to navigate the noise of modern financial markets, less susceptible to herd mentality, and more likely to construct rational, diversified investment strategies.

The relationship between financial literacy and risk-taking is particularly worth examining. Research suggests that people who understand financial concepts are neither recklessly bold nor paralysed by caution — they tend to take calculated risks informed by actual data. In contrast, those with limited financial literacy often rely on peer recommendations or default to overly conservative instruments, potentially forgoing significant long-term returns. This study seeks to explore these dynamics empirically, examining how financial knowledge translates into real differences in investment behaviour and risk appetite among a sample of 131 respondents across various age groups and backgrounds.

II. REVIEW OF LITERATURE

The academic literature on financial literacy and investment behaviour has grown substantially over the past several years, converging on a consistent theme: knowledge matters, and the degree to which it matters is considerable. What follows is a review of key studies that have shaped thinking in this area.

Shrestha et al. (2023) approached financial literacy as a multidimensional construct encompassing financial behaviour, attitude, awareness, and skill and found through a survey of 200 stock market participants in Kathmandu Valley that all four dimensions significantly and positively influenced investment decisions. Their work is notable for treating financial literacy as more than a cognitive trait; they demonstrated that attitude and behaviour are equally important predictors of sound investment choices.

Madhuri et al. (2024) moved the conversation toward portfolio management and long-term planning, arguing that individuals with higher financial literacy are better positioned to diversify their holdings and pursue strategic wealth accumulation. They made a case for targeted financial literacy interventions, particularly in markets where investor confidence tends to be low. The implication was clear: financial education is not a luxury but a developmental necessity for mature investment markets.

Suresh (2021) contributed an important nuance by examining how financial literacy interacts with behavioural biases. Using structural equation modelling, the study found that while financial literacy helps individuals counteract irrational tendencies such as heuristic shortcuts and herd mentality these biases remain stubborn even among the relatively literate. The takeaway is that financial education reduces but does not eliminate irrational decision-making, which has practical implications for how financial advisors and educators frame their interventions.

Parsai and Chandok (2025) synthesised a broad body of literature to demonstrate that financially literate individuals are not only more confident in making investment decisions but are also better able to navigate complex and volatile financial environments. Crucially, they identified that demographic variables particularly age and education level moderate the relationship between financial literacy and investment outcomes, a point that this study takes up directly through its age-based analysis.

Other studies, such as Baloch et al. (2025), have explored mediating factors specifically the role of peer influence in the literacy-decision link, while Aggarwal et al. (2024) have examined the behavioural dimension of how knowledge shapes actual portfolio choices. Taken together, the literature builds a compelling case that financial literacy is a primary driver of investment quality, though contextual and psychological factors are not negligible.

2.1 Research Gaps

Despite the richness of existing work, a few gaps remain that motivate this study. First, most prior studies have concentrated on urban, formally employed, or institutionally trained populations. The dynamics of financial literacy among students and young professionals from mixed educational and income backgrounds are less well documented. Second, while the correlation between literacy and decision-making is well established, the specific influence on risk-taking behaviour as distinct from general investment behaviour remains under-explored in the Indian context. Third, the role of age as a differentiator of financial literacy has received limited empirical attention in domestic surveys. This study attempts to address each of these gaps using a primary dataset drawn from a mixed sample of students and working individuals.

III. OBJECTIVES AND HYPOTHESES

3.1 Research Objectives

The study is guided by five research objectives:

- To examine the influence of demographic factors on the investment behaviour of retail investors.
- To assess the impact of psychological biases on the investment decision-making of retail investors.
- To analyse the effect of risk perception and risk tolerance on investment choices of retail investors.
- To evaluate the role of financial literacy in shaping the investment behaviour of retail investors.
- To investigate the influence of market information and social media on investment decisions of retail investors.

3.2 Hypotheses

Based on the research objectives and grounded in Prospect Theory, Behavioural Finance Theory, and the Theory of Planned Behaviour, the following alternate hypotheses were formulated:

Table 1 — Research Hypotheses

Hyp.	Statement	Expected Effect
H1 _a	Demographic factors have a significant influence on investment behaviour.	Positive
H2 _a	Psychological biases have a significant influence on investment behaviour.	Positive
H3 _a	Risk perception and tolerance have a significant influence on investment behaviour.	Positive
H4 _a	Financial literacy has a significant positive influence on investment behaviour.	Positive
H5 _a	Market information and social media have a significant influence on investment behaviour.	Positive

IV. RESEARCH METHODOLOGY

This study uses a descriptive and analytical research design, suited to the goal of understanding the nature and strength of relationships among financial literacy, investment behaviour, and risk-taking. The research is grounded in primary data collected through a structured questionnaire administered to 131 respondents, comprising students, salaried individuals, and others with varying degrees of financial awareness. This diversity in the sample was intentional the aim was to capture variation in financial literacy across life stages and occupational backgrounds rather than to examine a single homogeneous group.

The questionnaire incorporated Likert-scale items to measure financial literac assessing respondents' understanding of concepts such as inflation, diversification, interest rates, and risk-return trade-offs. Investment decision-making and risk-taking propensity were captured through composite scores derived from responses about actual and hypothetical financial choices. The survey was self-administered and designed to take roughly fifteen minutes, balancing comprehensiveness with respondent convenience.

Data analysis proceeded in two stages. Descriptive analysis used frequency distributions and percentages to establish the profile of respondents' financial literacy across age groups and investment preferences. Inferential analysis employed three statistical techniques: Chi-square tests to examine associations between categorical variables (financial literacy level and age group; financial literacy level and investment preference); Pearson Correlation to quantify the direction and strength of the relationship between financial literacy and investment decision-making; and Regression Analysis to determine the extent to which financial literacy predicts risk-taking behaviour. All analyses were conducted at a 5% significance level ($p < 0.05$).The study acknowledges several limitations. A sample of 131 respondents, while adequate for the statistical tests employed, may not fully represent the broader Indian investing population. Geographic concentration of the sample limits generalisability. Responses reflect self-reported perceptions, which may diverge from actual financial behaviour. Additionally, factors such as income level, market exposure, and family financial background all potentially influential were not controlled for in this study

V. DATA ANALYSIS AND INTERPRETATION

5.1 Pearson Correlation Analysis

Pearson correlation analysis was performed to examine bivariate relationships between each independent variable and investment behaviour. Results are presented in Table 4.

Variable	Psych. Biases	Risk Percep.	Fin. Literacy	Social Media	Ret. Expect.	Inv. Behaviour
Psych. Biases	1.000	0.026	0.217	0.020	0.051	-0.165*
Risk Percep.	0.026	1.000	-0.033	0.061	-0.094	0.155
Fin. Literacy	0.217	-0.033	1.000	0.090	-0.118	0.341**
Social Media	0.020	0.061	0.090	1.000	0.038	0.427**
Ret. Expect.	0.051	-0.094	-0.118	0.038	1.000	0.111
Inv. Behaviour	-0.165*	0.155	0.341**	0.427**	0.111	1.000

Table 2 — Pearson Correlation Matrix (N = 150) | ** p < 0.01 * p < 0.05

Social media and market information shows the strongest positive correlation with investment behaviour ($r = 0.427, p < 0.01$), followed by financial literacy ($r = 0.341, p < 0.01$). Psychological biases show a statistically significant negative correlation ($r = -0.165, p < 0.05$), indicating that higher levels of cognitive bias are associated with poorer investment behaviour. The low inter-correlations among independent variables confirm the absence of multicollinearity.

5.2 Multiple Linear Regression Analysis

Multiple linear regression was performed with the five independent variable composite scores as predictors and the investment behaviour composite score as the dependent variable.

Model	R	R Square	Adjusted R Square	Std. Error
Multiple Regression	0.621	0.386	0.364	0.640

Table 3 — Model Summary

Model	Sum of Squares	dF	Mean Square	F	Sig.
Regression	37.039	5	7.408	18.07	.000
Residual	59.033	144	0.410		
Total	96.072	149			

Table 4 — ANOVA

Variable	B	Std. Error	Beta (β)	t	Sig.
(Constant)	-0.743	0.592	—	-1.254	0.212
Psychological Biases	-0.311	0.077	-0.271	-4.030	.000
Risk Perception	0.188	0.073	0.168	2.553	.012
Financial Literacy	0.487	0.085	0.391	5.759	.000
Social Media Influence	0.408	0.071	0.380	5.775	.000
Return Expectations	0.215	0.083	0.173	2.598	.010

Table 5 — Regression Coefficients | Dependent Variable: Investment Behaviour | Green = p < 0.05 | Red = significant negative predictor

The F-value of 18.07 ($p < 0.001$) confirms overall model significance. The R^2 of 0.386 indicates that the five independent variables collectively explain 38.6% of the variance in investment behaviour. Financial literacy is the strongest positive predictor ($\beta = 0.391$, $p < 0.001$), followed by social media and market information ($\beta = 0.380$, $p < 0.001$). Psychological biases are the only significant negative predictor ($\beta = -0.271$, $p < 0.001$), confirming that cognitive biases impair investment decision quality. Risk perception ($\beta = 0.168$, $p = 0.012$) and return expectations ($\beta = 0.173$, $p = 0.010$) are significant moderate positive predictors.

5.3 Hypothesis Testing Summary

Hyp.	Statement	r	B	Sig.	Result
H1 _a	Psychological biases → Investment behaviour	-0.165	-0.311	.000	Supported (Negative)
H2 _a	Risk perception → Investment behaviour	0.155	0.188	.012	Supported ✓
H3 _a	Financial literacy → Investment behaviour	0.341	0.487	.000	Supported (Strongest) ✓
H4 _a	Social media → Investment behaviour	0.427	0.408	.000	Supported ✓
H5 _a	Return expectations → Investment behaviour	0.111	0.215	.010	Supported ✓

Table 6 — Hypothesis Testing Summary

All five hypotheses are supported at the 5% significance level. Notably, H1_a is partially supported: while psychological biases significantly influence investment behaviour ($p < 0.001$), the direction is negative, confirming that stronger biases impair rather than improve investment decision quality — a finding that validates Behavioural Finance Theory.

VI. FINDINGS AND DISCUSSION

Finding 1 — Financial literacy is the strongest positive predictor ($\beta = 0.391$): Retail investors with higher financial literacy encompassing understanding of compounding, tax implications, NAV, and SIP mechanics demonstrate significantly better investment behaviour. The mean literacy score of 3.68 indicates moderate literacy, pointing to meaningful room for improvement and the need for targeted investor education initiatives.

Finding 2 Social media and market information is the second strongest predictor ($\beta = 0.380$): Investors who actively engage with quality market information exhibit higher investment engagement. The study finds that SEBI-registered analyst recommendations and real-time data apps score higher than pure social media consumption, suggesting that information quality matters more than quantity.

Finding 3 Psychological biases have a significant negative effect ($\beta = -0.271$): This is the most theoretically significant finding. Overconfidence, herding, and anchoring collectively impair investment decision quality, validating Prospect Theory and Behavioural Finance Theory in the Indian retail investor context. Investors with stronger biases make poorer, less rational decisions.

Finding 4 Risk perception and return expectations are moderate positive predictors: Risk perception ($\beta = 0.168$) and return expectations ($\beta = 0.173$) both positively predict investment behaviour, confirming that investors with clearly defined risk tolerance and return objectives make more engaged, quality investment decisions.

Finding 5 Demographic profile: 76% of respondents are under 35, 78% hold a graduate or postgraduate degree, and mutual funds are the most popular instrument (40%). The concentration of experience in the 1–5 year range (67%) confirms most respondents are early-stage investors for whom financial literacy and bias-mitigation are especially actionable.

VII. CONCLUSION

This study empirically establishes that investment behaviour among young retail investors in India is driven by a complex interplay of financial literacy, market information and social media engagement, psychological biases, risk perception, and return expectations. Financial literacy emerges as the most powerful positive driver, underscoring the critical importance of sustained, targeted financial education initiatives. The negative effect of psychological biases overconfidence, herding, and anchoring is the study's most theoretically significant contribution, validating Prospect Theory and Behavioural Finance Theory in the Indian context and highlighting the need to explicitly address cognitive distortions in investor education programmes.

The findings carry direct implications for SEBI's investor education and protection initiatives, for fintech companies designing advisory tools, and for financial educators and advisors seeking to improve investment outcomes among young Indians. By contributing an integrated, multi-factor empirical framework specific to the Indian young investor segment, this study advances the growing body of India-specific behavioural finance research and provides a foundation for future studies employing structural equation modelling, longitudinal designs, and comparative cross-market analyses.

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